

Causes and Performance Analysis of UBS Acquisition of Credit Suisse

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Abstract. This paper mainly studies the event causes and performance results of UBS's acquisition of Credit Suisse Group in 2023. As an international financial institution, Credit Suisse Group suffered serious financial difficulties under the combined effects of external changes in the global economic situation, internal management problems, prominent public opinion pressure and other factors, and was finally acquired by UBS for about 3 billion Swiss francs in 2023. This paper aims to reveal the development path and performance changes of the acquiring bank by evaluating the profitability, revenue, Operating expenses, and changes in the number of shareholders and shares in various regions of the world before and after the acquisition of UBS. The results provide some diversified suggestions for post-acquisition development of financial institutions.

Keywords: UBS; Credit Suisse Group; mergers and acquisitions; analysis of performance.

1. Introduction

UBS and Credit Suisse, as world-renowned investment banks and financial services companies, once occupied an important position in the global financial market. In recent years, Credit Suisse has faced a variety of crises, such as changes in the global economic situation, interest rate hikes in major economies, internal management problems of the company and public opinion pressure, etc. Credit Suisse's reputation risk, interest rate risk, liquidity risk and other operational risks generated in the previous operation and management process have emerged one by one, and finally it cannot operate normally due to huge losses [1]. It was eventually acquired by UBS in 2023 for about CHF 3 billion [2]. Existing research mainly focuses on the purpose of the acquisition, pointing out that the rapid acquisition is mainly to stabilize the sentiment of the financial market [3]. Some studies focus on the reasons for the acquisition and analyze that the deep reasons for the acquisition of Credit Suisse are the deep operating difficulties of the main business and the imbalance of the structure of assets and liabilities [4]. The other part of the research topic is based on the analysis of the background, facts and antecedents of Credit Suisse's cancellation of additional Tier 1 capital bonds, and discusses the financial impact of bond liquidation and its impact on key regulatory indicators [5].

Although existing research has provided us with a lot of insights into the background and impact of the UBS acquisition of Credit Suisse, there are still some significant research gaps. There is still a lack of systematic research on the combination of the analysis of the causes of the acquisition of Credit Suisse and the performance analysis of Credit Suisse after the acquisition. In particular, there is less comprehensive analysis of the details of acquisitions on the financial performance of their acquirers. Research in these areas is crucial to understanding the success or failure of takeovers and their impact on the industry.

This study aims to reveal the development path and performance changes of large financial institutions after the acquisition by exploring its financial indicators and evaluating the effect and impact of the acquisition based on UBS's financial data before and after the acquisition. The results will provide valuable insights and recommendations to practitioners, policy makers and academic researchers in the financial industry, contributing to a better understanding of the long-term impact of M&A on financial institutions.

2. Background Analysis

Founded in 1856, Credit Suisse Group has become the world's top investment banking and financial services company after more than 100 years of development. Its headquarters is set up in Zurich, Switzerland. It mainly operates in investment banking, wealth management, asset management and retail banking. In the 2021 Forbes Global 2000 list, Credit Suisse Group ranks 185th. The Credit Suisse Group was restructured in 2002, 2004 and 2006. Although it was less affected by the subprime mortgage crisis of 2008, the bank then began reducing its investment business, laying off staff and cutting operating costs. In addition, it has also become the focus of multiple tax avoidance investigations and paid \$2.6 billion in fines between 2008 and 2012 as a result of guilty pleas [6]. By the third quarter of 2020, Credit Suisse had assets under management of CHF 1,478.3 billion and net income of CHF 5.3 billion [8]. In February 2023, its largest shareholder, Saudi National Bank, refused to provide financial assistance, adding to concerns in financial markets. On March 19, 2023, Swiss state agencies intervened and facilitated the acquisition of Credit Suisse by UBS.

UBS is a multinational investment bank, tracing its roots back to the founding of Winterthur Bank in 1862. In 1890, the Swiss Bank Corporation developed into a private banking group, which achieved remarkable growth in the international policy environment of Swiss neutrality. In 1912 Winterthur merged with the Togenberg Bank to form the Swiss Union Bank, which was rapidly expanded through the banking secrecy provisions of the Swiss Federal Banking Act. After decades of competition, UBS AG and UBS merged in 1998 to form today's UBS. The rapid rise of UBS and Credit Suisse in the 2000s gave them a dominant position in the Swiss private client market. UBS suffered heavy losses from the failure of the Asset Relief Program during the 2008 subprime crisis, followed by a \$2 billion trading loss during the rogue trader scandal in 2011. In 2012, UBS redefined its wealth management business and curbed its sell-side business. UBS has gained a large share of the banking market and earned a high degree of brand loyalty by virtue of its capital strength, secrecy policy and bank autonomy [7, 8].

3. The Reasons for the Collapse of Credit Suisse

Uncertainties in the global economy are increasing, from the weak economic recovery after the epidemic to geopolitical conflicts such as the Russia-Ukraine war. Credit Suisse, as a bank with a high degree of internationalization, cannot be immune from the impact of these external factors. In addition, the Federal Reserve has entered a cycle of interest rate hikes, which have increased the cost of capital around the world. Credit Suisse's profitability suffered as its cost of funding in the capital markets increased, while its clients' demand for borrowing decreased. Moreover, investments in Greensill Capital and Archegos Capital Management each led to billions of Swiss francs in losses in 2021. Big missteps in those investments led to consecutive quarters of losses. Besides, trust in management is waning. In February 2020, the CEO of Credit Suisse stepped down due to the spy scandal. The management of Credit Suisse was in turmoil, and the departure and replacement of important leaders aroused market attention and concerns. The incident affected the company's reputation and dealt a blow to its management stability. The chairman of the National Bank of Saudi Arabia Ammar Abdul Wahed Al Khudairy said in a media interview that there will be absolutely no more assistance to Credit Suisse. The announcement intensified market concerns about Credit Suisse, sending its share price sharply lower. After Saudi National Bank announced it would not invest more, credit Suisse's share price plunged more than 25% and credit default swaps (CDS) prices soared, raising concerns about its solvency. Credit Suisse has been investigated and punished by various governments in the past few years for hiding unknown funds and aiding tax evasion. U.S. tax evasion case: In 2014, Credit Suisse signed a guilty plea and agreed to pay the US government \$2.6 billion in fines for advising US clients in avoiding taxes [9]. The European Money Laundering Case: Credit Suisse was found guilty and punished in 2022 for neglecting to uncover a drug cartel-related money laundering scam. Over the past few years, Credit Suisse has been the target of investigations and fines in a number of nations for money laundering and concealing unknown financial movements. These

legal problems not only have a direct impact on its finances, but also seriously damage the company's reputation.

4. Acquisition Process

In March 2023, the National Bank of Saudi Arabia, Credit Suisse's biggest shareholder, declared emphatically that it would not be making any additional investments, a statement that sparked market panic, sending Credit Suisse shares tumbling 31% that day and bond prices down 10 cents per euro. On March 15, Credit Suisse requested emergency assistance from the Swiss government, obtaining a SFr50 billion credit line. Despite the aid, the bank's customers still withdrew SFr10bn in demand deposits during the week. In addition, its single-year credit default swaps surged from 799 basis points to 3,701 basis points, the highest level for a large bank since the 2008 financial crisis. The Swiss government moved quickly to let UBS buy Credit Suisse to prevent its collapse from triggering a global financial crisis. Negotiations began on March 15, with the Swiss government demanding an agreement by March 20 [10].

On the morning of March 19, UBS offered to buy Credit Suisse for 0.25 Swiss francs a share (a total of 1 billion Swiss francs). Middle Eastern investors offered to buy Credit Suisse for SFr5bn, but the Swiss government said Credit Suisse could only be sold to UBS. That afternoon UBS raised its offer to SFr0.50 a share (for a total of SFr2bn). In the end, UBS, backed by the Swiss government, offered to buy Credit Suisse for 0.76 Swiss francs a share. The deal is an all-stock deal, with Credit Suisse shareholders ultimately receiving one share for every 22.48 shares, or SFr0.76 a share. After heavy intervention from Swiss regulators, UBS agreed to buy Credit Suisse for more than 3 billion Swiss francs (\$3.25 billion). On the same day, the Swiss financial Market Supervisory Authority decided to write down about 16 billion Swiss francs (\$17.24 billion) of Credit Suisse's bank supplementary Tier 1 capital bonds, known as AT1 bonds, to zero. This decision is in line with the Swiss "too big to fail" banking framework [11]. (AT1 bonds are convertible bonds introduced in Europe after the 2008 financial crisis to absorb losses if a bank fails.) In the UBS takeover of Credit Suisse, holders of AT1 bonds were among the biggest losers, having their bonds wiped out in value, breaking with the norm that bonds typically outperform equity.

5. Performance Analysis of Acquisition Cases

UBS will acquire Credit Suisse in 2023, and in order to study its M&A performance, this paper selects UBS's profitability, revenue, Operating expenses and changes in the number of shareholders and shares in various regions around the world from 2022 to 2024 as analysis samples. This research studies the M&A performance of Swiss banks before and after the merger and acquisition of Credit Suisse. The data of each financial indicator are from the annual financial statements published on the official website of UBS, or the relevant data publicly available in the Flush database.

5.1. Profitability

In order to study the profitability of UBS 'acquisition of UBS, its basic earnings per share, net assets per share and accumulated profit and loss in 2022 and 2024 were selected for analysis. Table. 1 displays variations in UBS's profits throughout this time. The graph indicates that UBS's total profitability has increased dramatically because of the Credit Suisse Group purchase. Specifically, UBS's profitability indicators maintained steady development in 2022. In 2023, the merger and acquisition of Credit Suisse will have a certain short-term negative impact on UBS's basic earnings per share (EPS), net assets per share and accumulated profit and loss, because the investment in Credit Suisse will increase UBS's capital outflow to a certain extent, and it does not receive the expected income in a short period of time, so these indicators will fluctuate to varying degrees. However, in the period after the merger and acquisition, the basic earnings per share and net assets per share of UBS have increased significantly, indicating that UBS has gained considerable profits from the acquisition of Credit Suisse's investment in UBS. At the same time, the cumulative profit and loss

also increased significantly after the acquisition, indicating that UBS's asset scale has been expanded after the acquisition of Credit Suisse, and the overall profitability has been successfully improved.

Table 1. Basic earnings per share, net assets per share, accumulated profit and loss (Data source: Flush website).

project	The first quarter of 2022	Mid-2022	Third quarter of 2022	2022 Annual Report	The first quarter of 2023	Mid-2023	Third quarter of 2023	2023 Annual Report	The first quarter of 2024
Basic earnings per share	0.63	1.27	1.81	2.36	0.33	9.72	9.35	8.83	0.55
Net assets per share	17.57	17.45	17.52	18.3		26.95	26.24	26.83	26.59
Accumulated profit and loss	2.538 billion	1.152 billion	-1.103 billion	-0.103 billion		0.161 billion	-0.953 billion	2.462 billion	0.663 billion

5.2. Status of Revenues

Comparing the first quarter of 2024 with the first quarter of 2023, Fig. 1 displays UBS's income statistics. There was a \$310 million decline to \$3.751 billion in UBS's total net interest income and other financial assets evaluated at fair value, whose fluctuations are represented in profit and loss. Reduced income from investment banking and global wealth management was the main cause of the decline, however growth in individuals and companies banking helped to offset some of it. The revenue fluctuations for the three companies are displayed in Fig. 2. Global wealth management revenue decreased by \$241 million to \$1.558 billion. The decrease in net interest income from this business was the main reason, while the decrease in net interest income from global wealth management was due to a decrease in deposit margin ratio, partially offset by an increase in deposit volume. 2. Investment banking revenue fell \$115 million to \$1.557 billion. Derivatives and solutions revenue declined by \$169 million, indicating that market volatility and changes in client demand adversely affected this high-risk type of business. 3. Personal and corporate banking revenue increased by \$71 million to \$904 million. Although part of the gain was offset by the switch to low margin deposit products, this was mostly caused by the rise in net interest income from this company as a consequence of the increase in deposit margin as a result of the increase in interest rates.

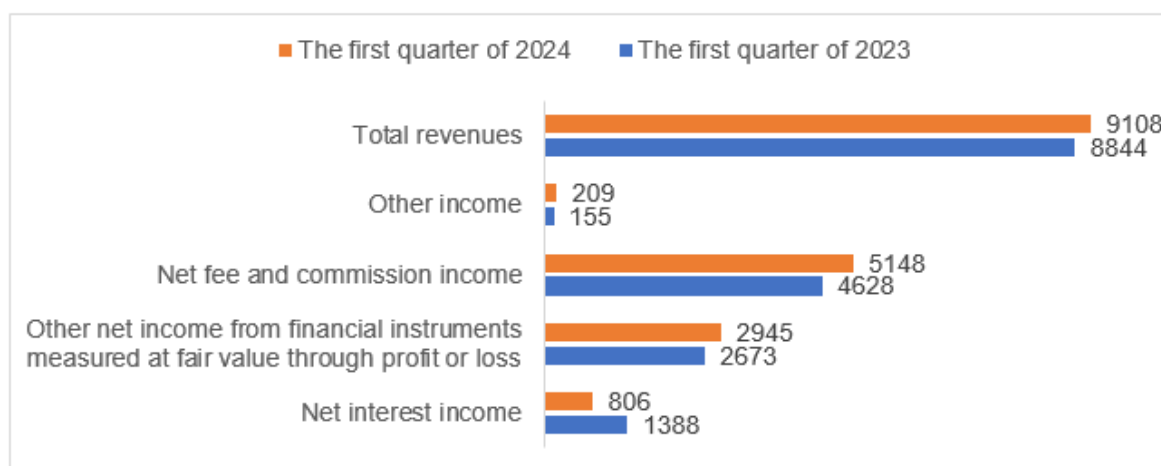


Fig 1. UBS Income statement (USD million, Source: UBS Q1 2024 financial results [7]).

Overall assessment: After the acquisition of Credit Suisse, UBS's revenue performance showed little overall fluctuation. In global wealth management and investment banking, revenues were down, implying the impact of market uncertainty and changes in client confidence in the aftermath of

acquisition activity on the company. However, the growth in personal and corporate banking shows that there is still potential for growth in certain business areas.

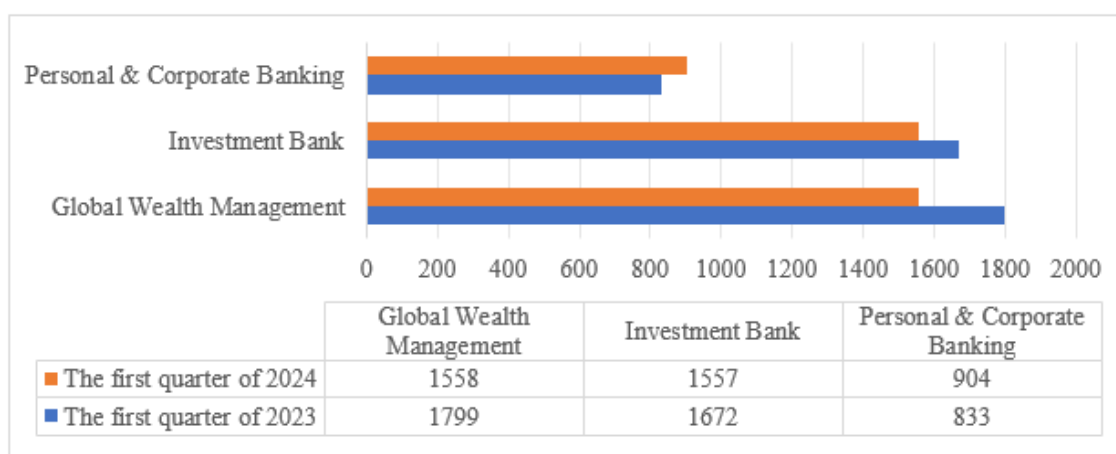


Fig 2. UBS Income statement (USD million, Source: UBS Q1 2024 financial results [7]).

5.3. Operating Expenses

Comparing the first quarter of 2024 to the first quarter of 2023, which is clearly shown in Table 2, personnel expenses increased by \$263 million to \$4.161 billion, including integration-related expenses. Wages and variable compensation increased by \$265 million to \$3.621 billion. The increase was mainly due to increased compensation for financial advisors, which increased by \$156 million, reflecting an increase in compensable income; increase in variable compensation including bonus and performance reward; wage adjustment and foreign exchange impact: also had an impact on overall pay growth. Compared to the first quarter of 2023, general and administrative expenses climbed by \$2 million to \$2.985 billion in the first quarter of 2024, primarily consisting of total expenses related to integration. Increasing in shared service fees: Shared service fees charged by other UBS subsidiaries increased by \$548 million, primarily reflecting \$234 million in Credit Suisse physical employee seconding fees. Increased consulting, legal, and audit expenses: These expenses increased by \$92 million, primarily related to higher integration-related expenses.

Table 2. UBS Operating expenses (USD million, Source: UBS Q1 2024 financial results [7]).

	The first quarter of 2023	The first quarter of 2024
Personnel expenses	3898	4161
salaries and variable compensation	3356	3621
variable compensation – financial advisors	1111	1267
General and administrative expenses	2983	2985
net expenses for litigation, regulatory and similar matters	721	8
other general and administrative expenses	2262	2977
Depreciation, amortization and impairment of non-financial assets	469	531
Total operating expenses	7350	7677

The vertical bar in Fig. 3 clearly shows how spending has changed. The impact of UBS's acquisition of Credit Suisse on its general and administrative and staff expenditures was substantial. The adjustment of staff and financial advisors' salaries as well as the rise in variable compensation throughout the integration process were the primary causes of the increase in personnel expenditures. In addition, the cost of seconded staff and legal advice during the integration process also led to the rise of administrative expenses. Overall, the acquisition event significantly increased UBS's operating costs, but also reflected necessary expenditures during the integration process.

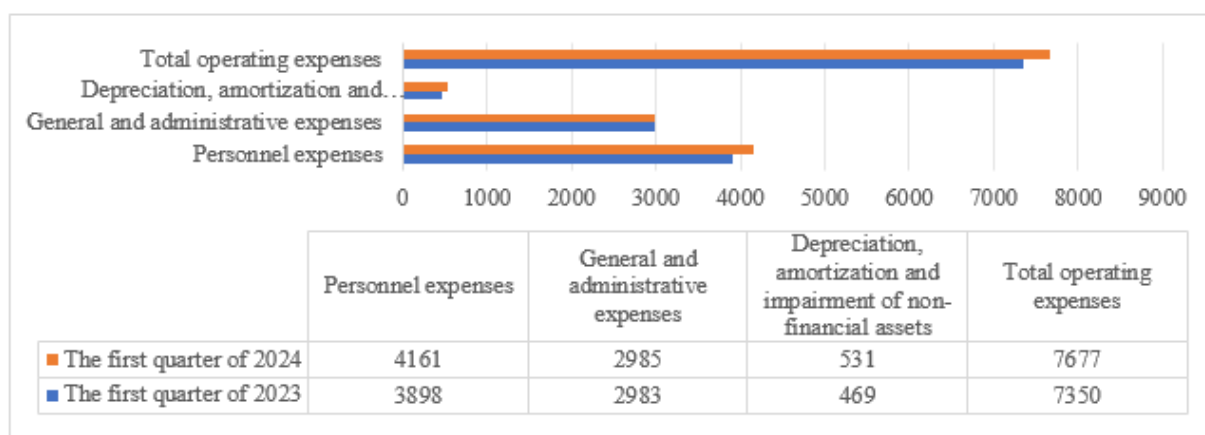


Fig 3. UBS Operating expenses (USD million Source: UBS Q1 2024 financial results [7]).

Table 3. UBS Shareholders, legal entities and nominees: type and geographical (Details as of 30 September 2018, Source: Official website of UBS).

Name of project	Number of shareholders	Percentage of shareholders (%)	Number of shares	Percentage of shares (%)
Americas	5606	2.5	447427645	11.6
Asia / Pacific	5472	2.4	12207197	2.7
Europe, Middle East and Africa	12930	5.6	821281389	21.3
Switzerland	204070	89.5	82633122	21.4
Total registered shares	228078	100	1363549353	57
Unregistered shares	0	0	2491571767	43
Total	228078	100	3855121120	100

Table 4. UBS Shareholders, legal entities and nominees: type and geographical (Details as of 31 March 2024, Source: Official website of UBS).

Name of project	Number of shareholders	Percentage of shareholders (%)	Number of shares	Percentage of shares (%)
Americas	2055	0.8	409728756	11.8
Asia / Pacific	6395	2.5	29742343	0.9
Europe, Middle East and Africa	15391	6.1	315650510	9.1
Switzerland	227479	90.5	730956933	21.1
Total registered shares	251320	99.9	1486078542	42.9
Unregistered shares	0	0	1,976,009,180	57.1
Total	251320	99.9	3462087722	100

5.4. Changes in the Number of Shareholders and Shares in Different Regions of the World

The number of shareholders in the Americas decreased, and the number of shares also decreased from 447,427,645 to 409,728,756, as shown in Table 3 and Table 4. As the number of Swiss shareholders increased, the number of shares held decreased from 82,633,122 to 730,956,933. In the Asia-Pacific region, the number of shareholders in EMEA region, increased significantly, but compared with the two regions of America and Switzerland, the number of shares in EMEA region decreased significantly, from 821, 1281, 389 shares to 315, 650, 510 shares. the decline percentage is approximately 61.56%.

6. Conclusion

To sum up, after the acquisition of Credit Suisse, UBS experienced financial volatility in the short term, especially in terms of basic earnings per share (EPS), net assets per share and accumulated profit and loss. Although there was a negative impact in the short term, in the long term, the integration effect brought about by the acquisition led to a significant improvement in the overall profitability of UBS. For revenue changes, in the first quarter of 2024, UBS's total revenue suffered, with declines in global wealth management and investment banking and gains in personal and corporate banking. Overall, the Credit Suisse acquisition had a mixed impact on UBS's revenue mix in the short term, but growth in some businesses offset the overall revenue reduction. After acquiring Credit Suisse, UBS's general and administrative costs as well as staff costs rose dramatically. This was mainly due to the adjustment to remuneration in the integration process, secondments staff expenses and the increase in consulting and legal fees. While operating costs have risen, these expenditures are essential in the integration process. UBS's acquisition of Credit Suisse made investors worried about the stability of UBS. There were small fluctuations in the number of shares and shareholders in the Americas and Switzerland, but it is worth noting that there were large changes in the number of shares and shareholders in the Asia-Pacific region and EMEA region. There was a significant withdrawal of funds from EMEA region, and the number of shares in the EMEA region fell, especially in the European part, where many investors chose to reduce their investment in Credit Suisse and flight to safer assets.

In summary, the following insights and recommendations are provided for practitioners, policy makers and academic researchers in the financial industry. One needs to focus on the long and short term benefits and market position of M&A. Although the acquisition of Credit Suisse has brought about an increase in operating costs and revenue volatility in the short term, UBS's profitability is expected to continue to improve with the deepening of integration. The scale effect and market integration from the acquisition are expected to be evident in the next few years, making UBS more competitive in the global market. In order to cope with the cost pressure caused by the integration, UBS plans to cut a lot of costs in the next few years, including layoffs and streamlining the operating structure. These measures will help UBS control operating costs more effectively and improve overall benefits. Commercial banks put forward higher requirements for risk management. In the current global economic and financial environment, unstable factors are increasing and various risks are intertwined. Events such as Silicon Valley Bank and Credit Suisse highlighted the trend of rapid transformation from market risk and credit risk to liquidity risk, which ultimately led to banks falling into an unsustainable operating state. Therefore, commercial banks must further strengthen the awareness of risk management, take forward-looking measures, accurately predict, closely monitor and effectively control all kinds of risks. At the same time, it is necessary to improve emergency plans, strengthen bottom-line thinking, and resolutely prevent major risk exposure caused by emergencies. The dilemma of systemically significant banks being "too big to fail" is completely reflected in the way the acquisition cases of UBS and Credit Suisse were handled during crisis. Following Credit Suisse's risk exposure, the Swiss regulatory bodies acted swiftly and forcefully to encourage the merger and acquisition of Credit Suisse and UBS, which improved controlled the occurrence of systemic financial risks and preserved the stability of the local and global financial markets. Timely intervention and support from government and regulatory agencies played a key role. Through this acquisition, UBS has further consolidated its leading position in the global financial market. With the completion of the integration and the improvement of operational efficiency, UBS will further enhance its competitiveness in the areas of wealth management and investment banking. Although mergers and acquisitions can bring economies of scale and synergies, the challenges in the integration process cannot be ignored. UBS needs to effectively integrate the assets and businesses of Credit Suisse to take full advantage of the merger

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