

DANAARTA

BRIEFING

INTERNATIONAL VISITORS' PROGRAMME

5 November 2002

ORGANISED BY
INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA

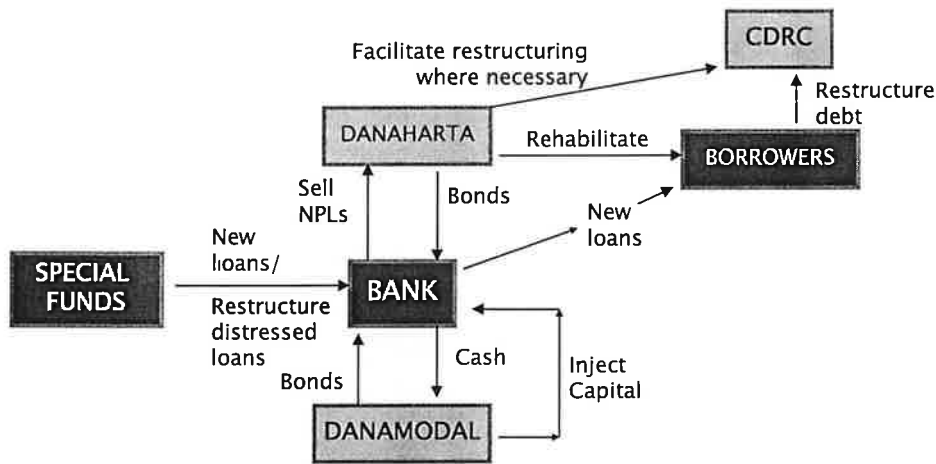
DANAARTA

OVERVIEW

COMPREHENSIVE BANKING RESTRUCTURING PLAN



COMPLEMENTARY ROLES



Coordination of activities undertaken by Steering Committee in BNM.

AMCs – In General

- Most AMCs are specifically designed to suit national situation, thus the organisation needs to be practical and solution-oriented
- Usually set up in answer to collapse of banking institution(s) or because of threat of banking system collapse e.g., RTC, Securum, KAMCO
- Danaharta is a pre-emptive action recommended by NEAC to avert a banking crisis
- Important distinction because Danaharta adopts market driven approach – no compulsory powers of acquisition
- AMCs are loss-making entities

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THE AMC CONTINUUM

- Types of AMCs



- Neither a rapid disposition agency nor a warehouse agency
- Resolve NPLs on account by account basis to extract maximum recovery value
- The number of accounts > RM5 million is small (approximately 3,000)

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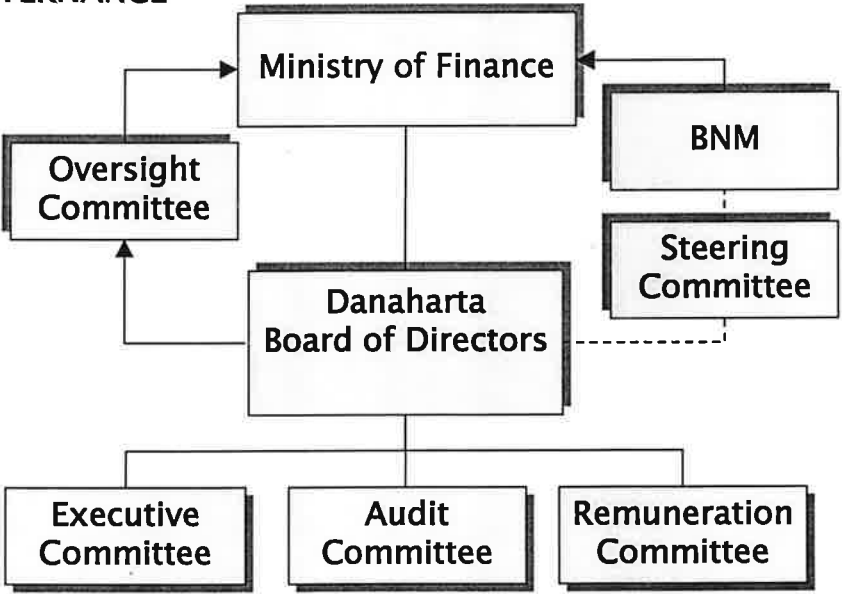
DANAHARTA'S OBJECTIVES

- Remove non-performing loan (NPL) distractions
- Maximise recovery value of acquired assets

PRINCIPLES

- Market-driven approach
- System-wide carve out
- A true asset management company

GOVERNANCE



CORPORATE INFORMATION

- Incorporated on 20 June 1998 as a limited liability corporation owned by Government.
- The independent Board and management of Danaharta are responsible and accountable for its operations
 - Chairman
 - *Y Bhg Dato'Azman Yahya* former Group Executive Director of Amanah Capital Group
 - Managing Director
 - *Encik Abdul Hamidy Hafiz* former Director of Operations, Danaharta
 - 3 non-executive Directors from Malaysian community
 - *YBhg Dato' Mohamed Haji Said*, Managing Director of Sime UEP Properties Berhad
 - *YBhg Dato' N. Sadasivan*, former Director-General of Malaysian Industrial Development Authority
 - *YBhg Dato' Richard Ho Ung Hun*, Vice-Chairman of Malayan Banking Berhad
 - 2 non-executive Directors from international community
 - *David Moir*, former td.
 - *Alister Maitland*, former Managing Director and Director of ANZ Banking Group
 - 2 non-executive Directors representing the Government
 - *Husniarti Tamin*, Deputy Secretary General for Systems and Control, Ministry of Finance
 - *YBhg Dato' Salleh Harun*, Deputy Governor of Bank Negara Malaysia (Central Bank)

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THE DANAHARTA ACT 1998

2 Main Principles

- Ability to acquire NPLs via statutory vesting
 - Danaharta takes clear title to NPLs but subject to registered interests and disclosed claims
 - Steps into shoes of selling institutions e.g., same priority standing
 - NPLs transferred without borrowers' consent
- Ability to manage
 - Can appoint Special Administrator (SA) with consent of Oversight Committee
 - 12-month moratorium from claims
 - SA workout proposals reviewed by Independent Advisor (IA)
 - Implementation subject to usual regulatory approvals

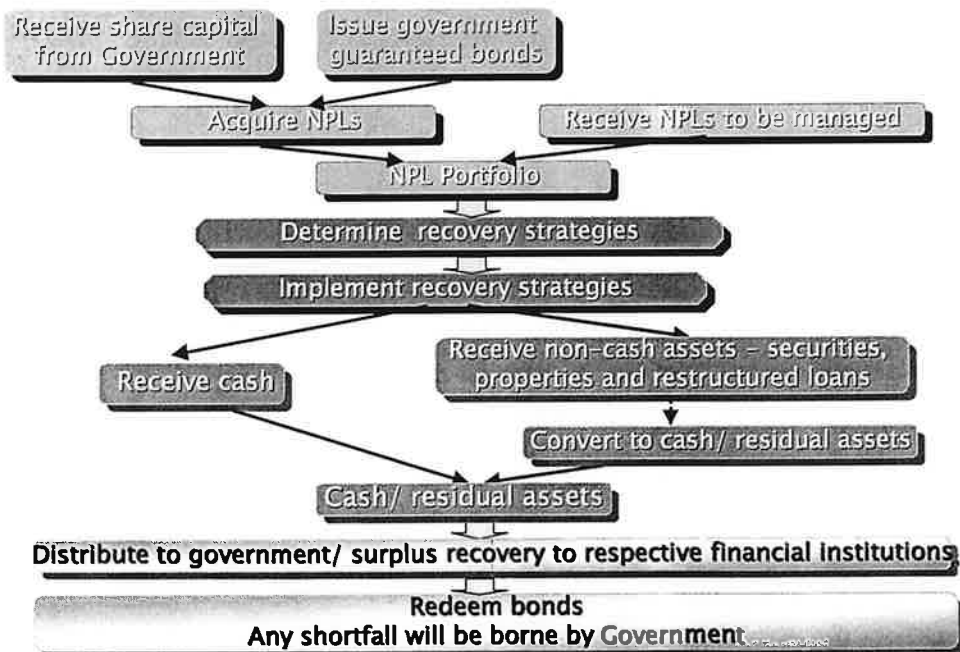
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THE NATIONAL LAND CODE 

Schedule 15:

- Ability to foreclose on assets and sell through private treaty
- Market value
- Need to give 30 days notice to borrowers
- Bypass court auction process

DANAHARTA'S MISSION FLOWCHART



FUNDING

| Funding sources | Purpose | Maximum amount allocated RM bn | Capital and outstanding liabilities RM bn |
|---|---|--------------------------------|---|
| Government contribution | Initial capital | 3 | 3 |
| Loan from EPF/ Khazanah Nasional Berhad | Draw down available for working capital | 2 | 0.8 [#] |
| Zero coupon bonds issued to the selling FIs | For NPL acquisition | 15* | 11.14* |
| Total | | 20 | 14.94 |

Of the total amount of RM1.3 billion loan initially drawn down, approximately RM0.5 billion has been repaid.

**Nominal value/face value of bonds*

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ACQUISITION MECHANISMS

- NPL \geq RM5 million / US\$1.3million (gross value)
- Market value determined by professional valuers
- Secured loans are valued according to collateral value
- Unsecured loans are acquired at 10% of outstanding loan
- Profit sharing – 20 (Danaharta) : 80 (FI)

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NPL PORTFOLIO

| | 30 June 2002 | |
|------------------------------|--------------|-----------------|
| | RM bn | No. of accounts |
| Acquired | 19.82 | 804 |
| Under Management | 27.94 | 2,101 |
| Danaharta's Portfolio | 47.76 | 2,905 |

Average discount rate for acquired NPLs : 54.4%

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EXPECTED RECOVERY RATE

| Recovery method | *Adjusted LRA RM billion | | ^Adjusted expected recovery RM billion | | Expected recovery rate (%) | |
|--------------------------|-----------------------------|------------------|--|------------------|----------------------------------|------------------|
| | Acquired loans | Managed loans | Acquired loans | Managed loans | Acquired loans | Managed loans |
| Plain loan restructuring | 3.72 | 6.23 | 2.76 | 4.96 | 74% | 80% |
| Settlement | 1.20 | 5.80 | 0.94 | 4.35 | 78% | 75% |
| Schemes of arrangement | 3.13 | 6.81 | 2.11 | 5.14 | 67% | 75% |
| Schemes under SAs | 2.62 | 3.01 | 1.30 | 0.95 | 50% | 32% |
| Foreclosure | 9.30 | 4.10 | 2.92 | 1.81 | 31% | 44% |
| Others | 1.45 | 2.91 | 0.85 | 1.62 | 59% | 56% |
| Legal action | 0.29 | 1.31 | - | - | - | - |
| Total | 21.71 | 30.17 | 10.88 | 18.83 | 50% | 62% |
| Overall recovery | 51.88 | | 29.71 | | 57% | |

* Comprising total LRA of RM47.74 and accrued interest of RM4.14 billion

^ Assuming zero recovery on defaulted cases as at 30 June 2002



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IDENTIFYING RECOVERY METHODS**Viable loans**

- Each borrower is given one opportunity to restructure his loan
- Plain loan restructuring, settlement of loans, schemes of arrangement

Non-viable loans

- Including borrowers who fail to comply with the loan restructuring guidelines
- Sale of borrowers' business or collateral
- Foreclosure, appointment of SAs and legal action

RM47.74 bil (LRA) or RM51.88 bil (adjusted LRA)
of NPLs have been dealt with

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RECOVERY METHODS

- **Plain loan restructuring**
Rescheduling of loans i.e. extension of loan tenure
Recovery received in the form of restructured loans and cash
- **Settlement**
One time settlement via cash or set-off of assets
Recovery received in the form of cash
- **Schemes of arrangement**
Schemes voluntarily formulated by borrowers and creditors
Voluntary schemes under Section 176 of the Companies Act or CDRC
Recovery received in the form of cash, securities and properties

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RECOVERY METHODS (cont.)**■ Schemes under SAs**

Scheme prepared by Special Administrator appointed by Danaharta

SAs are appointed in cases where a corporate borrower is unable to pay its debts or fulfill its loan obligations

As at 13 August 2002: Danaharta had appointed Special Administrators across 66 groups of companies

41 groups of companies are still at various stages of Special Administration

Special Administrators across 25 groups of companies have been discharged upon successful restructuring of the companies

Recovery received in the form of securities, cash and properties

RECOVERY METHODS (cont.)**■ Foreclosure**

Collateral can be foreclosed when a borrower fails to comply with its loan obligations

Involves the sale of property and shares collateral

Recovery received in the form of cash

RECOVERY METHODS (cont.)

- Foreclosure (properties)

As at 30 June 2002: conducted 6 nationwide property tenders and 3 specific tenders

Table: Results of property sales

| | Number of properties | Indicative value (IV) (RM million) | Consideration received (C) (RM million) | C/IV % |
|---|----------------------|---------------------------------------|--|------------|
| Sold in primary sales | 480 | 841.45 | 900.10 | 107% |
| Sold in secondary sales | 196 | 413.91 | 320.81 | 78% |
| Sub-total sold | 676 | 1,255.36 | 1,220.91 | 97% |
| Unsold | 128 | 584.88 | n/a | n/a |
| Total offered to the market as at 30 June 2002 | 804 | 1,840.24 | 1,220.91 | 97% |

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RECOVERY METHODS (cont.)

- Foreclosure (shares)

Danaharta is merely chargee to the share collateral

Sale of foreclosed shares will be done in accordance with Danaharta's guidelines

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RECOVERY METHODS (cont.)

- Others

Include amongst others, cases of partial resolution, liquidation of companies, appointment of Receivers and Managers

Recovery received in the form of properties, securities, and cash

- Legal action

Legal action against borrowers

Final resort for Danaharta after all other recovery methods have been exhausted

Recovery received in the form of cash, properties and securities.

ANALYSIS OF RECOVERY PROCEEDS
BY ASSET GROUP (as at 30 June 2002)

| Asset group (RM billion) | Expected recovery [#] | Defaulted | Expected recovery net default | Pending implementation | Recovery received |
|-----------------------------|-----------------------------------|-------------|-------------------------------------|---------------------------|----------------------|
| | (a) | (b) | (c= a - b) | (d) | (e = c - d) |
| Cash | 13.41 | 0.41 | 13.00 | 6.21 | 6.79 |
| Restructured loans | 12.25 | 1.85 | 10.40 | 2.54 | 7.86 |
| Securities | 5.18 | 0.29 | 4.89 | 2.93 | 1.96 |
| Properties | 1.42 | - | 1.42 | 0.68 | 0.74 |
| Total | 32.26 | 2.55 | 29.71 | 12.36 | 17.35 |

[#] Expected recovery does not include interest or adjustments due to gains or losses arising from the recovery process.

Default rate : 7.9%

**ANALYSIS OF RECOVERY PROCEEDS
BY ACQUIRED LOANS AND MANAGED LOANS**

| Types of loans | Expected recovery [#] (RM billion) | Pending implementation (RM billion) | Recovery received (RM billion) |
|----------------|--|--|-----------------------------------|
| Acquired loans | 10.88 | 5.75 | 5.13 |
| Managed loans | 18.83 | 6.61 | 12.22 |
| Total | 29.71 | 12.36 | 17.35 |

[#] *Expected recovery is less defaulted loans*

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POST-RECOVERY

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CONVERSION OF NON-CASH ASSETS INTO CASH

- Danaharta intends to eventually convert all non-cash assets into cash
- Conversion for the 3 non-cash assets:
 - Restructured loans → payment of loan installments and securitisation
 - Properties → sale of properties
 - Securities → sale of securities

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SECURITISATION OF PERFORMING LOANS

- Advantages of securitisation:
 - overcomes the operational difficulties faced in outright sales or auctioning a large number of accounts
 - avoids “cherry picking” by investors
 - enables a wider investor base to be addressed
- Issue met objective of generating earlier cash inflow for Danaharta from its performing loans
- Funds raised help to enhance Danaharta’s cash collection in meeting bond redemption and operational requirements

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ANALYSIS OF THE CONVERSION OF NON-CASH ASSETS RECEIVED as at 30 June 2002

| Asset group (RM billion) | Recovery Received | Stock valued as at 30 June 2002 | Realised in cash as at 30 June 2002 |
|-----------------------------|----------------------|------------------------------------|--|
| | (e) | (f) | (g = e - f) |
| Cash | 6.79 | - | 6.79 |
| Restructured loans | 7.86 | 4.23 | 3.63 |
| Securities | 1.96 | 1.85 | 0.11 |
| Properties | 0.74 | 0.40 | 0.34 |
| Total | 17.35 | 6.48 | 10.87 |

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ANALYSIS OF RECOVERY PROCEEDS

Total cash received

| | <u>RM billion</u> |
|-----------------------------|-------------------|
| Cash from recovery proceeds | 10.87 |

Adjustments:

Comprised primarily interest received on restructured loans and gains or losses from sale of foreclosed collateral and securities

1.55

| | |
|---|--------------|
| TOTAL CASH RECEIVED (as at 30 June 2002) | 12.42 |
|---|--------------|

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SUMMARY OF CASH STATEMENT As at 30 June 2002

| | <u>RM billion</u> |
|---|-------------------|
| Total cash realised from recovery proceeds | 12.42 |
| Add: | |
| 1. Capital received | 3.00 |
| 2. Long-term loans | 1.30 |
| 3. Other inflows - including, amongst others, interest received on deposits and placements | 1.46 |
| Total inflow | 18.18 |
| Less: | |
| 1. Total surplus recovery, distributed to financial institutions under profit sharing arrangement | 0.33 |
| 2. Total net cash distributed / to be distributed for recovery of loans from Sime Bank Group and BBMB Group | 8.71 |
| 3. Other outflows - including, amongst others, cash paid for NPL acquisition, repayment of loans, operational costs | 3.13 |
| Total outflow | 12.17 |
| TOTAL CASH AND CASH EQUIVALENTS AVAILABLE AS AT 30 JUNE 2002 | 6.01 |

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DANAHARTA BONDS ISSUANCE as at 30 June 2002

| Date of issue | Face value (RM billion) | Price for every RM100.00 in face value | Yield | Present value at issue date RM billion | Date of Maturity |
|-------------------------------------|----------------------------|--|--------|---|-------------------|
| 20 November 1998 | 1.022 | 69.832 | 7.150% | 0.713 | 31 December 2003 |
| 30 December 1998 | 1.580 | 72.012 | 6.672% | 1.138 | 31 December 2003 |
| 29 January 1999 | 1.105 | 71.301 | 6.654% | 0.788 | 31 March 2004 |
| 26 February 1999 | 1.242 | 72.296 | 6.475% | 0.898 | 31 March 2004 |
| 26 March 1999 | 1.393 | 72.758 | 6.445% | 1.014 | 31 March 2004 |
| 29 April 1999 | 1.050 | 75.584 | 5.487% | 0.793 | 30 June 2004 |
| 27 May 1999 | 0.511 | 76.229 | 5.400% | 0.390 | 30 June 2004 |
| 29 June 1999 | 0.744 | 76.862 | 5.330% | 0.572 | 30 June 2004 |
| 29 July 1999 | 0.527 | 76.223 | 5.319% | 0.402 | 30 September 2004 |
| 26 August 1999 | 0.204 | 73.585 | 6.111% | 0.150 | 30 September 2004 |
| 29 October 1999 | 0.575 | 76.365 | 5.283% | 0.439 | 31 December 2004 |
| 29 December 1999 | 0.392 | 77.363 | 5.194% | 0.303 | 31 December 2004 |
| 31 January 2000 | 0.162 | 77.244 | 5.063% | 0.125 | 31 March 2005 |
| 29 February 2000 | 0.305 | 77.697 | 5.025% | 0.237 | 31 March 2005 |
| 31 March 2000 | 0.328 | 77.494 | 5.165% | 0.255 | 31 March 2005 |
| Total | 11.140 | | | 8.217 | |
| Less adjustments | (0.273) | | | (0.202) | |
| Total as at 30 June 2002 | 10.867 | | | 8.015 | |

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SUMMARY OF KEY POINTS as at 30 June 2002

Overall

- Total NPL portfolio – RM47.76 billion (LRA)
- Total amount dealt with – RM47.74 billion (LRA)/
RM51.88 billion (adj LRA)
- Total expected recovery less default – RM29.71 billion
- Total recovery received – RM17.35 billion
- Balance recovery expected – RM12.36 billion
- Total recovery realised in cash – RM12.42 billion
(incl.adjustments of RM1.55 bil)
- Total recovery received to be realised in cash – RM6.48 billion

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SUMMARY OF KEY POINTS as at 30 June 2002

Acquired loans

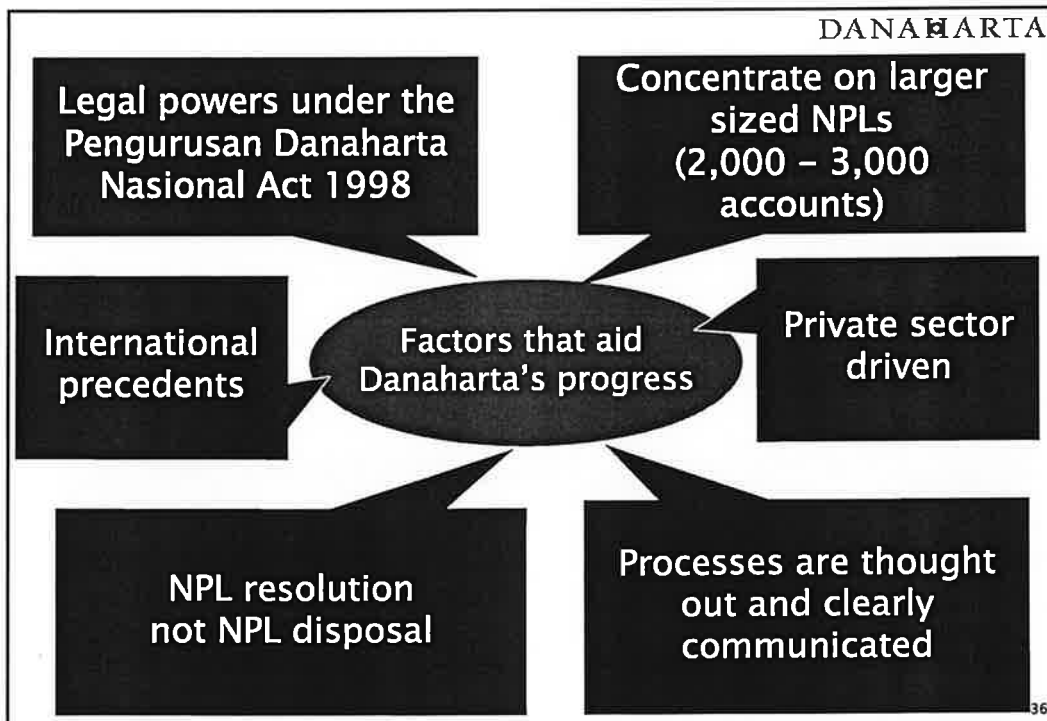
- Total expected recovery – RM10.88 billion
- Total recovery received – RM5.13 billion
- Balance recovery expected – RM5.75 billion
- Total recovery realised in cash – RM3.10 billion (incl. adjustments)

Managed loans

- Total expected recovery – RM18.83 billion
- Total recovery received – RM12.22 billion
- Balance recovery expected – RM6.61 billion
- Total recovery realised in cash – RM9.32 billion (incl. adjustments)

Cash and Bonds

- Total cash and cash equivalents available – RM6.01 billion
- Total bonds to be redeemed – RM11.14 billion



Thank You

Information on Danaharta can be found at:
www.danaharta.com.my

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