

# BUSINESS AND OPERATIONS REVIEW

## BY CHIEF EXECUTIVE OFFICER OF ALLIANCE FINANCIAL GROUP BERHAD



The Group registered a net profit after tax of RM530.8 million and total assets have crossed the RM50.0 billion mark to reach RM53.0 billion.

This is my first message to you as the Chief Executive Officer of Alliance Financial Group Berhad. I would like to thank the Board for entrusting me with the great responsibility of leading the Group into its next phase of growth. In this report, I would like to share with you how we have performed during the year, the initiatives we have implemented, and the growth possibilities for the year ahead.

**Joel Kornreich**  
Chief Executive Officer



I am pleased to report that the Group successfully delivered on its commitment to shareholders by performing well despite the challenging external environment. We owed our success to our focus on:

- Expanding business operations;
- Ensuring continued improvement in asset quality;
- Maintaining strong levels of liquidity;
- Increasing productivity and improving cost efficiencies; and
- Strengthening our consumer and SME banking franchise.

The Malaysian economy, driven by higher domestic consumption and investment spending, performed better in 2014 with a stronger gross domestic product (GDP) growth of 6%. However, as the country is not immune to the effects of the global economy, as well as lower oil and commodity prices, the operating environment during the financial year became more challenging.

Despite these operating conditions and the margin compression in the industry due to

intense competition, I am pleased to say that Alliance Financial Group reported a satisfactory performance, delivering a net profit after tax of RM530.8 million, which translates into a return on equity (ROE) of 12.3%.

### Financial Performance

For the financial year 2015 (FY2015), net interest income grew by 5.4% year-on-year (y-o-y) to RM820.6 million, driven mainly by the 14.9% increase in loans as well as proactive management of funding costs in the face of continued net interest margin compression. Non-interest income declined by RM22.1 million or 6.1% largely due to lower trading gains from the sale of securities and revaluation of financial assets. Consequently, total income was RM34.0 million lower y-o-y.

Operating costs were well contained, increasing marginally by 3.0%, as we continued with investments to improve the efficiency of distribution and processes.

The Group's total net credit cost for the year was RM32.9 million, in contrast to a net write-

back in the previous year. This was due to collective provisions for loans growth during the year as well as the migration of ratings for the corporate loans portfolio.

Accordingly, we registered a net profit after tax of RM530.8 million. Total assets, meanwhile, have crossed the RM50.0 billion mark to reach RM53.0 billion.

### Loans Portfolio Concentrated in Consumer and SME Lending

For the financial year 2014 (FY2014), the Group embarked on a major initiative to streamline credit processes to improve the turnaround time for both consumer and SME lending, which in aggregate accounts for 76.8% of the total loans portfolio.

The success of this initiative was evident in the faster-than-industry 14.9% loans growth to RM36.6 billion.

Loans growth in Consumer Banking was driven by residential mortgages, which grew by 13.5% y-o-y, and hire purchase financing.

In the Business Banking segment, the Group continued to capitalise on its strong relationships and branding to expand by 16.6%.

Going forward, we expect loans growth to moderate with our shift in focus on risk adjusted returns instead of market share.

### Improving Asset Quality

Our asset quality remains very good, with the gross impaired loans ratio improving further

to 1.0% from 1.4% a year ago, while loan loss coverage rose to 102.7%.

### Strong CASA Franchise

We continued to register healthy growth in FY2015, with customer deposits rising by RM5.4 billion or 13.7% despite an intense price war ahead of the introduction of the Liquidity Coverage Ratio (LCR) framework. With our consistent emphasis on growing low cost

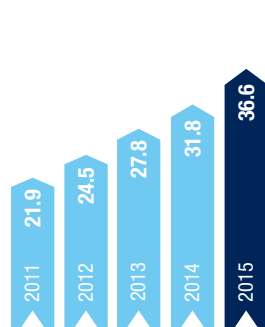
deposits, current and savings accounts (CASA), our CASA ratio stood at 33.6%, among the highest in the industry.

### Healthy Capital Ratios

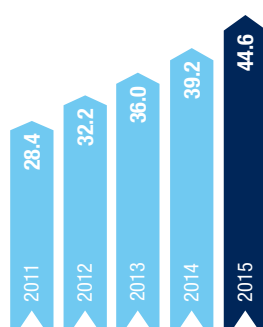
As at end-March 2015, the Group's Common Equity Tier 1 (CET1) and Total Capital Ratios stood at 11.1% and 13.0% respectively, ensuring a strong base to support our growth.

Summarised Income Statement	FY2015 RM million	FY2014 RM million	Growth RM million	Growth %
Net Interest & Islamic Banking Income	1,045.7	989.5	56.2	5.7
Non-Interest Income	337.3	359.4	(22.1)	(6.1)
Net Income	1,383.0	1,349.0	34.0	2.5
Operating Expenses	(646.9)	(628.2)	18.7	3.0
Pre-Provision Operating Profit	736.1	720.8	15.3	2.1
(Allowance for)/Write-back of loans and impairment provisions	(32.9)	28.5	(61.4)	(>100.0)
Profit Before Taxation and Zakat	703.2	749.4	(46.2)	(6.2)
Net Profit After Taxation	530.8	563.5	(32.7)	(5.8)
Summarised Balance Sheet	RM million	RM million	RM million	%
Net Loans, Advances and Financing	36,566.0	31,819.0	4,747.0	14.9
Treasury Assets	11,513.6	11,864.0	(350.4)	(3.0)
Total Assets	53,141.5	48,074.7	5,066.8	10.6
Deposits from Customers	44,606.8	39,237.1	5,369.7	13.7
CASA Deposits	14,990.0	13,322.2	1,667.8	12.5
Shareholders' Funds	4,495.1	4,166.0	329.1	7.9

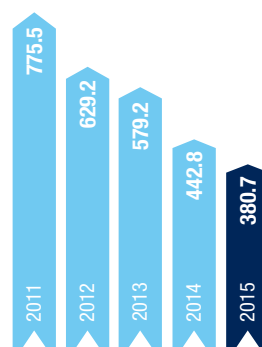
### STRONG LOANS GROWTH MOMENTUM (RM billion)



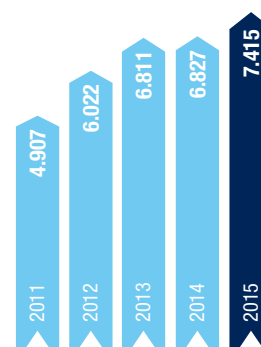
### SUPERIOR Y-O-Y GROWTH OF CUSTOMER DEPOSITS (RM billion)



### IMPROVING ASSET QUALITY (RM million)



### STEADY GROWTH IN MARKET CAPITALISATION (RM billion)



## BUSINESS AND OPERATIONS REVIEW BY CHIEF EXECUTIVE OFFICER OF ALLIANCE FINANCIAL GROUP BERHAD (cont'd)

### Shareholder Value Continues To Grow

Net assets per share rose by 7.8% to RM2.90 per share as at end-March 2015, from RM2.69 in the previous year, and market capitalisation has risen steadily to RM7.4 billion. The Group's Total Shareholder Return, which takes into account the capital gains of our share price and dividends to measure enhancement of value to shareholders, stood at 4.5% in FY2015.

### Strategic Priorities

During the year, we made good progress in enhancing the Group's franchise with the implementation of a number of key initiatives, which included:

- Using our distribution channels more effectively to serve all our customers better;
- Upgrading our infrastructure, optimising resources, and reengineering operations via the Alliance Process Excellence (APEX) initiative to provide innovative, fast, simple, secure and convenient service to our customers. This resulted in the halving of our underwriting turnaround time for SME loans; and
- Enhancing our Employee Value Proposition and recruitment process.



### Consumer Banking

FY2015 was a challenging year for Consumer Banking. Despite the 13.3% loans growth, revenue contracted y-o-y by 7.0% due to margin compression.

While pursuing loans growth and market share during the year, we also strengthened asset



*At the Alliance Expert Series 2014.*

quality with our prudent risk management and stringent lending guidelines. As a result, the gross impaired loans ratio improved to 1.2% as at end-March 2015.

We remained focused on enhancing our customer value proposition and serving our customers more efficiently across the various distribution channels.

In line with our strategy to evolve from a product-focused approach to a customer-centric approach, we rewarded our customers based on their total relationship with the Bank through Alliance OneBank Rewards.

This is a comprehensive points-based loyalty programme, which enables customers to earn Timeless Bonus Points through their credit card usage, mortgages, deposits and wealth management products.

### Housing Loans

We continued targeting affordable properties with good asset quality, using our offer of a complete range of housing financing, including the Home Complete package for renovations and the Home Complete Plus for the purchase of home solar panels. Our mortgage financing business expanded by RM2.1 billion or 13.7% to RM17.8 billion.

Our success in this area was mainly due to tie-ups with top developers as well as secondary market campaigns with offers that cater to the different needs of customers including first-time house buyers, upgraders and investors.

Leveraging on our close partnership with EcoWorld Development Berhad, we launched

the Alliance Bank EcoWorld Debit Card, a first-of-its-kind loyalty card with a property developer in Malaysia.

### Credit Cards

Our credit card receivables expanded 8.8% to RM617.0 million as we leveraged on our relationships with merchants, to provide greater benefits for our card members, and intensified new customer acquisitions via cross-selling and tactical marketing campaigns.

### Personal Loans

Personal lending continued to gain momentum driven by our competitive Alliance CashVantage Personal Financing-i and Alliance CashFirst products as well as streamlined credit policies and processes. Consequently, the loans portfolio outstanding rose by 10.8% to RM838.0 million.

### Hire Purchase

The Hire Purchase business registered loans growth of 26.4% to RM1,292.0 million. Our marketing initiatives included offers of value-added financing packages in collaboration with distributors. We also introduced the hire purchase variable rate loan to complement the existing fixed rate product suite.

### Wealth Management

Our wealth management business comprises three main product categories, namely Bancassurance; Investment/Treasury; and Share Trading and Investment Lending. It is built on a customer value proposition of offering the "right solution aligned to the customer's risk appetite and investment needs".



## Bancassurance

In Bancassurance, we built on our strategic partnership with Manulife Insurance Berhad to ensure that we offer suitable products to meet the investment and protection needs of our customers from different market segments. We expanded our specialist advisory services platform nationwide and equipped our sales personnel with the MySales mobile sales engagement tools. We also introduced the Elite Wealth Saver Plus, an enhanced regular premium endowment plan, and the Elite Smart Kid, an education plan for children.

## Investment and Treasury

We adopted an open architecture product philosophy and work with multiple banks and asset management companies to secure best-of-breed products for our customers to invest in, both within Malaysia, regionally and globally. We also continued to expand the suite of unit trust funds to meet the different risk appetite and investment objectives of our customers. In FY2015, we introduced six close-ended fixed income funds and five new open-ended equity funds. We have also seen positive traction for the 16 tranches of equity-linked structured investment, which we began offering a year ago.

## Share Trading & Investment Lending

Our Share Trading and Investment Lending business provides direct equities trading and facilities for share margin financing. The share margin financing portfolio remained flat at RM1,482.0 million as the volatile equity market environment affected investor confidence.



*Alliance Bankers with the senior management team of KIP Group.*

## Business Banking

We continued to build on the previous year's success through offering specialised innovative products and undertaking concerted efforts to develop long-term relationships to help companies grow their business. With our strategy of targeting the right market segments and sharpening our industry focus, we registered double-digit loans growth of 17.2% y-o-y, to RM14.8 billion. The gross impaired loans ratio improved to 0.5%, as we enhanced our credit discipline via industry supply chain analysis, and rigorous adherence to borrower risk rating frameworks.

Loans to the Small and Medium Enterprise (SME) segment accelerated to 24.4%, from 14.7% a year earlier, and accounts for 40.0% of the Business Banking portfolio, as we continued to play an active role in supporting the growth of the SME segment.

In our efforts to expand our competitive product offerings, we launched a new product called SME Express Cash, which offers companies a credit facility of up to RM500,000 without collateral for working capital purposes. We equipped our staff at the branches with the necessary knowledge and skill sets to complement the Business Centres to better support the growth of the SMEs.

We also implemented several key improvements to process customers' requests and applications more efficiently. These end-to-end re-engineering initiatives have resulted in a significant 69% improvement in turnaround time for SME loan approvals and disbursements.

In Corporate and Commercial Banking, the loans portfolio grew by 13.3% to RM8.9 billion, as our client coverage teams worked closely with Transaction Banking, Financial Markets and Investment Banking to offer our customers a wide range of funding and trade finance solutions to expand their business.



*Sharing a cup of coffee with the management team of Coffex Coffee.*

## BUSINESS AND OPERATIONS REVIEW BY CHIEF EXECUTIVE OFFICER OF ALLIANCE FINANCIAL GROUP BERHAD (cont'd)



*Striking a pose with the founders of Larrie Corporation.*

We are proud to report that our efforts to help companies, in particular, SMEs to grow have received widespread recognition in the form of prestigious awards, some of which are multi-year awards, from prominent publications. These awards clearly affirm our market leadership and robust business model, particularly in the SME segment.

### Realising Young Entrepreneurial Potential

As part of efforts to develop and nurture emerging young entrepreneurs, we organised the Alliance Bank BizSmart Academy SME Innovation Challenge for the second year. We received submissions from a diverse range of sectors ranging from robotics and F&B, to medical devices and green technology. The four winning businesses received cash prizes worth RM600,000 in total.

### Customer Engagement

The Group has always placed great importance on engaging our customers to understand their needs, aspirations and challenges. This forms part of our efforts to offer holistic solutions to businesses at their every life-stage. In this regard, the various social activities like the ever-popular Durian Fiesta, Alliance Bank "ilovegolf Tournament", movie screenings and customer appreciation dinners have helped strengthen our customer relationships and ties with the various trade associations.

We also shared key business insights with our customers through our structured training

programme offered under BizSmart Academy, which featured a wide range of business topics. These included the Young Entrepreneur's Conference, the National Budget Seminar, Trade and Foreign Exchange Seminars as well as Goods and Services Tax (GST) Seminars.

### Group Transaction and Alternate Banking

Group Transaction and Alternate Banking (GTAB) offers a range of competitive transactional and advisory services that are efficient, fast and secure for our customers. Leveraging on technology and channel investments over the last three years, we have been able to accelerate the growth of CASA deposits, achieve among the best Business Online Banking usage rates, and serve strategic corporate and government accounts.

In addition to the responsibility for mobilising the Group's customer deposits, GTAB's other services include payments and remittances, trade finance, cash management, and the digital banking channels such as self-service terminals and online banking.

Furthermore, GTAB has been spearheading the Group's push for the migration from over-the-counter transactions to e-payments in line with Bank Negara Malaysia's efforts to reduce the usage of cheques. To do this, we launched Internet kiosks at all branches to promote the use of e-Banking as well as special e-offerings for both retail and business customers.

Overall, the Group's strategy to encourage online banking, by providing customers with value-added services, has resulted in significant growth in the Internet banking user base and transaction volumes, for both the allianceonline Personal and BizSmart Online Banking. The initiatives implemented in FY2015 included:

- The Alliance Online Mobile Web, which enables web banking to be accessed via various mobile devices;
- The National Bill Payment Scheme (JomPay);
- The Royal Malaysian Customs Department GST Collection;
- Alliance XChange, an online, interest-bearing foreign currency account for Fixed Deposits and Current Accounts;
- A new online telegraphic fund transfer service; and
- Self-service Internet kiosks at all branches.





## THE ALLIANCE BANK SME INNOVATION CHALLENGE

Scan the QR code to view video.



At Alliance Bank, we are here to help the nation's SMEs grow their business. With this in mind, we developed the SME Innovation Challenge under our BizSmart Academy to help SMEs realise their business goals. Launched in 2013, the Challenge provides contestants with media exposure, structured business coaching, and in-depth business insights from the CEOs of top Malaysian companies such as Tan Sri Liew Kee Sin of EcoWorld and Datuk Wira (Dr.) Haji Ameer Ali Mydin of Mydin.

The Challenge involves four stages: Entry Submission, Business Coaching & Media Exposure, Public Voting and Final Pitch. At the final stage, judges will pick the top three winners and award the grand prize amounting to RM250,000, the second prize of RM150,000, and the third prize worth RM100,000. The Challenge continues to provide SMEs the tools and financing they need to execute their respective visions.

Here is an overview of how the SME Innovation Challenge helped transform the businesses of the 2013 and 2014 grand prizewinners.

### ALLIANCE BANK SME INNOVATION CHALLENGE 2013 WINNER – CHRISTY NG SHOES

Scan the QR code to view video.



In 2013, Alliance Bank crowned Christy Ng Shoes, an online shoe company, the grand prizewinner of its inaugural SME Innovation Challenge. This ground-breaking shoe company not only specialises in custom-made shoes, wedding shoes, high heels shoes and both men's and women's fashion footwear for the Malaysian market, but it also ships its shoes worldwide to America, Canada, Singapore, Australia and Europe on a daily basis. By combining new technology with innovative designs, Christy Ng Shoes provides customers with beautiful and quality shoes that cater to their footwear needs at affordable prices. Since the Challenge, the brand has branched out and today includes handbags and a new clothing line among its product offerings. Christy Ng Shoes also experienced 100% revenue and gross profit growth.

The RM250,000 grand cash prize was used to research and develop an online 3D shoe design engine that enables customers to design and view a 3D prototype of their own creations wherever they are. With the prototype, customers around the world also have access to over one million possible shoe designs. The new infrastructure, which took some 15 months to develop, has enabled the company to upscale its business exponentially. With 50% of its revenue currently derived from exports, Christy Ng Shoes expects to see a further leap in business growth now that the 3D shoe design engine is fully operational.

According to Christy Ng, founder and CEO of Christy Ng Shoes, the SME Innovation Challenge has also served to provide the online company a sense of validation and confidence regarding their ideas and business model. On a more personal level, the Challenge provided a platform for Christy to network and foster new friendships as well as to experience peer-to-peer learning.

Christy highlights that she is grateful that the Bank continues to keep in touch with her and to provide publicity for her company even though it has been some two years since she won the Challenge.

Looking ahead, the company hopes to build on its brand name as it expands into other verticals such as its apparel brand. It will also continue to focus on its custom-made shoe offering as this provides the company an edge over its competitors. Christy Ng Shoes is also set to open a new store in San Diego, USA, in the near future.



Founder and CEO of Christy Ng Shoes, Christy Ng (third from left), with her mother (on her right) and staff.

## BUSINESS AND OPERATIONS REVIEW BY CHIEF EXECUTIVE OFFICER OF ALLIANCE FINANCIAL GROUP BERHAD (cont'd)

### ALLIANCE BANK SME INNOVATION CHALLENGE 2014 WINNER – BIJI-BIJI INITIATIVE

Scan the QR  
code to view  
video.



*The founders of Biji-Biji Initiative with Tan Sri Liew Kee Sin (fourth from left).*

Biji-Biji Initiative is a social enterprise that champions innovative waste management solutions. Thanks to its creative business model, the company won the Tan Sri Liew Kee Sin Entrepreneurship Award of RM250,000 at the SME Innovation Challenge 2014.

Biji-Biji Initiative offers services such as sustainable builds comprising one-of-a-kind designs; product designs which range from bags, to seat belts to furniture; as well as events services, workshops and CSR modules. Founded in November 2012, the company continues to inspire people to be creative while employing recycling methods that are environmentally friendly and sustainable. The company's aim is to "inspire a society that is accountable for their waste, and leaves a minimal impact on the environment".

After winning the Alliance SME Innovation Challenge in 2014, Biji-Biji Initiative experienced growth in terms of sales, public exposure and media coverage. It has also been able to strengthen its size. Winning the grand prize also provided strong validation for the company's business model; the public and corporations alike acknowledged that the company has a "very plausible way of doing things".

Rashvin Pal Singh, CEO of Biji-Biji Initiative, has this to say of his experience under the SME Innovation Challenge: "The journey was both insightful and nerve-wrecking. We were competing against highly qualified people, but it was a very healthy competition. Everyone was really open and we learned from one another. The journey throughout was amazing and our group of 20 finalists have formed a strong network where we keep in touch and also learn from each other."

He went on to say that the engagement with Alliance Bank was done in a very personal and very helpful manner. "They gave us very honest, sound and practical advice. This includes evaluating our business model and providing us insights as to how bankers would evaluate our business."

Since the Challenge, universities and companies alike have approached the company and expressed keen interest in their business model. The Challenge fast-tracked the company's goals; Biji-Biji Initiative has since gone on to collaborate on more high-profile projects. Recently, Rashvin was a mentor for the re-launch and rebranding of Rakan Muda workshops involving youth from all over Malaysia. Their product, Biji-Biji Seat Belt Bags, is now available at The Upperside, Enschede, in the Netherlands.

As it ventures forth, Biji-Biji Initiative will focus on reinforcing its brand presence among corporations and will explore how best to tap into the consumer market to generate a bigger reach for its products. The company is also intent on "reverting to low-tech solutions for high-tech purposes." In line with this goal, the company has invested part of its prize money into exploring and developing a prototype that will turn recycled plastic bottle waste into resin that can be used for 3D printing. The company has also used the prize money to procure more tools and technology to support its goal of moving towards "more open-source designs and technology."

In a word of advice to young entrepreneurs and SMEs, especially to those looking to participate in the upcoming Challenges, Rashvin added, "If you believe in something strongly you need to act on it. Action is everything, even if it is something small. Getting the resources may seem intimidating at first, but just do it. People sometimes do not know what to do, but there is a lot of support out there."

"Taking part in the Challenge will benefit you as you will have access to key industry leaders, and it will also put you in the spotlight. If you are going to participate in the Challenge, take a long hard look at how you want to differentiate your business, and then put in all that you have to realise your dream."

## Financial Markets

Financial Markets provides a comprehensive range of treasury products and services, including foreign exchange, money market instruments, fixed income securities, currency/interest rate derivatives and other structured solutions to various customer segments.

During the year, client-led foreign exchange and fixed income trading volumes grew steadily as we offered hedging solutions to SMEs and corporate clients, and new structured investment products for Consumer Banking customers.

The focus on a client-led business model coupled with integrated risk management will further enable Financial Markets to build a diversified revenue base that is strong enough to weather market uncertainties, in the light of potentially higher global interest rates and volatility of investment flows.

## Islamic Banking

Our Islamic Banking business, conducted through our subsidiary, Alliance Islamic Bank (AIS), continued to grow steadily and contributed 14.0% to the Group's revenue, and 16.7% of total assets. AIS reported a net profit after tax for FY2015 of RM60.4 million.

Total gross financing expanded 30.1% to RM6.6 billion, driven mainly by growth in mortgages, *Al-Ijarah Thumma Al-Bai'* (AITAB), personal financing and business financing. The overall asset quality indicators remained healthy, with gross impaired financing ratio improving further to 0.7%.

Our total deposits registered a strong growth of 27.4% y-o-y, and stood at RM8.0 billion at the financial year's end.

AIS also launched a number of new products including the Junior Smart Savers-i, a children's savings account; Cashline Facility-i, an Islamic overdraft; Home Complete-i, a mortgage-linked personal financing product; Islamic Industrial Hire Purchase-i; and various deposit products based on Wadiah and Commodity Murabahah as part of the transition of Islamic deposits under the Islamic Financial Services Act 2013.

In addition to the introduction of new products, our business development initiatives focused on strengthening our presence in the strategic sectors of Government and government-linked organisations, both for deposits as well as transaction banking relationships. During the year, the Royal Malaysian Customs appointed AIS to collect GST payments on its behalf.

AIS also enhanced its product development and Shariah compliance review framework, and expanded its Shariah Department, to ensure compliance with the requirements of the Islamic Financial Services Act 2013 and the accompanying new Shariah guidelines issued by Bank Negara Malaysia.



## Investment Banking

Alliance Investment Bank Berhad (AIBB) provides a wide range of services, which include stockbroking, corporate advisory, underwriting and placement of equity securities, private debt securities, loan syndication, corporate banking and treasury services. Over the last two years, its focus has been on strengthening our research capabilities and expanding the stockbroking operations.

In May 2014, we further strengthened our research capabilities through a corporate exercise involving AIBB's acquisition of a 51% stake in HwangDBS Vickers Research Sdn Bhd. The new research unit known as AllianceDBS Research Sdn Bhd, has enabled AIBB to increase its research coverage and resources in Malaysia. It also allows AIBB to tap the expertise of DBS Vickers' pool of analysts

in Singapore, Hong Kong, Indonesia, Thailand, Philippines and South Korea.

Consequently, AllianceDBS Research Sdn Bhd's ranking in the Asiamoney Polls for Best Overall Research jumped to 8th place in 2014 from 21st in 2013. Furthermore, AIBB was also ranked third in the Asiamoney Brokers Poll 2014 in the Malaysia's "Most Improved Brokerage Over The Last 12 Months" category (rising from fifth place in 2013). It also climbed to 8th position in the "Best Overall Sales" category, from 19th the year before.

## Equity Market

AIBB's market share in the equity market improved in FY2015, led by growing order flows from institutional businesses. This reflects our strong emphasis on building and enhancing institutional client relationships through higher standards of client service and engagement.

## Capital Markets

Overall, there was less activity in the Capital Market segment in FY2015 in Malaysia when compared to the previous year, especially in the area of initial public offerings (IPOs). The aggregate IPO market capitalisation in FY2015 was RM10.2 billion, approximately 63.8% lower when compared to the previous financial year total of RM28.2 billion. In the debt market, issuance of government debt securities declined 8.7% to RM84.5 billion, while issuance of corporate debt securities was stable at RM85.9 billion.

In FY2015, AIBB focused on rebuilding its capabilities in corporate finance advisory and debt capital markets. Among the key assignments successfully completed by AIBB during the year were the IPO of Sasbadi Holdings Berhad on the Main Market of Bursa Malaysia Securities Berhad and the RM200.0 million Sukuk Murabahah Programme for Puncak Wangi Sdn Bhd.

Following the recent expansion of the Capital Markets team with a number of new key hires, AIBB will continue to leverage on the Group's strength in the SME market segment with our focus on providing a wide range of investment banking advisory services and access to Capital Markets.



## BUSINESS AND OPERATIONS REVIEW BY CHIEF EXECUTIVE OFFICER OF ALLIANCE FINANCIAL GROUP BERHAD (cont'd)



With our partner, Bursa Malaysia Securities Berhad.

### Optimising and Innovating Branches and Channels

As part of the Group's efforts to make it easier for our staff to handle their tasks in enhancing customer experience, we also implemented a number of process improvement projects. These included:

- The issuance of e-statements to speed up the delivery of statements to customers;
- A review of the service standards of our Self-Service Terminals at the e-lobbies;
- Review of service standards to improve response time in resolving customer related issues;
- Obtaining ISO 9001:2008 certification for:
  - Branch counter and transaction processing for cash and cheques for current, savings and fixed deposit accounts;
  - Trade finance transactions processing of Trust Receipt and Bankers' Acceptance; and
  - Treasury services processing.

We will continue to certify other operational processes in the coming year. In achieving these certifications and in being ISO 9001:2008 compliant, we reaffirm our commitment to operational excellence. More importantly, all staff have now attended our in-house quality engagement training programme designed to equip both front-liners and support staff with the skills to provide quality customer experiences.



### Group Technology

We continued to improve on our technology capabilities to promote operational efficiency and support business expansion in a cost-effective manner. In FY2015, we completed a number of key projects:

- The roll out of new hardware and operating systems for the core banking and credit card hosts for improved performance, service availability and reliability;
- Implementation of security enhancements to Automated Teller Machines (ATMs) to support chip-based payment cards in compliance with the Europay MasterCard VISA (EMV) standard;
- Implementation of an enhanced loan origination system and the Anti-Money Laundering system;
- GST-related enhancements in multiple systems in compliance with the nationwide introduction of the new service tax;
- Upgrading of systems to support the roll out of new and revised regulatory guidelines on e-payments;
- Implementation of enterprise mobility sales solutions and new Internet Protocol (IP)-based telephony system; and
- Implementation of cyber-security protection measures.

Moving forward into financial year 2016 (FY2016), enhancements to technology capabilities will include payments, channels and digital banking infrastructure.

## Enhancing Risk Management and Compliance

The Group adopts a holistic approach towards risk governance, capital and liquidity management. In essence, this approach revolves around:

- Having sufficient capital to conduct business and to provide a risk buffer;
- Ensuring sufficient liquidity for daily operations and contingencies; and
- Striking a balance between business growth, profitability and risk-taking.

These considerations are reflected in the implementation of our risk appetite and policies, and have been integrated within our stress-testing framework, capital management plans and active liquidity management strategies.

During the year, we further enhanced our risk management policies and frameworks. This included our integrated stress-testing framework, analytics capabilities and portfolio management tools to address emerging threats and potential risks including the rising rate of cyber crime. We also created greater awareness amongst our staff on the importance of exercising discipline and prudence in all our business and operating activities.

To provide further assurance that the risk management systems, internal controls and governance processes are effective as we grow our business, we continue to enhance the capabilities and the use of technology within the Audit and Compliance functions.

## Strengthening Employee Relationships

The Group recognises that to be a high performing organisation with the capacity to respond to changes in the financial services industry, we need to continue to promote people engagement, improve communications and institutionalise leadership development.

In this regard, we continue to invest in our human capital by fostering an environment that encourages continuous learning and development. Our differentiated Employee Value Proposition focuses on partnering with our employees through long-term development programmes to help them achieve their potential.

We have developed a competency-based approach in learning: the skills and abilities of employees must meet the articulated requirements of specific positions. The key programmes under our learning and development initiatives are our Management Trainee Programme and Alliance Managers Programme. The Structured Internship Programme provides undergraduates early exposure to their career interest and networking opportunities in the financial industry.

Similarly, our Branch Manager Development Programme is designed to groom aspiring branch/centre managers by providing targeted learning and skill sets through intensive training experience in branch management. Meanwhile, the front-line staff attend programmes to equip them with better understanding and knowledge of the products and services as well as customer-relationship skills.

In line with our priority to hire from within the organisation to fill our vacancies, we have rolled out a robust Talent Management and Development Framework to identify, groom, grow and nurture homegrown talent for positions of leadership within the Group. These staff attend exclusive leadership programmes to accelerate their leadership development and benefit from structured coaching and mentoring sessions.

We believe in staff engagement and transparency across all levels in the Group. During the year, to provide clarity of our vision as well as reinforce the right organisation culture around the R.I.T.E core values (Respect, Integrity, Teamwork and Excellence), we organised pulse sessions. These sessions provided a platform for the sharing of key strategies and exchange of ideas, as well as served to gather feedback from the staff. We also launched a refreshed inAlliance intranet portal that offers greater flexibility to share information and to facilitate knowledge sharing and learning.

Consequently, our Employee Engagement Index showed an improvement from the previous years as we continued to actively engage our people and seek their feedback through the yearly “Voice of Employee” survey. This survey helps us understand how we can improve our performance and, at the same time, deliver career satisfaction. Our efforts have also led to significant improvements across several employee satisfaction dimensions relating to leadership, learning and information sharing.

## Awards and Accolades

The Group once again garnered a number of prestigious awards and accolades in FY2015, which is an apt testament to our commitment to deliver quality product and services to discerning customers. It also bears testimony



*Branch Manager Development Programme (Class of 2015).*

## BUSINESS AND OPERATIONS REVIEW BY CHIEF EXECUTIVE OFFICER OF ALLIANCE FINANCIAL GROUP BERHAD (cont'd)

to the dedication of our people and the commitment to excellence that they display in all that they undertake.

- “Best SME Bank” in Asia Pacific, Gulf region & Africa at The Asian Banker Excellence in Retail Financial Services International Awards 2015.
- “Best Retail Banking Brand Initiative” in Asia Pacific, Gulf region & Africa at The Asian Banker Excellence in Retail Financial Services International Awards 2015.
- “Excellence in SME Banking” at the RBI Asia Trailblazer Awards 2015.
- “Best Community Outreach Programme” (Highly Commended) at the RBI Asia Trailblazer Awards 2015.
- “Excellence in Brand Strategy” (Gold) for Alliance BizSmart Academy at the Marketing Excellence Awards 2014.
- “Excellence in Marketing Innovation” (Finalist) for Alliance BizSmart Academy at the Marketing Excellence Awards 2014.
- “Best Use of Integrated Media Campaign” Award (Bronze) for Alliance BizSmart Academy at the Loyalty & Engagement Awards 2014.
- “Best Business Card Programme, Asia” at the Cards & Electronic Payment International (CEPI) Asia Trailblazer Summit Awards 2014.
- “Credit Card Product of the Year” (Highly Commended) at the CEPI Asia Trailblazer Summit Awards 2014.
- “Sahabat Negara SME” by the SMI Association of Malaysia at the SME Recognition Award 2014.
- Ranked 3rd - Malaysia’s “Most Improved Brokerage Over The Last 12 Months” - Asiamoney Brokers Poll 2014.
- 8th place ranking for AllianceDBS Research Sdn Bhd - Asiamoney Polls for Best for Overall Research 2014.

Our online banking business model and technology capabilities continued to gain industry recognition from well-known regional publications, including:

- “Online Banking Initiative Of The Year-Malaysia” at the Asian Banking & Finance Retail Banking Awards 2014;



*The Asian Banker Excellence in Retail Financial Services International Awards 2015.*

- “Best Self Service Banking Project” Award at The Asian Banker Technology Implementation Awards 2014; and
- “Growing Business in New Territory or New Service Offering” for Internet Banking 2nd Generation at the Global Architecture Award of Excellence 2014.

Our ongoing efforts to position Alliance Bank as “A Great Place to Work” gained recognition with the Bank being listed among “Malaysia’s 100 Leading Graduate Employers”; our ranking improved significantly from 78 to 29 within a short span of 12 months, underscoring the investments we are making in our people development efforts. We were also honoured with a “Best Graduate Programme” in Asia Pacific at the RBI Asia Trailblazer Awards 2015 and a bronze for “Best Graduate Recruitment Programme” in Malaysia at the Asia Recruitment Awards 2015.

### Looking Ahead

In light of the expected slowdown of growth in The Malaysian economy and global uncertainties, we see challenges ahead. For us, the focus areas for FY2016 will be to further improve asset efficiency as measured by risk-adjusted returns, ensure deposits growth exceeds loans growth and continue to grow customer based non-interest income.

We will focus our efforts on:

- **Value Creation for the Group** – Getting more value from our products and activities: We will improve our asset efficiency by rebalancing the loans portfolio via accelerated growth in selected products and customer segments, broaden our customer deposit base, expand recurring fee income and enhance risk management capacity and capabilities.
- **Value Creation for our Customers** – Helping our customers to be successful financially: We will focus on simplifying and streamlining the processes for quick turnaround time, providing tailored solutions based on customers’ needs as well as financial and business education.
- **Value Creation for our Employees** – Developing our people: We will continue to invest in our employees through talent development programs, career progression opportunities and robust performance management, with competitive rewards.

The Group will continue to capitalise on its strengths to generate sustainable revenue from existing business in Consumer Banking, Business Banking and Transactional Banking.





*The Alliance Bank Golf Tournament 2014.*

We will centre our Consumer Banking activities around wealth management, cards and unsecured lending, with a strong focus on fulfilling the financial needs of the owners, employees and clients of SME and Business Banking partners.

Financial Markets will focus on helping customers with their foreign exchange and treasury products needs, as well as on optimising the balance sheet for returns within a prudent risk management framework.

Investment Banking, having built its capabilities in the debt and equity markets, will support our SME and Business Banking customers with enhanced access to capital markets in addition to growing its institutional broking business.

We are confident that these actions will position the business for sustainable revenue and profit growth going forward into FY2016.

### Acknowledgements

As we move into a new financial year, please allow me to take this opportunity to extend our sincere appreciation to our customers, business partners and regulators, especially Bank Negara Malaysia, the Securities Commission Malaysia and Bursa Malaysia Securities Berhad for their support in FY2015.

We have built a track record of sustainable growth and financial performance, due largely to the support, trust, feedback and advice of many of our customers, staff and regulators. I am thankful to our team of Alliance Bankers for their hard work, dedication and commitment that have been key to our success.

Once again, I would like to express my appreciation to the members of the Board of Directors for their continued and invaluable guidance, their warm welcome and open working style. I look forward to their support in the coming year.

Thank you.

**JOEL KORNREICH**  
Chief Executive Officer