



(Incorporated in Malaysia under the Companies Act, 1965)

**INFORMATION MEMORANDUM**

**IN RELATION TO**

**PROPOSED ISSUE OF, OFFER FOR SUBSCRIPTION OR PURCHASE OF, OR INVITATION TO  
SUBSCRIBE FOR OR PURCHASE OF SUBORDINATED NOTES TO BE ISSUED UNDER THE  
SUBORDINATED MEDIUM TERM NOTES PROGRAMME OF UP TO RM1,500,000,000 IN  
NOMINAL VALUE**

**Principal Adviser/Lead Arranger**



**THIS INFORMATION MEMORANDUM IS DATED 17 MARCH 2011**

## RESPONSIBILITY STATEMENT

This Information Memorandum has been approved by the directors of Alliance Bank Malaysia Berhad (“**Alliance Bank**” or the “**Issuer**”) and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable enquiries in the circumstances, and to the best of their knowledge, information and belief, there are no false or misleading statements or other material facts the omission of which would make any statement in this Information Memorandum false or misleading and that there are no material omissions in this Information Memorandum.

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This Information Memorandum or any document delivered under or in relation to the issue, offer and invitation to subscribe for or purchase of the Subordinated Notes is not, and should not be construed as, a recommendation by the Issuer, the Principal Adviser and Lead Arranger or any other party to the recipient to subscribe for or purchase the Subordinated Notes. This Information Memorandum is not a substitute for, and should not be regarded as, an independent evaluation and analysis and does not purport to be all inclusive. Each recipient should perform and is deemed to have made its own independent investigation and analysis of the Issuer, the Subordinated Notes and all other relevant matters, and each recipient should consult its own professional advisers.

Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Subordinated Notes shall in any circumstance imply that the information contained herein concerning the Issuer or its subsidiaries (together, “the Group”) is correct at any time subsequent to the date hereof or the dates indicated in this Information Memorandum or that any other information supplied in connection with the Subordinated Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Principal Adviser and Lead Arranger expressly do not undertake to review the financial condition or affairs of the Issuer or its subsidiaries during the life of the Subordinated Notes or to advise any investor in the Subordinated Notes of any information coming to their attention. The recipient of this Information Memorandum or the potential investors should review, inter alia, the most recently published documents incorporated by reference into this Information Memorandum when deciding whether or not to purchase any Subordinated Notes.

**FOR INFORMATION CONCERNING CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS, SEE “INVESTMENT CONSIDERATIONS” IN SECTION 4.0 HEREOF.**

This Information Memorandum includes certain historical information, estimates, or reports thereon derived from sources mentioned in this Information Memorandum and other parties with respect to the Malaysian economy, the material businesses in which the Group operates and certain other matters. Such information, estimates, or reports have been included solely for illustrative purposes. No representation or warranty is made as to the accuracy or completeness of any information, estimate and or report thereon derived from such and other third party sources.

This Information Memorandum includes “forward looking statements”. These statements include, among other things, discussions of the Issuer’s of the Group’s business strategy and expectation concerning its position in the Malaysian economy, future operations, profitability, liquidity, capital resources and financial position. All these statements are based on estimates and assumptions made by the Issuer, the Group or third party consultants that, although believed to be reasonable, are subject to risks and uncertainties that may cause actual events and the future results of the Issuer or the Group to be materially different from that expected or indicated by such statements and estimates and no assurance can be given that any of such statements or estimates will be realised. In light of these and other uncertainties, the inclusion of a forward looking statement in this Information Memorandum should not be regarded as a representation or warranty by the Issuer or the Group or any other person that the plans and objectives of the Issuer or the Group will be achieved.

All discrepancies (if any) in the tables included in this Information Memorandum between the listed amounts and totals thereof are due to, and certain numbers appearing in this Information Memorandum are shown after rounding.

#### **STATEMENTS OF DISCLAIMER – SECURITIES COMMISSION**

A copy of this Information Memorandum will be deposited in accordance with Section 229(4) and Section 230(4) of the CMSA with the Securities Commission, who takes no responsibility for its contents.

The Securities Commission has approved the proposal on 25 February 2011 pursuant to Section 212(5) of the CMSA. Please note that the Securities Commission's approval for the proposal shall not be taken to indicate that the Securities Commission recommends the proposal.

The Securities Commission shall not be liable for any non disclosure on the part of the Issuer and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in the Information Memorandum.

**EACH TRANCHE OF THE SUBORDINATED NOTES WILL CARRY DIFFERENT RISKS AND INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IN CONSIDERING THE INVESTMENT, INVESTORS WHO ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN SHOULD CONSULT PROFESSIONAL ADVISERS IMMEDIATELY.**

#### **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Information Memorandum:

- (a) the most recently published audited consolidated and non consolidated annual financial statements and, if published later, the most recently published interim consolidated and non consolidated financial statements (if any) of the Issuer; and
- (b) all supplements or amendments to this Information Memorandum circulated by the Issuer, if any,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Memorandum.

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This Information Memorandum is submitted to selected persons specifically in reference to the Subordinated Notes, falling within one of the categories of persons specified in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 9 or Section 257(3) of the CMSA.

In the event that there is any contravention of this confidentiality undertaking or there is reasonable likelihood that this confidentiality undertaking may be contravened, the Issuer may, at its discretion, apply for any remedy available to the Issuer whether at law or equity, including without limitation, injunctions. The Issuer is entitled to fully recover from the contravening party all costs, expenses and losses incurred and/or suffered, in this regard. For the avoidance of doubt, it is hereby deemed that this confidentiality undertaking shall be imposed upon the recipient, the recipient's professional advisers, directors, employees and any other persons who may receive this Information Memorandum (or any part of it) from the recipient.

The recipient must return this Information Memorandum and all reproductions thereof whether in whole or in part and any other information in connection therewith to the Principal Adviser and Lead Arranger promptly upon the Principal Adviser and Lead Arranger' request, unless that recipient provides proof of a written undertaking satisfactory to the Principal Adviser and Lead Arranger with respect to destroying these documents as soon as reasonably practicable after the said request from the Principal Adviser and Lead Arranger.

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## **APPENDIX 1**

### **Audited Financial Statements 2009**

## **APPENDIX 2**

### **Audited Financial Statements 2010**

## **GLOSSARY OF DEFINITIONS AND ABBREVIATIONS**

Except where the context otherwise requires, the following abbreviations shall apply throughout this Information Memorandum:

<b>“AFGB”</b>	Alliance Financial Group Berhad (Company No. 6627-X)
<b>“Alliance Bank”, “ABMB” or the “Issuer”</b>	Alliance Bank Malaysia Berhad (Company No. 88103-W)
<b>“Alliance Investment” or “AIBB”</b>	Alliance Investment Bank Berhad (Company No. 21605-D)
<b>“Alliance Islamic” or “AISB”</b>	Alliance Islamic Bank Berhad (Company No. 776882-V)
<b>“AIMB”</b>	Alliance Investment Management Berhad (Company No. 334195-K)
<b>“BAFIA”</b>	Banking and Financial Institutions Act 1989
<b>“BNM”</b>	Bank Negara Malaysia
<b>“BNM/GP3”</b>	Bank Negara Malaysia, Garis Panduan 3 “Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts”
<b>“BNM/GP8”</b>	Bank Negara Malaysia, Garis Panduan 8 “Guidelines on Financial Reporting for Licensed Institutions”
<b>“Board”</b>	Board of Directors
<b>“Bursa Securities”</b>	Bursa Malaysia Securities Berhad (Company no. 635998-W)
<b>“Cagamas”</b>	Cagamas Berhad (Company No. 157931-A)
<b>“CCR”</b>	Core capital ratio
<b>“CCRIS”</b>	Central Credit Reference Information System
<b>“CLO”</b>	Collateralised Loan Obligations
<b>“CMSA”</b>	Capital Market and Services Act 2007
<b>“Existing Subordinated Bonds”</b>	Alliance Bank’s existing 10 years non-callable 5 year subordinated bonds of RM600.0 million issued by Alliance Bank in May 2006
<b>“FRS 7”</b>	Financial Reporting Standard 7 “Financial Instruments: Disclosures”



<b>“FRS 134”</b>	Financial Reporting Standard 134 “Interim Financial Reporting”
<b>“FRS 139”</b>	Financial Reporting Standard 139 “Financial Instruments: Recognition and Measurement”
<b>“FYE”</b>	Financial year ended
<b>“Government”</b>	The Government of Malaysia
<b>“Group”</b>	Alliance Bank and its subsidiaries
<b>“Issue Date”</b>	the date of the issuance of the Subordinated Notes
<b>“IT”</b>	Information technology
<b>“Lead Arranger”</b>	Alliance Investment
<b>“Material Subsidiaries”</b>	Subsidiaries of Alliance Bank set out in Section 8.2 of this Information Memorandum
<b>“MASB”</b>	Malaysian Accounting Standards Board
<b>“Noteholders”</b>	The person for the time being entitled to the Subordinated Notes
<b>“NPL(s)”</b>	Non-performing loans
<b>“Operating Profit”</b>	Profit before taxation and before allowance for losses on loans and financing
<b>“OPR”</b>	Overnight policy rate
<b>“RAM”</b>	RAM Rating Services Berhad (Company No. 763588-T)
<b>“RM”</b>	Ringgit Malaysia
<b>“RWCA Framework”</b>	Risk-Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components) published by BNM
<b>“RWCR”</b>	Risk-Weighted Capital Ratio
<b>“SC”</b>	Securities Commission of Malaysia
<b>“SME(s)”</b>	Small and medium scale enterprise(s)
<b>“Subordinated MTN Programme”</b>	The Subordinated Medium Term Notes Programme of up to RM1,500,000,000 in nominal value established by the Issuer

<b>“Subordinated Notes”</b>	The subordinated notes to be issued under the Subordinated Medium Term Notes Programme which are to be classified as Tier 2 capital of the Issuer
<b>“Trust Deed Guidelines”</b>	Guidelines on the Minimum Contents Requirements for Trust Deeds issued by the SC on 1 July 2000
<b>“Trustee”</b>	Equity Trust (Malaysia) Berhad (Company No. 610812-W)

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## **1.0 EXECUTIVE SUMMARY**

### **1.1 Introduction**

Alliance Bank was incorporated in Malaysia on 3 August 1982 under the name of Malaysian French Bank Berhad and is registered with the Companies Commission of Malaysia. In 1996, it assumed the name of Multi-Purpose Bank Berhad and subsequently changed its name to Alliance Bank Malaysia Berhad on 12 January 2001 following the merger with International Bank Malaysia Berhad, Sabah Bank Berhad and Sabah Finance Berhad. Alliance Bank is a subsidiary of AFGB which is listed on the Main Board of Bursa Securities.

Alliance Bank is principally engaged in all aspects of banking business and the provision of related financial services. The subsidiaries of Alliance Bank are involved in Islamic banking, investment banking including stock broking services, nominees services, fund management, investment advisory services and related financial services.

### **1.2 The Subordinated MTN Programme**

Alliance Bank intends to issue Subordinated Notes (conventional) of up to RM1,500,000,000 in nominal value. The Subordinated Notes are intended to be classified as Tier 2 capital under the RWCA Framework.

The tenor of the Subordinated MTN Programme is fifteen (15) years from the first issue date of the Subordinated Notes. The tenor of the Subordinated Notes is 10 years from the Issue Date and callable five (5) years after the Issue Date and on every coupon payment date thereafter, at the option of the Issuer.

The coupon rate shall be determined prior to each issuance of the Subordinated Notes and will be applicable throughout the tenor of the relevant Subordinated Notes. The Subordinated Notes will not be underwritten. The minimum level of subscription for each issue which is made on direct/private placement or bought deal basis shall be 100.0% of the nominal value of a particular issue. The minimum level of subscription for each issue which is not issued on a bought deal basis or via direct/private placement shall be 10.0% of the nominal value of a particular issue. In the event that any issue, offer or invitation is undersubscribed and does not meet the minimum level of subscription, the same shall be aborted and where applicable, any consideration received for the purpose of subscription shall be immediately returned to the respective subscribers/investors.

The Subordinated Notes will constitute direct and unsecured obligations of the Issuer, subordinated in right and priority of payment, to the extent and in the manner provided in the Subordinated Notes, ranking *pari passu* among themselves. The Subordinated Notes will, in the event of winding up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment or which are subordinated to the Subordinated Notes.

No application is being made to list the Subordinated Notes on the Bursa Securities, nor is any such application contemplated.

The SC has granted its waiver to Alliance Bank from complying with Clauses 12.1(i), 12.1(ii), 14.1(iii), 14.1(vi), 16.1(i), 16.3, 20.3(i) and 20.3(ii) of the Trust Deed Guidelines.

### **1.3 Utilisation of the Proceeds**

The proceeds raised from the issue of the Subordinated Notes shall be utilised by Alliance Bank for the following purposes:

- (a) up to RM600.0 million towards redemption of the Existing Subordinated Bonds; and
- (b) the balance towards meeting the general banking working capital requirements and business purposes of the Issuer.

Amounts not utilised and/or any balance thereof allocated for the purpose stated in paragraph (a) above shall be utilised towards the purpose stated in paragraph (b) above.

## 1.4 Summary of Financial Information and Other Data

Set out below is a summary of the financial information in relation to the Group:

	<b>Audited FYE 31 Mar 2008 RM'000</b>	<b>Audited FYE 31 Mar 2009 RM'000</b>	<b>Audited FYE 31 Mar 2010 RM'000</b>	<b>Unaudited 9-month period ended 31 Dec 2009 RM'000</b>	<b>Unaudited 9-month period ended 31 Dec 2010 RM'000</b>
Net Income	1,010,674	1,052,819	1,067,222	789,467	860,640
Operating profit	544,799	496,542	515,582	375,876	464,621
Profit before taxation and zakat	500,273	304,821	414,959	306,563	443,955
Profit after taxation and zakat	372,282	230,183	306,438	228,751	329,100
Total Assets	27,644,464	31,817,234	31,633,063	31,597,523	36,838,502
Capital Reserves Attributable to Equity Holders	2,498,072	2,680,727	2,872,051	2,865,315	3,191,311

### Commentaries on the operating results for the 9-month period ended 31 December 2010

For the 9 months ended 31 December 2010, the Group recorded profit before taxation of RM443.9 million, an increase of 44.8% compared to the corresponding period last year. The higher profit was due to higher net income, lower overheads and lower impairment charge.

For the period under review, the Group registered an increase in net interest income of 18.9% due to growth in loans and financing. Gross loans and financing grew by 3.3% year-on-year to RM21.7 billion compared to RM21.0 billion as at 31 December 2009. Similarly, net interest margin improved from 2.4% as of 31 December 2009 to 2.7% as of 31 December 2010.

In line with the Group's effort to reduce cost, overheads were contained at RM396.0 million, a saving of 4.2% over the corresponding period last year. Consequently cost-to-income ratio improved from 52.4% to 46.0%.

The impairment on loans and financing for the current period recorded a net charge of RM23.8 million compared to net write-back of RM51.6 million in the corresponding period last year. The net effect of RM75.4 million was mainly due to one-off recovery from a corporate borrower and write-back of general provisions arising from reduction in general provisions rate from 1.8% to 1.5%.

For the current 9 months ended 31 December 2010, the Group recorded an impairment write-back of RM3.2 million on a CLO upon partial repayment. During the corresponding period last year, total impairment loss of RM120.9 million was incurred for another CLO of which full provision was made in the last financial year.

Gross impaired loans ratio reduced from 3.9% as of 31 December 2009 to 3.7% as of 31 December 2010.

The Group's RWCR as at 31 December 2010 remained strong at 15.9%, with CCR at 11.8% compared to 15.2% and 11.0% as at 31 December 2009.

### 1.5 Rating by RAM Rating Services Berhad

The Subordinated Notes have been assigned a long term rating of A<sub>2</sub> by RAM.

## 1.6 Approvals Required

BNM has by a letter dated 30 December 2010 approved the redemption of the Existing Subordinated Bonds on 26 May 2011 and approved the issuance of the first tranche of up to RM600.0 million Subordinated Notes as Tier 2 Capital but the Issuer is required to seek BNM's approval for the issuance of further tranches under the Subordinated MTN Programme.

The issuance of the Subordinated Notes by Alliance Bank has been approved by the SC vide its letter dated 25 February 2011. The SC has also vide letter dated 3 December 2010, waived the requirement to comply with certain provisions of the Trust Deed Guidelines. Please refer to the table below on the waivers obtained from the SC.

The approvals of the SC and BNM should not be taken to indicate that the SC or BNM recommends subscription or purchase of the Subordinated Notes. Investors should rely on your own evaluation to assess the merits and risk of investment.

### Waivers sought in relation to Trust Deed Guidelines Prescribed by the SC

*Item references relate to paragraphs in the Trust Deed Guidelines prescribed by the SC*

Item	Description	Waivers obtained
12.	<b>Events of Default and Remedy of Such Default</b>	
12.1	The trust deed and the terms and conditions of debentures must provide for, but should not be limited to, the following:	
	(i) a list of all events, the occurrence of any of which would entitle or oblige the trustee to declare the debentures immediately due and repayable (to the extent appropriate and subject to any materiality thresholds and provision for remedy or period of grace which may be negotiated) including the following:	
	<ul style="list-style-type: none"> <li>• where there is any default in payment of any principal, premium or interest or profit rate (where applicable) under the debentures;</li> </ul>	Waiver not sought. This is covered as an “Event of Default” under the Subordinated MTN Programme.
	<ul style="list-style-type: none"> <li>• where a winding up order has been made against the borrower or a resolution to wind up the borrower has been passed;</li> </ul>	Waiver not sought. This is covered as an “Event of Default” under the Subordinated MTN Programme.
	<ul style="list-style-type: none"> <li>• where a scheme of arrangement under section 176 of the Companies Act 1965 has been instituted against the borrower;</li> </ul>	Waiver obtained.
	<ul style="list-style-type: none"> <li>• where a receiver has been appointed over the whole or a substantial part of the assets of the borrower;</li> </ul>	Waiver obtained.

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**Waivers sought in relation to Trust Deed Guidelines Prescribed by the SC**

*Item references relate to paragraphs in the Trust Deed Guidelines prescribed by the SC*

<b>Item</b>	<b>Description</b>	<b>Waivers obtained</b>
	<ul style="list-style-type: none"><li>• where there is a breach by the borrower of any term or condition in the debentures or provision of the trust deed or of any other document relating to the issue, offer or invitation in respect of the debentures;</li></ul>	Waiver obtained.
	<ul style="list-style-type: none"><li>• where any other indebtedness of the borrower becomes due and payable prior to its stated maturity or where the security created for any other indebtedness becomes enforceable;</li></ul>	Waiver obtained.
	<ul style="list-style-type: none"><li>• where there is a revocation, withholding or modification of a licence, authorisation or approval that impairs or prejudices the borrower's ability to comply with the terms and conditions of the debentures or the provisions of the trust deed or any other document relating to the issue, offer or invitation in respect of the debentures</li></ul>	Waiver obtained.
(ii)	the powers of the trustee upon the occurrence of any event described in subparagraph (i) including: <ul style="list-style-type: none"><li>• the powers of the trustee to declare the debentures immediately due and repayable;</li><li>• the powers of the trustee to enforce the provisions of the trust deed;</li><li>• the circumstances under which the trustee shall be bound to enforce the provisions of the trust deed; and</li><li>• the circumstances under which the holders of the debentures are entitled to pursue their rights and remedies.</li></ul>	The terms of the Subordinated Notes will provide for these requirements only to the extent that such requirements are applicable in an Event of Default under the Subordinated MTN Programme.

**14. Covenants By the Borrower**

- 14.1 As a minimum, the trust deed must provide for the following covenants of the borrower:

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**Waivers sought in relation to Trust Deed Guidelines Prescribed by the SC**

*Item references relate to paragraphs in the Trust Deed Guidelines prescribed by the SC*

<b>Item</b>	<b>Description</b>	<b>Waivers obtained</b>
	(iii) that the borrower will not enter into a transaction, whether directly or indirectly with interested persons (including a director, substantial shareholder or persons connected with them) unless:  (a) such transaction shall be on terms that are no less favourable to the borrower than those which could have been obtained in a comparable transaction from persons who are not interested persons; and  (b) with respect to transactions involving an aggregate payment or value equal to or greater than an agreed sum, the borrower obtains certification from an independent adviser that the transaction is carried out on fair and reasonable terms; PROVIDED  that the borrower certifies to the trustee that the transaction complies with paragraph (a), that the borrower has received the certification referred to in paragraph (b) (where applicable) and that the transaction has been approved by the majority of the board of directors or shareholders in a general meeting as the case may require;	Waiver obtained.
	(vi) to keep proper books and accounts at all times <u>and to provide the trustee and any person appointed by it (e.g. auditors) access to such books and accounts.</u>	Waiver obtained in relation to the words underlined.

**16. Reporting Covenants by the Borrower**

16.1	The trust deed should provide for covenants to ensure that the borrower shall immediately notify the trustee in the event that the borrower becomes aware:  (i) of any event of default or that such other right or remedy under the terms, provisions and covenants of the debentures and trust deed have become immediately enforceable;	The terms of the Subordinated Notes will provide for this requirement to the extent that such requirement is applicable in an Event of Default under the Subordinated MTN Programme.
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**Waivers sought in relation to Trust Deed Guidelines Prescribed by the SC**

*Item references relate to paragraphs in the Trust Deed Guidelines prescribed by the SC*

<b>Item</b>	<b>Description</b>	<b>Waivers obtained</b>
16.3	The trust deed should provide for a covenant by the borrower to provide to the trustee at least annually, a certificate that the borrower has complied with its obligations under the trust deed and the terms and conditions of the debentures and that there did not exist or had not existed, from the date the debentures were issued or date of the previous certificate as the case may be, any event of default and if such is not the case, to specify the same.	The terms of the Subordinated Notes will provide for this requirement save that the requirement pertaining to event of default shall be confined only to an Event of Default under the Subordinated MTN Programme.

**20. Powers and Duties of Trustee**

20.3	The trust deed should provide for provisions relating to the duties of the trustee which should include the following:  (i) a duty to exercise reasonable diligence to ascertain, based on the accounts, reports, certificates, circulars or opinions furnished to the trustee, whether the borrower or each guarantor (where applicable) has committed any breach of the term and conditions of the debentures or provisions of the trust deed or whether an event of default has occurred or is continuing;  (ii) in the case where an event of default has occurred and is continuing, the trustee shall exercise such rights and powers vested in it by the trust deed and use a reasonable degree of skill and diligence in exercising such rights and powers.	The terms of the Subordinated Notes will provide for these requirements save that the requirement pertaining to event of default shall be confined only to an Event of Default under the Subordinated MTN Programme.
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## 2.0 SUMMARY OF PRINCIPAL TERMS AND CONDITIONS OF THE SUBORDINATED MTN PROGRAMME

- (a) Names of parties involved in the transaction (where applicable)
- (i) Principal Adviser(s) / Lead Arranger(s) : Alliance Investment
  - (ii) Arranger(s) : Not applicable
  - (iii) Valuers : Not applicable
  - (iv) Solicitors : Zul Rafique & partners
  - (v) Financial Adviser : Not applicable
  - (vi) Technical Adviser : Not applicable
  - (vii) Guarantor : Not applicable
  - (viii) Trustee : Equity Trust (Malaysia) Berhad (Company No. 610812-W)
  - (ix) Facility Agent : Alliance Investment
  - (x) Primary Subscriber(s) and amount subscribed (where applicable) : The primary subscriber(s) will be determined prior to the issuance
  - (xi) Underwriter(s) and amount underwritten : Not applicable
  - (xii) Central Depository : Bank Negara Malaysia ("**BNM**")
  - (xiii) Paying Agent : BNM
  - (xiv) Reporting Accountant : Not applicable
  - (xv) Others (please specify) :
    - Issue Agent : Alliance Investment
    - Lead Manager : Alliance Investment and/or such other entities to be appointed by the Issuer prior to each issuance under the Subordinated MTN Programme (as defined in paragraph 2(b)).
- (b) Facility Description : Up to RM1.5 billion nominal value of Subordinated Medium Term Notes ("**Subordinated Notes**") under the Subordinated Medium Term Notes issuance programme ("**Subordinated MTN Programme**").

The Subordinated Notes are intended to qualify as Tier 2 capital of Alliance Bank in accordance with the Risk-Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components) (the "**RWCA Framework**") published by the Prudential Financial Policy Department and Islamic Banking and Takaful Department of BNM.

- (c) Issue Size (RM) : Up to RM1.5 billion in nominal value. The total outstanding Subordinated Notes shall not at any time exceed the nominal value of RM1.5 billion.
- (d) Issue Price (RM) : The Subordinated Notes may be issued at par or at a premium or at a discount to be determined prior to the relevant issue date. The Issue Price shall be calculated in accordance with MyClear Rules and Procedures (as defined below).
- (e) Tenor of the Facility / Issue : Tenor of the Subordinated MTN Programme  
The tenor of the Subordinated MTN Programme is 15 years from the first issue date of the Subordinated Notes, provided that the first issuance of the Subordinated Notes shall not be later than two (2) years from the date of the Securities Commission (“SC”)’s approval.  
Tenor of the Subordinated Notes  
The tenor of the Subordinated Notes is 10 years from the date of issue (“**Issue Date**”) and callable five (5) years after the Issue Date and on every Coupon Payment Date (as defined in paragraph 2(g)) thereafter, at the option of the Issuer (any Coupon Payment Date on or after the expiration of five (5) years from the Issue Date is hereinafter referred to as the “**Call Date**”).
- (f) Interest / Coupon or equivalent rate (%) (please specify) : To be determined prior to each issuance of the Subordinated Notes.  
The coupon rate herein shall be applicable throughout the tenor of each issue of the Subordinated Notes.
- (g) Interest / Coupon payment frequency : Semi-annually in arrears from the Issue Date of the Subordinated Notes (“**Coupon Payment Date**”) with the last coupon payment to be made on the maturity date or upon the redemption of the Subordinated Notes, whichever is the earlier.
- (h) Interest / Coupon payment basis : Actual number of days over 365 day basis.
- (i) Yield to maturity (%) : To be determined prior to each issuance of the Subordinated Notes.
- (j) Security / Collateral (if any) : Nil
- (k) Details on utilisation of proceeds : The proceeds to be raised from the issuance of the Subordinated Notes shall be utilised for the following purposes:
- (i) up to RM600.0 million towards redemption of the subordinated bonds issued by the Issuer in May 2006; and
  - (ii) the balance towards meeting the general banking working capital requirements and business purposes of the Issuer.

**Note:**

Amounts not utilised and/or any balance thereof allocated for the purpose stated in item (i) above shall be utilised towards the purpose stated in item (ii) above.

- (l) Sinking fund (if any) : Not applicable.
- (m) Rating
- Credit rating assigned : Long term rating of A<sub>2</sub>.
  - Name of rating agency : RAM Rating Services Berhad (Company No. 763588- T).
- (n) Form and denomination : The Subordinated Notes shall be issued in bearer form in denominations of not less than RM1,000 each or such other denomination in accordance with the rules and regulations issued by BNM. The Subordinated Notes will be represented by global certificates to be deposited with BNM and will be traded under the Real Time Electronic Transfer of Funds and Securities ("**RENTAS**") System operated and maintained by BNM. The global certificates are exchangeable to definitive bearer certificates only in certain limited circumstances.
- The Subordinated Notes shall be issued in accordance with the "Operational Procedures for RENTAS" issued by Malaysian Electronic Clearing Corporation Sdn Bhd ("**MyClear**") effective 16 February 2011 and the "Operational Procedures for Securities Services" and the "Participation and Operation Rules for Payments and Securities Services" both issued by MyClear and effective from 17 February 2011 (collectively the "**MyClear Rules and Procedures**").
- (o) Mode of issue : The Subordinated Notes shall be issued without prospectus via tender and/or book building and/or direct/private placement and/or bought deal on a best effort basis in accordance with 1) FAST and 2) RENTAS System issued by BNM and shall be prescribed under the Scripless Securities Depository System ("**SSDS**") maintained by BNM.
- (p) Selling restrictions : Selling Restrictions at Issuance:
- The Subordinated Notes may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 9 or Section 257(3) of the Capital Markets and Services Act, 2007 ("**CMSA**"), as amended from time to time.
- Selling Restrictions after Issuance:
- The Subordinated Notes may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within Schedule 6 or Section 229(1)(b) and Schedule 9 or Section 257(3) of the CMSA, as amended from time to time.
- (q) Listing status : The Subordinated Notes will not be listed on Bursa Malaysia Securities Berhad or on any other stock exchange.
- (r) Minimum level of subscription (RM or %) : The minimum level of subscription for each issue which is made on direct/private placement or bought deal basis shall be 100.0% of the nominal value of a particular issue.

- (r) Minimum level of subscription : The minimum level of subscription for each issue which is not issued on a bought deal basis or via direct/private placement shall be 10.0% of the nominal value of a particular issue.  
(RM or %) (Cont'd)

Note

In the event that any issue, offer or invitation is undersubscribed and does not meet the minimum level of subscription, the same shall be aborted and where applicable, any consideration received for the purpose of subscription shall be immediately returned to the respective subscribers/investors.

- (s) Other regulatory approvals required : (i) Approval from BNM for the proposed issuance of the Subordinated Notes and its classification as Tier 2 capital of Alliance Bank in accordance with the Risk Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components) issued by BNM ("**RWCA Framework**" which term shall include the RWCA Framework as may be amended or substituted from time to time).

BNM had via its letter dated 30 December 2010 granted approval to Alliance Bank for, among others, the issuance of the first tranche of up to RM600.0 million Subordinated Notes as Tier 2 Capital but the Issuer is required to seek BNM's approval for the issuance of further tranches under the Subordinated MTN Programme.

- (ii) Approval from the SC on the waiver from complying with certain provisions under the SC's Guidelines on the Minimum Contents Requirements for Trust Deeds. SC's approval was obtained via its letter dated 3 December 2010.

- (t) Conditions precedent : Conditions and clauses standard for a transaction of this nature and as advised by the Lead Arranger's solicitors including, but not limited to, the following:

First Issuance

- (i) The Issuer shall have furnished to the Facility Agent certified copies of the board resolution of the Issuer authorising:  
(a) the issuance of the Subordinated Notes; and  
(b) the execution of all documents relating to the Subordinated MTN Programme;
- (ii) A signed copy of each of the Transaction Documents which have been executed by or on behalf of all the relevant parties and stamped or endorsed as exempted from stamp duty (where relevant) being delivered to the Lead Arranger;
- (iii) Approval of the SC has been obtained for the following:  
(a) waiver from complying with certain provisions under the SC's Guidelines on the Minimum Contents Requirements for Trust Deeds; and  
(b) Subordinated MTN Programme;

- (t) Conditions precedent (Cont'd) :
- (iv) Approval from BNM for the issuance of the Subordinated Notes and for the Subordinated Notes to be classified as Tier 2 capital;
  - (v) A legal opinion from the solicitor addressed to the Lead Arranger on the validity, legality and enforceability of the Transaction Documents;
  - (vi) Confirmation from the solicitor addressed to the Lead Arranger that all conditions precedent have been fulfilled in so far as the subject matter thereof are facts that are by their nature may be confirmed from a legal perspective;
  - (vii) Satisfactory due diligence as required under the CMSA;
  - (viii) Evidence that the Subordinated Notes under the Subordinated MTN Programme have been assigned a minimum long-term rating of A<sub>2</sub> by RAM;
  - (ix) The Issuer shall have furnished to the Facility Agent certified true copies of its certificate of incorporation and the latest Forms 24, 44 & 49, Memorandum of Association and Articles of Association and a list of authorized signatories and their specimen signatures;
  - (x) No Event of Default or event which, with the giving of notice or passage of time or both, would be an Event of Default, has occurred or will occur as a result of the issue of the Subordinated Notes;
  - (xi) All representations and warranties are true and correct in all material respects on the date of the Transaction Documents; and
  - (xii) Such other terms as may be advised by the Lead Arranger's solicitors.

#### Subsequent Issuances

- (xiii) Approval from BNM for the issuance of the Subordinated Notes and for the Subordinated Notes to be classified as Tier 2 capital, if such approval is required by BNM;
  - (xiv) No Event of Default has occurred or will occur as a result of the issue of the Subordinated Notes; and
  - (xv) All representations and warranties remain true and correct in all material respects.
- (u) Representations and warranties :
- Representation and warranties will include such representation and warranties customary for a facility of this nature or as may be advised by the Lead Arranger's solicitors. These include, but are not limited to:
  - (i) The Issuer is a company duly established and existing under the laws of Malaysia and it has the power and authority to carry on its business;
  - (ii) The Issuer has the power to enter into, exercise its rights and perform its obligations under the Transaction Documents;
  - (iii) The Subordinated Notes qualify as Tier 2 capital under the capital adequacy regulations of Malaysia;
  - (iv) The Issuer's entry into, exercise of its rights and performance of its obligations under the Transaction Documents do not and will not violate any existing law or agreements to which it is a party;
  - (v) The Transaction Documents create valid and binding obligations which are enforceable on and against the Issuer;

- (u) Representations and warranties (Cont'd) :
- (vi) All necessary actions, authorisations and consents required to render the Transaction Documents valid and enforceable have been taken, fulfilled and obtained and remain in full force and effect;
  - (vii) The audited financial statements of the Issuer are prepared in accordance with applicable approved accounting standards issued by Malaysian Accounting Standards Board as modified by BNM's guidelines and they fairly represent its financial position;
  - (viii) Save as disclosed by the Issuer, no event has occurred which, if the Subordinated Notes had already been issued, would constitute an Event of Default under the Transaction Documents;
  - (ix) Save as disclosed by the Issuer, no litigation or arbitration is current or, to the Issuer's knowledge, threatened, which if adversely determined would have a material adverse effect on the ability of the Issuer to comply with the Transaction Documents; and
  - (x) The Issuer complies with the conditions (if any) imposed by the relevant regulatory authorities in connection with the issuance of the Subordinated Notes.
- (v) Events of default :
- In relation to each tranche of the Subordinated Notes, the Events of Default shall be limited to the following:
    - (i) a default by the Issuer in relation to the payment of principal or coupon (as the case may be) to Noteholders when due and payable for at least fourteen (14) days; and;
    - (ii) if a court order is made or an effective resolution is passed for the winding up of the Issuer.

Upon the occurrence of the Event of Default described in (i) under "Events of Default" clause above, subject to the terms of the Trust Deed, the Trustee or the Noteholders of that tranche of the Subordinated Notes are entitled to institute proceedings to enforce the obligations of the Issuer for repayment of principal and/or payment of coupon of that tranche of the Subordinated Notes, including to institute proceedings in Malaysia for the winding up of the Issuer, provided that neither the Trustee nor any of the Noteholders of that tranche of the Subordinated Notes shall have the right to accelerate payment of that tranche of the Subordinated Notes in the case of such default in the payment of coupon of that tranche of the Subordinated Notes.

Upon the occurrence of the Event of Default described in (ii) under "Events of Default" clause above, subject to the terms of the Trust Deed, the Trustee may by written notice to the Issuer declare that the Subordinated Notes shall immediately become due and payable at their respective principal amount together with the accrued coupon payment notwithstanding the stated maturity of the Subordinated Notes.

For the avoidance of doubt, the occurrence of an Event of Default of one tranche of the Subordinated Notes does not trigger an Event of Default of the other tranche of the Subordinated Notes.

- (w) Principal terms and conditions for warrants (where applicable) : Not applicable.
- (x) Other principal terms and conditions for the issue:
- (i) Redemption at maturity : Unless previously redeemed on Call Date (if applicable) or purchased from the market and cancelled, the Subordinated Notes will be redeemed at Redemption Amount on the maturity date.
- (ii) Optional Redemption : For each tranche of the Subordinated Notes, the Issuer may, at its option, and subject to the Redemption Conditions being satisfied, redeem the Subordinated Notes in whole at the Redemption Amount on the relevant Call Date.
- The optional redemption of one tranche of the Subordinated Notes does not trigger the redemption of the other tranche(s) of the Subordinated Notes under the Subordinated MTN Programme.
- (iii) Regulatory Redemption : If any tranche of the relevant Subordinated Notes no longer qualify as Tier 2 capital of the Issuer for the purposes of BNM's capital adequacy requirements under any regulations applicable to the Issuer or at any time there is more than an insubstantial risk that any tranche of the Subordinated Notes will no longer qualify as such, the Issuer may, at its option, redeem that tranche of the Subordinated Notes (in whole, but not in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied.
- (iv) Tax Redemption : If there is more than an insubstantial risk that:
1. the Issuer has or will become obliged to pay any additional taxes, duties, assessments or government charges of whatever nature in relation to any tranche of the Subordinated Notes;
  2. the Issuer would no longer obtain tax deductions for the purposes of Malaysian corporation tax for any payment in respect of any tranche of the Subordinated Notes;
- as a result of a change in, or amendment to, the laws or regulations of Malaysia or any political subdivision or any authority thereof or therein having power to tax, or change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of first issue and the Issuer cannot, by taking reasonable measures available to it, avoid such obligations, then the Issuer may, at its option, redeem that tranche of the Subordinated Notes (in whole, but not in part) at Redemption Amount, subject to the Redemption Conditions being satisfied.

- (v) Redemption Conditions : Redemption Conditions means:
1. the Issuer is solvent at the time of any redemption of the Subordinated Notes and immediately thereafter;
  2. the Issuer is not in breach of BNM's minimum capital adequacy ratio requirements applicable to the Issuer; and
  3. the Issuer has obtained the written approval of BNM prior to redemption of the Subordinated Notes.
- (vi) Redemption Amount : The amount equal to 100.0% of the principal amount together with accrued but unpaid coupon (if any) relating to the then current interest period (if any) up to (and excluding) the date on which the Subordinated Notes are redeemed.
- (vii) Repurchase and Cancellation : The Issuer may at any time, subject to the Redemption Conditions being satisfied, repurchase the Subordinated Notes from the market at any price provided that the Subordinated Notes so repurchased must be surrendered for cancellation and may not be re-issued.
- (viii) Covenants : So long as any commitments under the Transaction Documents remain outstanding, the Issuer will comply with such applicable covenants as may be advised by the Lead Arranger's solicitors and/or which are required in order to comply with the SC's Guidelines on the Minimum Contents Requirements for Trust Deeds (save for those which waiver has been sought and approved by the SC), including but not limited to the following:
1. Exercise diligence in carrying on its business and keep in force and effect all licences, consents and rights necessary for the conduct of its business.
  2. Comply with all relevant laws and regulations.
  3. Maintain a paying agent in Malaysia.
  4. Keep proper books and accounts at all times and deliver financial statements to the Trustee in a timely manner.
  5. Inform the Trustee of any actual or potential Event of Default.
  6. Deliver to the Trustee an annual certificate of compliance.
- (ix) Status of Subordinated Notes : The Subordinated Notes will constitute direct and unsecured obligations of the Issuer, subordinated in right and priority of payment, to the extent and in the manner provided in the Subordinated Notes, ranking pari passu among themselves. The Subordinated Notes will, in the event of winding up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment or which are subordinated to the Subordinated Notes.



- (x) Taxation : All payments in respect of the Subordinated Notes shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or government charges of whatever nature imposed or levied by or on behalf of the Relevant Jurisdictions, unless the withholding or deduction of taxes is required by law. In that event, the Issuer will (except in certain circumstances) pay the Additional Amounts.
- “**Additional Amounts**” means amounts as may be necessary in order that the net amounts received by the holders of the Subordinated Notes after any withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Subordinated Notes in the absence of the withholding or deduction.
- “**Relevant Jurisdiction**” means Malaysia or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and coupon on the Subordinated Notes.
- (xi) Transaction Documents : The Subordinated Notes shall be evidenced, inter-alia, by the following documents:
- (a) Programme Agreement;
  - (b) Trust Deed; and
  - (c) Any other legal documentation as advised by the Lead Arranger’s solicitors (if any).
- (xii) Voting Rights : The Noteholders will not be entitled to receive notice of or attend or vote at any meeting of the ordinary shareholders of the Issuer or to participate in the management of the Issuer. No company-shareholder relationship is intended or has been contemplated between the Issuer and the Noteholders, and as such, the relationship between the Issuer and the Noteholders shall not be governed by the Memorandum and Articles of Association of the Issuer.
- (xiv) Governing Law : Laws of Malaysia

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### **3.0 SELLING RESTRICTIONS**

#### **Selling Restrictions at Issuance:**

The Subordinated Notes shall not be offered or sold, directly or indirectly in Malaysia nor may any document or other materials in connection therewith be distributed in Malaysia other than to persons falling within any one of the categories specified under:

- (a) Schedule 6 or Section 229(1)(b);
- (b) Schedule 7 or Section 230(1)(b); and
- (c) Schedule 9 or Section 257(3)

of the CMSA.

#### **Selling Restrictions Thereafter:**

The Subordinated Notes shall not be offered or sold, directly or indirectly in Malaysia nor may any document or other materials in connection therewith be distributed in Malaysia other than to persons falling within any one of the categories specified under:

- (a) Schedules 6 or Section 229(1)(b); and
- (b) Schedules 9 or Section 257(3)

of the CMSA.

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## **4.0 INVESTMENT CONSIDERATIONS**

### **4.1 Considerations Relating to the Subordinated Notes**

#### **(a) Status of the Notes**

The Subordinated Notes are unsecured and accordingly the Noteholders will not have recourse to the assets of the Issuer to satisfy payment obligations of the Issuer under the Subordinated Notes.

The Subordinated Notes will, in the event of the winding up or liquidation of the Issuer, be subordinated in right of payments to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment or which are subordinated to the Subordinated Notes.

#### **(b) Limited events of default and right of acceleration**

There are only two (2) events of default prescribed under the terms of the Subordinated Notes:

- (i) where a default is made in the payment of the principal and/or coupon due in respect of the Subordinated Notes and such default continues for a period of at least fourteen (14) days; or
- (ii) a court order is made or an effective resolution is passed for the winding up of the Issuer.

Where an event of default referred to (i) above occurs, there is no right of acceleration of payment of the outstanding amount of the Subordinated Notes accorded to the Trustee or the Noteholders of the affected tranche in respect of default in the coupon payment of that tranche of the Subordinated Notes, although proceedings may be instituted to enforce the payment obligations of the Issuer of that tranche of the Subordinated Notes or to wind-up the Issuer.

Where an event of default referred to in (ii) above occurs, the Trustee may accelerate payment of the outstanding principal amount of the Subordinated Notes together with the accrued coupon payment.

The occurrence of an event of default in respect of the one tranche of the Subordinated Notes does not trigger an event of default of the other tranches of the Subordinated Notes.

#### **(c) Early redemption**

Under the terms of the Subordinated MTN Programme, the Issuer has the right to redeem the Subordinated Notes on the fifth anniversary of the Issue Date of the relevant Subordinated Notes or on any coupon payment date thereafter provided that the redemption conditions have been satisfied. The conditions for redemption are as follows:

- (i) the Issuer is solvent at the time of the redemption and immediately thereafter;
- (ii) the Issuer is not in breach of BNM's minimum capital adequacy ratio requirements applicable to the Issuer; and
- (iii) the Issuer has obtained the written approval of BNM prior to the redemption.

The optional redemption of one tranche of the Subordinated Notes does not trigger the redemption of the other tranches of the Subordinated Notes under the Subordinated MTN Programme.

In addition, subject to the redemption conditions set out above being satisfied, the Issuer has the option to redeem the relevant tranche of the Subordinated Notes at any time if:

- (i) that tranche of the Subordinated Notes no longer qualify as Tier 2 capital of the Issuer for the purpose of BNM's capital adequacy requirements or there is more than an insubstantial risk that the said tranche of the Subordinated Notes will no longer qualify as such; or

- (ii) there is more than an insubstantial risk that the Issuer has or will become obliged to pay additional taxes, duties, assessments or government charges of whatever nature in relation to that tranche of the Subordinated Notes or the Issuer would no longer obtain tax deductions for the purposes of Malaysian corporation tax for any payment in respect of that tranche of the Subordinated Notes as a result of a change in, or amendment to, the laws or regulations in Malaysia or any political subdivision or any authority thereafter or therein having power to tax or change in the application or official interpretation of such laws or regulations which change or amendment becomes effective on or after the date of first issue and the Issuer cannot, by taking reasonable measures available to it, avoid such obligations.
- (d) No restriction on further borrowings
- In line with BNM's guidelines which state that there shall be no restrictive covenant for Tier 2 capital, there is no limitation imposed on the Issuer to incur further borrowings or issue further bonds or securities. Any such further borrowings, bonds or securities may reduce the amount recoverable by the Noteholders in the event of dissolution or winding-up of the Issuer.
- (e) Interest rate risks
- Since interest rates for the Subordinated Notes are fixed at the point of issuance of the Subordinated Notes, investors of the Subordinated Notes are exposed to the risk of subsequent changes in market interest rates which may adversely affect the value of the Subordinated Notes.
- (f) Change of Law and Tax
- The issuance of the Subordinated Notes under the Subordinated MTN Programme is based on Malaysian law, tax and administrative practice prevailing from time to time. No assurance can be given that Malaysian law, tax or administrative practice will not change after the issue date of the relevant Subordinated Notes or that such change will not adversely impact the structure of the transaction and the treatment of the Subordinated Notes.
- The Issuer also has the option to make an early redemption of the Subordinated Notes if there is a change in the regulatory or tax treatment of the Subordinated Notes as set out in paragraph 4.1(c).
- (g) Limited Liquidity of the Subordinated Notes
- The Subordinated Notes comprise new issue of securities for which there is currently no secondary market. There can be no assurance that any such market will develop or, if it does develop, that it will continue for the entire tenure of the Subordinated MTN Programme. Furthermore, if such a market were to develop, the Subordinated Notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, the Group's operating results and the market for similar securities. Subordinated notes generally would have a more limited secondary market and susceptible to more price volatility than conventional debt securities. Potential investors should also take note that the Subordinated Notes will not be listed on Bursa Securities or any other stock exchange and there are selling restrictions governing the Subordinated Notes (please refer to Section 3.0 "Selling Restrictions"). No assurance can be given as to the liquidity of, or trading market for, the Subordinated Notes. Accordingly, the purchase or subscription of the Subordinated Notes is only suitable for investors who can bear the risk associated with a lack of liquidity in the Subordinated Notes apart from the financial and other risks associated with investment in the Subordinated Notes.
- (h) Rating is not a recommendation to purchase
- It is a condition for the issuance of the Subordinated Notes under the Subordinated MTN Programme that the Subordinated Notes be rated. Alliance Bank's Subordinated Notes have been accorded a long term rating of A<sub>2</sub> from RAM. The Subordinated Notes are subject to rating reviews by RAM annually.
- A rating is not a recommendation to purchase, hold or sell the Subordinated Notes. There is no assurance that the rating will remain in effect for any given period of time or that the rating will not be downgraded or withdrawn entirely if circumstances in the future so warrant. In the event that there is a downgrade or if the rating is withdrawn for any reason, no person or entity will be obligated to provide any additional credit enhancement with respect to the Subordinated Notes issued. Any downgrade or withdrawal of a rating may have an adverse effect on the liquidity and market price of the Subordinated Notes but would not constitute an event of default or an event obliging the Issuer to prepay the Subordinated Notes.

- (i) Each issue carries different risks

Each issue of Subordinated Notes under the Subordinated MTN Programme will carry different risks and all prospective investors are strongly encouraged to evaluate each issue of the Subordinated Notes on its own merit.

#### **4.2 Considerations Relating to the Malaysian Financial Services Industry**

- (a) Liberalisation and Competition

The Financial Sector Masterplan, which was launched in March 2001, sets out BNM's broad strategies for the development of the financial services and insurance sectors over a ten-year period.

In the Financial Sector Masterplan, the main objectives of the first phase were, inter alia, to develop a core set of strong domestic banking institutions and a more focused market-based consumer protection framework, as well as to increase the efficiency and competitiveness of the domestic banking sector. To this end, the domestic banking industry had consolidated into nine banking groups, all of the other eight banking groups are larger in terms of total assets than that of the Group.

The second phase of development aims to, among other things, further strengthen the domestic financial sector and to remove the restrictions on incumbent foreign banks in the Malaysian banking market.

The third phase of development aims to, inter alia, liberalise the banking sector and increase foreign participation in Malaysia whilst encouraging domestic banks to expand into foreign markets. The authorities' objective was for the banks to increase in size in preparation for the opening up of the sector to more foreign entrants under the World Trade Organisation requirements. In effect, the Issuer may, in the future, face increased competition from international banks and other financial institutions, many of which may be better capitalised and be more established than the Issuer, in addition to the existing competition from foreign banks already in Malaysia.

The Government continues to implement its policy of liberalising the Malaysian financial and banking sectors, inter alia, by allowing banks and financial institutions to provide their customers with a wider range of services, permitting increased competition from foreign banks and other financial institutions, and by broadening the range of investment instruments available to the public. In part, these policies are designed to encourage the development of the country as a regional financial centre and to strengthen domestic financial institutions in preparation for increased foreign competition as a result of the implementation of the Financial Sector Masterplan.

The increased competition may have an adverse effect on the Group's business, financial condition and results of operations in the future due to, among other things, reduction in the rate of growth of the Group's loans portfolio, reduction in net interest margins and spreads and increased non-interest expense, as well as a decline in the volume and profitability of the Group's related businesses. While the Group believes that it has formulated strategies to compete effectively in the market place, there can be no assurance that it will be able to effectively compete against its existing and future competitors.

- (b) Political, economic, social developments and market conditions

Political, economic and social development in Malaysia as well as abroad may have a profound effect on the financial performance of the Group. Factors such as unstable political system, risks of war, terrorism, riots, expropriation, nationalism, re-negotiations or nullification of existing contracts, severe fluctuations in interest and currency exchange rates create uncertainty and could discourage the free flow of investment capital and affect international trade, ultimately resulting in adverse development in national economic activity.

Any future outbreak of the Avian influenza, Severe Acute Respiratory Syndrome, H1N1 influenza or any other contagious diseases that may require quarantine and other security measures may also have an adverse effect on the Malaysian economy and that of the economic activity in the region. As a result of globalisation, the Malaysian economy has become increasingly sensitive to changes in the global economic and market environment. Adverse changes in the market conditions and the global credit and financial markets may also affect the ability of customers to service their obligations towards the Group and/or a decline in the value of security provided which may ultimately lead to deterioration of the asset quality of the Group. All these may have a material adverse impact on the Group's business, financial situation, cash flow, prospects and results of operations.

(c) Regulatory Environment

Each of the Group's principal business activities namely, consumer, commercial, corporate and SME banking, investment banking and stock broking are highly regulated by various Malaysian government authorities or agencies. As part of the Malaysian banking industry, the Issuer is monitored by BNM under BAFIA. BNM has the power to, among others, limit interest rates charged by banks on certain types of loans, establish caps on lending to certain sectors of the Malaysian economy and establish priority lending guidelines to further social and economic objectives. The investment banking and stock broking businesses of the Group are also subject to supervision by the SC and Bursa Securities which generally enforce laws and regulations to ensure market integrity.

As such, the activities of the Group may be restricted by policies, guidelines and/or regulations implemented by the authorities from time to time and this may influence interest rates at levels, or restrict credit in a way which may be adverse to the operations, financial condition or asset quality of banks and financial institutions in Malaysia, including that of the Group.

(d) Deposit insurance in Malaysia

BNM is not required to act as lender of last resort to meet liquidity needs in the banking system generally or for specific institutions, although it has, in the past and on a case by case basis, provided a safety net for individual banks with an isolated liquidity crisis. However, there can be no assurance that BNM will provide such assistance in the future. Effective from 1 September 2005, BNM has introduced a deposit insurance system. Under the "Deposit Insurance System", eligible deposits are insured up to a prescribed limit of RM60,000 (inclusive of principal and interest) per depositor, per member institution. There is also separate coverage of up to RM60,000 per depositor, per member institution for Islamic deposits (that is, those accepted under Shariah principles), accounts held under joint ownership, trust accounts and accounts in the name of sole proprietorships and partnerships. The Deposit Insurance System is administrated by the Malaysia Deposit Insurance Corporation ("MDIC"), an independent statutory body, and all licenced commercial banks (including subsidiaries of foreign banks operating in Malaysia) and Islamic banks are member institutions of the Deposit Insurance System. However, the fact that deposits exceeding the prescribed limits are not insured up to their full amount could lead to or exacerbate liquidity problems, which, if severe, could have an adverse effect on the Group's business, financial condition, results of operations or prospects or on the Malaysian financial markets generally.

On 16 October 2008, the Malaysian Government moved to guarantee all bank deposits in an effort to shore up confidence in the Malaysian financial system, particularly after several regional jurisdictions had done so to curb potentially damaging capital outflows. BNM announced the guarantee for all local and foreign currency deposits from 16 October 2008 until 31 December 2010. The temporary Government guarantee expired on 31 December 2010 and the MDIC reverts to the explicit and limited coverage Deposit Insurance System but the coverage has been increased to RM250,000 with effect from 1 January 2011.

#### 4.3 Considerations Relating to the Group

(a) Classification of Loans/Financing as Impaired

In addition to the disclosure requirements under FRS7, BNM requires banking institutions to classify a loan/financing as impaired where, in general, there has been a default in the repayment of principal or interest/profit or both for more than 90 days or three months or where the loan exhibits weaknesses that render a classification appropriate according to the banking institutions credit risk grading framework.

In addition to the above, the Group is also guided by FRS139 concept of impairment, that is, an exposure need not be in arrears, in default or is non-performing to be classified as impaired, where it is determined that there is a deterioration in the fair value of the exposure.

Once an account becomes impaired, interest accrued and recognised as income prior to the date the loan is classified as impaired will be clawed back against income. Thereafter, no further interest will be accrued and recognised as income. The Group takes a 100.0% provision on the shortfall i.e. where the principal outstanding exceeds the recoverable amount, upon the classification of a loan/financing as impaired.

Given that FRS 139 is currently being applied in Malaysia for the first time and contains new and revised impairment methodologies, the practices that were drawn in applying the standard may develop. No assurance can be given that the level of provision would be adequate under the new rules. As such, until such time Alliance Bank's and the Group's first annual financial statements prepared under FRS 139 are completed, the possibility cannot be excluded that the financial information prepared in relation to FRS 139 may be subject to change.

(b) NPLs and Provisions

Previously, in line with BNM/GP3, the Group had adopted the practice of assigning 50.0% value for property collaterals in respect of NPLs that are of more than five to seven years vintage and zero value for NPLs that are over seven years in arrears which is consistent with BNM's recommendation.

However, the Group has, from 1 April 2010, adopted FRS139 which requires, inter alia, the application of fair value accounting and impairment assessment for financial assets and financial liabilities. Under FRS 139, banks are required to assess the loan recoverable amount based on the present value of estimated future cash flow discounted at the original effective interest rates. An impairment loss is incurred when the loan recoverable amount is less than that of the principal outstanding loan. Conversely, no provisioning is required if the loan recoverable amount is higher than the principal outstanding of the loans.

There is no assurance that the level of provisions made by the Group will prove to be adequate, that the Group will not have to make additional provisions for possible loan losses in the future, or that the Group would be able to realise adequate proceeds from collateral disposals to cover the NPLs.

(c) Asset Quality

Asset quality is a key driver of a financial institution's performance. While the Group adopts prudent credit risk management policies to manage its asset quality, there is no assurance that the policies or system will remain effective or adequate in the future. Any significant deterioration of asset quality may adversely affect the business, financial condition and results of operations of the Group.

A significant portion of the Group's loans are secured by collateral such as real estate and securities, the values of which are susceptible to changes in economic condition and global market outlook. There is no assurance that the Group will be able to obtain additional collateral in the event there is deterioration in the value of the collateral. Such circumstances may require the Group to increase its loan provisions which may adversely affect the business, financial condition and results of operations of the Group.

(d) Liquidity and Short Term Funding Sources

The funding requirements of Malaysian banks are primarily met by short term funding sources, namely deposits from customers and from inter-bank market. Based on historical analysis of the behaviour of the Group's customers, a substantial portion of the customers' deposits will be rolled over upon maturity, therefore providing a stable source of funding. In addition, the Group has established funding and liquidity policy guidelines setting out measures to manage and monitor the Group's funding and liquidity requirements. Such measures include the diversification of funding sources, subjecting future cash flows to sensitivity and stress analysis as well as managing adequate contingent funding sources. However, no assurance can be given that this will continue in the future. If a substantial number of depositors or a small number of large depositors fail to roll over deposited funds upon maturity, the Group's liquidity position could be adversely affected and the Group may be required to seek alternative sources of short term or long term funding, which may be more expensive than deposits to finance its operations. There is no assurance that such alternative sources of funding will be available when required.

(e) Risk Management System and Policies

In its day-to-day activities in the financial services industry, the Group is exposed to a variety of risks such as credit risk, market risk (including interest rate risk), liquidity risk and operational risk. The Group has established a risk management framework which is helmed by a number of risk committees to mitigate these risks as well as to strengthen its internal risk management policies and procedures (please refer to Section 11 "Risk Management"). However, any failure in the effectiveness of the Group's risk management procedures may have a material adverse effect on the Group's financial condition and results of operations.

(f) **Employees' Misconduct**

As with any business enterprise, the Group is susceptible to risks associated with acts of misconduct by its employees. Acts of misconduct by employees may take various forms and could include misappropriation of the Group's assets or the assets of its clients, concealment and/or wilful misstatement of its liabilities, unauthorised transactions and/or commitment of its resources and breach of client confidentiality.

Acts of misconduct by employees may result in financial loss to the Group and affect the reputation of the Group, which would bring about a loss of its stature in the market. Furthermore, acts of misconduct may also cover breaches of laws, regulations or guidelines, which, in extreme cases, could result in suspension and/or revocation of the relevant operating licence of the Group.

Whilst the risks of misconduct by employees cannot be entirely eliminated, the Group has in place internal control systems to check such misconduct and to take appropriate actions.

(g) **Dependence on Directors and Key Management**

The Group relies to a significant extent on some of its directors and senior management for business direction and effective implementation of business strategy. The loss of existing key members of the management team could adversely affect its ability to operate its business or to compete in the industry and in turn affect its financial performance and prospects. Although effort is being made to groom the younger member of the senior management team, there is no assurance that there would be continuity in the Group's present management team throughout the tenor of the Subordinated MTN Programme.

(h) **Information Technology**

The Group's ability to compete with other banks will depend, in part, on its ability to respond to technological advances and emerging banking industry standards and practices on a cost-effective and timely basis. While the Group has dedicated significant resources to improving accessibility of its services through, for example, internet banking, mobile phone banking and electronic banking, there is no assurance that the Group will successfully implement new technologies effectively or adapt to transaction-processing systems to customer requirements or industry standards in a timely and cost effective manner, which may, in turn, have a material adverse effect on its business and financial condition.

The Group seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches. It has also put in place measures to safeguard system-related and other frauds. However, such risks cannot be eliminated in its entirety. Failure in the protective and security measures may, among others, affect users' confidence in the Group's IT infrastructure and may have a material adverse impact on the Groups business, operations and financial performance.

#### **4.4 Other Considerations**

Changes in Financial Reporting Standards and new requirements to supplement the Basel Capital Accord may adversely affect the Group.

(a) **FRS 139 Financial Instruments: Recognition and Measurement**

From 1 April 2010, the Group was required to apply the amended FRS 139 for the first time in the presentation of its annual consolidated financial statements. The amendments to FRS 139 include an additional transitional arrangement for entities in the financial sector, whereby BNM prescribed the use of an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement, as prescribed in BNM's "Guidelines on Classification and Impairment Provisions for Loans/Financing" which comes into effect for financial years beginning on and after 1 January 2010 and its principal effects are detailed in Section 5 "Changes in Accounting Policies".

In preparing these financial information in respect of FRS139, the management has used its best knowledge of expected standards and interpretations, facts and circumstances, and accounting policies that will be applied when Alliance Bank and the Group prepares its interim financial statements in accordance with FRS 134 as of 31 December 2010, which is inclusive of FRS 139.



Given that FRS 139 is currently being applied in Malaysia for the first time and contains new and revised impairment methodologies, the practices that were drawn in applying the standard may develop. As such, until such time Alliance Bank's and the Group's first annual financial statements prepared under FRS 139 are completed, the possibility cannot be excluded that the financial information prepared in relation to FRS 139 may be subject to change.

(b) Capital Adequacy Requirements

The Group monitors its capital adequacy position closely to ensure compliance with BNM's capital adequacy requirements. Under the RWCA Framework, all banking institutions are required to maintain a minimum RWCR of 8.0% at all times at the entity, global and consolidated level. The Group's RWCR remained strong at 15.9%, with CCR at 11.8%. However, the capital base or capital adequacy ratio may deteriorate in the future if the Group's financials deteriorate under adverse conditions, for example, due to deterioration in the asset quality of its loans or if the Group is not able to deploy its funding into suitably low-risk assets.

In addition to the RWCA Framework, BNM had in early December 2010 issued "Risk-Weighted Capital Adequacy Framework (Basel II)-Internal Capital Adequacy Assessment Process (Pillar 2)" and "Capital Adequacy Framework for Islamic Banks-Internal Capital Adequacy Assessment Process (Pillar 2)" which requires banking institutions to have more robust capital structures, going beyond the supervisory minimum requirements covered under Basel II Pillar 1. The above guidelines also seek to promote the adoption of a more forward-looking approach to capital management and encourage banking institutions to develop and employ more rigorous risk management techniques. Under these guidelines, the adequacy of a banking institution's capital will be assessed by both the banking institution and BNM. This encompasses an Internal Capital Adequacy Assessment Process carried out by both the abovementioned parties. This also includes an assessment of the quality of the Group's control environment. The Group is taking steps to undertake a self-assessment to evaluate existing capital and risk management practices in accordance with the said guidelines.

The Basel Committee on Banking Supervision had on 16 December 2010 issued the proposed "Basel III" guidelines which outline the details of global regulatory standards on bank capital adequacy and liquidity. The "Basel III" standards set more stringent capital standards, focusing on common equity and capital reserves as the core capital elements, setting higher capital buffers, introducing a leverage ratio as a backstop to prevent and detect over-leveraged banks and to promote measures to build up capital/reserves that can be counted on during periods of stress. The "Basel III" standards have also introduced two proposed liquidity ratios for international adoption: one to measure short term liquidity and the latter to assess longer-term structural liquidity. The capital requirements are expected to be implemented from 2013 onwards while the two global liquidity standards are slated to be rolled out by 2015 and 2018 respectively. As at end-January 2011, BNM has disseminated the draft "Basel III" guidelines from the Basel Committee but has yet to finalize the implementation guidelines for Malaysia.

The timing and scope of implementation of the "Basel III" standards in Malaysia remains uncertain. The implementation of the new guidelines, in particular the "Basel III" standards may have a significant impact on the capital requirements of Malaysian banks, including Alliance Bank. The Group may incur substantial costs to maintain compliance with the Basel/BNM requirements. The Group may be required to raise additional capital should the capital adequacy ratio deteriorates and/or to address new capital guidelines. The Group's ability to raise capital/liquid funds at short notice may be constrained should other financial institutions crowd the capital/money markets. As mentioned above, the Basel Committee had proposed to phase-in the "Basel III" standards gradually, to avoid sudden disruptions to the markets.

#### 4.5 Forward Looking Statements

Certain statements in this Information Memorandum are forward looking in nature. These statements include, among other things, discussions of Alliance Bank or the Group's business strategy and expectation concerning its position in the Malaysian economy, future operations, profitability, liquidity, capital resources and financial position. All forward looking statements are based on estimates and assumptions made by Alliance Bank, the Group or third party consultants that, although believed to be reasonable, are subject to risks and uncertainties that may cause actual events and the future results of Alliance Bank or the Group to be materially different from that expected or indicated by such statements and estimates and no assurance can be given that any of such statements or estimates will be realised. In light of these and other uncertainties, the inclusion of forward looking statements in this Information Memorandum should not be regarded as a representation or warranty by Alliance Bank or the Group or any other person that the plans and objectives of Alliance Bank or the Group will be achieved.

## 5.0 CHANGES IN ACCOUNTING POLICIES

With effect from 1 April 2010, the Group adopted the following significant standards and amendments to FRS:

- (i) FRS 139 “Financial Instruments: Recognition and Measurement”;
- (ii) IC Interpretation 9 “Reassessment of Embedded Derivatives”
- (iii) FRS 7 “Financial Instruments: Disclosures”
- (iv) Amendments to FRS 139, FRS 7 and IC Interpretation 9

The objectives of FRS 139 are to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Since the adoption of BNM’s revised BNM/GP8 on 1 January 2005, certain principles in connection with the recognition, derecognition and measurement of financial instruments, including derivatives instruments which are similar to those prescribed by FRS 139 have been adopted by the Group. The full adoption of FRS 139 with effect from 1 April 2010 for the Group has resulted in the following material changes in accounting policies:

### (a) Impairment of Loans and Advances

Impairment losses are calculated on individual loans and loans assessed collectively.

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) it becomes probable that the borrower will enter bankruptcy or winding up petition is served on the borrower, significant shareholder or significant guarantor;
- (iv) adverse CCRIS findings or unfavorable industry developments for that borrower; and
- (v) observable data indicating that there is a measurable decrease in the estimated future cash flows including adverse changes in the repayment behavior of the borrower or downgrade of the borrower’s credit ratings.

The estimated period between a loss occurring and its identification is determined by the Group for each identified portfolio. In general, the periods used vary between 6 months and 12 months.

The Group assesses individually whether objective evidence of impairment exists for all assets deemed to be individually significant. If there is objective evidence that an impairment has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment. The interest income is recognised as interest income.

In the amendment to FRS 139, MASB has included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. The transitional arrangement is prescribed by BNM in the “Guidelines on Classification and Impairment Provisions for Loans/Financing” which comes into effect for financial years beginning on and after 1 January 2010. For the purposes of a collective evaluation of impairment, the Group is currently reporting under the BNM's transitional arrangement as prescribed in the said guidelines issued by BNM.

In accordance with the transitional arrangement under paragraph 103AA of FRS 139, the changes arising from the implementation of FRS 139 have been adjusted to opening retained profits.

(b) Interest Income Recognition

FRS 139 prescribes that financial assets classified as held-to-maturity and loans and receivables are to be measured at amortised cost using the effective interest method. Whilst the Group's financial investments held-to-maturity are already measured on this basis under the requirements of BNM's revised BNM/GP8 effective from 1 April 2005, interest income on its loans and receivables continued to be recognised based on contractual interest rates. Upon the full adoption of FRS 139, interest income is recognised using effective interest rates, which is the rate used to discount estimated future cash payments or receipts through the expected life of the loans or, where appropriate, a shorter period to the net carrying amount of the loan. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the loans but does not consider future credit losses. The calculation includes significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

In accordance with the transitional arrangement under paragraph 103AA of FRS 139, the changes arising from the implementation of FRS 139 have been adjusted to opening retained profits.

(c) Fair value on Unquoted Shares Previously Recorded at Amortised Cost

BNM/GP8 issued on 5 October 2004 allows the unquoted shares held for purposes of specific socio-economic reasons to be classified as held-to-maturity and measured at amortised cost.

Upon the adoption of FRS 139, all equity instruments (both quoted and unquoted equity) are required to be measured at fair value. Therefore, the Group had reclassified all the unquoted shares held for purposes of specific socio-economic reasons previously classified as held-to-maturity to available-for-sales portfolio and accordingly, they are to be measured at fair value.

In accordance with the transitional arrangement under paragraph 103AA of FRS 139, the changes arising from the implementation of FRS 139 have been adjusted to opening revaluation reserves.

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## 6.0 CAPITALISATION

The following table sets forth the liabilities and shareholders' equity of the Group as at the dates specified below:

	<b>Audited As at 31 Mar 2008 RM'000</b>	<b>Audited As at 31 Mar 2009 RM'000</b>	<b>Audited As at 31 Mar 2010 RM'000</b>	<b>Unaudited As at 31 Dec 2010 RM'000</b>
<b>Liabilities</b>				
Deposits from customers	21,419,080	26,230,317	24,270,378	28,779,608
Deposits and placements of banks and other financial institutions	1,454,124	1,183,387	2,289,666	2,866,727
Derivative financial liabilities	23,276	49,564	50,175	33,464
Amount due to Cagamas	255,391	58,391	28,077	25,879
Bills and acceptances payable	161,418	2,215	538,350	240,211
Balances due to clients and brokers	112,626	51,856	80,249	99,679
Other liabilities	1,115,528	953,912	895,375	912,957
Provision for taxation	-	2,213	4,202	75,550
Deferred tax liabilities	-	-	1	8,600
Subordinated bonds	600,000	600,000	600,000	600,000
<b>Total liabilities</b>	<b>25,141,443</b>	<b>29,131,855</b>	<b>28,756,473</b>	<b>33,642,675</b>
<b>Shareholders' equity:</b>				
Share Capital	600,517	600,517	600,517	600,517
Reserves:				
Share Premium	597,517	597,517	597,517	597,517
Statutory reserve	608,948	671,953	735,515	764,781
Other reserves	10,035	10,035	10,018	10,018
Revaluation reserves	(22,776)	20,174	7,440	75,599
Equity contribution from parent	1,424	7,664	12,185	12,303
Profit Equalisation Reserve	-	-	26,388	7,347
Retained profits	702,407	772,867	882,471	1,123,229
<b>Total shareholders' equity</b>	<b>2,498,072</b>	<b>2,680,727</b>	<b>2,872,051</b>	<b>3,191,311</b>
<b>Risk Weighted Capital Adequacy Ratio</b>	<b>16.1%</b>	<b>14.7%</b>	<b>15.4%</b>	<b>15.9%</b>

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## 7.0 SELECTED FINANCIAL INFORMATION

### 7.1 Key Financial Highlights

Set out below is the financial information extracted from the Group audited financial statements for the years ended 31 March, 2008 to 2010, and unaudited condensed interim financial statements for the 9-month periods ended 31 December, 2009 and 2010. The said financial information should be read in conjunction with the audited financial statements of the Group. The audited financial statements of the Group for the financial years ended 31 March 2009 and 31 March 2010 are set out in Appendix 1 and 2 respectively.

#### Income Statement:

	For financial year			For 9-month period	
	2008 Audited 31 Mar 2008 RM'000	2009 Audited 31 Mar 2009 RM'000	2010 Audited 31 Mar 2010 RM'000	2009 Unaudited 31 Dec 2009 RM'000	2010 Unaudited 31 Dec 2010 RM'000
Interest income	1,216,253	1,250,594	1,093,927	803,108	901,448
Interest expense	(586,114)	(597,956)	(474,499)	(370,923)	(387,674)
Net interest income	630,139	652,638	619,428	432,185	513,774
Net income from Islamic banking business	115,162	165,128	245,821	174,747	173,359
	745,301	817,766	865,249	606,932	687,133
Other operating income	265,373	235,053	201,973	182,535	173,507
Net Income	1,010,674	1,052,819	1,067,222	789,467	860,640
Other operating expenses	(465,871)	(556,286)	(551,643)	(413,594)	(396,021)
Share of results in an associate	(4)	9	3	3	2
Operating profit	544,799	496,542	515,582	375,876	464,621
Write-back of / (allowance for) impairment of loans, advances and financing and other losses	61,549	(114,820)	32,258	51,552	(23,826)
(Allowance for) / write-back of impairment	(106,075)	(76,901)	(132,881)	(120,865)	3,160
Profit before taxation and zakat	500,273	304,821	414,959	306,563	443,955
Taxation and zakat	(127,991)	(74,638)	(108,521)	(77,812)	(114,855)
Net profit after taxation and zakat	372,282	230,183	306,438	228,751	329,100
Net dividends per share (sen)	14.60	9.82	19.65		
Earnings per share (sen)					
- Basic (sen)	62	39	51	38	55
- Diluted (sen)	53	29	38	29	41

**Balance Sheet:**

	<b>Audited As at 31 Mar 2008 RM'000</b>	<b>Audited As at 31 Mar 2009 RM'000</b>	<b>Audited As at 31 Mar 2010 RM'000</b>	<b>Unaudited As at 31 Dec 2010 RM'000</b>
<b>Assets</b>				
Cash and short term funds	5,773,888	4,990,498	3,563,549	1,714,471
Deposits and placements with banks and other financial institutions	532,835	198,523	150,156	365,160
Financial assets held-for-trading	100,129	46,055	-	2,766,787
Financial investments available-for-sale	3,091,018	6,320,122	5,154,828	8,820,501
Financial investments held-to-maturity	821,294	314,620	931,420	965,842
Derivative financial assets	19,393	40,858	44,698	39,057
Loans, advances and financing	15,618,971	18,718,097	20,706,550	21,027,991
Balances due from clients and brokers	119,333	44,680	72,568	83,002
Other assets	288,611	235,179	128,095	188,713
Tax recoverable	-	70,923	22,974	1,129
Statutory deposits with BNM	621,986	198,924	258,406	284,238
Investment in an associate	494	503	506	30,508
Leasehold land	12,275	12,136	11,119	11,016
Property, plant and equipment	129,035	137,094	123,614	98,591
Deferred tax assets	161,537	120,510	102,722	82,504
Intangible assets	353,665	368,512	361,858	358,992
<b>Total assets</b>	<b>27,644,464</b>	<b>31,817,234</b>	<b>31,633,063</b>	<b>36,838,502</b>
<b>Liabilities and Equity</b>				
Deposits from customers	21,419,080	26,230,317	24,270,378	28,779,608
Deposits and placements of banks and other financial institutions	1,454,124	1,183,387	2,289,666	2,866,727
Derivative financial liabilities	23,276	49,564	50,175	33,464
Amount due to Cagamas	255,391	58,391	28,077	25,879
Bills and acceptances payable	161,418	2,215	538,350	240,211
Balances due to clients and brokers	112,626	51,856	80,249	99,679
Other liabilities	1,115,528	953,912	895,375	912,957
Provision for taxation	-	2,213	4,202	75,550
Deferred tax liabilities	-	-	1	8,600
Subordinated bonds	600,000	600,000	600,000	600,000
<b>Total liabilities</b>	<b>25,141,443</b>	<b>29,131,855</b>	<b>28,756,473</b>	<b>33,642,675</b>
Share capital	600,517	600,517	600,517	600,517
Reserves	1,897,555	2,080,210	2,271,534	2,590,794
Capital and reserves attributable to equity holders of the Bank	2,498,072	2,680,727	2,872,051	3,191,311
Minority interests	4,949	4,652	4,539	4,516
<b>Total equity</b>	<b>2,503,021</b>	<b>2,685,379</b>	<b>2,876,590</b>	<b>3,195,827</b>
<b>Total liabilities and shareholders' equity</b>	<b>27,644,464</b>	<b>31,817,234</b>	<b>31,633,063</b>	<b>36,838,502</b>

\* The figures as at 31 March 2010 has been revised to conform with the adoption of FRS 139 for the purpose of presentation of the interim financial statements for the 9-month period ended 31 December 2010. In relation to this Sales Commissions and Handling Fees has been reclassified from Other Assets to Loans, Advances and Financing. No adjustment has been made in respect of the audited figures for the preceding years ending 31 March 2008 and 31 March 2009.

## 8.0 HISTORY AND BUSINESS

### 8.1 History of Alliance Bank

Alliance Bank was incorporated in Malaysia on 3 August 1982 under the name of Malaysian French Bank Berhad. Its history can be traced back to 1958 when Banque Indosuez (originally known as Banque de L'Indochine) first commenced operations in Malaysia. In 1982, Malaysian French Bank Berhad was incorporated following the restructuring of Banque Indosuez's business in Malaysia to comply with the local banking regulations. In 1996, it assumed the name of Multi-Purpose Bank Berhad.

In 2000, Multi-Purpose Bank Berhad was one of the 10 anchor banks in the consolidation exercise of Malaysian financial institutions. Multi-Purpose Bank Berhad subsequently changed its name to Alliance Bank Malaysia Berhad on 12 January 2001 following the merger with International Bank Malaysia Berhad, Sabah Bank Berhad and Sabah Finance Berhad.

On 1 August 2004, Alliance Bank took over the entire finance company business of its wholly owned subsidiary, Alliance Finance Berhad, to carry on the business of a commercial bank as well as a finance company.

On 1 April 2008, the Islamic banking operations, previously included in Alliance Bank's operations, were transferred to Alliance Islamic, a wholly-owned subsidiary of Alliance Bank.

As at 31 December 2010, Alliance Bank employs over 3,700 employees and has 99 branches nationwide.

### 8.2 Description of Alliance Bank's Material Subsidiaries

The Material Subsidiaries of Alliance Bank as at 31 December 2010 are as follows:

Name	Date and place of incorporation	Principal activities	Issued and paid up ordinary share capital (RM)	Effective equity interest held (%)
Alliance Investment Bank Berhad	28 December 1974/ Malaysia	Investment banking business including Islamic banking provision of stock broking services and related financial services	365,000,000	100.0
Alliance Islamic Bank Berhad	13 June 2007/ Malaysia	Islamic banking and finance business and the provision of related financial services	300,000,000	100.0

#### (a) Alliance Investment Bank Berhad

Alliance Investment was formerly known as Amanah Chase Merchant Bank Berhad, a company which was incorporated since 28 December 1974. Amanah Chase Merchant Bank Berhad later changed its name to Amanah Merchant Bank Berhad.

On 1 January 2001, Bumiputra Merchant Bankers Bhd was merged into Amanah Merchant Bank Bhd. Following BNM's domestic banking consolidation programme, a restructuring exercise was then completed which culminated in Amanah Merchant Bank Berhad becoming a subsidiary of Alliance Bank. Effective 12 January 2001, Amanah Merchant Bank Berhad was known as Alliance Merchant Bank Berhad.

On 31 December 2004, Kuala Lumpur City Securities Sdn Bhd (“**KLCS**”) which has a universal broker licence, became a subsidiary of Alliance Merchant Bank Berhad. On 30 June 2006, Alliance Merchant Bank Berhad obtained a joint approval from BNM and the SC for the proposed rationalisation of the merchant banking business of Alliance Merchant Bank Berhad and the stock broking business of KLCS to transform into an investment bank and Alliance Merchant Bank Berhad changed its name to Alliance Investment Bank Berhad on 8 August 2006. The integration of the business of KLCS and Alliance Investment were completed upon vesting of the business, assets and liabilities of KLCS to Alliance Investment on 30 December 2006.

The enlarged investment bank represents the investment banking arm of the Group. The merger of the merchant banking business and stock broking business provides Alliance Investment with the synergy and opportunity to grow towards becoming a provider of full-fledged investment banking services.

(b) Alliance Islamic Bank Berhad

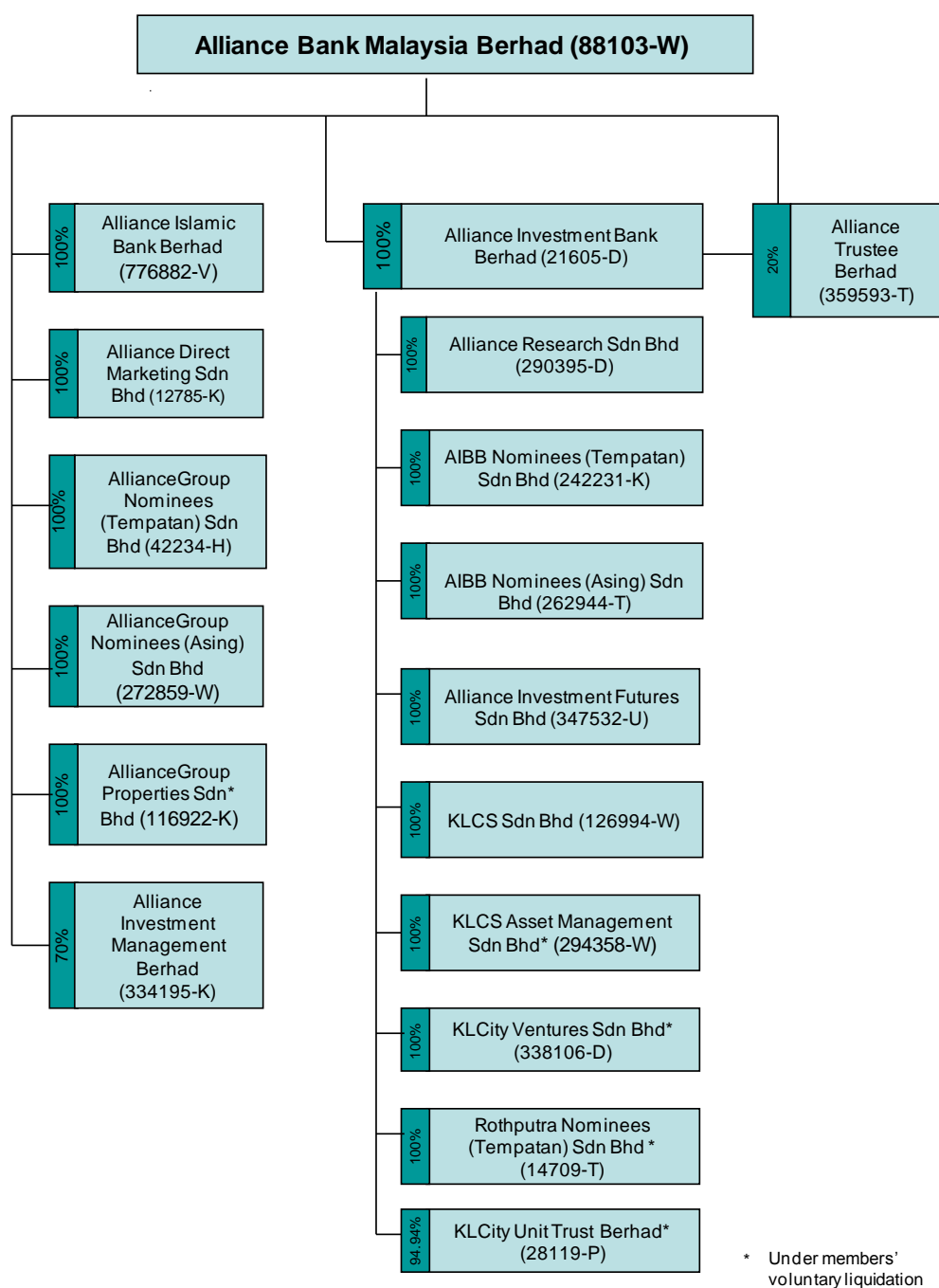
Alliance Islamic commenced its Islamic Banking business on 1 April 2008. This relatively new entity helmed by Tuan Haji Yahya Ibrahim was established following the invitation by BNM for all commercial banks to set up an Islamic banking subsidiary.

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### 8.3 Corporate Structure of the Group

Corporate Structure of the Group as at 31 December 2010 is as follows:



Note: 20% of the shares in Alliance Trustee Berhad are held by Alliance Bank with another 20% held by Alliance Investment.

## **8.4 The Business of Alliance Bank and its Key Subsidiaries**

The Group currently serves individual consumers, SME(s), commercial and corporate customers. Leveraging on the Group's licences to carry out banking and finance company business, investment banking business and Islamic banking business, coupled with an active treasury operation, it will continue to focus on Consumer and Business Banking core customer segments while enhancing customer relationships, improving the Group's product suite, widening cross selling opportunities as well as increasing fee income (including Wealth Management, Treasury and Forex).

Over the past four years, the Group aimed to develop a strong banking business via the adoption of a customer segmentation model and its focus on building long term relationships with customers. Moving forward, there will be continuous emphasis on the Consumer Banking and SME Banking businesses to strengthen the Group's market share in these segments.

Consumer Banking will remain a staple business for the Group. It will be customer-driven, focusing on meeting the needs of target segments with innovative products and services delivered through the appropriate channels. Consumer Banking will continue to enhance productivity levels and ensure highly integrated distribution capabilities.

SME Banking whose target customer segment is SME entrepreneurs, will be one of the primary growth businesses for the Group. It will leverage on its relationship-building capabilities to expand its customer base and deepen share of wallet with existing customers.

The Group will maintain Corporate and Commercial Banking business by preserving a well-diversified portfolio of clients complemented by a suite of lending and fee-based products and managing its risks.

The Group will continue to leverage on its Islamic Banking licence to offer simple, fast and convenient Shariah compliant solutions while utilising its existing infrastructure to promote its Islamic product offerings as well as developing new product innovations.

The Group's Investment Banking business allows it to provide stock broking and capital market advisory services to customers of other business units. Investment Banking will continue to strengthen its distribution network and research capabilities.

### **8.4.1 The Business of Alliance Bank**

#### **8.4.1.1 Consumer Banking**

Overall, the Consumer Banking activities constituted approximately 50.0% of Alliance Bank's total interest income for the nine-month period ended 31 December 2010. Mortgage, Credit Cards, Personal Loan, Hire Purchase, Wealth Management instruments, Deposits and Share Margin Financing make up Consumer Banking's core product areas.

##### **(a) Mortgage**

The Mortgage sector reported a net loan growth of approximately 2.5% for the nine-month period ended 31 December 2010. Overall, asset quality improved due to the implementation of mortgage scorecard and refinement of loan acceptance criteria.

The Mortgage team will focus on strengthening its sales force and backroom support team in order to gear up for higher sales. It will continue with its segment-based loan pricing and to build on its quality assets to ensure there is a fair balance between expected profit and risk profiles.

##### **(b) Unsecured Lending including Credit Cards**

For the nine-month period ended 31 December 2010, issuing sales as measured by spending per card was higher than the nine-month period ended 31 December 2009 by more than 30.0% while acquiring sales as measured by merchant acceptance volume grew approximately 15.0% year-on-year.

The two main priorities for the immediate future will be to protect profitability and customer franchise amidst stiff regulatory challenges. Broadly, this will be facilitated through driving an effective product mix of credit, debit, corporate and prepaid cards with linkages to multiple other banking products.

(c) Personal Loan

For the nine-month period ended 31 December 2010, the Personal Loans business delivered growth with balances increasing by approximately 12.2% compared to industry's growth of about 9.0%. Net credit loss was also well contained.

Year 2009 also saw the launch of a Personal Loan variant, the cooperative loan, which caters to the needs of the fast-growing civil servant market.

Moving forward, Alliance Bank will take steps to ensure a more balanced and diversified growth in both the cooperative and generic loan variants.

(d) Hire Purchase

Hire Purchase market is highly competitive. Alliance Bank aims to maintain a healthy portfolio for its Hire Purchase business and to increase its productivity by channelling its resources to focus on higher yield segment of its business.

(e) Wealth Management

Alliance Bank is an independent Wealth Management provider and distributor of premium funds, based on a segmented approach to meeting customer risk profiles and needs. Alliance Bank's Wealth Management platform also includes share margin financing for customers who wish to invest in direct equities.

Alliance Bank has 10 share trading centres nationwide with designated account relationship and centre managers to deal in securities for its share trading customers. In addition, customers may also choose to trade online via Alliance Online share trading module.

Alliance Bank's Wealth Management philosophy is to provide advisory services to customers and to move from the existing sale/information model to model portfolios. Due diligence is conducted regularly based on quantitative and qualitative factors on Alliance Bank's funds and business partners by Alliance Bank's independent licenced investment advisor, Perkasa Normandy Advisers Sdn Bhd. As at 31 December 2010, Alliance Bank distributes funds from 10 unit trust management companies, including AIMB.

Alliance Bank's platform and portfolio performance is constantly benchmarked and its funds reviewed on a regular basis. Stringent policies are in place when selecting a new unit trust and/or a bancassurance investment-linked fund. For customers, this offers them better informed up-to-date analysis and recommended portfolio modeling via asset allocation strategies to enable them to make the right investment decisions.

The Group plans to increase its cross-selling opportunities of its wealth products, exploring opportunities within or across the lines of business such as SME Banking to promote bundled products e.g. loans, insurance, fixed deposits and wealth products, including unique structured investment products.

Alliance Bank recently launched Alliance Golden Harvest, a capital-guaranteed single premium investment-linked insurance plan with guaranteed cash payment of 5.0% at the end of each first and second year, with a potential maturity bonus based on the performance of an index linked to a wide range of commodities. It was one of the most successful structured product launches in 2010 in Malaysia.

(f) Deposit

The Alliance Debit MasterCard, which is linked to the Group's flagship product of high yield deposit Hybrid Account, is a convenient payment tool which helps customers exercise prudent financial management. Two of the cards, the Alliance Debit MasterCard *Platinum* and *Premium* cards, are the first of such products introduced in the Malaysian market for the mass affluent and affluent segments, while the *Standard* card caters to the mass market segment.

The Hybrid Account, a current account with the option of no-checking facilities and acts both as a current and savings account, has since registered positive growth and has contributed greatly in increasing Alliance Bank's current account growth.

To increase deposit product profitability, Alliance Bank will continue to improve on the product mix by adopting segmentation strategies to cater to different market segments.

(g) Bancassurance

The Group is looking to enhance its bancassurance product suite as part of its broad management and fee-income capabilities.

Alliance Bank has preferred partnerships with Prudential Assurance Malaysia Berhad and Uni Asia Life Berhad to offer life insurance, American International Assurance Berhad on family takaful insurance and Multi Purpose Insurans Berhad and MSIG Insurance Malaysia Berhad on general insurance.

(h) Share Margin Financing

The Group has 10 Share Trading Centres nationwide. It is a one stop centre providing customers with share trading and margin facilities and other financing facilities for the acquisition of shares via initial public offering, employee share option scheme and placement.

Customers of the Bank may trade via two delivery channels: account relationship managers who are exempt dealers under the CMSA and/or Internet trading, via Alliance Bank's share trading module, Alliance Online.

(i) Alliance Privilege Banking

The Alliance Privilege Banking has 20 Privilege Banking Centres serving over 8,000 members. It offers a range of banking and wealth management services to its high net worth customers. It continues to expand its client base by targeting new affluent customers and upgrading existing mass affluent customers.

The Alliance Privilege Banking proposition focuses on a wealth allocation strategy that optimises risk return payoff, especially in times of market volatility. Strategic information on market trends, environment and movements are made available via seminars conducted by external industry specialist and Alliance Bank's wealth advisors.

(j) Delivery Channels

To ensure greater convenience and more cost-effective means of banking for its customers, Alliance Bank has undertaken several initiatives which encompasses Alliance Online service, contact centre services and self-service network.

To improve awareness of e-Channels, Alliance Bank re-launched an awareness campaign with updated collaterals and employed branches' assistance to further educate customers on the features of e-Channels.

Alliance Online remains a key channel which Alliance Bank intends to further improve on in order to position itself as a keen adopter of technological solutions.

Alliance Bank's contact centre provides 24-hour services to its customers and its number of users has grown rapidly in the last 18 months.

As at 31 December 2010, Alliance Bank has over 170 automatic teller machines, more than 100 cash deposit machines and 93 cheque express services. These machines enable Alliance Bank's individual and business customers to bank with greater ease and convenience at all hours of the day and seven days a week. Alliance Bank upgraded most of its automatic teller machines nationwide to ensure consistent service levels and uptime of the machines. New automatic teller machines with bigger screens and improved reliability were installed at branches. Customers may also now sign-up for both Alliance Online and contact services at the automatic teller machines.

Alliance Bank will continue to improve its e-Channel's offerings to ensure customers are provided with the relevant touch points to conduct their financial transactions.

#### **8.4.1.2 SME Banking**

Alliance SME Banking continues to create and deliver value through long-term partnerships with SME customers by offering them a competitive and comprehensive suite of banking products and services.

For the nine months period ended 31 December 2010, Alliance SME Banking recorded year-on-year revenue growth of approximately 22.5% and profit before tax of approximately 85.3%, which contributed to approximately 22.3% and 22.1% to the Group's revenue and profit before tax respectively for the nine months period ended 31 December 2010.

In terms of balance sheet, SME Banking registered a growth rate of approximately 8.5% for loans and 12.7% for deposit from 31 March 2010. Gross NPL(s) as at 31 December 2010 remains consistent at 2.3% with a loss rate of less than 1.0% for nine months period ended 31 December 2010.

Alliance SME Banking aims to be the main banker for SME clients, establish long-term partnerships with them and offer end-to-end financing solutions to address their business requirements. It remains committed to providing support and nurturing the industry by providing innovative financial solutions.

Going forward, Alliance Bank expects to forge new partnerships under SME Banking and be recognised as a thought-leader in the SME market.

#### **8.4.1.3 Corporate and Commercial Banking**

Corporate Banking merged with Commercial Banking on 9 August 2010 to form Corporate and Commercial Banking.

For the nine-month period ended 31 December 2010, Corporate and Commercial Banking recorded year-on-year revenue growth of approximately 16.2%, which contributed to approximately 15.7% of the Group's revenue. The positive growth was attributed by increase in business volume. Net Interest Income and Non Funded Income rose 14.7% and 20.2% year-on-year respectively.

##### **(a) Corporate Banking**

Corporate Banking directs its efforts at cross-selling banking products and customised treasury and investment banking products and services to further enhance customers' experience and revenue mix.

Against the backdrop of various projects, initiatives and measures progressively implemented by the Government, Corporate Banking will intensify its focus on client origination efforts on customers within Alliance Bank's target industry sectors while enhancing and strengthening its relationship with existing client base.

(b) Commercial Banking

Commercial Banking has reviewed the target industry sectors and value chains which falls under the purview of the 12 National Key Economic Areas recently announced under the Malaysia Economic Transformation Programme. This will position the business to seize market opportunities and avoid higher risk segments.

Going forward, Corporate and Commercial Banking will continue to focus on origination of quality assets, improve cross-selling to grow fee income and deposits.

**8.4.1.4 Financial Markets**

For the nine-month period ended 31 December 2010 Financial Markets recorded revenue that is approximately 15.0% higher than that recorded for the nine-month period ended 31 December 2009. The strong performance was mainly attributed to the active management of portfolios and increased sales and trading activities in foreign exchange business of the bank and capital gains from fixed income operations. Net interest income from money market and capital market rose by approximately 9.0% year-on-year to RM90.4 million. Non funded income from foreign exchange and fixed income securities rose by approximately 26.0% year-on-year to RM62.4 million for the nine-month period.

Going forward, Financial Markets will continue to focus on traditional products as well as introducing new products, in particular wealth management products, to enhance its income. Financial Markets will also continue to build on its strategic focus of client distribution competency and capabilities by improving service standards to enhance customer relationships.

**8.4.1.5 Human Resource**

In line with the Group's strategies and future direction, Group Human Resources will continue to work closely with business and support heads to develop benchmarks for the Group's various line of business. Alliance Bank remains committed to investing in learning and development programmes to nurture home grown talents.

Alliance Bank had appointed qualified internal talents to take on senior positions and invested in hiring external talents to address gaps within the organisation. Concurrently, Alliance Bank continues to groom and develop potential leaders. Group Human Resources also designed and developed career development and learning roadmaps for the sales and service job families and is in the midst of completing roadmaps for the support and operations' functions.

In refining the human resource strategies to better support the various lines of businesses, Group Human Resources works with business heads to improve on the service level to foster a more customer-centric culture. Alliance Bank is also reviewing its performance management system to inculcate a high performance work culture to ensure a competitive advantage.

**8.4.1.6 Information Systems**

To remain competitive in meeting the needs of the customers via customised solutions, Alliance Bank is embarking on the implementation of bank-wide management information system solutions to provide better analytical and decision-making capabilities. Alliance Bank is now implementing its customer relationship management solutions with deliverables phased out over a 24-month period. The objective of the customer relationship management project is to provide a single view of the customer, facilitating profiling, propensity modelling, customer/product attrition analysis, campaign automation and other activities which will assist Alliance Bank to enhance its customer service level.

Overall, the Group is a full-fledged financial services group that offer its customers an extensive range of financial products and services, ranging from consumer, commercial and corporate banking services to investment banking, corporate finance, debt capital market, equity capital market and a wide range of stock broking services, including institutional and retail share trading, share margin financing, inter-broking services, underwriting and placement, research and nominees and registration services. Moving forward, the Group will leverage on its suite of product offerings and cross-business collaboration to more effectively deliver Alliance Bank's promise of *Banking Made Personal* and to meeting its customers' needs with the right products and services at every stage of life.

#### **8.4.2 The Business of Alliance Islamic**

As at 31 December 2010, Alliance Islamic's total assets grew by 30.5% to RM6.4 billion compared with FYE ended 31 March 2010 whilst total financing stood at RM3.8 billion, recording a growth of 11.7% compared with FYE 31 March 2010.

The growth in Alliance Islamic's business reflects a wider market acceptance of Islamic Banking as an alternative to conventional banking. Alliance Islamic offers an array of innovative Islamic products, including the "i-Wish Flexi Home Financing-i", Floating Rate Term Financing-i, Cashline Financing-i, Trade Financing-i and the Personal Financing-i product which won an "Excellence in Business Model Innovation Award" by The Asian Banker.

#### **8.4.3 The Business of Alliance Investment**

Alliance Investment's businesses include stock broking, treasury activities and the provision of corporate advisory services for capital market transactions and debt financing. Revenue for the nine months ended 31 December 2010 was RM50.0 million, approximately 0.6% higher than that recorded for the same corresponding period ended 31 December 2009. Brokerage income, income from investment in Malaysian Government Securities, bonds and money market and advisory fees were the main revenue contributors.

Going forward, Alliance Investment expects more contribution from the advisory activities and will endeavour to enhance its stock broking product offerings.

#### **8.4.4 The Business of Alliance Investment Management Berhad**

AIMB is the Group's asset management unit with assets under management of RM2.7 billion as at 31 December 2010. For the nine-month period ended 31 December 2010, AIMB delivered approximately RM221.1 million in sales via its own institutional unit trust advisors and approximately RM27.7 million in sales from other channels.

AIMB is one of Malaysia's top ten fund managers in terms of total fund size and is at 17th position on the unit trust league table. Going forward, AIMB will focus on introducing more innovative products whilst leveraging on its multi-distribution channels, enhancing its existing business relationships with key institutional unit trust advisors and expanding its agency network.

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## 9.0 FUNDING AND CAPITAL ADEQUACY

### 9.1 Funding

The Group has established comprehensive funding and liquidity policy guidelines setting out measures to manage and monitor the Group's funding and liquidity requirements. Such measures include the diversification of funding sources, subjecting future cash flows to sensitivity and stress analysis as well as managing adequate contingent funding sources. Majority of the Group's funding is sourced from retail and business customer deposits in Malaysia. As at 31 December 2010, customer deposits accounted for approximately 88.5% of the Group's total sources of funds. Other funding sources include deposits and placements of banks and other financial institutions, loans sold directly to Cagamas with recourse, bills and acceptances and subordinated bonds.

The following table illustrates the profile of the Group's funding sources as at the dates indicated:

	<b>Audited As at 31 Mar 2008</b>		<b>Audited As at 31 Mar 2009</b>		<b>Audited As at 31 Mar 2010</b>		<b>Unaudited As at 31 Dec 2010</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Deposits from customers	21,419,080	89.6	26,230,317	93.4	24,270,378	87.5	28,779,608	88.5
Deposits and placements of banks and other financial institutions	1,454,124	6.1	1,183,387	4.2	2,289,666	8.3	2,866,727	8.8
Amount due to Cagamas	255,391	1.1	58,391	0.2	28,077	0.1	25,879	0.1
Bills and acceptances payable	161,418	0.7	2,215	-	538,350	1.9	240,211	0.7
Subordinated bonds	600,000	2.5	600,000	2.2	600,000	2.2	600,000	1.9
<b>Total</b>	<b>23,890,013</b>	<b>100.0</b>	<b>28,074,310</b>	<b>100.0</b>	<b>27,726,471</b>	<b>100.0</b>	<b>32,512,425</b>	<b>100.0</b>

#### Customer deposits

Funding from customer deposits comprises demand deposits, savings deposits, fixed/investment deposits, money market deposits, negotiable instruments of deposit and structured deposits. As at 31 December 2010, approximately 52.2% of the total customer deposits of the Group were in the form of fixed deposits (deposits with fixed maturities, with tenures mainly ranging from 1 month to 12 months), while demand deposits, money market deposits and savings deposits accounted for approximately 28.5%, 9.5% and 5.6% respectively of total customer deposits. As at 31 December 2010, substantially all of the Group's customer deposits had maturities of one year or less. Based on the Group's historical experience, a substantial portion of deposits were rolled over upon maturity, thereby providing a stable source of funding.



### Profile of customer deposits by type

The following table sets out the profile of customer deposits by type for the Group as at the dates indicated:

	<b>Audited As at 31 Mar 2008</b>		<b>Audited As at 31 Mar 2009</b>		<b>Audited As at 31 Mar 2010</b>		<b>Unaudited As at 31 Dec 2010</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Demand deposits	5,791,813	27.0	6,815,458	26.0	8,122,535	33.4	8,192,481	28.5
Savings deposits	1,648,957	7.7	1,628,580	6.2	1,679,449	6.9	1,607,665	5.6
Fixed/investment deposits	12,934,571	60.4	14,527,666	55.4	12,853,243	53.0	15,014,657	52.2
Money market deposits	979,283	4.6	2,275,360	8.7	1,164,796	4.8	2,739,023	9.5
Negotiable instruments of deposits	64,456	0.3	979,604	3.7	409,092	1.7	1,179,515	4.1
Structured deposits	-	-	3,649	-	41,263	0.2	46,267	0.1
<b>Total</b>	<b>21,419,080</b>	<b>100.0</b>	<b>26,230,317</b>	<b>100.0</b>	<b>24,270,378</b>	<b>100.0</b>	<b>28,779,608</b>	<b>100.0</b>

### Maturity structure of fixed/investment deposits, money market deposits and negotiable instruments of deposits

The following table sets out the profile of fixed/investment deposits, money market deposits and negotiable instruments of deposits by maturity for the Group as at the dates indicated:

	<b>Audited As at 31 Mar 2008</b>		<b>Audited As at 31 Mar 2009</b>		<b>Audited As at 31 Mar 2010</b>		<b>Unaudited As at 31 Dec 2010</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Due within six months	10,124,700	72.4	13,202,340	74.3	10,018,961	69.4	14,499,931	76.6
Six months to one year	3,363,014	24.1	4,343,188	24.4	3,672,184	25.5	3,726,652	19.7
One year to three years	439,876	3.1	195,586	1.1	705,860	4.9	688,879	3.6
Three years to five years	50,720	0.4	41,516	0.2	30,126	0.2	17,733	0.1
<b>Total</b>	<b>13,978,310</b>	<b>100.0</b>	<b>17,782,630</b>	<b>100.0</b>	<b>14,427,131</b>	<b>100.0</b>	<b>18,933,195</b>	<b>100.0</b>

### Profile of customer deposits by type of depositor

The following table sets out the type of depositor for the Group as at the dates indicated:

	<b>Audited As at 31 Mar 2008</b>		<b>Audited As at 31 Mar 2009</b>		<b>Audited As at 31 Mar 2010</b>		<b>Unaudited As at 31 Dec 2010</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Domestic financial institutions	-	-	249,681	1.0	415,986	1.7	1,186,648	4.1
Government and statutory bodies	932,413	4.4	1,360,896	5.2	837,472	3.5	807,860	2.8
Business enterprises	7,698,933	35.9	10,207,828	38.9	8,794,156	36.2	10,209,182	35.5
Individuals	12,018,644	56.1	13,660,573	52.1	13,531,116	55.8	14,756,539	51.3
Others	769,090	3.6	751,339	2.9	691,648	2.8	1,819,379	6.3
<b>Total</b>	<b>21,419,080</b>	<b>100.0</b>	<b>26,230,317</b>	<b>100.0</b>	<b>24,270,378</b>	<b>100.0</b>	<b>28,779,608</b>	<b>100.0</b>

The funding cost of Alliance Bank for customer deposits is not significantly different from its competitors or the industry average. The interest rates paid by banks for customer's retail fixed deposits are guided by the floor set by BNM.

### Deposits and placements of banks and other financial institutions

The following table sets out the deposits and placements of banks and other financial institutions held by the Group at the dates indicated:

	<b>Audited As at 31 Mar 2008</b>		<b>Audited As at 31 Mar 2009</b>		<b>Audited As at 31 Mar 2010</b>		<b>Unaudited As at 31 Dec 2010</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Licenced banks	783,829	53.9	425,996	36.0	1,385,564	60.5	1,511,333	52.7
Licenced investment banks	255,000	17.5	140,000	11.8	80,000	3.5	249,100	8.7
Licenced Islamic banks	-	-	-	-	75,000	3.3	200,000	7.0
Bank Negara Malaysia	415,295	28.6	617,391	52.2	749,102	32.7	906,294	31.6
<b>Total</b>	<b>1,454,124</b>	<b>100.0</b>	<b>1,183,387</b>	<b>100.0</b>	<b>2,289,666</b>	<b>100.0</b>	<b>2,866,727</b>	<b>100.0</b>

## 9.2 Capital Adequacy

As at 31 December 2010, the RWCR of the Group was 15.9%. The following table provides details of the Group's Tier I Capital, Tier II Capital and the capital adequacy ratios as at the dates indicated:

	<b>Audited As at 31 Mar 2008 RM'000</b>	<b>Audited As at 31 Mar 2009 RM'000</b>	<b>Audited As at 31 Mar 2010 RM'000</b>	<b>Unaudited As at 31 Dec 2010 RM'000</b>
<b><u>Tier I Capital (Core Capital)</u></b>				
Paid-up share capital	596,517	596,517	596,517	596,517
Irredeemable convertible preference shares	4,000	4,000	4,000	4,000
Share premium	597,517	597,517	597,517	597,517
Retained profits	702,407	772,867	882,471	1,010,465
Statutory reserves	608,948	671,953	735,515	764,781
Other reserves	10,035	10,035	10,018	10,018
Minority interests	4,949	4,652	4,539	4,462
	2,524,373	2,657,541	2,830,577	2,987,760
Less:				
Purchased goodwill / goodwill on consolidation	(304,149)	(304,149)	(302,065)	(302,065)
Deferred tax assets	(160,659)	(119,305)	(99,347)	(82,504)
<b>Total Tier I capital</b>	<b>2,059,565</b>	<b>2,234,087</b>	<b>2,429,165</b>	<b>2,603,191</b>
<b><u>Tier II Capital</u></b>				
Subordinated bonds	600,000	600,000	600,000	600,000
Collective assessment allowance	-	-	-	321,005
General allowance	289,296	340,246	322,933	-
<b>Total Tier II capital</b>	<b>889,296</b>	<b>940,246</b>	<b>922,933</b>	<b>921,005</b>
<b>Total Capital</b>	<b>2,948,861</b>	<b>3,174,333</b>	<b>3,352,098</b>	<b>3,524,196</b>
Less: Investment in subsidiaries	(11,275)	(7,066)	(12,760)	(3,620)
<b>Total Capital Base</b>	<b>2,937,586</b>	<b>3,167,267</b>	<b>3,339,338</b>	<b>3,520,576</b>
<b><u>Capital adequacy ratios</u></b>				
Core capital ratio	11.2%	10.3%	11.1%	11.8%
Risk-weighted capital ratio	16.1%	14.7%	15.4%	15.9%

The following is a breakdown of risk weighted assets by exposure in each major risk categories:

	<b>Audited As at 31 Mar 2008 RM'000</b>	<b>Audited As at 31 Mar 2009 RM'000</b>	<b>Audited As at 31 Mar 2010 RM'000</b>	<b>Unaudited As at 31 Dec 2010 RM'000</b>
Credit Risk	16,001,122	19,353,605	19,189,717	19,804,237
Market Risk	83,714	59,902	19,663	79,340
Operational Risk	1,944,266	2,041,388	2,126,663	2,209,340
<b>Total</b>	<b>18,029,102</b>	<b>21,454,895</b>	<b>21,336,043</b>	<b>22,092,917</b>

## 10.0 ASSET QUALITY

### 10.1 Loan Portfolio

Loan asset quality is one of the factors that affect the Group's revenue and profits. As at 31 December 2010, the Group's total gross outstanding loans were RM21.7 billion, which represented approximately 58.8% of Group's total assets.

### 10.2 Loans, Advances and Financing by Type

The composition of the Group's loan portfolio is as at the dates specified below:

	<b>Audited As at 31 Mar 2008 RM'000</b>	<b>Audited As at 31 Mar 2009 RM'000</b>	<b>Audited As at 31 Mar 2010 RM'000</b>	<b>Unaudited As at 31 Dec 2010 RM'000</b>
Overdrafts	1,787,614	1,610,636	1,632,204	1,651,493
Term loans/financing				
- Housing loans/financing	5,775,875	7,842,479	9,081,024	9,916,640
- Syndicated term loans/financing	297,179	314,794	278,248	289,078
- Hire purchase receivables	1,427,178	1,360,731	1,070,593	925,303
- Lease receivables	4,053	104	104	-
- Other term loans/financing	4,749,197	5,858,653	7,243,133	7,596,570
Bills receivables	152,046	71,906	56,173	145,109
Trust receipts	138,705	154,941	161,254	173,230
Claims on customers under acceptance credits	1,553,982	1,735,910	2,025,751	2,052,627
Staff loans (including loans to Directors of a subsidiary )	112,779	117,974	102,583	95,457
Credit/charge card receivables	546,659	645,058	685,003	679,782
Revolving credits	600,847	995,713	1,115,275	891,793
Other loans	360,325	257,432	339,071	333,529
	17,506,439	20,966,331	23,790,416	24,750,611
Less: Unearned interest and income	(961,743)	(1,376,192)	(2,380,480)	(3,088,295)
Gross loans, advances and financing	16,544,696	19,590,139	21,409,936	21,662,316
Add: Sales commissions and handling fees*	-	-	58,105	31,912
Less: Allowance for impairment on loans, advances and financing				
- Individual assessment allowance	-	-	-	(338,361)
- Collective assessment allowance	-	-	-	(327,876)
- Specific allowance	(636,429)	(531,824)	(438,582)	-
- General allowance	(289,296)	(340,218)	(322,909)	-
Total net loans, advances and financing	15,618,971	18,718,097	20,706,550	21,027,991

\* The figure for Sales Commissions and Handling Fees as at 31 March 2010 has been reclassified to Loans, Advances and Financing from Other Assets to conform with the adoption of FRS 139 for the purpose of presentation of the interim financial statements for the 9-month period ended 31 December 2010. No adjustment has been made in respect of the audited figures for the preceding years ending 31 March 2008 and 31 March 2009.

### 10.3 Loans, Advances and Financing by Economic Purpose

	<b>Audited As at 31 Mar 2008 RM'000</b>	<b>Audited As at 31 Mar 2009 RM'000</b>	<b>Audited As at 31 Mar 2010 RM'000</b>	<b>Unaudited As at 31 Dec 2010 RM'000</b>
Purchase of securities	395,644	273,541	351,976	342,085
Purchase of transport vehicles	1,260,738	1,190,239	907,561	746,703
Purchase of landed property	8,262,346	10,477,736	11,092,067	11,411,715
- Residential	5,814,952	7,730,962	8,408,597	8,622,590
- Non-residential	2,447,394	2,746,774	2,683,470	2,789,125
Purchase of fixed assets excluding land & buildings	73,329	61,094	66,540	97,418
Personal use	915,170	1,155,811	2,007,919	2,141,902
Credit card	546,769	645,058	685,003	679,781
Purchase of durable goods	-	15	-	-
Construction	350,927	313,552	293,211	222,200
Working capital	4,082,329	4,846,438	5,514,660	5,413,822
Others	657,444	626,655	490,999	606,690
Gross loans, advances and financing	16,544,696	19,590,139	21,409,936	21,662,316

### 10.4 Credit Risk Management

Group Credit Risk is responsible for the formulation and implementation of credit risk management framework and developing tools and methodologies for identification, measurement, monitoring, control, and pricing of credit risk. Group Credit Risk also sets and reviews credit policies and concentration limits according to various categories such as single customer groups, economic segments, product types and counter party credit rating, and oversees credit portfolio risk.

In line with the Group's integrated risk management framework, the following key credit risk management process has been implemented across the Group:

#### (a) Loan Approval Process

The Group's approval process involves the segregation of functions between credit origination and credit approval. For business banking, the Underwriting Department, independent of business origination would appraise and approve the loans or recommend to the Group Management Credit Committee for approval. For consumer banking, the same principle applies.

#### (b) Loan Review Process

Review of each corporate and commercial customer account is performed at least once a year. Problem loans and loans where there are indications of deterioration in credit quality are reviewed more frequently and are further subject to an early warning reporting framework. As for consumer and small SME loans, the review is carried out on a portfolio basis.

#### (c) Loan Portfolio Management Methodology

Portfolio risk of business units are managed by respective business portfolio management units. Risk dashboards from business level, entity and group levels are submitted to Group Risk Management Committee regularly for review and deliberation.

(d) Loan Recovery

The corporate and commercial impaired loans are managed on a group wide basis by the Group Special Assets department. The portfolio is further segmented based on the complexities and value of the loans to ensure proper attention and focus by the respective recovery officers. Consumer and SME impaired loans are managed by Consumer Risk unit and SME Risk unit respectively.

## 10.5 Impairment of Loans, Advances and Financing

Impairment losses are calculated on individual loans and loans assessed collectively.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) it becomes probable that the borrower will enter bankruptcy or winding up petition is served on the borrower, significant shareholder or significant guarantor;
- (d) adverse CCRIS findings or unfavorable industry developments for that borrower; and
- (e) observable data indicating that there is a measurable decrease in the estimated future cash flows including adverse changes in the repayment behavior of the borrower or downgrade of the borrower's credit ratings.

The estimated period between a loss occurring and its identification is determined by the Group for each identified portfolio. In general, the periods used vary between 6 months and 12 months.

The Group assesses individually whether objective evidence of impairment exists for all assets deemed to be individually significant. If there is objective evidence that an impairment has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment. The interest income is recognised as interest income.

In the amendment to FRS 139, MASB has included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. The transitional arrangement is prescribed by BNM in the "Guidelines on Classification and Impairment Provisions for Loans/Financing" which comes into effect for financing years beginning on and after 1 January 2010. For the purposes of a collective evaluation of impairment, the Group is currently reporting under the BNM's transitional arrangement as prescribed in the guidelines issued by BNM.

In accordance with the transitional arrangement under paragraph 103AA of FRS 139, the changes arising from the implementation of FRS 139 have been adjusted to opening retained profits.

## 10.6 Write-Off Policies

As a general policy, loans are written off when the loans are 12 months or more in arrears and legal action has been ongoing for a period of 6 months. Loans are also written-off where the borrower is wound-up, or deceased and no further recovery can be expected from the estate.

Where loans classified as bad are secured against property and there has been an Order for Sale granted by court or auction date fixed for the property, there will be a write-down to the security value of the property.

In situations where the bank has approved a loan repayment proposal with an agreed settlement sum, the balance remaining is fully written-off.

Notwithstanding the loans being written-down or written-off, recovery/legal actions will continue until all avenues for recovery are exhausted.

## 10.7 Profile of Impaired Loans

As at 31 December 2010, the Group's impaired loans was RM801.9 million and the ratio of gross impaired loans advances and financing was 3.7%.

The table below shows the Group's impaired loans as at the dates specified below:

	<b>Audited As at 31 Mar 2008 RM'000</b>	<b>Audited As at 31 Mar 2009 RM'000</b>	<b>Audited As at 31 Mar 2010 RM'000</b>	<b>Unaudited As at 31 Dec 2010 RM'000</b>
At beginning of year				
- As previously stated	1,568,510	1,158,506	875,070	806,279
- Effects of adopting FRS 139	-	-	-	37,587
At 1 April 2010, as restated	1,568,510	1,158,506	875,070	843,866
Impaired during the period/year	762,791	775,826	670,112	431,517
Reclassified as non-impaired during the period/year	(626,319)	(493,941)	(412,025)	(237,125)
Loans/financing converted to securities	(11,726)	-	-	-
Recoveries	(352,592)	(328,770)	(194,930)	(111,616)
Amount written off	(182,158)	(236,551)	(131,948)	(124,762)
At end of period/year	1,158,506	875,070	806,279	801,880
Gross impaired loans as a percentage of gross loans, advances and financing	7.0%	4.5%	3.8%	3.7%

## 10.8 Financial Assets Held-for-trading, Financial Investments Available-for-sale and Financial Investments Held-to-maturity

The holdings of securities portfolio of the Group are categorised as follows:

- Financial Assets Held-for-trading* are securities classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing in the near term or it is part of a portion of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
- Financial Investments Available-for-sale* are securities that are not classified as held-for-trading or held-to-maturity.
- Financial Investments Held-to-maturity* are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity.

Set out below is the breakdown of Financial Assets Held-for-trading, Financial Investments Available-for-sale and Financial Investments Held-to-maturity.

	<b>Audited As at 31 Mar 2008 RM'000</b>	<b>Audited As at 31 Mar 2009 RM'000</b>	<b>Audited As at 31 Mar 2010 RM'000</b>	<b>Unaudited As at 31 Dec 2010 RM'000</b>
<b><u>Financial Assets Held-for-trading</u></b>				
<b>At fair value</b>				
<b><u>Money market instruments:</u></b>				
Bank Negara Malaysia bills	14,756	-	-	2,601,263
Commercial papers	27,917	9,951	-	-
Malaysian Government securities	-	24,690	-	45,108
Malaysian Government treasury bills	-	-	-	120,416
<b><u>Quoted securities in Malaysia:</u></b>				
Shares	3,088	2,470	-	-
Debt securities	13,141	8,942	-	-
<b><u>Unquoted securities:</u></b>				
Debt securities	41,227	2	-	-
<b>Total financial assets held-for-trading</b>	<b>100,129</b>	<b>46,055</b>	<b>-</b>	<b>2,766,787</b>

**Financial Investments  
Available-for-sale**

<b>At fair value</b>				
<b><u>Money market instruments:</u></b>				
Malaysian Government securities	10,088	1,647,355	1,748,115	2,392,579
Malaysian Government investment certificates	200,428	113,849	566,495	736,090
Malaysian Government treasury bills	-	132,492	-	-
Bank Negara Malaysia bills	-	74,525	-	-
Negotiable instruments of deposits	1,109,897	1,696,057	459,444	1,484,005
Commercial papers	35,972	98,906	-	-
Bankers' acceptances	1,190,807	1,578,533	799,951	2,196,996
Khazanah bonds	-	9,909	-	-
Cagamas bonds	5,012	-	205,629	35,285



	<b>Audited As at 31 Mar 2008 RM'000</b>	<b>Audited As at 31 Mar 2009 RM'000</b>	<b>Audited As at 31 Mar 2010 RM'000</b>	<b>Unaudited As at 31 Dec 2010 RM'000</b>
<u>Quoted securities in Malaysia:</u>				
Shares	-	3,010	3,919	4,134
Debt securities	10,383	6,071	7,591	8,005
<u>Unquoted securities:</u>				
Shares	6,711	6,877	11,377	117,513
Debt securities	521,720	952,538	1,352,307	1,845,894
Total financial investments available-for-sale	3,091,018	6,320,122	5,154,828	8,820,501

**Financial Investments  
Held-to-maturity**

**At fair value**

Money market instruments:

Malaysian Government securities	108,606	-	811,208	805,500
Malaysian Government investment certificates	53,046	53,770	39,368	105,326
Cagamas bonds	94,983	20,000	-	-
Khazanah bonds	278,756	53,896	-	-
Bankers' acceptances	124	-	-	-

**At cost**

Quoted securities in  
Malaysia:

Debt securities	4,932	4,902	4,902	4,902
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Unquoted securities:

Shares	22,021	22,021	22,021	-
Debt securities	396,274	266,865	152,248	141,860
	958,742	421,454	1,029,747	1,057,588
Accumulated impairment	(137,448)	(106,834)	(98,327)	(91,746)
Total financial investments held-to-maturity	821,294	314,620	931,420	965,842

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## **11.0 RISK MANAGEMENT**

The Group manages risk within clearly defined guidelines that are approved by the Directors. In addition, the Board of the respective banks provides an independent oversight to ensure that risk management policies are complied with, through a framework of established controls and reporting process.

The guidelines and policies adopted by the Group to manage the main risks that arise in the conduct of its business activities are as follows:

### **11.1 Credit Risk**

Credit Risk is the potential loss of revenue and/or principal arising from defaults by borrower or counterparties through business activities in lending, trading, investing and hedging. Exposure to credit risk may be categorised as primary or secondary.

Primary exposure to credit risk arises from loans, advances and financing. The amount of credit exposure is represented by the carrying amount of loans, advances and financing in the Group's financial statements. The lending activities in the Group are guided by the Group's credit policies and guidelines, in line with "Best Practices in the Management of Credit Risk", issued by BNM. These credit policies and guidelines also include an internal grading model adopted by the Group to grade loan and financing accounts according to their respective risk profiles.

On the other hand, secondary credit exposure arises from financial transactions with counterparties (including interbank market activities, derivative instruments used for hedging and debt instruments), of which the amount of credit exposure in respect of these instruments is equal to the carrying amount of these assets in the financial statements. This exposure is monitored on an on-going basis against predetermined counterparty limits.

Credit risk arising from treasury activities are managed by appropriate policies, counterparty limits and supported by the Group's risk management framework.

### **11.2 Market Risk**

Market risk refers to the potential loss arising from the movement in the market rates or prices, the main components being interest rate risk and foreign exchange risk.

The Group has developed an internal risk management framework, which includes policies and guidelines to manage market risk in general. Market risk arising from the trading activities is controlled via position limits, sensitivity limits and regular revaluation of positions versus current market quotations.

The Group is also susceptible to exposure to market risk arising from changes in prices of the shares quoted on Bursa Securities, which will impact on the Group's balances due from clients and brokers. The risk is controlled by application of credit approvals, limits and monitoring procedures.

#### **(a) Interest Rate Risk**

As a subset of market risk, interest rate risk refers to the volatility in net interest income as a result of changes in interest rate levels and shifts in the composition of the assets and liabilities. Interest rate risk is managed through interest rate sensitivity analysis. The potential reduction in net interest income from an unfavourable interest rate movement is monitored and reported to the management.

In addition to pre-scheduled meetings, Group Assets and Liabilities Committee members will also deliberate on revising Alliance Bank's lending and deposit rates in response to changes in the benchmark rates set by the central bank.

The effects of changes in the levels of interest rates on the market value of securities are monitored closely and mark-to-market valuations are regularly reported to the management.

#### **(b) Foreign Currency Exchange Risk**

Foreign exchange risk refers to the potentially adverse movements in the exchange rates for foreign exchange positions taken by the Group from time to time. Foreign exchange risk is managed via approved risk limits and open positions are regularly revalued against current exchange rates and reported to the management.

### **11.3 Liquidity Risk**

Liquidity risk relates to the Group's ability to maintain adequate liquid assets to meet financial obligations and commitments when due. Market liquidity risk refers to the potential risk that the Group is unable to liquidate its assets/securities at or near the previous market price due to inadequate market depth or disruptions to the marketplace.

The Group's liquidity risk profile is managed using BNM's "New Liquidity Framework", other internal policies and Assets and Liabilities Committee benchmarks. A contingency funding plan is also established by the Group as a forward-looking measure to ensure that liquidity risk can be addressed according to the degrees of key risk indicators, and which incorporates alternative funding strategies which are ready to be implemented on a timely basis to mitigate the impact of unforeseen adverse changes in liquidity in the marketplace.

### **11.4 Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk management identifies the inherent and residual risks in the Group's processes and activities, monitors and controls risk impacts. It analyses the risk profile of the Group, determines any causes of failure, assesses potential loss and enhances controls to reduce/avoid risks.

Individual business and support departments are responsible for the management of their day-to-day operational risks while support, monitoring and reporting is provided by the Operational Risk Management Department. Group Internal Audit plays the role of providing independent compliance assurance to senior management and the Board.

The main activities undertaken by the Group in managing operational risks includes the pre-identification of risks control and self assessments, key risk indicators, reviews of documentation of the Group's processes and procedures, conducting operational risk awareness internal training and managing potential crisis events via the mitigation resource of business continuity management.

The Group has implemented regulatory and Basel II requirements for capital charge for operational risk under the Basic Indicator Approach. Ongoing monitoring and periodic policy/process changes are carried out to reduce the Group's exposure to unexpected losses, to improve control and management of operational risk, to cultivate an organizational culture that places a high priority on effective operational risk management and adherence to sound operating controls and best practices.

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## 12.0 ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FOURTH QUARTER OF 2010

### 12.1 Overview

The Malaysian economy registered a growth of 4.8% in the fourth quarter of 2010. Higher private and public sector spending contributed to the expansion in domestic demand. The slower growth in the global economy, however, had led to weaker growth in external demand. On the supply side, all economic sectors, with the exception of the primary sectors, continued to expand further during the quarter. For the year as a whole, the Malaysian economy registered a growth of 7.2% (2009:-1.7%).

Domestic demand strengthened by 5.7% in the fourth quarter (3Q 10: 5.0%), due mostly to the strong expansion in private consumption and capital spending. Private consumption increased by 6.5% (3Q 10: 7.1%) supported by favourable labour market conditions, positive consumer confidence and higher income levels. Public consumption, on the other hand, declined by 0.3% (3Q 10: -10.2%), arising from lower expenditure on supplies and services. Gross fixed capital formation increased by 9.2% (3Q 10: 9.8%) driven by both public and private capital spending. Private sector capital spending was led by the expansion in the production of domestic-oriented industries amid high levels of capacity utilisation. Public sector capital investment rose as a result of higher development expenditure mainly in the education and transportation sectors.

On the supply side, all economic sectors, with the exception of the primary sectors, continued to expand further in the fourth quarter. Growth in the services sector was higher at 6.2% (3Q 10: 5.4%) with expansion in all sub-sectors, supported mainly by domestic economic activity. The construction sector also registered higher growth of 5.6% (3Q 10: 2.8%), reflecting expansion in the non-residential and civil engineering sub-sectors. The manufacturing sector expanded at a more moderate pace of 6.2% (3Q 10: 7.5%) mostly on account of the weaker external demand. The agriculture sector, however, registered a contraction of 4.3% (3Q 10: 2.7%) attributed to the decrease in palm oil output. The mining sector contracted further (-1.3%; 3Q 10: -1.0%) due to continued decline in production of crude oil.

The headline inflation rate, as measured by the change in the Consumer Price Index, increased by 2.0% on an annual basis in the fourth quarter (3Q 10: 1.9%). The increase in inflation was attributable mainly to higher price of food and non-alcoholic beverages which rose by 2.9% and transport (4Q 10: 2.5%, 3Q 10: 2.1%) reflecting the further removal of fuel subsidies by the Government which resulted in an upward adjustment of 5 sen/litre for RON95 petrol and diesel prices.

In the external sector, the trade surplus widened to RM25.5 billion in the fourth quarter (3Q 10: RM22.3 billion). Both gross exports and imports increased at a more moderate pace of 3.7% and 10.1% respectively (3Q 10: 10.4% and 16.5% respectively), in line with the moderation of the global economy. The slower growth in exports was due mainly to the lower exports of manufactured products, reflecting the softening global demand for electronics. The moderation in gross imports reflected mainly lower intermediate imports while imports of capital and consumption goods were sustained amidst strengthening domestic demand.

On a cash basis, gross inflows of foreign direct investment (“**FDI**”)\* were higher at RM11.8 billion in the fourth quarter (3Q 10: +RM8.5 billion), reflecting mainly larger inflows of equity capital. After adjusting for gross outflows due to repayment of inter-company loans, net FDI increased to RM8.3 billion (3Q 10: +RM4.4 billion). FDI was channelled mainly into the services, manufacturing and mining sectors. Investments in the services sector were primarily undertaken by companies in the finance, insurance and business services, as well as wholesale and retail trade sub-sectors. In the manufacturing sector, the FDI was channelled into the electrical and electronics as well as petroleum-related industries. Direct investment abroad (“**DIA**”)\* by Malaysian companies recorded a lower net outflow of RM3.2 billion in the fourth quarter (3Q 10: -RM5.4 billion) due to lower net extensions of inter-company loans to subsidiaries abroad. These investments were undertaken by the services sector, particularly in the finance, insurance and business services, and wholesale and retail trade subsectors. There were also sizeable investments in the oil and gas and the agriculture sectors.

Portfolio investment registered a smaller net inflow of RM2.8 billion in the fourth quarter (3Q 10: +RM9.8 billion), due partly to net foreign liquidation of debt securities in November as investors reacted to the sovereign debt concerns in the eurozone. Nevertheless, steady growth in the domestic economy has continued to attract inflows of foreign funds into the domestic equity and bond markets. The international reserves of BNM amounted to RM328.6 billion (equivalent to USD106.5 billion) as at 31 December 2010. This level of reserves has taken into account the quarterly adjustment for foreign exchange revaluation gain, following the strengthening of most major currencies against the ringgit during the quarter. As at 31 January 2011, the reserves position amounted to RM333.5 billion (equivalent to USD108.1 billion), sufficient to finance 8.7 months of retained imports and is 4.2 times the short-term external debt.

*\* The statistics for FDI and DIA on a cash basis does not include retained earnings.*

Monetary policy is supportive of economic activity

The OPR was left unchanged at 2.75% in the fourth quarter of 2010 and also at the Monetary Policy Committee meeting held on 27 January 2011. At the prevailing level, the OPR remains accommodative and is considered to be appropriate and consistent with the assessment of growth and inflation prospects. Reflecting the unchanged OPR, the average overnight interbank rate was stable. In terms of the commercial banks' lending rates, the average lending rate edged lower following a foreign currency loan issued at a lower lending rate by a foreign banking institution. The average fixed deposit rates were unchanged.

Financing conditions remained supportive of economic activity. The demand for financing from both the public and private sectors was supported by continued access to financing, the reasonably low cost of borrowing and ample liquidity in the financial system. Total gross financing raised by the private sector through the banking system and capital market increased to RM220.9 billion in the fourth quarter (3Q 10: RM189.4 billion). On a net basis, banking system loans and PDS outstanding rose by an annual rate of 11.4% as at end-December (3Q 10: 10.9%). Major loan indicators remained strong in the fourth quarter.

Net funds raised in the capital market by both the public and private sectors amounted to RM30.5 billion (3Q 10: RM16.8 billion). In the private sector, fund raising activity was mainly from the bond market. In the public sector, funds were raised through issuances of Malaysian Government Securities and Government Investment Issues.

Monetary aggregates continued to grow at a sustained pace in the fourth quarter. M3, or broad money, expanded at an annual growth rate of 7.0% as at end-December 2010 (3Q 10: 8.5%). During the quarter, the ringgit appreciated marginally (+0.1%) against the US dollar.

The appreciation of the ringgit towards the end of the year following renewed optimism on the growth outlook for Asia roughly offset its earlier depreciation in October and November amid higher risk aversion following concerns over the European sovereign debt problems and tensions in the Korean Peninsula.

The ringgit also appreciated against the euro (+2.9%), pound sterling (+2.2%) but depreciated against the Japanese yen (-2.4%). Against regional currencies, the ringgit broadly depreciated in the range -0.1% to -1.7% as country specific factors led to the strengthening of these currencies against the ringgit. The ringgit, however, strengthened by 0.7% against the Indonesian rupiah.

Financial stability preserved

Financial stability was maintained throughout the fourth quarter, supported by sound financial institutions and orderly financial markets which provided continued support for financial intermediation in the domestic economy. On 3 November 2010, BNM introduced the maximum limit on loan-to-value ("LTV") ratio of 70.0% for the third house financing facility taken by a borrower. The implementation of the LTV ratio is aimed at promoting a stable and sustainable property market, and ensuring the continued affordability of homes for the general public.

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The banking sector remained financially resilient, with strong capital buffers of more than RM60.0 billion. Profitability was sustained amidst continued growth in lending activity with average returns on assets and equity at 1.5% and 16.5% respectively. Financing was broad-based, with financing to households and SME's accounting for about 70.0% of total outstanding financing. Capitalisation was strong with risk-weighted capital ratio of 14.6% and core capital ratio of 12.8%. Meanwhile, the level of net non-performing loans (including impaired financing) improved slightly to account for 2.0% of total loans. The loan loss coverage strengthened further to 99.5% providing additional buffer to the banking sector.

The capital adequacy ratio for the insurance industry was 225.7% (3Q 10: 222.7%). For the year as a whole, profits of insurance and takaful operators improved to RM16.3 billion (2009: RM14.6 billion) due mainly to improved investment performance, more favourable claims experience in the general business segment and continued business expansion.

Recovery to remain uneven across different regions

Going forward, the global economic recovery is expected to remain uneven across the different regions. While short-term prospects for the advanced economies have improved recently, uncertainties remain over weak fiscal positions, high unemployment and constrained lending conditions. In contrast, the growth outlook for Asia remains favourable, supported by robust domestic demand. The regional economies are, however, confronted with the challenges of rising inflationary pressures, particularly from high commodity and fuel prices, and the large and volatile capital flows.

The pace of growth of the Malaysian economy will be affected by the environment of moderating external demand. Growth will, nevertheless, be supported by continued firm expansion in domestic demand. Private consumption spending will continue to benefit from the favourable labour market conditions, firm commodity prices and access to financing. The roll-out of construction and infrastructure activities and the implementation of the economic transformation programme by the Government are likely to provide significant support to the growth momentum in private investment.

## **12.2 Developments in the Banking Sector**

The banking sector remained resilient, with strong capital buffers, sustained profitability, stable loan quality and ample liquidity. The financing portfolio was broad-based, with financing extended to households and small and medium-sized enterprises comprising 55.4% and 14.5% of total outstanding financing respectively. Capitalisation was strong with the RWCR and CCR at 14.6% and 12.8% respectively. Approximately 78.0% of total capital comprised high quality Tier-1 capital mainly in the form of paid-up capital and reserves. Capital in excess of the minimum 8.0% requirement stood above RM60.0 billion. The banking sector recorded a pre-tax profit of RM5.7 billion during the quarter (3Q 2010: RM 5.9 billion). This was supported by sustained revenue from financing-related activities. Average returns on assets and equity stood at 1.5% (3Q 2010: 1.6%) and 16.5% (3Q 2010: 16.6%) respectively.

Loan quality remained stable with fewer new incidences of impairment and prudent write-offs observed during the quarter. Consequently, the level of net NPLs (including impaired financing) improved marginally to account for 2.0% of total loans. In addition, the level of loans-in-arrears for less than 3 months improved slightly to account for 4.2% of total loans. The loan loss coverage correspondingly strengthened further to 99.5% (3Q 2010: 97.0%). Liquidity in the banking system remained ample during the quarter. The liquidity buffers for the maturity buckets of up to one week and one month were at 16.6% and 16.0% of total deposits respectively (3Q 2010: 18.8% and 19.2%). These were sufficient to meet demand for deposit withdrawals and other liquidity obligations. The loan-to-deposit ratio was stable at 81.4% (3Q 2010: 81.2%).

## **12.3 Developments in the Insurance and Takaful Sector**

The insurance and takaful sector remained resilient with a strong Capital Adequacy Ratio of 225.7% (3Q 2010: 222.7%) and excess capital of RM18.5 billion. The excess of income over outgo for life and family takaful business profits recorded a slight moderation in the fourth quarter to RM3.1 billion (3Q 2010: RM5.0 billion) due to lower capital gains recorded amidst higher net policy benefits. However, year-on-year, total profits recorded an improvement of 12.6% to RM14.1 billion (2009: RM12.5 billion) on account of improved capital gains and higher net premium income. New business premium contributions grew by 12.5% to RM2.7 billion (3Q 2010: RM2.4 billion) due to the continued growth in investment-linked business.

Similarly, the general insurance and takaful industry also recorded an improvement in profitability to RM0.56 billion (3Q 2010: RM0.51billion). This was supported by higher revenue from motor and personal accident businesses. The overall claims ratio stood at 62.8%, with the dominant motor segment which account for about 50.0% of total premium revenue, continuing to exhibit a significantly higher loss ratio of 79.6% (relative to overall claims). This is attributed mainly to third party motor insurance.

*(Source: Bank Negara Malaysia – Quarterly Bulletin Fourth Quarter 2010)*

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## **13.0 BOARD OF DIRECTORS AND KEY MANAGEMENT OF ALLIANCE BANK**

### **13.1 Board of Directors**

#### **(a) Responsibilities**

The Board is principally responsible for the overall performance of Alliance Bank. It provides stewardship to Alliance Bank's strategic direction and operations in order to maximise shareholders' value and to safeguard the stakeholders' interests. The principal functions of the Board of Alliance Bank are as follows:

- (i) to review and approve strategies, business plans and significant policies and monitor management's performance in implementing them;
- (ii) to set corporate values and clear lines of responsibility and accountability that are communicated throughout Alliance Bank;
- (iii) to ensure competent management;
- (iv) to ensure that the operations of Alliance Bank is conducted prudently, and within the framework of relevant laws and policies;
- (v) to ensure that Alliance Bank establishes comprehensive risk management policies, processes and infrastructure, to manage the various types of risks;
- (vi) to set up an effective internal audit department, staffed with qualified internal audit personnel, to perform internal audit functions, covering the financial and management audit;
- (vii) to establish procedure to avoid self serving practices and conflicts of interest including dealings of any form with related entities;
- (viii) to establish and ensure the effective functioning of various Board Committees; and
- (ix) to ensure that Alliance Bank has a beneficial influence on the economic well being of its community.

#### **(b) Board Committees**

The Board of Alliance Bank has set up several Board Committees which operate within specific authority and functions determined by the Board. The Board Committees are as follows:

##### **(i) Executive Committee**

The Executive Committee acts in accordance with powers delegated by the Board subject to limitations, if any imposed by the Board. It is principally entrusted to review loan applications approved by Group Management Credit Committee and approve other operational matters in the normal business of Alliance Bank which are within its approving limits set by the Board. It also oversees the implementation of strategic business and policies as approved by the Board.

##### **(ii) Group Audit Committee**

The Group Audit Committee was set up to ensure that internal and external audit functions are properly conducted and that audit recommendations are being carried out effectively.

##### **(iii) Group Management Development and Remuneration Committee**

The objectives of the Group Management Development and Remuneration Committee are to provide a formal and transparent procedure for developing remuneration policy for Directors, Group Chief Executive Officer ("**Group CEO**"), Chief Executive Officer ("**CEO**") and Senior Management of the Group as well as developing disciplinary and recruitment policies and assessing the performance of its Chief Executive Director, Executive Director(s), Group CEO, CEO and Senior Management and ensuring that compensation stays competitive and consistent with the Group's culture, objectives and strategy. In addition, it is responsible for developing remuneration policy for the Shariah Committee members that commensurate with their roles and responsibilities.



(iv) Group Nominating Committee

The Group Nominating Committee was set up to provide a formal and transparent procedure for the appointment of Directors, Group CEO, CEO and members of the Shariah Committee as well as assessment of effectiveness of individual Directors and the Board as a whole and the Shariah Committee members.

(v) Group Risk Management Committee

The objectives of the Group Risk Management Committee are to oversee senior management's activities in managing credit, market, liquidity, operational and other risks as well as to ensure that the risk management process is in place and functioning according to its purposes.

(vi) Group Information Technology Steering Committee

The objectives of the Group Information Technology Steering Committee are to oversee the development and maintenance of the IT strategic plan as well as to review appropriate management information from various departments or entities to ensure that the Group's IT resources are effectively coordinated and monitored, and also to institute appropriate action plans.

(c) Profile of Directors

- (i) **DATO' THOMAS MUN LUNG LEE** (72 years of age, a Malaysian) was appointed to the Board of Alliance Bank on 21 April 2006. He is a barrister at law (England) who holds a Master of Arts (MA) and Master of Law (LLM) degrees from Cambridge University, England and has been in legal practice as an advocate and solicitor for over 40 years. He is a member of the Appeals Committee of Bursa Malaysia Berhad. He is also an arbitrator with the Court of Arbitration for Sport, Lausanne, Switzerland.

Dato' Thomas Lee is currently the Senior Partner of Lee Hishammuddin Allen & Gledhill. He is the Chairman of Alliance Bank and Alliance Investment and sits on the Board of AFGB. He also holds directorships in Chartis Malaysia Insurance Berhad (formerly known as AIG General Insurance (Malaysia) Berhad), American International Assurance Berhad, AIA Takaful International Berhad, Saujana Resort (M) Berhad and several other private companies.

- (ii) **CHUA ENG KEE** (63 years of age, a Malaysian) was appointed to the Board of Alliance Bank on 28 January 2003. Mr. Chua holds a Bachelor of Economics (Honours) degree from the University of Malaya. He has over 30 years of experience in the banking industry having worked in a merchant bank, finance company, commercial bank and as an appointee of Bank Negara Malaysia from 1987 to 1991.

Mr. Chua has held senior positions in various financial institutions and has vast experience in corporate and investment banking as well as commercial and retail banking. In addition to banking, Mr. Chua has experiences in the building and construction industry, as well as in property development. He is a director in a number of privately owned construction and property development companies.

Currently, he is the Chairman of the Group Risk Management Committee and a member of the Group Nominating Committee. He has also served as Chairman of Group Operational Risk Management Committee and as a member of the Group Audit Committee.

- (iii) **PHOON SIEW HENG** (47 years of age, a Singaporean) was appointed to the Board of Alliance Bank on 19 July 2005. Mr. Phoon is currently Head of Strategy, IndoChina and Latin America and also Co-Head of India at Temasek Holdings (Private) Limited.

He was with Temasek from 1999 to September 2007, and later with Wah Hin & Co (Pte) Ltd as an Executive Advisor from January 2008 to October 2008, before rejoining Temasek in November 2008. Mr. Phoon was with Standard Chartered Merchant Bank Asia Limited from 1992 to 1999. He was a Deputy Director in the Ministry of Finance, Singapore, from 1988 to 1992.

Mr. Phoon holds a Bachelor of Economics (Honours) degree from Monash University, Australia. He sits on the Boards of AFGB, AIBB, Changi General Hospital Pte Ltd and Info-communications Development Authority of Singapore, IDA International Pte Ltd and Temasek Financial (II) Private Limited.

- (iv) **MEGAT DZIAUDDIN BIN MEGAT MAHMUD** (64 years of age, a Malaysian) was appointed to the Board of Alliance Bank on 21 April 2006. He holds a Bachelor of Science (Econs) (Hons) degree from the Queen's University of Belfast, Northern Ireland and is a Fellow of the Institute of Chartered Accountants in Ireland as well as a Chartered Accountant with the Malaysian Institute of Accountants.

With more than 30 years of experience in senior managerial capacities, Tuan Haji Megat had served with Golden Hope Plantations Berhad as Group Director-Finance, Arab-Malaysian Merchant Bank Berhad first as General Manager-Operations and later as General Manager-Investment, Bank Simpanan Nasional as Finance Manager and the Accountant-General's Department as Treasury Accountant.

He currently sits on the Boards of AFGB, Alliance Investment, Alliance Islamic, AIMB, MNRB Holdings Berhad, MNRB Retakaful Berhad, Malaysian Reinsurance Berhad, Pernec Corporation Berhad and three subsidiaries of Felda Holdings Berhad.

- (v) **KUNG BENG HONG** (65 years of age, a Malaysian) was appointed to the Board of Alliance Bank on 28 December 2007. He holds a Bachelor of Arts (Honours) degree in Economics from the University of Malaya. He is a Fellow and a Council Member of the Institute of Bankers Malaysia.

Mr. Kung has 42 years working experience in the banking industry and has held numerous senior management positions, mainly in Malaysia, including CEO/Directorship positions in three banks. His experience includes positions held in Citibank N.A. in the United States and Singapore.

He is currently the Advisor of Fullerton Financial Holdings Pte Ltd and sits on the Boards of AFGB and Alliance Investment. He also holds directorships in Asian Institute of Finance Berhad, UOA Asset Management Sdn Bhd and Quill Motorcars Sdn Bhd.

- (vi) **TAN YUEN FAH** (66 years of age, a Singaporean) was appointed to the Board of Alliance Bank on 18 March 2008. He holds a Bachelor of Accountancy from the University of Singapore and a Bachelor of Laws from the University of Wolverhampton, UK. He also holds a post-graduate diploma in Business Administration from the Manchester Business School, UK. He is a Fellow of the Institute of Certified Public Accountants of Singapore, CPA (Australia), the Association of Chartered Certified Accountants, UK and an Associate of the Chartered Institute of Management Accountants, UK.

Mr. Tan was in the commerce and industry sector for 11 years prior to joining the banking and finance sector. He joined Overseas Union Bank Ltd, Singapore in 1979, holding various senior positions and retired in 2002 as Executive Vice President.

He is currently a Director of AFGB, Guthrie GTS Limited, Union (2009) Limited, Fullerton Fund Management Company Ltd, Wildlife Reserves Singapore Pte Ltd, Singapore Zoological Gardens, The Jurong Bird Park Pte Ltd and the National Kidney Foundation in Singapore.

- (vii) **TEE KIM CHAN** (56 years of age, a Malaysian) was appointed to the Board of Alliance Bank on 24 April 2009. He was admitted to the Honourable Society of Lincoln's Inn, London in 1978 and enrolled as an advocate and solicitor of the High Court of Malaya in 1979. He is a practicing advocate and solicitor.

Mr. Tee was formerly the Chairman of the Negeri Sembilan Bar Committee and was also a former member of the Bar Council. He is the Chairman of Group Information Technology Steering Committee, a member of the Executive Committee of Alliance Bank and AIBB and Group Risk Management Committee as well as a member of the Investment Committee of AIMB.

Mr. Tee first joined the Group as a Director of AFGB on 15 January 2004. He retired as a Director of AFGB on 29 July 2009 and currently sits on the Boards of Alliance Investment, AIMB and Alliance Trustee Berhad. He is the Board Chairman of International Commercial Bank (Lao) Limited and is a Director of The Nomad Group Berhad, ICB Islamic Bank Ltd, Bangladesh and several other private companies.

- (viii) **ZAKARIA BIN ABD HAMID** (58 years of age, a Malaysian) was appointed to the Board of Alliance Bank on 24 April 2009. Encik Zakaria possesses a Bachelor of Economics degree from the University of Malaya. He is a qualified Certified Financial Planner and is a member of the Financial Planning Association of Malaysia. He has over 33 years of experience in banking, corporate finance and advisory services.

Encik Zakaria has held senior positions in various organisations including Maybank Berhad, Bumiputra Merchant Bankers Berhad, Technology Resources Industries Berhad, Malaysia Helicopters Services Berhad, Natwide Group of Companies and KYM Holdings Berhad.

He currently sits on the Boards of Alliance Investment, Alliance Islamic and ICB Financial Group Holdings AG.

- (ix) **SNG SEOW WAH** (52 years of age, a Singaporean) joined Alliance Bank on 5 July 2010 as Director and Group Chief Executive Officer, and was subsequently appointed as a Director of AFGB on 18 November 2010.

Mr. Sng is a banker with more than 25 years of experience. Prior to joining Alliance Bank, he was the Executive Vice President, Head of Human Resources, Special Projects & Corporate Communications of Fullerton Financial Holdings (International) Pte Ltd. In this role, Mr. Sng also held several directorships across the Asian region.

From 2003 to 2008, he was the Executive Vice President and Head of Enterprise Banking at Oversea-Chinese Banking Corporation Limited, Singapore. Mr. Sng was with Citibank Singapore Ltd between 1999 and 2003. He had previously held senior commercial and corporate banking positions in Westpac Banking Corporation and Banque Nationale De Paris.

Mr. Sng has a Bachelor's degree in Accountancy from the National University of Singapore, and attended the Advanced Management Programme at the Wharton School of Business, University of Pennsylvania as well as the Corporate & Investment Banking Programme at Macquarie University, Sydney, Australia.

- (x) **OU SHIAN WAEI** (59 years of age, a Malaysian) was appointed to the Board of Alliance Bank on 8 December 2010. Mr. Ou holds a Bachelor of Science degree in Chemistry from the University of Malaya. He started his career with a local bank as a management trainee from 1976 to 1980. He joined IBM Malaysia in 1981 as a trainee System Engineer and had moved to various technical and management roles. Mr. Ou was the Managing Director of IBM Malaysia before his retirement in January 2010 after almost 30 years of service with IBM.

Mr. Ou was the PIKOM (Association of Malaysia Computer Industry) Councillor from 1997 to 1998 and was awarded the 'Key Industry Leader Award' in 2006 by PIKOM for his contributions to Malaysia's IT industry. He was also the Chairman for NITC (National International Technology Council) Taskforce for IT literacy in 1997 and Adjunct Professor for the Department of Economics & Business Administration at University Putra Malaysia from 1998 to 1999.

He is currently the Advisor, Global Missions Integration and Government Strategy in IBM Malaysia and sits on the Boards of AFGB and Heitech Padu Berhad.

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## 13.2 Key Management

### (a) Senior Management team

Alliance Bank's senior management consist of the following:

Name	Position
Sng Seow Wah	- Group Chief Executive Officer
Eric Lee Eng Leong	- Group Chief Financial Officer
Ronnie Lim Kheng Swee	- Head, Consumer Banking
Steven Kenneth Miller	- Head, SME Banking
Choo Joon Keong	- Head, Corporate & Commercial Banking
Yeo Chin Tiong	- Head, Financial Markets
Tuan Haji Yahya Bin Ibrahim	- Chief Executive Officer, Alliance Islamic
Nik Azhar Bin Abdullah	- Executive Director/Head, AIMB
Timothy Mark Daniels	- Head, Corporate Strategy & Corporate Communications
Leong Sow Yoke	- Chief Internal Auditor
Pang Choon Han	- Group Chief Risk Officer
Low Choon Seong	- Group Chief Credit Officer
Michelle Chow Lai Pheng	- Head, Group Human Resource
Raymond Leung Chun-Kow	- Group Chief Operating Officer
Choy Kah Yew	- Relief Officer, Alliance Investment
Lee Wei Yen	- Group Company Secretary

### (b) Management Committees

The broad functions of the major management committees are as follows:

#### (i) Management Committee

The Management Committee is responsible for formulating and planning for the strategic direction of the Group as well as the strategic business activities of the various business units prior to recommending to the Board for endorsement or adoption.

#### (ii) Group Management Credit Committee

The Group Management Credit Committee is responsible for approving all new and existing credit facilities for Alliance Bank and Alliance Investment in compliance with the respective bank's credit policies and regulatory guidelines.

#### (iii) Alliance Islamic Management Credit Committee

The Alliance Islamic Management Credit Committee is responsible to approve all new and existing financing facilities based on Alliance Islamic limits and financing policies and regulatory guidelines.

#### (iv) Group Credit Risk Management Committee

The Group Credit Risk Management Committee is responsible for promoting the adoption and implementation of sound credit risk management framework or practices in line with the banking industry's best practices locally and/or internationally.

#### (v) Group Operational Risk Management Committee

The Group Operational Risk Management Committee is responsible for promoting and continuously monitoring the implementation of operational risk management practices in the Group in accordance with the best practices advocated by the Basel committee and ensuring compliance with regulatory guidelines as well as deliberating and approving new or revised operating procedures and processes.

(vi) Group Assets and Liabilities Management Committee

The Group Assets and Liabilities Management Committee is responsible for ensuring that the appropriate strategies and policies are developed and implemented to manage the Group's assets, liabilities and capital.

(vii) Group Product Management Committee

The Group Product Management Committee is responsible for providing a supervisory role over the development, adoption and rollout of all products and services offered by the Group (Alliance Bank, Alliance Investment and Alliance Islamic).

(viii) Data Governance Steering Committee

The Data Governance Steering Committee is responsible for promoting greater awareness and governance of Data Management issues across the Group, covering both IT and non-IT stored data as well as to coordinate and supervise the initiatives or action plans under AFGB's Data Management & MIS Framework and guidelines.

(ix) Group Project Steering Committee

The Group Project Steering Committee is responsible for providing executive oversight, strategic or directional guidance, and expert input into individual projects and the integrated master plan as well as being a decision forum for resolution of cross-functional issues arising from planning and implementation projects across the Group.

(x) Group Project Investment Committee

The Group Project Investment Committee was established as a forum to take a balanced and holistic view across the Group to enable prioritization of new investment agendas and expenditure within the Group and to provide a balanced view or perspective across Businesses (e.g. in case of economic crisis or recession where funding will be limited and re-prioritization is required) as well as to drive resource allocation and to recommend or approve of expenditure for new investment agendas as per the approval authority limit.

(c) Profile of Senior Management

(i) **Sng Seow Wah**  
**Group Chief Executive Officer**

Mr. Sng Seow Wah joined Alliance Bank on 5 July 2010 as Director and Group Chief Executive Officer, and was subsequently appointed as a Director of AFGB on 18 November 2010.

Mr. Sng is a banker with more than 25 years of experience. Prior to joining Alliance Bank, he was the Executive Vice President, Head of Human Resources, Special Projects & Corporate Communications of Fullerton Financial Holdings (International) Pte Ltd. In this role, Mr. Sng also held several directorships across the Asian region.

From 2003 to 2008, he was the Executive Vice President and Head of Enterprise Banking at Oversea-Chinese Banking Corporation Limited, Singapore. Mr. Sng was with Citibank Singapore Ltd between 1999 and 2003. He had previously held senior commercial and corporate banking positions in Westpac Banking Corporation and Banque Nationale De Paris.

Mr. Sng has a Bachelor's degree in Accountancy from the National University of Singapore, and attended the Advanced Management Programme at the Wharton School of Business, University of Pennsylvania as well as the Corporate & Investment Banking Programme at Macquarie University, Sydney, Australia.

(ii) **Eric Lee Eng Leong**  
**Group Chief Financial Officer**

Mr. Eric Lee Eng Leong was appointed as the Group Chief Financial Officer on 4 January 2010.

Mr. Lee has broad based business and finance experience and his overall responsibility is to strategise and improve operations. His roles include analysing and identifying challenges and opportunities facing the Group as well as managing reporting and regulatory responsibilities.

Prior to joining Alliance Bank, Mr. Lee was the Chief Financial Officer of Microsoft Limited based in Beijing, where he oversaw their finance operations covering the Greater China region. For over 20 years, he has held various leadership roles in management positions in both local and multi-national corporations within Asia.

Mr. Lee is a member of the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accountants.

(iii) **Ronnie Lim Kheng Swee**  
**Head, Consumer Banking**

Mr. Ronnie Lim Kheng Swee joined Alliance Bank on 24 January 2011 as the Head of Consumer Banking. He has over 20 years of experience in consumer banking whilst serving in Standard Chartered Bank Malaysia Berhad and Citibank Berhad.

During his tenure with Standard Chartered Bank Malaysia Berhad, he has experience in the development of new products and services for Bancassurance and Wealth Management, enhancement and improvement of frontline and customers' experiences, premium banking, e-commerce management, branch operations as well as re-engineering of account opening processes.

Prior to joining Alliance Bank, Mr. Lim was the Head of Wealth Management and CitiGold Segment Marketing in Citibank Berhad and was responsible for the development of new products, tools, services and processes to enhance overall customer proposition.

Mr. Lim holds a Bachelor of Economics degree from the National University of Malaysia and is a Certified Financial Planner.

(iv) **Steven Kenneth Miller**  
**Head, SME Banking**

Mr. Steven Kenneth Miller joined Alliance Bank as the Head of SME Banking on 7 September 2009. He is responsible for the overall strategy and growth of the SME Banking Division, looking into programme lending, liabilities business, trade and other fee based businesses.

Mr. Miller brings with him over 13 years experience in SME banking, credit cards, business management and marketing from past employment in the United States of America, Taiwan and Indonesia.

He holds a Bachelor of Arts degree from Columbia University, United States of America.

(v) **Choo Joon Keong**  
**Head, Corporate and Commercial Banking**

Mr. Choo Joon Keong was appointed the Head of Corporate Banking on 26 May 2008. In his present role as the Head of Corporate and Commercial Banking, he is responsible for the strategic development of the business with a view to delivering sustainable growth and performance targets.

Mr. Choo brings with him over 15 years of management experience in financial services spanning Malaysia and China. Prior to joining Alliance Bank, he was the Deputy President (Business) of a locally incorporated foreign bank in China with its headquarters in Shanghai. He was primarily responsible for business development activities of the Corporate Banking Division. He also assisted in setting up the Personal Financial Services and Treasury Divisions.

Mr. Choo possesses a Bachelor of Business in Accounting degree from RMIT University, Melbourne, Australia.

(vi) **Yeo Chin Tiong**  
**Head, Financial Markets**

Mr. Yeo Chin Tiong was appointed the Head of Financial Markets effective 25 November 2010 and is responsible for the overall Group's treasury functions.

He brings with him more than 30 years of working experience in Treasury, having served in various financial institutions such as BNM, Bank of America Malaysia Berhad, Overseas Union Bank Malaysia Berhad, Aseambankers Malaysia Berhad as well as Mayban Discounts Berhad. Prior to joining Alliance Bank, he was the Head of Treasury in OSK Investment Bank Berhad.

Mr. Yeo holds a Bachelor of Economics from the National University of Malaysia. He is the Honorary Treasurer for the Persatuan Pasaran Kewangan Malaysia ("PPKM"). He also represents PPKM on the Institut Bank-Bank Malaysia's examination panel for the Pasaran Kewangan Malaysia Certificate.

(vii) **Tuan Haji Yahya bin Ibrahim**  
**Chief Executive Officer, Alliance Islamic**

Tuan Haji Yahya bin Ibrahim is the Chief Executive Officer of Alliance Islamic. Prior to his present appointment, he was the Group Head for Islamic Banking at Alliance Bank and led the project team that was instrumental in the formation of Alliance Islamic.

During his 15-year tenure with Alliance Bank, he has held various positions including heading the then Multi-Purpose Unit Trust Berhad and Multi-Purpose Finance Berhad. Prior to joining Alliance Bank on 27 June 1994, he has served in the property development and merchant banking sectors.

Tuan Haji Yahya possesses a Masters of Business Administration degree from the Southern Illinois University Edwardsville, United States of America.

(viii) **Nik Azhar bin Abdullah**  
**Executive Director/Head, AIMB**

Encik Nik Azhar bin Abdullah joined AIMB on 1 March 2007 and is the Executive Director/Head of AIMB. In his capacity, he is responsible for the business growth and operations of AIMB.

Encik Nik Azhar has held positions as a Fund Manager and Chief Investment Officer with a merchant bank, an asset management company and investment bank locally and abroad. Besides fund management, he is experienced in corporate advisory work, client servicing, business development and research.

He is a member of the Chartered Institute of Management Accountants (United Kingdom) and holds an honours degree in Accountancy from the Portsmouth University, United Kingdom.

(ix) **Timothy Mark Daniels**  
**Head, Corporate Strategy and Corporate Communications**

Mr. Timothy Mark Daniels joined Alliance Bank since 10 August 2009 as the Head of Corporate Strategy and Business Planning. Now the Head of Corporate Strategy and Corporate Communications, he oversees Corporate Strategy, Investor Relations, Group Project Management Office, Corporate Social Responsibility, Group Corporate Affairs and Group Corporate Branding.

Mr. Daniels brings with him experience from his 18-year career in various international financial institutions in the United Kingdom, United States of America and Singapore, ranging from investment banking, consumer banking, finance and strategy.

He holds a Masters in Economics degree from the University of Edinburgh, and a Masters of Business Administration degree from the J.L. Kellogg Graduate School of Management, Northwestern University.

(x) **Leong Sow Yoke**  
**Chief Internal Auditor**

Ms. Leong Sow Yoke joined Alliance Bank as the Chief Internal Auditor on 8 December 2010.

Ms. Leong has over 21 years of experience in the audit profession, having served in organisations such as Overseas Union Bank (Malaysia) Bhd, Lion Group of Companies and Azman, Wong, Salleh & Co. Prior to joining Alliance Bank, she held the position of Chief Audit Executive in United Overseas Bank (Malaysia) Bhd where she was responsible for the internal audit function of the bank and its subsidiaries in Malaysia.

Ms. Leong is a Chartered Accountant and Fellow of the Association of Chartered Certified Accountants. She is also a Certified Information Systems Auditor and an examiner for Certificate in Internal Auditing for Financial Institutions run by Institut Bank-Bank Malaysia.

(xi) **Pang Choon Han**  
**Group Chief Risk Officer**

Mr. Pang Choon Han joined Alliance Bank on 1 November 2006 where he was later appointed as the Head of Group Market Risk Management. At present, he is the Group Chief Risk Officer while concurrently heading the Group Market Risk Management.

He has over 22 years of experience in audit and market risk management. Prior to joining the Group, he led the Market Risk Supervision Department of a large domestic banking group.

In his role as the Group Chief Risk Officer, Mr. Pang is responsible for developing, implementing and reviewing the Group's core risk management framework and policies, operational guidelines, and new product portfolios and policies.

He currently also chairs the Group Operational Risk Management Committee and the Group's Business Continuity Management Steering Committee.

Mr. Pang is an Associate Member of the Chartered Institute of Management Accountants (United Kingdom).

(xii) **Low Choon Seong**  
**Group Chief Credit Officer**  
**Head, Group Special Assets**

Mr. Low Choon Seong joined Alliance Bank on 1 December 2005 as the Head of Group Special Assets where he is responsible for the recoveries function of the Group. In December 2008, he also assumed the role of Group Chief Credit Officer. His responsibilities now include the development and maintenance of the Group's overall credit policies, as well as the management and supervision of all aspects of the Group's credit exposure.

Mr. Low has over 30 years experience in both foreign and local banks, primarily in corporate and commercial lending, recovery and credit risk management. During his tenure with a foreign bank, he was also involved in group projects and had a secondment in an overseas branch of the bank as the Chief Credit Officer.

Mr. Low holds a Diploma in Banking from the Chartered Institute of Bankers, London, and is a Senior Associate of the Institute of Bankers, Malaysia.



(xiii) **Michelle Chow Lai Pheng**  
**Head, Group Human Resource**

Ms. Michelle Chow Lai Pheng was appointed as the Head of Group Human Resource on 15 May 2008. She is responsible for the overall strategic direction and execution of Group Human Resource management and development initiatives. Ms. Chow brings with her over 20 years of experience in human resource management and development, mainly in financial services with vast exposure in the local, China and Singapore markets.

Prior to joining the Group, she was the Chief Officer, Human Resources for an international organisation, overseeing its human resource function in Malaysia, China and Singapore. Her various roles in senior management positions of both local and international corporations have provided her with the opportunity to work with executive teams across different cultures.

Ms. Chow holds a Bachelor of Law degree from the University of London and a Certificate in Legal Practice from the Legal Profession Qualifying Board, Malaysia.

(xiv) **Raymond Leung Chun-Kow**  
**Group Chief Operating Officer**

Mr. Raymond Leung Chun-Kow joined Alliance Bank on 19 January 2011 as Group Chief Operating Officer.

Mr. Leung brings with him experience that spans across Products, Operations, Technology, Process Re-engineering, e-Commerce and Services Management for Capital Market/Treasury, Corporate, Consumer and Private Banking. In addition, he also has experience in service quality, risk and financial management functions.

Prior to joining the Group, Mr. Leung has served in Citibank Singapore, Toronto and Hong Kong, and was the Head of Operations and Technology with Shanghai Fullerton Management Consultancy where he was responsible for the operations and technology functions of its investment projects in China.

(xv) **Choy Kah Yew**  
**Relief Officer, Alliance Investment**

Mr. Choy Kah Yew joined Alliance Investment on 24 August 2009 as the Senior Vice President of Capital Market. On 30 April 2010, he was appointed the Relief Officer of Alliance Investment. His current responsibilities include overseeing Alliance Investment's provision of value-added end-to-end investment banking servicing capabilities for Alliance Investment's clients which includes corporate finance, debt capital market, stock broking services, institutional and retail share trading and research.

Mr. Choy has over 15 years of experience in corporate finance including corporate finance for companies listed on the Bursa Securities and financial management including capital-raising exercises and mergers and acquisitions.

Mr. Choy is a member of the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accountants since 1995.

(xvi) **Lee Wei Yen**  
**Group Company Secretary**

Mr. Lee Wei Yen joined AFGB on 1 April 2004 and was appointed to Alliance Bank as Company Secretary on 1 December 2004.

He brings with him more than 20 years of experience and exposure in corporate matters, including corporate restructuring, mergers, takeovers, initial public offerings and other corporate exercises for companies in various industries such as banking, insurance, stock broking, asset management, unit trust management, property development, trading and manufacturing.

Mr. Lee holds a Masters of Business Administration degree with a major in Finance from Universiti Putra Malaysia and is an Associate Member of the Malaysian Institute of Chartered Secretaries and Administrators.

## 14.0 SHARE CAPITAL, SUBSTANTIAL SHAREHOLDERS AND DIRECTORS' INTEREST

### 14.1 Share Capital

As at 31 December 2010 the share capital of Alliance Bank is as follows:

Share Capital		RM
Authorised Share Capital	--	RM5,000,000,000 divided into 4,995,000,000 ordinary shares of RM1.00 each and 500,000,000 preference shares of RM0.01 each.
Issued and Fully Paid up Share Capital	--	RM600,517,043 divided into 596,517,043 ordinary shares of RM1.00 each and 400,000,000 preference shares of RM0.01 each.

### 14.2 Substantial Shareholders

The substantial shareholders (with the shareholding of 5.0% and above) as at 31 December 2010 are as follows:

Name	No. of shares held	% of shareholding
Alliance Financial Group Berhad	596,517,043	100.0
Vertical Theme Sdn Bhd	596,517,043 <sup>1</sup>	100.0
Langkah Bahagia Sdn Bhd	596,517,043 <sup>2</sup>	100.0
Duxton Investments Pte Ltd	596,517,043 <sup>2</sup>	100.0
Lutfiah Binti Ismail	596,517,043 <sup>3</sup>	100.0
Fullerton Financial Holdings Pte Ltd	596,517,043 <sup>4</sup>	100.0
Fullerton Management Pte Ltd	596,517,043 <sup>5</sup>	100.0
Temasek Holdings (Private) Limited	596,517,043 <sup>6</sup>	100.0
Minister for Finance (Incorporated) of Singapore	596,517,043 <sup>7</sup>	100.0

<sup>1</sup> Deemed interest by virtue of Section 6A(4) of the Companies Act, 1965 held through Alliance Financial Group Berhad

<sup>2</sup> Deemed interest by virtue of Section 6A(4) of the Companies Act, 1965 held through Vertical Theme Sdn Bhd

<sup>3</sup> Deemed interest by virtue of Section 6A(4) of the Companies Act, 1965 held through Langkah Bahagia Sdn Bhd

<sup>4</sup> Deemed interest by virtue of Section 6A(4) of the Companies Act, 1965 held through Duxton Investments Pte Ltd

<sup>5</sup> Deemed interest by virtue of Section 6A(4) of the Companies Act, 1965 held through Fullerton Financial Holdings Pte Ltd

<sup>6</sup> Deemed interest by virtue of Section 6A(4) of the Companies Act, 1965 held through Fullerton Management Pte Ltd

<sup>7</sup> Deemed interest by virtue of Section 6A(4) of the Companies Act, 1965 held through Temasek Holdings (Private) Limited

### 14.3 Director's Interest in Alliance Bank

As at 31 December 2010, none of the directors of Alliance Bank has any direct or indirect interests in the shares of Alliance Bank.

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## 15.0 OTHER INFORMATION

### 15.1 Material Contracts

Save as disclosed below, there are no other material contracts entered into by the Issuer or its material subsidiaries in the 2 years immediately preceding 31 December 2010 which are not in the ordinary course of business:

- (a) Shareholders Agreement dated 18 November 2010 between American International Assurance Bhd (“**AIA**”) and Alliance Bank for the setting up of a joint-venture company known as “AIA AFG Takaful Berhad” with 30.0% equity participation by Alliance Bank and 70.0% by AIA to carry out family takaful business.

### 15.2 Material Litigation

Save as disclosed below, neither the Issuer nor its material subsidiaries have been or had engaged in any material litigation, claims or arbitration as at 31 December 2010, either as a plaintiff (other than proceedings for the recovery of loans in the normal course of business) or defendant which has or is likely to have a material effect on the consolidated financial position of the Issuer and its material subsidiaries and the Directors are not aware of any proceeding whether pending or threatened or of any facts likely to give rise to any proceeding, which might materially affect the consolidated financial position or business of the Issuer and its material subsidiaries:

- (a) A corporate borrower had issued a Writ of Summons in 2005 against an agent bank for a syndicate of lenders comprising three banks of which Alliance Bank is one of them, claiming for general, special and exemplary damages alleging a breach of duty and contract.

The credit facilities consist of a bridging loan of RM58.5 million and a revolving credit facility of RM4.0 million which were granted by the syndicate lenders of which Alliance Bank’s participation was RM18.5 million. In 2002, the credit facilities were restructured to a loan of RM30.0 million of which Alliance Bank’s participation was RM8.31 million, payable over seven years. The syndicate lenders had also filed a suit against the corporate borrower for the recovery of the above-mentioned loan.

The two suits were then consolidated and heard together. On 6 May 2009, judgment was delivered against the agent bank for special damages amounting to RM115.0 million together with interest at the rate of 6.0% per annum from date of disbursement to date of realisation with general damages to be assessed by the Court.

The agent bank’s solicitors had filed an appeal against the said decision. The Court had on 24 June 2009 granted a stay of execution of the judgment pending appeal to the Court of Appeal.

- (b) Alliance Bank had in 1999 filed a suit against a corporate borrower, hereinafter referred to as the first defendant and the second defendant as guarantor (collectively called “**Defendants**”) for money outstanding due to a default in banking facility amounting to RM2.36 million. The Defendants in turn counter-claimed against Alliance Bank for special damages amounting to RM15.5 million and general damages to be assessed by the Court for negligence and/or wrongful termination of the banking facilities, statutory interest on judgment sum, costs and such other and/or further relief deemed fit by the Court.

On 4 May 2009, the High Court in Kota Kinabalu granted judgment in favour of the Defendants with damages to be assessed by the Deputy Registrar. At a clarification hearing held on 25 May 2009, the Court clarified that Alliance Bank’s liability to pay damages under the counter-claim is only in respect of general damages to be assessed by the Court and not special damages.

Alliance Bank has since filed its appeal and application for stay of execution against the said judgment. On 3 August 2009, the High Court dismissed Alliance Bank’s application for stay of execution of the judgment granted in favour of the Defendants. Alliance Bank then filed an appeal to the Court of Appeal against the said decision.

On 16 November 2009, the Court of Appeal had dismissed Alliance Bank's appeal for stay of execution with no order as to costs and directed that an early hearing date would be scheduled for Alliance Bank's appeal proper.

The Court of Appeal had on 18 January 2011 allowed Alliance Bank's appeal by dismissing the counter-claim against Alliance Bank and allowing Alliance Bank's claim against the Defendants. The Defendants have since filed an application for leave to appeal at the Federal Court against the said decision. The hearing for the assessment of damages which was initially fixed for decision on 14 March 2011 has been rescheduled for mention on 15 June 2011 pending outcome of the Defendants application for leave to appeal at the Federal Court.

- (c) (i) Alliance Bank had commenced a civil suit against an individual borrower in March 2007 for recovery of an overdraft facility secured by shares from the individual borrower and shares from a third party. The individual borrower counter-claimed against Alliance Bank for various declarations amongst others that Alliance Bank had acted wrongfully or in bad faith in demanding repayment of the facility and that there was in existence a collateral contract between the individual borrower, Alliance Bank and the third party. In addition, the individual borrower is asking for restitution of shares disposed off, which constitutes a controlling block in a listed entity and the individual borrower is also claiming for general damages to be assessed by the courts.

Alliance Bank filed its reply and defence to counter-claim on 7 July 2007.

The Court had fixed the matter for trial from 23 February 2011 to 25 February 2011 and for final case management on 22 February 2011.

The individual borrower has also filed an application to consolidate the present suit with the suit referred to in paragraph 15.2(c)(ii) below. On 27 January 2011, the Court allowed the said application. In view of this decision, the trial dates stated above will be vacated to another date and the suit will be consolidated for hearing together with the suit referred to in paragraph 15.2(c)(ii) below.

The next case management for the consolidated suit has been fixed on 22 March 2011.

- (ii) Arising from the above-mentioned suit (Section 15.2(c)(i)), the third party in September 2008 filed a separate suit against Alliance Bank for force selling the shares pledged by the third party. The third party alleges amongst others that Alliance Bank sold the pledged shares off-market without notice to them in breach of the collateral contract between the third party and Alliance Bank. The third party is claiming for, among others, damages for loss of the benefit of the shares pledged to Alliance Bank, damages for conversion, damages for misrepresentation and for breach of contract.

Alliance Bank had filed its defence to suit on 13 November 2008.

The Court fixed the matter for further case management on 29 March 2011 and set the matter down for trial from 13 June 2011 to 15 June 2011.

Meanwhile, the third party had filed an application for further interrogatories. On 9 December 2010, the Court allowed the third party's application for further interrogatories in part with costs in the cause. On 15 December 2010, Alliance Bank filed its Notice of Appeal against the said decision. The Court has fixed the hearing of the appeal on 9 February 2011. On 9 February 2011, the Court allowed Alliance Bank's appeal with costs in the cause. The third party has since filed an appeal against the said decision at the Court of Appeal.

### **15.3 Contingent Liabilities and Capital Commitments**

As at 31 December 2010, the directors of the Issuer are not aware of any material contingent liabilities and material capital commitment, which upon becoming enforceable may have substantial impact on the financial position and the business of the Issuer save for those disclosed in the Issuer's audited financial statements for FYE 31 March 2010 and the unaudited financial statements for the third quarter ended 31 December 2010.

#### **15.4 Related Party Transaction**

The Issuer and its material subsidiaries have not entered into any significant related party transactions in the 2 years immediately preceding 31 December 2010.

#### **15.5 Conflict of Interests and Appropriate Mitigating Measures**

Alliance Investment is a wholly owned subsidiary of Alliance Bank. Alliance Investment is the principal adviser, lead arranger, lead manager as well as the facility agent and issuing agent in relation to the Subordinated MTN Programme. In view that Alliance Investment is a related company to the Issuer, there may be potential conflict of interests on the part of Alliance Investment in terms of its duties owed to the potential investors for the Subordinated MTN Programme on the one hand and its related company relationship with the Issuer on the other hand. However, the conflict of interest situation is mitigated as follows:

- (a) the legal due diligence exercise for the Subordinated MTN Programme is conducted by an external independent legal counsel, Messrs Zul Rafique & partners. In addition, Messrs Zul Rafique & partners has confirmed that after making inquiries as were reasonable in the circumstances, it is not aware of any circumstances that would give rise to a conflict of interest situation in its capacity as the legal adviser in relation to the Subordinated MTN Programme;
- (b) Equity Trust (Malaysia) Berhad, which is also an external party, will be appointed as trustee for the holders of the Subordinated Notes. In addition, Equity Trust (Malaysia) Berhad has confirmed that after making inquiries as were reasonable in the circumstances, it is not aware of any circumstances that would give rise to a conflict of interest situation in its capacity as the trustee in relation to the Subordinated MTN Programme;
- (c) Alliance Investment also believes that the objectivity and independence in carrying out its role has been/will be maintained at all times for the following reasons:
  - (i) Alliance Investment is a licensed investment bank and its appointment as the principal adviser, lead arranger, lead manager as well as the facility agent and issuing agent in relation to the Subordinated MTN Programme are governed by various mandate letters, agreements and documents which set out the rights, duties and responsibilities of Alliance Investment acting in such capacities;
  - (ii) the conduct of Alliance Investment is regulated strictly by BAFIA and CMSA and Alliance Investment has in place its own internal policies, controls and checks;
  - (iii) save for the professional fees charged in relation to its role as the principal adviser, lead arranger, lead manager as well as the facility agent and issuing agent in relation to the Subordinated MTN Programme, Alliance Investment will not be deriving any other fees or remuneration from the Subordinated MTN Programme outside of its aforesaid capacities.

The potential conflict of interest situation has been brought to the attention of the Board and the Board is fully aware of the same. The Board has confirmed that having considered the above situation, they are agreeable to proceed with the appointment of Alliance Investment as the principal adviser, lead arranger, lead manager as well as the facility agent and issuing agent in relation to the Subordinated MTN Programme.

Save and except for the above, Alliance Investment is not aware of any other conflict or potential conflict of interest situation arising.

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**AUDITED FINANCIAL STATEMENTS 2009**

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**AUDITED FINANCIAL STATEMENTS 2010**



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**The Issuer**

**ALLIANCE BANK MALAYSIA BERHAD**

**Registered Office Address**

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**Lead Arranger/ Principal Adviser**

**Alliance Investment Bank Berhad**

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**Facility Agent**

**Alliance Investment Bank Berhad**

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**Trustee**

**Equity Trust (Malaysia) Berhad**

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59000 Kuala Lumpur

**Central Depository and Paying Agent**

**Bank Negara Malaysia**

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**Rating Agency**

**RAM Rating Services Berhad**

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**Legal Counsel**

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**ALLIANCE BANK**

**Alliance Bank Malaysia Berhad** (88103-W)