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Giant Bank in Probe Over Ties to Madoff

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MADRID -- Spanish prosecutors are investigating how Europe's second-largest bank, **Banco Santander SA**, lost more than €2.3 billion (\$3.1 billion) for clients by investing with Bernard L. Madoff.

Santander itself lost just €17 million. Prosecutors said Monday they want to know the details of Santander's relationship with Mr. Madoff's firm and when Santander knew about problems related to it.

Mr. Madoff, left free on bail by a judge's ruling Monday, greatly extended his reach through an international network of feeder funds that funneled their clients' money into his alleged pyramid scheme. Santander was among the most active of these, bringing wealthy clients from all over Latin America and Europe into Mr. Madoff's sphere. The potential damage to the bank's reputation and profits is particularly acute in Latin America, where the bank does almost a third of its business and has planned to expand -- and where two-thirds of the losses were, said a person familiar with the matter.

Santander's clients' losses from Madoff investments are by far the largest reported at a single bank. HSBC Holdings PLC, the only Europe-based bank bigger than Santander by market value, has said it has \$1 billion of exposure. Much smaller enterprises feeding to Mr. Madoff include those run by two relatives of Santander Chairman Emilio Botín -- his son Javier Botín-Sanz and son-in-law Guillermo Morenés.

Santander has largely skirted damage from the global financial crisis. Mr. Botín talked proudly last year about how the bank had avoided troubles experienced by other institutions by sticking to commercial banking and shunning exotic financial instruments. The bank had become a rare corner of stability, buying up more distressed banks whose value had plummeted.

Last July, Mr. Botín appeared via video before 500 bankers at a gala award dinner in London, reminding them, "Santander is one of the few banks to have successfully come through the financial turbulence of last year, unaffected by toxic financial instruments." In the address, recorded in Santander's

headquarters outside Madrid, he went on to admonish the gathered bankers: "If you don't fully understand an instrument, don't buy it. If you would not buy for yourself a specific product, don't try to sell it."

Spain's anticorruption prosecutor will be looking closely at the relationship between Santander, the investment fund Fairfield Greenwich Group, and the Madoff funds, the prosecutor's office said.

Investigators said they want to know why Mr. Botín sent one of his chief lieutenants to see Mr. Madoff in New York just weeks before the scheme collapsed. Rodrigo Echenique, who has been close to Mr. Botín for many years, visited Mr. Madoff in his New York office at the end of November. Investigators say they want to know whether Santander was aware of any problems at Mr. Madoff's firm then. Santander declined to comment on the trip or make Mr. Botín available for comment. Mr. Echenique also declined to comment on the trip.

Investigators say they also are focusing on the role of Fairfield partner Andres Piedrahita, a Colombian who lives in Madrid. He funneled client money into the Madoff funds, and according to marketing materials he also managed at least one other fund on Santander's behalf that had losses from Mr. Madoff's alleged fraud. Mr. Piedrahita and Fairfield declined to comment.

The prosecutor also is looking into Santander's Swiss-based hedge-fund unit, Optimal Investment Services SA. Investigators want to know whether managers at Optimal knew of problems at Mr. Madoff's operations when it marketed his funds to investors, a spokesman for the prosecutor's office said.

Investigators said a third issue they are looking at is the resignation of Manuel Echeverría, who presided over the Optimal fund while it built its relationship with Mr. Madoff. He left the bank on June 30 after 19 years there. Five colleagues also quit at the same time. Mr. Echeverría said in an interview that he left because Santander was trying to sell its asset-management business last year. The sale was dropped after the bank failed to find a buyer.

"This was totally unrelated" to the imminent losses at Optimal or the collapse of Mr. Madoff's alleged scheme five months later, he said of the departures. "We decided to leave for totally different reasons."

Mr. Echeverría noted that only one of 12 funds managed by Optimal was exposed to Mr. Madoff's alleged fraud. "I had built a business that was very diversified," Mr. Echeverría said. "It wasn't only a Madoff business." Analysts and investors point out that the fund concerned -- Optimal Strategic U.S. Equity -- accounted for nearly 39% of Optimal's total assets under management, saying that was an unusually large proportion.

Santander said that it commissioned Mr. Madoff's firm to "execute its investments within the framework Optimal established for this fund." The bank declined to elaborate. Mr. Echeverría and his five colleagues are now at a Geneva wealth-management company called Notz, Stucki.

About two-thirds of losses incurred by Santander clients were borne by investors in Latin America, said a person familiar with the matter. Santander has the largest market share there, and Optimal was marketed there before it was brought to Spain in the past few years.

Santander clients in Mexico took the largest hit, losing close to \$400 million. Argentine clients lost around \$350 million, and Brazilian clients lost some \$300 million, the person said, adding that all told as many as 3,000 Latin American clients lost money.

Customers typically invested 10% to 20% of their assets in the Optimal Strategic fund, Santander's main Madoff vehicle, which marketing materials called a low-risk product. But some invested up to 80%, the person said.

A number of Santander clients are threatening to remove their remaining funds, and some are contemplating suing the bank for negligence, people familiar with the matter say. "Some clients have approached me to explore the matter," says Ernesto Canales, a leading corporate lawyer in Monterrey, Mexico's industrial capital.

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