



Malaysia's experience in settlement of distressed assets

Danaharta Activities

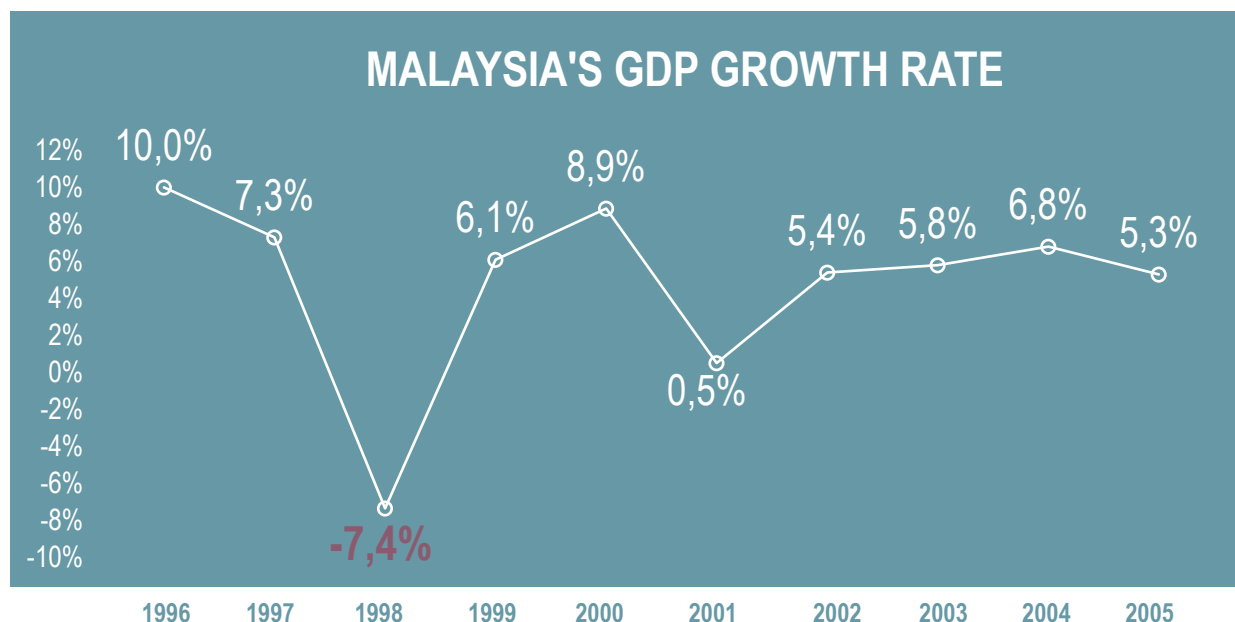


FUND OF PROBLEM LOANS
ACQUISITION. MANAGEMENT. SALE.

I. Prerequisites for the creation of Danaharta

Malaysia is one of the most affected countries from the effects of the Asian financial crisis, which brought it to the brink of recession – GDP fell by 6.7%, the Malaysian ringgit depreciated by 45% against the dollar, and the Kuala Lumpur Stock Exchange composite index (KLSE) collapsed twice.

The serious problems faced by the companies led to a sharp increase in the level of non-performing loans in the financial sector, from 2-3% of the total loan portfolio in 1997 to 11.5% in 1998.



Data source: World Bank

Infographic: FPL JSC

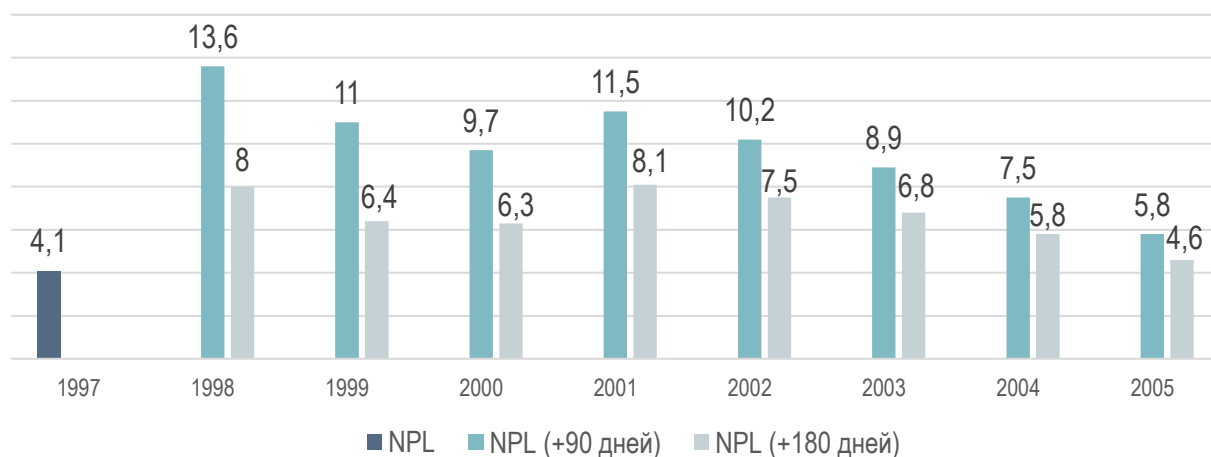
As part of the response to the crisis, the Government has established the **National Economic Action Committee (NEAC)** to make specific recommendations to the Government on economic recovery. In turn, NEAC presented the National Economic Recovery Plan (NERP), in which it

I. Prerequisites for the creation of Danaharta

The implementation of such measures provided for the creation of three organizations:

- **The Corporate Debt Restructuring Committee (CDRC)**, designed to ensure the out-of-court settlement of corporate loans between creditors and debtors
- **Pengurusan Danaharta Nasional Berhad (Danaharta)** asset management company - for reduction of the level of non-performing assets in the system
- **Danamodal Nasional Berhad (Danamodal)** special purpose company - for the capitalization of viable banks.

Dynamics of the level of non-performing loans in the Malaysian banking system, %



Data source: Negara Bank Malaysia
Infographic: FPL JSC

During the CDRC crisis, 57 projects with a total outstanding debt of 45.8 billion ringgit were settled, which accelerated the economic recovery process.

I. Prerequisites for the creation of

Danaharta

In 2009, the Government resumed the activities of the CDRC as a preventive measure to combat the significant increase in overdue loans in the banking system. Its goal is to provide financial institutions and corporate borrowers with a platform for the voluntary and collective development of debt restructuring schemes, without resorting to litigation. The implementation of this initiative was aimed at assisting viable corporations in restructuring their debt obligations.

The role of the CDRC is to mediate between companies and their creditors in reaching an agreement on debt restructuring. The agreement is informal, has no binding legal status, and can be revoked by either party at any time.

In August 1998, Danamodal was incorporated as a subsidiary of the Central Bank of Malaysia (BNM) to recapitalize banking institutions and improve the quality of their balance sheets. The company's goal was to provide a good capital base for banks to continue providing loans to the economy. The Company provided assistance to financial institutions affected by the crisis until its liquidation at the end of 2003.

During its operation, Danamodal invested 7.6 million ringgit in ten banks, which ensured a complete resolution of problems in the banking sector, which continued to lend to corporations and individuals, who in turn contributed to the recovery of the economy.

II. Creation of Danaharta

Danaharta was established under the Malaysian Ministry of Finance in 1998 as a national stress asset management company to assist financial institutions in clearing balance sheets of non-performing loans and rehabilitating business entities.

In the same year, a special law on Danaharta was passed, according to which the company carried out the purchase, management and sale of stressed assets, including under special powers, including the ability to appoint special administrators to manage troubled companies and conduct corporate restructuring. In addition, the company was granted the right to sell the repurchased assets privately out of court, while financial institutions could sell the property transferred to management only at open auctions if there were appropriate court orders.

When Danaharta was created, there was no time limit for its validity – instead, the Minister of Finance was authorized to liquidate the organization himself under appropriate circumstances. The members of the Board of Directors were also appointed by the decision of the Minister of Finance and consisted of representatives of the Government, the private sector and two members from the international community.

III. Asset buyback

Danaharta decided to focus on the acquisition of large corporate loans with a debt amount of 5 million ringgit or more – such loans accounted for more than 70% of the problem loans of the banking system.

The law did not oblige banks to sell their stressful assets to Danaharta, while the company used the carrot and stick method to stimulate the activation of asset purchase transactions.:

"Sticks"	"Carrots"
<ul style="list-style-type: none">• All banks recapitalized by Danamodal were required to sell their distressed loans to Danaharta.• Banks with a gross share of non-performing loans exceeding 10% were required to sell their non-performing loans to Danaharta; otherwise, they would have to write off the cost of these loans to 80% of the price offered by Danaharta.	<ul style="list-style-type: none">• BNM has granted banks the right to amortize losses from the sale of their Danaharta assets for five years.• Danaharta has entered into agreements with the selling banks on the division of profits from the sale of assets• Danaharta bonds had zero risk weight

Danaharta has established standardized parameters for determining the market value of purchased loans. For secured loans, the purchase price was 95% of the market value of the collateral. If the loan was secured by shares, the value was determined based on the market price or the net intangible assets of the companies and adjusted to reflect the level of control. For unsecured loans, the market value was 10% of the principal.

III. Asset buyback

In total, Danaharta's asset portfolio consisted of 2,902 projects with a total book value of 47.7 billion ringgit.

The composition of the Danaharta asset portfolio



Danaharta was financed by the initial capitalization of the state in the amount of 3 billion ringgit (1% of GDP in 1998) and the issuance of bonds. Danaharta also considered issuing international government-guaranteed bonds, but due to the fall in the exchange rate and the downgrade of Malaysia's credit ratings, this option proved to be expensive.

Instead, the company issued five-year zero-coupon and discounted bonds to financial institutions for the purchase of non-performing loans with an option to extend for another five years. This reduced the pressure on cash flows and gave time to develop the most optimal strategy for resolving problem loans.

IV. Asset management

Danaharta's approach to asset management depended on the borrower's recovery potential and the currency of the problem loans. Loans in foreign currency and marketable securities provided to or issued by foreign companies were sold immediately, as they went beyond the jurisdiction of Danaharta.

Restructuring has been carried out with regard to loans denominated in local currency and those with recovery potential. In addition, Danaharta has developed its own loan restructuring guidelines so that borrowers can develop their own loan resolution plan and reduce the time required for the restructuring process.

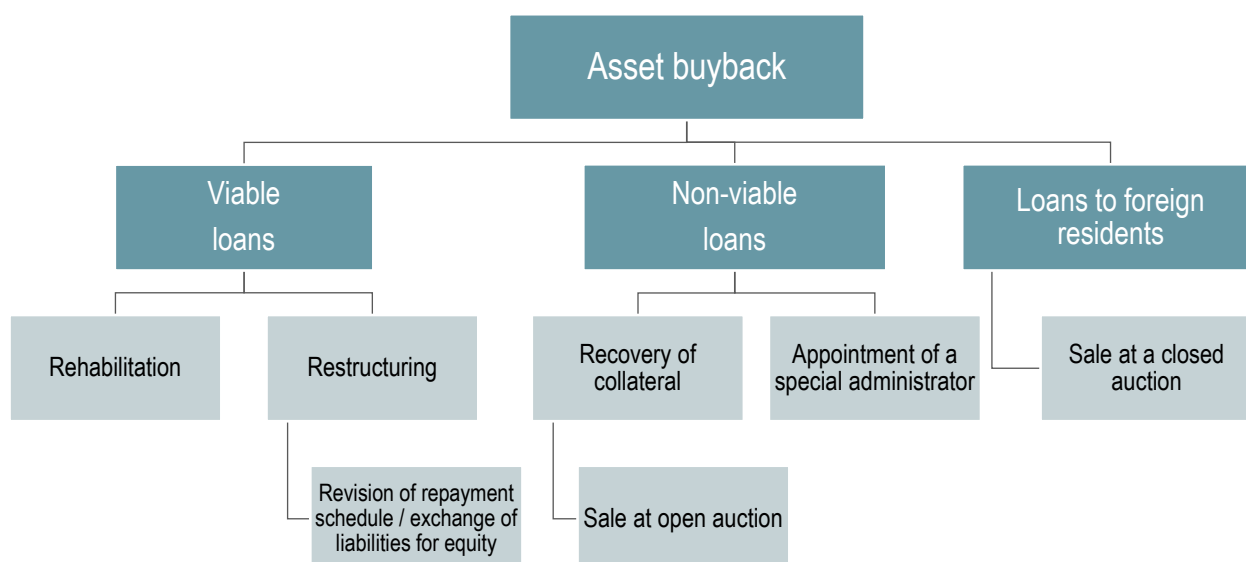
In respect of bad loans or borrowers who refused to cooperate, the collection of collateral or the appointment of a special administrator was carried out.

One of Danaharta's unusual asset management methods was the securitization of restructured loans to quickly raise funds. This tool was used only once for 1.2% of the repurchased loans from the total portfolio, as Danaharta attracted a sufficient amount of financing.

*Asset-backed securities (ABS) — securities based on asset pools or backed by cash flows from assets. The assets that make up such a pool are combined so that small and non-economic assets acquire value as an investment object. In addition, diversifying the underlying asset pool reduces risk.

IV. Asset management

Danaharta Asset Settlement Strategy



Key performance indicators of Danaharta

Equity capital, billion ringgit	3
Nominal value of the bonds, billion ringgit	11
The number of companies where special administrators have been appointed	73
The number of auctions conducted for the sale of property	25
The amount of proceeds from the management and sale of assets, billion ringgits	30.4
<i>out of these, from the NPL, transferred to the trust management</i>	19.3
<i>out of these, from the purchased NPL</i>	11.1
The return rate	58%
<i>out of these, from the NPL, transferred to the trust management</i>	65%
<i>out of these, from the purchased NPL</i>	49%

V. Performance results

In general, the functioning of Danaharta can be called successful – the company stopped the growth of problem loans in the banking system, repaid obligations on its bonds as of March 2005 and suffered small losses, after which it was liquidated in December 2005, 7 years after its creation. After the closure, Danaharta transferred unpaid assets worth 1.72 billion ringgit (about 3.6% of the total book value of Danaharta's portfolio of non-performing loans) to the Ministry of Finance.

However, the high rates were secured due to loans transferred to the management of Danaharta on a pro bono basis, which had a higher repayment ratio in contrast to the repurchased assets. So, without the income received from the management and sale of these loans, Danaharta would have suffered significant losses.

The content was prepared by the Corporate Development Department of JSC "Problem Loans Fund". Research reports and materials from the World Bank, University Utara Malaysia, University Putra Malaysia, Bank Negara Malaysia and Danaharta were used in the preparation.