UBS to split units after loss

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UBS, Switzerland's biggest bank, plans to separate its investment banking and wealth management units after a fourth straight quarterly loss caused by subprime- related writedowns.

Chairman Peter Kurer said the Zurich-based bank will give its three business divisions greater autonomy to increase "strategic flexibility." The decision adds to speculation the company may eventually jettison the securities unit, JPMorgan Chase & Co. analyst Kian Abouhossein said in a note to clients.

Kurer will abandon his predecessor Marcel Ospel's push to integrate the divisions after record losses at the securities unit led to more withdrawals than new investments at the private bank for the first time in almost eight years. UBS, the European bank hardest hit by the collapse of the US subprime mortgage market, has faced calls from investors including former president Luqman Arnold to split off the investment bank.

"They bought themselves some time," said Joerg de Vries- Hippen, who oversees about $US26 billion, including UBS stock, as chief investment officer for European equities at Allianz Global Investors in Frankfurt. "By separating the business units they are showing that they are listening to investors but not going as far as breaking up the universal bank business model."

UBS fell 24 centimes, or 1%, to 22.94 francs in Swiss trading. The stock is down 51% this year, the fourth-worst performance on the 71-company Bloomberg Europe Banks and Financial Services Index.

'New Problems'

The bank reported a second-quarter net loss of 358 million Swiss francs ($US329 million), compared with a 5.55 billion-franc profit a year before. About 3.8 billion francs in tax credits cushioned the loss.

UBS said it doesn't expect the "adverse economic and financial trends" that led to the quarterly loss will improve in the second half.

The bank's more than $US43 billion of markdowns related to the subprime contagion trail only New York-based Citigroup and Merrill Lynch globally. Financial institutions worldwide reported about $US500 billion of writedowns since the credit contraction began, and turned to investors for $US353 billion of capital, data compiled by Bloomberg show.

"There are constantly new problems coming up at the investment bank and this is really taking a toll on the core wealth management franchise," said Florian Esterer, who helps oversee about $US63 billion at Swisscanto Asset Management.

'Pressure' to Continue

Clients at UBS's wealth management units withdrew a net 17.3 billion francs in the quarter, triple the 5 billion-franc estimate of analysts. The divisions, which oversaw 1.86 trillion francs at the end of June, attracted an average of 37.9 billion francs in each quarter last year. Net outflows from all the bank's money management units totaled 43.8 billion francs.

Pretax profit at the wealth management international and Switzerland unit fell 11% to 1.27 billion francs, while wealth management in the US had a pretax loss of 741 million francs on provisions to settle a US probe into auction-rate securities. The investment bank, run by Jerker Johansson, 52, had a loss of 5.23 billion francs after about $US5.1 billion in writedowns. The bank said it will continue to reduce staffing, costs and risky assets.

''The measures we announced today will not fix our reputational challenges overnight,'' chief financial officer Marco Suter said at a news conference. ''Therefore we expect the pressure on net new money to continue in the short term.''

Not for Sale

UBS announced today that John Cryan, currently head of the financial institutions group at the investment bank, will replace Suter, 50, as CFO. The bank hired Markus U. Diethelm, 50, from Zurich-based Swiss Reinsurance as group general counsel, Kurer's former position.

Chief executive Marcel Rohner, 43, and Kurer, 59, previously announced plans to cut 5500 jobs, including 2600 at the securities unit. The bank said it reduced staff levels by 2387 people to 81,452 in the second quarter.

A mistimed bet on the US mortgage market led to 25.7 billion francs of net losses, the most of any bank. UBS raised more than 30 billion francs from investors to replenish capital.

Rohner, at the press conference, said he expects UBS to be profitable in 2009, and the investment bank to reach its earnings goal of 4 billion francs before tax next year.

Kurer said UBS is not for sale, nor are there ''specific plans'' to sell any units, he said. UBS wants to create greater flexibility by separating divisions ''because we don't know where the industry is going in the long term, and it's important that we can capture opportunities at the appropriate time in the appropriate form,'' Kurer said.

'Talent' Rushing Out

The company's private banking business has struggled to stem defections among advisers and wealthy clients, even as Zurich- based Credit Suisse Group and Julius Baer Holding have attracted more funds and stepped up hiring. UBS lost 140 client advisers from wealth management units in the quarter.

''Talent in private banking is rushing out the door to competitors who are taking advantage of the bank's difficult situation,'' said Bernhard Bauhofer, the founder of Wollerau, Switzerland-based consulting firm Sparring Partners GmbH and author of ''Reputation Management.''

Credit Suisse's wealth management unit added a net 15.4 billion francs in the second quarter, the most in two years, after hiring 120 advisers in three months. Julius Baer said wealthy clients invested 8 billion francs in the first half as 49 new relationship managers joined the firm.

Regulatory Probes

UBS's management has also been grappling with regulatory probes in the US. The bank said last week it will buy back as much as $US18.6 billion of auction-rate securities and pay $US150 million of fines, the largest settlement in a US investigation into whether banks stuck clients with hard-to-sell bonds. The bank set aside about $US900 million in the second quarter to account for the settlement.

UBS is also under investigation in the US over whether it helped clients evade American taxes. The bank said last month it will stop servicing accounts for American clients at units that aren't licensed in the US, in response to an Internal Revenue Service summons for customer information as part of the tax probe. The Swiss Finance Ministry is evaluating whether UBS should go along with the IRS's request.

UBS was among the first stung by the subprime contagion when its Dillon Read Capital Management LP hedge fund, run by former investment banking chief John Costas, 51, lost 150 million francs in the first quarter of last year. By May that year, UBS decided to close it, and in July CEO Peter Wuffli, 50, stepped down.

Executive Departures

Losses also led to the departures of executives including finance chief Clive Standish, 55, and Huw Jenkins, 50, the head of the investment bank. Ospel, 58, resigned in April after shareholders demanded he take responsibility for the bank's woes.

Kurer, in response to criticism from investors including Arnold, 58, pledged to review the bank's business model and bring more financial experts onto the board of directors.

UBS said it will propose the election of Sally Bott, BP's group human resources director, Rainer-Marc Frey, founder and chairman of Horizon21, Bruno Gehrig, chairman of Swiss Life Holding and William G. Parrett, former CEO of Deloitte Touche Tohmatsu to the board of directors.

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