

## **Najib, explain the US\$3.5b guarantee by IPIC**

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MP SPEAKS Prime Minister Najib Abdul Razak must answer if he had authorised the outrageous “loan shark” guarantee arrangement with International Petroleum Investment Corporation (IPIC) for 1MDB’s US\$3.5 billion of bonds in 2012

Last week, The Wall Street Journal (WSJ) shed light on US\$993 million allegedly paid to IPIC by 1MDB to buy back the latter’s options have not been properly accounted for.

The above payment was not reflected in the audited accounts of IPIC. Instead, IPIC’s books showed that 1MDB still owes an additional US\$481 million to the former for the termination of the options as at December 2014.

These options were granted to IPIC’s subsidiary, Aabar Investment PJS in 2012 to acquire up to 49 percent of its two energy subsidiaries, Powertek Investment Holdings and 1MDB Energy (Langat) Sdn Bhd, as part of the condition for the provision of a guarantee by IPIC for US\$3.5 billion of 1MDB bonds.

The above exposé brought to surface a puzzling situation where:

1. 1MDB borrowed US\$3.5 billion guaranteed by IPIC.
2. 1MDB paid approximately US\$300 million to Goldman Sachs as “certain commissions, fees and expenses” for arranging the above bonds.
3. 1MDB placed US\$1.4 billion “refundable deposit” as collateral with IPIC.
4. 1MDB terminated the options granted to IPIC or its subsidiary, Aabar Investment and paid as compensation (as per the 2014 1MDB Financial Statement):
  - a. US\$993 million sourced from the November 2014 US\$1.22 billion redemption from 1MDB’s Cayman Island investment;
  - b. US\$975 million borrowed from a Deutsche Bank led consortium; and
  - c. 1MDB still owes IPIC US\$481 million as at Dec 31, 2014.

Based on the above known facts, after deducting (1) US\$3.5 billion with (2), (3) and (4), 1MDB actually ended up with a deficit of US\$649 million! This means that the wholly-owned Ministry of Finance subsidiary ended up with less cash than it had after it took the loan!

How absolutely bizarre can you get? Why would 1MDB borrow so much money, causing

RM15.4 billion of indebtedness based on today's exchange rates, when 1MDB effectively doesn't get to use any of the funds raised?

Even in the event that 4(a) and 4(b) were a fraudulent round-tripping exercise, as I had questioned in my statement last week, removing the US\$975 million Deutsche Bank loan from the equation does not make the situation much prettier.

It would only mean that although 1MDB borrowed US\$3.5 billion, it effectively had access to only US\$326 million, or less than 10 percent of the funds raised. Anyone who can count will be able to see that there are some serious criminal shenanigans that took place with the above bond arrangement.

The question now is whether the Prime Minister and Finance Minister Najib Abdul Razak gave his written approval for the above outrageous loan transaction, as required under 1MDB's Memorandum and Articles of Association (M&A).

Clause 117 of the M&A dictates that the prime minister must give his "written approval" for any of 1MDB's deals, including the firm's investments or any bid for restructuring.

This includes "any financial commitment (including investment), restructuring or any other matter which is likely to affect the guarantee given by the Federal Government of Malaysia for the benefit of the company, national interest, national security or any policy of the Federal Government of Malaysia".

If Najib did not provide the written approval for the above bond issuance, then the Board of Directors of 1MDB must be taken to task for breaching the mandate given to them.

However, if the prime minister has granted his written approval, he must immediately explain to the nation why he agreed to such unbelievably stupid and dumbfounding terms of the US\$3.5 billion bond issues that have contributed in substantially to the financial crisis in 1MDB today.