

THE WALL STREET JOURNAL.

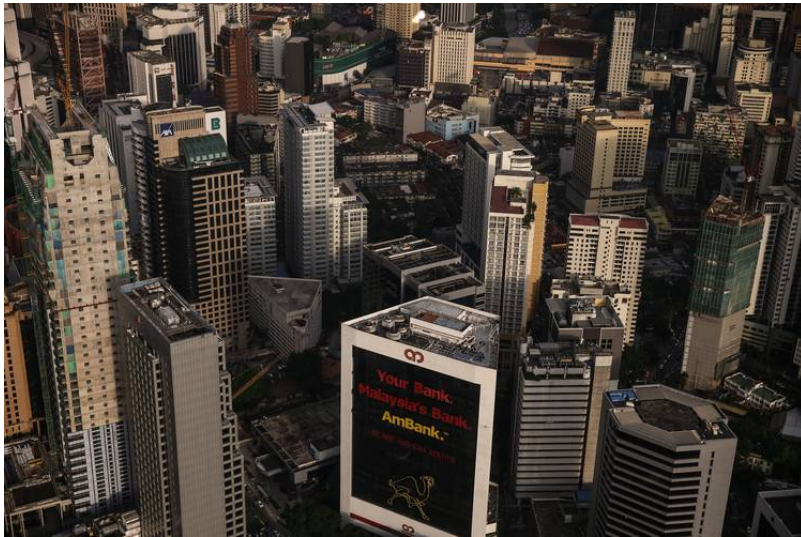
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MARKETS

Behind the 1MDB Scandal: Banks That Missed Clues and Bowed to Pressure

Suspected ringleaders allegedly cultivated finance executives, pressed compliance officers and obsessed about secrecy



AmBank in Kuala Lumpur handled private bank accounts for Malaysian Prime Minister Najib Razak. *PHOTO: SHCHERBAK ALEXANDER/TASS/ZUMA PRESS*

By **TOM WRIGHT** and **BRADLEY HOPE**

Updated Sept. 6, 2016 1:31 a.m. ET

Financier Jho Low, who investigators believe is at the center of one of the largest-ever financial scandals, kept up a stream of messages to an official at AmBank Bhd. Mr. Low

was obsessed about how the bank handled the peculiar accounts of Malaysian Prime Minister Najib Razak.

Don't let people outside the bank or more than a few people inside know about the accounts, he instructed. Use Gmail, not the bank's email system, for communication. Whatever you do, don't send credit-card statements to the prime minister's house.

"No no no," Mr. Low wrote, according to transcripts of BlackBerry messages reviewed by The Wall Street Journal. "Super sensitive." He instead had someone collect the statements by hand.

Between 2009 and 2013, Mr. Low, a family friend of the prime minister, and his associates helped embezzle at least \$3.5 billion from 1Malaysia Development Bhd., a state investment fund created by Mr. Najib, the U.S. Justice Department alleged in a lawsuit filed in July.

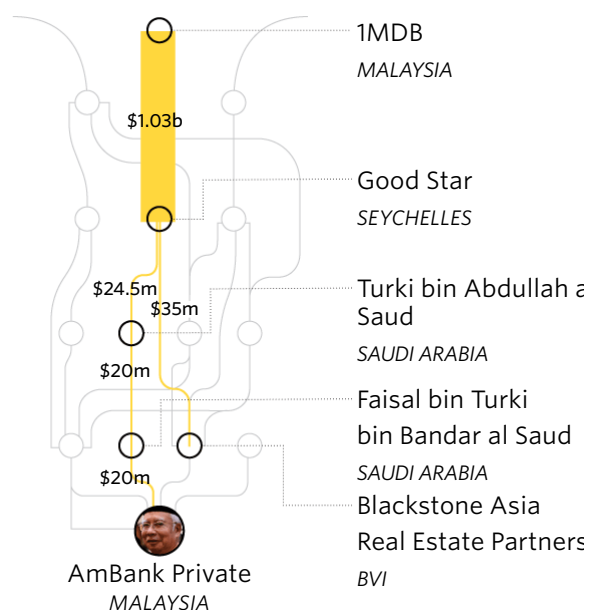
How \$1 Billion Made Its Way to the Prime Minister

See how the money was routed »

(<http://www.wsj.com/graphics/1mdb-money-flow/>)

TRANSACTION 1

THE SAUDI ARABIAN OIL-VENTURE MONEY

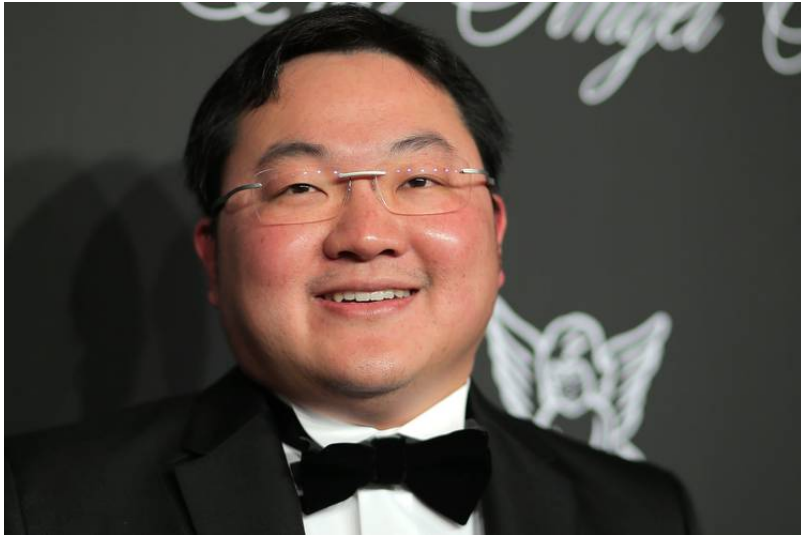


It couldn't have happened without the cooperation of a handful of bankers and the failure of a host of financial institutions and regulators to detect the alleged fraud, investigators believe. Mr. Low and his cohorts for years eluded detection or interference by at least eight banks, big accounting firms, a central bank and various government regulators, according to the Justice Department, investigative documents from other countries and people familiar with the affair. The banks included Goldman Sachs Group Inc. and Standard Chartered PLC.

Mr. Low, who had no official position at 1MDB, employed trickery, setting up offshore shell companies with misleading names, misidentifying money transfers as "gifts" and putting money into art and real estate to conceal its origins, according to the Justice Department. His cohorts inside and outside the fund pressured bank compliance officers, relied on close relationships with others and got help from people inside governments, according to the complaint and other

documents. When some accountants raised questions, they were fired.

That the alleged fraud could roll on for so long without detection suggests weaknesses in a global system designed to clamp down on money laundering, a problem U.S. and other Western leaders have pledged to fix.



Financier Jho Low set up offshore shell companies with misleading names, misidentified money transfers as 'gifts' and put money into art and real estate to conceal its origins, the Justice Department says. *PHOTO: J. COUNTESS/GETTY IMAGES*

Investigators in at least seven countries are still trying to figure out what happened to all the money. 1MDB was supposed to invest in energy and property businesses to create jobs, but funds instead moved to secret offshore havens and later was distributed among various participants, the Justice Department alleges. Bank-transfer records reviewed by the Journal show that large sums wound up in the prime minister's personal accounts at AmBank, which is based in Kuala Lumpur. So far, U.S. investigators have traced more than \$1 billion to the purchase of luxury real estate in Beverly Hills, New York and London, as well as the financing of a Hollywood movie, "The Wolf of Wall Street," the Justice Department says.

The U.S. has moved to seize assets and is conducting a criminal investigation of some of those involved, according to people involved with the matter.

Mr. Najib has denied any wrongdoing and said the money received came from a Saudi donor, much of which was returned. The Malaysian attorney general agreed and cleared him of any crime. 1MDB has denied wrongdoing and said it would cooperate with any lawful international investigation. A lawyer for Mr. Low declined to comment. Goldman Sachs and Standard Chartered have said they did nothing wrong.

Saudi connection

The alleged plot began just after Mr. Najib, the prime minister, founded 1MDB in mid-2009.

That August, a group of Malaysians, including the prime minister and Mr. Low, met in France with Turki bin Abdullah al Saud, a son of the late King Abdullah of Saudi Arabia and co-owner of a private Saudi oil company called PetroSaudi International Ltd., according to documents reviewed by the Journal.

Weeks later, 1MDB signed a joint venture with PetroSaudi toward which the Malaysian fund pledged to contribute \$1 billion. Only \$300 million of 1MDB's money reached the Saudi joint venture, the Justice Department says. Officials at the fund ordered the rest—\$700 million—to go to a Seychelles-based shell company called Good Star Ltd., which the Justice Department says was owned by Mr. Low. Later, 1MDB sent another \$330 million to Good Star.

Employees at 1MDB's banker, Deutsche Bank AG, wanted to know why the money wasn't going to the joint venture and asked questions about Good Star, according to the Justice Department complaint.

1MDB's executive director at the time told a Deutsche Bank officer in a phone conversation to push through the payment or face blame if the "deal goes off," according to a transcript cited by the Justice Department. The transcript didn't name the executive director, but someone with direct knowledge of the matter said it was Casey Tang.

"I'm under tremendous pressure" to get the deal done, the executive director added, according to the transcript.

"Let me just convince my compliance person," said the banker, who wasn't named. "It's a little bit sticky."

When the banker kept asking for details, 1MDB's executive director said the money was going directly to PetroSaudi to settle debts, even though there had been no discussion of that in 1MDB's agreement with the Saudi company, according to the Justice Department.

Money Chat

Jho Low, a confidant of Najib Razak, and Joanna Yu, an employee of AmBank, discuss how to keep the prime minister’s bank accounts secret, according to phone messages between them reviewed by the Journal. They refer to Mr. Najib by his initials, MNR, which includes his Muslim name, Mohammad.

October 2012

MNR’s funds coming this week?

JY
Joanna Yu

Yes, MNR’s usd25m + usd50m coming in. Make sure kept fully under wraps including statements. Super sensitive.

March 2013

Cannot have anything on screen that if someone opens and takes snapshot using camera phone of anything that could remotely link the account to MNR, and amt of funds in it.

Even the branch manager. Sensitive times.

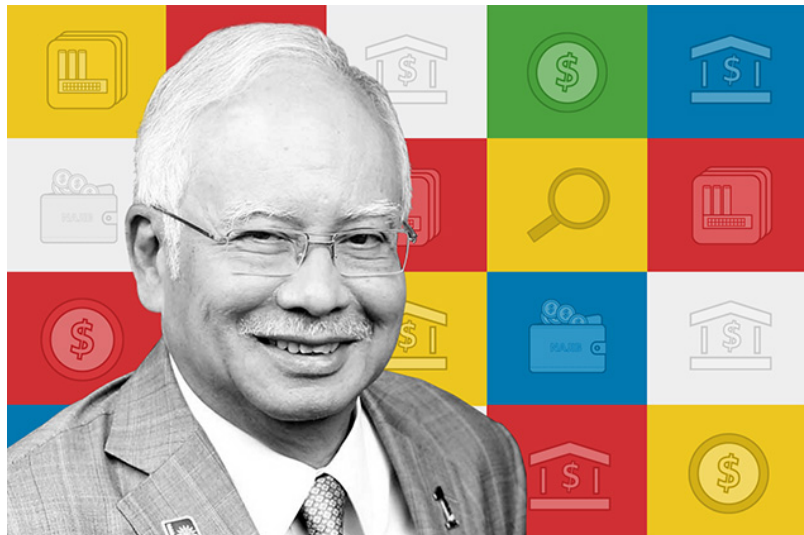
Ok...Even I don’t hv access - only branch mgr + head of sales at branch.

JL
Jho Low

Source: chat transcripts

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Malaysia’s Corruption Scandal



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Deutsche Bank processed the transfer. Bank Negara Malaysia, the central bank, which monitors large transfers into and out of the country, added its imprimatur, according to the Justice Department complaint.

PetroSaudi has denied wrongdoing and “rejects any claims that it is involved in the misappropriation of funds from 1MDB,” its lawyer said. Mr. Tang couldn’t be reached for comment. Deutsche Bank declined to comment.

Months later, 1MDB’s auditing firm, Ernst & Young, asked questions about how the fund was classifying the Saudi joint venture investment on its books. 1MDB management tried to portray the payments as government-to-government business, even though PetroSaudi was a private company, according to minutes of the fund’s board meetings.

Unsatisfied with the answer, the audit firm declined to sign off on 1MDB’s financial accounts for the 2010 financial year.

Mr. Najib, who headed 1MDB’s board of advisers, intervened,

firing the auditor, according to a 1MDB document reviewed by the Journal. When the new auditor, KPMG, raised questions about the same investment a few years later, he fired that company, too, according to 1MDB board minutes.

Ernst & Young and KPMG declined to comment.

In early 2011, Good Star sent \$24.5 million to a Riyadh bank account held by Prince Turki, the PetroSaudi co-owner, according to the Justice Department complaint. The prince then sent \$20 million via an intermediary to Mr. Najib's private accounts at AmBank in Kuala Lumpur, according to the complaint and someone familiar with the probe. The prince couldn't be reached for comment, and a lawyer for PetroSaudi didn't respond to requests for comment on the transfer.

The transfer represented the first drip of what would become a flood of cash—about \$1 billion—that flowed into Mr. Najib's personal bank accounts over the next two years, according to the bank-transfer records. Nearly all originated with 1MDB, according to the Justice Department and the transfer records.

The prime minister gave Mr. Low access to the accounts, according to investigative documents. His primary contact at AmBank was Joanna Yu, the banker he had warned via BlackBerry to communicate discreetly. Cheah Tek Kuang, a senior AmBank executive and adviser to the chairman, handled the account personally, the BlackBerry messages indicate.

Mr. Low messaged that if Malaysia's central-bank governor, Zeti Akhtar Aziz, raised concerns about 1MDB-related transfers, Mr. Cheah was to see her and "let her know this is boss request," an apparent reference to Mr. Najib.

An AmBank spokesman declined to comment, as did Ms. Zeti. Ms. Yu and Mr. Cheah didn't respond to requests for comment.

Mr. Low sent hampers of food to Ms. Yu and lunched with her at noodle shops, according to the phone messages. He kept reinforcing the need for secrecy: "v v important no one should know in ambank besides u or cheah or get hold of statement," one message said. "Cause if it gets on internet where funds were from then headache."

Investigators believe someone in Mr. Low's entourage created letters vouching for the origin of the funds, according to people familiar with probes in two countries.

A letter dated Feb. 1, 2011, which was reviewed by the Journal, said Mr. Najib was being given \$100 million as a reward for Malaysia's "good work to promote Islam around the world." It said the gift "should not in any event be construed as an act of corruption."



Bank-transfer records reviewed by The Wall Street Journal show that large sums wound up in Prime Minister Najib's personal accounts at AmBank. *PHOTO: OLIVIA HARRIS/REUTERS*

It was signed Saud Abdulaziz Majid al Saud, who is a minor Saudi royal. But he donated no money and wasn't the instigator of the letter, according to a person involved in the matter. The prince didn't respond to requests for comment.

AmBank's Mr. Cheah sent the letter to the central bank.

More such letters followed, some using nearly identical language, describing purported gifts of hundreds of millions of dollars.

In March 2013, a transfer of \$681 million arrived, according to the Justice Department. AmBank's Ms. Yu messaged Mr. Low that the bank needed more documentation, according to transcripts of BlackBerry messages. A new letter, dated March 1, 2013, vouched for an \$800 million donation to Mr. Najib from the same Saudi prince.

Ms. Yu and Mr. Low also discussed how to transfer the money. Such transfers involving dollars require the involvement of a U.S. bank, called a correspondent bank. The two discussed whether to use Wells Fargo & Co. or J.P. Morgan Chase & Co.

"Can do JP, but may raise ques too...suspect better keep to wachovia," Ms. Yu wrote, referring to a unit of Wells Fargo.

"Okay, wachovia then," he replied. The transfer went through the Wells Fargo unit.

At various points, J.P. Morgan, Citigroup Inc. and other banks also acted as correspondent banks for other transactions involving funds from 1MDB, documents detailing the transfers indicate.

Under U.S. law, banks dealing in dollar transactions are required to implement anti-money-laundering provisions, including knowing the source and recipient of funds, and to report suspicious transactions. Wells Fargo, Citigroup and J.P. Morgan declined to comment.

As a tight general election approached, Mr. Najib sent hundreds of checks to ruling party politicians to help fund his campaign, the Journal reported last year. He narrowly retained power.

After the election, Mr. Najib closed his main account at AmBank and sent about \$620 million back to the offshore company it came from, according to transfer documents. It isn't clear what happened to that money.

The 1MDB fund, meanwhile, was running into financial trouble as money flowed out and no major revenue-generating investments were there to replace it.

In 2012, Goldman Sachs sold \$3.5 billion in 1MDB bonds in two offerings, which were cleared by committees that included some of the firm's most senior officials, people involved in the transactions said. Goldman earned hundreds of millions of dollars in fees on the bonds, which carried a safe, sovereign-risk profile and were bought by foreign institutional investors.

Some of the money was used for the stated purposes—to buy power plants—but almost half was sent into offshore shell companies overseen by Mr. Low and his associates, according to the Justice Department.

Mr. Low turned to contacts in Abu Dhabi in the United Arab Emirates to help raise money. He knew Khadem Al Qubaisi, then managing director of International Petroleum Investment Co., or IPIC, an \$80 billion Abu Dhabi sovereign-wealth fund.

IPIC announced it would participate with 1MDB to develop power plants. The Malaysian fund told its auditors and bankers it was sending \$1.4 billion to IPIC as a “refundable deposit.”

The money never arrived. The Justice Department complaint says it was diverted to a company with a name similar to an IPIC subsidiary, which was registered in the British Virgin Islands and controlled by Mr. Al Qubaisi. Then more than \$1 billion went into a Standard Chartered account in Singapore controlled by an associate of Mr. Low, the complaint says, and Standard Chartered and Citigroup acted as correspondent banks. Money eventually was sent to other participants in the alleged fraud, the complaint says.

In July, the Monetary Authority of Singapore, the nation's central bank, found Standard Chartered and two other non-U.S. banks had failed to report suspicious transactions

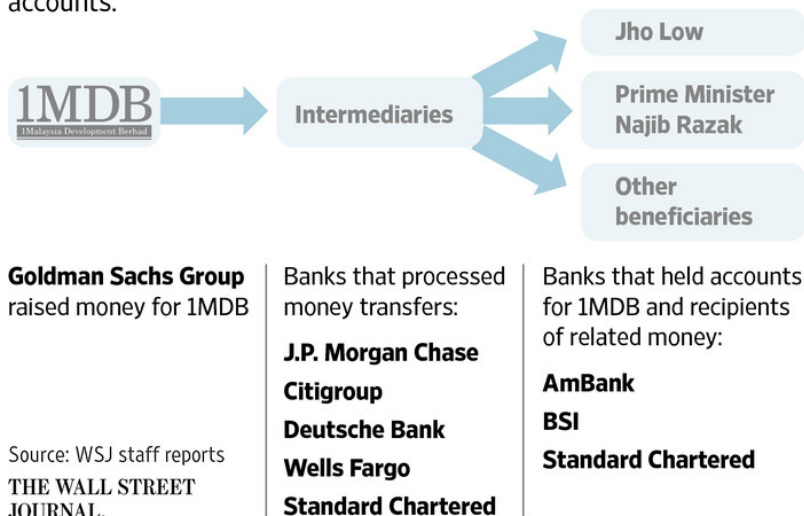
related to 1MDB and would face “firm regulatory actions.”

A Standard Chartered spokesman said the bank was cooperating with “all relevant investigations” and has enhanced anti-money-laundering controls. Citigroup declined to comment.

Mr. Al Qubaisi wound up with more than \$470 million of the money, \$100 million of which was used to buy three luxury properties in New York and Los Angeles, the complaint says.

Missing the Alleged Fraud

The 1MDB scandal eluded detection or interference by a number of banks. Money was allegedly diverted from 1MDB and transferred through a maze of shell companies before landing in private bank accounts.



He also helped funnel \$238 million of 1MDB money to Riza Aziz, the prime minister’s stepson, the complaint adds. Mr. Aziz used the money to buy real estate and fund his Hollywood film company, Red Granite Pictures, which made “The Wolf of Wall Street,” according to the complaint. Mr. Aziz has denied wrongdoing.

The 1MDB fund approached Goldman again in 2013 to sell \$3 billion of bonds, asking for the money to be deposited in

an account at BSI AG, a small private bank based in an Italian-speaking region of Switzerland. BSI was looking to build its business in Asia through a new office in Singapore.

Clients involved with 1MDB had around 100 accounts at BSI, Swiss regulators say. They include Mr. Low, who opened 18 accounts in Singapore in one day in October 2014. Hundreds of millions of dollars of 1MDB money moved through BSI accounts controlled by Mr. Low and others, according to the Justice Department and banking documents reviewed by the Journal.

Mr. Low’s main contact at BSI was Singapore banker Yak Yew Chee, who brought in the 1MDB-related business, according to a person who worked at the bank. Singapore’s central bank in May asked state prosecutors to investigate six former BSI executives, including Mr. Yak, for possible criminal offenses. A lawyer for Mr. Yak, who has left the bank, declined to comment, citing the investigation.

One former BSI banker, Yeo Jiawei, has been charged in Singapore with money laundering in relation to the 1MDB affair. His lawyer says he intends to contest the charges.

About half the Goldman bond proceeds wound up in offshore companies controlled by Eric Tan, an associate of Mr. Low, according to the Justice Department. He used the money to buy more than \$100 million of art on Mr. Low's behalf, including a Vincent van Gogh pen-and-ink drawing, the complaint says.

He told the auctioneer, Christie's International PLC "please do not have Mr. Low in any document," according to emails cited in the U.S. filings. When Mr. Tan later transferred ownership of works to Mr. Low, there were letters that described them as gifts, the complaint says.

The art works "should not in any event be construed as an act of corruption," the letters said, echoing phrasing from earlier letters. Mr. Tan couldn't be reached for comment.

Christie's has said it has a rigorous anti-money-laundering program and stopped doing business with Mr. Low after learning he was under investigation.

By the spring of 2014, Mr. Low valued his art collection at \$350 million and wanted to use that as collateral for a loan, according to emails cited by the Justice Department.

In emails to an employee of SNS Fine Arts, a New York dealer, he asked for advice on possible lenders. He said he was searching for one that wouldn't follow know-your-customer rules too closely. "Speed is the most important and one with a fairly quick and relaxed kyc process," he wrote. SNS declined to comment.

Sotheby's Financial Services, part of the Sotheby's auction house, agreed to lend \$107 million to a Cayman Islands company owned by Mr. Low. Sotheby's said it is cooperating with government investigations. A spokeswoman said: "Sotheby's, like many other entities, including prominent law firms, major banks, real-estate companies and corporations in other industries, fell victim to 'a complex web of transactions' designed to hide and disguise the alleged illegal source of funds."

Financial trouble

After Mr. Najib's 2013 election victory, 1MDB had only about \$20 million in cash and more than \$10 billion in liabilities. It was having trouble making interest payments, board minutes show.

Malaysian newspapers began to criticize the fund, effectively scotching an initial public offering that 1MDB had planned for its power assets that would have brought in much-

needed funds.

Around that time, Mr. Najib opened three new AmBank accounts, which caught the attention of AmBank's then-chief executive, Ashok Ramamurthy, investigative documents show. He was on assignment from Australia & New Zealand Banking Group Ltd., or ANZ, which has a 23.8% stake in AmBank. ANZ declined to comment.



Swiss regulators say clients involved with 1MDB had around 100 accounts at BSI, a small private bank in Switzerland with an office in Singapore. *PHOTO: EDGAR SU/REUTERS*

In 2014 Mr. Najib and his wife, Rosmah Mansor, visited the Italian resort island of Sardinia and he used a credit card linked to one of the accounts to buy jewelry worth €750,000, bank records show. A few months later, he drew on the accounts to spend \$130,000 when visiting a Chanel store in Honolulu with his wife, the records show.

AmBank's Ms. Yu messaged Mr. Low: "We can't maintain the accounts...Ashok reporting the status at monthly board meeting."

"They shouldn't disclose contents of account. Later leak," Mr. Low replied.

Mr. Cheah, who had overseen Mr. Najib's accounts at AmBank, had resigned. "It's difficult as Mr Cheah no longer around," Ms. Yu messaged, urging Mr. Low to close the accounts. He replied the prime minister wanted to keep them open. All three were eventually closed in March 2015.

In all, Mr. Najib wrote more than 500 checks totaling about \$400 million from the 1MDB-funded accounts, according to bank documents.

At one point, Mr. Najib's account ran short of funds, prompting fears that a bounced check would attract regulatory attention. Mr. Low arranged for more than \$4 million in

cash to be deposited at AmBank, according to instant phone messages and bank-transfer information reviewed by the Journal.

In early 2014, Deloitte Touche Tohmatsu Ltd. became 1MDB's third auditor. It approved the fund's books for its 2014 fiscal year, the latest available. Deloitte declined to comment.

In 2015, after the Journal reported the \$681 million transfer into Mr. Najib's accounts, investigators around the globe stepped up their inquiries.

Last summer, Malaysia's attorney general drew up an arrest warrant for Mr. Najib, people involved with the matter said. Mr. Najib fired him and appointed a new one. The new one declined to act on advice from the central bank to open a criminal case against 1MDB over the missing PetroSaudi investments, saying there was insufficient evidence.

Abu Dhabi's rulers have fired Mr. Al Qubaisi from the sovereign-wealth fund, frozen his assets and arrested him, according to people familiar with the action. Mr. Low's whereabouts is unknown.

Singapore revoked BSI's banking license and said in June it was setting up an anti-money-laundering department.

Switzerland's attorney general has opened criminal proceedings against BSI. The Justice Department is looking into whether Goldman Sachs violated a U.S. law requiring banks to report suspicious transactions, according to people familiar with the probe. Goldman has said it had "no visibility" into what 1MDB did with the money it raised.

In late July, 1MDB said Deloitte, its auditor, had resigned earlier this year. The fund said its financial statements for 2013 and 2014 should no longer be relied on.

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