

## Business and Operations Review

### By Group Chief Executive Officer of Alliance Bank Malaysia Berhad



**For the Alliance Bank Group, financial year ended 31 March 2012 was an exciting year. We stayed focused on executing the strategic initiatives and delivered net profit after tax of RM484.3 million and return on equity of 14.0%, the highest in recent years.**

We delivered another record performance for financial year ended 31 March 2012 (FY2012), underpinned by strong growth in non-interest income and better asset quality as well as a disciplined approach to risk and financial management. We also enhanced our franchise value by expanding the scale of our business operations, while simultaneously laying the groundwork for new initiatives for the future.

#### Achieving Growth

Malaysia has been quite well insulated from the financial and economic turmoil of the eurozone debt crisis and natural disasters. Although these uncertainties have not impacted business confidence in the country, the global macro-economic conditions, coupled with further consolidation within the banking industry and heightened competition, contributed to a tough operating environment. Taking these challenges in its stride, we remained focused on the execution of our strategic plans and initiatives, leveraging on synergies inherent within the Group to deliver higher earnings.

We began FY2012 by outlining the Group's medium term aspirations for the financial performance metrics:

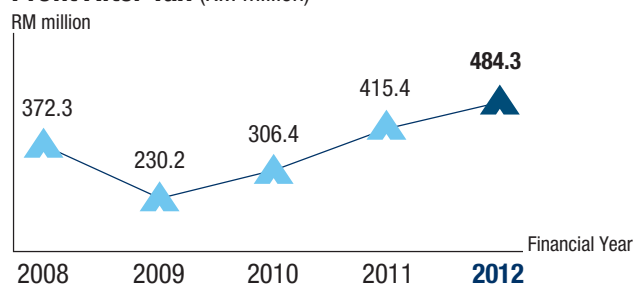
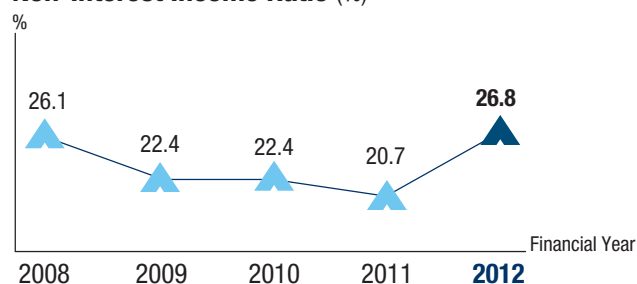
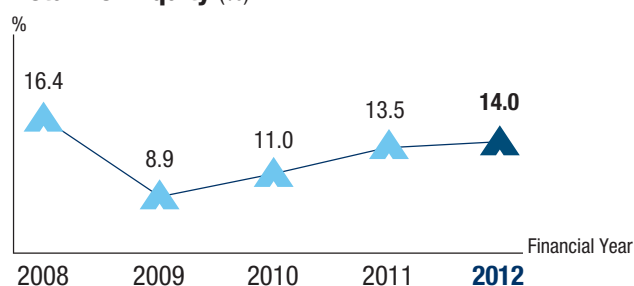
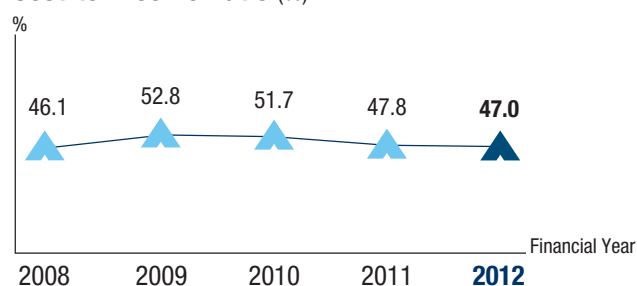
- To achieve asset quality that is better than industry average;
- To increase non-interest income to 30% of total revenue;
- To reduce cost-to-income ratio through targeted revenue growth and improved productivity; and
- To achieve return on equity that is comparable to the industry average of between 14% and 16% by focusing on underlying earnings momentum and effective capital management.

We are pleased to inform that the Bank is on the right track towards achieving our medium term aspirations, and building "The Best Customer Service Bank in Malaysia" as reflected by the recent customer satisfaction survey results, sound financial performance, and well-diversified and sustainable growth.

#### Financial Performance

We registered our best ever financial performance in recent years with a record net profit after tax of RM484.3 million, representing a 16.6% year-on-year growth and our highest ever return on equity of 14.0%. The following figures highlight the performance summary of the Group for the financial year.

|                    |   |
|--------------------|---|
| Profit Growth      | <ul style="list-style-type: none"> <li>Record net profit at RM484.3 million, up 16.6% year-on-year, driven by increase in non-interest income and lower impairment charges.</li> <li>Return on equity at 14.0%, up from 13.5% a year ago.</li> </ul>  |
| Business Expansion | <ul style="list-style-type: none"> <li>Total assets expanded to RM39.6 billion or 9.8% year-on-year.</li> <li>Gross loans growth of 11.3% to RM25.0 billion, underpinned by expansion in mortgage loans and SME lending.</li> <li>Deposit growth of 10.9% to RM32.2 billion.</li> <li>Non-interest income expanded by 41.9% to RM320.3 million from RM225.7 million a year ago. Non-interest income ratio improved to 26.8% from 20.7% previously.</li> <li>Current Account Savings Account ratio maintained at 33.7%.</li> </ul> |
| Productivity       | <ul style="list-style-type: none"> <li>Cost-to-income ratio dropped to 47.0%, from 47.8% a year earlier, reflecting our increased emphasis on cost management initiatives.</li> </ul>   |
| Risk Management    | <ul style="list-style-type: none"> <li>Liquid balance sheet, with loans to deposits ratio maintained at 77.7%.</li> <li>Net impaired loans ratio continued to improve to 1.4%, from 1.9% in FY2011, due to better underwriting standards and intensified collection efforts.</li> <li>Loan loss coverage rose to 108.5% from 90.1% previously, as the Bank had set aside collective provisions under Bank Negara Malaysia's transitional provision for FRS139 adoption.</li> </ul>  |
| Capital Management | <ul style="list-style-type: none"> <li>Risk-weighted capital ratio stood at 15.2%, while Tier One capital ratio is at 11.5%, well above regulatory and Basel III requirements.</li> </ul>   |

**Profit After Tax (RM million)****Non-Interest Income Ratio (%)****Return on Equity (%)****Cost-to-Income Ratio (%)**

## Business and Operations Review

By Group Chief Executive Officer of Alliance Bank Malaysia Berhad (cont'd)

## Financial Performance

|  | FY2011 | FY2012 | Change % |
|--|--------|--------|----------|
| <b>Profitability / Efficiency Ratios</b> |        |        |          |
| Return on Equity                         | 13.5%  | 14.0%  | +0.5%    |
| Return on Assets                         | 1.2%   | 1.3%   | +0.1%    |
| Non-Interest Income Ratio                | 20.7%  | 26.8%  | +5.5%    |
| Cost-to-Income Ratio                     | 47.8%  | 47.0%  | +0.8%    |
| <b>Asset Quality</b>                     |        |        |          |
| Gross Impaired Loans                     | 3.3%   | 2.4%   | +0.9%    |
| Loan Loss Coverage Ratio                 | 90.1%  | 108.5% | +18.4%   |
| <b>Liquidity &amp; Capital Ratios</b>    |        |        |          |
| CASA Ratio                               | 33.3%  | 33.7%  | +0.4%    |
| Loan to Deposit Ratio                    | 77.0%  | 77.7%  | +0.7%    |
| Risk-Weighted Capital Ratio              | 16.1%  | 15.2%  | -0.9%    |
| Core Capital Ratio                       | 12.0%  | 11.5%  | -0.5%    |

|   | FY2011  | FY2012  | Change | Change % |
|---|---------|---------|--------|----------|
| <b>Summarised Income Statement (RM million)</b> |         |         |        |          |
| Net Interest & Islamic Banking Income           | 906.1   | 931.4   | 25.3   | +2.8%    |
| Non-Interest Income                             | 225.7   | 320.3   | 94.6   | +41.9%   |
| Net Income                                      | 1,131.8 | 1,251.7 | 119.9  | +10.6%   |
| Operating Expenses                              | 541.7   | 588.8   | 47.1   | +8.7%    |
| Net Profit After Taxation                       | 415.4   | 484.3   | 68.9   | +16.6%   |
| <b>Summarised Balance Sheet (RM billion)</b>    |         |         |        |          |
| Net Loans, Advances and Financing               | 21.8    | 24.4    | 2.6    | +11.8%   |
| Investment and Dealing Securities               | 12.1    | 11.4    | 0.7    | -6.1%    |
| Deposits from Customers                         | 29.0    | 32.2    | 3.2    | +10.9%   |
| Total Assets                                    | 36.0    | 39.6    | 3.6    | +9.8%    |

Note: '+' indicates improvement in performance.

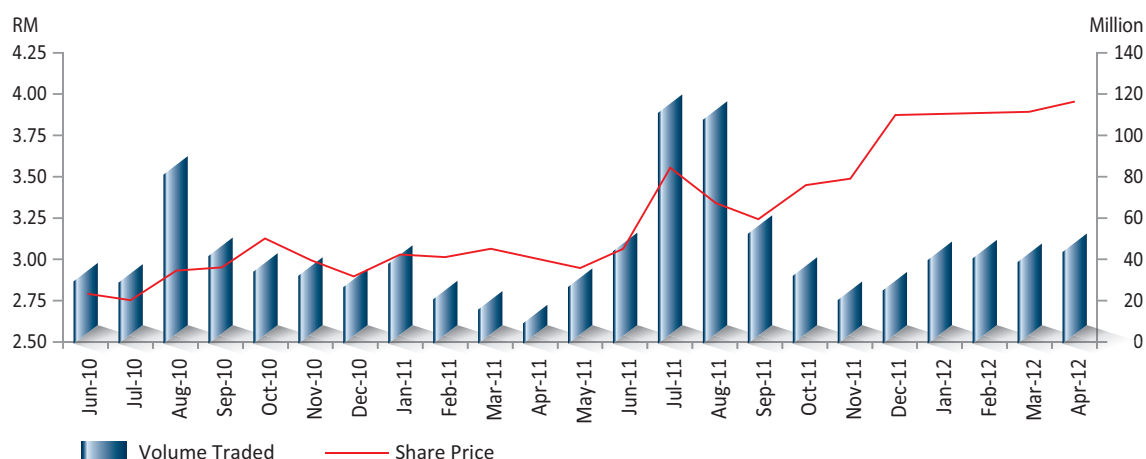
## A Greater Shareholder Value Creation

The intrinsic value of the Bank strengthened in tandem, with earnings per share seeing a 15.7% year-on-year expansion to 81 sen. Net asset per share rose 10.6% to RM3.64, against RM3.29 last financial year.

Arising from the improved financial performance, at the close of FY2012, the share price of the holding company,

Alliance Financial Group Berhad (AFG), was RM3.89 per share, up 22.7% against RM3.17 on 31 March 2011, and it outperformed the Kuala Lumpur Composite Index. In fact, in calendar year 2011, AFG was the top performing financial stock, garnering an overall increase in market capitalisation of 22.7% to RM6.0 billion and moving up the ranking to be the 43rd largest company on Bursa Securities as at end-December 2011.

## AFG Share Price and Volume



## Business Performance

Building on the momentum established, the Bank's priorities for the year were focused on:

- Ensuring broad revenue growth, both interest income and non-interest income, across all areas of the Bank, through bundling and cross-selling of innovative products and services offered by the various lines of business, such as Consumer Banking, SME Banking, Wholesale Banking and Financial Markets;
- Enhancing our customers' overall service experience with us by building strong and enduring relationships with our customers and providing them with fast, simple and convenient service by leveraging on our Customer Relationship Management system and process re-engineering initiatives; and
- Strengthening our human capital and reinforcing our core values, as the successful execution of the Bank's plans depends on the combined knowledge, skills and commitment of our people.

The success of these strategies is clearly evident in the business volume expansion as we successfully leveraged our streamlined business processes, the efficiency of our operating model as well as the introduction of new products and opportunities to drum up our Consumer and SME businesses in difficult market conditions. Hence, we actually achieved our best-ever gross loans growth to date of 11.3%, compared to 4.8% in previous year, outperforming the banking industry growth of 10.9%. The total gross loans outstanding expanded by RM2.5 billion during the year, and our market share rose to 2.5%.

Concurrently, we also continued to mobilise more deposits from our cross-selling initiatives, with customer deposits increasing by RM3.2 billion (10.9%) to RM32.2 billion during the year. We have also successfully built a diversified and loyal deposits base.



## Consumer Banking

Consumer Banking contributed RM185.2 million, or 25%, of the Bank's pre-tax profit, driven by improved cross-selling activities and new wealth management products.

The Bank also continued with the Customer Segmentation model launched in 2010 to be more customer-centric, giving priority to strengthening service and product propositions that cater to customers' lifestyle needs. We focused on two broad market segments, the mass market and mass affluent segments, to offer multi-channel banking experience.

We also focused on developing a liability-led business, enhancing our distribution channels and launching deposit campaigns. We continued to rebalance our deposits portfolio with better quality current and savings accounts (CASA). As a result, the CASA ratio improved to 34%, from 32% in the previous year.

### Mortgage Loans

In lending activities, the priority was on the expansion of the mortgage lending portfolio, as the Bank strived to capitalise on the improved market sentiment for new housing projects. During the year, total new housing loans approved amounted to RM4.8 billion.

The success was due mainly to:

- an increase in our in-house direct sales force, tie-ups with top developers for end-financing projects, and working closely with direct sales agencies; and
- offering competitive and value added Home Loan products via relationship pricing, product bundling and innovative product development to cater to different needs of the customers, such as first-time home buyers, upgraders, re-financiers, or investors.

The Bank also actively supported the Government's aspirations of affordable housing under the 1Malaysia Housing Programme and My First Home Scheme.

Besides having a robust integrated risk management framework for optimisation of credit quality management, we also integrated and streamlined our credit functions in loan processing to further reduce the turnaround time to customers.

### Credit Cards

Cards contributed 13% of Consumer Banking's revenue and 5% of the total loans outstanding. The revenue was derived mainly from fees, reflecting the increase in credit card base and merchant network, as well as rising spend on business platinum cards.

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By Group Chief Executive Officer of Alliance Bank Malaysia Berhad (cont'd)

### Hire Purchase

The hire purchase loans portfolio accounts for 2.0% of the Bank's total loan portfolio. The Bank has recently undertaken a strategic review of the dynamics of the hire purchase business and concluded that there is scope to build scale in the car financing market.

The Bank will expand its hire purchase centres network and streamline the work processes as well as strengthen the relationship with car distributors.

### Personal Loans

The revenue contribution to Consumer Banking was relatively unchanged at 17% for the past two years, as the Bank continued to emphasise on higher yielding Personal Loans, which expanded by 15% in FY2012.

A robust credit risk framework has enabled the Personal Loans business to keep its impaired loans ratio at less than 1%, compared to the industry average of 2%.

### Wealth Management

We enhanced our wealth management business to contribute to greater income diversification for the Bank. Our focus was on strengthening product development capabilities and wealth management propositions, to offer a suite of products tailored to meet customers' risk profiles and requirements. New wealth management products that reflected the prevailing market sentiments include high yield bonds, gold structures and capital guaranteed investment-linked insurance plans.

The Bank's wealth advisory platform has been enhanced with the roll-out of bundled products and the formation of a specialist team comprising investment counselors, treasury and insurance specialists to deliver high levels of expert advice and service to customers.

### Unit Trusts and Stockbroking

Arising from the global market volatility, most retail investors preferred simple investment products for capital preservation and regular income stream. In response to this customer need, the Bank introduced several fixed income and dividend-based funds, resulting in the doubling of the average monthly Unit Trust sales volume during the year.

The Bank has engaged an independent licensed investment advisor to undertake regular fund reviews and to provide up-to-date analysis and recommended portfolio modeling via asset allocation strategies, in order to enable customers to make the right investment decisions.

The Bank has also introduced a variant called Investment Lending as a yield-enhancement and wealth-building strategy for share trading and margin financing customers. In addition to domestic equities, other underlying assets that are acceptable include unit trusts, structured investments and bonds. The Bank's first Investment Margin Financing product was launched in February 2012 as a closed-ended Unit Trust Fund.

To tap into the growing demand for Structured Investment products, the Bank also launched two interest-rate linked investment products during the year. The Bank will continue to diversify the range of structured investment products to cater to the needs of investors in different market conditions.

### Bancassurance

Bancassurance revenue increased to RM20.3 million during the year arising from the introduction of new products. In 2011, the Bank launched two innovative regular premium products which generated strong sales – the Alliance Income Saver in May 2011 and the FutureSave in October 2011. Another product which was popular was the Secure Plus, a unique return-guaranteed high yield single premium plan.

Bancassurance continues to leverage on alternative channels to expand its customer reach. This includes the insurance partners conducting telemarketing and Internet marketing, as well as the mobile sales teams and the insurance specialists offering a full range of comprehensive products to cater to customers' insurance needs and to provide financial protection advisory services.

The Bank further strengthened its relationship with AIA Bhd (AIA) when it formalised an eight-year arrangement with AIA to offer its customers conventional life insurance products via the Bank's branches and other alternative delivery channels. This arrangement further complements the joint-venture established in January 2011 to offer Takaful insurance products.

We are confident that AIA's proven track record and professional expertise in developing innovative and comprehensive financial protection solutions, complemented by the Bank's distribution network will benefit our customers.





## Deposits

The Consumer Banking deposits portfolio increased by RM400 million to RM15.9 billion. The Hybrid Account remained our best-selling deposits product, benefiting customers as it combines the high-yield current or savings account together with the Alliance Debit Master Card.

During the year, the Bank reviewed the interest rates to increase market competitiveness and reduce overall cost of funds by mobilising more CASA. These efforts have been reflected in the improvement of the Bank's CASA to total deposits ratio to 34%, compared with 32% in the last financial year. We will continue to drive flagship deposits products through customer relationships and strategic marketing. A key part of our strategy in deposits gathering, going forward, is through the enhancement of transactional capabilities and experience for our customers.



## Transaction Banking

In line with providing customers with the latest tools to conduct their transactions, the Bank embarked on the implementation of a new Internet Banking platform with enhanced features and new customer-centric processes. The new platform, to be rolled out in the second half of 2012, features:

- better customer experience with shorter turnaround time;
- new wealth management capabilities for customers to better manage their savings and investments while keeping track of any liabilities; and
- refreshed easy-to-use interface coupled with powerful transactional and security features in line with today's industry standards.

In addition, the functionalities and features of the recently implemented Customer Relationship Management solution enable the Bank to serve its customers much better and deliver higher sales productivity, as it now has a "single customer view" of the customer's total relationship with the Bank.

## Direct Marketing

Alliance Direct Marketing remains a primary distribution channel for the Bank's core consumer products such as mortgages, personal loans and credit cards. During the year, despite intensified competition, it contributed 50% of total mortgage loan sales, 19% of total new credit card acquisitions and 73% of total personal loans.

## SME Banking

The small and medium enterprise (SME) segment remained a core focus of the Bank, contributing 15.8% of the Bank's profit before tax. The positive impact from SME Banking's strategic initiatives is evident from the loans growth of 15.8% and deposit growth of 15.9%, with the number of new-to-bank Business Current Account expanding by 50% year-on-year.



Our customer loyalty rating continues to improve, with key indicators that measure customers' likelihood to recommend us to other SMEs continuing to be significantly higher than the industry benchmark.

## Enhancing Customer Relationship and Growth

Given the rising prominence of the SME segment in the economy, the Bank has strategically aligned its resources to capture greater market share and growth, with its 30 SME Business Centres across the country. In the past year, SME Banking has undertaken a number of strategic initiatives to transform its customer relationship and growth model, with a customer value proposition of "Your Trusted Partner in Growth". Our strategic direction is to differentiate, via unrivalled customer experience, to be the "Best SME Bank in Malaysia".

## The Power of Advanced Analytics

Our relationship management model goes back to the fundamentals of personalised, long-term relationships serving customers through the different life-stages of their business. By combining this with the power of advanced analytics and the newly-deployed Customer Relationship Management system, we were able to understand our customers' needs better and offer the right product to the right customer.

## Business and Operations Review

By Group Chief Executive Officer of Alliance Bank Malaysia Berhad (cont'd)

### Build New Connections, Strengthen Existing Ones

In keeping with our *Banking Made Personal* proposition, we implemented several 'Wow' service initiatives such as networking sessions and joint events with key customers to help drive business opportunities for them, while helping other customers establish meaningful business connections.

To champion the cause of the SME community, we have also provided educational support to emerging segments such as the Women Entrepreneurs Forum, and teamed up with local chambers of commerce in various forums and seminars to discuss business opportunities and challenges.



### Well-rounded SME Bankers

We continued to invest in the professional development of our staff, for example, via structured learning roadmaps, to build a core team who is strong in technical and inter-personal skills to serve our customers effectively in the long term.

### Proactive Risk Management Approach

We use a state-of-the-art programme lending model to achieve quick credit turnaround time of less than one week, compared to the industry average of two weeks. We also proactively monitor risk via data analytics to identify key triggers and behavioral changes so that early corrective action can be taken.



### Innovative Solutions

Alliance SME is the first bank in Malaysia to launch the Picture Business Credit Card (MyBusiness Platinum Card) that enables SMEs to feature an image of their business on the face of the card. The card also provides various payment flexibility and cost savings features and facilities.

One of the innovative campaigns launched was the "Free Banking for 1 Year" Business Current Account, where new account holders get to enjoy fee waivers for a year, for transactions performed via Alliance Online Banking.

### Wholesale Banking

Wholesale Banking contributed 15.9% of the Bank's total pre-tax profit. Loan growth for the year was 15.4%, underpinned by good quality assets.

Wholesale Banking activities focused on sectors and industry value chains which are closely correlated to the Economic Transformation Programme, as well as projects identified under the 10th Malaysia Plan. Some of the identified sectors such as construction, oil palm plantation, real estate, retail and education are already our preferred sectors in which we have proven expertise. We made significant headway in tapping the higher level of demand for financing and transaction banking activities arising from these targeted programmes.



Through our Business Reward Services, a cash management programme launched in 2010, we also managed to grow our deposits base from existing and new clientele.

We also participated in syndicated loans and club deals, besides working closely with Alliance Investment Bank Berhad, Treasury Sales and Transaction Banking, to grow non-interest income in transaction banking, foreign exchange and investment banking.





## Financial Markets

Besides managing the funding and liquidity requirements of the Bank, the Financial Markets team is also responsible for marketing treasury products to various customer segments.

To support Treasury sales-related business, we adopt a client-led approach supported by enhanced product development capabilities and delivery. We have built dedicated sales teams, research and product capabilities, supported by a multi-product platform to offer hedging solutions for SME and corporate clients and new structured investments for Consumer Banking customers.



## Islamic Banking

Our Islamic Banking business, which functions on a shared business and operating platform with the rest of the Bank, is carried out largely through Alliance Islamic Bank (AIS). It offers a full range of comprehensive Shariah-compliant products and services.

For FY2012, AIS registered a profit before tax and zakat of RM97.1 million, a year-on-year growth of 28.6%. It accounted for 15.1% of the Bank's profits and 16.4% of total assets. During the year, its total financing portfolio expanded by 11.0%, resulting in the financing to deposits ratio rising to 86.5%.

Reflecting the better asset quality, the gross impaired financing ratio improved further to 1.5%, better than the industry average of 2.5%, while the financing loss coverage increased to 154.1% in tandem with the higher financing growth. It also has a strong capital position, with a Risk-Weighted Capital Ratio of 13.4% and a Core Capital Ratio of 11.5%.



AIS seeks to provide fast, simple and convenient Shariah-compliant solutions that are competitive and fulfill customer needs. AIS will continue to work closely with the other business units to roll out innovative products and enhance Shariah knowledge of the staff and their customers through continuous engagement and training sessions.

As an Islamic business entity, AIS has fulfilled its obligation for *zakat* payment to various entitled bodies, in particular to "Pusat Pungutan Zakat Wilayah Persekutuan" and directly to individuals such as underprivileged students pursuing their studies in various universities. Apart from that, AIS has initiated an annual community programme with orphanages during the holy month of *Ramadhan*.

## Investment Banking

Alliance Investment Bank Berhad (AIBB) provides a wide range of services which include stockbroking, corporate advisory, corporate finance, underwriting and placement of equity securities, private debt financing and advisory, loan syndication, corporate banking and treasury.

In the Ratings Agency Malaysia (RAM) 2011 League Table, AIBB was ranked No. 5 in terms of "Number of Issues", and No. 7 for "Programme Value".

AIBB registered a pre-tax profit of RM53.1 million, a decline of 13.3% due to lower income from brokerage, and an increase in operating expenses.

AIBB will continue to focus on strengthening its franchise – enhancing capabilities within its stockbroking and research teams as well as expanding its team of institutional dealers. It is also developing its share trading centres, mobile and Internet broking channels and margin financing business, to facilitate better client relationship management and complement its traditional remisier channel.



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### Stockbroking

Revenue for the year declined by 20.8% due to lower trading income from brokerage and other fees, in tandem with the drop in trading volumes on Bursa Securities, as our stockbroking business remained concentrated in the retail segment.

### Capital Markets

By working more closely with Wholesale Banking, AIBB's notable assignments completed during the year were the IPO of Peterlabs Holdings Berhad on the ACE market and the rights issues of Gefung Berhad, Malton Berhad and Press Metal Berhad.

Capital Markets will continue to focus on providing a wide range of investment banking advisory services to small and medium corporates, by leveraging on the Bank's Business Banking segment.



### Funds Management

The volatility of global stock markets in the year under review was a dampener on investor sentiment towards the equity funds but provided a boost for fixed income funds, especially those funds that offered stable returns with fixed maturity dates. The industry remained competitive, expanding by 7% in 2011, with over 60 new funds being launched during the year.

Against this backdrop, Alliance Investment Management Berhad (AIMB) did well as its revenues rose 11.1% and pre-tax profit increased to RM2.1 million, from RM0.7 million a year earlier. It also launched two more fixed income funds under the Alliance Regular Income Fund (ARIF) series. The ARIF 3 and 4 achieved total sales of RM121 million and RM71 million respectively. Following the launch of these new funds, the total assets under management stood at RM2.3 billion as at end-March 2012.

### Branch Operations & Service Quality

In line with the Bank's aspiration to be "The Best Customer Service Bank in Malaysia", enhancing service quality and operational efficiency through continuous improvement across all touch points remained an important focus for us to build our competitive positioning. A number of initiatives to drive customer centricity were implemented, with the goal of making banking with us easier for our customers, and also for our staff to serve our customers better. Some of our initiatives were:

- The deployment of the Customer Relationship Management system has given us a holistic view of our customers, enabling customers' requests to be fulfilled efficiently across departments, leading to improved turnaround time.



- Our branch structure was transformed to be more customer-centric through the appointment of a branch manager as the steward of the branch. Through streamlining of roles and increased empowerment, this has translated to increased efficiency and enhanced customer experience.
- Customised training programmes were implemented for the front-line staff to ensure that they had the skill sets to engage with customers.
- We continued to give serious attention to customer complaints, feedback and the results of the "Mystery Shopper" programme to monitor branch service standards.
- We re-engineered processes to further improve the turnaround time in various areas of operations e.g. account opening and credit card processes, as well as leveraged on our branch network to give customers the convenience to transact with us at their preferred location.



To ensure that the Bank's efforts are delivering results, we have measured critical aspects of the overall customer experience, with the following improvements:

- 95% of our customers were served within four minutes across our branch network, which led to increased customer satisfaction due to shortened waiting time.
- Automated Teller Machines (ATM) and Cash Deposit Machines availability times have improved to 99% and 96% respectively.
- 99% of customer-related issues were resolved within three days, well within the industry's standard turnaround time of 10 days.

Our customers can be assured that we will continue to commit significant resources and to re-align the customer operational processes to build a "customer first" culture in our pursuit to achieve best-in-class service standards.



## Group Technology Capabilities

The Bank believes that a cohesive IT strategy and enterprise architecture coupled with the re-engineering of business processes, is key to promoting operational efficiency and providing a differentiated customer experience in a cost effective manner. We have adopted the following strategy to enhance our Bank's technology capabilities:

- Fast, simple and convenient customer experience across all touch-points.
- e-channels that enable customer self-service and interactions.
- Customer Relationship Management system that provides insights on customers' behaviour and needs.
- Improved decision making with Management Information System that supports fast and accurate reporting and analytics.
- Cost effective and productive delivery platform for all customer transactions.
- Secure, resilient and compliant banking environment.

The more notable achievements during the year included:

- Enhanced customer offerings on self-service channels, such as value added services through ATMs, improved uptime of our ATMs, and new mobile applications for stockbroking services;
- A major revamp of our Internet banking services which will be available to customers in 2012;
- The implementation of a Customer Relationship Management system which not only provides a single view of our customers, but also allows us the ability to capture all interactions with our customers; and
- The implementation of the Enterprise Financial solutions, which would integrate the enterprise general ledger, budgeting and forecasting, procurement and financial datamarts and enable management to make more informed decisions.

In line with Bursa Securities' new directive on trading platforms, we have since upgraded our system to adopt a single front-end trading platform. This new upgrade enables us to trade in local and foreign markets, and to implement new order types. We expect to complete the first phase of this project in September 2012, after which, we will begin replacing the back-end of the systems in the coming financial year.

We have relocated our Disaster Recovery site and are in the process of upgrading our infrastructure to provide better recovery capabilities. We have also successfully implemented Open Office and virtualisation to reduce operating costs for technology.

We will also continue to invest in technology to enhance Internet security such as the prevention of intrusions and service attacks.

## Strengthening Risk Management

Given the uncertainties and volatility in financial markets during the year, as well as intensified market competition, it is important that we have a robust and holistic risk management framework as we pursue our expansion plans. In this regard, the Bank recognises the importance of capital and risk governance, and continues to enhance its effective risk management capabilities to facilitate sustainable business growth via the following key thrusts:

- Strategically determining our risk appetite which focuses on sustainable growth and implementing the Internal Capital Adequacy Assessment Process, which integrates strategy, processes and infrastructure, so as to ensure a more effective utilisation of capital across the Group.
- Proactive risk management, by focusing on sector analysis, sensitivity analysis, stress-testing scenario analysis, as well as top risk identification and mitigation.
- Enhancing the approval process for the introduction of new products and services.

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- Upgrading our credit risk infrastructure, including the independent validation of credit risk rating models, the probability of default and loss-given-default models for consumer and business portfolios.
- Parallel monitoring and reporting of new liquidity standards and revised capital standards under Basel III to facilitate smooth transition upon implementation by Bank Negara Malaysia.
- Conducting training to heighten risk awareness within the Group.
- Benchmarking against market practices and international standards such as Basel Committee for Banking Supervisors and Islamic Financial Services Board.

## Group Internal Audit

The principal function of Group Internal Audit (GIA) is to provide an independent and objective assurance that the risk management systems, internal controls and governance processes which are critical to the Bank's business and strategic objectives are effective.

Several improvement initiatives were introduced in FY2012. The Audit Methodology was revised and updated to reflect changes in the internal control system and work processes and to incorporate new activities, thereby ensuring its continued relevance and effectiveness. A three-year Audit Planning Cycle was established to facilitate better resource planning and the scheduling of auditable units in accordance with the relative risk rating. A new report format was introduced and a more timely report distribution mechanism was put in place.

GIA also launched its Guest Auditor Programme, where selected line managers are invited to join the internal audit team as guest auditors for audit assignments. While guest auditors gain experience and exposure into areas of the Bank other than his or her own, GIA benefits from their functional or business unit knowledge. This allows for the sharing of knowledge and experience across the Bank.

In November 2011, the Bank engaged an independent review team to perform a Quality Assessment on GIA to assess its efficiency and effectiveness. The independent review team concluded that the internal audit activities undertaken by GIA are in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

## Human Capital and Service Quality

We recognise that the ability to attract and retain good talents in a high performance culture is critical to our ability to drive continued business growth, high standards of customer service and product excellence. FY2012 has been a year of re-alignment and capacity building for Group Human Resources. Thus, our focus has been on initiatives that will ensure a strong foundation of growth for the Bank, such as career progression, talent management, leadership development, learning programmes and skill enhancement opportunities.



We streamlined the organisation structure for better accountability and continued to emphasise fair and robust performance management.

We continue to build up our employees' knowledge and skills through extensive investments in training and development programmes. To ensure that our compensation and benefits are competitive, and to attract and retain our staff, the Bank participates in the annual compensation and benefits survey. We also reviewed the staff benefits, to ensure that they are aligned to prudent market practices.

We have also embarked on a job evaluation exercise to ensure that job grades and positions accurately reflect respective job scope and size.

Communication channels have also been set up for all staff to have easier access to management. They include email channels, the formalisation of the whistle blowing policy, quarterly employees town halls at regional levels, and Pulse Lunch with the Group Chief Executive Officer or senior management team members. A newsletter, inAlliance, to keep employees informed of happenings within the Group is published electronically on a monthly basis.



## Awards and Recognitions

We continued to receive various awards and recognitions from the industry, affirming the Bank's commitment of delivering excellence to all its stakeholders.

The Bank made it to the 2011 Malaysia's Top 100 Leading Graduate Employers list. We also made it to the Top 100 Public Listed Companies List of the 2011 Malaysian Corporate Governance Index. These achievements indicate that we are on the right track in growing and developing our people, and practising good corporate governance.

The Bank's SME Banking won the coveted "Excellence in SME Banking" award by IDC Financial Insights at the 7th Annual Financial Insights Innovation Award ceremony. The Bank was one of two Malaysian banks among the 10 winners from the Asia Pacific region.

The SMI Association also recognised the Bank as a "friend" of SMEs, with the Sahabat SME Award 2011, for the second consecutive year. SME Banking was also a finalist in the Asian Banker Award, competing against leading regional financial institutions across the Asia Pacific. The Bank scored on the innovation front, by pioneering the first Picture Business Credit Card in Malaysia, with the launch of the "MyBusiness Platinum Card" in response to the needs of the SME community.

Our credit card business, which has been winning local and international awards for the last three years, received two more awards for the You:nique Prepaid card "Mohd. Khairuddin, Your Mum Is Nagging You" campaign, namely "Dragons of Asia" Silver Award for the Best Use of Internet by Promotion Marketing Awards of Asia, and the Silver Award at the Malaysia Effie Awards 2011. The Bank was also the only banking institution to walk away with this coveted award that is jointly organised by the Malaysian Advertising Association, Association of Accredited Advertising Agents Malaysia (4As) and Media Specialists Association, in association with the Malaysia External Trade Development Corporation. As there were no Gold Effie winners, the Silver award was the highest award.

## Corporate Responsibility

Even as we enjoy success as a corporate entity, the Bank remains dedicated in upholding our role as a responsible corporate citizen. Corporate Responsibility at the Bank has always been more than just about serving the community. It is a business philosophy, about having a sustainable business strategy that is aligned with our values and impacts in a more tangible and sustainable manner our marketplace, workplace, environment and community.

One of the key developments recently was the launch of our Corporate Responsibility strategic theme, namely Financial Literacy. In this regard, we are engaging in various initiatives to equip children with the importance of money management.

A detailed Corporate Responsibility report can be found on page 62.

## Investor Relations

The Group continues to actively engage the financial community, stakeholders and other key constituencies of the Alliance Financial Group to provide consistent, accurate, transparent and timely information. This is in accordance with the principles and best practices prescribed as part of the Group's corporate governance policies.



## Business and Operations Review

By Group Chief Executive Officer of Alliance Bank Malaysia Berhad (cont'd)

Engagements with the investors and other stakeholders serve as a platform for the Group to disclose its financial performance, strategies, business directions, and developments of interest to the investing public. Information presented at the briefings is uploaded onto the Alliance Financial Group's corporate website at [www.alliancegroup.com.my/quarterlyresults.html](http://www.alliancegroup.com.my/quarterlyresults.html) to promote accessibility of information.

## Going Forward

Uncertain prospects for the global economy and turmoil in the eurozone may dampen consumer sentiments in 2012. Malaysia's gross domestic product growth is forecast to range between 4% and 5% this year. Monetary policy is expected to remain accommodative and interest rates stable with the Overnight Policy Rate being retained at 3% p.a. for the year.

The outlook for the Malaysian financial services sector is, however, expected to remain stable given the underlying strengths of the domestic economy and continued roll-out of the Government's Economic Transformation Programme.

The sector is expected to benefit from the greater operational flexibility provided in the Financial Sector Blueprint 2011-2020 recently released by Bank Negara Malaysia, although competition is expected to intensify from the locally-incorporated foreign banking institutions operating in the country.

Despite these challenges, we are very excited with the prospects of the Bank as there are opportunities to enhance our competitiveness and build on the business growth momentum. Our core business model of focusing on Consumer and Business Banking segments, and driving non-interest income to achieve a higher return on equity, remains unchanged.

Our strategic priorities are:

- To build consistent and sustainable financial performance.
- To become "The Best Customer Service Bank in Malaysia".
- To develop "Engaged Employees with the Right Values".

## Building consistent and sustainable financial performance

We aim to generate long-term recurring revenues from existing and new business opportunities by leveraging on the current growth momentum. Our strategy is to grow our existing core business of Consumer and Business Banking while pursuing fresh opportunities in Investment Banking, Wholesale Banking and Financial Markets such as Treasury Sales, Hire Purchase and Transaction Banking.

We will also continue to strengthen our credit policies and risk management practices, to ensure that we take the necessary measures to mitigate risks while remaining flexible to market changes. Proactive asset and liability management will continue to be high on our agenda. In addition, we will also continue to strengthen our technology infrastructure as well as our Alliance Bank brand to ensure that we have a solid foundation from which to pursue sustainable growth.

## Being "The Best Customer Service Bank in Malaysia"

To continue delivering excellent customer service and experience, we have to fulfil banking relationships by meeting customers' needs for simplicity, timeliness and convenience. We also recognise that as customers become better connected, more informed and more empowered, there is a need to equip our bankers with the right tools and skill sets to anticipate and fulfil these new customer expectations.

Our processes and systems too need to be customer-centric to provide customers with a delightful experience of easy and efficient access to our products and services when engaging with us. This includes automating current customer-related processes to improve delivery and turnaround time.



## Developing Engaged Employees with the Right Values

A united and involved team is very important to the success of the Bank. We are emphasising our core values to strengthen the right behaviours required as part of our work culture to achieve the Bank's mission and vision. Major initiatives, amongst others, include maintaining a fair and transparent performance management system, collaborative cross-division joint goals to improve team work, and the implementation of talent management and succession planning.

We will continue to work hard to sustain our growth momentum and with committed and supportive employees, the Bank is in a good position to achieve the key strategic objectives. I am hopeful that, barring any unforeseen circumstances, this time next year, we should be delivering a better financial performance, and at the same time contribute to the stability and integrity of the Malaysian financial system.



## Appreciation

The Bank's sustained growth and financial performance is due largely to the unwavering support and loyalty, as well as the trust and confidence of our customers, partners, investors and associates. We would like to take this opportunity to thank our customers and to reiterate our commitment to serve them better.

We also acknowledge the important roles played by our regulators, especially Bank Negara Malaysia, Securities Commission Malaysia and Bursa Malaysia Securities Berhad. Their support and guidance have been invaluable and are deeply appreciated.

The Bank's progress is also due to the hard work, dedication and commitment of our management and staff, who have demonstrated team work to achieve all that we have set out to do.

I also wish to express my gratitude to members of our Board for their continued and invaluable guidance. I look forward to their support in the coming year as we take Alliance Bank to the next level.

**SNG SEOW WAH**

*Group Chief Executive Officer*