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8-4-1998

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Details on Establishment of Danamodal Nasional Berhad

Further to the statement by the Deputy Prime Minister on the establishment of the special purpose vehicle (SPV) to recapitalise and consolidate the banking sector on 13 July 1998, Bank Negara Malaysia (BNM) announces the details of the establishment of the SPV to spearhead the recapitalisation and restructuring of domestic banking institutions. The SPV will be incorporated and known as Danamodal Nasional Berhad (Danamodal) and will commence its operations in September 1998.

In view of the important intermediation role of the banking system in the economy, the government has initiated several measures to further strengthen the resilience of the banking system and to provide an environment which is conducive to support the next phase of economic development. The risk-weighted capital ratio of the banking system is 11.3% as at end-June 1998, well above the minimum BIS requirement. The economic slowdown would result in further increases in the level of non-performing loans (NPLs). This would erode the capital base of the banking institutions. The setting up of Pengurusan Danaharta Nasional Berhad (Danaharta) is aimed at dealing with the problem of rising NPLs in the banking system and to facilitate the smooth and efficient functioning of the intermediation process. To address the issue of recapitalisation, Danamodal is established as a pre-emptive measure to recapitalise the domestic banking institutions to healthy levels to enable them to increase their resilience and enhance their ability to generate new lending activities. In this regard, the setting up of Danamodal and Danaharta will complement each other towards strengthening the banking system and thereby accelerate the pace of economic recovery.

Danamodal will operate based on commercial and market oriented principles with broad authority to fulfill its objectives consistent with the policy framework of the Government. Danamodal will also coordinate its activities with Danaharta and with domestic banking institutions in their initiatives to restore their capital, liquidity, and profitability position.

I. Objectives of Danamodal

The main objectives of Danamodal are to:

- i. recapitalise and strengthen the banking industry; and
- ii. help facilitate the consolidation and rationalisation of the banking system to support the next phase of economic development. In achieving its objectives, Danamodal will enable banking institutions to refocus their activities on prudent lending, thereby accelerating the pace of economic recovery.

Danamodal will operate within the following parameters:

- i. Operate within the existing regulatory and supervisory framework;
- ii. Minimise the use of public funds;
- iii. Operate based on commercial and market oriented principles; and
- iv. Ensure equitable burden sharing amongst stockholders.

Recapitalisation and Strengthening of the Banking Industry

Danamodal will serve as an interim funding vehicle for banking institutions to meet their capital adequacy requirements. The capital injections will be in the form of equity or hybrid instruments. In making its investment decisions, Danamodal will use market-based principles and methodologies.

Consolidation and Rationalisation of the Banking System

Danamodal will also be expected to play an important role in facilitating the consolidation and rationalisation of banking institutions. Danamodal will operate within the existing regulatory and supervisory framework and consistent with national policies. As a strategic shareholder in the recapitalised banking institutions, Danamodal will be in a position to facilitate the consolidation and rationalisation process and act as a catalyst to guide mergers.

The recapitalisation and consolidation will expedite the formation of a core group of domestic banking institutions which are not only well capitalised but are also efficient and competitive. An efficient and competitive banking system will increase confidence and stimulate the real economy, as well as increase the financial sector's own contribution to GDP growth.

II. Operating Features

Banking institutions will be required to submit their recapitalisation plans under various operating and NPL scenarios. Danamodal will then assess the financial health as well as long-term viability of those banking institutions which require recapitalisation.

Danamodal will not preclude and indeed will encourage banking institutions to raise capital on their own. Danamodal itself may support such bank capital raisings on a commercial basis predicated on market driven principles. Weaker banking institutions will be restructured and strengthened prior to mergers.

Danamodal may also purchase stakes directly from significant shareholders which are unable to contribute or support the future needs of their banking institutions. Such purchases will be made on a strictly commercial basis. These initiatives will promote the development of a stable, sound and efficient domestic banking system.

Selection Criteria. In identifying the banking institutions which require capital injections, Danamodal will implement standards developed by BNM which are set based on best international practices. Similarly, to identify institutions that need to be recapitalised, Danamodal will establish clear and objective guidelines. Steps to be followed will include, but not be limited to: (i) in-depth analysis of competitive position and financial standing of each banking institution; (ii) quantification of potential synergies to be realised through consolidation; and (iii) CAMEL (capital, assets, management, earnings, liquidity) analysis.

Conditions for Capital Infusion. Eligibility to receive capital from Danamodal will be subject to strict conditions as well as continuous monitoring of those banking institutions. These conditions will include, amongst others: (i) the submission of a thorough business plan; (ii) monthly reporting; (iii) the establishment of a comprehensive list of performance targets; and (iv) swift and firm remedial actions against banking institutions which fail to meet these targets.

Transparency. Danamodal will at all times maintain transparency and disclosure in management, operations and selection criteria. It will regularly publish its own financial statements in accordance with international accounting standards.

III. Legal Form and Capital Structure

Danamodal will be formed as a limited liability corporation. At the outset, BNM will provide the initial seed capital of RM1.5 billion. Danamodal will broaden its shareholder base by inviting the participation of supranational/multilateral agencies and other institutional investors, both domestic and foreign. Danamodal shall maintain a capital structure consistent with its business principles and to give confidence to shareholders' and subscribers of debt instruments issued.

IV. Funding Structure and Potential Sources

In a worst case scenario, BNM has estimated that RM16 billion will be required to bring the risk weighted capital ratio of all domestic banking institutions to at least 9%. These funds will be raised in the form of equity, hybrid instruments, or debt in both the domestic and international markets. BNM will work closely with Danamodal and Danaharta to ensure a well-coordinated capital raising programme.

V. Governance: Board of Directors and Management Structure

Board of Directors

A Board of Directors will provide oversight and ensure that Danamodal's activities are commercially driven, consistent with government policies, and properly coordinated with BNM. In addition to the Chairman and the Managing Director, the board will comprise additional members from BNM, nominee from MOF, and

appointments from the private sector, including members from the international community.

Management Structure

Encik Mohamad Daud Hj. Dol Moin has been appointed as Managing Director of Danamodal. Prior to this appointment, Encik Mohamad Daud was one of the Assistant Governors in Bank Negara Malaysia. He will be supported by full time staff.

VI. Lifespan

Danamodal will have a finite life. Danamodal at appropriate times will dispose of its investments via (i) initial public offerings; (ii) strategic sales of its holdings; and (iii) direct sales to the market. It is envisaged that Danamodal will be able to realise significant upside potential from a stronger banking sector. Upon sale of its final equity stakes, it will liquidate its remaining assets and distribute the residual value to shareholders. Danamodal will dispose of its holdings in line with its commitment to liberalise the banking sector as committed under the WTO and consistent with national policies.

Bank Negara Malaysia
4 Ogos 1998

Danamodal will Play a Critical Role in Restoring Confidence to the Banking System

