

**1MDB's explanation that was not**

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**While 1MDB disclosed what its RM42 billion debt pile was used for, the general public only has the company's word for the existence of some RM11.2 billion of its assets while giving no explanation for the RM4.2 billion remaining as a deposit.**

While 1Malaysia Development Bhd (1MDB) disclosed what its RM42 billion debt pile [was used for](#), the explanation comes up short as billions remain unaccounted for to the general public.

Specifically, some RM15.4 billion, which was said to be investment funds, is in question here. Of this amount, RM6.1 billion went into Brazen Sky, another RM5.1 billion was 1MDB's GIL funds, and RM4.2 billion was deposited with Aabar Investments PJS.

1MDB offered no explanation as to what these funds were, how they arose, and why the self-styled strategic company continues to hunt high and low for money when it should have a lot of those.

KINIBIZ retraces the trail of these billions to illustrate why they are still unaccounted for.

### **The Brazen billions**

According to [a previous report by The Business Times of Singapore](#), the RM6.1 billion Brazen Sky investment was part of a fund called Bridge Global Absolute Return Fund.

This fund was managed by Bridge Partners, an obscure firm from Hong Kong. In 2014, KINIBIZ reported [a link](#) between Bridge Partners and Singapore Ponzi king James Phang Wah, who operated the nation's largest ponzi scheme to date.

It was subsequently redeemed in two tranches, according to 1MDB, with proceeds from the second tranche brought to Singapore and became the subject of a debate on what "units" really mean.

The Brazen Sky investment dates back to 1MDB's early years and came after 1MDB formed to undertake strategic development ventures, [decided that](#) lending money to Petrosaudi International, a foreign sovereign wealth fund, fits its objective.

In 2009, 1MDB inked a joint-venture (JV) agreement with Petrosaudi whereby it subscribed to 40% of shares in Petrosaudi's wholly-owned subsidiary, 1MDB Petrosaudi Ltd, which was incorporated just days before the JV was signed. For the 40%, 1MDB injected US\$1 billion.

Six months later, the rushed JV was terminated and 1MDB's 40% equity was converted into a murabaha loan worth US\$1.2 billion. In the couple of years that followed, 1MDB loaned more money to Petrosaudi and the amount eventually grew to US\$2.03 billion.

In September 2012, 1MDB sold this US\$2.03 billion loan to an undisclosed party for US\$2.32 billion. The proceeds, translating into roughly RM7 billion, were then invested in a Segregated Portfolio Co (SPC) in the Cayman Islands, which were later shown to be the Brazen Sky investment.

This was followed by an announcement by Arul Kanda, 1MDB's president and group executive director, in January this year that the US\$2.32 billion had been fully redeemed, though the money would not be brought back to Malaysia.

However, this was done in two tranches. Some 60% of the monies, or US\$1.22 billion, was redeemed earlier according to 1MDB's accounts to pay debt interest and as working capital, among other stated purposes.

The remaining US\$1.1 billion, or roughly RM4 billion, which was redeemed following heavy criticism, was kept in US dollars and will not be repatriated, said Arul in an interview with Business Times Singapore published in February this year.

"There's a very sensible and simple reason for that," said Arul to Business Times Singapore. "We are keeping the money in US dollars as we have US\$6.5 billion in bonds out there, in which interest payments come up to nearly US\$400 million a year."

### **Cash, units, or...?**

For a while, the public thought the RM4 billion or so was kept in cash terms. However, the description was subsequently changed to "assets" and later "units".

In a [parliamentary reply dated May 3](#), the Finance Ministry, 1MDB's sole shareholder, said the money from the second redemption was kept at the BSI Bank of Singapore in cash terms.

Roughly two weeks later, however, the ministry corrected the statement, saying on May 20 that the amount was instead in the form of US dollar-denominated assets.

The correction came after whistleblower website [Sarawak Report claimed](#) that 1MDB's account with BSI Bank of Singapore "contains 'paper assets', the true value of which cannot be determined", citing an unnamed source and leaked documents.

One day after the correction, on May 21, Second Finance Minister Ahmad Husni Hanadzlah reportedly said the assets are in the form of "units, just units" when asked by reporters at the Parliament lobby, though he refused to clarify further.

The issue of whether 1MDB really had cash in the BSI Bank account arose amid a rushed RM188 million land sale to pilgrimage fund Lembaga Tabung Haji in early May.

A document leaked online detailed a proposal by Tabung Haji to buy two parcels of land at 1MDB's Tun Razak Exchange (TRX) project for a total of RM772 million. One condition of the sale was full settlement of the purchase price upon the signing of the sale and purchase agreement.

Eventually, only one went through for RM188 million, while the second purchase did not.

In mid-May, 1MDB announced the sale of the second TRX land parcel to Indonesian developer Mulia Group for RM665 million, which is RM87 million higher than what Tabung Haji would have paid, if it was the same piece of land.

The rushed transaction sparked controversy as the Business Times of Singapore reported on May 13 that a group of six international banks led by Deutsche Bank is seeking early repayment of their US\$975 million loan to 1MDB.

Originally due in September, the lenders reportedly sought an earlier repayment due to discomfort over controversy and apparent issues surrounding 1MDB. This raised questions of whether the rushed land sales constituted bailout from Lembaga Tabung Haji among other issues examined by KINIBIZ in a two-part issue [here](#).

## **Billions still missing**

In any case, what is clear is the RM4 billion or so has not been indisputably shown to exist and in what exact form of “units” despite a number of assertions.

With 1MDB’s latest explanation taken into account, the public have only 1MDB’s word and that of various ministers’ as far as the existence of this amount goes. In other words, it has been a series of claims without substantive proof.

Recall that Sarawak Report claimed the account contains near-worthless paper assets, which presumably means there is no RM4 billion in the BSI Bank account. This has not been conclusively refuted by either 1MDB nor the government, both of whom have kept harping on the point of whether Arul issued a false statement and the credibility of Sarawak Report itself.

Going further, both have consistently exclaimed the point that Deloitte, 1MDB’s auditor, had signed off its annual accounts without any qualification ie without any issues.

What has not been addressed and often overlooked is another admission by Deloitte, which is contained in both the 2013 and 2014 financial accounts: it did not actually lay eyes on billions of 1MDB’s supposed assets while auditing its books.

According to 1MDB’s 2014 financial accounts, some RM13.4 billion of financial assets were classified as measured through “Level 3 fair value measurements”, stated the company. These refer to “those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)”.

In layman terms, that means Deloitte was not able to confirm first-hand that these RM13.4 billion, which included the Brazen Sky billions at the time, actually existed. Instead, the auditor had to rely on what others told it about those billions – much like Malaysians who only has 1MDB’s and cabinet members’ words right now.

Therein lies the real test for 1MDB to put to rest the concern whether its touted assets really exist: Show indisputable proof that the money exist, where and how much. Just words and fancy graphics won’t cut it.

And this is before we even talk about the gross mismanagement of 1MDB’s billions over the years. This includes, among others, its [strange business decisions](#) and

conduct that run against its best interests, [overpaying for its power assets](#), and the mispricing of its bonds which [caused some RM4 billion to be lost](#) – irretrievably.

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