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LAUNDERING DIRTY RAINFOREST DOLLARS?

Manulife's dodgy deals
with a Malaysian potentate's daughter



A Report by the Bruno Manser Fund

Basel / Switzerland, April 2014

Executive Summary

Since September 2003, the Canadian insurance and finance services provider, Manulife Financial, has arranged six mortgages for the Canadian Sakto real estate group over C\$ 146 million. The mortgages are secured by three properties in Ottawa, known as the Preston Square development. Three of the mortgages, over a total amount of \$73 million, have been arranged at the extremely high interest rate of 20% per annum.

Sakto is run by Jamilah Taib, the daughter of Malaysian potentate Taib Mahmud, and her Canadian husband, Sean Murray. Taib Mahmud is a notoriously corrupt politician who is under investigation by Malaysia's Anti Corruption Commission (MACC). Taib has been accused of embezzling state funds, corruption and abuse of his public offices for personal gains. During Taib Mahmud's tenure as Chief Minister of the Malaysian state of Sarawak, close to 90% of the state's lush tropical rainforests have been logged. It is commonly known that timber merchants and traders active in Sarawak were compelled to pay the Taib family millions of dollars in kickbacks.

With this report, the Bruno Manser Fund intends to alert Manulife, the Canadian authorities and the general public over a significant money-laundering risk linked to Manulife's business transactions with Sakto.

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1. The aim of this report

This report highlights a series of highly unusual mortgage deals between Manulife, the Canadian insurance company and financial services provider, and the Sakto Group, an Ottawa-based real estate developer with close ties to the family of Malaysian potentate Taib Mahmud.

The Bruno Manser Fund suspects that these transactions are part of a series of money-laundering operations undertaken by the Taib family to integrate corruption proceeds from illegal Malaysian rainforest logging into the Canadian real estate sector.

2. Who are the Bruno Manser Fund?

The Bruno Manser Fund is a charitable non-governmental organization (NGO) based in Basel, Switzerland. The Bruno Manser Fund assists indigenous communities in Sarawak, Malaysia, to protect their native rights and save their traditional rainforests in Borneo. The organization was founded in 1991 by Bruno Manser, a Swiss human rights campaigner who disappeared in the Borneo jungle in May 2000.

3. Who are Manulife?

With 28,000 employees and C\$599 billion under management, Manulife Financial Corporation („Manulife“) is one of Canada’s largest insurance and financial services providers. From its headquarters in Toronto, Manulife oversees operations in Canada, the US and a number of Asian countries, including China, Japan and Malaysia.

Manulife prides itself in its Code of Business Conduct and Ethics to enjoy „ a reputation of unquestioned honesty and integrity“. The Code, which all employees have to sign, states: „All of our dealings are characterized by the highest levels of honesty and fairness. We develop trust by maintaining the highest ethical practices.“¹

4. Who are Sakto?

The Sakto Group is an Ottawa-based real estate and investment group directed by Jamilah Taib, the daughter of Malaysian potentate Taib Mahmud, and her Canadian husband, Sean Murray. The Sakto Group comprises Sakto Corporation (www.sakto.com), Sakto Development Corporation and a number of associated companies, including Adelaide Ottawa Corporation, Tower One Holdings, Tower Two Holdings and City Gate International Corporation.

Sakto was founded in 1983 by Onn Mahmud, the brother of Taib Mahmud, and two of Taib’s college-aged children. In 1989, Jamilah Taib said that Sakto was owned by a group of shareholders from Australia, Hong Kong and Malaysia who were looking „for a secure, long-term investment for their money. And someone they trust to handle it for them.“² However, this view has been challenged by the late Taib family US aide and whistle-

¹ Manulife Financial: Code of Business Conduct and Ethics, February 2010.

² Kathryn May: Pacific Rim Investment in Canada, in: The Ottawa Citizen, 17 January 1989.

blower, Ross Boyert, who said that Sakto was controlled by Taib Mahmud himself.³ Today, Jamilah's husband, the Ottawa-born businessman Sean Patrick Murray, is the public face of Sakto, while the company is trying to conceal its ties with the Taib family.⁴

5. Who is Taib Mahmud?

Taib Mahmud is a Malaysian politician who has served for over 50 years as a minister, in Malaysia's federal government and in the state government of Sarawak, Malaysia's largest state in Borneo. From 1981 to February 2014, Taib held the extremely powerful office of Chief Minister of Sarawak. Currently, he is Governor of Sarawak, a mainly ceremonial role.

During Taib Mahmud's tenure as Chief Minister, close to 90 percent of the once lush tropical forests of Sarawak have been logged, with enormous consequences for the rainforest environment and the forest-dependent indigenous communities. Corruption and illegal logging have made Sarawak an international environmental crime hotspot.

It is common knowledge that, as a public servant, Taib Mahmud abused his offices to enrich himself and his closest family members. Today, he is arguably the richest man in Malaysia. Research by the Bruno Manser Fund has shown that his family has stakes in over 400 companies in 25 countries and offshore jurisdictions. The Taib family's assets are estimated at USD 20 billion.⁵

6. How is Manulife connected to Sakto?

Since 2003, Manulife has arranged six mortgages for the Taib family-linked Sakto group over a total nominal value of 146 million Canadian dollars for its Preston Square, Ottawa, development (see annex). Three of these mortgages (at \$13 million, \$15million and \$45 million) bear interest at an annual rate of 20%.⁶ On the same properties, a second set of mortgages at more conventional conditions for the same amounts have also been secured.⁷

7. Why are Manulife's deals with Sakto a problem?

It is highly unusual a) to provide mortgages at the extremely high interest rate of 20% per annum b) to simultaneously secure two sets of mortgages over the same properties at such different conditions. The high interest rate suggests high risk and a lack of commerciality – typical red flags for money-laundering.

³ Sarawak Report: Film Tribute to Ross Boyert, 2 March 2011.

<http://www.sarawakreport.org/2011/03/film-tribute-to-ross-boyert/>

⁴ See for instance the post on Sakto on Sean Murray's blog <http://www.sean-murray.org>

⁵ The Taib Timber Mafia. Facts and Figures on Politically Exposed Persons from Sarawak, Malaysia. Basel: Bruno Manser Fund, September 2012.

⁶ Ottawa Land Registry Office, instruments OC903234, OC903263, OC903317.

⁷ Ottawa Land Registry Office, instruments OC248221, OC903247, OC903294.

While Manulife prides itself to apply „the highest ethical practices“, its business partner Sakto is closely connected to the family of one of Asia’s most corrupt politicians and might even be secretly controlled by Taib Mahmud himself – like Sakto’s American sister company, Sakti International Corporation.⁸

There is reasonable ground to suspect that Sakto Corporation has been used by the Taib family to launder millions of dollars of corruption proceeds from Malaysia.

8. Does the Sakto Group have a track record of suspicious transactions?

Yes. Publicly available financial records from Sakto’s early years are showing that, despite incurring significant operational deficits since its incorporation, Sakto’s real estate assets climbed from \$7 million in 1984 to \$40 million in 1992. As at 31 August 1992, Sakto benefited from \$28.7 million in loans from its shareholders and related parties.⁹ The heavy reliance on loans from anonymous shareholders, combined with a lack of commerciality, suggest Sakto’s involvement in a so-called „loan-back scheme“, a classic money-laundering scheme whereby a criminal entrepreneur uses loans to integrate illicit funds into the legitimate economy.¹⁰

On 13 January 1989, Sakto entered into a debenture with the Royal Bank of Canada. The loan proceeds totaled \$20,000,000 and accrued interest at 24% per annum - an extremely high (and thus probably non-commercial) interest rate. The debenture was secured by 307-351 Preston Street and 25-35 Aberdeen Street in Ottawa.¹¹

In 1996, Sakto received a C\$20 million loan from Taib’s wife and children and a Hong Kong company, Richfold Investments Ltd, whose sister company, Regent Star Ltd, was involved in extorting bribes from tropical timber traders.¹²

9. What is money-laundering?

According to the International Criminal Police Organization, INTERPOL, money-laundering is „any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources“.¹³ Essentially, money-laundering is the process whereby dirty money, produced through criminal activity, is transformed into clean money, the criminal origin of which is difficult to trace. A key element of a successful money-laundering operation is to provide a plausible explanation for the origin of the laundered assets.

⁸ Unmasked! Taib The Godfather, Sarawak Report, 9 August 2010.

<http://www.sarawakreport.org/2010/08/unmasked-taib-the-godfather>

⁹ Sakto Development Corporation, Financial Statements, 1984 to 1992, Western Libraries, ON, Microfiche collection.

¹⁰ John Madinger: Money-Laundering. A Guide for Criminal Investigators, 3rd edition, Boca Raton: CRC Press, 2012, p. 252ff.

¹¹ Ottawa Land Registry Office, Instrument N47469.

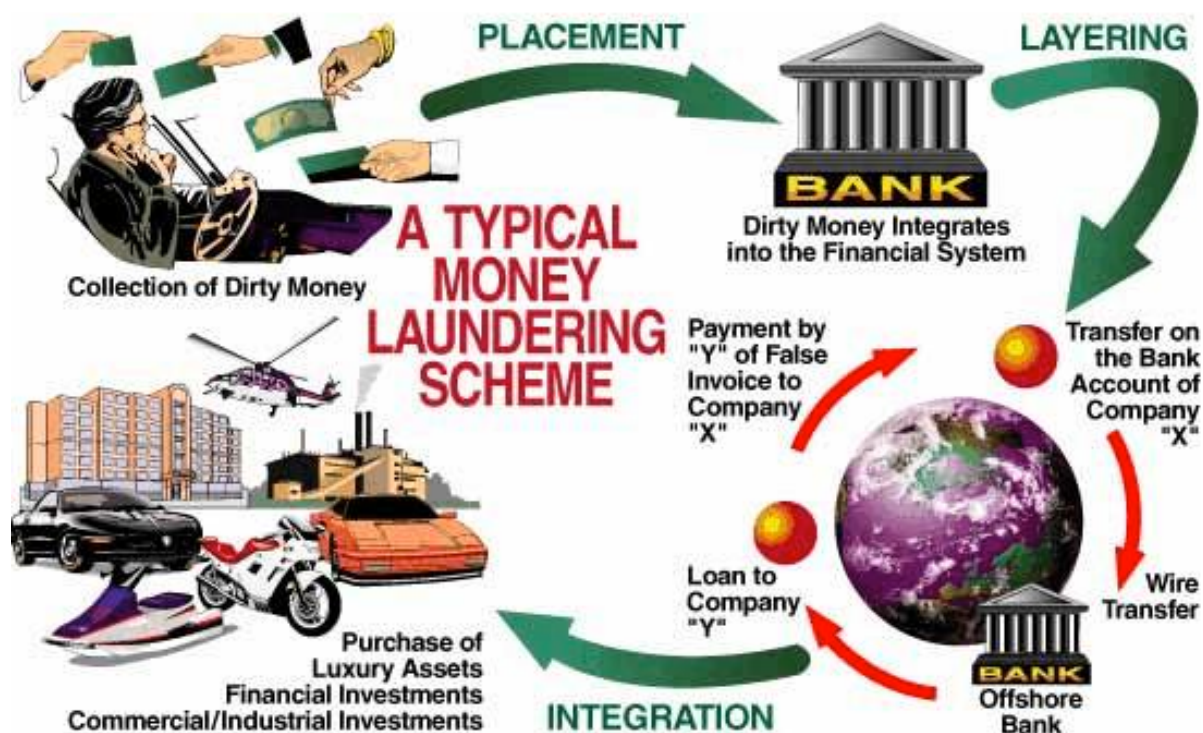
¹² Ottawa Land Registry Office, Instrument LT994559, see also: Sarawak Report: New Document Links Taib to Japanese Timber Scandal, 12 February 2014.

¹³ Official website of Interpol. <http://www.interpol.int/Crime-areas/Financial-crime/Money-laundering>

Money-laundering is a dynamic multi-stage process (see figure 1). These stages are usually referred to as *placement* (moving the funds from direct association with the crime), *layering* (disguising the trail to foil pursuit) and *integration* (the criminal proceeds are integrated into the legitimate economy and return to the hands of the criminal).

In most countries, money-laundering is a crime. In Canada, the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and its regulations aim at fighting money-laundering.

Figure: The Money-Laundering Cycle



Source: United Nations Office on Drugs and Crime (UNODC).

10. Why is the real-estate sector attractive to money-launderers?

Purchasing property (particularly overseas) is a common method used by criminals to launder the proceeds of criminal activity. A key advantage of doing so is that large amounts of criminal funds can be „cleaned“ in a single transaction.¹⁴ Real estate transactions also offer a host of mechanisms that can frustrate efforts to unearth the criminal source of funds. A recent study on money-laundering in Canada particularly names the use of „nominees, fake mortgages, real estate lawyers, and legal trust

¹⁴ Money Laundering Guidance for Members of National Federation of Property Professionals, Royal Institution of Chartered Surveyors, Association of Relocation Professionals and Association of Residential Managing Agents, July 2011.

accounts“.¹⁵ A common strategy employed by money-launderers is to mix clean and dirty money in seemingly legitimate business transactions.

A RCMP (Royal Canadian Mounted Police) study conducted between 2000 and 2003 indicates that mortgages are obtained by money-launderers „either to avoid suspicion associated with large personal financing“ or because the launderer genuinely requires a mortgage. „In other cases, a criminal entrepreneur personally financed a mortgage for a property that he controlled, but which was registered in the name of a nominee.“¹⁶ Another motivation for offenders to seek a mortgage can be „to minimize their personal loss if the property is forfeited to the Crown.“¹⁷

Various reports by the Financial Action Task Force (FATF), an inter-governmental body that combats money-laundering, have highlighted the role of the real-estate sector as one of the many vehicles used by criminal individuals and organisations to launder their illicitly obtained money.¹⁸

11. How does Sakto react to allegations of wrong-doing?

Since 2010, Sakto’s close ties to Sarawak potentate Taib Mahmud have repeatedly been criticized, namely by Sarawak Report¹⁹ (a news blog run by British journalist Clare Rewcastle) and the Bruno Manser Fund. In 2011, Canada’s Global Television contacted Sakto ahead of a broadcast run by its investigative 16x9 show on 3 December 2011.²⁰ Sakto director Sean Murray wrote on the occasion:

„[W]e have no interest in being interviewed in the press about ourselves, our business, our relatives or about Malaysian politics. [...] You will understand that Jamilah and I find these statements about ourselves and our business false, highly defamatory and very damaging. We therefore have no interest in encouraging public discussion of them and we will take very seriously and will react strongly to their publication in mainstream media [...].“²¹

On 29 November 2011, Sakto’s legal counsel threatened legal steps against Global Television – but they failed to take action after a show on Sakto’s alleged ties to Taib Mahmud was broadcast.²² Sarawak Report experienced the same pattern as it published a number of critical stories on Sakto: a threatening legal letter without follow-up.²³

In a letter to the British daily, the Evening Standard, Sakto’s lawyers wrote in February 2011 that the company had „never been funded by Mr Taib Mahmud. [...] Should this

¹⁵ Margaret E. Beare and Stephen Schneider: Money Laundering in Canada. Chasing Dirty and Dangerous Dollars, Toronto: University of Toronto Press 2007, p. 93-99.

¹⁶ Beare and Schneider, Money Laundering in Canada, p.97.

¹⁷ Beare and Schneider, Money Laundering in Canada, p.97.

¹⁸ Financial Action Task Force (FATF): Money Laundering & Terrorist Financing Through The Real Estate Sector, 29 June 2007.

¹⁹ Cf. Sarawak Report: Taib’s Foreign Property Portfolio, 15 June 2010.

<http://www.sarawakreport.org/2010/06/exclusive-taibs-foreign-property-portfolio>

²⁰ <http://globalnews.ca/video/398521/family-trees>

²¹ Letter by Sean Murray to Global Television, Toronto, released on 3 December 2011. http://stop-timber-corruption.org/resources/Transcript_legal_letter.pdf

²² J Bruce Carr-Harris, Borden Ladner Gervais LLP, to Global Television, 29 November 2011. http://stop-timber-corruption.org/resources/Transcript_legal_letter.pdf

²³ Mishcon de Reya to Clare Rewcastle, 11 April 2011.

allegation be made, our clients will sue you without further notice.”²⁴ – The statement was clearly untrue since Taib Mahmud himself later admitted in a video interview that he had provided his daughter Jamilah the funds to start her business.”²⁵

Despite all public criticism, the Sakto Group has hitherto refused to disclose its beneficial owners and the sources of its significant investments in Canadian real estate.

Picture: Environmental campaigners protest at Sakto’s Preston Square, Ottawa, development (February 2011) - Manulife holds \$146 million in mortgages on these properties



Source: Bruno Manser Fund

12. What do we expect Manulife to do?

On 29 April 2014, the Bruno Manser Fund sent a letter to Manulife’s Chairman, Richard B. De Wolfe, and its President and CEO, Donald A. Guloien, with the following questions:

1) Why has Manulife provided secured mortgages to Sakto over \$73 million at the extremely high interest rate of 20%?

²⁴ Mishcon de Reya to the Evening Standard, 16 February 2011.

²⁵ The Real Sarawak: Jamilah’s business in Canada is successful because she is good, Video released in March 2011, https://www.youtube.com/watch?v=zkd6JdIyt_w

2) Why has Manulife extended two sets of mortgages to the Sakto Group on the same properties, secured and cross-guaranteed by related parties?

3) What kind of customer due diligence did Manulife undertake prior to entering into a business relationship with Sakto and its director Jamilah Taib, a Politically Exposed Foreign Person?

4) Has Manulife's Malaysian subsidiary, Manulife Holdings Berhad, been involved in the business relationship with Jamilah Taib and the Sakto Group?

5) Has Manulife assisted the Sakto Group or its shareholders to move funds across international borders?

6) Has Manulife considered whether it is assisting the Taib family in laundering its wealth through Canada via Sakto and the Preston Square development? Such a risk clearly exists given the structure of the mortgages.

7) How does Manulife ensure that its dealings with Jamilah Taib and the Sakto Group comply with the Canadian anti-money-laundering legislation?

We expect Manulife to review its transactions with the Sakto Group and to provide plausible answers to our questions. Should irregularities be detected, we expect Manulife to draw the necessary consequences and to alert the authorities.

13. What do we expect the Canadian authorities to do?

Copies of this report have been sent to Julie Dickson, Superintendent of Financial Institutions, to FINTRAC Director, Gérald Cossette, and to Bob Paulson, Commissioner of the Royal Canadian Mounted Police (RCMP). The Canadian authorities are expected to examine the compliance of Manulife's Sakto mortgages with the relevant criminal and regulatory legislation.

The Bruno Manser Fund calls on the Canadian government to act in accordance with its international obligations under the UN Convention against Corruption. All Taib family assets with criminal or unclear origins should be frozen for later restitution to Malaysia.

Annex: Manulife Financial mortgages on Saktó Group properties

A) Lower Rate Mortgages

Instrument	Principal	Interest rate	Maturity	Secured on	Owned by
OC248221	\$13,000,000	6.39% per annum	October 1, 2013	333 Preston St, Ottawa	Tower One Holding Corporation
OC903247	\$15,000,000	5.69% per annum	March 1, 2020	17 Aberdeen St, Ottawa	Adelaide Ottawa Corporation
OC903294	\$45,000,000	5.69% per annum	December 1, 2021	343 Preston St, Ottawa	Tower Two Holding Corporation

B) High Interest Mortgages

Instrument	Principal	Interest rate	Terms	Secured on	Owned by
OC903234	\$13,000,000	20% per annum	Payable on Demand	333 Preston St, Ottawa	Tower One Holding Corporation
OC903263	\$15,000,000	20% per annum	Payable on Demand	17 Aberdeen St, Ottawa	Adelaide Ottawa Corporation
OC903317	\$45,000,000	20% per annum	Payable on Demand	343 Preston St, Ottawa	Tower Two Holding Corporation

Source: Ottawa-Carleton Land Registry Office.

Summary of Manulife mortgages secured on Saktó Group properties:

Lower Rate Mortgages: CAD \$73 million
 Higher Rate Mortgages: CAD \$73 million
 Total CAD \$146 million