

DEALBOOK NEWSLETTER

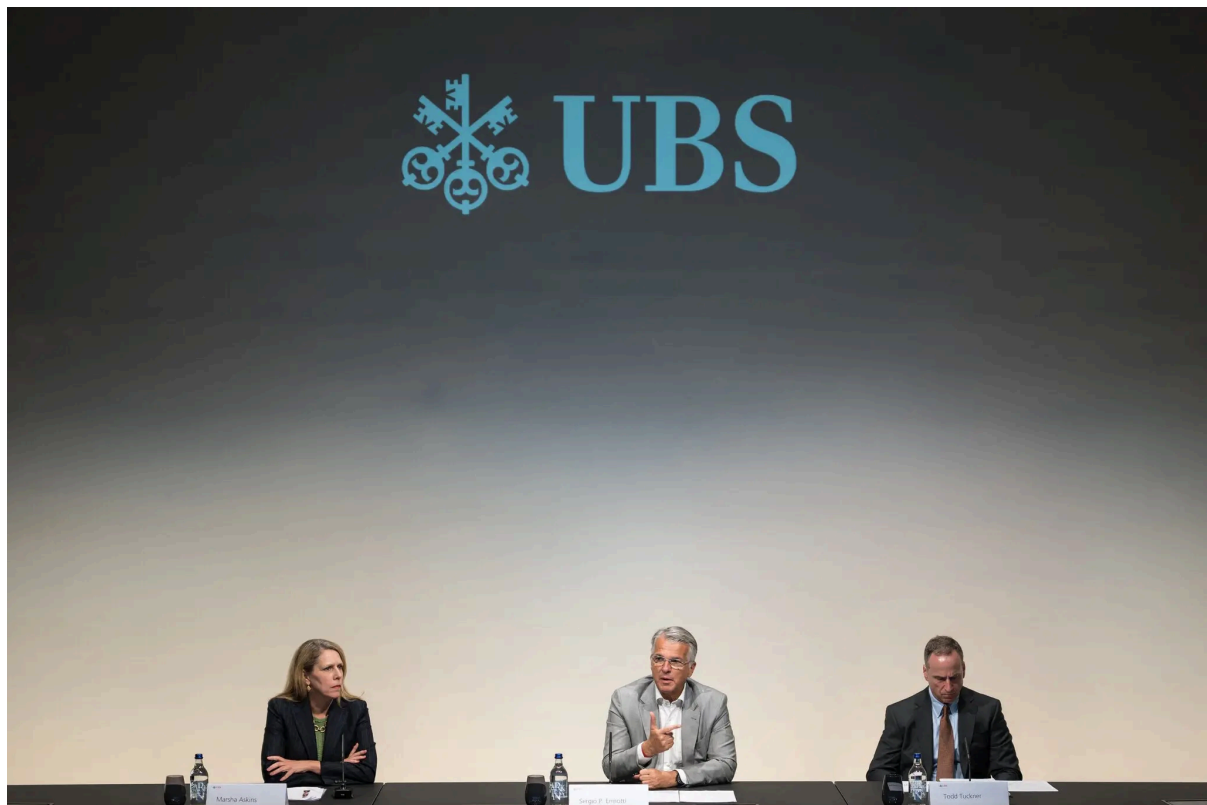
UBS Gets a \$29 Billion Bump From M.&A. Accounting

The Swiss bank's sharply discounted takeover of Credit Suisse led to a paper gain that gave it the biggest quarterly profit by a bank in history.

By Andrew Ross Sorkin, Ravi Mattu, Bernhard Warner, Sarah Kessler, Michael J. de la Merced, Lauren Hirsch and Ephrat Livni

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UBS executives had 29 billion reasons to celebrate the Swiss bank's latest quarterly results.
Fabrice Coffrini/Agence France-Presse — Getty Images

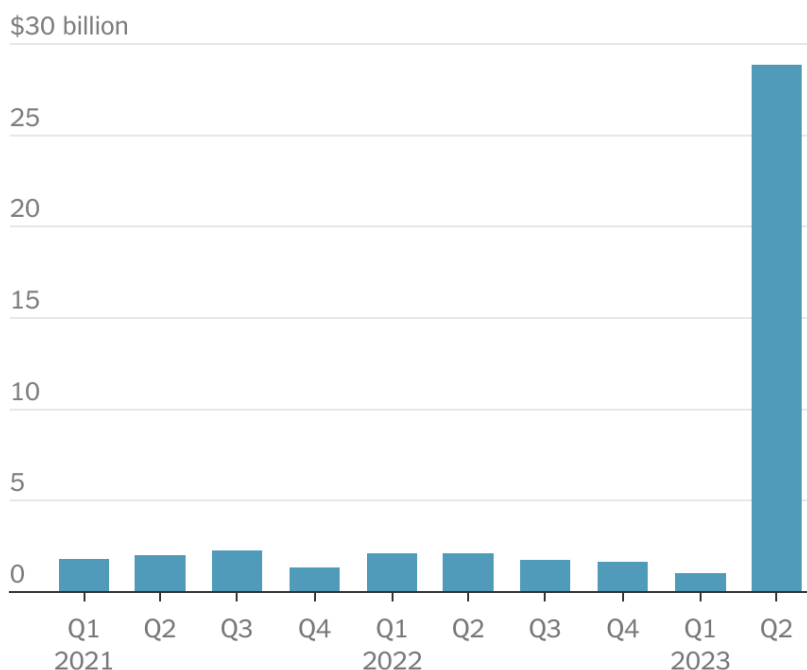
The magic of “badwill”

When UBS agreed to buy its archrival, Credit Suisse, for a little over \$3 billion this spring at the Swiss government's behest, analysts and investors said that price represented a steep discount. UBS's latest financial results reflect just how much of a steal it was.

Today, the bank reported a \$29 billion profit — yes, you read that right — for the second quarter, the biggest quarterly profit in banking history. But that paper gain belies the challenges that UBS faces as it moves to complete the largest takeover of a bank since the 2008 financial crisis.

UBS’s huge profit arises from “badwill,” an accounting phenomenon where a company buys an asset for less than it’s worth, leading to a noncash gain that essentially recognizes the actual value of the asset. (It’s also known as “negative goodwill.”) UBS reported that its underlying profit for the quarter was just \$1.1 billion.

UBS quarterly net profit



Source: UBS • By The New York Times

A wave of bank rescue deals this year has led to pumped-up profits for acquirers. Second-quarter profits at JPMorgan Chase jumped 67 percent in large part because of its takeover of First Republic, while First Citizens enjoyed a 3,500 percent gain in first-quarter profit after buying Silicon Valley Bank at a steep discount.

But UBS has more work to do, with the bank estimating that the Credit Suisse acquisition will be largely completed by 2026. Among its biggest tasks is consolidating its former rival’s domestic bank with its own, despite concerns that the move will undercut competition in Swiss retail banking.

Uniting the two will lead to some 3,000 job losses in the country, fulfilling fears among politicians and voters. But UBS defended its decision today, saying, “Our analysis clearly shows that full integration is the best outcome for UBS, our stakeholders and the Swiss economy.”

Meanwhile, Credit Suisse's own results — including a pretax loss of 4.3 billion Swiss Francs (\$4.9 billion) in the quarter, tied to customer withdrawals and struggles in investment banking — suggest that UBS still has big hurdles to overcome in absorbing the business.

For now, UBS shareholders appear happy, especially with the badwill gain showing just how much the bank benefited from rescuing its rival. (UBS manages about \$5 trillion in client assets following the deal.) Shares in the bank were up over 5 percent today, at 23.42 Swiss francs (\$26.57), and now trade at their highest level since the summer of 2008.

HERE'S WHAT'S HAPPENING

Senator Mitch McConnell freezes again in a public appearance. During a Q.&A. session with reporters in Kentucky yesterday, the top Senate Republican stopped speaking mid-answer for about 30 seconds. It was the second such incident in two months, and it renewed questions about the health of McConnell, 81, and his ability to continue serving out his term.

Donald Trump is accused of vastly overinflating his properties' values. Attorney General Letitia James of New York said in a court filing that the former president fraudulently pumped up the value of his holdings for years, boosting his net worth by up to \$2.2 billion. Lawyers for Trump said the case, one of many he faces in federal and state courts, should be dismissed.

Microsoft moves to unbundle its Teams app in Europe. The tech giant hopes that offering lower-cost versions of its productivity software packages that don't include the communications program will assuage E.U. regulators who opened an antitrust investigation into the matter last month. Whether that will be enough is unclear: A spokeswoman for the European Commission declined to comment on whether the move satisfied regulators' concerns.

Regulators reportedly look into benefits that Tesla gave Elon Musk. Federal prosecutors in Manhattan and officials at the S.E.C. are examining perks including a spacious glass house in Texas described within the company as a house for its C.E.O., according to The Wall Street Journal. The inquiries, which appear to center on whether company-provided benefits were properly disclosed to investors, are the latest legal headache for Tesla.
