

### **3. RESEARCH FINDINGS**

Findings of the research will be discussed under several sub-topics.

#### **3.1 Background of RHB**

The merger exercise between DCB Bank Berhad and Kwong Yik Bank Berhad in 1997 brought about RHB Bank Berhad. Having successfully led the merger with Sime Bank Berhad in 1999, RHB was accorded anchor bank status by Bank Negara Malaysia on 14 February 2000. With a share capital of RM3,318,085,000 and a total of 181 branches located throughout the country, RHB ranks number 4 in the banking industry in Malaysia in terms of market capitalization.

RHB was headed by Dato Ali Bin Hassan as Chairman and Tan Sri Dato Abdul Rashid Hussain as Executive Chairman. In March 2002, Tan Sri Dato Abdul Rashid Hussain sold his stake in RHB to Utama Banking Group, thus paving the way for the Utama Banking Group to become the single largest shareholder of the largest banking group in Malaysia.

#### **3.2 Loan Review at RHB**

RHB commenced significantly into loan review function in June 2002. Prior to this, RHB had not conducted proper loan review on their borrowers as they did not have experienced officers to perform the task. Cost cutting also played a part in RHB overlooking the review function in their credit management organization chart.

This scenario has since changed with the appointment of their new Chief Executive Officer, Mr. Michael Hague. There is a change in the direction of credit management and effort is being put in to develop the loan review system at RHB.

The role and direction of senior management in credit management is critical for the successful implementation of an effective loan review system. Without the support of senior management, it is almost impossible to introduce the loan review function in the credit organization chart and RHB was no exception to this theory.

### **3.3 Focus on Loan Review**

It was said that the present management has given directive to the Enterprise Banking Division to focus on conducting loan reviews. This means that greater attention is to be given for the reviewing of existing borrowers than concentrating on approving new loans. This change in direction comes about perhaps with the realization that much care is required in the nursing of the huge outstanding loans and the growing rate of non-performing loans.

Table 2 below shows the total loans and total non-performing loans position.

**Table 2: Total Loans and Total Non-performing Loans**

<b>Years</b>	<b>Total Loans</b>	<b>Total Non-performing Loans</b>
1996	RM14,576,017,000	RM162,333,000
1997	Not Available	Not Available
1998	RM24,208,976,000	RM1,445,839,000
1999	RM33,276,847,000	RM1,329,539,000
2000	RM33,476,491,000	RM1,046,097,000
2001	RM35,762,933,000	RM2,276,980,000

Source: Annual Reports: Public Bank Berhad and RHB Bank Berhad

As at 31<sup>st</sup> May 2001, the total outstanding loans stood at RM35,763M. If these existing loans were not given due care via loan review, it would result in greater non-performing loans. The non-performing loan rate was 6.4% in the year 2001. The non-performing rate had increased by 118% in the year 2001 compared to the previous year. However, a significant portion of the non-performing loans was acquired from the ex-Sime Bank Berhad pursuant to the merger exercise.

### **3.4 Loan Review Guidelines and Policies**

As the loan review function is weighted with more importance and given greater attention, concrete guidelines and policies for effective loan review to take place are being established with much effort in the process now. New sub-units, entrusted with specific job functions, are being formed to organize and coordinate the review function. The first in line is the Revolving Team.

### **3.5 Revolving Team**

With the bank's focus on loan review function, a team called Revolving Team was formed. The loan review function originates from this team. This team has been assigned with the task of identifying names of borrowers on monthly basis for loan review to be conducted. The selection of the borrowers is based on loan size and problems identified on per borrower basis.

### **3.6 Auto Renewal of Loans**

As outstanding loans are subject to review, a loan review is to be conducted to assess the outstanding loan. Whatever the credit decision, the expiry date has to be manually extended in the system, failing which, the loan account would wash out from the data base. To prevent wash out of the loans from the data base system, loan reviews need to be conducted and the expiry dates duly extended.

At RHB, the expiry dates are automatically extended for six months or even a year. This is because, the review function is not actively conducted. However, RHB is slowly adopting the policy of conducting loan reviews prior to renewing and extending the loan facilities.

### **3.7 Location of Loan Review**

The Enterprise Banking Division has been entrusted with the responsibility of reviewing their existing borrowers. Hence, at RHB, the loan review function comes under the lending function. The Enterprise Banking Division is responsible for processing loan requests and loan review. The credit officers at RHB perform dual functions that are processing loan requests and loan review. In the course of work, priority is given to the processing of new loans and loan review is of secondary importance.

### 3.8 Customer Rating

Customer rating is done based on a risk rating table. The customer rating table is a standard measure to rate the borrowers of the bank. This form is also a multi-purpose form. It is used to do initial grading of a borrower during approval of a loan and during loan review.

The rating process is based on qualitative analysis. RHB is yet to commence into a risk assessment stated in some tangible quantitative manner. A borrower may score 'Strong' where collateral is concerned but may score 'Satisfactory' due to weak financials and in this case the processing officer would just pick a rating that is more significant. Table 3 is a sample of the customer rating form used by RHB.

**Table 3: Customer Rating Form**

Risk Ratings		Features	Type of Review
Strong		Fully secured by fixed deposit, Standby Letter of Credit	Annual
Satisfactory		Clean, partially or fully secured by collaterals	Annual
Satisfactory Watch List		Satisfactory but weak financials noted	Annual
Watch List		Change in senior management	Biannual
Sub-standard	} non-performing } loans }	Delay in loans servicing	Biannual
Doubtful			Biannual
Bad			Biannual

Source: Credit Enterprise Department, RHB Bank Berhad

This being the case, the borrowers are not identified by grades in their main frame data base system. As such it is safe to say that the risk rating system at RHB is not designed to facilitate reporting and statistical and trend analysis. The risk rating system also does not provide an indication on the quality of loans in the portfolio.

### **3.9 Common Form for Loan Requests and Loan Review**

A multi-purpose form called Standard Credit Application Report (SCAR) is being used to process loan review. This same form is also used to process loan requests. All details pertaining to the background of the borrower, business financials and collaterals are covered in the form.

From its name, it is clear that the form was initially designed to accommodate loan application. Since RHB commenced into loan review, the same form has been used to process loan review. A copy of the form is per Appendix 2.

### **3.10 Compliance Confirmation**

Compliance checking is done based on a Compliance Confirmation Form. Compliance in respect of the type of facilities, limits, security documentation and existing terms and conditions is covered in the form. The form in total appears to be very general.

The Compliance Confirmation form is not designed to check and confirm compliance on the correct maintenance of the loan in respect of pricing, limits and other fees in the main frame. Reminder on important dates such as the expiry date of a guarantee cover is also not included in the form. A copy of the compliance confirmation form is per Appendix 3.