

Remarks by Paddy Ashdown, High Representative, at the OHR press conference on the Privredna Banka Srpsko Sarajevo Decision

Good morning,

Well ladies and gentleman, I have called this press conference today in order to announce the decision I felt necessary to take on the future of Privredna Banka Srpsko Sarajevo.

After careful consideration I have reluctantly concluded that I should accept the recommendation of the bank's provisional administrator and the Governor of the Central Bank, to revoke PBSS's license with immediate effect. The decision and covering letter will be available to the public probably tomorrow morning and you can obtain it on the OHR Web site.

Let me make it clear before I explain reasons for this that OHR has very reluctantly gotten involved in this matter. It is not strictly speaking a job at this stage. You know my policy which is when we create BiH institutions, we leave it to the BiH institutions to do the business and we don't do it for them, but I was left with no alternative in this case to do the job which ought to be done by RS banking agency.

Now, this is not a criticism of the RS banking agency, they are highly effective organization, brave courageous and under good leadership, but they have suffered unbelievable intimidation and threats which simply prevented them from doing the job which we have had to do. The RS Banking Agency provisional administrator who ought to be dealing with this

right from the star and indeed was, was personally assaulted, beaten-up, hospitalized. His family and his children were directly threatened, and there were threats also, and I'll leave to you to judge where they came from against other personnel in the RS Banking Agency.

So, we had no alternative but to take on this issue and to deal with it. Now, there is a lesson here and it's a lesson I would like to be seen at this individual and truly scandalous case and which is this: we in the international community are determined that we will do whatever is necessary in partnership with BiH authorities if they requested to ensure that the corrupt forces in this country are brought to justice. That applies in this case in the way that I have just described, it applies in other cases too where, for instance international judges are assisting local authorities in bringing high level corruption to the court because at present no criticism involved in this, BiH institutions are themselves too fragile to do this.

So now, to the decision itself.

My decision is based on my legal duty to do what is best for the depositors, and what is necessary to ensure that the banking law is upheld and the integrity of the banking system is properly maintained.

The banking system of BiH is one of the most successful achievements and I am not going to let that be threatened.

On Friday, the provisional administrator as you know declared the bank to be insolvent.

She had no alternative.

Privredna Banka Srpsko Sarajevo's obligations are, and have been for many months, perhaps even years, far larger than its assets. Ninety per cent of the Bank's loans are unsecured, or secured by collateral that has little or no market value. The

longer the bank remains operational, the more the assets that should be used to services operating expenses will be drained away and the less the depositors will receive from their money.

The bank has, over a long period, failed to meet the minimum legal capital requirement set by RS Banking Law. Strenuous efforts to sell the bank have regrettably, failed and have no realistic prospect of success.

So If I don't act now, the money that depositors could retain and the money they have put in will be drained away and it is important to protect those.

For the past three years, Privredna Banka has been little more than a thinly disguised mechanism for its Managing Director, Mr Momo Mandic, and his associates, to divert public funds into their pockets. This has been done with, at least the complicity, and possibly the active help of, some in the RS Government and in the Municipal Council of Bijeljina,

The management and shareholders have grossly mismanaged the Bank to the detriment of depositors and customers. They have violated numerous RS Banking Agency Regulations, as well as Banking Law.

As Managing Director, Momcilo Mandic used this bank to benefit himself and special interest groups many of the political interest groups who are close to him. He often bragged that the bank would make him – and I quote – “one of the richest men in Bosnia and Herzegovina ’’. He channeled depositors' money into his private companies and front companies that he also owned.

The extent of this abuse was such that there is now no realistic chance for the bank's rehabilitation.

Let me give you a flavor of how Mr Mandic managed the Bank's money:

In December 2002 and January 2003, Privredna Banka spent half a million KM to purchase ten cars for Mr. Mandic's family members, political associates and companies. Mr Mandic signed off on the most expensive car personally, a new Audi A8, with a price tag of just over 200,000 KM.

In July this year, Manco, Mr. Mandic's firm sold the three petrol stations that were used to secure PBSS bank loans. I do not know what happened to that money. He should have used the proceeds to repay his loans so that depositors and his employees could be paid. He did not do this.

In short, Mr Mandic and his associates in and outside politics, did everything they could to strip the bank's assets and not pay its depositors, or its employees. I shall be looking further to see to what extent those in the RS governing parties and in Bijeljina Municipal Council used public funds, without due diligence, to prop up Mr. Mandic's bank. There were also transactions that open up concerns that some funds may have been passed into war criminals hands. We should be investigating that further. Apart from any further steps I may take, the details of these and other transactions will be sent to the RS Prosecutor for his consideration.

What is clear is that Government ministries and funds continued to deposit public funds even after it was clear that the bank was totally insolvent into Privredna Banka.

A routine check by the RS Banking Agency in 2001 showed the bank to be clearly insolvent. Less than a year later, the Banking Agency identified further loan violations.

And yet, a year after that in April 2003, the RS Ministry of Finance transferred 1 million KM to Privredna Banka from the Central Bank. Money that had been intended to service RS's foreign debt.

These grossly corrupt practices affected the most vulnerable. A recent glance at the bank's accounts show a dozen government

welfare funds with deposits in the bank. I'll give you some examples:

The RS Housing Fund deposited 3.5 million KM in Mr. Mandic's. This money was intended to pay for subsidized housing for such disadvantaged people as war widows, and invalids. These fund too, I regret, will mainly be lost, adding to the suffering of those most vulnerable, who would have benefited from it.

The city of Bijeljina deposited 2.2 million KM in the bank – and that is the equivalent to the city's entire budget for 2003. That money too will, in large part, be lost. A cost will paid, not by Mr Mandic and his corrupt friends of course, but by every citizen in Bijeljina who will now not get the services they would otherwise be entitled to get.

And there is more. The employment fund held 800,000 KM.

The orphanage in Bijeljina deposited just over 150,000 KM.

The scale of the cynicism, disregard for public duty, and corruption in some of these transactions, is quite simply breathtaking. And, once again, it is ordinary people, depositors and the most vulnerable who will pay the price.

My heartfelt sympathy lies especially with them and, most especially, with the 150 or so employees that will now I regret lose their jobs because of Mr. Mandic's misbehavior.

One final point. We are now beginning I think, at last, to clean out the corrupt, high level structures that have, for far too long, held this country to ransom, blighted its future, and robbed from its people. Today's action is part of that process. It will not stop until the job is completed.