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Danamodal Nasional Berhad

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KUALA LUMPUR: Danamodal Nasional Berhad today signed Definitive Agreements with four banking institutions. These banking institutions are Arab-Malaysian Bank Berhad, Arab-Malaysian Merchant Bank Berhad, Arab-Malaysian Finance Berhad and BSN Commercial Bank (Malaysia) Berhad. The first Definitive Agreement was signed on 30 November 1998 with RHB Bank Berhad.

Danamodal also announced today it will be nominating two directors - one executive and one non-executive - to these five banking institutions. Danamodal's nominees will assume the post of Executive Director and the chairmanship or deputy chairmanship in all cases. The respective banking institutions will make the appropriate announcements on this matter in due course. Where the situation warrants, the Definitive Agreement also allows Danamodal the flexibility to match its board representation to a level, which is proportionate to the Tier 1 capital it holds.

In his opening remarks at the signing ceremony, Danamodal's Chairman, Raja Datuk Arshad Tun Uda said the board representation as structured, is essential to ensure Danamodal will have effective representation to institute the necessary measures and international best practices to strengthen and revitalise the recapitalised institutions, and to enhance their performance and shareholders' value.

He added that the strengthening of the individual institutions will lead to restoration of investor confidence in the overall banking sector. This in turn will help expedite the economic recovery process.

Raja Datuk Arshad said the Definitive Agreements were also significant as they mark the beginning of a new phase in Danamodal's operations.

"Now that the terms and conditions for our participation in the respective institutions have been resolved, Danamodal, Bank Negara Malaysia and the banking institutions can focus on measures to advance the nation's agenda to take the Malaysian banking sector to the next phase of development."

Apart from the board representation, the Definitive Agreements define the final structure of, and the terms for Danamodal's capital injection. In negotiating for these terms, Danamodal has adhered to:

- **The first loss principle** - where the existing shareholders will absorb all past and existing losses, insulating Danamodal's capital.
- **Control** - through appropriate instruments and voting rights, Danamodal can and will facilitate changes, and institute measures to improve the management of the banking institutions.
- **Return** - will be determined on a relative risk basis, balancing commercial and public policy considerations.

While the specific structure of Danamodal's investment will vary from one institution to another, it will in principle, hold either common shares, Irredeemable Non-cumulative Preference Shares (INCPs) or Subordinated Loans or a



combination thereof. (Details of the combination for each banking institution is provided in Appendix A)

The INCPs will entitle Danamodal to a dividend payment of 8% per annum and are in all cases, fully convertible into common shares. The dividend payment is non-cumulative and payable semi-annually. Danamodal is targeting the INCPs to yield an internal rate of return of 12% upon conversion.

The Subordinated Loans will carry a 10% coupon per annum and will qualify for Tier 2 capital treatment in accordance with Bank Negara Malaysia's revised capital guidelines.

By way of recapitalisation, RM4.55 billion were injected into nine banking institutions in October and November of 1998 in the form of Exchangeable Subordinated Capital Loans (ESCL). The capital injection had the effect of restoring the capital base of the respective banking institutions immediately.

The ESCL is intended to be only an interim facility, which is to be exchanged into long-term Tier 1 and/or Tier 2 capital after an interim period. The interim period is to ensure adequate time to complete full due diligence review by Danamodal and negotiations with the banking institutions. With the signing of the Definitive Agreements, the ESCL will be terminated.

Danamodal, set up as a special purpose vehicle to recapitalise and restructure the banking sector, will operate as an interim funding vehicle. It is not Danamodal's intention to become a permanent shareholder of the institutions it recapitalises. As such, the Definitive Agreements have also been structured to provide for Danamodal to exit its investments.

The mode of exit includes initial public offerings (IPO), sale to existing strategic shareholders, exchange for shares in listed parent company or private sales to third parties. The recapitalised banking institutions are expected to endeavour to undertake an IPO as a priority exercise within a five-year timeframe.

The terms and the final structure of its investments reflect the operating principles that guide Danamodal's operations. These include recapitalising only institutions whose businesses are basically viable based on both commercial and public policy considerations.

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DANAMODAL'S FINAL INVESTMENT STRUCTURE

Banking Institution	Tier 1 Capital		Tier 2 Capital
	Common Shares (RM mn)	Preference Shares (RM mn)	Subordinated Loan (RM mn)
Arab-Malaysian Bank Berhad	-	600	200
Arab-Malaysian Merchant Bank Berhad	-	-	400
Arab-Malaysian Finance Berhad	-	200	300
BSN Commercial Bank (Malaysia) Berhad	-	420	-
Total	-	1,220	900

