

F I N A L R E P O R T

DANAARTA
Pengurusan Danaharta Nasional Berhad a.s.b.w



1998 - 2005

Danaharta was an asset management company (AMC)

set up in June 1998 by the Malaysian Government

during the Asian financial crisis of 1997.

The national AMC, also known as an NPL resolution

agency, was a pre-emptive move to tackle the rising

level of non-performing loans (NPLs) in the

Malaysian banking system then.



P R E F A C E

Over the past seven and a half years, in adherence to its commitment to transparency, Danaharta has published reports on a periodic basis namely, the half yearly Operations Reports (that detailed the agency's progress vis-à-vis its mission) and the annual reports.

This is the final report published by Danaharta. Unlike previous publications that dealt with shorter time periods, this report encapsulates Danaharta's work & activities from its establishment (20 June 1998) to closure (31 December 2005). Due to the time required to prepare reports of this nature, key statistics as at 30 September 2005 will form the basis for this report, although Danaharta's operations will officially end on 31 December 2005. Nevertheless, wherever applicable, the projected figures for 31 December 2005 are included.

The report is drafted with the aim of giving readers a good understanding of Danaharta's mission.

It comprises three sections, arranged in the following sequence:

- Section A : A comprehensive write-up on Danaharta's work and activities throughout its life [pages 08 to 29](#)
- Section B : Danaharta's key statistics as at 30 September 2005 and projected statistics
for 31 December 2005 [pages 30 to 41](#)
- Section C : An evaluation of Danaharta's performance, featuring its Key Performance Indicators .. [pages 42 to 52](#)

A CD containing all the Operations Reports and Annual Reports issued by Danaharta since establishment, as well as this Final Report is provided for easy reference (please see inside back cover).

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DANAHARTA MAJOR EVENTS

MAY

20

The Government announced the creation of a national asset management company (AMC).

JUNE

4

Inaugural press conference to present the outline of the AMC.

20

Incorporation of Danaharta as the national AMC.

JULY

13-27

Danaharta Bill and National Land Code (Amendment) Bill tabled in Parliament.

AUGUST

4

Development Funds (Amendment) Bill tabled in Parliament.

5

Danaharta Bill passed by Parliament.

SEPTEMBER

1

Pengurusan Danaharta Nasional Berhad Act 1998 came into force.

10-11

Amendment to Development Funds Act and Amendment to National Land Code, came into force.

OCTOBER

6

Danaharta announced details of its acquisition approach for non-performing loans (NPLs).

16

Danaharta was appointed by Bank Negara Malaysia to manage Sime Bank Berhad Group's NPLs.

NOVEMBER

11

Danaharta signed agreements to acquire NPLs from 11 financial institutions.

20

Danaharta issued first tranche of zero-coupon bonds to financial institutions under its Bond Issuance Program. Danaharta issued, in total, 15 tranches of bonds from 1998 to 2000 to pay for Acquired NPLs.

26

Danaharta announced the appointment of the first three members of the Oversight Committee. Danaharta had since appointed seven other members, each replacing a retired committee member.

JANUARY

4

Danaharta appointed Special Administrators over Capitalcorp Securities Sdn Bhd - the first time Special Administrators were appointed. Danaharta appointed Special Administrators over 125 companies during its lifetime.

MARCH

16

Danaharta unveiled its inaugural Operations Report for the six months period ended 31 December 1998. Danaharta published the Operations Report twice yearly.

APRIL

7

Danaharta unveiled its Loan Restructuring Principles and Guidelines.

MAY

18

Danaharta unveiled its inaugural 1998 Annual Report. Danaharta published an annual report for every year of its operations except for year 2005 which was covered in the Final Report.

JUNE

30

Danaharta completed the primary carve-out of NPLs and commenced the management phase of the NPLs.

JULY

5

Danaharta held its first restricted tender exercise for the sale of foreign loan assets in its portfolio. Danaharta held, in total, four of such restricted tender exercises during its lifetime.

SEPTEMBER

24

The High Court of Malaya dismissed the application of a company for an interim injunction to restrain the Special Administrators appointed over the company and some of its subsidiaries.

OCTOBER

27

Danaharta embarked on a secondary carve-out of NPLs.

NOVEMBER

19

Danaharta held its first property sale through open tender. Danaharta held a total of 25 property tenders during its lifetime.

1998

1999

JANUARY

17

Danaharta participated in a roundtable discussion at the Asset Management Forum organised by the World Bank.

20

Danaharta was visited by ratings agency, Moody's Investor Services and the World Bank. Over the years, the ratings agency and the World Bank would visit Danaharta yearly.

FEBRUARY

14

Danaharta presented a paper on the overall Malaysian banking sector restructuring and recovery efforts with a progress update on Danaharta, Danamodal and the Corporate Debt Restructuring Committee (CDRC), at Salomon Smith Barney's Asia Banking Conference in Hong Kong.

16

Danaharta was visited by International Monetary Fund (IMF). IMF continued to visit Danaharta periodically.

21

Danaharta was visited by Deposit Insurance Corporation, Japan.

MARCH

13

Danaharta was visited by the United States Department of Treasury.

APRIL

14

Danaharta was visited by the Ministry of Finance Thailand, Krung Thai Bank and Bank of Thailand.

MAY

2

Danaharta was visited by the Institute of International Finance.

17

Danaharta was visited by the Ministry of International Trade & Industry, Japan.

JUNE

7

Danaharta was visited by the Japan Centre for International Finance.

13

Danaharta was visited by ratings agency, Standard & Poor.

30

Danaharta was visited by the Korea Tax Institute.

JULY

3

Danaharta signed an agreement with Permodalan Nasional Berhad to acquire TTDI Development Sdn Bhd.

11

Danaharta was visited by Korea Asset Management Corporation (KAMCO) and Korea Securities Research Institute.

Amendments to the Pengurusan Danaharta Nasional Berhad Act 1998 were tabled in Parliament.

26

Danaharta was visited by Institute of Developing Economies, Japan.

27

Danaharta was visited by the Indonesian Banking Restructuring Agency (IBRA), who visited Danaharta again subsequently in 2001 and 2003.

2000

31

Amendments to the Pengurusan Danaharta Nasional Berhad Act 1998 were passed by Parliament.

AUGUST

8

Danaharta was visited by the Ministry of Finance and Ministry of Planning of Egypt.

16

Danaharta was visited by the Japan External Trade Organization.

18

Danaharta was visited by the Monetary Authority of Singapore. The Monetary Authority of Singapore visited Danaharta again in 2002.

23

Danaharta was visited by Indonesian Members of Parliament and IBRA officials.

31

Pengurusan Danaharta Nasional Berhad (Amendment) Act 2000 came into force.

SEPTEMBER

22

Danaharta was visited by the Government of Singapore Investment Corporation.

OCTOBER

18

Danaharta presented a paper on the overall Malaysian banking sector restructuring and recovery efforts at ING Barings' In-Depth Investment Summit 2000 in Singapore.

19

Danaharta was visited by the State Bank for Foreign Economic Affairs, Republic of Turkmenistan.

24

Danaharta was visited by the Korea Asset Management Corporation.

NOVEMBER

2

Danaharta participated in a conference on "Program, Strategy and Principles in Resolving Corporate Debt Restructuring" in Jakarta, Indonesia.

4

Danaharta was visited by Radanasin Asset Management of Thailand.

9-10

Danaharta participated in the "Non-Performing Loans Forum of Asia Pacific" in Seoul, Korea.

14

Danaharta was visited by Great Wall Asset Management Corporation of China.

22

Danaharta was visited by Fitch IBCA.

23

Danaharta participated in a National Economic Action Council (NEAC) briefing to delegations from Zimbabwe and Mozambique.

DECEMBER

18

Danaharta was visited by the People's Bank of China.

JANUARY

10
Danaharta attended an IMF consultative meeting with financial market participants in Singapore.

FEBRUARY

21
Danaharta was visited by the Central Bank of Iran.

22
Danaharta was visited by the Financial Intelligence Agency (FIA).

28
Danaharta presented a paper on "Surviving Through the Crisis" at Asiamoney's "Best Managed Company" event in Singapore.

JULY

31
Danaharta was visited by Nepal Rastra Bank, the central bank of Nepal.

AUGUST

9
Danaharta was visited by Manuel Roxas, Secretary of Trade & Industry of Philippines.

SEPTEMBER

19
Danaharta made a presentation at the 20th Central Banking Course organised by Bank Negara Malaysia - "The Role of Danaharta in Structural Reforms during the Asian Crisis".

OCTOBER

8-12
Danaharta was invited to give a detailed presentation on its activities and modus operandi to the Banking Regulation and Supervision Agency of Turkey and the Turkish banking community in Istanbul.

2 0 0 1

MARCH

12
Danaharta attended the World Bank Asian Asset Management Forum roundtable discussion.

28
Danaharta was visited by the Korea Department of Overseas Regional Economics.

30
Danaharta organised a seminar and presented a paper on "Danaharta: Lessons Learned" to Thailand Asset Management Company.

MAY

9
Danaharta was visited by the Turkish Consulate.

14
Danaharta attended the US-Asean Business Council meeting at the Ministry of Finance of Malaysia.

NOVEMBER

1
Danaharta participated in the 2nd NPL International Forum in Beijing, China and presented papers on "Danaharta's experience and lessons to be learnt on NPL disposal" and "Asset Securitisation of Danaharta's Performing Loans".

2
Danaharta was invited to the South East Asian Central Banks Research and Training Center (SEACEN) Non-Performing Loans Resolution seminar in Taiwan and presented a paper on "The Danaharta Experience".

15
Danaharta was visited by the Foreign & Commonwealth Office of the United Kingdom.

JANUARY

23
Danaharta presented a paper on "Malaysia's Economic Outlook And Impact On Corporate Restructuring" at the National Conference On Corporate Strategy organised by the Asian Strategy & Leadership Institute (ASLI).

MARCH

18
Danaharta presented a paper on "Malaysia's Experience in Multi-Creditor Workouts" at the Insolvency Interest Forum : Global Approach to Multi-Creditor Workouts, organised by Malaysian Institute of Certified Public Accountants.

21
Danaharta presented a paper on "Turning around an Organisation" at a Senior Leadership & Management course organised by the National Institute of Public Administration Malaysia (Institut Tadbiran Awam Negara).

28
The Kuala Lumpur High Court ruled in favour of Danaharta on the application of injunction by Kekatong Sdn Bhd (Kekatong) to stop the sale of land pledged to its loan.

29
The High Court of Malaya ruled in favour of Danaharta on the application of injunction by Tan Sri Tajuddin to stop the sale of shares pledged to his loan.

APRIL

29

Danaharta was visited by Bank Indonesia - the Indonesian central bank.

30

Danaharta was visited by the Central Bank of Sri Lanka. It visited Danaharta again in 2003.

MAY

6

Danaharta was visited by the US Ambassador to APEC.

8

Danaharta presented a paper on "Malaysian Corporate Restructuring" at a luncheon talk organised by the British Malaysian Chamber of Commerce.

30

Danaharta presented a paper on "The Role of Danaharta in the Revival of the Malaysia Real Estate Industry" at the International Real Estate Federation (FIABCI) 53rd World Congress 2002.

JULY

18

Danaharta was visited by the French Central Bank.

19

Danaharta hosted a visit by H.E. Laksamana Sukardi, Indonesian State Minister of State-Owned Enterprises.

26

Danaharta presented a paper on "Case Study Malaysia: Danamodal, Danaharta and CDRC : Strengthening the Malaysian Banking Sector" at a seminar organised by IMF and BRSA of Turkey, in Ankara.

OCTOBER

23

Danaharta presented a paper on "Prospects and Challenges of Corporate Restructuring in the Era of Globalisation" at the National Conference on Corporate Restructuring, organised by the Malay Businessmen and Industrialists Association of Malaysia (Perdasama).

28

Danaharta presented a paper on "The Role of Danaharta and CDRC" at the 2nd SEACEN-Toronto Centre Leadership Seminar for Senior Management of Central Banks organised by Bank Negara Malaysia.

NOVEMBER

5

Danaharta hosted an international delegation (comprising analysts, economists and journalists) organised by Institute of Strategic and International Studies' (ISIS) as part of their International Visitors' Programme.

2002

JUNE

3-6

Danaharta hosted an official delegation from the Banking Regulation and Supervision Agency of Turkey, tasked with making a detailed study of Danaharta.

4

Danaharta was visited by the Bank for International Settlements.

10

Danaharta was visited by a delegation from China Huarong Asset Management Corporation.

11

Danaharta presented a paper on "Leadership for the Asian CEO Today" to Boston Consulting Group Leaders at a dinner forum organised by the Boston Consulting Group Sdn Bhd.

Danaharta presented a paper on "Corporate Restructuring - The Impact of Corporate Governance on the Resolution of Non-Performing Loans" at the Fourth Meeting of The Asian Program of The Institute Of International Finance Inc., organised by Maybank Berhad.

AUGUST

15

Danaharta presented a paper on "Trends in Malaysian Corporate Governance" at the Standard & Poor's Roundtable Luncheon.

SEPTEMBER

24

Danaharta presented a paper on "The Role of Danaharta in Structural Reforms during the Financial Crisis" at the 21st Central Banking Course organised by Bank Negara Malaysia.

21

The Court of Appeal ruled in favour of Kekatong on their appeal against the Kuala Lumpur High Court's decision and granted an injunction against Danaharta's sale of Kekatong's pledged property. The Court of Appeal also ruled section 72 of the Danaharta Act void and unconstitutional.

29

Danaharta was visited by the Asian Development Bank. The Asian Development Bank visited Danaharta again in 2003.

DECEMBER

11-17

Danaharta was part of an official delegation to Argentina to brief on Malaysia's experience in financial crisis management.

MARCH

26

Danaharta was visited by the Vietnam Bank Association. The Vietnam Bank Association visited Danaharta again later in the year.

JUNE

12

Danaharta was visited by the Institute of International Finance, New York.

JULY

30

Danaharta was visited by the Minister of Finance II, Dato' Dr. Jamaluddin Jarjis.

AUGUST

14

Danaharta presented a paper on "Debt Management Initiatives" at the Study Group on Asian Tax Administration and Research Training Programme organised by Inland Revenue Board Malaysia.

JANUARY

16

The Federal Court, Malaysia's highest court, reversed the Court of Appeal's decision in the Kekatong case and affirmed the constitutionality of section 72 of the Danaharta Act.

21

Danaharta was visited by the Bombay Stock Exchange, India. It visited Danaharta again at the end of the year.

FEBRUARY

13-15

Danaharta presented at the Colombo Conclave: "Balancing Recovery, Restructuring and Liquidation - the emerging challenges in Asia" conference in Colombo, Sri Lanka.

18-20

Danaharta presented a paper on "Mission & Progress of Danaharta" at the Conference on Banking Sector Issues: Weak Banks & Systematic Crises organised by the Bank for International Settlements in Bangkok.

24

Danaharta was visited by the French Embassy.

MAY

5-7

Danaharta presented a paper on "Danaharta Loan Restructuring Case Study" at the Asian Banker Summit for Establishing the Pillars of Sustainable Growth in Hong Kong.

JUNE

18

Danaharta was visited by ABN Amro.

30

Danaharta redeemed the sixth, seventh and eight tranches of its bonds.

2003

NOVEMBER

10-11

Danaharta presented a paper on "Asset Management Companies in Asia: Experiences and Current Challenges" at the Organization for Economic Co-operation and Development's (OECD) 3rd Forum for Asian Insolvency Reform in Seoul, Korea.

12-13

Danaharta presented a paper on "Financial Sector Reform Experience in Malaysia" to the Nepal Rastra Bank (Central Bank of Nepal) and the Nepal banking community at a Non-Performing Loans Seminar and Workshop in Kathmandu, Nepal.

DECEMBER

31

Danaharta redeemed, as scheduled, the first two tranches of bonds issued under its Bonds Issuance Program 1998 - 2000. There would be bonds maturing every quarter until 31 March 2005.

2004

MARCH

23

Danaharta was invited to present a paper on its experience at The World Bank Conference on Corporate Restructuring: International Best Practices in Washington, DC.

28-30

Danaharta presented a paper on "Malaysia's Experience with Corporate Restructuring" at the Program of Sekolah Staf dan Pimpinan Bank Indonesia (SESPIBI XXVI) in Indonesia, organised by Bank Indonesia.

31

Danaharta redeemed the third, fourth and fifth tranches of its bonds.

SEPTEMBER

30

Danaharta redeemed the ninth and tenth tranches of its bonds.

DECEMBER

31

Danaharta redeemed the eleventh and twelfth tranches of its bonds.

FEBRUARY

15

Danaharta was visited by the Thailand Asset Management Company.

MARCH

31

Danaharta redeemed the final three tranches of the bonds that it issued between 1998 to 2000. The total face value of all the bonds redeemed was about RM11 billion.

AUGUST

22

Danaharta was visited by the Debt and Asset Trading Company and Ministry of Finance, Vietnam.

2 0 0 5

SEPTEMBER

1

Danaharta made a presentation at a training course for the Inland Revenue Board of Malaysia.

22

Danaharta participated in an Insolvency Interest Forum (Sale of Distressed Loans) organised by the Malaysian Institute of Certified Public Accountants.

NOVEMBER

24

Danaharta published its Final Report as at 30 September 2005 and held a briefing to press members and analysts.



SECTION A

The Danaharta

THE BACKGROUND

In May 1997, Asia witnessed the onset of one of the worst financial crises ever to hit the region. The Asian financial crisis swept the region when it was least expected and left seemingly irreparable effects on the economies.

Malaysia was not spared from the predicament. The Ringgit currency experienced drastic devaluation, the stock market fell more than 50% from the pre-crisis level and business and consumer confidence were shaken. Businesses suffered acutely as consumers turned cautious and demand for goods and services plummeted. All these took a toll on the economy and the country rapidly slipped into a recession.

As financial intermediaries of the economy, the banking industry was significantly affected by the crisis. Non-performing loans (NPLs) began to rise as deteriorating finances of distressed borrowers and soaring interest rates impaired borrowers' ability to service loans. In addition, the collapse of financial and property asset values substantially reduced the value of the collateral for many bank loans. As a result, most financial institutions experienced erosion in profits. The financial institutions' capital base was also affected by increased losses from loan defaults, requiring them to seek recapitalisation.



Story



As NPLs continued to rise, the banking system faced the risk of a systemic failure. Prior to the crisis, the net NPL ratio in the banking system, based on 6-month classification (a bellwether indicator of the level of NPLs in the banking system), had remained tolerable in the range of 2% to 3% from March to September 1997. By July 1998, the net NPL ratio had crept up to double digits. The rate at which the NPLs were rising brought fears that the banking system might slip into a crisis.

The rising NPLs had two effects on the financial institutions: they tightened their lending and switched their attentions to rehabilitating the NPLs in their books. This prevented viable businesses from obtaining funds to generate economic activities.

However, the Malaysian Government had plans to address the distractions of rising NPLs and other effects of the crisis.

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THE DANAHARTA STORY

3 THE -PRONG APPROACH

In January 1998, the Malaysian Government set up the National Economic Action Council (NEAC) as a consultative body to the Cabinet, to guide the country out of the crisis. Its primary objectives were to deal with the economic problems confronting the country and revive the economy. The NEAC's Executive Committee, responsible for proposing policy and operational measures to resolve the economic woes and overseeing the implementation of NEAC's decisions, was chaired by the Prime Minister.

The NEAC prepared the National Economic Recovery Plan (NERP), which contained measures to guide the country out of the deepening financial crisis and towards economic recovery. Through the NERP, the Malaysian Government instituted both short-term and long-term measures to deal with the contagion effect of the Asian economic crisis. The NERP had six objectives, one of which was to maintain financial market stability.

To deal with the rising NPLs in the banking system, the NERP contained a recommendation that the Ministry of Finance establish both an asset management company (AMC) to acquire NPLs from financial institutions and a special purpose vehicle (SPV) to carry out the task of recapitalising the financial institutions. This led to the establishment of Pengurusan Danaharta Nasional Berhad (Danaharta) and Danamodal Nasional Berhad (Danamodal) in June and August 1998 respectively.

Danaharta's objectives were twofold:

1. to remove the distraction of managing NPLs from the financial institutions so as to allow them to concentrate on lending to support economic growth; and
2. to maximise the recovery value of the NPLs in its portfolio.

Working in parallel with the removal of NPLs by Danaharta, Danamodal injected fresh capital into the financial institutions. Danamodal provided funds to financial institutions which required additional capital to meet their capital adequacy requirements, but were unable to raise them on their own given the drastic changes in market conditions and sentiment.

As the health of the banking sector was also dependent on a strong and stable economic environment with vibrant business activities and particularly a viable corporate sector, it was important that both financial and corporate restructuring be implemented simultaneously.



AMC aimed at solving NPLs problems



THE DANAHARTA STORY

As such, a committee under the auspices of the central bank, Bank Negara Malaysia (BNM) was formed in August 1998. The committee, known as the Corporate Debt Restructuring Committee (CDRC), served to facilitate discussions between borrowers and financial institutions to enable expeditious and voluntary restructuring of debts to realise a greater collective benefit.

While Danaharta, Danamodal and CDRC were governed by their respective operational frameworks, their roles were complementary. All these entities were coordinated in their work by a Steering Committee chaired by the Governor of BNM. The establishment of these three agencies was the Malaysian Government's pre-emptive strategy in accelerating the restructuring and strengthening of the financial system. The initiatives taken by the Government, coupled with improvements in Malaysia's economic climate, avoided the risk of a banking system crisis in Malaysia.

DANAHARTA

Danaharta was incorporated on 20 June 1998 to tackle the NPL problem that arose during the Asian financial crisis. Its main objectives were to remove the NPL distraction from the financial institutions and thereafter extract maximum recovery value from the NPLs. The NPL resolution agency, euphemistically known as the national AMC, was established as a pre-emptive measure to avert a collapse of the banking system.

As with most national AMCs in the world, Danaharta is a finite life agency. It will have been in operation for seven and a half years by the time it winds down its operations on 31 December 2005, having achieved its NPL recovery mission.

THE AMC MODEL

In setting up Danaharta, one of the first tasks was to decide on the AMC approach that Danaharta would adopt.

AMCs are designed to specifically suit the conditions and address the problems faced by each particular country. Therefore, no two AMCs in the world are exactly the same because of the different circumstances and legal framework that exist in each country.

The continuum below illustrates the range of approaches available:

Figure 1: The AMC continuum



The establishment of these three agencies was the Malaysian Government's pre-emptive strategy in accelerating the restructuring and strengthening of the financial system.

On the one extreme, there is the:

- **Rapid disposition agency**
Such agencies take over the assets of the banks and dispose of them within a short timeframe, usually at fire-sale prices. Typically, they would have compulsory powers of acquisition. An example of a rapid disposition agency would be the Resolution Trust Corporation, which was set up in response to the savings and loans institutions crisis in the United States.

On the other extreme, is the:

- **Warehousing agency**
This type of agency takes over the NPLs of the banking system and warehouses them. Minimal effort is put in to maximise the recovery values of the NPLs, while it waits for the market to recover before commencing the disposition of its assets.

And somewhere in between, there is the:

- **Asset management company**
Such an agency actively manages the NPLs in its portfolio on an account by account basis, seeking to maximise recovery value. An example of this type of agency was Securum of Sweden.

THE DANAHARTA STORY

Danaharta chose to adopt an *asset management company* approach. It proposed to deal with the NPLs in its portfolio on an account by account basis, choosing the recovery strategy that would reap the best recovery value in each case. This was due to several key factors that were peculiar to the Malaysian banking sector then:

- A significant proportion of the NPLs in Malaysia suffered from structural issues, and required a resolution of the businesses rather than just the loans. This was due to the fundamental problems of the business, or the industry in which the company operated, or the financing structure of the borrower.
- Most of the NPLs in Malaysia at that time were chunky in nature, with around 70% of the banking system's NPLs comprising NPLs valued at RM5 million and above. The number of accounts then that were above RM5 million in value was also relatively small, between 2,000 and 3,000 accounts. The number of borrowers was even smaller as some borrowers had multiple accounts.

The relatively small number of accounts and borrowers made it feasible for Danaharta to adopt the true AMC approach, as it was able to actively manage the NPLs on an account by account basis. It also allowed Danaharta to extract maximum recovery from each account.

THE DANAHARTA ACT

After deciding on the approach, Danaharta was faced with a more daunting task of finding a way to help meet its objectives in the most effective, efficient and expeditious manner.

The solution was to draft new legislation - the Pengurusan Danaharta Nasional Berhad Act (Danaharta Act). The Danaharta Act, passed by Parliament in August 1998, provided the legislative framework for Danaharta's operations and gave Danaharta special powers to undertake its unique mission. The powers were important because it allowed Danaharta to work quickly and more efficiently.

Existing laws, although sufficient, would normally involve legal proceedings, which were very time-consuming. Faced with the immense pressure of mounting NPLs and the possibility of handling thousands of accounts, Danaharta did not have the luxury of time. It needed to work quickly to relieve the banking system of NPLs and prevent a systemic failure. The quicker Danaharta could complete its special task, the greater the benefits to the economy and taxpayers. In the interest of time, it was decided that some of the crucial operational activities would be done outside of the court process.

The Danaharta Act is often said to be the critical factor in the agency's success.

Danaharta's special powers

The Act conferred upon Danaharta three special powers:

1. The ability to buy assets through statutory vesting. This was essential to enable Danaharta to acquire assets with certainty of title and maximise value.
2. The ability to appoint Special Administrators to manage the affairs of distressed companies.
3. The ability to sell foreclosed assets quickly (which also necessitated amendments to the National Land Code).

• Statutory vesting

The Danaharta Act allowed Danaharta to buy NPLs from the financial institutions through statutory vesting. Essentially, it allowed Danaharta to step into the shoes of the selling financial institution. Danaharta was then able to take the same interest and enjoy the same priority as the selling financial institution, subject to registered interests and disclosed claims. For example, if the selling financial institution had a first charge over land as security for the NPL, Danaharta would also have a first charge over the land. If a second charge had been registered over the land by another financial institution, that second charge would continue to exist without any change in priority.

THE DANAHARTA STORY

Likewise, any caveats lodged over the land would remain. This meant that although statutory vesting allowed Danaharta to buy the NPL, Danaharta had to deal with existing registered interests should it wish to sell the land. In this manner, the Act preserved essential third party rights.

Where Danaharta acquired a secured loan from a financial institution, the ownership of the security or collateral did not change, i.e. it was not passed to Danaharta. Danaharta merely '*stepped into the shoes*' of the selling financial institution and assumed the selling financial institution's rights as a chargee of the asset, e.g. land. Should Danaharta need to sell the land to recover the loan, provisions of the National Land Code (as amended by the National Land Code (Amendment) Act 1998) had to be adhered to.



The Danaharta Act allowed Danaharta to obtain and convey title to assets subject only to a defined set of obligations without unduly disturbing the interests of others.

• *Special Administration*

Danaharta had the right to appoint a Special Administrator over a corporate borrower, or a subsidiary, or a security provider, or a company whose shares were charged to Danaharta; if the borrower was unable to pay its debts or fulfil its obligations. In addition, Danaharta had to

be satisfied that the appointment would maximise value or was in the public interest.

Before a Special Administrator could be appointed, Danaharta had to seek the approval of an Oversight Committee formed for this purpose. This Oversight Committee was made up of regulators, namely a representative each from the Ministry of Finance, the Securities Commission and BNM.

Once appointed, the Special Administrator would take over the control and management of the assets and affairs of the company under administration. To preserve those assets until the Special Administrator was able to complete his task, a 12-month moratorium automatically took effect. During that time, no one could take action against the company under administration.

The Special Administrator would prepare a workout proposal which was then given to an Independent Adviser to review its reasonableness, taking into consideration the interests of all creditors (secured and unsecured) and shareholders. The proposal, together with the Independent Adviser's report, was then given to Danaharta for approval.

If Danaharta approved the proposal prepared by the Special Administrator, the Special Administrator would call for a meeting of secured creditors to consider and vote on the proposal. A majority in value of secured creditors at the meeting had to approve the proposal before it could be implemented. Relevant regulatory approvals, such as those from the Securities Commission, also had to be obtained.

The special administration of companies provided a much-needed option for maximising value through the use of skilled specialists to turn around distressed companies. The appointment of Special Administrators helped to preserve the value of a company's assets, allowing it to remain as an on-going concern. Without this option, lenders might have looked increasingly to liquidation and holders of security might rush to enforce their security. This, in turn, would have brought down weakened companies and erased their value.

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Background to the National Land Code (Amendment) Act 1998 (NLC (Amendment) Act)

The NLC (Amendment) Act was intended to facilitate the implementation of the Danaharta Act.

The NLC (Amendment) Act:

- Facilitated the acquisition of assets by Danaharta.
- Clarified that the vesting certificate was conclusive evidence of the transfer of the NPL to Danaharta.
- Provided for the realisation of collateral by way of private treaty, where necessary, to enable Danaharta to maximise recovery value.

The NLC (Amendment) Act allowed Danaharta to buy NPLs that were secured by land in an efficient, economical and effective manner.

The NLC (Amendment) Act made clear that existing registered interests would not prevent the transfer of security for a loan to Danaharta. However, under the Danaharta Act, Danaharta would acquire the NPL subject to those registered interests.

• Foreclosure

The Danaharta Act and the 15th Schedule of the National Land Code 1965 allowed Danaharta to carry out foreclosure on a loan's underlying property collateral without going through the court process. This contrasted with the normal time-consuming procedures where financial institutions had to obtain court orders to sell charged properties.

Property collateral could be foreclosed when borrowers failed to comply with Danaharta's notice to remedy any breach of the loan agreement within 30 days.

The Danaharta Act also allowed Danaharta to sell underlying collateral via private treaty, which was either by auction, tender or private contract, as compared to the financial institutions, which were allowed to sell foreclosed properties only via public auction. The flexibility enhanced Danaharta's chances of selling the properties.

Danaharta's powers - neither extreme nor arbitrary

There were concerns that the powers given to Danaharta were extreme, particularly of the fact that Danaharta could bypass court processes in the course of its operations. Although the powers were strong, they were warranted in view of the greater

national interest of preventing a collapse in the banking system. Prevention of a failure in the banking system would avert the threat of a major recession and breakdown in the economy, which would definitely have social implications.

Many also assumed that the powers in the Act were arbitrary. In actual fact, the statutory vesting process, the appointment of Special Administrators, and foreclosures outside of the court system were inspired by legal mechanisms/approaches in existence in other jurisdictions, e.g. the United Kingdom. So although the provisions appeared as innovations, they were actually grounded in reality, but tailored to Danaharta's situation.

As examples, the statutory vesting process is similar to the method of transferring assets under Section 50 of Malaysia's own Banking and Financial Institutions Act (BAFIA) 1989, which provides for a quick way of transferring assets with minimal paperwork, in the case of bank mergers.

As for Special Administration, companies in England and Australia have long had the power to appoint persons with similar functions to Danaharta's Special Administrators, under the provisions of the English Insolvency Act of 1986 and the Australian Corporations Law, respectively.

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Danaharta wanted the acquisition process to be commercially driven, transparent and professional.

Similarly, Danaharta's right to foreclosure without going through a court auction process is something that banks in Singapore have been able to do under Singapore's Conveyancing and Law of Property Act 1985.

Check and balance mechanism

Internally, Danaharta also pursued all means possible to construct a structure that would allay these fears. A check and balance mechanism was built into the Act and Danaharta's set-up to forestall any possible abuse. Some of these included the following:

- Loans were sold on a willing-buyer-willing-seller basis, i.e. loans could only be bought if the selling financial institution felt that the price offered was fair and agreed to do so.
- Although Danaharta was protected from unknown claims over assets it had bought, the rights of such a claimant continued to exist against the original selling financial institution, which would be the party responsible for that claimant's loss.
- The appointment and termination of Special Administrators' services required the approval of an Oversight Committee, which had to be convinced that the route taken was in the best interest of all stakeholders.
- Danaharta's preferred approach in disposing foreclosed collateral was through an open tender exercise, with the sale going to the highest bidder.

In 2000, the Danaharta Act was amended. The amendments introduced served to clarify existing provisions of the Act in order to remove any doubts about their intended effect and to overcome practical difficulties that had arisen since Danaharta began its operations.

NPL ACQUISITION

Amidst the relentless pace of its establishment, Danaharta had to work out its overall NPL acquisition strategy.

There were several issues to be considered:

- How would Danaharta carve out the NPLs from the banking system?
- How many NPLs and how much in value should Danaharta remove from the banking system?
- Which financial institutions should Danaharta offer to buy the NPLs from?
- Should there be a limit to the size of the NPLs to be acquired?
- What should be the acquisition approach?
- How should the purchase price of the NPLs be determined?

Danaharta wanted the acquisition process to be commercially driven, transparent and professional.

Acquiring NPLs

After much deliberation, Danaharta finally decided on the following:

A system wide carve-out

Danaharta would embark on a system-wide NPL carve-out and make offers to all financial institutions in Malaysia. This included finance companies, development banks and locally incorporated foreign banks.

The NPL problem then was prevalent throughout the whole banking system and a failure in any of the financial institutions – be it a finance company, a development bank, or a commercial bank – would have created public concern. Hence, the decision to acquire NPLs from all financial institutions. At any rate, the idea was to relieve pressure in the banking system wherever possible.

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Minimum size of RM5 million

Danaharta did not intend to remove all NPLs from the system as every banking system in the world can tolerate a certain level of NPLs. By August 1998, the net NPL ratio for the banking system had reached 11.4% and was projected to reach an alarming 15%¹ by the end of 1998. Given the unhealthy state of affairs, it was resolved that the net NPL ratio had to be brought to below 10%.

It was decided that only NPLs with a value of RM5 million and above would be acquired because that would address approximately 70% of the total NPLs by value in the banking system. This translated to approximately two to three thousand accounts, a manageable number for Danaharta to resolve the NPLs on a case by case basis.

Due diligence on the NPL accounts had to be forgone as it would have been too time-consuming and Danaharta did not have the manpower to carry it out. Instead, Danaharta relied on representations from the selling banks with regard to the details of each loan. In addition, warranty provisions were included in all loan acquisition agreements. This allowed Danaharta to return the NPLs to the financial institutions later if the loan documentation was not in place, e.g. security for a loan was not perfected.

Setting the purchase price for NPLs

Most AMC's in the world were set up after a collapse in the banking system or a failure in a bank. Under such circumstances, the AMC's would typically acquire assets of failed banks on a compulsory basis.

Unlike other AMC's, Danaharta was set up as a pre-emptive action to avert a banking crisis and thus did not enjoy compulsory powers of acquisition. As such, all the NPLs had to be acquired via a market mechanism, i.e. the NPLs had to be purchased on a willing-buyer-willing-seller basis. Banks could also sell NPLs on an individual basis.

To effect an expeditious acquisition process, Danaharta had to formulate a simple yet transparent valuation method

that was attractive enough to entice the financial institutions to transact.

Conventional methods such as "derived investment value", where loans are valued based on potential cashflow generation, could not be applied to NPLs which were not generating any cashflow. It was also complicated and too time-consuming. Danaharta, which was short of manpower and time, needed something that was simpler.

The approach that was finally agreed upon divided the loans into three categories.

1. Secured loans

For secured loans, the purchase price was determined by referring to the fair value of the underlying collateral of the NPL. Danaharta deemed only shares and property as eligible collateral.

In the case of NPLs backed by property collateral, the fair value was set at 95% of the market value of the property, as determined by a licensed independent professional valuer.

For quoted shares, the fair value depended on the size of the shareholding in the company (that was pledged as collateral). A larger stake that offered influence or control over a company would attract a premium. The fair value under various scenarios was determined as follows:

STAKE IN COMPANY	FAIR VALUE
Less than 5%	Lower of MP and NTA
Between 5% and 33%	Average of MP and NTA
Above 33%	Higher of MP and NTA

Note: MP = Market Price NTA = Net Tangible Assets

Market price was the lower of the three-month average price or closing price at the point of purchase of the NPL.

NTA was the adjusted net tangible assets based on the latest audited accounts of the company. Adjustments were made to each class of asset to reflect their likelihood of recovery at the balance sheet values.

Footnote 1

p.99, "Rewriting the Rules - The Malaysian Crisis Management Model", by Mahani Zainal Abidin (2002)

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The loan amount outstanding (different from principal amount outstanding) referred to the principal loan amount plus normal interest outstanding. It did not include penalty and other charges.

In all cases, where the fair value was found to be higher than or equal to the loan amount outstanding, Danaharta's purchase price was equal to the full loan amount outstanding. Where the fair value was less than the loan amount outstanding but higher than or equal to the principal amount outstanding, Danaharta's purchase price was equal to the fair value. However, in cases where the fair value was lower than the principal amount outstanding, Danaharta's purchase price would be equal to the principal amount outstanding. But Danaharta would only pay upfront a payment equal to the fair value. The balance would depend on actual recovery and made subject to a unique surplus sharing arrangement between the selling financial institutions and Danaharta (explained below in the section on "Carrots and Stick").

As the risks of recovery were essentially still borne by the selling financial institutions, Danaharta agreed to seek the consent of the selling financial institutions when deciding on the recovery strategy.

Carrots and stick

Although the loan valuation method was acceptable, the financial institutions still held back on selling their NPLs because they soon realised that Danaharta would not be acquiring all NPLs at book value, i.e. loan amount outstanding less provisions.

The possibility of absorbing heavy losses when selling NPLs at a discount to Danaharta was a major obstacle.

For some financial institutions, this would mean significant erosion of their shareholders' capital.

To resolve this problem, Danaharta devised a carrot and stick approach to motivate the financial institutions to sell their NPLs. BNM helped by issuing a directive to the financial institutions that they had to sell NPLs to Danaharta if their respective NPL ratio was above 10%.

Carrot No.1: The 80:20 rule

Danaharta proposed to share with the selling financial institutions, any surplus recovery from the NPLs, on an **80% : 20%** basis, in favour of the financial institutions. This incentive applied to both secured and unsecured NPLs, in cases where the fair value of the loan was less than the principal amount outstanding.

The surplus sharing would be calculated account by account and work thus:

- Surplus recovery = total recovery less up-front payment for NPL, i.e. fair value
- All direct costs relating to recovery of the NPL and holding costs deducted from surplus recovery
- Surplus recovery net of direct recovery costs and holding costs, distributed on an **80 (financial institution) : 20 (Danaharta)** basis
- The share of surplus recovery to be received by the selling financial institution was capped at the initial shortfall suffered (i.e. the purchase price less the upfront payment)

Setting the purchase price for secured loans

SCENARIO	DANAHARTA ACQUIRED AT
FV > or = loan amount outstanding	Loan amount standing
FV < loan amount outstanding but > or = principal amount outstanding	FV
FV < principal amount outstanding	Principal amount outstanding, but Danaharta paid up to FV. Shortfall deferred until recovery

Note: FV = Fair Market Value.

2. Unsecured loans

For unsecured loans, Danaharta's purchase price was equal to 10% of the principal amount outstanding. This was an arbitrary figure. Korea's AMC for example, used 3%, which was also an arbitrary value. It worked because unsecured loans were typically given to public listed companies and usually some value could be derived from the company's listing status.

3. Exceptionally large loans

For exceptionally large NPLs in excess of RM200 million in gross value, where valuation of the loan was onerous or inconclusive, Danaharta paid either a nominal sum, e.g. RM1 or a percentage of the loan outstanding. Very few NPLs were acquired under this method.

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In the case of exceptionally large NPLs, Danaharta agreed on a more generous surplus sharing mechanism as the discounts suffered by the financial institutions were greater. Where Danaharta paid a nominal sum, e.g. RM1, surplus recovery was shared on a **95 (financial institution) : 5 (Danaharta)** basis. On the other hand, where Danaharta paid a percentage of the principal outstanding, surplus was shared on a **90 (financial institution) : 10 (Danaharta)** basis.

Carrot No. 2: Five year amortisation
In addition, financial institutions were allowed by BNM to amortise the shortfall arising from the sale of an NPL, i.e. the difference between the book value of the NPL and the price for which it was sold to Danaharta. The amortisation period could be up to five years, commencing from the time of sale. This would smoothen out the effect of the diminution in the value of their loan assets.

Under the arrangement, financial institutions would have to write off 20% of the shortfall in the first year, as that represented the money that would be kept by Danaharta in the event of a surplus. In the following years, the financial institutions would have to write off a further 20% each year (minimum), until the shortfall had been fully written off. However, once Danaharta had resolved the loan, and the total recovery value was known, the financial institutions had to write off the remainder of the shortfall, if any, at that point in time.

As it turned out, many financial institutions preferred the more prudent route of immediately writing off the entire shortfall in value of NPLs sold to Danaharta.

The stick

• Immediate write-down if Danaharta's offer was refused

Loans that financial institutions chose not to sell to Danaharta had to be immediately written down to 80% of Danaharta's valuation. This would impact negatively on the financial institution's profit and loss account.

• Only one bite of the cherry

Danaharta would make only one offer for each NPL, and financial institutions were given a short period of time to consider whether or not to accept it. If they refused, they had to immediately write-down the loan, as above, without the prospect of recapitalisation from Danamodal. This helped to speed up the acquisition process by preventing financial institutions from haggling over Danaharta's offer.

FUNDING

The Government provided RM3 billion in seed capital to establish Danaharta but the funds came in stages. In the interim, operational funding needs were supplemented with borrowings from the Employees Provident Fund (EPF) and Khazanah Nasional Berhad, the national investment agency.

As the financial institutions started to sell NPLs, Danaharta had to find ways to finance its purchases. The initial estimate of the funds required for NPL acquisition was RM25 billion. Danaharta turned to the private sector for funding, and issuing bonds seemed to be the most obvious option. Having to borrow commercially meant that Danaharta would have to exercise commercial discipline throughout its activities.

The financing had to be at the best cost and one with a maturity profile that matched its NPL acquisition strategy.

Initially, Danaharta contemplated an international bond issue guaranteed by the Government. However, the fall of the Ringgit² and the subsequent downgrades of Malaysia's credit rating by international ratings agencies³ made this an increasingly expensive option.

Fortunately, economic conditions stabilised after the implementation of capital controls in September 1998. As interest rates fell, NPLs stopped rising at an alarming rate, suggesting a lower funding requirement than originally estimated. The improved liquidity in the financial system also made it possible for Danaharta to raise funds locally.

Footnote 2
The Ringgit fell steadily from the pre-crisis level of RM2.50 to the US Dollar to its lowest level of RM4.88 on 7 January 1998. From January to August 1998, the Ringgit hovered at around RM3.60 to RM4.20

Footnote 3
Moody's and Standard & Poor's downgraded Malaysia's sovereign foreign currency credit rating. Standard & Poor's downgraded Malaysia from A to A- in April 1998, and down further to BBB+ in July of 1998. This was further reduced to BBB- in September 1998.

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The bonds would have to be repaid in five years, but with an option to extend for another five years. This was a precautionary measure as the duration of the financial crisis was uncertain. However, if extended, the bonds would be converted to interest-bearing bonds because retaining them as zero-coupon would be more costly as a higher yield and a higher government guarantee would be required. By converting the bonds to interest-bearing, the government guarantee was restricted to the initial face value of the bonds. In actual event, all the bonds were redeemed as scheduled without extension.

Redemption of the bonds would have to be done from proceeds generated from recovery operations. Timely redemption would also demonstrate that Danaharta had pursued recovery pro-actively and not simply warehoused the NPLs.

The benefits of the bonds

The bonds offered Danaharta several advantages:

- Being zero-coupon bonds, Danaharta did not have to service interest payments during the life of the bond. Without the pressure of having to ensure a stream of cash to service interest payments in the short term, Danaharta could evaluate each NPL properly and choose the recovery strategy that would maximise the recovery of each NPL.
- The issuance of bonds on a staggered basis allowed Danaharta to borrow money only when it was needed, taking advantage of the declining interest rates over time.

The benefits to the financial institutions were also significant:

- Financial institutions exchanged non-income generating NPLs for a government-guaranteed yielding asset, thereby strengthening their balance sheets.
- As Danaharta bonds carried zero risk when being considered for capital adequacy purposes, financial institutions saw an improvement in their risk-weighted capital ratios.

Internally, as Danaharta's acquisition strategy firmed up, it became clearer that the funding requirement could be reduced further. Danaharta's policy of limiting purchases to only NPLs greater than RM5 million in value meant that less NPLs would be bought. The adoption of a market-driven valuation approach towards NPLs and the recovery sharing formula also resulted in Danaharta acquiring loans at prices significantly below their book value.

The above factors led to the financing requirement being reduced to RM15 billion, significantly lower than initially estimated. As it turned out, Danaharta only needed about RM13 billion.

Government-backed Ringgit bonds

The improved economic environment and change in circumstances presented Danaharta with a much cheaper and more viable option - issuance of domestic bonds. By issuing domestic bonds, Danaharta did not have to go through the two-stage process of issuing bonds and then using the money to pay the financial institutions. It could issue the bonds directly to the selling financial institutions, in exchange for the loans.

It was decided that the bonds would be zero-coupon and guaranteed by the Government. Zero-coupon bonds do not require regular interest payments but the interest would be capitalised and paid upon maturity. The zero-coupon bonds were issued at a discount to their nominal value. For instance, the inaugural Danaharta bonds were priced at RM69.832 for every RM100.00 in nominal value, which implied a yield of 7.15%. Upon maturity, Danaharta paid RM100.00 to the holder of the bond.

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In total, 15 tranches of bonds were issued from November 1998 to March 2000, at effective interest rates, which declined steadily from 7.15% per annum to 5.165%. (For further details on Danaharta's bonds, please see Appendix 1 on [page 54](#)).

Issued at the rate of almost one tranche per month, from late 1998 until early 2000, the bond issues raised a total of RM8.22 billion in capital for Danaharta, translating into a debt obligation of RM11.14 billion. Danaharta also paid cash for NPLs acquired from development finance institutions, loans extended under the Islamic concept, as well as unsecured NPLs.

BNM made it possible for the bonds to be traded on the secondary market. The bonds could also be rediscounted with BNM under the central bank's role as buyer of last resort.

However, there turned out to be very little trading in the bonds. As interest rates fell further, the value of these bonds rose and financial institutions were contented to retain the bonds in their books.

DANAHARTA'S NPL PORTFOLIO

Acquired NPLs

With the funding and acquisition approach ironed out, Danaharta could finally start acquiring NPLs from various financial institutions.

To effect the acquisition in an orderly manner, Danaharta prioritised its acquisition according to the seriousness of the NPL situation in a particular financial institution. The financial institutions were sorted into four tiers, with Tier 1 institutions being those with high levels of NPLs and most likely to sell the loans while Tier 4 institutions were those most unlikely to sell their NPLs.

The classification helped to lend some order and controlled the flow of the NPLs coming in.

The NPLs that Danaharta acquired from financial institutions were termed as "*Acquired NPLs*".

MANAGED NPLs

Apart from the Acquired NPLs, the Government and the Central Bank, BNM, gave some NPLs to Danaharta to manage on their behalf. These were NPLs that belonged to the Sime Bank Berhad Group (Sime Bank Group) and the Bank Bumiputra Malaysia Berhad Group (BBMB Group). The aim was for Danaharta to provide its professional expertise in managing NPLs to recover as much as possible from these NPLs. This component of NPLs was termed as "*Managed NPLs*".

A sharp rise in loan defaults had eroded Sime Bank Group's capital base and it was taken over by BNM. Subsequently, it merged with another commercial banking group, RHB Bank Group. To facilitate the merger, BNM stripped Sime Bank Group of its NPLs and passed them to Danaharta to manage in the third quarter of 1998. Danaharta Managers Sdn Bhd (Danaharta Managers) was incorporated to oversee and manage the NPL portfolio of Sime Bank Group.

In the case of BBMB Group – a government-owned banking group – most of its NPLs were carved out and transferred to Danaharta to facilitate the group's merger with Bank of Commerce (M) Berhad. Danaharta Urus Sdn Bhd (Danaharta Urus) was created to house these NPLs at the start of 1999. Both Danaharta Managers and Danaharta Urus were wholly-owned subsidiaries of Danaharta.

Danaharta did not require any capital to take over the management of these NPLs. However, Danaharta had to "own" these loans for it to be able to use its powers

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To accommodate the Managed NPLs, Danaharta did not apply its minimum loan size policy, i.e. as in the case of Acquired NPLs. For Managed NPLs, Danaharta managed loans valued at RM1 million and above.

NPL carve-out

Primary carve-out

(September 1998 to 30 June 1999)

Danaharta's first objective was to relieve the pressure on the banking system caused by NPLs. By the end of 1998, barely three months after Danaharta started its acquisition exercise, RM8.11 billion worth of NPLs were bought from various financial institutions.

However, not all of Danaharta's offers were accepted. Financial institutions turned down Danaharta's offers for NPLs totaling RM1.78 billion. This was taken as an indication that Danaharta's offers were market-based and not overpriced. Overpricing would have led to accusations of bailing out financial institutions.

By December 1998, Danaharta had RM8.11 billion of Acquired NPLs and RM11.62 billion of Managed NPLs making a total of RM19.73 billion in its portfolio.

By the end of its primary carve-out exercise in June 1999, Danaharta's NPL portfolio had swelled to RM39.33 billion. A total of RM17.79 billion of the loans were Acquired NPLs while the remainder were Managed NPLs.

Secondary carve-out

(1 July 1999 to 31 March 2000)

Danaharta commenced the second round of NPL acquisition in July 1999 but on a more selective basis. The acquisitions were based on the following criteria:

- Common accounts - other NPLs relating to borrowers that were already in Danaharta's portfolio;
- Loans of borrowers with a total gross value of RM50 million and above;
- Unsecured loans to public listed companies; or
- Loans from financial institutions with net NPL ratio greater than 10%.

under the Danaharta Act to resolve the loans. To overcome this technicality, Danaharta issued bonds to "acquire" both BBMB Group's and Sime Bank Group's loans. Bonds issued for these transactions were different from the bonds issued by Danaharta to acquire the NPLs from the other financial institutions. These bonds were issued by Danaharta Managers and Danaharta Urus and redeemed with recovery from the respective loans. No money was paid to the Government and BNM for the transfer of these loans.

In addition, Danaharta derived a management fee for managing the NPLs on behalf of the Government and BNM. Danaharta received 2% of the net recovery value if the recovery value was less than or equal to the net book value. As for recovery that was more than the net book value of the loan, Danaharta received an additional 20% of the excess recovery, on top of its fee of 2% of net book value.

All money recovered by Danaharta from these loans, after deducting the management fees, accrued directly to the Government and BNM.

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The secondary carve-out raised the total value of NPLs in Danaharta's portfolio to over RM47 billion.

After March 2000, there were still some movements in the NPL portfolio. It increased slightly as more BBMB Group NPLs were transferred to Danaharta to manage under a put option given to Bumiputra Commerce Bank Berhad (the new entity after the merger of BBMB Group and Bank of Commerce (M) Berhad). The put option expired at the end of 2001. In addition, a small number of the Acquired NPLs were returned to the original financial institutions⁴.

The final tally of the NPL portfolio as at 30 September 2005 was RM47.68 billion. In total, there were 2,902 accounts

belonging to 2,563 borrowers (Note: some borrowers had more than one loan account). (Please see [Appendix 2 on pages 56 to 61](#) for a list of financial institutions that sold NPLs to Danaharta).

The RM19.71 billion of Acquired NPLs were acquired at a purchase price of RM8.94 billion, implying an average discount rate of 54.6%. The loans were paid by cash, and through the issuance of Danaharta's zero-coupon bonds (please see [Appendix 1 on page 54](#) for details of Payment for Acquired NPLs).

The Managed NPLs, on the other hand, cost Danaharta nothing to "acquire", since it was merely managing the loans on behalf of the Government and the Central Bank.

Footnote 4
Generally, Danaharta could return the NPLs to the selling financial institutions if Danaharta was unable to perfect its ownership of the NPL or the charge over the loan collateral.

Table 1: Results of Danaharta's NPL carve-out exercise at different stages

RM billion	Acquired NPLs	Managed NPLs	Total Portfolio
By December 1998	8.11	11.62	19.73
By June 1999	17.79	21.54	39.33
30 September 2005	19.71	27.97	47.68

Comparison of key features between Acquired NPLs and Managed NPLs

Key features	Acquired NPLs	Managed NPLs
Where did they come from?	NPLs bought on willing-buyer-willing-seller basis from financial institutions.	NPLs of defunct Sime Bank Group and BBMB Group, assigned by the BNM and Government respectively to manage on their behalf.
What was the purchase price?	RM8.94 billion* [average discount of 54.6% to RM19.71 billion (value of loan rights acquired)].	No cost to Danaharta as NPLs belong to BNM and the Government.
What was the mode of payment?	Cash and bonds.	No payment made.
Surplus recovery arrangement	Danaharta had an agreement with selling financial institutions to distribute surplus recovery based on a predetermined ratio if recovery exceeded purchase price plus holding costs of NPLs.	No surplus recovery agreement. Danaharta received a fee for managing the loans.
How were they managed?	Both types of NPLs were managed using the same approach. The objective was to extract maximum recovery value from the NPLs.	

* At the point of acquisition

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MANAGEMENT OF NPLs

Concurrent to the carve-outs, Danaharta began to manage the NPLs in its portfolio as early as end - 1998.

The aim was to elicit maximum recovery from its NPL portfolio.

To achieve this, Danaharta studied each NPL account in its portfolio to determine the appropriate recovery strategy. The recovery method/strategy chosen depended on the nature and circumstances of the NPL account.

If a borrower's business were viable, the "soft approach" would be used. The methods under the soft approach were namely, **Plain loan restructuring**, **Settlement of loans**, and **Schemes of arrangement**.

However, if a borrower's business were deemed non-viable, or if a borrower failed to comply with the loan restructuring guidelines to restructure its loans, the "hard approach" would be employed. Normally, the hard approach would involve the sale of the borrower's business and assets, or the underlying collateral of an NPL. The methods used under the hard approach were mainly **Appointment of Special Administrators**, **Foreclosure**, and **Legal action**.

Generally, the soft approach yielded better recovery compared to the hard approach. As such, Danaharta was always keen to use the soft approach.

As a policy, all borrowers were given a chance to restructure their loan according to Danaharta's published Loan Restructuring Principles and Guidelines (see [Appendix 3 on pages 62 to 65](#)). The guidelines provided

the borrowers with acceptable parameters to formulate loan workout plans. This reduced confusion amongst borrowers and shortened the time taken for Danaharta to review such proposals. They also helped to ensure fairness and consistency in loan restructuring.

" The guidelines provided the borrowers with acceptable parameters to formulate loan workout plans.

This reduced confusion amongst borrowers and shortened the time taken for Danaharta to review such proposals".

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Soft approach

- **Plain loan restructuring**
These were cases where recovery was by way of rehabilitating an NPL to become a performing loan. This could involve an extension of the loan repayment period, or rescheduling of loan repayments.
- **Settlement of loans**
These were cases where borrowers opted for a quick settlement of the loans, normally within 12 months.
- **Schemes of arrangement**
These were voluntary schemes formulated by both borrowers and creditors to restructure the loans. They included schemes under section 176 of the Companies Act 1965 and the CDRC.

Hard approach

- **Appointment of Special Administrators**
The Danaharta Act enabled Danaharta to appoint Special Administrators over certain companies, e.g. a corporate borrower that failed to fulfill its loan obligations. Once appointed, the Special Administrators assumed temporary control and management of the assets and affairs of the company and prepared a workout scheme aimed at maximising the recovery value of the business.

Up to 30 September 2005, Danaharta had appointed Special Administrators over 73 groups of companies. By the same date, all Special Administrators had been discharged from their appointments after the successful completion of their work, except for those of six groups of companies. The remaining Special Administrators are expected to be discharged by 31 December 2005.

- **Foreclosure**
Foreclosure involved the sale of property or share collateral pledged as security for a loan. Danaharta could foreclose on the collateral if a borrower failed to repay its loan. (Please refer to [Appendix 4 on pages 66 to 69](#) for more information on Property Sales).
- **Legal action**
Taking legal action against a borrower was a last resort for Danaharta. This option was considered after all other recovery strategies had been exhausted as it was lengthy and costly and usually generated minimal recovery.
- **Others**
"Others" included cases of partial resolution, liquidation of companies and appointments of Receivers and Managers over companies or assets.



THE DANAHARTA STORY

FOREIGN LOANS

In general, Danaharta undertook the recovery work for its NPLs and did not dispose of them outright, except for the foreign loans in its portfolio. These foreign loan accounts were non-Ringggit loans and marketable securities extended to or issued by foreign companies. They were taken over primarily from three financial institutions – the overseas branches of the now defunct Sime Bank Berhad and Bank Bumiputra Malaysia Berhad and Sime International Bank (L) Ltd (Sime Labuan), an offshore bank.

With regard to Sime Labuan, Danaharta took over the entire loan portfolio of the offshore bank instead of taking over the loans on a piece-meal basis as in the case of Sime Bank and Bank Bumiputra. This was in view of the sheer scale and complexity of the Sime Labuan loan portfolio. By taking over all of Sime Labuan's loans, it was felt that recovery actions could be better co-ordinated and thus be more effective. As a result, Danaharta's portfolio of non-Ringggit loans consisted of not only NPLs, but also performing and distressed loans (i.e. from Sime Labuan).

Danaharta realised that it did not have a comparative advantage in resolving the foreign loans as they lay outside the jurisdiction of the Danaharta Act. So, it was decided that the foreign loans would be disposed of for cash or swapped into loans of Malaysia-domiciled borrowers. The swapping of loans allowed Danaharta to dispose of the foreign loans in exchange for loans of Malaysia-domiciled borrowers, upon which it could exercise its special powers.

Restricted tender exercises were held to dispose of the foreign loans as it was felt to be the best way to maximise recovery values of such NPLs. Limiting the participants to those with serious interest made the tender operationally more efficient. In this regard, international banks that had previously expressed interest in the foreign loans were invited to participate in the tender.

To foster participation, the bidders were divided into pre-selected Principal Bidders and invited Marketable Account Bidders. Principal Bidders were allowed to bid for both loans and marketable securities while Marketable Account Bidders were only allowed to bid for marketable securities.

To enhance transparency and assist in the price discovery process, Danaharta ensured that all available documentation was provided to prospective bidders. For example, Principal Bidders were given information on loan accounts and marketable securities. To ensure the integrity of the process, both external and internal auditors audited the tenders.

During its lifetime, Danaharta held a total of four restricted tender exercises offering 110 accounts with a total principal value of USD743.32 million. Of these, 85 accounts with a total value of USD631.84 million were sold, garnering an average recovery rate of 48%⁵.

*Footnote 5
The remaining
accounts
were resolved
through
restructuring
and
bilateral sales
to investment
houses.*

Restricted Tender Exercise	No. of Accounts Sold	Principal Value USD million	Consideration USD million	% of Recovery
Tender 1 - July 1999	11	85.15	42.69	50.1%
Tender 2 - December 1999	25	244.80	173.23	70.8%
Tender 3 - August 2000	28	102.13	66.31	65.0%
Tender 4 - September 2004	21	199.76	21.37	10.7%
Total	85	631.84	303.60	48.1%

THE DANAHARTA STORY

RECOVERY ASSETS

Danaharta's recovery operations generated recoveries in the form of cash and non-cash assets (i.e. *restructured loans, securities and properties*). Cash was collected when borrowers settled their loans in cash or when collateral was sold or redeemed.

Securities and real estate properties were sometimes given to Danaharta as full or part settlement for loans in lieu of cash. The securities could be in the form of shares or loan stocks, whilst the types of properties received ranged from industrial land, factories and shopping complexes to residential properties, hotels and retail shop lots.

Danaharta to maximise recovery value of assets

from PAGE 15

"The powers of the management and the board of the company are effectively suspended and only the special administrators can deal with the assets of the company."

Danaharta said the appointments had been approved by its Oversight Committee, which comprises a representative each from the Ministry of Finance, Securities Commission and

Bank Negara

"With the appointment of the special administrators, a 12-month moratorium will take effect, during which period no creditor may take action against the company."

"In the meantime, Danaharta will take any step it deems necessary to maximise the recovery value of its assets."

"Appropriate announcements will be made in due course," said Danaharta. - thes@global.com



The securities and properties received as non-cash recovery assets were different from those held as collateral. The former referred to assets that borrowers had given to offset their loan amount and Danaharta became the owner of these assets. In the case of collateral, the ownership remained with the borrowers unless they were sold in a foreclosure exercise.

Restructured loans referred to NPLs that had been rehabilitated by Danaharta and repayments were expected to be collected over time. Restructured loans also included loans where the tenure had been extended as part of loan restructuring to facilitate borrowers' repayment or loans that were part of schemes of arrangement.

THE DANAHARTA STORY

As Danaharta drew nearer to its closure date, it added another category to the non-cash recovery assets, i.e. Legal Action. This category comprised the following two groups:

1. **Legal action** – these were legal cases initiated by Danaharta and those initiated against Danaharta that had not yet concluded. They were considered recovery assets because if Danaharta were successful in the court then recovery would be forthcoming.
2. **Property and share foreclosure** – typically, receivables from the sale of property or share collateral currently in the process of being completed.

Cash conversion

For the non-cash recovery assets, Danaharta aimed to convert them into cash as fast as possible. Danaharta needed cash to pay off its liabilities.

Securities and properties

Properties were offered for sale through open tenders.

Securities, on the other hand, were sold according to Danaharta's guidelines on management of securities. (Please see [Appendix 5 on page 70](#)).

They were classified as *irredeemable* (including ordinary shares), *redeemable* and/or *convertible* securities. Regardless of the classification, Danaharta aimed to secure the best price. For example, ordinary shares would be disposed of only if the share price exceeded the target price set by Danaharta. Small blocks would be sold on the open market at market prices, whilst controlling blocks would be sold via a public tender.

Restructured loans

Unlike securities and properties, the restructured loans were NPLs that had turned performing and repayments were expected from these loans over time. The challenge was to find ways to accelerate the repayment process and get the money upfront. One route explored by Danaharta was asset-backed securitisation.



THE DANAHARTA STORY

Asset-backed securitisation is a fund raising technique where bonds or notes are issued to investors that are backed by an underlying pool of assets. In Danaharta's case, it issued securities backed by a portfolio of restructured loans. The loans, as an asset class, were revenue generating, a pre-requisite for an asset-backed securities (ABS) issue.

By securitising its restructured loans, Danaharta effectively found a way to obtain upfront cash value for the amount that would be collected over time from loans in the portfolio.

Danaharta's ABS issue was also Malaysia's first Collateralised Loan Obligations transaction. The issue was very successful with a subscription rate of 3.5 times for the Senior Notes and a total of RM308.57 million was raised (more details on [Appendix 6 on pages 72 to 75](#)).



Danaharta only did one securitisation exercise. It did not pursue the ABS route again because its recovery operations were generating cash well enough to retire Danaharta's bonds on time.

ABS was a strategic move for Danaharta to consider if it needed to generate cash quickly. However, it also involved taking a discount on the loans' recovery value. With sufficient cash being generated from its operations, Danaharta felt it did not need to suffer the unnecessary discount. Hence, once was enough.

CASH DISTRIBUTION

Not all the cash generated from the recovery operations belonged to Danaharta. Recovery proceeds from Managed NPLs were returned to the Government and BNM, while surplus recovery from Acquired Loans were shared with the respective financial institutions, in accordance with the surplus sharing agreements.

The balance of the cash was then kept and used to meet Danaharta's liabilities, largely the bonds issued for NPL acquisition. Redeeming the Danaharta bonds alone required RM11.14 billion.


CLOSURE

Having completed its mission, Danaharta will close down on 31 December 2005.

Closure for an NPL resolution agency is the ultimate sign of success. Closure

is necessary because if it were to remain permanently, Danaharta would pose a moral hazard to the banking system. Simply put, a moral hazard is a situation where something that was created to solve a problem may end up encouraging the problem instead. Banks would have no incentive to improve operations and guard against future NPLs. In addition, other agencies set up during the crisis like Danamodal and the CDRC had already closed down. Malaysia's financial sector is in better shape than before.

THE DANAHARTA STORY



As such, on 31 December 2005, seven and a half years after its establishment, Danaharta will cease all operations and become a dormant company. Its staff will undergo a planned separation exercise in December.

Danaharta's recovery operations generated recovery assets in the form of cash and non-cash. Despite Danaharta's rigorous efforts to convert all the non-cash recovery assets into cash by 31 December 2005, some of them will remain unconverted. Control of these assets, known as "*residual recovery assets*", will be handed over to the Minister of Finance Incorporated as Danaharta's sole shareholder.

In this regard, a wholly-owned subsidiary of the Minister of Finance Incorporated, Prokhas Sdn Bhd (Prokhas), will undertake the conversion mission, i.e. to convert the residual recovery assets into cash on a timely basis. Prokhas will act as a collection agent for Danaharta which will remain as a dormant company for the time being (until the conversion mission is completed).

SECTION B

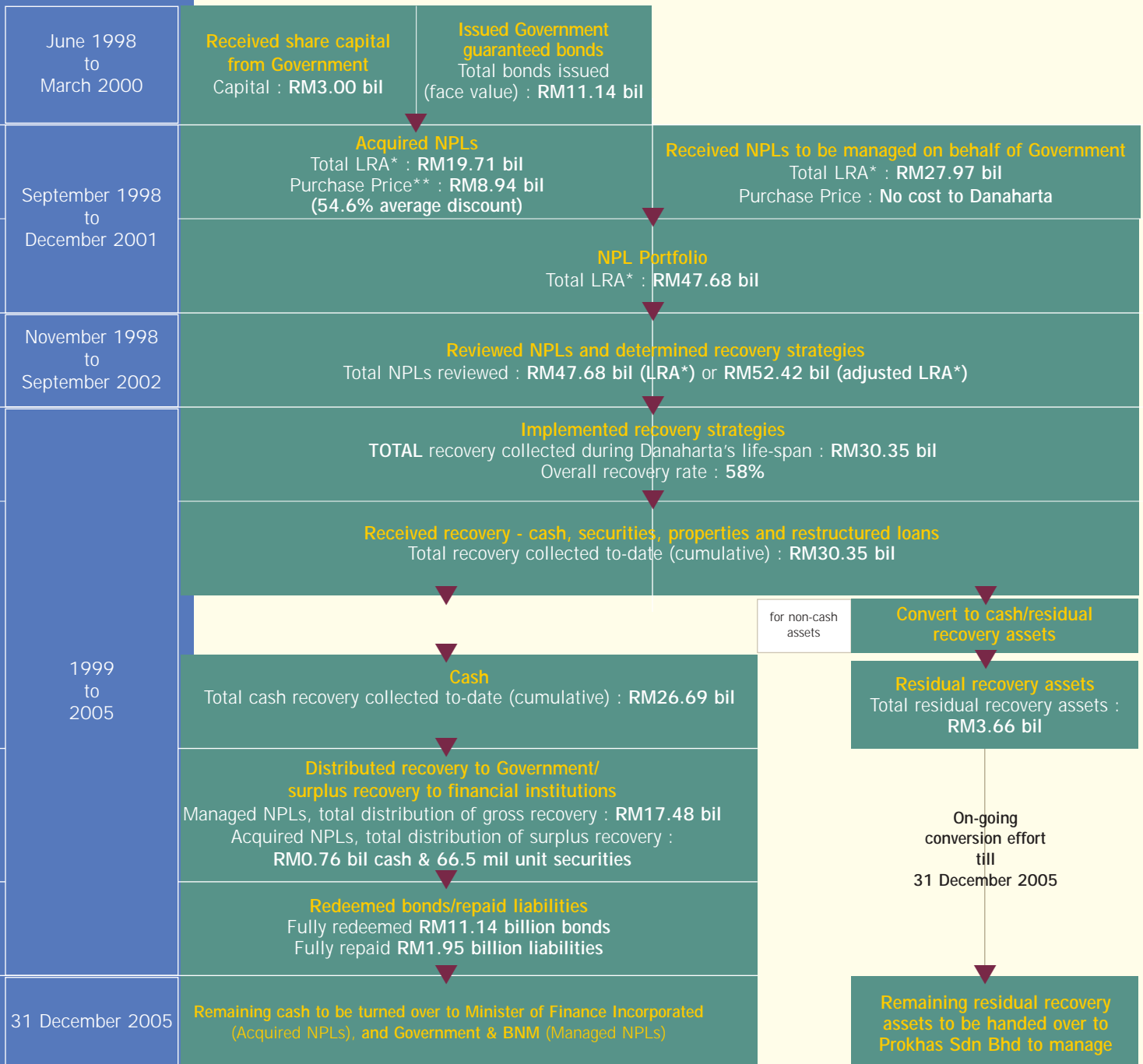
Danaharta's Key Statistics

The key statistics in this report are as at 30 September 2005. In addition, where applicable, projected figures for 31 December 2005 are provided. The Mission Status chart in the next page provides an overview and the key statistics of Danaharta's operations.

Mission Status	31
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As At 30 September 2005

MISSION STATUS



* LRA = Loan Rights Acquired, i.e. original transfer value of loan
Adjusted LRA = LRA plus accrued interest at the point of restructuring

** Purchase price paid at the point of acquisition

DANA HARTA'S KEY STATISTICS

NPL PORTFOLIO

Danaharta had a total of RM47.68 billion worth of NPLs [value in Loan Rights Acquired (LRA), i.e. original transfer value of loans] in its portfolio, involving 2,902 accounts, relating to 2,563 borrowers. Danaharta's NPL carve-out exercise started in September 1998 and ended in December 2001. No further NPLs were acquired after that.

The portfolio comprised:

- **RM19.71 billion of Acquired NPLs**
Loans acquired from over 70 financial institutions.
- **RM27.97 billion of Managed NPLs**
Loans from the defunct BBMB Group and Sime Bank Group, which Danaharta managed on behalf of the Government of Malaysia and BNM respectively.

Table 2: Danaharta's NPL portfolio (at original transfer value of the loans)

Type of NPL	Source of NPL	RM billion
Acquired NPLs	NPLs acquired from financial institutions	19.71
Managed NPLs	NPLs which Danaharta was managing on behalf of the Government and BNM	27.97
Total		47.68

RECOVERY RATE

For the purpose of calculating the recovery rate, the "Adjusted LRA" figure was used. (Adjusted LRA is equivalent to the original transfer value of the loan plus interest accrued from the date of acquisition

by Danaharta to the date of determining recovery strategy). As at 30 September 2005, the adjusted LRA value for the total NPL portfolio was RM52.42 billion.

Table 3: Analysis of recovery from various recovery methods as at 30 September 2005

Recovery method	*Adjusted LRA RM billion (a)		Recovery RM billion (b)		Recovery rate (%) (c)=(b)/(a)	
	Acquired NPLs	Managed NPLs	Acquired NPLs	Managed NPLs	Acquired NPLs	Managed NPLs
Plain loan restructuring	1.07	3.77	0.86	3.58	80%	95%
Settlement	3.55	8.55	3.11	6.41	88%	75%
Schemes of arrangement	3.14	6.82	1.84	4.32	59%	63%
Appointment of Special Administrators	1.66	2.59	0.84	0.58	51%	22%
Foreclosure	9.12	3.69	2.62	1.65	29%	45%
Others	3.81	3.29	1.74	2.60	46%	79%
Legal action	0.28	1.08	0.06	0.14	20%	13%
Total	22.63	29.79	11.07	19.28	49%	65%
OVERALL	52.42		30.35		58%	

* Comprising total LRA of RM47.68 billion and accrued interest of RM4.74 billion.

DANAHARTA'S KEY STATISTICS

Over its lifetime (up to 31 December 2005), Danaharta expects to recover RM30.35 billion from the RM52.42 billion NPLs in its books, which translates to a recovery rate of 58%. As at 30 September 2005, Danaharta had achieved this target.

Of the total recovery received, RM19.28 billion was from the Managed NPLs component whilst RM11.07 billion was from the Acquired NPLs component.

The recovery rate for each component was 65% and 49% respectively.

Danaharta's 58% recovery rate is commendable when compared to the recovery rates of similar agencies in the region, which ranged between 20% and 50%. It is important to note that the NPLs were loans that had defaulted and some had not been performing for many years. Therefore, to record a 100% recovery for these loans would have been impossible.

RESIDUAL RECOVERY ASSETS

As at 30 September 2005, Danaharta had received RM30.35 billion in recovery. The recovery comprised RM26.69 billion cash and RM3.66 billion worth of residual recovery assets, i.e. non-cash assets.

Table 4: Breakdown of Danaharta's NPL recovery as at 30 September 2005

(RM billion)	Cash	Residual recovery assets
Acquired NPLs	9.13	1.94
Managed NPLs	17.56	1.72
Total	26.69	3.66

The residual recovery assets essentially fell into one of these four categories:

1. Restructured loans:

Loans with repayment periods extending beyond 2005 or loans that are part of schemes where recovery is expected to be received after 2005. Most of these loans are secured with collateral. In the event of default, sale of the collateral could be enforced.

2. Properties:

Properties owned by Danaharta, i.e. properties that had been given to Danaharta as part of loan settlement or unsold properties transferred to Danaharta.

3. Securities:

All types of securities, e.g. shares and loan stocks owned by Danaharta.

4. Legal action:

- *Legal action:* Legal cases initiated by Danaharta and those initiated against Danaharta that have not yet concluded. (These are considered residual recovery assets because in the event of success in the court cases, recoveries could be expected).

- *Property and share foreclosure:* Typically, receivables from the sale of property or share collateral currently in the process of being completed. [Foreclosed properties and shares, unlike the proprietary properties and securities (no. 2 and 3 described above), are not owned by Danaharta. The ownership of these assets remain with the borrowers until they are sold].

DANAHARTA'S KEY STATISTICS

The values accorded to the residual recovery assets are based on their **net realisable value** that Danaharta deemed recoverable. As at 30 September 2005, Danaharta had RM3.66 billion worth of residual recovery assets that it will strive to convert into cash before the end of December 2005.

Table 5: Analysis of residual recovery assets by asset group as at 30 September 2005

Total cash collected		26.69
Residual recovery assets		
•Restructured loans	1.72	
•Securities	0.19	
•Properties	0.53	
•Legal action:		
– Legal action	0.26	
– Properties/share foreclosure	0.96	
Total residual recovery assets as at 30 September 2005		3.66
Total recovery		30.35

Note: Further details on the breakdown of the asset groups are available in [Appendices 7, 8, 9 and 10](#) on pages 76 to 83.

DISTRIBUTION OF CASH FROM RECOVERY PROCEEDS

Of the RM26.69 billion cash generated, RM17.48 billion represented recoveries from the BBMB Group and Sime Bank Group loans that were being managed by Danaharta. These recoveries were repatriated back to the Government and BNM after deducting management fees levied by Danaharta for doing the work.

In addition, as provided by the surplus sharing agreements, Danaharta had also distributed to 38 financial institutions RM0.76 billion cash and a total of 66,472,341 units of securities (being surplus recovery for Acquired NPLs).

[Table 6](#) on the following page provides details of the distribution.

DANAHARTA'S KEY STATISTICS

Table 6: Distribution of recovery proceeds as at 30 September 2005

A. Gross recovery for Managed NPLs	Distribution of recovery	
	Cash (RM)	Securities (Unit)
NPLs of the BBMB Group and the Sime Bank Group	17,479,155,747.16	-
Sub-total	17,479,155,747.16	-

B.	Recipient of surplus recovery for Acquired NPLs ⁺	No. of accounts	Cash (RM)	Securities (Units)
1.	Arab-Malaysian Bank Berhad	3	1,426,758.80	-
2.	Arab-Malaysian Finance Berhad	1	1,575,687.64	-
3.	Arab-Malaysian Merchant	3	22,575,056.37	-
4.	Aseambankers Malaysia Berhad	4	2,629,130.69	*3,968,319
5.	Amanah Merchant Bank Berhad	5	20,257,990.87	-
6.	Bumiputra Merchant Bankers Berhad	4	6,215,887.00	~3,167,637
7.	Bank Bumiputra Malaysia Berhad [#]	9	66,898,495.30	-
8.	Bank Industri Malaysia Berhad	1	480,082.15	-
9.	Bank Islam Berhad	4	22,402,953.34	~2,716,208
10.	Bank of Commerce (M) Berhad	2	49,389,810.26	-
11.	BSN Commercial Bank	2	1,619,427.78	-
12.	BSN Merchant Bank Berhad	2	787,084.39	-
13.	Bangkok Bank Berhad	2	1,383,839.52	-
14.	Bumiputera Commerce Bank Berhad	1	692,550.50	-
15.	Hong Leong Bank Berhad	3	845,005.52	^1,994,397
16.	Hock Hua Bank Berhad	1	2,458,158.29	-
17.	HSBC (M) Berhad	1	142,915.26	*1,730,284
18.	Malaysian International Merchant Bankers Berhad	6	30,409,326.77	*7,950,567
19.	Mayban Finance Berhad	1	3,518,006.94	-
20.	Maybank Berhad	6	35,480,615.55	~1,146,487
21.	MBf Finance Berhad	6	52,526,637.12	-
22.	MBF Leasing Sdn Bhd	1	629,828.73	-
23.	Multi-Purpose Bank Berhad	1	276,102.19	-
24.	OCBC Bank (Malaysia) Berhad	3	2,542,329.74	-
25.	Oriental Bank Berhad	16	71,768,390.13	^2,642,648
26.	Overseas Union Bank (M) Berhad	1	853,809.60	-
27.	Perwira Affin Bank Berhad	1	38,000.00	^2,427,982
28.	Perdana Merchant Bankers Berhad	3	332,248.03	~1,076,710
29.	Perwira Affin Merchant Bank Berhad	2	613,434.45	-
30.	Public Finance Berhad	1	251,880.89	-
31.	RHB Bank Berhad	14	221,019,784.03	*@27,247,820
32.	RHB Sakura Merchant Bankers Berhad	8	50,885,849.77	*3,986,502
33.	Sabah Bank Berhad	4	5,487,293.76	~2,465,757
34.	Sabah Development Bank Berhad	2	5,138,329.56	-
35.	Sime Merchant Bankers Sdn Bhd	1	472,056.75	-
36.	Southern Bank Berhad	2	5,744,211.28	*3,951,023
37.	The Pacific Bank Berhad	9	63,331,171.58	-
38.	United Merchant Finance Berhad	2	1,707,900.90	-
39.	Utama Merchant Bank Berhad	2	5,744,269.42	-
	Sub-total	136	760,856,310.93	66,472,341
	TOTAL DISTRIBUTED		18,240,012,058.09	66,472,341

+ In cases where banks had merged or had been acquired by another bank, payments were made to the new legal entity or the acquiring bank..

Relating to loans acquired at discounted prices by Danaharta prior to the arrangement for Danaharta to manage the BBMB Group NPL portfolio. Payment made to Danaharta Urus Sdn Bhd as the manager of BBMB NPLs.

* Payment in ordinary Arab-Malaysian Corporation Berhad shares with a par value of RM1.00 each share.

^ Payment in Ho Wah Genting Berhad RCULS.

@ Payment in Taiping Consolidated Berhad irredeemable convertible preference shares (ICPS) with a par value of RM1.00 each share.

~ Payment in Avenue Assets Berhad shares with a par value of RM1.00 each share and Avenue Assets Berhad warrants.

DANAHARTA'S KEY STATISTICS

CASH POSITION

The balance of the cash, after distributing to the Government and BNM as well as financial institutions, was used to repay Danaharta's liabilities.

As at 30 September 2005, Danaharta had repaid all its bonds and long-term borrowings, leaving a total cash and cash equivalents of RM0.64 billion.

Of the RM0.64 billion of cash and cash equivalents in hand, RM0.36 billion

belonged to the Managed NPL component. These were recoveries generated from the Managed NPLs, which will be later distributed to the Government and BNM.

The balance of RM0.28 billion belonged to the Acquired NPL component. This will be used to pay off short-term liabilities. The unutilised balance at year-end will be kept for Danaharta's shareholders.

Table 7: Summary of cash statement as at 30 September 2005

	RM billion
Total cash received from recovery proceeds	26.69
Add:	
Capital received	3.00
Loans from EPF, Khazanah and consortium of banks	1.94
Other inflows - including, amongst others, interest received on deposits and placements	3.02
Total inflow	34.65
Less:	
Bond redemption	11.14
Total surplus recovery distributed to financial institutions under surplus sharing arrangement	0.77
Total cash distributed for recovery of loans from Sime Bank Group and the BBMB Group (net of management fees)	15.59
Repayment of loans to EPF, Khazanah and consortium of banks	2.11
Other outflows - including, amongst others, cash paid for NPL acquisition, operational costs	4.40
Total outflow	34.01
Total cash/cash equivalent available	0.64

Acquired NPLs: RM0.28 bil
Managed NPLs: RM0.36 bil

DANAHARTA'S KEY STATISTICS

FINANCIAL RESULTS

Danaharta placed equal emphasis in resolving both the Acquired NPLs and Managed NPLs. Specifically, it was concerned with mitigating costs at two levels:

1. The cost of resolving the Acquired NPLs. The money recovered from these loans was used largely to pay off Danaharta's long-term borrowings, e.g. bonds that were issued to acquire NPLs.
2. Generating the best recovery from the Managed NPLs (loans from Sime Bank Group and the BBMB Group), in its role as a specialist contractor for the Government and BNM. The better the recovery, the smaller the eventual cost to be borne by taxpayers.

Acquired NPLs were purchased with Danaharta's capital and long-term borrowings. In contrast, Managed NPLs were owned by the Government and BNM.

As such, Danaharta's balance sheet reflected only the Acquired NPL component in its portfolio. The Managed NPL component was not reflected as they belonged to the Government and BNM. Danaharta did not own the recovery nor was it responsible for the liabilities of these loans.

Up to 30 September 2005, Danaharta made a consolidated net profit of RM0.85 billion. This was mainly due to good loan recovery coupled with a significant drop in financing costs as Danaharta redeemed the last of its bonds in March 2005.

However, notwithstanding the profit, Danaharta still suffered a cumulative loss (lifetime) of RM1.14 billion as at 30 September 2005. This was mainly due to its heavy financing costs in the past.

Due to the non-performing nature of its assets (NPLs), Danaharta was not expected to make a profit. In fact, national AMC's are generally not profit-making enterprises. Even the ones considered highly successful such as Sweden's Securum and the Resolution Trust Corporation of the United States, in the end cost taxpayers money. National AMC's are essentially a cost mitigation measure, designed to protect the integrity of a banking system, as the alternative of experiencing the collapse of a banking system would be more expensive and chaotic for the country.

Liabilities fully repaid

Danaharta was given RM3.00 billion in start-up capital by the Government and met its other funding needs through borrowings. Whilst the agency strived to maximise recovery on the Managed NPLs, it was determined to resolve the Acquired NPLs without resorting to additional Government funding.

Danaharta managed to repay all its borrowings, including the RM11.14 billion bonds, without resorting to additional financial assistance from the Government. Its recovery operations performed remarkably well to generate enough cash to meet its requirements. All bonds were redeemed on time and paid in full without having to call upon the Government guarantee.

National AMC's are essentially a cost mitigation measure, designed to protect the integrity of a banking system.

DANAHARTA'S KEY STATISTICS

Table 8: Danaharta's outstanding liabilities as at 30 September 2005

Liabilities	Purpose	Total amount allocated	Maximum amount utilised	Total liabilities as at 30 September 2005
		RM billion	RM billion	RM billion
Long-term loans Loans from Employee Provident Fund and Khazanah Nasional Berhad	Draw down available for working capital	2.00	1.30	Fully repaid
Short-term loan Revolving credit	To remedy a temporary timing mismatch between loan recovery and bond redemption	1.40	0.65	Fully repaid
Zero-coupon bonds issued to selling financial institutions [^]	For loan acquisition	15.00	11.14	Fully redeemed
Total		18.40	13.09	-

[^] Reported in nominal value/face value of bonds. (For more details on Danaharta bonds, please refer to [Appendix 1 on page 54](#)).

Throughout its lifetime, Danaharta borrowed working capital totaling RM1.30 billion from Khazanah Nasional Berhad and the Employees' Provident Fund. It also issued 15 tranches of Government-guaranteed bonds with a total face value of RM11.14 billion to purchase the NPLs from financial institutions.

For the final two bond redemption exercises (31 December 2004 and 31 March 2005), Danaharta realised that there would be a mismatch between the time the bonds matured and the time cash would come in from projected recoveries.

To cover the situation, Danaharta obtained a revolving credit facility from a consortium of banks and drew down a total of RM650 million over time. The intention was to repay the facility from the recoveries when received. By 30 September 2005, the RM650 million loan had been fully repaid. The facility had since been cancelled as it was no longer required.

DANAHARTA'S KEY STATISTICS

ACCOUNTS (UNAUDITED)

Profit & Loss Account (unaudited) for the period ended 30 September 2005

	GROUP		COMPANY	
	30.9.2005 (RM '000)	30.9.2004 (RM '000)	30.9.2005 (RM '000)	30.9.2004 (RM '000)
Interest Income	8,735	46,774	5,214	36,405
Interest Expense	(20,873)	(165,462)	(20,873)	(165,367)
Net Interest Expense	(12,138)	(118,688)	(15,659)	(128,962)
Income from recoveries on acquired loans	201,230	50,871	200,041	50,871
Management fee income	121,222	149,065	-	-
Income from property development	-	19,084	-	-
Other Income	1,579	7,714	426	6,636
Dividend Income	-	-	185,000	166,000
Loss on disposal of subsidiary	-	(9,680)	-	-
Overhead expenses	(30,721)	(44,209)	(29,653)	(31,181)
Provision for diminution in acquired assets	(196,601)	(25,288)	(197,936)	(19,568)
Operating profit/(loss)	84,571	28,869	142,219	43,796
Accumulated losses brought forward	(1,220,337)	(1,304,958)	(1,278,669)	(1,410,320)
Accumulated losses carried forward	(1,135,766)	(1,276,089)	(1,136,450)	(1,366,524)

Consolidated Balance Sheet (unaudited) as at 30 September 2005

	GROUP		COMPANY	
	30.9.2005 (RM '000)	30.9.2004 (RM '000)	30.9.2005 (RM '000)	30.9.2004 (RM '000)
ASSETS				
Acquired assets	1,944,193	3,945,097	1,851,660	3,827,391
Fixed assets	104	282	96	253
Investment in subsidiary companies	-	-	2,250	3,250
Cash and bank balances	7,715	35,831	3,472	35,831
Deposits and placements with financial institutions	269,872	359,432	262,211	403,307
Other assets	22,369	28,041	22,202	26,737
Related companies	-	-	97,204	107,076
TOTAL ASSETS	2,244,253	4,368,683	2,239,095	4,403,845
LIABILITIES				
Redeemable guaranteed zero-coupon bearer bonds	-	1,730,496	-	1,730,496
Other liabilities	380,019	914,276	360,633	882,523
Related companies	-	-	14,912	157,350
TOTAL LIABILITIES	380,019	2,644,772	375,545	2,770,369
Share capital of RM1 each	3,000,000	3,000,000	3,000,000	3,000,000
Accumulated Losses	(1,135,766)	(1,276,089)	(1,136,450)	(1,366,524)
SHAREHOLDERS' FUNDS	1,864,234	1,723,911	1,863,550	1,633,476
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	2,244,253	4,368,683	2,239,095	4,403,845

Note:

- 1) Danaharta's subsidiary, TTDI Development was disposed in October 2004. The accounts for 2004 include the consolidation of TTDI Development's results.
- 2) "Other Liabilities" are operational liabilities that are expected to be extinguished by 31 December 2005. They are, amongst others, provision for operational expenses and part payment for sale of properties which have been received but not recognised as income yet.

DANAHARTA'S KEY STATISTICS

PROJECTIONS FOR 31 DECEMBER 2005

Residual recovery assets

From October to December 2005, Danaharta will continue its efforts to convert as much of the remaining residual recovery assets into cash. By 31 December 2005, the total residual recovery assets is expected to be reduced to approximately RM2.88 billion (less than 10% of the total lifetime recovery received by Danaharta), whilst the total

cash collected (lifetime) will increase to RM27.47 billion. The conversion of residual recovery assets into cash is merely a change in the form of the asset, i.e. from non-cash into cash.

As such, Danaharta will still be on track to post a final recovery rate of 58% when it closes down on 31 December 2005.

Table 9: Projected breakdown of residual recovery assets and cash for 31 December 2005

(RM billion)	Cash	Residual recovery assets
Acquired NPLs	9.55	1.52
Managed NPLs	17.92	1.36
Total recovery	27.47	2.88

Table 10: Analysis of residual recovery assets by asset group as at 31 December 2005 (projection)

Total cash		27.47
Residual recovery assets		
• Restructured loans	1.31	
• Securities	0.19	
• Properties	0.47	
• Legal action:		
– Legal action	0.23	
– Properties/share foreclosure	0.68	
Total residual recovery assets		2.88
Total recovery		30.35

Management of residual recovery assets

Out of the RM2.88 billion worth of residual recovery assets, RM1.52 billion will be attributable to Acquired NPLs and RM1.36 billion to Managed NPLs.

Upon Danaharta's closure of operations, control of these assets will revert to Danaharta's shareholder, Minister of Finance Incorporated. The task will be to convert these residual recovery assets into cash at the best possible value - a conversion mission.

To this end, the Minister of Finance Incorporated has appointed its wholly owned subsidiary, Prokhas Sdn Bhd, to act as a collection agent for the residual recovery assets. In this regard, ownership of such assets will remain with Danaharta - a dormant company.

Prokhas will commence its duties on 1 January 2006.

DANAHARTA'S KEY STATISTICS

Danaharta mitigates sunk cost

The entire seed capital of RM3 billion to establish Danaharta was expected to be a sunk cost.

However, Danaharta is on track to turn over approximately RM2.05 billion of assets to its shareholder, the Minister of Finance Incorporated, upon its closure on 31 December 2005. By amassing the RM2.05 billion worth of assets after paying all its liabilities, Danaharta will effectively

reduce the lifetime cost of operating the agency to only about RM1 billion. Generated from the Acquired NPLs, the RM2.05 billion will comprise RM1.52 billion worth of residual recovery assets and RM0.53 billion in cash.

Recoveries from the Managed NPLs do not belong to Danaharta and therefore, cannot be used to mitigate the sunk cost.

Table 11: Projected cash to be turned over to the Minister of Finance Incorporated on 31 December 2005

		RM billion
	Total cash/cash equivalent of Acquired NPLs as at 30 September 2005	0.28
+	Projected cash inflow for 1 October 2005 to 31 December 2005 E.g. management fees and cash received from loan recovery	0.45
	Subtotal	0.73
-	Projected cash outflow for 1 October 2005 to 31 December 2005 E.g. surplus recovery distributed to financial institutions and operational costs	0.20
	Total cash to be turned over on 31 December 2005	0.53

SECTION C

Evaluating

How does one measure the success of a non-profit special purpose organisation like an NPL resolution agency?

Internal Performance Targets	
- Key Performance Indicators	43
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Danaharta's Performance

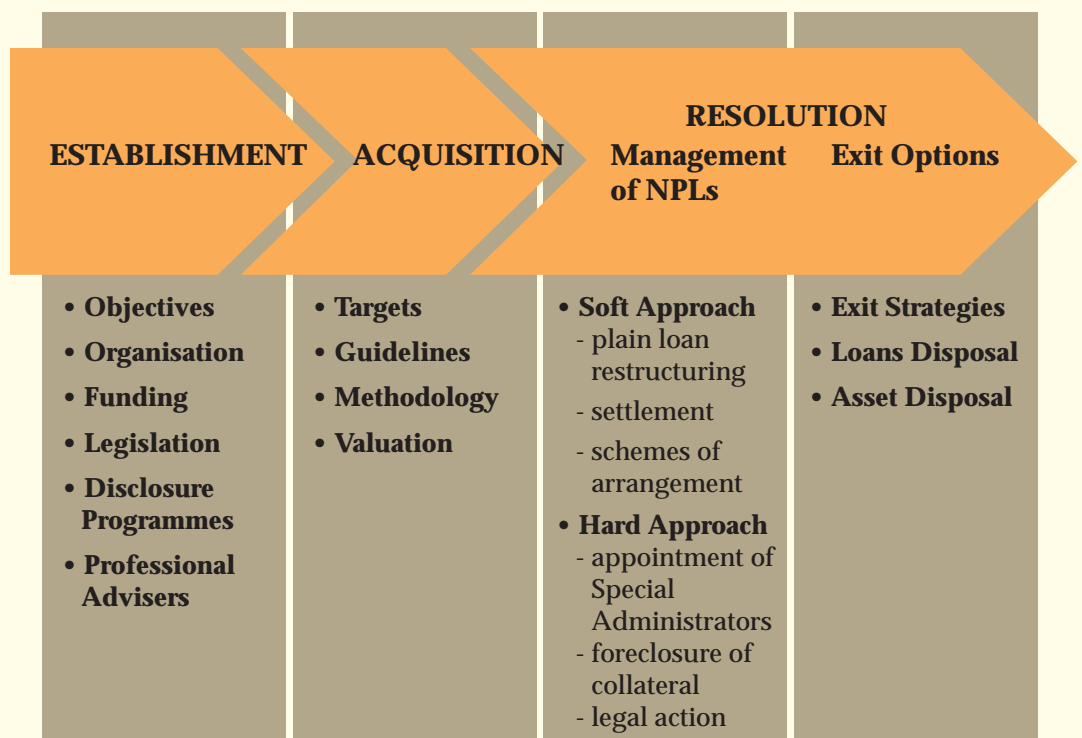
INTERNAL PERFORMANCE TARGETS - KEY PERFORMANCE INDICATORS

Danaharta was possibly one of the earliest Malaysian government agencies to adopt Key Performance Indicators (KPIs) to direct organisational efforts and drive performance. In fact, its staff remuneration was linked to the achievement of KPIs. The KPIs were formulated and adopted by Danaharta's Board in the middle of 1999.

Danaharta's goals were not profit-oriented but to relieve NPL pressure and maximise recovery values. In addition, as a finite life agency, Danaharta moved through its lifecycle very quickly. The goals in each phase of its life were different. Specialised KPIs had to be drawn up to measure the quantity as well as the quality of effort made and propel the organisation to achieve its key goals. Different KPIs came into play over time with some overlapping between phases. Each KPI had a benchmark assigned.

In actual fact, Danaharta managed to meet or exceed the benchmarks set for all its KPIs.

Figure 2: The phases in Danaharta's lifecycle



EVALUATING DANAHARTA'S PERFORMANCE

Establishment

The announcement of the establishment of Danaharta in May 1998 came with the knowledge that it had to be operational as soon as possible - the first KPI set. Danaharta's Board of Directors noted that AMCs in other countries became operational in periods spanning five to fifteen months. Danaharta had to beat the benchmark of five months for its set-up, during which it had to draft enabling legislation, recruit key staff members and formulate its policies and procedures.

Danaharta managed to begin operations within three months of its announcement, making its first loan acquisition at the end of August 1998.

Acquisition

Given that Danaharta's primary objective was to relieve the pressure of NPLs on the banking system, goals in this phase of operations were set on two fronts – the speed of action taken, as well as the quantity of NPLs that were carved out.

The Board set a deadline of end-December 1999 for the primary NPL carve-out exercise. A secondary exercise, a final call to all financial institutions, was to be completed by the end of March 2000.

Danaharta completed its primary carve-out of NPLs six months ahead of schedule and its secondary carve-out on schedule.

In terms of value, Danaharta was required to have carved out at least RM8 billion worth of loans by the end of December 1998 and a cumulative value of RM33 billion a year later. As it turned out, Danaharta carved out RM19.73 billion worth of loans by the end of 1998 and RM39.33 billion by the end of 1999.

Resolution Phase

KPIs for this phase of operations were also set on two fronts.

First, deadlines were set for the “processing of NPLs”, i.e. meeting borrowers and deciding on an appropriate recovery strategy (not including the implementation of the recovery strategy). In that regard, Danaharta was required to “process” RM30 billion NPLs by the end of June 2000 and the remainder of about RM22 billion loans by the end of 2001. As it turned out, Danaharta processed RM31.5 billion by mid-2000 but due to some complications, processed all but RM30 million of the remainder, by the end of 2001. Nevertheless, the final loans were processed by the end of July 2002.

The other KPI in this phase was the Loan Recovery Rate, a universal method used to gauge an NPL resolution agency's recovery performance. The rate reflects the ability of the agency to implement its loan recovery strategies effectively. The Loan Recovery Rate is calculated by comparing the actual amount recovered against the amount owed. For example, if RM50 million is recovered against a loan amount outstanding of RM100 million, the Loan Recovery Rate will be 50%.

The benchmark for the Loan Recovery Rate was set at 49.8%, which was a rather high target, considering the fact that the loan recovery rates of similar agencies in the region ranged between 20% and 50%. Danaharta recorded a final Loan Recovery Rate of 58%.

EVALUATING DANAHARTA'S PERFORMANCE

Summary of Danaharta's KPIs

PHASE	KPIs SET	DANAHARTA'S ACTUAL PERFORMANCE
1. Establishment Phase	To commence operations by October 1998, five months after Danaharta's establishment was announced	KPI exceeded - commenced operations, i.e. acquired first NPL in August 1998, two months ahead of schedule
2. NPL Acquisition Phase	Time given to complete carve -out of NPLs	
	i) to complete primary NPL carve -out exercise by 31 December 1999	i) KPI exceeded - completed primary carve -out in June 1999, six months ahead of schedule
	ii) to complete secondary NPL carve -out exercise by 31 March 2000	ii) KPI met - completed secondary carve -out on schedule in March 2000
	Amount of NPLs to carve out in primary NPL carve -out exercise	
	i) RM8 billion of NPLs by 31 December 1998	i) KPI exceeded - carved out RM19.73 billion of NPLs by 31 December 1998
	ii) a total of RM33 billion by 31 December 1999 (cumulative)	ii) KPI exceeded - carved out in total RM39.33 billion NPLs by 31 December 1999 (cumulative)
3. NPL Resolution Phase	Amount of NPLs to process, i.e. to review and decide on the most appropriate recovery strategy	
	i) to process RM30 billion NPLs by 30 June 2000	i) KPI exceeded - processed RM31.5 billion of NPLs
	ii) to process remaining NPLs by 31 December 2001	ii) KPI met - processed all remaining loans except for RM30 million (which was processed by 31 July 2002)
	To achieve a Loan Recovery Rate of 49.8% (total lifetime recovery)	Exceeded - As at 30 September 2005, the Loan Recovery Rate was 58% (total lifetime recovery)

EVALUATING DANAHARTA'S PERFORMANCE

DANAHARTA'S CONTRIBUTION - A MACRO PERSPECTIVE

Danaharta's efforts also contributed to the following:

- **Prevented a banking crisis**

After Danaharta's primary carve-out exercise in September 1998, the rate of increase of NPLs began to decline at a steady rate of about 5% a month. Prior to Danaharta's establishment, NPLs were rising at an alarming rate of **0.9% a month⁶** between December 1997 and April 1998.

The net NPL ratio which reached a high of 11.4% (6-month classification) in August 1998, just before Danaharta started the primary carve-out exercise, fell to 6.6%, by the end of the secondary carve-out in March 2000. Since then, the net NPL ratio in Malaysia has remained at a manageable level of below 10%. In fact, as at 30 September 2005, the banking system's net NPL ratio was 4.8%.

- **Lower NPL resolution cost**

The total cost of resolving the banking system's NPLs was much lower than expected.

Danaharta was part of a larger plan to restructure Malaysia's banking sector to a stronger footing. In 2002, BNM estimated that the total cost of restructuring the banking sector, which included the resolution of NPLs (Danaharta) and recapitalisation of banks (Danamodal) would not exceed 5% of the nation's Gross Domestic Product (GDP) or approximately **RM20 billion⁷**.

As it turned out, the actual cost was only about RM12.5 billion or 3% of GDP. This is also far less than the International Monetary Fund's (IMF) estimate of 18%, made during the Asian financial crisis.

Of the RM12.5 billion, about RM12 billion was attributed to NPL resolution efforts undertaken by Danaharta. Danaharta's Acquired NPL component accounted for approximately RM1 billion – largely caused by its heavy financing cost – whilst the Managed NPL component accounted for the remaining RM11 billion, which was the shortfall that could not be recovered on the book values of the Managed NPLs.



Danaharta's NPL carve-out exercises had managed to relieve the pressure on the banking system caused by rising NPLs. Banks could concentrate on the business of lending, thereby supporting economic activity. Although beset with problems, the banking system functioned well throughout the Asian financial crisis. Customers could carry out their banking activities without any inconvenience or trouble. This helped the country to recover faster and avoid bank runs or the spectre of widespread social unrest as seen in some countries.

Footnote 6

p.143 "Rewriting the Rules - The Malaysian Crisis Model", by Mahani Zainal Abidin (2002).

Footnote 7

Based on GDP for 2004 which is RM449 billion.

EVALUATING DANAHARTA'S PERFORMANCE

REGIONAL COMPARISON

Danaharta was featured in a comparative study on AMCs in the region done by the [Bank for International Settlements \(BIS\)](#)⁸, through its Financial Stability Institute .

The report, entitled “**Public Asset Management Companies in East Asia: A Comparative Study**”, was published in [February 2004](#)⁹.

The study looked at how each of the region's AMCs (namely China, Japan, Indonesia, Korea, Thailand and Malaysia) tackled the NPL problem. It also compared

the methods adopted for essential functions like asset transfers, valuation, enabling legislation, asset resolution and of course, recovery rates.

In their analysis of the recovery rates of the AMCs, the BIS researchers reported that generally, Asian AMCs were expected to recover between 20% and 50% of the book value of the loans, comparable to the experiences in other parts of the world. Danaharta recorded a final recovery rate of 58%.

In addition, the BIS team identified the following key factors that contribute to the successful operation of an AMC:

- **Strong political will:** a strong commitment from the government to address the NPLs in the system, and the AMC should have independence and freedom from political interference.
- **Supportive legal infrastructure:** effective laws, particularly in bankruptcy and foreclosure, and special legal powers to allow AMCs to achieve quicker resolution and higher recoveries.
- **Efficient market environment:** well-functioning capital markets to facilitate asset sales. If the local market is immature, allowing foreign participation would speed up asset disposition.
- **Clear AMC mandate:** the AMC needs to be clear on its mandate, the types of assets to be acquired and the resolution methods it can use. It should focus on asset sales and not be overly burdened by corporate restructuring.
- **Well defined AMC lifespan:** the tenure of an AMC should generally be limited to prevent it from warehousing acquired assets, in an attempt to prevent realisation of large losses.
- **Adequate governance:** there should be a sound system of internal control and effective external supervision, with regular audits by an independent auditor.
- **Good transparency:** an AMC should periodically disclose the results of its operations vis-à-vis its mandate as well as its audit results, in a manner that will be easily understood by the market.
- **Realistic asset pricing:** generally assets should be transferred to an AMC at market-based prices, with proper incentives to facilitate transfers.
- **Speedy resolutions:** an AMC should aim for speedy disposition of acquired assets. Waiting for an economic turnaround to increase recovery often leads to slower resolution progress and larger losses.

Coincidentally, Danaharta complied with all the criteria identified.

Footnote 8

The report was published by the Financial Stability Institute, which was set up in 1999 and is jointly operated by the BIS and the Basel Committee on Banking Supervision. BIS was established in 1930 and it is the world's oldest international financial institution. It was formed under the Hague Agreements, as were the International Monetary Fund (IMF) and the World Bank. BIS is an international organization which fosters cooperation among central banks and other agencies in pursuit of monetary and financial stability. The BIS has two administrative offices in Hong Kong and Mexico City.

Footnote 9

Ben Fung, Guonan Ma, Stefan Hohl and Jason George

THE CHALLENGES

1. PUBLIC RELATIONS

Danaharta was established at lightning speed. The announcement of its creation was made in May 1998 and by June, Danaharta was formally incorporated. Within three months, the Danaharta Act was drafted and passed in Parliament.

Accompanying the pressure to do things quickly and effectively was the "public relations" war it had to face from the day its establishment was announced.

Critics and observers, both foreign and local, were doubtful of Danaharta's "true" purpose – many believed it to be a bailout agency for politically linked business personalities – and its ability to carry out its functions. Many also questioned its ability to stay transparent, independent and free of Government intervention. Within Malaysia, the misconception that Danaharta would forgive all NPLs that it would acquire dominated the public arena.

EVALUATING DANAHARTA'S PERFORMANCE

The war was fought on several fronts:

(i) Transparency

From the start, Danaharta was committed to prove to the public that it would be transparent in its operations.

Press conferences were held and public announcements were made regularly to keep the public informed of Danaharta's progress. The first press conference was held a fortnight after the announcement of its proposed establishment. Danaharta made a start by explaining its aims, strategy and management philosophy towards resolving the NPL problem.

Danaharta also began publishing half-yearly operations reports. Danaharta's Operations Reports contained key statistics and explanations pertaining to the operations of the AMCs. In conjunction with the issuance of the reports, briefings were held for the press and analyst community, giving them the opportunity to seek clarification of the contents.

Later it introduced quarterly reports, providing updates on key statistics in between the issuance of the Operations Reports.

A website containing information, both historical and current, as well as reports and announcements, was set up and constantly updated. Public and press queries were entertained and replied to on a timely basis.



AMCs will be fully transparent, says Azman

AMANAH Capital Malaysia chief executive director Mohamed Azman Yusoff, who was appointed chief executive of the umbrella body for asset management companies (AMCs), yesterday promised full transparency.

"To develop a strong confidence base in the market, it is important to have full disclosure and transparency in the AMCs' operations," he said.

The AMCs are new private sector-driven entities initiated by the Government to take over assets of troubled companies pledged to banking institutions and whose debts have since become non-performing loans.

The institutions would sell the NPLs and assets at market prices to the AMC who would revive and later sell them at higher prices.

Deputy Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim who announced AMANAH's appointment on Thursday said the Government had set a two-week target for the umbrella body to start its operations.

Azman said he was grateful for Anwar's confidence and trust in him, adding that he looked forward to work closely with the Ministry of Finance, Bank Negara and other relevant regulatory authorities.

"A study on the operational structure of the AMCs is currently being conducted together with Bank Negara Malaysia and other consultants," he added.

Azman, 34, is an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Malaysian Institute of Accountants.

He holds a first-class honours degree in BSc Economics from the London School of Economics and Political Science, University of London. — Bernama

EVALUATING DANAHARTA'S PERFORMANCE

(ii) Independent board

The Danaharta Act provided for a nine-member board, which comprised a non-executive Chairman, a Danaharta Managing Director, two Federal Government officials, three members from the private sector and two members from the international community.

Danaharta's Boards featured influential and well known figures, whose professionalism was well respected. (Please see [pages 84 to 85](#) for a full list of Danaharta's board members).

The composition of the Board reflected well on the AMC's independence and professionalism.

(iii) Internal practices

From the beginning, Danaharta effected a strong internal structure which incorporated good corporate governance.

It voluntarily adopted and kept strictly to the Malaysian Code on Corporate Governance, issued in March 2000. Even before that, Danaharta had already established a manual on Standards of Business Conduct, with its accompanying guidelines for its staff. The Standards of Business Conduct set out high ethical business standards and practices for business conduct and a code of behaviour for employees to adhere to.

Every division within Danaharta was required to set out a list of procedures and guidelines for the division. Requirements included annual declaration of assets by employees and their spouses.

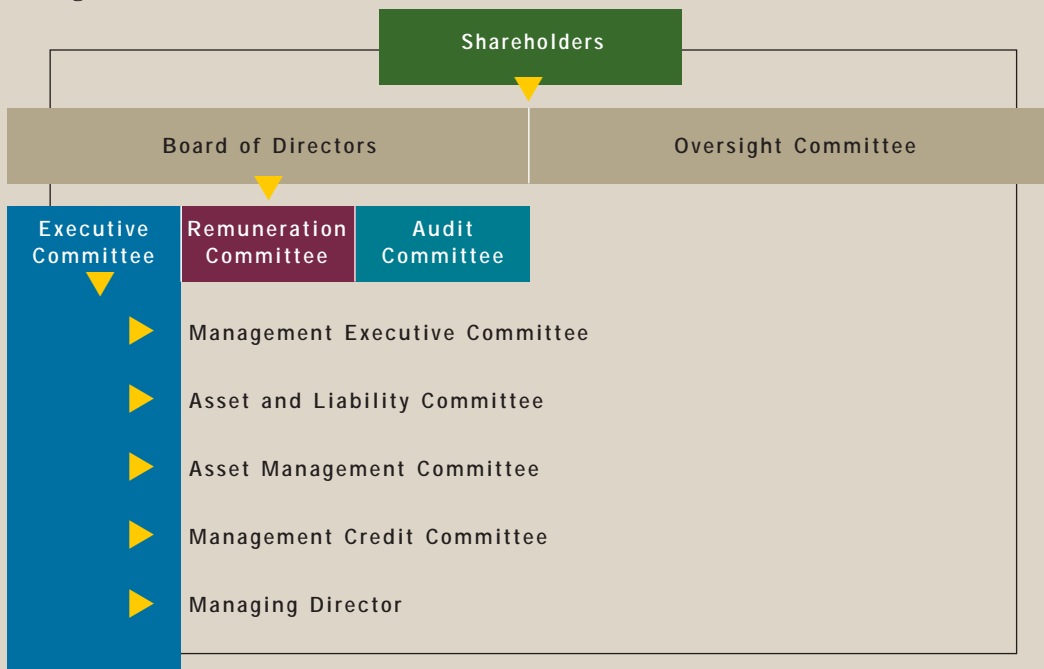
For the Board and top management level, the Danaharta Authority Manual gave clear guidelines on the rules of engagement in day-to-day operations. An integral part of Danaharta's internal control system, the Authority Manual laid out the defining lines and boundaries of responsibility and delegation of authority to the various Board and Management Committees. Throughout Danaharta's life cycle, the manual was updated regularly to cater to Danaharta's evolving roles.

Apart from good corporate governance, Danaharta also emphasised greatly on integrating risk management into the AMC's day-to-day operations. For example, all loan resolution proposals had to be reviewed by the Risk Management team before being put forward for deliberation. The risk management team lent a "third eye" to all proposals and procedures to ensure that potential risks were identified.

Another unique feature of Danaharta's decision making structure was that no single individual, not even Danaharta's Managing Director, was able to make a unilateral decision on the treatment of NPLs. The Managing Director also did not have voting rights at Board meetings. All key decisions were made via committees.

EVALUATING DANAHARTA'S PERFORMANCE

Figure 3: Danaharta's Governance Structure



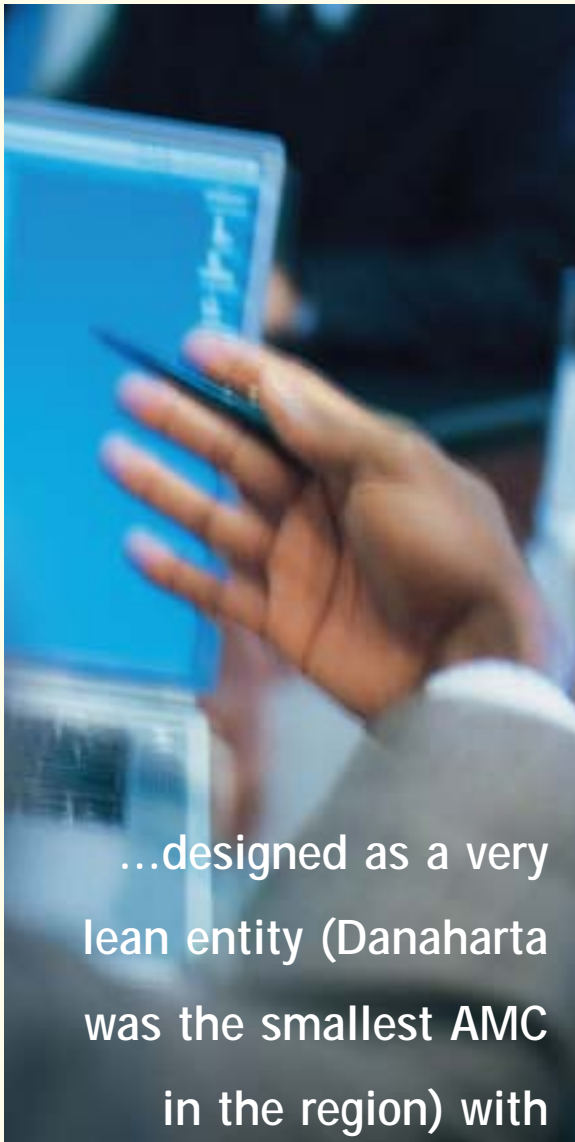
For day to day operations, Danaharta's top level management was divided into three management committees which were in turn overseen by a Management Executive Committee. The composition and functions of the sub-committees changed over the period of Danaharta's lifetime, according to the functions it was performing at the time, for example, loan acquisitions and loan management.

The roles of the sub-committees were as follows:

Management Executive Committee	<ul style="list-style-type: none"> • Oversaw and decided on key management decisions and overall guidelines for the operations of Danaharta. • Ensured adherence to overall policies and guidelines
Management Credit Committee	<ul style="list-style-type: none"> • Reviewed and decided on matters relating to loan/asset acquisitions and disposals.
Asset Management Committee	<ul style="list-style-type: none"> • Reviewed and decided on matters pertaining to the purchase and sale of property assets, including approving additional investment in assets.
Asset and Liability Committee	<ul style="list-style-type: none"> • Controlled liquidity, market and interest risks to ensure that they were in line with Danaharta's risk appetite, policy and liquidity requirements.

Eventually, the tide turned in the public relations war. As the agency proved by its deeds that it was serious about accomplishing its mission, the early fears receded. This was bolstered by the open and transparent relationship the agency strove to maintain with the press and public at large. In addition, the key statistics released periodically were testament to Danaharta's performance.

EVALUATING DANAHARTA'S PERFORMANCE



...designed as a very lean entity (Danaharta was the smallest AMC in the region) with

very few layers of hierarchy so as to promote functionality, quick decision making and flexibility.

2. HUMAN RESOURCE

There were also specific challenges faced on the organisational and human resource front.

From the onset, Danaharta had been envisioned as a project type organisation with a limited life. This led the organisation to be designed as a very lean entity (Danaharta was the smallest AMC in the region) with very few layers of hierarchy so as to promote functionality, quick decision making and flexibility. Periodic reorganisation exercises proved to be a common feature of Danaharta's life as it sought to respond to different requirements posed by the different phases of its mission.

Recruitment needs were quite specific. Danaharta needed to be operational from the word go and cope with a multitude of complex situations. There was very little time for training, at least during the initial stages. Sourced from the banking fraternity, multinationals and consultancy firms, almost all Danaharta staff had substantial work experience. There was no room for fresh graduates. Remuneration practices were benchmarked to local banks and staff were rewarded based on merit. This added a private sector flavour to Danaharta that was important in incentivising staff to meet targets.

To cope with the volume of work, Danaharta put into practice a "virtual organisation" philosophy. Virtual organisation referred to the panels of accountants, lawyers, valuers and real estate agents that assisted Danaharta staff in their work. Typically, in a "hub and spoke" model of interaction, Danaharta staff would control teams of professionals that worked on an assignment basis or when required. This significantly reduced the need to employ many permanent staff and hence, eased the process of closing down Danaharta.

With limited human resources and only one office, Danaharta also emphasised the use of technology to facilitate achievement of tasks and goals. As an example, to facilitate borrowers' efforts to repay loans, Danaharta and Malayan Banking Bhd (Maybank) - Malaysia's largest bank - worked out a technical arrangement where borrowers could bank in repayments to any of Maybank's branches, nationwide.

In addition, a number of initiatives and strategies were successfully implemented to enhance staff performance by improving camaraderie, developing capabilities, initiating self-belief and supporting the team ethic.

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SUMMARY OF PAYMENT FOR ACQUIRED NPLS

SUMMARY OF DANAHARTA BONDS ISSUED FOR ACQUIRED NPLS

	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	Status
1998	20 November	1.022	69.832	7.150%	0.713	31 December 2003	Redeemed
	30 December	1.580	72.012	6.672%	1.138	31 December 2003	Redeemed
1999	29 January	1.105	71.301	6.654%	0.788	31 March 2004	Redeemed
	26 February	1.242	72.296	6.475%	0.898	31 March 2004	Redeemed
	26 March	1.393	72.758	6.445%	1.014	31 March 2004	Redeemed
	29 April	1.050	75.584	5.487%	0.793	30 June 2004	Redeemed
	27 May	0.511	76.229	5.400%	0.390	30 June 2004	Redeemed
	29 June	0.744	76.862	5.330%	0.572	30 June 2004	Redeemed
	29 July	0.527	76.223	5.319%	0.402	30 September 2004	Redeemed
	26 August	0.204	73.585	6.111%	0.150	30 September 2004	Redeemed
	29 October	0.575	76.365	5.283%	0.439	31 December 2004	Redeemed
	29 December	0.392	77.363	5.194%	0.303	31 December 2004	Redeemed
2000	31 January	0.162	77.244	5.063%	0.125	31 March 2005	Redeemed
	29 February	0.305	77.697	5.025%	0.237	31 March 2005	Redeemed
	31 March	0.328	77.494	5.165%	0.255	31 March 2005	Redeemed
Total bonds issued		11.140			8.217		

Note: No bonds were issued in September and November 1999 and after 31 March 2000.

SUMMARY OF
PAYMENT FOR
ACQUIRED NPLS

Payment for Acquired NPLs (at point of acquisition)

	RM billion
Issue of Danaharta bonds	7.92 ¹
Cash ²	1.02
TOTAL	8.94

Footnote 1

This referred to the value of the bonds at date of issue. The figure had taken into account a total adjustment of RM0.30 billion to account for NPLs that were returned to the selling financial institutions.

Footnote 2

Cash payments were made mainly for acquisition of NPLs from development finance institutions, loans extended under the Islamic concept and unsecured loans.

NPLs CARVED OUT - BY FINANCIAL INSTITUTION

NPLs ACQUIRED	Loan Rights Acquired RM million	No. of accounts
COMMERCIAL BANKS		
Arab-Malaysian Bank Berhad	774.5	37
Ban Hin Lee Bank Berhad	115.5	5
Bangkok Bank Berhad	55.9	4
Bank Bumiputra Malaysia Berhad	1,763.5	19
Bank Of Commerce (M) Berhad	946.7	18
Bank Utama (Malaysia) Berhad	219.3	11
BSN Commercial Bank	419.4	30
Citibank N.A.	11.6	1
EON Bank Berhad	129.6	4
Hock Hua Bank Berhad	16.9	2
Hong Leong Bank Berhad	138.3	19
Hongkong Bank (Malaysia) Berhad	294.0	16
International Bank Malaysia Berhad	8.5	1
Maybank Berhad	1,479.6	38
Multi-Purpose Bank Berhad	298.6	17
OCBC Bank (Malaysia) Berhad	415.7	27
Oriental Bank Berhad	960.9	71
Overseas Union Bank (Malaysia) Berhad	69.3	6
Perwira Affin Bank Berhad	229.5	13
Phileo Allied Bank Berhad	141.9	7
Public Bank Berhad	159.1	4
RHB Bank Berhad	2,116.7	48
Sabah Bank Berhad	149.0	14
Sime Bank	55.2	1
Southern Bank Berhad	118.6	14
The Pacific Bank Berhad	314.4	24
	11,402.2	451

**NPLS
CARVED OUT
- BY
FINANCIAL
INSTITUTION**

	Fair purchase price RM million	Discount
	475.6	39%
	82.0	29%
	12.1	78%
	261.9	85%
	181.9	81%
	162.3	26%
	287.5	31%
	11.6	-
	84.3	35%
	12.0	29%
	76.6	45%
	213.4	27%
	6.7	21%
	300.3	80%
	256.7	14%
	218.5	47%
	372.9	61%
	55.8	19%
	114.7	50%
	124.3	12%
	153.7	3%
	707.0	67%
	56.7	62%
	38.7	30%
	49.5	58%
	111.0	65%
	4,427.7	61%

NPLs ACQUIRED	Loan Rights Acquired RM million	No. of accounts
FINANCE COMPANIES		
Affin Finance Berhad	12.9	1
Amanah Finance Berhad	14.1	2
Arab-Malaysian Finance Berhad	135.0	7
Asia Commercial Finance (M) Berhad	6.1	1
Bolton Finance Berhad	19.3	2
City Finance Berhad	4.4	1
Credit Corporation (M) Berhad	165.2	6
Delta Finance Company Berhad	5.6	1
Hong Leong Finance Berhad	142.7	9
Interfinance Berhad	11.5	3
Kewangan Bersatu Berhad	61.0	5
Kewangan Industri Berhad	14.5	2
Maybank Finance Berhad	110.9	7
MBF Finance Berhad	2,578.4	51
MBF Leasing Sdn Bhd	6.5	1
Multi-Purpose Finance Berhad	40.4	2
Public Finance Berhad	40.4	3
Sabah Finance Berhad	5.8	1
Sime Finance Berhad	10.4	2
United Merchant Finance Berhad	384.4	24
	3,769.5	131
MERCHANT BANKS		
Amanah Merchant Bank Berhad	275.0	18
Arab-Malaysian Merchant Bank Berhad	657.2	26
Aseambankers Malaysia Berhad	146.0	17
BSN Merchant Bank Berhad	73.8	8
Bumiputra Merchant Bankers Berhad	132.1	10
Commerce International Merchant Bankers	36.8	2
Malaysian International Merchant Bankers	247.0	18
Perdana Merchant Bankers Berhad	105.5	6
Perwira Affin Merchant Bank Berhad	860.7	27
RHB Sakura Merchant Bankers Berhad	299.4	14
Sime Merchant Bankers Berhad	101.5	11
Utama Merchant Bank Berhad	276.9	15
	3,211.9	172

NPLS
CARVED OUT
- BY
FINANCIAL
INSTITUTION

	Fair purchase price RM million	Discount
	10.1	22%
	14.1	-
	107.6	20%
	2.2	64%
	16.5	15%
	4.4	-
	79.8	52%
	4.1	27%
	114.3	20%
	9.5	17%
	59.1	3%
	14.5	-
	103.0	7%
	873.5	66%
	1.3	80%
	40.3	0%
	38.8	4%
	3.0	48%
	10.4	-
	297.6	23%
	1,804.1	52%
	126.0	54%
	511.0	22%
	56.8	61%
	25.2	66%
	44.8	66%
	27.5	25%
	35.0	86%
	86.5	18%
	629.8	27%
	137.1	54%
	20.0	80%
	112.0	60%
	1,811.7	44%

NPLs ACQUIRED	Loan Rights Acquired RM million	No. of accounts
DEVELOPMENT FINANCE INSTITUTIONS		
Bank Industri Malaysia Berhad	37.5	4
Bank Islam Malaysia Berhad	197.6	13
Bank Kerjasama Rakyat Malaysia Berhad	66.4	3
Bank Pembangunan Malaysia Berhad	6.8	1
BI Credit And Leasing Berhad	14.8	2
Malaysia Building Society Berhad	174.1	7
Sabah Development Bank Berhad	664.0	12
	1,161.2	42
OFFSHORE		
AMMB International (L) Ltd	123.1	1
	123.1	1
OTHERS		
Overseas Assurance Corporation	42.7	1
	42.7	1
TOTAL NPLs ACQUIRED	19,710.6	798

MANAGED NPLs	Loan Rights Acquired RM million	No. of accounts
SIME BANK GROUP		
Sime Bank Berhad	9,542.3	930
Sime International Bank (L) Ltd	4,166.1	113
Sime Securities Sdn Berhad	1,620.7	68
Sime Merchant Bank	299.4	43
Sime Finance Berhad	66.9	8
	15,695.4	1,162
BBMB GROUP		
Bank Bumiputra Malaysia Berhad	11,018.2	887
BBMB International Bank (L) Ltd	964.9	23
BBMB Discount House Berhad	57.0	4
BBMB Kewangan Berhad	230.6	28
	12,270.7	942
TOTAL MANAGED NPLs	27,966.1	2,104
TOTAL NPLs IN DANAHARTA' S PORTFOLIO	47,676.7	2,902

	Fair purchase price RM million	Discount
	26.7	29%
	18.0	91%
	66.3	0.0%
	6.7	0.0%
	6.9	53%
	153.7	12%
	470.8	29%
	749.1	35%
	104.7	15%
	104.7	15%
	42.7	-
	42.7	-
	8,940.0	55%

A P P E N D I X
2

NPLS
CARVED OUT
- BY
FINANCIAL
INSTITUTION

DANAHARTA'S LOAN RESTRUCTURING PRINCIPLES AND GUIDELINES

All borrowers were given one chance to restructure their loans but the restructuring must comply with Danaharta's published Loan Restructuring Principles and Guidelines. These principles and guidelines were formulated after considering the following objectives:

- To maximise the overall recovery value and return to Danaharta.
- To minimise the involvement of taxpayers' money.
- To ensure fair treatment of all stakeholders.
- To utilise, where appropriate, Danaharta's special powers to leverage and benefit the banking system as a whole.

The purpose of these principles and guidelines was to promote transparency and to provide a basis for borrowers and their advisers to formulate workout proposals. Loan restructuring schemes approved by Danaharta must adhere to these guidelines. Detailed rationales must be given for deviations from these guidelines.

The guidelines were divided into four segments, namely:

- Loan restructuring principles;
- Guidelines for corporate borrowers;
- Guidelines for individual borrowers; and
- Guidelines for guarantors.

1. LOAN RESTRUCTURING PRINCIPLES

The following were the loan restructuring principles that had to be observed:

1.1 Haircut to the shareholders of the borrower

Under the scheme, the shareholders must take a proportionately bigger haircut, i.e. where the scheme requires debt reduction, the share capital reduction ratio must be greater than the debt reduction ratio.

In addition, subordination of shareholders' loans (if any) would be made a pre-requisite to the scheme.

1.2 Fair treatment to secured and unsecured creditors

Schemes must reflect a genuine effort by the borrower to settle with the creditors in a fair manner. Settlements to secured creditors must be more favourable than those offered to unsecured creditors.

1.3 No dilution of inadequate security

Schemes should not result in a dilution of the security to the lenders unless the collateral is in excess of the outstanding loans. All forms of cash collateral must only be utilised to retire or settle the outstanding loan amount.

1.4 Only one opportunity given

Danaharta would give the borrower only one opportunity in implementing a scheme. This was to prevent borrowers from making unnecessary revisions once the scheme was implemented.

1.5 Make borrowers work for lenders

Any scheme must allow for the lenders to also benefit from efforts put in by borrowers. While viable borrowers were given the time and opportunity to make good their obligations, they would be closely monitored on performance and efforts to repay lenders.

2. GUIDELINES FOR CORPORATE BORROWERS

The following were the guidelines for corporate borrowers that should be adhered to:

2.1 Terms of settlement offered

No zero-coupon structure should be entertained. All financial instruments offered should have a reasonable yield that commensurated with the cashflow of the borrower.

2.2 Clarity of usage of funds

The usage of funds proposed under a scheme should be clearly identified/defined at the outset and strictly adhered to.

2.3 Equity-kicker elements

The scheme should involve equity-kickers such as warrants, convertible loans, etc.

2.4 Repayment period

The repayment period for restructured loans should not exceed five years.

2.5 Benefits of written down assets

Any subsequent value realised in excess of the book value of assets (written down as part of the scheme) should be subject to a sharing ratio between the borrower and the lender.

2.6 Anti-dilution clause

The scheme should incorporate an anti-dilution clause to ensure that the intrinsic value of the equity or quasi-equity is maintained. This clause would also pre-empt any attempt by the shareholders of the borrower to dilute the eventual shareholdings of creditors through issuance of new shares.

2.7 The scheme should contain covenants for monitoring purposes such as:

- A monitoring mechanism
- Inter-company lending
- Transfer of assets
- Dividend payments
- Future borrowings

DANAHARTA'S LOAN RESTRUCTURING PRINCIPLES AND GUIDELINES

3. GUIDELINES FOR INDIVIDUAL BORROWERS

The following guidelines applied to individual borrowers and should be adhered to:

3.1 Statutory declaration

All individual borrowers are required to give a statutory declaration on their net worth. This requirement is to increase the borrower's accountability in relation to the scheme.

3.2 Legal proceedings in the event the scheme fails

Legal proceedings are to be taken against the borrower should the scheme fail.

3.3 Annual review of performance

The scheme is to be closely monitored via an annual review of performance.

3.4 Moratorium on the disposal of personal assets

The disposal of personal assets by the borrower should not be allowed during the duration of the scheme unless the proceeds are for the settlement of debts outstanding.

3.5 Consent judgement

Consent judgement should be obtained from borrowers prior to the commencement of the scheme allowing Danaharta to apply all available avenues for recovery in the event of the scheme failing. This will pre-empt any action by the borrower to delay recovery action.

3.6 Equity-kicker

The scheme should include the provision of an equity-kicker to Danaharta.

3.7 Repayment period

The repayment period for restructured loans should not exceed five years.

3.8 The scheme should contain some covenants for monitoring purposes such as:

- A monitoring mechanism
- Future borrowings

4. GUIDELINES FOR GUARANTORS

The guidelines applied to guarantors and should be adhered to:

4.1 Substantial and critical guarantors

Where the lending was made based on the standing and/or net worth of corporate or individual guarantors, the recovery measures must recognise the obligation of the guarantors. As such, relevant provisions of the guidelines for corporate and individual borrowers should apply.

4.2 Other guarantors

In respect of other guarantors, no release of guarantees should be considered unless all feasible recovery measures have been pursued.

DANAHARTA'S
LOAN
RESTRUCTURING
PRINCIPLES AND
GUIDELINES

PROPERTY SALES

Property sales formed a major part of Danaharta's activities. The properties offered in Danaharta's tenders were either those given by borrowers to Danaharta as set-off for their loans or properties which were collateral for their loans. Danaharta owned the former but not the latter. The ownership of the property collateral remained with borrowers.

While there was a difference in how these properties came into Danaharta's portfolio, their disposal methods were the same. The objective of the disposal was also the same in that it was to achieve maximum recovery for the loan.

At the end of 1999, property-related loans accounted for almost a third of the total NPLs in Danaharta's portfolio. More importantly, Danaharta was then holding RM16.2 billion worth of property as collateral for the NPLs¹. The properties held at the time ran the full spectrum of the property market; there were plots of agricultural and development land, hotels, industrial properties, offices, retail properties and residential properties.

Most of the property-related loans were a result of indiscriminate investment in the property market during the boom in the mid-90s. Property developers and non-property developers alike, jumped on the bandwagon without proper feasibility studies. When the crisis hit, most of these loans became non-performing.

FIRST PROPERTY TENDER

At the point when Danaharta was about to hold its first sale of foreclosed properties the property market was very weak.

So, what was the best way to sell a variety of properties in multiple locations, in an inherently reluctant market? To complicate the situation, the work had to be done quickly and the method used must be above board and transparent.

Finally, it was decided that the tender approach would be used because it afforded transparency and accountability, and it allowed the market forces to set the prices for the properties. However, the entire tender process had to be designed from scratch because of the sheer volume of the properties and the need to educate potential buyers to participate in a tender on a nationwide basis.

To guard against fire sales, it was decided that each property put up for tender would carry an indicative value that was as current as possible (not more than a year old). All valuations were carried out by independent professional valuers. A confidential reserve price would also be set based on the valuation, below which the property would not be sold.

PROPERTY SALES

To help market the properties, real estate agents from all over Malaysia were put on Danaharta's panel to help out. The agents offered Danaharta the nationwide presence that was impossible with the minimalist set-up of Danaharta's property division. Through the agents, Danaharta could take the properties to buyers all over Malaysia and overseas as well without having to establish branch offices and add more staff.

Danaharta also worked out an aggressive selling strategy that included a variety of print and audio advertisements to promote its property tenders. Much time was spent brainstorming to produce well laid-out brochures, which had details of the properties on offer. This was a first for the property market. Never before had foreclosed properties offered in a tender been accorded the same amount of attention to detail that newly-launched properties were regularly given.

The whole bidding process was also designed to be buyer-friendly and transparent. To bid for the properties, members of the public could obtain from Danaharta, or the real estate agents, brochures featuring key information about the properties, and purchase a tender package for the property that they were interested in. The tender package contained a copy of the latest valuation report on the property, a copy of the sale & purchase agreement, and the terms & conditions of the sale. Guided by this information, the prospective buyers could then submit bids for the properties. Real estate agents provided their services free to potential buyers, as they would be paid by Danaharta from the sale proceeds.

At the close of each tender, all the bids received were collated by a Tender Committee comprising senior Danaharta management officials who were not involved in organising and managing the tender process. This was done in the presence of external auditors. The winning bids were later presented to the Tender Board for its approval. The Tender Board was made up of two Danaharta representatives (including the Managing Director), a representative of the Foreign Investment Committee, and a valuer. Once the bids were approved, all bidders were notified in writing of the success or failure of their bids.

Footnote 1

Loans collateralised by property accounted for 43% of Danaharta's NPL portfolio as at the end of 1999. Another 20% of the NPLs were secured by shares while the remaining 37% were unsecured.

THE COST OF MARKETING THE PROPERTIES

All real estate agents appointed to Danaharta's panel were invited to try and market the properties. But only the agent whose client successfully bid for a property would be paid commission upon the signing of the Sales and Purchase agreement and obtaining the relevant approvals. Danaharta paid the agents commission as approved by the Board of Valuers, Appraisers & Estate Agents, if they successfully marketed the properties.

The agency fees combined with other marketing costs like media advertisements and promotions meant that Danaharta paid out in total about 5% of the sale proceeds to secure sales of these properties. Nevertheless, Danaharta felt that the cost was justified. Given the "difficult portfolio", Danaharta had no choice but to commit a higher percentage for advertising and marketing expenses to sell the properties.

BUYER INCENTIVES

Danaharta made all efforts to make the tender as buyer-friendly as possible and buyers were offered all sorts of incentives to purchase from Danaharta.

The service provided by real estate agents to potential bidders was one of a number of incentives offered by Danaharta. The real estate agents provided free value-added service, performing inspection work, working out yields and comparative values for potential clients, in the hope of a successful bid for their client.

Buyers were given a stamp-duty waiver for all properties bought from Danaharta, whether through tenders or privately negotiated sales. The waiver could translate to significant savings for buyers. Apart from that, Danaharta also gave buyers vendor end-financing at prevailing competitive commercial rates² and promised vacant possession of the property³.

All properties were promised free of encumbrances to the buyers within nine months of the signing of the sale and purchase agreement. Failing which, the buyer could terminate the sale.

PROPERTY SALE RESULTS

Properties that were not sold in its first attempt through tender would be reoffered either in subsequent tenders or through private negotiated sales held in between tenders. Marketing efforts were ongoing to ensure that as many of the properties as possible were sold.

By 30 September 2005, Danaharta had held as many as 25 tenders - 10 major tenders and 15 smaller ones. In total, 1,298 properties worth RM3.70 billion were offered to the market. Of this, a total of 1,026 properties, comprising 79% of the total offered, had been sold for RM2.17 billion.

A P P E N D I X
4

Results of property sales as at 30 September 2005

	Number of properties	Indicative value (IV) (RM million)	Consideration received (C) (RM million)	C/IV
Total offered to the market	1,298	3,702.51	n/a	n/a
Total unsold properties	272	1,304.07	n/a	n/a
Total sold	1,026	2,362.44	2,170.76	92%

Of the 272 unsold properties, 88 had been transferred to Danaharta as part of its closure plan. The transfer was to facilitate a conversion process, i.e. to transfer the ownership of the unsold properties from the borrowers to Danaharta to smoothen the eventual hand-over of the properties to the Minister of Finance Inc, Danaharta's shareholder, upon Danaharta's closure. A total of 87 properties had been withdrawn from sale due to redemption by borrowers or legal issues.

The remaining 97 properties were not transferred to Danaharta as these were mostly Malay reserve land. Some other types of properties such as hotels, abandoned projects and tenanted shopping complexes were also not transferred. For these properties, the ownership remain with the borrowers until they are sold.

PROPERTY SALES

Footnote 2

For the first seven property tenders only. The financing was also subject to buyers' credit standing.

Footnote 3

This was an advantage which was not available to court auction properties. Vacant possession was promised for all property types in Danaharta's sales except categories of property where it was impossible to guarantee vacant possession - shopping complexes, hotels, abandoned property projects and empty land.

MANAGEMENT OF SECURITIES

As a result of loan restructuring exercises where settlements were in the form of securities, Danaharta would own and manage the securities. These securities could include equity shares which were set off as part of a settlement agreement or new securities issued by the borrower.

In general, the securities were categorised into irredeemable, redeemable and convertible securities:

- **Irredeemable securities**

The two classes of securities in this category were ordinary shares and irredeemable convertible loan stocks (ICULS). Danaharta would only dispose of these securities if the share price exceeded the pre-determined target price based on Danaharta's fundamental analysis of the securities. Danaharta's policy for the sale of shares was to sell controlling blocks through a tender exercise and non-controlling blocks through the market.

- **Redeemable securities**

This category included both secured and unsecured loan stocks as well as preference shares. Danaharta would only dispose of these securities if the price exceeded the pre-determined target price based on Danaharta's analysis of the credit risks against the yield to maturity of the securities. If the target price was not met, Danaharta would depend on redemption of the securities as a means to exit from these securities.

- **Convertible securities**

These were generally redeemable securities such as loan stocks and preference shares which might be converted into equity shares. The management of these securities would be mainly similar to that of redeemable securities, up to the point where the price of the ordinary shares exceeded the redemption sum of the instrument. From that point onwards, any decision to sell would be similar to that for ordinary shares, i.e. when the price exceeded the target price set by Danaharta based on fundamental analysis.

The actual selling of securities that were readily tradable were made through:

- Stockbrokers, in accordance with market rules of the Bursa Malaysia where the securities are listed and normally traded through the Bursa Malaysia; and
- Financial institutions, where sales would follow normal trade practices for marketable instruments (relating mainly to securities that were not listed or normally traded through the Bursa Malaysia).
- However, where the securities were subject to call and put options, the decision to dispose the securities would be governed by the call and put option agreements. In situations where there was a breach of the agreement, the decision to dispose would be based on the type of security as explained above.

MANAGEMENT
OF
SECURITIES

ASSET-BACKED SECURITIES

WHAT IS SECURITISATION?

Securitisation is a fund raising technique where bonds or notes that are backed by an underlying pool of assets are issued to investors. It is normally issued by an SPV whose sole function is to buy such assets in order to securitise them. The SPV will normally create a trust to hold the underlying assets as security for the investors. The asset - backed securities (ABS) are redeemed based on the primary strength of the assets in the pool, but may be supported by "credit enhancements" provided by the originator or organised through external parties.

MAIN FEATURES OF SECURITISATION

• Special-Purpose Vehicle

The use of an SPV is critical in securitisation, because the SPV stands between the originator of the underlying loans and the trust of the securities. The SPV's role is to take possession and ownership of the assets being used as security from the originator. This is to ensure that the securitisation will not be affected even if the originator bankrupts. The ABS-issuing trust's ability to pay interest and principal should remain intact even if the originator were to fail.

• Rating

Bankruptcy remoteness, along with certain other aspects of the SPV's and trust's structures and the extra support provided by credit enhancement, enable the ABS to receive their own credit rating, independent of that of the originator. This is important for investors, because the originators may have a lower credit rating than that carried by the SPV.

• Subordination

A popular type of internal credit enhancement is the senior/subordinated structure. This is technically a form of "overcollateralisation." It is characterised by a senior class of securities and one or more subordinated classes that function as the protective layers for the senior tranche. If a loan in the pool defaults, any loss thus incurred is absorbed by the subordinated securities. The senior tranche is unaffected unless losses exceed the amount of the subordinated tranches. The senior securities are the portion of the ABS issue that is typically rated triple-A or of investment grade, while the lower-quality (but presumably higher-yielding) subordinated classes receive a lower rating or are unrated.

TYPES OF ABS

Theoretically, any asset that has a revenue stream can be securitised. In practical terms, the vast majority of securitisation are collateralised by loans and other financial assets. The main asset types securitised are mortgage loans, credit cards, and auto loans, which together constitute the largest segment of the ABS market.

Collateralised Bond Obligations or Collateralised Loan Obligations generally refer to a debt obligation whose underlying collateral and source of payment consist of corporate bonds and existing bank loans respectively. Collateralised Debt Obligations on the other hand, refers to a securitisation of debt obligations which may include both bonds and loans obligations.

Later innovation has extended application of securitisation to cover non-financial assets such as aircraft, buildings, and various types of risks, such as insurance risk, weather risk, etc. Innovation is constantly extending securitisation applications.

WHY ABS?

Danaharta picked ABS as a method of divesting its restructured loans for several reasons:

- It was an efficient means of divestment compared to selling the loans individually, particularly when it came to the smaller loans.
- It provided an opportunity to address a wider investor base.
- Placing out debt securities was easier than auctioning a large number of loans, which would have required multiple investors having access to confidential loan data.
- Securitisation avoided the risk of "cherry picking" under the direct sale method.
- Danaharta's retention of the subordinated tranche of the securities allowed it to enjoy the residual upside in the recovery, and would also provide an incentive for Danaharta to maximise recovery.
- The initiative assisted the Government in promoting securitisation as well as introduced new products to the financial market.

ASSET-BACKED SECURITIES

THE TRANSACTION

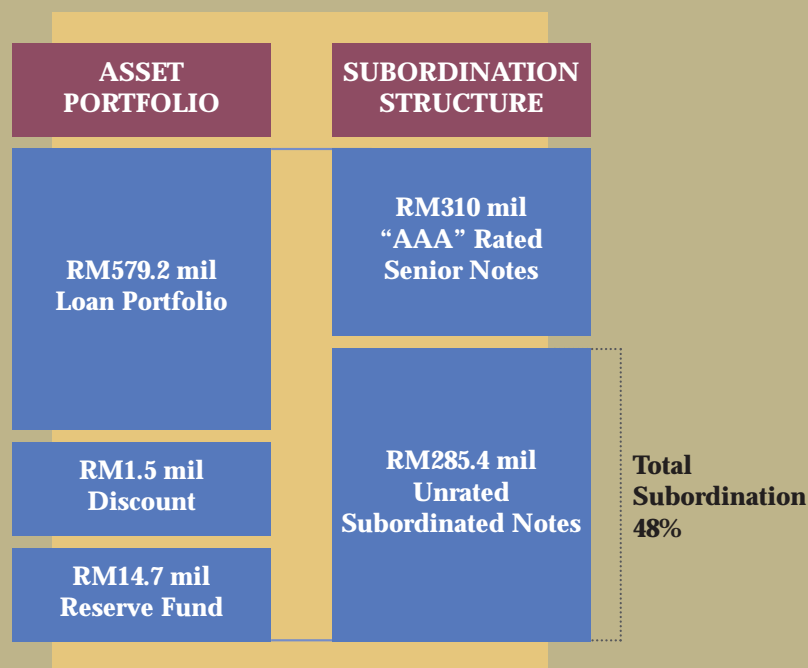
Danaharta's ABS essentially transferred a portfolio of performing loans and cash, with a total value of RM595 million from the Danaharta group to an SPV, Securita ABS One Berhad. In return, Danaharta received cash and Subordinated Notes issued by Securita ABS One.

On 20 December 2001, Danaharta completed the issuance of RM310 million AAA-rated Senior Notes by Securita ABS One to the investing public. The notes had a coupon rate of 3.75% and matured in December 2005.

Following the book-building process by the joint-lead managers on the ABS, the senior notes were issued at 99.54% of par value, which provided investors with an effective yield of 4%. The response to the issue was overwhelming, with orders over RM1 billion received, and a subscription rate of 3.5 times for the Senior Notes.

One major attraction to investors was that the ABS featured a RM285.4 million unrated tranche of Subordinated Notes which were taken up by Danaharta. This essentially promised that Danaharta would absorb any shortfall payments to the RM595 million of loan obligations up to the level of RM285.4 million, or 48% of the issue.

Any payment forthcoming would go entirely to Senior Note holders until they were fully paid, before Danaharta would be entitled to any payment.

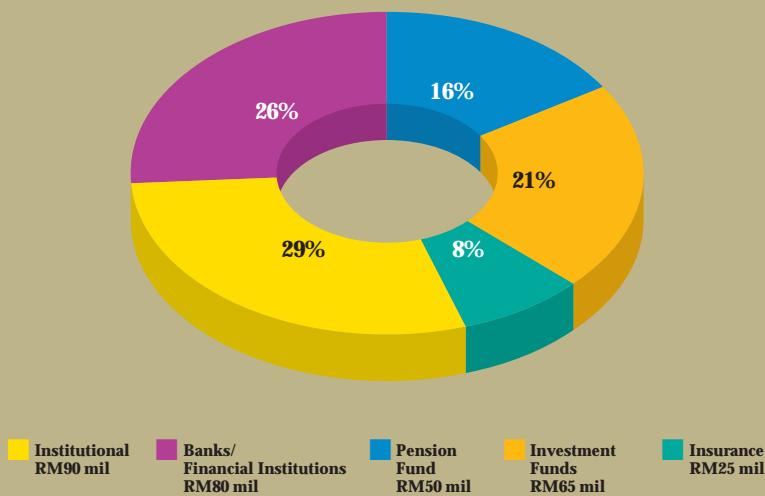


Note: The amount in the Reserve Fund was to cover any shortfall in coupon payment on the Senior Notes and for expenses.

APPENDIX
6

Danaharta raised total proceeds of RM308.57 million from the issue, which was placed out to a diversified range of investors.

Final Allocation of the Senior Notes



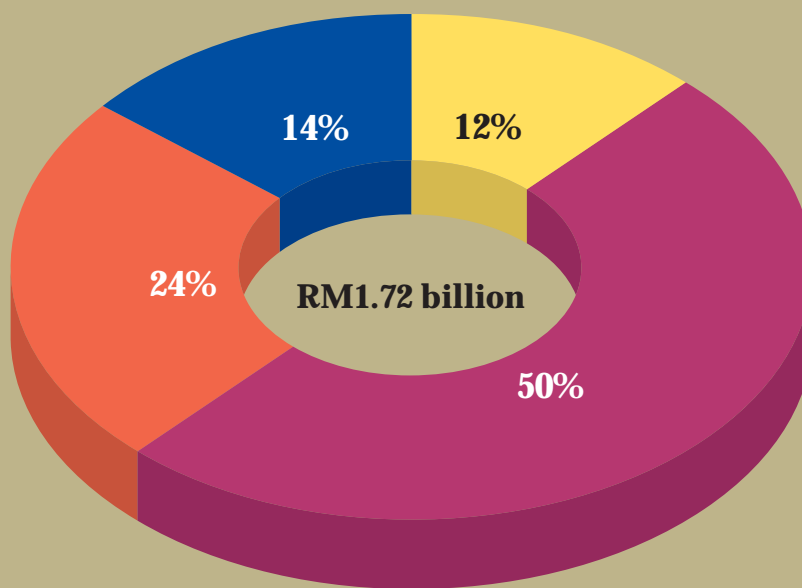
EARLY REDEMPTION

As it turned out, Securita ABS One began redeeming the Senior Notes in stages from May 2003 to June 2004 and completed the redemption, including interest costs of RM18.4 million, eighteen months ahead of schedule. This was made possible because of the quality of the loans that were part of the ABS. Most of the borrowers paid ahead of time enabling Securita ABS One to fully redeem the Senior Notes earlier, thus saving on interest costs.

ASSET-BACKED
SECURITIES

ANALYSIS OF RESIDUAL RECOVERY ASSETS - RESTRUCTURED LOANS AS AT 30 SEPTEMBER 2005

BY VALUE BRACKET



<RM5 mil

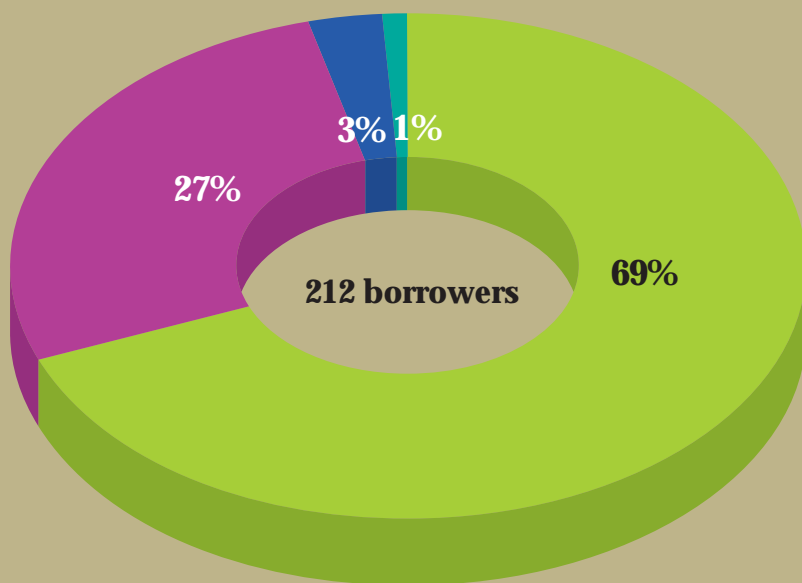
RM5 mil-RM50 mil

RM50 mil-RM100 mil

RM100 mil-RM300 mil

ANALYSIS OF
RESIDUAL RECOVERY
ASSETS
- RESTRUCTURED
LOANS

AS AT 30 SEPTEMBER 2005



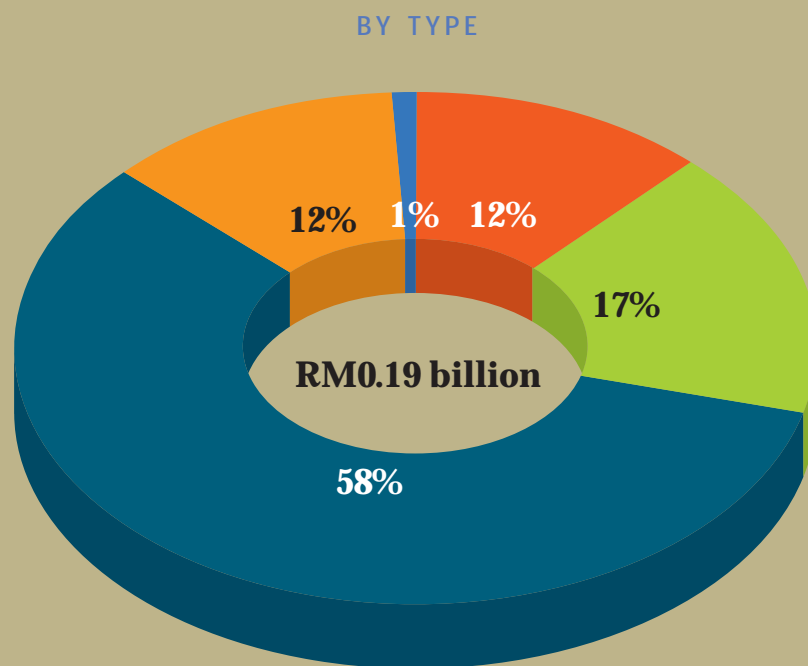
<RM5 mil

RM5 mil-RM50 mil

RM50 mil-RM100 mil

RM100 mil-RM300 mil

ANALYSIS OF RESIDUAL RECOVERY ASSETS - SECURITIES AS AT 30 SEPTEMBER 2005



Convertible 

Listed 

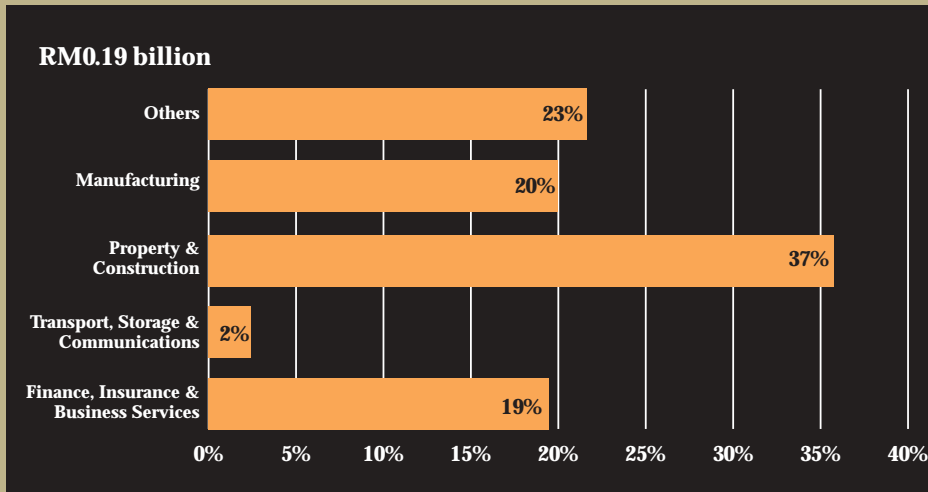
Other Unlisted 

Redeemable & Convertible 

Redeemable 

A P P E N D I X
8

BY SECTOR

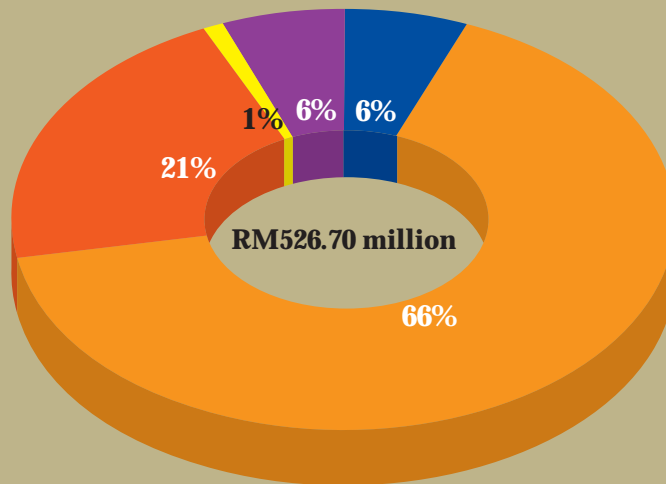


ANALYSIS OF
RESIDUAL RECOVERY
ASSETS
- SECURITIES

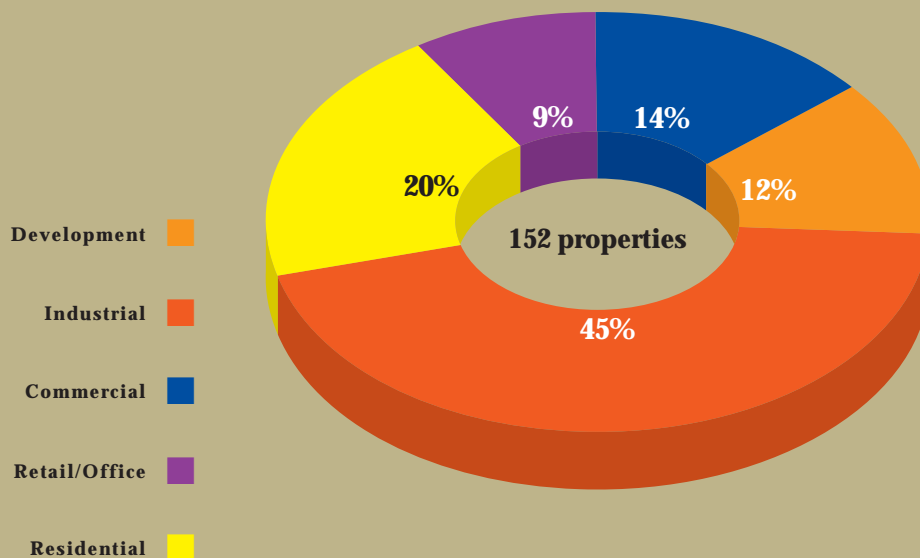
AS AT 30 SEPTEMBER 2005

ANALYSIS OF RESIDUAL RECOVERY ASSETS - PROPERTIES AS AT 30 SEPTEMBER 2005

TYPE
BY VALUE



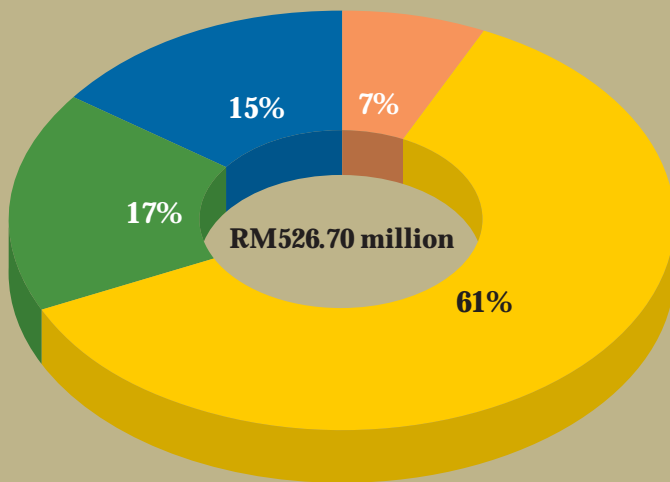
BY NUMBER



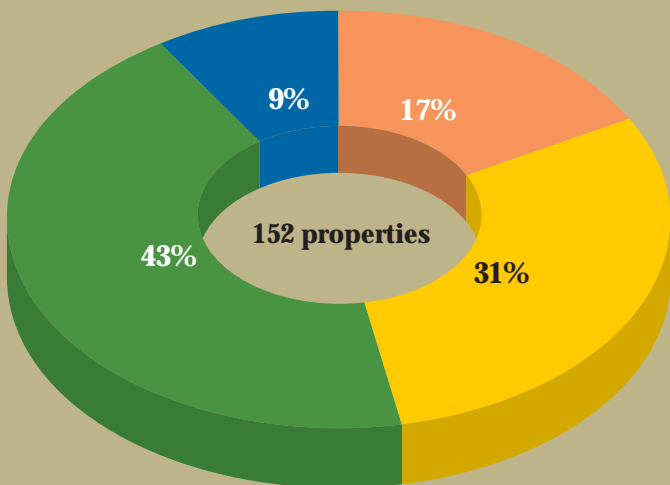
A P P E N D I X
9

ANALYSIS OF
RESIDUAL RECOVERY
ASSETS
- PROPERTIES
AS AT 30 SEPTEMBER 2005

LOCATION
BY VALUE



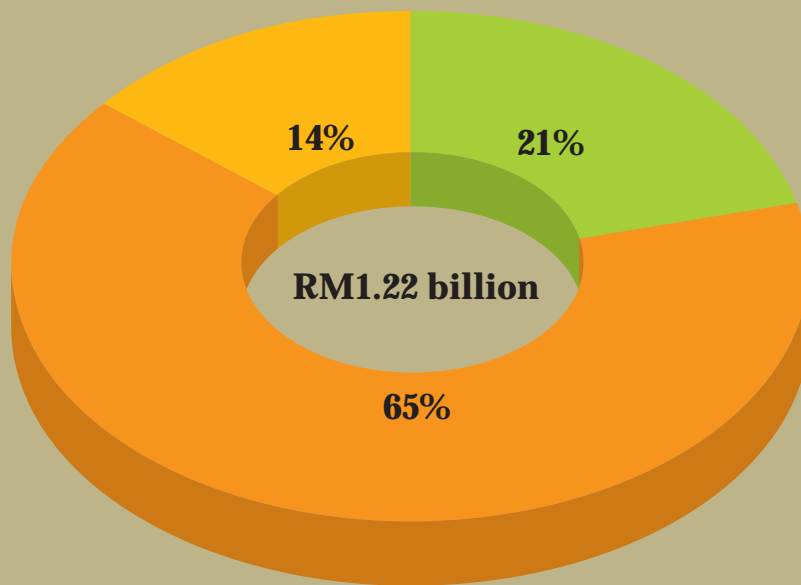
BY NUMBER



- Northern of Peninsular Malaysia ■
- Southern of Peninsular Malaysia ■
- Central of Peninsular Malaysia ■
- East Coast of Peninsular Malaysia ■

ANALYSIS OF RESIDUAL RECOVERY ASSETS - LEGAL ACTION AS AT 30 SEPTEMBER 2005

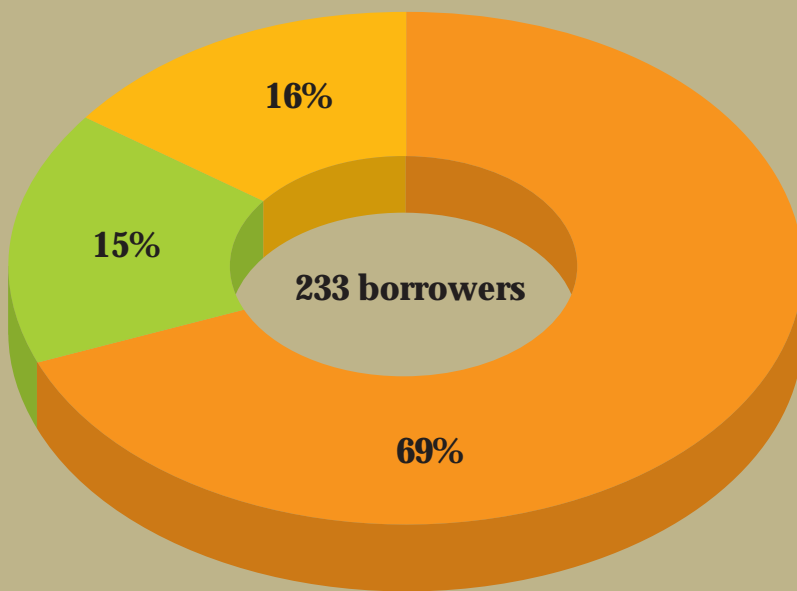
BY VALUE



APPENDIX
10

ANALYSIS OF
RESIDUAL RECOVERY
ASSETS
- LEGAL ACTION
AS AT 30 SEPTEMBER 2005

BY NUMBER OF BORROWERS



- Property Foreclosure ■
- Legal Action ■
- Share Foreclosure ■

BOARD OF DIRECTORS (1998 - 2005)

NON-EXECUTIVE CHAIRMAN

TENURE

Raja Tun Mohar Raja Badiozaman	25 August 1998 - 31 July 2001
Dato' Mohamed Azman Yahya	1 August 2001 - 31 July 2003
Dato' Zainal A Putih	1 August 2003 - 31 December 2005

EXECUTIVE DIRECTOR - MANAGING DIRECTOR

TENURE

Dato' Mohamed Azman Yahya	20 June 1998 - 31 July 2001
Dato' Abdul Hamidy Hafiz	1 August 2001 - 30 June 2003
Dato' Zukri Samat	1 July 2003 - 31 December 2005

NON-EXECUTIVE DIRECTORS

TENURE

Dato' Othman Jusoh	20 June 1998 - 26 August 1998
Dato' N. Sadasivan	25 August 1998 - 31 December 2005
Mr. Eoghan M. McMillan	25 August 1998 - 1 July 2001
Tan Sri Dato' Dr Zeti Akhtar Aziz	25 August 1998 - 1 July 2000
Mr. Alister T. L. Maitland	26 August 1998 - 31 December 2005
Dato' Richard Ho Ung Hun	26 August 1998 - 1 July 2003
Tan Sri Dato' Megat Zaharuddin Megat Mohd Nor	26 August 1998 - 23 September 1999
Tan Sri Dato' Dr Aris Othman	26 August 1998 - 7 June 1999
Dato' Dr. Abdul Aziz Mohd Yaacob	2 July 1999 - 1 July 2000
Dato' Mohamed Md Said	26 November 1999 - 18 November 2003
Datin Husniarti Tamin	11 August 2000 - 28 January 2005
Dato' Mohd Salleh Hj Harun	22 September 2000 - 28 January 2005
Mr. David Moir	5 October 2001 - 31 December 2005
Dato' Abdul Hamidy Hafiz	1 July 2003 - 31 December 2005
Dato' Abd Wahab Maskan	21 November 2003 - 31 December 2005
Dato' Abdul Rahim Mokti	28 January 2005 - 31 December 2005
Puan Nor Shamsiah Mohd Yunus	28 January 2005 - 31 December 2005

DANAARTA
Pengurusan Danaharta Nasional Berhad

**BOARD OF
DIRECTORS
1998 - 2005**

Notes:

1. All directors were appointed by the Minister of Finance.
2. Each director's appointment was for a term of up to three years and renewable upon approval of the Minister of Finance.
3. Typically, board members would also serve on the Board's sub-committee, namely, the Executive Committee, the Remuneration Committee and the Audit Committee.

MANAGEMENT TEAM (1998 - 2005)

NAME	POSITION
Dato' Abdul Hamidy Hafiz	Director Operations Division
Mr. Andrew Phang Tuck Keong	Joint Company Secretary General Manager - Legal Affairs Division - Legal Affairs & Risk Division
Dato' Derrick Fernandez	General Manager Danaharta Managers Sdn Bhd Senior General Manager Corporate Debt Restructuring Division
Mr. Ee Kok Sin	General Manager Finance & Services Division
En. Shariffuddin Khalid	General Manager Communications & Human Resources Division
Puan Fatimah Abu Bakar	General Manager Internal Audit & Compliance Division
Dato' Zukri Samat	General Manager Operations Division Director Operations Division
En. Fazlur Rahman Ebrahim	General Manager Danaharta Urus Sdn Bhd General Manager 1 Operations Division
Mr. Ravindran Navaratnam	General Manager Corporate Services Division
Mr. Ramesh Pillai	General Manager Risk Management Division Seconded to Bank Negara Malaysia
Dato' Mohd Bakke Salleh	Director Property Division Seconded to Lembaga Tabung Haji
Dato' Johan Ariffin	General Manager Property Division Senior General Manager Property Division
Mr. Eric Kew Ngai Yin	General Manager Corporate Services Division
Datuk Kris Azman Abdullah	General Manager 2 Operations Division General Manager Loan Restructuring, Operations Division
Mr. Richard Kong	General Manager Loan Management, Operations Division
Puan Myrzela Sabtu	Head Property Division

TENURE

.....	1 July 1998 - 31 July 2001
.....	30 June 1998 - 31 December 2005
.....	1 July 1998 - 31 March 2003
.....	1 April 2003 - 31 December 2005
.....	1 July 1998 - 31 July 2001
.....	1 August 2001 - 31 July 2002
.....	1 July 1998 - 31 December 2005
.....	1 July 1998 - 31 December 2005
.....	1 September 1998 - 31 December 2005
.....	1 October 1998 - 31 July 2001
.....	1 August 2001 - 30 June 2003
.....	25 January 1999 - 31 July 2001
.....	1 August 2001 - 24 January 2003
.....	1 February 1999 - 31 March 2001
.....	9 March 1999 - 18 September 2002
.....	18 September 2002 - 5 November 2003
.....	1 July 1999 - 14 October 2001
.....	15 October 2001 - 14 October 2005
.....	1 July 1999 - 14 October 2001
.....	15 October 2001 - 30 June 2002
.....	1 April 2001 - 31 March 2003
	(Joined Danaharta on 29 September 1998)
.....	1 August 2001 - 24 January 2002
.....	25 January 2002 - 1 March 2004
.....	1 September 2003 - 31 December 2005
.....	1 January 2005 - 31 December 2005
	(Joined Danaharta on 1 July 1999)

DANAHARTA
Pengurusan Danaharta Nasional Berhad

**MANAGEMENT
TEAM
1998 - 2005**

Note:

Danaharta was a project-oriented organisation. Its organisation structure evolved as the scope of work and focus changed as Danaharta went through the various stages of its lifecycle. Throughout Danaharta's life, new divisions and positions were created but as the company drew nearer to its closure, some divisions were merged with others while some positions were eliminated.

MEMBERS OF OVERSIGHT COMMITTEE (1998 - 2005)

NAME	TENURE
Dato' Mohamed Adnan	17 November 1998 - 27 October 2000
Dato' Dr Mohd Munir Abdul Majid	17 November 1998 - 17 March 1999
Dato' Abdul Murad Khalid	17 November 1998 - 2 February 1999
Datuk Ali Tan Sri Abdul Kadir	27 March 1999 - 25 May 2004
Datuk Dr Awang Adek Hussin	30 March 1999 - 1 June 2001
Datuk Siti Maslamah Osman	27 October 2000 - 23 October 2003
Dato' Mohd Razif Abd Kadir	30 August 2001 - 31 December 2005
Dato' Othman Abdullah	26 December 2003 - 21 March 2005
Dato' Zarinah Anwar	1 March 2004 - 31 December 2005
Dato' Mohd Salleh Mahmud	11 May 2005 - 31 December 2005

MEMBERS OF TENDER BOARD (1998 - 2005)

NAME	TENURE
En. Abdul Jabbar Majid	5 November 1999 - 31 December 2001
En. Abdul Halim Othman	9 November 1999 - 31 December 2005
En. Ahmad Zaini Muhamad	18 November 1999 - 15 May 2001
Mr. Ee Kok Sin	16 December 1999 - 31 December 2005
Dato' Mohamed Azman Yahya	16 December 1999 - 25 July 2001
Dato' Zainuddin Abdul Rahman	28 June 2001 - 31 March 2004
Dato' Abdul Hamidy Hafiz	12 March 2002 - 28 November 2002
Dato' Zukri Samat	3 June 2003 - 31 December 2005
En. Johari Shafie	19 May 2004 - 31 December 2005

DANAARTA
Pengurusan Danaharta Nasional Berhad

**OVERSIGHT
COMMITTEE
AND
MEMBERS OF
TENDER BOARD
1998 - 2005**

STAFF MEMBERS - OFFICERS (1998 - 2005)

ADMINISTRATION

Ahmad Suhaimi Hassan
Shamsulkamal Husain

CHAIRMAN'S OFFICE

Khamicah Othman

COMMUNICATIONS

Chen Lynn Lee
Lim An Pheng
Ng Mun Yee
Nora Shah Abdul Wahab Shah
Wan Shairil Azmir Wan Sharifuddin

COMPANY SECRETARIAT

Hasnita Sulaiman
Kamarulzaman Mohd Ariff
Natasha Sheikh Othman
Shamsiah A Rahman
Sherilin Mohamed Ali

CORPORATE FINANCE

Chan Kok Leong
Jamaludin Zakaria
Md Harris Md Taib
Raja Maimunah Raja Abdul Aziz
Wong Muh Rong

CORPORATE PLANNING

Ahmad Zulqarnain Che On
Rafiza Ghazali
Wan Murtadza Wan Mahmud
Hazli Ibrahim

FINANCE

Felix Lim Tat Siong
Ho Ching Kit
Ismee Ismail
Lim Bee Kin
Nasution Mohamed
Norlela Sulaiman
Yeoh Hwi Ling

HUMAN RESOURCE

Lim Chee Mun
Suwarsiyah Sunarno

INFORMATION TECHNOLOGY

Cheong Pin Yee
Goh Hin Kee
Kung Chee Keen
Mohamed Zahangir Mohamed Ali
Rina Alyia Mohd Zunib
Shamsul Kamar Yunus
Wong Huai En

INTERNAL AUDIT

Ahmad Sazali Ismail
Hanizah Muhammad
Zulkiffli Ahmad

LEGAL AFFAIRS

Abd Aziz Mohd Yusoff
Aruna T Rajah
Farah Izalena Izzuddin
Lee Meng Yong
Michele Kythe Lim Beng Sze
Mohamed Sufyan Mohd Mokhtar
Mohd Hazami Abdul Samat
Priya Darshini Vaithiyathan
Rafie Omar
Santamarie Shamni Arulanandam
Shahril Ridza Ridzuan

LOAN ADMINISTRATION

Azahari Zainal
Faizal Othman
Mohd Azlan Jamal Ab Wahab
Noor Aini Ismail
Shahrin Kamarudin

MANAGING DIRECTOR'S OFFICE

Azman Shah B Mohd Yusof
Hizamuddin Jamalluddin
Izhar Hifnei Ismail
Kamarul Ariffin Mohd Jamil
Tina Chin Sok Keng
Zeti Marziana Muhamed
Zuraimy Mohd Akhir

DANAHARTA
Pengurusan Danaharta Nasional Berhad

**STAFF MEMBERS
- OFFICERS
1998 - 2005**

OPERATIONS

Ahmad Faizal Abdul Rahman
Abdul Rahman Ahmad
Abdul Razak Nayan
Abdul Razak Hamid
Adissadikin Ali
Adlina Rosmah Ahmed Roose
Ahmad Saifuddin Morat
Ahmad Shazli Kamarulzaman
Alias Yaacob
Andrew Chong Shuh Ren
Andrew Wong Kok Leong
Audrey Wong Sui Yi
Azhar Hassan
Azrin Muzaffar Abdul Manap
Bahaman Kamaruzzaman
Bernard Chen Tong Liang
Chan Huan Kiong
Che Muhamad Hariri Dahalan
Chen Yin Heng
Chin Chee Yuan
Chin Pek Yee
Ching Eng Hui
Chong Cheen Ye
Choo Po Ming
Chuah Keat Kong
Danny Kummar Dass Bastian
Dzulkifli Omar
Elsiy Ak Tingang
Faridah Abdullah
Fiona Ng Siao Ching
Gerald Goh Yong Hwa

Hamid Mohd Noor
Hamidah Mustaffa
Hamidah Ab Hamid
Hazurin Harun
Hia Ngee Siang
Intan Suraya Hashim
James Chieng Kai Seng
Jawariah @ Intan Mohamed Nor
Jerome Christopher Fernandez
Joannita Zaleha Yusof
John Teh Teong Beng
Kevin Lee Shih Min
Khairul Kamarudin
Kurien Thomas K.T Thomas
Lai Sin Kee
Lai Yee Foong
Lee Chook Foo
Loh Mei Mei
Mak Fong Ching
Mariam Ibrahim
Mohamed Akwal Sultan Mohamad
Mohammad Zakir Ismail
Mohd Rizal Hamzah
Mohd Shaharuddin Abdullah
Muhamad Ngadi Leber
Muhammad Shahir Pawanchik
Ngu Mui Eng
Nik Samihah Nik Muhammad
Nilam Masri Ja'afar
Noorhafisah Mohd Radzi
Noorshiha Mohamad
Nor Azam Yahya

Noraini Abdullah
Norlinda Yahya
Norzilah Mohammed
Nurulzahr Ghazali
Ong Lean Im
Phang Chi Yan
Poon Kean Choy
Poon Yew Leong
Premita Pararasasekaran
Rahaiza Abdul Rahman
Rainah Shiribi
Ramlah Md Zain
Razali Daud
Ridzuan Abu
Robert Chew Phye Ong
Rosli Buyong
Rosmainoor Osman
Rosthman Ibrahim
Roziyah Ismail
Rozita Abd Hafiz
Saily Sulamazra Abd Rahman
Saw Leng Hean
Seng Kok Wing
Shaiful Afandi Shaharudin
Suhaimi Mohamad
Suhana Mansor
Suzana Shahrudin
Tan Yann Ping
Tengku Mu'adzam Sadruddin Tg Noon
Tunku Azlan Tunku Aziz
Wong Mun Choy
Yahya Maricar

PROPERTY

Azleen Rubilda Zainal Abidin
Azura Abdul Razak
Balaprakash E. Tharrumah
Kamel Effendy Mohd Razali
Khalid Mohd Amin
Khoo Poh Chye
Lim Siew Leng
Mahani Majid
Maria Azah Abu Bakar
Mohamad Faisal Ahmad Zaidin
Mohammed Redza Mohd Yusof
Mohd Asri Mohamad Nor
Mohd Zulkifly Abu Hassan
Muhammad Solleh Ramli
Ng Ai Leen
Raja Azmi Raja Yahya
Ratna Sha'erah Kamaludin
Rozita Ramli
Shahizan Hasnan
Syed Yasir Arafat Syed Abd Kadir
Tuti Zurianna Ahmad
Wan Faizah Che Din
Zaidi Baharudin

RESEARCH

Lee Ai Li
Liew Willip
Mak Ngan Hoe
Tan Chew Leong
Tan Geok Hock

RISK MANAGEMENT

Alias Abdullah @ Kenneth Tan Sim
Anizah Baharuddin
Khairul Muzamel Perera Abdullah
Kong Yuen Ling
Lim Jooky
See Wai Lin
Sri Azimah Abu Bakar
Thomas Mathew
Wong Yit Fong

SECURITY

Kenneth James Woodworth
Nasuha Ahmad

TREASURY

Razman Abdul Rahman
Nani Rahayu Mohd Darwis

DANAHARTA
Pengurusan Danaharta Nasional Berhad

**STAFF MEMBERS
- OFFICERS
1998 - 2005**

STAFF MEMBERS - SUPPORT STAFF (1998 - 2005)

ADMINISTRATION

Harun Ahmad
Ibrahim Yacob
K Gunarathinam Krishnan
Mohd Zaidi Nusi
Mohd Zaini Junoh
Nor Azian Azman
Nor Fadzilah Che Lah
Norhisam M. Yunus
Normawati Mohd Nadzri
Nurmayati Bustami
Rozmi Razelan
Samsul Yaacob

CHAIRMAN'S OFFICE

Abdul Raman Zainal

COMMUNICATIONS

Alizah Meor Baharum

COMMUNICATIONS & HUMAN RESOURCE

Rasidah Osman
Zainul Abidin Zakaria

COMPANY SECRETARIAT

Che' Saharina Othman
Ismail Fahmy Awaludin
Norbiah Manja
Saipulyazam Abdullah

CORPORATE PLANNING

Azlan Zakaria

CORPORATE SERVICES

N. Clemency Neda Chandrasekara

FINANCE

Daeng Fazidah Othman
Izatul Syima @ Norsyila Ibrahim
Kalsum Saleh
Lim Yen Ping
Nor Hilda Abd Azis
Noraidah Surip
Norhafizah Abdul Rahman
Normalina Omar
Zamanhuri Shahid

FINANCE & SERVICES

Jeanie Chung Yoke Lan
Mohd Hamzanye Harun
Mohd Hairunnizam Miswan
Nurfaizura Abu Hassan

HUMAN RESOURCE

Maznah Bahudin
Suzana Mohamad

INFORMATION TECHNOLOGY

Azhari Mohamad Nor
Hamdan Mustafa
Mohd Zain Adam

INTERNAL AUDIT

Rozita Ahmad Shakir
Salehuddin Ishak

LEGAL AFFAIRS

Ahmad Harmizi Haron
Bakhriah Ramli
Hamidah Abdul Hamid
Haslina Shukor
Saslina Othman

LEGAL AFFAIRS & RISK

Masmuda Sidek
Norliah Daud
Roslina Mohd Shariff

LOAN ADMINISTRATION

Azlee Kassim
Muzafaiskandar Ismail
Nor Azura Zakaria
Norhayati Mohd Yusof
Roslina Rashid

MANAGING DIRECTOR'S OFFICE

Abdul Rashid Teha
Khairuddin Hashim
Michelle Lee Foong Yeuw
Muhammad Zin Gembor
Raja Norasmah Raja Shahrom Saidee
Rosnani Kosran

OPERATIONS

Farah Zaity Zainudin
Gillian Lee Su Fuen
Irwan Zainal Abidin
Janariah Mohd Kassim
Mariah Yahaya
Mazlina Abd Manaf
Mohd Azman Shah Othman
Mohd Roshdi Salleh
Murniwati Abdul Mutalib
Nor Aizam Mohammad
Norita Md Ayub
Norziationakma Kamarudin
Othman Ali
Paridah Abdul Rahman
Rabi'ah Hj Said @ Ibrahim
Ramlan Anas Ahmad
Robiah Jenal
Rohanizah Itam
Rohayah Mad Sahak
Rozmin Ramli
Sabariah Mohamad
Siti Arpah Md Isa
Sulaiman Mordipi
Suzana Abdul Muttalip
Umar Ahmad
Wan Rahaizad Wan Abdul Rahim
Yusnani Yahya
Zarinah Nordin

PROPERTY

Ahmad Zuki Md Zain
Aminudin Mat
Anuar Taib
Azian Khalil
Azlina Ahmad
Hertini Shahrudin
Irene Lai Tian May
Kamilah Arifin
Kasmah Saleh
Laila Murat Sukarman
Muhammad Aznizam Mokhtar
Norehan Hanim Mohamad
Rosniza Binti Roslan
Syariza Mohd Zaid

RISK MANAGEMENT

Hasnina Hafiz Hassan Ariff
Ilangovan Pitchay
Norhidayah Mohd Zainudin
Ruslan Misri
Zuraidah Haji Maharom

SECURITY

Ab Rahim Aimah
Abdul Halim Omar
Abu Bakar Aziz
Abu Bakar B Abd Rahman
Chairil Sazian Mohd Salleh
Che Hamzah Abdul Rahman
Mat Ali Awang
Mohamad Sulaiman Abdul Rahman
Mohd Fazli Mohd Yusof
Mohd Joni Mohd Zain
Mohd Nizam Ibrahim
Mohd Rizalmi Daud
Mustafa Abdullah
Roskin Tahir
Shaharuddin Talip
Taheran Ab Rahman
Zulkifli Hj Ahmad Sabli

DANAHARTA
Pengurusan Danaharta Nasional Berhad

SUPPORT STAFF

1998 - 2005

Note:

1. Except for Operations Division and Property Division, staff members were listed according to the units they were attached to.
2. The division/unit stated were the divisions/units staff members were attached to prior to their resignations (for those who left prior to Danaharta's closure) or at Danaharta's closure.

The 1997 economic crisis roiled
the country's banking system.

Set up to help avert the collapse of the banking system,

Danaharta brought relief to beleaguered banks.

And, despite trials and tribulations,
the banking system survived intact.

Over its seven and a half year lifespan,

Danaharta dealt with 2,902 NPL accounts, 2,563 borrowers,

and from an NPL portfolio of over RM50 billion

- recovered over RM30 billion.

Its final lifetime Loan Recovery Rate of 58% surpassed

the typical 20 - 50% range experienced by

similar agencies internationally.

Danaharta did its job.