RCE CAPITAL BERHAD

Registration No. 195301000151 (2444-M)

SUMMARY OF KEY MATTERS DISCUSSED AT THE SIXTY-SIXTH ANNUAL GENERAL MEETING ("AGM") HELD ON 22 SEPTEMBER 2020

NO.	QUESTIONS RAISED BY MINORITY SHAREHOLDERS WATCH GROUP	RESPONSES TO MINORITY SHAREHOLDERS WATCH GROUP
	STRATEGY & FINANCIAL MATTERS	
1.	The Company has achieved 5.3% growth in financing to RM1.8 billion in FY 2020 from RM1.7 billion the year before. Does RCE expect to maintain similar financing growth in FY 2021 notwithstanding the current economic slowdown? What are the catalysts for financing growth in FY 2021?	Demand for RCE's financing is non-cyclical, we expect financing growth in FY 2021 to be line with industry average. Our focus remains with quality financing to ensure sustainability of our business.
2.	RCE has seen reduction in weighted average cost of funds of between 4.2% and 5.7% in FY 2020, against 5.1% and 6.3% recorded in FY 2019 (page 13 of Annual Report 2020). On the other hand, the weighted average interest rate of the Group's borrowings as of 30 June 2020 ranges from 3.7% to 5.4% (30 June 2019: 4.8% to 6.0%) per annum (Interim Financial Report for Q1 FY 2021 ended 30 June 2020).	
(a)	Has the average interest rate been adjusted in accordance with the substantial cut in the Overnight Policy Rate (OPR) by the central bank this year? With another round of rate cut brewing, how does the Company foresee its cost of funds moving forward?	○ Borrowings with variable interest rates will be adjusted accordingly at interest periods. ○ Any change in OPR throughout FY 2021 will be reflected in the average interest rate. The impact on RCE's cost of funds is subject to the magnitude of OPR movements.
(b)	RCE plans to match its assets by converting the current liabilities into non-current liabilities in order to meet its short-term obligations as and when they fall due with the option of raising funds from market via sukuk programmes (page 164 of Annual Report 2020). What are the benefits such conversion offer to RCE? What is the estimated size of current liabilities that will be involved for such conversion, if takes place? How does the Group plan to take advantage of the current low interest rate environment to better manage its debt and liquidity?	○ The Group's borrowings consist of short-term and long term financing. Short-term financing such as revolving credit lines are utilised to build receivables. Once the receivables reached a meaningful sum, they will be securitised for the issuance of sukuk with maturity that will closely match the receivables. ○ With active asset and liability management, we will ensure that the liquidity risk is being managed and sufficient funds are available to meet financial obligations as and when they fall due.

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		○ In the current low interest rate environment, the Group continues to diversify its banking facilities and tap into debt capital market through the issuance of sukuk to enjoy optimal funding rates.
(c)	Given current low interest rate environment, and the consequent lower return on deposits, how does the Company plan to generate better return and value from the RM414.72 million deposits with financial institutions (as of 30 June 2020)?	○ The deposits with financial institutions ("FIs") are mainly in relation to collections remitted into the sinking funds from receivables ring-fenced against the existing sukuk programmes. ○ Accordingly, the sinking funds have been placed with FIs that provide competitive placement profit/interest rate and proven track record.
3.	RCE saw a sharp increase of 59% in allowance for impairment loss on receivables in Q1 FY 2021 to RM7.16 million, as compared to RM4.5 million in Q1 FY 2020, after taking into account the unfavourable impact arising from the further contraction of the forecasted real GDP.	
(a)	Considering the 17% contraction in Malaysia's second quarter GDP growth and worsening economic outlook, will the situation of increased impairment allowance persist for the rest of FY 2021?	○ The expected impairment allowance of our forward-looking model under MFRS 9 is guided by the economic projection derived from selected research house. ○ The extent of the impairment allowance required is assessed quarterly subject to the economic outlook projection published by the research house.
(b)	RCE's gross impaired financing improved to 7.1% in FY 2020 from 7.4% in FY 2019. Where does RCE's GIL ratio stand as compared with other banks and financial institutions in the personal financing segment? How will the GIL ratio perform in FY 2021 considering current economy condition and forward-looking macroeconomic variables?	○ RCE's underlying customers are generally civil servants with repayment of financing through salary deduction. This is not comparable with other banks and FIs with various financing products available for offering to their customers. ○ The GIL ratio is prudent with no significant or unusual movements observed and is closely monitored.

(Summary of Key Matters Discussed at the Sixty-Sixth Annual General Meeting held on 22 September 2020 – cont'd)

NO.	QUESTIONS RAISED BY MINORITY SHAREHOLDERS WATCH GROUP	RESPONSES TO MINORITY SHAREHOLDERS WATCH GROUP
4.	RCE has placed "breach of privacy" and "evolving digital trend" as some of the highly prioritised matters on its materiality matrix (page 25 of Annual Report 2020). Notwithstanding this, the investment on data security infrastructure was lower in FY 2020 with RM113,400 spend (FY 2019: RM327,400) and RM142,000 spent to improve business processes in FY 2020 (page 33 and 34 of Annual Report 2020). Given the constantly evolving data security threat and digital trend, is the current spending level on technology sufficient for RCE to uplift its cybersecurity system, software and equipment to guard against potential threats and cybercrimes, as well as to be prepared for future digital disruptions?	○ We are committed to embrace the evolving digital technology to complement our business growth. Following this, the spending level on technology corresponds to our on-going assessments determined from time to time. Therefore, RCE both plan and assess the spending across several financial years as it is periodic in nature. ○ Periodic security tests are carried out to ensure our cybersecurity system is intact.
5.	The claims or incidents of non-compliance rose to RM10,339 in FY 2020 from RM598 in FY 2019 (page 32 of Annual Report 2020) due to penalties imposed arising from tax audits that were already resolved during the financial year. To which areas do the non-compliances relate to? What are the measures taken to improve the compliance in these areas?	○ The penalties arose mainly from differences in interpretation of tax treatments, which gave rise to additional tax payable. ○ The Group keeps abreast with latest tax developments. Professional consultants' advice are sought when in doubt, including clarification with relevant regulatory bodies.

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(Summary of Key Matters Discussed at the Sixty-Sixth Annual General Meeting held on 22 September 2020 – cont'd)

NO.	QUESTIONS RECEIVED IN ADVANCE FROM SHAREHOLDERS PRIOR TO AGM	RESPONSES FROM DIRECTORS/MANAGEMENT
1.	Why would a civil servant prefer RCE's personal financing as compared to banks' personal financing? What are the advantages that RCE can offer to its customers as compared to others in civil service financing?	RCE offered fast service. RCE is able to provide financing within 24 to 48 hours upon submission of financing applications from the customers. RCE is able to work round the clock to offer fast approval for financing to the customers.
2.	What is RCE's estimated market share in the provision of general financing to government employees? How does it compare against its main competitors like Malaysia Building Society Berhad and Bank Rakyat in terms of changes in market share and profitability (in personal financing business)?	RCE had approximately 5% of the market share in the provision of personal financing to government servants. RCE does not compete directly with financial institutions simply because financial institutions have cheaper source of funds whereas RCE usually try to deliver the financing to the customer on a fast track basis.
3.	After several years of double-digit financing growth, RCE's growth has now slowed to the banking industry average as it focuses on financing quality. Moving forward does Management foresee any changes in the balance between financing growth and financing quality?	RCE reaped benefits from focusing on financing quality. With better quality receivables and lower non-performing loans, RCE was able to source for cheaper funding. RCE's RAM ratings on most of the sukuk were upgraded from AA3 to AAA. Moving forward, the focus would still be on quality financing.
4.	Does RCE foresee a gloomy outlook in civil servant financing space due to the stagnant civil servant workforce and highly leveraged civil servants? What is RCE's strategy and growth plans moving forward?	RCE dissented from the view that the demand for financing had dissipated. Essentially, the demand continues. The focus was more on quality as it was important for RCE to have a sustainable business. Moving forward, it is also important to educate customers on responsible financing.
5.	How many percent of sales are coming from online lending marketplace? Is there any specific plan and strategy for RCE to increase its online presence?	In terms of online financing, i.e. Loan Street or iMoney, the applications received from customers were negligible. RCE would discontinue tying up with online financing marketplace if it was not value for money and not effective. Marketing Representatives were already using online portal for submission of financing applications.

(Summary of Key Matters Discussed at the Sixty-Sixth Annual General Meeting held on 22 September 2020 – cont'd)

NO.	QUESTIONS RECEIVED IN ADVANCE FROM SHAREHOLDERS PRIOR TO AGM	RESPONSES FROM DIRECTORS/MANAGEMENT
6.	Page 17 of the Annual Report mentions that the 100% owned subsidiary EXP Payment Sdn Bhd ("EXP") provides collection services for payroll deduction of government departments. What is the percentage of collection that is handled through EXP versus the other channel Biro Perkhidmatan Angkasa? Since EXP is a fully owned subsidiary, why it is not given 100% of the collection business?	EXP handles approximately 65% of the collection whilst the balance of 35% is managed through Biro Perkhidmatan Angkasa. EXP makes deductions from Accountant General ("AG"), Polis Diraja Malaysia ("PDRM") and various states, whereas Biro Perkhidmatan Angkasa handles deductions for all departments i.e. AG, PDRM, government-linked companies (GLCs), states and education institutions.
7.	RCE website shows that it works with partners Yayasan Ihsan Rakyat ("YIR") and Yayasan Dewan Perniagaan Melayu Perlis ("YYP"). What is the percentage of business that is originated from these Yayasan versus direct engagement by RCE? Do financing disbursement and repayment pass through both Yayasan? If yes, what is the maximum amount of credit risk exposure?	Both YIR and YYP are RCE's customers. RCE is the total solution provider and supplies funding to YIR and YYP. The ratio of the financing was 62% to YIR and 30% to YYP. The credit risk exposure to YIR and YYP was not considered high as RCE was in a way providing funds to individual customers directly, hence there was no significant concentration risk. In addition, the receivables were sold under the sukuk programme. Thus, reducing the concentration risk. For added comfort, periodical reviews were conducted on both YIR and YYP.
8.	Note 33(b)(i) (page 135 of Annual Report) states that "the Group does not have any significant concentration of credit risk due to its large number of underlying customers". However, Note 22 (page 136 of Annual Report) states that "there was significant concentration of credit risk arising from the amount due from one (1) major customer amounting to 64.22% of the total trade receivables". Please explain the apparent contradiction. What is the nature of this major customer? What is the maximum loss expected?	The Chief Executive Officer clarified that shareholder should refer to Note 34(b)(i) (page 158 of Annual Report) instead of Note 33(b)(i) as mentioned. Note 34(b)(i) refers to consumer financing, while Note 22 refers to trade receivables under confirming and factoring with corresponding credit risk disclosed in Note 34(b)(i).

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NO.	QUESTIONS RECEIVED IN ADVANCE FROM SHAREHOLDERS PRIOR TO AGM	RESPONSES FROM DIRECTORS/MANAGEMENT
9.	In 2015 RCE Capital Bhd said it would use Bank Negara's Central Credit Reference Information System ("CCRIS") by the end of 2015. During the 2018 AGM, the Management updated that the implementation was still in progress. What is the latest status? Does the lack of access to CCRIS put RCE at a disadvantage versus its competitor? Is the current in-house developed credit scoring model good enough?	There are third party CCRIS providers. The in-house credit scoring model was good enough for RCE and it does not pose any disadvantage to RCE.
10.	What is the percentage of customers who sign up for direct salary reduction? Can customers suspend the salary reduction scheme later? What is the process of dealing with delay or non-payment?	RCE only deals with salary deduction via Accountant General ("AG") or Biro Perkhidmatan Angkasa ("BPA"). RCE would not provide fund to the customers who do not have AG or BPA. Unless there was irrefutable reason such as fraud or identity theft, the salary reduction could not be suspended. In terms of dealing with delay or non-payment, RCE handled the situation with same process as what banks would do, i.e. via legal actions.
11.	The proposed Consumer Credit Act may impose greater regulation on financing pricing. How does the proposed Act impact RCE in terms of net profit/interest margin, pricing transparency, compliance cost and competition?	At this point, we are still not sure of the form or substance of the proposed Consumer Credit Act. Nevertheless, RCE would take necessary steps to comply with the provisions and believed that the relevant authorities would engage with all stakeholders before the proposed Consumer Credit Act comes into force.
12.	Referring to page 27 of the Annual Report, the three tranches of Sukuk issued was also internally subscribed by RCE Trading Sdn Bhd, a wholly owned indirect subsidiary. Why wouldn't RCE Trading finance directly? Did RCE Trading step in due to the lack of market interest to the Sukuk?	Class A and Class B subordinated sukuk were rated AAA and AA2 respectively. Class C subordinated sukuk was unrated and acts as a buffer and additional security for the sukuk, hence it was subscribed internally.

(Summary of Key Matters Discussed at the Sixty-Sixth Annual General Meeting held on 22 September 2020 – cont'd)

NO.	QUESTIONS RECEIVED IN ADVANCE FROM SHAREHOLDERS PRIOR TO AGM	RESPONSES FROM DIRECTORS/MANAGEMENT
13.	What is the difference between "loans" and "receivables/financing" as listed in Note 19, page 131 of the Annual Report?	"Loans and financing" was for conventional financing while "financing" referred to islamic financing. For the past 3 years, Securities Commission Malaysia had requested RCE to provide a breakdown of conventional financing and islamic financing income for better transparency.
14.	Referring to Note 23, page 137 of the Annual Report. What is the reason for the drastic reduction of other receivables from RM33,927,841 in 2019 to RM10,240,131 in 2020?	This refers to cash-in-transit and the reduction was mainly due to timing issue. Collections received that were yet to be identified with individual accounts would be classified as "other receivables".
15.	The virtual AGM is convenient for shareholders who have limited time or who live outside of Klang Valley. It is also environmentally friendly (by doing away with the need for traveling) and it encourages shareholders' participation. Given the advantage, can RCE at least provide the option of remote participation in next year's AGM?	The Company took note of the suggestion and would continue to be guided by the authorities and regulators.

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(Summary of Key Matters Discussed at the Sixty-Sixth Annual General Meeting held on 22 September 2020 – cont'd)

NO.	QUESTIONS SUBMITTED BY SHAREHOLDERS/PROXIES VIA TEXT BOX DURING THE AGM	RESPONSES FROM DIRECTORS/MANAGEMENT
1.	Pages 154 to 155 of the Annual Report disclosed that the RM900 million and RM2.0 billion sukuk financing incurred profit rates at a high of 11% and 9.5% respectively. Please elaborate on the reason(s) for such high profit rates for sukuk financing and what are amount financed by such high financing rates. In view of the current low interest/profit rates environment, what are the steps taken by Management to take advantage of current low rates for the Company's financing needs?	The profit rates mentioned in the Notes to the Financial Statements in the Annual Report included the step up rate of 4% for full disclosure purpose. There was a possibility that sukuk might be redeemed earlier and if the sukuk were redeemed earlier, there would be a step up rate of 4%. In terms of taking advantage of current low rates, the rates for sukuk had been reducing and RCE would always take advantage of the current profit rate environment as much as it can.
2.	RCE's business mainly depending on government servants, any plan to expand business outside of the public sector? If yes, what is the plan?	RCE had been in the public sector providing financing and hire-purchase to the public. Subsequently, RCE moved towards government servants simply because salary deduction is more stable and predictable and hence, RCE would continue to focus on only government servant financing moving forward.
3.	Please reconsider giving us e-voucher.	RCE had indicated in its Administrative Guide for the Annual General Meeting which were sent to all its shareholders that no distribution of gift/voucher to members/proxies who participate in the Annual General Meeting.
4.	Has the company conducted any share buy-back during the MCO period up to now when the share price of the company took a drip?	There has been no share buy-back conducted by the Company since the beginning of this current financial year i.e. 1 April 2020.
5.	The 1st Quarter 2021 results for period ended 30 June 2020 reported an additional RM2.6 million provision of impairment financing receivables. Can Board/Management update shareholders on status of the collection of the financing receivables since the announcement of the 1st Quarter 2021 results?	There was no deterioration noted in the collection for the recent quarters and in terms of impairment, this was in relation to the macroeconomic variables that taken into consideration arising from further contraction of Real Gross Domestic Product (RGDP).