

150 *Years*

150 years of banking tradition

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150
Years

Introduction

In 2012, UBS celebrates its 150th anniversary. This important milestone in our long history serves to demonstrate our firm's established place in the evolution of the modern global banking sector and our pivotal position as part of the Swiss banking tradition.

Banking in Switzerland has a very long tradition stretching back to medieval times. This heritage may explain the widespread impression both at home and internationally that Switzerland has always been a strong financial center. It is a perception that has repeatedly been reinforced in popular fiction as well as other media. In reality, the size and international reach of Swiss banking were largely a product of the second half of the 20th century and were significantly influenced by the Union Bank of Switzerland and the Swiss Bank Corporation (SBC), the two banks which merged to form UBS in 1998.

At the same time, this evolution of modern Swiss banking is firmly founded in the second half of the 19th century. Then, the forebears of both the Union Bank of Switzerland and SBC were established and actively contributed to the building of modern Switzerland's industrialized economy. First, the Bank in Winterthur was founded in 1862, and in 1912 merged with the Toggenburger Bank to form the Union Bank of Switzer-

land. Then the Basler Bankverein was founded in 1872 and as a result of various mergers eventually became the Swiss Bank Corporation.

One of the main objectives of the merger that created UBS in 1998 was to establish a truly global firm to give private, corporate, institutional and sovereign clients worldwide access to services and markets, to advice and to the highest-quality execution of orders and mandates. As a result of the merger the newly formed UBS was able to benefit from invaluable insight and experience built up over many years and from deeply rooted relationships in several countries.

Outside Switzerland, the Swiss predecessors of UBS had a long established presence in many cities across all conti-

nents, of which the oldest, London, was opened precisely one hundred years before the merger. More recently, UBS's global roots were substantially strengthened by various acquisitions. Some of the firms acquired by the Union Bank of Switzerland, SBC and UBS in the 1980s, 1990s and 2000s also traced their historical roots back to the 19th century, most notably the US brokerage firm Paine Webber, the foundation upon which today's UBS Wealth Management Americas is built. Other early examples of the historical heritage of UBS include Phillips & Drew, a predecessor of UBS Global Asset Management, founded in 1895. S.G. Warburg, a key foundation for the development of today's UBS Investment Bank, was founded some decades later.

Throughout this brochure we have provided an overview of the first 150 years of UBS's history, with a particular focus on how our history is intertwined with the political and economic history of our home market of Switzerland. We have

*A dynamic approach to change
has been the mainstream of the
firm's achievements.*

outlined the processes by which UBS evolved historically, and we have highlighted the important international corporate roots of today's UBS. However, given the limited scope of this publication it should not be considered as a comprehensive corporate history of UBS or of Switzerland.

We hope that you enjoy this fascinating overview of the firm's history. This, of course, is far from the end of the UBS story. As this brochure clearly demonstrates, a dynamic approach to change – identifying and exploiting opportunities and rising to meet challenges – has been the mainspring of the firm's achievements and will continue to drive its future success.



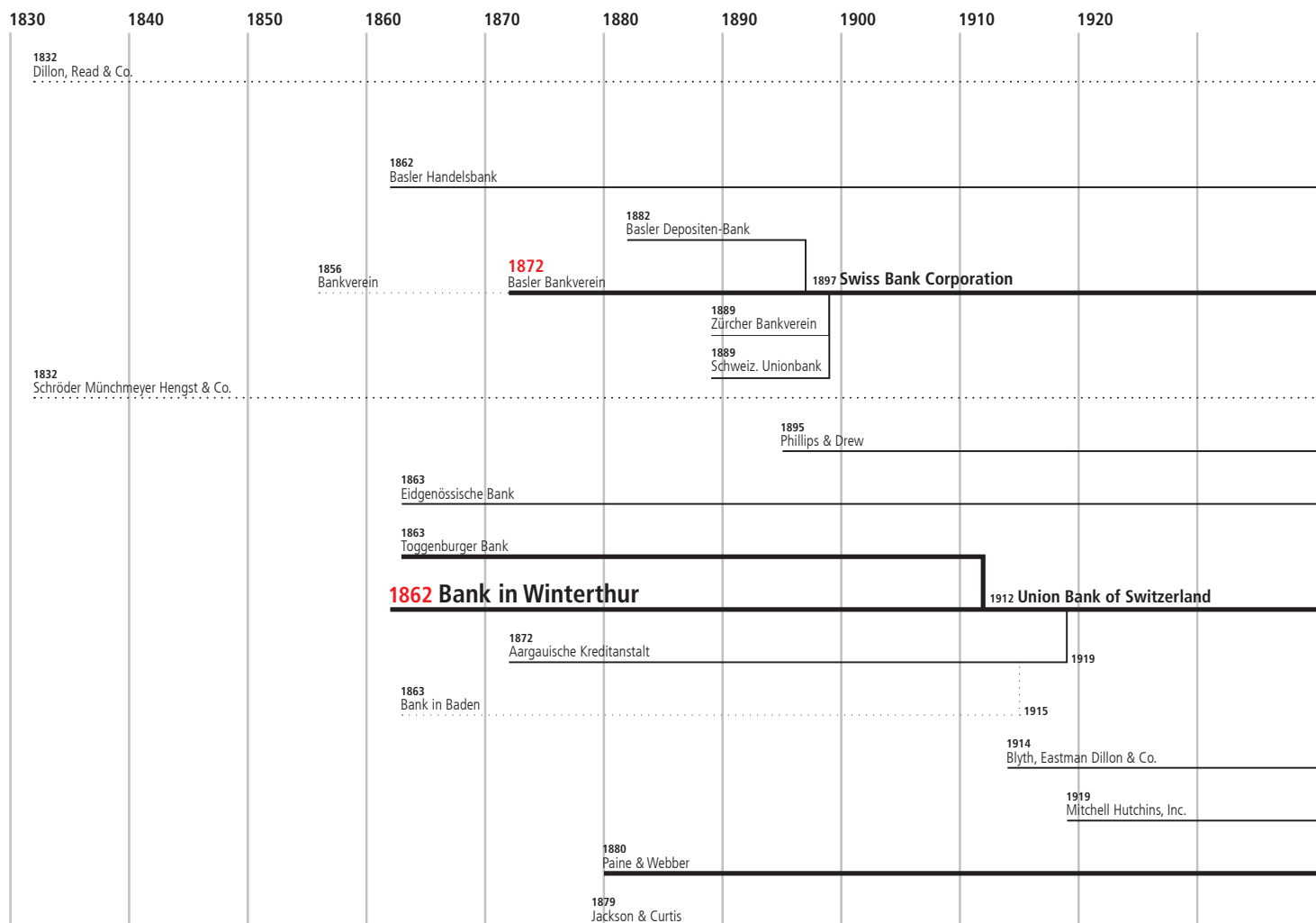
“The making of UBS”: The SBC key symbol and Union Bank of Switzerland logo are merged into today's UBS logo.

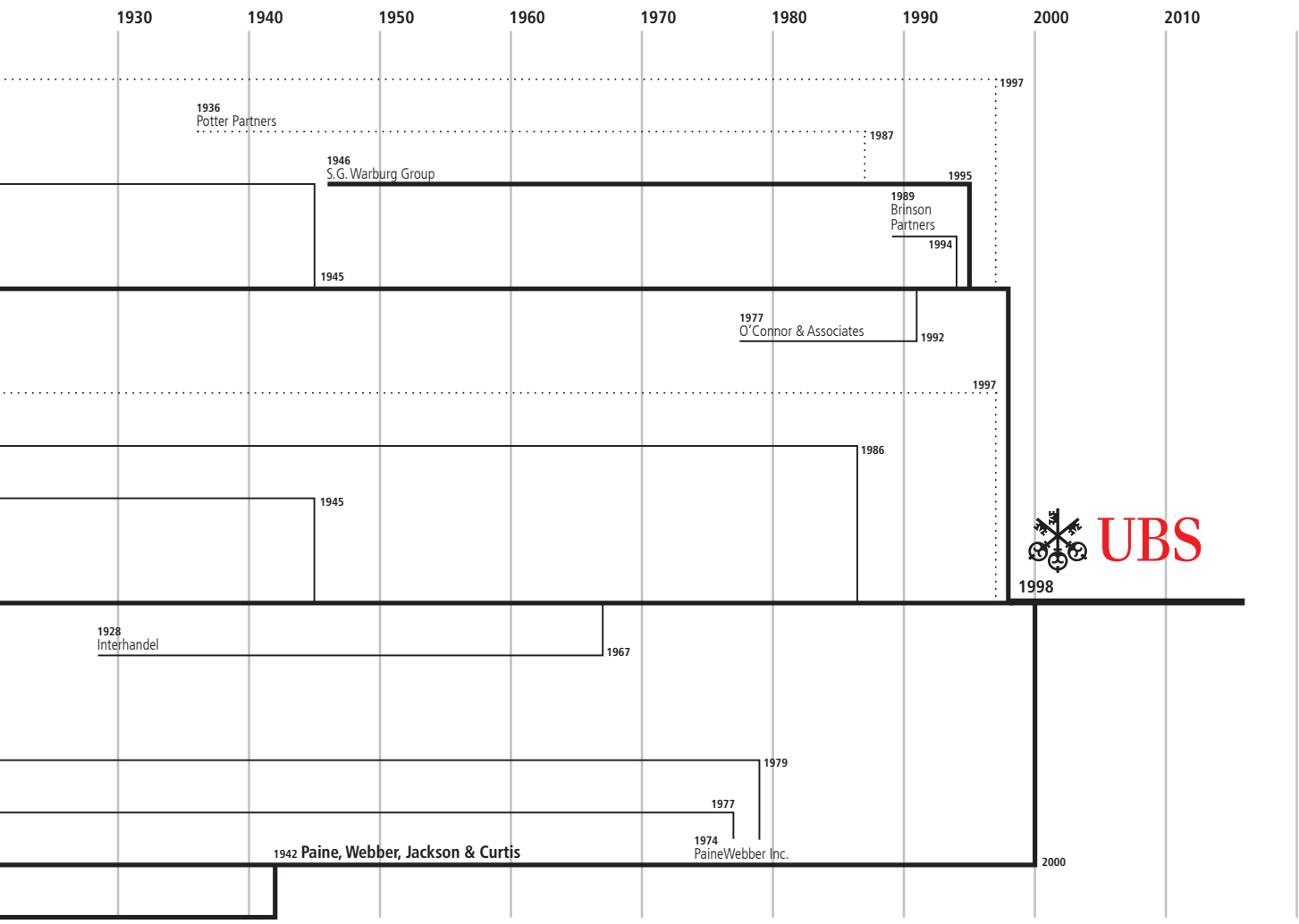
History timeline

Since the foundation of the Bank in Winterthur in 1862, more than 300 financial firms, ranging from private banks and savings banks to wealth managers and brokers to commercial banks, have become part of today's UBS. All

these acquisitions and mergers have added to the rich historical foundations of our firm and contributed to its diversity and globality of experiences. The diagram below provides an overview of some of our key forebears, notably of

course the Union Bank of Switzerland and the Swiss Bank Corporation. Amongst others, the financial firms in the diagram played an important role in the development of the UBS of today.

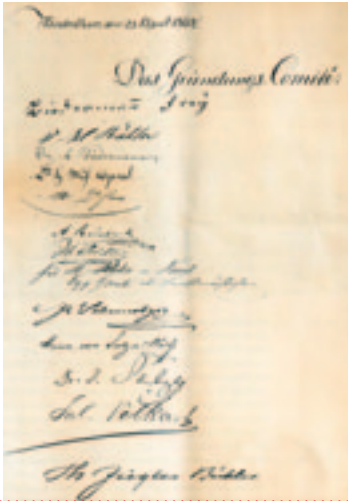




1862–1912

From Bank in Winterthur to Union Bank of Switzerland

- 1862** The Bank in Winterthur commences business operations.
- 1863** The Toggenburger Bank is founded in Lichtensteig, in the Swiss canton of St. Gallen.
- 1872** The Basler Bankverein is founded in Basel.
- 1879/** Foundation of Jackson & Curtis followed by Paine & Webber
1880 in Boston.
- 1895** G. A. Phillips & Co. is founded in London, later becoming Phillips & Drew.
- 1897** Through mergers and acquisitions the Basler Bankverein evolves into the Swiss Bank Corporation (SBC).
- 1898** SBC opens the first office of a Swiss bank in London.
- 1901** SBC commences with the regular publication of economic analyses.
- 1906** The Bank in Winterthur acquires the Zurich branch of the Bank in Baden at Bahnhofstrasse 44, and becomes a licensed trader of the Zurich Stock Exchange.
- 1912** The Bank in Winterthur merges with Toggenburger Bank to form Union Bank of Switzerland.



Founding committee of Bank in Winterthur.

Bank in Winterthur in Winterthur.



Toggenburger Bank in Lichtensteig.

Today's UBS is the result of the 1998 merger of two leading Swiss banks, Swiss Bank Corporation and Union Bank of Switzerland. When the two banks merged, they looked back on a long history rooted in the second half of the 19th century. These historical origins of UBS are heavily intertwined with the emergence of modern Switzerland, both in political and economic terms.

In 1848, Switzerland was established as a federal state from a federation of 22 independent states. With the new Swiss federal state, a unitary economic area was created. At the time, Switzerland's industrial economy was dominated by the cotton and silk industry, followed by the watch and clock industry. Some 170 banks already existed alongside a number of private bankers. What was missing however were banks that could finance the country's industrialization, especially the construction of its railway system. By the late 1850s, 50 million Swiss francs a year was being invested in the rail network to meet the ever-increasing demand generated by growing industrialization.

From Bank in Winterthur to Union Bank of Switzerland

The Bank in Winterthur was an example of precisely such a bank. When, on 25 June 1862, the bank's share subscription period successfully ended, the Bank in Winterthur officially came into being with an initial share capital of 5 million francs. The first foundation stone had been laid for today's UBS.

Adopting the name of its home city, the Bank in Winterthur actively supported the region's commercial and industrial development. Winterthur, then a city of around 16,000 inhabitants, was to emerge as the industrial hub of northeastern Switzerland in the second half of the 19th century. The city played an important role in the construction and expansion of the country's railway system, both in the region and through its factories, most notably those of the *Schweizerische Lokomotiv- und Maschinenfabrik* (Swiss Locomotive and Machine Works).

In 1863, another significant development took place. The Toggenburger Bank, named after the region of Toggenburg in the canton of St. Gallen, eastern Switzerland, was founded in the small town of Lichtensteig. With an initial share capital of 1.5 million francs the Toggenburger Bank was heavily focused on the domestic mortgage and savings business

though it also contributed to the development of the local embroidery industry. In 1912, the Bank in Winterthur and the Toggenburger Bank merged to form the Union Bank of Switzerland.

From Basler Bankverein to Swiss Bank Corporation (SBC)

While Winterthur became a hub for Switzerland’s industrialization in the Zurich region, the city of Basel, bordering France and Germany, dominated the economy of Switzerland’s north-west. A city of about 40,000 inhabitants in the 1860s, Basel’s location at one of the main crossroads of Central Europe was crucial. The city benefited from its position as the home of the country’s silk ribbon industry, a major export industry, and as a base for important merchants, factors and agents.

Several private banks had been long established in Basel and it was from among these that the direct forebear of the Swiss Bank Corporation (SBC), the Basler Bankverein, emerged in 1872. In 1854, six banking houses had signed an agreement to handle loans jointly. In 1856, the members of this syndicate of banks, known as *Bankverein*, agreed to “establish a major financial institution on a joint stock basis in the City of Basel”. This they successfully achieved in 1872 with the establishment of the Basler Bankverein as a fully fledged bank.

In 1912, the Bank in Winterthur and the Toggenburger Bank merged to form the Union Bank of Switzerland.

Basel’s proximity to Germany helped to shape the origins of the Basler Bankverein. Prussia’s defeat of France in 1870/71 and the subsequent unification of Germany set in motion a massive economic and financial boom in Germany that also left its imprint on Switzerland. Not only was the protocol for the formation of the Basler Bankverein signed in Frankfurt, but a German bank provided the capital, in concert with the six Basel-based private banking houses. With seven of its 17 original directors domiciled outside Switzerland, the Basler Bankverein, founded with a share capital totaling 30 million Swiss francs, was from the outset an internationally oriented institution.



Basler Bankverein share prospectus, 1872.



Basler Bankverein in Basel.

Swiss franc banknotes issued by Toggenburger Bank.



Like the Bank in Winterthur, the Basler Bankverein played a significant role in Switzerland's rapid industrialization, most notably by helping to establish Basel as the center of Switzerland's chemical industry and through the financing of railway construction. In fact, the most ambitious railway project of its day was achieved with the active involvement of both the Basler Bankverein and the Bank in Winterthur. In 1882, the 15 km long Gotthard tunnel, a 227 million Swiss franc project, was completed, providing a much-needed railway link through the Alps. The Basler Bankverein was financially and personally linked with its construction, while the Bank in Winterthur financed the locomotives that were to use this astounding feat of engineering.

In subsequent decades, the Basler Bankverein expanded by joining forces with the Zürcher Bankverein (Zurich) and the Schweizerische Unionbank (St. Gallen). After the acquisition of the Basler Depositen-Bank, the bank changed its name to Swiss Bank Corporation (SBC) in 1897.

Zurich and Basel

Within ten years of each other, the Basler Bankverein and the Bank in Winterthur converged on Zurich, the former through its merger with the Zürcher Bankverein and the construction

of a building on Paradeplatz, the square which is today the symbol of Zurich's banking sector. In 1906, the Bank in Winterthur acquired a building at Bahnhofstrasse 44. This establishment, located directly opposite UBS's current headquarters on a street constructed fewer than fifty years earlier, provided easy access to Zurich's stock exchange. Founded in 1880, the exchange rose to become the most important in Switzerland during the first half of the 20th century.

At around the same time, in 1907, the Swiss National Bank (SNB), the country's central bank, commenced operations in Berne and Zurich after its establishment by a 1905 federal decree. This institution was, and remains so to this day, key to the future development of the Swiss economy in general and the country's financial sector in particular. The Swiss franc had been introduced as the legal tender in Switzerland in 1850, replacing 13 currencies with 319 different coins. However, up until the founding of the SNB, the issuing of Swiss francs in



Paine, Webber & Co., Boston, 1881.



Construction of the Gotthard tunnel.



Bahnhofstrasse / Poststrasse, Zurich, 1893.



Fröschengraben, Zurich, later part of Bahnhofstrasse.



Union Bank offices, Münzhof, Bahnhofstrasse, Zurich.

SBC building on Paradeplatz, Zurich, 1910.



Merger agreement, Bank in Winterthur and Toggenburger Bank, 1912.

various designs had been carried out by dozens of commercial banks across the country, including the Toggenburger Bank. In 1907, this ad hoc system was replaced by a standardized SNB issued Swiss franc based on the gold standard.

Despite both forebears of UBS having established a presence in Zurich, their headquarters remained elsewhere. SBC, in fact, never moved its head office from its original location in Basel. The Union Bank of Switzerland maintained two head offices in Winterthur and St. Gallen until 1945. The bank then moved its head office to Zurich, to the aptly named *Münzhof* (court of coins or court of mint). The head office was now located at Bahnhofstrasse 45, which it had opened in 1917, and which – with its dressed rusticated ashlar and ornate ironwork on the windows and doors – reflected a sense of solidity and imperturbability. With two head offices in Basel and in Zurich, UBS’s present legal structure continues to reflect these historical developments.

Into the 20th century

In 1912, the Union Bank of Switzerland was formed with an initial share capital of 35 million Swiss francs. Even before their merger, both the Bank in Winterthur and the Toggenburger

Bank had expanded their business reach within Switzerland. Various ventures of significance for the future of Switzerland had been financed, including in the expanding Swiss insurance sector.

In terms of geographical reach, however, SBC went further by becoming the first Swiss bank to establish a foothold in the City of London, already by then a global financial center. On 1 July 1898, *Swiss Bankverein* opened its doors for business in London at its new branch at 40 Threadneedle Street. This was only SBC’s fourth branch overall (after Basel, Zurich and St. Gallen) and is evidence of the bank’s early recognition of the need for an international presence. For decades to come, SBC’s London branch was at the center of all of its foreign business operations.

A presence in London was essential to play an active role in major global developments. London was undoubtedly the preeminent global financial center and, according to one contemporary estimate, its importance to the global economy was demonstrated by the fact that half of the City’s then 160 banks were non-British.

Initially concentrating on international commercial banking activities – notably financing imports to Russia and providing loans for the development of railways in East Asia – SBC in London soon expanded its activities with the acquisition of

The historical roots of UBS Wealth Management Americas

Today, it comes as no surprise that UBS's global business presence draws heavily on its strong historical roots in the UK and the US. This is not only because of an early appreciation of the need to be present in the world's major financial centers, but also because of the important antecedents of UBS in those very countries.

UBS's global business presence draws heavily on its strong historical roots in the UK and the US.

The most notable example is the establishment of two broker partnerships in Boston in the last quarter of the 19th century. William A. Paine and Wallace G. Webber set up shop in 1880 (Paine, Webber & Co. from 1881) in the same street as the partnership of Charles C. Jackson and Laurence Curtis (Jackson & Curtis), established in 1879. These two venerable firms merged in 1942 and are the foundation of what is today's UBS Wealth Management Americas business.

During the first half of the 20th century, Paine, Webber & Co. was

controlled by the Paine family. Reputed to be one of the richest men in New England, William A. Paine died in September 1929, one month short of the disastrous Black Friday that signaled the start of the Wall Street crash. Both Jackson & Curtis and Paine, Webber & Co. survived the crash, but the continuing effects of the Great Depression

probably provided an impetus towards their merger discussions in 1939. The merger that created Paine, Webber, Jackson & Curtis (PWJ&C) was eventually sealed on 29 June 1942.

Amidst the growing affluence of post-war America, PWJ&C's activities expanded rapidly. From 23 branch offices at the time of the 1942 merger, the firm grew to 30 offices in 1955 and to 45 offices ten years later. In 1963 PWJ&C's head office moved from Boston to New York. Subsequent changes, mergers and acquisitions furnished the firm with a presence in fixed-income

instruments (F.S. Smithers & Co., 1973), a closed-end investment company (Abacus Fund, 1972) and an investment research and advisory function (Mitchell Hutchins, 1977).

With the Abacus acquisition, the firm went public and two years later decided to form PaineWebber Inc. as a holding company with PWJ&C as the core subsidiary. By 1980 the firm's spread extended to 161 branch offices in 42 US states with six offices in Europe and Asia. Paine Webber had established a presence throughout America and its popular advertising slogan "Thank You, Paine Webber" made it well known beyond its substantial client base. Paine Webber continued to expand right up to its acquisition by UBS in late 2000. In 1995 it had acquired the brokerage and investment banking firm Kidder, Peabody & Co. As late as April 2000, Paine Webber took over J.C. Bradford & Co. adding 900 brokers and 46 billion US dollars in client assets to Paine Webber's existing 7,600 brokers and 452 billion dollars in client assets.

Surviving early crises

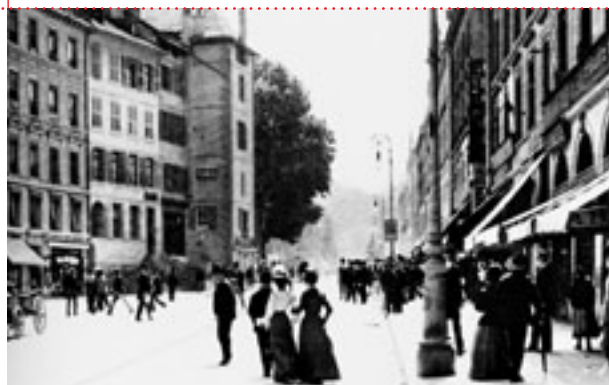
In the last quarter of the 19th century the industrialization of countries such as Switzerland moved ahead at unprecedented speed. However, the economic development of Europe and the US was – at regular intervals – badly shaken by various crises. Predecessors of today's UBS were not spared from these events. While, in 1872, the Bank in Winterthur was able to announce a total dividend of 11 percent to its shareholders, a major setback was only around the corner. On 9 May 1873, a severe international economic depression in Europe and the US was triggered that was to last beyond 1879. This crisis eventually forced the bank to create a "liquidation account" into which it moved half of its regular reserves in order to cover current and potential future losses. The account was increased to 1.9 million Swiss francs by the end of 1879 and was eventually used up completely.

By 1883, the Bank in Winterthur had also completely used up its reserves of 1.3 million francs and was faced with a debit balance of nearly 2 million francs. The bank's share price dropped to 350 francs in 1883 (from 650 ten years earlier) and it was not able to pay any dividends from 1884 to 1886. As a consequence, the bank's Board of Directors was almost completely revamped in 1884. Only three of the previous members remained on the Board – and none of those that had founded the bank in 1862. By 1895 the Bank in Winterthur had recovered – as had UBS's other main forebear, the Basler Bankverein, which a few years earlier had been forced to acknowledge publicly that "our institution is in a precarious state".

In the US, Paine, Webber & Co. was confronted with the financial crisis of 1883 and, ten years later, the Panic of 1893, which prompted Wallace Web-

ber, co-founder of the partnership, to retire from it. Yet, when he tried to take out capital from the firm, "there was none to withdraw". Paine, Webber & Co. survived. William A. Paine later observed about the 1893 crisis, "We had spent thirteen years gaining people's confidence and developing resources for just such a struggle; and when it came victory was not so difficult for us as it was for many richer concerns."

Rue de la Corraterie, Geneva, 1906.



the private banking house Blake, Boissevain & Co. This gave SBC access to an extensive securities business in Holland and the US as well as greater contacts in Switzerland and Germany. A second branch was set up in February 1912 in London's West End next to the Swiss Railways office in order to service the lucrative travel and tourist trade. After the upheavals of the First World War, SBC quickly managed to (re)establish itself as one of the leading foreign banks in London. Giving unmistakable evidence of SBC's innovative and forward-looking spirit, it was in its new building on the corner of Gresham Street and Coleman Street that the first in-house telephone exchange in London was installed.

Back in 1912, SBC also gave evidence of its interest in looking beyond the shores of Europe and towards the country that was overtaking Britain as the leading economic power globally, the United States of America. Although it was not until the

onset of another major war, in 1939, that SBC fully established itself in New York, by then the world's financial hub, in 1912 business connections to the US had already been established. However, the evidence for these relations linked the bank to one of the most tragic events in the history of tourism and travel. On a business mission to New York, SBC's chairman, and his successor, survived the tragedy that was to befall the ship they were traveling on, the *Titanic*.

SBC's foreign ventures notwithstanding, at the beginning of the 20th century not a single Swiss bank was ranked within the global top 50 banks. In 1900, the Swiss financial services

At the beginning of the 20th century not a single Swiss bank was ranked within the global top 50 banks.

industry as a whole was ranked seventh worldwide, behind London, Paris, Berlin, New York, Brussels and Amsterdam. This was to greatly change during subsequent decades. By the late 1940s, Switzerland's financial sector had moved into third position, behind New York and London.



SBC offices in St. Gallen.

Union Bank offices in Aarau.



1912–1945

Dramatic times – World War I, economic turmoil and World War II

- 1912** Foundation of the Swiss Bankers Association
- 1917** Union Bank opens its new building at Bahnhofstrasse 45, Zurich, today UBS's head office.
- 1917** Union Bank sets up a pension fund for its employees.
- 1924** Dillon, Read & Co., New York, with historical roots dating back to 1832, launches the first post-World War I closed investment fund.
- 1934** Union Bank launches its quarterly staff magazine *SBG-Blätter*.
- 1938** SBC co-establishes the first Swiss real estate fund (Swissimmobil Serie D).
- 1938** Union Bank establishes Intrag, Zurich, company for the management of investment trusts.
- 1938** Intrag establishes AMCA, the first Swiss investment trust with flexible funds of investment monies.
- 1942** Jackson & Curtis and Paine, Webber & Co. merge to become Paine, Webber, Jackson & Curtis, headquartered in Boston.
- 1945** Union Bank moves its headquarters from Winterthur and St. Gallen to Zurich.



Switzerland in the First World War.

SBC in London, 1920s.

"Black Friday", New York, October 1929.



At the outset of the First World War in 1914, both the Union Bank of Switzerland and SBC had firmly established themselves among the ranks of Switzerland's so-called Grossbanken (big banks). In fact, the historical roots of all of UBS's business divisions today had already been laid down by this time. This is also true for the firm's wealth management operations – even if the firms that preceded UBS did not actually create units explicitly dedicated to “private banking” until the 1990s.

Such services were offered almost from the onset. The Toggenburger Bank, for instance, boasted a “specialist service for capitalists and wealth management”. In the compliance-speak of the time, the bank counseled that this service (housed in a separate office with a separate entrance) “must only provide for solid capital investment and should earnestly desist from encouraging clients to venture above their means or to invest in dubious stocks as this completely contravened the principles and tradition of the bank”. Consequently, investment advice and wealth management activities were undertaken, usually by individual managers looking after individual wealthy clients, though they remained somewhat marginal to the overall business of UBS's predecessors.

The First World War and its aftermath

Based in a country that remained neutral in both the First and the Second World War, the Union Bank of Switzerland and SBC benefited from the stability of Switzerland that was attractive to clients. Although the impact of the First World War was clearly felt in Switzerland, the country's neutrality helped to shelter its citizens from the unprecedented destruction and terrible loss of life experienced by its neighbors.

The destruction caused by the First World War and its aftermath did affect certain Swiss industries in particular. For example, in 1922, the SBC celebrated its 50th anniversary, marking the occasion by giving each of its employees a Swiss pocket watch. The gift provided invaluable support to the Swiss

watch industry which had seen a dramatic reduction in exports to the US. By the early 1920s, the number of SBC employees passed 2,000 for the first time, and stood at 1,000 at the Union Bank of Switzerland, indicating that the economic impact of the war upon the two banks had not been dramatic.

Both banks did, however, not escape the repercussions of the First World War, in particular the political and economic instability of much of Europe. In the aftermath of the war, Germany, then as now Europe’s pivotal economy, suffered from severe economic and financial challenges, symbolized by inflation reaching an unprecedented level in 1923. Although a certain stability emerged in subsequent years, these brief “golden 1920s” were not to last. In 1929, the Great Depression caused a radical rupture in the economic and financial fortunes of most countries worldwide.

The Great Depression

On 3 September 1929, the New York stock market climbed to a level of 381, a level it would not reach again for more than a quarter of a century. It was not immediately apparent, though, that Wall Street was poised for the crash that followed in late October (with the Dow plumbing its ultimate trough of 41 in July 1932). A comment in a booklet that commemorated Jackson & Curtis’s 50th anniversary in late 1929 provides a whiff of the irrational optimism that pervaded this first stage of the downturn: “The financial condition of America is so strong, that the slump has not been marked by the dramatic events of 1893 and 1907. It has been little more than a sharp thunderstorm in the middle of a sunny day.”

In view of the rapid deterioration of the US economy, it is unlikely that Jackson & Curtis’s anniversary booklet – with its optimistic outlook quickly disproved – remained in circulation for long. As an example of the dramatic events of the early 1930s, Jackson & Curtis’s future merger partner Paine, Webber & Co. got drawn into the collapse of the Van Sweringen railroad empire and rail stock held as collateral for the 33 million dollars owed to Paine, Webber & Co. had to be sold at a loss.

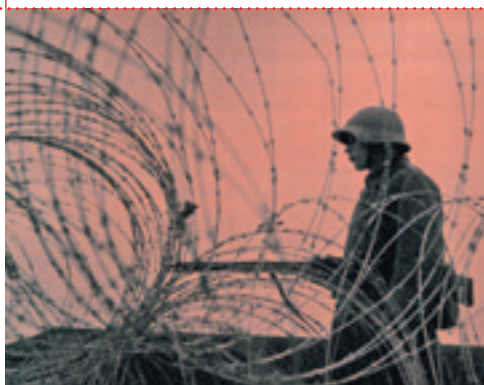
For Switzerland, the downward spiral of the international economy is best symbolized by the disastrous situation that befell the iconic watch industry. In the 1930s, two-thirds of the watch industry’s exports collapsed and around half of its 60,000 employees were to lose their jobs. The growing employment trend at UBS’s predecessors also went into reverse, with the Union Bank of Switzerland cutting its staff levels by one-quarter between 1931 and 1936.

The decade’s political and economic upheavals, both symbolized and accelerated by such dramatic events as the collapse of Austria’s Credit-Anstalt, the largest Bank in Central and



New York in the late 1930s.

The Second World War.



The political and economic upheavals of the 1930s subjected Switzerland's financial center to dangerous turbulence.

Eastern Europe, in 1931, subjected Switzerland's financial center to dangerous turbulence. In 1933, Switzerland was forced to rescue one of its Grossbanken, the *Schweizerische Volksbank*, by taking on 100 million francs of the bank's cooperative capital, equivalent to just under one-quarter of the Swiss government's total spending for that year. Other banks were less fortunate, with about 60 taken over or shut down between 1930 and 1939. In 1936, Switzerland was forced to devalue the Swiss franc (by 30 percent) for the first and, until now, only time.

The Union Bank of Switzerland and SBC were not immune to these troubles. The Union Bank's balance sheet total dropped from nearly 1 billion in 1930 to 441 million francs in 1935 (and only gradually recovered thereafter). An important factor in the deterioration of the situation pertained to so-called "transfer impeded" assets, a euphemism for assets blocked abroad (mainly in Germany). The Union Bank of Switzerland reduced these assets in the mid-1930s and was forced to

adopt some stringent measures at the same time. The bank's reserves were cut by half, its share capital reduced from 100 million Swiss francs in 1933 to 40 million in 1936, the share dividend cut and salaries reduced. By 1938, however, salaries were on the rise again – as were staff numbers.

SBC also saw its balance sheet fall from its then highest level of 1.6 billion francs in 1930 to a low level of approximately 1 billion in 1935. It wrote off 32.5 million francs between 1930 and 1939 which, in 1935, led the bank to undertake a stringent examination of all current credits. Commitments which proved not to be one hundred percent sound or which yielded an inadequate return were terminated wherever possible or at least reduced. At the same time, SBC used the crisis as an opportunity to strengthen other areas of its business, paying for instance more attention to "cultivating and extending its circle of private clients". Above all, the crisis yielded one enduring legacy when SBC decided to commission a new logo. In 1937, the bank settled on the three keys, symbolizing trust, security, and discretion, which still figure prominently in the UBS logo today.

Bank client confidentiality

Arguably, SBC's keys symbolize another legacy of the 1930s, one of direct importance to the entire financial industry in Switzerland. When the Swiss authorities introduced the Federal Banking and Savings Bank Law in 1934/35, the first national banking law, it was to include an article which was to provide rich material for many subsequent discussions – and countless depictions in literature and film. Article 47 of the new law officially referred to banking secrecy, an aspect of Swiss banking which had de facto existed in the banks' relations with their clients for a long time. As one historian put it, banking secrecy had "become established as an unwritten code of confidentiality similar to the one offered by lawyers, doctors or priests". The Union Bank of Switzerland regulations, for instance, had already mentioned a "confidentiality rule" for bank employees as far back as 1915.

SBC London's evacuation premises, 1940.



In 1939, with the outbreak of war in sight, SBC established an agency in New York. When the second global conflict in less than a generation broke out in September 1939, Switzerland declared its neutrality as it had done in the First World War. In fact, anything but a declaration of neutrality would have astounded the world. Switzerland had, after all, long been traditionally neutral. Its neutrality was not only internationally recognized, first in the Acts of the Congress of Vienna and again in 1919 and had been in place longer than that of any other country. Officially neutral since 1815, Switzerland as a state has come to be identified with its status of neutrality both at home and abroad.

Before 1939, Germany had long been a significant contributor to Switzerland's economy. It would, however, be wrong to argue that, during the war, Switzerland chose voluntarily to reorient its foreign trade towards Germany and away from Britain and France. After the fall of France in 1940, and in view of Switzerland's position within a Europe dominated by Germany, a reorientation of the country's foreign trade was to be expected. The decline in Switzerland's trade with the West was dramatic nonetheless while trade with Germany increased massively. In addition to the economic aspect, Switzerland's neutrality and its position as an international financial center also enabled Germany to gain significant financial services from its southern neighbor.

Decades after the war, Switzerland's war-time relations with Germany, and the terrible effects of the inhuman actions of the Nazi regime in Germany and in large parts of Europe, became the subject of a heated controversy, notably for the Swiss banks. In the 1990s, class action suits were filed against the banks on the issue of World War II-era dormant accounts. Between 1996 and 1999, the Swiss banks submitted themselves to an independent investigation, unique in its kind, with a view to identifying potential Holocaust-related assets dating from before or during the Second World War. Some 650 forensic auditors under the supervision of a former Chairman of the Board of Governors of the Federal Reserve System and the

"Independent Committee of Eminent Persons" (ICEP) had unrestricted access to all the account relationships at 63 Swiss banks. The conclusions drawn by the ICEP were that there was no evidence of systematic destruction of records of victims accounts, or of organized discrimination against the victims of Nazi persecution. According to the ICEP, there was, however, confirmed evidence of questionable and deceitful actions by some of the banks in the handling of the accounts of victims. These developments reached their height precisely at the time that the Union Bank of Switzerland and SBC were negotiating their merger. Eventually, a settlement was concluded in August 1998 in which the Swiss banks agreed to pay 1.25 billion US

In the mid-1930s, Switzerland introduced the Federal Banking and Savings Bank Law, the first national banking law.

dollars. The formal settlement agreement became definitive on 30 March 1999 and the banks paid the final installment in 2000. The subsequent processing of the claims and the monetary awards were entirely the responsibility of a New York judge and the Special Masters designated by him. UBS and the other banks involved in the settlement had no influence on this process.

The headquarters of Eidgenössische Bank in Berne; photo taken around 1895.



Historical roots of UBS Global Asset Management

In 1895 George Phillips sought out Richard Drew to help him run a city brokerage. Then known as G. A. Phillips & Co., the firm's share portfolio included such grandly named (and long forgotten) companies as Thunderbolt Patent Governor and Automotive Syndicate. It also had interests in Western Australian gold mining companies. In 1905, the firm adopted the name Phillips & Drew with the arrival of Geoffrey Harvey Drew as a new partner. Until the late 1940s, the Drew family continued to hold a controlling position within the firm, much as the Paine family did at Paine Webber. By the late 1960s, the firm had earned this judgment from a contemporary observer: "Very professional, broadly meritocratic, and sustaining an ethos in which teamwork was preferred to stars, Phillips & Drew had at this stage in its history a unique reputation in the City."

By the 1980s, while no longer unique, Phillips & Drew's reputation was still conspicuous. In business

terms, the firm held a leading share of the UK gilts and fixed-interest markets, it was the country's largest broker in convertible stocks and the largest asset manager among UK brokers. During the so called "Big Bang" of deregulation of the UK's financial industry in the mid-1980s, the Union Bank acquired Phillips & Drew. The Phillips & Drew name lived on in the Union Bank's UK asset management business that became known as Phillips & Drew Fund Management (or PDFM). This continued to operate relatively independently. Thanks to rapid growth in the late 1980s and early 1990s, the firm was a leader in the UK fund management industry.

The merger of the Union Bank of Switzerland and SBC bequeathed to the new bank three major asset management operations, which were subsequently combined in the single UBS Global Asset Management division in April 2002: Phillips & Drew and UBS Asset Management from the Union Bank of Switzerland side and

Brinson Partners from the SBC side. The latter firm had been established in 1989 after a management buyout of First Chicago Investment Advisors, the asset management subsidiary that First National Bank of Chicago had set up in 1984. In 1994, when the firm accepted SBC's purchase offer, Brinson Partners had 10 managing partners and 250 employees. Its headquarters were in Chicago, with offices in London and Tokyo.

The headquarters of the Basler Handelsbank in Basel.



1945 – 1980

Reconstruction and economic boom

- 1945** Union Bank acquires Eidgenössische Bank, SBC takes over Basler Handelsbank.
- 1958** S.G. Warburg engineers the City of London's first hostile corporate takeover.
- 1958** Union Bank introduces its first *Autoschalter*, a drive-in bank counter.
- 1960** Paine, Webber, Jackson & Curtis develops the so-called *Green Shoe Option*.
- 1963** S.G. Warburg plays a pioneering role in the launch of the Eurobond market.
- 1963** Paine, Webber, Jackson & Curtis moves its headquarters from Boston to New York.
- 1965** Union Bank is among the few companies to advertise on Swiss television's first commercial break.
- 1967** Union Bank launches the first automated cash dispenser in Continental Europe.
- 1970** Union Bank opens Switzerland's first underground bank agency, in Zurich main station's underground shopping alley.
- 1970** SBC is the first Swiss bank to open a full branch in Tokyo.
- 1972** Union Bank launches the first option bond in Switzerland.

SBC in Basel.



Strong room at Union Bank, early 1960s.



Construction of Union Bank agency, Zurich main station, 1970.

SBC in London in the 1960s.

“After 1945, in Switzerland, the savings ratio was high, the national budget was balanced, the franc was stable, and inflation was low. Strict capital adequacy regulations for banks ensured that the rest of the world regarded Swiss financial institutions as very stable. The Federal Banking Act also protected clients and their financial privacy. Given this framework of conditions, the Swiss banking sector was able to acquire a unique reputation.”¹

After the Second World War, the US and Western Europe entered a period of unprecedented and uninterrupted growth that was to last into the 1970s. However, at the beginning of the period most Europeans were pessimistic about the future course of events, be they political or economic. Relief about the end of the deadliest conflict ever was tinged with uncertainty about the effects of the emerging Cold War between the US and the Soviet Union. At the same time, it was difficult to imagine how Europe should pull itself out of the economic desolation caused by Nazi Germany's occupation of most of the continent.

In 1945, both the Union Bank of Switzerland and SBC substantially strengthened their position by taking over two large but troubled competitors. The Union Bank's absorption of Eidgenössische Bank (EIBA, founded in 1863) took its total

assets to 1.5 billion Swiss francs, while SBC's takeover of the Basler Handelsbank swelled its balance sheet to almost 2 billion francs. In its history, the Basler Handelsbank, founded in 1862, had played an important role in the economic development of Europe, most specifically with regards to electrification. In 1896, together with Siemens Halske AG, Berlin, the bank had established the Schweizerische Gesellschaft für elektrische Industrie (INDELEC) in Basel. Subsequently, INDELEC was to finance new hydroelectric power stations in Switzerland, Europe and Mexico and also drive the electrification of major towns, including Paris, St. Petersburg, Moscow, Riga, Lodz and Baku.

¹ Excerpt from a brief online history of Finanzplatz Zürich, <http://www.finanzplatz-zuerich.ch/Finanzplatz/Geschichte/Bankkundengeheimnis/tabid/145/language/en-US/Default.aspx>

Notice about Union Bank's first automated cash dispenser, 1967.



Union Bank's first Autoschalter, a drive-in bank counter, 1958.



SBC building, Zurich Paradeplatz, 1960s.



However, by 1945, both EIBA and the Basler Handelsbank experienced severe liquidity problems as a result of their financial over-commitment to Germany in previous decades. Both takeovers put the Union Bank of Switzerland and SBC in a good position to benefit from the economic upswing of the 1950s. By the mid-1960s, the total assets at both banks rose above 10 billion Swiss francs for the first time while shareholders' equity increased to more than 1 billion francs by the end of the decade.

Expansion in the 1960s

Until the beginning of the 1960s, the Union Bank of Switzerland had normally ranked third among Switzerland's Grossbanken, with SBC first or second. This was to change fundamentally in 1967 when Interhandel (Internationale Industrie- und Handelsbeteiligungen AG, Basel), the former I.G. Chemie holding company founded in Basel in 1928, merged into the Union Bank of Switzerland. The Union Bank had been in sole

control of this holding company since 1961. In 1963, a settlement between Interhandel and the US government on corporate interests originally held by I.G. Chemie in the US meant that Interhandel eventually received 122 million US dollars (500 million Swiss francs) from the sale of these interests. When, in 1967, Union Bank of Switzerland merged with Interhandel, these resources went to the bank making it the largest bank in Switzerland and one of the strongest banks in Europe, in terms of capital. Growth at the Union Bank and SBC continued thereafter, with total assets and shareholders' equity increasing tenfold between the late 1960s and the 1980s.

At this time, the business and geographical focus of both of UBS's predecessor banks remained overwhelmingly domestic, even though both banks had established a foothold in other financial centers. In addition to its two branches in London, SBC had added an agency in New York in 1939 while the Union Bank of Switzerland had opened a representative office there in 1946.



Union Bank representative office,
Rio de Janeiro.

Siegmund Warburg, 1972.



In many ways, the 1960s proved to be the critical period for both of UBS's predecessor banks, a period of both expansion and innovation, at home and abroad, suitably framed by the Union Bank of Switzerland's hundredth birthday celebrations

In 1946, the Swiss branch network of the Grossbanken, including SBC and the Union Bank of Switzerland, had been small compared to the other Swiss banks, with a 20-percent share. Within less than 25 years, the retail banking share of

In the early 1970s, Union Bank acquired Bank Pozzy, founded in 1747 in the picturesque Swiss town of Poschiavo, tapping into a root system older than its own.

in 1962 and, exactly ten years later, those of the Swiss Bank Corporation. Other important milestones included the official opening of SBC's new office building on Zurich's Paradeplatz in June 1960, replacing the bank's original turn-of-the-century building. And, when, in the early 1970s, Union Bank acquired Bank Pozzy, founded in 1747 in the picturesque Swiss town of Poschiavo, it tapped into a root system even older than its own.

the Grossbanken had expanded to 40 percent. Pursuing similar strategies for growth and greater market share, the Union Bank of Switzerland and SBC acquired a number of smaller Swiss banks and opened new branches. SBC increased its total number of branches and agencies in Switzerland to 110 by the end of 1970 while Union Bank's tally reached 159, including, in October 1970, Switzerland's first below-the-ground bank agency, established in Zurich main train station's underground shopping complex.

By the early 1970s, SBC and the Union Bank of Switzerland were represented on all continents, from Australia (Sydney and Melbourne) to East and Southeast Asia (Hong Kong, Tokyo, Singapore) to South Africa (Johannesburg) and across the Americas (Montreal, Chicago, San Francisco, Mexico, Caracas, Bogotá, Rio de Janeiro, São Paulo, Buenos Aires).

With the expansion of the branch network came a noticeable emphasis on the banking needs of the average Swiss citizen. At the beginning of the 1960s, Switzerland's Grossbanken were still essentially commercial banks. As one retired employee recalls, "In 1964, the Union Bank of Switzerland as a commercial bank did not have mortgages, savings and salary accounts. Data processing technology was in its infancy. Although salary and depot statements were produced via data processing, they had to be sent out manually every quarter by an army of employees." By the end of the decade, however, both banks had taken to private and retail banking with enthusiasm.

Technological progress was unmistakable – and of direct relevance to clients. One important example was the installation of a network of automated cash dispensers. In November 1967, the Union Bank of Switzerland was the first bank in Continental Europe to install an automated cash dispenser at the bank's Zurich headquarters. This first trial was followed by the establishment of a uniform system of *Bancomat* machines by a

number of Swiss banks (including the Union Bank of Switzerland and SBC) in 1968. During the same year, the Union Bank of Switzerland offered its first savings accounts to the general public and two years later it introduced current accounts, followed by an account card. In 1969, further progress for

By the early 1970s, SBC and the Union Bank of Switzerland were represented on all continents, from Australia to East and Southeast Asia to South Africa and across the Americas.



Staff restaurant in the 1960s.

Union Bank bank and management school, opened in the mid-1960s.



SBC's global presence in the late 1960s.

banking clients followed with the introduction of the Swiss cheque card which permitted the holder to cash cheques up to a value of 300 Swiss francs. The Zurich Gold Pool was also created around this time, a buying cartel formed by the Union Bank of Switzerland, SBC and Credit Suisse which created the basis for Switzerland to emerge as the largest gold market in the world.

Increased and better service, more clients, and an expanded product range added to the workload. During the 1960s employee numbers at both SBC and the Union Bank of Switzerland expanded greatly. Between the end of 1962 and the end of 1972, SBC recruited nearly 4,000 new employees, taking the total headcount to almost 9,400. At the Union Bank of Switzerland, the payroll grew from just under 4,000 employees in 1960 to just under 10,000 in 1970 (of which almost half were younger than 25). This development led the banks to introduce new working arrangements. In 1962, the Union Bank of Switzerland introduced the uninterrupted workday, the 45-minute lunch break and the establishment of staff restaurants. To cater for the career development of a growing employee population, the Union Bank of Switzerland established its own bank and management school in 1965 and, ten years later, turned the Wolfsberg estate on the Swiss shores of Lake Constance into its management training center.

UBS forebears in the UK and US

During the same period, an important part of UBS's heritage made its presence felt in the City of London. Founded in 1946, merchant bank S.G. Warburg firmly moved into the consciousness of its competitors when, in 1958, it engineered the City's first ever hostile corporate takeover. Only a few years later, in 1963, S.G. Warburg added a further firm imprint upon the history of the City, when it played a pioneering role in the launch of the Eurobond market with the issue of the first long-term international bond issue (for Italy's Autostrade), denominated in US dollars, to be sold entirely out of Europe and not the US.

While S.G. Warburg established a name for itself as a significant merchant bank (and Paine Webber as an effective wealth manager), the O'Connor brothers, Edmund and William, became influential players on the Chicago Board of Trade. Eventually, from the late 1960s, the O'Connors played a pioneering role in the modern options market, both as driving forces behind the Chicago Board Options Exchange and, simultaneously, as founders of Chicago's first options clearing firm, First Options Corp., in 1973. Four years later, the O'Connor brothers decided to finance the establishment of O'Connor & Associates as a private partnership. They traded stock options on US exchanges with the use of explicitly theoretical trading strategies (most notably Black-Scholes-Merton). In the early 1990s, the firm was acquired by SBC, an important milestone on the path towards today's UBS Investment Bank.

Innovative advertising

Some held that the Union Bank of Switzerland should take the lead in television advertising. Others that the new medium would sit badly with the "standing and reputation of a major bank". It was 1964; Switzerland was preparing to launch its first television commercials and the pros and cons were flying at Union Bank. In the event, the bank's marketing and communications experts carried the day. In their words, "It was critical for us to participate right from the outset, in

order to show that once again we are ahead of the game." And so it was that the Union Bank of Switzerland became one of the very first companies to project its brand on Swiss television. The country's first commercials went out at 7.25 pm on 1 February 1965. In the same year, the Union Bank of Switzerland scored one extra coup, courtesy of James Bond. As the marketing and communications experts reported to the bank's Board of Directors in October: "Our depart-

ment is not responsible for the fact that a scene in the new *Goldfinger* film takes place in the vault of UBS Geneva. However, it registers with delight the free advertising UBS received in an article in one of the latest copies of *Time* magazine."

UBS Investment Bank

“Warburgs have proved themselves to be the most successful Merchant Banking House to have been formed since the war. [Nevertheless] in our old-fashioned way we should not want to appear on a prospectus with them.”¹

Evelyn Baring’s comment provides an excellent flavor both of the position S.G. Warburg (Warburgs) had established for itself in the City of London since its foundation fifteen years earlier, but equally of the perception more staid members of the City’s financial community had of the “up-start” banking house. Certainly, by the early 1960s, Warburgs had succeeded in making a name for itself. That this development had largely derived from an approach deemed to be, at the least, unorthodox, can be easily derived from Baring’s sardonic reservation.

Siegmund Warburg, founder and key figure of the merchant bank, had arrived in London in 1934 after leaving Germany in response to rising Nazi

oppression. Warburg was a member of a family with deep historical roots in the German banking community; the family bank M.M. Warburg had been established in Hamburg in 1798.

Upon his arrival in London, Siegmund Warburg became co-founder and joint managing director of the *New Trading Company* (NTC). In January 1946, Warburg decided to put his business presence in London on a new footing by turning NTC into a proper merchant bank, S.G. Warburg & Co. Initially, business was sluggish as the firm struggled with both the difficult post-war economic climate in the UK and the prejudices it encountered as a newcomer in Britain’s financial and industrial business communities. From the mid-1950s, however, with a number of key business undertakings, which were to leave an imprint upon the history of the City, Warburgs moved to the forefront of Britain’s merchant banking establishment. These undertakings demonstrated the willingness of the bank’s management to ignore tradi-

tional attitudes that still dominated the thinking of most of its competitors in the City.

Its involvement in late 1958 in a syndicate underwriting the public issue of 25 million US dollars’ worth of bonds as a flanking measure for a 25 million dollar World Bank loan to Austria was immediately followed by Warburgs’ most spectacular achievement yet, its success in the so-called “Aluminium Wars”. Today, few would associate the concept of war with what came to pass in the late 1950s. Then, however, the takeover of British Aluminium Company (BAC) by US company Reynolds Metals clearly created such a dramatic impression among both participants and observers. In its capacity as financial advisor to Reynolds Metals, Warburgs helped the firm to acquire BAC overcoming the opposition of a major consortium of City firms that favored BAC’s takeover by Aluminum Company of America (ALCOA). The battle was fierce and acrimonious, but breathed new life into the City

¹ Evelyn Baring, 1961.

with takeover bids of a similar kind as pioneered by Warburgs becoming common – and with the pioneering firm reaping much benefit from its success and the changes it helped to bring under way.

Further feats followed. To top it all – at least in view of its wider historical implications – in 1963 Warburgs played a key role in the launch of the Eurobond market with the issue of the first long-term international bond issue (for Italy's Autostrade), denominated in US dollars, to be sold entirely out of Europe and not the US. Thereafter, Warburgs would remain a key player in the managing of Eurobond offerings.

By the early 1960s, Warburgs had well and truly "made it" in the City. However, Warburgs' most important contribution to the revival of the City of London may have been its meritocratic thinking, most notably in the recruitment of new staff. Already in the 1950s, Warburgs opposed the nepotistic approach to recruitment that ob-

tained at other City firms. Instead the merchant bank's leadership favored meritocratic selection on criteria such as, in Siegmund Warburg's words, "spark, streak of independent thought, intelligence, accuracy, social skills (not social background) and, last but not least, courage and common sense". On the other hand, Warburg warned, "arrogance, self-promotion, sloppiness, bad writing style and bureaucratic behavior" would be inimical to a culture that would benefit both clients and employees.

In 1982, the year of Siegmund Warburg's death, the firm that he had founded was the most profitable merchant bank in the City. The firm's workforce had grown to just under 800, a growth of nearly 500 from two decades earlier. However, in the following five years, with Warburgs acquiring market-makers Akroyd & Smithers, the top jobber at the time, Rowe & Pitman, one of the top three stockbrokers, and Mullens & Co., the government broker, the firm grew substantially.

For a time, Warburgs proved to be one of the few successful British "products" of the "Big Bang". By 1994, with a workforce of 5,800, Warburgs was the UK's top underwriter for equity. It maintained the top position in M&A in the UK, the top position in European equities research and ranked among the top five in international equity underwriting. Yet, during the very same year, Warburgs' expenditure on salaries and related items rose massively, yet returns did not keep up. Even worse than the financial woes created by the expensive expansion of operations in the US was the effect of the 1994 collapse in international bond markets. On 2 May 1995, the day before the bank announced a profit warning for the previous financial year to March, an unforeseen piece of information was unveiled to the public when Warburgs disclosed that it was examining an offer from SBC for its investment banking business. One week later, on 10 May, Warburgs' (last) financial results were published. On the very same day, SBC's acquisition of the merchant bank for 860 million pounds was announced.

1980–2000

The making of UBS

- 1986** SBC is one of the first banks in Europe to offer gold options.
- 1986** Union Bank is main sponsor of sailing yacht *UBS Switzerland*, winner of the Whitbread Round the World Race.
- 1986** Union Bank opens its first electronic banking branch (in Zurich).
- 1988** SBC launches TicketCorner, the first such service offered by a bank in Europe.
- 1991** SBC acquires a majority holding in Australian firm DBSM to make it SBC Dominguez Barry, from 1994 SBC Australia.
- 1994** Union Bank launches as the first bank globally the *Kinebar*.
- 1994** SBC launches KeyClub, the first such bonus program at a European bank.
- 1995** SBC acquires S.G. Warburg in London, a leading European investment bank.
- 1998** UBS AG, Zurich and Basel, is created through the merger of the Union Bank of Switzerland and the Swiss Bank Corporation.
- 1999** UBS is founding member of the Wolfsberg Group.
- 1999** UBS is the first bank to obtain ISO 14001 certification for its worldwide environmental management system in banking business.
- 1999** UBS opens its new trading floor in Opfikon (Switzerland), the largest in Europe.
- 2000** UBS acquires US brokerage Paine Webber.

Announcement of the merger of the Union Bank of Switzerland and SBC.



Hammering Man outside UBS head office, Basel.



UBS head office, Zurich.

By the mid-1980s, Switzerland boasted 581 banking institutes with total assets and liabilities of 723 billion Swiss francs and about 100,000 employees. Among these banks, SBC and the Union Bank of Switzerland, together with Credit Suisse, dominated the home market. Measured by balance sheet size, their combined market share reached as high as 50 percent. At the same time, however, and despite their international expansion in the 1960s, neither SBC nor the Union Bank of Switzerland were prominent outside their domestic market.

Switzerland's financial sector started to come under pressure in the late 1980s. "Following Swiss expansionary monetary policy in the 1980s, a real estate bubble formed. Banks adopted aggressive lending policies. Then the central bank punctured the bubble producing a period from 1990 to 1997 of no real growth in Switzerland. The lack of growth plus a sharp rise in credit losses meant that banks were losing money in the Swiss corporate and consumer lending market." These conditions, summarized here by a senior manager involved in the UBS merger, together with the deregulation of the Swiss banking sector after 1990, forced the banks to reconsider their strategy. As *The Economist* observed, "A rude shock has hit Switzerland's bankers. They are being forced ... to compete." (January 1991). By the early 1990s, Switzerland was hit by a mortgage crisis after a massive expansion of mortgage loan

volumes. SBC, for instance, had increased its total mortgage loan volume from 9.5 billion Swiss francs at the end of 1980 to 46.8 billion francs at the end of 1993. For the period 1991–1996 total write-offs by Swiss banks were estimated to be 42 billion francs. 70 percent of this amount was written off by the Grossbanken. In the 1996 financial year, both SBC and the Union Bank of Switzerland suffered losses, 348 million francs at the Union Bank of Switzerland, 457 million francs at SBC, largely due to the need to make special provisions.

Towards "making" UBS

Deregulation – combined with the crisis – had far-reaching effects, starting with an accelerated rate of consolidation in the financial sector. With Credit Suisse's acquisition of Bank Leu in 1990 and Schweizerische Volksbank in 1993, the number of

PaineWebber, Avenue of the Americas,
New York.



UBS, Avenue of the Americas,
New York.



Grossbanken shrunk from five to three. In view of their already substantial market shares in Switzerland, the big banks had to look beyond the country's borders for significant further growth. By the early 1990s, both SBC and the Union Bank of Switzerland had reached similar conclusions. Their future would lie beyond the borders of Switzerland in the major financial markets of the world. They would have to look beyond their mainstay Swiss retail, private, and commercial banking activities. From the late 1980s, therefore, both banks sought growth abroad. They looked for a long-term competitive advantage by transforming themselves into top-tier global financial institutions with international cultures and multinational workforces.

By the mid-1990s, both SBC and the Union Bank of Switzerland had made some progress towards their strategic goals. But traveling the last mile would take nothing less than an epoch-making merger. In December 1997, the Union Bank and SBC announced that they would join forces to create UBS, thus laying the foundations for a global, integrated financial services firm.

In 1996, leadership changes had taken place at both banks. It was within this new organizational context that the first merger discussions opened in January 1997. By the third week of November, the key merger issues had been resolved. It was

agreed that the merged firm would, for the greater part, adopt SBC's organizational model and principles. The new structure would include a Corporate Center to support the business groups and reinforce the separation of business origination and risk control.

During the crucial days of 19 to 21 November 1997, the two sides worked out remaining key points. First, they determined the new legal structure and the share exchange ratio. Secondly, they revised the business model. Thirdly, they decided who would sit on the new group executive board. Finally, the legal contracts for the merger transaction were drawn up, and the communications plan prepared. On 5 December, the boards of both banks voted in favor of the transaction and the merger was announced as planned on 8 December 1997.

In the course of their negotiations, both the Union Bank of Switzerland and SBC had faced challenges that influenced their thinking on the necessity and timing of a merger. These constraints aside, the merger was a forward-looking and positive move. Its aims were to build top-tier positions for the firm's core activities, and to create substantial shareholder value. The new firm aspired to be among the global leaders in its



UBS is founding member of the Wolfsberg Group.

UBS logo since 1998.



four international business segments (investment banking, institutional asset management, private banking and private equity), while in Switzerland it aimed to lead the Swiss consumer and corporate banking sectors.

The UBS merger

The completion date for the merger would depend on the necessary approvals from shareholders and government regulators. The shareholders gave their support at extraordinary general meetings in Zurich for the Union Bank of Switzerland and Basel for SBC. Support was overwhelming in both cases. As for the regulators, the Bank of England was the first to give its blessing, on 30 March 1998. Gaining the endorsement of the Swiss and US regulators took somewhat longer.

On 29 June 1998, the merger of the Union Bank of Switzerland and the Swiss Bank Corporation was legally completed and UBS AG, Zurich and Basel, established. Implementing the merger, however, was a daunting task, given the number of affected staff, the wide range of businesses, and the size of the balance sheets. Neither party had ever undertaken an integration of this magnitude. Fortunately, the new organization could draw on SBC's experience of integrating S.G. Warburg in 1995. This episode had shown the critical importance of tight project management and rapid implementation, lessons that were applied in the Union Bank-SBC integration.

In the midst of these efforts, UBS was hit by the implosion of the Long Term Capital Management (LTCM) hedge fund, in which the Union Bank of Switzerland had invested. On 23 September 1998, UBS declared a 793 million Swiss franc pre-tax loss on its LTCM exposure. The bank also injected 300 million US dollars into the fund as part of a bailout coordinated by the US Federal Reserve. Several UBS senior managers assumed responsibility for this and resigned on 6 October. Far worse than its financial impact, the LTCM episode dealt a crushing blow to the fledgling firm's image and confidence.

Integration costs, as well as LTCM and other setbacks, resulted in a disappointing first year of business for the new firm but performance improved from late 1999. Despite doubts over its private banking and asset management divisions, UBS had good reason to be upbeat about the outlook. By 2000, it was able to post a first set of strong financial results and, in May of that year, it also listed its global registered shares on the New York Stock Exchange. This was a first step towards acquiring the US broker Paine Webber, a move that transformed the scope and scale of the bank's wealth management activities in America.

Into the 21st century

Growth and challenges

- 2000** UBS is the first non-US bank listed on New York's Wall Street.
- 2000** UBS is among the first 38 companies to sign the UN Global Compact.
- 2001** UBS becomes founding member of the European Sustainable and Responsible Investment Forum (EUROSIF).
- 2001** UBS launches The Bank for Banks marketing initiative.
- 2002** UBS completes its trading floor in Stamford, Connecticut, the largest column-free securities trading floor in the world.
- 2003** UBS is main sponsor of *Alinghi*, the first European sailing yacht to win the America's Cup.
- 2003** UBS is officially certified as a Qualified Foreign Institutional Investor (QFII) and is allowed to participate in China's securities market.
- 2009** After a major crisis which began in mid-2007, UBS returns to profitability in the fourth quarter.
- 2010** UBS starts its new brand campaign "We will not rest".

UBS offices, Raffles Quay, Singapore.



Entry hall, UBS head office, Bahnhofstrasse 45, Zurich.



UBS started the new millennium with a huge step forward in its global expansion strategy. Before the watershed acquisition of Paine Webber, UBS was still essentially Swiss, with two-thirds of its almost 50,000 staff based in its home country. The acquisition of Paine Webber dramatically changed this demographic and cultural balance. The number of non-Swiss UBS employees rose to more than 40,000, accounting for 58 percent of the total workforce.

With the acquisition of Paine Webber, UBS had established a very sizeable presence in the US, the world's largest financial market. Subsequently, it added further smaller acquisitions and, both through these and organic growth, it rapidly expanded its presence in emerging markets. Its global ambitions also found expression through the introduction of the single UBS brand in 2003. By early 2007, UBS proudly reported 2006 as the best year in the firm's history. Yet, only a few months later UBS was forced to acknowledge a severe reversal of fortunes. On 1 October, UBS announced that "for third quarter we were likely to record an overall loss following a write-down of positions in the Investment Bank, mainly related to deteriorating conditions in the US sub-prime residential mortgage market".

Between the third quarter of 2007 and the fourth quarter of 2009, UBS wrote down more than 50 billion Swiss francs. Most of these write-downs had to be made as a result of the

global financial market crisis, which had its origins in the structured financial product business linked to the US residential real estate market. UBS's crisis was heightened when, at the same time, the US Department of Justice and later the US Securities and Exchange Commission informed UBS that they had opened investigations into the bank's activities regarding alleged irregularities in its US cross-border business. This issue eventually led to UBS ceasing to provide cross-border services to private banking clients domiciled in the US through non-US regulated entities.

UBS responded to the financial crisis by raising capital, notably through a 13 billion Swiss franc issue of mandatory convertible notes (MCNs) in late 2007 and through a public rights offering of approximately 15 billion francs in June 2008. In the same year the Swiss National Bank (SNB) and UBS announced a comprehensive solution to materially de-risk and reduce UBS's balance sheet. A key element of the solution was the SNB's

UBS trading floor, Stamford, Connecticut.



UBS offices, London.

undertaking to establish a fund to acquire securities held by UBS in an amount of up to 60 billion US dollars to relieve UBS's balance sheet. By spring 2009, the SNB StabFund, a special purpose vehicle established by the SNB, had acquired such securities in the total amount of 39.6 billion dollars.

In addition, UBS received a capital injection of 6 billion francs from the Swiss Confederation in the form of MCNs. In 2009, the Swiss Confederation successfully completed a placement of 332.2 million UBS shares from the conversion of its UBS MCNs. At the same time, the Confederation sold its future MCN coupon payments back to UBS for cash. The Confederation thus exited its entire investment in UBS and, in doing so, recouped its initial investment of 6 billion francs and additionally generated a return of approximately 1.2 billion francs.

In corporate governance terms, finally, a substantially recomposed Board of Directors, together with a new Group Executive Board, took on the challenge of restructuring UBS in 2009. A first sign for a successful turnaround appeared in the fourth quarter of 2009 when UBS returned to profitability and, compared to the situation at the outbreak of the financial market crisis, had reduced its balance sheet total and risks by some 50 percent.

UBS maintained its profitability during the course of 2010 and 2011, even though it experienced a further setback in September of that year. On 15 September 2011, UBS announced that it had discovered unauthorized trading by a trader in its Investment Bank, resulting in a loss of 2.3 billion

UBS is well positioned to meet future challenges in a rapidly changing banking environment.

dollars. Despite this disappointing development, UBS remains well positioned to meet future challenges in a rapidly changing banking environment. Our financial, capital and funding positions are unquestionably sound, underpinning our future success.

Outlook

In 1998, UBS was established through the merger of two leading Swiss banks, the Union Bank of Switzerland and the Swiss Bank Corporation (SBC). Both banks had a long history going back to the second half of the 19th century and to two regional lenders. SBC traced its roots to Basler Bankverein, founded in 1872, and the Union Bank to the Bank in Winterthur, established 150 years ago in 1862. The rise of our firm from these humble beginnings to a global financial institution is an impressive success story, despite the occasional setbacks and crises the bank has faced.

Our 150th anniversary is an excellent opportunity to look forward and to open a new chapter in our history. Focusing on clients and offering them stability and dependability have constituted our

defining strengths for decades. We need to make the most of these strengths by deepening the sense of confidence and security clients have in us and providing them with unrivaled service to achieve our goal of being the choice of clients worldwide.

Every enduringly successful company has displayed the ability to continually improve and adjust to altered market conditions. As this brochure reveals, UBS is no exception. By serving our clients even better through our strong service ethos, and by intensifying collaboration across the firm and managing risks prudently, UBS will be able to prove itself equally attractive to clients, shareholders and employees. We have every reason to be confident about our future.

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