Santander investors in Madoff hostile to share offer

By Victor Mallet in Madrid, Joanna Chung in New York and Haig Simonian in Zurich

Santander clients who lost money to the alleged fraud by Bernard Madoff yesterday reacted with a mixture of scepticism and hostility to the Spanish bank's offer of preference shares as partial repayment.

Santander, the eurozone's largest bank, has reported that its clients lost €2.33bn ($3.09bn) in the alleged $50bn scheme. On Tuesday, it offered to pay back individual private banking clients all of the principal they had placed in two funds run by Optimal, Santander's hedge fund arm, that were invested with Mr Madoff.

The proposed settlement deal excludes institutional investors and does not cover the profits private clients thought they had. It requires those who accept the preference shares to agree not to take legal action on the issue, maintain their level of business with Santander and treat the bank as a "preferential business partner".

"Most will correctly understand this offer as adding insult to injury by Santander," was the blog comment by the son of one client who stands to lose about $300,000 invested in the bank's Optimal Strategic US Equity fund.

The victim's son, a bank trader, said the preferred shares offered by Santander, with their 2 per cent coupon, could be worth 15 per cent of the €1.38bn nominal amount of repayment Santander has announced.

A US client and institutional manager who placed money in the funds agreed, noting that the bank was charging only €500m in pre-tax costs to its 2008 accounts.

"They are trying to buy the problem they got themselves into by paying only 20 per cent," one investor said.

Jacob Zamansky, a US lawyer representing clients considering taking action against Santander, said: "A lot of clients I have spoken with are disappointed with the offer.

"I think many are not going to take this

Bank clients lost €2.33bn in the alleged Madoff fraud

deal ... Santander will probably sweeten the offer."

Cremades & Calvo-Sotelo, a law firm representing hundreds of victims of the Madoff scandal, described Santander's offer as a "first step" and an "early victory" but criticised the lack of a cash offer.

"We await further measures," it said in a statement.

Javier Bleichmar, an attorney at Labaton Sucharow, which this week launched a class action lawsuit against Santander, said his firm was concerned about the exclusion of institutional investors. The Spanish and US law firms are working together.

"We don't believe there should be a distinction," he said. "At the end of the day, the claim is that there was a lack of due diligence by Santander, which applies to all investors."

Union Bancaire Privée, another bank whose clients lost heavily from the alleged Madoff fraud, yesterday said funds under management and net profits had fallen sharply in 2008.

The Geneva-based bank, a pioneer in funds of hedge funds, said assets under management fell by SFr35.7bn year on year to SFr100.7bn at the end of December.

UBP, which said net profits shrank almost 16 per cent to SFr431m, attributed the drop in assets under management to falling stock markets and exchange rates.

There had been SFr700m of net new money in the year. The bank said it had advised clients to increase liquidity and reduce exposure to financial markets.

In all, UPB said it had SFr35bn in net assets invested in hedge funds compared with SFr60.3bn at the end of 2007.