

STATEMENT BY CHAIRMAN OF ALLIANCE FINANCIAL GROUP BERHAD



We are committed to continuously enhance shareholder value by providing shareholders a meaningful return on their investments.

Dear Shareholders,

I am pleased to report that Alliance Financial Group Berhad turned in a satisfactory performance for the financial year ended 31 March 2015 amidst volatility in global financial markets and challenging operating conditions.

Datuk Oh Chong Peng
Chairman, Alliance Financial Group Berhad



A Challenging Operating Environment

In 2014, while the global economy experienced moderate growth, risks to global growth began to resurface. Geopolitical developments in Eastern Europe and the Middle East, the weaker-than-expected economic activity in a number of major economies, and rising concerns over growth prospects of commodity-producing emerging economies amidst a significant decline in oil prices, all brought about higher volatility in currency and equity markets.

Satisfactory Performance

Given the challenging and highly competitive operating environment, the Group achieved a satisfactory performance, with net profit after tax of RM530.8 million and return on equity of 12.3%.

The net profit after tax, however, registered a year-on-year decline of RM32.7 million or 5.8% due mainly to margin compression despite the 14.9% robust loans growth and normalisation

of credit costs. For the financial year ended 31 March 2015 (FY2015), there was a net charge for impairment provisions of RM32.9 million, in contrast to a net write back of RM28.5 million last year. As we have recovered most of the legacy impaired loans in the last three years, the ratio of gross impaired loans has also declined to a low 1.0%, with loan loss coverage at 102.7%.

The year's performance is the result of various measures undertaken to build a sound foundation for sustainable profitability and value creation for shareholders. By remaining focused on our business goals, streamlining our processes as well as tapping on our competitive strengths in Consumer and Business Banking, we have enhanced our position in the industry.

In line with our vision to become "The Best Customer Service Bank" in Malaysia, we have raised the bar on customer service, and strengthened long-term relationships with our customers. We continue to complement these initiatives through increased brand building activities.

Shareholder Value Creation

We are committed to continuously enhancing shareholder value by providing shareholders a meaningful return on their investments. Net assets per share rose by 7.8% to RM2.90 per share from RM2.69 in the previous year, and market capitalisation has risen steadily to RM7.4 billion. As at March 2015, the Group's total capital ratio stood at 13.0%, while its Common Equity Tier 1 (CET 1) stood at 11.1%.

In respect of the financial year ended 31 March 2015, a first interim dividend of 9.0 sen per share, tax exempt under the single tier tax system was paid out on 30 December 2014. I am pleased to report that the Board has proposed a second interim dividend of 6.4 sen, which brings the total dividend for the year to 15.4 sen. This represents a total payment of RM234.4 million or a 45.0% payout from the year's net profits.

The dividend policy takes into account the need to maintain a balance between providing a healthy dividend income to shareholders while ensuring the future capital requirements of the Group are adequately met to maintain our financial strength and support business growth.

Nurturing Our People

Our people are undoubtedly at the centre of all that we do and we are committed to provide them with a conducive environment that allows for continuous learning and development as well as good career progression. Employee engagement too remains a high priority and we continue to inculcate the core values of Respect, Integrity, Teamwork and Excellence (R.I.T.E.) throughout our organisation.

Going Out To The Community

We continue to support corporate responsibility programmes with high impact, most notably the award-winning SME Innovation Challenge which aims to assist high potential young small and medium enterprises to break through to the next phase of growth in their businesses. We also continued to undertake a host of innovative financial literacy initiatives to educate children on the importance of money management.



Looking Ahead

Looking ahead, the downside risks to global growth activity remain considerable even as the global economy moves along a moderate growth path. The decline in energy prices coupled with the fragile growth momentum in several major economies continues to be a cause for concern and may trigger volatility in capital inflows and financial markets. For emerging Asian economies, including Malaysia, sustained domestic demand will remain key to their economic growth.

Moving forward, as we go into a potentially more challenging environment, our priority must be to ensure that we have a robust balance sheet. In this regard, we take comfort that we are starting the year from a position of strength – better than industry gross impaired loans ratio at 1.0%, loans-to-deposit ratio of 82.8% and CASA ratio at 33.6%, coupled with adequate capital to support growth. The emphasis on productivity improvements and continuous enhancement of our IT infrastructure has continued to yield results, with cost-to-income ratio dropping to 46.8%, despite the lack in operating scale.

In addition to a strong balance sheet, over the years we have also enhanced our organisational capabilities as well as our physical and self-service touchpoints to ensure better delivery of products and services to meet customers' needs.

With the foundations already in place, our key priority for the financial year 2016 will be to navigate the challenges from the external environment and to deliver value by leveraging on our key strengths in Consumer and Business Banking as we help our customers to be successful financially.

Thus, we will continue to assume the right risk exposures in our efforts to further improve asset efficiency and ensure more productive use of our capital. With this shift in focus, we will continue to rebalance the loans portfolio mix for improved returns by focusing on the more profitable products and customer segment. Going forward, as risk adjusted returns, and not market share, becomes the key performance metrics, our loans portfolio will expand in line with the industry.

We will continue to balance the expansion of our asset base with the funding needs to maintain a healthy loans-to-deposit ratio by growing deposits in particular CASA deposits, to sustain our funding cost advantage in the industry. Furthermore, to enhance return on equity, we will accelerate the growth of fee based businesses that deliver consistent non-interest income growth particularly in foreign exchange, rates, transaction banking and wealth management business.

More importantly, we will stay focused on our core areas of strengths in Consumer and Business Banking to achieve better synergies in line with our commitment to continually deliver sustainable growth and increasing returns for our shareholders.

Acknowledgements

On behalf of the Board of Directors, I wish to express my deep appreciation to our shareholders and customers for their continuing support and confidence in the Group.

I am grateful to our management and staff for their hard work and commitment in helping us achieve another successful year of delivering excellent service to our customers.

I also extend my gratitude and to my fellow directors for their wise counsel and commitment to the Group. We also warmly welcome Mr Joel Komreich, who assumed the role of Chief Executive Officer of Alliance Financial Group Berhad. Our appreciation goes to Mr Sng Seow Wah, our Group Chief Executive Officer for four years, who left us on 4 October 2014.

My sincere thanks also goes out to Bank Negara Malaysia, the Securities Commission Malaysia, Bursa Malaysia Securities Berhad and other regulatory authorities for their continuous guidance and support.

Thank you.

DATUK OH CHONG PENG

Chairman, Alliance Financial Group Berhad