Piraeus Bank is set to receive billions of European aid. Why has it not declared all the deals its chairman did with family firms?

A Greek banker's secret property deals

POWER COUPLE: Sallas and his wife Sophia Staikou, here at a 2009 conference, have both worked at one of Greece's biggest banks. REUTERS/ICON/ELIAS ANAGNOSTOPOULOS

BY STEPHEN GREY

ATHENS, APRIL 2, 2012

He is the former economics professor behind an upstart bank that rode the Greek boom to become a publicly listed heavyweight with a loan book of over 35 billion euros. She is his devoted wife, who oversees the bank's sponsorship of museums and the arts, and advised it on corporate social responsibility.

Michalis Sallas, executive chairman of Piraeus Bank, Greece's fourth largest, and Sophia Staikou are a Greek power couple, symbols of the fast-growth years after the country joined the euro in 2001.

But an investigation of public documents, including financial statements and property records, shows the couple may also be emblematic of the lack of transparency and weak corporate governance that have fueled Greece's financial problems.

Greek banks will soon be recapitalised with an es-

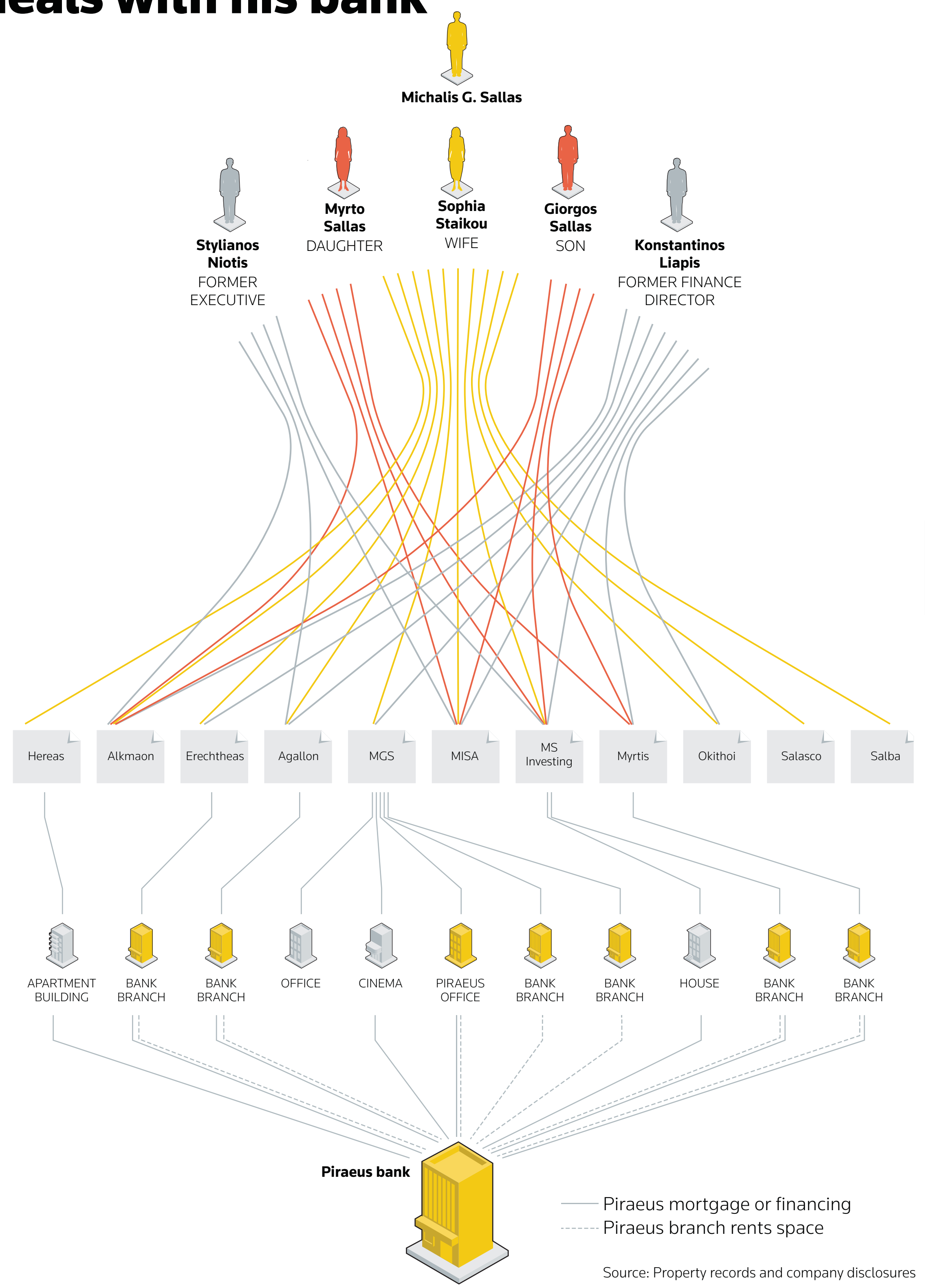
The banker, his family, and their property deals with his bank

THE FAMILY
Michalis G. Sallas has run Piraeus Bank since 1991, presiding over its expansion in Greece's boom years. He has also shown a strong interest in property investment.

THE BOARDS
The Sallas family and associates have served on the board of numerous companies, many involved in property investment.

THE PROPERTIES
Reuters has identified 11 properties the companies bought, most in expensive districts of Athens and one on the island of Evia.

THE BANK
Of the properties, most had financial ties to the bank. Three of them were finally bought by the bank



Source: Property records and company disclosures timated 30 billion to 50 billion euros, part of the country's second bailout, backed by the International Monetary Fund and European taxpayers. Analysts estimate Piraeus will take about 3 billion to 3.5 billion euros.

Sallas was put in charge of Piraeus by the government 21 years ago, before the bank was privatised. He owns about 1.5 percent of the bank, whose stock price has plunged 97 percent since its peak in 2007.

But Sallas and his wife and his two children have also run a series of private investment companies that public records show have sealed millions of euros in real estate business with Piraeus, deals that were not disclosed to shareholders.

In wealthy locations in Athens and its suburbs and on at least one Greek island, these companies bought properties with loans from Piraeus and then rented at least seven of the buildings back to the bank, which used them as branches. Piraeus also bought properties from the companies and financed other buyers to buy properties from them.

Among the most unusual deals were transactions involving companies linked to Staikou, Sallas' children Giorgos and Myrto, as well as key former Piraeus executives. These centered on the sale to Piraeus in April 2006 of three different properties, via three different private businessmen. According to property records, each of the businessmen bought a property for a knock-down price from the family companies and then sold them on to Piraeus for more than double that price. On paper, they generated a 160 percent total cash profit for the men, nearly 6 million euros, within the space of three weeks.

According to real estate and legal experts in Athens, a pattern of quick sales is often used in complex tax avoidance schemes. Such deals are legal if all taxes were paid. But one businessman named in the sales documents told Reuters his name had been used without his knowledge. He had "never owned property in Athens in my life," he said.

BRANCH AND ROOT: A building on the island of Evia bought in 2003 by Myrtis, a company whose five-person board included both Sallas' children and chaired by the former finance director of Piraeus. It operates as a Piraeus branch . **REUTERS/YIORGOS KARAHALIS**

Neither Piraeus nor Sallas would answer questions about the property deals, saying they were unable to do so because of an ongoing legal case against an ex-Piraeus employee. Matthew Saltmarsh, a UK-based spokesman for the bank, told Reuters that Greek banks had become "the most thoroughly audited financial institutions in the world," and there was no reason to question Piraeus' governance.

But property records show the deals linked to Sallas were opaque and raise questions about how cleanly the lines between his family and Piraeus Bank were drawn. They also provide a window into some of the often byzantine money-making schemes that characterised what one Athens real-estate agent calls the "crazy times" – the years between the stock market boom in 1999 and the crash in 2009, a span that included Greece's entry into the Euro and its hosting of the 2004 Olympics.

"It's nothing compared to what was happening back then," a businessman who helped run one of the Sallas' family companies said of the property deals. "It would be unfair to limit your research to Sallas and Piraeus. Everybody in the business knows that there are other banks that used similar tricks to do much worse things than buying and selling a bank branch."

"This period of time was a crazy party for some."

SUNK BY THE COUNTRY

Greek banks have long had a reputation for being conservative. In the past decade they mostly avoided the excesses - investment in sub-prime debt and complex derivatives - of U.S. and other Western banks.

In "Boomerang," his 2011 book on the European debt crisis, former Wall Street trader Michael Lewis argues that Greece's banks were laid low not by their own misbehaviour but by the collapse in value of the sovereign debt they had been pushed by their government to purchase.

"In Greece the banks didn't sink the country. The country sank the banks," writes Lewis.

Still, the banks in Greece played a key part in creating the bubble that helped Athens convince the world it could afford its ever-growing pile of debt.

Piraeus was among the fastest growing of those banks. Privatised in 1991, it expanded its total assets, including loans, from less than the equivalent of 4 billion euros in 1998 to 57 billion euros in 2010. Aggressive and willing to innovate, Piraeus swallowed several smaller lenders as well as branches of foreign banks in Greece. It expanded into the Balkans and bought the Marathon National Bank of New York.

Like other Greek banks, Piraeus is now struggling to deal with a massive funding gap, the result of lost access to interbank borrowing and falling deposits as many Greeks citizens withdraw their savings.

Saltmarsh, the bank's spokesman, said the loan book of all the banks had been examined in the last few months in an independent audit commissioned by the Bank of Greece and carried out by Blackrock, a U.S.-based asset management firm. The size of the banks' bad loans and the amount of new capital they required, he said, would be "resolved in the most public of ways" when the Bank of Greece publishes capital-raising requirements across the sector sometime in the coming weeks.

A spokesman for Blackrock said they had examined all "Greek domestic debt assets held onshore or in foreign branches", but they declined to discuss their conclusions. The Bank of Greece, which regulates the country's banking system, said Blackrock's terms of reference were confidential. The Bank failed to respond to repeated

The Windfall: How to make €5 million in a month

Land records and other public documents give details of three Piraeus Bank transactions that involved companies linked to Michalis Sallas, Piraeus' executive chairman.

2003
MGS buys this property in Athens for €1.1 million with a €2.4 million Piraeus mortgage. It then rents space to Piraeus.

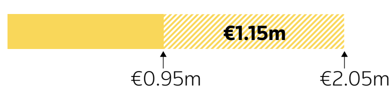
April 18, 2006
MGS sells the property for €0.975 million to Philip Moufarrige, a Lebanese-born businessman. He denies involvement in the deal described by land records.

April 27, 2006
Moufarrige sells the property to Pireaus bank for €2.65 million according to documents.

2003
Agallon buys this Athens property for €0.95 million with a €1.8 million Piraeus mortgage and rents space to Piraeus.

April 5, 2006
Agallon sells the property for €0.95 million to Alexandros Syrpis, a shipbuilder

April 11, 2006
Syrpis sells the property to Pireaus bank for €2.05 million



2003
Erechtheas Investment and Holdings AC buys this Athens property for €2.1 million with a €4.1 million Piraeus mortgage and rents space to Piraeus.

April 5, 2006
Erechtheas sells the property for €1.7 million to Ioannis Lefakis, a shipping executive.

April 11, 2006
Lefakis sells the property to Pireaus bank for €4.7 million

Source: Property records and company disclosures

CHAIRMAN: Sallas with leader of the Greek socialist party George Papandreou in 2008. Papandreou would become Prime Minister the following year. **REUTERS/EUROKINISSI/VASSILIS FILIS**

separate requests to identify what rules of disclosure and conflicts of interest applied to Greek banks, or to questions about the Piraeus property deals.

Last year, with attention focused on Greek banks and their role in the country's crisis, several Greek newspapers and blogs reported on the existence of a series of private companies, some offshore, that were allegedly loaned up to 250 million euros by Piraeus and whose debts appeared to have been written off. The reports included articles in a widely-read anonymous blog called WikiGreeks.org and Kathimerini, a newspaper.

The origin of the reports appears to be a vague one-page document, of unproven provenance, listing 21 companies. This is now at the centre of a criminal complaint filed in the Greek courts by Piraeus against a former employee, Angeliki Agoulou, a one-time branch official. The bank accuses her of embezzling money from savings accounts and spreading false information.

"Piraeus believes this to be a falsified document distributed to entities including WikiGreeks by a disgruntled ex-employee as part of that employee's continuing attempt to intimidate Piraeus Bank into dropping legal action against that ex-employee related to an alleged serious fraud perpetrated against Piraeus Bank," the bank said, referring to Agoulou's case.

Agoulou denies any wrongdoing and insists the document is genuine.

Agoulou and the contents of the document are now under official investigation by both Greece's financial police and national anti-money laundering department, the Financial Intelligence Unit, according to one senior Greek official.

BOARD MEMBERS

Reuters examined publicly available data to try to establish independently if the companies linked to Piraeus existed and, if they did, what business they were in.

Greek companies, whether public or private, are not required to publicly register all their shareholders and there is no public register of directorships. But an inspection of the Greek government's official gazette, where company announcements and financial results are published, showed an extensive network of private interests connected both to Sallas and his family, and to several former senior executives at Piraeus.

In all, Reuters identified 11 companies in which members of the Sallas family have served on the board of directors, including four mentioned on the disputed document allegedly leaked by Agoulou. Sallas' wife Staikou served as a director on nine of them, including at least six as chairman, while Sallas' children Giorgos and Myrto each served on four. Sallas himself was not a director of any of them.

As well as the family, Konstantinos Liapis was just one of many former Piraeus executives who served on the companies' boards. Liapis, who was financial director of the bank from 2004 until 2006 before becoming vice-general manager until 2009, served on the boards of eight of the companies in all. Stylianos Niotis, a manager of the shipping department until 2009, served on four.

An examination of Piraeus' public declarations since 1999 appears to acknowledge only two of the companies, both property management firms: Erechtheas Investment and Holdings SA, which was bought by the bank at the end of 2009 and listed as a new subsidiary; and a 2004 mention of MGS (which happen to be Sallas' initials), in which Sallas held 73.76 percent of shares.

Reuters was unable to locate any disclosures by the bank of any property purchases, rents or sales involving the private companies, despite the apparent links with the chairman and despite public documents showing the companies regularly did business with Piraeus.

Several accounting experts said deals such as rental agreements or the sale of real estate between the companies and the bank should have been defined as "related party transactions." Under the International Financial Reporting Standards (IFRS), adopted by Piraeus in 2005, such transactions should have been disclosed publicly in the bank's financial statements so as to highlight any potential conflicts of interest.

The accounts do show, as required by the IFRS, a global declaration of loans to directors and executives and their families, peaking at 244 million euros in 2008, 0.64 percent of the bank's then total loans and advances to customers. Several Greek banks show high levels of such loans to executives.

But outside the global declaration of loans, Piraeus accounts do not mention any property transactions between the bank and any companies related to its directors, including MGS.

Brian Creighton, a UK-based director at BDO, a leading accounting firm, declined to comment on any specific case. But under the version of the IFRS rules that applied until last year, he said, loans or any case where a company director or close family member had a "significant influence" over another entity should have been disclosed. "Property sales, leases, loans and rent are among transactions that should be disclosed if they are between related parties," he said.

In its annual accounts, Piraeus often asserted that "the terms of the Bank's transactions with related parties are those that prevail in arm's length transactions and according to the financial procedures and policies of the Bank."

Grant Kirkpatrick, deputy head of corporate affairs at the Paris-based Organisation for Economic Cooperation and Development, said that banks had a particular duty to be transparent about lending activities.

"The fact there are family members on the board of a company doing business with a bank is enough to suggest a potential conflict of interest," he said. "The board of directors of the bank should have a very clear process to deal with such cases, and that process, and the details of any transactions, should be disclosed."

Former Piraeus financial director Liapis said he was confident Sallas and his family had declared everything they should. "A businessman has his own private activities or assets that he has to handle," Liapis said. "He only has to declare his so-called related interests and respect the 'arms-length principle.' Everything was declared in the bank's statements. Otherwise, (do) you think that Price Waterhouse (the bank's external auditors) would sign Piraeus Bank accounts?"

FAMILY LABEL: Semeli wine from the family wine company, run by Sallas' daughter Myrto
REUTERS/JOHN KOLESIDIS

PricewaterhouseCoopers declined to comment.

Piraeus and Sallas did not respond to repeated requests to identify any public declarations about the firms linked to Sallas.

BURIED TREASURE

Property is the foundation of almost all personal wealth in Greece, a country with one of the highest rates of home ownership in Europe. Land records are officially public, but routine access is restricted to practising lawyers. Reuters worked with an Athens-based lawyer who searched for transactions recorded by the firms linked to Sallas' family.

Land records found by the lawyer and examined by Reuters show that six of the companies had bought at least 11 properties between 1998 and 2012 for a total of 14 million euros. Eight of the properties were subsequently sold.

The documents show that more than 28 million euros in loans, all from Piraeus, were secured on the buildings. One senior official at the Greek ministry of finance said that such a high ratio of loan to purchase price could indicate the loans were issued by Piraeus without sufficient collateral in place.

In all, seven of the 11 properties have been or are still used as Piraeus branches or offices. The rent the bank paid or pays for these properties couldn't be determined. But deeds found in the land registries show three references to rental contracts with Piraeus, one for 24,000 euros a month, another 11,400 euros a month, and the other unspecified.

Sallas declined to comment on the rental agreements.

Myrto Sallas, who sat on the boards of four of the private companies and heads the family's wine company, Semeli, referred all questions to her father and said she had no knowledge of any of the property deals.

"I can't help you with that; you can talk maybe better with my father," she said. "All the other companies are totally different from Piraeus Bank. They have nothing to do with that."

Giorgos Sallas could not be reached for comment.

Liapis, who now teaches at the Panteion University of Athens, said he had been a director of thousands of companies because "that's what accountants do."

Asked specifically about some of the companies he helped run - including Erechtheas, MS Investing, and MGS - Liapis confirmed he had been a director at each. "It is not a secret to whom they belong. You can even tell by the names sometimes."

Asked if that meant Sallas and his family, he confirmed: "Of course. There is nothing wrong with that."

Liapis said he had no conflict of interest since he had not worked at Piraeus between 2000 and 2004, the period in which he was a director on the boards of those companies.

When told records showed that he had remained a director of at least two family companies until at least 2006, after he returned to Piraeus, Liapis conceded that might be possible. "Yes, maybe," he said. "But still I didn't sign any transactions with Piraeus Bank. During my tenure as financial director, I had nothing to do with holding companies or real estate."

Liapis described his role as an agent of Sallas. "It is very simple," he said. In his position running Piraeus, Sallas could not be the director of another company "so he appointed me."

Liapis said many Greeks in high-profile positions were not honest in their declarations of assets; Sallas, in contrast, had been sincere and honest.

Niotis, the former Piraeus shipping adviser, said he retired from the bank in 2009.

"During my career I accepted, at times, a number of, mostly, non-executive directorships in various companies of different remit. In none of these have I had ever any beneficial shareholding."

UNUSUAL TRANSACTIONS

Of all the transactions that involved the Sallas companies, perhaps the strangest were three prime properties in central Athens that Piraeus bought in April 2006 for a combined cost of 9.4 million euros.

One of the properties was the ground floor of an office building; the other two were townhouses. Each had belonged to one of three companies: MGS, Agallon, and Erechtheas. According to company accounts, Staikou then chaired MGS and has previously been a director of the other two.

In each case, the companies sold their properties to individuals who then sold them on within days. In all, the three Sallas family-connected companies declared a total of 4 million euros for their property sales. The new owners sold them for 2.05 million, 2.65 million and 4.7 million respectively. The buyer in each case? Piraeus Bank.

The properties were sold at what would prove to be the height of the property boom, according to Athens real estate experts, and the price paid by Piraeus was close, if not a little above, what was then the market price. "The bank would have lost money later when the price of property fell, but I am not sure it was cheated at the time," said one experienced agent, who advises the Bank of Greece.

Real estate agents, lawyers, and officials said that the deals could have been a complex attempt to buy properties indirectly from the family-connected companies. Others suggested it was simply a legal tax dodge.

> "Maybe two sales would be more profitable than one because mycapital gains tax would be smaller.
>
> **Stefanos Vasilakis**
> Public Notary

In Greece, explained one senior tax official, most property is typically sold with part of the real price left undeclared and paid in cash. "The problem is when you want to sell the property again, if you declare the real price, then you are left with a huge capital gain to declare," he said.

One solution, he said, was to make use of an individual who, in return for a cut of profits, operated as a so-called "strawman" who could buy on the grey market, paying both the declared price and an extra portion in cash, and then selling on at the real price.

Piraeus would not comment on these three deals.

Stefanos Vasilakis, a public notary who said he helped draw up the purchase contracts for all three sales for Piraeus, said the reasons behind the complex arrangement "have to do with taxation."

"When a company sells a property, it has to pay capital gains tax, which is the difference between the property bought and the property sold. Maybe two sales would be more profitable than one because my capital gains tax would be smaller," he said.

Another tax official said that, under laws that applied briefly in 2006, such strawmen, as private individuals, were liable for much less capital gains tax than registered companies.

The businessmen who acted as intermediaries in two of the deals confirmed by email and phone that they took part.

The third case - the ground floor of an office block at 157 Mihalakopoulou Street in central Athens – is less straight forward.

MGS bought the property in 2003 for a declared total of 1.05 million euros. At the same time, Piraeus approved a loan to MGS of 2.4 million euros, secured on the property. MGS then got further cash from Piraeus by renting the property back as a bank branch for a monthly sum of 11,454 euros, according to later sale documents.

When it eventually sold the property in April 2006, MGS declared the sale price at 975,000 euros. According to the Athens real estate agent, this was "an extremely low price for those times. About two million euros would be a normal price."

The buyer listed in the sale documents was a Lebanese-born businessman based in London called Philip Moufarrige. Nine days after buying the building, Moufarrige sold it to Piraeus for 2.65 million euros, according to a contract in the land registry. A lawyer involved in the case confirmed to Reuters he had represented Moufarrige in his absence.

Moufarrige, who lives in London, expressed bafflement when reached for comment. The passport and family details recorded in the sales documents were accurate, he said, but the London address the documents listed was wrong.

"I have never owned property in Athens in my life," he said. "This was done without my knowledge."

Additional reporting: Nikolas Leontopoulos and Karolina Tagaris in Athens, and Yeganeh Torbati in London; Editing by Simon Robinson and Sara Ledwith

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