



Market Scan

Madoff Pushes Medici To The Brink

Javier Espinoza, 01.21.09, 08:30 AM EST



The Austrian bank slammed by its exposure to the Wall Street fraudster may be about to collapse.

Bernard Madoff

Bank Medici upset Austria's financial system last month when news emerged that it was one of many banks around the world that were exposed to Bernard Madoff's alleged Ponzi scheme. Now it seems that in spite of the best efforts of its board and its majority shareholder, Sonja Kohn, the bank is on the brink of collapse.

Former associates and banking sources say there is little hope for the five-year-old bank as investors have lost trust in the business. Medici says its executive board has worked "intensively" on a new business plan, but Austria's financial authorities are likely to refuse a new banking license for Medici on the grounds that the bank has a "limited business case" and is bound to close down "within weeks," an anonymous source with knowledge of the bank's proceedings told Forbes.

Two of Medici's funds, Herald USA and Herald Luxemburg, with total assets worth \$2.1 billion, were exposed to the alleged Madoff fraud, but the bank has not said by how much.

The bank has also already lost most of its customer base, and 90.0% of income was generated out of Madoff funds, according to its former chief executive, Helmut Frey. "If a bank is hit like this, I don't think business will ever be as usual," Frey added. "The dream of Medici is dead as the economic basis has gone."

Austria's banking elite have meanwhile lost trust in Medici's founder, Kohn, who was known for being a close associate of Bernard Madoff. Advofin, an Austrian lawfirm representing 200 investors exposed to Madoff funds, said on Wednesday that it was considering a class action suit against Kohn and Bank of Austria, which owns 25.0% stake of Bank Medici.

"The loss of thousands of euros by small and big investors ready to sue is growing every day," said Stein Kogler, a spokesman for Advofin. "The class action could be ready in a couple of weeks." U.S. securities lawyers have warned, however, that European investors will find it hard to recover their money through a U.S. court. (See "Can Europeans Sue Over Madoff?")

On Jan. 2, the Austrian government took control of Medici after the bank's larger-than-expected exposure to Madoff's alleged Ponzi scheme led its board of managing directors to resign. (See "Austria Takes Control Of Madoff-Tainted Bank.")

"Nobody seriously noted what was going on. This was quite an achievement (by Madoff)," said Christopher Kummer, a professor of mergers and acquisitions at Webster University in Vienna.

Bank Medici joins a number of banks, funds and charities around the world that have lost billions of dollars through Madoff's alleged fraud. U.S. authorities are still assessing the full extent of the losses; Madoff is currently under house arrest in his Manhattan apartment and his assets have been frozen.