

**Report: 1MDB risks US\$50m default as IPIC refuses to step in**  
**MalaysiaKini.com**  
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1MDB is facing the risk of default as Abu Dhabi-owned sovereign wealth fund International Petroleum Investment Company (IPIC) is no longer willing to service bond interest for the Malaysian fund, according to The Straits Times of Singapore.

1MDB has a US\$50 million interest payment for its US\$3.5 billion bond, which is due tomorrow.

"Malaysian government officials, who spoke to The Straits Times on condition of anonymity, said IPIC has informally told 1MDB that it has no intention of honouring the interest payment because of the alleged default of the bond agreement.

"Senior financial executives familiar with the details of last week's meetings said Prime Minister Najib Abdul Razak, who is also finance minister, was advised that non-payment of the interest instalment this week would put 1MDB in default of the US\$3.5 billion bond issue.

"That, in turn, could trigger so-called cross-defaults on 1MDB's other commitments. That means 1MDB's other creditors could demand early settlement or accelerated payments on its other obligations, which now stand at about US\$5.1 billion," the report claimed.

The report added that this could hurt Malaysia's credit rating and adversely impact the country's efforts to raise much-needed funding in the international bond market.

The IPIC had in October and November last year paid US\$103 million on behalf of 1MDB as part of its obligation, after guaranteeing two of 1MDB's bonds worth US\$3.5 billion in 2012.

Under the guarantee, IPIC will assume responsibility for repaying the US\$3.5 billion as well as all interest related to the principal if 1MDB was unable to do so.

In exchange, 1MDB would give US\$1.4 billion as collateral to IPIC's subsidiary Aabar Investments PJS and a 49 percent option in its energy assets, which 1MDB later terminated.

In total, 1MDB was supposed to have paid US\$3.54 billion to IPIC and its units.

### **Second thoughts**

However, IPIC discovered that it never received the promised money and is now having second thoughts about paying the principal and interest of 1MDB's US\$3.5 billion bond.

The money instead went to British Virgin Island-based Aabar Ltd, which IPIC said is a company unrelated to the sovereign wealth fund.

However, the report said Putrajaya is insistent that 1MDB had honoured all payments to IPIC and its subsidiary.

"The Malaysian government's position is very clear; 1MDB has honoured all payments through its dealing with the highest leadership of IPIC and Aabar," The Straits Times quoted a senior government official as saying.

The report also alleged that Najib was insistent that Abu Dhabi or its companies, not 1MDB, must make the latest interest payment of US\$50 million that is due tomorrow.

"After a flurry of meetings last week with 1MDB's top management, along with lawyers and Finance Ministry officials, Datuk Seri Najib took the position that any corporate liability had to be borne by Abu Dhabi and its state-owned entities.

"His decision, according to government officials and financial executives close to the situation, was grounded on the fact that IPIC had honoured and paid over US\$100 million in interest payments last October and November.

"Kuala Lumpur is also puzzled why it took IPIC more than three years to declare it had not received any monies," said the report.

The UAE is presently conducting an investigation over where the money it was supposed to receive had gone to, which is also tied in to the Swiss and Luxembourg investigations into 1MDB.

1MDB had last year touted its deals with IPIC, which include asset swaps, as part of its rationalisation plan to reduce its bloated debt which stood at more than RM42 billion.

The IPIC deals would see 1MDB reducing its debt by RM16 billion but it is unclear now how the row between 1MDB and IPIC will affect the rationalization plan.