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Danamodal Plans to Inject RM1.5 billion into RHB Bank

KUALA LUMPUR, THURSDAY : The recapitalisation of Malaysia's banking sector went into high gear today with Danamodal Nasional Berhad agreeing to make an investment of RM1.5 billion in the merged RHB/Sime Bank.

The recapitalisation agreement signed today, paves the way for Danamodal to subscribe for irredeemable non-cumulative convertible preference shares with voting rights in the merged institution.

Danamodal's managing director Encik Mohamed Daud Dol Moin , speaking at the signing ceremony said the investment is in line with its mission to recapitalise and strengthen the banking industry and to facilitate the consolidation of and restructuring of the banking system.

The completion of the deal will be subject to Danamodal completing satisfactory due diligence, which is now ongoing. It is expected to be completed in several weeks.

RHB Bank had earlier this year acquired Sime Bank for RM852.2 million. On consolidation of the operations of the two banks, it was estimated, at that time that nearly RM1 billion in new capital would be required to adequately capitalise the merged entity.

Encik Daud said the RHB Group recently approached Danamodal and asked Danamodal to consider investing in the merged RHB/Sime Bank. And after two weeks of intense evaluation, analysis and negotiations, the two parties came to an agreement.

"Our decision to invest in RHB Bank was driven by our assessment on the viability of the merger scheme, its strong and proven management team and our believe that this investment will yield positive returns for our stakeholders

The recapitalisation of Malaysia's banking system was one of the key recommendations contained in the National Economic Recovery Plan unveiled in July. The National Economic Action Council is of the view that recapitalisation, rather than intermittent regulatory interventions, will restore public confidence in the safety and soundness of the banking system.

Recapitalisation is essential to enhance solvency, increase liquidity and allow Malaysian banks to concentrate on providing intermediation functions rather than being pre-occupied with defending their capital base in the light of weakening profitability and rising non-performing loans.

Encik Daud said Danamodal's investment in the merged RHB/Sime Bank will allow the banking institution to do precisely that. The investment will further improve the merged entity's capital adequacy to 10.5%. In comparison, the BASLE Convention stipulates a capital adequacy ratio of only 8% for the industry.

Apart from RHB/Sime Bank, Danamodal has identified a number of other investment opportunities and in some cases, has begun discussions. Details of such opportunities will be made available when further progress is made on those discussions and to the extent Danamodal determines to pursue them.

In pursuit of these objectives, it has also identified international and local advisors including an international investment bank that would assist in developing and establishing Danamodal's policies, systems and procedures of operations and to

advise on specific transactions. The terms of appointment for the advisors are being finalised.

He said because of Danamodal's unique position and the urgency of the task at hand, the company has drawn up a set of operating principles that will be guiding its operations, orientation and future direction.

These are : -

- Recapitalisation of banking institutions is ultimately aimed at promoting Malaysia's financial system stability.
- Recapitalisation is essential to restore or enhance solvency by strengthening balance sheet, improve profitability, enhance capacity to undertake the intermediation function and to restore public confidence in the safety and soundness of the institution.
- For recapitalisation of the banking sector to be effective, Danamodal will have to coordinate its effort with other agencies including Bank Negara Malaysia, the Finance Ministry and Danaharta Nasional Berhad, among others.
- Effective recapitalisation requires adherence to, and encouragement of, market principles and practices
- Recapitalisation efforts should be guided by both commercial and public policy considerations.
- Clear and decisive actions will be essential.
- Recapitalisation transactions should provide reasonable returns on investments to Danamodal and its investors.

Danamodal is a public limited company and will have an initial paid-up capital of RM1.5 billion, which will be provided by Bank Negara Malaysia. A plan is in place to increase the paid-up capital to RM3.0 billion.

