

RAM

HOLDINGS



Workshop on Housing Finance in South Asia

Jakarta, Indonesia

Lessons from East Asian Crisis and their Applications Today: Malaysia's Experience

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Presentation Outline

1

- **Nature of 1997-98 crisis in Malaysia:** *Causes & consequences of banking & real estate distress*

2

- **Managing the crisis:** *Crisis response & structural reforms to address banking & property market distress*

3

- **Efficiency of response and outcomes:** *Improvement in underlying fundamentals*

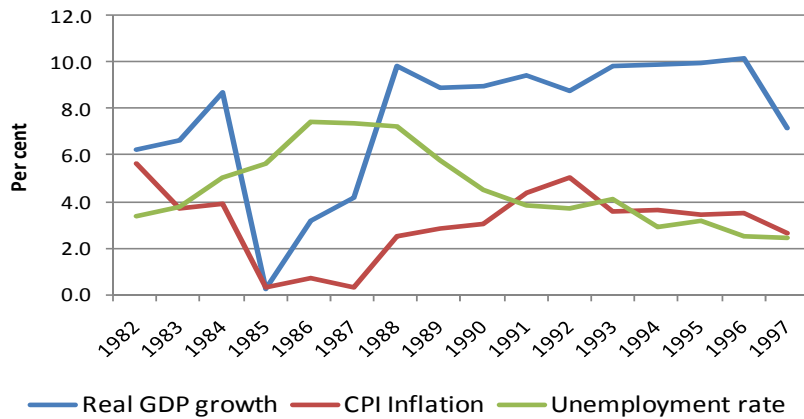
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- **Lessons and implications:** *How should countries respond to the current global crisis*

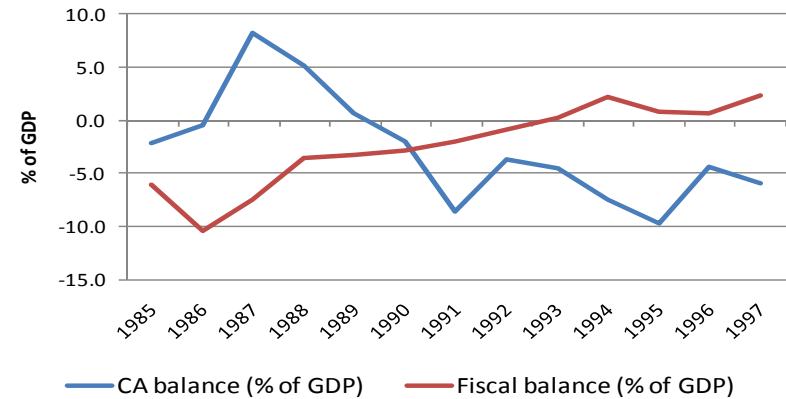
Pre-Crisis Conditions – *booming years*

Macroeconomic fundamentals were not overly out of alignment.....

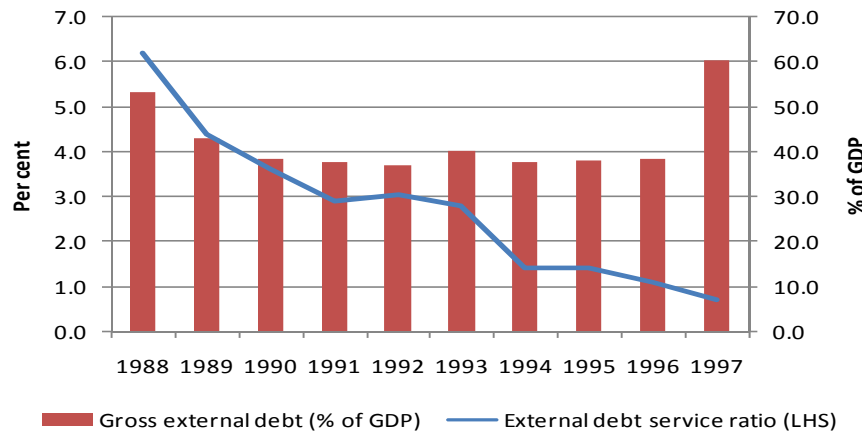
Steady, strong GDP growth with low CPI inflation and declining unemployment since the mild 1985/86 recession



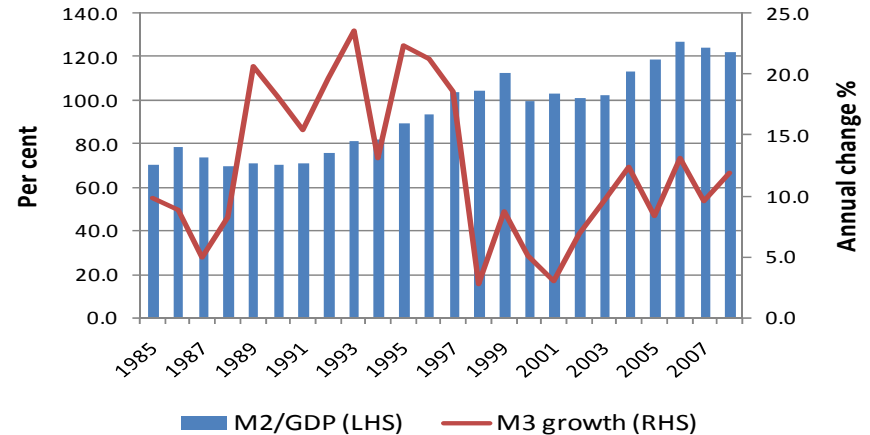
'Single' not 'twin' deficits - fiscal balance turned positive whilst current account deficit deteriorated due to strong investment



Stable level of external debt until spike in 1997, but debt service ratio trended down



Rising M2/GDP ratio shows financial deepening and money supply (M3) growth not excessive

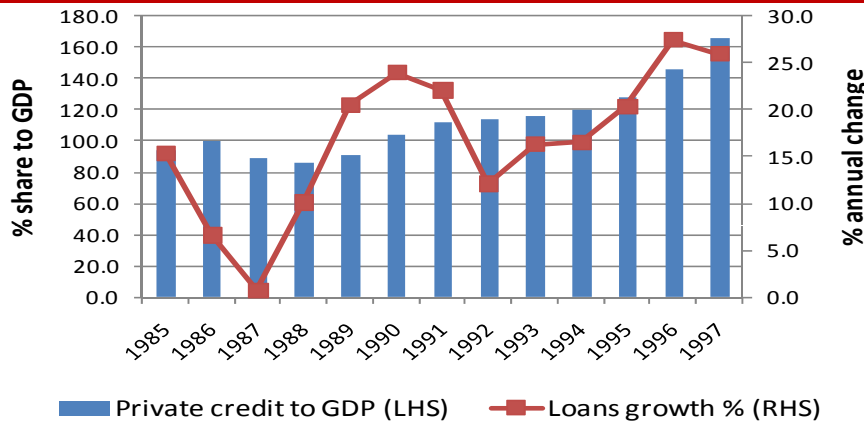


Note: Except where noted, all data are sourced from Bank Negara Malaysia's Monthly Statistical Bulletin and the Ministry of Finance's Economic Report, various years

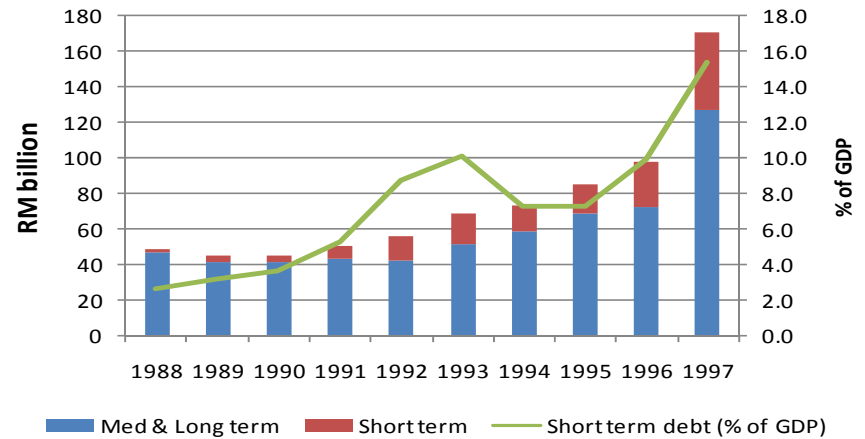
Pre-Crisis Conditions – *nearing the outbreak*

However, signs of vulnerabilities were there ...

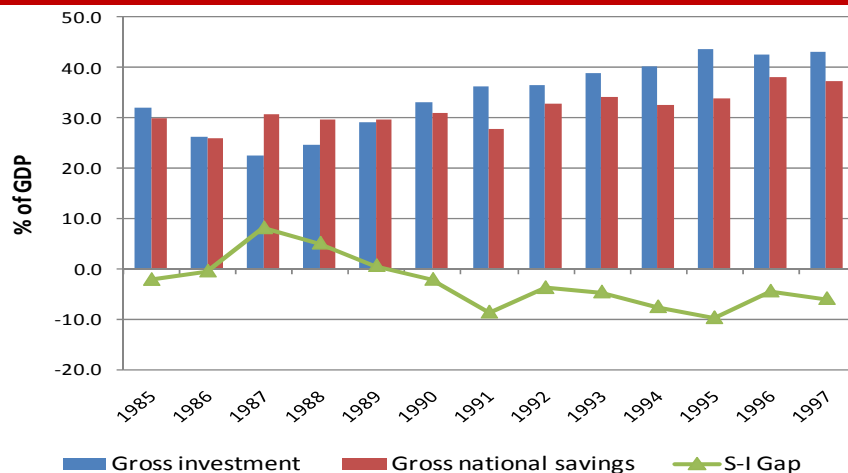
Strong loans growth exceeding 20% pa in preceding 3 years; private credit to GDP rose to 160% in 1997



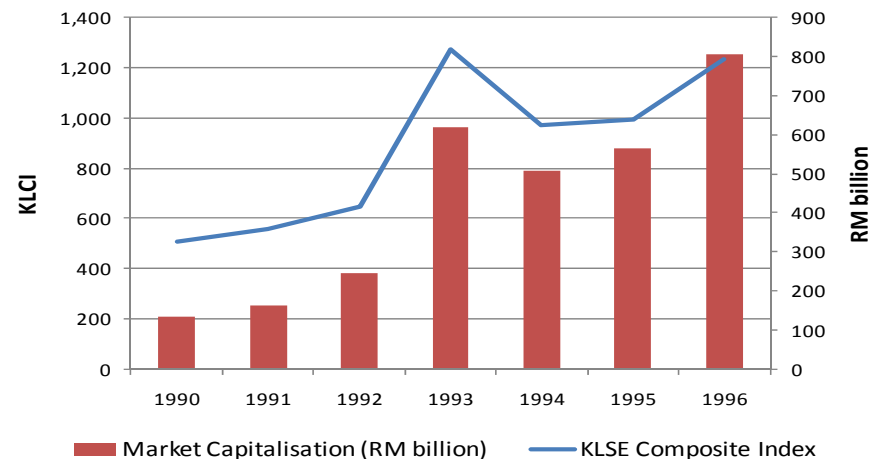
Sharp rise in short-term external debt from 10% of GDP in 1996 to 15% in 1997



High savings but investment even higher, leading to persistent current account deficits



Sharp rise in stock and real estate markets financed by bank lending

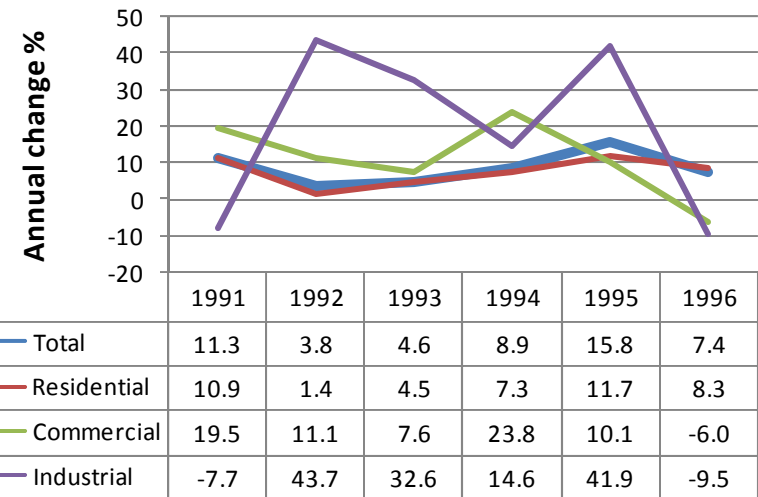
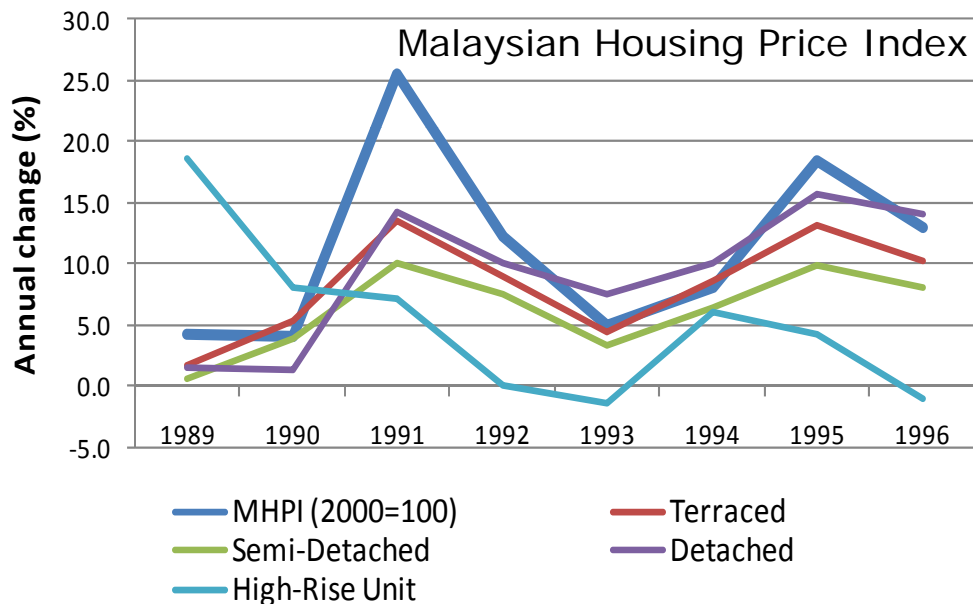


Pre-Crisis Conditions – *nearing the outbreak*

Property bubble more evident in commercial and industrial property segments and less so for residential properties...

House prices recorded double-digit increases for 3 consecutive years but cooled in 1996 prior to onset of financial crisis

Property sales, particularly commercial and industrial properties started cooling in 1996 as Central Bank started to tighten lending



Source: CEIC

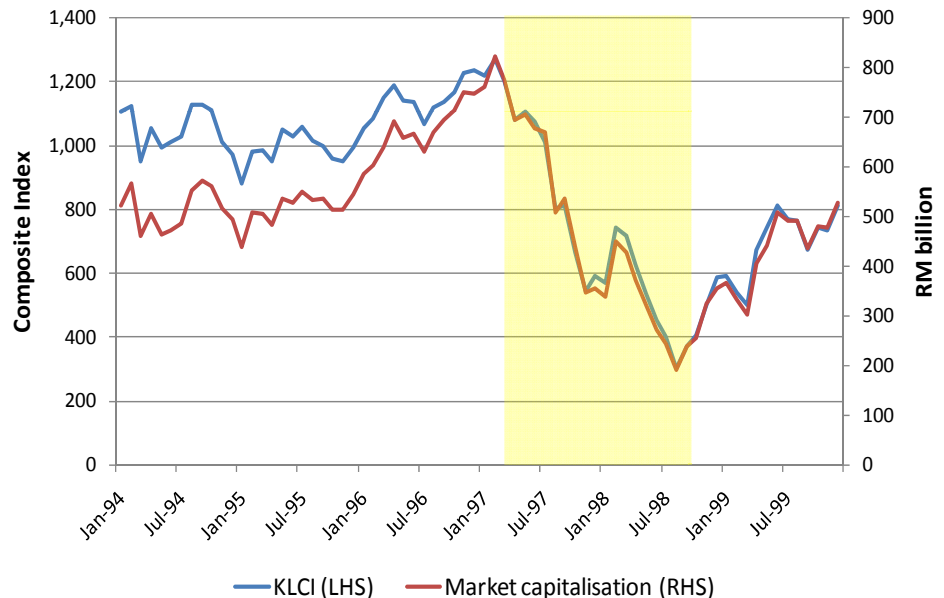
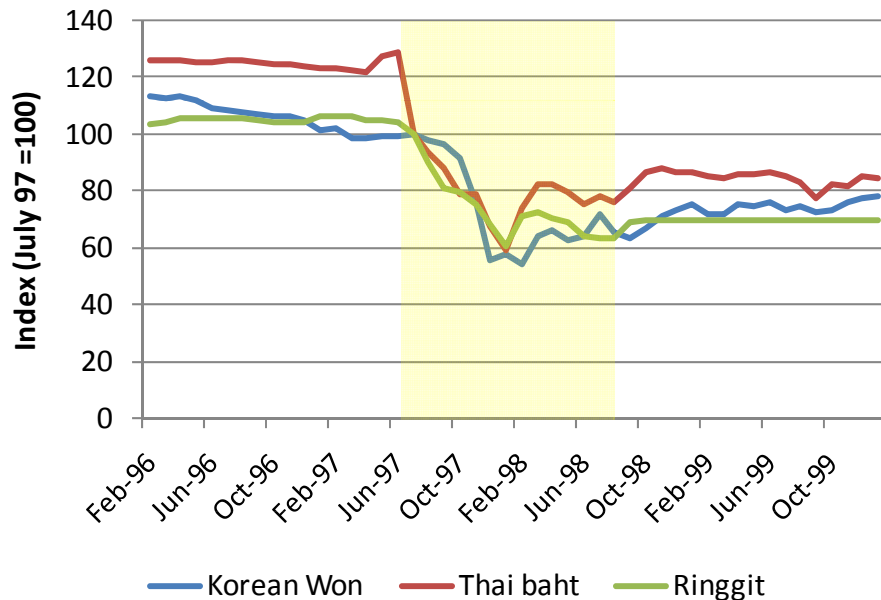
A high rate of urbanization, rural-urban and young demographics profile would add a couple of percentage points to the average 3% rate of population increase to give the rate of increase in fundamental housing demand. A higher rate of increase realized would suggest speculative demand for properties as an investment asset class.

Sources of distress... *plunge in currency*

Currency depreciation started with Thai baht on July 1 2007, and loss of confidence and contagion spread to regional currencies and stock markets, akin to financial market panic...

The value of Malaysian ringgit plunged by 65% from RM2.64/USD in Jul-97 to RM4.35/USD in Jan-98 (lowest was RM4.72 on 7 Jan-97)

Stock market (KLCI) index plunged 70%, while market capitalization lost RM478 billion or 1.7 times the 1997 nominal GDP



Sharp currency depreciation caused hiked firms' import costs and servicing of foreign currency borrowings (currency mismatch problem).

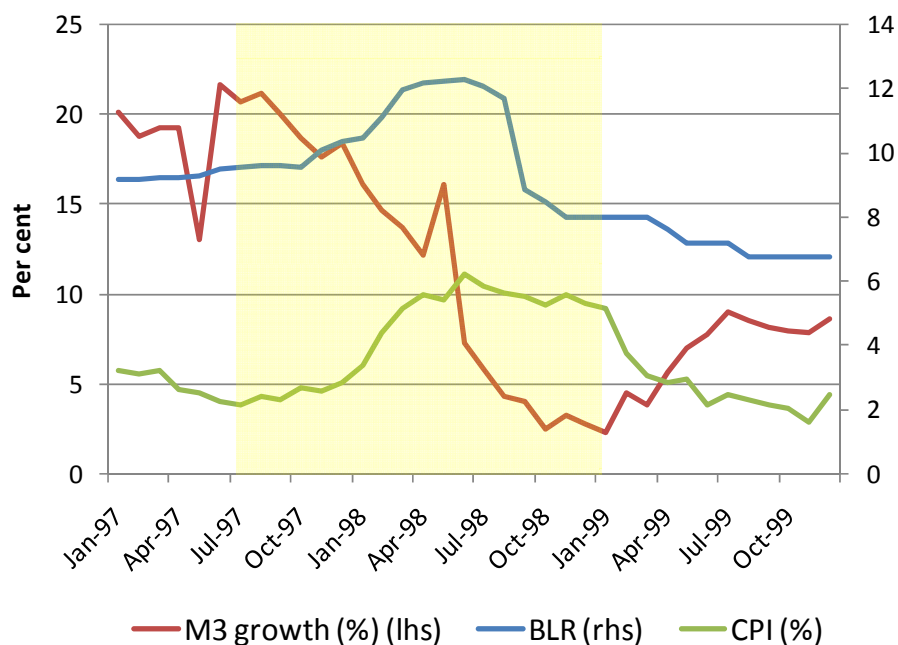
Many firms pledged their shares as collaterals for bank borrowings, and the sharp fall in equity prices triggered cash calls and topping up, further aggravating liquidity problems at the corporate sector.

Sources of distress...*capital pull-out*

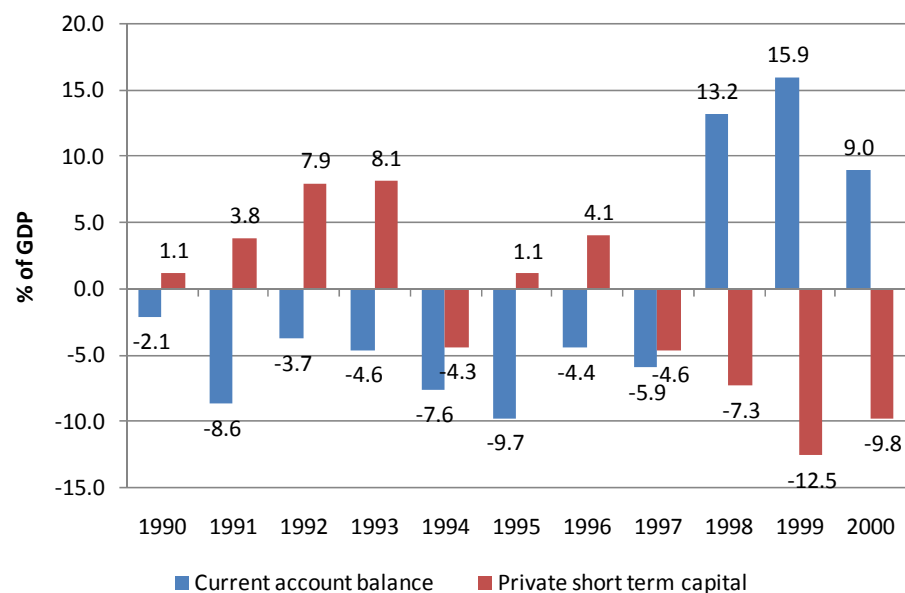
As loss of confidence widened, liquidity tightened as banks cut back lending, and bond issuance fell as corporate defaults and rating downgrades rose; foreign capital pull-out and sovereign rating downgrades exacerbated the financial market turmoil...

Liquidity tightened as bank lending and bond issuance fell, causing interest rates to rise; Central Bank unable to lower interest rate without increasing further pressure on depreciating ringgit

Foreign capital pull-out amounted to 4.6% of GDP in 1997, which together with the current account deficit of close to 6%, worsened the domestic liquidity position



As the ringgit depreciated, imported inflation caused monthly CPI to rise sharply to 6.2% in Jun-98 from 3.2% from 2.1% in Jul-97, further exerting upward pressure on interest rates.



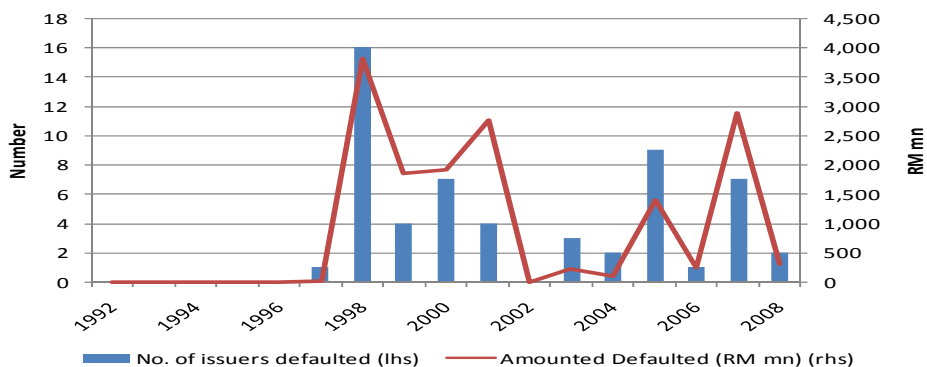
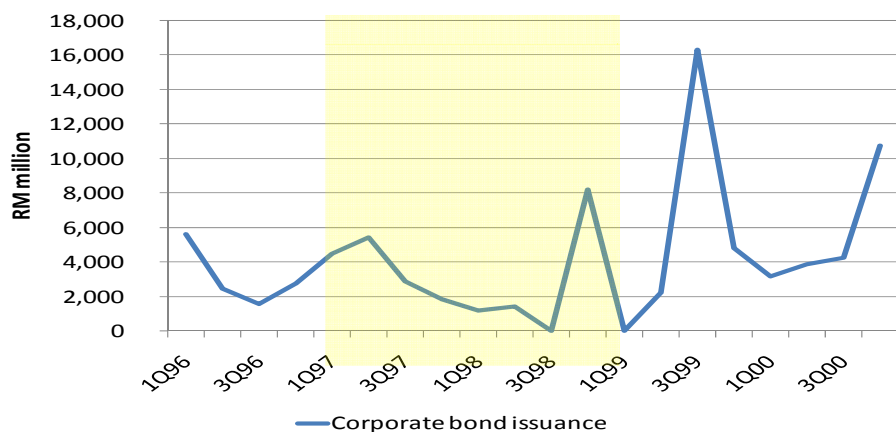
Short term capital outflow worsened throughout the crisis, even following the imposition of capital controls. The sharp ringgit depreciation and collapse in investment turned the current account into surplus that continued to this day. 7

Sources of distress...liquidity problems spread

Bond market activities declined sharply. Distress in the local bond market was partly mitigated by bank-guaranteed corporate bonds though the credit risk was transferred to the banking sector...

As financial crisis deepened and bond defaults and downgrades rose, the bond issuance market ground to a halt in 3Q98 and started to normalize only from 3Q99

RM1.6 billion of bank-guaranteed bond issues defaulted and bondholders were indemnified by the guarantors. This amounted to 3.4% of the total RM47 billion outstanding corporate bonds



PDS ISSUES INDEMNIFIED BY GUARANTORS

Issuer	Instrument	Value (RM million)
1 Kelanamas Industries Bhd	Bond+Warrants	55.0
2 Capitalcorp Securities Sdn Bhd	RUF	100.0
3 Seng Hup Corporation Bhd	NIF	25.0
4 Omega Securities Sdn Bhd	RUF	100.0
5 Arab-Malaysian Corp Bhd	RUF	210.0
6 Arab-Malaysian Corp Bhd	RUF	250.0
7 Timbermaster Industries Bhd	Bond+Warrants	75.0
8 Pembinaan YCS Bhd	Bond+Warrants	60.0
9 Tajo Bhd	Bond+Warrants	33.0
10 Jupiter Securities Sdn Bhd	RUF	50.0
11 Renong Bhd	Bonds	450.0
12 Wing Tiek Holdings Bhd	Bonds	30.0
13 Associated Kaolin Industries Bhd	Bonds	40.0
14 Pengkalen Securities Sdn Bhd	GRUF	100.0
TOTAL		1,578.0

PDS ISSUES UNDER SECTION 176*

Issuer	Instruments	Value (RM million)
1 Taiping Consolidated Bhd	Bond+Warrants	138.3
2 MGI Securities Sdn Bhd	GRUF	50.0
3 Malaysian General Investments Corporation Bhd	Bond+TSR	70.0
4 Kemayan Corporation Bhd	Bonds	180.0
5 Arab-Malaysian Corp. Builders Sdn Bhd	RUF	70.0
6 Inter Heritage (M) Sdn Bhd	RUF	218.0
7 Invescor Ventures Sdn Bhd	RUF	20.0
8 Time Reach Sdn Bhd	RNIF	200.0
9 May Plastics Industries Bhd	Bonds	40.0
10 Expressway Lingkar Tengah Sdn Bhd	Bonds	400.0
11 Expressway Lingkar Tengah Sdn Bhd	FRN	440.0
TOTAL		1,826.3

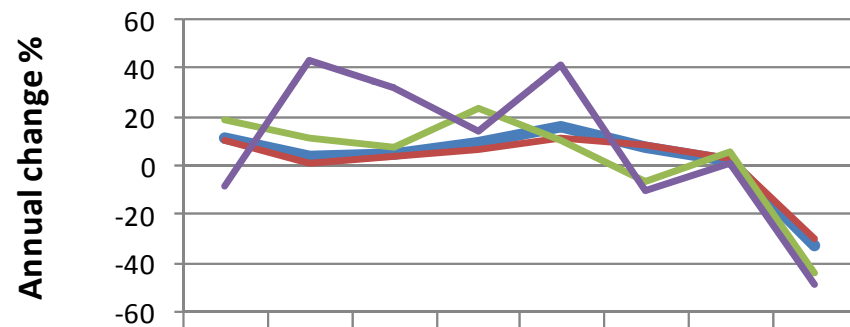
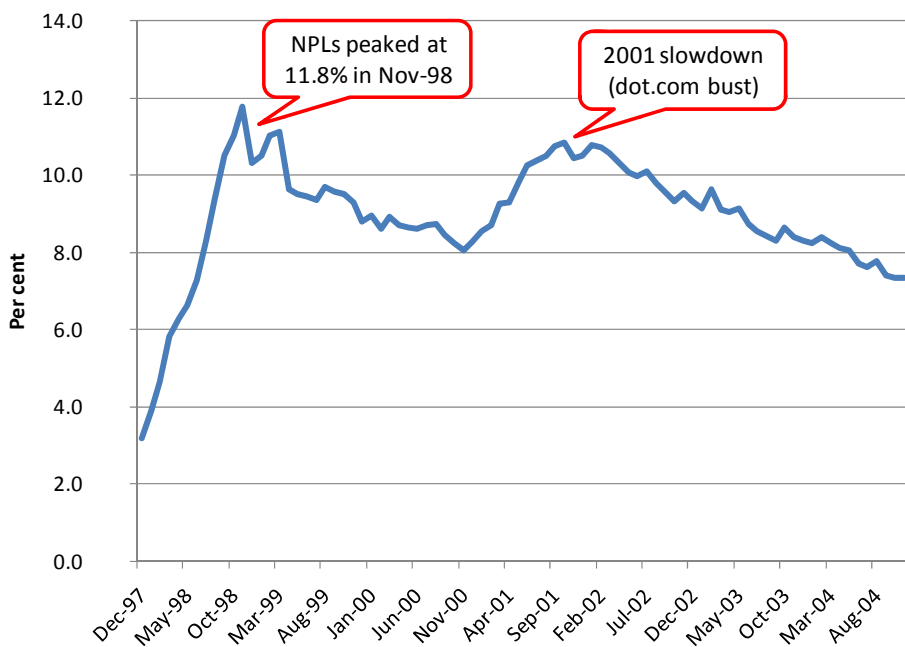
*Coupon/interest default & Section 176

Impact on banks and housing market

Rise in NPLs and tightening of NPL classification, together with Central Bank's warning that undercapitalized banks would be forced to merge with stronger banks, prompted bankers to cut lending and credit lines...

Banks' non-performing loans climbed from 3% pre-crisis to a peak of 11.8% in Nov-98

Total sales value of properties plunged by 47.6% or RM25 billion in 1998 from the previous year...



	1991	1992	1993	1994	1995	1996	1997	1998
— Total	11.3	3.8	4.6	8.9	15.8	7.4	1.6	-32.3
— Residential	10.9	1.4	4.5	7.3	11.7	8.3	3.3	-30.0
— Commercial	19.5	11.1	7.6	23.8	10.1	-6.0	5.6	-44.1
— Industrial	-7.7	43.7	32.6	14.6	41.9	-9.5	1.1	-48.1

The broad property sector, which includes real estate and construction, accounted for nearly 35% of credit in the banking system. NPLs in this sector rose from 6% in Dec-97 to 16% in Aug-98 and nearly 30% in Dec-98.

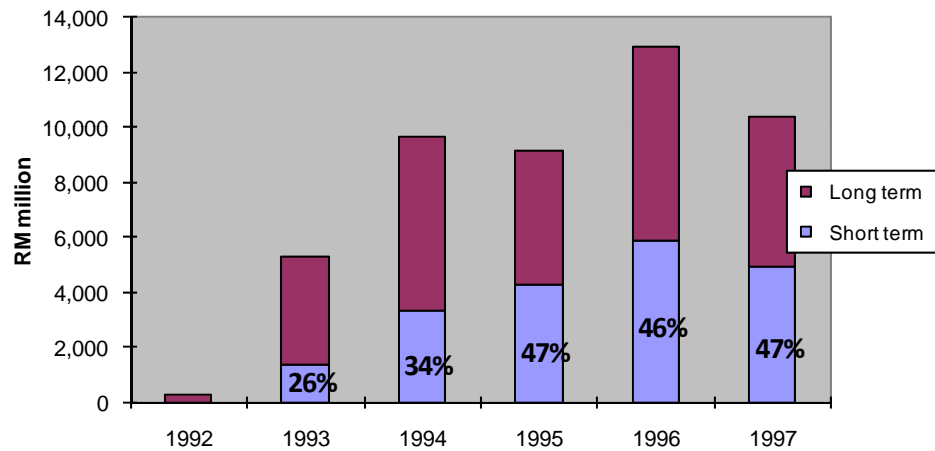
Sharp fall in property demand and plunging sales caused further distress to property firms, resulting in a rise in corporate bankruptcies and a rise in NPLs.

Impact on bond market

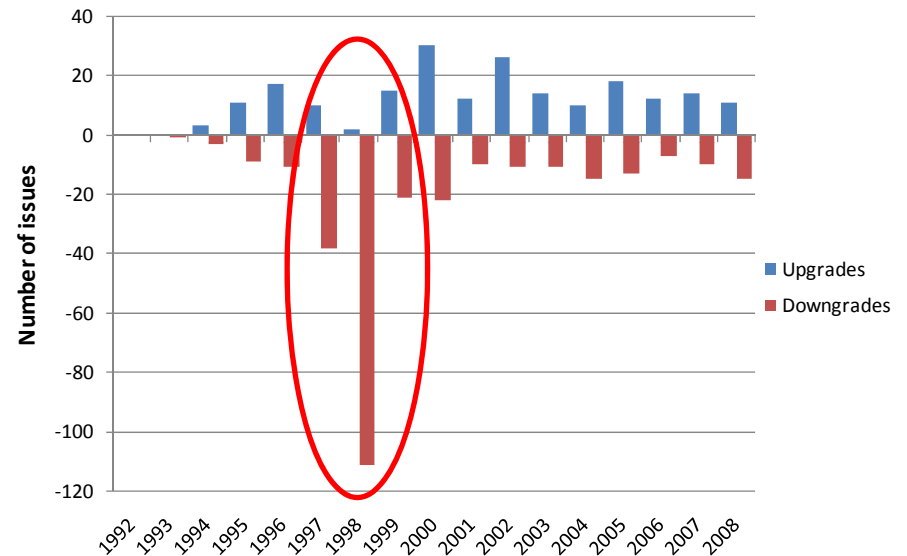
Issuers of short term debt securities faced roll-over risk as well as higher cost of funds as interest rate and credit risk premium rose...

There was a rise in issuance of short term debt securities in the domestic bond market prior to the crisis

Over 100 issues were downgraded by RAM in 1998 as the severity of the downturn became evident and companies faced cash flow problems



Source: RAM Rating Services



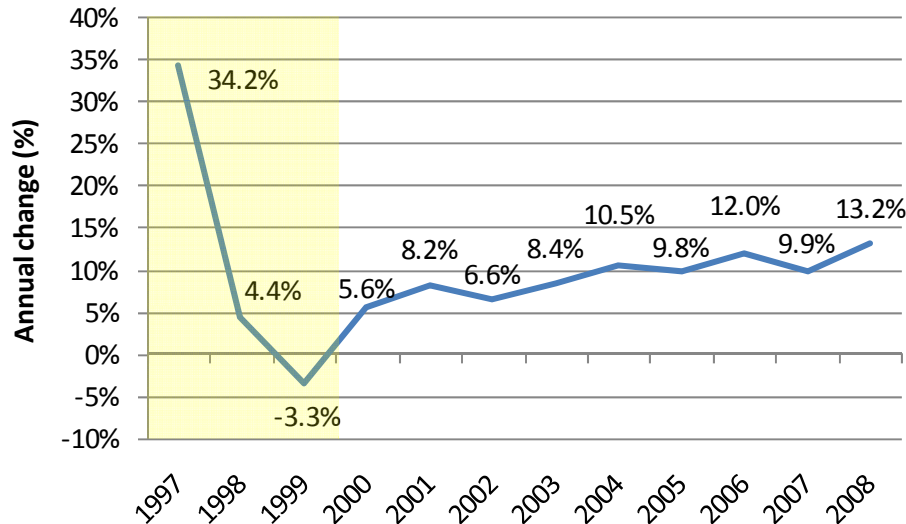
Maturity mismatch was another stress caused by the rise in short term interest rates. This mismatch was particularly problematic for those financing long gestation projects with short term funds.

Rating downgrades added to the market pressure, but had minimal impact on 'hold-to-maturity' investors except for decline in value of investment holding.

Impact on mortgage financing

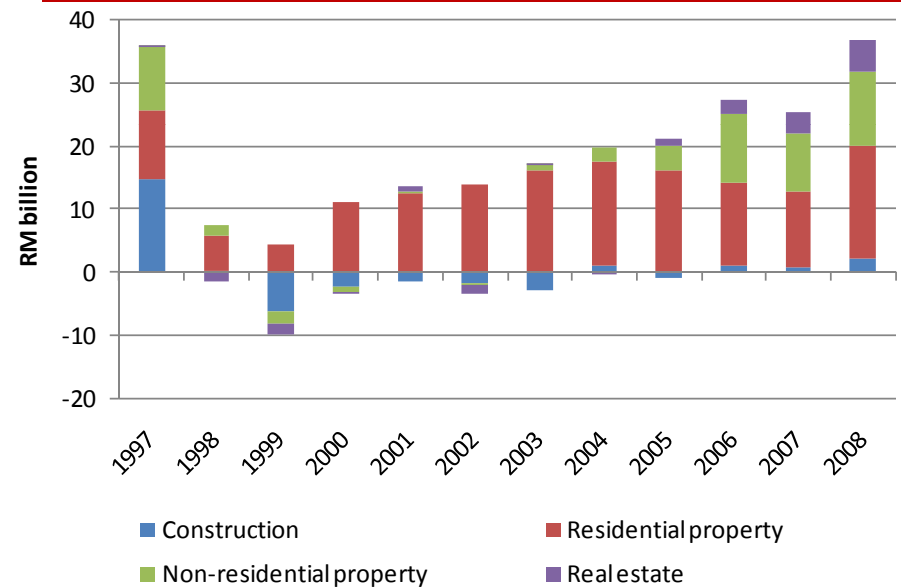
After rising by 26.6% in 1997, total banking system loans contracted by 1.7% in 1998 and 5.3% in 1999 as banks cut back lending and focused on recapitalization, NPLs workout and internal restructuring...

Loans to the broad property sector fell by 3.3% in 1998 but rose 5.6% in 1999 although total banking system loans fell that year.



Loans for construction contracted annually over the next 5 years (1999-2003) as distressed property firms were liquidated or restructured while the over-supply (property as well as infrastructure) situation was redressed.

There was a sharp decline in lending to the broad property sector in 1998 and 1999



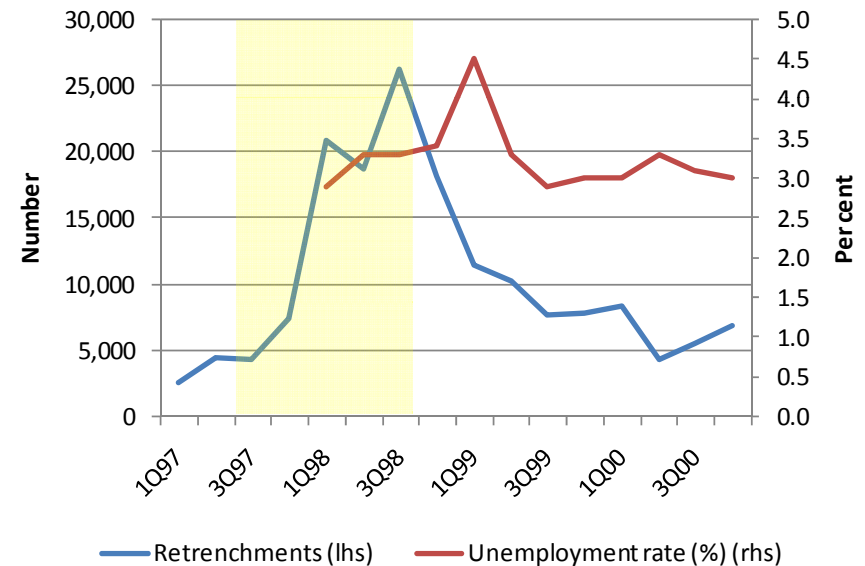
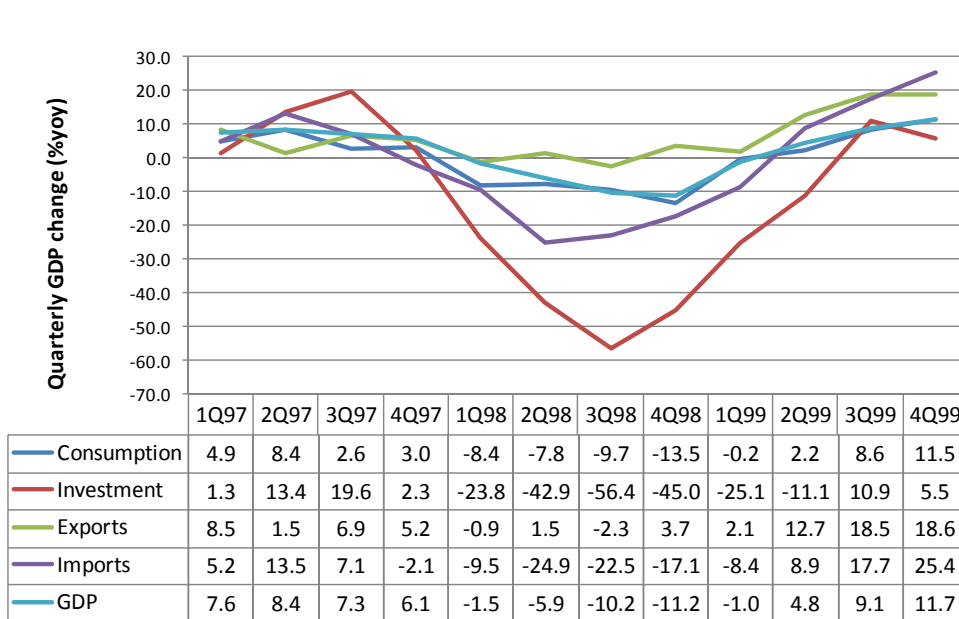
Banks continued to originate residential mortgage loans during the crisis although at a much reduced volume, a testimony to the relatively low risk of this segment. Lending to construction and real estate only recovered in 2005 onwards.

Impact on other sectors of the economy

Economy started to contract in 1Q98 and lasted 5 quarters as consumption and investment fell sharply...

Two quarters after the crisis outbreak in Jul-97, the real economy started contracting in 1Q98 and affected most sectors

Retrenchments rose sharply but overall unemployment rate peaked at 4.5% in 1Q99



The collapse in consumption and investment further aggravated distress at the firm and individual level, leading to a downward spiral that hit bottom in 4Q98.

Unemployment situation was not very serious partly because of large unskilled foreign immigrant labor; consequently, residential mortgage NPLs did not rise sharply

Real-financial sector linkages

Analysis of distressed and financially sound companies' exposure to property sector during 1997/98 financial crisis showed that exposure to property was one of the primary causes of financial distress...

Core Industry	Distressed Companies			Financially Sound Companies		
	No. Companies	Exposed to Property	% Exposed to Property	No. Companies	Exposed to Property	% Exposed to Property
Industrial	9	5	55.6%	10	0	0.0%
Infrastructure	2	1	50.0%	7	0	0.0%
Property	9	9	100.0%	4	4	100.0%
Mining	0	0	na	4	0	0.0%
Plantation	0	0	na	3	0	0.0%
Construction	6	6	100.0%	2	2	100.0%
Others*	5	1	20.0%	10	6	60.0%
Total	31	22	71.0%	40	12	30.0%
Non-Property Companies	22	13	59.1%	36	8	22.2%

Source: RAM's database

Distressed companies show a higher percentage of exposure to the property sector than financially sound companies

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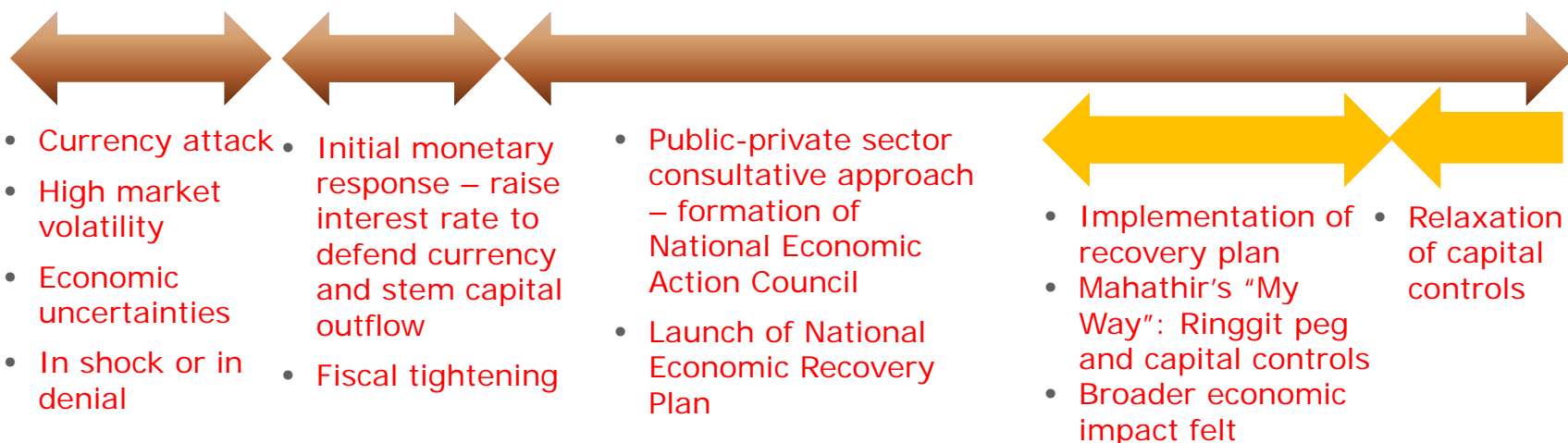
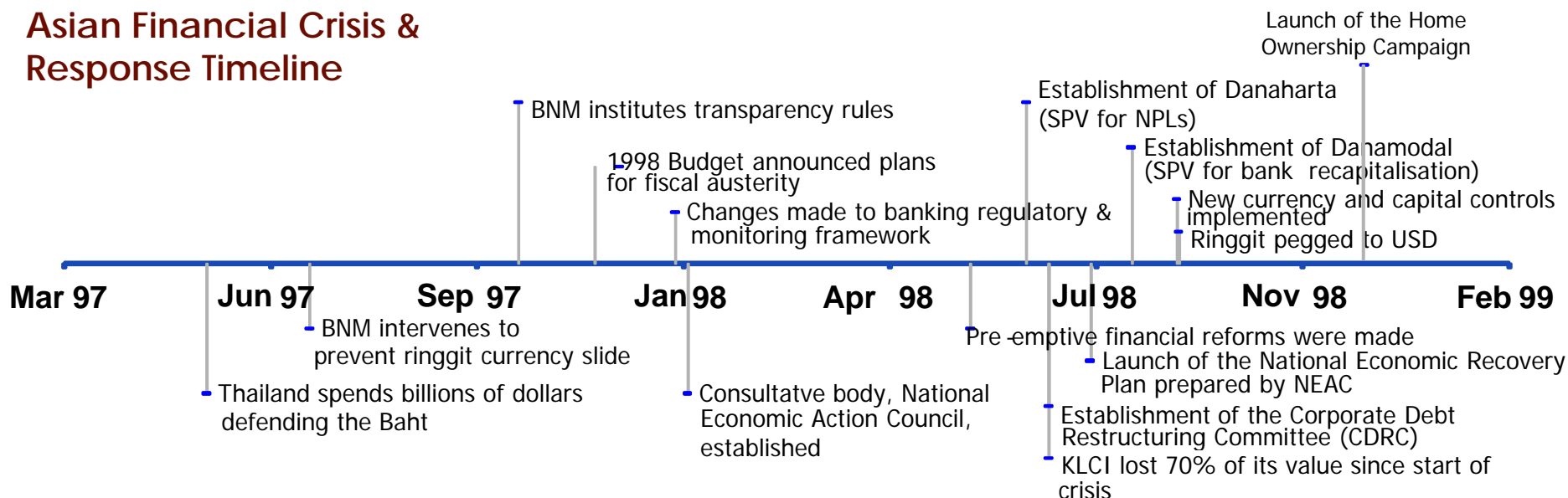
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- **Lessons and implications**: *How should countries respond to the current global crisis*

Crisis Response

Key events & responses during the Asian Financial Crisis

Asian Financial Crisis & Response Timeline



Crisis Response – *Outbreak stage*

Currency market intervention

8th July 1997

- Malaysia's Central Bank (Bank Negara Malaysia) intervenes to prevent the devaluation of the Malaysian Ringgit.

14th July 1997

- After spending USD1.5b, the Ringgit was allowed to float.

Crisis Response – *Early stage*

Preventing bank runs and building confidence in the banking sector and the economy

17th October 1997

Disclosure requirements for banking institutions

- Disclose amount of non-performing loans and ratio of non-performing loans to total loans.
- Disclose sectoral concentrations of credit exposure according to industry or economic sector.
- Disclose movements in specific and general provisions for bad and doubtful debts and movements in interest-in-suspense.
- Highlight the banking institution's business plan and strategy during the financial year.
- A statement on whether the banking institution had been rated and disclose the rating, the rating agency and when the rating was made.
- Disclose the components of Tier-1 and Tier-2 capital and the amount of risk-weighted assets in the various categories of risk-weights.

1998 Budget Announcement

- Reduction of Federal Government expenditure by 2%, deferment of mega projects.
- Reclassification of non-performing loans in arrears from 6 to 3 months. Increased general provision of loans to 1.5%.
- Introduction of Credit Plan to limit credit growth to 25% by end of 1997 and 15% by end-1998.

Crisis Response – Mid stage

5th December 1997

Government announced additional package of policies (response to a large current account deficit and high private sector debt -169% of GDP)

- Reduce the current account deficit to 3% of GNP in 1998.
- Trim Federal Government expenditure by 18% in 1998.
- Stricter criteria for approvals of new reverse investment and defer the implementation of non-strategic and non-essential projects.
- More emphasis placed on good corporate governance.
- Enhanced disclosure of information of corporations and closer scrutiny for corporate restructuring.

1st January 1998

Changes made to the regulatory, supervisory and monitoring framework are put into effect

- Loan reclassification.
- Increased in provisions for bad and doubtful debts.

7th January 1998

Establishment of the National Economic Action Council (NEAC)

- Act as a consultative body to the Cabinet to deal with the nation's economic problems.
- Recommend to the Government on how to restore the economy and prevent it from going into recession.

Crisis Response – *Mid stage* (cont'd)

24th – 25th March 1998

Restructuring of the banking sector (response to banks' weak capital adequacy positions)

- More intensive and rigorous supervision, including stress testing.
- Required to submit plan to raise additional capital within a specified period if unable to comply with the minimum capital adequacy ratio of 8%
- Required to report and publish key indicators of financial soundness, including capital adequacy and non-performing loans every financial quarter.
- Implementation of 20% provisions against uncollateralised portion of sub-standard loans
- Required to comply with the consolidated minimum risk-weighted capital ratio (RWCR) of 8% on a quarterly basis.
- Capital adequacy framework expanded to incorporate market risks.
- Minimum capital funds for finance companies raised from RM5 million to RM300 by end-June 1999.
- Limit on single customer exposure reduced from 30% to 25% of total capital funds.

20th June 1998

Incorporation of Danaharta as a national Asset Management Corporation (AMC)

- Acquire banks' nonperforming loans (NPLs) to ensure solvency in the financial system.
- Maximize the recovery of NPLs in its portfolio.

Crisis Response – *Mid to Late stage*

1st July 1998

Establishment of the Corporate Debt Restructuring Committee (CDRC)

- Provide a platform for creditors and borrowers to resolve outstanding debts.

21st July 1998

Launch of the National Economic Recovery Plan (NERP) by NEAC with the aim to

- Stabilize the Ringgit
- Restore market confidence
- Maintain financial stability
- Strengthen economic fundamentals
- Continue the equity and socio-economic agenda
- Revitalize adversely affected sectors

10th August 1998

Establishment of Danamodal

- Government corporation charged with recapitalizing ailing banks.

1st September 1998

New currency and capital controls implemented to regain monetary independence and insulate economy from further deterioration in financial environment

- Travelers not allowed to import or export more than RM1000 per person.
- Export of foreign currencies by resident travelers limited to a maximum of RM10000 equivalent.
- The Malaysian Ringgit is only tradable in Malaysia; all settlements of exports and imports must be made in foreign currency.
- Investors required to keep money in shares for more than 1 year.

2nd September 1998

- Malaysian Ringgit is pegged to the US dollar at 3.80.

National Action Recovery Plan

Recovery plan had 6 objectives, 40 lines of action and over 580 detailed recommendations

Objective 1: Stabilizing the Ringgit

- Appropriate choice of exchange rate regime
- Reduce over-dependence on the US dollar
- Increase external reserves
- Adopt a balanced interest rate policy

Objective 2: Restoring Market Confidence

- Improve transparency and regulatory environment
- Establish rules for assisting industries and companies in trouble
- Increase consistency of policies adopt liberal and market-based policies
- Improve public relations
- Improve the dissemination of economic information

Objective 3: Maintaining Financial Market Stability

- Preserve the integrity of the banking system
- Establish agencies along the lines of FDIC/RTC
- Recapitalize the banking sector
- Monitor closely overall credit expansion
- Improve the capital market
- Develop the PDS market

Objective 4: Strengthening Economic Fundamentals

- Increase the quality of investments
- Improve the balance of payments
- Maintain an appropriate monetary policy
- Maintain price stability
- Increase labor competitiveness

Objective 5: Continuing the Equity and Socio-Economic Agenda

- Ameliorate the hardship from poverty
- Address the issues on *bumiputera* equity ownership
- Expand employment opportunities
- Meet the challenge of expanding tertiary education
- Address the problem of graduate unemployment
- Control the influx of foreign workers
- Gear up state corporations to face the crisis
- Revamp cooperatives and cooperative banks
- Protect the environment for sustainable development

Objective 6: Revitalizing Affected Sectors

- Primary commodities and resource-based industries
- Mining and petroleum
- Manufacturing
- Information technology and the multimedia super corridor
- Motor industry
- Construction
- Property
- Infrastructure
- Transportation
- Freight forwarding
- Tourism
- Industrial development finance institutions
- Insurance and reinsurance

Summary of Crisis Response

I. Ensuring confidence in banks and financial markets

- **Disclosure requirements for banking institutions** tightened and banks are required to publish in greater detail half-yearly financial statements, information on capital adequacy, NPLs, movements in specific provision, general provision and interest-in-suspense, sectoral credit exposure by economic sectors, off-balance sheet items and on-balance sheet credit risk equivalents.
- **New guidelines on classification of NPLs** which was lengthened from 3 months to 6 months, and clearer treatment of rescheduled and restructured credit facilities.
- **Merger programme** to rationalize finance companies and consolidate domestic banking institutions (total of 22 finance companies absorbed/merged in 1998 and 1999).
- **Danaharta**, the asset management company, carved out about RM15 billion or 20% of the banks' non-performing loans and purchased and managed another RM6.6 billion of troubled assets.
- **Danamodal**, the special purpose vehicle, injected RM6.5 billion capital in the form of Exchangeable Subordinated Capital Loans, into 10 banking institutions, raising the overall risk-weighted capital ratio of the banking system from 11.2% as at end-June 1998 to 11.9% as at end-January 1999.
- **Corporate Debt Restructuring Committee (CDRC)** processed 48 applications involving debts totaling RM22.7 billion.

Summary of Crisis Response

II. Property sector and corporate restructuring

- 20% limit on lending to broad property sector imposed on banks.
- 60% limit on margin of loan financing for purchase of non-owner occupied properties.
- To curb new developments and reduce excess supply, restrictions were imposed on provision of bridging finance to developers for development of properties exceeding RM250,000.
- Prohibition includes construction of residential properties, shop houses, hotels, resorts, office buildings, golf courses, clubs and shopping complexes.
- Financing to end-buyers for purchase of properties in both primary and secondary markets not affected by prohibition.
- Addressed asset-liability mismatches through debt-equity conversion and issuance of long term bonds to replace short term bank borrowings.

Summary of Crisis Response

III. Ensuring liquidity and access to financing

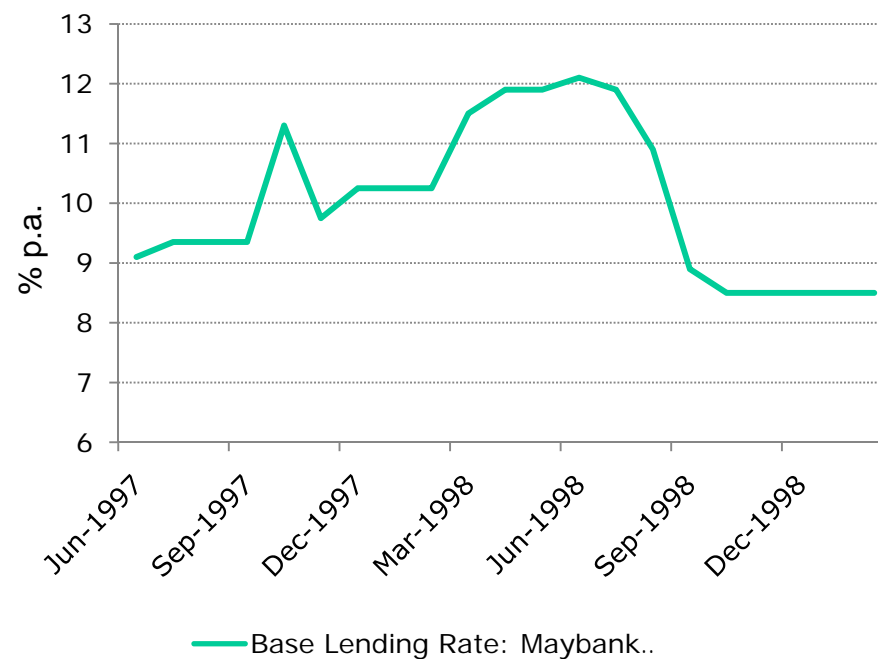
Besides recapitalization of banks and carving-out of NPLs, banks' statutory reserve requirements and base lending rate were lowered to ease financing conditions; injection of liquidity through money market operations, new liquidity framework implemented, placement of deposits.

Statutory reserve requirement lowered aggressively from 10% in Feb-98 to 4.0% in Sep-98...

Interest rates lowered aggressively following ringgit peg at 3.50 to USD on 1-Sep 98...

Changes in the SRR of commercial banks	
Dates	%
16-Jan-1990	6.5
16-Aug-1991	7.5
2-May-1992	8.5
3-Jan-1994	9.5
16-May-1994	10.5
1-Jul-1994	11.5
1-Feb-1996	12.5
1-Jun-1996	13.5
16-Feb-1998	10.0
1-Jul-1998	8.0
1-Sep-1998	6.0
16-Sep-1998	4.0
24-Nov-2008	3.5
1-Feb-2009	2.0
1-Mar-2009	1.0

Base Lending Rate (commercial banks)



Summary of Crisis Response (cont'd)

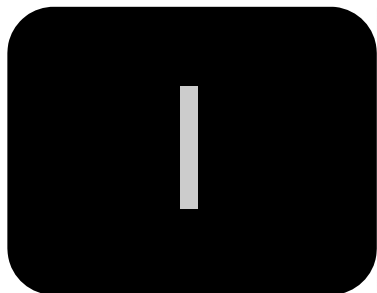
IV. Halting capital flight

- Exchange rate pegged at RM3.80 to the US Dollar on Sep 1, 1998.
- Exchange controls on the Ringgit making it only tradable within Malaysia.
- This also included caps on the export of foreign currencies by resident travelers, up to a maximum of RM 10,000 per month.
- Reduction of speculative activity through imposition of graduated exit levy tax on shares kept less than a year.

V. Revitalizing the construction and property market

- New funds established by government for end-financing and bridging finance established to support construction of low and medium cost houses where underlying demand was strong.
- RM100,000 levy on foreign purchases removed, and real property gains tax reduced; foreigners allowed to borrow up to 50% of the purchase price of homes; not allowed previously.
- Foreigners working in Malaysia can borrow up to 95% of the purchase price of homes, previously 60%; allowed to purchase all types of properties costing above RM250,000 per unit.
- Home Ownership Campaign supported by financing incentives (exemption of stamp duties and lower financing costs) to help clear excess stock of residential properties.

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- **Lessons and implications**: *How should countries respond to the current global crisis*

Resolution of corporate financial distress

Financial distress, largely liquidity problems, faced by the corporate sector, were alleviated through the 3 bodies established by the government...

COMMITTEE FOR RESTRUCTURING OF LARGE CORPORATE DEBTS: CDRC resolved debts of 37 companies amounting to RM28.5bn out of 75 applications with total debts of RM47.4bn.

Quarter	Applications received (Accumulative)	Total Debts (RM mil) (Accumulative)	Withdrawn/ Rejected Cases (Accumulative)		Transferred to Danaharta (Accumulative)		Completed Cases (Accumulative)		Resolved with assistant of Danaharta (Accumulative)		Cases Outstanding (Accumulative)	
			No	Amount (RM mil)	No	Amount (RM mil)	No	Amount (RM mil)	No	Amount (RM mil)	No	Amount (RM mil)
3Q/1998	20	5,350.20									20	5,350.20
4Q/1998	36	11,028.15					2	344.50			34	10,683.65
1Q/1999	52	26,018.52	4	849.85			4	1,153.30			44	24,015.37
2Q/1999	62	33,039.64	8	2,053.05			10	10,249.40	2	954.30	42	19,782.37
3Q/1999	63	35,024.65	14	3,259.35			11	11,234.89	2	954.30	36	19,576.11
4Q/1999	66	35,652.77	15	3,504.35	8	2,764.70	13	11,778.29	2	954.30	28	16,651.13
1Q/2000	68	36,519.20	13	2,760.45	10	3,298.44	17	13,106.84	2	954.30	26	16,399.17
2Q/2000	71	39,643.01	16	3,822.63	9	1,813.54	23	17,392.49	2	954.30	21	15,660.05
3Q/2000	75	45,938.82	18	4,072.57	9	1,813.54	28	23,085.17	2	954.30	18	16,013.24
4Q/2000	75	47,209.75	21	7,825.89	9	1,813.54	31	25,476.82	2	954.30	12	11,130.10
1Q/2001	75	47,209.75	21	7,825.89	9	1,813.54	33	25,816.82	2	954.30	10	10,799.20
2Q/2001	75	47,378.75	21	7,825.89	9	1,813.54	33	27,576.92	2	954.30	8	9,208.10

The majority of the 37 CDRC-restructured companies are main board listed companies and investment holding companies. Excluding 21 withdrawn/rejected cases due to lack of viability and 9 cases transferred to Danaharta, the outstanding cases is 8, accounting for 10.7 % of the total number. The outstanding value of unresolved debts amounted to RM9.2 billion, representing 19.4% of the value of application.

ASSET MANAGEMENT COMPANY: Over its seven and a half year lifespan, Danaharta dealt with 2,902 NPL accounts, 2,563 borrowers, and from an NPL portfolio of over RM50bn - recovered over RM30 bn.

RECAPITALIZATION VEHICLE: Danamodel, the SPV set up to recapitalize the banking system, injected a total of RM6 billion, much lower than RM15 bn estimated earlier.

as at 25 October 1999
Outstanding Amount (RM million)

Institution	ESCL	Tier-1		Tier-2	Total
		Common Shares	INCPS	Sub Term Loan	
RHB Bank Bhd	-	-	1,000	-	1,000
Arab-Malaysian Bank Bhd	-	-	600	200	800
BSN Commercial Bank (M) Bhd	-	-	420	-	420
MBf Finance Bhd	-	362	1,238	-	1,600
Oriental Bank Bhd	-	250	300	150	700
Perdana Merchant Bank Bhd	50	-	-	-	50
TOTAL*	50	612	3,558	350	4,570

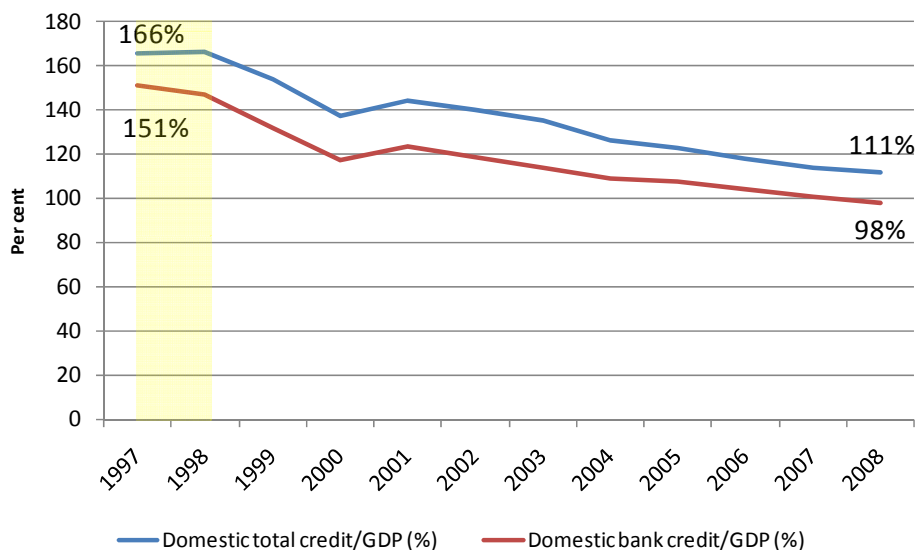
Recovery method	Adjusted Loan Rights Acquired (RM bn)		Recovery (RM bn)		Recovery rate (%)	
	Acquired NPLs	Managed NPLs	Acquired NPLs	Managed NPLs	Acquired NPLs	Managed NPLs
Plain Loan Restructuring	1.07	3.77	0.86	3.58	80%	95%
Settlement	3.55	8.55	3.11	6.41	88%	75%
Schemes of Arrangement	3.14	6.82	1.84	4.32	59%	63%
Appointment of Special Adminsitrators	1.66	2.59	0.84	0.58	51%	22%
Foreclosure	9.12	3.69	2.62	1.65	29%	45%
Others	3.81	3.29	1.74	2.6	46%	79%
Legal Action	0.28	1.08	0.06	0.14	20%	13%
Total	22.63	29.79	11.07	19.28	49%	65%
Overall	52.42		30.35		58%	

Its final lifetime Loan Recovery Rate of 58% surpassed the typical 20 - 50% range experienced by similar agencies internationally.

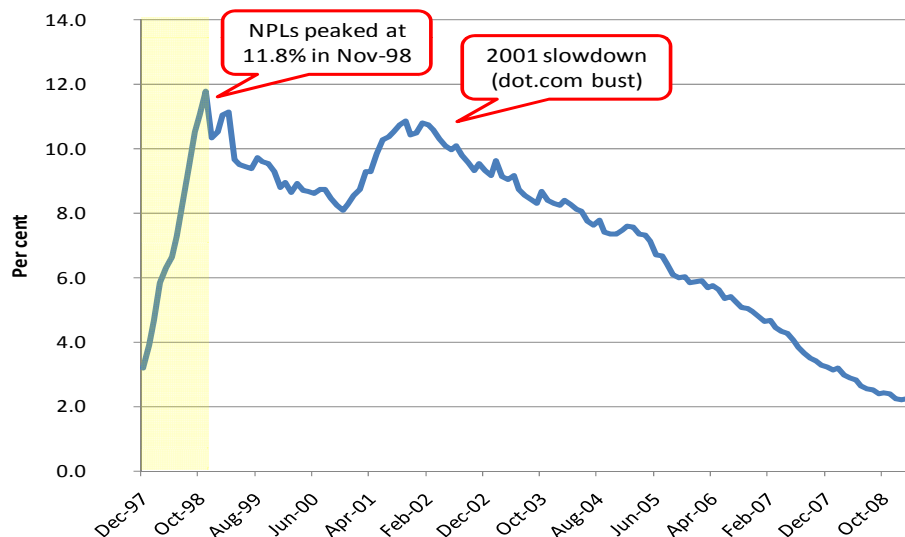
Maintaining banking liquidity and soundness

Bank recapitalization by Danamodal and NPLs carve-out by Danaharta enabled confidence in the banking sector to be restored gradually; continuing banking system consolidation and reforms charted in 10-year Financial Sector Master Plan 2001...

Deleveraging continues as shown by steady decline in the ratios of total private sector credit and banking credit to GDP.



Banking system's net NPL ratio (3-mth) has reduced steadily and now stood at 2.2% as at Mar-09

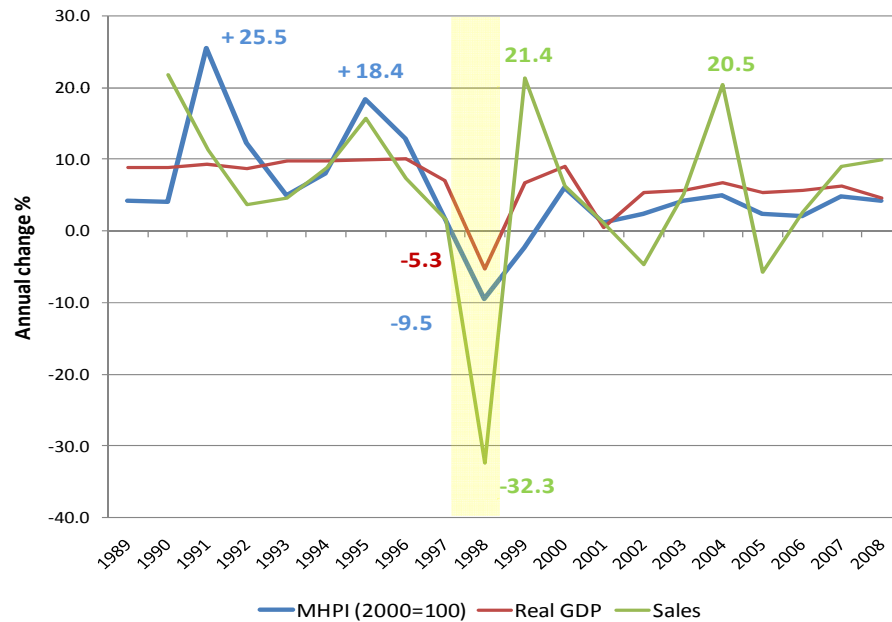


A 10-year Financial Sector Masterplan was launched in March 2001 to guide the development of a more resilient, competitive and dynamic financial system. Phase I and Phase II's objectives to develop a core set of strong domestic banking institutions and build greater capacity and capability to compete have been achieved and under the present third phase, new foreign competition is being pursued.

Stabilizing property market cycles

Establishment of National Property Information Center (NAPIC) in Sep-1999 as recommended by the National Action Economic Council is aimed providing more accurate information on the property sector

Property market though still volatile in terms of annual sales volume (units sold) has not been accompanied by widely fluctuating prices ...



Source: BNM, NAPIC and CEIC

Property cycle after the Asian financial crisis is characterized by 2-3 years peaks and troughs in demand, reflecting new launches, liberalization of foreign ownership and incentives provided by the government. Volatile sales is a market risk to developers.

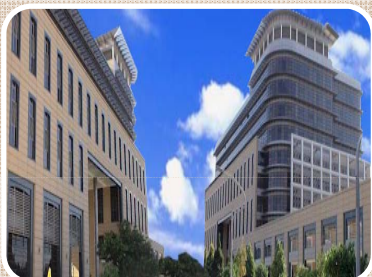
Better quality information on supply-side following establishment of National Property Information Center in Sep-99...



New monitoring statistics include:

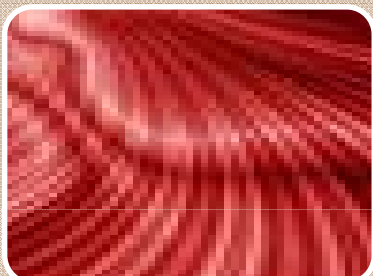
- Loans by commercial banks and finance companies made to the property sector
- Quarterly data of housing indicators by sector, price range and state
- Stock of built property
- Quarterly movement of property-related transactions
- Occupancy rates of shopping complex and hotels

Institutional building in the property sector



Establishment of National Property Information Centre (NAPIC)

- Established on 9 September 1999 as recommended by the NEAC
- The main objective of NAPIC is to provide accurate, timely and comprehensive information regarding the demand and supply of property. In effect, increase the property market monitoring capabilities of JPPH
- Enhance the relevancy of the Annual Property Market Report prepared by JPPH



Establishment of National Housing Company (incorporated in 1997)

- Incorporated on 21st August 1997 in line with the National Housing Policy (provide housing for all)
- A wholly-owned subsidiary of the Ministry of Finance (MoF)
- Aimed towards low-income workers (e.g.: fishermen, farmers) and low-level government servants



Establishment of National Home Buyers' Association (HBA)

- Non-profit organization to protect homebuyers, established on 16 October 1999.
- Provides relevant housing laws, data (such as abandoned housing projects) and information to the media and the public
- Provides a definitive guide for homebuyers on purchasing property

Sustaining mortgage financing – *banking system*

Strong sustained bank lending to **residential property** purchases even during downturn periods while lending to non-residential property and real estate showed double-digit growth over the past 3 years.

Lending to property sector, especially for residential properties, continued to show strong increases annually ...

Bank financing of the broad property sector grew from 33.6% of total loans in 1998 to 41.0% as at end 2005...

Annual change %

	Construction	Residential property	Non-residential property	Real estate	Total property loans	Real GDP
1997	53.1	26.3	57.6	0.0	34.2	7.1
1998	1.0	10.8	5.4	-7.6	4.4	-5.3
1999	-13.9	8.1	-6.3	-9.8	-3.3	6.8
2000	-5.9	17.9	-2.4	-2.3	5.6	9.1
2001	-3.4	17.3	1.0	4.4	8.2	0.5
2002	-5.0	16.5	-0.1	-10.5	6.6	5.4
2003	-8.4	16.1	4.1	0.0	8.4	5.8
2004	4.3	14.0	8.1	-1.2	10.5	6.8
2005	-2.5	12.3	12.8	7.1	9.8	5.3
2006	3.7	8.8	30.9	15.1	12.0	5.8
2007	3.4	7.4	19.5	20.2	9.9	6.3
2008	7.6	10.2	21.1	25.5	13.2	4.6

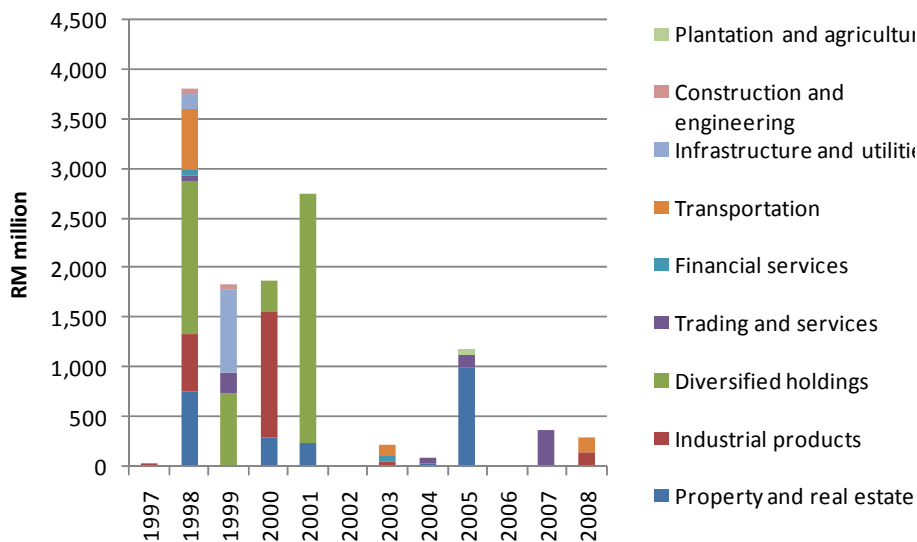
	Construction	Residential property	Non-residential property	Real estate	Total banking system loans
Total value (RM million)					
1998	43,135	53,012	28,522	17,956	424,489
2005	29,986	149,198	35,123	14,684	558,066
Share of total banking system loans					
1998	10.2	12.5	6.7	4.2	33.6
2005	5.4	26.7	6.3	2.6	41.0

Sustaining mortgage financing – *bond market*

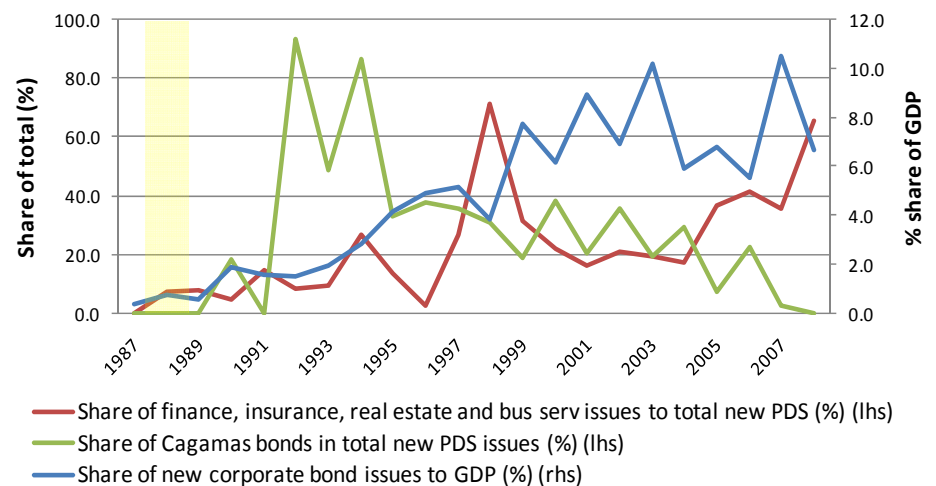
The rapid expansion of the local corporate bond market prior to 1997 had mitigated the severity of the currency and asset-liability mismatches that affected the other crisis-hit countries more severely.

Corporate bond defaults have not posed a systemic risk to the economy; they remained relatively low, averaging less than 1% of the total value of bonds outstanding.

Further broadening and deepening of the corporate bond market has helped to shift credit risk from being overly concentrated in the banking system.



Source: RAM Ratings



The domestic corporate bond market plays an increasing role in the financing of the banking sector, property development and mortgages. New corporate bond issues amount to between 6-10% of GDP annually compared to 5% pre-Asian Financial Crisis, while Cagamas bonds account for between 10-30% of new corporate bond issues annually. Financing of banks, insurance, real estate and business services account for between 45% to 80% of total new corporate bond issues annually.

Presentation Outline

1

- Nature of 1997-98 crisis in **Malaysia**: *Causes & consequences of banking & real estate distress*

2

- **Managing the crisis**: *Crisis response & structural reforms to address banking & property market distress*

3

- **Efficiency of response and outcomes**: *Improvement in underlying fundamentals*

4

- **Lessons and implications**: *How should countries respond to the current global crisis*

Lessons

A. Preventing Crisis

I. Sound macroeconomic management a necessary but not sufficient condition

- Internal (savings in excess of investment) and external macro balance (current account surplus) necessary to buffer against large external shock.
- Pursue fiscal and monetary policies that do not result in excess liquidity and high inflation
- Adopt viable exchange rate regime that does not result in overvaluation, unsustainable peg and high currency volatility
- Build adequate foreign reserves to insulate against sudden reversals in capital flows

II. Prepare financial liberalization adequately

- When pursuing financial sector liberalisation, watch for excessive credit creation in liberalized sectors such as real estate and securities
- Reduce connected lending and state involvement in banking sector
- Strengthen domestic financial institutions particularly in the area of risk management
- Broaden and deepen bond markets to reduce concentration risk as well as currency and maturity mismatches in banking system
- Strengthen corporate accounting and disclosure standards
- Enhance informational efficiency across all markets

Lessons (cont'd)

B. Managing Crisis

I. Formulate appropriate policy responses

- Loosen fiscal discipline to ease crisis-induced recession due to demand contraction.
- Allow exchange rate flexibility and save foreign reserves if currency is attacked.
- Provide assistance to private sector – assist entrepreneurs to raise capital and encourage new set of entrepreneurs including FDIs.

II. Institutionalize orderly debt work-outs

- Promote voluntary rescheduling and restructuring.
- Reduce maturity mismatch by lengthening of maturities of borrowings .
- Part conversion of debt into equity and bank borrowings into long term bonds
- Write-off of bad loans by creditors.
- Avoid nationalization of private debt.

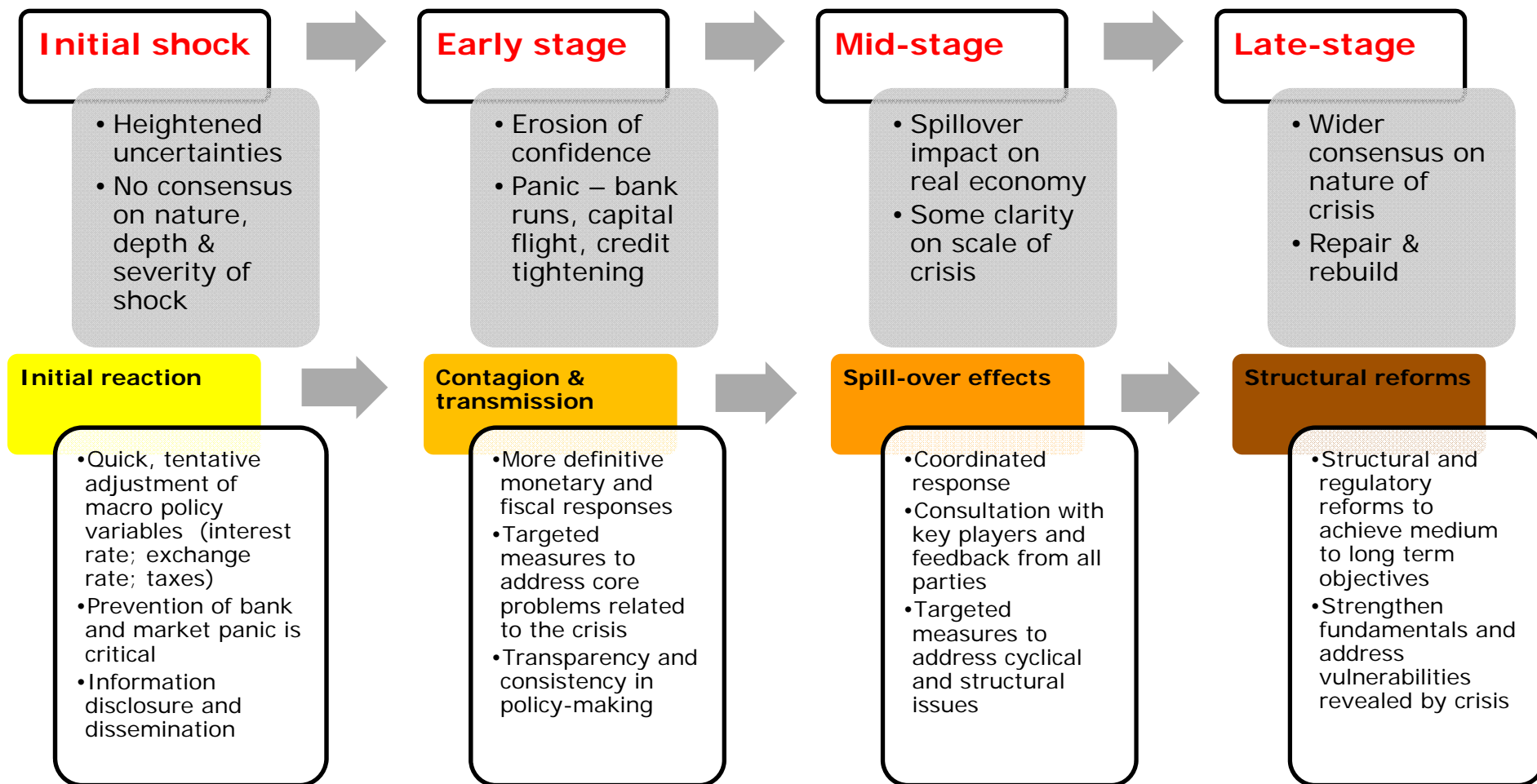
III. Address illiquidity issues to restore credit flows and business confidence

- Conduct money market operations to inject liquidity into the banking system.
- Placement of deposits in banking institutions.
- Reduction in SRR (from a peak of 13.5% to 4%).
- Implementation of new liquidity framework.
- Lower interest rates.
- Administer lending margins to curb undue hike in interest rates due to lenders' risk aversion.

Lessons (cont'd)

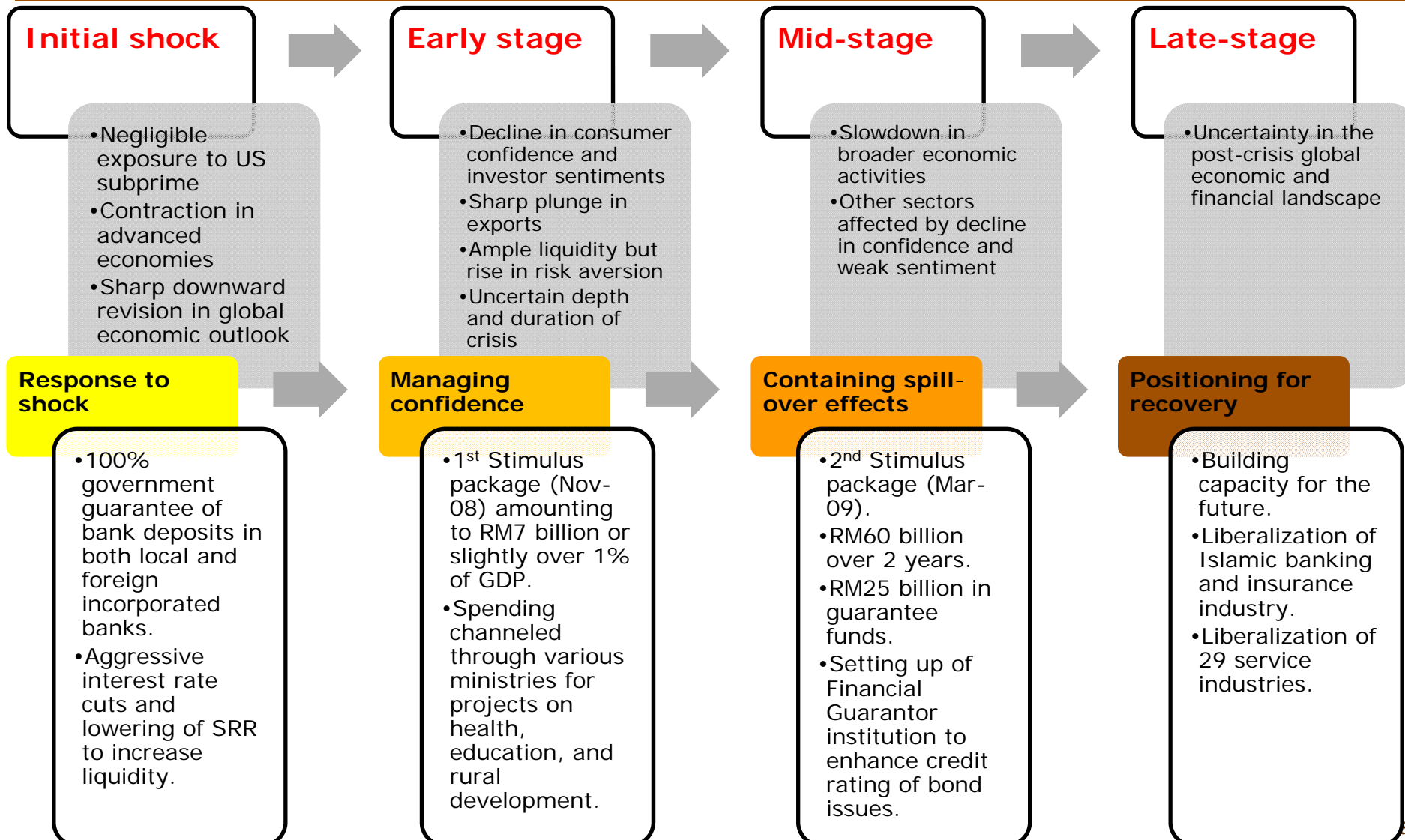
C. Get ready a crisis management strategy

Response strategy needs to factor in uncertainties and varying expectations and assessment of the nature and severity of shock; require careful analysis of the nature and cause of the shock, its transmission channels and spillover effects and the appropriate short term response to counter shock and medium to long term policy reforms to remove vulnerabilities...



Lessons (cont'd)

C. Crisis management strategy – Malaysia's response to the current global financial crisis



Implications for housing market & financing

I. Opportunity to strengthen foundations & build 'missing' institutions

- After the 1997/98 Asian Financial Crisis, the broadening and deepening of the domestic corporate bond market was an integral component of the restructuring strategy to reduce further the concentration of credit risks in the banking system and develop a more mature, balanced and competitive financial system.
- Identify and develop 'missing' institutions such as a bond pricing agency and a Financial Guarantor Institution now being established in Malaysia.
- Domestic bond market accessible to raising large scale, long term financing for housing schemes with government's backing to reduce funding costs

II. Changes in housing developers' policies and strategies

- Housing developers in Malaysia now more dynamic in monitoring and responding to market conditions in terms of product offering, prices and the size of project launches to mitigate market risk.
- New schemes being promoted by developers such as the 5:95 Easy Payment Scheme (buyer pays 5% and the rest of interest charges on the housing loan is borne by the developer) and the Build-then-sell scheme (10:90) whereby the purchaser pays 10% of the house price and the rest only upon delivery of the completed house.
- Managing demand and supply volatility remains a key challenge for players as well as policy makers as market is prone to 'exuberance'.

THANK YOU

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