



Moody's Investors Service

Issuer Comment: **Moody's: Vontobel Group to acquire Commerzbank (Schweiz) AG; no impact on ratings**

Global Credit Research - 10 Aug 2009

Vontobel Group (Vontobel) announced on 30 July that it will acquire Commerzbank (Schweiz) AG (CBS) - a part of the Swiss private banking operation of Commerzbank AG (C-/Aa3/P-1). Moody's does not see any rating implications for either Vontobel Holdings (A2/P-1) or Bank Vontobel AG (C+/A1/P-1), but will continue to monitor the development of the integration.

CBS has assets under management (AuM) of CHF4.5 billion (US\$4.2 billion, EUR3.0 billion). The private bank is based in Zurich, has a branch in Geneva and a subsidiary in Vienna. With this acquisition, Vontobel will not only reinforce and expand its local Swiss and Western European business, but also increase its market share in target growth markets such as Central and Eastern Europe and Latin America. Furthermore, Moody's notes that the acquisition notably enhances the franchise positioning of the group by increasing the size of its managed private banking assets by 20%.

Based on December 2008 audited accounts under Swiss GAAP, CBS reported net income of CHF24 million for the year (representing a return on AuM of around 0.47% on average assets). CBS also brings to Vontobel a loan book of CHF120 million (mostly comprising Lombard loans) and a securities book of CHF172 million. Vontobel will finance the acquisition through its own reserves and the transaction will close towards Q4 2009. Moody's expects the organisational merger - including the integration of the branches - to occur in Q1 2010.

While no price has been officially disclosed, the rating agency believes that the impact on Vontobel will be manageable. Although the acquisition ranks among the group's largest, its significant capital buffer means that the resulting capital ratios should still be in line with Moody's rating assessment. As a point of reference, Vontobel's Tier 1 ratio stood at 18.4% at the end of 2008 and Moody's expects it to remain at this level post integration. The rating agency does not expect that any external funding will be required for this transaction.

Based on estimates provided by the bank, Moody's believes that amortisation charges linked to the acquisition of clients should remain manageable, while goodwill impairments - subject to yearly tests - are unlikely in the medium term. The bank did not disclose potential synergies, although the rating agency expects some to be achieved in the longer term as the acquired bank migrates to Vontobel's existing IT system.

Moody's continues to regard the current environment as challenging for private banks, with adverse capital market conditions, de-leveraging and a move towards less complex and lower-fee-generating products exerting pressure on margins.

This transaction comes one week after Liechtenstein based group LGT (B-/Aa3-P-1) announced that it would acquire the Swiss private banking operations of Dresdner Bank, which were recently integrated into Commerzbank AG. While the sales of the two private banks have the same origin, namely Commerzbank AG's desire to exit the Swiss private banking market, Moody's does not believe these movements will remain isolated cases.

In fact, Moody's continues to believe that consolidation in the fragmented Swiss wealth management market is likely to accelerate, mainly resulting from: (i) the increasing international regulatory pressure on the Swiss offshore wealth management sector; and (ii) likely divestments from foreign-owned banking groups, particularly those that may have received government support and for which private banking activities may not fit into their revised business models.

This creates opportunities for groups such as Vontobel that have developed their onshore business in recent years and are well capitalised. Nevertheless, Moody's also believes that maintaining high capital levels is key in the current environment. It will therefore closely monitor whether the integration develops as anticipated.

Contacts

Javier Rodriguez/London
Dominique Nutolo/Frankfurt
Frederic Chonion/London
Carola Schuler/Frankfurt

Phone

4420-7772-1635
4969-7073-0714
4420-7772-1546
4969-7073-0766



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