UBS

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Press release

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UBS: Group results to 30 September 1998

Group profit before tax was CHF 3,465 million or 30% lower compared with the consolidated nine-month result for 1997. Due to the adverse impact of various items which are exceptional in nature, net profit after taxes and minorities fell by CHF 911 million in the third quarter to CHF 2,600 million (-32%), resulting in diluted earnings per share of CHF 12.20. If the international financial markets continue to stabilise as in recent weeks, UBS expects a positive fourth quarter. The result for the full year will nevertheless be below first-half net profit.

Zurich/Basel, 17 November 1998 – Net profit after tax and minorities was influenced by the sale of BSI-Banca della Svizzera Italiana, the provision associated with the global settlement on dormant accounts and World War II issues reached in the United States, losses resulting from UBS's exposure to Long Term Capital Management (LTCM) and revenue reductions on pre-merger equity derivatives positions.

Detailed results from the financial accounts
Operating income decreased 12% to CHF 16, 619 million as compared to September 1997. Net interest income fell 4% to CHF 4,954 million. Increased revenues from volume growth in fixed rate mortgages were offset by the effects of the sales of Prokredit and Aufina, lower volumes of variable mortgages and lower rates of return on invested equity. Credit loss expenses fell by 54% to CHF 464 million. This is due to the fact that CHF 1,923 million of the total CHF 2,396 million in write-offs and allowances for the nine-month period were funded through the release of allowances established in earlier periods. CHF 1,537 million of overall write-offs and allowances related to Switzerland. The rest was applied to cover higher counterparty and country risks in Russia, Indonesia, South Korea and Latin America.

Net fee and commission income increased 8% to CHF 9,702 million over the same period in 1997. Accounting for 58% of total revenues, net fee and commission income is UBS's largest earnings component. Income from credit-related fees and commissions decreased by 21% as emerging market exposures were reduced. Brokerage fees fell 6% compared with the equivalent 1997 period while underwriting and other corporate finance fees grew by 12%, mainly due to the fact that the consolidation of Dillon Read only began in September 1997. Portfolio management fees (+20%), custodian fees (+18%) and UBS investment fund unit fees (+61%) all showed good growth.

Net trading income fell by 87% to CHF 598 million. Revenues from fixed income trading, which had already deteriorated in the first half of 1998 as trading positions were consolidated, were additionally impacted in the third quarter by CHF 790 million of the write-down on UBS's LTCM exposure and marked-to-market losses in emerging markets. Affected by the extreme levels of market volatility, income from equities trading during the first nine months of 1998 includes reductions of CHF 1,010 million on equity derivative positions. If the international financial markets continue to stabilise, UBS expects a significant portion of these non-realised losses to recover.

Other income grew 69% to CHF 1,829 million in the first nine months as compared to the same period in 1997. Eliminating the pre-tax gain of CHF 1,035 million from the sale of BSI-Banca della Svizzera Italiana, other income would have decreased by 27% as a result of the write-down on the LTCM direct investment.

Operating expenses were 5% lower at CHF 13,154 million. Personnel expenses fell 17% to CHF 7,205 million due a drop in headcount and lower levels of performance-linked compensation. Since the end of 1997, Group headcount fell by 6,629 to 48,547, partly in connection with the sale of subsidiaries. General and administrative expense rose 19% to CHF 4,606 million, with most of the increase due to the CHF 570 million provision set up in the context of the global settlement reached in the United States. At CHF 1,343 million, depreciation and amortization expense was slightly higher (+2.5%) than in the comparable 1997 period. The cost-to-income ratio rose from 69.9% to 77%.

Status of the restructuring provision
Around CHF 2.4 billion of the CHF 7.0 billion merger-related restructuring provision booked in the 1997 financial year was released by the end of September 1998, primarily to cover staff-related payments (mostly outside Switzerland) and the costs of IT integration.

Asset quality
The Group's non-performing loan portfolio was reduced by CHF 1,264 million to CHF 15,400 million compared with the end of 1997. Of this total, CHF 13,569 million were provided for at the end of September 1998, equivalent to a counterparty allowance to non-performing loan ratio of roughly 88%. Of UBS's overall loan book (CHF 352 billion), 4.4% was classified as non-performing.

Results in the five core businesses
UBS Private Banking earned a net profit before tax of CHF 4,165 million in the first nine months of 1998 (110% of 1997's full-year result before tax). This figure includes the gain from the sale of BSI-Banca della Svizzera Italiana. Assets under management at UBS Private Banking rose 2.5% to CHF 587 billion during the reporting period. The drop of CHF 185 billion from the first half 1998 is connected mainly with client transfers of CHF 111 billion assets under management in line with our new client segmentation policy from UBS Private Banking to the Private and Corporate Clients Division. To a much lesser degree, reduced asset values from turbulent third quarter markets also negatively affected assets under management. Eliminating the BSI gain in the first half of 1998 and the impact of client

transfers, third quarter operating income in UBS Private Banking was stable compared with the average for the two previous quarters, despite the difficult market conditions. Costs were significantly lower in the third quarter, reflecting the sale of the subsidiaries BSI-Banca della Svizzera Italiana, Adler & Co. AG and Cantrade Banca Privata Lugano SA as well as the client transfers.

The Warburg Dillon Read Division, active in UBS's core investment banking business, ended the first nine months of 1998 with a pre-tax loss of CHF 1,230 million. This result was heavily influenced by the loss of CHF 790 million relating to the LTCM exposure and by CHF 1,010 million from value adjustments on equity derivative positions. The economic collapse in Russia and severe setbacks experienced in emerging markets also took their toll. Unprecedented volatility on the equity markets and the sudden and dramatic widening of spreads on the bond markets adversely impacted the equities and rates businesses. Revenues from foreign exchange and corporate finance, on the other hand, developed positively. Costs fell significantly in the third quarter compared with the average of the two previous quarters, reflecting in part the positive effects of integration.

The Private and Corporate Clients Division reported a pre-tax profit of CHF 427 million (342% of 1997's full-year pre-tax result). Revenues, which had already developed well in the first half of 1998, rose strongly in the third quarter while costs grew at a slower rate. This result was influenced, as mentioned, by the transfer of client portfolios from Private Banking to the newly created Investment Clients business area which began operating on 1 July 1998. Assets under management in the Private and Corporate Clients Division rose from CHF 285 billion at the end of 1997 to CHF 416 billion.

UBS Brinson earned a pre-tax profit of CHF 295 million in the first nine months of 1998 (73% of 1997's full-year result). Third-quarter revenues deteriorated somewhat compared to the average of the two preceding quarters, mainly as a result of collapsing share prices on the international equity markets. Assets under management at UBS Brinson grew slightly to CHF 513 billion despite adverse market conditions. Of this total, CHF 353 billion (-4%) were managed for institutional investors and CHF 160 billion (+18%) were in mutual funds.

UBS Capital, which takes medium-term equity stakes in unlisted companies, earned a pre-tax profit of CHF 405 million (106% of 1997's full-year result). The revenues came from divestments made in the first nine months of 1998.

Outlook
The more stable trend on the financial markets following the interest rate cuts in various countries and the IMF support package for Brazil should contribute to an improvement in operating income in the fourth quarter. At the same time, it seems probable that there will be an increase in the provision relating to the settlement reached in the United States. This means that results for the fourth quarter are likely to be only moderately positive, and profit for the full year will probably fall short of first-half performance.

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Attachments: Tables

UBS GROUP INCOME STATEMENT

For the nine-month period ended *CHF m*	30.9.1998	30.9.1997	Change	%
Operating income				
Net interest income	**4 954**	5 182	- 228	- 4
Less: Credit loss expense	**464**	999	- 535	- 54
Total	**4 490**	4 183	307	7
Net fee and commission income	**9 702**	9 000	702	8
Net trading income	**598**	4 539	-3 941	- 87
Other income	**1 829**	1 083	746	69
Total	**16 619**	18 805	-2 186	- 12
Operating expenses				
Personnel	**7 205**	8 680	-1 475	- 17
General and administrative	**4 606**	3 861	745	19
Depreciation and amortisation	**1 343**	1 310	33	3
Total	**13 154**	13 851	- 697	- 5
Group operating profit before tax	**3 465**	4 954	-1 489	- 30
Tax expense	**907**	1 091	- 184	- 17
Group profit	**2 558**	3 863	-1 305	- 34
Less: Minority interests	**- 42**	12	- 54	-
Net profit	**2 600**	3 851	-1 251	- 32
Basic earnings per share (CHF)	**12.26**	18.39	-6.13	-33
Diluted earnings per share (CHF)	**12.20**	18.34	-6.14	-33

UBS GROUP BALANCE SHEET

CHF m	30.9.1998	31.12.1997	Change	%
Assets				
Cash and balances with central banks	**3 261**	4 638	-1 377	- 30
Money market paper	**14 191**	36 353	-22 162	- 61
Due from banks	**76 890**	66 582	10 308	15
Cash collateral on securities borrowed and reverse repurchase agreements	**284 728**	299 011	-14 283	- 5
Trading portfolio	**229 041**	210 738	18 303	9
Positive replacement values	**157 497**	149 538	7 959	5
Loans, net of allowances for credit losses	**261 636**	270 917	-9 281	- 3
Financial investments	**7 912**	12 693	-4 781	- 38
Prepayments and accrued income	**8 095**	7 712	383	5
Investments in associates	**2 925**	2 724	201	7
Property and equipment	**10 755**	10 964	- 209	- 2
Intangible assets and goodwill	**2 325**	1 430	895	63
Other assets	**30 676**	13 114	17 562	134
Total assets	**1 089 932**	1 086 414	3 518	0
Total subordinated assets	***992***	*2 357*	*-1 365*	*- 58*
Liabilities				
Money market paper issued	**46 489**	55 600	-9 111	- 16
Due to banks	**124 978**	159 634	-34 656	- 22
Cash collateral on securities lent and repurchase agreements	**205 566**	205 933	- 367	0
Trading portfolio liabilities	**107 294**	68 215	39 079	57
Negative replacement values	**167 766**	170 162	-2 396	- 1
Due to customers	**302 013**	302 516	- 503	0
Accrued expenses and deferred income	**10 121**	9 956	165	2
Long-term debt	**48 705**	54 284	-5 579	- 10
Other liabilities	**43 737**	28 154	15 583	55
Total liabilities	**1 056 669**	1 054 454	2 215	0
Minority interests	**1 065**	1 033	32	3
Shareholders' equity				
Share capital	**4 299**	4 296	3	0
Share premium account	**13 101**	13 260	- 159	- 1
Less: Treasury shares	**975**	1 982	-1 007	- 51
Retained earnings	**15 773**	15 353	420	3
Total shareholders' equity	**32 198**	30 927	1 271	4
Total liabilities, minority interests and shareholders' equity	**1 089 932**	1 086 414	3 518	0
Total subordinated liabilities	***13 497***	*14 375*	*- 878*	*- 6*

UBS SEGMENT REPORT

For the nine-month period ended 30 September 1998 *CHF m*	Private Banking	*in % 97*	Warburg Dillon Read	*in % 97*	Private & Corp. Clients	*in % 97*	UBS Brinson	*in % 97*	UBS Capital	*in % 97*	Corp. Center	Group Total	*in % 97*
Operating income	6 836	*92*	4 566	*42*	4 516	*78*	868	*83*	499	*101*	- 202	17 083	*65*
Less: Credit loss exp. (expected losses) 1)	20	*34*	294	*98*	780	*71*	0		0		- 630	464	*36*
Total	6 816	*93*	4 272	*40*	3 736	*79*	868	*83*	499	*101*	428	16 619	*67*
Personnel, gen. & admin. expenses	2 442	*75*	5 102	*59*	2 647	*69*	532	*90*	91	*84*	998	11 812	*70*
Depreciation and amortisation	209	*74*	400	*67*	662	*84*	41	*93*	3	*100*	27	1 343	*76*
Total	2 651	*75*	5 502	*59*	3 309	*72*	573	*90*	94	*85*	1 025	13 154	*71*
Segment performance b. tax	**4 165**	*110*	**-1 230**	- 96	**427**	*342*	**295**	73	**405**	*106*	**- 597**	**3 465**	55
Tax expense / benefit	666	*99*	- 369	*- 173*	66	*287*	87	*69*	12	*600*	445	907	*65*
Segment performance after tax	**3 499**	*112*	**- 861**	*- 81*	**361**	*354*	**208**	*75*	**393**	*104*	**-1 042**	**2 558**	53
Less: Minority interests	0		17		0		0		0		- 59	- 42	
Net profit / loss	**3 499**	*112*	**- 878**	*- 82*	**361**	*354*	**208**	*75*	**393**	*104*	**- 983**	**2 600**	54
Regulatory equity used (avg.)	1 500		13 600		8 200		100		250		6 550	30 200	
Cost-to-income (%) 2)	46		121		73		66		19		-	77	
Assets under mgt. (bn) 2) / 3)	587		0		416		513		0		0	1 516	
Net profit / AuM (annualised)	48 bp		-		-		5 bp		-		-	-	
Headcount	7 571		14 471		23 927		1 489		123		966	48 547	
of which: domestic	*5 160*		*2 620*		*23 880*		*298*		*44*		*950*	*32 952*	
of which: international	*2 411*		*11 851*		*47*		*1 191*		*79*		*16*	*15 595*	

1) In order to show the relevant divisional performance over time, adjusted expected loss figures are reported for all business divisions rather than the net credit loss expense. The statistically derived adjusted expected losses reflect the inherent counterparty and country risks in the respective portfolios for accrual based products (excluding traded products) of the divisions.

The difference between these figures to the financially booked credit loss expense on Group level is shown in the Corporate Center. The divisional breakdown of the financially booked credit loss expense of CHF 464 m as of September 1998 is as follows: Private Banking CHF 58 m, Warburg Dillon Read CHF 219 m, Private and Corporate Clients CHF 187 m.

2) Not included for Banca della Svizzera Italiana: AuM CHF 37 bn, Headcount 802.

3) UBS Brinson: Institutional assets CHF 353 bn, Funds CHF 160 bn.