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HOUSE VIEW

Prime Partners' take on the global economy and financial markets

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UBS & CS Takeover

In concert with the federal authorities, the SNB and FINMA, UBS finally took over the CS Group.

Liquidity guarantees from both the SNB and the Confederation were not enough to reassure the financial markets.

In this environment, it is probably the least worst decision but it breaks all taboos!

In a normal context, the authorities would NEVER have accepted a marriage between the No. 1 and No. 2 banks in Switzerland for both market share and "too big to fail" risk issues. By way of illustration, the combined balance sheet of these 2 banks represents USD 1,600 billion, 2x the Swiss GDP! JP Morgan's balance sheet, USD 3,740 billion, represents "only" 15% of US GDP.

The social cost is likely to be much greater than what the CS had announced and this time affected all divisions and in particular the Swiss division where duplicates will be very numerous.

The leaders of UBS certainly had to break an arm to accept this takeover. We can also clearly understand that this was not the objective of this bank given:

- the announced price, which values the CS almost at zero (by exchange of securities, valuing the CS shares at 0.76 or approximately CHF 3 billion)
- a guarantee from the Confederation of CHF 9 billion on possible losses on assets
- The SNB is also a stakeholder and it is now UBS that can also call on cash and loans up to CHF 100 billion.
- As for FINMA in the case of too big to fail, it announces that it will not modify its criteria during the integration period

We can think that this will weigh on UBS whose management will have to immerse itself in **a large-scale UNPLANNED integration** and that this will affect productivity within UBS, logically for many jobs. , particularly in retail banking in Switzerland.

This is partly reminiscent of the UBS/SBS merger. The latter took 3 years to show positive results. Given the work to be done at CS, now even more important given the very many duplicates in Switzerland (retail subsidiaries, back-office centers, investment funds, asset management, etc.).

If we want to see the bright side of things, the assets under management in private banking will be very large (CHF 5,000 bn). The potential for synergies in Switzerland is also significant with CHF 8 billion by 2027 announced by UBS. This is also what happened after 1998 for the new UBS.

The chairman of the board of directors of UBS, as a former CFO (which is very reassuring) had a short but reassuring message. It indicates (and this is a good thing) that the reorganization will be as short as possible.

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