

Najib, explain US\$4.71b pledge for 1MDB rescue

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MP SPEAKS It was previous announced by the Second Finance Minister, Ahmad Husni Hanadzlah, that “1MDB has entered into a binding agreement with the International Petroleum Investment Company (IPIC) and its subsidiary Aabar Investments (Aabar)” where IPIC will make a “payment” of US\$1 billion (RM\$3.75 billion), on June 4, 2015.

This US\$1 billion payment will be used to repay a US\$975 million loan, in advance of its due date, to a syndicate of international bank lenders.

What the minister failed to disclose however, is the fact that the binding agreement isn't just between IPIC, Aabar and 1MDB. Instead, the government of Malaysia is also an integral party to the agreement.

While the Malaysian government was completely opaque, IPIC has announced on the London Stock Exchange the outline of the agreement on the June 10, 2015.

It disclosed that “on May 28, 2015, IPIC, Aabar, Minister of Finance, Inc., Malaysia (MOF) and 1Malaysia Development Berhad (1MDB) entered into a binding term sheet”.

The principal terms included:

- on June 4, 2015, IPIC provided US\$1 billion to 1MDB for 1MDB to utilise immediately to settle certain of its liabilities
- from June 4, 2015, IPIC has assumed the obligations to pay all interest due under two IPIC guaranteed 1MDB financings amounting to US\$3.5 billion with 5.99% interest coupons.
- by June 30, 2016, IPIC is to have received a transfer of assets with an aggregate value of an amount which represents the sum of all the above payments as well as the US\$3.5 billion of bonds
- upon the completion of the “transfer of assets”, IPIC will directly assume liability for all payment obligations in the above bonds and forgive certain financial obligations of the 1MDB Group to the IPIC Group;

Essentially, the above announcement states that IPIC will immediately advance US\$1 billion and cover the interest payments for the US\$3.5 billion of bonds over the next year.

IPIC will also take over the bonds if by June 30, 2016, 1MDB transfers assets worth all of the above to IPIC.

Gov't guarantee shocking

We have previously asked why IPIC will be agreeable to provide such a huge advance to 1MDB, including the assumption of one year or US\$209.65 million of interest payments for the “transfer of assets” which has yet to be executed, and their value determined?

Based on the IPIC announcement, we now know why the investment arm of Abu Dhabi was so remarkably “generous”. It was because 1MDB and, more crucially, MOF “have agreed to perform the obligations contemplated in the binding term sheet and to indemnify IPIC and Aabar for any non-performance”.

Effectively, the Malaysian government has provided a US\$4.71 billion (RM17.7 billion) [1] guarantee to IPIC such that in the event 1MDB is unable to fulfil its obligations to transfer assets worth the same value to IPIC by June 30, 2016, the government will indemnify IPIC by assuming the obligations.

This discovery is shocking as it will increase Malaysia’s contingent liability which stands officially at RM157.5 billion as of 31 December 2014, by more than 11 percent.

Officially, the government has already guaranteed RM5.8 billion of loans for 1MDB.

However, the “official guarantee” does not include other indirect guarantees. The government has provided 1MDB with 2 letters of support to raise loans amounting to US\$3 billion (RM11.25 billion) and US\$150 million (RM540 million) in May 2013 and March 2015 respectively.

The government has also extended 1MDB with a direct loan amounting to RM950 million.

Together with the latest RM17.7 billion guarantee above, the total amount to be borne by the government should 1MDB fail to repay their loans has inflated to a earth staggering RM36.2 billion [2]!

This has outstripped Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) which is backed by RM29.2 billion of government guarantee as the single highest recipient.

The prime minister must immediately explain the shocking development, the massive guarantee and effectively another attempted multi-billion ringgit bailout of 1MDB.

[1] US\$1b + US\$209.65 mil + US\$3.5b = US\$4.71b

[2] RM5.8b + RM11.25b + RM0.54b + RM0.95b + RM17.7b = RM36.2b

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