UBS

Combinations produce synergies and open new perspectives.

Financial Report 1998.

UBS Group Financial Highlights

CHF million (except where indicated)	**1998**	1997
Income statement key figures		
Operating income	**22,328**	24,880
Operating expenses before restructuring	**18,258**	18,636
Operating profit before restructuring and taxes	**4,070**	6,244
Net profit/(loss)	**3,030**	(667)
Per share data (CHF)		
Basic earnings per share [1]	**14.31**	23.05
Diluted earnings per share [1]	**14.23**	23.02
Dividends proposed	**10.00**	n/a
At year end		
Total assets	**944,116**	1,086,414
Shareholders' equity	**32,395**	30,927
Market capitalization	**90,720**	n/a
Ratios (%)		
Return on shareholders' equity [2]	**10.3**	14.5
Return on risk-weighted assets [3]	**1.0**	1.3
Cost/income ratio [4]	**78.4**	71.2
BIS Capital ratios [5]		
Tier 1 capital (%)	**9.8**	8.3
Total capital (Tier 1 and Tier 2) (%)	**14.0**	12.6
Risk-weighted assets	**288,296**	345,904
Assets under management (CHF billion)		
Total assets under management	**1,572**	1,512
Headcount		
Total headcount	**48,011**	55,176
of which: Switzerland	**32,706**	36,638
Rest of world	**15,305**	18,538
Long-term ratings		
Moody's, New York	**Aa1**	
Fitch/IBCA, London	**AAA**	
Standard & Poor's, New York	**AA+**	
BankWatch, New York	**AA**	

[1] For EPS calculation, see Note 10 to the Financial Statements. For this disclosure 1997 is adjusted for impact of restructuring including taxes thereon. [2] Net profit/(loss)/average shareholders' equity excluding dividends from parent bank. 1997 loss and shareholders' equity adjusted for impact of restructuring including taxes thereon. [3] Net profit/(loss)/average BIS risk-weighted assets. 1997 loss adjusted for impact of restructuring including taxes thereon. [4] Operating expenses before restructuring/operating income before credit loss expenses of CHF 951 m in 1998 and CHF 1,278 m in 1997. [5] For BIS ratio calculations, see Note 34e to the Financial Statements.

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Dear Shareholders,

With the execution of the largest European bank merger, 1998 was a year in which UBS firmly shaped its own destiny. 1998 was also a difficult year for the banking industry and one in which UBS, in particular, was buffeted by an unusual combination of exceptional events. The settlement regarding the role of Swiss banks during and after World War II, combined with the consequences of third-quarter 1998 financial market turbulence, had a severe impact on UBS's otherwise healthy financial performance. This mixture of events had a clear impact on the UBS share price, which posted a high of CHF 657 in July 1998 and a low of CHF 270 only two months later. In view of the underlying strength of the bank, the Board of Directors of UBS recommends to shareholders a dividend of CHF 10 per registered share for 1998.

The difficult conditions of 1998 are reflected in the Group's results. For 1998, UBS reports a pre-tax profit of CHF 4.1 billion, compared to the pre-tax profit of CHF 6.2 billion in 1997 (excluding the CHF 7.0 billion restructuring provision, established in the context of the merger). Earnings per share (on a post-tax basis) were down by around 38% from CHF 23.05 in 1997 (again excluding the restructuring provision) to CHF 14.31 in 1998. At the same time, taking into consideration the difficult conditions in the latter half of the year, UBS still was able to achieve a respectable return on equity of 10.3%.

The pre-tax impact of the major non-recurring factors influencing UBS's 1998 result is set out below:

- The gain of CHF 1 billion arising from the divestment of BSI-Banca della Svizzera Italiana. This resulted from a condition laid down by the Swiss Competition Commission in the context of the merger.
- The provision of CHF 0.8 billion for the settlement reached regarding dormant accounts and World War II-related claims.
- Losses on pre-merger positions resulting from third-quarter market volatility totaling approximately CHF 1.9 billion by the end of 1998. These related to the loss from UBS's engagement in Long Term Capital Management and significant value adjustments on pre-merger equity derivative positions.

Analysis of 1998 results

A review of the UBS Group 1998 results leads to an ambivalent conclusion. On the one hand, net profit after tax and minorities of CHF 3.0 billion falls short of expectations and is therefore disappointing. On the other hand, despite a highly unusual combination of very difficult events which compounded the challenge of the merger, the UBS Group made significant progress. This is clear on closer analysis:

- If adjusted for the non-recurring items set out above, 1998 net profit would have been CHF 4.4 billion compared to CHF 4.8 billion for 1997 (excluding the restructuring reserve). This is clearly in line with management's expectations of a 10% decline in net profit as stated in December 1997.
- Furthermore, if revenues are adjusted for total non-recurring third-quarter losses and divestments, then the decline in 1998 was again well within the 10% decline which had been forecast at the time of the merger.
- Finally, if total 1998 operating expenses are adjusted for the provision against the settlement regarding dormant accounts and the divestment of BSI, operating expenses declined by 6%, or about CHF 1.1 billion, year-on-year. This is better than expectations set out at the announcement of the merger, especially considering that the merger only became legally effective in the second half of the year.

Private Banking most significant contributor to earnings

On a divisional basis, Private Banking, with a pre-tax result of CHF 4.3 billion, was the

most important contributor to the UBS Group's result. Its profit was influenced most significantly by the CHF 1 billion divestment proceeds from the sale of BSI. Operating financial performance was primarily driven by asset growth due to performance. However, we were able to offset client attrition arising from the merger to a significant extent by successful marketing, which resulted in a net inflow of new assets under management. Outside Switzerland, Private Banking has completed the merger integration; domestically, the full integration of the information technology platforms is still underway and is expected to be concluded in 1999. Importantly, the division successfully launched a major initiative to grow domestic private banking outside Switzerland in core markets, such as Germany, Italy, France, Spain, Australia and Japan. We are highly satisfied with initial indications of profitability.

Total commitment to investment banking

Warburg Dillon Read, the investment banking arm of UBS, was naturally most sensitive to the market turbulence of the third quarter 1998 and consequently achieved a disappointing pre-tax loss of CHF 1 billion. Two factors stand out: part of the Global Equity Derivatives Portfolio, which is difficult to hedge and has a potential for significant variance, and the losses resulting from our involvement with Long-Term Capital Management. Excluding these positions, the pre-tax result would have been a significant reduction from the 1997 result, but in line with industry trends. Here the demands of the merger should also be borne in mind.

Warburg Dillon Read successfully implemented the merger with a reduction in headcount of approximately 5,000 and also undertook a strategic review towards the end of the year to refocus the business and reduce the risk profile. This review confirmed the total commitment of UBS to its investment banking division. This commitment is based on the structural attractiveness of the market and the distinctive positioning of Warburg Dillon Read as the leading European investment bank, as well as the substantial existing and potential synergies with the other divisions, most notably Private Banking. The review called for an alignment of core business activities with similar client requirements, risk characteristics and logistics needs. Capital-intensive activities deemed not to be attractive on a risk / return basis – such as global trade finance, international lending to clients in excess of revised limits and certain segments of the fixed-income business – will be reduced. Finally, the review reconfirmed the course set at the time of the merger to reduce risk appetite with regard to both market and counterparty risk.

Substantial increase in Private and Corporate Clients profitability in Switzerland

Private and Corporate Clients contributed CHF 0.9 billion pre-tax to the Group's result, up by 20% against restated 1997 results. For this division, the year was marked by intense and successful merger integration efforts. Significant progress was achieved by aligning both predecessor banks' client services, activities, products and organizations. Plans to migrate the technical platforms are on track and will be completed in 1999, thereby facilitating significant operational synergies and cost savings. At the same time, risk-adjusted pricing in the credit area has been implemented and technology-based banking businesses have expanded significantly, with approximately 160,000 Telebanking (Internet / Videotex) clients and with 230,000 brokerage transactions and 14.5 million payment transactions executed via Telebanking in 1998.

UBS Brinson posts steady growth

UBS Brinson's pre-tax earnings were up 11% from CHF 403 million to CHF 448 million despite the impact of market volatility in 1998. Positive results from the UBS Brinson business area were to some extent offset by a decline in revenue due to short-term performance issues and a very competitive UK marketplace for the Phillips & Drew business area.

Strong results for UBS Capital

UBS Capital posted pre-tax earnings of CHF 428 million versus CHF 381 million in 1997, thus continuing its excellent track record. This business enjoys significant synergies with both Private Banking and Warburg Dillon Read and is well-placed to benefit from increasing levels of corporate restructuring in Europe.

Logistical challenges

1998 was a year of logistical challenges, the biggest of which for UBS was, of course, the

merger. Here we are pleased to confirm that UBS is absolutely on course: implementation has been completed outside Switzerland and further substantial progress will be made domestically in 1999. In addition to the merger, the whole banking industry has been preoccupied with the Euro and the Year 2000. In the case of the former, UBS conducted an intensive preparation in the form of a number of dress rehearsals in November and December 1998 resulting in an extremely smooth introduction of the Euro in all divisions. With regard to preparations for Year 2000, we also made substantial progress in remediating and testing our hardware and software in 1998. We expect the work on the remaining systems to be substantially completed by mid-1999. Total expenditure on the introduction of the Euro and the Year 2000 amounted to CHF 662 million in 1998.

In addition to managing merger integration, UBS spent considerable effort in fine-tuning its strategy, as outlined at the merger announcement.

Strategic overview

Our strategy is based on the following assumptions: significant financial markets growth world-wide, especially in Europe where we see heightened potential for asset gathering and for European investment banking business. Ongoing industry consolidation and restructuring will favor industry leaders, and quality earnings are increasingly at a premium given heightened market cyclicality. Finally, technology is becoming a major driver of business.

UBS is well-positioned to succeed in such an environment and has clear leadership aspirations. We aim to achieve sustainable profitable growth within defined parameters for risk, leading to ongoing value creation. We see UBS as managing its own destiny rather than being shaped by external forces and, thus, as being recognized as a role model for success and quality. We aim to foster a co-operative, meritocratic and professional corporate culture, which goes far beyond financial conglomerate management.

On this basis, UBS corporate strategy has developed as follows:

– Firstly, UBS seeks to position itself as a global financial institution with the goal of becoming a leading European asset gathering house. This will be achieved with all business divisions contributing as part of an integrated business model leveraging cross-divisional synergies. The main emphasis is on organic growth, facilitated by sustained technology investments and complemented by selected acquisitions. At present, we have two major initiatives underway: we are building up domestic private banking in key European markets and are encouraged by the good degree of success achieved already. Secondly, we have mandated the Private and Corporate Clients Division to build a technology-driven asset gathering business, using platforms already developed in this business to expand into major European markets.
– UBS is committed to best practice in its communication with shareholders. In this context we have gone further than many of our competitors in providing indicative medium-term earnings forecasts. During the year, we have revised our preliminary forecast for the year 2002 set out at the time of the merger from earnings per share of approximately CHF 50 to earnings per share of approximately CHF 45, representing a net income range of CHF 9–10 billion. The main adjustments reflect the lower risk appetite in and capital allocation to Warburg Dillon Read. Here a marked reduction in risk appetite and international counterparty risk has already taken place and further reductions will follow. Importantly, we maintain our return on equity target of 15%–20% and our cost/income target of approximately 60%.
– UBS is already one of the best capitalized financial institutions world-wide with a Tier 1 ratio of 9.8% at end-1998. This exceeds our target range of 8.5%–9%. UBS has already made progress in divesting non-core, capital-intensive businesses. Given our high level of capitalization and focused allocation of resources, we expect UBS to continue to generate excess capital. UBS is committed to efficient equity management, and we see investment in own stock as an acceptable alternative in the absence of value-enhancing acquisitions.

In terms of material events to date in 1999, UBS and Swiss Life/Rentenanstalt jointly announced the intended termination of their co-operation agreement on 19 February 1999. This was a result of growing competition between the strategies of the two companies in the area of European asset gathering. In this context, UBS's 25% stake in Swiss Life/Rentenanstalt will be

acquired by a number of Swiss and international investors. Swiss Life / Rentenanstalt will also acquire UBS's 50 % stake in the UBS Swiss Life joint venture. UBS expects a post-tax gain of CHF 1.2–1.4 billion from these divestments. The cross directorships between the two companies will be relinquished during the course of 1999. UBS does, however, continue to consider the life assurance business as an important component of its European asset gathering strategy.

In conclusion, UBS is embarking upon 1999 tested and strengthened by the events of the previous year. We are confident that we are on course with our strategy, and we expect a significant profit increase which will bring us close to our return on equity target.

In drawing to a close, we would like to take this opportunity to thank our clients, staff and you, our shareholders, for your support during a difficult year.

UBS AG

Alex Krauer
Chairman of the Board of Directors

Marcel Ospel
President and Group CEO

UBS Presence world-wide

Review of Businesses

UBS Segment Reporting

To enable a more meaningful analysis of UBS's results, Group results are presented on a management reporting basis. Consequently, internal charges and transfer pricing adjustments have been reflected in the performance of each business. The basis of the reporting reflects the management of the business within the UBS Group.

Segment Reporting by Business [1]

	Private Banking		Warburg Dillon Read	
CHF million	**12.98**	12.97	**12.98**	12.97
Operating income	**7,223**	6,215	**6,987**	10,888
Less: Credit loss expenses [2]	**26**	59	**500**	300
Total	**7,197**	6,156	**6,487**	10,588
Personnel, general and administrative expenses	**2,605**	2,773	**6,984**	8,714
Depreciation and amortization	**256**	218	**524**	595
Total	**2,861**	2,991	**7,508**	9,309
Segment performance before tax	**4,336**	3,165	**(1,021)**	1,279
Tax expense/(benefit)	**737**	561	**(306)**	213
Segment performance after tax	**3,599**	2,604	**(715)**	1,066
Less: Minority interests	**0**	0	**(9)**	0
Net profit/(loss)	**3,599**	2,604	**(706)**	1,066
Regulatory equity used (avg)	**1,500**	2,100	**13,300**	13,600
Assets under management (bn) [3, 4]	**607**	610	**0**	0
Cost/income (%) [3]	**46**	48	**107**	85

Purpose

Based on UBS's Management Accounting, segment reporting provides accurate performance measurements of the UBS divisions to increase substantially transparency and accountability. Segment reports follow the organizational structure of UBS. Therefore, the results reported are performance indicators for the UBS divisions.

Accounting Standards

Although segment reports are based on Management Accounting, they comply with International Accounting Standards (IAS), and they are also examined by the UBS's auditors, ATAG Ernst & Young AG. Where a different approach has been applied in order to increase transparency, the figures are fully reconciled to Financial Accounting.

Segment reports disclose additional information not required by IAS in order to measure the performance of the business divisions in a more accurate way. Examples in this context are: assets under management, headcount, and regulatory equity used.

Basic assumptions

The divisions are treated for this purpose as if they were autonomous business units. Hence, the amount of equity capital that would be required for the divisions operating as separate entities is attributed to them, and this resource is not free of funding. (Please see the Review of Asset and Liability Management Section.)

Inter-segmental revenues and costs are allocated to the divisions based on market prices or on service level agreements. Basically, all Corporate Center costs are allocated to the divisions based upon the concepts of benefit and controllability, which are explained below. At the end of the process, the Corporate Center comprises all revenues and costs that actually belong to the Corporate Center (e.g. income from treasury activities or from risk management and control), or that cannot reasonably be attributed to the divisions (e.g. provisions for settlement reached in the US). Taxes are also debited (or, in the case of a loss, credited) to the divisions.

Management Accounting Principles

- Interest revenues are apportioned across the divisions based on the opportunity costs of funding. Accordingly, all assets and liabilities are refinanced with the fixed-income business within Warburg Dillon Read based on market rates. Revenues relating to balance-sheet products are calculated on a fully-funded basis. Therefore, there is no free capital. As a result, in the segment reports, the divisions are credited with the risk-free return on the equity used. Commissions are credited to the business division with the corresponding customer relationship.
- In addition to the direct costs of the divisions, inter-divisional costs are allocated based on service level agreements and treated as a cost reduction in the division providing the service.

Private & Corporate Clients		UBS Brinson		UBS Capital		Corporate Center		Group Total	
12.98	12.97	**12.98**	12.97	**12.98**	12.97	**12.98**	12.97	**12.98**	12.97
7,025	7,005	**1,163**	1,040	**585**	492	**296**	518	**23,279**	26,158
1,170	1,092	**0**	0	**0**	0	**(745)**	(173)	**951**	1,278
5,855	5,913	**1,163**	1,040	**585**	492	**1,041**	691	**22,328**	24,880
3,999	4,305	**608**	593	**152**	108	**2,085**	381	**16,433**	16,874
948	852	**107**	44	**5**	3	**(15)**	50	**1,825**	1,762
4,947	5,157	**715**	637	**157**	111	**2,070**	431	**18,258**	18,636
908	756	**448**	403	**428**	381	**(1,029)**	260	**4,070**	6,244
154	135	**128**	127	**15**	2	**317**	357	**1,045**	1,395
754	621	**320**	276	**413**	379	**(1,346)**	(97)	**3,025**	4,849
0	0	**0**	0	**0**	0	**4**	16	**(5)**	16
754	621	**320**	276	**413**	379	**(1,350)**	(113)	**3,030**	4,833
8,250	8,600	**100**	50	**250**	200	**6,350**	4,150	**29,750**	28,700
434	398	**531**	504	**0**	0	**0**	0	**1,572**	1,512
70	74	**61**	61	**27**	23	**n/a**	n.a.	**78**	71

[1] The 1997 results do not take into account the merger provision and the merger impact on taxes. The net loss of the whole Group including these items would be CHF 667 million. Private Banking and Private and Corporate Clients 1997 figures were restated in order to properly reflect the new client segmentation (transfer of investment clients from Private Banking to Private and Corporate Clients).

[2] In order to show the relevant divisional performance over time, adjusted expected loss figures rather than the net credit loss expense are reported for all business divisions. The statistically derived adjusted expected losses reflect the inherent counterparty and country risks in the respective portfolios. The difference between the statistically derived adjusted expected loss figures to the financially booked net credit loss expenses at Group level is reported in the Corporate Center. For 1997, basically the same methodology as for full-year 1998 Segment Reporting is applied. Due to the unavailability of some pre-merger data, management estimates were used.

The divisional breakdown of the net credit loss expense of CHF 951 million as of December 1998 is as follows: Private Banking CHF 48 million, Warburg Dillon Read CHF 506 million, Private and Corporate Clients CHF 397 million.

[3] Banca della Svizzera Italiana not included as at 31 December 1998 (assets under management CHF 37 billion).

[4] UBS Brinson 1998: institutional assets CHF 360 billion, funds CHF 171 billion.

– The allocation of Corporate Center costs to the business segments is based upon concepts of benefit and controllability. Basically the division which controls the process or is responsible for the logistic bears the costs.
– In order to report the relevant divisional performance over time, adjusted expected loss figures are reported for all business divisions rather than the net credit loss expenses as in the financial income statement. The statistically-derived adjusted expected losses reflect the inherent counterparty and country risks in the respective portfolios. The difference between these figures and the financially-booked credit loss expense at Group level is in Corporate Center. (Please see page 36 of the Review of Risk Management and Control.)
– Taxes reflect an average effective tax rate for each division, based on the different geographical regions in which they operate.
– Equity is allocated to the divisions based on the average regulatory capital requirement during the period. Utilized equity only is taken into account, and a mark-up of 10 % as a security margin is added. The remaining equity, mainly for real estate investments, as well as excess capital remains in Corporate Center. (Please see page 48 in the Review of Asset and Liability Management.)
– Assets under management include client-related on- and off-balance sheet assets. Where two divisions share responsibility for management of the funds (such as investment funds), the assets under management are included in both business segments. Custody-only assets are excluded.
– Headcounts of the divisions include trainees and staff of special management development programmes. Contractors are not part of the figures.

Private Banking

The Private Banking Division focuses on comprehensive wealth management solutions for high-net-worth individuals and holds the leading position in this highly-fragmented global market. Size enables specialization and thus truly individualized, high-quality services. By leveraging the strengths and the expertise of the whole UBS Group, the Private Banking Division can offer an extraordinary range of services and financial products, the breadth and depth of which hardly can be found anywhere else in the world.

Business Profile / Mission Statement

With CHF 607 billion in assets under management (AuM), UBS holds the leading position in the global private banking industry. The Private Banking Division focuses on comprehensive wealth management solutions for high-net-worth individuals. Its mission is to deliver outstanding advice and execution in financial matters worldwide to wealthy private individuals and to the intermediaries serving them.

Size enables the Private Banking Division to offer truly individual services: through size, the division can cater to the specific needs of client segments and markets. The client advisor is central to the delivery of services to our clients. He or she manages the relationship and is the main advisor for clients. The focus on the long-term client relationship is in line with the division's emphasis on the lifetime value of our client relations rather than short-term revenue.

The four core services, or "product lines", of the Private Banking Division – Portfolio Management, Active Advisory Team, Investment Funds and Financial Planning and Wealth Management – provide the building blocks of the Private Banking services. Further strengths are derived from our position as an integral part of the UBS Group: The division leverages the financial strength and capital of the UBS Group, the wide and sophisticated product range of Warburg Dillon Read, the asset management expertise of UBS Brinson and the technological and physical infrastructure of Private and Corporate Clients in Switzerland.

Employing 7,634 people, the Private Banking Division is represented through 78 branches and subsidiaries in Switzerland and around the world (excluding Representative Offices).

Review of Divisional Results

During a challenging year which included merger integration and extraordinarily volatile market conditions in the third quarter, the Private Banking Division demonstrated consistent and stable earnings power. Private Banking was able to minimize the potentially significant risks of client defections identified at the time of the merger, and was much less negatively affected by events in the third quarter than the market in general. Market turmoil had no lasting impact on performance of the division and the managed portfolios.

Pre-tax profit for 1998 was CHF 4.3 billion, up 37% from 1997. (1998 and 1997 results were restated to take into consideration the effect of interdivisional client business transfers.) 1998 pre-tax profit was impacted by divestments. Eliminating the impact of divestments, net profit before tax went up by 4%, year-on-year. Assets under management (also adjusted for divestments) grew 6% to CHF 607 billion over end-1997.

Operating income

Net operating income (after credit loss expenses) increased by 17% to CHF 7.2 billion from CHF 6.2 billion in 1997. This included CHF 1.4 billion (sales proceeds and operating revenues) in divestments, including BSI-Banca della Svizzera Italiana and Adler & Co. Ltd.

Personnel, general and administrative expenses

Operating expenses before depreciation and amortization decreased by 6% to CHF 2.6 billion from CHF 2.8 billion in 1997. As with operating income, expenses were affected by divestments. Eliminating the personnel, general and administrative expenses associated with the normal operations of divestments, expenses decreased 1% to CHF 2.5 billion in 1998.

The major shift in Private Banking headcount in 1998 took place in Switzerland. The sale of BSI led to a reduction of 802. Headcount figures for Switzerland per end of 1998 amounted to 5,092 (including Private Banks). Outside Switzerland staff for the Private Banking Division are in the following geographic areas – Rest of Europe 1,278, the Americas 629 and Asia / Pacific 635.

Depreciation and amortization / taxes

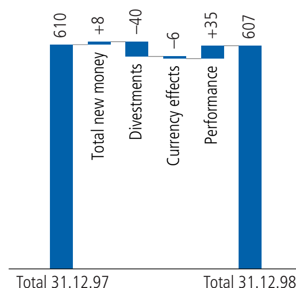
Depreciation and amortization increased by 17% to CHF 256 million in 1998, whereas taxes increased from CHF 561 million in 1997 to CHF 737 million in 1998, in line with the pre-tax results.

Assets under management

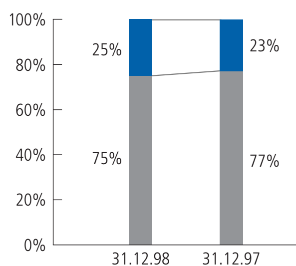
Despite the merger and volatile markets, the Private Banking Division achieved a net AuM inflow. The inflow of new money from new and existing clients exceeded client defections and withdrawals by CHF 8 billion. While market developments in the third quarter interrupted the

Assets under Management Development

CHF billion



Assets under Management Advisory vs. Discretionary

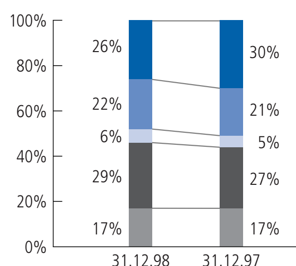


1997 Total: CHF 610 billion[1]
1998 Total: CHF 607 billion

■ Discretionary
■ Advisory

[1] Before 1998 divestments of CHF 40 billion

Assets under Management by Currency



1997 Total: CHF 610 billion[1]
1998 Total: CHF 607 billion

■ CHF ■ USD
■ DEM ■ Others
■ GBP

[1] Before 1998 divestments of CHF 40 billion

CHF million	**1998**	1997	Change (%)
Private banks [1]	**2,088**		
Other business areas	**5,135**		
Total operating income	**7,223**	6,215	16
Less: Credit loss expenses	**26**	59	(56)
Total	**7,197**	6,156	17
Personnel, general and administrative expenses	**2,605**	2,773	(6)
Depreciation and amortization	**256**	218	17
Total	**2,861**	2,991	(4)
Segment performance before tax	**4,336**	3,165	37
Tax expense/(benefit)	**737**	561	31
Segment performance after tax	**3,599**	2,604	38
Less: Minority interests	**0**	0	–
Net profit/(loss)	**3,599**	2,604	38
Regulatory equity used (avg)	**1,500**	2,100	(29)
Cost/income in % [2]	**46**	48	
Assets under management (bn)	**607**	610	0
Headcount	**7,634**	7,862	(3)
of which: Switzerland	**5,092**	5,859	(13)
Rest of world	**2,542**	2,003	27

[1] Includes sales profit and operating income from divested companies. [2] Before credit loss expense.

positive development in AuM performance over the first half of the year, positive fourth-quarter performance helped to yield a full-year increase in AuM attributable to performance and currencies of CHF 29 billion.

AuM at Private Banking were also affected by divestments, which accounted for a reduction of CHF 40 billion in AuM. Eliminating these items, assets under management grew by CHF 37 billion and stood at CHF 607 billion at year-end 1998.

As can be seen from the accompanying graph, 25% of Private Banking's AuM portfolio is in discretionary AuM, a proportion which has been increasing over time and which generates higher levels of fee and commission income. The distribution of asset classes between accounts, bonds, mutual funds, and equities is well spread. Allocation of AuM among the major currencies as of 31 December 1998 was weighted more strongly towards the USD, DEM and GBP, while the CHF portion declined below the USD.

Looking to the development of AuM, we expect the following trends as clients continue to seek higher returns, and in line with our strategy to strengthen our business in the domestic private banking markets outside of Switzerland:

- an increasing proportion of discretionary AuM
- a movement out of deposit accounts into higher-yielding products
- market growth that is higher in the domestic private banking markets than in the traditional international private banking markets.

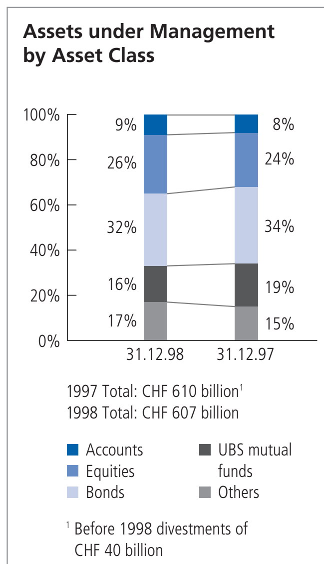
Merger and Other Initiatives in 1998

Merger on track and successful

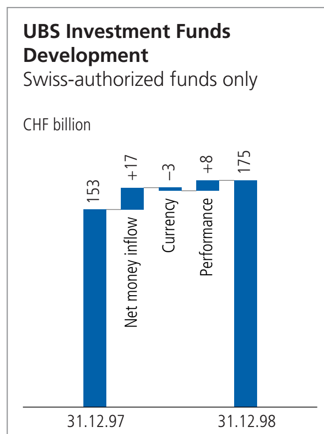
In Switzerland, the merger is moving ahead as planned. The new management structure was announced in early 1998. Unified services and a new price structure were introduced at the official merger date on 29 June 1998.

The client segmentation process is on track and the transfer of client business between the Private Banking and Private and Corporate Clients is well underway. UBS is very careful to extend every effort in meeting our clients needs during this transfer process, which we expect to be completed by the end of 1999. Client segmentation will enable Private Banking to become more focused on the clients' needs and to dedicate additional resources to selected segments of high-net-worth individuals.

The migration process, i.e. the transfer of data to one new IT platform, was successfully completed in the main international centers (New York, Singapore, Hong Kong, London). In Switzerland, the size and complexity of the



Definition: Equities and Bonds exclude UBS mutual funds. UBS mutual funds include UBS investment funds, UBS fund account and UBS Brinson and Warburg Dillon Read Funds. Others include Money Market, UBS Medium-term Notes, Derivatives, other mutual funds not managed by UBS, and Metals.



business required a much higher degree of preparation. After several test runs were successfully concluded, the full migration is planned to take place in five steps in the first half of 1999.

Private Banking recognized clearly from the outset of the merger that some client defections would occur. This risk was taken very seriously, and therefore careful monitoring and focused management processes were put in place. Client defections could obviously not be completely prevented, but the risk was successfully mitigated. As a result, the inflow of new AuM substantially exceeded AuM losses from client defections, and the same applies to the number of clients.

The new business model

The Private Banking Division has used the merger as an opportunity to develop a new business model to better serve an increasingly demanding client base in a more efficient manner:

– The merger provided the unique opportunity to create a large and very targeted client segment of high-net-worth individuals. The client advisors are principally organized by respective markets, which allows them a higher level of client focus. Flexible new "client servicing teams" can now be assembled to bring together the highest level of customized expertise to meet our clients' increasingly sophisticated needs.
– Tightened focus on the operations surrounding our core products and services will increase our efficiency in engineering and executing sophisticated individual wealth management solutions. It is this "vertical integration" of the business that will allow us to achieve economies of scale and scope.
– The new business area encompassing six Private Banks in Switzerland operating under their own names continues to offer an alternative to those clients that are attracted by the individual atmosphere and service of a small Private Bank, while they will benefit from the backing and support of one of the world's largest and best-capitalized banks.
– Following a "no-redundancy principle", Private Banking is becoming more efficient by leveraging off the specific divisional competencies highlighted through an integrated UBS Group concept. This gives UBS a significant advantage against the competition.
– Private Banking's performance incentive systems are increasingly designed to reward entrepreneurial talent and initiative within the division.

Investment funds business

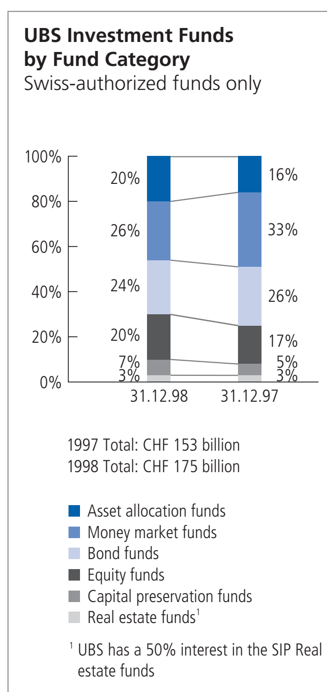
As a result of the merger, UBS has become the number one fund provider both in Europe and in Switzerland. At the end of 1998, assets under management of UBS Investment Funds amounted to CHF 175.2 billion, an increase of 14.7% for the year. Product owners of mutual funds in the UBS Group are Private Banking, UBS Brinson and Warburg Dillon Read. Private and Corporate Clients offers Private Banking Division's mutual fund product range to its clients. "UBS Investment Funds" is the label for the Private Banking Division's core range of public open-end mutual funds.

During the course of the year, we simplified our administration structure in Switzerland and in Luxembourg by reducing operations to one company in each location. Further fund activities – administration and/or local and regional distribution of our funds within the bank and with third parties – are dealt with by our fund units in Germany, Italy, Jersey, the USA, the Cayman Islands, Japan, Taiwan and Hong Kong.

In addition, we have re-calibrated and renamed a number of funds, and we made intensive preparations for the merging of the funds of the two former banks. These mergings will come into effect in 1999, when we adapt our fund range to the introduction of the Euro. It is our aim to implement these changes in a customer-friendly manner and as swiftly as possible.

Major Awards Won by UBS Investment Funds in 1998

Award	Source
Best Overall Management Group over 5 years	Standard & Poor's, Micropal
Best Bond Management Group over 5 years	Standard & Poor's, Micropal
48 different awards for individual funds in their respective fund categories or markets	Standard & Poor's, Micropal, Lipper, BOPP ISB



The risk-controlled management style of our portfolio managers has led to consistently good performance results which is demonstrated by a high number of awards given to our funds. The transparent fee structure (all-in-fee) and the clear positioning of our fund range has enhanced its attractiveness to the investing community at large.

Strategic Initiatives

A holistic, client-oriented model

The private banking industry is undergoing fundamental changes. Traditional private banking client preferences of security and stability are giving way to demands for more sophisticated and performance-oriented solutions which are far-reaching in nature. Thus, comprehensive wealth management solutions in the client's own market are moving towards the forefront of client preferences.

Two initiatives have developed from these trends. First, we are looking at a wider and deeper penetration of our services and products into our existing client base. We aim to extend our services and products to better cover our clients' total net wealth through comprehensive wealth management solutions. By the same token, we are seeking to meet our clients' customized, sophisticated needs by developing individualized services, and additionally by utilizing Warburg Dillon Read as an essential supplier of an expanded range of advanced products.

Second, the Private Banking Division is committed to a strategy of developing the domestic private banking market outside of Switzerland. This strategy will allow us not only to tap money previously inaccessible to us, but also to tap money flowing back to, or no longer flowing out of, those markets. Therefore, value creation is entirely accretive to the current core franchise of Swiss private banking, which is intact and which we will aggressively preserve with major investments in people and in technology.

Balancing organic growth in various competitively-fragmented markets against a number of select acquisitions around the world, Private Banking is on course to increase significantly AuM and revenues from the domestic private banking business outside of Switzerland. Profitable domestic businesses already exist in the UK, US and Canada. Our start-ups in Italy and Japan are progressing better than planned and so is the conversion in Germany (Schröder Münchmeyer Hengst AG) and in Australia (Potter Warburg Securities Ltd.). Our offices in Spain opened just after year-end 1998, and the ones in France are ready to come on-line as soon as regulatory approval is achieved. Private Banking is determined to commit substantial resources in terms of management's time and investment capital to achieve significant growth of the domestic businesses, as we view these strategies as essential to achieving sustained profitability in the private banking industry in the medium term. In addition Private Banking will continue to analyze a range of select acquisition opportunities. The Group's potential acquisition budget is mainly focused on Private Banking.

Outlook

We expect organic growth of AuM in our new domestic units outside of Switzerland, as well as from selected acquisitions in targeted markets. Due to start-up costs, however, their net contribution will remain limited. Thus, the Private Banking Division expects to grow 1999 net profit by expansion of its business, improved services and the synergy effects of the merger.

Warburg Dillon Read

Warburg Dillon Read has established itself as the leading European investment bank and the most truly international of the global top tier. Following the merger and the market turbulence of the third quarter, the division reassessed all its business activities and designated those on which it would focus going forward. Management believes that these businesses have sustainable competitive advantages and can be operated to serve the global client base in a manner which enhances the considerable franchise of Warburg Dillon Read.

Business Profile / Mission

Warburg Dillon Read is the investment banking division of the UBS Group. Delivering debt and equity financing, advisory services, global research, securities and foreign exchange execution, and risk management services to major corporations, institutions, and public entities around the world, Warburg Dillon Read has established itself as the leading European investment bank among the top tier of investment banks globally.

Warburg Dillon Read is a "narrowly defined" investment bank compared to its major global competitors. This is because some of the elements generally found in a broader investment bank – private clients, institutional asset management, and private equity – reside within the other divisions of UBS. In addition to its role as franchise manager within the Group for institutions, corporations and sovereigns, a significant function of Warburg Dillon Read is providing products, execution and transaction processing to the other asset gathering activities of UBS. Warburg Dillon Read clearly focuses on both its external clients and its very substantial internal clients, providing each category with the same professional products and services. The cost savings for the Group are significant.

Our "home markets", meaning those in which we are in the very top few firms in advisory, primary issuance, research, and secondary sales and trading, are the UK, Switzerland and Australia. In the United States and Japan, cross-border transactional flows are our mainstay. At the same time, with a listed equity market share of over 2% in the United States, we also have significant domestic presence in secondary sales and trading of securities in the largest of the world's marketplaces and a very credible presence in domestic advisory and debt and equity underwriting.

Achieving a position among the global top tier of investment banks with this business mix demonstrates that Warburg Dillon Read is the most truly international of the leading investment banks. While some competitors list the pursuit of international opportunities as part of their strategy, we consider every undertaking, wherever the location, to be part of our single global business. It is difficult to define the international element of our business given that no one nationality accounts for more than 25% of our employees.

Review of Results

Business priorities

Warburg Dillon Read generated a post-tax loss of CHF 706 million in 1998, following a profit of CHF 1.1 billion in 1997.

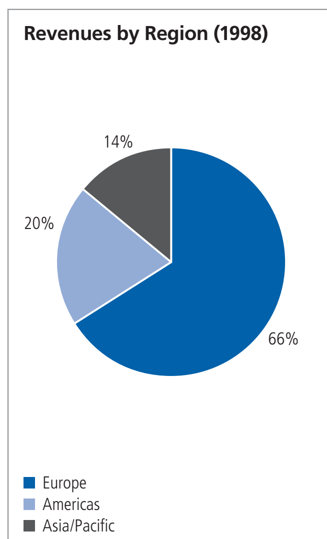
After an excellent first half in 1998, we experienced a very difficult third quarter, as did many competitors. As reported in the Review of Risk Management and Control Section on pages 33–35, principal contributors to this were the exposure to the hedge fund Long Term Capital Management (LTCM) and the positions in the Global Equity Derivatives portfolio which predated the merger. Warburg Dillon Read's pre-tax losses on these were CHF 793 million and CHF 762 million, respectively, in 1998. The Review of Risk Management and Control Section summarizes the remaining exposure to these positions.

Other contributors to the poor third-quarter performance were more within our control. These included losses on structural positions such as short Swiss equity volatility in the longer maturities. Although a good job had been done in decreasing this position between the merger and the time of the market turmoil, it still was a large exposure which proved costly. This particular exposure, an adjunct to the large role that we fulfill in the Swiss market, can be expected to suffer during market dislocations. However, we expect our role to be rewarding over the cycle, and much of the third-quarter loss was recouped during the fourth quarter.

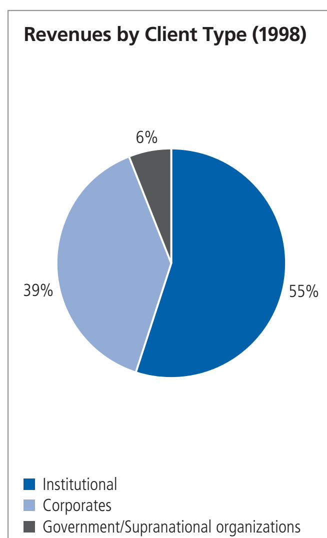
We also experienced losses on credit exposures in tradable assets and the loan portfolio in Russia and other emerging markets. These losses, coupled with the view that the changed market environment would have more long-lasting repercussions, caused Warburg Dillon Read's senior management to conduct a fundamental review of the division's business activities and priorities, with particular emphasis on the Fixed Income Area.

Each of the major business activities was assessed as to whether it was supportive of the franchise of Warburg Dillon Read or the UBS Group and whether it could be justified on an expected risk / return basis. Activities meeting both requirements were designated as core businesses of Warburg Dillon Read. Those activities failing one or both tests were identified for exit or designated as non-core. Non-core businesses, while remaining within Warburg Dillon Read for financial reporting, are being run down or dis-

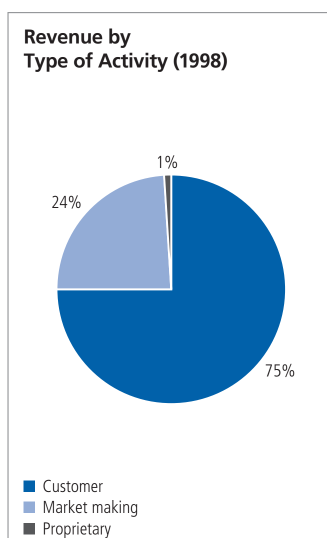
Revenues by Region (1998)



Revenues by Client Type (1998)



Revenue by Type of Activity (1998)



CHF million	**1998**	1997	Change (%)
Corporate finance	**1,665**		
Equities	**2,572**		
Fixed income	**399**		
Treasury products	**2,351**		
Total operating income	**6,987**	10,888	(36)
Less: Credit loss expenses	**500**	300	67
Total	**6,487**	10,588	(39)
Personnel, general and administrative expenses	**6,984**	8,714	(20)
Depreciation and amortization	**524**	595	(12)
Total	**7,508**	9,309	(19)
Segment performance before tax	**(1,021)**	1,279	(180)
Tax expense/(benefit)	**(306)**	213	(244)
Segment performance after tax	**(715)**	1,066	(167)
Less: Minority interests	**(9)**	0	
Net profit/(loss)	**(706)**	1,066	(166)
Regulatory equity used (avg)	**13,300**	13,600	(2)
Return on equity	**(5)**	8	(168)
Cost/income in % [1]	**107**	85	
Headcount	**13,794**	18,620	(26)
of which: Switzerland	**2,502**	3,304	(24)
Rest of world	**11,292**	15,316	(26)

[1] Before credit loss expense.

posed of as appropriate and prudent. The core businesses of Warburg Dillon Read are deemed to have sustainable competitive advantages, and we expect to operate them profitably so as to produce shareholder-value-enhancing returns.

Activities identified for rapid position rundown and exit include:

- Commodities Trading (Energy, Base Metals, Electricity)
- Project Finance
- Non-structured Asset-backed Finance
- Conduit Finance
- Lease Finance
- Distressed Debt Trading

Also, two activities have been designated noncore and will be operated separately from our main businesses. These are:

- Those loans and commitments which are not part of the tradable asset portfolio (loan trading), not issued in conjunction with the Leveraged Finance business or which are in excess of the limits for credit exposure to our clients. The non-core loan portfolio will be separated from the core activities of Warburg Dillon Read. It will be managed to zero in an economically sensible fashion.
- Global Trade Finance which, while operating successfully, is a business that with the exception of the Swiss corporate business is not core to any division of UBS. Various strategic and operational alternatives for this business are being investigated which will ensure that client service is maintained.

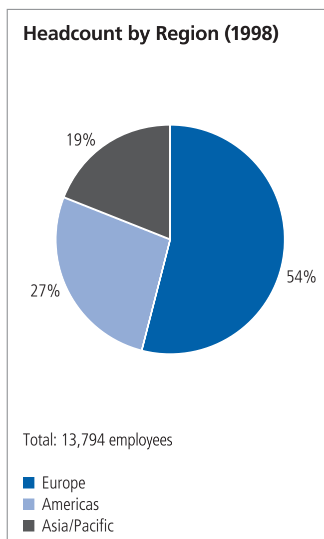
Additionally, those risks of the Global Equity Derivatives book which we do not consider part of the core activities of Equities will be managed by Warburg Dillon Read under an agreement with Corporate Center. Note that this does not mean that we are ceasing all Global Equities Derivatives dealing. In fact, we have enhanced our ability to meet the risk management needs of clients by establishing a team that delivers solutions across both equity and interest rate products. We believe that this activity can be operated prudently to yield attractive risk-adjusted returns.

Results

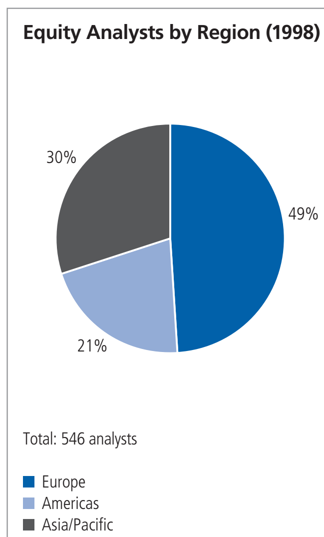
Warburg Dillon Read generated a post-tax loss of CHF 706 million in 1998.

Excluding the losses of CHF 793 million from LTCM and CHF 762 million on the Global Equity Derivatives Portfolio reported under the business areas Fixed Income and Equities respectively, Warburg Dillon Read would have published a pre-tax profit which was disappointing but in line with industry trends. In this context the demands of the merger should also be borne in mind.

Headcount by Region (1998)



Equity Analysts by Region (1998)



Corporate Finance exceeded expectations, as a result of high levels of M&A activity and a record amount of business in equity and equity-linked issues.

Equities, after a strong first half, experienced a difficult trading background in the second half, when extreme levels of volatility were encountered. High levels of commission and income on new issues were achieved.

Fixed Income revenues were depressed primarily by losses in Russia and other emerging markets. Very healthy primary bond activity driven by Warburg Dillon Read's strong placing capabilities was offset by other activities performing marginally below expectation.

Treasury Products performed well in 1998. An exceptional Short Term Interest Rates result, largely due to an efficient implementation of centralized netting, was partially offset by proprietary foreign exchange losses and low Precious Metals revenues.

Proprietary trading, owing both to poor results in 1998 and our strategic de-emphasis over the last few years, made a negligible contribution to total revenues in 1998.

Personnel, general and administrative expenses have benefited from a faster reduction in headcount than anticipated and a consequent reduction in personnel and related costs.

Depreciation and amortization costs include the write-down of goodwill in investments in emerging markets ventures following the strategic review of Warburg Dillon Read's businesses and markets.

Non-core

The Non-Core Loan portfolio and the Global Trade Finance business together generated revenues of CHF 388 million and profit before tax of CHF 54 million, and utilized regulatory equity of approximately CHF 3 billion.

Significant Events in 1998

Merger impact

The merger of Swiss Bank Corporation and Union Bank of Switzerland had a significant impact on the investment banking business, owing to an extensive product/service overlap in the two organizations. This resulted in a rationalization of enormous magnitude. Although not without some extremely difficult interim patches, these rationalizations all were identified and the investment banking merger accomplished in 1998.

Headcount, which totaled 18,620 in the two investment banking activities at the time of the merger announcement, stood at 13,794 at year-end 1998.

As a result of the merger, Warburg Dillon Read can point to an enhanced position in a number of areas compared to that enjoyed by either predecessor firm. In the Americas, combining the respective operations improved the platform substantially; inter alia our research coverage increased to over 70% of the S&P 500 companies. In Europe the merger reinforced the leading position in Equities which Warburg Dillon Read previously enjoyed. Globally, our distribution and origination power was markedly enhanced.

The review of business priorities discussed previously also led to a realignment of core activities among the newly-defined business areas of Treasury Products and Equities & Fixed Income. The former includes all our foreign exchange businesses, both spot and derivatives, as well as our short-term interest rate and repo activities. Equities & Fixed Income includes both our Equity and Fixed Income businesses, including derivatives.

The alignment of our product areas into these main groupings was driven primarily by commonality of clients, logistics requirements, and risk characteristics. For example, Treasury Products encompasses markets which are generally the most commoditized, which present the greatest opportunity for creating automated delivery paths to link individual market makers with clients and which most depend on processing and pricing efficiency to be competitive.

LTCB joint venture

In the first half of 1998, Warburg Dillon Read launched a joint investment banking venture in Japan with the Long-Term Credit Bank of Japan, Ltd. (LTCB), as envisaged under the alliance between Swiss Bank Corporation and LTCB announced in 1997. Unfortunately, against the backdrop of a deepening banking crisis in Japan, LTCB subsequently became the first bank to be nationalized under new government legislation. Under these extraordinary circumstances, it proved necessary for Warburg Dillon Read to terminate the alliance and to negotiate the buy-out of LTCB's interests in the joint venture. Warburg Dillon Read then re-launched successfully our wholly-owned investment banking businesses in

Japan under the Warburg Dillon Read brand, a business which secured and continues to enjoy significant economic benefits from the alliance in terms of goodwill and business flows.

Logistics, Euro and Year 2000

The logistical requirements created by the merger were enormous for Warburg Dillon Read. As noted elsewhere in this Financial Report, an early decision was made to adopt within Switzerland the systems platform of Union Bank of Switzerland and elsewhere in the world the platform of SBC Warburg Dillon Read. This decision permitted a rapid focusing on the necessary migrations and enabled financial reporting and risk control to operate effectively as early as the first day following the effective legal merger. As noted, integration of the infrastructure in Switzerland is ongoing and is planned to be completed in 1999.

In the face of the many "run the business" logistical requirements spawned by the merger, we are pleased to be able to report that these requirements were managed without a loss of focus on the Euro and Year 2000 programs. The Euro preparation concluded successfully when all Warburg Dillon Read activities were able to function as expected after the critical year-end conversion weekend. Our top priority remains to complete the Year 2000 program equally successfully in 1999.

Strategic Initiatives

Although Warburg Dillon Read's 1998 results were unsatisfactory in purely financial terms, as the above review shows, the impact of the extraordinary items should not obscure some significant accomplishments that provide confidence going forward.

Proven strengths

Augmented by the merger, our Equities business ranks among the top firms globally and continued to win accolades for both research and execution. It will continue to provide full service to the major investing institutions of the world across all equity markets with any significance for asset allocation. The strength of this global base will enable our business to grow in the US at least as fast as US competitors are growing in Europe.

In equity-linked primary issuance (convertibles) Warburg Dillon Read was the global leader in 1998 by a wide margin. The division was number two across both equity and equity-linked issuance, including US domestic activity.

The accomplishments of our Equity Capital Markets Group reflect both the global reach and sector strengths of our partnered Corporate Finance and Equities businesses. We intend to expand these capabilities by investing selectively in global sectors, with emphasis on the US, whenever skilled analysts and bankers can be found to complement existing strengths.

Our sector strengths also are apparent in the continuing successes of our advisory franchises. Our Corporate Analysis and Structuring Team augments this by providing a market-driven approach to the analysis of debt/equity structuring that is unique in the industry.

We have maintained our long standing leadership in Eurobonds by topping the league tables for the eighth consecutive year. The main area of expansion will now be the Euro-zone markets. We already lead our home markets, and we are the top European securities house in primary issues.

A priority of our Fixed Income business is to use capital more efficiently, thus supporting the division's aim of reducing its capital requirement. To this end, the Fixed Income business will seek to act primarily as an intermediary rather than as a principal, by exploiting its portfolio management capabilities in both loan and security products and by leveraging its growing credit distribution capabilities, which include credit derivatives.

Corporate Finance and Fixed Income are active in two "joint ventures". The first is Leveraged finance, a business area that, although largely US-based today, holds much promise in Europe with its nascent high-yield markets. This initiative is supported by investment in high-yield research. The second joint venture, the Debt Capital Markets Group, covers the marketing, origination and structuring of all products in this category. Both joint ventures are well positioned to capitalize on the opportunities afforded by the developing Euro-based, pan-European capital markets.

In their more commoditized marketplace, our Treasury Products businesses continue to take the role of market maker and lead liquidity provider. Efficiencies from electronic price distribution and deal capture are increasingly important. We will continue to build upon established platforms.

Challenges

With the division's resources and focus on core businesses, we believe that we can compete successfully with the industry leaders in most markets for most products around the globe. The key challenges lie in certain areas of the US marketplace and the Euro-zone, notably in Germany.

We further believe that our aims are achievable without a corporate-level acquisition and that at most we will enhance our capabilities selectively by adding a few small teams. We will focus on serving our corporate and sovereign client bases and on achieving top-three supplier status with an expanded number of major institutional investors.

These plans can be accomplished while assuming less risk than either of our predecessor firms. We have already reached our reduced market risk target, having operated in recent months far below our VaR limit, which was down to CHF 600 million at the 1998 year-end. Counterparty risk fell significantly during 1998 and will continue to decline at the same pace or faster in 1999.

In Warburg Dillon Read, as in other investment banks, the logistics functions are increasingly important to productivity and competitiveness. These functions account for a growing proportion of total production and distribution costs. The trend is most pronounced for standardized products with their heavy reliance on efficient operations and technology, but the same tendency is apparent in all product and distribution activities. We are looking for improved competitiveness from enhanced processes implemented through more efficient partnerships between the business and the logistics functions.

Increasingly we think successful exploitation of the Internet will be a prerequisite for success in investment banking. Within Warburg Dillon Read, Internet efforts are focused on clients and distribution, trading and risk management, pro-

1998 Warburg Dillon Read Selected Awards

Corporate Finance Magazine
Top Banks of the Year
– Investment Bank of the Year
– Equity-Linked House of the Year

Corporate Finance Magazine
Deals of the Year
– Equity-Linked Offering of the Year – Swiss Life GEMMS
– Equity-Linked Offering of the Year – Bell Atlantic (runner-up)
– Equity Offering (Privatization) of the Year – Swisscom
– Syndicated Loan Deal of the Year – GEC
– Buyout of the Year – Investcorp/Watmoughs & BPC

Euromoney
Poll of Polls
Overall winner of the Poll of Polls
– No.1 Underwriting
– No.1 Trading
– No.1 Advisory

Euromoney
Awards for Excellence
– Best Eurobond Trading House (4th consecutive year)
– Best Securities Firm in Western Europe (5th consecutive year)
– Best Securities Firm in the UK (2nd consecutive year)
– Best Securities Firm in Switzerland (4th consecutive year)
– Best Foreign Securities House in the US (2nd consecutive year)

Euromoney
Deals of the Year
– Best International Euro Issue – Republic of Italy
– Best Equity-Linked Issue – Bell Atlantic (CWC)
– Best High-Grade Corporate Issue – KPN
– Best IPO – Swisscom
– Best Financial Institution Issue – Associates Corporation of North America
– Best International Syndicated Loan – GEC

Euromoney / Global Investor
European Broker Survey
– Best Overall European Sectoral Research
– Best Pan-European Equity Research
– Best Pan-European Equity Execution

Global Investor
FX Survey
– No.1 Best Advice on Spot Trading
– No.1 Best Sales Coverage

International Financing Review
Review of the Year
– European Equity House of the Year
– Equity-Linked House of the Year
– European Equity-Linked House of the Year
– European Equity-Linked Issue of the Year – Swiss Life GEMMS
– Privatization Issue of the Year – Swisscom
– Deutschmark Bond of the Year – KPN

International Financing Review Asia
Review of the Year
– Australian Equity House of the Year (2nd consecutive year)
– Australian Domestic Bond House of the Year

duction and logistics. In each of these three areas, initiatives are co-ordinated with those of other UBS divisions with a view to leveraging the entire Group's asset gathering and servicing capabilities.

Outlook

Global consolidation and the continued withdrawal of former aspirants to global status are by no means spent forces in the investment banking sector. This said, we believe that attractive opportunities exist for investment banks worldwide, opportunities that will outlast any continuing disruptions in the short term. Among the factors driving such opportunities are market deregulation, economic globalization, increasing emphasis on shareholder value, industrial consolidation, the rising volume of investable funds, and accelerating technological change.

Buoyed by these trends, the growth of the financial services industry has outpaced that of its host economies throughout the 1990s. While we expect the global investment banking revenue pool to continue growing, overall compound annual growth rates cannot be relied upon to match those of recent years. Further, short-term fluctuations and regional variations will inevitably affect the performance of all investment banks.

We expect the revenue pool to grow more strongly in Europe than in other regions over the next few years, thanks in part to Euro-driven corporate restructuring, a shift towards equity investment, and the nascent high-yield market. Warburg Dillon Read is uniquely positioned to take advantage of this growth.

In the US, the combination of high valuations, low inflation, and continued economic growth leaves equity prices sensitive to unexpected news. Volatility is therefore expected to remain high in the US and elsewhere.

Asia excluding Japan is unlikely to stage a rapid recovery from the current weak conditions in the banking and commercial sectors. We therefore have reduced our front office headcount significantly in the region in line with the size of expected opportunities. In the short term, such opportunities should come mainly from corporate restructuring and a shift from bank finance to the international capital markets. We have also scaled back our activities in other emerging markets including Latin America and Eastern Europe.

Private and Corporate Clients

Our objective is to become the most profitable bank for private, business and corporate clients in Switzerland by maintaining our leading market position. Furthermore, we are seeking to increase our return on equity to a level of 18%.

Business Profile / Mission Statement

The Private and Corporate Clients Division, measured in terms of assets under management as well as in terms of the loan portfolio, is the leading bank in Switzerland. Our year-end 1998 assets under management amounted to CHF 434 billion, of which 53% was from our Private and Business Clients business area, 41% from the Corporates business area and the remaining 6% from the Operations (Banks) business area. The volume of our loan portfolio amounted to CHF 165 billion of which mortgages accounted for around 75%.

Our position in the Swiss market and our ready access to other divisions enables us to offer a comprehensive range of state-of-the-art products and services to our diversified client base. As of year-end 1998, our client base consisted of more than 4.4 million private and investment clients, some 180,000 small- and medium-sized businesses plus more than 10,000 large corporates. In addition, we provide payment and custodial services to some 1,800 banking institutions located throughout the industrialized world.

A strategic review identified the potential to expand our business beyond Switzerland's borders in order to take advantage of the growing opportunities associated with Euroland. To this end, we have finished the initial analysis and are pursuing the realization of our objectives.

Review of Results

Summary

1998 was a year of major change for the Private and Corporate Clients Division. The merger brought about new challenges which required an outstanding effort from our managers and employees. Through their tremendous contribution, we were able to achieve both our integration and business-related objectives, resulting in a very successful year despite the highly competitive environment. Our integration process continues on track and will be completed during the remainder of 1999. Full-year 1997 and 1998 results have been restated to provide an accurate comparison of our results in light of the client business transfer which took place between Private and Corporate Clients and Private Banking.

Net profit after tax increased by 21% to CHF 754 million compared to the prior year level of CHF 621 million. The improvement was mainly due to significant cost cuts of 4%. This resulted in an enhanced cost/income ratio of 70%, which compares favorably with the 1997 ratio of 74%. Furthermore, the improved financial result and reduction in equity utilization contributed to a higher RoE of 9.1% versus 7.2% in 1997.

Operating income

Operating income increased slightly by CHF 20 million from CHF 7,005 million in 1997 to CHF 7,025 million in 1998. Margin improvements from risk-adjusted pricing were offset by divestments of Prokredit and Aufina.

Operating expenses

Operating expenses decreased 4%, or CHF 210 million, to CHF 4,947 million over the period due to management's rigorous attention to efficiency enhancement and the rapid realization of merger-related synergies.

Headcount for the period decreased 6%, or 1,598, to 24,043 year-on-year. Of the overall headcount reduction, some 980 were mainly attributable to the sale of Bosslab and Prokredit. We closed around 34 duplicate branch locations during the latter half of the year.

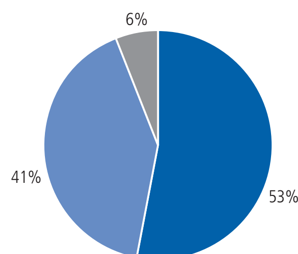
Our ability to reduce costs further was impaired by the need to maintain a high level of outside contractors associated with the introduction of the Euro and the upcoming Year 2000 conversion. Efforts in this regard ensured that we had a trouble-free Euro conversion on 1 January 1999.

Loan portfolio

After some interdivisional client shifts, the loan portfolio amounted to CHF 165 billion at year-end 1998. Accounting for about 75% of the division's portfolio, mortgages are a core element of our business. The remaining 25% of the Swiss portfolio consists primarily of commercial loans. The mortgage portfolio is broken down into about two-thirds fixed-rate mortgages, which represent a low interest rate risk. Furthermore, some 50% of all mortgages relate to low-risk single-family homes. More detail can be found in the Review of Risk Management and Control on pages 37–38.

The recovery portfolio was reduced by a net CHF 3 billion to CHF 26 billion by the end of 1998. This consisted of around CHF 10 billion of settled cases partially offset by some CHF 7 billion new workout positions.

Assets under Management by Business Area (1998)



Total: CHF 434 billion

- Private and business clients
- Corporate clients
- Operations (banks)

AuM for private and business clients and for corporate clients include accounts and custody. AuM in operations (banks) include accounts only.

CHF million	**1998**	1997	Change (%)
Private and business clients	**4,785**		
Corporate clients	**1,728**		
Operations (banks)	**448**		
Others (e.g. Systor)	**64**		
Total operating income	**7,025**	7,005	0
Less: Credit loss expenses	**1,170**	1,092	7
Total	**5,855**	5,913	(1)
Personnel, general and administrative expenses	**3,999**	4,305	(7)
Depreciation and amortization	**948**	852	11
Total	**4,947**	5,157	(4)
Segment performance before tax	**908**	756	20
Tax expense/(benefit)	**154**	135	14
Segment performance after tax	**754**	621	21
Less: Minority interests	**0**	0	–
Net profit/(loss)	**754**	621	21
Regulatory equity used (avg)	**8,250**	8,600	(4)
Cost/income in % [1]	**70**	74	
Assets under management (bn)	**434**	398	9
Headcount	**24,043**	25,641	(6)
of which: Switzerland	**23,989**	25,581	(6)
Rest of world	**54**	60	(10)

[1] Before credit loss expense.

Assets under management

Assets under management rose by CHF 36 billion to CHF 434 billion. This increase was due to, in roughly equal amounts, the net inflow of assets and positive equity markets over full-year 1998.

Significant Events in 1998

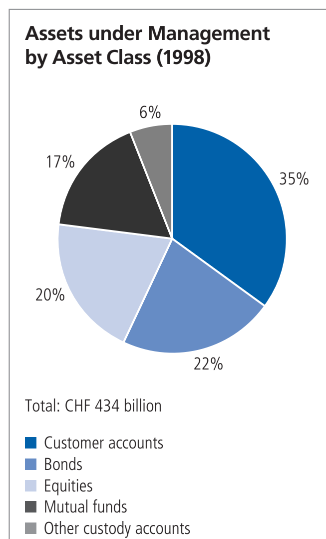
Merger on track and successful

Our ambitious integration plan remains on track with all major tasks expected to be completed before year-end. The following tasks were completed during the year:

- Rebranding/Client Communication: We have completed our rebranding both internally and externally. Furthermore, we harmonized our pricing and product ranges and were able to offer these to our clients by August 1998. This major effort was accompanied by the need to adapt the related information technology (IT) systems.
- Technical and Operational Migration: A decision to utilize a common IT Platform (ABACUS) was taken in January 1998 which permitted an early start to the major technical and operational migration. The rapid conversion allowed us to successfully migrate the first 100,000 clients in November of last year and establish the basis for migrating the remaining clients to ABACUS in 1999.
- Redesign of Distribution Network: We closed 34 duplicate branch locations throughout Switzerland during the year and have identified additional branches to be closed in 1999. Furthermore, we are broadening our offer of alternative distribution channels such as telephone and Internet banking.
- Client and Employee Retention: Client defections resulting from the merger have remained within the anticipated 5% range. Employee turnover, on the other hand, reached an average rate of approximately 14% for the year compared to the prior year's 12% rate. This trend has now been reversed and employee turnover is on the decrease.

The merger going forward

A number of significant integration steps remain to be completed. Based on progress so far, and the comprehensive preparatory work, we are confident that we will complete our projects within the established deadlines. Efforts to minimize further client and employee defections will continue.



Strategic Initiatives

Initiative for small- and medium-sized enterprises (SMEs)

At the time of the merger, UBS announced the "SME Initiative Switzerland". This initiative is a targeted response to the main challenges facing SMEs, namely the lack of adequate equity capital.

At the outset, UBS made some CHF 150 million available to qualified SMEs. During the second half of 1998, this amount was further increased to a total of CHF 335 million funded by EIBA and the venture capital initiative of former Swiss Bank Corporation. Three vehicles are being utilized for distribution, namely Aventic AG, UBS Startcapital and a seed fund for supporting high-technology development.

- Aventic AG is a wholly-owned UBS Group subsidiary with equity capital of CHF 30 million and access to some CHF 245 million of credit lines. It was formed in August 1998 and invests in innovative SMEs through equity stakes or by providing venture capital. Its Board is composed mainly of people from outside the bank in order to ensure the necessary flexibility and independence in its decision making.
- To assist in the start-up phase of new companies, UBS has launched a new range of products for up-and-coming entrepreneurs. The aim is to provide equity capital combined with start-up loans as well as necessary additional services to support management activities. These clients are served out of newly-created competence centers within our Private and Business Clients Business Area.
- A seed fund has been established to facilitate the transfer and realization of promising technology from Switzerland's universities. This autonomous vehicle was created to assist in promoting the development of new high-tech firms in Switzerland and is actively involved with universities and other institutions.

European asset gathering

The rapid growth in demand for investment and retirement products within Europe represents a significant opportunity. Growing wealth levels, the consolidation of Europe and uncertainty over the stability of state pension schemes, are some of the reasons why a cross-border product offering is attractive. Furthermore, an increasing number of investors are turning to channels such as the Internet and telephone to conveniently provide them with information and the ability to buy and sell securities and other financial products.

UBS, with core competencies in asset management, investment and long-term savings products, as well as proven client servicing capabilities and the appropriate technology, is well-placed to capitalize on these developments and offers these services outside of its traditional home market. As a global bank with in-house access to comprehensive and high-quality research, representations on all major stock exchanges, a well-recognized brand and exceptional technology, UBS has a significant opportunity to embark upon a technology-based expansion.

Outlook

For 1999, we expect to continue our improvement in net profit. This will be achieved by realizing our strategic projects which consist of clearly-defined initiatives and further enhancing the efficiency of our businesses.

We are highly confident about reaching our long-term objectives despite the continuing integration process, the highly competitive environment and the anticipation of only a moderate upswing in the Swiss economy.

UBS Brinson

UBS Brinson posted a strong performance in 1998 against a volatile market backdrop. Global revenue growth was generally healthy and was achieved with moderate growth in costs. Given the depth and breadth of our new resources, the merger and other client-driven strategic initiatives completed during the year should position us well for further growth. Our 1999 outlook is positive, although competition and market conditions are likely to remain challenging.

Business Profile / Mission Statement

UBS Brinson is responsible for the institutional asset management businesses of the UBS Group. We invest globally for a world-wide client base consisting of institutional investors such as pension funds, public funds and central banks. On behalf of Private Banking, we also manage the UBS Investment Funds of the UBS Group.

UBS Brinson is one of the largest institutional asset managers in the world. We employ a total of almost 1,500 people at our headquarters in Chicago and our offices in Bahrain, Basel, Frankfurt, Geneva, Hong Kong, London, Melbourne, New York, Paris, Rio de Janeiro, Singapore, Sydney, Tokyo and Zurich. In the United States, the United Kingdom and Switzerland, we are among the industry leaders. We have over CHF 360 billion in institutional assets under management, with an additional CHF 171 billion in mutual funds managed for Private Banking.

Institutional asset management mandates are typically awarded on the basis of investment style, performance track records and client service. UBS Brinson's goal is therefore to deliver sustained value-added investment performance relative to client-mandated benchmarks. Our asset allocation strategies are based on comprehensive proprietary research in the major equity, fixed income and currency markets around the world. Our method is to identify periodic discrepancies between market price and investment value and turn them to our clients' advantage. Our global presence means that we are thoroughly familiar with local client needs and regulatory environments. While applying local knowledge to meet our clients' specific needs, we leverage our research capability globally. The resulting superior service quality is the basis for building strategic partnerships with our clients.

The institutional asset management business, though subject to intense competition, has the potential to deliver attractive returns. Capital requirements are minimal, thus favouring a high return on equity. Revenues take the form of fees, which are closely correlated to the size of the assets under management. Earnings streams are consequently less volatile and more predictable. The growth potential for the business is impressive: institutional assets currently run to some CHF 17 trillion worldwide – by 2002 they are expected to reach CHF 25 trillion. Rising security market levels are a factor, but so are demographics. In many regions, notably Japan, Europe and also North America, the average age of the population is rising and so is the need to make provisions for growing future pension requirements. With our strategy built on a global platform with a local delivery focus, we are well-placed to continue to build our franchise in the markets of our choice.

Review of Results

Summary

The division's performance rose 11% pre-tax year-on-year. Excluding non-cash items, the division posted a very strong increase of 24% in operating profits before tax. The favorable performance stemmed primarily from good revenue growth overall with lower costs as the division rationalized its post-merger infrastructure and partially held in check its longer-term investments. Against a volatile market backdrop, the division's accomplishments during the year were impressive:

- The successful integration of the Union Bank of Switzerland and Swiss Bank Corporation businesses to create a diversified, global divisional platform unique in the industry.
- Expanded co-operation with Private Banking helping to further realize the extensive business synergies between the two businesses.
- The purchase of the Long-Term Credit Bank of Japan's (LTCB) asset management business significantly bolstering our institutional asset presence in Japan.

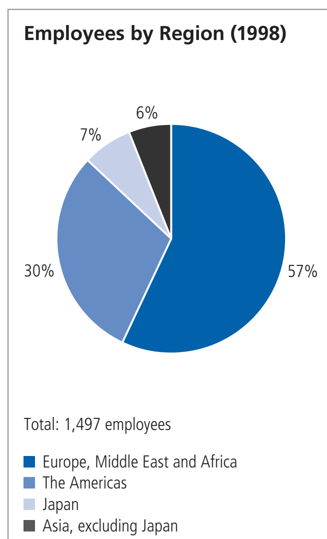
All of these events represent significant milestones in fulfilling our long-term strategy.

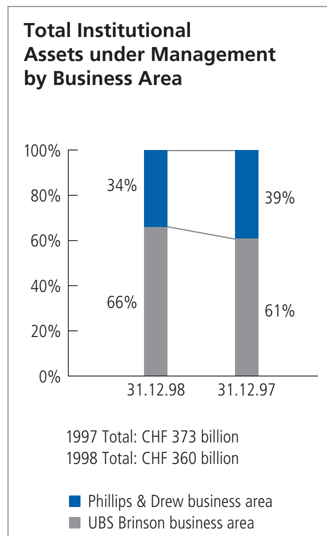
Revenues

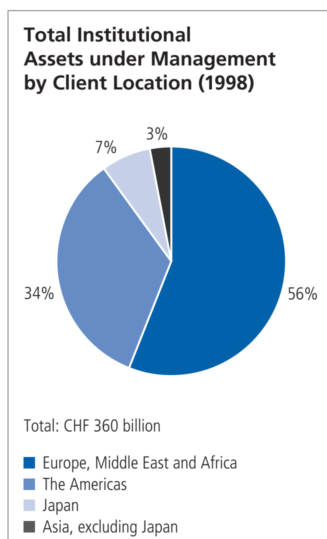
Growth in new assets under management, our acquisition in Japan and positive market performance contributed to a 12% increase in operating income over the prior year. Institutional revenue growth was generally positive across the globe. An added boost to revenue came from an increased asset flow from Private Banking. These positive developments were partially offset by a decline in Phillips & Drew revenue due to short-term performance issues and a very competitive UK marketplace.

Total costs

Total costs for the division increased by 12% due to goodwill charges on LTCB in Japan and the







CHF million	**1998**	1997	Change (%)
Phillips & Drew business area	**326**		
UBS Brinson business area	**837**		
Total operating income	**1,163**	1,040	12
Less: Credit loss expenses	**0**	0	–
Total	**1,163**	1,040	12
Personnel, general and administrative expenses	**608**	593	3
Depreciation and amortization	**107**	44	143
Total	**715**	637	12
Segment performance before tax	**448**	403	11
Tax expense / (benefit)	**128**	127	1
Segment performance after tax	**320**	276	16
Less: Minority interests	**0**	0	–
Net profit / (loss)	**320**	276	16
Regulatory equity used (avg)	**100**	50	100
Cost / income in %	**61**	61	
Assets under management (bn)	**531**	504	5
Brinson BA institutional AuM	**238**	228	4
Phillips & Drew BA institutional AuM	**122**	145	(16)
UBS investment funds AuM	**171**	131	31
Headcount	**1,497**	1,364	10
of which: Switzerland	**266**	298	(11)
Rest of world	**1,231**	1,066	15

payment of the remaining obligation to Brinson Partners in the US. Merger synergies enabled the Swiss headcount to be scaled back 11% while, outside of Switzerland, expansion in Europe and the acquisition in Japan resulted in a 15% overall increase in headcount during the year.

The division continues to focus on controlling cost efficiency while making selective investments in IT and infrastructure. IT development efforts are currently underway in the investment management, operations and business development areas aimed at increasing the efficiency and control of our global resources. In the next year, we will also be developing our Internet facilities further for our clients.

Net profit

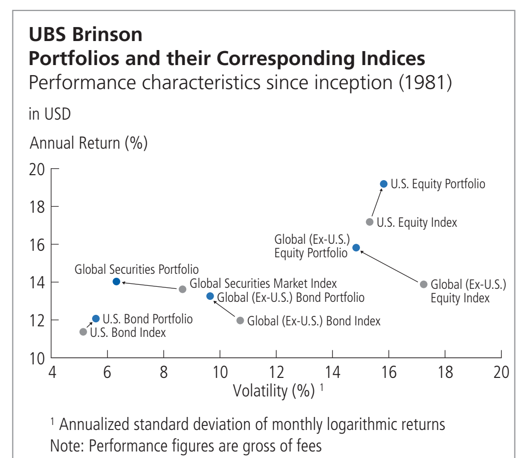
Combined with an increase in divisional pre-tax performance of 11%, the slight decrease in the effective tax rate for the division from 32% to 29% resulted in an after-tax increase in profits of 16%.

Assets under management

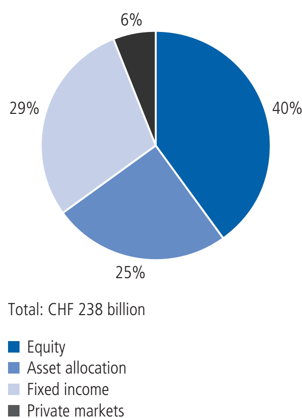
Divisional assets under management increased by 11% overall before considering the appreciation of the Swiss franc during the year. After the currency impact, growth in assets was a more moderate 5% year-on-year in Swiss franc terms. Similarly, growth in the Brinson area assets under management was up 10% before taking into account exchange rate movements (or 4% after the currency impact). Partially offsetting Brinson business area growth, Phillips & Drew showed a net decline in assets under management.

Brinson business area

Brinson growth in assets under management resulted about equally from new business, acquisitions and performance. The US, Switzerland and Japan accounted for the major share of business gained as new and existing clients showed continued confidence in the post-merger Brinson in

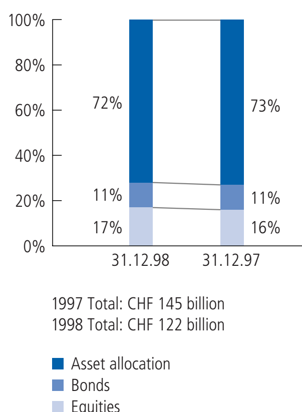


UBS Brinson Business Area Institutional AuM by Client Mandate (1998)



Total: CHF 238 billion

Phillips & Drew Business Area Institutional AuM by Client Mandate



1997 Total: CHF 145 billion
1998 Total: CHF 122 billion

UBS Brinson Investment Performance

	3-year	5-year	10-year
Global Securities	12.46	12.17	12.82
Global Securities Markets Index	*14.42*	*13.63*	*12.45*
Global equities	18.85	16.11	14.70
MSCI World Equities Index	*18.06*	*16.06*	*11.11*
US Equities	23.77	22.24	20.03
Wilshire 5000	*25.24*	*21.78*	*18.11*
Global bonds	8.79	8.51	10.22
Salomon World Government Bond Index	*6.20*	*7.85*	*8.97*
US fixed income	7.46	7.54	9.73
Salomon Brothers BIG Index	*7.29*	*7.30*	*9.31*

managing their institutional monies. In addition, the buyout of our joint venture partner LTCB in Japan bolstered our presence significantly, making us the third-largest foreign institutional asset manager in that market with a strong platform for future growth.

Characterized by our global geographic presence and strong mandate diversification, our business stands apart from our competitors in the resources and the skill set we can leverage on our clients' behalf. The relative mix of our mandates has remained consistent during the year, although we continue to explore alternative asset investment opportunities that we believe may complement our existing businesses and add value for our clients.

The long-term performance of our portfolios clearly demonstrates our value-added investment philosophy. Relative to the benchmarks, we have periodically under-performed against certain benchmarks on a short-term basis. During 1998, our long-term value-oriented philosophy sometimes appeared at odds with a market focused narrowly on short-term events. The overvaluation of world equity markets persisted in 1998, but we are confident that these markets will revert to their natural fundamental underpinnings and that our basic investment framework remains sound. The timing of this reversion remains, of course, the uncertain factor.

Phillips and Drew Business Area

Phillips & Drew is the third-largest asset manager in the UK marketplace with a business principally specialized in equity and balanced portfolios. A competitive, mature marketplace, combined with market sentiment favouring passive managers as robust equity markets continue to ignore long-term fundamentals, has made for a challenging environment for the business to grow in. These factors combined with relative underperformance of its balanced portfolios have resulted in a decline of assets under management on a year-on-year basis. Focusing on the fundamentals of investment process and client service, and evolving its structure and services in response to the marketplace, management continues to maintain a favourable outlook for the future.

Merger and Other Initiatives in 1998

1998 was a significant year for UBS Brinson. From a divisional perspective, the prior resources of Union Bank of Switzerland and Swiss Bank Corporation were fully rationalized and integrated without major disruption to client service. Enabling us to establish a global platform in significantly less time than we could build it ourselves, the merger has given us the opportunity to obtain a distinct competitive advantage for growing our business further.

Apart from the merger, two other significant milestones occurred in 1998: the buyout of the LTCB joint venture in Japan and the establishment of Private Banking Investment Services.

The buyout of LTCB was critical as it gives us a significant platform from which to build our institutional business in Japan further while still allowing us to be regarded as a foreign manager – a factor which in the current economic climate in Japan is beneficial to us.

Private Banking Investment Services was also established during 1998. Private Banking Invest-

ment Services works closely with Private Banking to enable their clients to receive institutional-quality investment products and advice which are delivered through the traditional Private Banking channel – an arrangement that benefits clients and shareholders alike.

Strategic Initiatives

Our longer-term strategy revolves around being responsive to three key changes in market dynamics: slower aggregate future growth in home markets, structural changes in global pension schemes and continuing globalization and consolidation of the asset management business:

- Slower future growth in our home markets (US, UK and Switzerland) requires that we leverage existing relationships with consulting firms, enter into strategic partnering efforts with multinational corporations and tap into the reservoir of existing clients of other UBS divisions.
- Structural changes in global pension schemes require that we tailor our response in Anglo-Saxon defined-contribution markets, consolidate our position in Japan, and accelerate presence and establish strategic positions in developing European and Latin American markets.
- Continuing global consolidation will give rise to opportunities for alliances, acquisitions and expansion of investment capabilities that will be explored as a means to enhance shareholder and client value. The merger in 1998 was clearly a very significant step in this direction.

Outlook

With the merger year behind us, our key challenge at UBS Brinson will be to continue to focus on the equation of philosophy, process and people which has made us so successful. We must provide to our clients continuous value-added investment performance over the long term and superior client service. Superior client service, as measured by external consultants, means the following things to us: timely and accurate information to clients, excellent co-ordination with client custodian banks, and positioning ourselves as an advisor, not just a manager, to our clients' aggregate portfolios.

While markets are likely to remain volatile in 1999, we expect good overall growth in cash flow earnings. Regionally, we anticipate relatively strong growth in Europe and Japan with competitive yet reasonable growth in the Americas. Over the medium term, we expect further competitive intensification as newer and ever larger entrants wish to exploit the modest capital amounts required and lower volatility of earnings implied by this business. Our strong client base and geographic diversity as well as the inherent synergies we have with Private Banking and the rest of the Group give us a competitive edge few can match.

UBS Capital

UBS Capital is one of few private equity operations with a truly global presence. It continued to be a significant income generator for the UBS Group in 1998, confirming its growing importance within the bank. UBS Capital is well-positioned for continued success given the quality of its teams and the potential to unlock Group synergies.

Business Profile / Mission

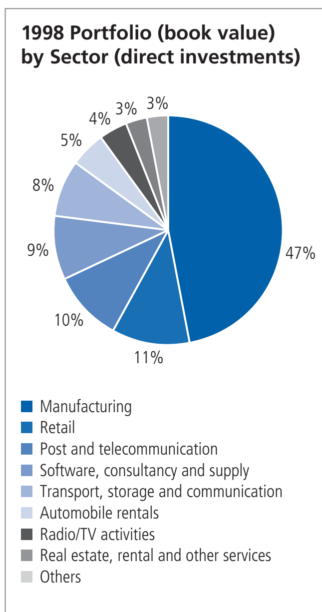
The private equity business continued to be a significant income generator for the UBS Group in 1998. UBS Capital delivered excellent results confirming its growing importance within the bank. Favorable economic conditions coupled with high levels of stock market liquidity throughout most of the year in Western markets facilitated disposals from the portfolio. New investments continued at an increased rate. With the strong flows of capital into the private equity industry, competition for attractive opportunities remained fierce. However, UBS Capital is well-positioned for continued success given the quality of teams now in place and the potential to unlock Group synergies.

Actively adding value

UBS Capital is one of few private equity operations with a truly global presence. Its network of 13 teams of local professionals covers over 30 countries in Western Europe, the Americas and Asia Pacific. The business benefits strongly from its integrated position in the UBS Group, which offers particular synergies with Private Banking and Warburg Dillon Read.

UBS Capital aims to make majority equity investments in established unlisted companies. The main focus of its investments is later-stage financing, such as management buy-outs, expansion or replacement capital. The business' seasoned professionals actively participate with management in developing the potential of a company over the medium term, thereby maximizing shareholder value. By using the local knowledge and industry expertise of its teams combined with a risk-conscious approach to investing, UBS Capital has built a globally-diversified portfolio with superior returns and annual average loss rates among the lowest in the industry.

An area of increased focus in Europe is family businesses facing succession issues where UBS Capital is able to bring a flexible approach to structuring a transaction coupled with a reputation for professionalism in its business.



Review of Results

The result for 1998 was excellent as the generally favorable conditions in Western markets allowed for many disposals from the portfolio. Net revenues after write-downs for 1998 increased 19%, or CHF 93 million, to CHF 585 million from CHF 492 million in 1997. This increase was generated largely by disposals of investments by the Swiss, US, Benelux and Nordic teams. Although the operating costs as a percentage of revenues increased slightly in 1998, they remained low at 27%.

Continuing from its strong first-half results, UBS Capital increased pre-tax profits by 12%, or CHF 47 million, to CHF 428 million in 1998. These results also reflect the lower divestment activity of the fourth quarter compared to other quarters, when, as expected, the portfolio cycle did not offer as many exit opportunities. Net profit after tax increased 9%, or CHF 34 million, to CHF 413 million over the year.

The financial crises in emerging markets around the world during the year had little immediate impact on the value of UBS Capital's investments, with the portfolio predominantly focused on the US and Western Europe and only weighted 7% in Latin America and 2% in Asia.

The portfolio continues to expand in line with expectations and had a book value at year-end of approximately CHF 1.8 billion. The year-end semi-annual portfolio review and valuation resulted in a market value of around CHF 2.7 billion providing unrealized gains at year-end 1998 estimated at about CHF 0.9 billion, or 50% of the total portfolio book value. New investments in 1998 amounted to around CHF 0.8 billion.

Headcount increased as the business has developed particularly in Europe and Latin America. Staff losses due to the merger were minimal and have had no noticeable impact on operations.

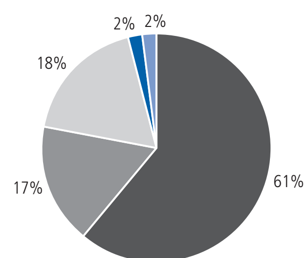
Discussion of operations

Merger

The merger process was smoothly completed in 1998. UBS Capital successfully integrated the Swiss-based SBC Equity Partners into its European operations and the team contributed significantly to the 1998 result. The establishment of new linkages with the other businesses of the Group is also bearing fruit.

As a consequence of the merger, UBS Capital lost its grandfathered status in the US, which allowed direct equity investments in the US with voting

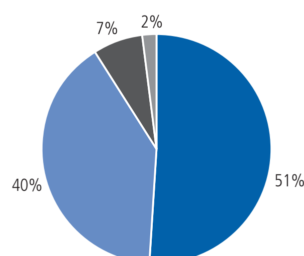
1998 Portfolio (book value) by Investment Stage



- Management buy-out
- Replacement capital
- Expansion capital – late stage
- Expansion capital – early stage
- Others

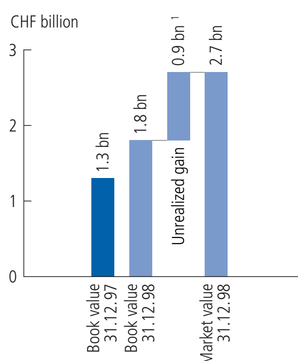
CHF million	**1998**	1997	Change (%)
Total operating income	**585**	492	19
Less: Credit loss expenses	**0**	0	–
Total	**585**	492	19
Personnel, general and administrative expenses	**152**	108	41
Depreciation and amortization	**5**	3	67
Total	**157**	111	41
Segment performance before tax	**428**	381	12
Tax expense / (benefit)	**15**	2	> 100
Segment performance after tax	**413**	379	9
Less: Minority interests	**0**	0	–
Net profit / (loss)	**413**	379	9
Regulatory equity used (avg)	**250**	200	25
Cost / income in %	**27**	23	
Headcount	**122**	90	36
of which: Switzerland	**36**	35	3
Rest of world	**86**	55	56

1998 Portfolio (book value) by Geography



- North America
- Europe
- Latin America
- Asia / Pacific

1998 Portfolio Unrealized Gain



[1] 0.8 bn private equity
0.1 bn equity-related instruments

rights of up to 25% in larger transactions. UBS Capital continues to evaluate its options with regard to this important market and will implement a new structure in 1999. This is not expected to significantly impact earnings in the time frame up to 2002.

Strategic initiatives

The increasing awareness of private equity as an attractive asset class for fund managers, coupled with the growing efforts by industry in Europe to restructure and embrace the shareholder value principle, has further improved the opportunities for investment and hence the funds being made available to invest in this sector. Competition for potential investments remains fierce. Despite the increased competition, UBS Capital is well-positioned to leverage its unique strategic advantages.

UBS Capital intends to maximize the proprietary deal flow that exists within the UBS Group through further developing its internal linkages.

Using primarily the Group's own funds for investing allows UBS Capital to pursue a value strategy that differs from that of its competitors. The business is not forced to meet target spend rates but pursues transactions only if they offer fair value over an investment cycle.

With its successful and highly-qualified network of teams, UBS Capital is well-positioned to be a key player in this rapidly expanding business world-wide. It will focus on continuing growth in Western Europe and North America as well as seizing select value opportunities in Latin America and Asia / Pacific.

UBS Capital is committed to utilizing its global network of teams to combine local expertise and resources as required. In doing so, it aims to provide tailor-made solutions for cross-regional and cross-border transactions, which are gaining in importance world-wide.

Based on these competitive strengths, UBS Capital plans to gradually increase the annual investment rate, targeting a portfolio book value of approximately CHF 4 billion by the end of 2002, while achieving further diversification in the timing and geography of earnings streams.

Outlook 1999

In 1999, UBS Capital plans to strengthen the existing business and to maintain a global market presence and a well-diversified portfolio of investments. While the current portfolio's aging profile is anticipated to offer fewer divestment opportunities over the coming year than it did over the past two years, the business is targeting to add CHF 800 million of new investments to the portfolio in 1999 and remain a strong contributor to UBS Group results going forward.

Corporate Center

Serving the UBS Group, the Corporate Center reports directly to the CEO and provides centralized services such as Legal Support, Communications and Human Resources. In addition, the Corporate Center embraces the functions reporting to the Chief Financial, Chief Risk and Chief Credit Officers.

The Corporate Center encompasses Group level functions which cannot be devolved to the divisions. Additionally, the Corporate Center plays an active role with regard to funding, capital and balance sheet management, and with regard to risk management. (See Review of Risk Management and Control and Review of Asset and Liability Management.)

For 1998 the Corporate Center posted a pre-tax loss of CHF 1,029 million versus a pre-tax profit of CHF 260 million in 1997.

The two major items which negatively impacted on the Corporate Center result were CHF 842 million for the settlement relating to the role of Swiss banks during and after World War II and CHF 367 million relating to the write-off on Long Term Capital Management, explained in the Review of Risk Management and Control. See Management Accounting policies on pages 8–9 and Review of Risk Management and Control for explanations of the link between the credit expense line and the Group Financial Statements.

CHF million	**1998**	1997
Operating income	**296**	518
Less: Credit loss expenses	**(745)**	(173)
Total	**1,041**	691
Personnel, general and administrative expenses	**2,085**	381
Depreciation and amortization	**(15)**	50
Total	**2,070**	431
Segment performance before tax	**(1,029)**	260
Tax expense / (benefit)	**317**	357
Segment performance after tax	**(1,346)**	(97)
Less: Minority interests	**4**	16
Net profit / (loss)	**(1,350)**	(113)
Regulatory equity used (avg)	**6,350**	4,150
Headcount	**921**	1,599
of which: Switzerland	**821**	1,561
Rest of world	**100**	38

Review of Risk Management and Control

Risk exposure is integral to UBS's business and extends beyond just market and credit risks. The highest standards of risk identification, risk management and risk control are indispensable to the success, reputation, and continuing strength of UBS. Thus, UBS is committed to developing and applying best market practice to all risk activities.

Introduction

Following the investigation and thorough analysis of the circumstances surrounding the third-quarter trading losses, and in particular the losses associated with the Long Term Capital Management (LTCM) transaction, UBS's Board of Directors (BoD) commissioned a review of UBS's overall risk profile together with its risk management and control processes and procedures. A parallel review was also initiated in Warburg Dillon Read at the same time to consider the extent to which the changed market circumstances required a reassessment of the business priorities. The results of that review are reported separately in the Warburg Dillon Read section of this report.

The overall result of the risk review was encouraging, since it did not identify any significant new risk concentration or previously unidentified risk management issues. The principal conclusion of the risk review was that UBS should continue to implement a fully-integrated approach to risk management and control covering all material risks and all aspects of UBS's business.

In late 1998, the BoD and the Group Executive Board (GEB) endorsed the findings of the risk review and agreed upon the following areas as the principal priorities for attention:
– to further incorporate operational risks into the risk management and control process
– to reinforce existing efforts to ensure the completeness and accuracy of data which support the risk management decision-making process
– to ensure that assessments of the risk/return potential of particular business activities fully take into account all relevant risk considerations
– to ensure that there is a structured process in place throughout the Group to assess the risks in new business activities
– to reorient UBS's approach to measuring and limiting risk exposures towards potential loss in extreme conditions as well as more normal conditions.

The UBS Risk Framework

As an integral part of the risk review, UBS has also reviewed and updated its risk policy framework which sets the overall guidelines for risk management and control at UBS. The policy framework, which covers all material risks, emphasizes the importance of distinguishing between the following functions within the risk management process:
– risk management, which is defined as managing UBS's exposure to risk within the overall guidelines and limits approved by the BoD. Ensuring the adherence to these guidelines and limits is the responsibility of the management of the business divisions and individual business lines;
– logistics, which are the separately constituted operational functions, including financial control, operations and IT, that exercise an essential control function when processing the transactions entered into by the divisions;
– risk control, which are the independent risk control functions reporting to the Chief Risk Officer (CRO) and the Chief Credit Officer (CCO) and which verify the business areas' compliance with corporate risk policies.

UBS approaches risk-taking first and foremost by recognizing that an effective process for managing and controlling risk is indispensable to UBS's continued success. Effectively managing and controlling risk depends on a sound process for identifying the risks which UBS faces, as well as establishing a comprehensive set of limits and procedures to control these risks. UBS puts these limits and procedures in place to ensure that its exposure to risk is consistent with its risk appetite and risk bearing capacity and with its assessment of management's capabilities to manage and control the risks in an effective manner. In this context, internal capabilities, such as the availability of suitable IT processing systems and staff knowledge and experience, and the external environment are taken into consideration. UBS places particular emphasis on its procedures for analyzing the risks in new business activities and for undertaking large or complex transactions.

The BoD sets UBS's risk limits by assessing the Group's risk appetite and risk-bearing capacity. UBS's risk appetite is a measure of the risk which the BoD believes the Group requires in order to deliver satisfactory long-term growth and return on equity. This potential risk is represented by absolute statistical loss levels (value at risk) that are consistent with the budgeted annual earnings of the relevant business units.

In addition, the BoD sets limits on the potential stress loss which UBS could face in extreme, but unlikely situations based on its risk-bearing

capacity. The determination of potential stress loss takes into account UBS's overall earnings capacity, and is set to protect the Group from unacceptable damage to annual earnings, dividend-paying ability, business viability and its reputation. The BoD reviews the risk appetite and the risk-bearing capacity on a regular basis considering changes in market conditions. The GEB actively monitors potential losses for a series of pre-determined stress scenarios and actively alters the limit for each scenario in circumstances that indicate higher-than-normal risk to a given stress event.

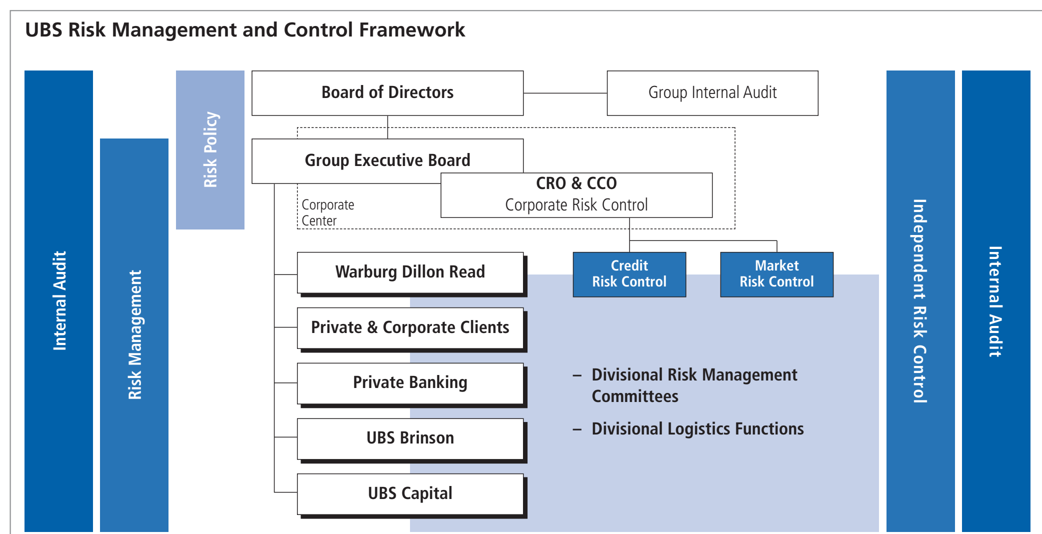
A further important element of the risk process at UBS is the management structure through which the risk management and control process operates. The overall responsibility for implementing the risk framework lies with the GEB, which allocates risk limits to the divisions and which regularly monitors the development of UBS's risk profile at the Group level. Within the GEB, the Chief Risk Officer and the Chief Credit Officer are responsible for ensuring that consistent policies and procedures are established across the Group for measuring, managing and reporting the risks, which are approved by the GEB and the BoD, and communicated throughout the organization. The Market and Credit Risk Control functions, which report directly to the CRO and CCO respectively, are independent from the business and are staffed by senior and experienced employees located in the respective business divisions as well as at the Corporate Center. In addition, close co-operation on a day-to-day basis between the credit risk and market risk control functions ensures appropriate checks and balances in the daily business.

Each division also has Risk Management Committees which involve senior business managers together with representatives of the risk control functions. These committees are chaired by the CEO of each division and are an integral part of the business management process. The Risk Management Committees ensure that there is an ongoing review of the risk profile of the division in respect of all the material risks it faces, evaluate the risk in new business initiatives and in large or complex transactions and propose to the GEB changes in risk policies and limits affecting the divisions.

Further Group Internal Audit, which reports directly to the Chairman of the BoD, reviews and evaluates the effectiveness of the Risk Policy Framework and the related internal control system to verify that all policies and procedures are complied with and that risk profile data in all reports is accurate. Group Internal Audit also reviews and evaluates the independence of the Corporate Risk Control functions.

Long Term Capital Management and the Global Equity Derivatives Portfolio

On 24 September 1998, UBS announced that as a result of the market turmoil in the wake of the Russian crisis it was expecting to report a loss during the third quarter. The reported loss for the



quarter announced in October was CHF 911 million. The principal reasons for this were UBS's exposures to the hedge fund, Long Term Capital Management, which resulted in a post-tax loss of CHF 987 million and to the Global Equities Derivatives Portfolio, which resulted in a post-tax loss of CHF 659 million at year-end.

Long Term Capital Management (LTCM)

In the case of LTCM, the loss arose from a structured transaction which was entered into by Union Bank of Switzerland in 1997. Under this transaction, UBS sold an option which gave the right to purchase shares in the LTCM fund at a predetermined price over a seven-year period. In order to hedge the risk of this option, UBS held shares to the value of USD 800 million in the LTCM fund to create an incrementally risk neutral position. Separate from the structured transaction, a further direct equity investment of USD 266 million was made in the fund, based on the enormous demand for such investments by institutional and private clients, and the consensus expectation of high returns from this fund in particular. In normal market conditions, the structured transaction would behave in a controlled manner. However, in the event of extreme market movements leading to a discontinuous decline in the fund's value, the structured transaction could not be effectively hedged and, in fact, resulted in a large loss on the transaction.

The problems at LTCM have been extensively documented. In summary, at the time of the Russian crisis in September 1998, LTCM had invested in a number of "convergence strategies", which would have been profitable for the fund if the prevailing differentials between the prices of different securities had diminished. However, the spreads widened suddenly and significantly, leaving LTCM with mark-to-market losses which largely wiped out the fund's equity capital. This resulted in the loss which was announced by UBS in October. In addition, as with most other large investment banks, UBS had provided significant fully collateralized financing to LTCM against its substantial securities holdings. Because of the risk of further losses in the event of a forced liquidation of the LTCM assets, UBS agreed to participate in a co-ordinated exercise to recapitalize LTCM to ensure an orderly release of the financing exposures, and as an additional benefit, allowing UBS to maximize the value of the remaining equity investments which would have otherwise been wiped out in a liquidation scenario. Under this arrangement UBS injected a further USD 300 million of equity into LTCM and assumed a position on a newly-established Management Board of LTCM which is overseeing the orderly management of LTCM's activities. This investment was made only after analysis of the LTCM portfolio. It revealed that in large part, the positions held by LTCM possessed significant potential for future profits, but their ultimate level of leverage combined with extreme market volatility had eroded the capital base needed to support the portfolio. UBS management is confident that the fund now has sufficient capital to withstand future market turmoil and therefore return the capital injection in approximately 24 months.

Following these events, UBS has a residual exposure to LTCM arising from its new equity investment as well as its original equity holdings. The relative stabilization of trading conditions since the end of the third quarter has allowed LTCM to recover some of its earlier losses. Moreover, the wind-down of LTCM's positions is being managed in a way that is designed to minimize the risk to LTCM's shareholders. As a result, UBS regards the downside risk in this position as limited.

Global Equity Derivatives Portfolio (GED)

The other major contributory factor to the third-quarter losses related to the GED business. This portfolio consists of a number of structured equity derivative transactions which were entered into as part of an earlier strategic initiative to develop a leading position in this market. This portfolio was analyzed at the time of the merger when it was recognized that it contained a number of positions which, though appropriately hedged over the longer term, possessed the potential for significant short-term variance. Consequently, when equity market volatilities increased significantly as a result of the market turmoil in the third quarter, an unrealized loss on the value of the portfolio became necessary.

UBS will continue to actively manage the exposure associated with this portfolio in order to minimize the risk of further adverse effects on earnings. However, given that the average maturity of the transactions in the portfolio is about three years, it will take some time to wind down this

exposure, and during this time the portfolio will continue to be exposed to adverse moves in equity markets. Nevertheless, UBS believes that the mark-to-market losses which were incurred in the third quarter represent extreme circumstances and the potential range of losses for this portfolio in such circumstances is within UBS's overall stress loss limits (see Market Risk section on pages 40–41).

Analysis by Risk Categories

In its risk policy framework, UBS has identified a number of risk factors as being of particular significance to its business. The following discussion together with the Review on Asset and Liability Management outlines the major trends and developments during the year with respect to the key risks which UBS faces.

1 Credit Risk

Credit risk is the risk of loss resulting from the default of an obligor or counterparty (banks, corporations, non-bank financial institutions, public entities/governments and private individuals). At UBS, credit risk includes counterparty and country transfer risk, as well as settlement risk. Credit risk is inherent in traditional banking products, such as loans and conditional contracts to lend money in the future (commitments) or contracts to support clients' obligations to third parties (e.g. letters of credit), as well as in derivative contracts and other traded products, such as bonds. In view of the significance of credit risk to UBS, the approval of new transactions giving rise to credit risk plays a central part in UBS's risk control process. Only a limited number of highly-experienced senior credit professionals independent from the business are entrusted with authority to approve transactions. Such authorities are differentiated by amount, counterparty rating, tenor and other parameters.

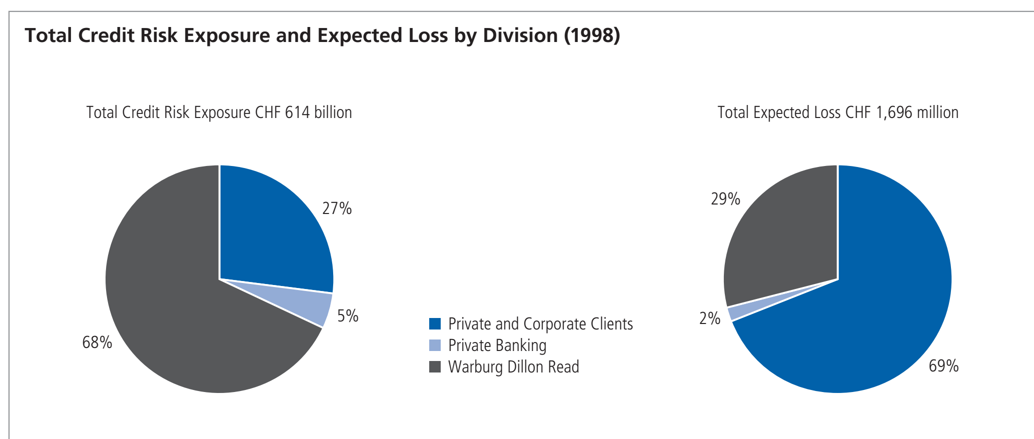
UBS measures its exposure to credit risk based on a statistical analysis of the probability of default relating to each of its client categories. For this purpose, UBS categorizes all its counterparties as well as the countries where it undertakes business on the basis of a fourteen-point rating scale with a specified default probability attached to each rating class.

Loans are classified as "Non-Performing" as soon as a payment of interest and / or commission and / or installment is overdue for 90 days. The adequacy of allowances and provisions for both counterparty credit risk and for country transfer risk is regularly assessed and booked in accordance with the guidelines of International Accounting Standards. Specific allowances are created as and when a particular counterparty's and / or country's creditworthiness is impaired.

UBS Group Loan Portfolio Summary by Division (1998)

CHF million	Private & Corporate Clients 31.12.98	Private Banking 31.12.98	Warburg Dillon Read 31.12.98	Corporate Center 31.12.98	Total 31.12.98	Total 31.12.97
Total loans and advances (performing and non-performing loans)						
Principal amount of loans outstanding (gross amount)	164,840	24,133	141,686	305	330,964	353,240
Allowance and provisions for credit losses	11,844	66	3,063[2]	5	14,978[1]	16,213[1]
Loans, net of allowances for credit losses	152,996	24,067	139,058	300	316,421	337,499
Non-performing loans (NPL)	14,003	68	1,645	0	15,717	16,664
Ratios						
Allowance and provisions for credit losses in % of non-performing loans	84.6	97.1	186.2	n/a	95.3	97.3
Non-performing loans in % of gross loans outstanding	8.5	0.3	1.2	0.0	4.7	4.7
Allowance and provisions for credit losses in % of gross loans outstanding	7.2	0.3	2.2	1.6	4.5	4.6

[1] Of which CHF 435 million relating to contingent liabilities (1997: CHF 472 million). [2] Of which CHF 1,450 million relating to country risk provisions.



Exposure is defined as Gross Loans to Banks and Customers, Contingent Liabilities, Unutilized Irrevocable Commitments, OTC Derivatives (positive Replacement Value), without Security Lending, without Tradable Assets.

A particular focus for UBS credit analysis in 1998 was the prospective effect of the Year 2000 IT challenge on the credit standing of UBS's clients. As a result, the Chief Credit Officer initiated an extensive assessment of the Year 2000 readiness of the most important international clients as well as of some 10,000 corporate clients in Switzerland. The results of this review are covered in more detail in the discussion of the Year 2000 problem (pages 43–44) at the end of this section.

Since the merger, UBS has been engaged in a rigorous process of reassessing its international credit activities to ensure that the risk/reward profile of its lending business is consistent with UBS's long-term strategic objectives. This review which is discussed further in the Warburg Dillon Read section (pages 14–19) resulted in a reduction in the overall size of the international credit portfolio from CHF 268 billion to CHF 175 billion in 1998. A further reduction is planned going forward, bringing the overall size of the international portfolio closer to our medium-term target level of CHF 60 to CHF 100 billion.

From a Group perspective, the asset quality remains satisfactory. Total non-performing loans of CHF 15.7 billion represented 4.7% of total loans, of which 95.3% were covered by allowances and provisions for credit losses of CHF 15 billion. Moreover, within the Private and Corporate Clients Division the reported coverage ratio of 84.6% remains conservative since the bulk of the non-performing loans were in the form of mortgage lending and the underlying property has residual value. The table on page 35 summarizes the current status of the loan portfolio by division.

When assessing the results of the individual business divisions in the Management Accounts, each division is charged for the credit risk it assumes based on a statistical estimate of the expected loss in its portfolio. Differences between the expected loss and the credit loss expenses actually incurred in the reporting period are balanced through the Corporate Center account.

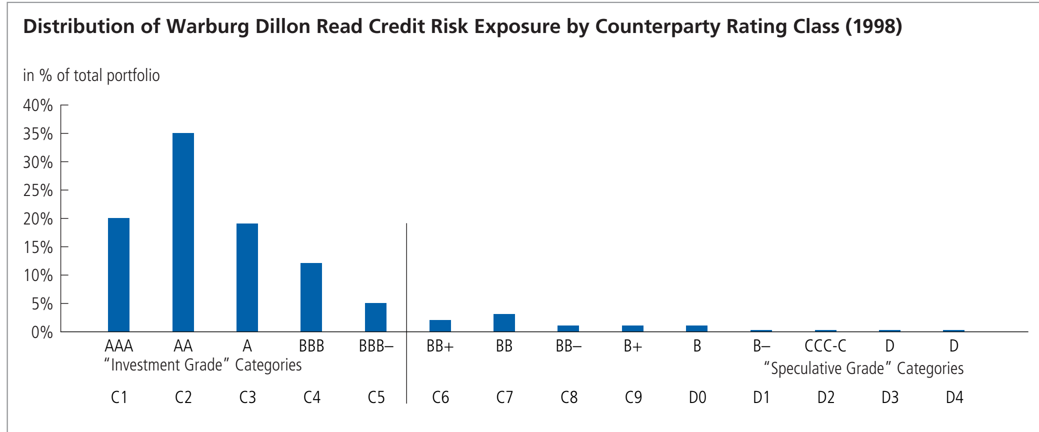
The graph above shows the annual expected loss per division in relation to the total portfolio of the Group. The expected loss in the Warburg Dillon Read portfolio is significantly lower than that in the Private and Corporate Clients Division, reflecting the fact that the Warburg Dillon Read portfolio consists primarily of international wholesale business of high credit quality, whereas the Private and Corporate Clients portfolio is concentrated in the Swiss middle and retail market.

Portfolio composition

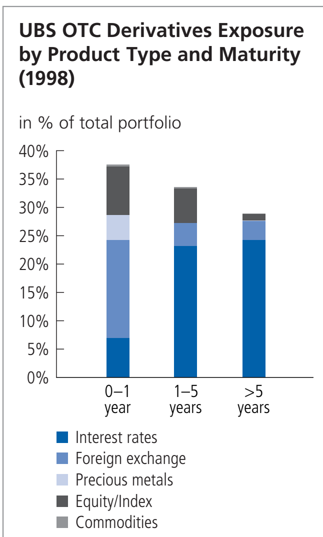
UBS actively manages the composition of its credit risk portfolio, and seeks to avoid excessive concentration to any one obligor, industry, rating class, product or geographical location. In view of the distinctly different segments, the following discussion of the portfolio is segregated into the major divisions:

Warburg Dillon Read

As depicted in the graph on the top of page 37, over 92% of the Warburg Dillon Read credit risk exposure is to counterparties which are of investment grade quality (C5 and better rated).



Exposure is defined as Gross Loans to Banks and Customers, Contingent Liabilities, Unutilized Irrevocable Commitments, Unsecured OTC Derivatives (gross replacement value + add-on), Tradable Assets (net long) without Security Lending.



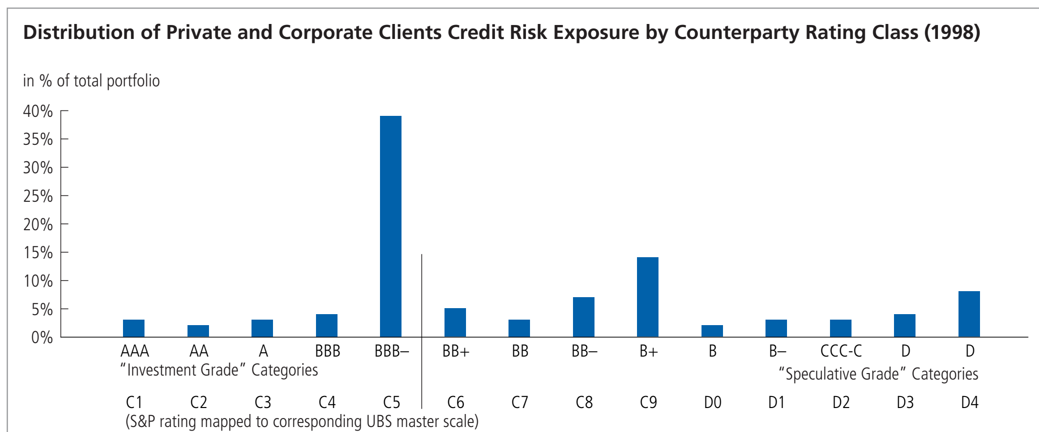
Exposure is defined as OTC Derivatives (positive gross replacement values), secured and unsecured.

In line with its investment banking strategy, two-thirds of the Warburg Dillon Read exposure is to the financial intermediation industry. The remainder is well-diversified, with the public sector accounting for some 6%. The lending portfolio is of high credit quality, with the non-investment grade exposure restricted to high-yield and leveraged finance transactions.

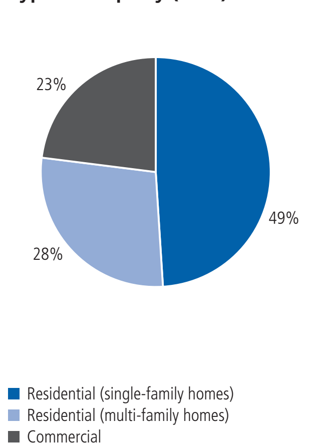
In view of the particular risks involved in over-the-counter (OTC) derivative contracts, UBS maintains careful control over all OTC exposures entered into and limits this business to top-quality counterparties. The largest part (37.6%) of such contracts have a residual maturity of less than one year and in most cases the maximum tenor is below seven years. (Refer to Note 28 on page 85 for a detailed breakout of instruments and tenors.) Longer-dated contracts constitute exceptions to policy and are available to sovereign counterparties or counterparties of the highest credit quality only. Certain long-dated transactions were also assumed as part of the Global Equity Derivatives (GED) business. Under the current post-merger business policy, UBS continues to deal with certain hedge funds provided its exposure is fully collateralized either by cash or by government bonds of particular OECD countries.

Private and Corporate Clients Division

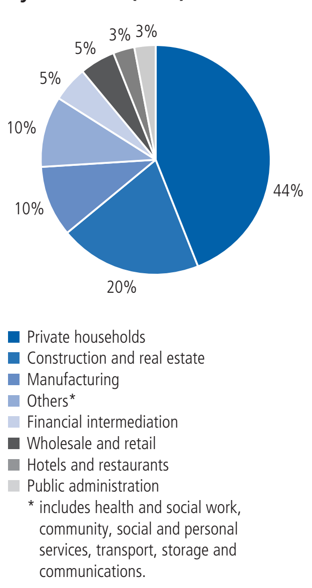
This segment represents the UBS domestic home market for small- and medium-sized corporate and retail clients. With the introduction of risk-adjusted pricing following the merger, the rating process and the quality of counterparty ratings gained increased importance. While the



Exposure is defined as Gross Loans to Banks and Customers, Contingent Liabilities, Unutilized Irrevocable Commitments, Unsecured OTC Derivatives (gross replacement value + add-on), without Tradable Assets and Security Lending.



Mortgage loan utilizations are broken down by collateral type.



Exposure is defined as Gross Loans to Banks and Customers, Contingent Liabilities, Unutilized Irrevocable Commitments, Unsecured OTC Derivatives (gross replacement value + add-on), without Tradable Assets and Security Lending.

quality of the entire loan portfolio continues to show the impact of the recessionary environment in Switzerland of the past seven years at the tail end of the rating scale, about 58% of the performing part of the loan portfolio is judged to be of investment grade quality (C5 and better-rated). The concentration of exposures in the rating class C5 reflects to a large extent our exposure to the residential mortgage market in Switzerland.

In terms of industry distribution the Private and Corporate Clients portfolio continues to be dominated by loans extended to private households, of which about 91% are in the form of mortgages.

The improving macroeconomic environment during 1998 is evident in a further decline of the Swiss bankruptcy rate. Coupled with a continuing low interest rate scenario and a stable outlook we expect an improvement of the overall Swiss loan portfolio in 1999.

Private Banking

Private Banking credit risk exposure of CHF 30.2 billion consists of collateralized lending and trading products of CHF 25.7 billion and mortgages on single-family homes of CHF 4.5 billion. Eligible collateral for any Private Banking exposure is limited to cash, money market claims and precious metals as well as marketable and negotiable securities, all of which are to be duly pledged and assigned to UBS. Specific haircuts (margins) apply to different categories of collateral in different countries. Due to the substantial stock market decline in August and September 1998, margin calls were initiated and – in cases where those were not honored – adequate allowances created. The overall quality of this portfolio is very high.

Number of bankruptcies from registered firms divided by total number of registered companies.

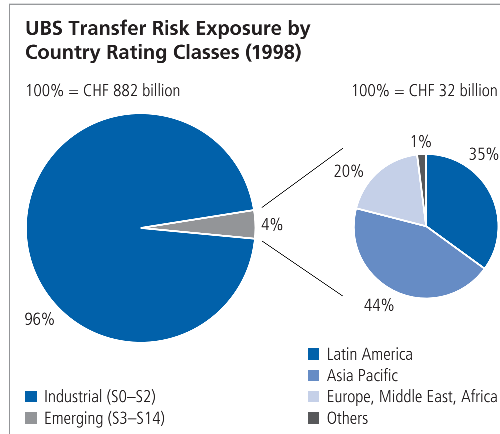
Country risk

As a result of the global character of its business, Warburg Dillon Read incurs transfer risk exposure to a wide range of economies. UBS's definition of country exposure includes all cross-border positions of loans, derivative products and traded products as well as UBS Group internal cross-border positions. 96% of such cross-border exposure relates to major OECD countries rated S0–S2 (corresponding to public ratings of AAA–A+), where the risk of default is deemed negligible. The remaining 4% risk exposure to emerging markets is closely monitored on an ongoing basis and within stringent risk limits (country ceilings) approved by the BoD. In addition, all new transactions with counterparties located in these countries require sign-off by the respective country risk managers in addition to the standard counterparty credit approval.

UBS Selected Emerging Markets Exposures (1998)

CHF million	Total exposure	Tradable assets [1]	Trade finance [2]	Financial risk [3]	Allowances & provisions	Coverage of financial risk in %	Reduction of total exposure since 1997
Indonesia	824	22	43	759	500	66	(969)
Russia	339	128	116	95	91	96	(1,097)
Argentina, Brazil, Colombia, Ecuador, Peru, Venezuela	5,542	90	2,923	2,529	485	19	(1,782)
Mexico	2,634	317	498	1,819	94	5	(266)
Malaysia, Philippines, South Korea, Thailand	2,939	183	161	2,595	358	14	(1,791)

[1] Equity and fixed income products in the trading book, marked-to-market daily. [2] Letters of credit, export credits, short-term advances in financing of exports and imports. [3] Includes all balance sheet lending (including money market lending) as well as derivatives and repos.



Transfer Risk includes Loans, Contingent Liabilities, Derivatives Products (gross replacment value + add-on) and Tradable Assets, to both third parties and intergroup companies.

Following the Asian crisis in the second half of 1997, UBS had already taken active steps to limit new business in all emerging markets and to reduce its existing emerging market exposures prior to the crisis spreading to Russia and Latin America in the second half of 1998. Total emerging markets exposure was thus reduced by CHF 5 billion or about 14% from the end of 1997 onwards. During the same period, country ceilings previously available for business with emerging countries were reduced by 30%. UBS's approach to country risk management follows the guidelines of the Swiss Bankers' Association which allow banks to evaluate provision levels for transfer risk based on their own portfolio scenarios. UBS has established specific scenarios for each country which assess the current and future probability of a default due to country risk incidents or country-specific systemic risks on a regular basis. The appropriate provisioning level is then determined by taking into account the type of product involved as well as the loss severity inherent in each product.

Events in a number of emerging markets in the second half of the year including in particular the declaration by Russia in August 1998 of a moratorium on all government debt repayments caused UBS to increase its country risk provisions substantially.

The table on page 38 provides an overview of the status of emerging market exposures and provisioning levels as at year-end 1998 together with a quantification of the exposure reductions achieved since the beginning of the year.

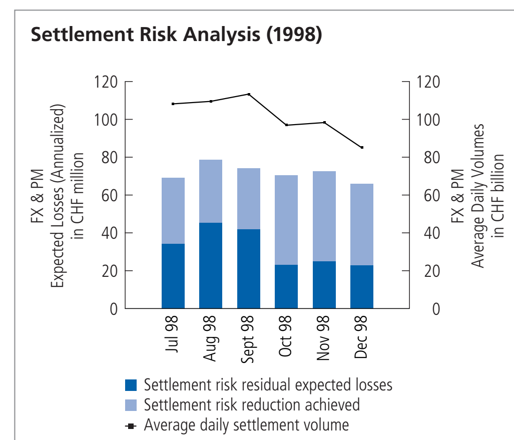
UBS's exposure to emerging markets includes a large share of short-term trade finance, where the loss severity is significantly lower than in the case of longer-dated exposures. UBS is confident that the current provisioning level for the most affected economies is suitably conservative.

Settlement risk

Settlement risk is defined as the risk that a counterparty fails to deliver cash or securities or to honor third-party payments upon conclusion of a transaction.

UBS measures, manages and controls settlement risk by way of counterparty-specific settlement risk limits in accordance with standards set by the Bank for International Settlements for all Foreign exchange, Precious metal and Cross-currency rates swap trades.

The settlement risk analysis graph shows the average daily settlement volumes together with the total annualized expected loss assigned for settlement risk. Exposure reductions are achieved through the use of bilateral netting agreements and other mitigating techniques. The significant reduction of net expected loss in the fourth quarter was the result of a successful re-negotiation of netting and other arrangements with target clients immediately following the legal merger.



Classified credit portfolio

The Classified credit portfolio consists of positions where there is a high probability of partial or full loss to UBS. The portfolio includes positions rated D2 ("substandard"), D3 ("doubtful") and D4 ("loss"), reflecting an increasing degree of loss severity. Typically, substandard exposures carry allowances for credit risk of up to 20%, doubtful exposure of up to 80% and loss exposure of 100% of the unsecured portion. 89% of the Clas-

Summary of Classified Credit Risk Exposure (1998)

CHF million	Substandard (D2)	Doubtful (D3)	Loss (D4)	**Total**
Private and Corporate Clients	4,688	6,602	13,553	**24,843**
Warburg Dillon Read	958	954	896	**2,808**
Private Banking	0	14	1	**15**
Corporate Center	117	26	12	**155**
Total	**5,763**	**7,582**	**14,461**	**27,806**

sified credit portfolio is attributed to the Private and Corporate Clients Division, 10% to Warburg Dillon Read. The remaining 1% relates to sundry positions managed directly by the Corporate Center.

UBS maintained the conservative approach of both predecessor banks in assessing and managing its credit risk portfolio. As part of the harmonization of the credit loss methodology of the two predecessor banks, the previously established ACRA reserve of CHF 2.1 billion of Swiss Bank Corporation was earmarked for specific provisioning needs of the Private and Corporate Clients and the Warburg Dillon Read portfolios. As the recovery units started their assessment work at an accelerated pace after the legal merger was consummated, all but CHF 300 million of these Special Reserve pools, including the Special Reserve pool created by the former Union Bank of Switzerland, were allocated to specific positions of the previously defined workout portfolios as well as to country risk provisions.

In the international portfolio, the rapid deterioration of emerging market economies caused a substantial increase in individual counterparty allowances and write-offs and/or country provisions, primarily in Asian markets, in Russia and to a smaller extent in Latin America. Overall credit risk costs amounted to CHF 4.3 billion, of which CHF 3.3 billion was funded from existing allowances, resulting in a net credit loss expense of CHF 951 million.

2 Market Risk

Market risk is the risk which UBS faces as a result of adverse movements in the value of its foreign exchange, marketable securities and derivatives positions. UBS incurs market risk mainly through its trading activities, which are centered in the Warburg Dillon Read Division.

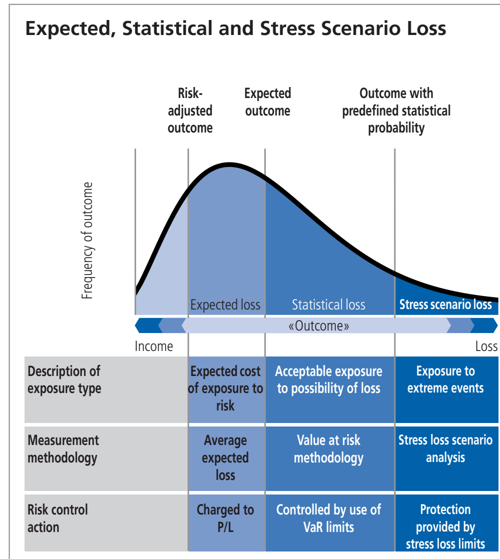
UBS measures its exposure to market risk using the framework of expected loss, statistical loss and stress scenario loss as indicated in the chart on page 41. In the context of market risk, expected losses are the value adjustments made to the portfolio to adjust for price uncertainties resulting from a lack of market liquidity or the absence of a reliable market price for a particular instrument. Statistical loss is measured based on a value at risk (VaR) methodology, which is also used to calculate the regulatory capital requirement for UBS's market exposure. Stress scenario loss is defined as the risk of an extreme market move affecting particular predefined market variables. In order to keep UBS exposure to market risk within acceptable boundaries, the BoD has set limits on the Group's exposure to particular stress scenarios.

UBS calculates the value at risk associated with its exposure to market risk and consequently also its regulatory capital requirement using the historical simulation technique. Value at risk is calculated both on a 1-day 99% confidence interval and a 10-day 99% confidence interval, and the latter is used both for internal limits setting and

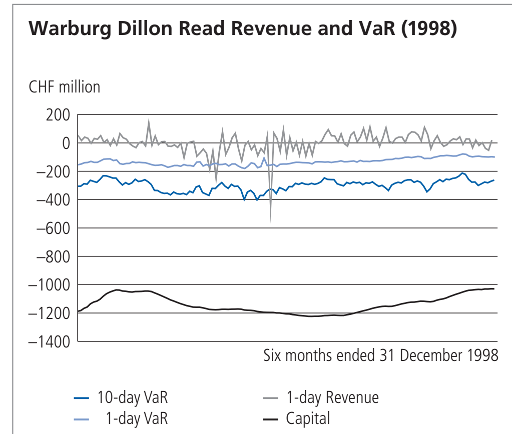
Credit Risk Costs by Division (1998)

CHF million	Private & Corporate Clients	Warburg Dillon Read	Private Banking	Total
Counterparties	2,980	812	48	3,840
Countries	–	422	–	422
Total risk costs	**2,980**	**1,234**	**48**	**4,262**
Funded through:				
Risk Pool UBS 96	1,331	–	–	1,331
Risk Pool SBC 96 (ACRA)	1,252	728	–	1,980
Net credit loss expense	**397**	**506**	**48**	**951**

Expected, Statistical and Stress Scenario Loss



Warburg Dillon Read Revenue and VaR (1998)

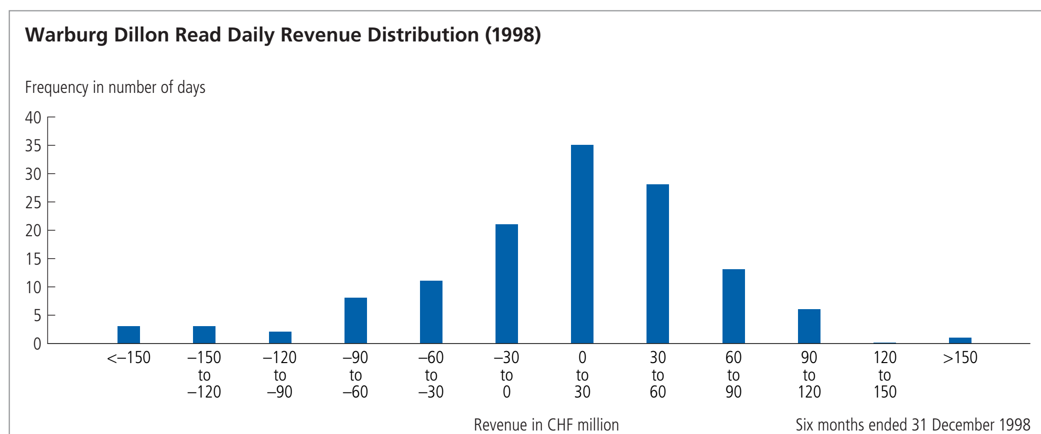


for calculating regulatory capital. The calculation incorporates both the risk from general market moves such as moves in foreign exchange rates, equity indices and market interest rates as well as the risk from price movements that are specific to an individual issuer. A simplified process was put in place from mid-February to estimate the value at risk for the combined exposures of Union Bank of Switzerland and Swiss Bank Corporation. A complete value at risk estimation process was however operational as from the date of the merger.

UBS's daily trading profit and loss and market risk exposure following the merger reflects the significant volatility which occurred in financial markets between August and October. This was primarily associated with the Russian crisis in September as a result of which emerging market debt traded at extremely low levels which in turn led to unprecedented spikes in equity volatilities. The subsequent record one-day move in the USD/JPY exchange rate contributed further to market volatilities. During this period of adverse trading conditions there were three days when the daily loss exceeded the one-day value-at-risk measure. In response to these market conditions, UBS reduced its risk appetite and risk exposure. As a result, despite the widespread increase in the volatility of market prices, UBS's overall VaR utilization fell from CHF 260 million at the end of June to CHF 214 million at year end.

While UBS uses a value-at-risk measure as the principal measure of its exposure to day-to-day movements in market prices, the experience during the third quarter underlines the fact that these measures are not designed to give an indication of the scale of loss that could occur in the unusual case of extreme market moves. For this reason, UBS supplements its value-at-risk numbers with a system of stress loss simulations in order to monitor its potential exposure to this type of market

Warburg Dillon Read Daily Revenue Distribution (1998)



Illustrative UBS Stress Scenario Market Moves

Country	Foreign exchange	Interest rates	Equity
	Price	Libor/Govt.	Price
Europe	+/– 10%	+ – 100 bps	+/– 15%
North America	+/– 5%	+/– 120 bps	+/– 15%
Japan	+/– 15%	+/– 100 bps	+/– 25%
Emerging markets	+/– 40%	+ 500 / – 300 bps	+/– 40%

(+) = Market appreciation. (–) = Market depreciation.

shock. These measures seek to assess the scale of loss which UBS might face in the event of large movements in a range of market prices such as equity indices, foreign exchange rates and interest rates. In the light of the events of the third quarter, UBS has revised the range of price changes which it uses to calculate the exposure to stress loss and has revised the relevant limit structures.

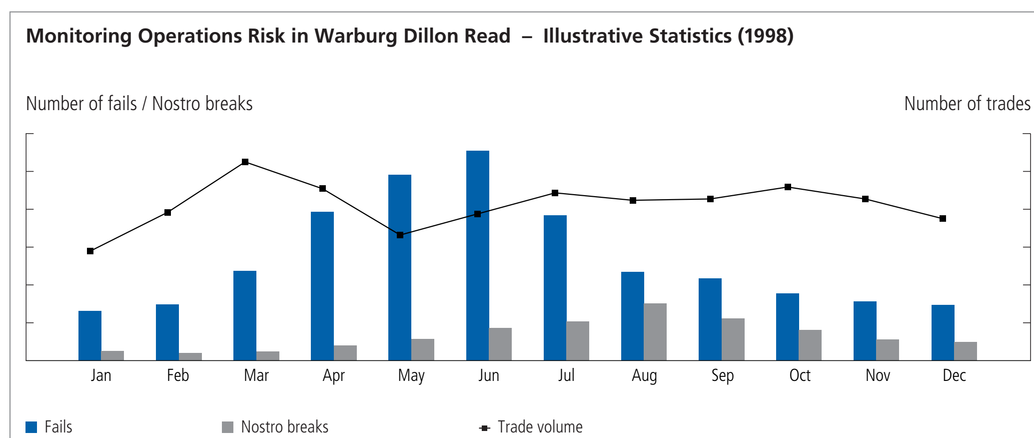
UBS has a consistent set of predefined large price movements (shocks) which apply to all the major risk factors to which UBS is exposed. A sample list of the type of price changes which are used as the basis for calculating stress losses is shown in the above table.

UBS also analyses the loss which it might face in the event of certain predefined combinations of adverse market moves. These scenarios, which are kept under constant review, include previous significant adverse market movements such as the European Monetary Union (EMU) crisis of 1993 and the more recent Asian and Russian crises as well as other possible combinations of events which might arise in the future. The purpose of this analysis is to ensure that the possible losses which UBS would face as a result of sharp adverse market moves remain within the overall stress loss limits which UBS has set for its exposure to market risk.

3 Operational Risks

In addition to the risks discussed above, UBS recognizes the existence of a number of other risks which affect its business and which are often referred to as "operational risks". At UBS we seek to identify the main factors which might adversely affect the volatility of the Group's earnings and to manage each of these factors through the establishment of common Group-wide risk policies and measurement methodologies. The particular elements of operational risk which we have identified and which are covered by this process are operations risk (sometimes referred to as transaction processing risk), legal risk, compliance risk, liability risk, information technology risk, key personnel risk and physical and crime risk.

Following the announcement of the merger at the end of 1997, it was clear that UBS faced three challenges that would significantly increase its exposure to operations risk within a very short time horizon: the integration of the two banks' organizations and infrastructures, the Euro implementation and Year 2000 remediation. In order to address these challenges, a decision was reached at an early stage about the system architecture which would be employed following the merger. UBS has chosen to use the former Union Bank of Switzerland operating platform within Switzerland and the SBC



Warburg Dillon Read platform outside Switzerland. Following these decisions, a project management structure was established in each division to oversee the management of the three initiatives.

Integration

UBS recognized at the outset that there were significant risks associated with the merger process particularly in Private and Corporate Clients and Warburg Dillon Read. The approach adopted in managing these risks in Private and Corporate Clients is discussed on page 21.

In Warburg Dillon Read the integration process placed significant demands on the IT infrastructure and overall transaction processes. The principal risk drivers were seen as being the significant increase in transaction volumes and the effect of staff instability on the control environment surrounding the business processes. The recognition of this increase in potential risk meant that senior logistics and business management carried out a preemptive risk assessment and implemented a series of risk mitigation initiatives.

Throughout this period the existence of a robust reporting framework within Warburg Dillon Read provided full transparency both pre- and post-integration, enabling operational risks to be identified and dealt with promptly. In addition, before the integration date an assessment was made of the financial impact of the increased risk. This led to heightened management awareness of the potential cost of the integration process. These costs were realized in the course of 1998 or provided for in most locations and this process will be extended to all locations in 1999. The chart on page 44 shows an example of the types of key risk indicators which form part of the operations risk reporting framework.

Euro and Year 2000

In addition to the need to manage the risks arising from the merger, UBS also recognized the strategic importance of actively managing the inherent risks associated with the introduction of the Euro and the Year 2000 problem. Consequently, we accorded a very high priority to the work which was necessary to prepare for both of these events. Throughout 1998, projects were under way in each of the four divisions on both the Euro and the Year 2000. In addition, the risk issues associated with these projects were reviewed on a monthly basis by a Group-wide committee chaired by the Chief Risk Officer. Overall expenditure on these two projects in 1998 amounted to CHF 169 million for the Euro and CHF 493 million for Year 2000 (projected cost for 1999: CHF 38 million and CHF 362 million, respectively).

In preparation for the Euro conversion, a number of detailed dress rehearsals were conducted in the course of November and December 1998. As a result, the introduction of the Euro at the start of 1999 progressed extremely smoothly in all divisions. The work to amend the operating systems was undertaken according to plan. There were no material operational problems once dealing in the Euro started on 4 January 1999, putting UBS in a strong position to handle Euro business and to focus on other strategic initiatives.

In the context of the Year 2000, UBS also made substantial progress in the course of 1998 in remediating and testing its own software and hardware. As the table on the page 44 shows, by the end of 1998, over 60% of the work on UBS's critical systems worldwide had been completed. UBS expects that work on the remaining critical systems will be substantially completed by mid-1999.

However, UBS is also aware that the successful transition to the Year 2000 is dependent on UBS's own suppliers and customers also having made appropriate preparations. In this context, UBS has taken an active role in encouraging its key suppliers to address the Year 2000 issue as actively as possible. As indicated on page 36, UBS has also undertaken an extensive review of its credit exposure both within Switzerland and internationally in order to assess the extent to which UBS might be exposed to loss in the event that its customers were themselves adversely affected by Year 2000-related issues. In the case of international customers where UBS has concerns about the customer's preparedness, if after further investigation these have not been satisfactorily resolved, UBS will take appropriate measures to mitigate its risk. A similar review process is being undertaken to ensure that banks and depositories which UBS uses to conduct its international securities and payments activities are suitably prepared.

Within Switzerland where UBS has a significant exposure to small and medium-sized enterprises Private and Corporate Clients Division is engaged in a program of customer awareness to encourage these customers to take the necessary steps to address the Year 2000 problem. In addition UBS will be undertaking a broad customer information

Year 2000 Quantitative Progress Assessment for UBS [1]

as at 31 December 1998; in %

Phase	Organization plans					Current status			Forecast				
	6.98	9.98	**12.98**	3.99	6.99	6.98	9.98	**12.98**	**12.98**	3.99	6.99	9.99	12.99
Developing a strategic approach	100					100							
Creating organizational awareness	100					100							
Assessing actions and developing detailed plans	94	98	**99**	100		89	95	**98**	**99**	100			
Renovating systems, applications and equipment	58	76	**95**	99	100	52	68	**87**	**89**	98	100		
Validating renovation through testing	24	64	**88**	96	100	21	41	**68**	**74**	93	100		
Implementing tested, compliant systems	20	54	**79**	92	100	17	38	**61**	**69**	89	97	99	100

[1] Mission critical systems.

program to provide the necessary information to reassure customers and counterparties about UBS's own preparedness. This includes a website (http://www.ubs.com/y2k.html) which provides updated information on the UBS program in accordance with the standard for self disclosure established by the Global 2000 Co-ordinating Group.

Despite the efforts that UBS is taking on its own account to limit its risk to Year 2000 related problems, as an internationally active bank with activities in a large number of countries, UBS is dependent on the preparations which are under way in these countries to ensure that the critical elements of the country's infrastructure on which the financial sector depends such as electricity, water and telecommunications supply are able to handle the Year 2000 date change satisfactorily. Our analysis shows that the state of awareness and preparation varies significantly from country to country. For this reason, UBS has taken a leading role in establishing the Global 2000 Co-ordinating Group which is encouraging governments and key suppliers to address these issues as actively as possible.

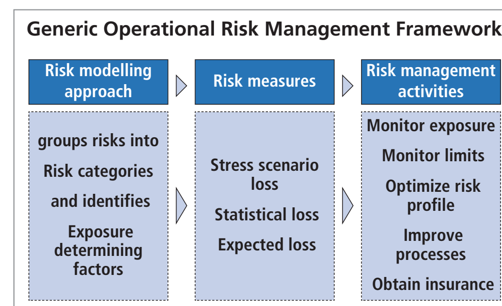
At the same time, since it is not possible for any firm to state that complete Year 2000 compliance has been achieved, and thus to guarantee the effectiveness of its remediation efforts, UBS recognizes the importance of preparing for the probability that some problems will arise in the transition to Year 2000. Accordingly, in the course of 1999, UBS will be devoting significant efforts to ensure that its contingency arrangements are as robust as possible.

Measuring operational risks

As an integral part of the Risk Management Framework UBS is in the process of introducing a generic operational risk modelling framework (which is illustrated in the simplified chart below).

The framework, which consists of a number of sophisticated techniques, will provide a means to more accurately assess the level of risks faced and ensure that it is in line with UBS's risk appetite and risk-bearing capacity. In addition, it can provide the foundation for evaluating the risk transfer mechanisms available to UBS. In particular, this approach enables UBS to evaluate whether the insurance market offers an appropriate option for transferring part of its operational risks.

Generic Operational Risk Management Framework



Review of Asset and Liability Management

With its centralized approach to asset and liability management, UBS ensures cost-efficient funding on a global scale for all UBS entities and adequate liquidity to fulfill payment obligations even in periods of financial stress. Other benefits include optimal allocation of capital to comply with regulatory requirements, as well as efficient management of interest-sensitive assets and liabilities, and exchange risk.

Funding, capital and balance sheet management activities are centrally managed to optimize UBS's financial resources. Centralizing Group-wide internal and external treasury functions provide the following advantages:

- Overall Group funding costs are as low as possible.
- Liquidity management within the Group is optimized.
- Interest rate management is based on standardized risk processes and transfer pricing to allow cost-efficient risk management.
- Currency management is optimized by capturing the netting potential of the Group's foreign currency positions.
- Regulatory capital requirements can be efficiently managed at all levels.

The overarching goals shaping the basic funding, liquidity, interest rate, capital and foreign exchange management policies are:

- Continued stability in financing.
- Fostering the long-term, forward-looking management of risk positions in the CFO area.
- Compliance with legal and regulatory requirements.

Funding and Liquidity Management

The aim of liquidity management is to ensure sufficient liquidity to repay debt in a timely manner, while preserving the option of exploiting potential strategic market opportunities. In order to comply at all times with its payment obligations, UBS prudently manages its liquidity position for different scenarios, taking stress factors into due consideration.

UBS analyzes the evolution of the liquidity profile over a time-frame of three months, with the heaviest emphasis on the first two weeks. The analysis gives assurance that the current liquidity position should be more than adequate to cover short-term liabilities even in difficult conditions. A significant stock of highly liquid and rediscountable securities is maintained that can be converted into cash at short notice at no significant market loss to the bank.

Liability management ensures a cost-efficient and continuous financing of the balance sheet. The funding strategy is based on a broad array of sources, diversified by geographical, product, currency, maturity, and other factors. This results in a well-balanced portfolio of liabilities that generates stable financing and helps the bank ride out market disruptions. To reduce reliance on unsecured short-term borrowing, short-term funding relies increasingly on collateralized borrowing, that is, repurchase and securities lending transactions.

During 1998, UBS issued senior medium- and long-term debt totalling CHF 8.4 billion, compared to CHF 8.3 billion in 1997. Market turmoil during the months August, September and October made it difficult to raise more funding at the target costs. During 1998 medium- and long-term debt totalling CHF 4.7 billion matured. There was no issuance of lower Tier 2 debt this year, compared to CHF 2.9 billion in 1997. The bank did launch two asset-backed transactions, "Eisberg" and "TELL", by which a loan portfolio of USD 2.5 billion and a mortgage portfolio of CHF 250 million were securitized, releasing regulatory capital.

Interest Rate Management

Interest rate risk is inherent to most UBS businesses. Interest rate risks arise from a variety of factors, including differences in the timing between the contractual maturity or repricing of assets, liabilities and derivative instruments. Net interest income is affected by changes in market interest rates, given that the repricing characteristics of loans and other interest-earning assets do not necessarily match those of deposits, other borrowings and capital. In the case of floating-rate assets and liabilities, UBS is also exposed to basis risk, which is the difference in repricing characteristics of two floating rate indices, such as the savings rate and six-month LIBOR. In addition, certain UBS products have embedded options that affect their pricing and principal.

The CFO Area manages the Group's non-trading interest rate risk. With regard to interest rate risk, the Board of Directors reviews and approves risk management policies, risk limits and the control framework. We have established a comprehensive interest rate risk management process that identifies and monitors non-trading interest rate risk. A key element of this process is that it allows only a limited number of authorized business units to actively manage interest risk.

The UBS approach is to capture all interest rate risks at business origination and allocate them either to Warburg Dillon Read's trading book or to the Corporate Center's bank book. This process is

formalized by a Group-wide funds transfer pricing system, based on the following principles:

- Synergies between the divisions are utilized whenever possible.
- The interest rate risks of front units in all divisions are transfer-priced to central books by a uniform funds transfer pricing system at internal bid/ask rates.
- Interest rate risks are transferred whenever possible directly into Warburg Dillon Read's trading book.
- Interest rate risks associated with client business with undefined maturities are hedged by pooled transactions via the Corporate Center.
- All interest rate risks which are neither product- nor trading-related are consolidated in the Corporate Center (such as the funding of bank premises).

The above principles are implemented by segregating all transactions into three categories: (1) client business with fixed maturities (such as fixed-term mortgages), (2) client business with undefined maturities (such as saving accounts), and (3) non-interest-bearing or non-business balance sheet items (such as bank premises, shareholders' equity).

Client business with fixed maturities: UBS policies require all transactions with determined roll-over or maturity dates to be matched back-to-back with Warburg Dillon Read's trading book. IT systems ensure the on-line link between the client and the internal hedge transaction. This allows UBS to increase efficiency by capturing the netting potential between balance sheet and trading products. In this way, fixed-rate balance sheet products become part of the trading book. Because the trading book positions are regulated by the Market Risk Management department of the Chief Risk Officer Area and Warburg Dillon Read, they are no longer subject to balance sheet management in the CFO Area.

Client business with undefined maturities: These products have no contractual maturity date, their interest rates are not directly market-linked, and they may have various embedded options. Therefore, back-to-back hedges fail due to the lack of adequate hedging products and indices. To solve this problem, UBS has created replicating portfolios to approximate the cash flow behavior of these positions. Their function is to mirror the risk profile of complex, non-maturing client accounts and to translate them into portfolios of revolving fixed-rate transactions. Any core deposit behavior then becomes transferable and manageable. All replicating portfolios are pooled in the Corporate Center.

The replicating portfolios are updated monthly by adding new aggregated tranches to the maturing ones. Counterparties to the Corporate Center are either the divisions (such as Private Banking and Private and Corporate Clients for saving deposits) or service entities such as Corporate Real Estate. Corporate Center itself hedges the bank book by means of internal transactions with the Warburg Dillon Read trading book. Owing to the large size of these transactions, these risks cannot be hedged instantly. Therefore, the CFO Area is also subject to risk limits in the process of bridging any mismatches between the replicating (benchmark) portfolios and the effective hedge portfolios at Warburg Dillon Read. Resulting gains or losses are reported on an accrual basis in the financial statements.

Non-interest-bearing or non-business balance sheet items: In contrast to the above-mentioned client businesses, non-interest-bearing or non-business balance sheet items, such as real estate and investments, bear no explicit interest rate risk. This is due to the fact that these items have neither a contractual maturity nor any link to market rates. Therefore, the effective maturities of these items are determined by the Group Executive Board, which takes a strategic view on their assumed term to divestment. On the basis of this decision, all these items are also replicated by benchmark portfolios so as to initiate the respective funding activity at the Corporate Center. The Group Executive Board also decides how to invest the bank's equity, and the period of that investment. As at 31 December 1998 the bank's equity has been invested in a portfolio of fixed-rate deposits with an average duration of 1.9 years. The net interest income of the bank is therefore affected by the actual average interest rate generated by these replicating portfolios.

Currency Management

As UBS operates in a CHF accounting environment, pays CHF dividends, and reports on a CHF basis, the CFO Area manages UBS on a CHF operational basis. Based on this, the corporate currency management is designed as follows:

Key Capital Figures and Ratios

	31.12.1997	30.6.1998	31.12.1998
BIS Tier 1 capital (CHF million)	28,749	30,549	**28,299**
BIS Total capital (CHF million)	43,089	44,085	**40,385**
BIS Risk-weighted assets (CHF million)	345,904	345,680	**288,296**
BIS Tier 1 ratio (in %)	8.3	8.8	**9.8**
BIS Total capital ratio (in %)	12.6	12.8	**14.0**

Translation (balance sheet) currency risk: Foreign assets (business unit or non-financial assets) must be capable of being divested at any time without negative currency impacts. To eliminate foreign exchange impacts on investments/divestitures of such assets, UBS match-funds foreign currency assets in the respective currency.

The match-funding principle is also applied to foreign investments (or foreign investments in third companies). This strategy, together with consistent foreign dividend/capital repatriation, ensures that UBS equity is invested in CHF.

Transaction (revenues/costs) currency risk: As a management principle, internal budgets (expressed in CHF) must be comparable to current results (expressed in CHF) which means that a stabilized currency environment must be provided for the management of the bank. The budgeted annual foreign currency net profits in local (reporting) currency are managed centrally against the CHF within the given directives of the Group Executive Board. As UBS is managed on a global functional basis, the corresponding budget rates (implied from the budgeted annual foreign currency net profits in CHF) are used for the performance measurement of the divisions/business units during the financial year. This ensures that for internal comparability the reference currency is CHF for all divisions. During the year, actual results are continuously monitored and major budget deviations must be communicated to the CFO Area for adjustments to the opening positions to enable the CFO Area to take the necessary pro-active steps to cover any open currency positions.

Capital Management

UBS manages its capital to maintain a Bank for International Settlements (BIS) Tier 1 ratio of 8.5%–9.0%. UBS is in a healthy position with regard to its capital goals. Should additional capital be required, it can be raised easily, thanks to the bank's capital structure.

UBS is regulated by the Swiss Federal Banking Commission (FBC) which has stricter capital requirements than the BIS. As a consequence, UBS's risk-weighted assets according to the FBC rules are significantly higher than the internationally accepted BIS standards demand. Therefore, additional Tier 2 capital has been raised on occasion to satisfy FBC requirements, although UBS satisfies the BIS requirement with its Tier 1 capital base alone.

As can be inferred from the above table, UBS's BIS Tier 1 ratio increased by 1.5 percentage points to 9.8% as of 31 December 1998 year-on-year. The significant reduction in the second half was mainly due to a reduction of the risk-weighted asset base following a down-sizing of the international loan book. (For more detailed information see also page 94, Note 34e Capital Adequacy.)

Divisional capital allocation

With regard to steering the divisions, UBS has a sophisticated value-at-risk system for trading risk in place at the divisional level. In addition, looking beyond capital allocation on a regulatory level, we are continuously evolving models for economic capital allocation to provide a more consistent approach and a more meaningful basis for capital allocation than regulatory capital.

Treasury stock

Positions in treasury stock are held mainly to cover employee share plans and future acquisitions. Additionally, within the capital management process, treasury stock is one of the drivers used to fine-tune the capital requirement to BIS Tier 1 ratio targets. UBS will consider investments in its own shares for equity amounts exceeding its target BIS Tier 1 ratio range (8.5%–9%).

UBS Group
Financial Statements

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Group Financial Review

Overview

- UBS Group realized a profit after taxes and minorities of CHF 3.0 billion in 1998. This compares to CHF 4.8 billion for the prior year, excluding the after-tax impact of the 1997 restructuring provision.
- UBS's return on equity for 1998 is 10.3%, compared to 14.5% in 1997 (adjusted for after-tax impact of the restructuring provision).
- Total net operating income fell 10%, or CHF 2.6 billion, to CHF 22.3 billion in 1998. Exceptional revenue losses incurred from Long Term Capital Management (LTCM) and other exceptional items in trading income offset positive developments in net fee and commission income and the exceptional gain on the sale of BSI.
- Total operating expenses before restructuring provision decreased 2%, or CHF 378 million, to CHF 18.3 billion year-on-year. This includes a CHF 842 million provision for the US settlement regarding the role of Swiss banks during and after World War II, as well as a total of CHF 662 million in costs associated with the Year 2000 and Euro projects. Merger-related cost reductions are estimated to have exceeded CHF 1 billion.
- The cost-income ratio increased to 78.4% in 1998 from 71.2% in 1997 (adjusted for after-tax impact of restructuring provision).
- Group-wide assets under management increased by a remarkable 4%, or CHF 60 billion, to CHF 1.6 trillion, despite third-quarter market turbulence and some negative impact from the merger.

Income Statement

Net interest income

Overall, net interest income showed a decline of approximately 4%, or CHF 274 million, to CHF 6.7 billion, year-on-year. The two major contributory factors are the divestitures of Prokredit and Aufina in Switzerland and a lower rate of return on invested equity.

Credit loss expense

The credit loss expense decreased by 26% to CHF 951 million in 1998 from CHF 1,278 million in 1997. The credit loss expense improved because of positive developments in the overall Swiss economic situation and tightened credit procedures at both predecessor banks in the past. This was offset in part by the rapid deterioration in emerging market economies which caused a substantial increase in individual counterparty allowances and/or country provisions. Total risk costs increased to CHF 4,262 million in 1998 from CHF 3,720 million in 1997. Total risk costs were funded by previously established allowances of CHF 3,311 million in 1998 versus CHF 2,456 million in 1997. All but CHF 300 million of both predecessor banks' 1996 Special Review Pools have been allocated to specific positions of the previously-defined workout portfolios.

For more detailed information please see the discussion and table in the Review of Risk Management and Control on pages 39–40.

Net fee and commission income

Net fee and commission income increased 3%, or CHF 392 million, to CHF 12.6 billion over 1997. Generally stable asset-related fees – including investment fund unit fees, portfolio and other management and advisory fees, custodian fees and fiduciary fees – increased around 23% as a result of strong marketing efforts, assets-under-management growth, and certain first-time consolidations.

Brokerage fees fell 12%, or CHF 475 million, to CHF 3.7 billion partly due to disappointing conditions in the second half and partly due to continued conscious efforts to transfer revenue sources toward asset-related rather than transaction-related business through pricing and other measures.

Underwriting and corporate finance fees remained mostly stable at CHF 1.6 billion.

Income from credit-related fees and commissions decreased by 30%, or CHF 234 million, to CHF 559 million as emerging market exposures were reduced.

Net trading income

Net trading income fell by 68% to CHF 1,750 million compared to the prior year. Principal contributors to this were the exposure to the hedge fund Long Term Capital Management (LTCM) and the positions in the Global Equities Derivatives (GED) book. Please see the Review of Risk Management and Control for more detailed information.

The reduction in net trading income was driven by the loss in fixed income due to the full-year

LTCM write-down of CHF 793 million and other losses in emerging markets. Equities fell 35% to CHF 0.7 billion as a result of the negative impact of the CHF 762 million in full-year 1998 losses from the GED portfolio. Foreign exchange and banknotes declined 23% to CHF 1.8 billion. Precious metals and commodities also showed a decline of 89% to CHF 28 million due mainly to the wind-down of the latter business in Warburg Dillon Read (see pages 14–19).

Other income, including income from associates

Other income increased 50%, or CHF 744 million, to CHF 2.2 billion. Net income from investments in financial assets increased strongly. The most significant contributory factor were gains on the divestment of several subsidiaries, including CHF 1.0 billion from BSI-Banca della Svizzera Italiana. Investment income from property, gains on the sale of private equity investments (UBS Capital), and net income from associated companies also all showed significant increases.

Eliminating the gain from the sale of BSI, other income would have fallen 18%, or CHF 270 million. This is mostly because of the remaining CHF 367 million write-down on LTCM and the write-down of CHF 75 million on the cross-shareholding position with Long-Term Credit Bank of Japan.

Personnel expenses

Personnel expenses showed a substantial decrease of 15%, or 1.7 billion, to CHF 9.8 billion in 1998. Decreases in personnel expenses were due to a significant headcount reduction resulting from the merger, several divestments and also to lower levels of incentive compensation charged to the Income Statement on account of disappointing results.

General and administrative expenses

General and administrative expenses increased 24%, or CHF 1.3 billion, year-on-year. The reasons for this are, firstly, the CHF 842 million provision for the US settlement regarding the role of Swiss banks during and after World War II and, secondly, total costs associated with the Year 2000 and Euro projects (around 60% of a total CHF 662 million is booked under general and administrative expenses). Merger benefits have yet to be fully realized as the physical consolidation of premises within Switzerland only started in the second half of 1998.

Depreciation and amortization

Depreciation and amortization increased 4%, or CHF 63 million, to CHF 1.8 billion over 1998. The reduction in property and equipment depreciation was more than offset by regular and some accelerated amortization of goodwill on several acquisitions including Brinson Partners, Brunswick in Russia and Omega in Brazil.

Tax expense

UBS Group incurred a tax expense of CHF 1,045 million. The effective tax rate is higher than in 1997 due to tax losses in locations where no tax benefit could be booked, as well as significant deferred tax expenses arising from amortization of deferred tax assets associated with the restructuring provision, allowances for credit losses and other provisions.

Restructuring provision

At the time of the merger, a restructuring provision of CHF 7 billion was established to cover expenses resulting from reductions in personnel, elimination of duplicate IT infrastructures, merging of bank premises and various other restructuring costs.

Restructuring Provision Usage During 1998

CHF million	Personnel	IT	Premises	Other	**Total usage 31.12.1998**
Private and Corporate Clients	82	468	11	156	**717**
Warburg Dillon Read	1,750	293		339	**2,382**
Private Banking	104	32	4	7	**147**
UBS Brinson	14	4			**18**
UBS Capital	2				**2**
Corporate Center	72		252	437	**761**
Group total	**2,024**	**797**	**267**	**939**	**4,027**

During 1998, CHF 4 billion of the provision was utilized. CHF 2 billion were for personnel-related measures, including severance payments for redundancies made during the year, and special payments and lock-in agreements to maintain stability in the workforce during the vital integration period. In addition, our budgets assumed a merger-related shortfall of investment banking net income in 1998. This shortfall did materialize in the third quarter and, in accordance with plan, the restructuring provision was utilized to fund a certain amount of performance-related compensation. CHF 797 million was applied toward integration projects and write-offs of equipment no longer used, mostly at Warburg Dillon Read and Private and Corporate Clients. CHF 267 million was applied to the write-down in value of premises no longer used, and CHF 939 million was for additional costs associated with exiting certain businesses, as well as merger administration costs. A full divisional breakout is shown above.

UBS sees the CHF 7 billion as sufficient to cover merger-related expenses and expects to fully utilize this amount over the next two years.

Balance Sheet

Assets

During 1998, total assets decreased by 13%, or CHF 142 billion to CHF 944.1 billion for three major reasons. First, UBS Group consciously reduced its credit risk exposure mainly to international counterparties, which is reflected in a decrease of the total loan portfolio by 6%, or CHF 21 billion. The trading portfolio has been decreased by 23%, or CHF 48 billion in the second half of 1998 as a result of adjusting UBS market risk appetite. Market conditions also affected a change in our customers' risk appetite. Furthermore, financial investments decreased 46%, or CHF 5.8 billion, as a result of the sale of non-core businesses and the realization of certain private equity investments.

Liabilities

Due to customers decreased 9%, or CHF 28 billion, to CHF 275 billion. This is mainly caused by clients reallocating funds to other investment products due to low interest rates and the impact of the lower USD against the Swiss franc; a minor part of the decrease is due to client defections.

Shareholders' equity

Shareholders' equity increased by 5%, or CHF 1.5 billion, to CHF 32.4 billion in 1998 before dividend payments. Treasury shares amounted to CHF 1.5 billion in 1998, a decrease of 25% or CHF 500 million, year-on-year. Please refer to the capital management section of the Review of Assets and Liability Management Section on page 48.

Financial Statements

UBS Group Income Statement

CHF million	Note	1998	1997	Change	%
Operating income					
Interest income		22,835	23,669	(834)	(4)
Less: Interest expense		16,173	16,733	(560)	(3)
Net interest income	5	6,662	6,936	(274)	(4)
Less: Credit loss expense		951	1,278	(327)	(26)
Total		5,711	5,658	53	1
Net fee and commission income	6	12,626	12,234	392	3
Net trading income	7	1,750	5,491	(3,741)	(68)
Other income, including income from associates	8	2,241	1,497	744	50
Total		22,328	24,880	(2,552)	(10)
Operating expenses					
Personnel	9	9,816	11,559	(1,743)	(15)
General and administrative	9	6,617	5,315	1,302	24
Depreciation and amortization	9	1,825	1,762	63	4
Total		18,258	18,636	(378)	(2)
Operating profit before restructuring costs and tax		4,070	6,244	(2,174)	(35)
Restructuring costs			7,000	(7,000)	(100)
Operating profit / (loss) before tax		4,070	(756)	4,826	–
Tax expense / (benefit)	25	1,045	(105)	1,150	–
Group profit / (loss)		3,025	(651)	3,676	–
Less: Minority interests	26	(5)	16	(21)	–
Net profit / (loss)		3,030	(667)	3,697	–
Basic earnings per share (CHF)		14.31	(3.18)	17.49	–
Diluted earnings per share (CHF)		14.23	(3.18)	17.41	–

UBS Group Balance Sheet

CHF million	Note	1998	1997	Change	%
Assets					
Cash and balances with central banks		**3,267**	4,638	(1,371)	(30)
Money market paper	11	**18,390**	36,353	(17,963)	(49)
Due from banks	12	**68,495**	66,582	1,913	3
Cash collateral on securities borrowed	13	**91,695**	82,656	9,039	11
Reverse repurchase agreements	14	**141,285**	216,355	(75,070)	(35)
Trading portfolio	15	**162,588**	210,738	(48,150)	(23)
Positive replacement values	28	**169,936**	149,538	20,398	14
Loans, net of allowance for credit losses	12	**247,926**	270,917	(22,991)	(8)
Financial investments	16	**6,914**	12,693	(5,779)	(46)
Accrued income and prepaid expenses		**6,627**	7,712	(1,085)	(14)
Investments in associates	17	**2,805**	2,724	81	3
Property and equipment	18	**9,886**	10,964	(1,078)	(10)
Intangible assets and goodwill	19	**2,210**	1,430	780	55
Other assets	20	**12,092**	13,114	(1,022)	(8)
Total assets		**944,116**	1,086,414	(142,298)	(13)
Total subordinated assets		***496***	*2,357*	*(1,861)*	*(79)*
Liabilities					
Money market paper issued		**51,527**	55,600	(4,073)	(7)
Due to banks	21	**85,716**	159,634	(73,918)	(46)
Cash collateral on securities lent	13	**19,171**	14,140	5,031	36
Repurchase agreements	14	**137,617**	191,793	(54,176)	(28)
Trading portfolio liabilities		**47,033**	68,215	(21,182)	(31)
Negative replacement values	28	**205,080**	170,162	34,918	21
Due to customers	21	**274,850**	302,516	(27,666)	(9)
Accrued expenses and deferred income		**11,232**	9,956	1,276	13
Long term debt	22	**50,783**	54,284	(3,501)	(6)
Other liabilities	23, 24, 25	**27,722**	28,154	(432)	(2)
Total liabilities		**910,731**	1,054,454	(143,723)	(14)
Minority interests	26	**990**	1,033	(43)	(4)
Shareholders' equity	27				
Share capital		**4,300**	4,296	4	0
Share premium account		**13,740**	13,260	480	4
Less: Treasury shares		**1,482**	1,982	(500)	(25)
Foreign currency translation differences		**(456)**	(111)	(345)	311
Retained earnings		**16,293**	15,464	829	5
Total shareholders' equity		**32,395**	30,927	1,468	5
Total liabilities, minority interests and shareholders' equity		**944,116**	1,086,414	(142,298)	(13)
Total subordinated liabilities		***13,652***	*14,375*	*(723)*	*(5)*

UBS Group Statement of Changes in Equity

CHF million	**1998**	1997
Shareholders' equity at beginning of the year as previously reported by the combining banks:		
Former Union Bank of Switzerland	**–**	22,707
Former Swiss Bank Corporation	**–**	11,742
Total	**–**	34,449
Changes at beginning of the year due to the harmonization of accounting policies	**–**	(293)
Shareholders' equity at beginning of the year restated for harmonization of accounting policies	**30,927**	34,156
Currency translation differences	**(345)**	(44)
Net profit/(loss)	**3,030**	(667)
Dividends paid	**(2,201)**	(800)
Capital increase/(repayment)	**4**	(795)
Acquisition of Treasury Shares, cost	**(2,796)**	(3,172)
Disposal of Treasury Shares, cost	**3,296**	1,892
Premium on disposal of Treasury Shares	**369**	129
Options and shares issued	**0**	50
Premium from options and convertible bonds	**111**	358
Reclassification of minority interests	**0**	(175)
Other	**0**	(5)
Total movements in shareholders' equity during the year	**(1,217)**	(2,518)
Shareholders' equity at the end of the year	**32,395**	30,927

UBS Group Statement of Cash Flows

CHF million	**1998**	1997
Cash flow from operating activities		
Net profit / (loss)	**3,030**	(667)
Adjustments to reconcile to cash used in operating activities		
Non cash items included in net profit / (loss):		
Depreciation and amortization	**1,825**	1,762
Provision for credit losses	**951**	1,278
Income from associates	**(301)**	(432)
Net gains included in cash flows from investing activities	**(1,803)**	(438)
Increase / (decrease) in operating assets:		
Net due from (or to) banks	**(65,172)**	22,503
Reverse repurchase agreements	**66,031**	(52,440)
Trading portfolio	**41,488**	(38,388)
Loans due to (or from) customers	**(5,626)**	2,865
Accrued income, prepaid expenses and other assets	**2,107**	(1,385)
Net increase / (decrease) in operating liabilities:		
Money market paper issued	**(4,073)**	23,303
Repurchase agreements	**(49,145)**	24,594
Accrued expenses, deferred income and other liabilities	**1,444**	6,852
Net cash used in operating activities	**(9,244)**	(10,593)
Cash flow from investing activities		
Purchase of investments in subsidiaries and associates	**(1,202)**	(1,349)
Purchase of property and equipment	**(1,818)**	(1,785)
Disposal of subsidiaries and associates	**1,422**	765
Disposal of property and equipment	**1,138**	1,101
Net (increase) / decrease in financial investments	**6,134**	(731)
Net cash flow from (used in) investing activities	**5,674**	(1,999)
Cash flow from financing activities		
Net movements in Treasury Shares	**869**	(1,151)
Capital increase	**4**	50
Capital repayment	**0**	(795)
Dividends paid	**(2,201)**	(800)
Premium on capital increase	**111**	358
Issue of long-term debt	**5,566**	17,155
Repayment of long-term debt	**(9,068)**	(9,105)
Net cash flow from (used in) financing activities	**(4,719)**	5,712
Effects of exchange rate differences	**(386)**	(571)
Net increase / (decrease) in cash equivalents	**(8,675)**	(7,451)
Cash and cash equivalents, beginning of year	**92,354**	99,805
Cash and cash equivalents, end of year	**83,679**	92,354
Cash and cash equivalents comprise:		
Cash and balances with central banks	**3,267**	4,638
Money market paper	**18,390**	36,353
Bank deposits maturing in less than 3 months	**62,022**	51,363
Income taxes paid	**733**	1,185

Notes to the Financial Statements

Note 1 Summary of the Significant Accounting Policies and Principles

a) Basis of accounting

The consolidated financial statements are stated in Swiss francs, the currency of the country in which UBS is incorporated. The consolidated financial statements have been prepared in accordance with and comply with International Accounting Standards.

UBS AG was formed on 29 June 1998 when Swiss Bank Corporation and Union Bank of Switzerland merged. The UBS consolidated financial statements were prepared using the pooling of interests method of accounting. Due to the merger, the Group harmonized its accounting policies which have then been retrospectively applied for the restatement of comparative information and opening retained earnings at 1 January 1997.

b) Consolidation method

The Group consolidated financial statements comprise those of the parent company and its subsidiaries presented as a single economic entity. Subsidiaries are companies which are directly or indirectly controlled by the Group. Subsidiaries acquired during the year are consolidated from the date control passes. Companies which are acquired and held with a view to their subsequent disposal are recorded at the lower of cost or market value as financial investments.

The effects of intra-group transactions are eliminated in preparing the Group financial statements. Equity and net income attributable to minority interests are shown separately in the balance sheet and income statement respectively.

c) Offsetting

Financial assets and financial liabilities are presented separately. Assets and liabilities are offset only when the Group has a legal right to offset amounts with the same counterparty, and transactions are expected to be settled on a net basis.

d) Trade date/settlement date accounting

When the Group becomes party to a contract in its trading activities it recognizes from that date ("trade date") any unrealized profits and losses arising from revaluing that contract to fair value. These unrealized profits and losses are recognized in the income statement.

In addition to the trade date, spot and forward trading transactions involve a subsequent date ("settlement date"), which can vary between a number of days to many months. On the settlement date, the terms of the contract are fulfilled and a resulting financial asset or liability is recognized on the balance sheet at the fair value of the consideration given or received.

e) Foreign currency translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the income statement.

Assets and liabilities of foreign entities are translated at the exchange rates at the balance sheet date, while income statement items and cash flows are translated at average rates over the year. Differences resulting from the use of these different exchange rates are recognized directly in Currency translation differences within Shareholders' Equity.

f) Business and geographical segments

Business segments: for management purposes the Group is organized on a world-wide basis into five major operating businesses. The divisions are the basis upon which the Group reports its primary segment information. Financial information on business segments is presented in Note 3.

Intersegment transfers: Segment revenue, segment expenses and segment performance include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated on consolidation.

The business and geographical segments are presented in accordance with IAS 14, Segment reporting, as revised 1997.

g) Securities borrowing and lending

Securities borrowed and lent that are collateralized by cash are included in the balance sheet at amounts equal to the collateral advanced or received.

Income arising from the securities lending and borrowing business is recognized in the income statement on an accrual basis.

h) Repurchase and reverse repurchase transactions

The Group enters into short-term purchases of securities under agreements to resell and sales of securities under agreements to repurchase substantially identical securities. Securities, which have been sold subject to a repurchase agreement, continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for trading balances or financial assets as appropriate. The proceeds from the sale of these securities are treated as liabilities and included in Repurchase Agreements.

Securities purchased subject to commitments to resell at a future date are treated as loans against that security and are included in Reverse Repurchase Agreements.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income and interest expense respectively over the life of each agreement.

i) Trading portfolio

The trading portfolio consists of debt and equity securities as well as of precious metals held to meet the financial needs of our customers and to take advantage of market opportunities. The trading portfolio is carried at fair value. Short positions in securities are reported as Trading portfolio liabilities. Realized and unrealized gains and losses, net of related transaction expenses, are recognized as Net trading income. Net trading income also includes interest and dividend income as well as the funding costs for holding these positions.

j) Loans and the allowance for credit losses

Loans are initially recorded at cost. For loans originated by the bank, the cost is the amount lent to the borrower. For loans acquired from a third party the cost is the fair value at the time of acquisition.

Interest income on an unimpaired loan is recognized on an accrual basis. Interest includes the amount of amortization of any discount or premium between the cost of a loan and its amount at maturity and the amortization of any loan fees and costs.

An impairment in a loan is recognized when it becomes probable that the bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. The carrying amount of the loan is reduced to its estimated realizable value through a specific allowance. The impairment is recognized as an expense for the period. Loans are stated at their principal amount net of any allowance for credit losses.

A loan is classified as non-performing when the contractual payments of principal and/or interest are in arrears for 90 days or more. After the 90 day period the recognition of interest income ceases and a charge is recognized for the unpaid and accrued interest receivable.

A write-off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write-offs are charged against previously established allowances and reduce the principal amount of a loan. Recoveries of loans written off in an earlier period are included in income.

k) Financial investments

Financial investments are debt and equity securities held for the accretion of wealth through distribution such as interest and dividends and for capital appreciation. Financial investments also include real estate held for sale.

Debt securities held to maturity are carried at amortized cost. If necessary, the carrying amount is reduced to its estimated realizable value. Interest income on debt securities, including amortization of premiums and discounts, is recognized on an accrual basis and reported as Net interest income.

Financial investments held for sale are carried at the lower of cost or market value. Reductions to market value and reversals of such reductions up to cost as well as gains and losses on disposal are included in Other income. Interest earned and dividends received are included in Net interest income.

Private Equity investments are carried at cost less write-downs for a non-temporary impairment in value. Reductions of the carrying amount and reversals of such reductions as well as gains

and losses on disposal are included in Other income.

l) Investments in associates

Investments in associates in which the Group has a significant influence are accounted for by the equity method. Investments in which the Group has a significant influence, but which are acquired and held with a view to their subsequent disposal are included in financial investments and recorded at the lower of cost or market value.

Investments in companies where the parent company does not hold a significant influence are recorded at cost less value adjustments for permanent declines in value.

Interests in jointly controlled entities are reported using the equity method and recorded under investments in associates.

m) Property and equipment

Property and equipment includes properties, computer and telecommunications equipment as well as other equipment, fixtures and fittings. Property and equipment is carried at cost less accumulated depreciation.

Property and equipment is depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	Not exceeding 50 years
Furnishings and fixtures	Not exceeding 10 years
Leasehold and building improvements	Not exceeding 10 years
Equipment	Not exceeding 5 years

Major renewals and improvements are capitalized, while maintenance and repairs are recognized as expenses as incurred. Building improvements are recorded under buildings, whereas leasehold improvements are recorded under equipment and furniture.

n) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill is recognized as an asset and is amortized using the straight-line basis over its estimated useful economic life, normally 5 years and not more than 20 years. Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries are treated as local currency balances and are retranslated into Swiss francs at the closing rate at subsequent balance sheet dates.

Negative goodwill is deferred and recognized in the income statement on a systematic basis over its estimated period of benefit, normally five years and not more than 20 years.

o) Income taxes

Income tax payable on profits, based on the applicable tax laws in each jurisdiction, is recognized as an expense in the period in which profits arise. The tax effects on income tax losses available for carry-forward are recognized as an asset when it is probable that future taxable profit will be available against which those losses can be utilized.

Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the Group balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognized for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period in which the asset will be realized or the liability will be settled.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting group and relate to the same tax authority and when the legal right to offset exists.

Current and deferred taxes are recognized as tax income or expense except for deferred taxes recognized or disposed of on the acquisition or disposal of a subsidiary.

p) Own shares and options on own shares

In the normal course of its equity trading and market making activities, the Group buys and sells UBS shares and options on those shares. These shares are held in Trading Assets similar to other trading securities, and are carried at fair value. Changes in fair value and dividends received on UBS shares in the trading portfolio are recognized as Net trading income.

In addition the Group holds its own shares for non-trading purposes, for instance employee compensation schemes and other strategic purposes. These shares are recorded within Treasury Stock and are deducted from Shareholders' Equity. Gains and losses on sales of Treasury Stock are recognized in Share Premium. Dividends relating to Treasury Stock shares are not recognized.

Options on own shares for strategic purposes are recorded at market value under positive and negative replacement values. Gains and losses thereon are recognized in the share premium account.

q) Retirement benefits

The Group operates a number of funded retirement benefit plans which include characteristics of both defined benefit and defined contribution plans. The Group's minimum contributions to such plans are determined under the terms of the plan but the Group may be required to provide additional funding, if necessary, to meet the level of benefits set out in the plan rules. Independent actuarial valuations are used to estimate the present value of the promised retirement benefits and of the plans assets.

The Group also operates a number of defined contribution plans. Contributions to such plans are recognized as expenses in the period to which they relate.

r) Derivative instruments

Derivative instruments are carried at fair value on the balance sheet. The Group enters into derivative transactions including swaps, futures and option contracts in interest rate, foreign exchange, equity, precious metal and commodity markets. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. The fair values of derivative instruments are shown in the balance sheet as positive and negative replacement values. Gains and losses, realized and unrealized, are recognized in net trading income as they arise. Valuation adjustments to cover credit and market liquidity risks as well as future administration costs have been made.

Transactions in derivative instruments entered into for hedging of non trading positions are recognized in the income statement on the same basis as to the underlying item being hedged.

Note 2 Harmonization of Accounting Policies

The business combination of Union Bank of Switzerland and Swiss Bank Corporation was accounted for under the pooling of interest method of accounting. Under the pooling of interest method of accounting, a single uniform set of accounting policies was adopted and applied to all periods presented. As a result of harmonizing these policies, adjustments were required for the accounting for treasury shares, netting of balance sheet items, repurchase agreements, depreciation and employee share schemes.

The impact on the financial statements is shown in the table below. Details of the shares issued to effect the pooling of interests are shown in Note 27.

CHF million	**1997**
Shareholders' equity as at 1 January 1997	
Former Union Bank of Switzerland	**22,707**
Former Swiss Bank Corporation	**11,742**
Total Shareholders' equity as previously reported	**34,449**
Impact of accounting policy harmonization	**(293)**
Shareholders' equity restated as at 1 January 1997	**34,156**
Net loss for the 12 month period ended 31 December 1997	
Former Union Bank of Switzerland	**(129)**
Former Swiss Bank Corporation	**(248)**
Total as previously reported	**(377)**
Impact of accounting policy harmonization	**(290)**
Net loss restated for the 12 month period ended 31 December 1997	**(667)**
Total assets as at 31 December 1997	
Former Union Bank of Switzerland	**577,576**
Former Swiss Bank Corporation	**438,948**
Total assets as previously reported	**1,016,524**
Impact of accounting policy harmonization	**69,890**
Total assets restated as at 31 December 1997	**1,086,414**

Note 3 Segment Reporting by Business Division

For the year ended 31 December 1998

CHF million	Private Banking	Warburg Dillon Read	Private & Corporate Clients	UBS Brinson	UBS Capital	Corporate Center	Group Total
Operating income	7,223	6,987	7,025	1,163	585	296	23,279
Less: Credit loss expense [1]	26	500	1,170	0	0	(745)	951
Total	7,197	6,487	5,855	1,163	585	1,041	22,328
Personnel, general and administrative expenses	2,605	6,984	3,999	608	152	2,085	16,433
Depreciation and amortization	256	524	948	107	5	(15)	1,825
Total	2,861	7,508	4,947	715	157	2,070	18,258
Segment performance before tax	**4,336**	**(1,021)**	**908**	**448**	**428**	**(1,029)**	**4,070**
Tax expense/(benefit)	737	(306)	154	128	15	317	1,045
Segment performance after tax	**3,599**	**(715)**	**754**	**320**	**413**	**(1,346)**	**3,025**
Less: Minority interest	0	(9)	0	0	0	4	(5)
Net profit/(loss)	**3,599**	**(706)**	**754**	**320**	**413**	**(1,350)**	**3,030**
Other information as at 31 December 1998							
Total assets [2]	107,772	685,921	173,028	800	1,800	(25,205)	944,116
Total liabilities [2]	106,197	675,041	164,865	724	1,513	(36,619)	911,721

[1] In order to show the relevant divisional performance over time, adjusted expected loss figures rather than the net credit loss expense are reported for all business divisions. The statistically derived adjusted expected losses reflect the inherent counterparty and country risks in the respective portfolios. The difference between the statistically derived adjusted expected loss figures to the financially booked net credit loss expenses at Group level is reported in the Corporate Center. The divisional breakdown of the net credit loss expense of CHF 951 million as of December 1998 is as follows: Private Banking CHF 48 million, Warburg Dillon Read CHF 506 million, Private and Corporate Clients CHF 397 million. [2] The funding surplus/requirement is reflected in each division and adjusted in Corporate Center.

To enable a more meaningful analysis of UBS's results, the above business group results have been presented on a management reporting basis. Consequently, internal charges and transfer pricing adjustments have been reflected in the performance of each business group. The basis of the reporting reflects the management of the business within UBS Group.

For the year ended 31 December 1997

CHF million	Private Banking	Warburg Dillon Read	Private & Corporate Clients	UBS Brinson	UBS Capital	Corporate Center	Group Total
Operating income	6,215	10,888	7,005	1,040	492	518	26,158
Less: Credit loss expense [1]	59	300	1,092	0	0	(173)	1,278
Total	6,156	10,588	5,913	1,040	492	691	24,880
Personnel, general and administrative expenses	2,773	8,714	4,305	593	108	381	16,874
Depreciation and amortization	218	595	852	44	3	50	1,762
Total	2,991	9,309	5,157	637	111	431	18,636
Segment performance before tax	**3,165**	**1,279**	**756**	**403**	**381**	**260**	**6,244**
Tax expense/(benefit)	561	213	135	127	2	357	1,395
Segment performance after tax	**2,604**	**1,066**	**621**	**276**	**379**	**(97)**	**4,849**
Less: Minority interest	0	0	0	0	0	16	16
Net profit/(loss)	**2,604**	**1,066**	**621**	**276**	**379**	**(113)**	**4,833**

[1] Basically the same methodology as for the year 1998 Segment Reporting is applied. Due to the unavailability of some pre-merger data, management estimates had to be used.

The results do not take into account the merger provision and the merger impact to taxes. The net loss of the whole Group including these items would be CHF (667) million. Private Banking and Private and Corporate Clients figures for 1997 were restated in order to properly reflect the new client segmentation (transfer of investment clients from Private Banking to Private and Corporate Clients).

Note 4 Segment Reporting by Geographical Location

The geographical analysis of operating income, total assets and capital investment given below is based on the location of the office in which the transactions and assets are recorded. Because of the global nature of financial markets, the Group's business is managed on an integrated basis world-wide, with a view to profitability by product line. The geographical analysis of operating income, total assets and capital investment is provided in order to comply with International Accounting Standards, and does not fairly reflect the way the Group is managed. Management believes that analysis by business division, as shown in Note 3 to these financial statements, is a more meaningful representation.

For the year ended 31 December 1998

	Total operating income		Total assets		Capital investment	
	CHF m	Share %	CHF m	Share %	CHF m	Share %
Switzerland	16,838	75	221,945	24	234	13
Europe/Africa/Middle East	1,691	8	409,780	43	767	42
Americas	2,548	11	216,989	23	513	28
Asia/Pacific	1,251	6	95,402	10	304	17
Total	**22,328**	**100**	**944,116**	**100**	**1,818**	**100**

Income Statement

Note 5 Net Interest Income

CHF million	1998	1997
Interest income		
Interest earned on loans and advances to banks	7,361	4,031
Interest earned on loans and advances to customers	14,111	17,565
Interest from finance leasing	60	90
Interest income from financial investments	293	460
Dividend income from financial investments	79	38
Other	931	1,485
Total	22,835	23,669
Interest expense		
Interest on amounts due to banks	7,879	7,247
Interest on amounts due to customers	9,890	10,074
Interest on medium and long-term debt	5,045	4,468
Less: Refinancing costs for trading positions	6,641	5,056
Total	16,173	16,733
Total	6,662	6,936

Note 6 Net Fee and Commission Income

CHF million	1998	1997
Credit-related fees and commissions		
Guarantee and letter of credit commissions	282	343
Other	277	450
Total	559	793
Security trading and investment activities fees		
Underwriting and corporate finance fees	1,694	1,645
Brokerage fees	3,670	4,145
Fiduciary fees	349	375
Custodian fees	1,386	1,188
Portfolio and other management and advisory fees	3,335	2,549
Investment funds	1,778	1,457
Other	110	233
Total	12,322	11,592
Commission income from other services		
Total	776	784
Commission expense		
Brokerage fees paid	704	694
Other	327	241
Total	1,031	935
Total	12,626	12,234

Note 7 Net Trading Income

CHF million	**1998**	1997
Foreign exchange and bank notes	**1,765**	2,306
Fixed income	**(762)**	1,843
Equities	**719**	1,098
Precious metals/commodities	**28**	244
Total	**1,750**	5,491

Interest and dividends derived from the trading portfolio are included within Net trading income. The funding costs for holding these trading positions are charged to Net trading income and credited to Interest expense.

Note 8 Other Income, including Income from Associates

CHF million	**1998**	1997
Investments in financial assets (debt and equity)		
Net income from disposal of private equity investments	**587**	418
Net income from disposal of other financial assets	**398**	338
Gains/(losses) from revaluation of financial assets	**(556)**	(16)
Subtotal	**429**	740
Net income from disposal of consolidated subsidiaries	**1,149**	154
Total	**1,578**	894
Investments in property		
Net income from disposal of properties held for resale	**33**	20
Gains/(losses) from revaluation of properties held for resale	**(106)**	(90)
Subtotal	**(73)**	(70)
Net income from properties, excluding properties held for resale	**328**	99
Total	**255**	29
Investments in associates		
Net income from investments in associates	**377**	231
Gains/(losses) from the disposal of investments in associates	**(30)**	44
Total	**347**	275
Other	**61**	299
Total	**2,241**	1,497

Note 9 Operating Expenses

CHF million	**1998**	1997
Personnel expenses		
Salaries and bonuses	**7,203**	8,932
Contractors	**535**	365
Insurance and social contributions	**421**	536
Contributions to retirement benefit plans	**614**	580
Employee share plans	**201**	143
Other personnel expenses	**842**	1,003
Total	**9,816**	11,559
General and administrative expenses		
Occupancy	**822**	830
Rent and maintenance of machines and equipment	**390**	460
Telecommunications and transportation	**820**	819
Administrative expense	**759**	794
Marketing and public relations	**262**	306
Travel and entertainment	**537**	528
Professional fees, including IT outsourcing	**1,792**	1,464
Other	**1,235**	114
Total	**6,617**	5,315
Depreciation and amortization		
Property and equipment	**1,483**	1,623
Intangible assets and goodwill	**342**	139
Total	**1,825**	1,762
Total operating expenses before restructuring	**18,258**	18,636

Note 10 Earnings per Share

	1998	1997
Basic earnings per share calculation		
Net profit for the year (CHF million)	**3,030**	(667)
Weighted average shares outstanding:		
Registered ordinary shares (nominal CHF 20)	**214,855,064**	213,497,120
Less: Treasury Shares	**3,057,586**	3,862,118
Weighted average shares for basic earnings per share (nominal CHF 20)	**211,797,478**	209,635,002
Basic earnings per share (CHF)	**14.31**	(3.18)
Diluted earnings per share calculation		
Net profit for the year (CHF million)	**3,030**	(667)
Weighted average shares for basic earnings per share (nominal CHF 20)	**211,797,478**	209,635,002
Add:		
Potential ordinary shares resulting from the issuance of outstanding options	**296,272**	288,145
Potential ordinary shares relating to employee plans	**847,140**	0
Weighted average shares for diluted earnings per share (nominal CHF 20)	**212,940,890**	209,923,147
Diluted earnings per share (CHF)	**14.23**	(3.18)

The weighted average number of shares is calculated based upon the average outstanding shares at the end of each month. All share amounts, including comparatives, are restated in terms of new UBS shares.

Balance Sheet: Assets

Note 11 Money Market Paper

CHF million	1998	1997
Swiss government treasury notes and bills	9,568	11,142
Money market placements	8,262	21,977
Other bills and cheques	560	3,234
Total	**18,390**	36,353
thereof eligible for discount at central banks	*16,512*	*15,143*

Note 12a Due from Banks and Loans to Customers

The composition of the loan portfolio and the allowance for credit losses by type of exposure as at 31 December was as follows:

CHF million	1998	1997
Banks	69,543	67,310
Less: Allowance for credit losses	1,048	728
Total	68,495	66,582
Non-banks		
Mortgages	140,785	146,802
Other loans	120,636	139,128
Subtotal	261,421	285,930
Less: Allowance for credit losses	13,495	15,013
Total	247,926	270,917
Total net of allowance for credit losses	**316,421**	337,499
thereof subordinated	*133*	*146*

The composition of the loan portfolio by geographical region based on the location of the borrower as at 31 December was as follows:

CHF million	1998	1997
Switzerland	187,223	
Europe / Africa / Middle East	56,043	
Americas	44,556	
Asia / Pacific	43,142	
Subtotal	330,964	353,240
Less: Allowance for credit losses	14,543	15,741
Total net of allowance for credit losses	**316,421**	337,499

Note 12a Due from Banks and Loans to Customers (continued)

The composition of the loan portfolio by type of collateral was as follows:

CHF million	**1998**	1997
Secured by mortgages	**145,247**	153,235
Collateralized by securities	**13,185**	11,278
Guarantees and other collateral	**27,953**	33,482
Unsecured	**144,579**	155,245
Subtotal	**330,964**	353,240
Less: Allowance for credit losses	**14,543**	15,741
Total net of allowance for credit losses	**316,421**	337,499

Note 12b Allowance for Credit Losses

The allowance for credit losses developed as follows:

	Specific	**Country risk**	Total	
CHF million	**allowances**	**provision**	**1998**	1997
Balance at beginning of year	**14,566**	**1,175**	**15,741**	17,531
Write-offs	**2,312**	**9**	**2,321**	4,120
Recoveries	**59**	**1**	**60**	442
Increase in for credit loss allowances	**710**	**422**	**1,132**	1,432
Net foreign exchange and other adjustments [1]	**70**	**(139)**	**(69)**	456
Balance at end of year	**13,093**	**1,450**	**14,543**	15,741

[1] Includes allowance for doubtful interest of CHF 423 million.

As at 31 December the aggregate allowances and provisions were apportioned and displayed as follows:

CHF million	**1998**	1997
As a reduction of due from banks	**1,048**	728
As a reduction of loans to customers	**13,495**	15,013
Subtotal	**14,543**	15,741
Included in other business risk provision related to commitments and contingent liabilities and other	**435**	472
Total aggregated allowances and provisions for credit losses	**14,978**	16,213

Note 12c Non-Performing Loans

An analysis of changes in non-performing loans is presented in the following table:

CHF million	**1998**	1997[1]
Non-performing loans at beginning of year	**16,664**	
Net additions	**1,861**	
Write-offs	**2,808**	
Non-performing loans at end of year	**15,717**	16,664

[1] Estimate based on harmonization of non-performing loan methodology.

The non-performing loans by type of exposure as at 31 December were as follows:

CHF million	**1998**	1997[1]
Banks	**204**	
Non-banks		
Mortgages	**9,280**	
Other	**6,233**	
Subtotal	**15,513**	
Total non-performing loans	**15,717**	16,664

[1] Estimate based on harmonization of non-performing loan methodology.

The non-performing loans by geographical region based on the location of the borrower were as follows:

CHF million	**1998**	1997
Switzerland	**14,023**	15,238[1]
Europe/Africa/Middle East	**352**	510
Americas	**1,066**	821
Asia/Pacific	**276**	95
Total non-performing loans	**15,717**	16,664

[1] Estimate based on harmonization of non-performing loan methodology.

When principal and interest are overdue by 90 days, loans are classified as non-performing, the recognition of interest income ceases and a charge is recognized against income for the unpaid interest receivable. Non-performing loans are written down to their estimated recoverable amount. Unrecognized interest related to such loans totalled CHF 423 million.

Note 13 Cash Collateral on Securities Borrowed and Lent

CHF million	1998 Securities borrowed	1998 Securities lent	1997 Securities borrowed	1997 Securities lent
Cash collateral by counterparties				
Banks	**68,186**	**5,337**	79,289	8,472
Customers	**23,509**	**13,834**	3,367	5,668
Total	**91,695**	**19,171**	82,656	14,140

Note 14 Repurchase and Reverse Repurchase Agreements

CHF million	1998 Reverse repos	1998 Repos	1997 Reverse repos	1997 Repos
Agreements split by counterparties				
Banks	**107,565**	**77,942**	149,170	102,964
Customers	**33,720**	**59,675**	67,185	88,829
Total	**141,285**	**137,617**	216,355	191,793

Note 15 Trading Portfolio

Trading assets are carried at fair value. The following table presents the carrying value of trading account assets as at 31 December.

CHF million	1998	1997
Debt instruments		
Listed instruments (excluding own notes)	**86,548**	115,517
Own medium-term notes	**608**	130
Other unlisted instruments	**15,519**	11,735
Total	**102,675**	127,382
Equity instruments		
Listed instruments (excluding own shares)	**49,848**	75,851
Own shares [1]	**3,409**	2,345
Unlisted instruments	**841**	1,912
Total	**54,098**	80,108
Precious metals	**5,815**	3,248
Total	**162,588**	210,738
thereof eligible for discount at central banks	***82,265***	*106,530*

[1] Number of registered shares 8,078,419 (1997: 598,495 [UBS], 3,034,660 [SBC]).

The Group trades debt, equity, precious metals, foreign currency and derivatives to meet the financial needs of its customers and to generate revenue through its trading activities. Note 28 provides a description of the various classes of derivatives together with the related volumes used in the Group's trading activities, whereas Notes 13 and 14 give further details about Repos and Reverse Repos and Securities Lent and Borrowed.

Note 16 Financial Investments

CHF million	**1998**	1997
Debt instruments		
Listed	**1,880**	5,386
Unlisted	**547**	3,227
Total	**2,427**	8,613
Equity instruments		
Listed	**400**	699
Unlisted	**1,048**	866
Total	**1,448**	1,565
Private equity investments	**1,759**	1,286
Properties held for resale	**1,280**	1,229
Total	**6,914**	12,693
thereof eligible for discount at central banks	***544***	*4,213*

The following table gives additional disclosure in respect of the valuation methods used.

	1998		1997	
CHF million	**Book value**	**Market value**	Book value	Market value
Valued in accordance with the accrual method				
Debt instruments	**1,530**	**1,551**	8,613	8,687
Valued at the lower of cost or market value				
Debt instruments	**897**	**907**	–	–
Equity instruments	**1,448**	**1,552**	1,565	1,574
Properties held for resale	**1,280**	**1,369**	1,229	1,229
Total	**3,625**	**3,828**	2,794	2,803
Valued at cost less value adjustments for other than temporary impairments				
Private equity investments	**1,759**	**2,574**	1,286	1,903
Total	**6,914**	**7,953**	12,693	13,393

Note 17 Investments in Associates

CHF million	Carrying amount at end of 1997	**Equity share of profits**	**Write-offs**	**Additions**	**Disposals**	**Carrying amount at end of 1998**
Investments in associates (equity method)	2,542	225		59	205	2,621
Other investments (carried at cost)	182		5	138	131	184
Total	2,724	**225**	**5**	**197**	**336**	**2,805**

Note 18 Property and Equipment

CHF million	Historical cost	Accumulated depreciation at end of 1997	Carrying amount at end of 1997	**Additions**	**Disposals**	**Depreciation, write-offs**	**Carrying amount at end of 1998**	**Accumulated depreciation at end of 1998**
Bank premises [1]	11,377	3,943	7,434	**109**	**617**	**354**	**6,572**	**4,096**
Other properties	1,797	573	1,224	**152**	**133**	**97**	**1,146**	**656**
Equipment and furniture [2]	7,752	5,446	2,306	**1,552**	**56**	**1,634**	**2,168**	**3,867**
Total [3]	20,926	9,962	10,964	**1,813**	**806**	**2,085**	**9,886**	**8,619**

[1] Depreciation of current year before release of CHF 121 million against restructuring provision. [2] Depreciation of current year before release of CHF 481 million against restructuring provision. [3] Fire insurance value of property and equipment is CHF 14,941 million (1997: CHF 16,160 million).

Note 19 Intangible Assets and Goodwill

CHF million	Historical cost	Accumulated amortization at end of 1997	Carrying amount at end of 1997	**Additions**	**Disposals**	**Amortization, write-offs**	**Carrying amount at end of 1998**	**Accumulated amortization at end of 1998**
Intangible assets	513	257	256	**59**	**19**	**44**	**252**	**301**
Goodwill	2,199	1,025	1,174	**1,307**	**225**	**298**	**1,958**	**1,323**
Total	2,712	1,282	1,430	**1,366**	**244**	**342**	**2,210**	**1,624**

During the year we purchased the remaining partnership interests in Brinson as well as UBS Brinson Asset Management Co. Ltd in Tokyo, Bank Omega (now Banco Warburg Dillon Read SA) in Brasil and a participation in Phildrew Ventures in London. The most significant disposal is the sale of UBS Asset Management (France) SA.

Note 20 Other Assets

CHF million	**1998**	1997
Deferred tax assets [1]	**1,205**	2,074
Settlement and clearing accounts	**5,542**	4,562
Other	**5,345**	6,478
Total	**12,092**	13,114

[1] Additional tax information is provided in Note 25.

Balance Sheet: Liabilities

Note 21 Due to Banks and Customers

CHF million	**1998**	1997
Due to banks	**85,716**	159,634
Amounts due to customers in the form of savings or deposits	**79,723**	87,343
Other amounts due to customers	**195,127**	215,173
Total due to customers	**274,850**	302,516
Total	**360,566**	462,150

Note 22 Long Term Debt

Publicly placed bond issues of UBS AG (parent company) outstanding at the end of 1998

Year of issue	Interest rate in %	Remarks	Maturity	Premature redemption possible	Currency	Amount in millions
1980	3.750	Subordinated	25.9.2000	–	CHF	100 [1, 17]
1986	5.000	Subordinated	10.2.2011	10.2.2001	CHF	250 [2, 17]
1986	3.000	Subordinated	17.9.2001	17.9.1999	CHF	200 [17]
1989	6.375		21.12.1999	–	CHF	60 [3, 17]
1990	7.000		15.2.2000	–	CHF	300 [17]
1990	7.250	Subordinated	15.3.2000	–	CHF	300 [17]
1990	0.000		31.3.2020	–	CHF	59.2 [3, 4, 17]
1990	7.500	Subordinated	7.6.2002	–	CHF	300 [17]
1990	0.000		31.12.2019	–	CHF	351 [3, 5, 17]
1990	6.750		31.7.2000	–	CHF	300 [18]
1991	7.500	Subordinated	15.2.2003	15.2.2001	CHF	300 [17]
1991	7.000	Subordinated	4.9.2001	–	CHF	250 [17]
1991	5.000		15.4.2001	–	CHF	60 [17]
1991	7.000		20.2.2001	20.2.1999	CHF	300 [18]
1991	7.000	Subordinated	16.5.2003	16.5.2001	CHF	200 [18]
1991	4.250	Subordinated	25.6.2004	–	CHF	300 [18]
1991	6.750		28.6.2001	28.6.1999	CHF	50 [18, 20]
1991	6.750		20.9.2001	20.9.1999	CHF	20 [18, 21]
1992	7.250	Subordinated	10.1.2004	10.1.2002	CHF	150 [17]
1992	7.000	Subordinated	6.2.2002	–	CHF	200 [18]
1992	7.500	Subordinated	10.7.2002	–	CHF	200 [18]
1992	7.000	Subordinated	16.10.2002	–	CHF	200 [18]
1993	4.750	Subordinated	8.1.2005	8.1.2003	CHF	200 [18]
1993	4.875	Subordinated	3.3.2003	–	CHF	200 [18]
1993	4.000	Subordinated	31.3.2003	–	CHF	200 [18]
1993	3.500	Subordinated	31.3.2003	–	CHF	200 [18]
1993	5.125		15.7.2001	–	CHF	30 [18, 21]
1993	3.000		26.11.2003	–	CHF	200 [18]
1993	2.750		1.12.2000	–	CHF	200 [18]
1994	6.250	Subordinated	6.1.2004	–	USD	300 [6, 17]
1994	2.000		4.1.1999	–	CHF	250 [18]
1994	4.500		5.5.1999	–	CHF	225 [18]
1994	5.000		20.6.2000	–	CHF	300 [18]
1994	5.375		7.9.2001	–	CHF	200 [18]
1995	7.000		5.1.2000	–	DEM	400 [6, 17]
1995	8.000		17.2.1999	–	USD	200 [6, 17]
1995	5.250	Subordinated	20.6.2003	–	CHF	200 [6, 17]
1995	8.750	Subordinated	20.6.2005	–	GBP	250 [6, 17]
1995	5.750		8.12.1999	–	DEM	500 [6, 17]
1995	4.500		21.12.2000	–	CHF	300 [6, 17]
1995	8.750	Subordinated	18.12.2025	–	GBP	150 [6, 17]
1995	5.500		15.2.2005	–	CHF	150 [17]
1995	6.750	Subordinated	15.07.2005	–	USD	200 [7, 17]
1995	7.375	Subordinated	15.7.2015	–	USD	150 [7, 17]
1995	7.500	Subordinated	15.7.2025	–	USD	350 [7, 17]
1995	4.500		21.11.2005	–	CHF	300 [17]
1995	7.000	Subordinated	15.10.2015	–	USD	300 [7, 17]
1995	2.500		18.10.2004	–	JPY	5,000 [3, 6, 17]
1995	4.000	Subordinated	7.2.2005	–	CHF	150 [18]
1995	5.625	Subordinated	13.4.2005	–	CHF	150 [18]
1995	5.000	Subordinated	7.11.2006	–	CHF	250 [18]
1995	5.250	Subordinated	18.7.2005	–	CHF	200 [18]
1995	5.000	Subordinated	24.8.2005	–	CHF	250 [18]
1995	4.375		7.11.2002	–	CHF	250 [18]
1996	3.500		18.1.2000	–	CHF	200 [6, 17]
1996	2.000		23.8.2002	–	CHF	300.5 [6, 9, 17]

For footnotes see next page.

Note 22 Long Term Debt (continued)

Publicly placed bond issues of UBS AG (parent company) outstanding at the end of 1998

Year of issue	Interest rate in %	Remarks	Maturity	Premature redemption possible	Currency	Amount in millions
1996	3.000		7.2.2001	–	USD	250 [6, 17]
1996	6.000		29.3.1999	–	USD	200 [6, 17]
1996	4.750		31.12.1999	–	DEM	400 [6, 17]
1996	6.500		16.7.1999	–	USD	300 [6, 17]
1996	6.250		18.10.2002	–	USD	250 [6, 17]
1996	4.000		14.2.2006	–	CHF	200 [17]
1996	4.000		18.4.2002	–	CHF	200 [17]
1996	7.250	Subordinated	3.9.2006	–	USD	150 [7, 17]
1996	7.750	Subordinated	3.9.2026	–	USD	300 [7, 17]
1996	1.500		20.11.2003	–	CHF	45 [6, 8, 17]
1996	5.750		9.12.1999	–	USD	400 [6, 17]
1996	5.750	Subordinated	9.12.2006	–	DEM	500 [6, 17]
1996	3.250		20.12.2002	–	CHF	350 [17]
1996	4.250	Subordinated	6.2.2006	–	CHF	250 [18]
1996	3.625		10.4.2001	–	CHF	400 [18]
1996	3.125		22.12.1999	–	CHF	400 [18]
1996	2.500		20.12.2000	–	CHF	300 [18]
1996	7.250	Subordinated	15.7.2006	–	USD	500 [7, 18]
1997	7.375	Subordinated	15.6.2017	–	USD	300 [7, 17]
1997	6.000		24.7.2000	–	USD	200 [6, 17]
1997	10.625		28.1.1999	–	CZK	1,500 [6, 17]
1997	6.500		4.7.2002	–	USD	300 [6, 17]
1997	15.000		10.3.1999	–	ZAR	250 [6, 17]
1997	6.750		25.2.2000	–	GBP	100 [6, 17]
1997	1.000		17.9.2002	–	DEM	150 [6, 10, 17]
1997	1.250		5.11.2002	–	DEM	260 [6, 11, 17]
1997	1.000		7.8.2002	–	DEM	225 [6, 12, 17]
1997	1.750		30.4.2001	–	USD	225 [6, 13, 17]
1997	1.000		15.3.2001	–	DEM	125 [6, 14, 17]
1997	1.750		25.7.2001	–	USD	100 [6, 15, 17]
1997	1.500		14.1.2003	–	DEM	100 [6, 16, 17]
1997	8.000	Subordinated	8.1.2007	–	GBP	450 [18, 19]
1997	5.750	Subordinated	12.3.2007	–	DEM	350 [18, 19]
1997	7.375	Subordinated	26.11.2004	–	GBP	250 [18, 19]
1997	5.875	Subordinated	18.8.2009	–	FRF	2,000 [18, 19]
1998	9.150		27.3.2000	–	ITL	200,000 [6, 22]
1998	9.700		27.4.2000	–	ITL	150,000 [6, 23]
1998	10.250		8.9.2000	–	DEM	300 [6, 24]
1998	9.000		14.9.2000	–	CHF	155 [6, 25]
1998	11.500		9.10.2000	–	CHF	215 [6, 26]
1998	10.000		21.12.2000	–	USD	50 [6, 27]
1998	7.500		11.5.2001	–	CHF	722 [6, 25]
1998	1.625		14.5.2003	–	USD	275 [6, 28]
1998	7.000		18.5.2001	–	CHF	488 [6, 29]
1998	7.500		10.7.2001	–	CHF	412.005 [6, 30]
1998	8.000		3.8.2001	–	CHF	725 [6, 31]
1998	8.000		17.8.2001	–	CHF	340 [6, 32]
1998	5.750		18.3.2002	–	USD	250 [6]
1998	1.000		17.2.2003	–	XEU	110 [6, 33]
1998	1.000		12.3.2003	–	NLG	275 [6, 34]
1998	3.500		27.8.2008	–	CHF	300

Footnotes
1 Floating rate
2 At 102½%
3 Private placement
4 Issue price 17.45%
5 Issue price 19.27%
6 Issued by UBS Jersey Branch
7 Issued by UBS New York Branch
8 Convertible into SMI Index
9 With options on Nikkei 225 Index
10 Convertible into UBS Industrial Basket
11 Convertible into European Bank Basket
12 Convertible into European Insurance shares Basket
13 Convertible into Life Sciences Basket
14 Convertible into Eurotrack 100 Index
15 Convertible into Nikkei 225 Index
16 Indexed to UBS Currency Portfolio
17 Issued by former SBC
18 Issued by former UBS
19 Issued by UBS London Branch
20 Formerly Commercial Bank of Soleure
21 Formerly Regiobank beider Basel
22 Convertible into shares of ENI
23 Convertible into shares of Pirelli
24 GOAL on Daimler shares
25 GOAL on Rück shares
26 GOAL on CSG shares
27 GOAL on Pepsico shares
28 Convertible into UBS Oil Basket
29 GOAL on Novartis shares
30 GOAL on Roche GS
31 GOAL on UBS shares
32 GOAL on Zürich shares
33 Convertible into FTSE Index
34 Convertible into UBS Dutch Corporate Basket

Note 22 Long Term Debt (continued)

Publicly placed bond issues of UBS subsidiaries outstanding at the end of 1998

Year of issue	Interest rate in %	Remarks	Maturity	Premature redemption possible	Currency	Amount in millions
UBS Finance (Cayman Islands) Ltd., Grand Cayman						
1991 [1]	0.000		28.2.2001	–	GBP	200 [2]
1993 [1]	7.250		8.4.1999	–	CAD	250
1994 [1]	6.500		7.7.1999	–	NLG	350
1994 [1]	5.000		1.7.2000	–	CHF	150
1997		PIP on Biotech Basket	14.5.1999	–	USD	25.033
1997		GROI on Russian Basket	8.6.2000	–	USD	24.34
1997		PIP on Global Basket	20.7.1999	–	USD	113.79
1997		PIP on S & P	27.9.2000	–	USD	10
UBS Australia Limited, Sydney [1]						
1997	3.250		2.10.2001	–	USD	100
UBS Finance (Curaçao) N.V. Netherlands Antilles [1]						
1990	9.125		8.2.2002	–	USD	225
1992	FRN [5]		8.11.2002	–	USD	250
1993	9.250		23.8.2000	–	ITL	250,000
1995	6.500		2.5.2000	–	DEM	250
1996	2.500		30.10.2001	–	DEM	250
1996	6.000		30.12.1999	–	USD	300
1996	2.500		1.3.2001	–	USD	5 [6]
1997	2.500		30.10.2001	–	DEM	100
1997	0.000		29.1.2027	–	ITL	2,500,000
1997	2.750		16.6.2002	–	USD	325 [7]
1997	5.875		30.12.1999	–	USD	200
1998	0.000		3.3.2028	–	DEM	1,000 [8]
UBS Bank (Canada), Toronto						
1989	7.650		28.4.1999	–	JPY	2,600 [3]
Solothurner Bank						
1990	7.25		30.5.1999	–	CHF	45
1991	6.5		10.7.2001	10.7.1999	CHF	80
S.G.W. Finance plc. [4]						
1991	13.25		21.3.2001	–	AUD	60
S.G. Warburg Group plc						
1994	9.000		perpetual	–	GBP	125
1986	7.625		preference shares GBP 1.–		GBP	10.934

CHF million	
Total bond issues	42,124
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	2,571
Medium-term notes	6,088
Total	**50,783**

Footnotes
1 Guaranteed by UBS
2 Zero coupon, issue price 36.55 %
3 Subordinated
4 Guaranteed by S.G. Warburg Group plc.
5 6 months Libor – 0.25% (minimum 5 %, maximum 8.25%)
6 Convertible into shares of Gillette Company
7 Convertible into shares of UBS
8 Zero coupon, issue price 15.68285%

PIP Protected Index Participation
GROI Guaranteed Return on Investment
PEP Protected Equity Participation
GRIP Guaranteed Return on Investment Participation

Note 23 Other Liabilities

CHF million	1998	1997
Provisions including restructuring provision [1]	7,529	8,614
Tax liabilities [2]	2,028	2,690
Settlement and clearing accounts	9,502	8,601
Other liabilities	8,663	8,249
Total	27,722	28,154

[1] Additional restructuring provision information is provided in Note 24. [2] Additional tax information is provided in Note 25.

Note 24 Provisions, including Restructuring Provision

Restructuring provision

CHF million	1998	1997
Balance brought forward at 1 January	7,000	–
New provisions charged to income		7,000
Provisions applied [1]		
Personnel	2,024	
IT	797	
Premises	267	
Other	939	
Total utilized during the year	4,027	0
Balance at 31 December	2,973	7,000

[1] The expense categories refer to the nature of the expense rather than the income statement expense line.

Other business risk provision

CHF million	1998	1997
Balance brought forward at 1 January	1,614	1,521
New provisions charged to income	2,952	177
Provisions applied	487	222
Recoveries of previous write-offs [1]	477	138
Balance at 31 December	4,556	1,614
Total	7,529	8,614

[1] Includes foreign currency translation differences and other adjustments.

Provision for restructuring costs

At the time of the merger, it was announced that the merged bank's operations in various locations would be combined, resulting in vacant properties, reductions in personnel, elimination of redundancies in the information technology platforms, exit costs and other costs. As a result, the individual banks estimated that the cost of the post-merger restructuring would be approximately CHF 7 billion, to be expended over a period of four years.

During 1998, the bank utilized CHF 4 billion of the provision. At year end 31 December 1998, the bank estimates that the remaining provision of CHF 3 billion is reasonable to cover the remaining costs associated with the merger restructuring.

Note 25 Income Taxes

Tax liabilities

CHF million	**1998**	1997
Current tax liabilities	**1,016**	1,195
Deferred tax liabilities	**1,012**	1,495
Total	**2,028**	2,690

The table below presents the significant components of deferred tax assets and liabilities:

Deferred tax assets

CHF million	31.12.97	**Income statement**	**Translation/ other adj.**	**31.12.98**
Temporary differences on:				
Compensation and benefits	58	**18**	**(10)**	**66**
Restructuring provision	1,100	**(382)**	**–**	**718**
Allowance for credit losses	479	**(253)**	**5**	**231**
Tax losses recognized as assets	234	**(176)**	**4**	**62**
Others	203	**(94)**	**19**	**128**
Deferred tax assets	2,074	**(887)**	**18**	**1,205**

Deferred tax liabilities

CHF million	31.12.97	**Income statement**	**Translation/ other adj.**	**31.12.98**
Temporary differences on:				
Property, equipment	602	**(120)**	**2**	**484**
Investments in associates	277	**12**	**–**	**289**
Unremitted earnings	10	**–**	**–**	**10**
Other provisions	501	**(274)**	**(118)**[1]	**109**
Gains on debt and equity investment securities	69	**4**	**30**	**103**
Others	36	**(18)**	**(1)**	**17**
Deferred tax liabilities	1,495	**(396)**	**(87)**	**1,012**

[1] Includes decrease due to disposal of subsidiaries.

Undistributed earnings of subsidiaries for which taxes have not been provided, amounted to CHF 2,731 million and CHF 3,451 million at 31 December 1998 and 1997 respectively. No significant additional tax liability is expected to arise on any distribution of these earnings.

Note 25 Income Taxes (continued)

Tax expense

CHF million	1998	1997
Current taxes		
Swiss	354	511
Foreign	200	419
Total current taxes	554	930
Deferred taxes	491	(1,035)
Income tax expense / (benefit)	**1,045**	(105)

A reconciliation of the expected income tax expense / (benefit) computed at the applicable rate in each jurisdiction to the effective income tax expense / (benefit) is shown in the following table:

CHF million	1998	1997
Operating profit / (loss) before income taxes	4,070	(756)
Expected income tax expense at the applicable rates [1]	1,104	(192)
Increase or (decrease) resulting from:		
Tax losses not recognized	1,436	310
Tax losses of previous periods now recognized	(142)	(201)
Non-taxable income	(1,849)	(333)
Non-deductible expenses	172	171
Adjustments related to prior years	7	(27)
Capital taxes	93	96
Deferred tax assets not recognized	224	71
Income tax expense / (benefit)	**1,045**	(105)

[1] The expected income tax expense for the Group is an aggregate of individual amounts representing the mix of profits and losses and the applicable tax rates in each jurisdiction.

The amounts and expiry dates of unused tax losses carried forward which have not been recognized as assets, are as follows:

CHF million	1998	1997
Following year	0	122
Next three years	118	46
After four years	6,664	1,917
Total	**6,782**	2,085

Balance Sheet: Equity

Note 26 Minority Interests

CHF million	1998	1997
Minority interests in profit / (loss)	(5)	16
Preferred stock [1]	689	870
Minority interests in equity	306	147
Total minority interests	**990**	1,033

[1] Represents Auction Market Preferred Stock, issued by UBS Inc., New York, a subsidiary whose ordinary share capital is completely owned by UBS.

Note 27 Shareholders' Equity

CHF million	1998	1997
Issued and paid up share capital		
214,976,306 ordinary registered shares of CHF 20 each, fully paid	4,300	4,296
Less: Treasury shares, cost		
Balance as at beginning of the year	1,982	702
Acquisitions	2,796	3,172
Disposals	(3,296)	(1,892)
Balance at the end of the year	1,482	1,982
Total outstanding share capital	**2,818**	**2,314**
Share premium account		
Balance at the beginning of the year restated for the harmonization of accounting policies	13,260	13,001
Premium on shares issued, warrants exercised	111	130
Premium on disposal of Treasury Shares	369	129
Balance at the end of the year	**13,740**	**13,260**
Foreign currency translation differences		
Balance at the beginning of the year	(111)	(155)
Movements during the year	(345)	(44)
Balance at the end of the year	**(456)**	**(111)**
Retained earnings		
Balance at the beginning of the year restated for the harmonization of accounting policies	15,464	16,931
Net profit/(loss) for the year	3,030	(667)
Dividends paid	(2,201)	(800)
Balance at the end of the year	**16,293**	**15,464**
Total shareholders' equity	**32,395**	**30,927**

On 1 October 1997, the share capital was increased from its initial capitalization of CHF 50,000 by CHF 4,287,469,820 being 214,373,491 registered shares at CHF 20 each to CHF 4,287,519,820. The new shares were issued exclusively for the exchange of the existing shares of Swiss Bank Corporation and Union Bank of Switzerland. Pursuant to the merger the shareholders of both combining banks exchanged their shares for shares in the new bank. Union Bank of Switzerland shareholders received 5 registered shares for each bearer share held and 1 registered share for each registered share held. Swiss Bank Corporation shareholders received $1\frac{1}{13}$ registered shares of the new bank for each Swiss Bank Corporation registered share held. UBS AG absorbed all the assets and liabilities of the combining banks. The combined share capital amounted to CHF 5,754,937,280. As a result of the exchange of shares CHF 1,467,417,460 were transferred from share capital to the share premium account.

There are no preferential rights and restrictions with respect to the distribution of dividends and to the repayment of capital except that retained earnings in the amount of CHF 13,816 million (1997: CHF 12,515 million) must be held in the form of a legal reserve. In addition to the issued and paid up share capital 999,229 shares are unissued and are reserved for the employee share ownership plan and optional dividend warrants (1997: 1,339,312 unpaid SBC ordinary registered shares). A further 526,541 shares are at the disposal of the Board of Directors (1997: 70,718 UBS unissued ordinary bearer shares and 172,951 UBS unissued ordinary registered shares). These shares represent the maximum amount of shares that may be issued in the future without further approval from the shareholders. Comparative figures for the number of shares issued as at 31 December 1997 are not provided as no shares were issued by UBS AG at this date. The Swiss franc figure has been restated for comparative purposes only. Movements in the issued share capital are due to the issuance of shares to fulfill existing commitments.

Off Balance Sheet and Other Information

Note 28 Derivative Instruments

Derivatives held or issued for trading purposes

Most of the Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers at competitive prices to enable them to transfer, modify or reduce current or expected risks. Trading involves market making, positioning and arbitrage activities. Market making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products.

Derivatives held or issued for non-trading purposes

The Group also uses derivatives as a part of its asset/liability management activities.

The majority of derivative positions used in UBS's asset and liability management activities are established via intercompany transactions with independently managed UBS dealer units within the Group.

When the Group purchases assets and issues liabilities at fixed interest rates it subjects itself to fair value fluctuations as market interest rates change. These fluctuations in fair value are managed by entering into interest rate contracts, mainly interest rate swaps which change the fixed rate instrument into a variable rate instrument.

When the Group purchases foreign currency denominated assets, issues foreign currency denominated debt or has foreign net investments, it subjects itself to changes in value as exchange rates move. These fluctuations are managed by entering into currency swaps and forwards.

Type of derivatives

The Group uses the following derivative financial instruments for both trading and non-trading purposes:

Swaps Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.

Interest rate swap contracts generally represent the contractual exchange of fixed and floating rate payments of a single currency, based on a notional amount and an interest reference rate.

Cross currency interest rate swaps generally involve the exchange of payments which are based on the interest reference rates available at the inception of the contract on two different currency principal balances that are exchanged. The principal balances are re-exchanged at an agreed upon rate at a specified future date.

Forwards and futures Forwards and futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized contracts that are transacted on regulated exchanges.

Options Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) by or at a set date, a specified amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right.

Note 28 Derivative Instruments (continued)

Notional amounts and replacement values

The following table provides the notional amounts and the positive and negative replacement values of the Group's derivative transactions.

The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. It provides an indication of the volume of business transacted by the Group but does not provide any measure of risk.

Some derivatives are standardized in terms of their nominal amounts and settlement dates, and these are designed to be bought and sold in active markets (exchange traded). Others are packaged specifically for individual customers and are not exchange traded although they may be bought and sold between counterparties at negotiated prices (over-the-counter or OTC instruments).

Positive replacement value represents the cost to the Group of replacing all transactions with a receivable amount if all the Group's counterparties were to default. This measure is the industry standard for the calculation of current credit exposure. Negative replacement value is the cost to the Group's counterparties of replacing all the Group's transactions with a commitment if the Group were to default. The total positive and negative replacement values are included in the balance sheet separately.

Note 28 Derivative Instruments (continued)

CHF million	Term to maturity Within 3 months PRV [1]	NRV [2]	3–12 months PRV	NRV	1–5 years PRV	NRV	over 5 years PRV	NRV	**Total PRV**	**Total NRV**	Total notional amount CHF bn
Interest rate contracts											
Over-the-counter (OTC) contracts											
Forward contracts including FRAs	783	932	309	271	45	29	42	23	**1,179**	**1,255**	217.7
Swaps	3,488	4,502	6,657	6,024	36,464	35,799	38,056	34,758	**84,665**	**81,084**	8,544.0
Options purchased	233		465		2,947		3,207		**6,852**	**0**	1,264.8
Options written		327		615		4,476		4,427	**0**	**9,845**	1,254.4
Exchange-traded contracts [3]											
Futures	12	7	0	1	2	0	0	0	**14**	**7**	732.3
Options	0	0	0	0	0	0	0	0	**0**	**0**	77.8
Total	**4,517**	**5,768**	**7,430**	**6,911**	**39,458**	**40,304**	**41,305**	**39,208**	**92,710**	**92,191**	**12,091.0**
Foreign exchange contracts											
Over-the-counter (OTC) contracts											
Forward contracts	3,439	498	6,493	9,455	278	261	164	237	**10,375**	**10,451**	888.4
Combined interest and currency swaps	2,456	3,009	1,718	2,683	4,626	5,202	4,974	5,097	**13,775**	**15,991**	235.4
Options purchased	4,718		10,123		1,945		604		**17,390**	**0**	466.8
Options written		17,168		218		619		604	**0**	**18,610**	455.1
Exchange-traded contracts [3]											
Futures	0	0	0	0	0	0	0	0	**0**	**0**	2.5
Options	156	120	193	0	0	5	0	0	**348**	**124**	5.2
Total	**10,770**	**20,794**	**18,528**	**12,356**	**6,849**	**6,087**	**5,742**	**5,938**	**41,889**	**45,175**	**2,053.4**
Precious metals contracts											
Over-the-counter (OTC) contracts											
Forward contracts	4,539	4,633	216	295	75	60	10	0	**4,840**	**4,988**	47.7
Options purchased	2,840		24		41		0		**2,905**	**0**	25.3
Options written		2,915		6		0		0	**0**	**2,921**	30.9
Exchange-traded contracts [3]											
Futures	0	0	0	0	0	0	0	0	**0**	**0**	1.2
Options	4	0	15	0	2	0	0	0	**21**	**0**	5.0
Total	**7,383**	**7,548**	**254**	**301**	**119**	**60**	**10**	**0**	**7,766**	**7,909**	**110.2**
Equity / Index contracts											
Over-the-counter (OTC) contracts											
Forward contracts	279	383	325	608	791	2,421	159	446	**1,554**	**3,858**	57.3
Options purchased	8,220		4,619		8,700		1,687		**23,227**	**0**	706.0
Options written		15,347		8,480		25,726		4,598	**0**	**54,151**	233.6
Exchange-traded contracts [3]											
Futures	3	15	0	0	0	0	0	0	**3**	**15**	17.7
Options	320	242	703	392	754	305	75	9	**1,851**	**948**	62.0
Total	**8,822**	**15,988**	**5,647**	**9,480**	**10,245**	**28,452**	**1,921**	**5,053**	**26,635**	**58,972**	**1,076.6**
Commodity contracts											
Over-the-counter (OTC) contracts											
Forward contracts	114	52	244	214	325	359	65	66	**749**	**691**	8.9
Options purchased	8		62		24		5		**99**	**0**	1.5
Options written		0		70		0		0	**0**	**70**	1.5
Exchange-traded contracts [3]											
Futures	0	0	85	65	0	0	0	0	**85**	**65**	2.2
Options	0	0	0	7	2	0	0	0	**2**	**7**	0.9
Total	**122**	**52**	**391**	**355**	**352**	**359**	**70**	**66**	**936**	**832**	**14.9**
Total 1998	**31,614**	**50,150**	**32,251**	**29,404**	**57,023**	**75,261**	**49,048**	**50,265**	**169,936**	**205,080**	**–**
Total 1997	–	–	–	–	–	–	–	–	149,538	170,162	–

[1] PRV: Positive replacement value. [2] NRV: Negative replacement value. [3] Exchange-traded products include proprietary trades only.

Note 29 Pledged Assets

Assets pledged or assigned as security for liabilities and assets subject to reservation of title

CHF million	**1998 Carrying amount**	**1998 Related liability**	1997 Carrying amount	1997 Related liability
Money market paper	**6,981**	**5**	3,188	1,106
Mortgage loans	**2,955**	**2,047**	1,951	1,220
Securities [1]	**13,902**	**5,636**	13,175	9,719
Property and equipment	**147**	**71**	183	112
Other	**0**	**0**	7	0
Total	**23,985**	**7,759**	18,505	12,157

[1] Excluding securities pledged in respect of securities borrowing and repurchase agreements.

Assets are pledged as collateral for collateralized credit lines with central banks, loans from central mortgage institutions, deposit guarantees for savings banks, security deposits relating to stock exchange membership and mortgages on the Group's property.

Note 30 Fiduciary Transactions

CHF million	**1998**	1997
Placements with third party banks	**60,612**	72,852
Fiduciary credits and other fiduciary financial transactions	**652**	1,392
Total	**61,264**	74,244

Note 31 Commitments and Contingent Liabilities

CHF million	1998	1997
Contingent liabilities		
Credit guarantees and similar instruments [1]	**22,697**	37,306
Less: Sub-participations	**5,217**	8,274
Total	**17,480**	29,032
Performance guarantees and similar instruments [2]	**12,092**	15,371
Less: Sub-participations	**216**	1,002
Total	**11,876**	14,369
Irrevocable commitments under documentary credits	**2,942**	5,824
Less: Sub-participations	**39**	11
Total	**2,903**	5,813
Total contingent liabilities	**37,731**	58,501
Less: Sub-participations	**5,472**	9,287
Total	**32,259**	49,214
Irrevocable commitments		
Undrawn irrevocable credit facilities	**82,337**	76,997
Less: Sub-participations	**26**	554
Total	**82,311**	76,443
Liabilities for calls on shares and other equities	**109**	102
Total irrevocable commitments	**82,446**	77,099
Less: Sub-participations	**26**	554
Total	**82,420**	76,545
Commitment credits [3]	**1,807**	821
Total commitments and contingent liabilities	**121,984**	136,421
Less: Sub-participations	**5,498**	9,841
Total	**116,486**	126,580

[1] Credit guarantees in the form of bill of exchange and other guarantees, including guarantees in the form of irrevocable letters of credit, endorsement liabilities from bills rediscounted, advance payment guarantees and similar facilities. [2] Bid bonds, performance bonds, builders' guarantees, letters of indemnity, other performance guarantees in the form of irrevocable letters of credit and similar facilities. [3] Obligations under deferred payments, acceptance obligations. Amounts already included in the balance sheet.

CHF million	Mortgage collateral	Other collateral	Unsecured	Total
Overview of collateral				
Contingent liabilities	339	14,163	23,229	**37,731**
Irrevocable commitments	50	19,200	63,087	**82,337**
Liabilities for calls on shares and other equities	–	–	109	**109**
Commitment credits	–	–	1,807	**1,807**
Total 1998	**389**	**33,363**	**88,232**	**121,984**
Total 1997	635	22,638	113,148	136,421

Commitments and Contingencies represent potential future liabilities of the Group resulting from credit facilities available to clients, but not yet drawn upon by them. They are subject to expiration at fixed dates. The Group engages in providing open credit facilities to allow clients quick access to funds required to meet their short-term obligations as well as their long-term financing needs. The credit facilities can take the form of guarantees, whereby the Group might guarantee repayment of a loan taken out by a client with a third party; standby letters of credit, which are credit enhancement facilities enabling the client to engage in trade finance at lower cost; documentary letters of credit, which are trade finance-related payments made on behalf of a client; commitments to enter into repurchase agreements, which are described under short-term financing; note issuance facilities and revolving underwriting facilities, which allow clients to issue money

Note 31 Commitments and Contingent Liabilities (continued)

market paper or medium-term notes when needed without engaging in the normal underwriting process each time.

The figures disclosed in the accompanying tables represent the amounts at risk should clients draw fully on all facilities and then default, and there is no collateral. Determination of the creditworthiness of the clients is part of the normal credit risk management process, and the fees charged for maintenance of the facilities reflect the various credit risks.

Note 32 Operating Lease Commitments

Our minimum commitments for non-cancellable leases of premises and equipment are presented as follows:

CHF million	**1998**
Operating leases due:	
Not later than one year	**709**
Later than one year and not later than five years	**555**
Later than five years	**1,541**
Total commitments for minimum payments under operating leases	**2,805**

Operating expenses include CHF 797 million and CHF 829 million in respect of operating lease rentals in 1998 and 1997 respectively.

Note 33 Litigation, including Holocaust

Four Class Actions, in relation to what is known as the Holocaust affair, have been brought against the bank (as legal successor to SBC and UBS) in the US District Court for the Eastern District of New York (Brooklyn). A further Swiss bank has been designated as a defendant alongside the bank. On 12 August 1998, however, a settlement was reached between the parties which will put an end to all the litigation involved in this matter. This settlement provides for a payment by the defendant banks to the plaintiffs, under certain terms and conditions, of an aggregate amount of USD 1.25 billion. The bank's share, USD 610 million or CHF 840 million, has been fully provided for in 1998.

In addition, UBS AG and other companies within the UBS Group are subject to various claims, disputes and legal proceedings, as part of the normal course of business. The Group makes provision for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated. All litigation provisions are included within Other Business Risks in the accompanying Group Balance Sheet.

In respect of the further claims asserted against the Group of which management is aware (which, according to the principles outlined above, have not been provided for), it is the opinion of management that such claims are either without merit, can be successfully defended or will result in exposure to the Group which is immaterial to both financial position and results of operations.

Note 34 Financial Instruments Risk Position

Overall risk position

The Group manages risk in a number of ways, principally using a value-at-risk model combined with a system of trading limits. The Group's approach to risk management is discussed more fully in the Review of Risk Management and Control.

This section presents information about the results of the Group's management of the risks associated with the use of financial instruments.

a) Interest rate risk

Interest rate risk is the potential impact of changes in market interest rates on the fair values of assets and liabilities on the balance sheet and on the annual interest income and expense in the income statement.

Interest rate sensitivity

One commonly used method to present the potential impact of the market movements is to show the effect of a one basis point (0.01%) change in interest rates on the fair values of assets and liabilities, analyzed by time bands within which the Group is committed. This type of presentation, described as a sensitivity analysis, is set out below. Interest rate sensitivity is one of the inputs to the value-at-risk model used by the Group to manage its overall market risk, of which interest rate risk is a part.

The table below sets out the extent to which the Group was exposed to interest rate risk at 31 December 1998. The table shows the potential impact of a one basis point (0.01%) increase in market interest rates which would influence the fair values of both assets and liabilities that are subject to fixed interest rates. The impact of such an increase in rates depends on the net asset or net liability position of the Group in each category, currency and time band in the table. A negative amount in the table reflects a potential loss to the Group due to the changes in fair values as a result of an increase in interest rates. A positive amount reflects a potential gain as a result of an increase in interest rates. Both primary and derivative instruments in trading and non-trading activities, as well as off-balance-sheet commitments are included in the table.

Interest rate sensitivity position

		Interest sensitivity by time bands					
CHF thousand per basis point		within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	**Total**
CHF	Trading	189	(672)	450	(322)	(464)	**(819)**
	Non-trading	(23)	6	(350)	(7,522)	(546)	**(8,435)**
USD	Trading	(28)	93	8	(575)	1,254	**752**
	Non-trading	1	(21)	7	72	1,502	**1,561**
EUR	Trading	(34)	(22)	(158)	(559)	339	**(434)**
	Non-trading	0	(8)	0	48	256	**296**
GBP	Trading	10	(214)	560	(919)	491	**(72)**
	Non-trading	0	2	(18)	130	876	**990**
JPY	Trading	(32)	(698)	(402)	1,002	263	**133**
	Non-trading	0	3	(5)	6	146	**150**
Others	Trading	11	(98)	47	(158)	(152)	**(350)**
	Non-trading	0	0	0	0	0	**0**

Note 34 Financial Instruments Risk Position (continued)

a) Interest rate risk (continued)

Trading

The major part of the trading related interest rate risk is generated in fixed income securities trading, fixed income derivatives trading, trading in currency forward contracts and money market trading and is being managed within the value-at-risk model. Interest rate sensitivity arising from trading activities is quite sizeable in USD and Euro as these are still the predominantly traded currencies in the global interest rate markets. It should be noted that it is management's view that an interest sensitivity analysis at a particular point in time has limited relevance on trading positions, which can vary significantly on a daily basis. Further discussion on how the interest rate risk related to the trading portfolio is managed can be found in the "Warburg Dillon Read" section of this report.

Non-trading

The interest rate risk related to client business with undefined maturities and non-interest bearing business including the strategic management of overall balance sheet interest rate exposure is managed by the Corporate Center. Significant contributors to the overall USD and GBP interest rate sensitivity were strategic long-term subordinated notes issues which are intentionally unswapped since they are regarded as constituting a part of the Group's equity for asset and liability management purposes. At 31 December 1998 the Group's equity was invested in a portfolio of fixed rate CHF deposits with an average duration of 1.9 years. As this equity investment is the most significant component of the CHF book, this results in the entire book having an interest rate sensitivity of CHF –8.4 million, which is reflected in the table above. This is in line with the duration and sensitivity targets set by the Group Executive Board. Investing in shorter-term or variable rate instruments would mean exposing the earnings stream (interest income) to higher fluctuations. For further information about the management of the non-trading interest rate risk, please refer to Review of Asset and Liability Management.

b) Credit risk

Credit risk is the risk of loss from the default by an obligor or counterparty. This risk is managed primarily based on reviews of the financial status of each specific counterparty. Credit risk is greater when counterparties are concentrated in a single industry or geographical region. This is because a group of otherwise unrelated counterparties could be adversely affected in their ability to repay their obligations because of economic developments affecting their common industry or region.

Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location.

(b)(i) On-balance sheet assets

As of 31 December 1998, due from banks and loans to customers amounted to CHF 331 billion. 56.6% of these are with clients domiciled in Switzerland. Please refer to Note 12 for a breakdown by region.

(b)(ii) Off-balance sheet financial instruments

Credit commitments and contingent liabilities

Of the CHF 122 billion in credit commitment and contingent liabilities as at 31 December 1998, 11% relate to clients domiciled in Switzerland, 21% in Europe (excl. Switzerland) and 55% in North America.

Derivatives

Credit risk represents the current replacement value of all outstanding derivative contracts in a

Note 34 Financial Instruments Risk Position (continued)

b) Credit risk (continued)

gain position without factoring in the impact of master netting agreements or the value of any collateral. Positive replacement values amounted to CHF 169 billion as at 31 December 1998, before applying any master netting agreements. Based on the location of the ultimate counterparty, 8% of this credit risk amount relates to Switzerland, 47% to Europe (excl. Switzerland) and 33% to North America. 76% of the positive replacement values are with other banks.

(b)(iii) Credit risk mitigation techniques

Credit risk associated with derivative instruments is mitigated by the use of master netting agreements. A further method of reducing credit exposure arising from derivatives transactions is to use collateralization arrangements.

Master netting agreements eliminate risk to the extent that liabilities to the same counterparty are due to be settled after the corresponding assets are realized. The impact of master netting agreements as at 31 December 1998 is to mitigate credit risk on derivative instruments by approximately CHF 68 billion. The impact can change substantially over short periods of time, because the exposure is affected by each transaction subject to the arrangement.

The Group subjects its derivative-related credit risks to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluation of counterparties as to creditworthiness, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a standard exception reporting process.

Note 34 Financial Instruments Risk Position (continued)

c) Currency risk

The Group views itself as a Swiss entity, with the Swiss franc as its functional currency. Hedging transactions are used to manage risks in other currencies.

Breakdown of assets and liabilities by currencies

		1998			1997	
CHF billion	**CHF**	**USD**	**Other**	CHF	USD	Other
Assets						
Cash and balances with central banks	**2.4**	**0.3**	**0.6**	2.9	1.3	0.4
Money market paper	**2.2**	**10.3**	**5.9**	4.8	22.5	9.1
Due from banks	**12.7**	**13.3**	**42.5**	14.4	23.8	28.4
Cash collateral on securities borrowed	**0.2**	**74.5**	**17.0**	0.0	63.4	19.3
Reverse repurchase agreements	**0.2**	**38.3**	**102.8**	2.3	104.5	109.5
Trading portfolio	**24.8**	**40.0**	**97.8**	31.3	64.5	115.0
Positive replacement values	**17.8**	**20.9**	**131.2**	30.7	24.8	94.0
Loans, net of allowance for credit losses	**173.5**	**40.0**	**34.4**	176.7	47.9	46.4
Financial investments	**2.6**	**2.5**	**1.8**	3.7	5.2	3.9
Accrued income and prepaid expenses	**1.2**	**1.8**	**3.6**	2.5	1.8	3.4
Investments in associates	**2.6**	**0.0**	**0.2**	2.6	0.0	0.1
Property and equipment	**8.5**	**0.6**	**0.8**	9.2	0.6	1.1
Intangible assets and goodwill	**0.3**	**1.7**	**0.2**	0.2	0.8	0.4
Other assets	**4.9**	**3.1**	**4.1**	1.2	3.4	8.4
Total assets	**253.9**	**247.3**	**442.9**	282.5	364.5	439.4
Liabilities						
Money market paper issued	**1.0**	**38.5**	**12.0**	1.4	36.1	18.1
Due to banks	**25.4**	**33.6**	**26.7**	26.6	86.7	46.3
Cash collateral on securities lent	**0.1**	**5.9**	**13.2**	0.0	4.2	10.0
Repurchase agreements	**10.7**	**74.3**	**52.6**	12.1	95.0	84.7
Trading portfolio liabilities	**0.2**	**8.1**	**38.7**	0.3	11.8	56.1
Negative replacement values	**27.3**	**19.8**	**158.0**	34.8	24.3	111.1
Due to customers	**138.0**	**80.2**	**56.7**	129.9	97.9	74.7
Accrued expenses and deferred income	**3.3**	**2.6**	**5.3**	4.8	2.5	2.7
Long term debt	**23.4**	**16.2**	**10.5**	29.9	15.0	9.3
Other liabilities	**14.6**	**6.1**	**7.0**	14.3	7.2	6.7
Minority interests	**1.0**	**0.7**	**0.0**	0.1	0.9	0.0
Shareholders' equity	**32.4**	**0.0**	**0.0**	30.9	0.0	0.0
Total liabilities, minority interests and shareholders' equity	**277.4**	**286.0**	**380.7**	285.1	381.6	419.7

Note 34 Financial Instruments Risk Position (continued)

d) Liquidity risk

Contractual maturity analysis of assets and liabilities

CHF billion	On demand	Subject to notice [1]	Due within 3 mths	Due between 3 and 12 mths	Due between 1 and 5 years	Due after 5 years	Total
Assets							
Cash and balances with central banks	3.3	–	–	–	–	–	3.3
Money market papers		–	15.7	2.3	0.4	–	18.4
Due from banks	17.7	0.4	44.4	4.8	1.0	0.2	68.5
Cash collateral on securities borrowed			91.7				91.7
Reverse repurchase agreements			136.8	4.5			141.3
Trading portfolio	162.6	–	–	–	–	–	162.6
Positive replacement values	169.9						169.9
Loans, net of allowance for credit losses		59.5	86.8	31.6	63.8	6.2	247.9
Financial investments	4.4		0.4	0.3	0.8	1.0	6.9
Accrued income and prepaid expenses	6.6						6.6
Investments in associates						2.8	2.8
Property and equipment						9.9	9.9
Intangible assets and goodwill						2.2	2.2
Other assets	12.1						12.1
Total 1998	**376.6**	**59.9**	**375.8**	**43.5**	**66.0**	**22.3**	**944.1**
Total 1997	398.3	114.0	374.9	83.6	79.3	36.3	1,086.4
Liabilities							
Money market paper issued			32.2	19.3			51.5
Due to banks	21.6	1.7	55.9	5.8	0.5	0.2	85.7
Cash collateral on securities lent			19.2				19.2
Repurchase agreements			135.1	2.5			137.6
Trading portfolio liabilities	47.0						47.0
Negative replacement values	205.1						205.1
Due to customers	55.3	81.8	124.5	8.9	1.1	3.3	274.9
Accrued expenses and deferred income	11.2						11.2
Long term debt	–	–	4.2	5.7	28.1	12.8	50.8
Other liabilities	27.7	–					27.7
Total 1998	**367.9**	**83.5**	**371.1**	**42.2**	**29.7**	**16.3**	**910.7**
Total 1997	371.0	138.5	447.1	41.8	36.5	19.6	1,054.5

[1] Deposits without a fixed term, on which notice of withdrawal or termination has not been given. (Such funds may be withdrawn by the depositor or repaid by the borrower subject to an agreed period of notice.)

Note 34 Financial Instruments Risk Position (continued)

e) Capital adequacy

Risk-weighted assets (BIS)

CHF million	1998 Balance sheet/ nominal amount	1998 Risk-weighted amount	1997 Balance sheet/ nominal amount	1997 Risk-weighted amount
Balance sheet assets				
Due from banks	**244,246**	**10,896**	216,492	13,485
Net positions in securities [1]	**28,109**	**8,316**	51,770	11,859
Positive replacement values	**169,936**	**29,494**	149,538	24,622
Loans, net of allowance for credit losses	**305,155**	**164,113**	420,018	191,860
Accrued income and prepaid expenses	**6,627**	**3,190**	7,712	5,848
Property and equipment [2]	**9,886**	**11,166**	10,964	12,938
Other assets	**12,092**	**7,900**	13,114	7,512
Off-balance sheet and other positions				
Contingent liabilities	**37,731**	**6,015**	58,501	24,863
Irrevocable commitments	**82,337**	**18,197**	76,997	20,873
Forward contracts [3]	**4,037,720**	**7,130**	4,263,084	12,258
Purchased options	**489,005**	**5,861**	199,732	2,199
Market risk positions [4]	**–**	**16,018**	–	17,587
Total risk-weighted assets	**–**	**288,296**	–	345,904

[1] Excluding positions in the trading book, these are included in market risk positions. [2] Including CHF 1,280 million (1997: CHF 1,229 million) foreclosed properties and properties held for disposal, which are recorded in the balance sheet under financial investments. [3] The risk-weighted amount corresponds to the security margin (add-on) of the contracts. [4] Value at risk according to the internal model multiplied by a factor of 12.5 to create the risk-weighted amount of the market risk positions in the trading book.

BIS Capital ratios

	1998 Capital	BIS %	1997 Capital	BIS %
BIS capital ratio	**40,385**	**14.0**	43,089	12.6
Tier 1 capital (share capital and reserves)	**28,299**	**9.8**	28,749	8.3

Among other measures UBS monitors the adequacy of its capital using ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy by comparing the Group's eligible capital with its risk-weighted positions which include balance sheet assets, net positions in securities not held in the trading book, off-balance sheet transactions converted into their credit equivalents and market risk positions at a weighted amount to reflect their relative risk.

The capital adequacy rules require a minimum amount of capital to cover credit and market risk exposures. For the calculation of the capital required for credit risk the balance sheet assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash, claims collateralized by cash or claims collateralized by OECD central-government securities have a zero risk weighting which means that no capital is required to be held in respect of these assets. Uncollateralized loans granted to corporate or private customers carry a 100% risk weighting, meaning that they must be supported by capital equal to 8% of the carrying amount. Other asset categories have weightings of 20% or 50% which require 1.6% or 4% capital.

The net positions in securities not held in the trading book reflect the Group's exposure to an issuer of securities arising from its physical holdings and other related transactions in that security.

In addition credit equivalents are calculated for off-balance sheet transactions (contingent liabilities, irrevocable commitments and derivative financial instruments). The resulting amounts are

Note 34 Financial Instruments Risk Position (continued)

e) Capital adequacy (continued)

then weighted for credit risk using the same percentage as for balance sheet assets.

In 1998 UBS calculated its capital requirement for market risk positions, which includes interest-rate instruments and equity securities in the trading book as well as positions in foreign exchange and commodities throughout the Group, using an internal value-at-risk (VaR) model. This approach was introduced in the BIS 1996 market risk amendment to the Basel Accord of July 1988 and incorporated in the Swiss capital adequacy rules of the Banking Ordinance.

The BIS proposal requires that the regulators perform tests of the bank internal models before giving permission for these models to be used to calculate the market risk capital. Based on extensive checks performed by internal and external auditors the use of the Group internal models was accepted on an interim basis by the Swiss Federal Banking Commission (FBC) in December 1997, provided that a higher multiplication factor be applied during the interim period. As a result of the merger the interim permission has been extended through 1998, and the final approval by FBC is expected to be granted during 1999.

Tier 1 capital consists of permanent shareholders' equity and retained earnings less goodwill and investments in unconsolidated subsidiaries. Tier 2 capital includes the Group's perpetual cumulative preference shares and subordinated long-term debt.

Note 35 Fair Value of Financial Instruments

The following table presents the fair value of on- and off-balance sheet financial instruments based on the following valuation methods and assumptions. It is presented because not all financial instruments are reflected in the financial statements at fair value.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. A market price, where an active market (such as a recognized stock exchange) exists, is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the Group. Therefore, for financial instruments where no market price is available, the fair values presented in the following table have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance sheet date.

The values derived using these techniques are significantly affected by underlying assumptions concerning both the amounts and timing of future cash flows and the discount rates used. The following methods and assumptions have been used:

(a) trading assets, derivatives and other transactions undertaken for trading purposes, and securities lent and borrowed are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, the fair values are estimated on the basis of pricing models, or discounted cash flows. Fair value is equal to the carrying amount for these items;

(b) the fair value of liquid assets and other assets maturing within 12 months is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;

(c) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;

(d) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts;

(e) the fair value of fixed rate loans and mortgages is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar

Note 35 Fair Value of Financial Instruments (continued)

loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognized separately by deducting the amount of the allowance for credit losses from both book and fair values.

The assumptions and techniques have been developed to provide a consistent measurement of fair value for the Group's assets and liabilities. However, because other institutions may use different methods and assumptions, such fair value disclosures cannot necessarily be compared from one financial institution to another.

Fair value of financial instruments

	1998			1997		
CHF billion	**Carrying value**	**Fair value**	**Unrealized gain / (loss)**	Carrying value	Fair value	Unrealized gain / (loss)
Assets						
Cash and balances with central banks	**3.3**	**3.3**	**0.0**	4.6	4.6	0.0
Money market paper	**18.4**	**18.4**	**0.0**	36.4	36.4	0.0
Due from banks	**68.6**	**68.7**	**0.1**	66.6	66.7	0.1
Cash collateral on securities borrowed	**91.7**	**91.7**	**0.0**	82.6	82.6	0.0
Reverse repurchase agreements	**141.3**	**141.3**	**0.0**	216.4	216.4	0.0
Trading portfolio	**162.6**	**162.6**	**0.0**	210.7	210.7	0.0
Positive replacement values	**169.9**	**169.9**	**0.0**	149.5	149.5	0.0
Loans, net of allowance for credit losses	**248.3**	**250.7**	**2.4**	270.9	272.7	1.8
Financial investments	**5.7**	**6.5**	**0.8**	11.5	12.2	0.7
Liabilities						
Money market paper issued	**51.5**	**51.5**	**0.0**	55.6	55.6	0.0
Due to banks	**86.1**	**86.1**	**0.0**	159.6	159.6	0.0
Cash collateral on securities lent	**19.2**	**19.2**	**0.0**	14.1	14.1	0.0
Repurchase agreements	**137.6**	**137.6**	**0.0**	191.8	191.8	0.0
Trading portfolio liabilities	**47.0**	**47.0**	**0.0**	68.2	68.2	0.0
Negative replacement values	**205.1**	**205.1**	**0.0**	170.2	170.2	0.0
Due to customers	**275.3**	**275.6**	**0.3**	302.5	302.6	0.1
Long term debt	**51.0**	**53.3**	**2.3**	54.3	56.5	2.2
Fair value effect on income of hedging derivatives recorded on the accrual basis			**1.0**			0.7
Net difference between carrying value and fair value			**1.7**			1.0

Substantially all of the Group's commitments to extend credit are at variable rates. Accordingly, the Group has no significant exposure to fair value fluctuations related to these commitments.

Changes in the fair value of the Group's fixed rate loans, long- and medium-term notes and bonds issued are hedged in part by derivative instruments, mainly interest rate swaps. These swaps are carried at fair value and included in derivative replacement values in the above table, with gains and losses deferred as other assets and other liabilities. Such gains and losses are shown net in the above table as fair value effect on income of hedging derivatives recorded on an accrual basis.

The table does not reflect the fair values of non-financial assets and liabilities such as property (including those properties included as financial investments), equipment, prepayments and accruals. The interest amounts accrued to date for respective financial instruments are included in the carrying value of the instruments.

Note 36 Retirement Benefit Plans and Other Employee Benefits

The Group has established various pension plans inside and outside of Switzerland. The major plans are located in Switzerland, Germany, Japan, UK and US. Independent actuarial valuations are performed for the major plans.

Swiss pension plans

The pension funds of the Group are set up as trusts, domiciled in Basle and Zurich. All domestic employees are covered. The pension funds are defined benefit plans. The pension plan benefits exceed the minimum benefits required under the Swiss Law.

Contributions are paid for by the Group and the employees. The employee contributions are calculated as a percentage of the insured annual salary and are deducted monthly. The percentages deducted from the salary are depending on age and vary between 8% up to 12%. The Group contributions are variable and amount from 125% to 250% of the employees contributions depending on the financial situation of the pension fund.

The pension plan formula is based on years of contributions and final covered salary. The benefits covered include retirement benefits, disability, death and survivor pension.

CHF million	**1998**	1997
Swiss pension plans		
Defined benefit obligation as of 31 December	**(14,944)**	(14,431)
Plan assets at fair value as of 31 December	**17,885**	17,224
Plan assets in excess of benefit obligation	**2,941**	2,793
Unrecognized net actuarial (gains) or losses	**(385)**	(385)
Unrecognized assets (limit under art. 58 (b))	**(2,556)**	(2,408)
Prepaid pension cost	**0**	0
Unfunded accrued pension cost	**0**	0
Additional details to fair value of plan assets		
Own financial instruments included in plan assets	**2,761**	2,202
Any assets used by the bank included in plan assets	**176**	176
Retirement benefits expense		
Current service cost – benefits earned	**535**	524
Interest cost on projected benefit obligation	**726**	705
Expected return on plan assets	**(856)**	(756)
Adjustment to limit prepaid pension cost	**148**	22
Amortization of unrecognized prior service costs	**6**	(8)
Employee contributions	**(185)**	(194)
Actuarially determined net periodic pension cost	**374**	293
Actual return on plan assets (%)	**6.7**	15.5

Principal actuarial assumptions used (%)

Discount rate	**5.0**	5.0
Expected rate of return on assets p.a.	**5.0**	5.0
Expected rate of salary increase	**3.5–5.5**	3.5–5.5
Rate of pension increase	**2.0**	2.0

Note 36 Retirement Benefit Plans and Other Employee Benefits (continued)

Foreign pension plans

The foreign locations of UBS operate various pension schemes in accordance with the local regulations and practices. Among these schemes are defined contribution plans as well as defined benefit plans. The locations with defined benefit plans of a material nature are Germany, Japan, the UK and the US. These locations together with Switzerland cover about 90% of the active workforce. Certain of these schemes permit employees to make contributions and earn matching or other contributions from the Group.

The retirement plans provide benefits in the event of retirement, death, disability or employment termination. The plans' retirement benefits depend on age, contributions and level of compensation. The principal plans are financed in full by the Group. The funding policy for these plans is consistent with local government and tax requirements.

The assumptions used in foreign plans take into account local economic conditions.

The amounts shown for foreign plans reflect the net funded positions of all foreign plans.

CHF million	1998	1997
Pension plans abroad		
Defined benefit obligation as of 31 December	(2,009)	(1,950)
Plan assets at fair value as of 31 December	2,173	2,187
Plan assets in excess of benefit obligation	164	237
Unrecognized transition amount	2	(17)
Unrecognized past service cost	(63)	(160)
Unrecognized assets (limit under art. 58 (b))	(60)	(24)
Prepaid pension cost	43	36
Unfunded accrued pension cost	0	0
Movement of net liability (or asset) during the period		
Prepaid pension cost at 1 January	36	
Less: Net periodic pension cost for the year	33	
Employer contributions	43	
Prepaid pension cost at 31 December	46	n.a.
Currency adjustment at 31 December	(3)	
Prepaid pension cost at 31 December	43	n.a.
Retirement benefits expense		
Current service cost – benefits earned	116	114
Interest cost on projected benefit obligation	140	115
Expected return on plan assets	(191)	(147)
Amortization of net transition (asset) or liability	2	(85)
Adjustment to limit prepaid pension cost	2	0
Immediate recognition of transition assets under IAS 8	(23)	0
Amortization of unrecognized prior service cost	7	0
Amortization of unrecognized net (gain) / loss	(3)	0
Effect of any curtailment or settlement	(8)	0
Employee contributions	(9)	(6)
Actuarially determined net periodic pension cost	33	(9)
Actual return on plan assets (%)	5.2	21.4

Principal actuarial assumptions used (%)

	1998	1997
Discount rate	6.50–7.50	6.50–7.50
Expected rate of return on assets p.a.	8.50–8.75	8.50–8.75
Expected rate of salary increase (including inflation)	3.50–9.00	3.50–9.00
Rate of pension increase	0.00–3.75	0.00–3.75

Note 36 Retirement Benefit Plans and Other Employee Benefits (continued)

Postretirement Medical & Life Plans

UBS UK and USA offer postretirement health care benefits that contribute to the health care coverage of the employees after retirement. One of the plans in the USA is partially funded.

The benefit obligation in excess of plan assets amounts to CHF 93 million in 1998 (1997: CHF 100 million) and total unfunded accrued postretirement liabilities amount to CHF 62 million in 1998 (1997: CHF 50 million). The actuarially determined net postretirement cost is CHF 17 million in 1998 (1997: CHF 14 million).

Note 37 Equity Participation Plans

UBS has established various equity participation plans to further align the long-term interests of managers, staff and shareholders. In addition, key personnel are awarded a proportion of their performance-related compensation in UBS shares, restricted for a minimum number of years.

Employees have the option to invest part or all of their annual bonus in UBS shares or derivatives on UBS shares. A certain holding period applies during which the instruments cannot be sold or exercised. In addition, participants in the plan receive a restricted matching contribution of additional shares or options. Shares required under the plan are bought or hedged in the market.

Under another plan, employees in Switzerland are entitled to purchase a specified number of UBS shares at a predetermined discounted price each year. The number of shares that can be purchased depends primarily on years of service and rank. Any such shares purchased must be held for a specified period of time.

Long-term stock options are granted to key employees under another plan. Participation is mandatory. These options are blocked for a certain period of time during which they cannot be exercised. One half of each grant is subject to an acceleration clause after which certain forfeiture provisions lapse. One option gives the right to purchase one registered UBS share at the option's strike price. Neither fair value nor intrinsic value of the options granted is recognized as an expense in the financial statements.

Key employee stock options

	Number of options 1998	Weighted-average exercise price (in CHF) 1998	Number of options 1997	Weighted-average exercise price (in CHF) 1997
Options outstanding at 1 January	949,962	371.43	0	0.00
Granted	2,905,889	362.84	949,962	371.43
Exercised	11,485	354.83	0	0.00
Lapsed	242,973	535.08	0	0.00
Options outstanding at 31 December	3,601,393	352.96	949,962	371.43
Options exercisable at 31 December	0	0.00	0	0.00

Note 38 Related Parties

Related parties include the Board of Directors, the Group Executive Board, the Group Managing Board, close family members and enterprises which are controlled by these individuals. The roles and responsibilities of these bodies are explained in the Corporate Governance section.

Total remuneration recognized in the income statement during the year amounted to CHF 102.8 million. Total loans and advances receivable were CHF 27.1 million at 31 December 1998. The number of long-term stock options outstanding from equity plans was 127,500 at the end of the year. This scheme is further explained in Note 37 Equity Participation Plans.

Total amount of shares held by members of the Board of Directors, Group Executive Board and Group Managing Board were 2,317,902 as of 31 December 1998.

Note 39 Post Balance Sheet Date Events

On 19 February 1999 UBS AG and Swiss Life/Rentenanstalt announced their plan to terminate the cooperation agreement which has existed between them since 1995 by mutual consent. In the context of this disengagement, a number of Swiss and international institutional investors will acquire the Group's 25% equity stake at market conditions. In addition, Swiss Life/Rentenanstalt will acquire the UBS's 50% interest in the UBS Swiss Life joint venture as well as UBS's 49% interest in the joint real estate subsidiary Livit. UBS expects a net gain from these divestments of CHF 1.2–1.4 billion.

Note 40 Significant Subsidiaries and Associates

Significant subsidiaries

Company	Registered office		Share capital in m	Equity interest accumulated
Private Banking				
Armand von Ernst & Cie AG	Bern	CHF	5.0	100.0
Baltos Service AG	Zurich	CHF	3.0	100.0
Bank Ehinger & Cie AG	Basel	CHF	6.0	100.0
BDL Banco di Lugano	Lugano	CHF	50.0	100.0
Cantrade Privatbank AG	Zurich	CHF	10.0	100.0
Ferrier Lullin & Cie SA	Geneva	CHF	30.0	100.0
HYPOSWISS, Schweizerische Hypotheken- und Handelsbank	Zurich	CHF	26.0	100.0
Intrag	Zurich	CHF	10.0	100.0
Schröder Münchmeyer Hengst AG	Hamburg	DEM	180.0	100.0
UBS Anlage-Service GmbH	Frankfurt	DEM	0.3	100.0
UBS (Bahamas) Ltd	Nassau	USD	4.0	100.0
UBS Bank (Canada)	Toronto	CAD	50.2 [1]	100.0
UBS (Cayman Islands) Ltd	George Town	USD	5.6	100.0
UBS Fund Holding (Luxembourg) SA	Luxembourg	LUF	1000.0	100.0
UBS Fund Holding (Switzerland) AG	Basel	CHF	18.0	100.0
UBS Fund Management (Japan) Co. Ltd.	Tokyo	JPY	1000.0	100.0
UBS Fund Management (Switzerland) AG	Basel	CHF	1.0	100.0
UBS Fund Services (Luxembourg) S.A.	Luxembourg	CHF	2.5	100.0
UBS Invest Kapitalanlagegesellschaft mbH	Frankfurt	DEM	5.0	64.0
UBS (Italia) SpA	Milan	ITL	43,000.0	100.0
UBS (Luxembourg) SA	Luxembourg	CHF	150.0	100.0
UBS (Monaco) SA	Monte Carlo	FRF	60.0	100.0
UBS (Panama) SA	Panama	USD	6.0	100.0
UBS Trust (Canada)	Toronto	CAD	10.0	100.0
UBS (Trust and Banking) Ltd	Tokyo	JPY	7,500.0	100.0
Warburg Dillon Read				
Brunswick Warburg Limited	George Town	USD	50.0	50.0
NYRE Holding Corp	Wilmington	USD	35.5 [1]	100.0
PT Warburg Dillon Read Indonesia	Jakarta	IDR	11,000.0	85.0
SG Warburg & Co International BV	Amsterdam	GBP	140.4 [1]	100.0
SG Warburg Securities SA	Geneva	CHF	15.0	100.0
UBS (Argentina) S.R.L.	Buenos Aires	USD	–	100.0
UBS Australia Holdings Ltd	Sydney	AUD	11.7	100.0
UBS Australia Ltd	Sydney	AUD	15.0	100.0
UBS Australia Finance Ltd	Sydney	AUD	–	100.0
UBS (Brasil) Limitada	Sao Paulo	USD	–	100.0
UBS Beteiligungs-GmbH & Co KG	Frankfurt	DEM	780.0	100.0
UBS (East Asia) Ltd	Singapore	SGD	50.0	100.0
UBS Futures & Options Limited	London	GBP	2.0	100.0
UBS Inc.	New York	USD	687.2 [1]	100.0
UBS Lease Finance LLC	New York	USD	16.7	100.0
UBS Limited	London	GBP	396.0	100.0
UBS UK Limited	London	GBP	609.0	100.0
UBS UK Holding Ltd	London	GBP	360.0	100.0
UBS (Nederland) BV	Amsterdam	NLG	24.0	100.0
UBS Securities (East Asia) Ltd	Hong Kong	HKD	250.0	100.0
UBS Securities (Hong Kong) Ltd	Hong Kong	HKD	20.0	100.0
UBS Securities Limited	London	GBP	10.0	100.0
UBS Securities (Pty) Ltd	Johannesburg	ZAR	6.0	100.0
UBS Securities (Singapore) Pte Ltd	Singapore	SGD	3.0	100.0
UBS Securities Trading Limited	London	GBP	24.0	100.0
UBS Services (Japan) Ltd	London	JPY	41,358.5	100.0
UBS Services Limited	London	GBP	–	100.0
UBS (Sydney) Limited	Sydney	AUD	12.7	100.0
UBS (USA), Inc.	Delaware	USD	798.3	100.0
Warburg Dillon Read AG	Frankfurt	DEM	304.5	100.0
Warburg Dillon Read (Asia) Ltd	Hong Kong	HKD	20.0	100.0

[1] Share capital and share premium.

Note 40 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Registered office		Share capital in m	Equity interest accumulated
Warburg Dillon Read (Australia) Corporation Pty Limited	Sydney	AUD	23.5	100.0
Warburg Dillon Read Australia Ltd	Sydney	AUD	61.5	100.0
Warburg Dillon Read Derivatives Ltd	Hong Kong	HKD	20.0	100.0
Warburg Dillon Read (España) SA	Madrid	ESP	200.0	100.0
Warburg Dillon Read (France) SA	Paris	FRF	150.0	100.0
Warburg Dillon Read Futures Inc.	Delaware	USD	12.3 [1]	100.0
Warburg Dillon Read (Futures + Options) Pte Ltd	Singapore	SGD	5.5	100.0
Warburg Dillon Read (Hong Kong) Ltd	Hong Kong	HKD	30.0	100.0
Warburg Dillon Read (Italia) S.I.M. SpA	Milan	ITL	3,500.0	100.0
Warburg Dillon Read International Limited	London	GBP	808.0 [1]	100.0
Warburg Dillon Read (Japan) Ltd	George Town	JPY	30.0 [2]	50.0
Warburg Dillon Read LLC	New York	USD	1,491.4 [1]	100.0
Warburg Dillon Read (Malaysia) Sdn. Bhd.	Kuala Lumpur	MYR	0.5	100.0
Warburg Dillon Read Pte. Ltd.	Singapore	SGD	3.0	100.0
Warburg Dillon Read Securities (South Africa) (Pty) Ltd	Sandton	ZAR	2.2	100.0
Warburg Dillon Read Securities Co. Ltd	Bangkok	THB	400.0	100.0
Warburg Dillon Read Securities (España) SVB SA	Madrid	ESP	2,226.0	100.0
Warburg Dillon Read Securities (India) Private Limited	Mumbai	INR	140.0	75.0
Warburg Dillon Read Securities Ltd.	London	GBP	140.0	100.0
Warburg Dillon Read Securities (Philippines) Inc	Makati	PHP	120.0	100.0
Warburg Dillon Read (South Africa) (Pty) Ltd	Sandton	ZAR	–	100.0
Warburg Dillon Read Swap Inc.	Stamford	USD	140.1	100.0
Private and Corporate Clients				
Aventic AG	Zurich	CHF	30.0	100.0
Bank Finalba AG	Glattbrugg	CHF	40.0	100.0
Factors AG	Zurich	CHF	5.0	100.0
IL Immobilien-Leasing AG	Opfikon	CHF	5.0	100.0
Solothurner Bank SoBa	Solothurn	CHF	50.0	100.0
Systor AG	Zurich	CHF	5.0	60.0
UBS Immoleasing AG	Zurich	CHF	3.0	100.0
UBS Leasing AG	Brugg	CHF	10.0	100.0
UBS Brinson				
Brinson Partners Inc.	Chicago	USD	–	100.0
Phillips & Drew Fund Management Limited	London	GBP	1.0	100.0
Phillips & Drew Limited	London	GBP	8.0	100.0
UBS Brinson Asset Management Co. Ltd	Tokyo	JPY	800.0	100.0
UBS Brinson Inc.	New York	USD	0.5	100.0
UBS Brinson Limited	London	GBP	8.8	100.0
UBS Brinson Ltd	Sydney	AUD	2.5	100.0
UBS Brinson Pte Ltd	Singapore	SGD	4.0	100.0
UBS Brinson SA	Paris	FRF	325.1	100.0
UBS Capital				
Crédit Industriel SA	Zurich	CHF	10.0	100.0
EIBA "Eidgenössische Bank"	Zurich	CHF	14.0	100.0
Indelec Holding AG	Basel	CHF	10.0	100.0
SBC Equity Partners AG	Opfikon	CHF	71.7	100.0
SBC Overseas Holding BV	Amsterdam	NLG	40.0 [1]	100.0
Thesaurus Continentale Effekten-Gesellschaft Zürich	Zurich	CHF	30.0	100.0
UBS Capital Asia Limited	George Town	USD	5.0	100.0
UBS Capital Asia (S) Limited	Singapore	SGD	1.0	100.0
UBS Capital BV	The Hague	NLG	220.0 [1]	100.0
UBS Capital GmbH	Frankfurt	DEM	0.1	100.0
UBS Capital II LLC	Delaware	USD	0.1	100.0
UBS Capital Latin America LDC	George Town	USD	–	100.0
UBS Capital LLC	New York	USD	0.1	100.0
UBS Capital Partners Ltd	London	GBP	6.7	100.0
UBS Capital S.p.A.	Milan	ITL	50,000.0	100.0
UBS Investment Management Pte Ltd	Singapore	SGD	0.5	90.0

[1] Share capital and share premium. [2] In billion.

Note 40 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Registered office		Share capital in m	Equity interest accumulated
Corporate Center				
UBS Finance (Cayman Islands) Limited	George Town	USD	0.5	100.0
UBS Finance (Curaçao) NV	Curaçao	USD	0.1	100.0
UBS Finance (Delaware) Inc.	Delaware	USD	898.5	100.0
UBS Finanzholding AG	Zurich	CHF	10.0	100.0
UBS International Holdings BV	Amsterdam	GBP	2.4	100.0
UBS Investments (C.I.) Ltd	George Town	USD	0.0	100.0

Significant associates

Company	Equity interest	Share capital in m	
Giubergia Warburg SIM SpA, Milan	50.0%	ITL	290,000.0
Inversiones Ibersuizas S.A., Madrid	28.9%	ESP	8,224.0
Motor Columbus AG, Baden	36.4%	CHF	253.0
National Versicherung AG, Basel	28.5%	CHF	35.0
Rentenanstalt/Swiss Life AG, Zurich	25.0%	CHF	578.4
Telekurs Holding AG, Zurich	40.9%	CHF	45.0

None of the above investments carry voting rights that are significantly different from the proportion of shares held.

Consolidated companies: changes in 1998

New companies
Aventic AG, Zurich
UBS Capital (Jersey) Ltd, St. Helier

Deconsolidated companies

Name	Reason for deconsolidation
Adler & Co. AG	Sold
Bank Prokredit AG	Sold
BSI-Banca della Svizzera Italiana, Lugano	Sold
Cantrade Banca Privata Lugano SA, Lugano	Sold
Cantrade Investments Ltd, London	Sold
Cantrade Investment Management Ltd, London	Sold
UBS SA Holding (Pty) Ltd, Johannesburg	Deregistered
UBS Securities (Pty) Ltd, Johannesburg	Deregistered

Note 41 Significant Currency Translation Rates

The following table shows the significant rates used to translate the financial statements of foreign entities into Swiss francs.

	Balance sheet rate		Average rate P/L	
	31.12.98	31.12.97	**31.12.98**	31.12.97
1 USD	**1.38**	1.46	**1.45**	1.45
1 GBP	**2.29**	2.41	**2.41**	2.37
100 DEM	**82.19**	81.24	**82.38**	83.89
100 JPY	**1.22**	1.12	**1.11**	1.19

Note 42 Swiss Banking Law Requirements

The significant differences between International Accounting Standards (IAS), which are the principles followed by the Group, and the accounting requirements for banks under Swiss laws and regulations, are as follows:

Securities borrowing and lending

Under IAS only the cash collateral delivered or received is recognized in the balance sheet. There is no recognition or derecognition for the securities received or delivered. The Swiss requirement is to recognize the securities received or delivered in the balance sheet along with any collateral in respect of those securities for which control is transferred.

Treasury shares

Treasury shares is the term used to describe the holding by an enterprise, of its own equity instruments. In accordance with IAS treasury shares not held for trading are presented in the balance sheet as a deduction from equity. No gain or loss is recognized in the income statement on the sale, issuance, or cancellation of those shares. Consideration received is presented in the financial statement as a change in equity.

Under Swiss requirements, treasury shares would be carried in the balance sheet as financial investments with gains and losses on the sale, issuance, or cancellation of treasury shares reflected in the income statement.

Extraordinary income and expense

Under IAS most items of income and expense arise in the course of ordinary business, and extraordinary items are expected to be rare. Under the Swiss requirements, income and expense items not directly related with the core business activities of the enterprise (e.g. sale of fixed assets or bank premises) are recorded as extraordinary income or expense.

CHF million	**1998**	1997
Differences in the balance sheet		
Securities borrowing and lending		
Assets		
Trading portfolio / Money market paper	**97,907**	19,675
Due from banks / customers	**40,915**	47,021
Liabilities		
Due to banks / customers	**154,828**	134,911
Other liabilities (short positions settled with borrows)	**(16,006)**	(68,215)
Treasury shares		
Assets		
Trading portfolio	**992**	463
Financial investments	**490**	1,519
Differences in the income statement		
Treasury shares	**369**	129
Reclassification of extraordinary income and expense		
Other income, including income from associates	**(1,350)**	(162)
General administrative expenses	**(1,235)**	(114)
Differences in the shareholders' equity		
Treasury shares	**1,482**	1,982

Note 43 The Year 2000 Challenge

Each of our operating divisions has established a programme to address the Year 2000 issue. The programme manager for each division reports on progress, risks and issues on a monthly basis to the Group Year 2000/Euro Risk Committee, which is headed by the Chief Risk Officer.

Because of the size and complexity of the Group, and the pervasive impact of the Year 2000 issue on our systems and those of third parties with whom we deal, UBS has chosen to publish on the Internet (www.ubs.com), under the section called "Quantitative Self Assessment", the progress against milestones associated with the technical aspects of the Year 2000 project. This (unaudited) self assessment is consistent with the suggested reporting standard of the Global Year 2000 Co-ordinating Group of which UBS is a founding member.

The self assessment indicates that UBS is well advanced in its preparation; however the nature of the Year 2000 issue means that it is not possible to provide any guarantee that the Group will be unaffected by Year 2000 related issues.

In view of this, UBS has already initiated contingency planning exercises to minimize these risks.

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Report of the Group Auditors

to the General Meeting of

UBS AG, ZURICH AND BASEL

Mr. Chairman,
Ladies and Gentlemen,

As auditors of the Group, we have audited the Group financial statements (income statement, balance sheet, statement of changes in equity, statement of cash flows and notes) of UBS AG for the year ended December 31, 1998.

These Group financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these Group financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession in Switzerland and with the International Standards on Auditing issued by the International Federation of Accountants (IFAC), which require that an audit be planned and performed to obtain reasonable assurance about whether the Group financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the Group financial statements. We have also assessed the accounting principles used, significant estimates made and the overall Group financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Group financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Accounting Standards (IAS) and comply with the Swiss law.

We recommend that the Group financial statements submitted to you be approved.

Basel, March 11, 1999

ATAG Ernst & Young
Auditing Ltd.

Roger K. Perkin
Chartered Accountant
in charge of the audit

Peter Heckendorn
lic. oec.
in charge of the audit

■ *ATAG ERNST & YOUNG Auditing Ltd.* offices in Arau, Berne/Thun, Bienne, Chur, Fribourg, Geneva, Kreuzlingen, Lausanne, Lucerne, Neuchâtel/La Chaux-de-Fonds, St. Gallen/Buchs, Sion, Solothurn, Winterthur, Zurich
Member of the Swiss Chamber of Auditors

UBS AG
(Parent Bank)

UBS AG (Parent Bank) Table of Contents

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Parent Bank Result

Income Statement

Due to the planned merger of Union Bank of Switzerland and Swiss Bank Corporation, the extraordinary shareholders' meetings of both banks decided that the financial year 1997 of the respective parent banks should cover the period until 30 September 1997 only. Thus the actual financial year of the parent bank UBS AG covers a 15-month period from 1 October 1997 to 31 December 1998. This should be borne in mind when comparing the two income statements. The profit of CHF 650 million for 1998 relates to CHF 3,943 million for the nine months in 1997 and reflects several strategic decisions and transactions in connection with the merger:

- Income from investments in associates has increased to CHF 2,974 million from CHF 484 million in 1997 due to repatriation of capital to the parent bank.
- Sundry income from ordinary activities amount to CHF 1,162 million (1997: CHF 360 million). This increase is due to harmonization of methods of calculating service charges to other companies within the UBS Group, as well as to an increase in those charges.
- The events that have affected Allowances, provisions and losses are discussed in the comments to the Group Financial Statements. The amount of CHF 4,849 million (1997: CHF 1,168 million) for the parent bank includes in addition a provision of CHF 1,924 million for counterparty risks. This provision had been established at Group level in 1996 already, but it was allocated to specific counterparties at parent bank level only in 1998.
- Extraordinary income of CHF 3,940 million (1997: CHF 481 million) reflects the disposal of subsidiaries and the release of provisions which are not economically necessary. Further information regarding extraordinary income and expenses can be found in the Notes to the Financial Statements.
- Furthermore, the parent bank includes the restructuring provision of CHF 7,000 million in the results for the 15-month period ended 31 December 1998, whereas the Group already reflected this amount in its 1997 Financial Statements.

In order to pay out a dividend of CHF 10.– per share or CHF 2,150 million and to allocate CHF 190 million to the general statutory reserve, a release of CHF 1,690 million from other reserves is proposed.

Balance Sheet

Total assets grew by CHF 262 billion to CHF 1,041 billion by 31 December 1998. The major part of this increase is caused by the harmonization of the accounting policies of Union Bank of Switzerland and Swiss Bank Corporation. It is in particular the consistent recognition of repurchase agreements, reverse repurchase agreements and securities lending and borrowing that led to an increase in assets and liabilities. Note that these transactions are presented differently in the Group Balance Sheet.

Financial Statements

Income Statement

CHF million	**1.10.1997– 31.12.1998**	1.1.1997– 30.9.1997
Interest and discount income	**33,205**	17,714
Interest and dividend income from financial assets	**240**	291
Less: Interest expense	**25,412**	13,363
Net interest income	**8,033**	4,642
Credit-related fees and commissions	**766**	516
Fee and commission income from securities and investment business	**9,229**	5,128
Other fee and commission income	**687**	408
Less: Fee and commission expense	**781**	463
Net fee and commission income	**9,901**	5,589
Net trading income	**383**	3,490
Net income from disposal of financial assets	**756**	229
Income from investments in associated companies	**2,974**	484
Income from real estate holdings	**38**	30
Sundry income from ordinary activities	**1,162**	360
Less: Sundry ordinary expenses	**185**	51
Other income from ordinary activities	**4,745**	1,052
Operating income	**23,062**	14,773
Personnel	**7,977**	5,346
General administrative	**6,290**	3,241
Operating expenses	**14,267**	8,587
Operating profit	**8,795**	6,186
Depreciation and write-offs on fixed assets	**815**	981
Allowances, provisions and losses	**4,849**	1,168
Profit before extraordinary items and taxes	**3,131**	4,037
Extraordinary income	**3,940**	481
Extraordinary expenses	**7,046**	96
Tax expenses/(benefit)	**(625)**	479
Profit for the period	**650**	3,943

Balance Sheet

CHF million	31.12.1998	30.9.1997	Change	%
Assets				
Liquid assets	**2,876**	2,819	57	2
Money market paper	**14,610**	27,712	(13,102)	(47)
Due from banks	**303,032**	182,354	120,678	66
Due from customers	**192,429**	154,318	38,111	25
Mortgage loans	**131,788**	137,615	(5,827)	(4)
Trading balances in securities and precious metals	**191,578**	126,132	65,446	52
Financial assets	**3,010**	9,349	(6,339)	(68)
Investments in associated companies	**6,153**	6,376	(223)	(3)
Tangible fixed assets	**6,840**	6,854	(14)	0
Accrued income and prepaid expenses	**5,293**	8,012	(2,719)	(34)
Positive replacement values	**173,020**	110,184	62,836	57
Other assets	**10,318**	7,349	2,969	40
Total	**1,040,947**	779,074	261,873	34
Total subordinated assets	***1,236***	*2,356*	*(1,120)*	*(48)*
Total amounts receivable from Group companies	***115,140***	*122,988*	*(7,848)*	*(6)*
Liabilities				
Money market paper issued	**30,963**	32,069	(1,106)	(3)
Due to banks	**314,258**	193,514	120,744	62
Due to customers on savings and deposit accounts	**77,964**	83,648	(5,684)	(7)
Other amounts due to customers	**295,381**	230,987	64,394	28
Medium term note issues	**8,303**	13,339	(5,036)	(38)
Bond issues and loans from central mortgage institutions	**36,180**	34,219	1,961	6
Accruals and deferred income	**9,853**	7,316	2,537	35
Negative replacement values	**207,410**	129,531	77,879	60
Other liabilities	**14,915**	10,301	4,614	45
Value adjustments and provisions	**15,176**	11,482	3,694	32
Reserve for general banking risks	**0**	667	(667)	(100)
Share capital	**4,300**	5,755	(1,455)	(25)
General statutory reserve	**14,295**	12,515	1,780	14
Reserve for own shares	**490**	964	(474)	(49)
Other reserves	**10,806**	9,266	1,540	17
Profit/(loss) brought forward	**3**	(443)	446	(101)
Profit for the period	**650**	3,944	(3,294)	(84)
Total	**1,040,947**	779,074	261,873	34
Total subordinated liabilities	***12,528***	*14,429*	*(1,901)*	*(13)*
Total liabilities to Group companies	***108,666***	*73,176*	*35,490*	*48*

Statement of Appropriation of Retained Earnings

	CHF million
The Board of Directors proposes to the General Meeting of Shareholders the following appropriation:	
Profit for the fifteen month period as per the Income Statement	**650**
Release of other reserves	**1,690**
Retained earnings from prior years	**3**
Available for appropriation	**2,343**
Appropriation to general statutory reserve	**190**
Proposed dividends	**2,150**
Retained earnings carried forward	**3**

Dividend distribution

Upon acceptance of this proposal, the dividend for 1998 will amount to CHF 10.– gross per share of CHF 20.– par value. The dividend will be paid on 27 April 1999, to registered shareholders or to their depository bank by payment order, after deduction of 35% Swiss withholding tax.

Notes to the Financial Statements

Accounting period / Comparative figures

The parent company's accounting period covers the 15 months from 1 October 1997 to 31 December 1998; and the comparative figures are for the shortened business year from 1 January to 30 September 1997. The 1997 comparative figures are combined pro forma values which were prepared on the basis of the separate audited financial statements of the former UBS and SBC parent companies existing at that time. The change in the length of the accounting period was approved by the shareholders at the General Assembly meetings on 3 February 1998 (former UBS) and 4 February 1998 (SBC).

Accounting and valuation principles

The parent company's accounting and valuation policies are in compliance with Swiss federal banking law. The accounting and valuation policies are principally the same as outlined for the Group Financial Statements in Note 1: Significant Accounting Policies of the Group Financial Statements. Major differences between the Swiss federal banking law requirements and International Accounting Standards are described in Note 42 to the Group Financial Statements. In addition, the following principles are applied for the parent bank:

- **Investments in associated companies** Investments in associated companies are equity interests which are held on a long-term basis for the purpose of the parent company's business activities. They are carried at a value no higher than their cost price.
- **Property and equipment** Bank buildings and other real estate are carried at cost less depreciation at a rate which takes account of the economic and business situation and which is permissible for tax purposes. Depreciation of computer and telecommunication equipment, as well as other equipment, fixtures and fittings is recognized on a straight-line basis over the estimated useful lives of the related assets. A credit adjustment of CHF 470 million has been made in order to harmonize the accounting policies of the merged banks. The useful lives of Property and Equipment are summarized in Note 1, Significant Accounting Policies, of the Group Financial Statements.
- **Extraordinary income and expenses** Certain items of income and expense appear as extraordinary within the Parent Bank Financial Statements, whereas in the Group Financial Statements they are considered to be operating income or expenses and appear within the appropriate income or expense category. These are separately identified below.
- **Taxation** Deferred Tax Assets, except those relating to Restructuring Provisions, and Deferred Tax Liabilities, except for a few immaterial exceptions, are not recognized in the Parent Bank Financial Statements as it is not required by Swiss federal banking law to do so.

Additional Income Statement Information

Net Trading Income

CHF million	**1.10.1997–31.12.1998**	1.1.1997–30.9.1997
Foreign exchange and bank notes	**2,156**	1,656
Bonds and other interest rate instruments	**(1,440)**	1,127
Equities	**(421)**	553
Precious metals and commodities	**88**	154
Total	**383**	3,490

Extraordinary Income and Expenses

Extraordinary income contains CHF 1,190 million from the sale of the former subsidiary Banca della Svizzera Italiana (BSI), CHF 1,336 million from release of provisions which are not economically necessary, and CHF 667 million from release of Reserves for General Banking Risks.

Extraordinary expenses consist mainly of CHF 7,000 million restructuring provision which were set up in 1997 to cover the costs related to the merger of Swiss Bank Corporation and Union Bank of Switzerland.

Additional Balance Sheet Information

Value Adjustments and Provisions

CHF million	Balance at 1 Oct. 1997	**Provisions applied in accordance with their specified purpose**	**Recoveries, doubtful interest, currency translation differences**	**New provisions charged to income**	**Provisions released and credited to income**	**Balance at 31 Dec. 1998**
Default risks (credit and country risk)	14,433	**4,375**	**426**	**3,543**	**0**	**14,027**
Other business risks [1]	409	**297**	**99**	**2,732**	**0**	**2,943**
Capital and income taxes	509	**337**	**28**	**194**	**0**	**394**
Other provisions	1,770	**4,250**	**(57)**	**7,768**	**1,336**	**3,895**
Total allowance for general credit losses and other provisions	17,121	**9,259**	**496**	**14,237**	**1,336**	**21,259**
Less: Allowances deducted from assets	5,639	**–**	**–**	**–**	**–**	**6,083**
Total provisions as per balance sheet	11,482	**–**	**–**	**–**	**–**	**15,176**
Reserves for general banking risks	667	**0**	**0**	**0**	**667**	**0**

[1] Provisions for litigation, settlement and other business risks.

Additional Balance Sheet Information (continued)

Statement of Shareholders' Equity

CHF million	31.12.1998	30.9.1997	Change	%
Shareholders' equity				
Share capital at beginning of the period	5,755	6,508	(753)	(12)
General statutory reserves	12,515	12,093	422	3
Reserves for own shares	964	583	381	65
Other reserves	9,266	11,228	(1,962)	(17)
Reserves for general banking risks	667	666	1	0
Retained earnings / (accumulated deficit)	3,501	(1,133)	4,634	(409)
Total shareholders' equity at beginning of the period (before distribution of profit)	32,668	29,945	2,723	9
– Reduction of nominal capital	(1,467)		(1,467)	–
+ Increase in General statutory reserves	1,467		1,467	–
+ Capital increase / (decrease)	12	(753)	765	(102)
+ Premium	82	330	(248)	(75)
+ Other allocations	35	23	12	52
– Allocation / (release) of Reserves for general banking risks	(667)		(667)	–
– Prior-year dividend	(2,236)	(821)	(1,415)	172
+ Profit / (loss) for the period	650	3,944	(3,294)	(84)
Total shareholders' equity as of 31 December 1998 / 30 September 1997 (before distribution of profit)	30,544	32,668	(2,124)	(7)
of which:				
Share capital	4,300	5,755	(1,455)	(25)
General statutory reserves	14,295	12,515	1,780	14
Reserves for own shares	490	964	(474)	(49)
Other reserves	10,806	9,266	1,540	17
Reserves for general banking risks	0	667	(667)	(100)
Retained earnings	653	3,501	(2,848)	(81)

Share Capital

	Par value		Ranking for dividends	
	No. of shares	Capital in CHF	No. of shares	Capital in CHF
Issued and paid up	214,976,306	4,299,526,120	214,449,765	4,288,995,300
Conditional share capital	999,229	19,984,580	–	–

Distribution of Registered Shares at End of 1998

Number of shares / % of shares held (1% = 2,149,763)	Number of shareholders	% of all registered shareholders	Number of shares[1]	% of all registered shares
1–100	126,457	65.092	5,244,360	4.103
101–1,000	61,281	31.544	16,524,771	12.929
1,001–5,000	5,156	2.654	10,156,828	7.947
5,001–10,000	569	0.293	3,954,295	3.094
10,001–50,000	551	0.284	11,432,204	8.945
50,001–100,000	98	0.050	7,082,202	5.542
100,001–2,149,762	157	0.081	57,467,918	44.964
1–2%	3	0.001	6,753,879	5.284
2–3%	0	0.000	0	0.000
3–4%	0	0.000	0	0.000
4–5%	1	0.001	9,192,491	7.192
over 5%	0	0.000	0	0.000
Total	**194,273**	**100.000**	**127,809,548**	**100.000**

[1] 13,618,690 registered shares do not carry voting rights. 73,548,068 shares are classified as "non registered", i.e. not entered in the share register as of 31 December 1998.

Off Balance Sheet and Other Information

Assets Pledged or Assigned as Security for Own Obligations, Assets Subject to Reservation of Title

	31.12.1998		30.9.1997		Change in %	
CHF million	**Book value**	**Effective liability**	Book value	Effective liability	Book value	Effective liability
Money market paper	**6,956**	**0**	2,265	517	207	(100)
Mortgage loans	**2,410**	**1,602**	1,687	1,250	43	28
Securities	**14,852**	**8,883**	10,778	8,924	38	0
Total	**24,218**	**10,485**	14,730	10,691	64	(2)

Assets are pledged as collateral for securities borrowing and repo transactions, for collateralized credit lines with central banks, loans from mortgage institutions and security deposits relating to stock exchange memberships.

Fiduciary Transactions

CHF million	**31.12.1998**	30.9.1997	Change	%
Deposits				
with other banks	**46,180**	47,234	(1,054)	(2)
with Group banks	**1,543**	1,937	(394)	(20)
Loans and other financial transactions	**479**	536	(57)	(11)
Total	**48,202**	49,707	(1,505)	(3)

Due to UBS Corporate Bodies / Related Parties

CHF million	**1998**	1997 [1]	Change	%
Due to UBS pension funds	**1,250**	937	313	33
Loans to directors, senior executives and auditing bodies [2]	**70**	88	(18)	(20)

[1] Information as of 31.12.1997 [2] Loans to directors, senior executives and auditing bodies include loans to members of the Board of Directors, the Group Managing Board and the Group's official auditors under Swiss company law. This also includes loans to companies which are controlled by these natural or legal persons.

■ **Auditing**
Aeschengraben 9
P.O. Box 2149
CH-4002 Basel
Switzerland

■ Telephone ++41 61 286 86 86
Telefax ++41 61 272 40 60

Report of the statutory auditors

to the General Meeting of

UBS AG, ZURICH AND BASEL

Mr. Chairman,
Ladies and Gentlemen,

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes) of UBS AG for the period from October 1, 1997 to December 31, 1998.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with the Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Basel, March 11, 1999

ATAG Ernst & Young
Auditing Ltd.

Roger K. Perkin	Peter Heckendorn
Chartered Accountant	lic. oec.
in charge of the audit	in charge of the audit

■ *ATAG ERNST & YOUNG Auditing Ltd.* offices in Arau, Berne/Thun, Bienne, Chur, Fribourg, Geneva, Kreuzlingen, Lausanne, Lucerne, Neuchâtel/La Chaux-de-Fonds, St. Gallen/Buchs, Sion, Solothurn, Winterthur, Zurich
Member of the Swiss Chamber of Auditors

UBS Corporate Governance

Corporate and Executive Bodies

UBS established its organizational structure in the context of the merger with the aim of meeting the highest standards of Corporate Governance. The Cadbury Committee's 1992 Code of Best Practice and the 1998 Hampel Report on Corporate Governance both played a significant role in developing UBS's Corporate Governance standards. In fact, almost all these standard-setting reports' recommendations have been implemented in UBS's Articles of Association and Organization Regulations. At the same time, UBS – as a Swiss based company – must also comply with Swiss legal provisions.

Corporate Governance Best Practice

UBS observes the principles of best practice in the following manner:

The Board of Directors (BoD) consists exclusively of non-executive Directors in accordance with Swiss Banking Law. The members of the Board of Directors are elected by the annual general meeting for a four-year term. In order to ensure its independence, the Chief Executive Officer is not permitted to be a member of the BoD. The appropriate and timely information on the company's affairs to the BoD members is prescribed by the Articles of Association and the Organization Regulations. The BoD meets regularly, together with the Group Executive Board (GEB).

At the time of the merger, there were 10 Directors, of whom the Chairman and one of the Vice Chairmen were appointed on a full-time basis. Chairman Mathis Cabiallavetta resigned on 1 October 1998 after the third-quarter losses from the US hedge fund Long Term Capital Management (LTCM) were announced, as a step towards restoring confidence in the new UBS. Vice Chairman Alex Krauer took over as Chairman. On 27 January 1999, the BoD appointed him Chairman until 2002.

To support the bank's important global aspirations, UBS will extend BoD membership to the international professional community. The maximum number of Board members is twelve.

The responsibilities of the BoD

The BoD has ultimate responsibility for the strategic direction of the business of the UBS Group and the supervision and control of its executive management.

The BoD has nominated the following committees:

The *Audit Supervisory Board* is responsible for the supervision of the internal and external audit. It is chaired by Alberto Togni. Additional members are Alex Krauer and Markus Kündig. The Audit Supervisory Board and the Head of Group Internal Audit meet four times a year to discuss and approve annual objectives and activity reports of Group Internal Audit plus other matters of general policy. Important findings of Group Internal Audit are submitted to the Audit Supervisory Board.

The *Audit Committee*, chaired by Peter Böckli with Rolf A. Meyer as Vice Chairman and Andreas Reinhart, monitors the functional adequacy of the auditing work and the cooperation between internal and external audit. It supports the BoD in the supervision of the year-end closing. It normally meets two to three times a year with the Head of Group Internal Audit and representatives of the external auditors. The Chief Financial Officer and other members of the GEB are periodically invited for special topics.

A *Nomination Committee*, with Alex Krauer as Chairman and Markus Kündig and Andreas Reinhart as members, has been charged with preparing nominations for new BoD members as well as for elections at the GEB level.

The Chairman's Office (Chairman and Vice Chairmen) also acts as the *Remuneration Committee*. It fixes the remuneration of the BoD's full-time members, the members of the GEB and of the Group Managing Board (GMB) (for details see below). The BoD decides on the individual remuneration of the part-time Board members, based on the proposals of the Remuneration Committee. The total amount paid to the related parties (BoD, GEB, GMB) as well as the principles of remuneration are published in Note 38 to the Financial Statements.

The Board of Directors' activities in 1998

The designated Members of the Board of Directors had started to meet regularly prior to the legal merger on 29 June 1998. At these preliminary meetings, the BoD took all necessary preparatory measures to ensure UBS's efficient start immediately after 29 June 1998. All important decisions were ratified in the first official meeting of the new BoD. The main issues addressed by the BoD during the course of 1998 (pre- and post-merger) were:

- the approval of the UBS strategy
- the approval of UBS's organizational framework and policies
- the approval of the UBS risk policy framework
- the review of quarterly and year-end results, as well as plans and budgets
- the settlement agreement with the claimants of the US class action suits regarding dormant accounts and World War II issues
- the losses stemming from UBS's exposure to LTCM and other market risks.

In 1998, the BoD held 14 meetings, eleven of which were with the Group Executive Board. At a one-day seminar the GEB outlined the detailed strategy of the Group and its divisions to BoD members. Joint meetings between the BoD and the GEB provide the optimal platform for a high-level and detailed interaction between both Boards. The particular mandates of the two bodies are defined in the Articles of Association and, in detail, in the Organization Regulations.

The Group Executive Board

The Group Executive Board is the most senior executive body of UBS. It assumes overall responsibility for the development of the Group's strategies, and the implementation and results thereof.

The GEB comprises eight members, namely the Group CEO, the Heads of the four divisions and of the three Corporate Center Functional Areas. Four members are Swiss citizens, two US, one Dutch and one Italian. Two divisions have their head offices in Switzerland, one is in London and one in Chicago. The GEB normally convenes biweekly.

A dominant concern of the GEB during 1998 was the successful integration of the two merged banks. Numerous fundamental decisions had to be taken, the most crucial ones being the appointment of senior management and the integration of the technology infrastructures. The GEB feels comfortable in stating that the essential measures were executed successfully. The integration continues to proceed at an extremely rapid pace.

Another crucial concern was the definition of the risk policy and risk framework of the Group.

Based on changing trends in the financial industry and a more volatile market environment, GEB members have regularly discussed strategy issues. In a special seminar at the beginning of January 1999, the GEB reassessed the strategy of the Group. The decisions, approved by the BoD on 16 January were outlined in detail at the UBS Investors' Day on 25 January 1999. They form the basis of the Shareholders' Letter and divisional strategy discussions in this document.

In connection with the Long Term Capital Management losses (for full details please see Review of Risk Management and Control, p. 33–34), Felix Fischer, Chief Risk Officer, resigned. His function was assigned to David Solo who joined the GEB from the Executive Board of Warburg Dillon Read. David Solo was the Co-Chief Operating Officer.

The Group Managing Board

As of December 1998, the Group Managing Board was made up of the eight GEB members, 18 members who held office in the Divisional Executive Boards and five members who were in charge of special functions at the top level of the organization. The GMB normally meets once a year to discuss strategic and planning matters.

Group Internal Audit

The Group Internal Audit Department, headquartered in Zurich, employs about 220 professionals worldwide. Special attention was given to problems arising from the LTCM losses, the risks involved in equity derivatives transactions and to the risks inherent in the domestic loan portfolio. Merger-related audits were performed in various areas, and a new organization was established in Group Internal Audit. State-of-the-art audit standards guarantee professional supervision and control. The BoD and the GEB are regularly informed of audit findings. The Head of Group Internal Audit, Walter Stürzinger, reports to the Chairman of the Board of Directors. He actively participates in the Audit Supervisory Board and the Audit Committee meetings.

Relationship with Shareholders

UBS is committed to fostering a relationship with its shareholders characterized by openness and transparency. To meet the different needs of shareholders better, corporate reporting is split into two documents. The Annual Review gives an overview of UBS's businesses, the strengths and opportunities of the divisions and their positioning in the market, the yearly results and some additional information about risk management and control, corporate governance, etc. The Financial Report contains all the information required by International Accounting Standards and Swiss regulations. It is designed to respond to the needs of large shareholders, institutional investors and financial analysts.

In addition to these two reporting documents, UBS publishes a Report on the Status of the Integration following the merger which may be ordered by any shareholder. Quarterly results are also reported in two formats: a short "Letter to Shareholders" explaining the relevant results achieved, and a comprehensive "Quarterly Report" designed for institutional investors.

The Annual General Meeting of Shareholders is organized in such a way that shareholders have the opportunity to raise any question regarding the development of the company and the achievements of the year under review. The members of the BoD and GEB as well as the internal and external auditors are present to answer these questions. A system of proxy votes gives shareholders the chance to express their views on any issue on the agenda at the Annual General Meeting.

Corporate and Executive Bodies as of 31 December 1998

Board of Directors

Alex Krauer (AGM 2000)*
Chairman
Member of the Audit Supervisory Board
Chairman of the Board of Novartis Ltd., Basel
(until April 1999)

Alberto Togni (AGM 2001)
Vice Chairman
Chairman of the Audit Supervisory Board

Markus Kündig (AGM 2002)
Vice Chairman
Member of the Audit Supervisory Board
Owner of Kündig Printers, Zug

Peter Böckli (AGM 1999)
Chairman of the Audit Committee
Partner in the law firm Böckli, Bodmer & Partner, Basel

Rolf A. Meyer (AGM 1999)
Member of the Audit Committee
Chairman of the Board of Ciba Specialty Chemicals Inc., Basel

Hans Peter Ming (AGM 2000)
Delegate of the Board of Directors of Sika Finanz AG, Baar

Andreas Reinhart (AGM 2000)
Member of the Audit Committee
Chairman of Volkart Brothers Holding Ltd., Winterthur

Georges P. Schorderet (AGM 1999)
Chief Financial Officer of SAirGroup, Zurich-Airport

Manfred Zobl (AGM 2000)
Chairman of the Corporate Executive Board of Swiss Life / Rentenanstalt, Zurich

Secretary to the Board of Directors:
Gertrud Erismann-Peyer

* Term of office until AGM of the year 2000.

Group Executive Board

Marcel Ospel
President and Group CEO

Stephan Haeringer
Deputy of the Group CEO and Division Head Private and Corporate Clients

Rodolfo Bogni
Chief Executive Officer of the Private Banking Division

Gary P. Brinson
Division Head Institutional Asset Management

Johannes Antonie de Gier
Chairman and Chief Executive of Warburg Dillon Read

David Solo
Chief Risk Officer
(since 2 October 1998)

Pierre de Weck
Chief Credit Officer and Head Private Equity

Peter A. Wuffli
Chief Financial Officer

Group Managing Board

Samuel W. Anderson
Head Administration & Operations, UBS Brinson Division

Luqman Arnold
Chief Operating Officer, Warburg Dillon Read

Peter Brutsche
Head Private Banking Tokyo

Richard C. Capone
Regional Manager for UBS AG's operations in the United States, Canada and Latin America;
Chief Executive Officer, Warburg Dillon Read LCC

Crispian Collins
Chief Executive, Phillips & Drew, London
(UBS Brinson Division)
(since 1 September 1998)

Arthur Decurtins
Deputy CEO of the Private Banking Division,
Head Products, Services, Logistics

Jeffrey J. Diermeier
Co-Head Equity Investments, UBS Brinson Division

Henry Doorn, Jr.
Head of Finance and Control, UBS Brinson

Thomas K. Escher
Business Area Head Information Technology,
Private and Corporate Clients Division

George M. Feiger
Business Area Head Domestic Clients,
Private Banking Division

Georges Gagnebin
Business Area Head International Clients Europe,
Middle East & Africa, Private Banking Division

Markus J. Granziol
Global Head Equities and Rates, Warburg Dillon Read

Carlo A. Grigioni
Head Business Area The Americas,
Private Banking Division

Jürg Haller
Business Area Head Corporate Clients,
Private and Corporate Clients Division

Eugen Haltiner
Head Integration,
Private and Corporate Clients Division

Franklin W. Hobbs
Global Head Corporate Finance, Warburg Dillon Read

William W. Johnson
Head Treasury Products, Warburg Dillon Read

Benjamin F. Lenhardt, Jr.
Head of Account Management and
Business Development, UBS Brinson Division

Franz Menotti
Business Area Head Private and Business Clients,
Private and Corporate Clients Division

Urs B. Rinderknecht
Group Mandates

Gian Pietro Rossetti
Business Area Head Domestic Clients/
Swiss Clients, Private Banking Division

Jean Francis Sierro
Business Area Head Resources,
Private and Corporate Clients Division

Stephan Zimmermann
Business Area Head Operations,
Private and Corporate Clients Division

Auditors

External Auditor
ATAG Ernst & Young Auditing Ltd., Basel
Auditors for the Parent Bank and for the Group as prescribed by Company Law and Swiss Banking Law
(term expires AGM 1999)

Internal Audit
Walter H. Stürzinger,
Head of Internal Audit Department

UBS Group
Human Resources

Personnel at UBS

1998 was a year which put considerable pressure on our staff. They met the challenge admirably, and we wish to take this opportunity to reiterate our thanks. We are aware that the success of the merger to date has to a large extent been dependent on the commitment of our employees.

Headcount Movements

UBS employed 48,011 staff at end-1998. A geographical breakdown of employees is shown in the pie chart.

During 1998, UBS experienced significant movements in headcount, predominantly as a result of the merger. The total headcount of full-time employees at UBS fell by 7,165 during 1998 from 55,176 in 1997, representing the combination of the workforces of Union Bank of Switzerland and Swiss Bank Corporation. 53% of the total reduction in staff in 1998 took place in Switzerland. The most significant reduction in relation to local workforce was in Asia (–24%), with a 19% decline in Americas and a 16% decline in Europe (excluding Switzerland).

Of the 3,800 decline in staff numbers in Switzerland, some 1,500 was attributable to divestments, primarily BSI. Elsewhere in Europe the net reduction of 1,250 was largely attributable to a significant restructuring in London as part of the merger. This was partially offset by new hirings and more importantly the acquisition of Schröder Münchmeyer Hengst in Germany. In the Americas the reduction of 1,100 was once again primarily due to the merger. In Asia a refocusing of our business in the light of difficult market conditions also contributed to the decline of 870 staff. A further discussion of headcount movements can be found in the divisional reports. For a discussion of personnel expenses, please see the Financial Review page 53.

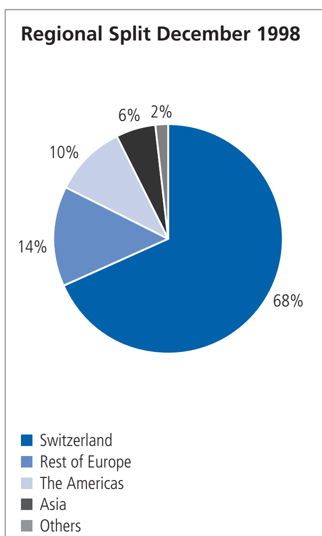
Performance Measurement and Management

In 1998 a new comprehensive performance appraisal system was introduced throughout the bank. PMM which stands for performance measurement and management, measures individual achievements (contribution) as well as the application of knowledge, skills and personal qualities (competencies). With PMM, the conventional top-down evaluation is complemented by evaluations from other sources: in addition to the manager's evaluation, feedback might be obtained from internal clients, peers and direct reports of the evaluatee, who is also required to provide a self-evaluation. The most important feature of the process is an intensive feedback discussion between manager and evaluatee, where results and implications are reviewed and appropriate measures as well as objectives for the next evaluation period are agreed upon. Thus, PMM is a development and evaluation tool and its results are the basis for a number of processes and decisions, such as training and development, promotion, compensation, position and succession planning.

Graduate Programs

UBS is keen to attract high caliber staff in all its divisions and thereby ensure the ongoing strength, commitment and quality of management. Thus, UBS offers graduates two special entry programs: the Junior Key People (JKP) Program (all divisions and Corporate Center except WDR) and Warburg Dillon Read's Graduate Training Program (GTP). After at least one year of working experience at UBS young and highly qualified employees can apply for the International Mobility Program (IMP) which provides the opportunity of an assignment abroad for one to two years at one of UBS's world-wide locations.

Regional Split December 1998



UBS Employees by Division

	1998	1997
Warburg Dillon Read	13,794	18,620
Private Banking	7,634	7,862 [1]
Private and Corporate Clients	24,043	25,641 [1]
UBS Brinson	1,497	1,364
UBS Capital	122	90
Corporate Center	921	1,599
Group total	**48,011**	**55,176**

[1] Restated figures due to client segmentation.

Glossary

A

accrual basis of accounting
The effects of transactions and other events are recognized when they occur, not as cash or its equivalent is received or paid, and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

ACRA reserve
Actuarial Credit Risk Accounting ACRA: methodology used by UBS for calculating the expected loss on a credit or derivatives portfolio based on the statistical loss experience of rating agencies and to build up a credit provision to provide for such future losses.

allowance for credit losses
An allowance, which in management's estimate is adequate to provide for the credit losses inherent in the loan portfolio. The allowance for credit losses is deducted from the related asset category on the balance sheet.

B

Basle capital ratio
A measure of the equity resources underpinning the operations of internationally active banks, as set by the Basle Committee on Banking Supervision which meets at the Bank for International Settlements (BIS). Capital is broken down into core capital (or Tier 1 capital) and supplementary capital (Tier 2 capital). The bank's assets are weighted from 0% to 100%. The ratio of the capital to the bank's risk-weighted assets is the BIS capital ratio.

C

compliance risk
The risk that the bank's conduct of business does not comply with the applicable laws, internal or external regulations or restrictions. This includes the risk of loss resulting from the inability of the bank to meet regulatory requirements, including breaching of existing capital requirements.

concentration risk
The risk of loss due to creating excessive exposure to a particular risk or a group of risks or to a particular country, industry, currency or counterparty group.

contract volume
The contract volume corresponds to the receivable side of derivative instruments; it can be expressed in terms of the notional/nominal amount of underlying instruments or the value of the underlying asset on which the derivative instrument is based. Only derivative instruments outstanding at the balance sheet date are taken into account.

country risk
Country risk concerns potential losses on foreign creditors' and investors' claims that would arise from sovereign default or other restrictions on cross-border transfers of funds. Country risk also concerns the potential for losses by foreign creditors and investors arising from systemic country developments such as exchange rate or asset price reductions.

credit risk
Risk of loss to the bank due to a counterparty unable or not willing to perform its payment obligations or other terms of contract agreed upon when business was concluded. (Note that credit risk includes e.g. transfer risk.)

currency risk
The risk of loss or gain due to changes in the underlying exchange rates.

D

deferred tax asset
The amounts of income taxes recoverable in future periods in respect of: (a) deductible temporary differences between reported net income and net income for tax declaration purposes; (b) the carry forward of unused tax losses; and (c) the carry forward of unused tax credits.

deferred tax liability
The amounts of income taxes payable in future periods in respect of taxable temporary differences between reported net income and net income for tax declaration purposes.

defined benefit plan
Amounts paid by the enterprise to such post-employment benefit plans may be determined, among others, by the employees' remuneration and/or years of service. Actuarial risk (that benefits will cost more than expected) and investment risk (that the asset invested will be insufficient to meet expected benefits) fall in substance on the enterprise.

defined contribution plan
Post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund). The enterprise's obligation is limited to the amount that it agrees to contribute.

derivative financial instruments
Financial instruments, such as financial options, futures, forwards, interest rate swaps and currency swaps, which create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. Derivative instruments do not result in a transfer of the underlying primary financial instrument on inception of the contract and such a transfer does not necessarily take place on maturity of the contract.

E

earnings per share (EPS)
The amount of net profit for the period that is attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period.

equity method
The method to account for investments, in which we have a significant influence. The investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investors' share of net assets.

exchange traded
Refers to standardized options and futures listed and traded on an organized exchange.

expected loss
Expected loss is the average predicted cost of UBS's exposure to a particular risk factor during a given reporting period.

exposure
Any status (be it monetarily expressed or not) that is subject to a potential change.

F

fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

finance lease
A lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

financial intermediaries
Companies such as banks, securities or brokerage firms, investment companies, pension and mutual funds and insurance companies which facilitate the flow of funds between borrowers and lenders in the economy.

forwards and futures
Forwards and futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized contracts that are transacted on regulated exchanges.

funding risk
The risk of being unable to obtain funding for a portfolio of assets at appropriate market rates or of being unable to liquidate assets at appropriate market prices.

G

Global Equity Derivatives (GED)
Structured equity derivatives business at UBS.

goodwill
Any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction.

group
A parent and all its subsidiaries.

H

hedging
An action which reduces risk, usually at the expense of potential reward, by use of a financial instrument or a combination of several instruments.

historical simulation
A methodology for calculating value at risk which revalues the reference portfolio using historically observed market prices over a predefined time period.

I

information technology risk
The risk of loss due to inappropriate information technology.

interest rate risk
The risk that the value of a financial instrument will fluctuate due to changes in the underlying interest rates.

International Accounting Standards (IAS)
Accounting standards issued by the International Accounting Standards Committee (IASC). The objective of these standards is to improve and harmonize the accounting standards relating to the presentation of financial statements.

investment funds (in the US: mutual funds)
A company or financial product whose sole object is to invest its capital in the shares of a wide range of companies. Under Swiss law the investment fund is an entity in which investors pool their capital for joint investment. The assets are managed by the fund's management for the account of the investors according to the risk distribution principle.
Depending on the type of investment fund, the assets may be invested in securities, money market instruments or in real estate; investments can also be made in special fund products and asset allocation funds. Swiss investment funds must be invested in variable capital and are obliged to redeem units whenever requested. Securities funds, money market funds, real estate funds, country funds, regional funds, sector funds.
Differentiation within UBS:
- UBS mutual funds can be broken down into Brinson, WDR and PB funds.
- UBS Investment Funds is the label for the Private Banking Division's core range of public open-end mutual funds.

K

key personnel risk
The risk of loss in knowledge, management capacity, experience or leadership due to the resignation, illness, disability or death of the bank's key personnel.

L

legal risk
Legal risk is the risk of loss because a contract cannot be enforced. This includes risks arising from insufficient documentation, insufficient capacity or authority of a counterparty (ultra vires, "capacity risk"), uncertain legality, and unenforceability in bankruptcy or insolvency. Also called Legal Enforcement Risk.

liability risk
The risk of loss due to the bank being held responsible for a contractual or legal claim, debt or action based, e.g., on the breach or default of a contract, commitment of a tort, violation of criminal law, infringement of trade marks or antitrust action.

logistics functions
Separately constituted operational functions including financial control, operational and IT which excercise an essential control function when processing the transactions entered into by the divisions.

loss severity
Also referred to as loss given default – the amount that the bank would lose in the event that a counterparty defaults on its obligations.

M

margin
A deposit of cash or securities taken from a client or counterparty as security against a loan or other obligation.

market risk
Market risk is the uncertainty to which future earnings are exposed as a result of changes in the value of portfolios of financial instruments. This risk is a consequence of the trading and investing activities in the interest rate, foreign exchange, equity and commodity markets.

master netting agreement
An arrangement providing for an enterprise that undertakes a number of financial instrument transactions with a single counterparty to make a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract.

minority interest
That part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent.

mutual funds
Please see investment funds.

N

negative replacement value
Negative replacement value is the cost to the Group's conterparties of replacing all the Group's transactions in a loss position if the Group were to default.

netting
Setting off between counterparties, on the basis of bilateral or multilateral contracts, of mutual payment obligations on expiry date, or in the case of default of a counterparty of unrealized profits and unrealized losses.

notional amount
The reference amount of the underlying asset or index which is used as the basis for calculating the value of derivative contracts. Notional values provide an indication of the volume of derivatives business transacted by UBS but do not provide any measure of risk.

O

operating lease
A lease other than a finance lease.

operational risk
The risk that deficiencies in information systems or internal controls will result in unexpected loss. This risk is associated with human error, system failures and inadequate procedures and controls. At UBS the particular elements of operational risk are operations risk, legal risk, compliance risk, liability risk, information technology risk, key personnel risk and physical and crime risk.

operations risk
(otherwise referred to as transaction processing risk)
The risk that the deficiencies in transaction processing systems and the associated internal controls will result in unexpected financial loss. This risk is associated with human error, system failures and inadequate procedures/controls in the trade/transaction processing.

options
Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) by or at a set date, a specified amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right.

over-the-counter (OTC) instruments
Refers to financial instruments that are not traded on an organized exchange or a market that is not part of an organized exchange. OTC instruments can be created with any provisions allowed by law and acceptable to counterparties.

P

parent
An enterprise that has one or more subsidiaries.

physical and crime risk
The risk of loss to the bank due to, e.g., accidents, crime, sabotage, natural catastrophes, war, riots or elementary damage (water, fire).

positive replacement value
Positive replacement value represents the cost to the Group of replacing all transactions in a gain position if all the Group's counterparties were to default. This measure is the industry standard for the calculation of current credit exposure.

R

Rates business area
The fixed income business area of Warburg Dillon Read.

repurchase agreement
A repurchase agreement (repo) is an agreement whereby the holder of a security sells the security to a buyer/lender, with a simultaneous agreement to repurchase the security at a fixed future date at a stipulated price.

reverse repurchase agreement
A reverse repurchase agreement (reverse repo) is the purchase of a security at a specified price with an agreement to resell the same security at a specified price on a specified future date.

risk appetite
Amount of risk which the bank is prepared to accept in the normal course of business in order to deliver satisfactory long-term growth and return on equity.

risk-bearing capacity
Potential of the bank to absorb stress losses taking into account UBS's overall earnings capacity. It is set to protect the Group from unacceptable damage to annual earnings, dividend-paying ability, business viability and the reputation of the bank.

risk policy framework
Entirety of organizational principles, methods and measures (policies, structures, processes) to manage and control risks.

ROE – return on equity
Net result of a reporting period divided by the average equity during the same period.

S

securities borrowing/lending
The loan of securities on an unsecured or secured basis for which the borrower pays a fee to the lender. The borrower may re-lend the securities, or use them as collateral, or to settle short sales or repos. The lender retains the beneficial ownership, and is therefore entitled to receive all coupons or dividends from the borrower during the term of the trade.

settlement risk
The risk of loss to the bank making a payment or delivery in "exchange-for-value" transactions without receiving the associated payment or delivery from the counterparty.

statistical loss
The loss which can be predicted with a given statistical probability.

stress scenario loss
The possible – although improbable and unusual – extreme scenarios which the bank should be able to absorb in the normal course of its business.

subsidiary
An enterprise that is controlled by another enterprise (known as the parent).

swaps
Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.
Interest rate swap contracts generally represent the contractual exchange of fixed and floating rate payments of a single currency, based on a notional amount and an interest reference rate. Cross-currency interest rate swaps generally involve the exchange of payments which are based on the interest reference rates available at the inception of the contract on two different currency principal balances that are exchanged. The principal balances are re-exchanged at an agreed upon rate at a specified future date.

V

value at risk
Value at risk is a measure of the maximum loss which would be expected to occur in a given portfolio with a given level of statistical probability (e.g. 97%).
Note: Value at risk does not provide an estimate of the size of loss that could occur in the remaining cases which fall outside the predefined probability.

UBS Share Information

The UBS Share in 1998

UBS Share Data

Year-end registered shares in 1000 units	1998
Total shares outstanding	214,976
Total shares ranking for dividend	214,450 [1]
Treasury shares (average)	3,058
Weighted average shares (for basic EPS calculation)	211,797
Weighted average shares (for diluted EPS calculation)	212,941
Per share data (basic) (CHF)	
Gross operating profit	105.43
Group profit before taxes	19.22
Net profit/loss	14.31
Dividend	10.00
Book value	152.95
Per share data (diluted) (CHF)	
Gross operating profit	104.86
Group profit before taxes	19.12
Net profit/loss	14.23
Book value	152.13
Stock exchange prices [2]	
Year-end 1998 (CHF)	422
High/low 1998 (29 June first trading day) (CHF)	657 / 270
Price/net earnings (P/E) (basic)	29.5
Price/book value (P/BV) (basic)	2.8
Dividend yield, gross (high/low) (in percent)	3.7 / 1.5
Total return (for full-year 1998)	2.6 [3]
Total return Swiss Market Index (SMI)	15.7
Total return Swiss Performance Index (SPI)	16.8
Market capitalization (CHF billion) [4]	
Year-end	90.7
% change year-on-year	1.17 [5]
In % of the Swiss Market Index (SMI)	11.8
In % of the Swiss Performance Index (SPI)	9.6
High (20 July)	140.0
Low (30 September)	57.9
Trading volumes (SWX only) (CHF million) [2]	
Total	67,198
Daily average	517 [6]
Trading volumes (SWX only) (1000 units) [2]	
Total	153,078
Daily average	1,178 [6]

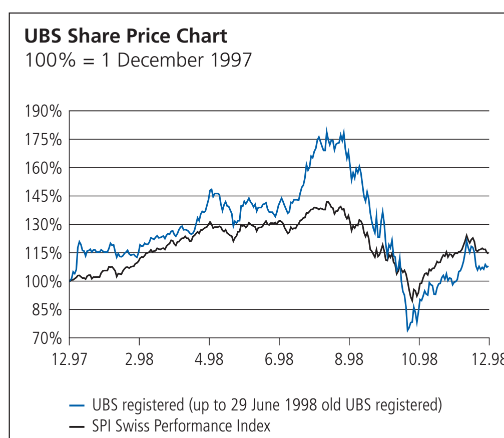
[1] Difference between shares outstanding and shares ranking for dividend are reserved shares. [2] Trading period of UBS registered shares was 29 June until 31 December 1998. [3] Return from dividend and price changes. [4] 1998 figures for new UBS shares only. [5] 1997 figures on a pro forma basis. [6] Trading period 29 June until 31 December 1998 equals 150 trading days.

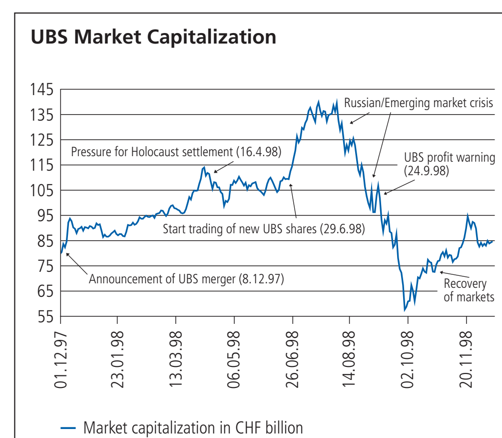
There was a marked difference in the performance of the Swiss stock market between the first and second halves of the year. The first half saw a continuation of the bull market which had been in place for over two years. In the ensuing six months, the stock market environment then deteriorated sharply as the economic crises in Asia and Russia grew suddenly acute and took their toll. This period was marked by extreme volatility and increased uncertainty which at times precipitated sharp price corrections.

The merger between UBS and SBC announced in early December 1997 was very favorably received by the market. The UBS share price, which had been rising continuously, gained further momentum at the end of June when the merger was legally formalized and the CHF 20 single-class share introduced. The price reached its high for the year on 20 July 1998 at CHF 657, equivalent to a market capitalization of CHF 140 billion. After fluctuating sharply in the second half as a result of the general market uncertainty

and the losses sustained on the bank's LTCM exposure, the share price reached a low of CHF 270 on 30 September 1998. By year-end, it had climbed back to CHF 422, equivalent to a market value of CHF 91 billion.

With a daily trading volume of over 1 million shares, the UBS share is one of the three most actively traded Swiss stocks. In terms of market capitalization, UBS is one of the top five financial institutions in the world.





Distribution of UBS shares registered as of 31 December 1998

Number of registered shares (1% = 1,278,095 shares)	Number of shareholders	% of all registered shareholders	Number of registered shares	% of all registered shares
1–100	126,457	65.092	5,244,360	4.10
101–1,000	61,281	31.544	16,524,771	12.93
1,001–5,000	5,156	2.654	10,156,828	7.95
5,001–10,000	569	0.293	3,954,295	3.09
10,001–50,000	551	0.284	11,432,204	8.94
50,001–100,000	98	0.050	7,082,802	5.54
>100001	161	0.083	73,414,288	57.45
Total	**194,273**	**100.000**	**127,809,548**	**100.00**
0–1%	194,269	99.997	111,863,178	87.53
1–2%	3	0.002	6,753,879	5.28
2–3%	0	0.000	0	0.00
3–4%	0	0.000	0	0.00
4–5%	1	0.001	9,192,491	7.19
over 5%	0	0.000	0	0.00
Total	**194,273**	**100.000**	**127,809,548**	**100.00**

As of December 31, 1998 no identified investor was holding 5% or more of the total 214 million UBS shares outstanding.

Individual shareholders	184,917	95.19	31,023,286	24.27
Legal entities	8,649	4.45	65,225,537	51.04
Nominees, fiduciaries	707	0.36	31,560,725	24.69
Total	**194,273**	**100.00**	**127,809,548**	**100.00**
Switzerland	181,738	93.55	99,135,341	77.57
Europe	9,325	4.80	19,424,727	15.20
North America	960	0.49	2,894,597	2.26
Other countries	2,250	1.16	6,354,883	4.97
Total	**194,273**	**100.00**	**127,809,548**	**100.00**

UBS employees were holding 2.8% of the shares registered.

Information for Shareholders

UBS Registered Shares (Par Value CHF 20), ISIN Number CH0008470921

Ticker symbols

Stock exchange listings	Bloomberg	Reuters	Telekurs
SWX (Swiss exchange)	UBSN SW	UBSZn.S	UBSN, 004
Tokyo	1264Z JP	UBS.T	N16631, 106
London (Stock exchange automatic quotation SEAQ)		UBSZq.L	847092, 182

Sponsored American Depository Receipt (ADR) program in the USA

Ratio	20 ADR's = 1 UBS Share
Exchange	OTC (over the counter)
Symbol	UBBSY
CUSIP	# 90261R105

Financial calendar

General Meeting of Shareholders	Thursday, 22 April 1999
Dividend payment date	Tuesday, 27 April 1999
Publication first-quarter results 1999	Thursday, 27 May 1999
Publication first-half results 1999	Tuesday, 24 August 1999

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