

Statement by Chairman of Alliance Financial Group Berhad



Dear Shareholders

I am pleased to present the Annual Report of the Alliance Financial Group Berhad for the financial year ended 31 March 2012, which was another year of profitable growth for the Group driven by the momentum from the strategic rebalancing of our banking business in January 2011. Understanding the real needs of our customers has been a critical component of this success. The Group continues to make great strides despite the industry's increasing competition and the challenging economic environment; it is now stronger than ever and poised for more exciting growth ahead.

Operating Environment

2011 proved to be a challenging year across all sectors. While the global economy remained fragile in the past year due to natural disasters, political unrests and markets in turmoil, Asia's economy continues to demonstrate its resilience against macroeconomic headwinds, in part due to its robust financial balance sheets. Against this background, the Malaysian economy rose 5.1% underpinned by strong domestic demand.

At Alliance, we remained steadfast in building revenue across all business units, serving our customers with excellence and capitalising on new growth opportunities to increase non-interest income.

Performance Review

Profit before tax rose 16.4% to RM643.6 million. After setting aside taxation, profit attributable to shareholders was up 17.3% at RM479.8 million, yet another record performance from the previous high of RM409.2 million the year before. Return on equity rose 13.6% from 13.0% in the previous year while return on assets improved to 1.3%. Earnings per share were up 18.0% at 31.5 sen.

Arising from the expansion in the loans portfolio, net interest income and income from Islamic banking operations rose by 3.0% to RM930.2 million. Non-interest income, however, expanded on a much faster rate of 20.2% due to recurring transaction income to 26.8% from 20.8% a year ago. Loans growth was up by 11.3% to RM25.0 billion and deposits grew 13.4% to RM32.1 billion. Our loans-to-deposit ratio remained healthy at 77.8% compared to 78.8% last year. Prudent risk management further improved impaired loans ratio from 3.3% to 2.4% and is within the banking industry average levels. Loan loss coverage improved from 90.1% to 108.5%.

In view of the expansion in business operations and information technology infrastructure investment to support future growth, operating costs increased moderately by 8.6% to RM591.8 million. We further improved the cost-to-income ratio to 47.3% compared to 48.3% last year.

As at 31 March 2012, our total assets rose 9.8% to RM39.6 billion. Our capital position remained strong with Risk-Weighted Capital Ratio at 15.2%, well above regulatory and Basel III requirements while the Core Capital Ratio of 11.5% reflects continued sound capital management.

All this resulted in our market capitalisation improving to over RM6.0 billion. AFG was the largest gainer in the Financial sector on Bursa Securities in 2011 with its share price rising more than 30%, outperforming the KL Financial Index.

Dividends

The Group declared a total dividend of 13.3 sen per share, a significant increase from 7.0 sen the year before. The first interim dividend of 5.6 sen per share was paid on 26 August 2011 and the second interim dividend of 7.7 sen per share was paid on 28 February 2012. The total distribution for the financial year ended 2012 amounted to RM203.2 million, equivalent to a dividend payout ratio of 42.3% of the Group's net profit.

I wish to inform that the Group will henceforth adopt a dividend policy of paying up to 50% of its net profit as dividend to shareholders, subject to regulatory approvals.

Corporate Development

A key corporate development during the year was the formalisation of the eight-year bancassurance agreement between Alliance Bank Malaysia Berhad and AIA Bhd, to market conventional life insurance protection and savings products developed by AIA. This is our second collaboration with AIA after a joint venture signed in January 2011 to offer Takaful insurance. The collaboration with AIA is part of the Bank's strategy to expand the range of products in our wealth management business.

Promising Outlook

For 2012, economic growth in the country is expected to moderate in view of the lingering eurozone debt crisis. While the weaker global demand may dampen Malaysian exports in the year ahead, private sector investments and consumer spending are expected to support gross domestic product of between 4% and 5%.

The outlook for the Malaysian banking industry is expected to remain positive given the underlying strengths of the domestic economy and the accelerated roll out of various projects under the government's Economic Transformation Programme (ETP). The ETP projects will continue to have a knock-on effect on the economy and support corporate loans growth and capital market activities. All these bode well for both Consumer and Business Banking; these segments will continue to be strong growth drivers for the Group.

We have already made significant headway in tapping into the higher level of demand for financing and transaction banking activities arising from sectors targeted under the ETP and 10th Malaysia Plan. Our proven expertise in the identified sectors such as construction, oil palm plantation, real estate, retail and education will be a key differentiator and generate more prospects to grow non-interest income.

Given the vital roles of both the Consumer and SME market in the growth of the Malaysian economy, we will continue to align our resources to capture greater market share and build long term business relationships.

We are now on a strong platform to move into the next financial year in an increasingly competitive environment. Alliance Bank will capitalise on our market position as a significantly improved player, our clear niche in Consumer and Business Banking, strong capital and good asset quality. We will build on the momentum of the past year to capture new business opportunities and strengthen our leadership position in targeted markets and product segments.

In particular, we will further expand our transaction banking, cash management, treasury sales, wealth management and investment banking businesses to build sustainable long-term revenue growth. We will also continue to invest and upgrade our technology, infrastructure and human capital, to enhance our capabilities to serve our customers more effectively and efficiently, as well as step up to higher productivity with effective cost management.

Amidst all this, we will also remain mindful of the uncertain operating environment and undertake the necessary measures to reinforce prudent and effective balance sheet management strategies to mitigate risks while remaining flexible to market changes.

Corporate Responsibility

In making strides towards our goal of becoming "The Best Customer Service Bank in Malaysia", we are equally committed to the well-being of the communities we serve. During the year, we contributed in a variety of meaningful ways to help underprivileged homes and non-government charities. Our employees have been remarkable volunteers in giving their time and skills to help needy causes we support.

Acknowledgements

I am proud of the dedication of our employees and would like to thank them for their increasingly excellent service rendered to customers to reinforce the Alliance brand. The Group will continue to gain employees' feedback on what we can do to make the workplace even better and enhance their professional development with exciting career development opportunities and training.

On behalf of the Board and Management, I would like to thank Mr Phoon Siew Heng who retired from the Board on 18 April 2012 after seven years of valuable contribution to the Group, and to welcome Mr Lee Ah Boon who was appointed as a Board Member of the Group, also on 18 April 2012.

I would also like to take this opportunity to thank all our stakeholders and customers for their loyal support, Bank Negara Malaysia, Securities Commission Malaysia, Bursa Malaysia Securities Berhad and other regulatory authorities for their continual guidance, as well as fellow directors for their wise counsel and insights.

DATUK OH CHONG PENG

Chairman, Alliance Financial Group Berhad