Management of Non-Performing Loans (NPLs) of the Banking Institutions in Malaysia (1995-2004)

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Submitted to the Graduate School of Business Faculty of Business and Accountancy University of Malaya, in partial fulfillment of the requirements for the Degree of Master of Business Administration

October 2004
Abstract

This study evaluates the management of non-performing loans (NPLs) of the banking institutions in Malaysia surrounding the East Asian crisis in 1997. The study aims to determine if the NPLs have declined along with an improvement in the asset quality since the 1997-1998 crisis. In addition, it also aims to verify the effectiveness of Danaharta, Malaysia's national asset management company, in addressing the NPL problem in the banking institutions of Malaysia. The trend of the NPL ratios to total loans and percentage of loan loss provisions, the ageing of NPLs, and the percentage of NPLs restructured and disposed were some of the indicators used on the secondary data collected from Bank Negara Malaysia and Danaharta sources. Results show that the level of NPLs has declined and the asset quality in the banking institutions improved since the crisis. It also indicates lesser tendency of loan evergreening practices and lesser fragility in the banks, as compared to before the crisis. Danaharta has been effective in bringing down the level of NPLs in the banking institutions especially in commercial banks and under the six months NPL classification, but relatively slow in disposing the NPLs acquired. The higher recovery rate for managed NPLs compared to acquired NPLs indicates a lack of incentive for Danaharta to dispose the NPLs acquired.
Acknowledgements

I graciously acknowledge the people who made it possible for the completion of this thesis.

I am deeply indebted to my supervisor Prof. Dr. G. Sivalingam, for his constructive suggestions and continuous encouragement throughout the writing of this thesis. I would also like to thank Pn. Wan Marhaini my second evaluator, for her comments.

My undying gratitude goes to my parents for their constant interest, tireless support, and valuable ideas. In addition, I would like to thank Ms. Embon Murni, my MBA colleague for her timely support.

Thanks also to the Bank Negara Malaysia authorities for providing me with the necessary data. My gratitude also goes to the Pengurusan Danaharta Nasional Berhad authorities for patiently providing me with the information and clarification I needed for this study, from time to time.

The assistance and information given by the University of Malaya Graduate School of Business authorities regarding the guidelines, submission deadlines and procedures for the MBA thesis is also greatly appreciated.
Table of Contents

ABSTRACT ii
ACKNOWLEDGEMENTS iii
TABLE OF CONTENTS iv
LIST OF TABLES vi
LIST OF FIGURES vii
LIST OF ABBREVIATIONS viii

CHAPTER 1: INTRODUCTION 1
  1.1: Overview 1
  1.2: Purpose and Significance of the Study 2
  1.3: Objectives of the Study 3
  1.4: Method of the Study 4
      1.4.1: Research Questions 4
      1.4.2: Data Collection Procedure 5
      1.4.3: Data Analysis Techniques 7
  1.5: Scope of the Study 10
  1.6: Limitations of the Study 10
  1.7: Organization of the Study 10

CHAPTER 2: CONCEPT CLASSIFICATION AND TREATMENT OF
NON-PERFORMING LOANS 12
  2.1 The Concept of Non-Performing Loans (NPLs) 12
  2.2 Classification and Treatment of Non-Performing Loans 13
  2.3 Conclusion 15

CHAPTER 3: NON-PERFORMING LOANS OF THE BANKING
INSTITUTIONS IN MALAYSIA 16
  3.1 Non-Performing Loans before the East Asian Crisis 16
  3.2 Criticisms on the Loan Classification and Prudential Practices 17
  3.3 Non-Performing Loans During The East Asian Crisis 18
  3.4 Conclusion 20

CHAPTER 4: ASSET MANAGEMENT COMPANIES AS A SOLUTION
TO THE NON-PERFORMING LOANS PROBLEM 21
  4.1 The Function of Asset Management Companies (AMCs) 21
  4.2 Centralized and Decentralized Asset Management Companies 21
  4.3 Effectiveness of Asset Management Companies 22
  4.4 Conclusion 24
CHAPTER 5: AN OVERVIEW OF DANAHARTA
  5.1: Danaharta as part of the Three Pronged Approach 25
  5.2: The Phases of Danaharta 25
    5.2.1: Establishment 26
    5.2.2: Transfer of NPLs 27
    5.2.3: Management of NPLs 29
  5.3: Conclusion 31

CHAPTER 6: ANALYSIS AND FINDINGS 32
  6.1: Introduction 32
  6.2: Analysis of the NPLs of the banking institutions from 1995 to 2004 32
  6.3: Analysis on the Effectiveness of Danaharta 38
    6.3.1: Bringing Down the Level of NPLs in the banking institutions. 38
      6.3.1.1: Comparison among commercial banks, finance Companies and merchant banks. 44
      6.3.1.2: Comparison between 3 months and 6 months classification. 49
    6.3.2: Restructuring and Disposing NPLs 50
      6.3.2.1: Comparison between NPLs acquired and NPLs managed. 58
  6.4: Conclusion 61

CHAPTER 7: CONCLUSION 63
  7.1: Lessons Learnt from the Study 63
  7.2: Suggestions for Further Study 66
  7.3: Conclusion 66

BIBLIOGRAPHY 68

APPENDIX:
Appendix A: Figure A: Mission Flowchart of Danaharta 73
Appendix B: Table B1: NPLs acquired by Danaharta 74
    Table B2: NPLs managed by Danaharta 77
    Table B3: Distribution of recovery proceeds as at December '03 78
Appendix C: Table C: Loan classification and provisioning in selected Countries 79
Appendix D: Figure D: Government ownership of the banks in developing countries around the time of the East Asian crisis 80
List of Tables

Table 6.1  NPLs to total loans Ratio of the banking institutions (December '95- November '98) 33

Table 6.2: NPLs to total loans Ratio of the banking institutions (November '98- March '04) 35

Table 6.3: Outstanding loan loss provisions to NPLs of the banking institutions (December '95- March '04) 37

Table 6.4: NPLs to total loans Ratio of the banking institutions (after loans are sold to Danaharta) and (if loans are not sold to Danaharta (November '98- March ’04) 39

Table 6.5: NPLs to total loans Ratio (6 months classification) of commercial banks, finance companies and merchant banks (November’98-March ’04) 44

Table 6.6  Sectors contributing to large amount of NPLs in the banking institutions as at September' 98 48

Table 6.7  Danaharta’s Progress in restructuring NPLs from December ’99 to December’ 03 51

Table 6.8  Danaharta’s restructuring methods from Dec’99 to Dec’03 54

Table 6.9  Danaharta’s expected recovery rates from Dec’99 to Dec’03 55

Table 6.10  Danaharta’s loan and asset disposal (in percentage of total NPLs in its portfolio) as at 31 December ’03 56

Table 6.11  Restructuring methods used and expected recovery rates of acquired NPLs and managed NPLs as at 31 December’ 03 58

Table 6.12  Danaharta’s loan and asset disposal (in percentage of total NPLs in its portfolio) for acquired NPLs and managed NPLs as at 31 December ’03 59

Table B1:  NPLs acquired by Danaharta as at 31 December ’03 74
Table B2: NPLs managed by Danaharta as at 31 December '03
Table B3 Distribution of recovery proceeds as at 31 December '03
Table C Loan classification and provisioning in selected countries

List of Figures

Figure 6.1 NPLs in Danaharta’s Portfolio(by sector) as at 31 Dec ’99
Figure 6.2 NPLs in Danaharta’s Portfolio(by ageing) as at 31 Dec ’99
Figure 6.3 Ageing profile of loan in arrears of the banking institutions (after loans sold to Danaharta)
Figure 6.4 Ageing profile of loan in arrears among commercial banks, finance companies and merchant banks (after loans sold to Danaharta)
Figure 6.5 Analysis of Danaharta’s NPL Portfolio in value bracket and number of accounts as at 31 December 2000
Figure 6.6 Analysis of Danaharta’s property collateral as at 31 Dec’00
Figure A: Mission Flowchart of Danaharta
Figure D Government ownership of the banks in developing countries around the time of the East Asian crisis.
## List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>BBMB</td>
<td>Bank Bumiputera Malaysia Berhad</td>
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<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<tr>
<td>CDRC</td>
<td>Corporate Debt Restructuring Scheme</td>
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<td>EPF</td>
<td>Employees Provident Fund</td>
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<tr>
<td>IAS</td>
<td>International Accounting Standards</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>LRA</td>
<td>Loan Rights Acquired</td>
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<td>NEAC</td>
<td>National Economic Action Council</td>
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