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In Greece, claims a magnate stole from his own bank

LAVRENTIS LAVRENTIADIS WAS A RISING STAR IN GREEK BUSINESS. NOW PROSECUTORS SAY HE TURNED PROTON BANK INTO HIS PERSONAL CASH MACHINE.

BY STEPHEN GREY
ATHENS, JAN 12

With the money tight all over Europe, one high-flying Greek businessman allegedly found a novel way of getting easy credit: two years ago he bought a controlling share in a bank, installed his own managers and then loaned himself and his associates nearly 600 million euros (\$760 million).

Greek prosecutors allege Lavrentis Lavrentiadis, 39, turned the country's Proton Bank, which has since been nationalised, into what one Athens newspaper called a "bank of cronies". Lavrentiadis, who vigorously denies the allegations and has accused the

authorities of acting illegally, has been called to appear before public prosecutor Ioannis Dragatsis at an Athens court next week. He is formally under investigation over accusations of fraud, embezzlement and corruption, but has not been charged.

An audit by the Bank of Greece, which regulates the industry, found that more than 40 percent of Proton's commercial loans in 2010 were made to companies related to Lavrentiadis. The report says this was part of a "misuse of the basic principles of lending and assurance."

A separate investigation, signed by a senior prosecutor who heads the country's money laundering authority, found that Lavrentiadis - once hailed as the rising star of Greek business and known as a leading patron of the arts



REUTERS/YANNIS LIAKOS

METEORIC CAREER: Lavrentiadis used family wealth and his own ambition to build one of Greece's fastest growing business empires.

CASH WITHDRAWAL: Lavrentiadis allegedly installed his friends as managers at Proton Bank and then loaned himself and associates 600 million euros.

- had with others "formed a criminal team" that embezzled up to 51 million euros from the bank. It alleged loans made to dormant companies had been wired from Proton to another bank, the Piraeus Bank, and then withdrawn by an employee in bags of cash.

"In every case the leading figure of the team was Lavrentis Lavrentiadis, president of the board and major shareholder in Proton Bank," says the confidential report by Greece's Financial Intelligence Unit (FIU), seen by Reuters. The bank's management "developed continuous, intense and to a great extent criminal activity which led to the deception of depositors." The bank used "unusually high interest as a bait" to draw savers in, it stated.

The secret report was completed on July 27 last year, but its full findings have not been disclosed until now.

The detailed revelation of alleged mismanagement at Proton Bank comes just as cash-strapped Greek banks are seeking fresh support from the European Central Bank and the Greek central bank to maintain their liquidity.

The allegations against Lavrentiadis would be astonishing in normal times. But Proton's alleged largesse occurred at a time when Greece's financial system was supposed to be under Europe's microscope.

Greek officials believe the bank issued more than 664 million euros of new loans to companies related to Lavrentiadis in 2010. At the time, the country's banks were beginning to grapple with a debt crisis that was to threaten the very existence of the euro zone. Heavily loaded with Greek government bonds and shaken by a deepening recession, they have scrambled for cash, sold subsidiaries or merged in a desperate bid to ride out the tsunami sweeping the Greek economy.

"You can think of this country as a large murky lake," said Tasos Teloglou, a TV presenter and senior journalist for the Greek newspaper *Kathimerini*. "In there are buried lots of old cars and junk and even some bodies. Now the water is receding, you can see what's been hidden for so long."

Despite its detailed audit, the Bank of Greece and stock market regulators have come under fire from analysts who say the authorities should have acted earlier, taken a closer look at Lavrentiadis's 2009 takeover of Proton and followed the subsequent loan flows more rigorously.

But the Bank of Greece deny inaction, saying it "took the appropriate actions to deal with these problems" and the "matter is now under investigation by the Greek judicial authorities."

Panagiotis Nikoloudis, vice prosecutor general of the Greek Supreme Court and

chairman of the Finance Intelligence Unit, a watchdog responsible for investigating financial crimes, says the alleged fraud was exposed when he and his team stepped in last July. Nikoloudis would not say what prompted their inquiry. But if his team had not acted, it would have had "consequences beyond my wildest fears," he told Reuters in his first public comment on the case.

Another senior investigator said the scale of the fraud would if proven be the "biggest case in 20 years" in Greece.

Lavrentiadis repaid 51 million euros to Proton last September after his assets in Greece were frozen and a criminal probe launched. He became the first person to invoke a 2011 Greek law that gives immunity from prosecution to

those who have worked with me."

IN A METEORIC career, Lavrentiadis used family wealth and his own ambition to build one of Greece's fastest-growing business empires. He took over his father's company Neochimiki, a supplier of raw chemicals across southeast Europe, when he was just 18, and expanded the firm aggressively with a spate of acquisitions. In 2003 he floated it on the Athens stock exchange.

Ernst and Young named Lavrentiadis Greek Entrepreneur of the year in 2007. That year he founded a new pharmaceutical company, Alapis SA, which grew so quickly that within months it was one of the 20 biggest on the Athens stock exchange, measured by capitalisation.



A MODEST HOME: Lavrentiadis, whose legal address is pictured here, has invested in Greek media firms and the country's most famous football club, Olympiacos.

suspected criminals who return the proceeds of crime. In a letter to prosecutors he admitted no guilt, saying he paid the money because of a "dire need to protect my business activities abroad, and my moral obligation to disengage my honest and valuable associates from negative consequences" of a legal dispute.

He adamantly denies wrongdoing. "Never did I or my companies move any sums of money whose provenance is either dubious or not absolutely transparent," he said in statements to prosecutors.

Contacted by Reuters, he said he could not comment in detail but that he totally rejected "all and every one of these false accusations against me. I will take every step possible to defend my reputation and the reputation of

Lavrentiadis has invested in Greek media firms and the country's most famous football club, Olympiacos. He also founded a private equity fund, Lamda Partners, based in London and Guernsey, and in 2009 endowed a research chair at the influential Washington think tank the Center for Strategic and International Studies.

The FIU's Nikoloudis described him as man whose reputation was a "paradigm of entrepreneurship ... not just in Greece but internationally."

Lavrentiadis moved into banking in December 2009 when he took a controlling 31 percent share in Proton Bank, enough to become chairman and appoint key executives. In the same month, he also registered a new bank in

Liechtenstein, the Lamda Private Bank.

Despite Greece's growing debt crisis, he was bullish in his new venture. He told newspaper Ethnos in April 2010: "It is very important, especially during these difficult times, to have an investment bank in Greece, to be able to deal with the part of problematic businesses and help them stand on their feet again. We have great expertise in this field, because we have effected more than 100 acquisitions and we have excellent relations with international markets."

Asked about the secret of his success, he said: "I never chased after the money, but success itself, because it was a personal bet of mine."

But the Bank of Greece, in an emailed statement to Reuters, said it had "spotted incipient problems in Proton in 2010" and had early that year put the bank under "enhanced supervision", which included on-the-spot inspections, talks with external auditors, a veto of proposed directors, and fines.

The central bank says the "sharp increase of new loans" in June 2010 triggered concern, and it "immediately undertook an on-site inspection". This led to Proton having to find more capital and pay an unspecified fine. The bank was also told that from September 2010 it needed to "reduce its reliance" on cheap liquidity financing that had been provided in response to the crisis by the European Central Bank (ECB) and national central banks in Greece and Ireland.

"Since early 2010 an increasing part of the bank's funding came from the ECB," said the statement. "According to the framework of the Eurosystem, any eligible counterparty can obtain refinancing through the monetary policy operations of the Eurosystem against adequate eligible collateral."

By July 2011, the Bank of Greece said it had determined that companies that had borrowed money and were connected to Lavrentiadis "may have been engaged in questionable transactions which also involved the bank, possibly with the aim of money-laundering."

A report was filed with the FIU on July 6, 2011 whose own conclusions, delivered 21 days later, proved to be a mortal blow to Proton.

Signed by Nikoloudis, the FIU report lays out grounds for ordering the seizure of assets belonging to Lavrentiadis and seven associates, accusing them of appropriating 51 million euros either through fraud or embezzlement. They were, it said, "acting with common intention and taking advantage of their position in Proton Bank" with the aim of committing "more felony offences" against Proton and, essentially, against the rest of the shareholders and depositors.

The report focused on a series of loans,



REUTERS/JOHN KOLESIDIS

TROUBLE SIGNS: The Bank of Greece 'spotted incipient problems in Proton in 2010' and put the bank on "enhanced supervision." Lavrentiadis denies any wrongdoing.

including to companies that were in liquidation and effectively dormant. The money those firms received from Proton Bank was transferred to accounts at another Greek bank, the Piraeus Bank, and then withdrawn in cash by an employee of Lavrentiadis's pharmaceutical firm Alapis, between June and November 2010. The FIU says the employee, Dionysis Bitharis, is not under investigation. Bitharis declined to comment.

"In my expert report I said that this person (Lavrentiadis) has appropriated 51 million euros of bank assets," Nikoloudis said in an interview with Reuters in his office overlooking Athens. "At the bank a specific person named in my report got the money in bags. He was an errand boy."

Nikoloudis believes the loans were made because after becoming Proton chairman, Lavrentiadis put his "own people in the bank and decided what was going on. He made a decision to give loans to companies with no collateral. Sometimes this money went to offshore companies, sometimes to his own interests."

Nikoloudis said that because Lavrentiadis had returned the 51 million euros, further investigations were halted and "there can no longer be a prosecution and, as far as this 50 million is concerned, there is no longer a crime."

EVEN IF THAT'S TRUE - some prosecutors believe there may still be a case over the 51 million euros - Lavrentiadis faces other

problems. Another investigation is now focussing on allegations in the Bank of Greece audit that was completed last August. That report describes much larger sums of money being mishandled. "If this case was closed then he wouldn't be appearing before prosecutors and facing the consequences," said the senior government investigator. "The 51 million euros is just a tiny part of it."

The most serious accusations relate to what central bank auditors describe as a "big number of unusual transactions" of which "no reports about suspicious or unusual dealing was given to bank directors or competent authority."

The report adds: "The frequent transfer of shares of offshore companies or companies with anonymous shares which can lead to inability to locate the true beneficiary is an activity that may denote money laundering."

Among the loans queried in the Bank of Greece report are:

* A 54 million euro loan on Sept. 20, 2010 to a newly founded company, Finegline Trading Ltd, in order to buy shares in a separate company majority-owned by Lavrentiadis, the proceeds of which were then transferred to his private bank account and on to a private bank in Zurich. This was illegal, say the auditors, because Lavrentiadis was "the main shareholder, both of the bank and of the borrowers being approved." Finegline could not be reached for comment.

* Multiple loans issued to offshore companies before Proton had determined

who they were owned by - in some cases within days of a company's formation - and without any attempt to obtain proof of why the companies needed the money, for example by obtaining receipts or contracts.

BUT THE AUDITORS' biggest concern is over loans issued to the pharma firm Alapis, in which Lavrentiadis in 2010 had a 21 percent stake. The report says Proton not only loaned cash to Alapis directly but also poured more than 500 million euros into a project to create subsidiaries and sell these spin-offs back to Lavrentiadis's friends and associates.

The audit report says those associates, which it describes as a "group of connected clients," were loaned cash by Proton to buy the subsidiaries despite the fact the borrowers offered little by way of collateral. Most of the loans took place over three days in June 2010; many were issued to shell companies that had been set up a few days earlier. Interest on the loans was paid by Alapis or by Lavrentiadis himself, the audit report said, supporting the auditors' conclusion that the companies "are still under the control of Lavrentis Lavrentiadis".

In all, after taking over Proton in December 2009, loans to companies that the audit report claims were linked to Lavrentiadis rose by 598 million euros to reach 854 million by March 31, 2011. This represented more than 43 percent

of the bank's 1.9 billion euro commercial loan book. Against these loans, just 54 million euros was obtained in collateral. The total provision for bad debt was zero, allege the auditors.

The senior government investigator said: "Because he exhausted the ceiling of loans he could get for Alapis, he conceived a plan to get loans for Alapis by circumventing regulations of the Bank of Greece.

"How did he do this? He recruited people to which he transferred activities of Alapis, a large majority of which were not making a profit. He sold these off to people; they bought them with loans from his bank. He circumvented regulations ... by breaking companies into smaller ones. The regulation is there so that one creditor cannot bring down the bank."

Trifonas Kolintzas, who was appointed as chief executive officer of Proton under Lavrentiadis, denied issuing any improper loans. While the Bank of Greece says Proton's credit expansion was "mainly financed" by increased deposits, Kolintzas said it was not.

In a statement to prosecutors, he said: "The most important thing is that the money was not withdrawn from the Bank's reserves, i.e. from individual deposits but on the contrary, almost entirely, it was obtained from the European Central Bank and indeed with the low interest of 1 percent."

After his alleged loans spree, Lavrentiadis apparently began moving his interests abroad.

According to the Bank of Greece report, from December 2010 Lavrentiadis "seems to have effected a liquidation and de-investment of the quasi-total of his interior business activities."

In February last year, Lavrentiadis also began selling his shares in Proton, cutting his stake to 15 percent from 31 percent by the end of March, according to public filings. In February, the company announced that the former U.S. ambassador to Greece, Daniel Speckhard, would take over as chairman. Neither Speckhard nor Alapis, whose market capitalisation has tumbled from 4.2 billion euros in 2007 to 1.3 million euros, responded to requests for comment.

LAVRENTIADIS AND HIS lawyers have consistently refused to comment in detail on the allegations against him.

But in a response filed with prosecutors and reviewed by Reuters, Lavrentiadis says the FIU's order to freeze his bank accounts was illegal and inaccurate. Of the 51 million euros allegedly embezzled, "only a small part" came from loans from Proton, while the rest came from loans from other banks, he said. It was unclear, he added, how the "alleged embezzled sums" could add up to 51 million euros. Lavrentiadis says the transactions the FIU and the Bank of Greece identified were part of normal business and were all loans that carried an obligation of repayment, so there was no question of money being embezzled or diverted.

He rejects the claims by the Bank of Greece that he was connected to many of the "linked companies" that received loans from Proton and argues that he was not even involved with Proton's detailed decision-making. Although he chaired the bank's board of directors and held 31 percent of shares, his function was as a "non-executive", he wrote. And although he held 21 percent of Alapis in 2010, he said he "was not a controlling shareholder of this company nor did I control nor did I participate in its daily commercial and transactional activities." Of the nearly 700 million euros of new loans issued to companies allegedly connected to him, all of the money went either to re-finance other loans or to pay outstanding costs, he also argues.

All of his dealings mentioned in the FIU audit were "absolutely valid, legal, real and can be proved by contracts and documentation," he said.

PROTON BANK WAS nationalised last October and renamed the New Proton Bank after some details of the suspect loans emerged in Athens newspapers.

While depositors were protected, investors in the original bank were left with nothing,



MEET AND GREET: Lavrentiadis (R), here shaking hands in 2010 with then-Greek Premier George Papandreou, rejects claims that he had ties to many of the companies who got loans from Proton.



ALPINE HAVEN: Lavrentiadis opened a private bank in Liechtenstein, registered the same month he took control of the Proton Bank

according to Michael Markoulakos, who represents some of Proton's other former shareholders.

"In one year Lavrentiadis robbed the whole bank because he didn't have cash flow in his own business," Markoulakos said. The New Proton Bank declined to comment on the investigations. Administrators of a separate "bad bank," handling the former bank's bad debts, also did not return messages requesting

comment. Lavrentiadis, who is suing the Bank of Greece for nationalising Proton, has long battled rheumatoid arthritis. The illness has left his hands partially paralysed and Lavrentiadis a believer in faith healing. He has given generously to the Greek Orthodox Church and charitable causes, especially the arts.

"If you ask me, one day I'd like to be able to reduce the time I spend at work and take up

creating art," he told Ethnos newspaper. "I believe it is like 'oxygen', particularly to those who are engaged in business."

(With reporting by Dina Kyriakidou and Lefteris Papadimas in Athens, Mark Hosenball in Washington, Martin de Sa'Pinto in Zurich and Paul Carrel in Frankfurt; editing by Simon Robinson and Sara Ledwith)

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