

# Our Own Lehman Brothers

July 12, 2011

**The**  **Moscow Times**

While watching the Bank of Moscow scandal unfold, two questions come to mind. First, the Bank of Moscow held the accounts of Moscow's city budget, and the deficit of the bank is now \$14 billion. In essence this means that the city's funds have been stolen from the bank. How did this happen?

The second question is whether VTB will file a lawsuit in London courts against former Bank of Moscow president Andrei Borodin. It appears that the goal is not to extradite him back to Russia but to put him behind bars in Britain.

Borodin somehow received 20 percent of the shares of the bank, but it is difficult to say whether he was an actual or nominal shareholder.

After Mayor Yury Luzhkov was forced out of office, VTB for some reason decided to buy the Bank of Moscow. VTB paid a whopping sum of 103 billion rubles (\$3.6 billion) for a 46 percent stake in the bank.

The significant financial risks of this deal were not taken into account at all, but this is par for the course in these huge government buyouts. Even before VTB president Andrei Kostin

entered the Bank of Moscow through the front entrance, everything had already been pilfered through the back entrance.

Former Central Bank Chairman Sergei Dubinin told Ekho Moskvyy radio last week how this was accomplished: “The Bank of Moscow gave loans to offshore companies, and it was not clear who they belonged to. These companies gave the bank assets as deposits for the loan. In November and December — long before the [VTB] purchase — these deposits were taken off the balance sheets of these companies. In other words, the loans no longer had deposits associated with them.”

As a result, we now have a staggering deficit of \$14 billion.

Now what should the authorities do? In these types of cases, it is expected that the Prosecutor General’s Office would open a criminal case and demand Borodin’s extradition. But these attempts usually end poorly for two main reasons.

First, there is usually a blatant political component that drives these kinds of cases. For example, if Luzhkov had not been forced to leave his mayor’s post, no one would have had problems with the Bank of Moscow.

Second, the ability of prosecutors to win a case is even lower than the ability of the Central Bank to supervise the country’s banks. The incompetence of the Prosecutor General’s Office is even worse when it tries to bring a case in a jurisdiction outside of Russia.

It is likely that Borodin would be able to prove in a London court that the criminal case against him is politically driven. To make matters worse, the court would surely find holes in the prosecutors’ case against Borodin for the simple reason that they don’t know how to present a solid case.

Russia would certainly like to hire Western auditors, copy their conclusions and give them to British lawyers in an effort to help put Borodin in a London jail. If this happens, this would be the most successful foreign policy move by Russia in the past five years.

The only fly in the ointment is whether authorities will be scared off by the likelihood that by prosecuting Borodin in London courts, we will learn new facts that compromise the Russian government much more than Borodin.

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