

# financial news



## TBC Bank affiliated NCC to Reconstruct Head Office for HSBC Bank Georgia

### The FINANCIAL

On December 7 HSBC Georgia and TBC Bank affiliated New Construction Company (NCC) signed a contract on the reconstruction of the bank's new Head Office.

Europe's largest and the world's number 3 bank will start operations in Georgia at the historic building located at 15 Rustaveli Ave. between Rustaveli Theatre and the Marriott Tbilisi hotel. The reconstruction works will be finished in four and a half months.

"NCC is purely a construction company and hence does not operate as a developer. Rich experience in the field enables us to provide the best offers both in design and construction, which is a rare reality in the local market nowadays," stated Ercan Gunes, NCC General Director.

NCC is the only local construction company to have received ISO 9001:2000 in Quality Management. Over 7 months the company

cooperated with TUV SUD official representation in Georgia, in charge of audit, control, and quality management certification issues.

The company managers claim NCC success is due to the efficient work and joint efforts made by the Georgian and foreign professionals. Since the very first day of its foundation, NCC has been engaged in projects ordered by the Georgian Reconstruction and Development Company (GRDC) and TBC Bank.

NCC success stories go as far as: Cinema City in Digomi, TBC Bank branch offices, Addiction Institute, the Green Building, the EBRD Office design, Museum Auditorium and the latest TBC Bank Saburtalo branch. As for ongoing projects, the list includes: the complex Mukhran Batoni Chataoaux, the TBC Bank Batumi Branch and Georgian Glass and Mineral Waters (GGMW) office.

## Standard Bank General Director's Address Speech

### The FINANCIAL

"Being aware of the financial situation at Standard Bank I'm convinced that the bank is capable of paying the dues. Moreover there will still be USD 30 million left in the property of the stakeholders," declares George Kalandarishvili, Standard Bank's General Director in an address speech issued to the colleagues.

Kalandarishvili is condemning the illegal activities by the Georgian government in respect to Badri Patarkatsishvili affiliated companies. "Since November 6, clients of Standard Bank have been under pressure. They were made to seize relations and cooperation with the aforementioned bank, correspondingly some of the clients and organizations closed their accounts. The hierarchy of the officials involved goes as high as the Mayor of Tbilisi, the Minister of Energy of Georgia, authorities of the Interior Ministry and Prosecutor's Office," says Kalandarishvili.

As the company reported 25% of the bank's deposits were turned into cash. On November 12 National Bank of Georgia asked the bank to give them the list of the top account holders. However, Standard Bank's response to provide official arguments for asking the list was ignored by NBG.

On November 24, 2007, NBG Supervisory

Commission made the decision to appoint a temporary administration at Standard Bank.

George Kalandarishvili, Standard Bank Director was arrested few days.

Tbilisi's Court Judge Giorgi Shavliashvili's statement, November 7, 2007 says: "On April 11, 2007 the U.S citizen Irakli Rukhadze, the partner of Standard Bank by the directives of Badri (Arkadi) Patarkatsishvili met with Irina Jincharadze, JSC People's Bank's stakeholder at the café Sharm, 4 Sulkhan-Saba St, Tbilisi at 3 pm. Rukhadze proposed Jincharadze merging the two organizations...Jincharadze, ready to sell some of her own shares, said she would accept the proposal in case Rukhadze helped her in settling the dispute with National Bank of Georgia charging her with GEL 729823 monitoring fine...afterwards Rukhadze informed Standard Bank's General Director Giorgi Kalandarishvili, who was in close touch with Ekaterine Galdava, National Bank of Georgia's Vice-President, promised to assist Rukhadze and got involved in the influential trade operations...As the investigation assumed Kalandarishvili would have necessary documentation at his office 43 Chavchavadze Ave. the court approved the requisition."

As Salford Georgia officials claim, since November 8 employees and people linked to the company have been under pressure from various governmental bodies. Clients of Standard

Bank have been under pressure as well.

Salford Georgia reports that since November 7, illegal attacks have been continuing on Salford Georgia owned companies which started with the Mtatsminda Park and Imedi TV raids followed by Borjomi and Teleten cases. Members of the government embarked on a systematic campaign to target the assets in Georgia of Mr Badri Patarkatsishvili, a businessman who expressed opposition to the current Administration. Part of that campaign focused on Standard Bank.

Salford Georgia is an umbrella management company for the tycoon Badri Patarkatsishvili's interests and assets in Georgia. Patarkatsishvili recently announced he's running for Presidency during the January 5 elections.

Founded in 2001, Salford Capital Partners Inc. (Salford) is a private equity firm investing primarily in developing markets (mainly former Soviet Union and Central & Eastern Europe).

Salford is 100% employee owned and manages USD 450 million in investment capital, via general and limited partnership structures, on behalf of high net worth individuals and family offices.

"I remain optimistic and hope to wish you a Merry Christmas in person," Kalandarishvili concludes in the address speech.

## HSBC - Two CEOs' Vision about Georgia

### The FINANCIAL

The FINANCIAL interviewed the old and new HSBC CEOs: Steven Bennett and Antony Turner regarding the British financial giant's plans regarding the Georgian market.

**Q. What's behind HSBC Georgia's decision to choose NCC for the reconstruction of its Head Office?**

Bennett. Whenever HSBC has a project of this size, the bank has to undertake a competitive bid process. HSBC put the bid out to a number of contractors and NCC came out with the most competitive bid.

In addition, it is an important part of HSBC's policy to source as much goods, services and expertise as it can locally in the 83 countries in which we operate. As we arrive in Georgia, we want to support and grow with the Georgian economy and one way we can do that is by awarding contracts to local companies. NCC is a Georgian company and so it we are very pleased to be awarding this important contract to NCC.

**Q. The new bank will be called HSBC Georgia. HSBC is one of the best known banks internationally but still, what are its intentions in Georgia in terms of a branding awareness campaign? How much is the budget?**

Bennett. We have still got 6 months ahead of us before HSBC Georgia is



opened, so there's no obvious reason to start spending money before we actually run business in the country.

The wider advertising campaign and the promotion of the brand will commence at a later date. At that time we'll be using a number of different channels available to us to make sure everybody understands what HSBC is

about.

We will want to prove to everyone that HSBC is the brand to trust, it's an absolutely reliable bank presented in 83 countries already, all of which are running perfectly and offering banking services to over 130 million people. We will want to let everyone in Georgia know that our bank is all about trust,

reliability and integrity.

**Q. Many foreign banks have shown interest in Georgia's expanding banking sphere. The Georgian government expects the country's banks to attract about USD 700 million from abroad in 2007. How much is HSBC shares in this overall figure?**

Bennett. At this stage, with at least

6 month still to go it's a bit early to be naming exact figures. What we've already done is to provide sufficient regulatory capital to secure a banking licence. That's a sufficient basis to kick off operations from.

Turner. Around that FDI number there's still a lot of finances that are not counted. HSBC invests significant sums in training staff both here and abroad. It's a big contribution to Georgia's economy and to the local people.

**Q. In Azerbaijan an HSBC branch was opened in 1996 at the height of oil-fever. The Azeri shelf promised big profits. However, the USD 13 million investment in it yielded nothing but annual losses. As a result it was closed after a few years. However the bank does have an active position in Armenia's banking sector. Do you think the only problem about the Azeri market was an overestimated demand for non-oil enterprises in the country? What are your expectations about Georgia compared to the other two Caucasian countries?**

Turner. I had personal contacts with a colleague who was actually the one to close HSBC operations in Azerbaijan about 5 years ago. That was an unusual situation and to put it lightly, we were not made welcome in Azerbaijan. The country had great revenues from oil and other commodities but in the end

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## HSBC - Two CEOs' Vision about Georgia

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we were not allowed to make it work commercially for us. Azerbaijan is one of a tiny number of countries that HSBC has actually entered but then had to leave again.

Elsewhere in the region we feel much more welcome. HSBC is expanding rapidly in Kazakhstan and Armenia. There's a Central and Eastern European strategy approved by the board that envisions a rapid expansion into Russia, Hungary, Poland, the Czech Republic, and probably Romania and Bulgaria, which will soon be started. That's the clear momentum of the wider region of CIS and the smaller regions of the Caucasus with the exception of Azerbaijan.

Bennett. As for HSBC's aspirations for Georgia, we're investing a huge amount of money in training our staff. Clearly, we're very optimistic about the opportunities available to us in the country.

HSBC is here for the long term. We want to be an important part of the Georgian banking community and for many years to come. This is one of the main reasons we're investing so much money in training our staff, who I'm very proud of.

I also think it's important to see HSBC's aspirations in Georgia as part of our aspirations in the wider region. We're the largest bank in Armenia; the bank has some 230 branches in Turkey and growing by a hundred branches a year there; the bank also has expanding opportunities in Kazakhstan.

Georgia has an important role to play in the region as the economies become increasingly interlinked. In this respect, HSBC can help Georgia in two principle ways: firstly we are able to act as a conduit for our customers in other countries who want to invest in Georgia.

We're already having talks with some of our corporate clients in Vietnam, Singapore, Armenia, London, the USA, and Turkey seeking investment opportunities in Georgia.

We can bring those contacts to Georgia, but equally important for Georgian companies is the second factor - as Georgian companies grow stronger they want to expand regionally as well. HSBC will be able to assist them in handshakes with partners worldwide.

**Q. Repercussions from sub-prime mortgages - home loans to people with poor credit - are now spilling to US credit cards and car loans. HSBC chief executive Michael Geoghegan insisted HSBC was not considering quitting the US market. Lately auto finance and credit cards have been showing some deterioration. He added: "If anybody can work this out, HSBC can. It's got a reputation for doing this around the world." What are the actual reasons of this crisis and what's HSBC's solution? Do you think the US subprime crisis could affect the Georgian banking sector?**

Turner. This is less of a scientific question and more of an opinion. I think the big problem of the subprime issue is that not everyone agrees what caused it or how big the problem is and how it's going to be solved; you just have one element of subjectivity here, uncertainty and a lot of confusion.

Everybody hears "subprime crisis" but there is more to it than subprime. It was about some US mortgage debt; about CDOs (collateralised debt obligations) and the ratings agencies; about funding conduits and off-balance sheet SIVs (specialised investment vehicles). So it was as much about global debt capital markets than about US mortgage defaults. I think the impact on Georgia - its economy and markets - will actually be quite limited. There's a lot of FDI in Georgia and seeking that money from international capital markets requires confidence in the global economy. Once that confidence is back everything will be OK.

Bennett. Yes, I don't see a direct impact, neither in Georgia, nor in the

region, because the region has its own momentum and its own dynamics.

There might be some indirect effect which initially would be for the reasons you have touched on.

**Q. SocGen, a large French origin international group having interests in Georgian Bank Republic (BR) has lately switched the bank's policy to the retail market, as well as another big Georgian bank, TBC Bank, did a bit earlier. What's HSBC Georgia's main priority going to be?**

business for HSBC as a commercial enterprise.

However personal banking will be at the heart of the bank's business. I think what we'll concentrate on will be high end retail, possibly stretching to private banking at a later date but it would definitely mean the middle and upper parts of the retail segment.

I respect competition. The financial sector is well developed in Georgia, better than I had thought. We've got a serious job in competing here. There's

**very recent developments at Standard Bank?**

Turner. Of the 83 countries we work in, politics is at play in all of them including our home market which is the U.K. Politicians hate banks in England, so we are accustomed to political issues. It's not the development that's a challenge, it's the uncertainty of future developments.

The historical pattern may change or shift but Georgia's on an established trend and all we want to do is provide

that we'll be here for another 142 years, and then more.

**Q. SocGen claimed they could afford decreasing the interest rates though it would be playing hardball against the local banks. What's your view of the subject? What's the HSBC interest rates policy going to be?**

Turner. As a newcomer we have to be competitive as the bank has to attract new businesses. I'm not saying anything dramatic but I'm sure HSBC Georgia's lending rates will be at least as good if not better than it is in the market today. If you want my personal hunch, the rates in Georgia are unlikely to go up and I think the trend is that they are coming down and we'll be on that trend.

Bennett. Our product development team is putting things together at the moment. So, it's still early to be talking about exact figures. Clearly however, when there's more competition, the consumer is the one that wins!

First of all, looking at the range of products and services, HSBC has a full package of institutional, corporate, retail and commercial banking backed by a solid and respected international institution with reasonable management.

Our products won't just be about the product itself, they will be reputationally and ethically sound, and backed by the enormous financial resources of the HSBC Group. Globally 130 million people already trust HSBC with their money and we hope another 4.5 million people in Georgia do the same!

**Q. HSBC is one of the largest banking and financial services organisations in the world. How many people do you intend to employ at the bank?**

Bennett. At the moment HSBC Georgia has 38 staff members and some of them are being trained in Armenia, others in Istanbul, Kazakhstan, and London. These are the initial people we want to start up the business with. Closer to the opening date, we'll be recruiting more people, some 79 persons on day 1.

During 2008 at least 3 branches will be opened in the centre of Tbilisi. In June HSBC Georgia will be officially opened. The bank will exceed 100 employees quite quickly.

**Q. How qualified do you regard the local professionals for working at the world's number 3 bank?**

Bennett. We obviously need people who understand HSBC because we didn't come in to buy a bank, we want to build HSBC in Georgia and that's the reason why we have brought a number of expatriate staff here. Over time that knowledge will be passed on to our local staff and as we do that the expats will gradually get replaced by Georgian staff.

HSBC's approach to recruitment in Georgia has been slightly different to normal recruitment. Instead of just expertise, we are recruiting people for their energy, their intellect and their will to learn. We will then train these people to ensure we maintain HSBC's strict standards of service excellence and integrity. I am very proud of the people we have recruited so far.

**Q. What's the reason for such an early CEO replacement at HSBC Georgia?**

Turner. Thanks to Steven today HSBC Georgia has 38 staff, and 3 good properties, so he's dug an excellent foundation for the bank. Now HSBC Georgia has to be moved to another level and I've done that before in other places. This moving is normal in big organizations.

Bennett. I was trusted with starting up the operation. Tony has fantastic expertise in running a best in class operation. In his last position as CEO of HSBC in Armenia, Tony built the bank into the largest and most respected institution in the country. Things evolve with time and our strategy evolves, that's the great thing about HSBC: its ability to adapt to changes and work in different conditions. The HSBC Group has absolute confidence that Tony will take what has been started in Georgia to the next level.



Turner. Retail banking is what HSBC is trying to do in this region. However that doesn't exclude other types of business. The next most important one will be commercial banking, which is actually banking perhaps including lending to corporate customers who might be active in Georgia's business environment.

NCC would be a good example. Right now we're their clients but I'd like them to be our clients one day, though NCC's with TBC Bank. That type of business is an attractive

also ProCredit Bank Georgia which in the retail side is well developed and even the local ones by no means beat the hard players. Bank of Georgia is also a very respected and powerful competitor. HSBC is used to competition as Georgia is the 84<sup>th</sup> country for the bank and in none of them has HSBC ever enjoyed a monopoly.

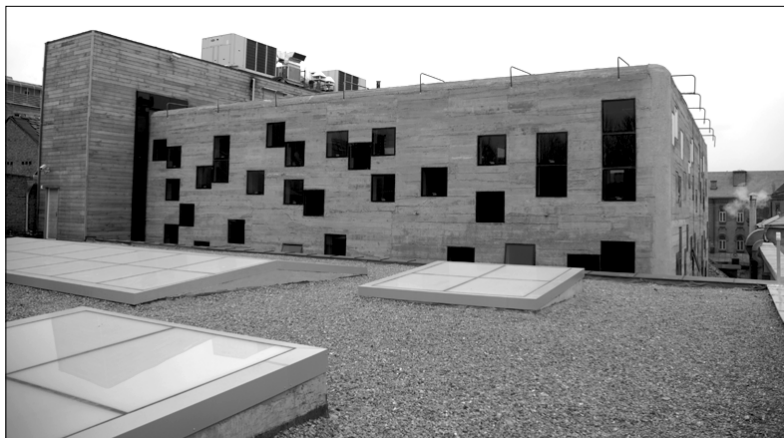
**Q. You've witnessed the latest political developments in Georgia. What's your evaluation of the subject as of a foreign investor in the country, especially if taking into account the**

better services to the country and its population and make reasonable profits for our shareholders. No matter how politics is organized we can do those three things.

Bennett. HSBC has been in business since 1865. Since then, the world has seen many difficult situations and HSBC has weathered them all. We are taking a long term business view here. When there are some small twists in the road, the fact that we've been navigating that road for 142 years hopefully gives everybody a confidence

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## financial news



## Green Building-Double Winner of Architectural Award 2007

### The FINANCIAL

Green Building became double winner of the Architectural Award 2007 organized by Style Magazine and Caparol Georgia. The annual ceremony presenting 6 nominations included 107 Georgian and foreign architects and designers and a total of 105 registered works and projects which participated in the international competition this year. Green Building was awarded Best Public Construction and also became sole winner of the Grand Prize. The event was held on November 28 at Merab Berdenishvili International Cultural Centre Muza.

Professional Panel of International Architectural Award 2007 selected the best projects realized or planned within the last 5 years and gave an unbiased evaluation of the level of modern architecture and new trends of developing in this sphere.

"The professional jury named the Green Building- Best Public Building, while the alternative public jury evaluated the latter as Best Architectural Construction. All jury members made the decisions independently and by themselves," Nino Laghidze, the Editor of Style magazine told The FINANCIAL.

In 2006 Style Magazine initiated the innovative project Architectural Award 2006, aiming at identification of the best architectural works and interior designs, encouraging and promotion of local architects and increasing popularity of architecture and construction. The project continued into 2007, with Style Magazine and Caparol Georgia organizing the international competition Architectural Award 2007.

Repair work-restorations were conducted under projects of the architects Levan Mushkudiani and George Kiknadze.

The teamwork of the two started in their student years. Their first joint project was among the winners at the Cergy-Pontoise Summer University. In 1986 the student architects got 1<sup>st</sup> garde diplomas for the Best Graduation Work of the USSR in Moscow. Later they received diplomas for the best architectural works in Georgia: TBC Bank Headquarters, Bata Building, Median Amusement Centre. In 2005 the two architects founded the architectural

studio Architects.ge.

"The reconstruction works were guided and conducted in a highly-professional way so that the building maintained the exquisite artistic-historical features of 20<sup>th</sup> Century which it was initially known for. The renovated construction fits in perfectly with the street's overall architecture," stated Mushkudiani, founder of Architects.ge.

Green Building - the best class A office estate in Tbilisi. The building standards, high quality materials used-elevators, the windows, and door frames, were imported from Turkey and France. The same people, the international project team in charge of the construction of the U.S Embassy, were involved in this project.

"The Green Building has retained its initial image which was lost during Communist times. We dealt with a huge responsibility with this project as the building is a cultural heritage," stated Mushkudiani.

Restoration of the Green Building was carried out by the New Construction Company (NCC), the same firm which was responsible for the renovation of the former department store building which now houses the TBC Bank offices.

"The Green Building is the best mixture of old and new architectural traditions. The two buildings separated by a modern glass atrium are in the first place completely independent constructions but on the other hand, the very modern glass atrium conveys that alternate implication of what's called a refreshed perfection of the past," said Mushkudiani.

**Acclaimed architect Bruno Taut said, "If we want our culture to rise to a higher level, we are obligated for better or for worse, to change our architecture. And this only becomes possible if we take away the closed character from the rooms in which we live. We can only do that by introducing glass architecture, which lets in the light of the sun, the moon, and the stars."**

The Green Building was constructed during the years from 1902 to 1907. The building fell in to disrepair under the Soviet regime. It was constructed by the architect Leopold Bifeldom and belonged to the daughter of the vice-consul

of Sweden in the Caucasian region Evfrosinii Martinovskoj.

The total value of the investments provided in the acquisition and renovation of the Green Building is USD 5 million. The annual leasing prices vary from USD 300 to USD 360 1-sq/m, excluding Value Added Tax (VAT).

Today the Green Building, representing greater historical and architectural value in the centre of Tbilisi, is completely restored.

The idea about restoration of a historical building belongs to the company GRDC which got the property in 2005.

GRDC is a leading real estate and development company with operations in the Republic of Georgia. The company invests in and develops office, retail, resort and prime residential properties.

"GRDC intended to make Marjanishvili St a business centre of the capital and hence the Green Building - an international standard office estate. The renovation works were finished in the shortest time possible - 11 months," Irakli Kilauridze, Georgian Reconstruction & Development Company (GRDC) General Director, told The FINANCIAL.

During the 3 months of its exploitation, GRDC officials claim their expectations have come true as the building's tenants include such well-known companies as the EBRD, and Borjomi.

The European Bank for Reconstruction and Development (EBRD) was the first tenant of the building having a regional Head Office moved into the new location- the new major business centre on the left bank of the river Mtkvari. On March 15, 2007, GRDC signed a 5-year contract with the EBRD in the frame of the Green Building office estate-leasing project, part of the Tbilisi City initiative.

"GRDC's involvement in the Green Building project was mainly conditioned by the location factor. A beautiful historical building situated in the heart of the city sounded a valuable proposal for us. That's how GRDC got down to business with a primary intention of making the building an international standard office estate that would itself serve a solid financial benefit for the company," said Kilauridze.

## German Technical Cooperation (GTZ) and Elkana's Future Activities

### The FINANCIAL

The association Elkana, German Technical Cooperation (GTZ) and the Ministry of Agriculture of Georgia organized an exhibition and conference this previous week. The key topics of the conference were Organic Farming Development Perspectives in the South Caucasus and QUALITY MANAGEMENT - the farmer produces what the market demands. The aim of this conference was to make Georgian bio products far more popular and show how to distribute them in European countries.

"These conferences held by Elkana and German Technical Cooperation (GTZ) are being supported by the Ministry of Agriculture of Georgia.

The aim of this conference is to introduce and exhibit biological products. All conference details: the promotion campaign, hiring of the exhibition hall and others are wholly financed by the Ministry of Agriculture of Georgia. The investment amount is not known", Mariam Jorjadze, Director of Elkana, the Biological Farming Association, declared to The FINANCIAL.

"The aim of GTZ is to help each Georgian farmer in producing high quality products which will be suitable to acknowledged world standards. Mostly these products are getting beaten and have problems even on the local market level. Georgian products are more expensive and are lower quality compared to distributed products and their sales indexes are not very high. This conference is being held for the successful solution to these problems," Riner Neidhardt, the director of GTZ Agriculture Development Project, declared to The FINANCIAL.

According to Riner Neidhardt, this project aims to have the direct cooperation of Georgian farmers and to introduce novelties already existing elsewhere in the world.

"The company has a consulting centre in the regions of Georgia. The project also foresees the financing of Georgian farmers, but the company's budget is not so great to be able to finance each farmer at this stage," Riner Neidhardt said.

"Today the situation on the market is changed as the farmers have to produce those products which are greatly demanded by the consumers. For instance Elkana fosters the production of biological farm products without chemical contamination. These goods are highly in demand internationally if their biological condition is properly certified under internationally recognized rules and standards," Riner Neidhardt added.

"Georgian biological products are already realized in the Georgian market, but their quantity is not enough yet to be distributed in European countries," Mariam Jorjadze declared.

"Elkana is trying to make Georgian organic products popular and have the ability to compete with foreign ones in the European market in the future. Today Georgian organic products can not satisfy the standards acknowledged by the rest of the world," Jorjadze added.

Elkana is an association which unites member farmers from the different regions of Georgia. The association membership is open to any citizen of Georgia interested in the development of organic farming in the country, as well as protection of the environment. At present Elkana unites 450 members. The company aims at the improvement of the socio-economic conditions of the population of Georgia and the environmental protection through fostering the development of sustainable organic farming and increasing the self-reliance of the rural population.

According to Jorjadze, the conference is not dedicated to only Georgian biological products' perspectives, but South Caucasus countries' as well.

"Elkana has partners in Azerbaijan and in Armenia, they are taking part in this conference with foreign experts. The countries are trying to share their experiences and discuss organic market development tendencies and difficulties in the South Caucasus", Jorjadze added.

According to Riner Neidhardt, today GTZ's project is working in Shida Kartli on the development of apples breed improvement.

"The company is also working on the sorting of apple breeds and is offering new ones which are suitable for European standards. These new products are well sold compared to the old ones. Of course this does not mean that GTZ is against the traditional breeds. The main thing is that products must satisfy consumers' demand: high quality and good taste. Products which are free of pesticides are more demanded by customers in Georgia, as well as in Europe", Neidhardt said.

According to Mariam Jorjadze, Georgia must not be oriented on mass-produced products but high quality ones, which will then be exported abroad.

"Elkana knows that Georgian agriculture cannot begin to create simply bio products straightaway, but this aspect will need developing", Jorjadze added.

"GTZ made detailed researches at the central super markets of Tbilisi and it seems that Georgian products are being represented in a small amount. This problem is mostly distinguished early in the spring, when imported fruits and vegetables occupy all Georgian markets," Neidhardt declared.

"The problem is that good packing equipments do not exist in Georgia yet and farmers have a problem in keeping the products during the winter season. That is why Georgian marketing centres import foreign products from abroad," Neidhardt said.

"Supposedly this conference, which is focused on country presentations and sharing of the information on achievements, problems, perspectives and cooperation opportunities in the field of organic farming in Armenia, Azerbaijan and Georgia as well as on the experience of organic market development in European countries will be successful and the country will soon see the positive results," Jorjadze declared.