

Management Discussion and Analysis

OUR BUSINESS

RCE Capital Berhad (“RCE”) was incorporated on 18 December 1953. It is an investment holding company and a subsidiary of Amcorp Group Berhad. RCE has been listed on the Main Market of Bursa Malaysia Securities Berhad (“Bursa”) since 23 August 2006 and the Second Board before that, on 20 September 1994.

RCE’s subsidiaries (“the Group”) which drive the Group’s revenue are:

- RCE Marketing Sdn Bhd (“RCEM”) and its subsidiaries; and
- Mezzanine Enterprise Sdn Bhd (“MESB”).

These entities operate as an integrated platform that originates, administers and services a comprehensive suite of shariah-compliant end-to-end financing solutions for the retail civil service segment.

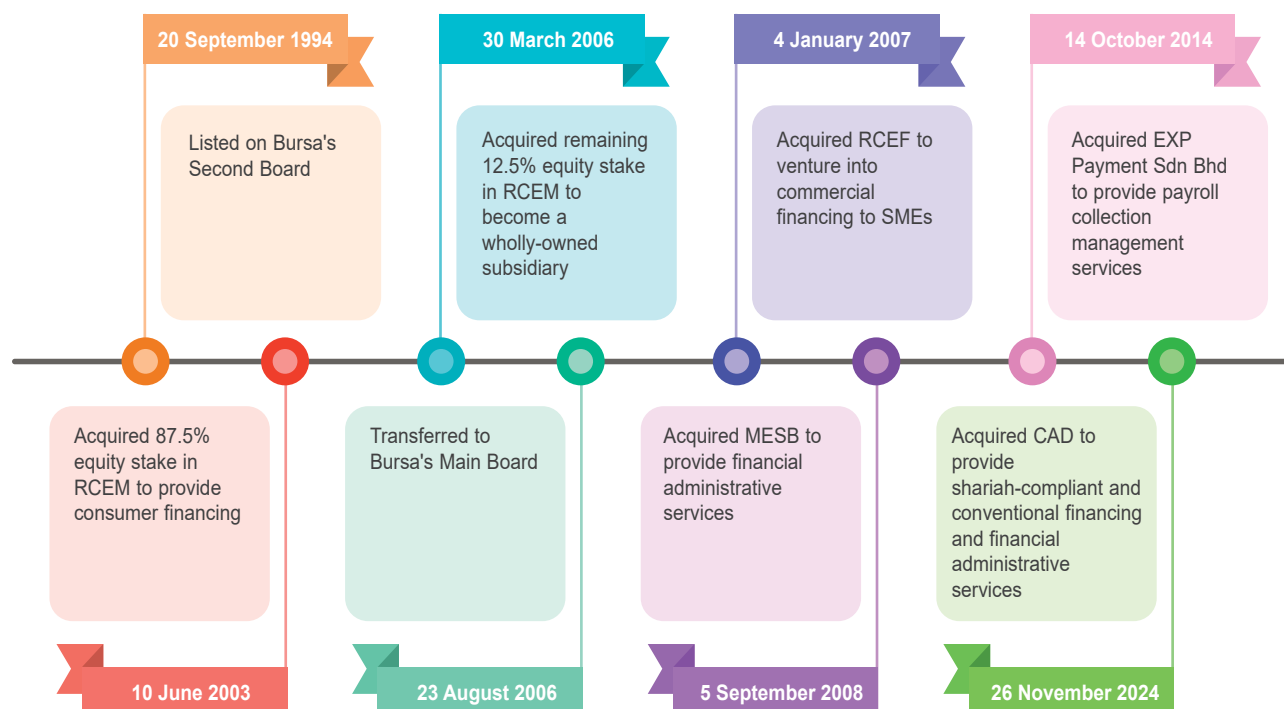
The Group ensures stable collections and repayments by collaborating with two authorised collection agencies, namely Biro Perkhidmatan Angkasa (“BPA”) and Accountant General’s Department of Malaysia. Both are administrators of salary deduction scheme for civil servants. These collection channels improve repayment efficiency and mitigate credit risk exposure.

On 26 November 2024, the Group acquired Corewealth Alliance Dynamic Sdn Bhd (“CAD”), a company engaged in collections via BPA, furthering its diversification agenda. This acquisition is expected to strengthen service offerings, enhance overall market positioning and expand the Group’s consumer base.

Today, CAD offers shariah-compliant and conventional financing as well as financial administrative services to this retail segment.

By integrating origination, repayment and servicing in a growing portfolio, the Group positions itself as a trusted and scalable shariah-compliant retail financier committed to sustainable performance and inclusive growth.

The Group’s entry into commercial financing was back in 2007, when the Group acquired RCE Factoring Sdn Bhd (“RCEF”) to diversify its income streams. It is principally involved in providing factoring and confirming services for small and medium-sized enterprises (“SMEs”). RCEF has expanded its offerings to include shariah-compliant and conventional financing to selected customers.



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OUR STRATEGY

The Group delivers stakeholder value by applying a disciplined business model, maintaining sound risk management and leveraging deep market knowledge. The Group provides responsible financial services to Malaysian civil servants through a comprehensive shariah-compliant ecosystem guided by best practices, risk-based pricing products, technology process innovation and ethical sales channels.



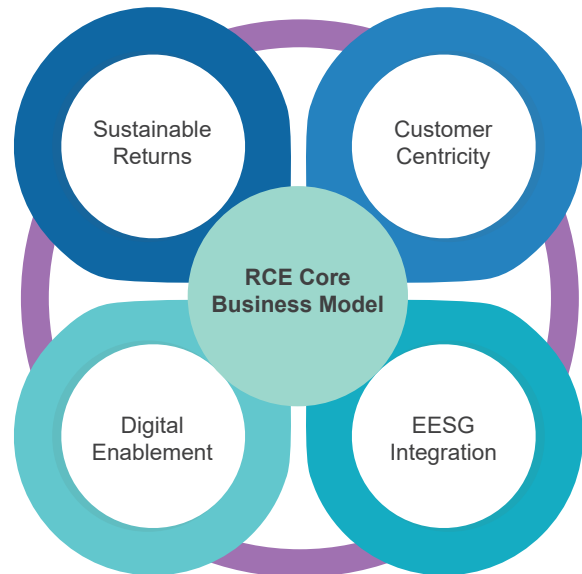
Delivering Sustainable Returns

As a specialist in civil servant financing, the Group focuses on delivering returns to shareholders. Its strategy balances profitability with responsible financing, fostering growth while managing credit risk prudently. Following a review of capital priorities, RCE revised its dividend payout guidance in 2023 to a more attractive range of 60% to 80%, up from 20% to 40%.

A robust compliance framework reinforces these practices by adhering to stringent regulatory standards, thereby safeguarding trust and upholding operational integrity.

Customer Centricity

The Group's customer focus and speed to market execution complement the comprehensive range of financial solutions through an end-to-end shariah-compliant ecosystem. This approach integrates:



- Best practices in financial governance, ensuring transparency, fairness and robust risk controls;
- Risk-based pricing models tailored to customer credit profiles;
- Technology driven innovation to improve operational efficiency and customer experience; and
- Ethical and responsible sales channels that avoid aggressive or misleading marketing.

Guided by its '*Customers for Life*' philosophy, the Group's high service standards and swift turnaround time cultivate lasting relationships with customers, improve credit performance and generate recurring business.

Embedding Economic, Environmental, Social and Governance ("EESG")

The Group embeds EESG considerations into its business strategy. This framework bolsters business durability and aligns with expectations for responsible corporate behaviour as well as stakeholders' confidence.

- Economically, the Group targets consistent returns while advancing financial inclusion.
- Environmentally, the Group concentrates on operational efficiency, reducing carbon footprint and conserving resource consumption.
- Socially, the Group promotes responsible financial literacy, employment practices, targeted donations to public hospitals and community well-being.
- On governance, the Group upholds strong board oversight, ethical conduct, regulatory compliance and transparent disclosures.

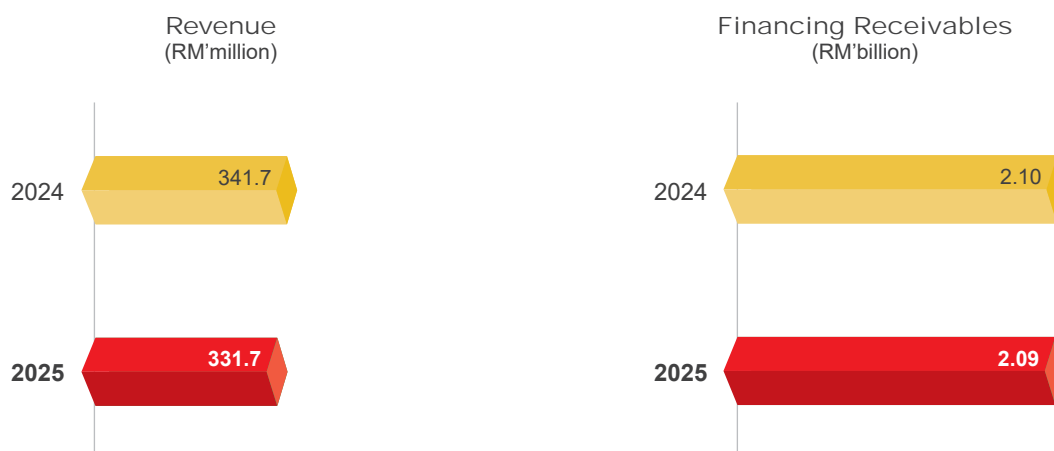
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Digital Enablement

In today's evolving financial landscape, digital enablement is essential for innovation and operational efficiency. The Group enhances its digital capabilities by streamlining internal processes for seamless and secured service offerings. This is reinforced by stringent cybersecurity measures, including end-to-end encryption, multi-factor authentication and proactive threat monitoring.

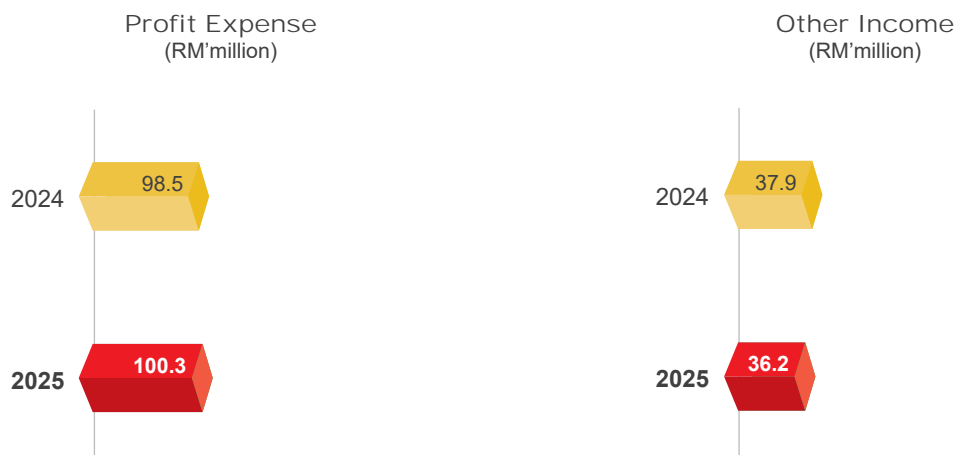
SUMMARY OF GROUP FINANCIAL PERFORMANCE

In financial year ended 31 March 2025 ("FYE 2025"), the Group adopted a more conservative credit underwriting policy to safeguard asset quality amidst heightened credit risks. The deliberate decision led to lower disbursements, resulting in a revenue of RM331.7 million and a stable financing receivables base of RM2.09 billion. Notwithstanding that, the Group continues to pursue customer acquisition through targeted campaigns and digital outreach drives.



Profit expense increased to RM100.3 million mainly due to the absence of cost savings previously realised upon full and early redemptions of the Group's Sukuk by one of its two special purpose vehicles, namely Al Dzahab Assets Berhad ("ADA") in FYE 2024.

Other income declined to RM36.2 million as lower placement income was generated following deposit withdrawals for Sukuk redemptions and bad debt recoveries as customers' financial strain limited the recovery effectiveness.

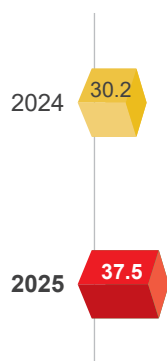


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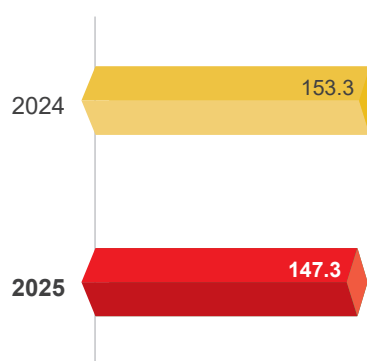
Operating expenses increased to RM83.3 million primarily due to a RM19.0 million one-off goodwill impairment charge related to a payroll collection management service as the Group no longer expects to derive economic benefits from that business arrangement and higher collection fee expense. These were partially offset by lower sales and marketing expense as relatively higher costs were incurred following multiple campaigns launched in previous financial year to boost disbursements. Excluding the effect of goodwill impairment, the Group's cost-to-income remained flat at 24.0% as compared to 23.4% a year ago.

Higher allowance for impairment charge of RM37.5 million was attributable to the rise in non-performing financing as a result of higher bankruptcies and early retirements among civil servants. Accordingly, gross impaired financing increased to 6.7% while financing loss coverage moderated at 147.3%.

Allowance for Impairment Loss
(RM'million)

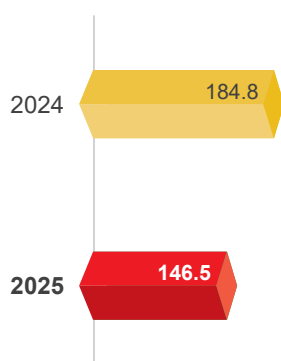


Financing Loss Coverage
(%)

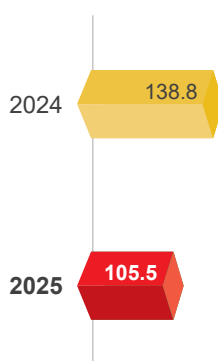


Notwithstanding the more challenging economic and industry landscape experienced in current financial year, the Group remained profitable by registering profit before and after tax of RM146.5 million and RM105.5 million respectively. Correspondingly, the Group's return on average equity ("ROAE") was 12.6%.

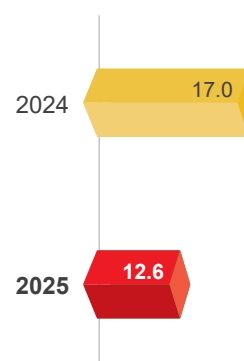
Profit Before Tax
(RM'million)



Profit After Tax
(RM'million)



ROAE
(%)



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BUSINESS OPERATIONS REVIEW

In FYE 2025, the Group prioritised its core financing business while adapting to shifting credit dynamics and compliance requirements. This involved a disciplined, customer centric and sound risk governance mindset to facilitate growth throughout the Group's strategic pillars.

Customer Centric Financing Solutions

The Group tailored its financing products to suit the evolving needs of Malaysian civil servants across various life stages. The Group prioritises affordability, accessibility and responsible financing in its offerings, designing them to minimise financial burden and ensure access to ethical credit. In parallel, the Group advanced its financial literacy efforts through customer education, empowering individuals to make informed financing decisions. Increasing product relevance and expanding outreach remain central to the Group's strategy, particularly in serving underserved communities in the segment.

Credit Risk Management

The Group maintains a prudent approach to credit risk, balancing growth with asset quality and financial discipline. The Group strengthens its credit assessment process amid a rise in non-performing financing linked to bankruptcy, early retirements and increased personal debt cases among civil servants. The growing prevalence of fraudulent financing schemes that exploit civil servants, unregulated financing and buy-now-pay-later products further highlights the importance of ethical financing practices and customer education.

The Group implemented tighter credit policies and underwriting criteria to address these pressures. Intensified collection and recovery efforts also help earlier detection, mitigate delinquency risks and protect asset quality.

Funding Stability

Diversifying and securing stable funding sources is a core priority. The Treasury Team regularly reviews its funding strategy to manage volatility, optimise financing costs, align pricing with risk appetite and market trends. These measures allow the Group to maintain liquidity and complement product development while meeting financial obligations.

Compliance Management

RCE maintained its shariah-compliant status, as recognised by the Shariah Advisory Council of Securities Commission Malaysia. The inclusion in FTSE4Good Bursa Malaysia and FTSE4Good Bursa Malaysia Shariah indices further affirms its alignment with international EESG benchmarks and investor expectations. These recognitions are testaments to the Group's commitment to ethical financing, transparency and long term sustainability.

As the proposed Consumer Credit Act is expected to come into force before the end of 2025, the Group has advanced internal systems and governance to prepare for its phased implementation. The Group engages regulators and industry stakeholders to stay aligned with emerging expectations. Early planning and system readiness ensure the Group is prepared to comply with the new regulatory framework while upholding responsible and transparent financing practices.

The Group leverages advanced digital tools to maintain alignment with regulatory developments and mitigate emerging risks. This forward looking approach enhances resilience and adaptability in a dynamic compliance environment.

EMPOWERING GROWTH IN THE DIGITAL ERA

Entering 2025, the Group positions digitalisation as an essential factor for its growth strategy and innovation agenda. The Group enhances its operational responsiveness and efficiency in response to rapid technological advancements, including artificial intelligence, machine learning and 5G connectivity.

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Cybersecurity is a critical component of the Group's digital strategy. The Group conducts regular system assessments and collaborates closely with independent cybersecurity specialists to combat the increasing complexity of cyber threats. During the current financial year, a penetration test was carried out to simulate real-world cyberattacks and identify potential weaknesses across systems. This approach protects platform integrity, safeguards customer data, strengthens security and trust within the Group. Employees also received compulsory periodical trainings and awareness on cyber threat protection.

As customer engagement shifts towards digital channels, the Group has broadened its presence through its website, mobile applications and social media. While these channels improve accessibility and convenience, the Group continues to champion personalised services.

In FYE 2025, the Group invested RM454.4k and RM814.1k in cybersecurity infrastructure and digital initiatives respectively. The Group will consistently leverage emerging technologies to safeguard cybersecurity infrastructure, enhance operational agility and deliver customer centric solutions.

FUNDING STRATEGY

The Group maintains an optimal financing structure to provide access to funding on favourable terms to support its operations and growth.

Cash flow position is actively monitored by the Group, including but not limited to debt maturity profile, liquidity levels, cost of funds and gearing ratio. It reviews funding requirements regularly to determine the working capital needed to sustain operations and expansion. In line with this, the Group evaluates various financing options, including revolving credit, term financing, Sukuk and equity, to select instruments that best align with its business model and risk appetite. In addition, competitive rates and favourable terms are constantly being negotiated with its banking partners.

A strong credit rating, timely debt repayments and proactive resolution of issues are key priorities. The Group maintains open communication with stakeholders, providing updates on its financial performance and funding requirements to promote transparency and build trust.

During the financial year, the Group secured a new term financing facility of RM150.0 million. As at 31 March 2025, the Group has a network of more than ten financiers to support its funding and liquidity needs.

The Group has established a strong presence in the debt capital market since 2004, leveraging it as an alternative funding avenue beyond traditional sources. Over the years, the Group has successfully introduced various debt securities programmes, demonstrating a solid track record in debt capital fundraising.

A key initiative is the RM2.00 billion Sukuk Murabahah Asset-Backed Securitisation Programme ("Sukuk Programme"), launched in March 2019 through Zamarad Assets Berhad ("ZAB"). This programme offers several strategic advantages:

- Provides access to long term funding, catalysing the Group's growth.
- Facilitates asset-liability management by addressing potential cash flow mismatches through structured repayment schedules.

ZAB's Sukuk Programme features a Revolving Option ("RO"), the first in Malaysia's securitisation of Islamic receivables. Activated from the sixth tranche onwards in July 2021, the RO enables ZAB to purchase additional receivables from RCEM using excess funds from its sinking fund. This mechanism supports continuous disbursements and reduces negative carry within the Group.

On 14 November 2024, ZAB successfully issued the tenth tranche amounting to RM149.0 million. To date, ten tranches totalling RM1.74 billion have been issued.

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Besides ZAB's Sukuk Programme, the Group has another RM900.0 million Sukuk Programme established in March 2016 through ADA.

ADA fully utilised its programme in 2018 with five tranches issued. In March 2025, ADA extended its programme tenure and included the RO feature similar to that of ZAB. This provides enhanced flexibility and access to structured funding for the Group. On 30 June 2025, ADA successfully issued the sixth tranche amounting to RM123.0 million.

In addition, both Sukuk Programmes are managed and their outstanding obligations are closely monitored. The Group services these obligations using collections from the securitised receivables.

During the financial year, RM325.0 million were redeemed from both Sukuk Programmes. These redemptions demonstrate the Group's financial strength, reinforcing investor confidence.

RAM Ratings Berhad rates both ZAB and ADA's Sukuk Programmes. The upgrades and reaffirmations reflect the Group's disciplined financial management and the high credit quality of its underlying receivables.

i. ZAB's Sukuk Programme Rating Review:

Class	Tranche	From (Since Issuance)	To (Latest Review)	Status
A	1 to 9	AAA (Stable)	• <u>AAA (Stable)</u>	• Reaffirmed.
	10	AAA (Stable)	• <u>No review yet</u>	• Newly issued on 14.11.2024.
B	1	AA2 (Stable)	• AA2 (Positive) • <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)	• AA1 (Positive) • <u>AAA (Stable)</u>	• Upgraded on 24.09.2021. • Upgraded on 25.08.2022 and reaffirmed since 28.08.2023.
	4	AA2 (Stable)	• <u>AAA (Stable)</u>	• Upgraded on 26.04.2022 and reaffirmed since 25.04.2023.
	5	AA2 (Stable)	• AA2 (Positive) • <u>AAA (Stable)</u>	• Revised on 26.04.2022. • Upgraded on 25.08.2022 and reaffirmed since 28.08.2023.
	6	AA2 (Stable)	• <u>AA2 (Positive)</u>	• Revised on 23.04.2025.
	7	AA2 (Stable)	• <u>AA2 (Stable)</u>	• Reaffirmed since 25.04.2023.
	8	AA2 (Stable)	• <u>AA2 (Stable)</u>	• Reaffirmed since 28.08.2023.
	9	AA2 (Stable)	• <u>AA2 (Stable)</u>	• Reaffirmed on 29.08.2024.
	10	AA2 (Stable)	• <u>No review yet</u>	• Newly issued on 14.11.2024.

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ii. ADA's Sukuk Programme Rating Review:

Class	Tranche	From (Since Issuance)	To (Latest Review)	Status
A	1 to 3	AAA (Stable)	• <u>AAA (Stable)</u>	• Fully redeemed in FYE 2024.
	4 to 5	AAA (Stable)	• <u>AAA (Stable)</u>	• Fully redeemed in FYE 2025.
	6	AAA (Stable)	• <u>No review yet</u>	• Newly issued on 30.06.2025.
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. • Fully 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. • Fully 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. • Fully 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. • Fully early redeemed upon expected maturity date on 11.09.2024.
	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. • Fully early redeemed upon expected maturity date on 14.03.2025.
	6	AA2 (Stable)	• <u>No review yet</u>	• Newly issued on 30.06.2025.

As at 31 March 2025, financing liabilities stood at RM2.06 billion as compared to RM2.12 billion a year ago, with a manageable gearing ratio of less than 2.0 times.

The Group maintains minimal operational cash and bank balances while holding designated sinking fund accounts to service Sukuk obligations. As at 31 March 2025, the independent trustees held RM631.9 million out of the total RM767.5 million in cash and cash equivalents.

OUR PEOPLE

People are central to the Group's success. Attracting, developing and retaining top talent is essential for growth and operational continuity.

In FYE 2025, the Group invested in talent management and leadership development initiatives. These efforts equipped employees with critical skills and an agile mindset to navigate a rapidly evolving business environment. Continuous capability enhancement prepares the workforce to meet future challenges.

The Group's commitment to transparent communication keeps employees informed about policy and procedural updates, fostering a culture of trust and engagement.

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Looking ahead to FYE 2026, the Group will continue to focus on its employee well-being efforts, particularly mental fitness and health management. Nurturing a diverse and inclusive culture and employees' holistic well-being fosters loyalty and creates a workplace where all individuals can thrive.

ACCELERATING EESG AGENDA

The Group embeds EESG principles into its business strategy, delivering measurable and lasting outcomes that create sustainable stakeholder value. This extends beyond regulatory compliance, shaping an ethical business model that promotes growth and stability.

Integrating EESG principles, the Group refines its practices to meet evolving expectations and drive responsible conduct. This strategic emphasis allows informed decision-making at all levels.

RCE's inclusion in FTSE4Good Bursa Malaysia Index and FTSE4Good Bursa Malaysia Shariah Index, for six and four consecutive years respectively, signifies its focus on sustainable business practices and governance.

The upcoming implementation of National Sustainability Reporting Framework will further increase transparency and accountability, enabling the Group to respond to evolving stakeholder expectations and accelerate progress on its sustainability journey.

OUTLOOK AND PROSPECTS

In 2024, the global economy recorded a stronger than expected recovery. Easing inflation, steady consumer demand, accommodative monetary policy and technology have sustained trade momentum. Persistent geopolitical tensions, inflationary pressures and climate related disruptions continue to pose elevated risks.

Compounding these challenges, the newly imposed 25% United States tariff on all Malaysian exports, effective 1 August 2025, presents further downside risks to the trade outlook. While the measure seeks to address trade imbalances, it raises concerns over potential disruptions to supply chains, investment flows and export performance. Weaker demand from key trading partners and domestic fiscal reforms such as subsidy rationalisation and potential tax adjustments, could further dampen consumer sentiment and reduce disposable income. Elsewhere, evolving trade and tariff policies in major economies may disrupt global growth and inflationary patterns, while escalating geopolitical instability could heighten volatility across financial markets. Continued vigilance and agility are essential in navigating an increasingly complex global environment.

The recent reduction of 25 basis points in the Overnight Policy Rate to 2.75% is expected to support Malaysia's growth momentum while keeping inflationary pressures contained. Domestic economic activities remains resilient, underpinned by robust household spending. However, external headwinds such as geopolitical tensions and evolving trade policies may weigh on sentiment. Notwithstanding these challenges, Malaysia's solid macroeconomic fundamentals and continued structural reforms provide a stable foundation for future growth.

Against this backdrop, the Group anticipates rising demand for public sector financing fuelled by upcoming salary revisions for civil servants, creating opportunities for competitive and responsible financial solutions.

The Group expects the recent acquisition of CAD to support future expansion and improve market competitiveness. At the same time, the Group remains vigilant of rising credit risks, increased scrutiny on ethical financing and potential impact of ongoing policy reforms on consumer sentiment.

As the Group navigates this evolving landscape, it remains alert to global risks, including trade uncertainties and fiscal reforms, while strengthening its risk management, governance frameworks and long term stability. Building on a solid foundation, the Group places emphasis on its forward looking strategy to contribute to Malaysia's economic growth and deliver stakeholder value.