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# Politics hits Georgia private banking sector

Tejinder Singh - 16/12//2007

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Business climate and freedom of expression are two major pillars of an open and dynamic democratic society and it seems Georgia is scoring negative marks on both these arenas.

Following the unceremonious silencing of the pro-opposition Imedi television channel and other business ventures under different pretexts, there are more attempts to silence the voice of opposition led by Badri Patarkatsishvili, a presidential candidate and to vitiate the business climate so that business knows where the buck stops.

The heat recently turned up on Standard Bank, owned by Salford Capital Partners, a London-based private equity firm, which manages Patarkatsishvili's business assets in Georgia. On November 24, Standard Bank, one of the country's largest retail banks, was placed under the temporary administration of the National Bank of Georgia, a measure usually taken when there is concern about the liquidity of a bank's assets. Speaking to New Europe, Peter Nagle of Salford Capital said: "Standard Bank was seized by the Georgian authorities on 24 November. This was part of a series of attacks and confiscation of assets believed to be related to Badri Patarkatsishvili, a presidential opposition candidate." "When the bank was seized it was in full compliance with all Georgian Banking requirements, particularly those related to liquidity. This attack on private property raises serious questions about the actions of the Georgian Government and potential conflicts of interests related to the Bank of Georgia. It sets a very poor precedent and signal for foreign investment into Georgia. We are especially unhappy about the detention and harassment of our employees."

On the other hand a National Bank of Georgia press release said that the central bank stepped in when it became apparent that Standard Bank was on the verge of bankruptcy. "We believe that this is due to the perception by the Georgian Government that Salford and its controlled companies are fully owned and controlled by Mr. Partarkatsishvili and have been used to actively support his political aspirations," Salford said in a statement.

The statement further explained, "In order to clarify this we wish to provide a clear explanation of Salford and its operations in Georgia and its relationship with Mr. Partarkatsishvili." "Salford is an international private equity firm that focuses on investments in CEE and CIS. Salford has offices in Moscow, Tbilisi, Kiev, Belgrade and London and employs approximately 35 professionals globally. Mr. Partarkatsishvili does not, (and never has) hold a direct or indirect beneficial financial interest in Salford nor does he participate in the management of Salford."

"Salford's advisory board members include Lord Bell (Chairman of Chime Communications Plc, Dr. Klaus Mangold (Former Vice Chairman Daimler Chrysler and Former Chairman Daimler Chrysler Financial Services) and Philip von Stauffenberg (CEO Solidus and former senior executive with Hicks Muse Furst & Tate and Warburg Pincus, two of the worlds leading private equity firms)." Political observers and financial pundits have been unequivocal in raising doubts about the alleged motives behind these moves as the affected bank raised questions like: "After the imposition of a state of emergency on November 7, a large number of the deposits (nearly 25 percent of total deposits) were withdrawn from Standard Bank in an attempt to create a artificial liquidity crisis, Why?"

"If indeed there were liquidity concerns, why prior to the seizure was there no engagement by the Regulator with Bank management or shareholders to discuss and remedy them?" "Why has no written explanation been given to shareholders by the Regulator specifying the liquidity concerns?" "Why has the Regulator refused to respond to written documentation from shareholders demonstrating that, at the time of the seizure, the Bank was in full compliance with all liquidity requirements?" "Police from the Georgian Constitutional Security Department ("CSD") were present during the seizure. How do liquidity concerns at a Georgian bank represent a threat to Georgian national security?"

Commenting on the situation, Eugene Jaffe, CEO of Salford Capital Partners, stated: "This is an outrage - an artificial liquidity crisis engineered by the Georgian Government in order to seize a leading Georgian Bank for political motives; to the benefit of Bank of Georgia. All under the knowledge of the Prime Minister who knows better, I have not seen an abuse of power like this since Russia in the mid 1990's. This is a complete disregard for the rule of law and investor rights in Georgia - a truly appalling precedent has been set.

We will take all means necessary to defend our interests." Salford has engaged the international law firm of Debevoise & Plimpton LLP to represent it in this matter and has put the Georgian Government and Bank of Georgia on formal legal notice regarding this matter.

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