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Committee on Finance and Monetary Policy Introduction by Dr Lars Nyberg, chairman of the management board

Lars Nyberg

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Committee on Finance and Monetary Policy

Introduction by Dr Lars Nyberg, chairman of the management board:

Thank you for giving us the possibility to speak at this Committee meeting. I am the chairman of the Board of BAMC and I have with me Torbjörn Månsson, who has been responsible for building the company as the Chief Executive Officer according to the legislation and to best international practice.

The road travelled by the BAMC has been a bumpy one. You were involved in the political discussions before the BAMC was created and in establishing the legal framework for BAMC operations. We entered the picture in late March last year to set up the company and make it work. **Setting up an asset management company usually takes 9-12 months. The government gave us a couple of months – first until the end of May, later changed until the end of June.** During the first two months we prepared to recapitalize and take ownership of one bank according to the law, but that task was eventually taken over by the government. We also prepared to take over a huge number of assets. **The situation was tough, since the necessary information was neither provided by the banks nor by the supervisor. We had to spend considerable time and resources to evaluate a number of cases, where we got access to the banks directly. We soon found out that the suggested transfer prices were far too high.** It was unlikely that the European Commission would accept these prices on their summer visit since the prices could be expected to contain substantial state aid. We told this to the supervisor. So when the asset transfer and recapitalization was postponed in June, it was no surprise. **Not until December did we get to know what assets would be transferred to us, and then we had merely two weeks to finish the transaction.** I have never seen or heard of a similar process for an AMC anywhere in the world.

But we succeeded. The non-performing assets were transferred to the BAMC and the two banks could be recapitalized. The international credibility created by this should not be underestimated. Market rates for Slovenian government bonds immediately fell by more than a percentage point. If the transfer and the recapitalization had failed, this would not have happened.

Let me stress once again that the BAMC has not in any way been involved in deciding which assets that should be transferred from the banks. Neither have we been involved in the determination of the transfer prices. The scope and the value of the assets transferred to us have been determined completely outside our influence. Formally, the Interministerial Committee took all decisions. The banks and the supervisor prepared the underlying material with the European Commission monitoring the process.

There are two principles in the transfer process that have been important for the BAMC. First, if a bank's loan exposure to a borrower contains both performing and non-performing parts, all the exposures should be transferred. Second, if a non-performing loan exposure in one bank is transferred to BAMC any exposures to that same borrower in one of the other two banks should also be transferred, even if they were to be performing. Respecting these two principles will greatly facilitate the restructuring of the assets by the BAMC and enhance their value.

The transfer process of loan files from NLB and NKBM is under way. The BAMC has taken over legal ownership but the physical transfer of the documentation (loan contracts, deeds for collaterals, etc.) that underlies that ownership is a complex process that is yet to be completed. We have contracts with the banks to handle these assets until the transfer of files can be completed. **I should point out that some of the files we so far have received from the banks are in a deplorable condition, far below any international standard. This delays the process.**

As you know from the aggregate numbers published in December, the transfer value of the combined assets from NLB and NKBM is approximately 1100 million Euros. We are expecting to receive another 500 million Euros from Abanka in a few weeks, all in all assets for 1.6 billion Euros.

The corresponding gross value in the banks was 4.4 billion Euros. The difference, 2.8 billion Euros, is taxpayers' money lost.

It has been suggested in the press that the transfer prices within these aggregates have been very low, creating large hidden positive values in the balance sheet of the BAMC. As we are able to judge so far, this is not true. On the contrary, **some of the assets we have had a chance to look at more carefully cannot be sold without further losses from their transfer values. We have not published individual transfer prices since this has been illegal.** If the law is changed we will of course publish the prices. But we realize that publishing the transfer prices may affect our bargaining position when the assets are to be sold.

Potential conflicts of interest always have to be handled with great care, in Slovenia as well as in other countries. Back in late March, the non-executive directors of the BAMC on a very short notice had to

find an independent and experienced Chief Executive Officer who could run the company, starting immediately. We found Torbjörn Månsson, who has in all respects lived up to our expectations. Mr Månsson is one of the owners of the Danish company Quartz+Co. **Hiring a consultant for an executive position during an intermediate period is a common procedure. We also decided to ask Quartz+Co to assist the BAMC during the initial weeks to get the company started. Defining the processes needed to transfer assets and to recapitalize one bank in the end of June were of particular importance.** The problem in April was whether Quartz+Co should be excluded from further work as a possible vendor to avoid potential conflicts of interest. **We choose not to exclude Quartz+Co, since the company had considerable knowledge that was of immediate use for the BAMC. Potential conflicts of interest were handled by the board in setting up a strict policy for hiring of vendors, including clear criteria for the selection of all vendors.** The four non-executive directors took particular care in discussing the selection of all vendors, including Quartz+Co. It is our view that the selection process was handled in an objective and independent manner – as indeed should be expected Necessary for the transfer to be successful.

Finally, let me make a suggestion to you as a parliamentary committee. **Many countries that have suffered from a banking crisis consider it important to conduct a Public Inquiry to understand what happened and why it happened.** This was done in Sweden in the 1990ies and Ireland did it after its recent crisis, just to take two examples. Usually some international experts are involved to increase credibility, both domestic and international. **The idea is not to prosecute certain people, but to understand what systemic failures were made and to discuss what should be done to avoid a similar crisis in the future.** Making such a Public Enquiry in Slovenia may be something for you to consider.

Introduction by Torbjörn Månsson, acting executive director of BAMC:

My name is Torbjörn Månsson and I have been responsible for the executive activities of BAMC since my appointment as a temporary Executive Director in the end of March and since my formal employment by BAMC in early April 2013, in practice acting as the CEO of BAMC.

My task has been to build up the BAMC from the very start, to make sure the BAMC successfully can support the rehabilitation of the systemically important banks in Slovenia and, going forward, can recover as much as possible of the huge values lost in the banks in the past.

The build-up of the BAMC and its activities have been difficult to plan in a usual manner. The BAMC has had to quickly adapt to very substantial changes in its given mandate and required timelines. **We have at all times acted based on the legal frameworks established for BAMC and according to best practices from an international view point. Flexibility has been important to succeed. Not succeeding has simply not been an option in this very severe situation in Slovenia.**

Let me remind you that only 3 month ago, Slovenia was in a situation where close to 50% of the banking capacity in Slovenia had failed. The banks would not be allowed to continue operations unless the non-performing assets had been transferred to the BAMC and the banks had been recapitalized. This was done in December. Slovenia is now in a much better position, one where we can focus on the restructuring in the real economy needed for economic growth.

The BAMC has today a very good team in place to execute on its important mandate. The organisation is growing from 30 to 40 people during this month, and we have set up robust decision making processes and policies to ensure that all decisions are taken in a fact-based, objective, independent and professional manner.

Building a highly competent organisation requires finding an appropriate balance of international and domestic expertise and competences. **It has not been possible to recruit the necessary competences from only the salary regulated public sector in Slovenia. Therefore, the BAMC has and will have to pay its people market-based salaries. For the main part of the staff the compensation is comparable to that of Slovenian banks.**

We are fully aware of the sensitivity around many of the decisions facing BAMC going forward. Openness and transparency is critical to ensuring that the BAMC is operating according to the professionalism and independent standing that is required

Our communication policy is very clear. **The overall guiding principle is that the BAMC will be as transparent and open as possible. However, the BAMC will not disclose information that would be in breach of the law, that would endanger the personal safety of its employees, that would cause economic damage to BAMC's vendors, or that would compromise BAMC's objective to recover funds to its owner and the tax payer.**

Consequently, the information around BAMC's remuneration of its employees, its cost of operations, including its use of external vendors, has been fully disclosed.

When it comes to specific on-going restructuring cases, we will have to find an appropriate compromise between full, immediate openness and being able to be an effective organisation.

Commenting on ongoing negotiations or steps in a restructuring effort will be damaging to the outcome for the BAMC. Therefore, expectations from media and the public that we will continuously comment on all ongoing cases cannot be satisfied. **However, we will make sure that we fully will disclose how decisions were made, what the basis for the decisions were at the time the decisions were taken, and what options were considered with their expected outcomes. We will do so when we assess that it can be done without negative consequences.**

I can clarify, and I would like to really emphasise, that the BAMC does not have an agenda to favour certain interests or persons. **Actions we take will be very logical and rational given our legally stated objective and - this is important - given the nature of exposures that have been transferred to us.**

So to bring some specificity to this:

If we are not accepting a bankruptcy administrator's proposal to in an court auction sell a limited number of apartments in a major exposure to the BAMC, like Celovski Dvori, it is a decision based on that we think that higher prices can be achieved, and that we, as a coming major real estate player, at this point do not want to signal that real estate prices are "in free fall".

If we agree and support to a standstill in a restructuring case, like in the ACH case, it is not to favour individuals but it based on our assessment that the BAMC can regain more funds from the situation than for instance by taking executive measures potentially force a sound operating business into bankruptcy. Also, it will not always be possible to assess our ultimate intent from the first steps in a negotiation process.

If we, for now, agree to a proposed restructuring plan from a bank consortium where the BAMC only has a very limited position and thus an equally limited influence, like the in DZS case, it might be the least bad option open to the BAMC. It is definitely not done to favour any individuals. It just reflects the position we had relative to the banks.

So let me be clear, we do not favour owners or customers. **Our job is to secure values. It is not to prosecute individuals. We will of course assist and fully support the relevant authorities in these matters to regain trust and credibility in the banking and corporate sectors. But we will have to focus on our part.**