



## Maldives Asset Recovery

### Bank of Maldives/European Investment Bank

Draft Report

Private & Confidential - in anticipation of legal proceedings

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## **1 Introduction**

- 1.1 Grant Thornton UK LLP were requested to undertake an asset tracing and investigation exercise via an engagement letter dated 23 March 2010, subsequently amended on 8 July 2010, on behalf of the Government of the Republic of the Maldives ("the government") with regards to a number of individuals.
- 1.2 In addition, we were requested to investigate the assets of the former president Mr Maumoon Abdul Gayoom ("Gayoom"), his family members, and connected parties following the findings of the Auditor General's Audit reports in 2007 and 2008 that government funds and national institutions were being used for personal benefit.

## **2 Bank of Maldives ("BML") Audit Report 2008**

- 2.1 A number of issues were raised in the BML Audit Report produced by the Auditor General in 2008 regarding political influence in the awarding of loans to connected parties of the former regime.
- 2.2 We have reviewed the information in this report, verifying the supporting evidence which we obtained from Auditor Generals Office, reviewing the working papers/documentation obtained from the Bank of Maldives, as well as obtaining other sources of information where required, e.g. from the Ministry of Finance, Presidents Commission and others.

## **3 Mechanism for appointing Senior Appointments**

- 3.1 The work of the Board was in addition to strategy / decision making, the approval of loans, over and above the authorisation limits Credit Committee.
- 3.2 This is evidenced by text found in letters to a number of individuals, stating that the approval of loans would need to be ratified by the board as they were in excess of bank exposure limits or had other unusual considerations, e.g. proposed interest rates at much lower than standard rates.
- 3.3 The Annual Report for 2008 states the following:
- 3.4 The overall duties of the Board as a whole are;
  - (a) providing control and direction of the Bank, including providing oversight leadership and setting strategic aims / objectives for the Bank in conjunction with the Management;
  - (b) deliberating on the business plan and the annual budget for the Bank at Board meetings;
  - (c) reviewing the business and financial performance of the Bank measured against the business plan and the annual budget on a quarterly basis;
  - (d) ensuring the establishment of effective internal controls within the Bank which will enable risks to be assessed, managed and monitor the effectiveness of such internal control objectives of the Bank;
  - (e) ensuring that the Bank has adequate human resources to meet the objectives of the Bank;
  - (f) ensuring that obligations to shareholders and other stakeholders are understood and met;

(g) ensuring that the Bank complies with all relevant laws and regulations, including the Corporate Governance Code and other codes of best practices;

- 3.5 In compliance with Article 47 (a) and Article 47 (c) of the Articles of Association of the Bank, 8 directors out of the total 11 directors of Board's composition were elected by the Government, including the Chairman and the 2 executive directors. The remaining 3 directors were elected by the general shareholders in accordance with Article 47 (b) of the Articles of Association of the Bank.
- 3.6 Of the government appointed Board directors approximately 5 are nominated by the Finance Minister. The President would ratify their nominations and formally appoint them.
- 3.7 The Managing Director who is also a member of the Board is also recruited and appointed by the Finance Minister .
- 3.8 In addition, the Finance Ministry has a majority vote of 51% and any official attending the AGM on behalf of the Finance Ministry can use this majority vote to change/veto anything agreed at the AGM.

#### **4 Key Members of the Board 2003 - 2008**

##### **Mohamed Hussain Maniku**

- 4.1 The State Trading Organisation, a nationally owned institute created to buy/sell products for the Maldives holds 10% of the shares of BML for which the STO receive a seat on BML's Board.
- 4.2 This seat was filled by Mohamed Hussain Maniku from 1993 to 2008, who was the Managing Director of the STO for the same period. It could be assumed that due to this longevity, and his position as MD for the STO, his influence on the board was significant.
- 4.3 In addition to being STO's representative, Mohamed Hussain Maniku held 1800 BML shares in his own name as per the BML's Annual Report for 2008, this being taken from the most recent annual report available from the BML website.

##### **Abdulla Hameed**

- 4.4 From 1993 to 2004 the Chairman of BML was Abdulla Hameed who was also the former Atolls Minister.
- 4.5 Mr. Hameed is the brother of Gayoom the former President. Bearing in mind Gayoom's Presidency spanned 30 years in total, it would be reasonable to assume that Mr. Hameed would have had significant influence over the decisions of the Board and the Bank of Maldives.
- 4.6 It is noted that Mr Hameed is currently charged with assisting tender fraud during his tenure as the Minister of Atolls by signing cheques for advance payments to Mr Ahmed Nazim's company (Namira Engineering) and approving bid documents

against the finance regulations. Mr Ahmed Nazim, is a former official of the Atolls Ministry. (Source: Presidents Commission Report 2009).

- 4.7 It is reported that Mr Hameed left the Maldives following the charges and is living in Sri Lanka.

**Mr Ahmed Hamza**

- 4.8 Director Ahmed Hamza was a Board Director of BML from 2005 to 2008. The BML Financial Statements for 2008 state the following:
- 4.9 "Uz. Ahmed Hamza was elected to the Board of Directors on 29 June 2005....He is a Director of the VA group. Uz. Hamza graduated from the International Islamic University of Malaysia obtaining his LLB in 1995 and completed his Masters at the International Maritime Law Institute, Malta in 1997. Uz. Hamza is an Honorable Member of Parliament elected for Faafu Atoll Biledhdhoo constituency. He retired from Bank's Board on 13 June 2008. Uz. Hamza owns 72 shares in BML."
- 4.10 The VA Group is one of the largest exposures that the Bank has within its loan book and this will be referred to in this report.

**Qasim Ibrahim**

- 4.11 Qasim came onto the BML Board in 2003 as a private shareholder as one of the two public seats that was available, however he was removed at the end of 2004.
- 4.12 Qasim Ibrahim became Finance Minister in 2005 which allowed him to regain influence on the BML Board, and indeed increase it significantly.
- 4.13 The following was obtained from wikipedia:
- 4.14 "Mr. Qasim Ibrahim was the Minister of Finance and Treasury in the Maldives government from July 2005 to July 2008. He resigned from his post as the Minister of Finance and Treasury on Thursday, 10 July 2008 due to allegations of incompetence."
- 4.15 As Minister of Finance Qasim Ibrahim would have been responsible for appointing the Managing Director of the Bank of Maldives, and the majority of the Board. Protocol dictated that only Gayoom the former President would have been able to veto any appointments made by Mr. Ibrahim
- 4.16 In addition and as explained in section 3, the Finance Ministry has a majority vote of 51% and can use this majority vote to change/veto anything agreed at the Annual General Meeting.
- 4.17 Qasim Ibrahim had close family ties with Ilyas Ibrahim and Abbas Ibrahim, the brothers in law of Gayoom, and with Nasreen Ibrahim, who is the wife of Gayoom. Qasim lived with the family from a young age.
- 4.18 Qasim Ibrahim was the Chairman of the Villa Group, director and majority shareholder. The Villa Group had one of the largest exposures to the bank and will be referred to in this report.

**Mr. Mohamed Ahmed Didi**

- 4.19 Mr. Mohamed Ahmed Didi is the Managing Director and Chief Executive Officer of Male' Water and Sewerage Company Pvt Ltd, and was appointed as Director of the Banks Board by the Government to the Bank's Board on 18th October 2001. He was reappointed annually, the last of which was on 31st May 2007. Mr. Didi has no shares in BML.
- 4.20 Mr. Didi has shares in Sultan of the Seas Group and is referred to in this report with regards to the same.

**Ms. Serene Ho Oi Khuen**

- 4.21 Ms Khuen joined the Bank in January 2004 as the Chief Executive Officer and General Manager. She was Vice President in the Structured Finance Group of Enron Corporation, USA from 2000 to 2001.
- 4.22 As the CEO of the Bank she was an Ex-Officio Director of the Board from January 2004 and was first appointed as a Director to the Bank's Board by the Government of Maldives on 31 May 2007 and reappointed on 13 June 2008 Her contract expired on 25 January 2009.

**Ms. Fathmath Nuzuha**

- 4.23 Ms. Fathmath Nuzuha was first appointed to the Bank's Board by the Government on 29 June 2005 and reappointed annually on 24 June 2006, 31 May 2007 and 13 June 2008. She was during this period the Deputy Director General; Economic Policy Planning Section of the Ministry of Finance and Treasury.
- 4.24 Ms. Nuzuha owns 50 shares in BML.

**Aishath Noordeen**

- 4.25 Aishath Noordeen is the Assistant General Manager and Executive Director of Bank of Maldives PLC. She joined the Bank in 1982.
- 4.26 The BML Website states that "She was appointed to the Bank's Board on 13<sup>th</sup> June 2008 and from 12<sup>th</sup> February 2009 to 1st July 2009 she served as the Acting Managing Director and CEO of the Bank".
- 4.27 She has no shares in BML

**5BML Overdrafts and Account Maintenance Policy**

- 5.1 On 28 July 2002 a memorandum from the then BML General Manager, Mr Keith Brown, regarding overdue loans and overdraft facilities was circulated amongst the branches and bank departments.
- 5.2 It stated that BML had been "heavily criticized by our external auditors regarding inspection and valuation of assets" and that " it had been observed that assets valued from one branch stated as inadequate due to poor condition and insufficient in value has been ignored and the same asset accepted as security by another branch and documented with a higher value for the purpose of recommending a loan".
- 5.3 It also stated that, "in the case of overdrafts, reminder letters must be sent to the borrower 2 months prior to expiry date to find out if the party wishes to renew. if the borrowers performance has not been satisfactory during the past year, do not ask

whether party wishes to renew the limit and do not recommend renewal, instead speak to party for crystallizing the overdraft to a demand loan or full adjustment.

- 5.4 If the party wishes the limit to be renewed, ensure that inspection and valuation of all securities are done before the expiry date. obtain financial information where appropriate." Exhibit XXX, (source: BML Audit working papers, File 6 NPA's)
- 5.5 The above guidelines will be referred to throughout the report in relation to account maintenance and overdraft facility performance.

## **6BML Loan Facility Approvals**

- 6.1 To understand how loan approvals were being made by the board rather than an independent committee, Board resolutions and agreements were reviewed.
- 6.2 A memo dated 22 May 2007 proposing to change the levels of approval required for credit proposals, confirmed that "proposals of approval level of the Board of Directors, as before, will not go to the Credit Committee and will be prepared and evaluated by the Head Office Credit Department and recommended to the Board by the General Manager/CEO". Exhibit XXX (source BML Audit report working papers File 6 ZV)
- 6.3 The above policy clearly demonstrates that any loan requests from members of the Board would not be pre-approved by the Credit Committee, but would ultimately be referred to the Board.
- 6.4 This effectively meant that those Board Members that had applied for credit facilities were approving their own loans.
- 6.5 In addition to the above and in the same memo, it was proposed that annual reviews of large exposures (defined as single or Group exposures exceeding 10% of the bank's capital) are to be approved by the Board.
- 6.6 The memo's own definition of Group exposures was as the following "exposures to two or more persons, companies, corporations, partnerships or other business enterprises which are closely related through common ownership, control or where one party is able to exert significant influence over another party, management financial interdependence or cross guarantees. The definition also includes persons who are family members that are financially dependent upon one or more persons within the group".
- 6.7 Again, as a significant majority of the large exposures to the bank were related to members of the Board, it meant that those same members of the Board were able to approve credit proposals to related family members.
- 6.8 Some individuals as will be referred to further in the report provided cross guarantees for other seemingly unrelated companies, and/or were shareholders/directors in more than one group company.
- 6.9 As a result, we have created a relationship chart showing what relationships existed between various members of the companies mentioned in this report and their connections to the BML Board, or the Government. This can be found in Appendix XXX.

## **7BML Loan Exposures**

- 7.1 The Auditor General's report states that of the loans worth \$633million given until 31 December 2008, a majority of 60% (\$379 million) was given to 12 parties of which 11 are considered as "large exposures" to the Bank.
- 7.2 The Maldives Monetary Authority (MMA) in 2005 had directed BML to reduce the bank's concentration of credit granted to individual and related groups of borrowers to less than 30% of the Bank's capital. In letters dated 23 October 2005 and 2 January 2006 (Exhibit 4) BML agreed to undertake the same.
- 7.3 A letter from the then General Manager and CEO of BML on 29 August 2007 (Exhibit 5) wrote to the MMA requesting increase of the bank's exposure and to take into account the receipts due from the European Investment Bank Loan given to assist reconstruction after the Tsunami. This was rejected from the MMA.
- 7.4 The MMA responded and clearly stated that "the total exposure should not exceed 30% of the bank's capital base, and no one party of the member group should exceed more than 15% of the same".
- 7.5 Following the rejection from the MMA to increase exposure limits, in a letter dated 6 December 2006, Abdulla Hameed the Chairman of the Bank of Maldives personally wrote and signed a letter, requesting reconsideration of the proposed increase in the loan exposure of the bank again, which was once more specifically denied (Exhibit 5) by the MMA.
- 7.6 Exhibit XXX shows the % exposure of each party as at date of Mr Hameed's letter in December 2007.
- 7.7 This would mean that those parties with loan facilities exceeding the regulated limits would either have to repay the excess amounts, and prevent them from requesting any further re-financing/rescheduling or other loan facilities.
- 7.8 As Mr Hameed wrote the second letter, it would be reasonable to assume that he understood the current risk position of the BML in it's exposure levels at that point in time.
- 7.9 Finally, the MMA in their letter of 2 January 2008 agreed to allow group limit at 40% of the Bank's capital funds provided that no member of the group shall exceed 15% of the Bank's capital base.
- 7.10 Bearing in mind that the MMA had refused this request twice, it is not clear on what basis their decision was reversed.
- 7.11 Since January 2008 at least two of the largest exposures of the Bank had again exceeded the restricted maximum limit prescribed by the MMA, even after the limit was increased to 40%.
- 7.12 We have confirmed the following parties to be the largest exposures to BML from a letter headed document from the Bank of Maldives Exhibit 7 (source BML Audit Report Working Papers File BOM) listing the bank's largest loan exposures as at December 2006 and December 2007:



- Sun Group
- Lily Group
- MTDC
- Sultans of the Seas
- VA Group
- Afeef Group
- Villa Group
- Thasmeen Ali
- MTCC
- VB Group
- Rainbow

7.13 Both the MTDC and MTCC are government affiliated companies and have not been included in this report.

7.14 Of the private parties listed above who have benefited from receiving these loans, one is a Vice President of a major political party, one was the Vice Presidential Candidate for the previous regime, four were members of the Board of the Bank, five were cabinet ministers or advisors, four are members of the Parliament and Special Parliament or parties closely linked to them. These are referred to in the report.

7.15 The following sections set out the financial arrangements of each of the private parties that benefited from the loans provided to them and their relationships to either the former President and his regime.

### **8Sun Group**

8.1 Loans and overdraft facilities provided to Sun Group totalled MRF 607,345,442 (equivalent to \$46,879,400 as at 31 October 2008). This amounted to 40.8% as a percentage of the Bank's Capital as at 31 October 2008, (Exhibit 8 - Source: "Bank of Maldives major borrowers 1nov08") provided to PWC Auditors.

8.2 This clearly exceeds the exposure limit guidelines set by the MMA.

8.3 According to the document, "Mr Shiyam's personal exposure was not aggregated to the group total as it is fully secured against fixed deposits". Therefore the figure above is attributed solely to the Sun Group, excluding Mr Shiyam.

8.4 If Mr Shiyams's personal overdraft accounts were included, the total exposure would be MRF 716,220,442 being 48.1% of the banks capital, far in excess of the allowable limit, even if some of the exposure was covered by fixed deposits.

8.5 Mr Shiyam was also a board member of the Maldives Tourism and Development Corporation,

8.6 The Sun Group consists of the following companies, also shown in Exhibit XXX:

- Emerald Resort Pvt Ltd
- Tropical Maldives Pvt Ltd
- Sun Tours and Travel Pvt Ltd
- Sun Investments Pvt Ltd
- Sun Construction & Engineering Pvt Ltd
- Sun Spa Resorts
- The Beach House Collection

**Sun Group Directors/Shareholders**

8.7 The main director and shareholder in the Sun Group is Mr Ahmed Shiyam who is the Chairman of the Group.

8.8 Mr Shiyam was also the Deputy Leader of DRP (the former ruling party), a former Member of the Majlis (MP) for Dhaalu Atoll and a Board Member of the Maldives Tourism and Development Corporation (MTDC) of which substantial loan exposures to BML occurred.

8.9 Although not calculated as part of the total group exposure are personal overdrafts for Mr Ahmed Shiyam Mohamed, for \$7million and MRF 19,275,000 respectively.

8.10 Account 7701-133058-001 belongs to Mr. Shiyam with an overdraft limit of MRF 19,275,000, a result of a request for a temporary 3 month overdraft facility of \$1,500,000 sanctioned in April 2007.

8.11 It was provided for working capital purposes to assist in the construction of Manarafu Island Resort, the total project cost was stated as \$25mil of which \$17million has, according to documents sighted on BML letterhead, been sourced through State Bank of India.

8.12 The \$1,500,000 was secured under three Fixed Deposit Accounts of \$500,000 each, numbered 3935, 3936 and 3937.

8.13 The temporary overdraft was extended on at least two occasions and on the last sighted document is valid until July 2009 Exhibit 10 (source BML Audit Report working papers, File 1, I200)

8.14 Account number 7701-133058-002, also belonging to Mr. Shiyam had a \$1,000,000 overdraft limit sanctioned in March 2007 for 12 months in order to pay cash collateral to Proparco for a \$8.7million loan facility.

- 8.15 Research has confirmed that Proparco is investment company, which "aims to assist private investment in developing countries. Created in 1977, PROPARCO is a Development Financial Institution partly held by [Agence Française de Développement](#) (AFD) and private shareholders, and focuses on the productive sector, financial systems, infrastructure and equity investment".
- 8.16 However during 2007 and 2008 the overdraft limit appeared to reach \$7million and no evidence has been sighted of any documentation approving this increased overdraft facility or to obtain the security provided to cover the increased amounts.
- 8.17 A further loan request on this account for \$5,000,000 was made on 4 March 2008 as a bridging loan to finance the development of Irufushi Resort pending finance agreement for 3rd phase of the project. Security was given in the name of Mr. Afeef of Champa for lien of fixed deposit of \$5,000,000. Mr Afeef is the Director for Kasa Holdings Ltd and Chair of the Afeef Group.
- 8.18 It should be noted that according to the BML's own definition of group exposure it includes cross guarantees of which the above overdraft secured via Mr Afeef's fixed deposit would be classed, thereby increasing Mr Afeef's exposure by another \$5million.
- 8.19 The consideration document stated that "the above is within the authority level of CCO under secured by unencumbered cash or FD's, cover 100% or more. However the proposal will be placed for confirmation of the Board as the proposed interest rate (1%) is lower than the present board approved minimum rate of 8.5%"
- 8.20 It should therefore be noted that the Board approved an interest rate far lower than the standard 8.5%.
- 8.21 Although a letter is sighted from Mr Hussein Afeef offering his Fixed Deposit as security, no signed agreements have been evidenced thus far, with the required signatures from Mr Afeef or Mr Shiyam. (Source: BML Audit Report Working Papers I400)
- 8.22 Included within the above loans was \$5.4 million issued on 27 December 2004 for the development of a picnic island. It was noted by the Auditor General that documents required were not collected or evaluated properly prior to issuing the loan. This will need to be further verified through BML records as the information we have does not cover this period.

#### **Financial transactions for Emerald Resorts Pvt Ltd**

- 8.23 Account number 7701-112379-001 was granted a demand loan to Emerald Resorts Pvt Ltd on 23 November 2005 for \$1.5million as part of syndicate loan for renovation and expansion of Olhuvveli beach and Spa Resort, (including refinancing of existing demand loan facility of \$2million with Sun Travel & Tours Pvt Ltd). It was provided at 8.5% pa interest and expires in November 2012.
- 8.24 The syndicated loan comprised of 7 year loan of \$1.5million from BML (as above), a 7 year loan from Peoples Bank of \$5million, and a 7 year loan from State Bank of India of \$9million, subject to the terms within its sanction letter dated 22 November 2005.

- 8.25 Security was provided as first priority pari passu equal ranking mortgage with State Bank of India and People's Bank Colombo on Olhuveli Beach Resort and Spa, corporate guarantee of Hotels and Resorts Holding Pvt Ltd, corporate guarantee of Sun Travels & Tours Pvt Ltd and personal guarantee of Mr A Shiyam Mohamed.
- 8.26 A further agreement was created between BML and Emerald Resorts Pvt Ltd for an additional \$15million loan to be utilised for refinancing funds availed by borrower in relation to reconstruction and development of the resort, caused by the damage of the tsunami of 26th December 2004.
- 8.27 It notes that the European Investment Bank (EIB) has granted loan assistance in the Maldives represented by Ministry of Finance and Treasury (MOFT). BML is financing the reconstruction projects by means of sub-loans through an on-lending agreements, and had granted Emerald Resorts Pvt Ltd \$15million of the total loan provided by the EIB. Exhibit 11 (Source: BML Audit Report working papers, file 1, B500).
- 8.28 Security was provided as per the original agreement.
- 8.29 Account number 7701-130921-002 for Emerald Resort Pvt Ltd requested an overdraft facility of \$50,000 which was granted in January 2006, for the working capital of Olhuvelhi Beach Resort, and was extended annually. So far we have only seen signed copies of the first agreement requesting and agreeing to the terms of the overdraft. We have not as yet seen any signed copies agreeing to extend the loan for a further three years to 2009, despite the agreement forms being sent for signature. Despite this the bank still provided the overdraft facility. Exhibit 12 (Source BML Audit report working papers, file 1, B300)
- 8.30 It was secured against the mortgage of Vilu Reef Beach & Spa Resort, a lien against a fixed deposit of \$350,000 in the name of Sun Travel & Tours Pvt Ltd, corporate guarantees of Sun Investment Pvt Ltd and Sun Travel & Tours Pvt Ltd and personal guarantee from Mr Ahmed Shiyam Mohamed.
- 8.31 The overdraft limit was breached every single month from November 2007 to October 2008 (Exhibit 12), the lowest balance being \$430,065.78 overdrawn.
- 8.32 The overdraft limit was extended to 30 April 2008 in January 2008. It was further extended in April 2008 to 31 January 2009. It was extended despite the regular breaches of the current overdraft limit.
- 8.33 An overdraft facility of MRF 1million sanctioned on 27 January 2005, renewed on 10 December 2006, renewed again on 29 January 2008, and again on 1st April 2008, the last expiry date of which is known was 31 January 2009. (source BML Letter, File 1 Red Tab). Interest rate was 8.5% pa.
- 8.34 This was secured by a lien against fixed deposits of \$350,000 in the name of Sun Travels & Tours Pvt Ltd, maturity date of which was 14 March 2008, a corporate guarantee of Sun Travels & Tours Pvt Ltd, and personal guarantee of Mr Ahmed Siyam Mohamed.
- 8.35 This overdraft limit was exceeded on a number of occasions in 2007 and 2008 Exhibit 13. The highest balance was negative MRF 13,862,503.57 in August 2008.

- 8.36 I have not yet seen any documentation referring to the "right of BML to impose penal benefit of 5% over the prescribed rate in case of failure to adjust the overdraft in time or cancellation of the limit under the sub clause" which reserves the bank the "right to cancel the limit at any time and call back the entire outstanding with up to date benefit due to non-adjustment of overdraft in time, violation of any terms of sanction or due to any other reason."
- 8.37 Despite the breaches, no penalty interest was charged as per the above statement.
- 8.38 A US Dollar account 7701-130921-005 had no overdraft limit yet from November 2007 to October 2008 shows that the account regularly exceeded its limits, the lowest balance being in November 2007 was \$460,921.26. Exhibit 14 (Source: ) shows that in every single month over the 12 month period the account exceeded its limits.
- 8.39 A further bank guarantee was provided for \$50,000, on 10 February 2008 to expire in February 2009, the beneficiary being the Ministry of Higher Education, Employment and Social Security as security deposit for the recruitment and employment of expatriates in the Maldives.
- 8.40 Security given was corporate guarantee of Sun Travels & Tours Pvt Ltd and a personal guarantee of Mr A Siyam Mohamed.

#### **Financial transactions for Tropical Maldives Pvt Ltd**

- 8.41 Account number 7701-144892-002 for Tropical Maldives Pvt Ltd showed a negative balance averaging \$2,032,069.43 despite an agreed limit of \$1,800,000 for the 12 month period November 2007 to October 2008 inclusive. Exhibit 14 (Source BML Audit Report working papers, file 1 C300).
- 8.42 The lowest balance recorded was \$3,121,274.76, however facilities continued to be provided until early 2009.
- 8.43 In addition Exhibit 14 also shows Rufiyaa account 7701-144892-001 with an overdraft limit of MRF 12,850,000. However the balance at one stage exceeded MRF 48,179,732.42 in December 2007, and did not fall under the overdraft limit until April 2008.
- 8.44 No evidence has been sighted thus far with regards to any calling in of any securities or repayment of excess amounts due.

#### **Financial transactions for Sun T&T Pvt Ltd**

- 8.45 In March 2004 , account 7701-112222-was provided a MRF1.5million at 8.5% pa, secured by a mortgage of Vilu Reef Beach & Spa Resort, Meedhufushi, secondary mortgage of vessel "Fathul bari", secondary mortgage of "Sunset 9", corporate guarantee of Sun Investments Pvt Ltd and personal guarantee of Mr A Siyam Mohamed.
- 8.46 This overdraft was extended at least until October 2008 as evidenced by the account record which also shows the account regularly breaching its overdraft limits, the lowest balance of which was \$3,725,270.15 in April 2008 Exhibit 15 (Source: XXX)
- 8.47 Sun T&T Account 7701-112222-002 had an overdraft limit of MRF5,500,000 being the combined total of two facilities of MRF 4,000,000 and MRF 1,500,000.

- 8.48 However it is noted that during 2008 the account balance continually exceeded this limit, averaging MRF10million and reaching MRF 16.6million in September 2008. (Exhibit 16 (Source BML Audit Report working papers File 1 D200, D300, D400))
- 8.49 Sun T&T Account 7701-11222-302 was provided with a MRF 5million loan in August 2003 to purchase vessel "Atlantis" at a rate of 11% pa secured via a mortgage over the vessel. Exhibit XXX (Source BML Audit Report working papers, File 1, D500).
- 8.50 In April 2008 a loan of \$2million to account 7701-112222-341 was provided for working capital, of which costs were to be debited to the same account as above. The interest was given at 8.5% pa and secured on vessel "Sunset 9", and personal guarantees of Mr A Siyam Mohamed Exhibit XXX (Source BML Audit Report working papers file 1 D800) Expiry was 18 months from disbursement.
- 8.51 Sun T&T Account 7701-112222-003 was provided with a \$500,000 overdraft originally sanctioned in December 2006 Exhibit XXX (Source: BML Audit Report working papers, File 1 D1100), extended until January 2009.
- 8.52 This overdraft was regularly exceeded during the period November 2007 to October 2008 inclusive, the lowest balance reaching \$758,322.64 in February 2008. The average balance of which exceeded the overdraft 5 months out of the 12.
- 8.53 It was secured through personal guarantees of Mr Ahmed Shakir, the Mortgage of vessel "Sunset 9", Sun Investments Pvt Ltd, and Sun Travel & Tours Pvt Ltd..
- 8.54 Accounts owned by Sun T&T, numbered 7701-11222-015 and 016 in USD, both had no overdraft facilities. However the accounts were regularly allowed to exceed their limit, on one occasion reaching \$1.7million USD. Exhibit XXX (Source: BML Audit Report working papers, file 1, D900).
- 8.55 Despite these continual breaches of the limits above, there has been no evidence sighted regarding the recovery of the exceeded amounts, procedures to call in any security or repayment of any facilities, or any interest charged in respect of the exceeded amounts
- 8.56 Estimated interest for breach of their USD accounts would be \$7,808 and \$54,808 at 18% as per the terms of the account, for November 2007 to October 2008 inclusive.
- 8.57 Irufushi Island Resort, located on Medhufushi was managed by Sun Tours and Travel Pvt until July 2009 when it was brought under the Hilton Management.
- 8.58 It was insured in 2008 for \$85,000,000 with Ceylinco Insurance Plc. Exhibit XXX (Source: BML Audit Report Working Papers, D1300.)
- 8.59 The original total loan provided through a syndicate of five banks sanctioned on was \$39.65million of which BML provided \$11.65million of the loan.
- 8.60 The total debt to equity at this point in time was 47%.

- 8.61 A further request by Sun T&T to increase its total loan by a further \$15million was provided thereby the total loan reached \$53.65million of which BML provided 25% of the loan. The total debt to equity was at this point 63%. (Exhibit XXX )
- 8.62 Debt service coverage ratio was not to exceed \$48.5million approximately, however the additional loan exceed this and the debt service coverage ratio became 1.55, in breach of the affirmative covenants of the agreement. Exhibit XXX (Source: BML Audit Report Working Papers, D1300.)
- 8.63 Payments from "Irufushi Syndicate" have been sighted to Sun T&T's USD bank account and transferred to Maldivian Rufiyaa account (Exhibit XXX). Further enquiries are needed to establish who are the members of the syndicate and any shares they receive.

**Financial transactions for Sun Investments Pvt Ltd**

- 8.64 Account number 7701-129800-001 was provided with overdraft facilities in the name of Sun Investments Pvt Ltd to assist with the working capital of Vilu Reef resort were provided at a limit of MRF1,000,000 in December 2006. This facility was agreed with additional mortgage over Vilu Reef and satisfactory management of the account 129800-001. This was extended in April 2008 Exhibit XXX (Source BML Audit Report working papers, file 1, E200)
- 8.65 This overdraft was extended on a number of occasions, and in December 2006 the rate was reduced to 8.5% pa. The last expiry date for this facility was 31 January 2009.
- 8.66 Exhibit XXX shows that the account regularly exceeded its agreed limit, reaching MRF 14 million in November 2008, however no documentation has been seen requesting the appropriate repayment or security of the loan.
- 8.67 Reference in the working papers is made to commission being paid to BML in regards to \$53mil loan to refurbish Irufushi Resort. BML acted as the agent to the other syndicated banks in order to represent that the funds had been utilized according to the loan agreement. The claim needs further verification and an understanding of what resort visits were made by BML
- 8.68 Account number 7701-129800-002 was provided with a \$50,000 overdraft limit in December 2004 for the working capital of Vilu Reef Beach & Spa Resort in Meedhufushi at 8.5% pa and was extended on two occasions, the last date of expiry sighted was 31 January 2009. Repayment was to be in one lump sum at the end of the period.
- 8.69 Security provided was fixed deposits against \$350,000 in the name of Sun Travels & Tours Pvt Ltd bearing interest at 5% pa (receipt number FTR 112222-02), corporate guarantee of Sun Travels & Tours Pvt Ltd, and personal guarantees of the directors Mr A Siyam Mohamed and Ms A Faiz.
- 8.70 A bank guarantee of \$50,000 was also provided, the beneficiary being the Ministry of Higher Education, Employment and Social Security as security for the recruitment and employment of expatriates in the Maldives. The expiry date was 19 February 2008 and corporate guarantee of Sun Travels & Tours Pvt Ltd, and personal guarantees of Mr A Siyam Mohamed and Ms A Faiz were provided as security.

#### **Financial transactions for Sun Construction Pvt Ltd**

- 8.71 Sun Construction Pvt Ltd was incorporated in 2005 and is owned by Mr Ahmed Siyam Mohamed (60%) and Sun Travel & Tours Pvt Ltd (40%). Mr Ahmed Shakir was company secretary.
- 8.72 Exhibit XXX also shows that Mr Mohamed Ali Didi and Mr GF Kumar were authorised to "operate the account with their individual signature" when the account was opened in July 2006.
- 8.73 A power of attorney has been reviewed and confirmed, appointing Mr Ahmed Shakir to take all actions, sign documents etc on behalf of Ms Aishath Faiz. (Source BML Audit Working Paper , File 1, F200)
- 8.74 Account number 7701-159358-600 had four bank guarantees in total, for \$50,000, \$100,000, \$50,000 and \$100,000 in favour of the Ministry of Higher Education, Employment and Social Security for foreign expatriate workers.
- 8.75 These were secured via a personal guarantee of Mr Shiyam and a corporate guarantee from Sun Tours & Travel Pvt Ltd.
- 8.76 The credit proposal document of one guarantee states that "approval of the above is not within the authority level of the management as no margin or collateral is taken, as such would be placed for Board ratification".

#### **Financial transactions for Sun Spa Resorts**

- 8.77 Account number 7701-156711-002 has a bank guarantee of \$50,000, requested on 16 February and sanctioned on 19 February 2008, for the recruitment and employment of expatriates.
- 8.78 It is guaranteed personally by Mr Shiyam and through a corporate guarantee of Sun Travel & Tours Pvt Ltd. Exhibit XXX (Source: BML Audit Report working papers, file 1, g100).
- 8.79 No signed documentation has been sighted from Mr Shiyam at this point in relation to this bank guarantee however the guarantee was authorised as evidenced by the bank's liability position.

#### **Financial transactions for The Beach House Collection**

- 8.80 The Beach House Collection Pvt Ltd is the management company of Manafuru Beach and Spa Resort.
- 8.81 Account number 7701-169929 has a bank guarantee of \$50,000, sanctioned on 1 June 2008, for the recruitment and employment of expatriates.
- 8.82 It is guaranteed personally by the directors Mr Shiyam, Ahmed Shakir and Hussain Salim Mohamed. (Source BML Audit Report working papers, file 1, h100).
- 8.83 No signed documentation has been sighted from the directors at this point in relation to this bank guarantee, however the guarantee was authorised.



### **Current Known Securities/Assets**

- 8.84 Exhibit XXX obtained from the BML show valuations of Sun Group assets in 2008 as approximately \$175,000,000 of which £87,000,000 was provided as security against BML loan facilities. It should be noted that some of the remaining equity is provided as security for other banks, namely MCB, Sampath etc.
- 8.85 A review of the valuation documents are required to determine the basis of the valuation and their validity.
- 8.86 Iruafhushi Beach Resort was insured in 2008 for \$85,000,000 with Ceylinco Insurance Plc as highlighted in section 6.53.
- 8.87 The total loan provided through a syndicate of five banks was \$53.65million of which BML provided 25% of the loan. Therefore estimated equity using insured value was \$31.35million.
- 8.88 Appendix XXX shows our own review of the loans outstanding as at November 2008 and the security used as collateral against said loans.
- 8.89 It appears that in aggregate the total asset security across the group, excluding the directors personal guarantees as these are unknown quantities and not defined in any credit proposal, is \$54million, whilst the total loan exposure is \$56million.
- 8.90 The MMA guidelines request that at least 120% security cover is provided, and whilst on each and every single loan agreement, this is indeed the case, when placed in aggregate, it is clear that the same assets are being used as security for various loans, and that in total the cover is 95%. Therefore should the group as a whole face financial difficulties, it is unlikely that the bank would be able to recover all of its loans outstanding as of November 2008.

### **9Lily Group**

- 9.1 Loans and overdraft facilities provided to the Lily Group totalled MRF 519,515,315 (equivalent to \$40,099,400 as at 31 October 2008). This amounted to 34.9% as a percentage of the Bank's Capital as at 31 October 2008 (Exhibit 6).
- 9.2 The total group exposure as at 31 October 2008 was not outside of MMA limits as per their guidelines issued on 2 January 2008.
- 9.3 The Lily Group consists of the following companies:
- Lily Hotels Pvt Ltd
  - Turquoise Pvt Ltd
  - Lily International Pvt Ltd was incorporated in 2000 for the supply food and beverage items to resorts
  - Lily Entertainments Pvt Ltd
  - Apollo Holding Pvt Ltd
  - Fari Maldives

- Sky Tours M.P.L

9.4 Included in the total loans figures are loans for MRF 7million and MRF 9million to Ahmed Nasir/Amir Mansoor and Amir Mansoor respectively.

9.5 Ahmed Nasir was on the Board of the Ports Authority during Gayooms regime

### Directors and Shareholders

9.6 Known directors for Lily Hotels Pvt Ltd, Turquoise Pvt Ltd, are Mr Ahmed Hafeez, Mr Ahmed Nasir, Mrs Azuhaariyya Mohamed and Mr Abdul Muhsin Hussein.

9.7 The main shareholder for the Lily Group is Mr Ahmed Nasir, and Exhibit XXX shows the relationships that exist between the group of companies. A table showing shareholdings is also set out below:

#### MR. NASIR & RELATED PARTIES (LILY)

LEPL	Lily Enterprises Pvt Ltd
LHPL	Lily Hotels Pte Ltd
LIPL	Lily International Pvt Ltd
LSTPL	Lily Shipping & Trading Pvt Ltd
AHPL	Apollo Holdings Pvt Ltd
STPL	Sky Tours Pvt Ltd
FMPL	Fari Maldives Pvt Ltd
AEPL	Apollo Enterprises Pvt Ltd
TPL	Turquoise Pvt Ltd
ASSPL	Apollo Speed Services Pvt Ltd
ACTPL	Apollo Communications & Technology Pvt Ltd
AAPL	Agas Apollo Pvt Ltd
ARHPL	Apollo Resorts and Hotels Pvt Ltd
MCPL	Moreway Construction Pvt Ltd
FGPL	Falim Group Pvt Ltd

	LEPL	LHPL	LIPL	LSTPL	AHPL	STPL	FMPL	AEPL	TPL	ASSPL	ACTPL	AAPL	ARHPL	MCPL	FGPL
Ahmed Nasir	40%	30%	40%	33%	45%	34%	18%	90%	21%	27%	54%	45%	72%		
Azuhariyya Mohamed	40%	30%	40%	33%	20%		18%	51%	12%						
Abdul Muhusin Hussain	20%	15%		33%	10%		18%		6%						
Ahmed Hafeez		25%					18%	18%							
Amir Mansoor			20%												
Mohamed Waheed					25%			10%	15%	6%	5%	8%	50%		
Abdulla Nazim						33%									
Ahmed Ali Manik						33%									38%
Ibrahim Rasheed							5%								
Abdul Qadir Ahmed							5%								
Ahmed Nazeer							18%								
Ahmed Riyaz										20%					
Unissued Shares										20%					
Ahmed Saheer												45%			
Aishath Gulaisha Mohamed Haleel Ibrahim											40%				
Ali Rasheed													20%		
Abdulla Saeed														50%	
Total	100%	100%	100%	99%	100%	100%	100%	100%	90%	100%	100%	100%	100%	100%	38%

### **Financial Transactions for Lily Hotels Pvt Ltd**

- 9.8 Lily Hotels Pvt Ltd was incorporated in 1993 by Mr Ahmed Hafeez and Mr Ahmed Nasir holding 200 and 800 shares respectively. In 2000 the company increased its shareholders to include Mrs Azuhaariyya Mohamed and Mr Abdul Muhsin Hussein.
- 9.9 As at 31 October 2008 Lily Hotels Pvt Ltd had total debt facilities on account number 101769 of MRF 186,406,566 (equivalent \$14,388,200) which as an individual member was 12% exposure of the banks capital as of the same date. This would be within the MMA guidelines issued 2 January 2008.
- 9.10 The company is the lessee and operator of Lily Beach Resort valid until October 2018.
- 9.11 A loan was to account 7701-101769-300 granted for \$10million on 12 March 2008 for the purpose of "fully adjusting the outstanding facilities in the name of the borrower".
- 9.12 Pari passu mortgage security was required over Island Hideaway at Dhonakuhli with EXIM Bank Malaysia together with corporate guarantee of Turquoise Pvt Ltd and personal guarantees of the directors of the company.
- 9.13 A temporary overdraft was granted in October 2008 for MRF 5,000,000. for working capital to be repaid in 45 days, guaranteed by the directors personally and with the mortgage of Dhonakuhli island. Exhibit XXX ([source BML Audit Report T400](#))
- 9.14 We are not able to verify at this point if the temporary overdraft was repaid within the timeframe determined in the agreement.

### **Financial Transactions for Turquoise Pvt Ltd**

- 9.15 As at 31 October 2008 Turquoise Pvt Ltd had total debt facilities on account number 123878 of MRF 160,974,758 (equivalent \$12,425,200) which as an individual member was 11% exposure of the banks capital as of the same date. This would be within the MMA guidelines issued 2 January 2008.
- 9.16 Turquoise Pvt Ltd was successful in its bid for the lease of Dhonakuhli Island, now known as Island Hideaway. The lease runs until 2028
- 9.17 A loan was provided of \$10million in March 2008 to account 7701-123878-300, and enhanced with a further \$1.68million in August 2008, the purpose of which to settle the balance with EXIM bank of Malaysia. Exhibit XXX ([source BML Audit Report U200](#))
- 9.18 It is noted through a review of the account management Exhibit XXX (U200) that in September and October 2008, immediately after the enhancement was provided, both repayments were not paid and became overdue. No evidence has been found to confirm if these arrears were settled.
- 9.19 According to the agreement an additional 5% penalty interest for non-payment is only activated after a period of 90 days of non payment.

### **Lily International Pvt Ltd**

- 9.20 As at 31 October 2008 Lily International Pvt Ltd had total debt facilities on account number 136707 of MRF 21,869,901 (equivalent \$1,688,080) which as an individual member was 1% exposure of the banks capital as of the same date. This would be within the MMA guidelines issued 2 January 2008.
- 9.21 A credit limit of \$1million was provided to account 136707 in October 2005 for working capital. The security provided was the mortgage to Lily Beach Resort as well as personal guarantees by the directors. Exhibit XXX (Source: BML Audit Report working papers, File 3, V200)
- 9.22 A further \$500k overdraft facility was granted in May 2006 for working capital purposes, again security provided was the mortgage to Lily Beach and personal guarantees by the directors of the company. Exhibit XXX.
- 9.23 In August 2007 a request for a combined renewal of the overdraft and letter of credit facilities was requested totalling \$1.5million (Exhibit XXX). It was noted in the report that "the total exposure to the group is large (exposure to the total group amounts to \$31.5million) representing 45.8% of banks capital as at 16 August 2007. MMA has advised BML on 21 August 2007 to reduce group outstanding to 30% of banks capital". (Source BML Audit Working Papers, File 3, V200).
- 9.24 Despite the above request, renewal of facilities were granted on the basis of security given and that "Lily hotels is currently paying loan repayments of \$166,000 per month towards the existing loan repayments, Lily Enterprises approximately \$299,700 and Turquoise \$225,000 during high season and \$96,000 during low season, as such Lily group and Turquoise total liabilities will reduce by \$7.5million per annually"
- 9.25 The above statement in my view is unusual in that it considered repayments themselves as a mechanism to reducing the groups exposure, rather than considering the actual loan exposure itself, and denying the request.
- 9.26 This may be demonstrative of the lengths that the management and board were prepared to go in order to provide loan facilities, despite clearly breaching MMA guidelines on exposure limits.

### **Lily Enterprises Pvt Ltd**

- 9.27 As at 31 October 2008 Lily Enterprises Pvt Ltd had total debt facilities on account number 251291 of MRF 95,296,682 (equivalent \$7,335,690) which as an individual member was 6% exposure of the banks capital as of the same date. This would be within the MMA guidelines issued 2 January 2008.
- 9.28 Account 7701-251295-601 was provided with a "letter of credit cum demand loan" of \$1 million in February 2005 for a period of 12 months but which has been regularly renewed until Sept 09 being the most recent information available.. The purpose to facilitate working capital. Exhibit XXX, (source BML Audit working papers file 3, W500)
- 9.29 It was secured by a mortgage over the vessel "Lily Royal", mortgage over "Asian Express", personal guarantees of the directors and a guarantee from Lily Hotels Pvt Ltd.

- 9.30 The same account was provided with a MRF 1million overdraft limit in July 2008 secured over the vessel "lily Royal" and personal guarantees of the directors. Exhibit XXX, (source BML Audit working papers file 3, W800).
- 9.31 A \$500k overdraft was granted in June 2006 to account 251291 for working capital, for one year and renewed monthly until Sept 2009 being the most recent information available.
- 9.32 It was secured by a mortgage over the vessel "Lily Royal", a mortgage over "Asian Express", personal guarantees of the directors and a guarantee from Lily Hotels Pvt Ltd. Exhibit XXX, (source BML Audit working papers file 3, W700)
- 9.33 Account 7701-251295 was provided with a loan of \$1.2million in September 2006 for a period of 18 months. The purpose to buy a new sailing vessel "Ocean Venture" and associated expenses. It was secured by a mortgage over the same vehicle, and personal guarantees of the directors.
- 9.34 Further confirmation is required to determine if this loan was repaid as per the terms of the agreement.
- 9.35 Account 7701-251295-316 was provided with a loan of \$3 million in January 2007 for a period of 6 months. The purpose to buy a new sailing vessel "Windsor Lady" and associated expenses. It was secured by a mortgage over the same vehicle, personal guarantees of the directors and a guarantee from Lily Hotels Pvt Ltd. Exhibit XXX, (source BML Audit working papers file 3, W200)
- 9.36 It is noted in the credit proposal document for this loan that the BML stated that the Lily Group exposure as a % of BML Capital in December 2006 was 56%, but that "security cover on total exposure of the group exceeding 15% of capital is 227% (and) as such it is within MMA regulations."
- 9.37 It would appear that the proposal neglected to refer to the MMA guidelines stating that group exposure should be no more than 30% of banks capital, and that the referral to the security was used as a means to provide the loan.
- 9.38 The same account was provided with a loan of MRF 10 Million in July 2008 for 84 months for the construction of a 10 storey building in Male. It was secured by a mortgage over the vessel Lily Royal and personal guarantees from the directors. Exhibit XXX (source BML Audit working papers file 3, W400)
- 9.39 In August 2008, a loan was provided for \$3.85million for the purchase of a new vessel "Windsor Star". It was secured by a mortgage over the same vehicle, personal guarantees of the directors and a guarantee from Lily Hotels Pvt Ltd. Exhibit XXX (source BML Audit working papers file 3, W300)
- 9.40 Bank guarantees were also provided for total \$380,000, Exhibit XXX (source BML Audit working papers file 3, W600), to various commercial companies, guaranteed by personal guarantees of the directors.

#### **Financial transactions for Apollo Holdings Pvt Ltd**

- 9.41 As at 31 October 2008 Apollo Holdings Pvt Ltd had total debt facilities on account number 323285 of MRF 30,421,375 (equivalent \$2,348,140) which as an individual

member was 2% exposure of the banks capital as of the same date. This would be within the MMA guidelines issued 2 January 2008.

- 9.42 An overdraft was granted on 17 December 2006 for \$1.25 million for working capital. It was secured by a mortgage over 2 boats, a jetty and building, cranes, barges, guarantee from Lily Enterprises and a personal guarantee from the directors. Exhibit XXX (Source BML Audit Report working papers, File 3, X200

#### **Current Known Securities/Assets**

- 9.43 Secured assets against debt were valued at \$93million against all of the group parties as per exhibit XXX. (source: BML Audit Report, working papers, Q100 & V200)
- 9.44 Analysis of the valuation documents to determine their basis and validity is required.
- 9.45 Appendix XXX shows our own review of the loans outstanding as at November 2008 and the security used as collateral against said loans.
- 9.46 It appears that in aggregate the total asset security across the group, excluding the directors personal guarantees as these are unknown quantities and not defined in any credit proposal, is \$71million, whilst the total loan exposure is \$41million.
- 9.47 The MMA guidelines request that at least 120% security cover is provided, and whilst on each and every single loan agreement, this is indeed the case, when placed in aggregate, it is clear that the same assets are being used as security for various loans. However, in aggregate the total cover is 173%.

#### **General Findings**

- 9.48 High intercompany transactions have been referred to within the credit proposals of the Lily Group as being "diversified" and a positive factor, however, clearly should any one company fail it would have had a substantial impact on the others revenue and profitability and therefore their ability to repay liabilities.
- 9.49 Exhibit XXX (source BML Audit Files Q100) states that "although not legal shareholders, the project was overseen by Mr Shuaib M Shah with involvement of his brother Dr Suhail Rahim. Upon completion of the project shares were to be transferred accordingly".
- 9.50 The shares were subsequently sold to Mr Nasir, Mr Hafeez and Ms Azuhaariyya which was financed through a part purchase demand loan to Lily Hotels Pvt Ltd of \$8million. It is believed that Mr Shah also benefited from the sale of the shares as defacto director/shareholder.
- 9.51 Mr Shuaib M Shah is the son in law of Gayoom the former President and substantial influence may be inferred here.
- 9.52 It would not have been possible for Mr Shah to be named as a director or shareholder of any company wishing to bid for resorts as local national residents received significant bidding benefits over and above any company that had a foreign national.
- 9.53 Mr Shah is also advertised as CEO of Island Hideaways Pvt Ltd, CEO of EoN Resorts, and was linked to Turquoise Pvt Ltd, all companies involved in the development of resorts.

- 9.54 It is reported that a number of bids for island resorts were successful despite other bids being more qualified. Other bids were often refused on simple points or on the basis that they were "economically unfeasible" despite having lower rental figures per annum. Some of these resorts were reportedly later sold to the "Lily Group".
- 9.55 Analysis of the payments from the sale of shares, and/or the Lily Group to determine how Mr Shah was paid for his role overseeing the project would be of interest to determine if unauthorised persons were acting as directors/shareholders of a company in order to benefit from the sale/lease of resort islands.

### **10 Afeef Group**

- 10.1 Loans and overdraft facilities provided to Afeef Group totalled MRF 245,123,414 (equivalent to \$19,150,266 as at 31 October 2008). This amounted to 16.5% as a percentage of the Bank's Capital as at 31 October 2008 (Exhibit 2) - Source: "Bank of Maldives major borrowers 1nov08" provided to PWC Auditors.
- 10.2 This does not include Mr Afeef's personal overdraft of \$6million as it is "fully covered (by) Fixed Deposits". Nor does it include the \$5million cross guarantee provided by Mr Afeef to Villa Group as mentioned earlier in the report.
- 10.3 Companies within the group structure consist of the following:
- Kasa Holdings Pvt Ltd
  - Kuredu Holdings Pvt Ltd
  - Manta Maldives Pvt Ltd
  - Crown Company Pvt Ltd
  - Komandoo Holdings Pvt Ltd
  - Trans Maldivian Airways Pvt Ltd
  - Coco Huts Pvt Ltd

### **Directors and Shareholders**

- 10.4 Mr Hussain Afeef, the major shareholder of the above, and of Champa Brothers Pvt Ltd who also holds majority shares in a number of entities, Exhibit XXX (red tab file 1) is the former Economic advisor and close confident of former President Gayoom.
- 10.5 Mr Afeef was a member of the Economic Advisory Council to the President, Chairman of MATI and Chairman of the Maldives Tourism Development Corporation Plc.
- 10.6 Mr Afeef was also the Chairman of Maldives Tourism Development Corporation (Regime appointed), and has shared ownership of Trans Maldives Airways (TMA) with the former Finance Minister Qasim Ibrahim via Hummingbird Island Airlines Pvt Ltd which owns 99.9999% shares.

10.7 The shareholdings of the various companies are set out below:

MR HUSSAIN AFEEF

KASA	Kasa Holdings Pvt Ltd
KUREDU	Kuredu Holdings Pvt Ltd
MMPL	Manta Maldives Pvt Ltd
CCPL	Crown Company Pvt Ltd
KHPL	Komandoo Holdings Pvt Ltd
TMAPL	M/S Trans Maldivian Airways Pvt Ltd
CHPL	Coco Huts Pvt Ltd

	KASA	KUREDU	MMPL	CCPL	KHPL	TMAPL	CHPL
Hussain Afeef	24.0%		99.0%	25.0%		0.00002%	60.0%
Karen Afeef	25.0%						
Aishath Afeef	25.0%						
Sara Afeef	25.0%						
Ibrahim Noordeen	1.0%		1.0%				40.0%
Champa Brothers Pvt Ltd		50.0%			37.5%		
Desiderio Holdings Pvt Ltd		45.0%			37.5%		
Mr Mats Petre		5.0%			25.0%		
Abdul Ghani				25.0%			
Ahmed Saleem				25.0%			
Ahmed Nazeer				25.0%			
Hummingbird Island Airlines Pvt Ltd						99.99990%	
Others						0.00008%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

10.8 Mr Afeef also had a personal account 201828-001 which had an overdraft facility with a limit of \$6million.

10.9 The purpose was for "investments in the Maldives and abroad".

10.10 This account was originally sanctioned on 23 August 2006 by the 288th Board meeting in August 2006 and was extended twice, the final known expiry date being 31 August 2009.

10.11 The interest rate was reduced to 0.25% pa above fixed deposit rate on 31 October 2007. The standard rate being 0.5% at that point in time. This was approved by the 317th Board meeting on 26 August 2007.

#### **Kasa Holdings Pvt Ltd**

10.12 Mr Afeef has 24% of shares, his 3 daughters, Karen, Aishath and Sara each hold 25% shares and Mr Ibrahim Noordeen holds a 1% share.

10.13 Kasa Holdings Pvt Ltd is engaged in the operation of Meeru Island Resort in Male Atoll. The company has interest of 60% shares in Velavaru Island Resort, 33% shares in Thundafhushi Island Resort and 33% shares in Athuruga Island Resort.

10.14 Kasa Holdings Account number 7701-142401-003 was provided with an overdraft facility of \$750,000, approved by the 320th Board on 28 October 2007 for the working capital of Meeru Island Resort.



- 10.15 Interest was charged at 0.25% above the FD rate, when the current rate was 0.6%. This was according to the credit proposal because the overdraft was backed by cash collateral in the same currency.
- 10.16 Security was provided in the form of a fixed deposit amounting to \$750,000 in the name of Kasa Holdings Pvt Ltd, maturing in April 2009. The expiry of the overdraft limit was 30 November 2009. This would have meant a period of 7 months where the facility could have been without security cover.
- 10.17 Kasa Holdings Account number 7701-142401-303 was provided with a demand loan of EUR
- 10.18 Kasa Holdings Account number 7701-142401-304 was provided with a demand loan of \$15million. This was in relation to the European Investment Bank Loan for the reconstruction of tourist resorts damaged in the tsunami of 2004. This loan is the subject of a separate report.
- 10.19 Kasa Holdings Pvt Ltd single party exposure was 14.6% as at 31 August 2008 exhibit XXX, (source: BML Audit Report Working Papers File 4 ZK200)

**Kuredu Holdings Pvt Ltd**

- 10.20 Account number 7701-133388-301 was granted a demand loan on 1 March 2004 for MRF 19,275,000 for working capital purposes. It was due to expire on 31 March 2010 but was provided with a further 6 month extension to 30 November 2010.
- 10.21 Security provided was the mortgage of Komandhoo Island Resort estimated value \$6million already mortgaged to the bank, corporate guarantee of Komandhoo Holdings Pvt Ltd, corporate guaranteed of Champa Brothers Pvt Ltd, corporate guarantee of Desideria Holdings Ltd, Nevis West Indies (50% shareholder of Kuredu Holdings Pvt Ltd) and personal guarantee of Mr Peter Mats Folke Petre (director of Kuredu Holdings Pvt Ltd).
- 10.22 A further loan of \$1.5million was granted on 1 March 2004 on account 7701-133388-302 for working capital purposes. It was due to expire on 31 March 2010 but was provided with a further 6 month extension to 30 November 2010.
- 10.23 Security provided was the mortgage of Komandhoo Island Resort estimated value \$6million already mortgaged to the bank, corporate guarantee of Komandhoo Holdings Pvt Ltd, corporate guaranteed of Champa Brothers Pvt Ltd, corporate guarantee of Desideria Holdings Ltd, Nevis West Indies (50% shareholder of Kuredu Holdings Pvt Ltd) and personal guarantee of Mr peter mats Folke Petre (director of Kuredu Holdings Pvt Ltd).

**Manta Maldives Pvt Ltd**

- 10.24 The company was incorporated in May 2001 and operates Mirihi Island Resort in Ari Atoll and was developed into a 5 star resort in 2002. It is owend by Mr Afeef with 43% of the shares and Mr Noordeen with 57% shareholding.
- 10.25 Account number 7701-137198-002 was provided with an overdraft limit of \$300,000 on 15 March 2005 for 12 months. This was extended 3 more occasions, the final known expiry date being 31 March 2009.

10.26 It was for working capital and approved by the 237th Board on 9 March 2005.

10.27 It was secured via personal guarantees of Mr Afeef and Mr Noordeen.

10.28 No physical collateral was offered for the party's exposure according to the credit proposal dated April 2008. It was advised however that the renewal of \$300,000 was a relatively small amount in comparison to the net worth of Mr Afeef and Mr Noordeen.

**Komandoo Holdings Pvt Ltd**

10.29 A demand loan of \$500,000 was provided 1 March 2004 and extended by a further 6 months from the original expiry date being 31 March 2010 to 30 November 2010.

10.30 Security provided was the mortgage of Komandhoo Island Resort estimated value \$6million already mortgaged to the bank, corporate guarantee of Kureda Holdings Pvt Ltd, corporate guaranteed of Champa Brothers Pvt Ltd, corporate guarantee of Desideria Holdings Ltd, Nevis West Indies, and personal guarantee of Mr peter mats Folke Petre (director of Komandoo Holdings Pvt Ltd).

10.31 A further loan of MRF 6,425,000 was granted 1 March 2004 and was also extended by 6 months, the security provided being the same as per the above.

**Trans Maldivian Airways Pvt Ltd**

10.32 Trans Maldivian Airways Pvt Ltd is owned by Hummingbird Island Airlines Ltd, Cayman Islands (HCI) with 99.9999% of the shareholdings.

10.33 HCI is owned by Global Private Ltd, of which the ultimate beneficiary according to BML credit proposal documents (Exhibit XXX) (Source: BML Audit Report working papers File 4 ZP400). is Mr Afeef by 50% and Ms Fathimath Thasleema by 50%.

10.34 The remaining shares are owned by Ms Thasleema, Mr Afeef, Mr Bram Stellar, Mr Mohamed Naeem, Mr Ibrahim Zahir and Mr Lars Petre with 0.00002% each.

10.35 A loan of \$4million was provided in November 2006 to account 7701-154987-300, which was subsequently reduced by \$1.162million in June 2007.

10.36 It was provided to purchase an aircraft with 46 seat capacity and approved by the 288th Board on 15 August 2006.

10.37 It was secured via personal guarantees of Mr Hussein Afeef and Ms Fathimath Thasleema and against the aircraft itself.

10.38 It is noted that "BML will call on the entire loan outstanding if the company does not achieve a debt service coverage of 1.75:1 during the tenure of the loan facility."

10.39 The loan was reduced as it was according to the amendment meant to purchase 2 aircraft but was only able to purchase one.

10.40 Trans Maldivian Airways Pvt Ltd owned an aircraft (8Q-ATR) valued at \$5million as at 30 October 2008 according to BML documents, however in June 2007 it was valued at \$2.931million purchase value. Additional investment value was added of \$600,000.

### **Known Securities/Assets**

- 10.41 Security provided for Kasa Holdings Pvt Ltd loan of \$15million as the mortgage of Meeru Island Resort. According to the credit proposal document, professional valuation was obtained from HVS in Singapore and was valued at \$63 million.
- 10.42 The State Bank of India also provided a loan of \$9.52million for the above therefore security should be pro-rata'd accordingly.
- 10.43 Therefore equity based on the above information is \$38.48million.
- 10.44 According to the liability position presented by the BML on 30 October 2008 Kasa Holdings Pvt Ltd also held a fixed deposit account for \$750,000.
- 10.45 According to the liability position presented by the BML on 30 October 2008, Mr Afeef held a fixed deposit account of \$6million.
- 10.46 Komandoo Holdings Pvt Ltd held the lease for Komandhoo Island Resort which was valued at \$12million in the liability position provided by BML on 30 October 2008.
- 10.47 Trans Maldivian Airways Pvt Ltd owned an aircraft (8Q-ATR) valued at \$5million as at 30 October 2008
- 10.48 Appendix XXX shows our own review of the loans outstanding as at November 2008 and the security used as collateral against said loans.
- 10.49 It appears that in aggregate the total asset security across the group, excluding the directors personal guarantees as these are unknown quantities and not defined in any credit proposal, is \$64million, whilst the total loan exposure is \$27million.
- 10.50 The MMA guidelines request that at least 120% security cover is provided, and whilst on each and every single loan agreement, this is indeed the case, when placed in aggregate, it is clear that the same assets are being used as security for various loans. However, in aggregate the total cover is 235%.
- 10.51 It should be noted however, that a number of the assets used as security based upon their insured value, had their insurance policies expire during 2008. No evidence has been seen to date of renewed insurance policies and/or values being received by BML in order to safeguard their loan exposure.

### **11 Villa Group**

- 11.1 Loans and overdraft facilities provided to Villa Group totalled MRF 481,299,571 (equivalent to \$37,601,520 as at 31 October 2008). This amounted to 32.4% as a percentage of the Bank's Capital as at 31 October 2008 (Exhibit 2) - Source: "Bank of Maldives major borrowers 1nov08" provided to PWC Auditors.
- 11.2 The Villa Group consists of the following companies:
- Villa Shipping & Trading Pvt Ltd incorporated in 1986 originally involved in shipping but which converted into tourism. It was originally owned 95% by Mr Qasim Ibrahim

until Dec 2004 when the structure changed to 22 shareholders, of which Mr Qasim owned 79% of the shares.

- Villa Shipping (Singapore) Pte Limited was incorporated in Singapore in December 1991 with Villa holding a major interest. The paid up capital by Villa shipping (Singapore) now stands at S\$ 500,000.
- Villa Holidays Touristik GmbH was incorporated on 23rd July 1997 with a paid-up capital of DM 500,000 in October 1996. It was created as a representative office, with the primary objective of promoting Villa resorts, opened in Frankfurt, Germany.
- Villa Hotels, Tokyo and Villa Hotels, Hong Kong were established in the years 2001 and 2002 respectively.
- Villa Hakatha Pvt Ltd - trading in oil and construction
- Villa Travels & Tours Pvt Ltd incorporated in 1998 and dealt with money transfers and travel sales.
- Onus Pvt Ltd was established in June 2000 and is engaged in the importing and trading of construction material. The directors/shareholders of Onus Pvt Ltd are Mr Ismail Shujau with 94% and Ms Aminath Shifaza with 6% respectively.

#### **Directors and Shareholders**

11.3 The main company Villa Shipping and Trading Pvt Ltd was incorporated in 1996 and as at December 2008 had 22 shareholders. The largest shareholder with 79% is Mr Qasim Ibrahim, the remaining percentage is split between 21 other persons. (exhibit XXX)

11.4 Shareholdings are set out for the group companies below:

VSTCPL	Villa Shipping & Trading Company Pvt Ltd		
VTTPL	Villa Travels & Tours Pvt Ltd		
OPL	Onus Pvt Ltd		
	VSTCPL	VTTPL	
Qasim Ibrahim	79%	75%	
Rabia Ibrahim	2%		
Fathimath Tasleems	2%		
Aminath Tharmeema	2%		
Mariyam Sama	2%		
Khadeeja Sana	2%		
Ibrahim Siyad	2%		
Ismail Shiyan	2%		
Mohamed Yaghzan	2%		
Umar Arkan	2%		
Ibrahim Zahir		5%	
Mohamed Rashid		5%	
Mohamed Nazim		5%	
Ali Ibrahim		5%	
Abdul Ghafoor		5%	
Others	3%		
Total	100%	100%	

**Financial transactions for Villa Shipping and Trading Company Pvt Ltd**

- 11.5 Villa Shipping and Trading Company Pvt Ltd (VSTC) holds account number 112379. A temporary overdraft limit was requested in July 2008, to be repaid within the month of MRF 25,700,000 for working capital purposes.
- 11.6 The following comment was placed on the credit proposal stating that "approval of the above is not within the authority level of the Management, however due to the urgency expressed by the party, it is placed for approval of the MD/CEO to be subsequently ratified by the Board".
- 11.7 Bearing in mind that the MD/CEO is appointed by the Finance Minister and that Mr Ibrahim is a Board Member this would clearly raise issues of conflict.
- 11.8 The exposure to the bank is shown as 36.4% as at XXX (exhibit XXX).
- 11.9 A letter dated 5 June 2008 (exhibit XXX) from Mr Ibrahim to the Manager of the Bank of Maldives states that "we request you to arrange a short term temporary loan of MRF 6million to meet urgent financial commitments and the same will be repaid on or before 30 June 2008. We shall be drawing the cash today. Your timely assistance would be appreciated."
- 11.10 It may be commented that the style of the letter implies that the loan would be organised on the same day as the request was made. Further investigation would be needed to confirm if the appropriate documentation or ratification from the Board was provided prior to the drawing of said funds.
- 11.11 In August 2008 a Letter of Credit cum overdraft facility of \$11 million was requested for working capital and secured against Holiday Island.
- 11.12 Total temporary overdrafts in the period to October 2008 totalled MRF 37million and had not been repaid as promised.
- 11.13 Exhibit XXX shows that the EIB loan of EUR12.5million was to be used to pay off the existing facilities with the BML including the bridging loan and temporary overdraft, however it appeared that this did not in fact happen. Funds were received in July 2008 and the facilities with BML remained outstanding as of October 2008.
- 11.14 No attempts were made to foreclose on the assets provided as security including the personal guarantee of Mr Qasim Ibrahim, the mortgage of the island Maamigili Island, Fun Island Resort, partly secured through the EIB loan facilities, or the personal guarantee of Fathimath Nasheed.
- 11.15 A letter was sent to Mr Ibrahim on 6 October 2008 that due to non-repayment, Villa Shipping and Trading Pte Ltd would now be classed as a non performing asset, and 5% would be charged on the entire outstanding amount as of 4 October 2008. (exhibit XXX)

- 11.16 A further letter from the Managing Director of the BML stated that "there are loan repayments due for the months of July 2008, August 2008 and September 2008 for the demand loan of EUR 12.5million and as such we implore you to settle the overdue payments at the earliest" (exhibit XXX).
- 11.17 It could be commented that the style of the letter written appeared desperate, bearing in mind her position in authorising these loans on behalf of the person who recruited and appointed her.
- 11.18 In September 2008 it was agreed to transfer the personal guarantee of Mr Qasim Ibrahim to Villa Shipping and Trading Pvt Ltd for the overdraft facility of MRF 3.5-million provided to Fathimath Nasheed and Hassan Sujau.
- 11.19 Security was again provided in the form of a mortgage over the airport and of Fun Island by Villa Shipping and Trading. (O400)
- 11.20 As at 31 December 2008, the account of Villa Shipping and Trading Pvt Ltd was classed as a non-performing asset. The date for this re-classification was given as 4 October 2008 "due to non-settlement of outstanding of TOD (temporary overdraft) limits of MRF 37.70 million. party has been sent reminder letter on 16 December 2008 to settle the overdue loan payments, TOD outstanding and matured LC bills at the earliest. Party has verbally informed that they will settle the above mentioned payments by April 2009. Another reminder letter will be sent to party before 15 Jan 09."
- 11.21 Exhibit XXX shows that the Villa Shipping and Trading Company Pvt Accounts that were classed as non-performing assets. The non performing accounts as at that date totalled Euros 13,962, 984.93, MRF 40,045,338.60 and US\$ 9,542,905.92. A total of approximately \$31,137,245.00. (Source BML Audit Working papers, File 6 NPA's)

#### **Financial transactions for Villa Travels & Tours Pvt Ltd**

- 11.22 Account number 126263 has a \$500,000 temporary overdraft facility sanctioned on May 2008 and personally guaranteed by Mr Ibrahim. (s100)
- 11.23 This was still outstanding as of December 2008 (exhibit XXX) (Source)
- 11.24 Mr Ibrahim is a 75% shareholder, the remaining shares are split equally between Ibrahim Zahir, Mohamed Rasheed, Mohamed Nazim, Ali Ibrahim, Abdul Ghafoor Moosa with 5% each.

#### **Financial transactions for Onus Pvt Ltd**

- 11.25 Account number 112379 owned by Onus Pvt Ltd was provided with a \$1million pound overdraft facility sanctioned in June 2007 as per their request for working capital purposes.
- 11.26 Following a letter from Mr Shujau on 10 July 2007, BML agreed to reduce the interest rate from 13% pa to 11% pa effective from the date of sanction (Exhibit XXX File 1 red tab). There is no evidence seen to date showing why the reduction was approved.

- 11.27 The credit proposal in June 2007 noted that the party had approached the bank in December 2002 for a loan of \$2.5million but was declined by the bank. It also noted that Onus Pvt Ltd banked with Habib Bank Pvt Ltd and did not enjoy any credit facilities with the bank, although the directors of the company did do so in their personal name and that performance was satisfactory. At this time it was also noted that no written report from Habib Bank had yet been received.
- 11.28 The company required the \$1million overdraft limit to meet increased working capital requirements to satisfy sales to Villa Group and Athama Marine Pvt Ltd to supply construction materials for their ongoing resort construction projects.
- 11.29 It was enhanced in January 2008 to \$2million. The terms were continued at an interest rate of 11% pa, and for repayment to be in one lump sum on expiry of the limit. The new expiry date was determined as 31 December 2008.
- 11.30 It was secured via a corporate guarantee of Villa Shipping and Trading Co Pvt Ltd, a personal guarantee from Mr Ibrahim, despite having no direct and obvious relationships with Onus Pvt Ltd other than that it supplied construction materials for Mr Ibrahim's resorts. It was also secured via personal guarantees from Mr Shujau and Ms Shifaza.
- 11.31 Further investigation may be required to understand why Mr Ibrahim chose to personally support a company of which he had no direct ties, and did not seek to purchase supplies through other construction companies.
- 11.32 A condition of the enhancement was that "All disbursements under the EIB loan will be made provided that total exposure of Hon Qasim's group are in compliance with MMA's guidelines for single borrower exposures".
- 11.33 It is further noted that "MMA has advised to keep the Villa Group exposure within 30% of banks capital on 31 Oct 2007. Facilities extended to Villa Shipping for the development of Maamigili project and the recently approved loan under the EIB post tsunami line of credit for the redevelopment of Fun Island Resort amounts to 30.1% of Bank's Capital. Facilities of Villa Shipping and related parties (Mrs Naheed & Onus Pvt Ltd including the proposed enhancement) amounts to 32.3%".
- 11.34 Despite clear guidelines from the MMA that the Villa Group exposure should remain within 30% of the banks capital, and the current group exposure excluding related parties had already breached that figure, the proposal was still placed for board approval.
- 11.35 "Villa Shipping has committed to fully settle the LC outstanding prior to the draw-down of the EIB loan as such LC liabilities are not included in the above calculations. Further disbursement under EIB loan will be made such that the total exposure to Hon Qasim's group is within the cap imposed by MMA"
- 11.36 This did not include the letter of credit provided of \$10million as Villa Shipping had committed to settling the LC.
- 11.37 Liquidity position of the company has been below 1 (0.80 in 2006 and 0.70 in 2005). The weak liquidity position of the company is due to amounts due to directors and related company II Shujau & Co Pvt Ltd amounting to MRF 41.6 in 2006 representing 99.4% of current liabilities. The liquidity position of the company substantially im-

proves if the amounts due to Directors and related company are excluded as current liabilities".

- 11.38 Despite the breaches of MMA guidelines, the current liabilities due (99.4%) to the directors, and the poor liquidity ratios, consideration was given to the proposal through removing the amounts due to the directors and related company.
- 11.39 Further, a reduction in the interest rate, noted in 11.26 which was continued on in the enhanced overdraft facility was provided, despite the liquidity issues noted above.
- 11.40 "No tangible security has been offered for the proposed OD facility. BML's exposure is covered by the corporate guarantee of Villa Shipping Pvt Ltd and personal guarantee of Hon Qasim Ibrahim. Villa Shipping is a well established company with good market reputation and financials of the company are healthy with total assets of \$178-million and equity to total assets ratio of 71%. Further based on the high net worth of Hon Qasim Ibrahim, the risk is considered acceptable".
- 11.41 So far, no information has been found within the documents provided that show Mr Ibrahim's personal wealth and it is not possible to say at this time if the above statement is correct.
- 11.42 Mr Shujau also owns 99% of shares of I.I. Shujau & Co Pvt Ltd, the other 1% is owned by Ms Shifaza. the company is involved in the business operations of Onus Pvt Ltd and the agreement to provide construction material for resort construction of Athama Marine Pvt Ltd was signed between them.
- 11.43 Athama Marine Pvt Ltd is owned by Mr Adam Zahir, former Police Commissioner of the Maldives from 1978 to 2008.
- 11.44 Although Mr Qasim Ibrahim is not a director or shareholder of the company so far as we are able to evidence, he was prepared to offer corporate guarantee of Villa Shipping and Trading Co Pvt Ltd and his own personal guarantee for the overdraft facilities provided to Onus Pvt Ltd. Onus Pvt Ltd also appears under the group exposure for BML limits due to the guarantees being provided by Mr Ibrahim.

#### **Non Performing Assets/Outstanding Loans**

- 11.45 As at 31 December 2008, the account of Villa Shipping and Trading Pvt Ltd was classed as a non-performing asset. The date for this re-classification was given as 4 October 2008 "due to non-settlement of outstanding of TOD (temporary overdraft) limits of MRF 37.70 million. party has been sent reminder letter on 16 December 2008 to settle the overdue loan payments, TOD outstanding and matured LC bills at the earliest. Party has verbally informed that they will settle the above mentioned payments by April 2009. Another reminder letter will be sent to party before 15 Jan 09." (Exhibit XXX) (File 1 red tab)
- 11.46 As at 24th December 2008 Villa Travels Pvt Ltd account was classified as NPA. "party was sent a reminder to settle the TOD outstanding. Party reports they will settle TOD outstanding before 11 Jan 09".



### **Known Security/Assets**

- 11.47 As per exhibit XXX dated August 2008 for BML the following were noted as assets of the Villa Group
- 11.48 Resorts in full operation; Sun Island Resort, Paradise Island Resort and Holiday Island Resort, Royal Island Resort is operated under Island Travel and Trade Pvt Ltd where Mr Ibrahim holds 80% shares. Total valuation undertaken by Knight Frank (India) Pte Ltd in June 2007 is \$467 million.
- 11.49 Resorts under construction (as of the date of the exhibit) were Fun Island, Elaa and Gazeera, with investment costs of \$175million.
- 11.50 Villa Hakatha was valued at \$41million by JB Boda Surveyors Pvt Ltd in May 2008. It is the sole agent for Shell and Agfa petroleum products in the Maldives. It is 90% owned by Villa Shipping and Trading Pvt Ltd and 10% by Mr Qasim Ibrahim.
- 11.51 As at FYE 2006, the Villa Group had outstanding total borrowings of approx \$47.6-million with other banks, excluding BML as per exhibit XXX (File 1 red tab).
- 11.52 Assets were declared as \$178million as at 31 December 2006According to a financial analysis by BML including the review of audited statements of the group in 2007, total borrowings was \$52million with BML and other banks, and had a debt to equity ratio of 0.45. (exhibit XXX)
- 11.53 It is reported that Villa Shipping & Trading obtained a loan for the building of Maamigili Airport Island. Villa Groups website states that "VSTC is presently developing a Modern Private Airport in Maamigili Island, to cater to the convenience of the guests by way of immediate transfers upon their arrival at Male' International Airport using in house TMA aircrafts to the tourist resorts in Ari Atoll".
- 11.54 The loan was apparently provided in 2001, yet has not been completed as of the date of this report (according to the company website).
- 11.55 Further analysis of bank statements during that period would be required to determine if the loan was used for the purposes described in the credit proposal.
- 11.56 Appendix XXX shows our own review of the loans outstanding as at November 2008 and the security used as collateral against said loans.
- 11.57 It appears that in aggregate the total asset security across the group, excluding the directors personal guarantees as these are unknown quantities and not defined in any credit proposal, is \$50million, whilst the total loan exposure is \$37million.
- 11.58 The MMA guidelines request that at least 120% security cover is provided, and whilst on each and every single loan agreement, this is indeed the case, when placed in aggregate, it is clear that the same assets are being used as security for various loans. However, in aggregate the total cover is 133%.
- 11.59 It should be noted however, that the mortgage of Maamigili Island Airport was based on the construction cost. We have been informed that this airport island is still not built. Further research on Villa Group's website confirms that this is still outstanding.

11.60 Therefore further investigation is required to understand if the loan purpose was fulfilled bearing in mind that the loan was provided a number of years ago and that construction was promised.

## **12 Rainbow Group**

- 12.1 Loans and overdraft facilities provided to Rainbow Group totalled MRF 323,626,547 (equivalent to \$25,283,320 as at 31 October 2008). This amounted to 21.8% as a percentage of the Bank's Capital as at 31 October 2008 (Exhibit 2) - Source: "Bank of Maldives major borrowers 1nov08" provided to PWC Auditors.
- 12.2 However the above figure does not include LC opened for \$5million "as it is fully covered against undisbursed funds of \$17million for Malefushi Project. If the project loan of \$17.5million was included along with the \$5million LC total aggregated exposure would be MRF564,340,832 (equivalent \$44,089,127) being 37.9% of banks capital.
- 12.3 The Rainbow Group of companies contain the following entities
- Rainbow Enterprises Pvt Ltd
  - Rainbow Construction Pvt Ltd
  - Rainbow Aluminium Pvt Ltd
  - Rainbow Travels Pvt Ltd
  - Rainbow Retreats Pvt Ltd
  - Maldives Structural Products PL
  - Maalefushi Investment Co.
- 12.4 Rainbow Enterprises Pvt Limited is the parent company of the group, the company shareholdings are as follows:

REPL	Rainbow Enterprises Pvt Ltd
RCPL	Rainbow Construction Pvt Ltd
RAPL	Rainbow Aluminium Pvt Ltd
RTPL	Rainbow Travels Pvt Ltd

RRPL	Rainbow Retreats Pvt Ltd
MSP	Maldives Structural Products PL
MICO	Maalefushi Investment Co

	REPL	RCPL	RAPL	RTPL	RRPL	MSP	MICO
Ibrahim Rafeeq	41.50%	55%			50%		
Rugiyya M Qasim	18.60%						
Khadeeja M Qasim	18.60%						
Rainbow Aluminium	10%						
Hawwa Zahira	5.30%						
Aishath Sameena	5.10%						
Ameena M Didi	0.80%						
Rainbow Ent		45%		95%		50%	51%
STO						50%	
Abdulla A Didi							49%
Unknown			100%	5%	50%		
Total	100%	100%	100%	100%	100%	100%	100%

### **Rainbow Enterprises Pvt Ltd**

- 12.5 Rainbow Enterprises Pvt Limited (REPL) is the parent company of the group. The majority shareholder (41.5%) and Managing Director of REPL is Ibrahim Rafeeq, the Minister of Housing and Urban Development. He is also majority share holder of Rainbow Construction Pvt Ltd (RCPL) (55%) and Rainbow Retreats Pvt Ltd (RRPL) (50%).
- 12.6 A enhancement loan of MRF 3.5million was requested in addition to the original MRF1million loan, to meet shortfall of funds due to purchase of 1400sq ft of land.
- 12.7 This demand loan was granted with interest set at 10% rather than 12%. This decision was approved by the management.
- 12.8 An agreement relating to other bank facilities showed that the interest rate had been reduced from 14% to 11% on August 2004 and then reduced further to 9.5% on September 2005, all of which were approved by management.
- 12.9 Clause 9(1)(a) of the MMA regulations for Banks and financial institutions state that the Bank should not exceed 15% of its unimpaired capital and reserves to one single company. Rainbow group had an exposure of 22%. A letter from MMA on 2 January 2008 agreed to allow the Group limit to rise to 40% of the Banks capital funds. The single company exposure was increased to 15%.
- 12.10 On one credit proposal it states that the existing security cover of 83% is low. Under the "mitigating factors" section, it states that a corporate guarantee from STO and Rainbow are enough to cover any "unlikely" default.
- 12.11 A note on a credit proposal requesting an increase of \$1m overdraft states that security cover of 49% is low. Under "mitigating factors", it states that the requirement is for working capital requirements for specific government projects which will be re-mitted to an account with BML and as such are self liquidating.

12.12 This new arrangement pushes the single borrower exposure limit of Rainbow to 28% (15% is the limit).

#### **Maalefushi Investment Company Pvt Ltd**

12.13 Maalefushi Investment Company Pvt Ltd (MICO) was formed to develop and operate a proposed resort to be developed on Maalefushi Island.

12.14 A demand loan was granted in October 2006 for \$17.5m demand loan which also had an 18month grace period, capitalizing 70% of the interest when due, taking it to April 08. This was later extended to March 09.

12.15 BML granted the loan of \$17.5m to MICO based on 70% debt and 30% equity.

12.16 The total cost of the project was assessed at being US\$25m, thus US\$7.5m equity and US\$17.5m debt. However, the equity is projected to come from future profits which are obviously subject to high levels of risk.

12.17 The credit proposal states that the loan is subject to low security cover of 123% upon completion. The mitigating factors given are that Mr Rafeeq has a good reputation and Rainbow has a profitable track record.

12.18 The recommendation in the credit proposal states that additional credit should not be granted unless the party requires working capital for specific projects and receivables of the project are assigned to the bank.

#### **Known Assets/Securities**

12.19 From a review of the audit files a security assessment was obtained. The security assessment analysed the groups assets and the following valuations were formed

- Rf5.4m shops and godowns
- Rf54.5m Residential property
- Rf 15.4m stock

Total Rf75.3m (cUS\$5.9m)

12.20 A security cover proposal date October 2008 shows that the US\$4m of exposure for the Rainbow group, excluding Malefushi, is covered by security of \$5.4m. However, if the stock is not taken into account then the security is reduced to \$1.6m.

12.21 Bearing in mind that as stock is valued on the lower of cost or net realisable value, the security on the stock would becomes worthless if they were unable to realise it.

12.22 Appendix XXX shows our own review of the loans outstanding as at November 2008 and the security used as collateral against said loans.

12.23 It appears that in aggregate the total asset security across the group, excluding the directors personal guarantees as these are unknown quantities and not defined in any credit proposal, is \$50million, whilst the total loan exposure is \$37million.

12.24 The MMA guidelines request that at least 120% security cover is provided, and whilst on each and every single loan agreement, this is indeed the case, when placed

in aggregate, it is clear that the same assets are being used as security for various loans. However, in aggregate the total cover is 133%.

### **13Sultans of the Seas**

13.1 Loans and overdraft facilities provided to Sultan of the Seas Group totalled MRF 569,281,467 (equivalent to \$43,941,300 as at 31 October 2008). This amounted to 38.3% as a percentage of the Bank's Capital as at 31 October 2008 (Exhibit XXX) - Source: "Bank of Maldives major borrowers 1nov08" provided to PWC Auditors.

13.2 This consists of four loans in USD and EUR On Demand Loans.

- Sun Group consists of the following companies, also shown in Exhibit 6:
- Sultans of the Seas Cruising Pvt Ltd
- Sultans of the Seas Marine Pvt Ltd
- Sultans of the Seas Shipping Pvt Ltd
- Sultans of the Seas Fisheries Pvt Ltd
- Sultans of the Seas Aqua Sports Pvt Ltd
- Reethi Rah Resort Pvt Ltd
- Sultans of the Seas Pvt Ltd

### **Sultan Group Directors/Shareholders**

13.3 Directorship/Shareholding of Sultan Group: The main Director/Shareholder of the Sultan Group is Mr Mohamed Adil who was a Member of the Board of BML from October 2001 to 31 May 2008.

13.4 Mr Ali Ahmed is also a director of the Sultan Group. The groups shareholdings are set out below:

#### **SULTANS GROUP**

SSPL	Sultans of the Seas Pvt Ltd
RRRPL	Reethi Rah Resort Pvt Ltd
SSAASPL	Sultans of the Seas Aqua Sports Pvt Ltd
SSCPL	Sultans of the Seas Cruising Pvt Ltd
SSTPL	Sultans of the Seas Trading Pvt Ltd
SSMTPL	Sultans of the Seas Marine Taxis Pvt LTD
SSTravelPL	Sultans of the Seas Travel Pvt Ltd
SSFPL	Sultans of the Seas Fisheries Pvt Ltd

	SSPL	RRRPL	SSAASPL	SSCPL	SSTPL	SSMTPL	SSTravelPL	SSFPL
Mohamed Adil	90%	54%	95%	95%	77%	95%	93%	63%
Ali Ahmed	10%	46%	5%	5%	9%	5%	7%	7%
Umar Ziyad					15%			
Ibrahim Hishan								30%
Total	100%	100%	100%	100%	100%	100%	100%	100%

- 13.5 Significant loans were also provided to the Fonaddu Group (described in Section XXX). It should be noted that both of these groups of companies belong to the same family.
- 13.6 The owner of Fonaddu Group, Mr Thasmeen Ali was a Home Minister of the former Government, is currently Vice President of a the DRP a political party and a member of the parliament. He was also the running mate of Maumoon Abdul Gayoom the former President in the 2008 elections.
- 13.7 Mr Mohamed Adil is the brother of Thasmeen Ali, the Home Minister under the former regime.

**Financial transactions for Sultans of the Seas Pvt Ltd Review this loan structure properly**

- 13.8 A loan of Euros 12,000,000 was provided in July 2007, (equivalent \$15,300,000) the majority of which was transferred to Art Marine LLC, a sales agent for yachts. (Exhibit XXX)
- 13.9 This was arranged via an on-lending agreement for the same amount by BML from Commerzbank (exhibit XXX) (Source BML Audit working papers, file 2 SUL)
- 13.10 Further loans of \$8.7million and \$15,300,000 were requested in 2008 to pay off the existing facility.
- 13.11 During the 331st Board meeting at which Mr Adil was present, discussion was made over the re-financing of the Sultan Group debt due to it's inability to pay interest and repayments. (exhibit XXX) (SUL)
- 13.12 Although a number of comments were made, such as the interest rate being too low and the current state of financial affairs it was agreed by the Board (with Mr Adil contributing to the decision) to refinance the agreement via a EUR 12million loan.
- 13.13 It was explained by the MD that if interest was not rescheduled then the account would become a non-performing asset.
- 13.14 This would appear to represent a clear conflict of interest by the Board in approving loans for companies owned by a Board Member that would otherwise render it non performing.
- 13.15 In addition it is clear conflict to allow the same owner and Board Member to agree to the decision to refinance any debt.
- 13.16 It is further noted that the repayment of the loan was delayed by 6 months.
- 13.17 On 17 June 2008 a further loan was provided of Euros 12,000,000 in order to pay off existing facilities and was secured on the vessels owned by the company. (exhibit XXX). (source: BML Audit Report, working papers, j200)

- 13.18 This was secured against a large number of assets, including vessels, land and personal guarantees. Personal guarantees were given by Mr Mohamed Adil and Mr Ali Ahmed.
- 13.19 Corporate guarantees were also provided under the other Sultan Companies within the group with the exception of Reethi Rah Resort Pvt Ltd.
- 13.20 Eventually and despite the rescheduling, a letter dated 20 October 2008 declared the account as non-performing due to non-payment of loans and charged 5% of interest upon total outstanding sums (exhibit XXX) (SUL) however this was rescinded on account of an error from the bank acknowledging that there had been re-financing of the facilities and that the "first overdue payment" was in September 2008. As such it waived all fees.
- 13.21 It did continue to request details for the insurance certificates of vessels secured under the agreement and for PWC to be appointed as financial advisor as part of its refinancing terms.

#### **Current Known Securities/Assets**

- 13.22 A list of vessels as per the insurance policy in 2008 and their insured values approximately \$20million are shown in exhibit XXX.
- 13.23 However it is noted that the insurer had not received payment of the premium and had informed the Managing Director of BML of the same and their proposal to cancel the insurance if payments were not subsequently received. Exhibit XXX (Source BML Audit working papers file 2, J500)
- 13.24 Further verification is required to confirm if the vessels are still in ownership of the Sultan Group and if insurance premiums have been paid.
- 13.25 Appendix XXX shows our own review of the loans outstanding as at November 2008 and the security used as collateral against said loans.
- 13.26 It appears that in aggregate the total asset security across the group, excluding the directors personal guarantees as these are unknown quantities and not defined in any credit proposal, is \$54million, whilst the total loan exposure is \$44million.
- 13.27 The MMA guidelines request that at least 120% security cover is provided, and whilst on each and every single loan agreement, this is indeed the case, when placed in aggregate, it is clear that the same assets are being used as security for various loans. However, in aggregate the total cover is 122%.
- 13.28 It is noted that a number of the assets were based upon insured values, which expired in 2008 and early 2009. No evidence has been sighted requesting new documentation and to ensure that those assets are still insured as of November 2008.

#### **Outstanding Loans or NPA's, Known Write Offs**

- 13.29 It is stated in the Auditor general's report that the Sultan Group did not make any payments towards its loans until 31 December 2008 and were re-classified as Non Performing Assets ("NPA"), (see Exhibit XXX) (source: Bank of Maldives plc Credit Department).

13.30 The total overdue as at that date was \$2,251,247. Further information is required to establish up to date amounts that are still outstanding.

13.31 The total outstanding as at that date was including interest is approximately \$42,478,310

13.32 According to news reports, the Sultan Group was ordered to repay \$50 million:

"The civil court yesterday ordered luxury yachting company Sultans of the Seas to pay over Rf654 million (US\$50 million) in unpaid loans, fines and accumulated interest to the Bank of Maldives (BML) in the course of one year"

Ruling in favour of the bank, Judge Aisha Shujoon said the company was liable for loans of US\$15.3 million, US\$8.7 million and €12.5 million as well as US\$500,000 in combined credit limit facilities as agreed upon in June 2008.

The judge ruled that records and documents presented to court proved that as of 7 December, Sultans owes US\$18 million on the first demand loan, US\$10 million on the second and €14 million on the third.

Sultans would have to pay the loans back in monthly installments of about US\$4.2 million, the court ruled. If the company failed to make the payments by 7 December 2010, yachts and property mortgaged by the company will be sold in auction after a 15 day period" (Source Minivan News, Maldives, December 2009, Ahmed Naish)

#### **14VA Group**

14.1 Loans and overdraft facilities provided to the VA Group totalled MRF 519,515,315 (equivalent to \$40,099,400 as at 31 October 2008). This amounted to 34.9% as a percentage of the Bank's Capital as at 31 October 2008 (Exhibit 6).

14.2 As will be referred to further in this section, aggregated exposure request by the BML to MMA was requested at 61% for related parties to Mr Hamza.

14.3 The corporate structure of the VA Group, consists of the following companies:

- VA Pvt Ltd
- AAA Trading Company Pvt Ltd
- AAA Travels & Tours Pvt Ltd
- Hondaafushi Investment Pvt Ltd
- Dholhiyadhoo Investments Pvt Ltd
- AAA Shipping Pvt Ltd
- VA Fisheries International Pvt Ltd
- VA Properties Pvt Ltd



- Capital Edge Pvt Ltd
- Medhufushi Investments Pvt Ltd
- VA Construction & Engineering Pvt Ltd
- Jihad & Hussain Pvt Ltd

#### **VA Group Directors and Shareholders**

14.4 The Chairman of the Group is Mr Abdulla Ali who is majority shareholder in most of the companies lists (exhibit XXX) file 1 red tab).

14.5 Majority shareholders of VA Pvt Ltd are Mohamed Latheef, Ali Shiyam, Ahmed Hamza holding 14 - 15% each, with a number of smaller shareholders holding 7% each being Shamsul Muna, Ibrahim Jihad, Shamoona Abdulla Ali, Hussain Muzanmil, Hussain Shiyam Abdulla Ali, Moosa Shiyam Abdulla Ali, Aishath Sheena Abdulla Ali and Ismail Shiyam Abdulla Ali.

14.6 The groups shareholdings are set out below:

#### VA GROUP

VAPL	VA Pvt Ltd
AAATCPL	AAA Trading Company Pvt Ltd
AAATTPL	AAA Travels & Tours Pvt Ltd
HIPL	Hondaafushi Investments Pvt Ltd
DIPL	Dholhiyadhoo Investments Pvt Ltd
AAASPL	AAA Shipping Pvt Ltd
VAFIPL	VA Fisheries International Pvt Ltd
VAPPL	VA Properties Pvt Ltd
CEPL	Capital Edge Pvt Ltd
MIPL	Medhufushi Investments Pvt Ltd
VACEPL	VA Construction & Engineering Pvt Ltd
JHPL	Jihad & Hussain Pvt Ltd

	VAPL	AAATCPL	AAATTPL	HIPL	DIPL	AAASPL	VAFIPL	VAPPL	CEPL	MIPL	VACEPL	JHPL
Mohamed Latheef	15.0%	6.0%	13.0%	0.2%	99.2%	0.2%	6.0%	13.2%	4.5%	6.0%	13.2%	
Ali Shiyam	15.0%	6.0%	3.0%	0.2%	0.2%	0.2%	6.0%	13.2%	4.5%	6.0%	13.2%	
Ahmed Hamza	14.0%	5.6%	2.8%	0.1%	0.1%	0.1%	5.6%	12.3%	4.2%	5.6%	12.3%	
Shamsul Muna	7.0%	2.8%	1.4%	0.1%	0.1%	0.1%	2.8%	6.2%	2.1%	2.8%	6.2%	
Ibrahim Jihad	7.0%	2.8%	1.4%	0.1%	0.1%	0.1%	2.8%	6.2%	2.1%	2.8%	6.2%	50.0%
Shamoona Abdulla Ali	7.0%	2.8%	1.4%	0.1%	0.1%	0.1%	2.8%	6.2%	2.1%	2.8%	6.2%	
Hussain Muzanmil	7.0%	2.8%	1.4%	0.1%	0.1%	0.1%	2.8%	6.2%	2.1%	2.8%	6.2%	
Hussain Shiyam Abdulla Ali	7.0%	2.8%	1.4%	0.1%	0.1%	0.1%	2.8%	6.2%	2.1%	2.8%	6.2%	50.0%
Moosa Shiyam Abdulla Ali	7.0%	2.8%	1.4%	0.1%	0.1%	0.1%	2.8%	6.2%	32.1%	2.8%	6.2%	
Aishath Sheena Abdulla Ali	7.0%	2.8%	1.4%	0.1%	0.1%	0.1%	2.8%	6.2%	2.1%	2.8%	6.2%	
Ismail Shiyam Abdulla Ali	7.0%	2.8%	1.4%	0.1%	0.1%	0.1%	2.8%	6.2%	2.1%	2.8%	6.2%	
Abdulla Ali		60.0%	60.0%	99.0%		60.0%	60.0%	12.0%	40.0%	60.0%	12.0%	
Mohamed Anees			10.0%									
Total	100.0%	100.0%	100.0%	100.0%	100.0%	61.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

- 14.7 Director Ahmed Hamza was a Board Director of BML. The BML Financial Statements for 2008 state the following:
- 14.8 "Uz. Ahmed Hamza was elected to the Board of Directors on 29 June 2005....He is a Director of the VA group. Uz. Hamza graduated from the International Islamic University of Malaysia obtaining his LLB in 1995 and completed his Masters at the International Maritime Law Institute, Malta in 1997. Uz. Hamza is an Honourable Member of Parliament elected for Faafu Atoll Biledhdhoo constituency. He retired from Bank's Board on 13 June 2008. Uz. Hamza owns 72 shares in BML."
- 14.9 Abdulla Ali, a shareholder and director of VA Pvt Ltd was provided with a bank guarantee was sanctioned for \$2.99million for the construction of a resort at Hondaafushi secured by 60% shares of AAA Trading Company Pvt Ltd and a personal guarantee of the borrower Mr. Ali.
- 14.10 The sanction was extended to September 2008 from the original expiry date of April 2007.
- 14.11 The remaining amount as at November 2008 was \$999,414. (L200)
- 14.12 Another major shareholder is Mr. Mohamed Latheef, who prior to becoming Ambassador to the United Nations in 2002 held a number of posts in Maldivian government, including posts at the Educational Development Centre, the Ministry of Education, the Ministry of Foreign Affairs and the Maldivian Embassy in Sri Lanka.
- 14.13 He became Deputy Speaker, and appointed a Member of the Peoples' Special Assembly in 1979, retaining this post until 1997. Latheef was also the National Director of the Project for Public Administration Reform, and Director General of the Maldives Centre for Management and Administration, both from 1992 to 1993. Also in 1993, he was made Deputy Minister of the Ministry of Atolls Administration.
- 14.14 Finally, before moving into a diplomatic post, Latheef served as the Minister of Education from 1993 until 2002, and served as a Member of the Maldives Parliament (the Majlis) between 2000-2002.

**Requests to MMA for approval of credit facilities to Mr. Hamza's group**

- 14.15 On 3 April 2007, Ms Khuen the then CEO and Managing Director of BML wrote to the MMA with regards to its compliance under MMA Regulations for Banks and Financial Institutions.
- 14.16 It submitted details of "facilities to be proposed to be granted to VA Pvt Ltd and extensions of the existing Performance Bank Guarantee granted to related party Mr. Abdulla Ali. MMA compliance was being sought on count of related party transaction due to involvement of Mr. Hamza as a Director and 14.6% shareholder of the company, who is also a Director of the Bank's Board." (source BML Audit Report supporting papers A500)
- 14.17 It noted that financing for the resort development of Hondaafushi for the loan amount of \$17.6million has been arranged through EXIM bank, Malaysia and therefore bank's risk was low. Approval was being sought through the normal lending policies

and would be placed before the Board for approval with quorum excluding Mr. Hamza, but they therefore would seek approval for the above.

- 14.18 The facilities were for MRF 1.3million and \$3million.
- 14.19 It should be noted that approval was being sought before the BML Board's own approval had been granted. This could infer that its approval had already been guaranteed and that the only potential obstacle would be through the MMA due to its regulations on single party exposure.
- 14.20 A further letter was sent on 24 April 2007 to the MMA with the same content however in relation to Capital Edge Pvt Ltd and AAA Shipping Pvt Ltd for \$18.5million in total.
- 14.21 A response from MMA was dated on 21 August 2007. It states clearly that; "while proposed credit facilities to related parties require MMA's approval, it is more critical that they comply with the banks single borrower limit and prudent risk diversification practices by limiting the size of concentrations of credit.
- 14.22 You will recall that following the on-site examination of BML conducted by the MMA in early 2005, MMA advised BML to initiate efforts to reduce the banks concentrations of credit granted to individual and related groups of borrowers to less than 320% of the banks total capital. In letters dated 23 October 2005 and 2 January 2006 under the signature of the Chairman, BML agreed and undertake to attend to these matters.
- 14.23 Despite MMA's concerns and BML's commitment to reduce credit concentrations and additional caution for MMA in 2006 to control concentrations of credit, BML granted a \$15million loan to Medhufushi Investments Pvt Ltd which as of April 2007 represented about 23% of BML's total capital. As of April 2007 this credit facility when combined with other outstanding credit facilities to related interests of Director Hamza total MRF 330.5million and represent 39% of BML's total capital including reserves and retained earnings of the bank. (As of July 2007 this would represent 35% of total capital and reserves).
- 14.24 Now BML is seeking further approval to grant new facilities totaling MRF 191.6million to related interests of Director Hamza which would increase concentration of credit to Director Mr. Hamza and related parties to MRF 522.1million representing a staggering 61% of BML's total capital and reserves as of April 2007. (As of July 2007 this would represent 55% of total capital and reserves).
- 14.25 Such concentration of credit is far in excess of the legal lending limits of the bank and it could seriously threaten the bank's position, and the stability of the whole financial sector. As such being legally mandated to supervise and regulate the banking sector to ensure safety and stability and considering the risk inherent in such high concentrations of credit the MMA is not in an a position in this instance to approve the proposed new credit facilities or extensions of the Bank Performance Guarantee as outlined in your letters.
- 14.26 However MMA would pose no objection to the proposed credit facilities provided the total amount of credit facilities to Mr. Hamza's and his related interested is contained within the 30% of BML's total capital of the bank whether by taking syndications or otherwise.

14.27 Therefore we instruct BML:

- a. Not to grant the proposed credit facilities or renew the Bank Performance Guarantee as referred in your letters.
- b. reduce the total exposure of the bank to Mr. Hamza's group to not more than 30% of the bank's capital, and
- c. initiate action to reduce credit concentration within other groups also to within 30% of the bank's total capital and advise MMA of the actions being taken to comply with these instructions."

14.28 Following the above letter from the MMA, a further letter from BML to the MMA dated 29 August 2007 of which a copy is provided at exhibit XXX, BML provided responses to the above, noting that "Due to the fact that Maldives has no country rating the offshore banks are mostly confined to banks in Sri Lanka and Mauritius. Most of the Sri Lankan and Mauritius banks are almost full on the Maldives country limits and the opportunity to sell down exposure are limited.

14.29 "Although the amended regulations are yet to be legislated, BML has used the 40% limit as a guideline to manage the concentration risk to large corporate groups.

14.30 It also requested that the MMA " remove the cap of 30% on corporate group exposures...and exclude the loan of \$15million to Medufushi Investment form the Hamza related group exposure [as it is] back to back financing by a supranational agency to assist the recovery of the Maldives Economy."

14.31 It is clear in my view that from the above correspondence, approval had already been given from the Board of BML despite not as yet having the formal meeting,

14.32 Despite clear objections from the MMA, BML tried to obtain approval and was seeking ways of obtaining this finance for Mr. Hamza through various methods of excluding the source of financing (e.g. the on-lending agreement with EIB with regards to Medhufushi Resort).

14.33 A letter from the MMA, in response to the above objections stated the following:

14.34 "The draft Regulations on corporate group exposure/single borrower limit are not yet in place and as such the current arrangements will continue to apply.

14.35 Single exposure and other calculations do not take into account the source of the banks' funding. Therefore the borrowings from EIB will not attract any exemptions in calculation of the single borrower limit."

14.36 Finally, a letter personally signed by Mr. Abdulla Hameed on 6 December 2007 further requested the MMA to reconsider the financing arrangements to 40% of bank's capital.

14.37 Subsequently it was agreed by the MMA to increase exposure to 40% but to remain single exposure at 15%.

14.38 As this letter was written and signed personally by Mr. Abdulla Hameed, the brother of the former President, it could be commented that certain influences affected the MMA's decision and potentially placed the BML at financial risk.

**Financial transactions for VA Pvt Ltd**

14.39 Account 140223 was provided with a letter of credit/overdraft facility of \$2million on 18 June 2008 for working capital, secured by a mortgage over Medhufushi Island Resort (lessee being Medhufushi Investments Pvt Ltd.

14.40 It was guaranteed by personal guarantees of the directors of the VA Pvt Ltd being the following persons, Ms Shamsul Muna, Mr Mohamed Latheef, Mr Ali Shiyam, Mr Ahmed Hamza, Mr Ibrahim Jihad, Ms Shamoona Abdulla Ali.

14.41 It should be noted that Mr Ahmed Hamza was a Director of the Board of BML from 2005 to 13 June 2008. Letters of request in relation to this overdraft were dated 1 April and 4 June 2008 prior to his departure.

14.42 A temporary 3 month overdraft limit was requested and sanctioned in September 2008 for MRF 11million, for which Medhufushi Island Resort and the personal guarantees of the directors provided security as before. The request was in anticipation of the disbursement of a loan from Hatton National Bank in Colombo for \$4million. (k200)

14.43 A further overdraft of \$5million was sanctioned on 16 June 2008 for working capital expiring on June 2009, secured by a mortgage over Medhufushi Island Resort and the personal guarantees of the directors.

14.44 However the account exceeded this limit by approx \$1.3million. No visible attempt was seen with regards to recalling any loans. However a further \$1.3million overdraft was provided on 19 October 2008 to cover the exceeded amount.

14.45 This was also to be repaid from the first disbursement of the \$4million loan from Hatton National Bank. (k300)

14.46 Financial transactions for Capital Edge Pvt Ltd

14.47 Account number 165299-300 received a loan of \$6,000,000 sanctioned December 2007. two more enhancements to the loan were granted for \$4,000,000 and \$5,000,000 in February 2008 and April 2008 respectively.

14.48 The loans were granted initially to settle temporary facilities availed for the construction and development of a 100 bed tourist resort at Kudafunafaru and to partially adjust the loan of Mr Abdulla Ali, utilized to pay the advance payment to secure the leasehold rights over the island. and to meet the construction costs of the island

14.49 Financial Transactions for Medhufushi Investment Pvt Ltd

14.50 A demand loan was provided to the above company for \$15,000,000 in November 2006, for rehabilitation, reconstruction and development of the resort following the tsunami.

14.51 The loan was to be submitted to the European Investment Bank (EIB) for its approval as part of the EUR 50 million package provided to the Government of the Maldives in support following the Tsunami of 2005.

14.52 The loan was subject to the following amongst receipt of articles of association and board resolutions etc:

- corporate guarantee of AAA Pvt Ltd
- personal guarantee of Mr Abdulla Ali
- mortgage agreement registering the island with the Ministry of Tourism

14.53 The loan was stated to be repayable upon demand, and the borrower undertook to use the loan exclusively for the redevelopment of the resort.

14.54 Further investigation is required to confirm if the amount was used solely for the redevelopment of the resort.

#### **Known securities and assets**

14.55 Appendix XXX shows our own review of the loans outstanding as at November 2008 and the security used as collateral against said loans.

14.56 It appears that in aggregate the total asset security across the group, excluding the directors personal guarantees as these are unknown quantities and not defined in any credit proposal, is \$40million, whilst the total loan exposure is \$50million.

14.57 The MMA guidelines request that at least 120% security cover is provided, and whilst on each and every single loan agreement, this is indeed the case, when placed in aggregate, it is clear that the same assets are being used as security for various loans. However, in aggregate the total cover is 81%, far below that required.

#### **15VB Group**

15.1 Loans and overdraft facilities provided to VB Group totalled MRF 259,428,026 (equivalent to \$20,267,810 as at 31 October 2008). This amounted to 17.4% as a percentage of the Bank's Capital as at 31 October 2008 (Exhibit 2) - Source: "Bank of Maldives major borrowers 1nov08" provided to PWC Auditors.

15.2 VB Brothers was established as a separate company in December 2002 due to disputes among the family who were engaged in business under AAA & Trading Company under VA Group.

- VB Group Pvt Ltd consisted of the following companies:
- Platinum Capital Holdings Pvt Ltd
- VB Brothers Pvt Ltd
- Umet Construction Pvt Ltd

- Crystal Lagoons Resort Pvt Ltd

- Focus Infocom

15.3 The directors of the main company, Platinum Capital Holdings Pvt Ltd are Mr Mohamed Shaweed, Mr Ahmed Shiyam, Mr Ali Shiyam, Mr Hassan Shiyam, all holding 19% each, with Ms Faheem, Mrs Ashfa and Ms Shifa each holding 8% each.

15.4 In addition, Mr Ahmed Shiyam and Mr Shahweed both own 50% of VB Brothers Pvt Ltd established in 2002.

15.5 The group company shareholdings are set out as per below:

VB GROUP PVT LTD

CLRPL	Capital Lagoons Resort Pvt Ltd
PCHPL	Platinum Capital Holdings Pvt Ltd
VBBPL	VB Brothers Pvt Ltd
UCPL	Umet Construction Pvt Ltd
FI	Focus Infocom

	PCHPL	VBBPL	UCPL	CLRPL	FI
Mr Mohamad Shaweed	19.00%	50.00%	9.50%	40.00%	14.61%
Mr Ahmed Shiyam	19.00%	50.00%	9.50%	40.00%	14.61%
Mr Ali Shiyam	19.00%		9.50%		14.61%
Mr Hassan Shiyam	19.00%		9.50%		14.61%
Khawlath Faheem	8.00%		4.00%		6.15%
Aminath Ashfa	8.00%		4.00%		6.15%
Mariyam Shifa	8.00%		4.00%		6.15%
Umet Pvt Ltd			50.00%		
Abdul Mueed Abdulla				20.00%	
Focus Computers Pvt Ltd					7.85%
Mohamed Salih					6.18%
Others					9.05%
Total	100%	100%	100%	100%	100%

15.6 Crystal Lagoons Resort Pvt Ltd was established in May 2004 and won the bid for Konotta Island to be developed as a resort. 80% of the shares are held by VB Brothers Pvt Ltd and 20% by Mr Abdul Mueed Abdulla.

15.7 Umet Construction Pvt Ltd owned 50% by PCH Pvt Ltd and 50% by Umet Pvt Ltd was incorporated in March 2006 and is involved in the construction business.

15.8 Umet Construction Pvt Ltd is involved in the construction of the new resort named Konatta (owned by Crystal Lagoons Resort Pvt Ltd, an associate company).

15.9 Mr Abdulla Mueed is 95% shareholder and managing director of Umet Pvt Ltd represents Umet Construction Pvt Ltd. The other 5% is owned by Mr Mohamed Jamsheed.

15.10 Focus Infocom pvt Ltd is owned by PCH Pvt Ltd (76.92% of shares) and incorporated in February 2003 providing information communication services. In May 2003 the company was awarded the license for providing and operating commercial internet services by the Telecommunications Authority of Maldives.

15.11 The company structure and shareholdings of the above are shown in exhibit XXX (file 1, red tab)

**Financial Transactions with Platinum Capital Holdings Pvt Ltd**

15.12 On 16 July 2006 BML granted overdrafts of \$500,000 and MRF 2million for the working capital of Vilamendhoo Island Resort, at 10.5% pa interest to be repaid in one lump sum on expiry of the limit, determined as 31 July 2007.

15.13 It was secured via personal guarantees from Mr Mohamed Shaweed and Mr Ahmed Shiyam.

15.14 This overdraft was increased from \$500,000 to \$750,000, along with the renewal of the MRF 2million overdraft facility on 12 June 2007, at 10% pa rather than the original 10.5% pa and was secured with personal guarantees of directors of platinum Capital Holdings Pvt Ltd, and the mortgage of Vilamendhoo Island Resort.

15.15 This facility was amended on 8 May 2008 so that the new expiry date of the facility was 31 July 2009.

15.16 The US\$ facility was enhanced from \$2million to \$3million in May 2008, again secured via mortgage over Vilamendhoo Resort and personal guarantees from the directors. It was to expire on 31 July 2009.

15.17 A new overdraft facility was granted on 12 June 2007 for \$2 million to settle the outstanding combined credit limit of VB Brothers Pvt Ltd, and was secured by mortgage over Vilamendhoo Island resort and personal guarantees of the directors.

15.18 A temporary overdraft limit of \$1million was provided to account 7701-158284-002 on 24 July 2008 for 3 months from the date of disbursement to meet urgent working capital requirements.

15.19 It was secured via a mortgage on Vilamendhoo Island Resort and the personal guarantees of the directors.

15.20 The same credit proposal document Exhibit XXX (source BML Audit Report working papers, File 4, ZQ200), shows that the total exposure for Platinum Capital Holdings Pvt Ltd was \$12,212,059 as at 31 June 2008 which was 11.6% of the bank's capital.

15.21 A performance guarantee was also provided for MRF 4,365,478 for the construction of condominium housing at Hulhumale, secured via personal guarantees of Mr Mohamed Shaweed and Mr Ahmed Shiyam in May 2006, the security was increased to include the mortgage of Vilamendhoo Island Resort in June 2007. (source BML Audit Report Working Papers File 4 ZQ600)

15.22 A demand loan was granted to account 7701-158284-300 of MRF 25,700,000 for the construction of the condominium housing unit at Hulhumale at 10.5% pa for the peri-



od of 54 months. It was secured via a mortgage on house named M Ruvaa, valued at MRF 5,504,800, the mortgage of a commercial building named MF Shop valued at MRF 24,457,437, mortgage over leasehold rights of the plot of land at Hulhumale valued at \$3million and the personal guaranteed of the directors of PCH Pvt Ltd.

- 15.23 A \$5million loan was also granted in June 2007 as part finance for the construction project of Konatta resort, over 84 months and secured by the mortgage of Vilamendhoo Island Resort and personal guarantees of the directors.
- 15.24 According to the credit proposal total construction cost was due to be \$24million and equity contribution would be 35%. Debt financing would be \$16million, whereby the State Bank of India had provided a loan of \$10 million, and would provide another \$1million if requested. (source BML Audit Report Working Papers File 4 ZQ800). It was to be managed by Raffles Singapore for 20 years from July 2008.

### **Known Assets**

- 15.25 Pricewaterhouse Coopers performed a valuation of Vilamendhoo Island Resort in March 2006 and determined the value at \$29.541million according to the overdraft facility renewal letter of 12 June 2007 to Platinum Capital Holdings Pvt Ltd. The insured value is noted in the credit proposal documents as being \$8.8million,
- 15.26 A credit proposal document dated 22 July 2008 also states that Eiyadhu Resort and Vilamendhoo Resort were valued together at \$42.5million in 2006, as well as the inclusion of Konotta Resort from 2008.
- 15.27 Security for PCH was provided as the mortgage of leasehold of 75,051sq ft of land at Hulhumale valued at \$3million as at June 2008.
- 15.28 Personal guarantees provided against a number of banking facilities did not have any value placed against them in the files.
- 15.29 Appendix XXX shows our own review of the loans outstanding as at November 2008 and the security used as collateral against said loans.
- 15.30 It appears that in aggregate the total asset security across the group, excluding the directors personal guarantees as these are unknown quantities and not defined in any credit proposal, is \$40million, whilst the total loan exposure is \$21million.
- 15.31 The MMA guidelines request that at least 120% security cover is provided, and whilst on each and every single loan agreement, this is indeed the case, when placed in aggregate, it is clear that the same assets are being used as security for various loans. However, in aggregate the total cover is 186%.

## **16 Other Individuals**

### **Thasmeen Ali**

- 16.1 Mr Ahmed Thasmeen Ali is the former Minister of Atolls Development of the Maldives from 2007.
- 16.2 His first Cabinet portfolio was Minister of Home Affairs and has been an MP for Baa atoll since the 1990s. Before being Minister of Home Affairs he was also the Deputy Director for Ministry of Trade and Industries. Ahmed Thasmeen Ali became Atoll Development Minister in 2007. Ahmed Thasmeen Ali owns resorts and other busi-

nesses, including Reethi Beach Resort and Fonaddhoo Tuna Products. ([source: Wikipedia](#))

- 16.3 In the October 2008 presidential election, he was the running mate of the then serving President Gayoom

#### **Funadhoo Tuna**

- 16.4 In 2003 Mr Thasmeen Ali signed an agreement with the Ministry of Fisheries for a 25 year agreement of fishing rights within "zone 3" The operation "Funadhoo Tuna" commenced in 2004. (The Maldives are known for their abundance of tuna and other fish).
- 16.5 In 2008, due to Mr Thasmeen Ali's wish to run for the Presidential Candidate he undertook an agreement to assign his rights to Shamzil Pvt Ltd, a subsidiary of AAA Pvt Ltd, for which BML credit facilities were to be settled by Shamzil Pvt Ltd.
- 16.6 To date we know of \$1.1mil that was settled with \$8.1 million outstanding as of July 2008. We believe this would have been settled due to the requirements of running for office, however this will need to be confirmed.
- 16.7 It should be noted that Mr Hamza, Board Director of BML held 6% of shares in AAA Pvt Ltd as did Mr Mohamed Latheef, who held various ministry posts before becoming Ambassador to the UN in 2002

#### **Madhadhoo Resort**

- 16.8 Madhadhoo Resort was granted by the Ministry of Tourism the development of a resort on Madhadhoo Island, for 50 rooms with agreed annual lease rental of \$15,000 per bed, the total advance to the government was \$2.2million, which was funded by a \$3.5million demand loan by BML.
- 16.9 The construction of the resort was requested by Mr Thasmeen Ali, and BML financed \$15million of the proposed \$25million cost. The facility was approved by the 319th Board in September 2007.
- 16.10 Further to this agreement, it was agreed to lease the resort to Emerald Vacation Club LLC (EVC), and negotiations were made to increase the resort by another 47 rooms, of which another \$8.5million was required in financing to complete the project.
- 16.11 \$3million was requested to be placed in EVC's bank account, held with BML of which the full amount would be drawn upon by the bank if EVC failed to meet two quarterly lease payments.
- 16.12 The agreement was drafted by Mr Shuaib Shah who was also company secretary of Reethi Rah Pvt Ltd.
- 16.13 The other directors/shareholders of Madhadhoo Investments Pvt Ltd was Mohamed Rashid, a cousin of Mr Thasmeen Ali and Mr Ali XXX.
- 16.14 Mr Thasmeen Ali intended to run as Presidential Candidate in 2008, and as such was required to have limited dealings with state controlled institutions i.e. XXX

- 16.15 As such he transferred ownership of all of his shares to Madhadhoo Investments Pvt Ltd.
- 16.16 Madi Construction Pvt Ltd undertook the construction work for the resort. This company was owned by Mr Ahmed Ali (Thasmeen Ali's father) and Mr Mohamed Rashid, owner of Madhadhoo and cousin of Thasmeen Ali.
- 16.17 A review of the invoices received from Madi Construction by the Auditor General's office were deemed to be lacking in any substance and did not detail what work had been undertaken.
- 16.18 This will require further investigation into Madi Construction accounts to determine what monies were received from Madhadhoo Investments and what was spent on construction of the resort to be able to reconcile any differences.

#### **Kanbaalifaru Island Resort**

- 16.19 According to proposal documents, Mr Thasmeen Ali was planning on building a 100 room resort on Kanbaalifaru, costing \$30million of which the Mauritius Commercial Bank was going to provide \$22million, subject to evidence of a leased agreement regarding the management of the resort.
- 16.20 The \$3.3million required to purchase the resort lease from the government was provided by BML as an overdraft which was extended
- 16.21 Total exposure of Mr Thasmeen Ali as of June 2008 was 35% of banks capital, despite guidelines requesting that single party borrowers should be no more than 15% unless secured with suitable collateral, the security still needs to be reviewed in total.

#### **17 ADB Loan**

- 17.1 On 29 January 2008 a letter was received by Ms Serene Ho Oil Khuen, CEO of BML regarding the potential loan from the Asian Development Bank (ADB) of \$20million to be used by BML to provide BML's lending business in support of small and medium sized enterprises or SME's.
- 17.2 This was defined as "privately owned enterprises that have no more than 100 employees or annual revenues of less than \$10million per annum, and which do not carry on any of the activities set out in ADB's prohibited list of activities as per appendix 1". (Exhibit XX) Specifically, "tourist resorts shall not be eligible for financing from the proceeds of the ADB loan".
- 17.3 Further examination is required to determine where the funds for the ADB loan were distributed.

#### **18 General Findings**

##### **Related Parties/Board Relationships**

- 18.1 Our findings show that the of the largest exposures highlighted by both PWC in their management letter, and the Auditor General's report in 2008 for the Bank of Maldives were for the following group of companies, and for each group there were significant relationships with either the former President, his Cabinet or his political party.
- 18.2 The Sun Group: The majority owner is Mr Ahmed Shiyam Mohamed, who is an MP, and Vice President of the DRP, the political party of the former President.

- 18.3 Lily Group: The majority shareholder Mr Nasir is a member of the DRP, and reportedly has major dealings in resort developments with Mr Shuaib Shah, the son in law of the former President. He is also co-shareholder of a company with the former Attorney General.
- 18.4 Sultans of the Seas majority owner Mr Mohamed Adil was the brother of the Atolls Minister and later vice presidential candidate of Gayoom. He was also a member of the Board and on at least one occasion approved his own refinancing.
- 18.5 Mohamed Ahmed Didi who was on the Board of Directors of BML had shares in the Sultans Group. He was also the husband of Azima Shukoor. Ms Shukoor is Mr Abdulla Yameen's (the Former Presidents Brother) lawyer and the former Attorney General. She was also formerly a deputy at the Ministry of Home Affairs.
- 18.6 Wikipedia states the following "She is a member of parliament appointed by the President and President of Women's Wing of Dhivehi Rayyithunge Party (DRP).
- 18.7 VA Group: Mr Hamza who was a Board Member is majority shareholder of VA Pvt Ltd
- 18.8 Afeef Group: Mr Hussain Afeef is the majority owner who was the former Presidents economic advisor.
- 18.9 Villa Group : The majority owner is Mr Qasim Ibrahim, former Finance Minister with 51% vote of the Board of BML, who also appoints the majority board members and the Managing Director of the Bank of Maldives.
- 18.10 Thasmeen: Previous Atolls Minister, Home Minister and Vice Presidential Candidate in 2008 elections. Mr Shuaib Shah was also appointed company secretary for Reethi Rah Resort Pvt Ltd in 2006.
- 18.11 VB Group; The directors of the main company, Platinum Capital Holdings Pvt Ltd are Mr Mohamed Shaweed, Mr Ahmed Shiyam, Mr Ali Shiyam, Mr Hassan Shiyam, all holding 19% each. In addition, Mr Ahmed Shiyam and Mr Shahweed both own 50% of VB Brothers Pvt Ltd.
- 18.12 Rainbow Group: The majority owner is Mr Ibrahim Rafeeq who was the Housing Minister under the former regime.
- 18.13 It could be inferred therefore that there were strong political ties for the majority of the above either directly with Gayoom, as members of his cabinet or advisors, with Abdulla Yameen and Mr Abdulla Hameed, the brothers of the former President; Gayoom, Mr Qasim Ibrahim as Finance Minister who held 51% of the BML vote and with Mr Maniku.
- 18.14 Examples in the report include the 331st Board meeting at which Mr Adil was present, where discussion was made over the re-financing of the Sultan Group debt due to it's inability to pay interest and repayments, although Mr Adil was shareholder/director.

- 18.15 Although a number of comments were made, such as the interest rate being too low and the current state of financial affairs it was agreed by the Board (with Mr Adil contributing to the decision) to refinance the agreement via a EUR 12million loan.
- 18.16 It was explained by the MD Ms Khuen that if interest was not rescheduled then the account would become a non-performing asset.
- 18.17 This would be a clear conflict of interest by the Board in approving loans for companies owned by a Board Member, who also voted on the decision, that would otherwise render it non performing. It is further noted that the repayment of the loan was delayed by 6 months.
- 18.18 As previously stated, it is clear that the individuals named as major shareholders, directors or company chairman, all have or did have strong connections with the previous regime, either through their position in the cabinet/Gayoom's political party, or through their relationship with members of the Gayoom family.
- 18.19 Many of the above parties benefited from loans that were used to assist in purchasing leases for resorts, related tourism businesses etc, of which would not have been achieved without the connections held by certain individuals.
- 18.20 A list of resorts owned as at 2008 can be found at Appendix XXX. This shows that of the 91 resorts available for lease from the Maldives Government, 29 belonged to the small number of individuals mentioned in this report.
- 18.21 The large exposures that BML held, were in the main, due to members of the board or their relatives.
- 18.22 Loans were granted without significant obstruction, were approved directly by the Board of which a number of these individuals sat, and their accounts were not administered according to BML's own policies (as per the letter in 2002 from Mr Keith Brown, the previous BML General Manager).
- 18.23 Due to the fact that the largest exposures of the bank were from Board members and/or their families, it would be unrealistic for the Board to provide any clear independent review of the banking facilities provided, and would in my view form conflict of interest issues for those Board Members involved.
- 18.24 It would be impossible for the Board to not have been influenced in some way to provide the proposed banking facilities
- 18.25 On occasion, requests were requested for loans, for which the borrower wished to draw upon the same day or within a very short timeframe. This would insinuate that loans were already approved before proper ratification by the Board.
- 18.26 As referred to in the report, a letter dated 5 June 2008 from Mr Ibrahim to the Manager (Ms Khuen) of the Bank of Maldives states that "we request you to arrange a short term temporary loan of MRF 6million to meet urgent financial commitments and the same will be repaid on or before 30 June 2008. We shall be drawing the cash today. Your timely assistance would be appreciated."

- 18.27 It may be commented that the style of the letter implies that the loan would be organised on the same day as the request was made. As noted below, Ms Khuen was also appointed by Mr Ibrahim and may have found it difficult to refuse a request from her employer worded in such a way.
- 18.28 Ms Khuen in her role as Managing Director and CEO, would have had to approve the credit proposals requested by a number of the Board, including Mr Hamza, Mr Ibrahim, and Mr Didi.
- 18.29 During her tenure, there were a number of breaches of MMA guidelines, which would appear to be in order to satisfy the issuance of loans to related Board members.
- 18.30 It would also be reasonable to conclude that her position in the Bank may have been untenable if the requests for credit facilities had been denied by Ms Khuen, and that independent objective analysis of her employers facility requests would have been difficult to achieve.
- 18.31 It would also in our view be a conflict of interest for those Board Members requesting loan facilities to sit on the Board Meetings that approved their loans, however this occurred on a number of occasions.
- 18.32 Ms Fathimath Nuhuza, another member of the BML Board was also the Deputy Director General within the Ministry of Finance and Treasury. It should be noted therefore that her ultimate line manager would be Mr. Qasim Ibrahim, Finance Minister during the same period.
- 18.33 It would be reasonable to assume that any loan approval for Mr. Qasim Ibrahim and his group of companies would give rise to a conflict of interest or indeed possible undue pressure to Ms Nuhuza.
- 18.34 Finally mention needs to be made of Mr Qasim Ibrahim as in 2004 Gayoom relinquished his position as Finance Minister (amongst other positions) due to significant international pressure to reform the constitution. Qasim Ibrahim became Finance Minister in his place in 2005. The following was obtained from wikipedia:
- 18.35 "Qasim Ibrahim was elected as a Member of Parliament in 1989. In addition, he has held and still holds various other posts in a number of government committees and regional bodies.
- President of the SAARC Chamber of Commerce and Industry
  - President of the Maldives National Chamber of Commerce and Industry (MNCCI)
  - Vice-President of the Maldives Association of Tourism Industry (MATI)
  - Board member of the Maldives Ports Authority (Government Appointment)
  - Former board member of the Bank of Maldives
  - President of the Peoples Special Majlis
- 18.36 Mr. Qasim Ibrahim was the Minister of Finance and Treasury in the Maldives government from July 2005 to July 2008. He resigned from his post as the Minister of Finance and Treasury on Thursday, 10 July 2008 due to allegations of incompetence."

- 18.37 The majority of these loans reviewed in this report took place during Mr Ibrahim's tenure as Finance Minister and ultimate Board Member of the Bank of Maldives.
- 18.38 It is also noted that statements have been received in relation to an increase of salary for the Managing Director of the Bank of Maldives from \$100,000 to \$200,000 during the period when these loans were being given. This needs to be further verified.
- 18.39 Further to the formal relationships above, attention I believe needs to be paid to the relationships between a number of the above companies and Mr Shuaib Shah the son in law of the former President and as per his own website, "special advisor" to Gayoom.
- 18.40 His website lists the following as clients he has worked with. Of the total clients listed as high net worth clients, many are connected to the former regime.
- 18.41 His website also lists a significant number of tourist resort/companies he has worked on. The majority of the resort islands have used Mr Shah as their legal advisor despite other legal firms being available.
- 18.42 According to the tender rules for island resorts, it would not have been possible for Mr Shah to be named as a director or shareholder of any company wishing to bid for resorts as local national residents received significant bidding benefits over and above any company that had a foreign national.
- 18.43 However it appears that Mr Shuaib Shah still had significant involvement in a large number of the resorts and their development process.
- 18.44 Exhibit XXX (source BML Audit Files Q100) states that "although not legal shareholders, the project was overseen by Mr Shuaib M Shah with involvement of his brother Dr Suhail Rahim. Upon completion of the project shares were to be transferred accordingly".
- 18.45 The shares were subsequently sold to Mr Nasir, Mr Hafeez and Ms Azuhaariyya which was financed through a part purchase demand loan to Lily Hotels Pvt Ltd of \$8million of which the formal shareholders, and it is believed Mr Shah and Dr Rahim received funds.
- 18.46 Mr Shah is also advertised as CEO of Island Hideaways Pvt Ltd, CEO of EoN Resorts, and was linked to Turquoise Pvt Ltd, all companies involved in the development of resorts.
- 18.47 Mr Shah was also appointed Company Secretary for Reethi Rah Pvt Ltd, owned by Mr Thasmeen Ali.
- 18.48 It is reported that a number of bids for island resorts were successful despite other bids being more qualified. Other bids were often refused on simple points or on the basis that they were "economically unfeasible" despite having lower rental figures per annum.
- 18.49 Further investigation would need to be undertaken to determine if Mr Shah benefited personally from his relationship as son in law to the President as these islands were being released for tender either from gaining the legal work or from gaining assets.

- 18.50 It is also noted that during asset investigation searches in the UK, Mr Shah was a co-director of Sun T&T (UK) Ltd, believed to be part of the Sun Group.
- 18.51 Bearing in mind Gayooms Presidency spanned 30 years in total, it would be reasonable to assume that Mr Hameed would have had significant influence over the decisions of the Board and the Bank of Maldives.
- 18.52 It is noted that Mr Hameed is currently charged with assisting tender fraud during his tenure as the Minister of Atolls by signing cheques for advance payments to Mr Ahmed Nazim's company (Namira Engineering) and approving bid documents against the finance regulations. Mr Ahmed Nazim, is a former official of the Atolls Ministry. (Source: Presidents Commission Report 2009).
- 18.53 As Chairman of the Bank, and as someone who was present at the majority of the board meetings (according to the BML website) Mr Hameed would have been acutely aware of the responsibilities provided to him in his role and the risks that these loans positioned the bank.

### **Breaching MMA Guidelines**

#### Loan Exposure

- 18.54 The systems and controls appear to be in place within the BML to monitor the credit decisions and exposure. However, whilst reviewing the files we found many examples of where these controls were by-passed and management/the board were able to override the controls
- 18.55 As demonstrated by the interactions between the MMA and BML regarding BML's loan exposure and BML's requests to the MMA for approval of credit facilities and related party financing, the Board and its Chairman were clearly aware of the restrictions placed upon the banks loan exposure, however credit facilities continued to be provided.
- 18.56 Where loan exposures had clearly exceeded MMA guidelines, the BML sought to seek its approval to provide further loans for members of its Board.
- 18.57 In the example of VA Pvt Ltd and its Director Mr Ahmed Hamza, it would appear from the letters written to MMA that BML had effectively pre-approved the loan facilities, otherwise the letter to MMA would not have been written in the first instance.
- 18.58 A response from MMA was dated on 21 August 2007. It states clearly that; "such concentration of credit is far in excess of the legal lending limits of the bank and it could seriously threaten the bank's position, and the stability of the whole financial sector. As such being legally mandated to supervise and regulate the banking sector to ensure safety and stability and considering the risk inherent in such high concentrations of credit the MMA is not in an a position in this instance to approve the proposed new credit facilities or extensions of the Bank Performance Guarantee as outlined in your letters."
- 18.59 Despite clear objections from the MMA, BML tried again to obtain approval and appeared to seek ways of obtaining this finance for Mr. Hamza through various methods of excluding the source of financing (e.g. the on-lending agreement with EIB with regards to Medhufushi Resort), and by requesting an increase in the bank exposure limits i.e. the letter from the BML Chairman, Mr Abdulla Hameed.



- 18.60 Despite very clear objections, it will be noted that a number of individuals all continued to receive bank facilities that exceeded single borrower limits using the group exposure as a method of calculation, rather than analyzing securities offered and single borrower exposure. On occasion attempts were made to exclude the EIB loans in the credit proposals and their calculation of party exposure to the Board.
- 18.61 It would be reasonable to conclude that the request to increase the percentage of loan exposure by the BML in December 2007 was driven by fact that their current loan exposures already exceeded MMA limits for some accounts and therefore were already in breach of MMA regulations.
- 18.62 This would mean that those parties with loan facilities exceeding the regulated limits would either have to repay the excess amounts, and prevent them from requesting any further re-financing/rescheduling or other loan facilities.
- 18.63 Evidence of the above is referred to in the main body of the report, however for example in a credit proposal document for a loan for Lily Group, the BML stated that the Lily Group exposure as a % of BML Capital in December 2006 was 56%, but that "security cover on total exposure of the group exceeding 15% of capital is 227% (and) as such it is within MMA regulations."
- 18.64 It would appear that the proposal neglected to refer to the MMA guidelines stating that group exposure should be no more than 30% of banks capital, and that the referral to the security was used as a means to provide the loan.
- 18.65 Similarly for the Villa Group it was noted that "MMA has advised to keep the Villa Group exposure within 30% of banks capital on 31 Oct 2007. Facilities extended to Villa Shipping for the development of Maamigili project and the recently approved loan under the EIB post tsunami line of credit for the redevelopment of Fun Island Resort amounts to 30.1% of Bank's Capital. Facilities of Villa Shipping and related parties (Mrs Naheed & Onus Pvt Ltd including the proposed enhancement) amounts to 32.3%".
- 18.66 Despite clear guidelines from the MMA that the Villa Group exposure should remain within 30% of the banks capital, and the current group exposure excluding related parties had already breached that figure, the proposal was still placed for board approval.
- 18.67 "Villa Shipping has committed to fully settle the LC outstanding prior to the draw-down of the EIB loan as such LC liabilities are not included in the above calculations. Further disbursement under EIB loan will be made such that the total exposure to Hon Qasim's group is within the cap imposed by MMA"
- 18.68 Despite the breach of MMA regulations for the above group, which did include the letter of credit provided of \$10million (due to Villa Shipping committing to settling the LC) the loan was granted and placed to the board for approval.

#### Non Performing Assets

- 18.69 The MMA wrote to all banks on 25 April 1996 regarding loans, overdraft facilities and advances which were past due in payment of either principle or interest.

18.70 It was required that banks shall cease the accrual of and the crediting to income of interest on all credit facilities that are classified as "non-performing" and all credit facilities for which repayment of principle or interest in full is not expected, regardless of the non-performing status.

18.71 It was decided that credit facilities should be classified as "non-performing advances" on the following basis unless such credit facilities are both "well secured" and "in the process of collection":

- Overdraft: when accounts have been static and in excess of the approved limit for 90 days (3 months) or more
- Term loans, block loans etc; when principle or interest have been in arrears for 3 months or more.
- It was also requested that where rescheduled credit facilities occur before an account is classified as non-performing, the rescheduled amount shall be classified as non performing when in the aggregate the period of time the account is in arrears before rescheduling (if any) and after rescheduling is 3 months or more. (source BML Audit Working Papers, File 6 ZV)

18.72 As has been evidenced through the report a number of accounts fell foul of the requirements to monitor non performing assets as per the letter dated 25 April 1996 regarding facilities that had not received principle or interest payments as per their agreements, however they continued to be viewed as performing accounts.

18.73 These include the Sultan Group, Sun Group, VA Group and Villa Group Accounts.

18.74 Further On 28 July 2002 a memorandum from the then BML General Manager, Mr Keith Brown, regarding overdue loans and overdraft facilities stated that, "in the case of overdrafts, reminder letters must be sent to the borrower 2 months prior to expiry date to find out if the party wishes to renew. If the borrowers performance has not been satisfactory during the past year, do not ask whether party wishes to renew the limit and do not recommend renewal, instead speak to party for crystallizing the overdraft to a demand loan or full adjustment."

18.75 As has been seen throughout the report, the above policy was not adopted for the Sun Group, Villa Group, VA Group or Sultan Group and regular breaches took place.

#### **Poor Account Maintenance/Monitoring**

18.76 On a large number of occasions, accounts that had been provided with credit facilities exceeded their limits, or were late in making repayments. This is clearly evidenced with the following examples :

- Sun Group, the overdraft of \$1.5million granted which during 2007/2008 reached \$7million.
- Emerald Resorts Pvt Ltd: The overdraft limit of \$50,000 was breached every single month from November 2007 to October 2008 however it was extended twice to January 2009 despite the regular breaches of the current overdraft limit.

- Emerald Resorts Pvt Ltd: An overdraft facility of MRF 1million sanctioned on 27 January 2005, renewed on 10 December 2006, renewed again on 29 January 2008 , and again on 1st April 2008, the last expiry date of which is known was 31 January 2009 was exceeded on a number of occasions in 2007 and 2008. The highest balance was negative MRF 13,862,503.57 in August 2008.
- Emerald Resorts Pvt Ltd: A US Dollar account 7701-130921-005 had no overdraft limit yet from November 2007 to October 2008 shows that the account regularly exceeded its limits, the lowest balance being in November 2007 was \$460,921.26. In every single month over the 12 month period the account exceeded its limits.
- Tropical Maldives Pvt Ltd: Account number 7701-144892-002 showed a negative balance averaging \$2,032,069.43 despite an agreed limit of \$1,800,000 for the 12 month period November 2007 to October 2008 inclusive. The lowest balance recorded was \$3,121,274.76, however facilities continued to be provided until early 2009.
- Tropical Maldives Pvt Ltd: Rufiyaa account 7701-144892-001 had an overdraft limit of MRF 12,850,000. However the balance at one stage exceeded MRF 48,179,732.42 in December 2007, and did not fall under the overdraft limit until April 2008.
- Sun T&T Pvt Ltd: In March 2004 , account 7701-112222-was provided a MRF1.5million which was extended at least until October 2008. It also regularly breached its overdraft limits, the lowest balance of which was \$3,725,270.15 in April 2008.
- Sun T&T Pvt Ltd: Account 7701-112222-002 had an overdraft limit of MRF5,500,000 being the combined total of two facilities of MRF 4,000,000 and MRF 1,500,000. However it is noted that during 2008 the account balance continually exceeded this limit, averaging MRF10million and reaching MRF 16.6million in September 2008.
- Sun T&T Pvt Ltd Account 7701-112222-003 was provided with a \$500,000 overdraft originally sanctioned in December 2006 extended until January 2009. This overdraft was regularly exceeded during the period November 2007 to October 2008 inclusive, the lowest balance reaching \$758,322.64 in February 2008. The average balance of which exceeded the overdraft 5 months out of the 12.
- Sun T&T Pvt Ltd: Accounts numbered 7701-11222-015 and 016 in USD, both had no overdraft facilities. However the accounts were regularly allowed to exceed their limit, on one occasion reaching \$1.7million USD.
- Sun Investments Pvt Ltd: Account number 7701-129800-001 was provided with overdraft facilities at a limit of MRF1,000,000 in December 2006. The account regularly exceeded its agreed limit, reaching MRF 14 million in November 2008.
- Turquoise Pvt Ltd: A loan was provided of \$10million in March 2008 to account 7701-123878-300, and enhanced with a further \$1.68million in August 2008. It is noted through a review of the account management that in September and October 2008, immediately after the enhancement was provided, both repayments were not paid and became overdue.
- Lily International Pvt Ltd Renewal of facilities were granted on the basis of security given and that "Lily hotels is currently paying loan repayments of \$166,000 per month towards the existing loan repayments, Lily Enterprises approximately \$299,700 and Turquoise \$225,000 during high season and \$96,000 during low sea-

son, as such Lily group and Turquoise total liabilities will reduce by \$7.5million per annually"

- The above statement in my view is unusual in that it considered repayments themselves as a mechanism to reducing the groups exposure, rather than considering the actual loan exposure itself, and therefore denying the request.
- This may be demonstrative of the lengths that the management and board were prepared to go in order to provide loan facilities, despite clearly breaching MMA guidelines on exposure limits.
- Villa Shipping & Trading Pvt Ltd: In August 2008 a Letter of Credit cum overdraft facility of \$11million was requested for working capital and secured against Holiday Island. Total temporary overdrafts in the period to October 2008 totalled MRF 37million and had not been repaid as promised.
- VA Pvt Ltd: A overdraft of \$5million was sanctioned on 16 June 2008 for working capital expiring on June 2009. However the account exceeded this limit by approx \$1.3-million.

#### **Restructuring existing loans**

18.77 It would appear that the loans for the majority of the parties referred to in this report are effectively on a revolving basis. The business purpose is supported by the many restructurings of existing loans for working capital purposes, re-financing of existing facilities and to pay loans with other banks or suppliers, as in the case of the following:

- Sun Group: overdraft to pay Proparco cash collateral for \$8.7mil loan.
- A loan of Euros 12,000,000 was provided in July 2007, (equivalent \$15,300,000) the majority of which was transferred to Art Marine LLC, a sales agent for yachts. Further loans of \$8.7million and \$15,300,000 were requested in 2008 to pay off the existing facility.
- During the 331st Board meeting at which Mr Adil was present, discussion was made over the re-financing of the Sultan Group debt due to it's inability to pay interest and repayments.
- On 17 June 2008 a further loan was provided of Euros 12,000,000 in order to pay off existing facilities and was secured on the vessels owned by the company.
- Eventually and despite the rescheduling, a letter dated 20 October 2008 declared the account as non-performing due to non-payment of loans and charged 5% of interest upon total outstanding sums however this was rescinded on account of an error from the bank acknowledging that there had been re-financing of the facilities and that the "first overdue payment" was in September 2008.
- VA Pvt Ltd: Financing for the resort development of Hondaafushi for the loan amount of \$17.6million had been arranged through EXIM bank, Malaysia. Approval was being sought through the normal lending policies and would be placed before the Board

for approval with quorum excluding Mr. Hamza, but they therefore would seek approval for the above from the MMA first for facilities of MRF 1.3million and \$3million.

- It should be noted that approval was being sought before the BML Board's own approval had been granted. This could infer that its approval had already been guaranteed and that the only potential obstacle would be through the MMA due to its regulations on single party exposure.
- 18.78 From the above information it can be determined that despite evidence and financial analysis showing that a company was struggling to pay its liabilities, or had not used the original credit facility for the purpose intended, which then needed to be rescheduled, that the loans were still approved.
- 18.79 Further evidence is needed to determine where the majority of the loan funds were expended, particularly where re-financing was required. Examination of BML bank account statements will be able to determine where funds were transferred ultimately to.
- 18.80 In addition to the rescheduling itself, mention should be made with regards to the financial covenants that were in place for those facilities that were rescheduled.
- 18.81 Generally, companies will undertake loan refinancing to take advantage of better interest rates and relaxed covenants. However in the above, the companies reviewed appear to be restructuring debt in an attempt to avoid defaulting of its loan agreements and its associated expenses, manage their cash-flow problems, reduce and renegotiate delinquent debts and restore liquidity.
- 18.82 Under normal circumstances these types of loans would incur higher interest rates than the pre-existing ones, and more stringent financial covenants, however this does not appear to be the case for any of the above.
- 18.83 The majority if not all of the credit proposals were placed before the Board, and agreed without any additional interest rates or financial covenants being requested and enforced.

#### **Interest rates**

- 18.84 Interest on loans made to related parties should in general be considered at arms length, disregarding the approval process, interest of loans etc should be made at commercial rates.
- 18.85 However this did not take place for a number of individuals, e.g. a loan request of \$5,000,000 to finance the development of Irufushi Resort pending finance agreement.
- 18.86 The consideration document stated that "the above is within the authority level of CCO under secured by unencumbered cash or FD's, cover 100% or more. However the proposal will be placed for confirmation of the Board as the proposed interest rate (1%) is lower than the present board approved minimum rate of 8.5%"
- 18.87 It should therefore be noted that the Board approved an interest rate far lower than the standard 8.5%.

18.88 Similar evidence was found during the review of the loan documentation material for Onus Pvt Ltd and companies within the Rainbow Group.

### **Debt capacity and security**

18.89 Loan restructuring inherently leads to issues involving debt versus equity problems. A company's capacity to take on additional debt may be assessed in several ways, including evaluating:

- The company's debt-to-equity ratio and its interest coverage ratio, which estimates a company's ability to meet its long-term financial obligations
- The borrower's profitability, operational structure or growth strategy

18.90 It is important to consider the above in understanding and predicting a borrower's ability to pay back its loan / credit facilities.

18.91 However any negative results in the review of the company's capacity to take on debt was often mitigated by claiming that the net worth of certain individuals and / or the banking relationship was good enough to support providing new facilities.

18.92 This has been evidenced in the report with various credit proposals that state that the net worth of some individuals is enough for security purposes. However no evidence is provided in the proposals for the individuals themselves, just for the companies requesting the loans.

18.93 Furthermore, it is clear that the same security is used as collateral for a number of loans across various companies. Should any one of these companies default or become insolvent, the security would need to be used to repay any outstanding debt. Therefore it would appear that little consideration has been given to what would happen should more than one company default within a group, and whether those assets are liquid enough to repay any debts, or if there is enough security to cover all of the outstanding amounts owed.

18.94 Appendix XXX shows the security used by each company within a group, and how often it was used to secure other business loans.

18.95 As is the case with a number of the assets provided as security, the same security was provided over several types of loans or credit facilities, for example, and particularly in the case of Sun Group where the mortgage of Vilu Reef and Irufushi Spa Resort was used, along with other assets totaling \$54million, however the total exposure was \$40million

### **19 Next Steps**

19.1 Analysis by Lawrence Graham regarding the legal viewpoint on the conclusions above.

19.2 Further analysis by Grant Thornton would be needed to confirm if funds have been borrowed and then transferred overseas, which would assist in establishing jurisdiction.

- 19.3 To assist in confirming jurisdiction, copies of the bank statements of the individuals and companies referred to in this report, in order to sensibly trace where disbursed funds have been distributed.
- 19.4 Assistance therefore will be required from the Government of the Maldives, and/or relevant authorities in the Maldives in order to :
- Confirm where loan funds were distributed to and if they were used for the purpose identified.
  - Confirm Account Maintenance of Company and Individuals referred to in the report.
- 19.5 Copies of the minutes of the Board meetings as referred to in the report will need to be obtained in order to confirm who approved loans/credit facilities and whether breach of fiduciary duty/conflict of interest took place in approving loans not at arms length.
- 19.6 Analyse the evidence of personal net worth as defined by BML to determine on what basis the BML accepted personal guarantees and if poor administration by BML took place by the Board and BML company officers, when confirming the net worth in order to guarantee loans provided.
- 19.7 Analyse the documentation such as valuations, insurance documents submitted by borrowers to the BML to obtain loan facilities to confirm if the valuations were credible.
- 19.8 Analyse copies of invoices/work progress etc submitted by the borrowers to satisfy the drawdown of loans, and whether these were credible.
- 19.9 Following the above additional information, it would be possible to establish if jurisdiction outside of the Maldives in the pursuit of civil recovery is obtainable, due to the transfer of funds overseas.