



**AUDIT
OFFICE**



**REPUBLIC
OF CYPRUS**

AUDIT OF NON-PERFORMING GRANTS BY FORMER COOPERATIVE CREDIT INSTITUTIONS TO POLITICALLY EXPOSED PERSONS



**AUDIT OFFICE OF THE REPUBLIC
SPECIAL REPORT KEDIPES/01/2021**

AUDIT OF NON-PERFORMING GRANTS BY FORMER COOPERATIVE CREDIT INSTITUTIONS TO POLITICALLY EXPOSED PERSONS

AUDITED ENTITY

SEDIPES/KEDIPES

Executive Summary

This audit was carried out within the framework of constitutional powers of the Auditor General for audit of public expenses and revenues, in order to find out whether arrangements or handlings of non-performing grants (NPG) of Politically Exposed Persons (PEP) were carried out, by the Cooperative Asset Management Company Ltd (SEDIPES) (or its subsidiary, Cyprus Asset Management Company Ltd (KEDIPES)), after 2013, when this was made a state business, in a way that caused or it is possible to cause, loss of revenues or increase of expenses for SEDIPES/KEDIPES and as an extension for the Republic of Cyprus.

It should be noted that, the characterization of a granting, by SEDIPES/KEDIPES, as non-performing, actually infers the default, for any reason, of the contractual obligations of the debtor, regarding the timely payment of the due amounts.

Due to the fact, as shown, that the examination of all the cases of grants to PEP, which were made before 2013 by Cooperative Credit Institutions (CII) and then by the Cooperative Cyprus Bank (CCB), within a reasonable period, it would be practically impossible, our Office decided to focus on the audit of grants to PEP, which were the audit object of our Office, in relation to the compliance for submission of tax declarations. Specifically, the grants to living people, who had the offices of the President of the Republic, Minister and Member of Parliament, at any time between the years 2008-2019 or they served as Political Parties' Leaders during that period, were examined. Based on these criteria, a list with 161 persons was drafted, for which SEDIPES/KEDIPES was asked to submit to us particulars, both for themselves, and for their first-degree relatives (parents, spouses and children), as well as for companies in which they had interest. Consequently, where there is reference, in the Report, to close relatives of PEP, this means parents, spouses and children. We should clarify that, the cases where PEP, included in the population we examined, undertook, either by himself or with others, the grants of a deceased close relative, then those grants were examined.

These PEP are included on the top of the list of the relevant legislation giving the definition of PEP, proving their significance in the possibility of effect and/or their participation in the decision-making, in relation to legislations and other essential issues of the state. It is, however, stressed that in the current audit the only one being audited is SEDIPES/KEDIPES and not the PEP or their close relatives.

The issue of the power of our Office, for access to the relevant particulars and information, has been clarified throughout opinions of the Attorney General of the Republic, which opened the way for holding this audit.

Since the audit regards collection and processing of personal data, the opinions and recommendations of the Commissioner for Personal Data Protection were taken into account for handling the issue, whom we thank for the cooperation. The positions of the Commissioner, regarding the issue, are set out in their entity in **Appendix D** of our Report.

From the audit of the particulars received, we found out cases where:

- ◆ PEP keep NPG with SEDIPES/KEDIPES, for which restructuring solutions have not been found/agreed. Some of these PEPO were characterized by SEDIPES/KEDIPES as non-cooperating.
- ◆ PEP that kept NPG with former CII proceeded to restructuring solutions that, in some cases, included the deletion of significant amounts, or set out significant balances for deletion under conditions (parked loan), provided, namely, that the debtor complies with his obligations towards SEDIPES/KEDIPES.
- ◆ In some cases, the exchange of debt with assets was promoted, which, based on the proposed sale prices, as shown published by Altamira, do not respond to the amount of the obligation deleted during their acquisition by SEDIPES/KEDIPES.
- ◆ In some cases, there were approved grants to PEP with insufficient collateral or against to the recommendation for rejection of the claim by the competent officers that examined the applications or in cases where it was shown that there were not enough incomes for performing the grants.

It is stressed that the reference to PEP, and setting out the data regarding the restructuring solutions or the existence of NPG, does not imply at all that the PEP himself has necessarily shown any reprehensible behaviour, nor that it should be considered that, by this reference, unsuitable behaviour in a public position is to be allocated to the PEP, since it was not possible for our Office to examine the personal conditions of every PEP that possibly impeded him to comply with his obligations. It also does not necessarily mean that the restructuring solutions show favouring treatment of PEP, since in order for someone to end up in a secure conclusion, regarding such characterization for favouring treatment of a PEP, satisfactory number of other similar cases of third parties should be examined, in order to proceed to valuable comparison of the handling that the PEP had with these persons.

This Report was submitted for comments at SEDIPES/KEDIPES, which with its letter dated 12.3.2021 certified the correctness of the amounts and particulars included in this and informed us that:

- ◆ Cases of arrangements recommending privileged/favouring treatment have not been found. The arrangements mentioned in the Report were made based on the provisions of Policies that were in force at the essential time and taking into account the regulatory framework Central Bank of Cyprus and they were approved by the competent, according to each case, approving components, that were also authorized to examine divergences from policy, within their approving limits.
- ◆ The range of options, regarding the arrangements of debts is affected/limited by the data that the conditions of the initial borrowing are forming, especially in cases where bad initial borrowing is found.

SEDIPES/KEDIPES also expressed the opinion that, within the framework of finding a consensual solution, it was shown that in some cases the position of the Organization was improved, by taking additional physical collateral, cash from non-exploitation of non-overloaded immovable property, addition of new co-debtors and other collateral.

The answer as such of KEDIPES is attached in Appendix E of this Report

OUR AUDIT IN NUMBERS

OBJECT OF THE AUDIT

161 PEP and **783** of their close relatives

49 companies/legal entities

For the 161 PEP we examined we found:

49 PEP without grants from former CCI

60 PEP with only performing grants from CCI

52 PEP with grants that have become non-performing,
even for a period of time

ANALYSIS OF **52** CASES

For the 52 PEP we further examined, we found:

25 PEP with restructuring solutions –

the **17** cases, considered significant, are detailed in this Report

→ **€4,2m** deletions

→ **€3m** balances for deletion under conditions (parked loans)

→ **€4,9m** exchanges of property for debt (Debt to Asset)

6 PEP with NPG not yet settled

the **5** cases considered significant are detailed in this Report

21 PEP with NPG that have become performing