

Sustainability Statement

SUSTAINABILITY GOVERNANCE

RCE Capital Berhad's ("RCE") Board of Directors ("the Board") and Management understand the importance of good sustainability practices and its Economic, Environmental and Social ("EES") impacts. Sustainability has always been a consideration in RCE and its subsidiaries' ("the Group") decision-making process and this report commemorates the Board's first endeavour to convey its sustainability efforts to a broader audience besides complying to the new Main Market Listing Requirements issued by Bursa Malaysia Securities Berhad ("Bursa") on Sustainability Reporting. As the culmination of our efforts, it is with great pleasure for the Board to present the Group's first Sustainability Statement.




The Group has established the Sustainability Management Committee ("SMART") responsible for the implementation of sustainable policies and administering sustainability reporting of the Group. SMART reports and provides advice and recommendations to the Board, who is ultimately accountable for overseeing and governing sustainability matters of the Group.

SCOPE OF REPORTING

This statement covers the Group's operations pertaining to its main subsidiary, RCE Marketing Sdn Bhd ("RCEM"), for the purposes of the Sustainability Statement, for the financial year ended ("FYE") 31 March 2018, guided by the standards outlined in Bursa's Sustainability Reporting Guide. RCE Marketing Sdn Bhd accounts for more than 95% of the Group's revenue, as well as majority of the EES impact.

MATERIAL SUSTAINABILITY ISSUES

For the beginning of FYE 2018, the Group identified the issues impacting the Group's EES initiatives as listed below by mapping them on the materiality matrix developed by Bursa in the Sustainability Reporting Guide and Toolkits. Moving forward, a more formal and comprehensive materiality assessment will be explored to identify and manage important sustainability issues for stakeholders and business strategies.

	Sustainability Matters	Risks and Opportunities
 Economic	1. Business sustainability	<ul style="list-style-type: none"> Disruption in collections is mitigated through engagement of two collection management providers
	2. Corporate strategy	<ul style="list-style-type: none"> Adapt to dynamic market environment and product demand with regular review of product pricing and credit scoring model Asset-liability matching improved through the Sukuk Murabahah Asset-Backed Securitisation Programme up to RM900.0 million ("Sukuk Programme"), converting short-term debt to long-term debt
 Environmental	3. Environment	<ul style="list-style-type: none"> Promote environmental sustainability with the use of energy efficient and cost-effective tools and equipment
 Social	4. Employee management and development	<ul style="list-style-type: none"> Encourage employee retention with competitive remuneration and benefits, career development opportunities within a safe and healthy workspace
	5. Customer privacy	<ul style="list-style-type: none"> Customer privacy safeguarded with secure data infrastructure and software
	6. Community investment	<ul style="list-style-type: none"> Contributing to society as a responsible member of the community, consistent with our positive brand and image

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1. Business Sustainability

Demand for loans and financing will persist and continue to do so in the long-run as an essential facilitator of economic consumption. Considering the stable outlook of the Malaysian civil servants workforce in the medium-term, the Group remains a committed player as a financial solutions provider in the underserved niche market. We will remain a going concern supported by continuous receivables growth, generating sustainable revenue and net profits.

Our primary source of revenue is interest income from financing disbursements, which are collected via direct salary deductions through two collections management service providers, Biro Perkhidmatan Angkasa, a union spearheading the Malaysian national cooperative movement and EXP Payment Sdn Bhd, a subsidiary of the Group. The engagement of two collections management providers is intended to build greater resilience, providing alternatives and a wider range of options to safeguard business continuity.

Product pricing is measured against cost of funds and matched to customers based on their risk profile assessed through our credit scoring model, both are regularly reviewed with on-going developments or enhancements to suit the conditions of a dynamic environment. Portfolio quality as measured by gross impaired loans remains healthy and compares favourably to the levels reported five years ago, as presented in the Management Discussion and Analysis (“MDA”) on page 15.

The Group’s borrowings are a mixture of short-term revolving credit lines and long-term borrowings such as term loans and Sukuk. Revolving credit lines provide lower cost of funds but require additional asset-liability management resources due to the long-term nature of our financing products. To improve liquidity and ensure sufficient funds for sustainable business operations, cheaper long-term debt is sought to better match our long-term receivables, such as the Sukuk Programme. As reported in the MDA on page 17, the Group achieved a net current asset position as at FYE 2018 from a net current liability position in the previous financial year.

Whilst the Sukuk Programme has contributed to a larger proportion of debt, gearing levels remain manageable and the Group is conscious of its cashflows and ability to service its borrowings as it strives for a more efficient debt capital structure. Over the years, the Group fully redeemed and settled its RM95.0 million Underwritten Bonds and Commercial Papers Programme in FYE 2011, RM1.5 billion Asset-Backed Securities Programme in FYE 2015 and RM420.0 million Medium-Term Notes Programme in FYE 2017. Moving forward, the Group will continue to actively pursue the strategy of lower cost financing.

2. Corporate Strategy

As a financial solutions provider, the Group’s operations will have an indirect effect on its customer’s consumption and financial wealth. The Group understands the effects of lending may span beyond the livelihood of customers, affecting society as a whole, not to mention the impact on the country’s high household debts. We are committed to remain a prudent and responsible lender, guided by Bank Negara Malaysia’s guidelines to ensure positive EES contribution, channeling funds to those in need as per the business of a financial solutions provider.

In deciding on a capital structure, the Group considers both the interests of affected stakeholders as well as available resources to achieve the optimum structure that best fits the business. Debt is sought to finance working capital while we strive to strike a balance between distributing earnings as investor returns, retaining funds for business cashflows and for potential new business opportunities.

Whilst the Group conducts its utmost due diligence to ensure the products are offered to individuals who qualify, lending institutions should not be solely liable for responsible channeling of funds. There is a need for customers to practice responsible borrowing in the best interests of their financial health as they are ultimately accountable for their personal welfare. Quoting businessman and author Robert T. Kiyosaki, “*Good debt is a powerful tool, but bad debt can kill you*”. With that in mind, the Group advocates responsible borrowing with strict adherence to the 60% maximum restriction on civil servants’ salary deductions to avert over-indebtedness and promote a healthier financial landscape and community.

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3. Employee Management and Development

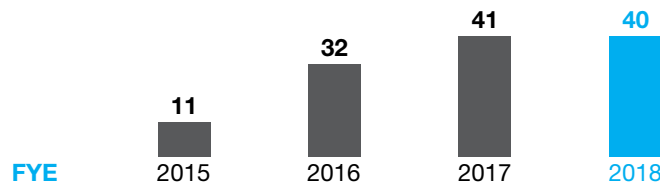
The Group strives to promote employee engagement to attract and retain talent, its most valuable asset. Policies to address the focus areas which drive and motivate our employees are in place.

- Career development

The Group views career development as a form of partnership with employees, by aligning employees with our shared missions and values. A variety of programmes are in place for each employee's personal and professional development, from our internal coaching programme and on-the-job training to engaging external qualified trainers to conduct soft skills and leadership programmes as well as technical trainings. Nevertheless, employees are strongly encouraged to take charge and be responsible for their own growth, taking the initiative to identify their training needs and forge their own career path guided closely by their immediate superiors.

The training hours per staff is presented below as an indicator of the Group's investment in employee career development.

Training Hours / Staff



- Remuneration and benefits

The Group's basic remuneration scheme includes a competitive base salary with performance driven reward packages to incentivise performance. Remuneration and benefits include:

- √ Employees' Share Scheme
- √ Loan Interest Subsidy
- √ Cost of Living Allowance
- √ Children Education Achievement Incentive
- √ Long Service Award

- Work-life blend

The concept of work-life blending is promoted among our employees as we believe life has more to offer in addition to a successful and satisfying career. Our employees are more than just a workforce, each is a unique individual with his/her own interests and personal hobbies. To keep our employees rejuvenated and refreshed, the Group has also rolled out several programmes for employee recreation including but not limited to the following:

- √ Weekly zumba, yoga classes and badminton sessions
- √ Fun workshops like gift wrapping, soap making and flower arrangement
- √ Terrarium class
- √ Mall hunt – treasure hunt

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- Occupational safety and health

As a responsible employer, great emphasis is placed to ensure a safe and healthy workplace environment for our employees. Initiatives to foster health and wellness among our employees in FYE 2018 include:

- √ An established Safety, Health and Emergency Response Committee
- √ First aid courses
- √ Security awareness for women
- √ Installation of air purifier machines and LED lighting replacements
- √ Installation of vinyl flooring
- √ Annual influenza vaccination
- √ Wellness programme
- √ Engagement of an ergonomics service provider
- √ “Fruity Tuesday” where fresh fruits are distributed to employees every Tuesday

4. Customer Privacy

As an entity collecting personal information in the provision of its services, the Group places great importance on customer privacy. Great care is exercised in safeguarding these private and confidential data through our secure data infrastructure and software. During application, customers are provided with our Privacy Notice detailing our usage and collection of personal data as guided by the Personal Data Protection Act 2010.

A sample of our Privacy Notice may be obtained from our website at <http://www.rce.com.my>.

5. Community Investment

The Group continues its corporate social responsibility (“CSR”) activities in its efforts to give back to the people. As a member of society, we continue to play a role in contributing to and enriching the welfare of the community while striking a balance between business profitability and meeting the expectations of stakeholders.



Movie outing with 30 orphans from Yayasan Chow Kit in December 2017.



Complimentary health screening campaign in partnership with the National Kidney Foundation, held in Dewan Bahasa dan Pustaka in September 2017.

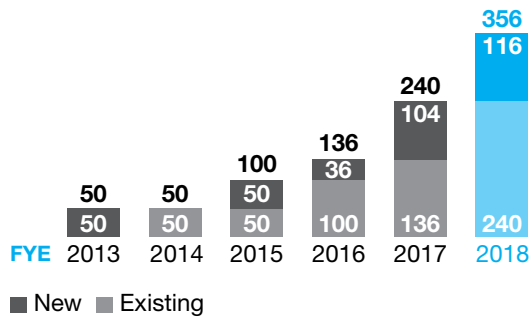
Contributions in cash and in kind were extended to support charitable causes and voluntary contributions, including a donation to 52 orphans from Rumah Anak Yatim Baitul Fitrah as well as a movie outing for 30 orphans from Yayasan Chow Kit during the financial year.

In FYE 2018, the Group has worked in partnership with the National Kidney Foundation for the 11th consecutive year to carry out health screening campaigns at various government departments with the aim of raising health awareness towards kidney diseases for a healthier Malaysia.

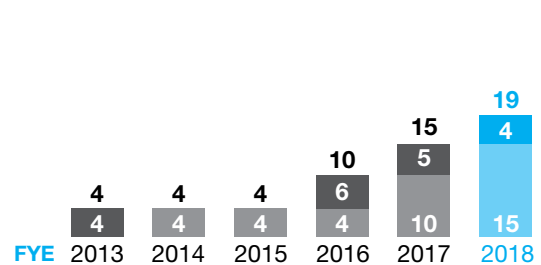
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Education is our investment in the next generation and the Group has extended study grants worth RM400,000 to 19 deserving students since 2013, through our partnership with Yayasan Azman Hashim, a non-profit charitable institution headed by Tan Sri Azman Hashim, with the aim of assisting young ambitious scholars in their journey to become future leaders of our nation. Out of the 19 students, the 4 most recently awarded students have received their first payment during FYE 2018.

Accumulated Study Grant Paid (RM'000)



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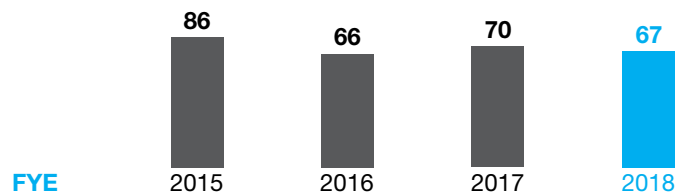


With everyone's concerted effort supporting the Group's CSR initiatives, we believe that fulfilling our civic duties will pave the continuity of our community, creating value and a place for the long-term sustainability of the Group.

6. Environment

The nature of the Group's operations may not have a direct significant impact on the environment, but environmental issues such as energy efficiency and waste management remain as a common theme. The Group maintains its presence of mind and makes a conscious effort towards environmental sustainability to ensure the interests of other stakeholders are not compromised. Energy efficient and cost-effective equipment and appliances are procured or rented while the Group gradually adopts digitalised forms such as e-statements to reduce paper usage and waste. Following our initiatives, cost savings and lower energy consumption are observed, deriving from the installation of new LED lighting to replace fluorescent lights as well as management of a centralised air-conditioning system.

Monthly Electricity Consumption / sqft (sen)



The Group encourages its employees to practice an environmentally conscious lifestyle and promotes environmental awareness whenever reasonable.