

Management Discussion and Analysis

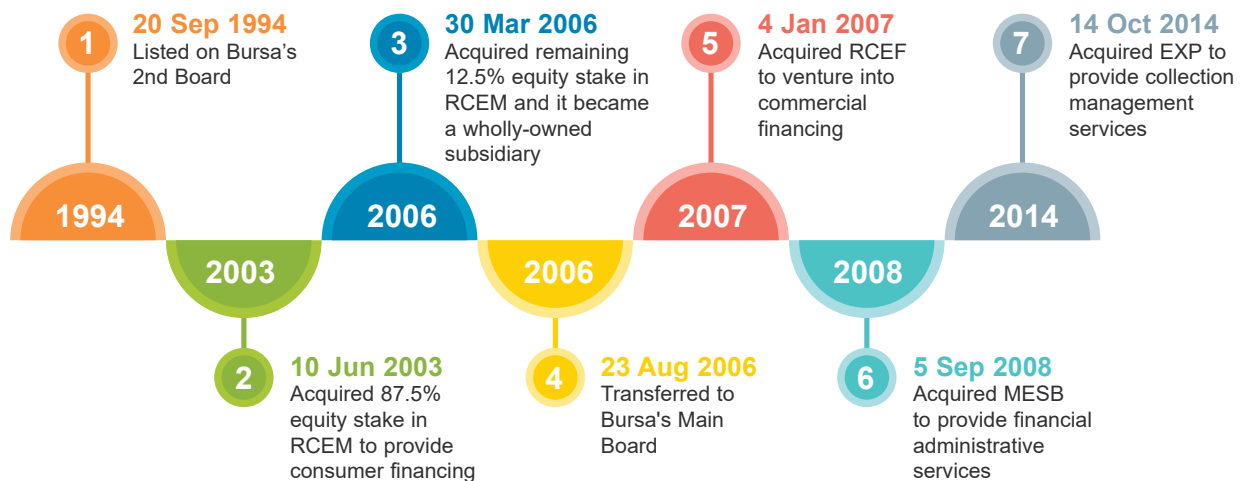
OUR BUSINESS

RCE Capital Berhad (“RCE”) is an investment holding company established in 1953 and a subsidiary of Amcorp Group Berhad. RCE was listed on the Second Board of Bursa Malaysia Securities Berhad (“Bursa”) in 1994 and transferred to the Main Market in 2006. RCE and its subsidiaries (“RCE Group” or “the Group”) primarily focus on delivering shariah-compliant financing solutions for civil servants in Malaysia, guided by steady return to shareholders while upholding responsible financing practices and shariah principles.

Key revenue streams for RCE Group are largely driven by RCE Marketing Sdn Bhd (“RCEM”) and its subsidiaries (“RCEM Group”), along with Mezzanine Enterprise Sdn Bhd (“MESB”) and EXP Payment Sdn Bhd (“EXP”). These entities collectively offer a comprehensive suite of shariah-compliant financing solutions to civil servants, constituting most of RCE Group’s business activities. Customer repayments are facilitated via direct monthly salary deductions, managed by two collection agencies namely Biro Perkhidmatan Angkasa (“BPA”) and EXP.

In 2014, EXP was acquired to provide an alternative to BPA’s salary deduction service under the purview of the Accountant General’s Department of Malaysia, other selected government and semi-government agencies. EXP aims to ensure customers’ repayment process is timely and effective.

In 2007, RCE Group expanded its scope beyond civil service financing by acquiring RCE Factoring Sdn Bhd (“RCEF”). This enabled the Group to venture into commercial factoring and confirming arrangements catering to small and medium-sized business enterprises. In addition, RCEF offers shariah-compliant and conventional financing options to selected customer segments, broadening RCE Group’s reach and diversification of its revenue streams.



OUR STRATEGY

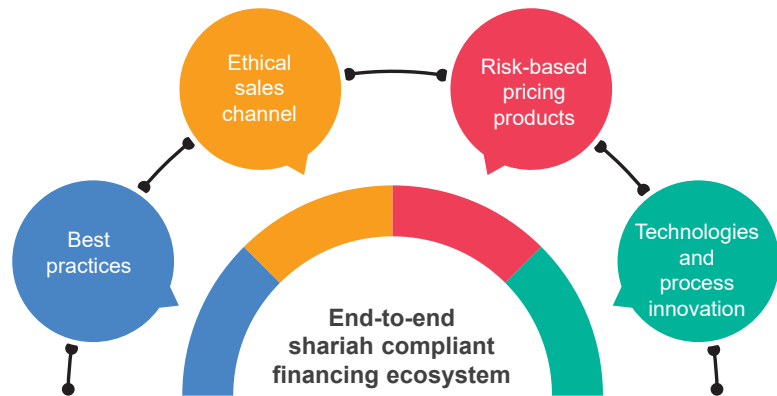
RCE Group’s strategy as a financial service provider for the civil servants’ market centres on delivering sustainable returns, emphasising the importance of excelling in speed-to-market and constantly focusing on addressing customers’ needs.



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RCE Group is dedicated to providing quality products and services within an end-to-end shariah-compliant financing ecosystem. This is guided by best practices, ethical sales channels, risk-based pricing products, technologies and process innovation.

Our customer-centric approach with the motto “*Customer for Life*” ensures growth and stability in earnings. Good service and swift turnaround time foster customers’ loyalty for long term expansion. Latest technologies and process innovation complement our efforts to stay relevant in the market.

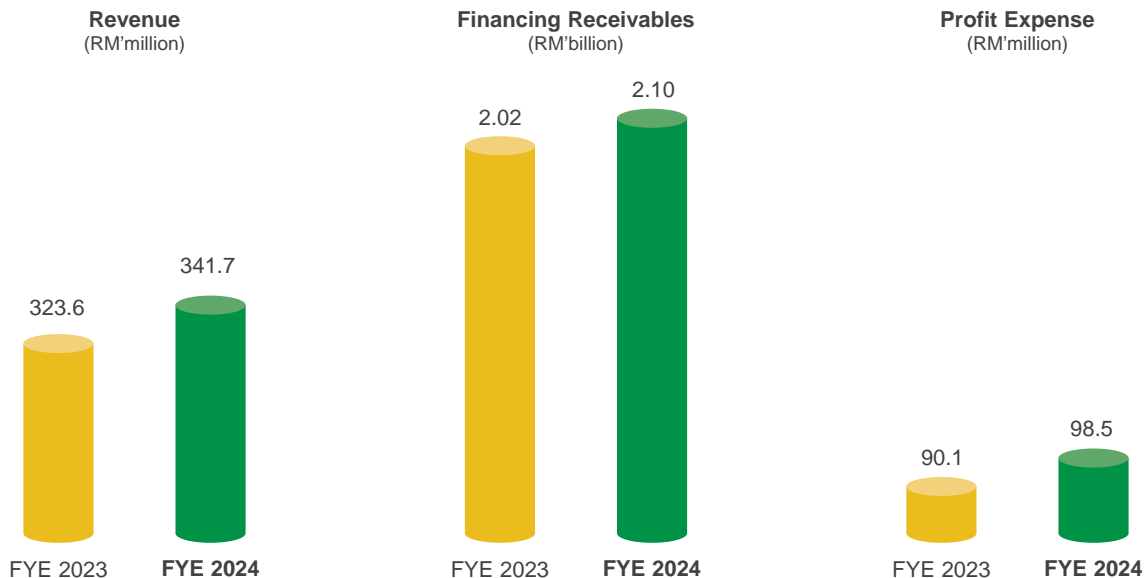


SUMMARY OF GROUP FINANCIAL PERFORMANCE

For financial year ended 31 March 2024 (“FYE 2024”), the Group recorded a moderate revenue increase, reaching RM341.7 million, surpassing the RM323.6 million recorded in FYE 2023. This was due to our focus on quality receivables, notwithstanding the vigorous demand for financing in the market.

As a result, RCE Group’s financing receivables grew by 4.0% to RM2.10 billion as compared to RM2.02 billion in the preceding financial year.

RCE Group’s profit expense rose to RM98.5 million from RM90.1 million, mainly attributable to the hike in the Overnight Policy Rate (“OPR”) between 2022 and 2023. The Group managed the unfavourable impacts by maintaining an optimal mix of fixed and floating rate financing liabilities and sourcing for better rates from various financial institutions. Accordingly, the Group’s cost of funds increased marginally by 5 basis points in the financial year.

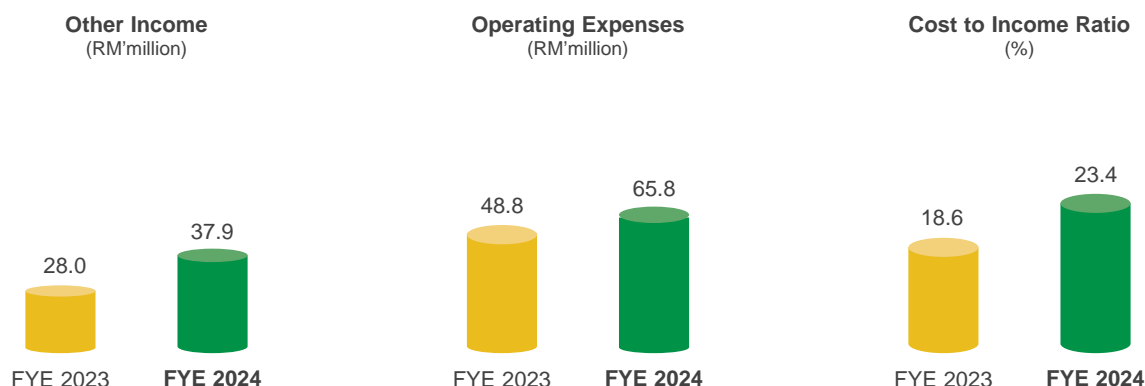


On the other hand, the OPR hikes led to higher deposit rates, thereby higher income from deposits placed with licensed financial institutions. This contributed to a higher other income of RM37.9 million as compared to RM28.0 million in the previous financial year.

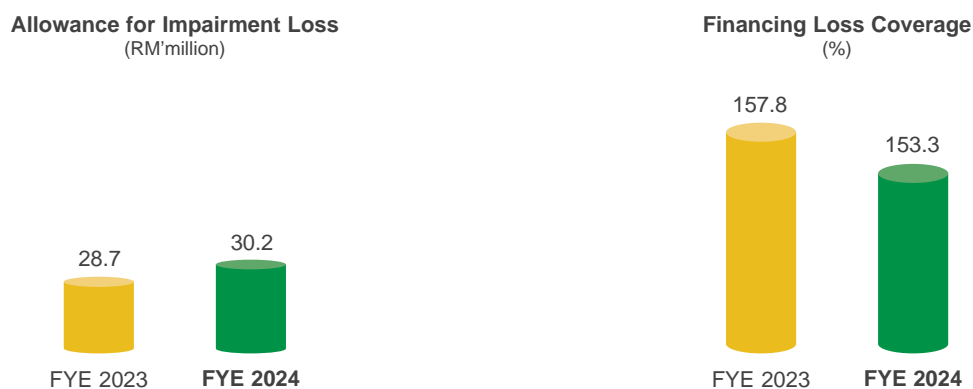
Other operating expense surged to RM65.8 million from RM48.8 million, mainly from higher facility fee relating to new funding secured and expenditure on sales and marketing campaigns to augment disbursement activities. Likewise, there were higher costs for financing recovery activities, investments in technology initiatives, compliance efforts and endeavours geared towards retaining employees.

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Consequently, the cost-to-income ratio increased to 23.4% from 18.6% in the preceding financial year.

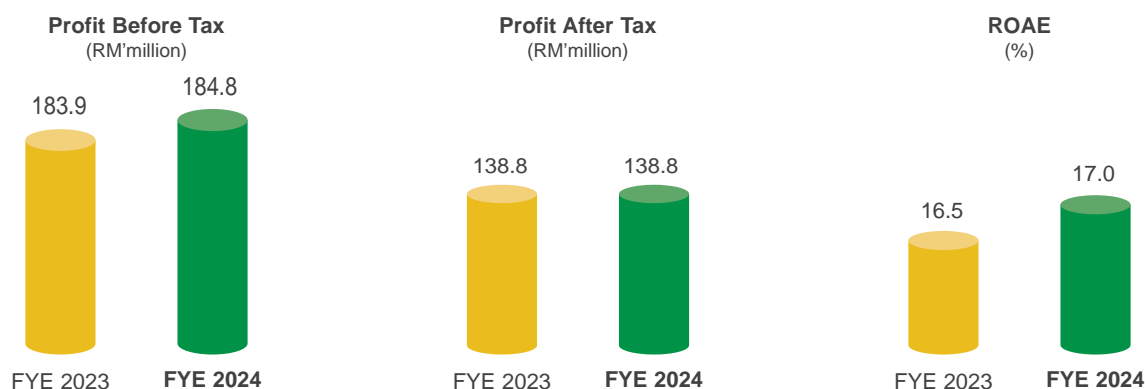


The Group's allowances for impairment loss on receivables increased to RM30.2 million from RM28.7 million in the previous financial year. The higher level of non-performing financing was attributed to elevated early retirements and resignations among civil servants. Despite these challenges, the Group maintained a prudent financing loss coverage ratio of more than 150.0%.



Following the above, RCE Group's profit before tax increased slightly from RM183.9 million to RM184.8 million. Overall, RCE Group registered a stable profit after tax of RM138.8 million for FYE 2024.

The improvement in return on average equity ("ROAE") from 16.5% to 17.0% demonstrated RCE Group's efforts in managing its capital, driven by meaningful returns to the shareholders.



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BUSINESS OPERATIONS REVIEW

As a responsible financial service provider, RCE Group develops products and services that cater to customers' need at different stages of life while minimising their financial burden.

RCE Group's credit risk strategy balances quality of receivables, earnings and long term growth. Periodic review of credit policies and underwriting criteria ensure manageable default risk exposure and losses.

Maintaining stability across various funding sources is imperative to mitigate business disruptions, not to mention the continuous need to review existing financing arrangements to ensure favourable rates and terms are enjoyed. Any re-pricing of products will take into account the competitive landscape and risk appetite to seize market opportunities.

Notwithstanding the above, expanding the customer base remains a core objective, achieved by delivering quality products and services across all business units. Each unit focuses on improving without compromising delivery standards.

Educating customers in financial management is paramount. Proactively sharing of relevant information and educational materials allow customers to navigate their finances effectively.

RCE's inclusion on the Securities Commission Malaysia's list of shariah-compliant securities accentuates its status as a player in the Islamic financial ecosystem. As investor preferences shift towards ethical investing, RCE Group recognises the importance of Shariah investing alongside Economic, Environmental, Social and Governance ("EESG") integration in its business operations.

EMPOWERING GROWTH IN THE DIGITAL ERA

Digitalisation is crucial in shaping the business landscape. Robust technology governance and cyber resilience are central to RCE Group's digital transformation efforts. Reviewing and enhancing existing information technology ("IT") methodologies and processes aid in alignment of our strategic objectives.

The Group allocated RM2.4 million to bolster our digital capabilities. These enable us to stay ahead of the curve, leverage on technology in streamlining of processes, improve efficiency and deliver value-added solutions to our customers. These are pivotal for future growth and propelling the business forward in an ever evolving digital landscape.

Our risk management strategy identifies crucial risks across various regulatory requirements, mapping out corresponding action plans to effectively ensure compliance and mitigate potential vulnerabilities.

Given the heightened focus on cybersecurity in today's interconnected world, we have engaged independent experts to identify security vulnerabilities and provide assurance. This helps to safeguard and maintain integrity of our systems, including strengthening the infrastructure against emerging threats. Customer trust in our ability to protect their sensitive information is reinforced.

As customer engagement is multifaceted in today's digital age, we ensure accessibility across various channels enabling customers to easily reach us through websites, social media platforms, automated response software or by contacting our dedicated Customer Service Specialists. While digital channels offer convenience, maintaining personalised services is vital, especially for less tech-savvy customers. Our dedicated Sales Teams remain at the forefront, providing hassle-free and professional advice tailored to individual needs and credit profile.

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SYNERGISING FUNDING AND RISK FOR FINANCIAL STABILITY

RCE Group prioritises liquidity risk management as its financial strategy to prudent financing structure and favourable funding terms. These involved cash flow forecasting across operating entities and anticipate liquidity events while mitigating maturity mismatch through strategic conversion of liabilities and market fundraising.

Evaluation of funding options, covering revolving credit, term financing/loan or Sukuk, is closely aligned with the Group's risk appetite and business.

During the financial year, we have secured six new financing facilities totalling RM895.0 million with different financiers. The successful acquisition of these financing facilities strategically leverage available credit lines to support business initiatives and expansion plans. As at 31 March 2024, we have a network of more than ten financiers as core partners supporting our operations.

RCE Group has been actively fundraising in the debt capital market since 2004. Over the years, the Group established various debt securities programmes with a strong track record. These programmes have played a crucial role in diversifying our funding sources beyond traditional financing options.

The RM2.00 billion Sukuk Murabahah Asset-Backed Securitisation Programme ("Sukuk Murabahah ABS Programme") established in March 2019 via Zamarad Assets Berhad ("ZAB") offers perpetual features for continuous funding and facilitates better asset-liability management.

Besides, a Revolving Option ("RO") was introduced, a pioneering feature in Malaysia for securitisation of shariah-compliant receivables. Activated from the sixth tranche in July 2021, the RO allows ZAB to purchase additional receivables from the Originator, RCEM, with excess funds from sinking funds. RCEM generates new disbursements using proceeds received, providing ongoing funding and minimising negative carry for the Group.

On 10 August 2023, the ninth tranche with an issuance size of RM254.0 million was issued. To-date, nine tranches amounting to RM1.59 billion have been issued.

On 16 August 2023, the Asset Triple A Islamic Finance Awards recognised RCE's accomplishments, honouring ZAB with the prestigious "Best Securitization Sukuk" award for Tranches 7 and 8, totalling RM474.0 million.

The Group has another RM900.0 million Sukuk Murabahah ABS Programme established in March 2016 by Al Dzahab Assets Berhad ("ADA"), another special purpose vehicle. ADA has fully utilised its programme limit with five tranches issued since March 2018. The outstanding financing obligation is serviced through the underlying securitised receivables' collections.

Throughout FYE 2024, RCE Group demonstrated its strength to investors by fully redeeming RM120.0 million and RM90.0 million Class A Sukuk from various tranches issued by ZAB and ADA respectively upon their legal maturity. Additionally, ADA has early redeemed RM105.0 million Class B Sukuk from its first three tranches upon their expected maturity of seven years instead of the legal maturity of eight and a half years.

Retaining a good credit rating with timely debt repayment and transparent stakeholders' communication provide confidence to existing and potential investors.

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RAM Ratings Berhad has rated both ZAB and ADA's Sukuk Murabahah ABS Programmes. The upgrading and reaffirming of ratings over these financial years reflect that the quality of the underlying securitised receivables remains sound.

i. ZAB's RM2.00 billion Sukuk Murabahah ABS Programme Rating Review:

Class	Tranche	From (Since Issuance)	To (Latest Review)	Status
A	1 to 8	AAA (Stable)	• <u>AAA (Stable)</u>	• Reaffirmed
	9	AAA (Stable)	• <u>AAA (Stable)</u>	• Newly issued on 10.08.2023
B	1	AA2 (Stable)	• <u>AA2 (Positive)</u> • <u>AAA (Stable)</u>	• Revised on 28.02.2020 • Upgraded on 26.02.2021 and reaffirmed since 26.04.2022
	2	AA2 (Stable)	• <u>AAA (Stable)</u>	• Upgraded on 24.09.2021 and reaffirmed since 25.08.2022
	3	AA2 (Stable)	• <u>AA1 (Positive)</u> • <u>AAA (Stable)</u>	• Upgraded on 24.09.2021 • Upgraded on 25.08.2022 and reaffirmed on 22.09.2023
	4	AA2 (Stable)	• <u>AAA (Stable)</u>	• Upgraded on 26.04.2022 and reaffirmed since 25.04.2023
	5	AA2 (Stable)	• <u>AA2 (Positive)</u> • <u>AAA (Stable)</u>	• Revised on 26.04.2022 • Upgraded on 25.08.2022 and reaffirmed on 22.09.2023
	6	AA2 (Stable)	• <u>AA2 (Stable)</u>	• Reaffirmed since 26.04.2022
	7	AA2 (Stable)	• <u>AA2 (Stable)</u>	• Reaffirmed since 25.04.2023
	8	AA2 (Stable)	• <u>AA2 (Stable)</u>	• Reaffirmed on 22.09.2023
	9	AA2 (Stable)	• <u>AA2 (Stable)</u>	• Newly issued on 10.08.2023

ii. ADA's RM900.0 million Sukuk Murabahah ABS Programme Rating Review:

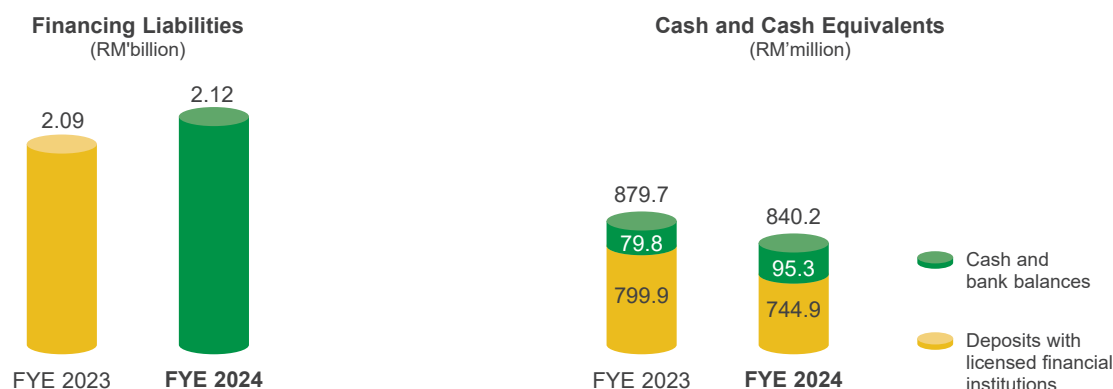
Class	Tranche	From (Since Issuance)	To (Latest Review)	Status
A	1	AAA (Stable)	• <u>AAA (Stable)</u>	• Fully redeemed in FYE 2024
	2	AAA (Stable)	• <u>AAA (Stable)</u>	• Fully redeemed in FYE 2024
	3	AAA (Stable)	• <u>AAA (Stable)</u>	• Fully redeemed in FYE 2024
	4 to 5	AAA (Stable)	• <u>AAA (Stable)</u>	• Reaffirmed
B	1	AA3 (Stable)	• <u>AA1 (Positive)</u> • <u>AAA (Stable)</u>	• Revised on 7.08.2017 • Upgraded on 22.10.2018 and reaffirmed since 15.10.2019 • Early redeemed upon expected maturity date on 21.06.2023
	2	AA3 (Stable)	• <u>AA2 (Positive)</u> • <u>AAA (Stable)</u>	• Upgraded on 7.08.2017 • Upgraded on 22.10.2018 and reaffirmed since 15.10.2019 • Early redeemed upon expected maturity date on 29.09.2023
	3	AA3 (Stable)	• <u>AA3 (Positive)</u> • <u>AAA (Stable)</u>	• Revised on 15.12.2017 • Upgraded on 22.10.2018 and reaffirmed since 2.05.2019 • Early redeemed upon expected maturity date on 29.03.2024
	4	AA3 (Stable)	• <u>AAA (Stable)</u>	• Upgraded on 22.10.2018 and reaffirmed since 2.05.2019
	5	AA3 (Stable)	• <u>AA1 (Positive)</u> • <u>AAA (Stable)</u>	• Upgraded on 22.10.2018 • Upgraded on 15.10.2019 and reaffirmed since 28.02.2020

As at 31 March 2024, the Group's financial liabilities stood at RM2.12 billion with a stable net gearing ratio of less than two times.

Out of the total cash and cash equivalents of RM840.2 million, RM751.0 million (FYE 2023: RM811.9 million) are held in trust by independent trustees of Sukuk Murabahah ABS Programmes for future payment of Sukuk principal and profit expense.

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The Group keeps minimal cash and bank balances to sustain operations and meet financial obligations respectively.



OUR PEOPLE

People represent an organisation's most valuable asset. It is essential to equip our employees with an agile mindset, right skills and tools to succeed in today's dynamic business environment. Updating all employees on the relevant policies and procedures maximises transparency and accountability.

Investing in our people's well-being fosters a supportive and inclusive work environment where individuals can thrive and reach their full potential. In FYE 2024, various activities were conducted to promote a healthy lifestyle and awareness on mental fitness among our employees. These include weight management and mental health awareness talks, healthy cooking workshops and weekly workout sessions.

ACCELERATING EESG AGENDA

RCE Group has integrated EESG principles into its core strategy. This integration is not merely a checkbox exercise but a fundamental reorientation towards a more sustainable and ethical business model. Robust policies, procedures and controls are embedded into every facet of operations, extending beyond regulatory compliance, local and international standards as well as best practices.

RCE Group's pledge to this agenda is palpable through its presence on environmental, social and governance assessment platforms. RCE has maintained its position in FTSE4Good Bursa Malaysia Index List for five consecutive years. It has also secured a spot in Shariah Indices Constituencies for three straight years.

OUTLOOK AND PROSPECTS

As we evaluate the economic landscape, Malaysia's growth in 2023 backed by domestic demand sets an optimistic stage for RCE Group's outlook. Projections for 2024 indicate ongoing growth, despite challenges from domestic and global uncertainties.

The conflict between Russia and Ukraine and the Israel-Palestine territorial hostility present complex challenges to world economy disrupt trade routes and market stability. Increasing gold prices add another layer of complexity to economic dynamics, impacting currency markets and inflation rates.

The impending election and outcome of the polling in US and UK respectively carry significant weight as they directly influence economic policies and market sentiments.

On the local front, the on-going and potential subsidy support from governmental initiatives like the central database hub, known as Pangkalan Data Utama ("PADU"), offer opportunities and challenges, driving economic activities while demanding careful management.

In response to these dynamics, RCE Group adopts a proactive stance in monitoring external economic factors while capitalising on opportunities. Embracing digital financing capabilities and advancing the sustainability agenda stands at the forefront, positioning RCE Group as a trusted, purpose-driven and innovation-led entity in the financial services sector.