

Chapter 6

Analysis and Findings

6.1 Introduction

The method of data collection and analytical procedures for the analysis stage has been already dealt in the first chapter. The first part of this chapter discusses the analysis of the NPLs in the banking institutions from 1995 to 2004. This is followed by the evaluation of Danaharta's effectiveness in bringing down the level of NPLs in the banking institutions and subsequently its effectiveness in restructuring and disposing the NPLs in its portfolio.

6.2 Analysis of the NPLs of the banking institutions from 1995 to 2004

Table 6.1 shows the gross non-performing loans (NPL) ratios in the banking institutions from December 1995 to November 1998. The NPL ratio has increased from 5.5% in December 1995 to 14.1% under the 6 months classification and 20.4% under the 3 months classification as at November 1998. The NPL ratio that was averaging at around 3 % from 1996 till the 3rd quarter of 1997, had increased sharply to 6 % as at end of December 1997 as a result of the 1997 East Asian crisis which caused the increase in the NPL ratios since mid 1997.

In 1997, Bank Negara imposed stricter prudential guidelines on the classification and treatment of NPLs. Among the guidelines was that the period in arrears for classifying the loans as NPLs would be increased from 6 months to 3 months beginning 1 January 1998. As a result, the NPL ratios rose from 6% as at December 1997 to 9.1% as at March 1998.

Table 6.1

**NPL To Total Loans Ratio of the banking institutions
(December '95 -November '98)**

As at	3 months		6 months	
	Gross NPL to total loans %	Rate of change in the NPL ratios %	Gross NPL to total loans %	Rate of change in the NPL ratios %
Dec-95			5.5	
Dec-96			3.8	-31.5
Mar-97			3.3	-11.1
Jun-97			3.6	9.2
Sep-97			3.7	1.2
Dec-97			6.0	61.6
Mar-98	9.1			
Jun-98	12.6	37.7		
Sep-98	17.8	41.0	12.3	
Nov-98	20.4	14.8	14.1	14.4

Source: BNM Monthly Statistical Bulletins from various issues

In September 1998 the NPL ratio fell from 12.6% to 12.3% because Bank Negara relaxed the default period for classifying loans as non-performing from 3 months to 6 months, while maintaining other prudential measures. But under the 3 months classification, the ratio would have largely increased to 17.8%. Despite relaxing the default period for NPL classification, the NPL ratio to total loans continued to increase to 14.1% under the 6 months basis as at November 1998.

Table 6.2 shows the gross non-performing loans (NPL) ratios in the banking institutions from November 1998 to March 2004. Danaharta started acquiring loans in stages from the banking institutions from December 1998 till the end of the first quarter of year 2000. The NPL ratios have been declining from November 1998 till March 2004, except in year 2001 when the NPL ratios increased because of the expiry of the indulgence period granted to borrowers by CDRC and the September 11th incident. From Table 6.2, we can also observe that the NPL ratios changed at a more stable pace after 1998 compared to the pace of change in NPL ratios from 1995 to 1998 in Table 6.1. For instance, NPL ratio fell sharply by 31.5 % from December 1995 to December 1996 and increased even more sharply by 62% from September 1997 to December 1997(see Table 6.1). But, after the NPL ratios reached its peak in November 1998, the ratios started to change at a very slow rate i.e. less than 5 % except in the first half of 2001 when it changed at rate of 9 % (see Table 6.2).

Table 6.2**NPL to Total Loans Ratio of the banking institutions
(November '98 to March '04)**

As at	3 months		6 months	
	Gross NPL to total Loans (%)	Change in NPL ratio (%)	Gross NPL to total Loans (%)	Change in NPL ratio (%)
Nov-98	20.4	14.8	14.1	14.4
Dec-98	19.8	-3.0	13.8	-2.5
Mar-99	18.2	-7.9	13.0	-5.9
Jun-99	18.1	-0.7	13.3	3.0
Sep-99	17.8	-1.6	13.2	-0.8
Dec-99	16.7	-6.1	12.1	-8.8
Mar-00	16.4	-1.7	11.9	-1.2
Jun-00	16.1	-1.7	12.0	1.0
Sep-00	16.1	-0.5	12.4	2.8
Dec-00	15.3	-4.9	11.7	-5.6
Mar-01	16.2	6.1	12.5	6.8
Jun-01	17.2	6.0	13.6	9.2
Sep-01	17.9	4.2	14.3	4.6
Dec-01	17.8	-0.7	14.3	0.3
Mar-02	18.1	1.7	14.7	2.6
Jun-02	17.2	-4.9	14.2	-3.0
Sep-02	16.6	-3.5	13.8	-3.3
Dec-02	15.8	-4.4	13.0	-5.5
Mar-03	15.6	-1.8	12.6	-3.4
Jun-03	14.8	-4.7	12.0	-4.5
Sep-03	14.2	-4.2	11.5	-3.9
Dec-03	13.9	-2.0	11.6	0.6
Mar-04	13.8	-1.1	11.3	-2.7

Note: Starting from Dec '98, the ratios are (after loans sold to Danaharta)

Source: BNM Monthly Statistical Bulletins from various issues

According to BNM (2003), the pace in the decline of NPL ratios was more gradual due to the more stringent reclassification rules that were put in place to prohibit evergreening of loans. The policy of clawing back interest-in suspense to day one of default on any loan which became non-performing, was imposed again by Bank Negara in 1997 after abolishing it in 1989. In addition, general provisions for bad and doubtful debts were increased from 1 percent to 1.5 percent of total loans. Banks were also required to provide 20% specific provisions against uncollateralized portion of substandard loans. This effect can be seen in Table 6.3 that shows the outstanding loan loss provisions to NPLs from December 1995 to March 2004 on a 6 months basis.

In Table 6.3, although the NPL ratios have declined a lot from 1995 to 1996, the total provisions to total NPLs have increased to 97% of the total NPLs, thus indicating very high risk and low asset quality. Yet, the outstanding specific provisions and interest in suspense does not reflect the higher specific risk of loans because it has decreased from 56% to 50%. But, banks were able to increase general provisions from 29 % of NPLs in 1995 to 47% of NPLs in 1996 due to their strong profit growth. However when the NPL ratio increased from 3.8% in 1996 to 6% in 1997 as a result of the crisis, the outstanding specific provisions and interest in suspense to total NPLs as well as the total provisions to NPLs had declined from 50% and 97% to 33% and 67% respectively, when it

should have increased to reflect more risk. This was probably because the banks could not afford to allocate general provisions due to the decline in profit growth.

Table 6.3

**Outstanding Loan Loss Provisions to NPLs of the banking institutions
(December' 95 to March' 04)**

As at	Gross NPL to total loans (6 mths) %	Outstanding Specific Provisions and Interest in Suspense to NPLs %	General Provisions to NPLs %	Total Provisions to NPLs %
Dec-95	5.5	56	29	85
Dec-96	3.8	50	47	97
Dec-97	6.0	33	34	67
Dec-98	13.8	40	14	54
Dec-99	12.1	49	15	64
Dec-00	11.7	50	15	65
Dec-01	14.3	47	12	59
Dec-02	13.0	46	13	59
Dec-03	11.6	44	15	59
Mar-04	11.3	44	15	59

Note: Figures computed based on data from BNM Monthly Statistical Bulletins

In 1998, after stricter prudential guidelines were imposed again on interest in suspense after being abolished in 1989, the outstanding specific provisions and interest in suspense to total NPLs increased from 33% in 1997 to 40% in 1998,

eventhough general provisions declined. Despite stricter prudential guidelines, the total loan loss provisions to NPLs have reduced from 96% in December 1996 to 59% in March 2004. This shows the overall risk of loans in the banking institutions have been declining.

The decline in NPL ratios coupled with a decline in the total loan loss provisions to NPLs indicate that the asset quality of the banking institutions have been improving since the 1997 crisis. In addition the NPL ratios are more stable after 1998 compared to years 1995 and 1996 because of better prudential practices on the treatment of NPLs.

6.3 Analysis on the Effectiveness of Danaharta

The analysis on the effectiveness of Danaharta would be basically divided into two parts. The first part analyzes its effectiveness in bringing down the levels of NPLs in the banks after transferring them since December 1998, while the second part examines its effectiveness in recovering and disposing its loans.

6.3.1 Bringing down the level of NPLs in the banking institutions

Table 6.4 shows the NPLs in the banks (after loans sold to Danaharta) and (if loans are not sold to Danaharta) from November 1998 to March 2004.

Table 6.4

**NPL 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)**

As at	After loans sold to Danaharta			If loans are not sold to Danaharta		
	3 months	6 months		3 months	6 months	
	NPL to total loans ratio(%)	NPL to total loans ratio(%)	Change in NPL ratio (%)	NPL to total loans ratio(%)	NPL to total loans ratio(%)	Change in NPL Ratio (%)
Nov-98	20.4	14.1	14.4	20.4	14.1	14.4
Dec-98	19.8	13.8	-2.5	22.0	16.2	14.6
Mar-99	18.2	13.0	-5.9	21.9	16.9	4.6
Jun-99	18.1	13.3	3.0	22.3	17.9	5.6
Sep-99	17.8	13.2	-0.8	22.1	17.9	0.1
Dec-99	16.7	12.1	-8.8	21.9	17.6	-1.4
Mar-00	16.4	11.9	-1.2	21.8	17.7	0.2
Jun-00	16.1	12.0	1.0	21.8	18.1	2.4
Sep-00	16.1	12.4	2.8	21.7	18.3	1.3
Dec-00	15.3	11.7	-5.6	20.9	17.6	-4.1
Mar-01	16.2	12.5	6.8	21.7	18.3	4.1
Jun-01	17.2	13.6	9.2	22.5	19.2	5.1
Sep-01	17.9	14.3	4.6	23.1	19.7	2.7
Dec-01	17.8	14.3	0.3	23.0	19.8	0.2
Mar-02	18.1	14.7	2.6	23.2	20.1	1.4
Jun-02	17.2	14.2	-3.0	22.3	19.6	-2.4
Sep-02	16.6	13.8	-3.3	21.7	19.1	-2.5
Dec-02	15.8	13.0	-5.5	21.0	18.4	-3.8
Mar-03	15.6	12.6	-3.4	20.7	17.9	-2.3
Jun-03	14.8	12.0	-4.5	19.9	17.3	-3.5
Sep-03	14.2	11.5	-3.9	19.3	16.8	-3.0
Dec-03	13.9	11.6	0.6	19.0	16.8	0.3
Mar-04	13.8	11.3	-2.7	18.8	16.5	-2.0

Source: BNM Monthly Statistical Bulletins from various issues

From Table 6.4, we can see that the NPL to total loans ratio (after loans sold to Danaharta) have declined to 11.3% as at March 2004 from 14.1 % as at November 1998 on a 6 months classification. However, the NPL ratios (if loans were not sold to Danaharta) for the same period, would have increased to 16.5% at March 2004 from 14.1% in November 1998 under the similar NPL classification. This indicates that the level of NPLs in the banking institutions have gone down as a result of Danaharta.

In addition, the direction of the change in the NPL ratios whether or not loans have been sold to Danaharta had been the same since June 2000, which was after Danaharta completed carving out loans from the banking institutions. In fact, from June 2002, the NPL ratios (after loans sold to Danaharta) and (if loans are not sold to Danaharta) had been not only following the same direction, but also changing at almost the same rate. However from December 1998 till March 2000, especially in December 1998, the NPL ratios (if loans are not sold to Danaharta) would have gone up a lot by almost 15%. Yet, Danaharta managed to bring down the NPL ratio in December 1998 by almost 3%.

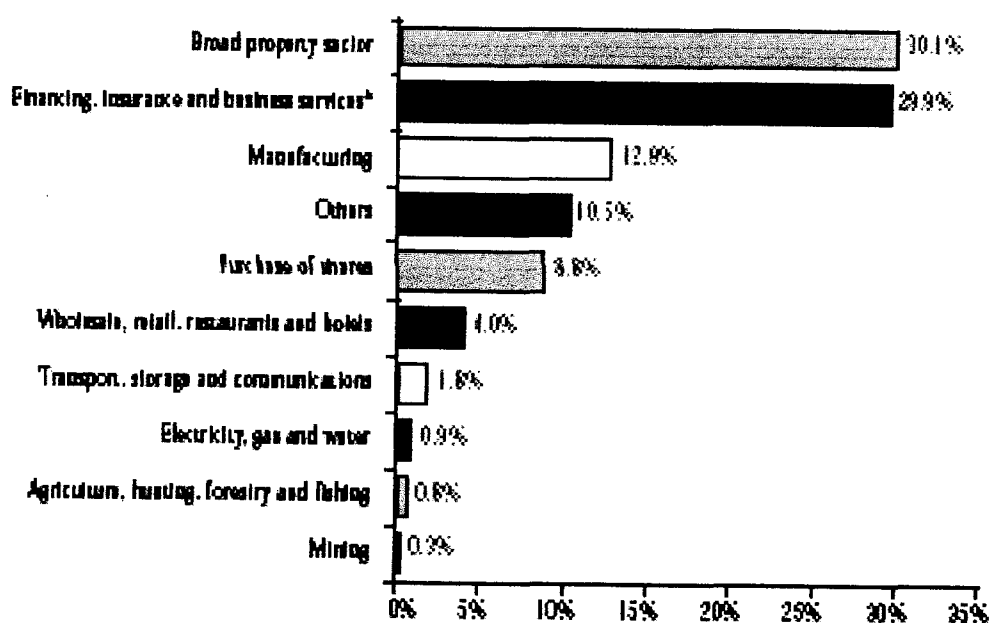
This shows that Danaharta must have transferred enough loans to break the upward trend of NPLs in December 1998. Subsequently, the effects of that carve out can be felt till March 2004, when the NPL ratios (after loans sold to

Danaharta) have declined since November 1998, while the NPL ratios (if loans are not sold to Danaharta) would have increased since November 1998.

Danaharta was effective also because most of the loans transferred were from the broad property sector which was the source of large NPLs in the banking institutions (see Figure 6.1)

Figure 6.1

NPLs in Danaharta's Portfolio (by sector) as at December '99

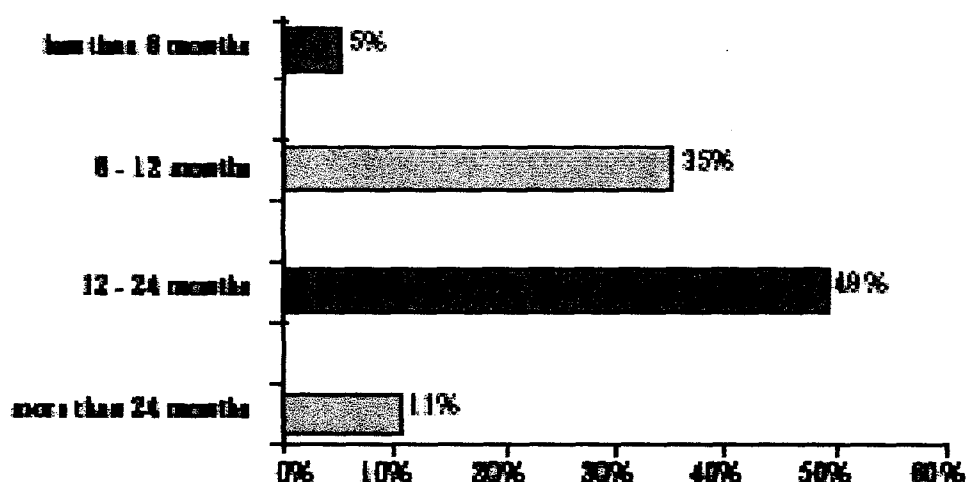


Source: Danaharta Operations Report, 1999

In addition, Danaharta had mostly removed the loans that were in arrears for 12 months and more. Figure 6.2 shows that only 5 % of NPLs in Danaharta's portfolio consists of loans that were in arrears for less than 6 months.

Figure 6.2

NPLs in Danaharta's Portfolio (by ageing) as at December' 99



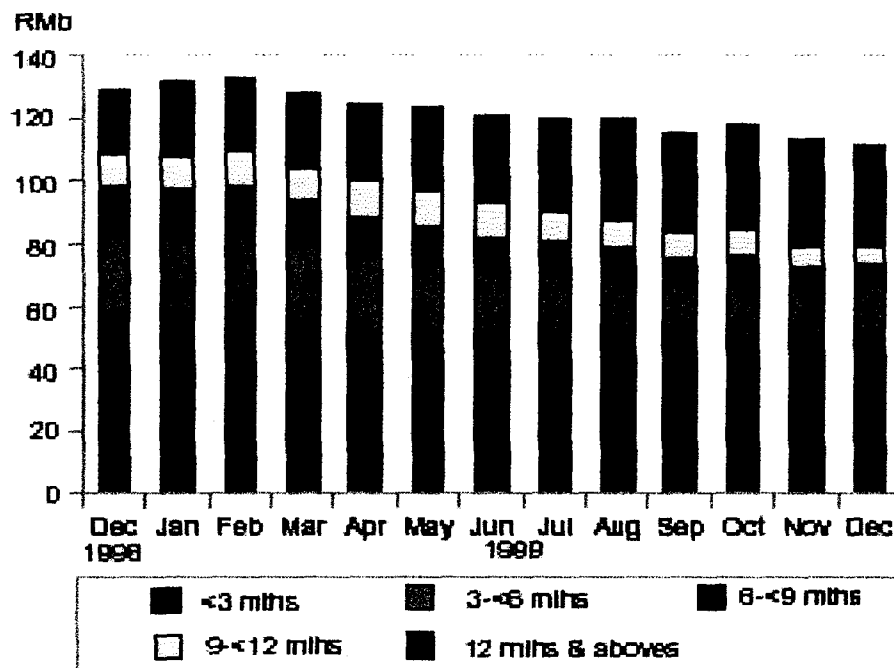
Source: Danaharta Operations Report, 1999

That means, most of the loans that were newly in arrears and that had a better chance of being rehabilitated and performing were left in the banking institutions. This could have improved the profile of loan in arrears in the banking institutions.

Figure 6.3 shows that the ageing of loans in arrears has been declining and most of the loans are in arrears for less than 3 months. The loan in arrears had been declining from beginning of 1999 till mid of 1999, which was the period Danaharta transferred a lot of loans from the banks to its portfolio during its primary carve out phase.

Figure 6.3

**Ageing profile of loan in arrears of the banking institutions
(after loans sold to Danaharta)**



Source: BNM Annual report, 1999

6.3.1.1 Comparison among commercial banks, finance companies and merchant banks

Table 6.5 compares the NPL ratios (after loans sold to Danaharta) and (if loans are not sold to Danaharta) under the 6 months classification among commercial banks, finance companies and merchant banks from November 1998 to March 2004.

Table 6.5

**NPL To Total Loans Ratio (6 months classification) of
Commercial Banks, Finance Companies and Merchant Banks
(November '98 - March '04)**

As at	After loans sold to Danaharta			If loans are not sold to Danaharta		
	Gross NPL ratio (%)			Gross NPL ratio (%)		
	Commercial Banks	Finance Companies	Merchant Banks	Commercial Banks	Finance Companies	Merchant Banks
Nov-98	12.9	17.1	17.5	12.9	17.1	17.5
Dec-98	10.7	17.5	17.5	13.7	18.2	20.5
Dec-99	10.3	16.8	18.5	16.2	20.2	28.3
Dec-00	10.2	16.0	17.6	16.3	19.4	29.2
Dec-01	13.2	15.8	29.9	18.9	18.8	41.2
Dec-02	12.2	13.4	29.6	17.9	16.4	41.8
Dec-03	11.0	12.1	25.5	16.5	14.9	40.7
Mar-04	10.8	11.5	25.4	16.2	14.3	40.9

Source: BNM Monthly Statistical Bulletins from various issues

For the commercial banks, the NPL ratios (after loans sold to Danaharta) have decreased in March 2004 from November 1998. In contrast, the NPL ratios (if loans are not sold to Danaharta) would have increase from November 1998 to March 2004. This indicates that Danaharta has been effective in bringing down the level of NPLs in commercial banks.

For the finance companies, the NPL ratios have declined from November 1998 to March 2004 whether or not loans in finance companies were sold to Danaharta. However, the NPL ratios (after loans sold to Danaharta) have declined by 33% whereas the NPL ratios (if loans are not sold to Danaharta) have declined by only 16 %. This shows that the level of NPLs did go down not mainly as a result of Danaharta. But, Danaharta has contributed to a greater decline in the NPL ratios of the finance companies.

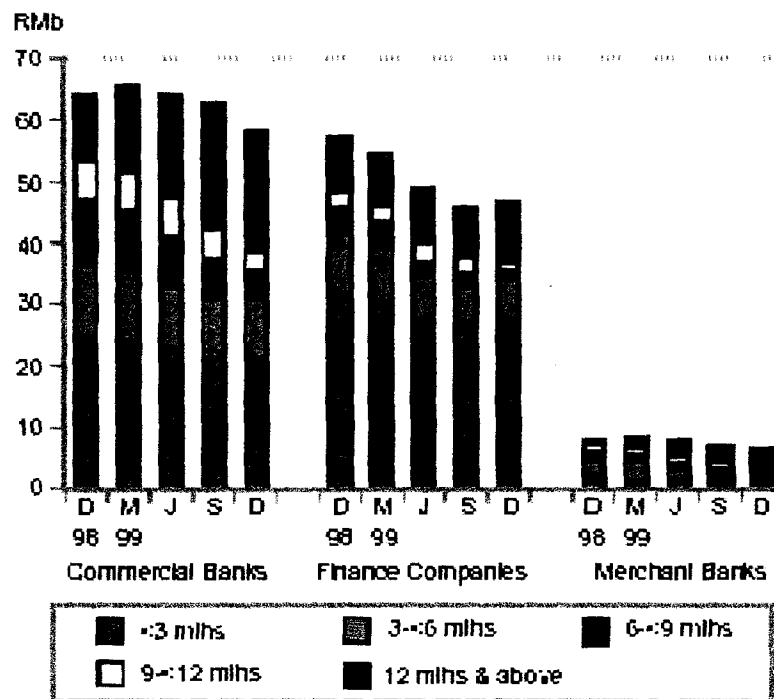
For the merchant banks, the NPL ratios have increased from November 1998 to March 2004 whether or not loans in the merchant banks are sold to Danaharta. However, NPL ratios (after loans sold to Danaharta) have increased by only 45% whereas the NPL ratios (if loans are not sold to Danaharta) have increased by 134 %. This shows that the level of NPLs did go up, but it would have gone up by a much larger margin if loans were not sold to Danaharta.

Therefore, Danaharta was effective in bringing down the level of NPLs in the commercial banks because it was able to remove a lot more loans from commercial banks, since the individual loan size in the commercial banks was mostly more than RM 5 million which was the cutoff required by Danaharta, while the individual loans size in the finance companies and merchant banks was less than RM 5 million. Out of 37.7 billion worth of gross loans from the banking institutions sold to Danaharta as at December 2000, 30.6 billion was from the commercial banks, and only 3.8 billion was from finance companies and 3.3 billion was from merchant banks (BNM, 2000).

Despite Danaharta taking out lesser loans from the finance companies in comparison to the amount taken out from the commercial banks, the NPL ratios in the finance companies still showed a decline. Infact, the rate of decline of the NPL ratios in the finance companies was double the times more than that of commercial banks. The NPL ratios (after loans sold to Danaharta) under the 6 months classification declined by 33 % in the finance companies and only 16% in the commercial banks, from November 1998 to March 2004. This effect can also be observed in Figure 6.4 where the profile of loan in arrears in the finance companies show a more obvious decline compared to the commercial banks and merchant banks.

Figure 6.4

Ageing profile of loan in arrears among the commercial banks, finance companies and merchant banks (after loans sold to Danaharta)



Source: BNM Annual report, 1999

This is because besides the broad property sector, a large portion of the NPLs in the finance companies were from the purchase of transport vehicles sector, unlike commercial banks and merchant banks, where a large portion of NPLs were from the manufacturing, financing, construction and broad property sector (see Table 6.6).

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

Sector	Commercial Banks		Finance Companies		Merchant Banks		Total	
	RM Million	%	RM Million	%	RM Million	%	RM Million	%
Manufacturing	7562	18	1355	7	420	12	9337	14
Wholesale/retail/ restaurants/hotels	3293	8	539	3	129	4	3961	6
Construction	5558	13	2029	10	946	27	8533	13
Broad Property	8146	19	5344	27	345	10	13385	20
Financing, insurance & business	2930	7	937	5	469	13	4336	7
Purchase of Securities	8273	20	2268	11	726	21	11267	17
Purchase of Transport Vehicles			5101	26			5101	8
<i>Total NPLs</i>	<i>42414</i>	<i>100</i>	<i>19957</i>	<i>100</i>	<i>3476</i>	<i>100</i>	<i>65847</i>	<i>100</i>

Source: BNM Monthly Statistical Bulletins of various issues

According to (BNM, 1999), as the economy picked up in 1999, the borrowers in the finance companies especially from the purchase of transport vehicles sector were able to service their loans fast, while the borrowers of the commercial and merchant banks faced difficulty because the property market was adversely affected by the financial crisis and took longer time to recover. Yet, the NPL ratios (after loans sold to Danaharta) declined in the commercial banks because large amounts of NPLs were removed from it by Danaharta. But, the NPL ratios (after loans sold to Danaharta) continued to increase in the merchant banks because Danaharta could only take out a small amount of NPLs from it.

6.3.1.2 Comparison between 3 months and 6 months classification

Based on Table 6.2, the gross NPL to total loans ratios (after loans sold to Danaharta) under the 6 months classification for banking institutions had declined from 14.1% in November 1998 to 11.3 % in March 2004, which is a change of about -20 %. If the loans are not sold to Danaharta, the ratio would have increased from 14.1% to 16.5%, which is a change of about 17%. Therefore the net difference between these two changes is 37%. That means, in total Danaharta has managed to bring down the level of NPLs by 37% under the 6 months classification. Under the 3 months classification, the NPL ratios (after loans sold to Danaharta) had declined from 20.4% in November 1998 to 13.8 % in March 2004. This amounts to a change of about -32%. The NPL ratio (if loans

are not sold to Danaharta) would have also declined from 20.4% to 18.8% for the similar years. This would be a change of only -8%. The net difference between these two changes would be 24% which means that Danaharta has managed to bring down the level of NPLs by only 24% under the 3 months classification.

This means that Danaharta is certainly more effective under the 6 months NPL classification because it could bring down the NPLs at a larger percentage compared to the stricter 3 month NPL classification.

6.3.2 Restructuring and Disposing NPLs

Danaharta ended direct acquisition of NPLs from the banks in mid 2000 but had started initiating recovery on the NPLs since June 1999. Table 6.7 shows Danaharta's progress in restructuring the NPLs in its portfolio from year end 1999 to year end 2003.

As at 31 December 2001, all the NPLs in Danaharta's portfolio had been restructured. This means Danaharta has managed to restructure 100% of its NPLs in just about a year, after the end of its acquisition phase in year 2000.

Table 6.7

**Danaharta's Progress in Restructuring NPLs
from December' 99 to December' 03**

As at	Total NPLs in portfolio	Total NPLs restructured	Restructured NPLs to total NPLs	Expected recovery rate
	RM Billion	RM Billion	%	%
31-Dec-99	45.5	17.6	39	69
30-Jun-00	46.8	31.5	67	73
31-Dec-00	47.5	35.0	74	66
30-Jun-01	48.0	39.0	81	57
31-Dec-01	47.7	47.7	100	56
30-Jun-02	47.7	47.7	100	57
31-Dec-02	47.7	47.7	100	57
30-Jun-03	47.7	47.7	100	58
31-Dec-03	47.7	47.7	100	58

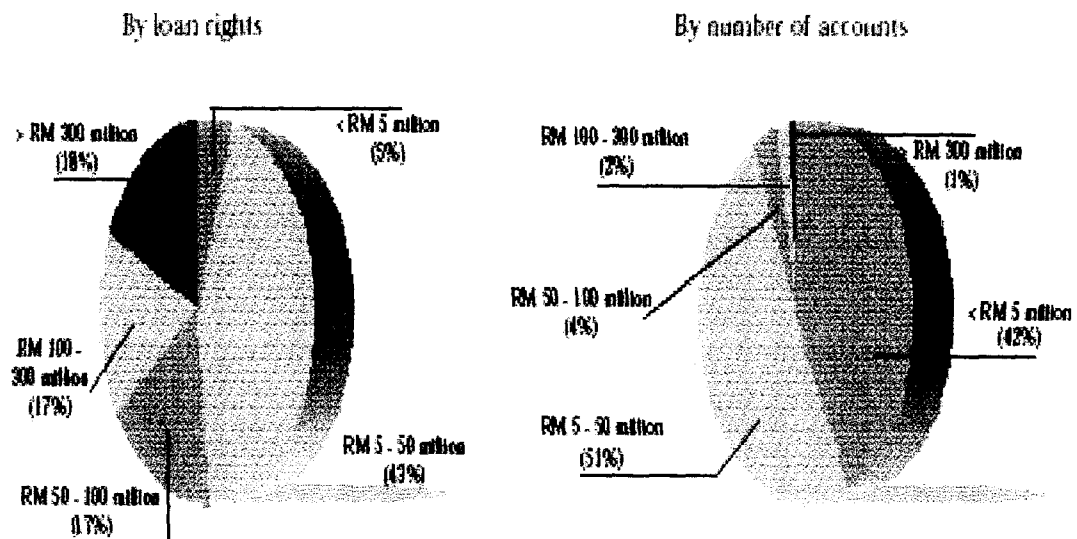
Note: Loans transferred after year 2000, was due to the put option exercise arising from some mergers.

Source: Danaharta Operations Report (various issues).

Danaharta's effectiveness in restructuring its NPLs was probably because the borrowers in its NPL portfolio were mostly large and concentrated (see figure 6.5). For instance, loan rights amounting from RM 50 million to more than RM 300 million which make up 52% of the total value of loans, is covered by only 7% of the accounts.

Figure 6.5

**Analysis of Danaharta's NPL Portfolio
in value bracket and number of accounts
as at 31 December 2000**

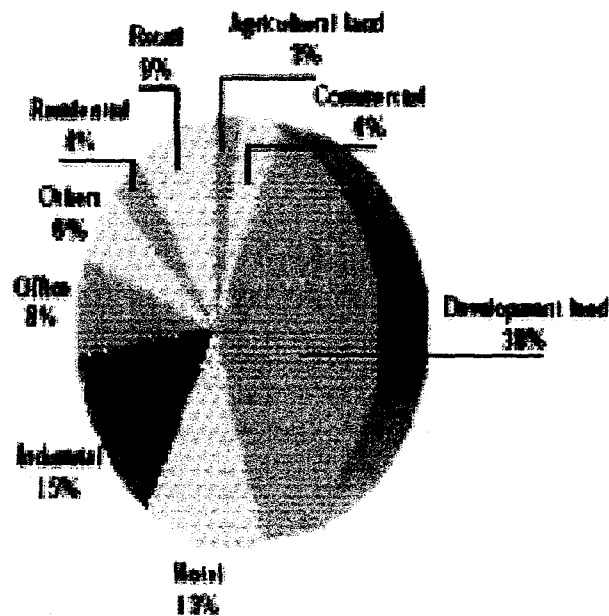


Source: Danaharta Operations Report, 2000

In addition, as most of the loans transferred originated from the property sector, the collaterals were mostly real estate based that were easier to restructure unlike non-real estate based collaterals like manufacturing collaterals that may involve complicated labor issues. Figure 6.6 shows the type of collateral held by Danaharta as at 31 December 2000. Atleast 43% are made up of real estate based collaterals in the form of development land and residential properties.

Figure 6.6

**Analysis of Danaharta's property collateral
as at 31 December 2000**



Source: Danaharta Operations Report, 2000

In terms of the methods used by Danaharta for restructuring, table 6.8 shows that plain loan restructuring was most used compared to other restructuring methods, before year 2002. However, it was not used so much from year 2002 onwards. In contrast, foreclosure was least used before June 2000, but was progressively used most after June 2000. This broadly indicates that as the years passed, loans that were restructured started to become non viable and therefore more asset restructuring methods had to be used. If this is related to table 6.7, the

expected recovery rate was observed to be higher in December 1999 and June 2000 when loan restructuring was mostly used while it was lower from June 2000 to December 2003 when foreclosures were mostly used.

Table 6.8

Danaharta's restructuring Methods from December' 99 to December' 03

Restructuring Method	Dec-99	Jun-00	Dec-00	Jun-01	Dec-01	Jun-02	Dec-02	Jun-03	Dec-03
	%	%	%	%	%	%	%	%	%
Performing Loans	18	8	7	0	0	0	0	0	0
Plain Loan Restructuring	25	20	20	25	23	19	18	15	14
Scheme of Arrangement	10	17	17	19	18	19	19	19	19
Foreclosure	10	10	21	23	23	26	27	26	27
Special Administrators	17	16	7	6	11	11	10	11	10
Settlement	20	17	18	17	14	14	14	17	18
Legal Action	0	5	4	4	4	3	3	3	3
Others	0	7	6	6	7	8	9	9	9
	100	100	100	100	100	100	100	100	100

Source: Danaharta Operations Report (various issues).

Table 6.9 shows that the expected recovery rates for loan restructuring methods were relatively much higher than the expected recovery rate for asset restructuring methods like foreclosures, for every period.

Table 6.9

Danaharta's expected recovery rates from December '99 to December '03

Restructuring Method	Dec-99	Jun-00	Dec-00	Jun-01	Dec-01	Jun-02	Dec-02	Jun-03	Dec-03
	%	%	%	%	%	%	%	%	%
Performing Loans	100	100	100	0	0	0	0	0	0
Plain Loan Restructuring	89	94	93	66	69	78	79	81	81
Scheme of Arrangement	81	88	83	78	76	73	74	73	74
Foreclosure	48	48	28	28	29	35	34	33	34
Special Administrators	51	52	62	60	44	40	42	42	42
Settlement	72	73	77	76	76	76	77	81	81
Legal Action	0	0	0	0	0	0	0	0	0
Others	0	43	55	42	60	0	55	57	56

Source: Danaharta Operations Report (various issues).

The lower expected recovery rates in asset restructuring methods like foreclosures relative to loan restructuring methods could have brought down the overall expected recovery rate in the later years when more asset restructuring methods were used. Table 6.10 shows Danaharta's loan and asset disposal in proportion to the total NPLs in its portfolio as at 31 December 2003.

Table 6.10

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

Recovery Strategy	Expected Recovery	Expected Recovery (excl.default)	Recovery Received	Realized Recovery Received
	RM Billion	RM Billion	RM Billion	RM Billion
Cash- Non Foreclosures	21	21	11	10
Cash- Foreclosures	9	9	8	5
Restructured Loans	18	16	15	11
Securities	10	10	7	3
Properties	2	2	2	1
TOTAL	60	58	43	30

Note: * Total NPLs is RM 47.7 billion plus accrued interest of RM 4.74 billion

Source: Danaharta Operations Report, 2003

Out of the NPLs it expects to recover (including default), Danaharta has received 72% recoveries and realized or disposed 50% of it. However, out of the total NPLs in its portfolio, Danaharta has merely received 43% recoveries and disposed 30% which is far less than the 50% standard set by Klingebiel (2000) for long term restructuring agencies to dispose NPLs.

Except for cash on non-foreclosures, most of the recovery strategies have received recoveries close to their expected recoveries. In fact, the recovery received rate for foreclosures is closer to their expected recovery rate (including default) compared to restructured loans.

But, only the recoveries of restructured loans have been realized relatively closer to its expected recovery rate. This indicates that Danaharta managed to foreclose a lot of collaterals, but many of them did not reach the minimum value Danaharta needed to sell those collaterals. Danaharta is relatively better in disposing its loans but relatively slow in liquidating the assets in its portfolio. Since asset restructuring methods like foreclosures were used most in year 2003 as loans turn non-viable (table 6.8), the tardiness in liquidating its assets may have led to Danaharta warehousing about 70% worth of loans as at 31 December 2003.

6.3.2.1 Comparison between NPLs acquired and NPLs managed

Table 6.11 compares the restructuring methods used and expected recovery rate between the acquired NPLs and managed NPLs.

Table 6.11

Restructuring methods used and expected recovery rates of acquired NPLs and managed NPLs as at 31 December' 03

Restructuring Method	Acquired NPLs		Managed NPLs	
	Used %	Expected recovery %	Used %	Expected recovery %
Plain Loan Restructuring	10	62	18	87
Settlement	12	89	22	78
Schemes of arrangement	13	66	23	77
Special Administrators	11	51	9	35
Foreclosure	45	28	15	46
Others	8	60	10	53
Legal Action	1	0	3	0
Overall expected recovery		49		66

Source: Danaharta Operations Report, 2003

On an overall basis, the expected recovery rate for managed NPLs is much higher than that of acquired NPLs, because the expected recovery rate for plain loan restructuring and foreclosures are much higher in managed NPLs than

acquired NPLs. Eventhough the foreclosure method is 45% used for acquired NPLs and only 15% used for managed NPLs, its expected recovery rate is 28% for acquired NPLs and 46% for managed NPLs.

Table 6.12 compares the recovery progress between the acquired NPLs and managed NPLs. Both recoveries received and realized were also much higher for managed NPLs than of acquired NPLs. In addition, Danaharta received almost 80% of its expected recoveries for managed NPLs, while it received only 60% of its expected recoveries for acquired NPLs.

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

Type of loan	Expected Recovery	Recovery Received	Realized recovery received
	%	%	%
Acquired NPLs	49	30	28
Managed NPLs	66	52	42

Source: Danaharta Operations Report, 2003

Table B1 in Appendix B shows the total amount of NPLs acquired by Danaharta. The NPLs were acquired from about 68 financial institutions, where 59 are banking institutions. A total of 799 accounts were transferred for the acquired NPLs. The total loan rights acquired from the financial institutions (FIs) was RM 19.73 billion, while the fair purchase price paid was RM 8.96 billion. This amounts to a shortfall of 10.77 incurred by the selling FIs. Table B2 in Appendix B shows the total amount of NPLs managed by Danaharta. About 2104 accounts were transferred for managed NPLS. The total loan rights managed was RM 27.97 billion.

Table B3 in Appendix B shows the total amount of surplus distributed by Danaharta for the acquired and managed NPLs as at 31 December 2003. The amount of surplus distributed to Sime Bank Group and BBMB Group for managed NPLS was about RM 13 billion, which was about 46% of the total loan rights managed. For acquired NPLs, Danaharta has distributed surplus for 97 accounts to 36 FIs, which amounts to 12% of the total accounts handled for acquired NPLs. Surplus distributed to acquired NPLs was made up of RM 0.43 billion in cash and 0.07 billion units of securities mostly with a par value of RM 1 per share. This roughly amounts to a total of RM 0.50 billion worth of surplus paid to selling FIs, which only covers about 5% of their shortfall of RM 10.77 billion.

The low unrealized and realized recovery rates of acquired NPLs relative to managed NPLs and the low distribution of surplus to selling FIs indicate that Danaharta probably lack enough incentives to dispose the acquired NPLs, despite the shortfall incurred by the banks and the surplus sharing arrangement between the banks and Danaharta.

6.4 Conclusion

The level of NPLs in the banking institutions have gone down since the 1997-1998 crisis. The decline in the level of NPLs along with the decline in loan loss provisions indicate that the asset quality has also improved compared to before the crisis. In addition, the gradual decline in the level of NPLs after the crisis indicate that the NPLs have declined under stricter prudential practices and there is lesser tendency of loan evergreening practices, as compared to before the crisis.

Danaharta has been effective in bringing down the level of NPLs in the banking institutions. But, its effectiveness is most evident in the commercial banks. In finance companies, Danaharta has contributed to a further decline in the level of their NPLs, while in merchant banks it has tapered the rise of the NPLs. In addition, Danaharta's effectiveness in bringing down the level of NPLs in the

banks is much more evident in the 6 months NPL classification than the stricter 3 months classification.

Results also show that Danaharta was fast in restructuring its loans because it mostly large and concentrated borrowers and real estate based collaterals. However, Danaharta is relatively ineffective in disposing its assets. Eventhough, Danaharta has managed to dispose about 50% of its loans in proportion to its expected recovery rate in 5 years since its establishment in 1998, it has only managed to dispose 30% of its loans in proportion to the total NPLs in its portfolio, which is a low NPL disposal rate for longer term restructuring agencies.

The recovery rates are observed to be much higher for managed NPLs than acquired NPLs. The total surplus distributed to selling FIs cover only 5% of its shortfall as at 31 December 2003. This indicates a lack of incentive for Danaharta to sell the loans acquired.