Banco Santander SA

Potential €50m bill forces Santander U-turn on Orcel

Spanish lender says it cannot justify amount to install banker from UBS as new chief

Santander said the compensation due to Andrea Orcel would be 'significantly above the board's original expectations' © Bloomberg

David Crow, Banking Editor JANUARY 15 2019

Banco Santander said it will no longer hire Andrea Orcel, the outgoing boss of UBS's investment bank, as its chief executive in a big U-turn just four months after Spain's largest lender announced his appointment.

Santander said the reversal was triggered by the amount that the bank would have had to pay Mr Orcel to compensate him for deferred stock awards that he earned during his seven-year career at UBS.

In a statement released on Tuesday evening, the bank said it had "become clear" that the cost of reimbursing the Italian-born banker for UBS shares he had earned during his time at the Swiss bank would be "significantly above the board's original expectations".

Three people familiar with the discussions said Santander was facing a bill of as much as €50m to pay Mr Orcel for the UBS stock, which would have been paid in the form of shares in the Spanish bank that would have vested over time.

However, the final figure could have been lower depending on how much Mr Orcel was willing to sacrifice, two of the people said.

Ana Botin, the bank's executive chairman, said: "We have had to balance the respect we have for . . . the millions of people, customers and shareholders we serve with the very significant cost of hiring one individual, even one as talented as Andrea."

When Santander's appointment of Mr Orcel was announced in September, it sent shockwaves through the banking industry and prompted speculation that the veteran dealmaker would steer the Spanish lender through a string of acquisitions. His imminent departure from UBS also left the Swiss bank scrambling for a successor to run its investment bank.

Santander said when it hired Mr Orcel that it had agreed to pay him an annual package in line with its existing chief executive, José Antonio Álvarez, who earns €8.9m a year, including pension. However, the bank said it had only "estimated" the bill for reimbursing Mr Orcel for the UBS shares.

Two people familiar with the negotiations said that Santander had hoped to come to some kind of an accommodation with UBS, which was entitled to claw back Mr Orcel's deferred stock awards under the terms of his contract because he was joining a competitor.

Santander had hoped that UBS would be willing to claw back only a portion of the stock awards and that Mr Orcel would have been willing to forgo a chunk of shares, two of the people said. But in the end the three parties could not come to an agreement.

Mr Orcel has handed his notice to UBS and is expected to leave the bank when his gardening leave ends in April. Mr Álvarez will continue as chief executive of Santander.

UBS said last night: "This is a matter between Andrea Orcel and Santander. UBS applied the compensation plan rules relevant in such cases and made them transparent to all parties before any decisions were made."

Santander's decision was also influenced by the political environment in Spain, where the centre-left Socialist party is in power, according to one person familiar with the negotiations.

The bank's board feared that handing such a large chunk of Santander shares to Mr Orcel could have served as a lightning rod for popular anger.

The country is still recovering from one of Europe's largest banking crises, which forced Madrid into an austerity-heavy eurozone bailout package to rescue its regional *cajas* lenders. Hiring a well-paid banker to head Santander could cause reputational issues, the person familiar with the negotiations said.

Ms Botin added: "On a personal note, my colleagues and I were looking forward to working with Andrea. We all wish him every success in the future."

Additional reporting by Stephen Morris in Zurich