UBS

UBS is a global, integrated investment services firm and the leading bank in Switzerland.

Financial Report 1999.

UBS Group Financial Highlights

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CHF million (except where indicated) *For the year ended*	**31.12.1999**	31.12.1998	31.12.1997
Income statement key figures			
Operating income	**28,621**	22,328	24,880
Operating expenses (1997 before restructuring)	**20,452**	18,258	18,636
Operating profit before tax (1997 before restructuring)	**8,169**	4,070	6,244
Net profit / (loss)	**6,300**	3,030	(667)
Per share data (CHF)			
Basic earnings per share [1]	**30.28**	14.31	(3.18)
Basic earnings per share before goodwill [1,2]	**31.91**	15.92	(2.52)
Diluted earnings per share [1]	**30.12**	14.23	(3.18)
Diluted earnings per share before goodwill [1,2]	**31.75**	15.84	(2.52)
Dividends proposed	**11.00**	10.00	n/a
Ratios (%)			
Return on shareholders' equity [3]	**20.1**	10.3	14.5
Return on shareholders' equity before goodwill [2,3]	**21.2**	11.4	14.9
Cost / income ratio [4]	**69.1**	78.4	71.2
Cost / income ratio before goodwill [2,4]	**68.0**	77.0	70.7

As of	**31.12.1999**	31.12.1998	31.12.1997
Balance sheet key figures			
Total assets	**981,573**	944,116	1,086,414
Shareholders' equity	**34,835**	32,395	30,927
Market capitalization	**92,642**	90,720	n/a
BIS capital ratios (%)			
Tier 1	**10.6**	9.3	8.3
Total BIS	**14.5**	13.3	12.6
Assets under management (CHF bn)			
Total assets under management	**1,744**	1,572	1,512
Headcount [5]			
Total headcount	**49,058**	48,011	55,176
thereof: Switzerland	***32,747***	*32,706*	*36,638*
Rest of world	***16,311***	*15,305*	*18,538*
Long term ratings			
Moody's, New York	**Aa1**	Aa1	
Fitch/IBCA, London	**AAA**	AAA	
Standard & Poor's, New York	**AA+**	AA+	
BankWatch, New York	**AA**	AA	

[1] For EPS calculation, see Note 10 to the Financial Statements. [2] The amortization of goodwill and other purchased intangible assets are excluded from the calculation. [3] Net profit / average shareholders' equity excluding dividends. 1997 loss and shareholders' equity adjusted for impact of restructuring including taxes thereon. [4] Operating expenses / operating income before credit loss expenses of CHF 956 million in 1999, CHF 951 million in 1998 and CHF 1,278 million in 1997. [5] The Group headcount of 49,058 as of 31 December 1999 does not include the Klinik Hirslanden headcount of 1,853.

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The 1999 Financial Report reflects the 1999 UBS Group structure and the 2000 brand architecture.

Dear Shareholders,

We are pleased to report that, in 1999, UBS net profit after tax reached CHF 6,300 million. This represents basic earnings per share of CHF 31.91 and a return on equity of 21.2% before goodwill. Our performance has strongly rebounded after a difficult 1998 when net profit after tax stood at CHF 3,030 million. That said, a number of significant one-off events in both 1999 and 1998, explained in detail elsewhere in this report, make like-for-like comparisons complex. However, even taking these one-off events into consideration, the year-on-year net profit increase is significant. Assets under management increased 11% or CHF 172 billion, to CHF 1,744 billion.

The Board of Directors recommends to shareholders a dividend of CHF 11 per share, compared to CHF 10 last year.

What we accomplished in 1999

In 1999, we accomplished much of what we set out to do at the end of 1998.

Notably, we achieved the integration of one of the biggest and most complex banking mergers in record time. A merger of this magnitude leaves no area of business untouched, and it is a considerable tribute to the professionalism and commitment of our employees that we have emerged so rapidly as an integrated force.

While the successful accomplishment of the merger positions us more strongly than ever at the forefront of the financial services industry, it has undoubtedly had a short term impact.

Private Banking, in particular, has not achieved the growth we anticipated this year. With the merger now behind us, we see significant opportunity for our wealth management businesses in the years ahead. Our new structure, announced recently and which we explain below, is specifically designed to unlock and maximize the potential of our distinct client-facing businesses.

UBS Warburg had a great year in 1999, with record profits and volumes in many of its business areas, led by an outstanding Equities performance. We are proud of our world-class investment banking and securities division, and particularly of the turnaround since the shocks of 1998.

Our domestic business within the Private and Corporate Clients Division is consistently managed for enhanced profitability. Bottom line improvements are starting to show through, and we are confident that, with the delivery of merger-related savings, a new level of profitability is attainable.

Investment performance was the principal factor behind the disappointing results of our Asset Management Division. It also affected somewhat the growth of Private Banking assets under management. Diversification and a more "open" product offering will be the key to unlinking these performance risks, and, in that light, we are excited by the opportunities provided to private banking clients by the acquisition of Global Asset Management.

Our private equity business continues to prove itself highly attractive, with strong linkages to private banking clients and to investment banking, and a consistently excellent track record of value creation, demonstrated again in 1999.

Overall, we are pleased that this year has marked not only the integration of two banks, but also huge progress towards our vision of an integrated business with every UBS division interacting profitably, and displaying true unity of purpose. As a result, the whole is greater than the sum of the parts.

Our strategy

UBS is a global, integrated investment services firm and the leading bank in Switzerland. But, more fundamentally, UBS exists to provide value to its clients and shareholders. Our strategies are designed around the overriding objective of creating sustainable growth in shareholder returns.

We are convinced that we have the ideal set of businesses – each a leader in its own field – to take advantage of the sweeping global trends increasing personal wealth, and driving securities investment to the forefront of financial services.

But our success will depend on far more than careful positioning. UBS will represent the best combination of old and new banking methods. Our commitment, as ever, is to the highest standards of personalized service quality, delivered with the ultimate in professionalism and integrity.

New technology provides an immense opportunity to deliver our services faster, cheaper, to a much wider clientele and in a way that brings us ever closer to our clients. In Switzerland our electronic banking service captures even higher market share than our "traditional" offering. Proof that our skills and services are only enhanced by delivery through cutting edge channels.

Our new business structure

On 18 February 2000 we announced our new business structure, regrouping our wealth management businesses with the aim of unlocking their potential to generate superior growth.

The new organization reflects a different way of thinking about client requirements. As new technologies transform the financial industry landscape, clients themselves increasingly decide – through their choice of services and channels – which client segment they belong to. Lifetime relationships mean seamlessly offering a continuously evolving service to match each client's financial aspirations as they develop.

Swiss banking has a special place in the world of personal finance. By combining all Swiss-based and international offshore banking, we will focus and capitalize on this core asset.

Our asset management businesses are now under one roof, allowing us to develop a variety of investment styles and selectively introduce more third-party products to our clients. At the same time, we will aggressively expand the marketing and distribution of our own mutual funds to clients outside UBS.

Investment services activities for international private clients have significant growth potential, and are now set to benefit additionally from proximity to investment banking skills, services and image.

These changes are a thorough modernization, allowing us to serve our clients in a way that reflects tomorrow's world as well as today's.

The way ahead

Our commitment to new technology will be demonstrated in 2000 through the launch of our new pan-European "e-services" personal investment business, expected in the autumn. We manage this as a separate business unit with an emphasis on "time to market", and are excited by its prospects. This new initiative complements the already very successful e-commerce and mobile phone services offered by our Private and Corporate Clients Division.

It would be impossible in this short space to reflect the diversity of the initiatives UBS is launching in 2000. Three programs have particular resonance for us at his time.

We intend 2000 to be the year in which UBS stock trades on the New York Stock Exchange. To us, a globally traded share is symbolic of our belief in UBS as a global firm, as well as giving us the flexibility to take advantage of potential expansion opportunities in the US.

Our brand is one of our most important assets. In 2000, all our brands will be instantly recognizable as part of an integrated UBS.

And finally, our share buy-back program demonstrates our commitment to returning value to our shareholders, alongside our core focus on growing "top-line" revenue and "bottom-line" earnings.

Conclusion

With our new business structure in place, we now have the agility to respond quickly to changing client demands, allowing us to increase our momentum significantly. Our mix of businesses is ideal for exploiting the changing financial services landscape. But success does not come easy in today's ultra-competitive world. All our businesses will have to fight their hardest to secure the rewards they are so well-positioned for.

We assure you of our commitment to the growth that you, our fellow shareholders, deserve and we thank you – along with our staff and our clients – for your support during the past year.

Alex Krauer
Chairman of the Board of Directors

Marcel Ospel
Group Chief Executive Officer

A Worldwide Presence

Group Review

Group Results and Initiatives

UBS achieved solid financial results in 1999 while essentially completing its post-merger integration. During 1999 UBS also launched a dynamic set of Group-wide initiatives focused on shareholder value creation, new technology and growth.

UBS Group financial results

Headline Group financial results

1999 was a strong rebound year for UBS. UBS Group net profit after taxes and minority interests was CHF 6,300 million in 1999, while in 1998 it was CHF 3,030 million, an increase of 108%. Significant financial events in both 1999 and 1998, explained below, render like-for-like comparisons complex.

Compared to 1998, total operating income after credit loss expenses increased 28% to CHF 28,621 million. This is partially attributable to a higher level of gains on divestments during 1999 than in 1998, as UBS increased its focus on core businesses. It was also due to significantly higher trading income in the context of positive markets and the strength of our global investment bank and securities division, UBS Warburg.

Total operating expenses increased 12% to CHF 20,452 million as compared to 1998. In 1999, personnel expenses increased as a result of performance-related compensation associated with good investment banking results. In contrast, in 1998 additional personnel expenses were charged against the restructuring reserve as part of our successful efforts to protect the investment banking franchise in the face of anticipated merger-related shortfalls in profits. In 1999, non-personnel expenses were below those of the previous year period reflecting lower levels of provisions and stringent cost reduction programs.

UBS Group assets under management increased 11%, or CHF 172 billion, to CHF 1,744 billion. Acquisitions contributed CHF 38 billion to Group assets under management, with the remaining increase largely performance-driven.

Significant financial events

1999 total operating income includes one-off pre-tax gains of CHF 1,838 million mainly from divestments. Total operating expenses were not impacted by significant financial events as they netted out to an immaterial amount. More detail on significant financial events can be found in the Group Financial Review on page 68.

Group financial targets

Targets policy

Our targets policy no longer emphasizes absolute numbers and focuses rather on those ratios that best measure shareholder return. Financial targets also relate only to organic growth and are excluding the impact of goodwill amortization. Following acquisitions, we will disclose any expected impact on our targets and adjust them accordingly.

Financial targets

UBS is confident in the ability of its existing businesses to provide good returns for our shareholders from organic earnings growth and value creation. UBS therefore aims to achieve:
- a return on equity averaging 15–20%, across periods of varying market conditions;
- double-digit average annual earnings per share growth, across periods of varying market conditions;
- active, continuous focus and downward pressure on the Group cost/revenue ratio substantiated by divisional initiatives;
- clear demonstration of growth in net new money in the Private Banking and Affluent segment.

1999 performance against financial targets

As mentioned above, our financial targets are based on income statement figures excluding the impact of goodwill amortization. Furthermore, we believe that a proper discussion and analysis of our current core ratios against our financial targets requires, in some cases, the adjustment of our 1999 figures, to eliminate the effect of significant financial events.

- *Return on equity*: Adjusting 1999 net profit after tax for the post-tax CHF 1,488 million gain from significant financial events listed on page 68 of the Group Financial Review, pre-goodwill return on equity in 1999 amounted to 16.4%. This is within our target range of 15–20%, but leaves us considerable scope for further increases.
- *Earnings per share*: In 1999 pre-goodwill basic earnings per share was CHF 24.76, after adjusting for significant financial events. A like-for-like comparison of results between 1999 and 1998 is made complex by these events, but it is clear that our earnings rebound comfortably represents underlying double digit growth.
- *Cost/income*: The adjusted, pre-goodwill cost/income ratio was 72.5% in 1999. Compar-

isons to the exceptional 1998 cost/income ratio are not meaningful. However we stress that, as discussed on pages 13–14, UBS is implementing a series of cost control measures in UBS Private and Corporate Clients as well as UBS Warburg which we expect to yield tangible results.
– *Net new money*: In 1999, net new money growth of CHF 4.5 billion in Private Banking fell below the high standards we strive for and did not represent a strong growth trend. Our reorganization announced on 18 February 2000 is specifically designed to unlock the growth potential in all our wealth management businesses, hence re-establishing the positive trend.

Group initiatives

UBS is a global, integrated investment services firm and the leading bank in Switzerland. This positioning is substantiated by our strategic vision, set out in the Shareholders' Letter and UBS Group Section, and is driven forward by a complete set of business initiatives. Many of these initiatives are devolved to divisional level and discussed in the relevant divisional chapter. However, several demand mention in the overall Group context.

We view new technology as a tremendous opportunity. Our commitment to seizing that opportunity is evident in our planned launch in autumn 2000 of a major new e-services initiative in Europe. Following an integrated multi-channel "clicks and mortar" approach, e-services will focus on providing financial products and services to affluent European clients. More detail regarding this initiative can be found on page 15 in the e-services, Information Technology and Operations section.

UBS is in the process of registering with the US Securities and Exchange Commission and applying to list its shares on the New York Stock Exchange. Through this action, we will position ourselves to take advantage of the changing US financial services landscape as the Gramm-Leach-Bliley Financial Modernization Act liberalizes restrictions.

We are adjusting our brand architecture to demonstrate more clearly our integrated business model. Brand will continue to rise in importance in the financial services sector as multiple providers and channels scramble for attention. We will devote significant effort to establishing UBS as a renowned and recognized global brand with all the advantages conferred by the Swiss tradition of banking.

UBS is currently implementing a comprehensive value-based management approach. This means establishing shareholder value creation as the primary yardstick for planning, investment decisions, capital allocation, performance appraisal and compensation, and strategic risk management.

In line with our commitment to shareholder value, we commenced early in 2000 a Swiss-specific, tax-efficient stock buy-back program with the intention of subsequent share cancellation. As of 23 February 2000, the program has resulted in the repurchase of approximately 2.8 million shares, or about 1.3% of our market capitalization. This program is also discussed on page 63 of the Capital Management section of the Review of Risk Management and Control chapter.

These Group initiatives, together with our broader set of devolved divisional initiatives, will deliver sustainable growth in shareholder returns in 2000 and thereafter.

Forward-looking statements

This Financial Report includes statements that constitute "forward-looking statements". We refer you to our cautionary statement regarding forward-looking statements on page 150 for a discussion of such forward-looking statements.

The UBS Group

UBS is a global, integrated investment services firm and the leading bank in Switzerland. Our integrated business model encompasses a uniquely attractive combination of profitable and growing client and business segments allowing us to benefit from numerous synergies within the Group. We expect the regrouping of our businesses, announced in February 2000, to add new agility and momentum to the Group.

Mission

We are committed to providing clients with superior value-added investment services, to providing shareholders with above average rewards, to being an employer of choice, and to being a good corporate citizen.

Overview

The philosophy of our business model is that each operating division holds primary responsibility for managing relationships with well-defined client segments, while ensuring appropriate access to the products and services of the entire Group. The Corporate Center encompasses Group level functions that cannot be devolved to the operating divisions.

Integrated investment services firm

Being an integrated investment services firm means that our business divisions work together, in a coordinated manner to achieve our common goals. This allows UBS to provide our clients with the full range of products and services that they have come to expect from a premier financial institution, while UBS benefits from efficient value capture and structurally diversified revenue streams.

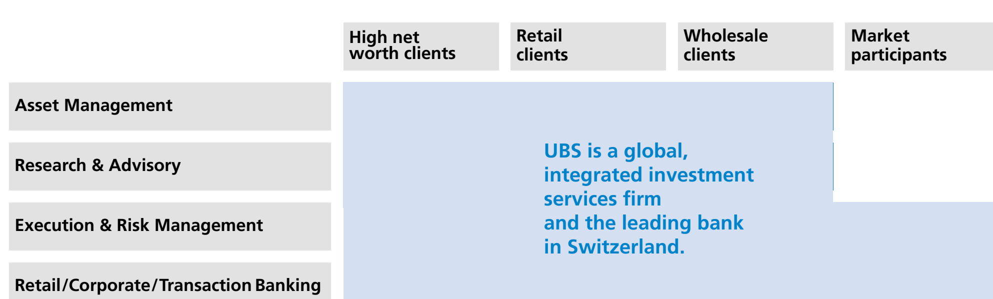
As one example of integration, the centralized approach to asset and liability management undertaken by the Group Treasury function fosters cost-efficient Group funding, optimal internal allocation of funds and global liquidity management. Non-trading interest rate and currency risks are captured and pooled with the trading books to realize the Group's entire netting potential.

"Investment services" is a term that encompasses a uniquely attractive combination of profitable and growing client and business segments. It covers the full range of end-clients from high net worth individuals through retail clients to institutional and corporate clients. It covers the business competencies of asset management, research and advisory, and execution and risk management. It includes asset gathering businesses across all client types, in particular, the fast-growing high net worth, affluent and defined contribution segments. It further includes investment banking, providing competitive product and risk management expertise to the asset gathering businesses. The investment bank also serves its own institutional and corporate client base, profiting from access to the rapidly expanding global securities markets.

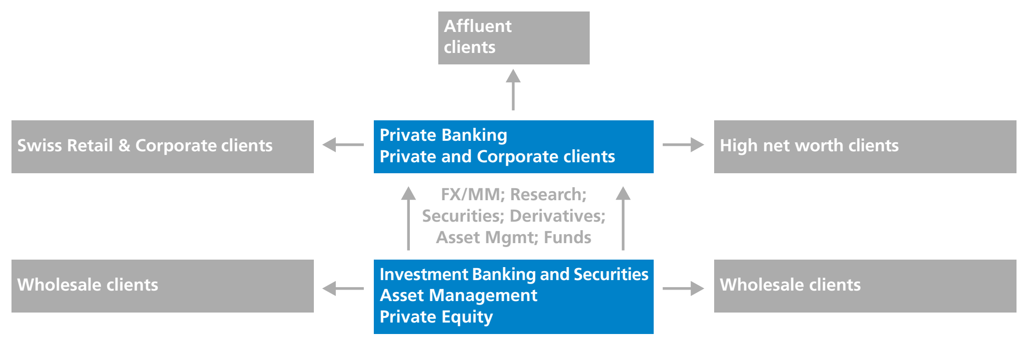
The leading bank in Switzerland

UBS is the leading bank in Switzerland, by size and market penetration. More than four million private individuals in Switzerland, or over half the population, cite UBS as their primary or secondary bank. Some 180,000 small and medium sized companies bank with UBS, and almost all top-tier Swiss corporations can be counted among our clients. UBS is the largest provider of investment fund services and the leading credit bank in Switzerland. With more than 30,000 staff in Switzerland, we are the third-largest private employer in the country.

Investment services model – UBS



Integrated client service business model



Integrated client services model

The integrated model begins with our investment banking and asset management divisions providing wholesale clients with products and services through direct access to the capital markets and institutional asset management capabilities.

The base that these divisions provide allows us to offer the full range of value-added services to clients of our Private Banking and Private and Corporate Clients divisions, including foreign exchange and money market products, research, securities trading and execution, derivatives and risk management products and services, custody services, asset and portfolio management services and investment fund (including private equity funds).

Our integrated model allows us to benefit from multiple synergies within the Group. Examples of interdivisional synergies include:

- UBS Warburg provides research, securities brokerage, OTC trading, derivatives, foreign exchange, and value-added structured products to clients of UBS Private Banking and UBS Private and Corporate Clients.
- UBS Private Banking clients also have the opportunity to invest in UBS Capital funds.
- UBS Capital works closelywith UBS Warburg for companies that are considering initial public offerings.
- Technology and premises infrastructure, operations and other support services are generally shared between all divisions in a given country, especially in Switzerland.

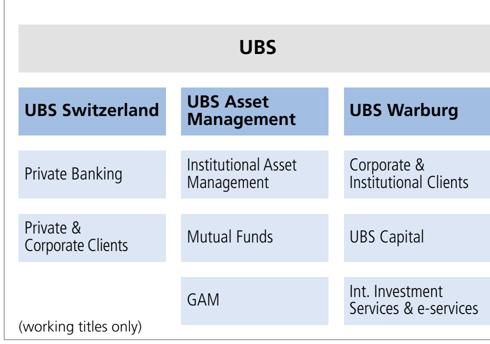
This model allows us to capture in-house the profitability from the vast majority of the value chain. This cushions us from potential shifts in the allocation of margins as the industry transforms. We cannot predict precisely how this value will be divided five years from now. However, with our spectrum of leading businesses, we are uniquely positioned to capture a significant share, whatever the future shape of the industry.

The new structure

In February 2000, we announced a modernization of our organizational structure and a regrouping of our wealth management businesses. We took this step to align ourselves more closely with evolving client needs. We expect this new grouping of our wealth management businesses to unlock their immense growth potential. We emphasize that the changed structure will not impact client relationships, and that business initiatives and strategies will proceed as planned.

UBS Group now consists of three main business groups: UBS Switzerland, UBS Asset Management and UBS Warburg.

New business structure



UBS Switzerland

UBS Switzerland, led by Stephan Haeringer, is composed of two business units: the current Private and Corporate Clients business and Swiss Private Banking services, offered in Switzerland and in major international offshore centers. Georges Gagnebin is the CEO of Private Banking.

UBS Switzerland will rely strongly on the product capabilities of the other two business groups, UBS Asset Management and UBS Warburg. In addition it will manage the products and services most relevant for its client base, for example consumer banking products in Switzerland, lending for Swiss corporates, and portfolio management and trust services for Private Banking clients. UBS Switzerland will manage its own multi-channel distribution network in Switzerland and abroad.

The new business group will re-emphasize the strength and merit of Swiss-based banking through the management of all Swiss-based clients under one leadership team. The business group will benefit from an integrated Swiss-based infrastructure. UBS Switzerland is the leading Swiss bank for individual and corporate clients and the premier Swiss private banking institution.

UBS Warburg

UBS Warburg, under the leadership of Markus Granziol, retains the existing organization structure of the integrated investment banking and securities businesses. Corporate Finance, Equities, Fixed Income and Treasury Products are joined by Private Equity (UBS Capital), headed by Pierre de Weck, international onshore Private Banking and e-services to form a leading global investment services firm under the UBS Warburg brand.

UBS Warburg will take advantage of the considerable growth potential resulting from putting investment banking and investment services activities for wholesale and private clients outside Switzerland under one roof. Internationally, both high net worth and affluent clients are more attuned to the investment banking style, services and brand.

UBS Asset Management

UBS Asset Management concentrates all investment management businesses of the Group under the leadership of Peter Wuffli. The mutual funds business of the Group and the newly acquired Global Asset Management (GAM) have been regrouped with the existing Institutional Asset Management business.

UBS Asset Management will develop a variety of investment styles and multi-manager options and will leverage global research capability through combining individual and institutional asset management. UBS Asset Management will adopt a client-centric approach, including strategic asset allocation.

Group Executive Board

As of 15 February 2000 the Group Executive Board is composed as follows:

Marcel Ospel	Group Chief Executive Officer
Luqman Arnold	Chief Financial Officer
Georges Gagnebin	CEO Private Banking
Markus Granziol	CEO UBS Warburg
Stephan Haeringer	CEO UBS Switzerland
Pierre de Weck	CEO UBS Capital
Peter Wuffli	CEO UBS Asset Management

Clients, growth and efficiency

The new UBS reflects a radically different way of thinking about client segmentation. As new technologies transform the financial industry landscape, clients increasingly drive services, segmenting themselves through their choice of services and channels. The new UBS structure is designed to support lifetime client relationships, offering a continuously evolving service to match each client's financial sophistication and aspirations as they develop. UBS Switzerland and UBS Warburg will provide services to the entire range of individual clients: on the one hand, Swiss and offshore private clients, and on the other hand international private clients.

UBS intends to unlock the growth potential of its wealth management business through focusing on its distinct components:

- Swiss and offshore private banking, with its special place in the world of personal finance, will be focused on and developed by UBS Switzerland.
- The enormous growth potential of international onshore investment services for high net worth individuals and affluent investors will be exploited.
- Mutual funds will be aggressively marketed and distributed outside the UBS Group, from

its new position in UBS Asset Management, where GAM will continue to provide the "screened" architecture access to third party managers critical for the Group's individual client base.

The opportunity to bring together asset management businesses under one roof, and to rationalize logistics infrastructure for the Swiss-based and international businesses, positions UBS strongly to continue to capture internal synergies in the years ahead.

Merger Integration Update

Given the tremendous scope of the merger between Swiss Bank Corporation and Union Bank of Switzerland, UBS mastered the technical and organizational challenges of the merger in record time. With the completion of the information technology integration in one year from the legal consummation of the merger, UBS set a new industry benchmark.

Scope of merger integration

When we announced the merger of Union Bank of Switzerland and Swiss Bank Corporation in December 1997, we planned strict timelines in which to manage a merger of such scope and complexity. Our ambitious total integration plan included resolving the issues of product and service offerings, branding, client communication, technical and operational integration, a new business model, distribution network redesign, and the retention of both clients and key employees. In addition, two quite different business cultures had to be brought together. The integration process placed extraordinary demands on Information Technology (IT) and Operations, and our client representatives faced the daily challenge of maintaining service quality and client satisfaction.

We announced that the integration timetable would vary by division between three months and four years. In particular, two divisional timelines were very ambitious. First, at UBS Warburg we aimed for, and successfully achieved, the integration of information technology platforms on the date of the legal consummation of the merger, 29 June 1998. At UBS Private and Corporate Clients, we planned, and also succeeded in, the integration of the information technology platforms within one year of the legal merger date, achieving a new international benchmark in the industry. In Switzerland, more than 2.5 million client accounts were migrated to a common IT platform and 173 redundant branches, or 31% of the pre-merger branch network, have been closed.

Thanks to the exemplary efforts of our employees, the merger integration of UBS has successfully remained on track across all divisions in Switzerland and around the globe. All business divisions except UBS Private and Corporate Clients have essentially completed merger integration. Redundancy programs in Switzerland and real estate disposal plans in the Corporate Center will continue to gain momentum in 2000.

Integration by division

UBS Private Banking

The merger caused fundamental changes for the UBS Private Banking Division. Not only did the organizational structure change, but the information technology platforms, supplied by UBS Private and Corporate Clients, had to be integrated at the same time. The swiftness with which we completed the merger did have some negative effects, causing a loss of momentum in the acquisition of new clients as well as some client and employee defections. However, we remain convinced that our decision to complete the integration of this division as quickly as possible resulted in a much smaller disruption of the business than if it had been carried out over several years.

The transfer of client data to a common IT platform was completed for the main international centers (New York, Singapore, Hong Kong, London) in 1998, and in Switzerland by mid-1999. The resegmentation of the client base between UBS Private and Corporate Clients and UBS Private Banking was completed in 1999.

The completion of the integration process will allow our wealth management businesses to move forward with the implementation of their powerful value proposition, thereby leveraging UBS's position as the global leader in quality high net worth financial services.

UBS Warburg

The investment banking and securities business has been built up over the last five years through a series of successful mergers based on speed of execution and the ability to capture complementary skills.

The successful completion of the UBS Warburg integration by year-end 1998 created a client platform with a strong business momentum and a much enhanced franchise. The impressive results are clearly reflected in the 1999 published segment reports.

UBS Private and Corporate Clients

Thanks to the tremendous efforts of the employees involved, the integration process in Switzerland of the information technology platforms was brought to a successful conclusion in July 1999. Within one year, over 1,000 ATM's were converted and over 23,000 employees trained in new products, processes and systems. Organizational integration and rebranding were finished in 1998.

A core component of the strategy of the Private and Corporate Clients Division is to streamline the physical distribution network while simultaneously enhancing alternative distribution channels such as phone and internet banking solutions. As mentioned above, by the end of 1999, 31% of the pre-merger branch network had been closed. The branch network will be further rationalized and specialized over the course of the next few years.

Merger-related headcount reduction plans, branch reductions and specialization, re-engineering of operations and logistics, improvements in information technology, and the final decommissioning of Swiss Bank Corporation's IT platform are expected to result in headcount being continually reduced during the 2000–2002 period.

UBS Asset Management

The integration of UBS Asset Management was successfully completed during 1998. Merger-related client attrition, notably in Europe, was pronounced but within corporate expectations.

UBS Capital

The merger process was smoothly completed in 1998, with the successful integration of SBC Equity Partners (which in 1999 became CapVis, Switzerland's largest private equity fund) into UBS Capital. In 1999, UBS Capital established a new regional fund structure that will allow it to continue making significant direct investments within the important US market.

Corporate Center

The majority of real estate for the Group is managed by the Corporate Center. Merger-related property divestments started in 1998 and 1999, and real estate write-offs and sales will continue into 2000 and 2001.

Merger cost savings

By the end of 1999, we achieved sustainable merger-related cost savings of CHF 2 billion per year. Since 1997, headcount reductions will have resulted in total savings of CHF 1.6 billion per year. We estimate non-headcount savings to be around CHF 400 million per year, including approximately CHF 75 million in eliminated depreciation expenses and other costs related to real estate.

Since the merger announcement, UBS Warburg has essentially completed its integration including the reduction of personnel and the integration of information technology platforms. As we expected, most of the cost savings over the past two years have been attributable to UBS Warburg.

UBS Private and Corporate Clients has been rapidly integrating its business in line with a detailed timetable and project schedule. As planned, it still has additional milestones to reach. For example, now that the integration of technology platforms has been completed and in line with employee association agreements made in 1998, redundancy plans will gain momentum during 2000 and 2001. Furthermore, although the technology platform integration was completed in mid-1999, one platform still remains to be decommissioned in 2000.

UBS Private Banking, UBS Asset Management and UBS Capital have essentially completed their integrations, while in the Corporate Center we expect the write-off or sale of the remaining redundant real estate to proceed in 2000 and 2001.

As with any merger, cost savings attributable directly to the merger become increasingly difficult to track over time. Across all divisions, normal organic business growth, new investments and initiatives, and at least three acquisitions and six divestments cloud underlying developments since the time of the merger.

For example, UBS Private Banking has invested heavily over the past two years in building up its domestic private banking business outside Switzerland. Additionally, in 1999, UBS formed the e-services business area which will experience further significant investment. More information on divisional initiatives can be found in the respective divisional discussions.

We are also implementing general cost control initiatives across all divisions, which extend well-beyond merger-related savings. These initiatives are already well-structured at UBS Warburg and UBS Private and Corporate Clients. UBS Warburg is continuing to focus on cost management with emphasis on improving overall efficiency such that revenue growth exceeds any growth in non-personnel costs.

In addition, the UBS Warburg Investment Committee has carried out a rigorous review process to ensure that investments in infrastructure are fully aligned with the strategy of the business.

Within the UBS Private and Corporate Clients Division, the Strategic Projects Portfolio is expected to enhance revenues and reduce costs, including the ongoing realization of the division's remaining merger-related cost savings. The projects portfolio is well on track and is expected to yield a significant improvement in net profit by 2002. We will continue to track and communicate the progress of this portfolio.

Restructuring provision

In the fourth quarter of 1999, we recorded an additional pre-tax restructuring charge of CHF 300 million in respect of the merger between Union Bank of Switzerland and Swiss Bank Corporation. This increase represents four percent of the initial CHF 7 billion charge made in 1997 and was due to revised estimates of the cost of lease breaks and property disposals.

Of the CHF 7 billion merger-related restructuring provision created in 1997 and the additional restructuring provision of CHF 300 million created in 1999, CHF 1,844 million was utilized in 1999. This brings total utilization to CHF 5,871 million and leaves CHF 1,429 million to address the remaining restructuring, mostly in UBS Private and Corporate Clients.

In UBS Private and Corporate Clients, the transition to one common IT platform and the parallel operation of the systems account for the major part of IT provision utilization. UBS Warburg has already essentially concluded its restructuring activities. Premises costs at Corporate Center are primarily due to relocation and refurbishment costs from the move into common bank premises and vacancy costs regarding decommissioned bank premises pending disposal.

Restructuring provision used

CHF million *For the year ended*	Personnel	IT	Premises	Other	**Total used 31.12.1999**	Total used 31.12.1998
UBS Private Banking	40	103	1	13	**157**	147
UBS Warburg	181	75	0	60	**316**	2,382
UBS Private and Corporate Clients	123	461	165	45	**794**	717
UBS Asset Management	9	0	0	0	**9**	18
UBS Capital	3	0	0	0	**3**	2
Corporate Center	22	3	507	33	**565**	761
Group total	**378**	**642**	**673**	**151**	**1,844**	4,027

Restructuring provision as of 31.12.1997	**7,000**
Additional provision in 1999	**300**
Used in 1998	**4,027**
Used in 1999	**1,844**
Total used through 31.12.1999	**5,871**
Restructuring provision remaining	**1,429**

Additional information on the restructuring provision remaining is provided in Note 24.

e-services, Information Technology and Operations

e-commerce is changing the banking industry, and in 1999 UBS responded strongly to this trend with the establishment of a new "click and mortar" business area. Information Technology and Operations are increasingly important differentiators in the current competitive environment, especially given the advent of new technologies. UBS recognizes this shift and will continue to invest in its industry-leading skills and infrastructure.

UBS e-services initiatives

As asset allocation shifts away from deposits, as the penetration of the internet increases, and as technology continues to enable more user-friendly and broader solutions, we recognize the critical importance of the targeted application of e-commerce as a distribution channel in the financial services industry.

In 1999, we established a structure to coordinate Group-wide internet initiatives, centered on the Group Internet Business Council. All our businesses are internet-enabling their services, building new client franchises and creating specific new products. These initiatives are reported in the relevant divisional review sections of this report. The success of our internet offering in Switzerland, where our share of the electronic banking market is greater than our share of the traditional banking market, is testament to our commitment and expertise in this new field.

e-services business area

This business area, known for the time being as "e-services", is planning to launch a pan-European personal investment services business in autumn 2000. Following an integrated multi-channel approach, e-services will focus on providing financial products and services to affluent European customers. The current plan foresees a phased launch of this business over the next two years in Germany, the UK, France and Italy.

e-services infrastructure will be scaleable and open to ensure ease of further expansion, either by product, service, or geography. Target clients are the "second generation" of internet users who require services pitched between the private banking and retail levels. These clients are focused on investment advice rather than trading services alone.

e-services will develop an internet website as its major distribution channel. The business will also open investment centers in its target markets, as well as two large customer service centers in Edinburgh and Maastricht, to provide financial and technical advice by telephone.

Definitions

Increasingly important to UBS, especially in the current competitive environment, logistics is a term which we use to encompass information technology (IT) and Operations. IT today underpins almost everything that is delivered by a bank, from Automatic Teller Machines (ATM's) to net-marketed bond issues. Operations covers the post-transaction activities of the firm which ensure that our services are delivered to our clients on time and with top quality. Once, these activities were viewed as "back-office" functions. Now they take their place at the heart of our business.

Trends

At UBS, we view low cost and effective logistics as an increasingly important competitive advantage. As products and services in the financial services industry are becoming increasingly commoditized, the traditional differentiators of product innovation and service quality are being joined in importance by logistics excellence.

e-commerce is placing new demands on logistics. The impact of this new channel goes beyond just the front-end interface, such as the web page. Rather, the website acts as a clear window through which our clients can have a direct view into our internal systems. "Straight-through processing" – the complete automation of services from point of sale through execution and settlement – is critical to ensure quality service delivery in a real-time world. We are seeing an industry-wide re-evaluation of logistics functions and their place in the investment services enterprise.

Financial services providers must be both willing and sufficiently capitalized to make significant investments in logistics. These investments are not just driven by a desire to use leading-edge technology. They are simply necessary to keep up with the fast-paced changes in client needs and market structures. For example, the European securities market is in a period of unprecedented transformation of both trading and settlement platforms. At UBS, we aim to be a thought leader in this transformation, enabling us to be well-ahead in the race to adapt our infrastructure and drive industry change. We co-founded and chair the European Security Industry Users' Group (ESIUG), a forum established to drive market change in Europe.

Competitive environment

Fundamentally, financial services remains the same business. However, the delivery of financial services is changing very rapidly. Through this period of innovation and change, we believe that established players have several distinct advantages.

Logistics underpins the delivery of financial services. All the trends we have discussed above point to a significant competitive advantage for those with successful in-house provision of the "logistics chain". UBS commands both the financial resources and the intellectual expertise to meet the challenges of this new environment itself. This is in contrast to many smaller financial service providers and start-ups, which must purchase such services, making them more costly and increasing their dependency on external providers.

Our view is that the client bases of established institutions with trusted brand names are "stickier" than internet hype would have us believe. Start-ups have marketing expertise and often niche technology skills on their side, but they frequently lack the resources and expertise to build stable in-house infrastructure.

We believe that winners from this technological revolution will predominantly be the big incumbent players who understand the increasing importance of the logistics function and grasp the opportunities that new technologies offer.

UBS logistics strategy

UBS's strategy is to build dominant expertise in financial services logistics. This will enable us to extract competitive advantage from having the majority of the logistics chain in-house coupled with the ability to manage the associated operational risks. In particular, this includes keeping costs internal rather than outsourcing them at a potentially higher cost. Furthermore, it ensures full flexibility in delivering solutions and services without excessive dependency on external vendors.

Challenges

Logistics is facing significant challenges from the industry trends mentioned above. Many of these challenges will originate from demands of the marketplace, for example the move to T+1 securities settlement in the US. In addition, UBS's logistics functions are faced with a tremendous expansion of scope as we continue to build domestic private client business outside Switzerland and as "e-services" prepares to launch in autumn 2000.

UBS Operations are already global in structure and organization. But cost-effective delivery means that Operations must also continue globalizing in processes and systems. The continuing implementation of global processes and systems will revolutionize functions previously seen as "back office", moving them from a clerical to an analytical focus. As margins tighten, Operations will be positioned as a revenue protector and service enhancer as well as a cost reducer. It is on this platform that our global, integrated investment services firm is built.

Group operations program

At UBS, we look at the cost of logistics in two categories, "run-the-bank" and "change-the-bank". "Run-the-bank" expenses ensure that logistics continues to perform the required day-to-day work. Our cost control objective with run-the-bank expenses is to ensure that, even with increasing revenues or volumes, associated costs will decrease, or at least increase at a slower rate. "Change-the-bank" expenses are the necessary investments we are continually making to capitalize on our revenue growth opportunities and to achieve our cost control objectives. Here we are transforming our business processes for the better.

To extract more synergies from the Group structure, we set up in 1999 the Group Operations Program (GOP). The GOP has created a robust governance structure for change-the-bank initiatives across the Group. While run-the-bank operations are still situated at the divisional level, the GOP seeks to ensure that, through prioritized single investments, run-the-bank expenses move downward in the future. Through the GOP leadership, Group initiatives are coordinated to avoid duplication and examined to ensure they will achieve returns exceeding the required hurdle rate. In 1999, run-the-bank expenses accounted for approximately 67% of total Operations and IT costs with change-the-bank expenses accounting for 33%. Change-the-bank expenditures can be expected to account for a much higher proportion of our total Operations and IT expenses in the future.

Human Resources

When the merger of the Union Bank of Switzerland and Swiss Bank Corporation was announced in December 1997, the new Group set the ambitious goal of completing the majority of the integration by July 1999. Thanks to the commitment of all our employees, we were able to achieve this milestone.

Fierce competition for talent

During recent years, the international labor market has become more and more competitive, particularly in the financial services sector. Through new marketing initiatives, challenging opportunities and first-class development and training, UBS has been very successful in recruiting experienced professionals and new graduates in this tight market situation.

Intellectual capital is the most important asset in the financial services sector. We recognize this by encouraging our employees to play an active role in their own development. Each of our divisions has its own training department which offers a wide range of courses, focusing on personal development, management skills, as well as specific business know-how. The expertise and integrity of our staff creates value for our clients and, through innovative and efficient processes, for the Group. We always aim to attract and retain the best talent in the market by providing a challenging climate of teamwork and meritocracy which motivates staff to achieve their full potential.

Organization of Human Resources at UBS

In April 1999, Group Human Resources was brought directly into the Group CEO area. This enables a better coordination of Human Resource processes and has led to substantial improvements and synergies in the fields of compensation and benefits, graduate and professional recruitment, training and development and performance evaluation.

Each division takes responsibility for its own human resources by having divisional Human Resources organizations geared to specific business needs. Under the lead of the Group CEO, the Group Human Resources Committee ensures that all Human Resources efforts support business objectives. Group Human Resources policies and standards are defined in all fields where consistency and global applicability create synergies and add value to the Group.

Group Human Resources policies

Recruitment and retention

UBS aims to be an employer of choice for talented individuals and therefore makes great efforts to identify and recruit the top candidates for every role. Internal development is emphasized to fill senior positions. We have successfully established a working environment in which talented employees wish to remain and to which candidates are attracted.

Appreciation of diversity

We foster a diverse workforce of varying backgrounds, experiences and perspectives. We concentrate on increasing the awareness of the relevance of national and organizational "culture" with the goal of developing each employee's personal intercultural competence and consequently the aptitude for working in multi-cultural environments.

Performance culture and meritocracy

Common to all divisions is an environment that values performance and contribution. Recognition, reward and opportunity for increased responsibility are always based on merit. To measure this, we use the Group-wide Performance Measurement and Management (PMM) tool, which is a web-based instrument.

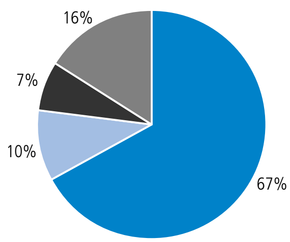
Compensation

We manage our staff with a total remuneration strategy that attracts, retains, motivates and reinforces performance, fairness, integrity and teamwork. We provide significant equity-based compensation to all levels of employees to ensure continual shareholder alignment and value creation. Additionally, UBS has a number of equity-based pay programs through which UBS employees can choose to invest in shares and options.

Staff development

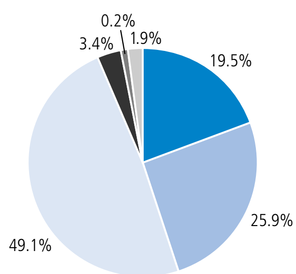
Professional and personal development is a critical management responsibility in order to ensure continued success. To be competitive as an employer, we must visibly add value to each individual's career and market profile. Staff, regardless of their function or title, may attend seminars or courses which focus on their development. UBS offers a variety of programs for each level and job function. We are focusing on expanding our existing on-line training programs, which will add flexibility and enable our employees to invest in their further development at times which are most convenient to them.

UBS Group
Employees by region
31 December 1999



■ Switzerland
■ Americas
■ Asia/Pacific
■ Europe

UBS Group
Employees by division
31 December 1999



■ UBS Private Banking
■ UBS Warburg
■ UBS Private and Corporate Clients
■ UBS Asset Management
■ UBS Capital
■ Corporate Center

Technology skills

New technology and globalization have a growing impact on the world of banking. In response to the increasingly technical nature of banking and changing client demands, UBS has expanded its range of services. 24-hour Banking is now the norm and our e-services businesses are developing rapidly.

The critical importance of managing and profiting from these new media means it is imperative that we build up strong technology resources. Therefore, we are developing our critical mass of people with high technology skills.

The global leadership experience

The Global Leadership Experience (GLE) is a new development initiative that seeks to institutionalize cross-divisional cooperation. The GLE is a bank-wide network of personal contacts and intellectual opportunities that extend beyond the immediate workplace. The first program took place in late September 1999, bringing together key staff from all five business divisions.

UBS Group personnel development

At the end of 1999, UBS had a total of 49,058 employees worldwide across all divisions. This figure does not include the Klinik Hirslanden headcount of 1,853 employees. The graphs illustrate the geographical and divisional split between divisions. Since December 1998 UBS Group's headcount expanded by 2.2%, or 1,047 due to UBS Private Banking expansion, which has been partly mitigated by UBS Warburg's non-core business reduction. Employee turnover was more stable during the second half of the year than during the first six months. The net turnover for the Group in 1999 was 11.7% worldwide and 11% in Switzerland. Towards the end of the year the figures stabilized significantly in all divisions.

In 1999, UBS Private Banking's headcount grew by 25.3%. This occurred primarily through the expansion of domestic private banking outside Switzerland and the accompanying necessary logistics support, as well as through the integration of Global Asset Management and the international private banking business acquired from Bank of America.

Apart from the transfer of the Swiss-related Global Trade Finance business to UBS Private and Corporate Clients, UBS Warburg's headcount decline in 1999 took place mainly in non-core businesses, Treasury Products and Logistics.

The minimal expansion in UBS Private Corporate and Clients' headcount in 1999 is a result of the transfer of Swiss-related Global Trade Finance from UBS Warburg which was almost completely offset by the realization of planned headcount reductions. For example, in the fourth quarter of 1999, on a net basis, around 400 personnel left the UBS Private and Corporate Clients Division.

Personnel [1]

(Full-time equivalents)	**31.12.1999**	31.12.1998	Change in %
UBS Private Banking	**9,565**	7,634	25
UBS Warburg	**12,694**	13,794	(8)
UBS Private and Corporate Clients	**24,098**	24,043	0
UBS Asset Management	**1,653**	1,497	10
UBS Capital	**116**	122	(5)
Corporate Center	**932**	921	1
Group total	**49,058**	48,011	2
thereof: Switzerland	***32,747***	*32,706*	*0*

[1] The Group headcount of 49,058 as of 31 December 1999 does not include the Klinik Hirslanden headcount of 1,853.

Divisional Review

UBS Segment Reporting

To allow 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.

UBS Segment reporting by business

CHF million	UBS Private Banking		UBS Warburg	
For the year ended	**31.12.99**	31.12.98	**31.12.99**	31.12.98
Revenues	**6,011**	7,223	**12,909**	6,987
Credit loss expenses [1]	**(24)**	(26)	**(330)**	(500)
Total operating income	**5,987**	7,197	**12,579**	6,487
Personnel expenses	**1,694**	1,458	**6,861**	4,333
General and administrative expenses	**1,467**	1,277	**2,448**	2,483
Depreciation [2]	**138**	111	**652**	535
Goodwill amortization [3]	**36**	15	**134**	157
Total operating expenses	**3,335**	2,861	**10,095**	7,508
Segment performance before tax	**2,652**	4,336	**2,484**	(1,021)
Tax expense				
Net profit before minority interests				
Minority interests				
Net profit				
Cost/income ratios (%) [4]				
before goodwill amortization	**55**	46	**77**	105
after goodwill amortization	**55**	46	**78**	107
Regulatory equity used (avg)	**1,800**	1,500	**10,050**	13,300
Assets under management (bn) [5]	**731**	607	**0**	0

Purpose

Based on UBS's management accounting, segment reporting provides accurate performance measurement of the UBS divisions to increase transparency and accountability. Segment reports are in line with the organizational structure of UBS.

Accounting standards

Although segment reports are based on management accounting, they comply with International Accounting Standards (IAS), and they are also examined by UBS's auditors, ATAG Ernst & Young AG. Where a different approach has been applied in order to increase the usefulness of the data, the figures are fully reconciled to our 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 of this supplementary information include assets under management and headcount.

Management accounting principles

– Interest revenues are apportioned to the divisions based on the opportunity costs of funding. Accordingly, all assets and liabilities are refinanced with the Treasury Products business 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 average 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.
– The allocation of Corporate Center costs to the business segments is based upon concepts of benefit and controllability. Essentially, the division which controls the process or is responsible for a logistics service bears the costs.
– In order to manage its exposure to credit risk effectively, and in particular to encourage appropriate pricing of transactions involving credit, UBS measures its exposure to credit

UBS Private & Corporate Clients		UBS Asset Management		UBS Capital		Corporate Center		UBS Group	
31.12.99	31.12.98	**31.12.99**	31.12.98	**31.12.99**	31.12.98	**31.12.99**	31.12.98	**31.12.99**	31.12.98
7,193	7,025	**1,096**	1,163	**315**	585	**2,053**	296	**29,577**	23,279
(1,050)	(1,170)	**0**	0	**0**	0	**448**	745	**(956)**	(951)
6,143	5,855	**1,096**	1,163	**315**	585	**2,501**	1,041	**28,621**	22,328
3,363	3,238	**444**	454	**105**	121	**110**	212	**12,577**	9,816
1,061	1,025	**177**	154	**47**	35	**818**	1,643	**6,018**	6,617
555	680	**29**	29	**2**	0	**141**	128	**1,517**	1,483
2	4	**113**	78	**5**	1	**50**	87	**340**	342
4,981	4,947	**763**	715	**159**	157	**1,119**	2,070	**20,452**	18,258
1,162	908	**333**	448	**156**	428	**1,382**	(1,029)	**8,169**	4,070
								1,815	1,045
								6,354	3,025
								(54)	5
								6,300	3,030
69	70	**59**	55	**49**	27	**n / a**	n / a	**68**	77
69	70	**70**	61	**50**	27	**n / a**	n / a	**69**	78
8,550	8,250	**160**	100	**340**	250	**7,850**	6,350	**28,750**	29,750
439	434	**574**	531	**0**	0	**0**	0	**1,744**	1,572

[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 net credit loss expenses for financial reporting purposes is reported in the Corporate Center. The divisional breakdown of the net credit loss expense for financial reporting purposes of CHF 956 million as of 31 December 1999 is as follows: UBS Private Banking CHF 11 million, UBS Warburg CHF (20) million, UBS Private and Corporate Clients CHF 974 million, Corporate Center CHF (9) million.

[2] The 1998 figures have been restated due to a refinement of the allocation methodology for depreciation.

[3] The amortization of goodwill includes other purchased intangible assets.

[4] Operating expenses / revenues before credit loss expenses (UBS Private Banking 1998 excluding gain from divestment of Banca della Svizzera Italiana).

[5] UBS Asset Management December 1999: institutional assets CHF 376 bn, non-institutional assets CHF 198 bn.

risk using a forward looking statistical estimate of the expected loss based on the estimated probability of default of its counterparties. The estimate of the "Expected Loss" associated with the credit risk in the portfolio which results from this process is then charged to the divisions through the management accounts in order to ensure that the anticipated risk cost associated with credit is taken into account in the assessment of divisional results. As each division is ultimately responsible for its credit decisions, the difference between actual credit losses and annual expected losses will be charged or credited back to the division over time.

Since the International Accounting Standards require that credit losses be recognized and charged to the financial accounts on an ex post basis as they arise rather than the forward looking statistical basis UBS uses for performance measurement, it is necessary to reconcile these two different approaches to the measurement of credit risk. This reconciliation is achieved through an offsetting entry in the Corporate Center accounts which represents the difference between the statistically estimated adjusted expected loss which is charged to the management accounts of the divisions and the credit loss expense which is recorded in the financial accounts in accordance with the requirements of International Accounting Standards. Credit loss expenses according to the financial accounting methodology are also footnoted by division in the divisional management account tables.

- 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, as well as unallocated equity remains in Corporate Center.
- Assets under management are defined as third-party on- and off-balance sheet assets for which the bank has investment responsibility. This includes both discretionary assets, where the bank has a mandate to invest and manage the assets, as well as advisory 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. UBS is currently reviewing its definition of assets under management.
- Headcount includes trainees and staff in management development programs, but not contractors.

Reorganization impact

Following our recent reorganization, we are committed to providing continuing comparability and transparency in our segment reporting. This commitment will result in substantial disclosure at a level below the three main business groups.

UBS Private Banking

Despite solid growth in assets under management in 1999, UBS Private Banking's financial performance was negatively affected by merger-related disruption, certain underperforming portfolios and substantial investments in new business areas. In February 2000, the UBS Group announced a reorganization which will focus on reigniting growth in the wealth management businesses.

Mission and business description

UBS – The premier private bank

UBS Private Banking is an integrated, global provider of a broad portfolio of financial products and services to wealthy clients, and the financial intermediaries advising them. UBS Private Banking's products and services are aimed at encompassing the complete life cycle of the client, including succession planning and the generational change.

UBS Private Banking had CHF 731 billion assets under management at year-end 1999, and 9,565 staff in 80 locations worldwide. Leveraging its relationship with UBS Warburg and UBS Capital, UBS Private Banking is able to provide its clientele with a unique palette of financial services products. It also draws on other areas of the Group, with UBS Asset Management providing investment fund management services, and UBS Private and Corporate Clients the use of its information technology platform and investment fund distribution capabilities in Switzerland.

Industry trends and strategic initiatives

Industry trends

Despite increasing competitive pressure from established players and new market entrants, private banking continues to remain a particularly attractive business in the financial services sector. According to industry forecasts, financial assets of high net worth individuals are expected to grow worldwide at nine percent annually over the medium-term. In general, growth rates for domestic markets in Europe, North America and in Asia are expected to show even higher increases than the international cross-border business.

At the same time, the private banking industry is undergoing some fundamental changes. One of the most important challenges is the changing profile of private banking clients. New wealth is growing much more quickly than inherited wealth. Clients – increasingly globally oriented and mobile – are becoming more active, less risk-averse and more comfortable with technology. These new challenges are leading to the demand for superior investment performance, innovative and sophisticated products and services, and real-time information coupled with strong advisory capabilities and multiple access points.

New technologies are another opportunity for the industry. The internet will transform private banking as it enables banks to compete globally, outside traditional geographic barriers. Characteristics of this development are an increase in information breadth and depth, new distribution channels with marginal costs of reaching clients approaching zero, and new techniques that facilitate client segmentation and increase the level of personalization and client intimacy. Banks must view the internet as both a new channel for serving existing customers and a fundamentally new way of doing business to attract customers. UBS will further strengthen its presence in this borderless, highly customer-focused, and technology-driven environment.

In this context, UBS Private Banking sees its proven advisory strengths combined with its life-cycle view and its attention to changing client profiles as key differentiating factors in providing intimacy and customization for its clients and, ultimately, success for the business and sustainable long term value creation for shareholders.

Strategic initiatives

Aligned with industry trends, UBS Private Banking's strategic initiatives in 1999 were characterized by four main pillars:

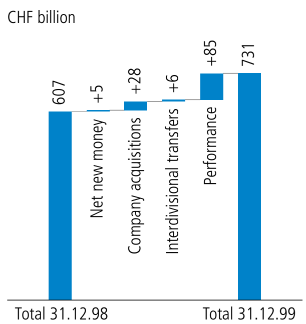
– *Focus on wealthy clients with individualized requirements across a broad product range and through the entire life cycle.*

In the private banking industry, the demand for specific and targeted professional advice is increasing. UBS Private Banking has addressed the challenge by setting up special advisory teams for the different needs of certain client groups like entrepreneurs or executives.

New business initiatives during 1999 include the formation of the Global Executives Group, the Sports and Entertainment Advisory Group, the Corporate Advisory Group and the Real Estate Advisory Group. This represents our continuous efforts to harness UBS capabilities across all divisions and business units to create tailor-made solutions for clients' entire wealth positions.

UBS Private Banking's unique concept behind the Global Executives Group, established to deliver customized solutions for executives around the world, is to take a holistic approach to wealth management that uses individualized sector and

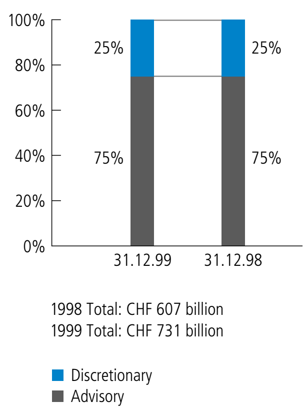
UBS Private Banking
Assets under management
Development



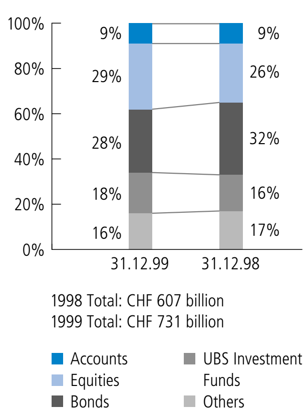
CHF million	31.12.1999	31.12.1998	change (%)
Revenues [1]	6,011	7,223	(17)
Credit loss expenses	(24)	(26)	(8)
Total operating imcome	**5,987**	7,197	(17)
Personnel expenses	1,694	1,458	16
General and administrative expenses	1,467	1,277	15
Depreciation	138	111	24
Goodwill amortization [2]	36	15	140
Total operating expenses	**3,335**	2,861	17
Segment performance before tax	**2,652**	4,336	(39)
Regulatory equity used (avg)	1,800	1,500	20
Cost / income in % [3]	55	46	
Cost / income in %, before goodwill amortization [3]	55	46	
Assets under management (bn)	731	607	20
Headcount	9,565	7,634	25
of which: Switzerland	5,835	5,092	15
Rest of world	3,730	2,542	47

[1] Includes sales profit and operating income from divested companies. [2] Includes amortization of other purchased intangible assets. [3] Before credit loss expense, 1998 excluding gain from divestment of Banca della Svizzera Italiana.

UBS Private Banking
Assets under management
Advisory vs. discretionary



UBS Private Banking
Assets under management
By asset class



product expertise to manage a client's entire wealth position. This will be achieved by combining investment, executive compensation and private banking expertise, and leveraging this with a particular strength in managing concentrated equity positions. This business is also an excellent example of what can be achieved by drawing on the full spectrum of the UBS Group's resources. The experience so far indicates a strong positive response from the marketplace.

A new approach in communicating with existing and potential new clients was taken in May 1999 with the launch of *Optimus*, a dedicated quarterly magazine, and *Optimus online*, the complementary web site with updated investment information daily. These communication instruments will provide more interaction between UBS Private Banking and its clients.

– *Strengthen the division's position in private banking in Switzerland and in international offshore centers.*

The traditional private banking business – private banking in Switzerland for both Swiss and international cross-border clients – remains of critical importance to the UBS Group. 1999 was characterized by strategic developments such as expansion of our services in London, Monaco, Luxembourg, New York and Singapore where existing capacities were increased in line with client demands and the potential to secure future growth.

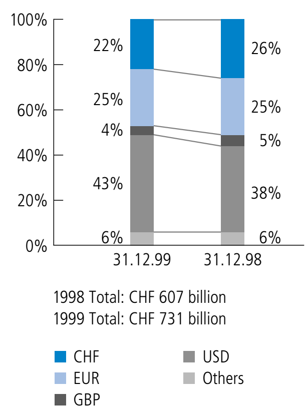
In March 1999, UBS acquired Bank of America's international private banking activities in Europe and Asia which added CHF 5 billion to UBS Private Banking's assets under management. The business was completely integrated into existing UBS entities during 1999.

– *Build onshore private banking businesses outside Switzerland organically and through selective acquisitions.*

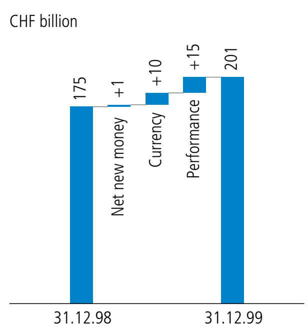
Another key strategy is the expansion of onshore private banking outside Switzerland, particularly in Continental Europe. Thus, UBS Private Banking opened new offices during 1999 in Spain (Barcelona, Madrid, Marbella), Italy (Bologna, Rome), France (Paris) and its seventh office in Germany (Stuttgart). At the same time, the division strengthened its existing onshore private banking platforms in major financial centers, such as London, New York, Singapore and Hong Kong.

UBS Group announced a reorganization of wealth management businesses in February 2000. Onshore private banking outside Switzerland has been grouped with the "e-services" initiative and will be managed in the new investment banking group under the UBS Warburg brand. e-services and onshore private banking outside Switzerland are both high-potential growth businesses which will be driven forward under a com-

UBS Private Banking
Assets under management
By currency



UBS Investment funds
Development
Swiss-authorized funds only



mon management structure to maximize joint product offerings and delivery mechanisms while managing costs aggressively. The new private banking and affluent clients targeted by e-services and onshore private banking outside Switzerland will be particularly attracted to the investment banking style, services and brand.

– *Diversify available investment styles.*

At UBS, the investment process has historically been integrated. As a result, the detrimental impact of 1999 investment performance in the institutional investment management franchise carried over into Private Banking. In an effort to unlink this concentration of investment performance risk, UBS will diversify the investment styles available to its private clients.

As an important step to widen the product range available to private banking clients, UBS announced in September 1999 the acquisition of Global Asset Management (GAM). GAM is a leading global diversified asset management group with operations in Europe, North America, Asia and Middle East. It has brought assets under management of CHF 23 billion invested in 170 mutual funds and unit trusts.

The acquisition is a cornerstone of the strategic plans of the UBS Group, and it will be central in developing a full range of wealth management services worldwide. As announced in February 2000, GAM will be moved to the UBS Asset Management division where it will contribute directly to the diversification of investment styles and help to develop "screened" access to third-party funds. UBS Asset Management will leverage Global Asset Management's range of mutual funds and its multi-manager system, in which it selects the top 90 out of 6,000 third-party fund providers, to enhance the range of investment styles and investment funds. With its well-established and successful investment styles, GAM will retain its approach and brand identity within UBS Asset Management.

Investment funds business

In 1999, UBS strengthened its international investment fund franchise amidst growing popularity of investment funds, and retained its position as the leading fund provider in Europe. By year-end 1999, assets under management increased 15% to reach CHF 201 billion. Growth was mainly attributable to good performance.

The merging of the two pre-merger banks' fund ranges and the amalgamations due to the introduction of the Euro were completed successfully and led to a reduction in the number of investment funds from 214 to 148. The resulting efficiency and liquidity impact is shown in the 67% increase of the average size of our fund portfolios from CHF 815 million to CHF 1,358 million.

The continuing trend towards equity investments helped grow our equity funds 51% to CHF 53.2 billion. Equities is now the largest asset category of UBS Investment Funds and accounts for 26.5% of total UBS Investment Funds volume.

The UBS Investment Fund Account is a proven investment service which combines the simplicity of a bank account with the advantages of investing in a well diversified fund portfolio. It offers six investment risk profiles as well as customized investment plans. UBS Investment Fund Accounts have been well received, growing accounts by 80% to 90,000 and assets by 39% to a total amount of CHF 2.5 billion in 1999. The launch of five new investment funds generated a net inflow of CHF 1.7 billion.

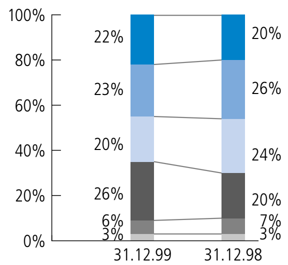
Assets under management from external distribution partners increased by 31% to CHF 8.8 billion, while assets of funds managed under the brand of external distribution franchises grew by 74% to CHF 5.3 billion.

With the introduction of *Fund Gate* on the internet in autumn 1999, UBS started providing clients and other internet users with detailed first-hand information on UBS Investment Funds, giving access to a unique set of price and performance data on a daily basis. In addition, substantial efforts have been undertaken to further enhance our product offering targeted at fast growing electronic sales channels.

UBS Investment Funds continued to receive awards in 1999 for first-class performance. Among others, UBS has been named "Switzerland's Best Overall Management Group" by Standard & Poor's Fund Services. The business model for mutual fund distribution is changing. Financial institutions selling mutual funds are moving from a proprietary product focus to an open, "best of class", sales architecture.

To concentrate all investment management business of the UBS under one management team,

UBS Investment funds
By fund category[1]



1998 Total: CHF 175 billion
1999 Total: CHF 201 billion

- Asset allocation funds
- Money market funds
- Bond funds
- Equity funds
- Capital preservation funds
- Real estate funds

[1] Swiss-authorized funds only.

UBS announced as part of its reorganization in February 2000 that the mutual funds business will be combined with the UBS Asset Management division. UBS will open its mutual fund architecture, leveraging GAM's abilities described above, to create a "screened" open architecture giving clients access to third-party funds. UBS also plans to make its mutual funds increasingly available to other third-party distributors.

Results discussion

In 1999, UBS Private Banking results did not match the high standards expected. This is due to lower levels of client transaction activity, substantial investments in the expansion of domestic private banking activities outside Switzerland, and a delay in establishing a positive trend in net new money.

The pause in re-establishing this trend in net new money stems to a large extent from the integration of the two pre-merger private banking franchises. This involved fundamental changes throughout the organization. By the end of July, UBS Private Banking completed one of the final steps of the merger: the complex integration in Switzerland of the information technology platforms of the two predecessor banks. This task was finalized in record time, and the associated disruption is now behind us.

Segment performance before tax was CHF 2,652 million in 1999, while it was CHF 4,336 million in 1998. Adjusted for the gain on divestments of BSI-Banca della Svizzera Italiana as well as related operating revenues and expenses, segment performance before tax was CHF 3,135 million in 1998.

Total operating income

Total operating income before credit loss expenses was CHF 6,011 million in 1999 and CHF 7,223 million in 1998. Adjusting the 1998 period for gains and operating revenues from divestments, total operating income after credit loss expenses was up 2%, or CHF 116 million, to CHF 5,987 million in 1999. Besides lower transaction-related volumes, revenue growth was negatively impacted by the effect of internally hedging net income in foreign currencies and higher intra-Group incentives paid for the distribution of investment funds.

Assets under management

Assets under management increased 20%, or CHF 124 billion, to CHF 731 billion in 1999. Strong markets, especially in Europe, the United States and in the technology sector, as well as the stronger US dollar led to a performance increase of CHF 85 billion for the full year. In addition, two acquisitions – Global Asset Management and the international private banking operations of Bank of America – accounted for a further CHF 28 billion and interdivisional transfers brought another CHF 6 billion. Net new money contributed CHF 5 billion, which was lower than expected due to merger disruption and the effects of some underperforming investment portfolios.

Total operating expenses

Total operating expenses, adjusting for divestment-related operating expenses increased 22%, or CHF 599 million, to CHF 3,335 million in 1999 and was to a large extent related to the expansion of front-line staff as well as related infrastructure investments. Cost growth is expected to flatten out during 2000, and UBS Private Banking expects these new investments to deliver sustainable profits in the medium term.

Personnel expenses increased 23%, or CHF 312 million, to CHF 1,694 million in 1999 mainly because of the headcount rise of 25% or 1,931 people. Growth was in line with our expansion strategy in onshore business outside of Switzerland. This includes the recruitment of top industry professionals as well as graduates and post-graduates trained through a "best in class" formal Private Banking education program. In addition to growth in client-facing staff, the division has increased its logistics support and added 501 people due to the GAM acquisition.

General and administrative expenses increased 19%, or CHF 230 million, to CHF 1,467 million in 1999 as the division supported expansion with necessary infrastructure investments, for example with new systems and offices.

Depreciation and non-goodwill amortization increased 35%, or CHF 36 million, to CHF 138 million in 1999. Goodwill amortization (not including GAM) increased CHF 21 million to CHF 36 million in 1999 because of the acquisition of the international banking operations of Bank of America.

Outlook

In February 2000, UBS announced the reorganization of its wealth management businesses to focus more on meeting clients' needs. Swiss and international cross-border private banking will form a core part of the new business group UBS Switzerland.

Private banking will continue to follow the broad set of initiatives mentioned above. At the same time, this new structure will re-emphasize the strength and core values of traditional private banking: safety, privacy and service. Furthermore, it will enable the management of all Swiss-based clients under one unified team. UBS Switzerland will benefit from an integrated Swiss-based infrastructure with the potential for shared distribution for both affluent and private banking clients.

UBS remains the global leader in private banking. With the broad set of strategies set forth above, we will leverage the fundamental strength of our core wealth management businesses in Switzerland and abroad to realize their full potential in this particularly attractive industry segment.

UBS Warburg

As the investment banking and securities division of the Group, UBS Warburg provides wholesale financial and investment products and advisory services to institutional, corporate and sovereign clients world-wide. 1999 was a year of strong financial performance when the division refocused on its core clients and products, made significant investments in talent and technology, and positioned itself to respond quickly and effectively to changing client demands and market opportunities.

Mission and business description

Mission

UBS Warburg is a leading global investment bank and securities firm in terms of client franchise and financial servicing capabilities. The division aims to provide UBS shareholders with a return on equity consistent with the leaders in the industry. It plans to make this position sustainable by selectively investing in talent, taking advantage of new market opportunities and extending its client reach. UBS Warburg's profitability is based on a solid institutional client franchise, a growing corporate client franchise, and a clear strategic focus for all business areas.

Business focus

As the investment banking and securities division of the Group, UBS Warburg provides wholesale financial and investment products and advisory services to institutional, corporate and sovereign clients world-wide. It focuses on core businesses that have attractive risk-return profiles and a solid basis for growth, and is organized around four main global product areas:

- Equities
- Fixed Income
- Treasury Products
- Corporate Finance

Its investment banking revenues place UBS Warburg in the top group of equivalent global competitors.

Group reorganization

The UBS Group announced in February 2000 that these activities will be joined by private equity, international on-shore private banking and e-services to form a leading global investment services firm under the UBS Warburg brand.

The division will be strongly placed to take advantage of the considerable growth potential resulting from putting investment banking and investment services activities for international clients under one roof. Private, institutional and corporate clients will be serviced via complementary distribution channels creating the potential for considerable cost and revenue synergies.

Strategy and initiatives

Institutional client franchise

UBS Warburg has a very large and profitable institutional client franchise. The institutional client business in equity products puts the division in the top three globally with a significantly improved market share in 1999 across cash and derivative products. UBS Warburg's strength in selling and servicing cash and derivative fixed income products with institutional clients is widely recognized. UBS Warburg believes that it is particularly well-positioned to leverage its research capability with institutional clients, and it will continue to strengthen its research capabilities in targeted sectors and regions.

In the rapidly changing investment banking and securities industry, client connectivity and the application of leading technology is critical for the future success of the institutional business. UBS Warburg is focused on developing and delivering leading client connectivity capabilities. It is also improving its existing infrastructure with new technologies to extract additional trading value and cost efficiencies, and is leading the industry in transforming our business to an electronic basis. Central to this is the IBOL (Investment Banking On-Line) website. This will be a true home page – the only place a client needs to go to deal with UBS Warburg. From this page, UBS Warburg's clients can access all content electronically: research, prices, analytic tools, and trade ideas. They can also link to the division's execution capabilities across all products.

By the end of 1999, UBS Warburg had made some significant achievements in e-commerce:

- In Equities, 50 of the largest clients executed 15% of their volume electronically.
- In Treasury Products, half of all client transactions were electronically priced, captured, settled and routed to the division's risk engines.
- In Euro Commercial Paper, 75% of the division's clients were accessing prices on-line at UBS Warburg's ground-breaking ECP website.
- To support clients in all new endeavors, UBS Warburg has established a Global Help Service Desk for clients 24 hours per day, 6 days per week.
- UBS Warburg has also invested heavily in securities processing power and is currently dealing with 100,000 domestic and cross-border trades per day processed straight through, with the capacity for a five-fold increase.

Key strategic initiatives to develop the institutional client franchise include:

CHF million	31.12.1999	31.12.1998	Change (%)
Corporate finance	2,050	1,665	23
Equities	5,916	2,572	130
Fixed income	2,460	399	517
Treasury products	1,801	2,351	(23)
Non-core Business	682		0
Total	12,909	6,987	85
Credit loss expense	(330)	(500)	(34)
Total operating income	12,579	6,487	94
Personnel expenses	6,861	4,333	58
General and administrative expenses	2,448	2,483	(1)
Depreciation	652	535	22
Goodwill amortization [1]	134	157	(15)
Total operating expenses	10,095	7,508	34
Segment performance before tax	2,484	(1,021)	
Regulatory equity used (avg)	10,050	13,300	(24)
Return on equity	25	(8)	
Return on equity before goodwill amortization	26	(6)	
Cost / income in % [2]	78	107	
Cost / income in % before goodwill [2]	77	105	
Headcount	12,694	13,794	(8)
of which: Switzerland	1,768	2,502	(29)
Rest of world	10,926	11,292	(3)

[1] Includes amortization of other purchased intangible assets. [2] Before credit loss expense.

– Strengthening existing client relationships using electronic tools.
– Enhancing cross-product marketing.
– Capturing value from increased client volume flow.
– Improving processing efficiency.

Corporate client franchise

UBS Warburg is committed to building a stronger position in its corporate client franchise, and increasing its market share of the global fee pool, particularly in its ten targeted global industry sectors. The division is a leading player in the Eurobond market and the top competitor in its target market segments in international bond origination. Its position in international equity origination slipped slightly in 1999, but the division is confident that it has the necessary resources and client relationships in place to maintain a position in the top five on an ongoing basis. UBS Warburg has an increasingly credible global M&A franchise and is well positioned to grow. It will continue to selectively invest in corporate advisory talent over the next two years to strengthen its position. UBS Warburg is not yet a major provider of leveraged finance but has made several key hires in 1999 to build the business, and is committed to strengthening its advisory, research and distribution capabilities in both the US and Europe.

Key strategic initiatives to develop the corporate client franchise include:

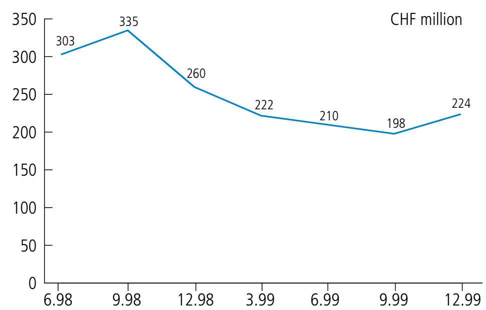
– Investment in targeted global sector-based coverage that is tightly aligned to Equity Research and marketing initiatives.
– Expansion of corporate coverage and presence in the major growth markets of Continental Europe.
– Building Leveraged Finance origination and distribution capabilities in US and Europe.
– Positioning the division to become the international debt issuer of choice for US corporates.

Results discussion

In 1999, UBS Warburg generated gross revenues of CHF 12,909 million, and segment results before tax of CHF 2,484 million. The division enjoyed exceptionally strong revenues across all business areas with the exception of Treasury Products, and our profitability was driven by the division's solid client franchise.

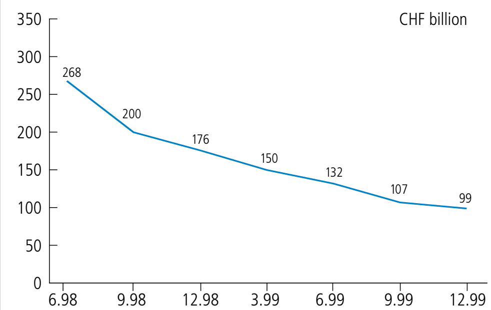
Our Equities business, with gross revenues of CHF 5,916 million, continued to increase its overall market share and now ranks as one of the

Developments in UBS Warburg market VaR



Market risk: VaR (10-day holding period 99% confidence level).

Reductions in UBS Warburg international credit portfolio



On-balance-sheet loans and off-balance-sheet committed facilities.

leading global equities houses in both cash and derivative markets. Compared to 1998, revenues increased 130%, reflecting robust client flows and a strengthening of the UBS Warburg franchise with institutional and corporate clients. 1998's results also included the loss of CHF 762 million in the pre-merger Global Equity Derivatives (GED) portfolio.

UBS Warburg continued to reorient its Fixed Income business in 1999 to be more client focused and this resulted in revenues of CHF 2,460 million, with strong client flows driving both investor and issuer activities. As prior year revenues of CHF 399 million included losses from Long Term Capital Management of CHF 793 million and substantial losses in emerging markets, a comparison between 1999 and 1998 results is not meaningful. However, allowing for these exceptional items, all parts of the business showed significantly improved profitability.

The Treasury Products business produced revenues of CHF 1,801 million, primarily from the Foreign Exchange and Cash & Collateral Trading businesses. The Foreign Exchange business, while continuing to be profitable, experienced reduced levels of activity as a result of the introduction of the Euro, and narrowing margins from increased competition in the global markets. The division's precious metals business was adversely impacted by the dramatic volatility in the gold market in the fourth quarter of 1999.

Corporate Finance, which includes the Advisory, Equity Capital Markets and Debt Capital Markets results, delivered revenues of CHF 2,050 million, with strong performance in M&A revenues, and contributions from Equity and Debt Capital Markets in line with expectations.

Market risk

Market risk exposure, as measured by Value at Risk (VaR) has decreased primarily as a result of the reduction in the GED portfolio risk. UBS Warburg remains committed as an active player in the markets. We will also continue to take appropriate risk positions where it is required to facilitate our clients needs.

Non-core activities

Non-core businesses generated revenues of CHF 682 million, which includes Global Trade Finance, the pre-merger Global Equity Derivatives portfolio and lending to non-core clients.

UBS Warburg's program of exiting specific non-core businesses has yielded positive results and is on track in terms of timing and reduction in overall risk.

The sale of the international Global Trade Finance business to Standard Chartered was completed in the second quarter of 1999 and generated a CHF 200 million gain for the division. All inventory positions from the pre-merger Global Equity Derivatives portfolio are now on the divisional risk management platform. The portfolio is closely monitored and the sensitivity to extreme stress events has been significantly reduced.

UBS Warburg is also reducing its credit exposure through a selective reduction in lending to non-core clients. The international credit portfolio has been reduced as planned and at end of December stood at CHF 98.8 billion.

Completion of merger

With the integration of the investment bank now completed, the benefits of the merger have been significant in terms of increased revenues, reduced headcount, control over costs and lower utilization of regulatory equity.

CHF million [1]	1999	1997	*Change in %*
Revenue	12,579	10,588	18.8
Total costs, including bonus	10,095	9,309	8.4
Profit before tax	2,484	1,279	94.2
Permanent headcount	12,694	18,620	(31.3)
Average regulatory equity used	10,050	13,600	(26.1)
Return on average reg. equity	24.7%	9.4%	

[1] Except headcount.

League tables and market rankings

UBS Warburg's overall performance in 1999 has reconfirmed its position as one of the top five global investment banking and securities firms in primary and secondary markets across all corporate and institutional client activities, as well as the leader in Europe.

UBS Warburg is a leading player in the Eurobond market and the top competitor in its target market segments in international bond origination. It is ranked 2nd in Eurobonds with a market share of 10.5%. In the specific international bond market segments that the division has chosen to pursue aggressively, UBS Warburg was ranked in first place with a 7.6% market share.

The division's position in international equity origination slipped somewhat in 1999 to 6th, due in part to a small number of large transactions in which it was not involved, but the division is confident that it has the necessary resources and client relationships in place to maintain a position in the top five on an ongoing basis.

In Mergers & Acquisitions, UBS Warburg has an increasingly credible global franchise and is well positioned to grow. It had a leading role in the largest deals announced in 1999, including Sprint / MCI WorldCom (sole advisor to Sprint) and Vodafone AirTouch / Mannesmann (joint advisor to Vodafone AirTouch). The division's ranking in 1999 on completed transactions was 10th globally with a market share of 6.6%, and on announced transactions 6th with a market share of 14.0%, the latter reflecting the increase in market activity and its role as advisor in the second half of the year, with many of these deals scheduled for completion in early 2000. Together with its global research and growing corporate client franchise, UBS Warburg will reinforce its position in ten targeted global sectors. It will continue to selectively invest in corporate advisory talent over the next two years to strengthen its position.

In the Institutional Investor Global Research Team survey, UBS Warburg was ranked in 4th position and was lauded for its innovative approach in the effective marketing of global research to US investors, the result of investments in talent and technology over the last few years in research and corporate finance.

The Reuters/Tempest surveys rank securities firms on the quality of research and service to fund managers across all major regions. In the 1999 surveys, UBS Warburg was ranked No. 1 in European Large Cap Stocks, No. 1 in Hong Kong and China, No. 2 in UK Large Cap Stocks and No. 2 in Global Emerging Markets.

Cost controls

UBS Warburg's personnel costs were significantly higher in 1999 due primarily to performance-related compensation directly tied to the strong divisional results for the year.

The division remains committed to investment in leading edge technology and top quality talent. Cost control will emphasize improving overall efficiency such that revenue growth exceeds any growth of non-personnel costs. The division will focus on managing personnel and non-personnel costs as a percentage of net revenues.

In addition, the UBS Warburg Investment Committee has carried out a rigorous review of all change programs to ensure that investments in the UBS Warburg infrastructure are fully aligned with the strategy of the business.

Outlook

The most important trend affecting the investment banking and securities industry is the continued and substantial growth of the industry. Client sophistication and increased competitive pressures are squeezing industry margins, but volume growth is consistently and significantly outpacing this trend, and overall market fee pools are increasing steadily.

Other significant trends include globalization and consolidation, the changing nature of competition, technology, the internet, funds available for investment, and communications and processing power. The European single market continues to drive explosive growth in issuance activity.

As a leading client-focused investment banking and securities organization with a unique global reach, UBS Warburg is very well positioned to take advantage of all of these trends. With revenues of over CHF 12.5 billion, UBS Warburg represents a business of size, scale, scope and franchise value that compares well with other leading investment banks. UBS Warburg is well positioned for further growth and has the financial strength to fund key strategic initiatives out of current profitability.

UBS Private and Corporate Clients

1999 was a successful year for UBS Private and Corporate Clients. Pre-tax profits increased markedly as growth in revenues outpaced the rise in costs. 1999 was also distinguished by the successful, record-setting integration of the pre-merger technology platforms as well as the launch of several well-received multi-channel initiatives. As announced in February 2000, UBS Private and Corporate Clients will be combined with Swiss and international offshore private banking to form a new business group, UBS Switzerland, putting UBS in a strong position for future growth.

Mission and business description

The overriding mission for the UBS Private and Corporate Clients division is to further develop the most profitable bank serving private and corporate clients in Switzerland.

UBS Private and Corporate Clients' leading position in the Swiss market and its access to other Group divisions enables it to offer a comprehensive range of products and services to a broad client base. As of year-end 1999, UBS Private and Corporate Clients had more than four million individual clients. Its client base is segmented into three million private clients with assets up to CHF 50,000, and one million affluent clients with assets between CHF 50,000 and CHF 1 million. The anticipated growth of the affluent client segment is a tremendous opportunity and a particular focus of the division's energies and initiatives.

The corporate clients segment consists of some 180,000 small and medium sized businesses. It also includes more than 10,000 larger corporate clients, with complex financial requirements. The 170 top-tier corporate clients are frequent users of capital market services. UBS Private and Corporate Clients provides corporate clients not only the services of a credit bank, but also structured finance, capital market and investment advisory services. In addition, the division offers payment and custodial services to some 1,800 banking institutions world wide.

UBS Private and Corporate Clients had CHF 439 billion in assets under management as well as CHF 165 billion in loans at year-end 1999. Further detail on the credit portfolio can be found in the Credit Risk section of the Review of Risk Management and Control on pages 48–54.

On the logistics side, UBS Private and Corporate Clients provides a wide range of services to all divisions in Switzerland. Besides information technology and operations, UBS Private and Corporate Clients also supports other divisions in Switzerland as a major provider of settlement and payment services, and thus contributes significantly to the realization of synergies.

Eighteen months after the legal consummation of the merger, UBS Private and Corporate Clients is especially pleased to have successfully aligned its entire product offering, resegmented its client base and migrated more than two million clients to a single platform.

Strategy and initiatives

UBS Private and Corporate Clients' strategy

UBS Private and Corporate Clients is committed to providing its clients with innovative, personalized products consistently meeting high standards, as well as optimizing customer-related processes from front to back.

UBS Private and Corporate Clients' focus on efficiency will result in further standardization of services, leading to an increased implementation of alternative distribution channels, such as the internet, phone centers and Automatic Teller Machines (ATM's). The current branch network is divided into three different zones: one for ATM's, one for the counter area and a third one dedicated to advisory services. The division intends to move forward to a two-zone concept, slowly eliminating the counter area. By doing this, it will create a clear cash services oriented zone and a very flexible and increasingly important advisory zone.

In addition, UBS Private and Corporate Clients will further optimize its logistics function to realize additional synergies in the provision of services to all divisions in Switzerland.

Organizational changes

In October 1999, a new organization structure was implemented in UBS Private and Corporate Clients. Two dedicated business areas, individual clients and corporate clients, concentrate on business origination and allow the sales force to focus exclusively on the recognition of customer needs, market penetration and the exploitation of market opportunities.

The Risk Transformation and Capital Management business area was newly created to assume responsibility for managing capital allocation including equity and equity participations, as well as asset and liability management of the division in cooperation with the Group Treasury. Risk Transformation and Capital Management is the owner of the division's loan portfolio, including non-performing assets. One of its key responsibilities is the active management of recovery positions. By implementing leading-edge portfolio management principles, Risk Transformation and Capital Management is able to optimize risk-adjusted returns. In addition, close cooperation with UBS Warburg facilitates the exploitation of secondary market opportunities such as securitization.

CHF million	31.12.1999	31.12.1998	Change (%)
Individual clients	4,553	4,785	(5)
Corporate clients	1,855	1,728	7
Risk transformation and capital management [1]	330		0
Operations	313	448	(30)
Others	142	64	122
Total	7,193	7,025	2
Credit loss expense	(1,050)	(1,170)	(10)
Total operating income	6,143	5,855	5
Personnel expenses	3,363	3,238	4
General and administrative expenses	1,061	1,025	4
Depreciation	555	680	(18)
Goodwill amortization [2]	2	4	(50)
Total operating expenses	4,981	4,947	1
Segment performance before tax	1,162	908	28
Regulatory equity used (avg)	8,550	8,250	4
Cost / income in % [3]	69	70	
Cost / income in % before goodwill amortization [3]	69	70	
Assets under management (bn)	439	434	1
Headcount	24,098	24,043	0
of which: Switzerland	24,050	23,989	0
Rest of world	48	54	(11)

[1] Newly created business area in October 1999. Annualized income (1998 included in individual clients and corporate clients). [2] Includes amortization of other purchased intangible assets. [3] Before credit loss expense.

To ensure the complete segregation of credit risk management activities as well as a uniform credit policy, the function of an independent Chief Credit Officer was created. This allows for increased efficiency by standardizing and centralizing credit decisions and frees up the business to concentrate on origination.

Strategic projects portfolio

Good progress has been made in the implementation of the Strategic Projects Portfolio. This has resulted in a considerable contribution to net profit. The majority is attributable to revenue enhancement initiatives. The continued implementation of effective risk-adjusted pricing had a better than expected impact. The unified pricing structure on securities accounts as well as the very successful placement efforts of investment funds further increased operating income.

Cost reductions have primarily been achieved by re-engineering processes in the logistics and infrastructure areas as well as from positive effects of the multi-channel strategy. In the upcoming year, additional cost savings will be achieved by realizing IT-related synergy potential, by increased momentum in the division's redundancy program and by implementing re-engineered business and logistics processes. On the customer side, UBS Private and Corporate Clients will focus more on advisory and customized services, both for individual clients and corporate clients. The division will also further optimize its credit product portfolio.

Tight control and periodic reviews by top management will help to achieve the timely realization of these initiatives.

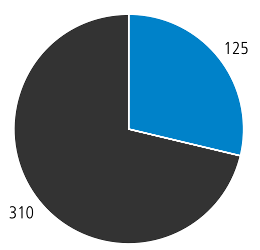
Distribution channels

In line with announced plans, branch closures proceeded during 1999, and by year-end some 173 branches have been closed, 31% of the pre-merger branch network. In total, the physical distribution network at year-end 1999 consisted of 385 locations. The division intends to further rationalize the network over the next two years.

Following general trends, alternative distribution channel usage increased significantly. During the last quarter of 1999, UBS focused on pushing forward its alternative distribution, launching new telebanking products as well as new pricing schemes within online banking. Overall UBS reached more than 450,000 UBS 24h-Banking contracts in December. On the Phonebanking side, calls over the Interactive Voice Response System doubled between June and December. Thirty percent of all payment orders are now

UBS Private & Corporate Clients AuM by asset category

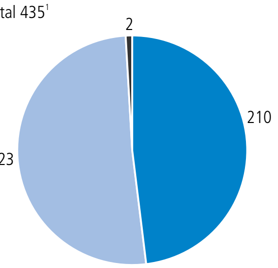
in CHF billion
Total 435[1]



[1] Banks AuM of CHF 4 billion are not included.

UBS Private & Corporate Clients AuM by segment

in CHF billion
Total 435[1]



[1] Banks AuM of CHF 4 billion are not included.

handled through electronic banking channels. At the end of 1999, eleven percent of all UBS Private and Corporate Clients' stock exchange transactions were made through UBS 24h-Banking.

In October, UBS launched significant and well-received electronic banking initiatives. After the October launch of UBS's exclusive personal financial management software UBS Quicken, more than 15,000 packages were sold by December.

Small and medium sized entreprises (SME's)

Aventic AG, with share capital of CHF 30 million, closed its first year successfully. This 100% UBS owned company is designed to assist small and medium sized businesses in financing innovative products and services.

In 1999 more than 300 requests for capital and finance were reviewed, and more than 100 were passed on to Aventic itself or other venture capital companies, or are still in the review process.

Aventic holds shares in seven Venture Capital Funds, mainly in the sectors of biotechnology, internet and medical technology. Besides that, Aventic manages a portfolio of direct capital engagements in Swiss SME's, mostly industrial and technology businesses. The book value of the portfolio by the end of 1999 exceeded CHF 60 million with a commitment to an additional CHF 35 million in funding.

Results discussion

The results of UBS Private and Corporate Clients were strong in 1999. Segment performance before tax increased 28%, or CHF 254 million, to CHF 1,162 million. Higher operating income, lower credit loss expenses and rigorous cost control led to this favorable result.

Total operating income

Total operating income increased 5% or CHF 288 million, to CHF 6,143 million in 1999. This improvement was primarily due to higher margins on interest-related business, such as mortgages, as well as the first full-year impact of the amalgamation and repricing of products from the two former banks. Furthermore, the improved quality of the loan portfolio resulted in lower credit loss expenses.

It is important to note that UBS Private and Corporate Clients' results are dependent on interest-related business, which contribute almost 60% of operating income. The increased proportion of affluent clients will reduce dependency on the interest-related business in the future.

Assets under management

Assets under management increased CHF 5 billion to CHF 439 billion from the prior year level of CHF 434 billion. This figure includes assets of the banks business area, which are held in transaction accounts, are naturally volatile, and are not a core focus of UBS Private and Corporate Clients. Excluding this particular asset category, assets under management increased CHF 28 billion, or seven percent, to CHF 435 billion. This is mainly due to positive performance of the Swiss stock market and to currency effects.

Total operating expenses

Despite tremendous efforts in completing technology platform integration, UBS Private and Corporate Clients' total operating expenses remained almost stable at CHF 4,981 million, an increase of one percent, or CHF 34 million.

Personnel expenses and general and administrative expenses both increased by four percent. These increases are due to the IT integration work, work related to the Year 2000 transition and the costs associated with the shift of the Swiss Trade Finance business from UBS Warburg. In addition, the positive development of the performance led to higher performance-related compensation.

Depreciation decreased 18%, or CHF 125 million, to CHF 555 million in 1999.

Headcount

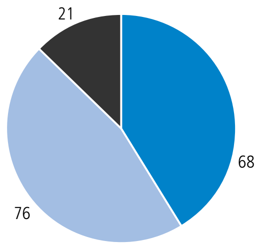
Headcount for the period increased 55, or 0.2%, to a year-end level of 24,098 comparing to 24,043 for 1998. By mid-year 1999, the Swiss Trade Finance business was transferred from UBS Warburg to UBS Private and Corporate Clients with some 405 employees. Taking this transfer into account, headcount was reduced in 1999 by 350, the majority of which occurred in the fourth quarter of 1999 as employees leaving the bank were not replaced. This development is in line with expectations for the realization of merger-related savings.

Loan portfolio

The loan portfolio remained stable at a level of CHF 165 billion. Continued implementation of risk-adjusted pricing has led to improved margins.

UBS Private & Corporate Clients
Loan portfolio by segment

in CHF billion
Total 165



With regard to the recovery portfolio, major emphasis has been placed on workout initiatives. This effort has proved to be successful and reduced the overall recovery positions by 20%, from CHF 26 billion for 1998 to CHF 21 billion for year-end 1999. As a result, the quality of the loan portfolio continued to improve.

Mortgages account for 70% and commercial loans 30% of the total loan portfolio. As 50% of all mortgages relate to lower risk single family homes and 68% are fixed-rate mortgages, the structure of the mortgage portfolio has proved to be very stable compared to 1998.

Outlook

With the IT integration complete, UBS Private and Corporate Clients expects its cost savings program to gain further momentum in the coming year. Furthermore, the division's employees are now able to concentrate completely on business growth. Together with its strong market position in Switzerland and the initiatives from the Strategic Project Portfolio, we remain confident that the division can continue to enhance its profitability.

The organizational changes announced in February are focused on re-establishing positive momentum in the private banking business after a pause in 1999. Combining Swiss-based onshore and offshore private banking with individual and corporate client banking in Switzerland will unlock revenue synergies and cost efficiencies for the UBS Group. The strength and merit of traditional Swiss banking expertise, an integrated Swiss-based infrastructure and a shared distribution network will all contribute strongly to realizing these goals.

UBS Asset Management

UBS Asset Management is one of the world's leading institutional asset managers, and among the most international. During 1999, equity markets were unfavorable to some of the fundamental value-driven styles which the division applies to the majority of its clients' portfolio, having a negative impact on assets under management development and earnings. Strategically, several initiatives were started during the year to diversify and broaden global investment capabilities and expand the division's presence in targeted growth markets in Europe and Asia-Pacific.

Mission and business description

UBS Asset Management is a leading global institutional asset manager, with strong market positions in the US, UK and Switzerland. It is also one of the largest active foreign managers in Japan. The division has a well-diversified client base including public and corporate pension funds, foundations and endowments as well as central banks. On behalf of UBS Switzerland, it also manages UBS investment funds.

Investment capabilities are based on comprehensive proprietary research in major equity, fixed income and currency markets around the world. The principal method of delivering value is to identify periodic discrepancies between market price and investment value and turn them to clients' advantage. Investment solutions are tailored to clients' investment needs based on global investment capabilities. Mandates range from global asset allocation portfolios to single country equity or fixed income portfolios or alternative investments such as private equity and real estate.

Building on significant shares within the US, UK and Swiss markets and the breadth and depth of its investment capabilities, the division's mission is to become the premier global institutional asset management firm. "Premier" means being among at least the top five companies in terms of market share position in core markets, in the top third in the industry in investment performance, and being a recognized thought leader and trend setter.

While financial performance this past year was disappointing, UBS Asset Management expects to fulfill its mission, the return of profit growth in line with the industry by protecting and strengthening the client franchise, pursuing targeted growth initiatives and expanding investment capabilities.

A reorganization of the UBS Group was announced in February 2000. With the transfer of the Investment Funds and Global Asset Management areas of UBS Private Banking, all asset management capabilities of the Group are now under UBS Asset Management's responsibility which will enable a more aggressive exploitation of global mutual fund and defined contribution opportunities and the implementation of an open, but screened, architectural platform for UBS private clients.

Strategy and initiatives

During 1999, the management structure was realigned upon the arrival of Peter Wuffli as Chief Executive Officer. Subsequently, the UBS Brinson Division was renamed UBS Asset Management and a new, more client-centric business model was developed and implemented to meet the increasingly differentiated needs of our clients.

A core element of the division's strategy is to pursue growth by increasing market shares in the growth areas of Europe and Asia-Pacific, and in attractive segments globally. It will also pursue style diversification opportunities, organically or through acquisition, when economically attractive.

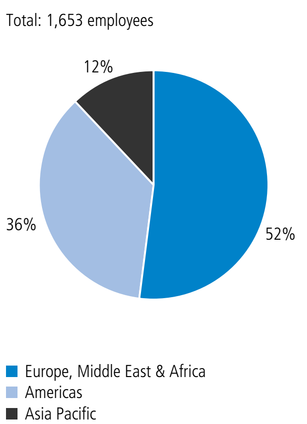
Initiatives

Regional business areas provide the leadership and flexibility to pursue local growth initiatives in the context of the global strategy. In Europe, outsourcing solutions for banks and life insurance companies, including third-party mutual funds and sub-advisory assignments are being developed. Also, focusing on Germany, France and Italy, the division is developing onshore fund products. Similarly, in Japan, the platforms are being strengthened in order to capture attractive institutional growth opportunities and distribute Japanese investment funds. Defined contribution opportunities are being pursued in the US and globally within the context of the Group's overall asset gathering strategy.

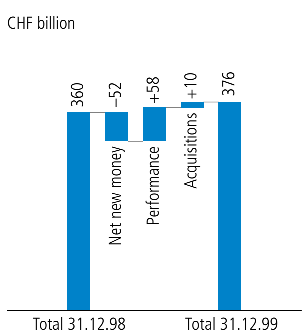
In 1999, the commitment to the broadening of investment capabilities was demonstrated through the acquisition of Allegis Realty Investors LLC. Allegis, a firm with top-quartile industry performance, has more than 20 years experience managing real estate investments for institutional investors. Renamed UBS Brinson Realty Investors LLC, it will provide integrated real estate investment services to clients.

Tailored plans are being developed to address UBS Asset Management's largest clients' local and global investment needs. With the expansion and refinement of global investment capabilities and local delivery platforms, the division's ability to deliver value-added solutions to these clients should be unprecedented.

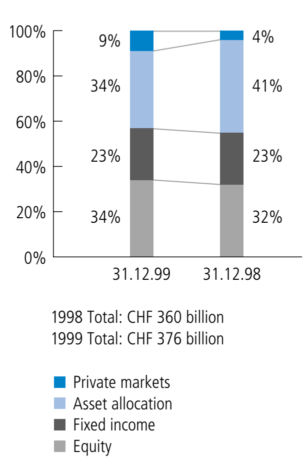
Employees by region (1999)



Institutional assets under management Development



Institutional assets under management By client mandate



CHF million	**31.12.1999**	31.12.1998	Change (%)
Institutional	**903**	968	(7)
Non-institutional	**193**	195	(1)
Total	**1,096**	1,163	(6)
Credit loss expense	**0**	0	–
Total operating income	**1,096**	1,163	(6)
Personnel expenses	**444**	454	(2)
General and administrative expenses	**177**	154	15
Depreciation	**29**	29	0
Goodwill amortization [1]	**113**	78	45
Total operating expenses	**763**	715	7
Segment performance before tax	**333**	448	(26)
Regulatory equity used (avg)	**160**	100	60
Cost / income in %	**70**	61	
Cost / income in % before goodwill amortization	**59**	55	
Assets under management (bn)	**574**	531	8
Institutional	**376**	360	4
Non-institutional	**198**	171	16
Headcount	**1,653**	1,497	10
of which: Switzerland	**277**	266	4
Rest of world	**1,376**	1,231	12

[1] Includes amortization of other purchased intangible assets.

Results discussion

The division's pre-tax performance year-on-year declined by 26%, or CHF 115 million, to CHF 333 million. Results were impacted by an increase in non-cash charges related to the buyout of the former joint venture with the Long-Term Credit Bank of Japan (LTCB). Excluding non-cash depreciation and amortization, the division's operating profits before tax showed a decline of 14%.

Total operating income

Overall, total operating income declined by 6%, or CHF 67 million, to CHF 1,096 million in 1999. Institutional revenues decreased 7%, or CHF 65 million, to CHF 903 million, primarily attributable to the UK business. The institutional revenue development reflects a slight decline in average institutional assets between 1998 and 1999, as gains from performance and currency were offset by client attrition related to the merger and performance issues in certain mandate types, with the majority of the attrition concentrated in Europe.

While average non-institutional assets increased by 18%, non-institutional revenues declined slightly to CHF 193 million as a result of new interdivisional fee arrangements with UBS Private Banking.

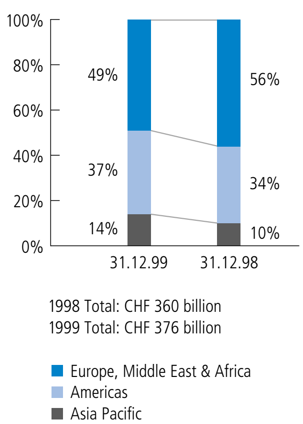
Assets under management

Total assets under management increased by 8.1%, or CHF 43 billion, to CHF 574 billion during 1999. Institutional assets increased by 4.4% year-on-year, or CHF 16 billion, to CHF 376 billion, driven by investment performance, the acquisition of Allegis and growth in private markets mandates. Partially offsetting these effects, net new money fell CHF 52 billion reflecting client attrition related principally to performance issues in certain equity-related mandate types.

Total operating expenses

Total operating expenses versus the prior year increased by 7%, or CHF 48 million, to CHF 763 million. Personnel expenses declined by 2%, to CHF 444 million, reflecting decreased incentive compensation. Year-end headcount increased from 1,497 to 1,653, due to the acquisition of Allegis in December. Increases in general and administrative expenses year-on-year relate to revisions in cost-sharing arrangements between UBS Asset Management and other divisions in the Group. Depreciation and amortization charges went up versus the prior year primarily due to charges related to the acquisition of the LTCB joint venture in 1998.

Institutional assets under management By client location



Investment capabilities and investment performance development

Investment performance for 1999 was mixed for both the UBS Brinson and Phillips & Drew investment areas. Led by the US market, world equity markets became increasingly driven by momentum during 1999, with market returns dominated by a narrow segment of technology and e-business stocks. The fundamental price/value philosophies at the core of the Brinson and Phillips & Drew investment processes have led to an underweight of these stocks thereby negatively affecting investment performance versus benchmarks.

In the UBS Brinson investment area, while equity and multi-asset portfolios lagged their benchmarks, strong returns were delivered within both fixed income and private markets, relative to financial indices and peers. Growth equity strategies also performed well in comparison to benchmarks. Within the Phillips & Drew investment area, returns were strong through the end of the third quarter. However, these gains were reversed in the final quarter of 1999 due to the strong share price appreciation of technology stocks in which Phillips & Drew was underweight.

Outlook

Recent equity investment performance in both UBS Brinson and Phillips & Drew investment areas has suffered under the momentum-driven markets of the past year. 2000 is also expected to be challenging given the uncertainty of future market developments and recent investment performance in certain areas. However, strategic growth initiatives in key markets and expansion of investment capabilities are expected to lay the groundwork for a return of profit growth to industry levels and ensure the attainment of the mission of becoming the premier global institutional asset management firm.

UBS Capital

UBS Capital's aim is to establish itself as the industry role model for an integrated global private equity group. During 1999, UBS Capital expanded substantially and successfully, making an important contribution to the overall success of the UBS Group.

Business profile

UBS Capital expanded substantially and successfully during 1999 and will continue to make an important and growing value contribution to the overall success of UBS AG. Following the Group's reorganization, UBS Capital is operating with the UBS Warburg business group. This is expected to further strengthen the synergies between the two businesses while maintaining the synergy links with Private Banking.

During the course of last year, the private equity group achieved many important objectives: the business comfortably surpassed investment targets, it established new international offices, and it significantly developed its global funds strategy.

Private equity offers the opportunity for above average investment returns with a typical investment duration of several years. Strong capital flows into the industry have increased competitive pressures on market participants seeking attractive investment opportunities. However, UBS Capital is well positioned to take advantage of the favorable economic climate and stock market conditions to augment its position as a strong force in the industry.

UBS Capital has important advantages to ensure success and is able to boast a local presence in every major industrialized region in Europe, North America, Latin America and Asia Pacific, with about 120 professionals in 13 offices worldwide. Last year, two new offices were established in Seoul and Sydney, reflecting the division's long-held commitment to maintaining comprehensive local presence and expertise. When coupled with the operation's global reach, the teams' specialist knowledge allows the early identification of opportunities and their timely and effective development.

UBS Capital makes medium term majority or minority investments in established or emerging unlisted companies to maximize shareholder value. By working in close partnership with management, UBS Capital develops the businesses and manages these investments to optimize their performance, unlock their value and exit the investment in a manner that will maximize the capital gain. Although the main focus of the business's investments is late-stage financing such as management buyouts, expansion or replacement capital, UBS Capital also targets a quarter of the portfolio toward early-stage investments in the technology and telecommunications sectors.

Strategy and initiatives

The growing awareness of private equity as an attractive asset class for fund managers, coupled with widespread European industrial consolidation and moves to embrace shareholder value, have improved the opportunities for investment and increased the volume of funds available. The rivalry among industry professionals for potential investment transactions is fierce. But despite increased competition, UBS Capital is able to leverage its unique strategic advantages and capitalize on business synergies available throughout the UBS Group.

Strategic advantages

Using the Group's own funds along with third-party investors allows UBS Capital to pursue a value strategy that differentiates it from its competitors. The business is not forced to invest solely to meet target spend rates but considers transactions only if they offer fair value over the period of an investment cycle.

With its successful and highly qualified network of teams, UBS Capital is poised to become a key player in this rapidly expanding business worldwide. The main thrust of the division's expansion has focused on Western Europe and North America and is already seizing select value opportunities in Latin America and Asia Pacific.

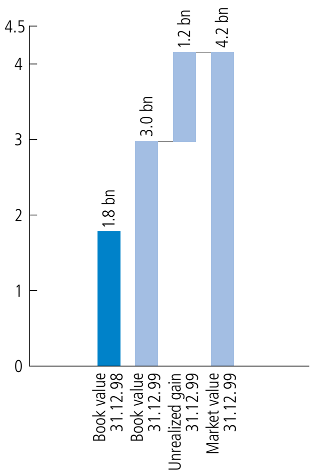
UBS Capital combines its global presence with local expertise and resources as required. In doing so, it aims to provide tailor-made solutions for cross-regional and cross-border transactions, which represent an increasingly important part of our business worldwide.

To augment its competitive strengths, UBS Capital plans to gradually increase its annual investment rate, targeting a portfolio book value of CHF 5 billion committed capital from UBS and CHF 5 billion from third-parties, while achieving maximum diversification in the timing and geography of earnings streams.

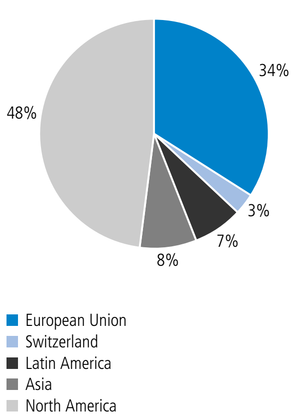
Funds

In view of the growing attention given by the industry to larger transactions, UBS Capital has developed plans for the formation of four regional funds – Europe, North America, Latin America and Asia. In the United States, the business recently launched a USD 1 billion investment fund targeting North America and Canada and a USD

Portfolio summary
31 December 1999



Book value by country
31 December 1999



CHF million	**31.12.1999**	31.12.1998	Change (%)
Revenues	**315**	585	(46)
Credit loss expenses	**0**	0	–
Total operating income	**315**	585	(46)
Personnel expenses	**105**	121	(13)
General and administrative expenses	**47**	35	34
Depreciation	**2**	0	–
Goodwill amortization [1]	**5**	1	400
Total operating expenses	**159**	157	1
Segment performance before tax	**156**	428	(64)
Regulatory equity used (avg)	**340**	250	36
Cost/income in % [2]	**50**	27	
Cost/income in %, before goodwill amortization [2]	**49**	27	
Headcount	**116**	122	(5)
of which: Switzerland	**21**	36	(42)
Rest of world	**95**	86	10

[1] Includes amortization of other purchased intangible assets. [2] Before credit loss expense.

500 million fund targeting Latin America. Additionally, two new funds have been launched in Europe. The first is Phildrew Ventures V, a GBP 330 million United Kingdom private equity fund. The second is the CHF 307 million CapVis equity partners fund run by UBS Capital's vehicle for investing in Switzerland. A European and Asian fund are expected to be launched in 2000.

Group synergies

UBS Capital's strong relationship with UBS Warburg has cemented links between related business units. Deal origination, funding and optional exit strategies are just a few of the benefits.

UBS Capital will also continue to work closely with the Group's Private Banking unit to offer innovative solutions to company owners, particularly European family businesses facing succession problems. UBS Capital also offers its fund products to Private Banking clients and institutional investors.

Portfolio

UBS Capital is rapidly expanding and has a firm focus on building a globally diversified portfolio from its current book value of approximately CHF 2,993 million (compared to CHF 1,784 million at year-end 1998) to its target size of approximately CHF 5 billion from the balance sheet. The 1999 investment rate target of CHF 800 million was easily exceeded with an impressive CHF 1,394 million of investment additions to the portfolio.

The portfolio review and valuation resulted in an approximate market value of around CHF 4,155 million, compared to CHF 2,651 million at year-end 1998. This impressive growth equates to current unrealized gains of approximately CHF 1,162 million as compared to CHF 867 million at year-end 1998. The value creation for the year ended 1999, including 1999 realized gains and the increase in the portfolio's unrealized gains, is estimated to be CHF 610 million.

Risk control

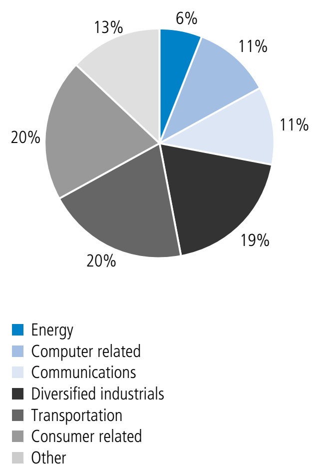
UBS Capital has established an innovative portfolio construction to protect its value and reduce the risk exposure by adopting the following methodology:

- Geographic diversification with minimal concentration of investments in specific locations
- Diversification by industry sector to obtain a good spread between manufacturing and service sectors
- Investment of a quarter of the portfolio in earlier-stage growth opportunities, such as technology and telecommunications
- Emphasis on later-stage investments, such as management buy-outs of existing businesses.

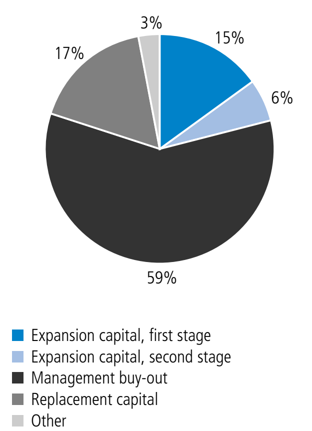
Results discussion

In 1999, segment performance before tax decreased 64%, or CHF 272 million, to CHF 156 million. This reflects lower levels of realized gains and fewer divestments in full-year 1999 compared to full-year 1998.

Book value by sector, including funds
31 December 1999



Book value by stage
31 December 1999



Total operating income

Total operating income decreased 46%, or CHF 270 million, to CHF 315 million in 1999. This is within expectations and is due to the lower rate of optimal divestment opportunities and is in line with the current portfolio's aging profile.

Total operating expenses

Although 1999 total operating expenses have increased by 1% from 1998, the CHF 159 million figure is still comfortably low. Operating expenses remained stable despite expansion into new regions and sectors, recruitment of new professionals, the high level of investment activity and the associated investment costs.

Personnel expenses were reduced by 13%, or CHF 16 million, to CHF 105 million in 1999. As part of the restructuring related to the merger, one team from UBS Capital moved to another division effective 1 January 1999. This resulted in a lower headcount during most of 1999 when compared to 1998.

General and administrative expenses amounted to CHF 47 million and although this represents a 34% increase over last year's figure, this was mainly due to deal-related expenses.

Outlook

In the year 2000, UBS Capital will continue to build upon the considerable achievements made in recent years. We expect higher divestment activity in 2000 when compared to 1999. Also the private equity business will be strengthened through a portfolio diversified both by region and sector. By exploiting our unique strategic advantages, capitalizing on existing synergies throughout the bank and leveraging our international presence, UBS Capital will continue to be a strongly contributing franchise within the global integrated investment services firm.

Corporate Center

In the context of a global, integrated investment services firm, Corporate Center focuses on the long term maximization of shareholder value. It does this by helping to ensure UBS is competitively positioned in growing market places with an optimal business model and adequate resources; by maintaining an appropriate balance between risk and profit to provide financial stability on a Group-wide basis; and by ensuring that the divisions, while being accountable for their results, operate as a coherent and effective Group with a common set of values and principles.

Business description

To perform its role, Corporate Center establishes standards and principles to be applied by the divisions, thereby minimizing staffing levels within Corporate Center itself. Corporate Center encompasses the following Group level governance functions that cannot be devolved to the operating divisions:

- Group internal audit, which reports directly to the Chairman of the Board of Directors in order to ensure its operational independence.
- Functions reporting to the Chief Executive Officer, including human resources policies and standards; communications with staff, public and media; marketing and brand management; and the Group's general counsel.
- Functions reporting to the Chief Financial Officer, including risk control; credit risk management; financial control and management; Group treasury; Group strategy, and communications with regulators, rating agencies, investors and analysts.

During 1999, the Corporate Center housed the start-up of the e-services business, which will now be brought to market by UBS Warburg.

Review of 1999

During the year, the Corporate Center was reorganized following the decision taken by the Group Executive Board and the Board of Directors to combine all risk and control functions under the leadership of the Group Chief Financial Officer. UBS was one of the first banks to recognize the opportunities presented by combining the controlling, risk, credit, treasury and strategic functions into a single area. These activities are all closely interrelated and are instrumental in maintaining an appropriate balance between risk and profit and allocating equity efficiently within the Group and among the divisions.

The success of this reorganization is reflected in a number of major projects such as the refinement of our risk control and risk management processes, and the preparations for registering UBS with the US Securities and Exchange Commission and listing on the New York Stock Exchange.

In the second quarter of 1999, we formed the multi-discipline Group Strategic Analysis team to act as an objective and neutral adviser to the CEO, CFO and Group Executive Board. The team is built around three main centers of competence: the strategic analysis group covering business and logistics strategy and competitor analysis; the quantitative group covering risk-adjusted performance measurement and business valuation; and the M&A group which analyzes potential acquisitions and divestments.

In a market where products and services are becoming increasingly global and commoditized, a strong brand is an important differentiator and a major competitive asset. To strengthen our market impact as an integrated investment services firm across all target groups, a review was undertaken during the year culminating in the decision to streamline and unify our brand architecture.

Results discussion

During 1999 the Corporate Center posted a pre-tax profit of CHF 1,382 million, versus a pre-tax loss of CHF 1,029 million in 1998. The 1998 results were negatively impacted by the CHF 842 million provision 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 regarding Long Term Capital Management. During 1999, a number of significant financial events have impacted the results of Corporate Center as follows:

- Pre-tax gains of CHF 1,490 million and CHF 110 million relating to the divestment of our stakes in Swiss Life / Rentenanstalt and Julius Baer registered shares, respectively.
- An additional pre-tax restructuring charge of CHF 300 million in respect of the merger between Union Bank of Switzerland and Swiss Bank Corporation, representing about four percent of the original CHF 7 billion provision. The majority of this extra provision is due to revised estimates of the cost of lease breaks and disposals.
- Additional pre-tax provisions of CHF 154 million relating to the settlement reached regarding dormant accounts and World War II related claims. When we created the corresponding provisions in 1998, we expected a certain level of contributions from Swiss industry. In the fourth quarter, it became clear that this level of contributions was not forthcoming as expected.

CHF million	31.12.1999	31.12.1998	Change (%)
Revenues	2,053	296	594
Credit loss expense	448	745	(40)
Total operating income	**2,501**	1,041	140
Personnel expenses	110	212	(48)
General and administrative expenses	818	1,643	(50)
Depreciation	141	128	10
Goodwill amortization [1]	50	87	(43)
Total operating expenses	**1,119**	2,070	(46)
Segment performance before tax	**1,382**	(1,029)	
Regulatory equity used (avg)	7,850	6,350	24
Headcount	932	921	1
of which: Switzerland	796	821	(3)
Rest of world	136	100	36

[1] Includes amortization of other purchased intangible assets.

– The booking of pre-paid employer pension contributions of CHF 456 million. This represents the recognition, in accordance with international accounting standards, of the difference between previously recorded and actuarially determined pension expenses. This prepayment has been recognized in 1999 after the resolution of certain legal and regulatory issues related to the utilization of these contributions subsequent to the integration of the pre-merger banks' pension plans.

Revenues attributable to Corporate Center arise from the funding, capital and balance sheet management, and management of foreign currency earnings activities undertaken by Group Treasury.

The results of our 91.2% holding in Klinik Hirslanden AG have been fully consolidated for the first time, resulting in an increase in operating income and expenses of approximately CHF 380 million. There is no material impact on net profit.

The credit loss expense booked in Corporate Center reconciles the difference between management accounting and financial accounting, that is between the adjusted expected losses charged to the divisions and the credit loss expense recognized in the Group financial accounts. For more detail on credit loss methodology please see pages 20–21.

The underlying operational costs booked in Corporate Center have reduced compared to 1999 mainly due to the further refinement of service level agreements with the divisions. This reduction has been partially offset by costs related to the build-up of the "e-services" business area.

Review of Risk Management and Control

Risk Management Framework

Our risk processes seek to limit the scope for adverse variations in the Group's earnings and in particular to protect the Group from the risk of loss in the event of unlikely, but possible, stress scenarios.

The risk process at UBS

The risk process is an integral part of UBS's commitment to providing consistent high quality returns for its shareholders. UBS believes that the delivery of superior shareholder returns depends on achieving an appropriate balance between risk and return. This requires a management process that gives appropriate focus to risk as well as returns and which integrates this approach with the management of the bank's balance sheet and capital. For this reason, UBS restructured the Corporate Center in the course of 1999 to establish an integrated Group-wide function under the Chief Financial Officer (CFO) to address all aspects of finance, strategic planning, risk control and balance sheet and capital management.

The approach to risk management and control at UBS recognizes that risk is integral to its business. Our risk processes, which have evolved over a number of years, seek to limit the scope for adverse variations in the bank's earnings and in particular to protect the Group from the risk of loss in the event of unlikely, but possible, stress scenarios arising from any of the material risks which the bank faces. The Group's Risk Policy Framework focuses on the procedures for managing and controlling the risks which can affect the volatility of earnings from period to period, and distinguishes between the following three types of risk:

- Primary risks: risks inherent in the businesses which UBS undertakes. The principal primary risks are credit risk and market risk.

- Group risks: risks which UBS faces at the Group level in managing its business and balance sheet. Principal group risks are tax risk, liquidity and funding risk and residual balance sheet related interest rate risk.

- Consequential risks: risks which UBS faces as a consequence of the operational activities it undertakes to provide services to customers. This is sometimes referred to as "operational risk". Principal consequential risks are transaction processing risk, legal risk, compliance risk, liability risk and security risk.

UBS's risk framework recognizes that an effective risk management and control process depends on sound processes to identify risks, and to establish and maintain limits and procedures to control these risks. The Chief Risk Officer (CRO) has overall responsibility for ensuring that the limits and procedures are appropriate and are adhered to for risks other than credit risk. The Chief Credit Officer (CCO) has overall responsibility for ensuring that the limits and procedures are appropriate and are adhered to for credit risk. Credit risk remains the single largest risk which UBS faces. The limits and procedures are designed to keep UBS's risk exposures within the parameters determined by the Board of Directors (BoD). These limits and procedures take into account not only the external environment that UBS faces, but also its internal capabilities to manage the risk, including issues such as the availability of appropriate information processing systems and the availability of suitably qualified staff to manage and control the risk.

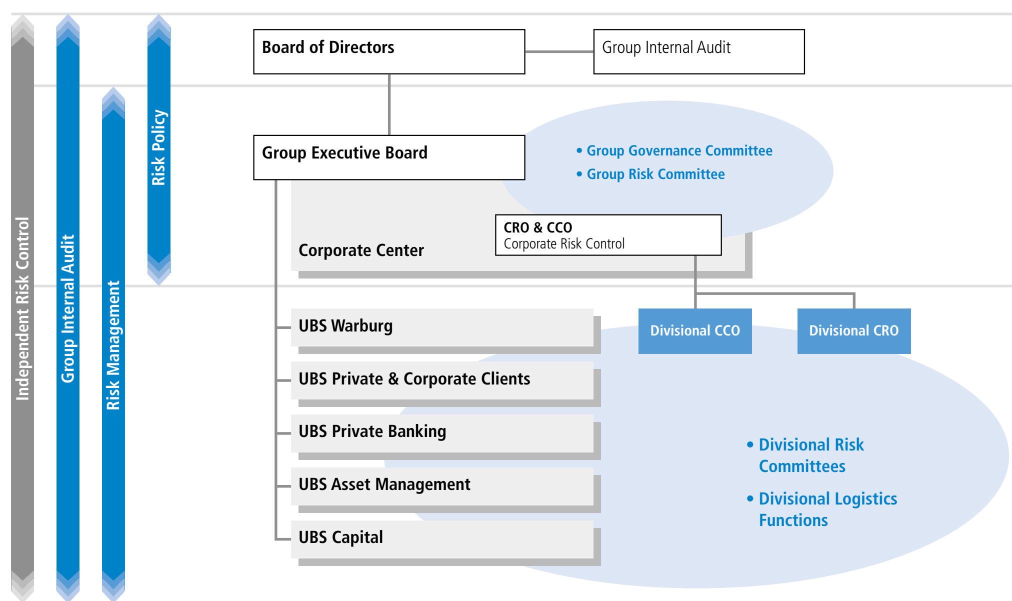
The BoD establishes the risk parameters within which the bank operates – and reviews on at least a quarterly basis the risk which UBS assumes. For this purpose, the BoD sets limits both on normal earnings volatility as well as on potential losses under a stress scenario. UBS's risk appetite defines the amount of earnings volatility which the BoD deems to be acceptable in normal market conditions in order to achieve divisional growth targets. This potential volatility is measured by the risk control organization using measures that estimate statistically possible losses. Value at risk (VaR) methodology is the principal quantitative measure for evaluating this risk.

UBS's risk bearing capacity seeks to establish a limit to the potential scale of the loss which UBS might face in unlikely, but possible, stress situations. Stress loss limits are set by the BoD taking into account UBS's overall earnings capacity. They are set in order to protect the Group against unacceptable damage to annual earnings, dividend paying capability, business viability and reputation. In addition, the BoD approves the key risk policies and, through the Chairman's Office to which Group Internal Audit reports, maintains ongoing oversight of the integrity of the risk management and control processes.

The responsibility for implementing the risk framework on a day-to-day basis is delegated by the BoD to the GEB. The GEB allocates risk limits to the divisions and monitors the aggregate risk profile on an ongoing basis. It constitutes itself as the Risk Council and usually meets twice a month with the CRO and the CCO to review outstanding risk issues, large exposures and significant transactions. In addition, the GEB has established a Group Risk Committee and a Group Governance Committee. These Committees, which meet quarterly, consist of representatives from the risk control organization at the Corporate Center and from the divisions and consider issues relating to the implementation and development of the risk framework.

Each division also has a risk management and control structure in place which is appropriate to its particular business profile. The CRO and CCO have risk control staff located in each division who are responsible for seeing that the division implements the Group-wide risk policies and procedures appropriately. They ensure that all risks are adequately taken into account in assessing the risk profile of the divisions' business activities. The focus is on identifying those infrequent events with a potentially severe impact. In addition, each division has its own structure of risk and governance committees. This is designed to maintain an ongoing review of the risk profile which the division faces in new business initiatives and in large and complex transactions. It is also designed to provide that any requirement for amendments to risk policies or limits is identified and where appropriate, is escalated in a timely manner to the GEB.

UBS Risk Management and Control Framework



Analysis of Risks

Credit loss expenses are a known component of the banking business and to a certain extent predictable. Our approach to credit risk management is to estimate the expected loss as accurately as possible and to limit extraordinary stress losses. Only an accurate quantification of future credit loss expenses (expected and unexpected) allows for an optimal balance between risk and return in our credit business.

This section summarizes the main trends and developments in the course of 1999 in the key risks which UBS faces.

Credit risk

Credit risk is the risk of loss resulting from the default of an obligor or counterparty. UBS's definition of 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 commitments to lend money or letters of credit. Credit risk is also inherent in derivative contracts and other traded products, such as bonds and equity investments. In view of the significance of credit risk for UBS, the approval and monitoring of new transactions giving rise to credit risk plays a central part in the risk control process. Credit approval authorities are exercised independently from the business units. Credit authority is dependent on the amount involved, quality, security and tenor of a transaction as well as on the experience and competence of the credit professionals entrusted with this function.

Credit loss expenses are a known component of the banking business and to a certain extent predictable. In order to manage its exposure to credit risk effectively, and in particular to encourage appropriate pricing of transactions involving credit, UBS measures its exposure to credit risk using a forward looking statistical estimate of the expected loss based on the estimated probability of default of its counterparties. Such estimates are based on the volume and type of exposure, the value of potential collateral or support, and the quality of each counterparty. The quality of the counterparty is expressed in a rating with a specific default probability. For this purpose, the bank classifies all counterparties into a 14 point rating scale and the transfer risk into a 15 point country rating scale. The forward-looking expected loss from credit exposures is charged to the divisions through the management accounts. This ensures that the anticipated credit risk cost is adequately taken into account and allows for a risk-neutral assessment of divisional results.

Analysis of credit results

The following table provides a divisional breakdown of UBS's credit exposure together with the associated annual expected loss for the periods ended 31 December 1998 and 31 December 1999 and the credit loss expense which is recorded in the financial accounts. The fact that credit loss expenses as per financial accounting were below the "Expected Loss" is evidenced in the balancing item in the Corporate Center account (see explanation below).

Since International Accounting Standards require that credit losses are recognized and charged to the financial accounts on an ex-post basis as they arise rather than on the forward looking statistical basis UBS uses for performance measurement, it is necessary to reconcile these two different approaches to the measurement of credit risk. This reconciliation is achieved through an offsetting entry in the Corporate Center accounts which represents the difference between the statistically estimated adjusted expected loss which is charged to the management accounts of the divisions and the credit loss expense which is recorded in the financial accounts in accordance with the requirements of International Accounting Standards.

The development of the total credit loss expense in 1998 and 1999 includes the effect of allocations from the special reserve pools which

Summary of banking products exposure and credit risk results

CHF million	UBS Private Banking		UBS Warburg		UBS Private & Corporate Clients		Corporate Center		UBS Group	
For the year ending	**31.12.99**	31.12.98	**31.12.99**	31.12.98	**31.12.99**	31.12.98	**31.12.99**	31.12.98	**31.12.99**	31.12.98
Loans (gross)	**30,532**	31,122[1]	**82,265**	134,697[1]	**164,743**	164,840	**474**	305	**278,014**	330,964
Contingent claims	**3,427**	4,052	**14,986**	24,749	**6,187**	3,458	**0**	0	**24,600**	32,259
Unutilized committed lines	**0**	0	**60,412**	73,839	**3,444**	8,472	**0**	0	**63,856**	82,311
Total banking products exposure	**33,959**	35,174	**157,663**	233,285	**174,374**	176,770	**474**	305	**366,470**	445,534
Annual expected loss	**24**	26	**330**	500	**1,050**	1,170			**1,404**	1,696
Total credit loss expense									**956**	951
Corporate Center balancing items									**(448)**	(745)

[1] 1998 allocation between UBS Private Banking and UBS Warburg restated (transfer of 6,989 million from UBS Warburg to UBS Private Banking).

Movements in the Special Reserve Pool (SRP) during 1998 and 1999 to date

CHF million	31.12.1999		31.12.1998
SRP balance at the beginning of the year	**300**	SRP balance at the beginning of the year	3,609
Utilized in the first quarter 1999	**0**		
Utilized in the second quarter 1999	**(40)**	Utilized in the first half 1998	(1,629)
Utilized in the third quarter 1999	**(130)**	Utilized in the third quarter 1998	(303)
Utilized in the forth quarter 1999	**(130)**	Utilized in the forth quarter 1998	(1,377)
SRP balance at the end of the year	**0**	SRP balance at the end of the year	300

had been established in 1996, prior to the merger, by both Union Bank of Switzerland and Swiss Bank Corporation. These reserves were established to absorb probable losses not specifically identified at that time but which experience indicated were present in the portfolio. These totalled CHF 3.6 billion at the beginning of 1998. CHF 3.3 billion was applied against specific loan exposures during 1998 and the balance of CHF 300 million was applied to such exposures in 1999. UBS does not believe there is a current need for such allowances. Following these allocations the credit loss expense incurred in 1998 was CHF 951 million and in 1999 CHF 956 million.

Composition of credit risk

Credit risk is assumed, as an integral part of their business, by UBS Warburg, UBS Private and Corporate Clients, and to a lesser extent by UBS Private Banking.

The composition of UBS's credit exposure differs appreciably between these three divisions. As the charts below show, a vast majority of UBS Warburg's counterparties fall into the internal rating categories C1–C5 both with respect to banking products (83%) and the traded products (94%) portfolio. Our internal rating classes C1–C5 compare to Moody's Investor Services ratings Aaa to Baa3 and are considered Investment Grade. UBS Warburg's exposure to lower rated customers is generally collateralized or otherwise structurally supported. UBS Warburg's counterparties are primarily sovereigns, insurance companies, financial institutions, multi-national corporate clients and investment funds. The aggregate unsecured exposure to hedge funds measured in terms of net replacement value amounted to CHF 55 million at 31 December 1999 compared to CHF 81 million at 31 December 1998.

The charts on the next page provide an overview of the distribution of UBS Warburg's banking and traded products exposure across counterparty rating categories.

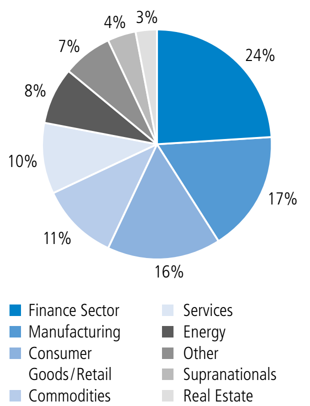
By contrast, the largest single component of the loan portfolio within UBS Private and Corporate Clients consists of residential mortgage lending in Switzerland, over half of which is classified within rating class C5. The chart "PCC mortgage portfolio by type of property" shows the breakdown of UBS's mortgage lending by the type of property involved. The remainder of the Swiss portfolio, excluding mortgages, is fairly widely spread with the largest concentration being in rating classes C4 to C6 (comparable to Moody's rating of Baa1 to Ba1). The chart "PCC banking products exposure by rating" evidences the overall improvement in the quality of the portfolio following the con-

Status of total credit risk exposure

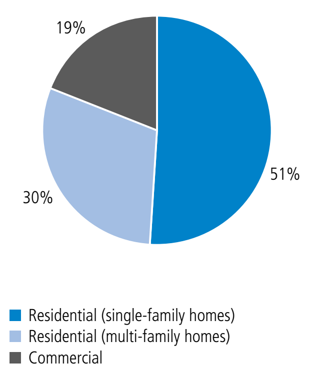
CHF million	UBS Private Banking		UBS Warburg		UBS Private & Corporate Clients		Corporate Center		UBS Group	
For the year ending	**31.12.99**	31.12.98	**31.12.99**	31.12.98	**31.12.99**	31.12.98	**31.12.99**	31.12.98	**31.12.99**	31.12.98
Loans utilization, net of allowances	**30,437**	31,056[1]	**79,493**	132,069[1]	**154,370**	152,996	**465**	300	**264,765**	316,421
Contingent claims	**3,427**	4,052	**14,986**	24,749	**6,187**	3,458	**–**	–	**24,600**	32,259
Unutilized committed lines	**–**	–	**60,412**	73,839	**3,444**	8,472	**–**	–	**63,856**	82,311
Derivatives (positive replacement values)	**3,457**	2,505	**127,042**	167,395	–	–	**–**	–	**130,499**	169,900
Tradable assets (net long, maximum default exposure)	**19**	37	**219,019**	82,194	**2,766**	3,768	**471**	289	**222,275**	86,288
Total credit risk exposure, net of allowances	**37,340**	37,650	**500,952**	480,246	**166,767**	168,694	**936**	589	**705,995**	687,179
Total credit risk exposure, gross	**37,435**	37,716	**503,724**	482,874	**177,140**	180,538	**945**	594	**719,244**	701,722

[1] 1998 allocation between UBS Private Banking and UBS Warburg restated (transfer of CHF 6,989 millions from UBS Warburg to UBS Private Banking).

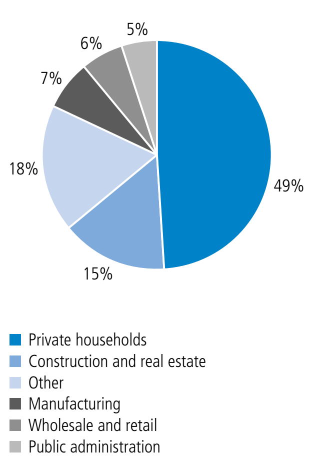
UBS Warburg banking products exposure by industries



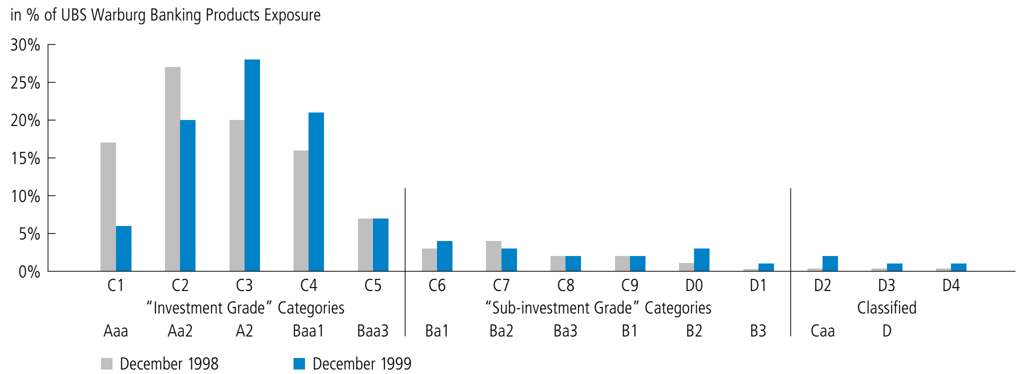
UBS Private & Corporate Clients Mortgage exposure by type of property



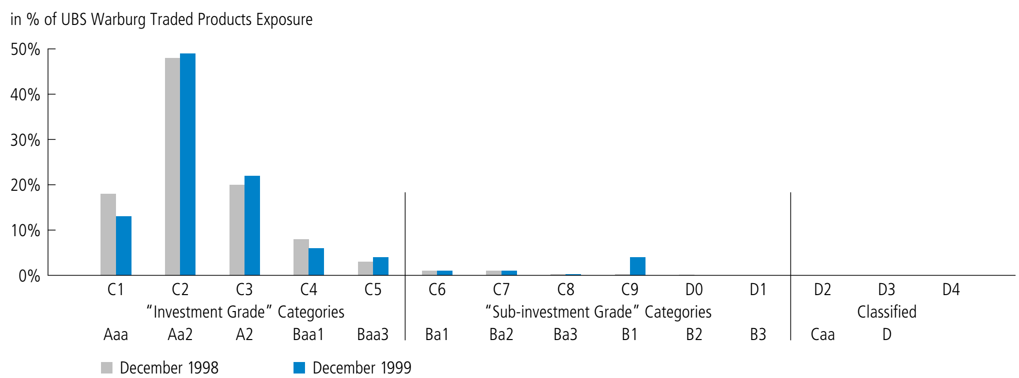
UBS Private & Corporate Clients Credit risk exposure by industries



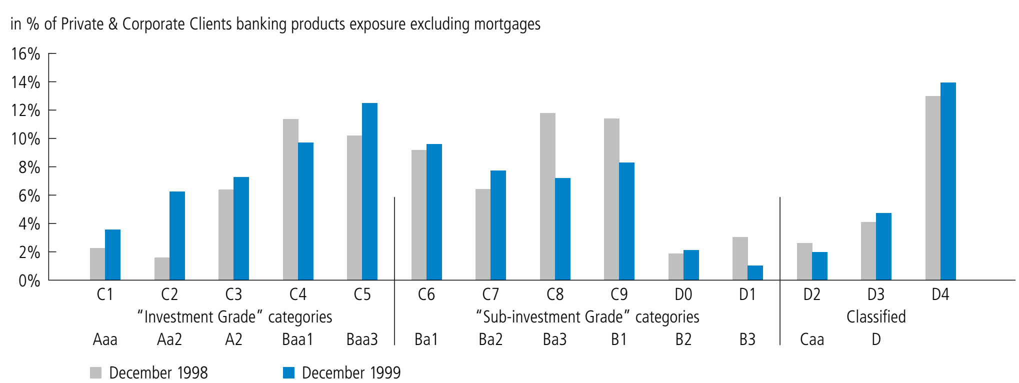
UBS Warburg banking products exposure by counterparty rating



UBS Warburg traded products exposure by counterparty rating



UBS Private & Corporate Clients banking products exposure by counterparty rating (excluding mortgages)



tinued improvement in the Swiss economy and property markets.

PCC's largest sectoral exposure is to private households in Switzerland. Other significant exposures include construction & real estate (15%), manufacturing (7%), distribution & retailing (6%) and public administration (5%).

UBS Private Banking extends credit predominantly against pledge of marketable securities and against single-family real estate property.

Loan portfolio

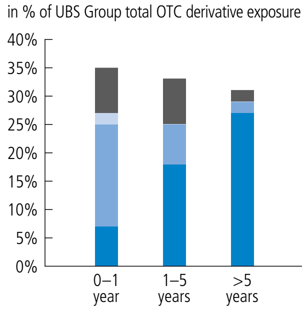
The most significant development in UBS's loan portfolio in 1999 has been the reduction in the

Total loan portfolio exposure by division

CHF million *For the year ending*	UBS Private Banking 31.12.99	 31.12.98	UBS Warburg 31.12.99	 31.12.98	UBS Private & Corporate Clients 31.12.99	 31.12.98	Corporate Center 31.12.99	 31.12.98	UBS Group 31.12.99	 31.12.98
Loans to banks (gross)	**4,456**	6,989[1]	**25,891**	62,272[1]	**–**	–	**438**	282	**30,785**	69,543
Loans to customers (gross)	**26,076**	24,133	**56,374**	72,425	**164,743**	164,840	**36**	23	**247,229**	261,421
Loans, gross	**30,532**	31,122	**82,265**	134,697	**164,743**	164,840	**474**	305	**278,014**	330,964
Counterparty allowance	**95**	66	**1,526**	1,178	**10,373**	11,844	**9**	5	**12,003**	13,093
Country allowance	**–**	–	**1,246**	1,450	**–**	–	**–**	–	**1,246**	1,450
Allowances for loan losses[2]	**95**	66	**2,772**	2,628	**10,373**	11,844	**9**	5	**13,249**	14,543
Loans, net of allowances	**30,437**	31,056	**79,493**	132,069	**154,370**	152,996	**465**	300	**264,765**	316,421
Counterparty provision for contingent claims	**–**	–	**13**	435	**–**	–	**6**	–	**19**	435
Country provision for contingent claims	**–**	–	**130**	–	**–**	–	**–**	–	**130**	0
Total provisions[3]	**–**	–	**143**	435	**–**	–	**6**	–	**149**	435
Summary									**0**	0
Allowances and provisions for counterparty risk	**95**	66	**1,539**	1,613	**10,373**	11,844	**15**	5	**12,022**	13,528
Allowances and provisions for country risk	**–**	–	**1,376**	1,450	**–**	–	**–**	–	**1,376**	1,450
Total allowances and provisions	**95**	66	**2,915**	3,063	**10,373**	11,844	**15**	5	**13,398**	14,978

[1] 1998 allocation between UBS Private Banking and UBS Warburg restated (transfer of CHF 6,989 million from UBS Warburg to UBS Private Banking. [2] Deducted from assets. [3] Booked as liabilities.

UBS Group OTC derivative exposure by product type and maturity[1]



[1] Measured in positive replacement value.

UBS Warburg portfolio. This is a continuation of the strategy that began immediately after the merger in 1998 with the objective to improve the risk/reward profile of the international lending business. This initiative included the shift in focus away from Emerging Markets and into high quality credits in the major OECD countries and the sale of the non-Swiss portion of the Global Trade Finance business.

The overall impact of this shift has been a reduction in the international credit portfolio (consisting of loans and unfunded commitments to clients, excluding banks) from over CHF 250 billion at the time of the merger to CHF 99 billion by 31 December 1999. The loan component of this international lending book was reduced from CHF 148 billion in June 1998 to CHF 56.4 billion as of 31 December 1999.

On the other hand, the UBS Private and Corporate Clients loan portfolio remained virtually flat as accelerated write-offs and a transfer of clients to UBS Private Banking were replaced with new business at attractive pricing.

Over-the-counter derivative contracts

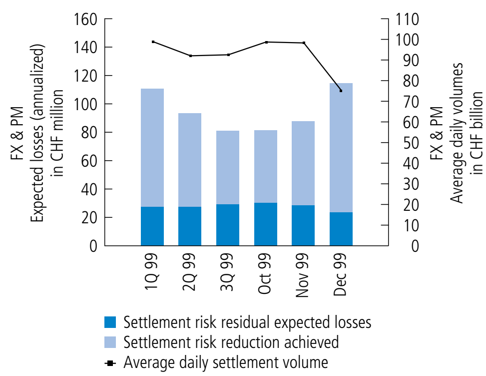
A significant proportion of UBS Warburg's credit risk arises from its trading activities, including its trading of derivative products. The provision of risk management solutions, which involve the use of derivative products, is a core service which we offer to our clients. Derivative products by their nature are particularly sensitive to changes in market prices and consequently we pay close attention to the management and control of these risks. Our credit standards for entering into unsecured derivative contracts are very high as highlighted in the chart "UBS Warburg traded products exposure by counterparty rating" and particular emphasis is paid to the maturity profile. Transactions with counterparties of lower quality are generally only conducted on a secured basis. Consistent with this approach, the exposure shown in the C9 class is for the most part fully secured and represents a good risk despite the low rating. We measure our credit risk exposure to derivative contracts on the basis of replacement value plus an add-on which reflects the residual term of the contract. A new system has been introduced in February 2000 to monitor this risk on the basis of a statistically calculated potential exposure, which will allow an even more precise valuation of the credit equivalent (Potential Credit Exposure, PCE).

The chart to the left shows the distribution of over-the-counter derivative credit exposure measured in gross replacement value plus add-on across products and maturities.

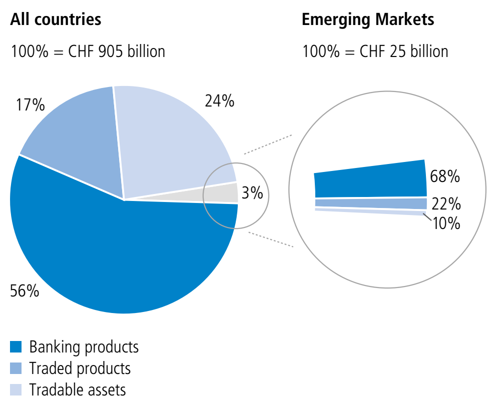
Settlement risk

Due to its international business, UBS is also exposed to settlement risk. Settlement risk arises in transactions involving the exchange of values where a counterparty fails to honor its obligation to deliver cash or securities. This risk is particu-

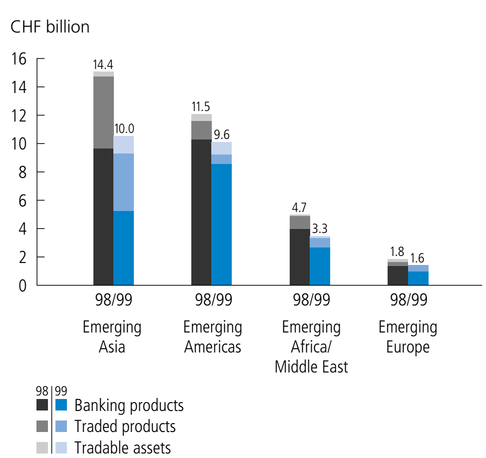
UBS Warburg and UBS Private & Corporate Clients Settlement risk analysis



UBS transfer risk exposure by country rating classes and product



UBS Group Emerging Markets transfer risk exposure by region



larly significant in relation to foreign exchange and precious metals transactions. UBS limits its exposure to settlement risk by tolerance levels assigned to each counterparty in relation to its standing (rating). In addition, UBS monitors this risk on a permanent basis and seeks to shorten as much as practicable the period during which it is exposed and to reduce the exposure by way of netting agreements. Netting receives a high priority within UBS. UBS has also been an active participant in an industry initiative to create a new organization, called CLS Bank, which is being established to reduce substantially settlement risk between major international financial institutions. The participation in regulated payment and securities clearing systems also reduces settlement exposure. As the chart to the left shows, UBS took particular care to limit its exposure to settlement risk over year end 1999 in order to minimize its exposure to Year 2000 related counterparty risk.

Country risk exposure

UBS's definition of country risk comprises all cross-border exposures from loans, derivative products and tradable assets. This definition includes UBS's own intracompany cross-border positions, which amounted to CHF 416 billion at 31 December 1999, about 44.6% of the total non-emerging market country risk exposure of CHF 880 billion. As at 31 December 1999, 97.3% of UBS's country risk exposure was with highly rated OECD countries where the risk of default is judged to be negligible.

The chart in the middle summarizes UBS's aggregate country risk exposure as of 31 December 1999 compared to 31 December 1998.

The remaining 2.7% (CHF 24.6 billion) of our country risk exposure is to emerging markets which are classified in rating classes S3 to S14. This exposure has decreased as a result of the restructuring of the international loan portfolio and the exit from the GTF business during 1999. Total exposure to the emerging market group of countries fell by CHF 7.8 billion during 1999 – a reduction of 24%. In view of the higher risk associated with emerging markets, UBS closely monitors this exposure on an ongoing basis within the country limits approved by the Board of Directors.

The chart to the left analyzes the Emerging Markets exposures by the major geographical areas as of 31 December 1999 compared to 31 December 1998.

Allowances and provisions for credit risk

CHF million *For the year ending*	UBS Private Banking **31.12.99**	 31.12.98	UBS Warburg **31.12.99**	 31.12.98	UBS Private & Corporate Clients **31.12.99**	 31.12.98	Corporate Center **31.12.99**	 31.12.98	UBS Group **31.12.99**	 31.12.98
Loans (gross)	**30,532**	31,122[1]	**82,265**	134,697[1]	**164,743**	164,840	**474**	305	**278,014**	330,964
Impaired loans[2]	**140**	175	**3,202**	3,319	**19,050**	22,953	**64**	–	**22,456**	26,447
Allowances for impaired loans	**95**	66	**1,994**	1,667	**10,373**	11,844	**9**	5	**12,471**	13,582
Non-performing loans	**71**	68	**1,586**	2,042	**11,353**	14,003	**63**	–	**13,073**	16,113
Allowances for non-performing loans	**56**	66	**1,336**	1,289	**7,264**	8,646	**5**	5	**8,661**	10,006
Total allowances for impaired and non-performing loans	**95**	66	**1,994**	1,667	**10,373**	11,844	**9**	5	**12,471**	13,582
Other allowances and provisions for credit and country risk			**921**	1,396			**6**		**927**	1,396
Total allowances and provisions	**95**	66	**2,915**	3,063	**10,373**	11,844	**15**	5	**13,398**	14,978
of which country allowances and provisions	**–**	–	**1,376**	1,450	**–**	–	**–**	–	**1,376**	1,450
Ratios										
Impaired loans in % of gross loans	0.5	0.6	3.9	2.5	11.6	13.9	13.5	0.0	8.1	8.0
Non-performing loans in % of gross loans	0.2	0.2	1.9	1.5	6.9	8.5	13.3	–	4.7	4.9
Allowances and provisions for credit loss in % of gross loans	0.3	0.2	3.5	2.3	6.3	7.2	3.2	1.6	4.8	4.5
Allocated allowances in % of impaired loans	67.9	37.7	62.3	50.2	54.5	51.6	14.1	na	55.5	51.4
Allocated allowances in % of non-performing loans	78.9	97.1	84.2	63.1	64.0	61.7	7.9	na	66.3	62.1

[1] 1998 allocation between UBS Private Banking and UBS Warburg restated (transfer of CHF 6,989 million from UBS Warburg to UBS Private Banking. [2] Includes non-performing loans.

Impaired and non-performing loans

UBS classifies a loan as impaired when it judges that there is a high probability that it will suffer a partial or full loss. A provision is then made with respect to the loan in question. Within this category, non-performing loans are defined as loans where payment of interest, principal or fees is overdue for 90 days. Non-performing loans have decreased to CHF 13,073 million at 31 December 1999 from CHF 16,113 million at 31 December 1998. The reduction reflects an accelerated write-down in the Swiss domestic portfolio, a substantial reduction in our emerging markets exposure, a significant improvement in the macroeconomic situation in Switzerland and a faster than expected recovery in key Asian economies.

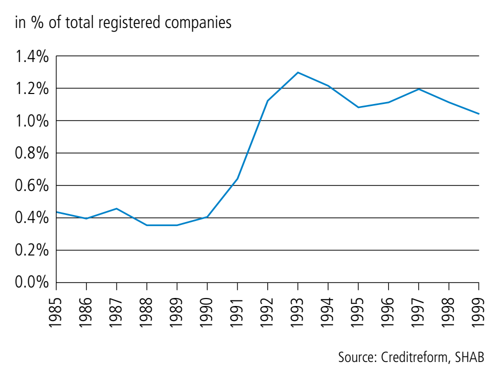
The above table provides a breakdown by divisions of impaired and non-performing loans as of the dates indicated.

Allowances and provisions

The adequacy of the allowances and provisions for impaired loans is assessed by the Credit Risk Management and Control function which is independent from the divisions. Allowances and provisions are determined based upon an individual assessment of counterparties and countries and their creditworthiness as well as the amount of collateral available to us to offset against the potential loss. As the table above shows, allowances and provisions for credit losses decreased by CHF 1,580 million, or 10.5%, from CHF 14,978 million at 31 December 1998 to CHF 13,398 million at 31 December 1999 caused by net write-offs and recoveries and partially offset by the establishment of additional credit loss provisions. As impaired loans were reduced by close to CHF 4 billion and non-performing loans by more than CHF 3 billion, the coverage ratio could be significantly increased. We are convinced that the inherent risk in our portfolio is adequately covered by allowances and provisions.

The allowances and provisions for credit losses include a component for country risk. UBS's approach to country risk provisioning follows the guidelines of the Swiss Bankers' Association, which allows banks to establish provisions based on their own portfolio scenarios. UBS establishes country-specific scenarios which are reviewed and used on an ongoing basis to evaluate the current and future probability of default due to country risk incidents or country-specific

Swiss bankruptcy rates (1985–1999)



systemic risks. The appropriate allowances and provisions are then determined by evaluating the type of credit exposure and the loss severities that have been attributed to each exposure type. Total provisions and allowances for emerging market related exposures stood at CHF 1,376 million at 31 December 1999 and CHF 1,450 million at 31 December 1998, reflecting on the one hand the reduction in the overall size of our emerging market exposure but on the other hand also the need for a reallocation of provisions from Asia to Latin America.

In view of its overall credit exposure to the Swiss market, UBS's provisions and allowances are highly dependent on economic developments in Switzerland. As the following chart shows, the better performance of the Swiss economy since 1997 has translated into a continued reduction of the bankruptcy rate. Given the broadly supported upswing now embracing all sectors of the economy, the present growth rate of 2% is set to continue throughout this year. The resulting improvement in companies' financial condition should result in a further reduction in default rates into the current year.

Market risk

Market risk is the risk UBS faces as a result of adverse movements in the value of foreign exchange, commodities, equity market and interest rates positions. UBS incurs market risk mainly through its trading activities, which are centered in UBS Warburg, although market risk also arises – to a substantially lesser extent – in relation to other activities, notably in the context of balance sheet management activities. UBS Warburg's primary market risk exposure relates to its business activities in equities, fixed income products and foreign exchange. The risk which UBS Warburg assumes is primarily related to the need to facilitate its customers activities in the major OECD markets.

UBS measures its exposure to market risk using the framework of expected loss, statistical loss and stress loss, as follows:

- 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, or VaR, methodology. VaR is a forward looking estimate of potential loss. 1-day VaR looks forward one trading day, while 10-day VaR looks forward ten days. UBS calculates VaR using a 99% confidence level. In other words, under normal market conditions, we would expect over the course of a day a loss more than our 1-day VaR to occur with a 1 in 100 chance
- Stress scenario loss is defined as the risk of an extreme market move affecting particular predefined market variables.

In order to keep our exposure to market risk within acceptable boundaries, the Board of Directors has set limits on our exposure to both statistical loss by reference to the VaR exposures as well as to stress scenario loss by placing limits in relation to particular stress scenarios.

UBS calculates the VaR associated with its exposure to market risk and consequently also its regulatory capital requirement using the historical simulation technique, based on five years of data. VaR 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 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. During 1999 UBS Warburg operated within a CHF 450 million 10-day VaR limit.

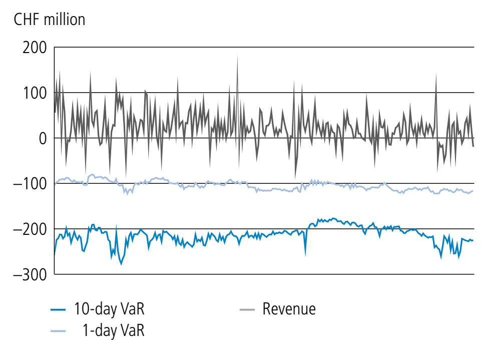
During the course of 1999 UBS received approval from the Swiss Federal Banking Commission (FBC) to use its VaR model to compute regulatory capital requirements for market risks.

While a VaR measure is the principal measure of UBS's exposure to day-to-day movements in market prices, UBS's risk control process is specifically focused on tail risks (or the risk of a loss significantly larger than the VaR number as a result of large movements in the risk factors, such as equity indices, foreign exchange rates and interest rates, on our portfolios). UBS has a consistent set of predefined large price movements, or shocks, and risk limits, which apply to all the major risk factors to which the bank is exposed as a basis to prevent risk concentration. This is the primary protection against any form of extreme event. In addition to this first level protection, a stress loss limit has been introduced as a portfolio control for all the trading activities which are concentrated within UBS Warburg. The potential stress loss is calculated with respect to eight base scenarios which are supplemented by ad hoc analyses depending on external developments or specific portfolio concentrations such as Year 2000 which we added to our stress test analysis in the third quarter of 1999. This ensures that both historical crises as well as forward looking extreme scenarios are incorporated in the analysis. Implementing this stress loss limit is a way of protecting our earnings during periods of extreme market stress.

UBS Warburg market risk developments

Since the merger, UBS Warburg has taken a number of steps to improve its overall risk profile. These include adjusting its market risk profile, including its exposure to emerging market risk and equity market volatility. As the table below shows, VaR utilization within UBS Warburg has dropped across all major product lines in the course of 1999. This does not reflect a rationing of risk but a choice taken by UBS Warburg management based on the risk-return opportunities in the market. This reduction has in fact been achieved at a time when UBS Warburg has generated some of its strongest earnings, which reflects a significant improvement in the risk-return profile of the businesses.

UBS Warburg backtesting results



All VaR models, while forward looking, are based on past events and are dependent upon the quality of available market data. In order to evaluate the VaR model actual revenues are compared with the 1-day VaR on a daily basis, a process known as "backtesting", with losses greater than the VaR estimate being known as "exceptions". As the chart above shows, UBS Warburg's backtesting results showed no exceptions in the course of 1999.

Market risk in the other divisions

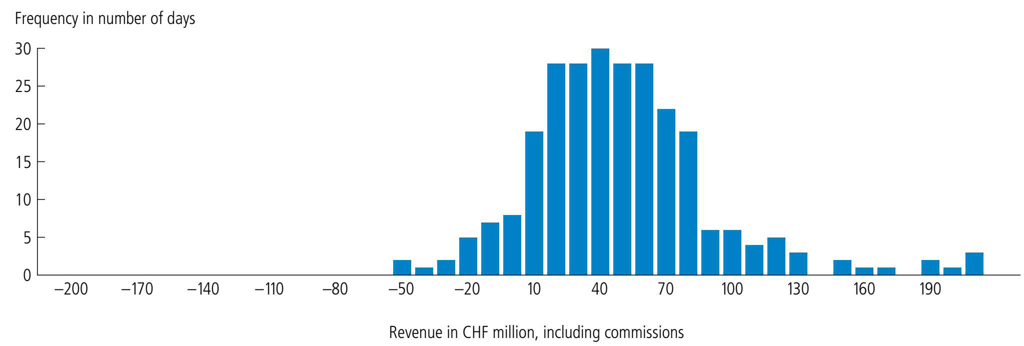
Although UBS assumes almost all of its active market risk in UBS Warburg, the Group-wide VaR for trading book market risk exposure includes all sources of market risk. This includes a small amount of risk which is assumed in order to facilitate customer business by UBS Private Banking in Switzerland as well as the risk associated with the structural foreign exchange hedge positions managed by Corporate Center, which are discussed

Summary of 10-day 99% confidence value at risk

UBS Warburg

	12 months ending 31.12.1999				6 months ending 31.12.1998			
CHF million	Min.	Max.	Average	31.12.1999	Min.	Max.	Average	31.12.1998
Risk type								
Equities	122	208	163	173	152	304	216	215
Interest rates	88	188	140	140	129	279	181	170
Foreign exchange	10	145	58	76	21	84	47	73
Precious metals	5	36	21	28	16	48	32	19
Diversification effect	–[1]	–[1]	(168)	(193)	–[1]	–[1]	(181)	(217)
Total UBS Warburg	**177**	**276**	**213**	**224**	**210**	**400**	**295**	**260**

[1] As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.



Summary of 10-day 99% confidence value at risk for UBS Group

UBS Group VaR *CHF million*	31.12.1999	31.12.1998
UBS Warburg	**223.6**	259.9
Corporate Center	**59.8**	79.2
Other [1]	**4.3**	5.4
Diversification effect	**(55.5)**	(62.0)
UBS Group	**232.2**	282.5

[1] The above table includes interest rate exposures in the banking books of the Private Label Banks.

below under “Asset and Liability Management”. As the table on the previous page shows, however, the overall impact of these additional risks is to a significant degree offset by positions in the UBS Warburg portfolio. This is shown by the measure of the diversification effect which arises when total VaR for market risk is calculated at the Group level.

Consequential risks

In addition to credit and market risks which UBS assumes as an integral part of its business activities, UBS also assumes a number of consequential risks – often referred to as “operational risk” – which arise as a consequence of its business activities. These risks include:
– Operations or transactions processing risk
– Legal risk
– Compliance risk
– Liability risk
– Security risk.
UBS is addressing the measurement of its consequential risks through the introduction of a generic operational risk-modeling framework. This framework groups risks into predetermined risk categories and identifies the factors behind the risk exposure. Operational risk scenarios are developed to stress the processes and procedures underlying the exposure. This helps to measure the risk of loss from the identified exposures in a similar manner to the statistical loss measurements of our credit and/or market risk exposures. UBS is reviewing whether this framework, which contains varied and sophisticated techniques, provides the potential to assess more accurately risk exposures to help ensure they are in accordance with UBS’s risk appetite and risk-bearing capacity.

The primary focus of UBS’s operational risk monitoring during 1999 was on the need to manage and control the risks associated with the transfer of customer accounts in UBS Private and Corporate Clients from the former Swiss Bank Corporation mainframe operating system (RTB) to the UBS system (Abacus) as well as the need to ensure a smooth transition to the Year 2000. The account migration from RTB to Abacus was completed by mid-year 1999, which was the quickest integration following any major bank merger in recent years.

Similarly, UBS’s Year 2000 transition ran very smoothly. Following a period of two years during which the Year 2000 project had received the highest management priority in all divisions as well as at the Group level, UBS year end processing progressed with no material interruptions and all the bank's business critical systems operated satisfactorily. The total cost of UBS's Year 2000 project in 1999 was CHF 279 million.

A further focus of UBS's risk control process for consequential risk is the reliability of the data which supports its risk reporting systems. As recommended in the 1998 risk review, a data integrity review of the UBS Warburg credit risk control systems was completed during 1999. This included the establishment of a comprehensive data quality monitoring process, a revision of the inter-system reconciliation procedures and continuing regular, independent tests of data quality. The review has resulted in a high degree of confidence in risk control data and concluded that no additional provisioning was required specifically relating to the review.

Asset and Liability Management

UBS asset and liability management processes are designed to manage all balance sheet related risks on a coordinated Group-wide basis. The procedures and policies cover Group liquidity, Group funding and capital management, and the management of non-trading foreign exchange and interest rate risk.

UBS recognizes that the market and credit risk framework which is set out above cannot be fully applied to its asset and liability management activities which include Group liquidity, Group funding and capital management as well as the management of non-trading foreign exchange risk and non-trading interest rate risk. Consequently, specific processes and policies have been established for managing these risks. UBS's asset and liability management function is undertaken at the Corporate Center by the Group Treasury department which reports directly to the CFO. Group Treasury is responsible for establishing and effectively managing the processes in relation to these risks in accordance with policies which have been approved by the Board of Directors.

The overriding goals of all processes within the asset and liability management activities are:

– Efficient management of the bank's non trading interest rate and foreign exchange exposures.
– Sustainable and cost-efficient funding of the bank's balance sheet.
– Optimal liquidity management in order to generate cash when required.
– Compliance with legal and regulatory requirements.

Interest rate management

Interest rate risk is inherent to most of UBS's 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 months LIBOR. In addition, certain products have embedded options that affect their pricing and principal.

UBS adopts a comprehensive Group-wide approach to managing interest rate risk, and allocates the responsibility for managing this risk to a limited number of business areas. Under this approach, interest rate risk is clearly segregated into trading and non-trading risk. All interest rate risks arising from non-trading business activities are captured at the point of business origination and transferred either to UBS Warburg's Cash and Collateral Trading book – "CCT" – or to the Corporate Center's Bank Book through a Group-wide transfer pricing mechanism. The risk is then managed centrally in accordance with the relevant risk policy.

In the case of transactions with a fixed maturity, the interest rate risk is transferred from the relevant business area to CCT on a transaction by transaction basis. This means that products with fixed maturities immediately become part of the trading book in UBS Warburg and the business locks in an interest-rate-risk-free margin on such products thereby relieving them of any residual interest rate risk. As a result of this process, UBS benefits fully from the netting potential between its balance sheet and trading products.

In the case of client business, such as savings accounts or current accounts, which have no contractual maturity date or directly market-linked customer rate the interest rate risk is transferred from the business areas by pooled transactions to the Bank Book. Since these products effectively contain various embedded options in respect of withdrawal/pre-payment and rate setting, they cannot be hedged by single back-to-back transactions. Consequently, Group Treasury manages the inherent interest rate risk in these products in the Bank Book through the establishment of replicating portfolios of revolving fixed-rate transactions of predefined maturities which approximate the average cash flow behaviour of these positions. Group Treasury then hedges the overall risk in the Bank Book by means of internal transactions with CCT. As a result of this process, all interest rate risks arising from client business are transferred either directly or indirectly via the Bank Book, to CCT.

In addition to the interest rate risk associated with client business, a significant amount of interest rate risk arises in relation to non-business balance sheet items, such as in the refinancing of the bank's real estate portfolio, equity investments in associated companies and the investment of the bank's own equity. The refinancing of real estate and equity investments and the investment of equity are all strategic decisions which implicitly create non-trading interest rate exposures. The interest rate risks inherent in these balance sheet items are managed in the Bank Book by representing them as replicating portfolios, on the basis of decisions taken by the Group Executive Board as to the appropriate effective maturities. Here, too, the risk is hedged by means of internal transactions with CCT.

All the replicating portfolios which are contained in the Bank Book are updated monthly by replacing maturing tranches with new aggregate tranches which reflect the changes in the balance sheet over the period. By their nature, the staggered tranches which constitute each replicating portfolio reduce the volume that must be hedged by the Bank Book at each monthly rollover. However, due to the extent of the underlying portfolio volumes, the new aggregate tranches are nevertheless of such a size that they cannot be hedged instantly. The Bank Book therefore assumes intramonth interest rate exposure until it can execute all the necessary offsetting hedges with CCT. The exposure of the Bank Book, which thus tends to fluctuate between monthly rollovers and the profits or losses arising out of the Bank Book are reported on an accrual basis in the financial statements and constitute an integral part of the Group's net interest income.

The Board of Directors has approved risk management policies, risk limits and the control framework for the entire interest rate risk management process including the establishment of a value-at-risk limit for the interest rate exposure of the Bank Book. Market Risk Control monitors the risk in both CCT and in the Bank Book on a daily basis as part of UBS's overall market risk in order to ensure the integrity of the interest rate risk management process and its compliance within the defined risk limits.

UBS's approach to managing the interest rate risks inherent in the Bank Book complies with the regulatory framework recently introduced by Swiss Federal Banking Commission – the "FBC". In the course of the year 2000, it will become mandatory for all Swiss banks to report to the Swiss National Bank the interest rate sensitivity of the Bank Book on a quarterly basis. Additionally, the specific composition of the underlying replicating portfolios used to manage individual balance sheet items must also be disclosed in order to assist the regulators to identify "outliers" in terms of their interest rate risk profiles.

The table below shows the interest rate sensitivity of the Bank Book as at 31 December 1999 measured in terms of the potential impact of a one basis point (0.01%) parallel rise in interest rates on the market value of each balance sheet item.

The most significant component of the Bank Book sensitivity stems from the investment of the Group's equity. At 31 December 1999, this was invested in a portfolio of fixed-rate CHF deposits with an average duration of 2.2 years and a sensitivity of CHF –8.1 million per basis point, in line with the strategic investment targets set by the Group Executive Board. In order to ensure that these GEB targets are met, the Group's equity is represented as a liability position by a replication portfolio reflecting this target benchmark. The Group's equity is thus automatically

Interest rate sensitivity of the Bank Book

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	(11)	11	39	850	(610)	279
USD	3	(33)	(10)	83	1,207	1,250
EUR	0	(3)	3	30	210	240
GBP	0	5	(39)	77	815	858
JPY	0	0	0	(1)	(4)	(5)
Others	0	0	0	0	0	0
Total	**(8)**	**(20)**	**(7)**	**1,039**	**1,618**	**2,622**
of which replicated equity						
CHF	19	19	437	7,054	610	8,139
Bank Book without replicated equity						
Total	**(27)**	**(39)**	**(444)**	**(6,015)**	**1,008**	**(5,517)**

invested according to the GEB strategic targets so as to offset the interest rate risk associated with this equity replication portfolio. The interest rate sensitivity of these investments indicates the extent to which their marked-to-market value would be affected by an upward move in interest rates. This in turn is directly related to the investment duration chosen by the GEB. However, when measured against the equity replication portfolio itself, the residual interest rate risk is negligible. Moreover, any reduction in this measure of the interest rate sensitivity relating to the investment of the bank's equity would inevitably require investing at significantly shorter maturities, which would lead to a higher volatility of the bank's interest earnings.

In addition to the above standard sensitivity to a one basis point rise in rates, UBS uses the following two measures to help to monitor the risk inherent in the Bank Book:

– Net interest income at risk, which is defined as the exposure of the net interest income arising in the Bank Book to an adverse movement in interest rates over the next twelve months. Given the fact that all client business with fixed maturities is "match funded" with UBS Warburg, these transactions are not affected by changes in interest rates. Therefore only net interest income positions resulting out of replicating portfolios may be exposed to market changes. This measure estimates the impact of different changes in the level of interest rates using shock scenarios as well as gradual changes in interest rates over a period of time. All of the scenarios are compared with a scenario where current market rates are held constant for the next twelve months.
– The economic value sensitivity, which is defined as the potential change in market value of the Bank Book resulting from changes in interest rates. This estimates the effect of an immediate interest rate shock on the net position in the Bank Book.

The net interest income at risk measure on the Bank Book considers such variables as:

– Repricing characteristics of assets and liabilities.
– Rate barrier effects, such as caps and floors, on assets and liabilities.
– Maturity effects of replicating portfolios.
– Behaviour of competitors.

Both measures are based on the Bank Book's interest rate position excluding the liability position relating to the "equity replication portfolio". The methodology is designed to highlight the effects of market changes in interest rates on existing balance sheet positions; it ignores future changes in the asset and liability mix and therefore it is not by itself a measure of future net interest income.

The two methodologies provide different measures of the level of interest rate risk. The economic value sensitivity measure provides a longer term view, since this considers the present value of all future cash flows generated from the existing balance sheet positions. The net interest income at risk measure provides a shorter term view, as it considers the repricing effect of all maturing positions over the next twelve months. The table below shows the change in risk under both measures between the end of 1998 and 31 December 1999.

CHF million	**31.12.99**	31.12.98
Net interest income at risk	**(355)**	(265)
Economic value sensitivity	**(555)**	(493)

Among various scenarios that have been analyzed, the net interest income at risk figure shown is the worst case and relates to an interest rate shock (parallel shift) of –200 basis points. At 31 December 1998, the difference to the constant market rate scenario represents –4.0% of 1998s total net interest income and –5.6% at 31 December 1999. In this extreme scenario the largest part of the decrease would occur due to lower margins on deposit accounts and lower returns on the investment of the Group's equity.

The economic value sensitivity shows the effect of a 100 basis point adverse interest rate shock, implying that the bank had an exposure of CHF –493 million to rising rates at 31 December 1998 and CHF –555 million at 31 December 1999.

The increase in the economic value sensitivity in the course of 1999 was primarily due to the decreased USD and GBP sensitivities. Since these exposures act as a counterweight to the dominant CHF position, this resulted in an increased overall CHF exposure to rising rates.

Liquidity and funding management

UBS's approach to liquidity management seeks to ensure that the Group will always have sufficient liquidity to meet its liabilities in a timely manner while preserving the option of exploiting potential strategic market opportunities. UBS's centralized approach to liquidity management encompasses the entire network of branches and all subsidiaries and ensures that the liquidity position is more than adequate to cover short term liabilities at all times. UBS's liquidity management is based on an integrated framework that incorporates an assessment of all known cash flows within the Group as well as the availability of high grade collateral which could be used to secure additional funding if required. The liquidity position is prudently managed under different potential scenarios taking stress factors into due consideration (as suggested by the BIS in its 1992 working paper).

The Board of Directors has approved a policy which establishes the core principles for liquidity management and has defined an appropriate contingency plan. A first set of principles relates to the establishment of liquidity risk limits (e.g. a net overnight funding limit). The risk limits are set by the Group Executive Board and monitored by the Financial Management Committee ("FMC") which is chaired by the CFO and meets on a monthly basis in order to assess the bank's liquidity exposure. A second set of principles concentrates on liquidity crisis management for which detailed contingency plans have been worked out. Regional committees constantly monitor the markets in which we operate for potential threats and regularly report their findings to the FMC. In the event of a liquidity crisis regional crisis task forces will perform all necessary contingency actions under the command of senior management.

The liquidity management process is undertaken jointly by Group Treasury and CCT. Group Treasury's function is to establish a comprehensive framework of directives and risk limits, while CCT undertakes the operational cash and collateral management transactions within the established parameters. UBS's centralized cash and collateral business management structure facilitates a tight control on both the global cash position and the stock of highly liquid and rediscountable securities.

UBS's funding strategy seeks to ensure that business activities are funded at the lowest possible cost. With a broad diversification (by market, product and currency) of funding sources UBS maintains a well balanced portfolio of liabilities which generate a stable flow of financing and additionally provides protection in the event of market disruptions. In this context UBS's strong domestic retail business is a very valuable, cost efficient and reliable source of funding. Through the establishment of short, medium and long term funding programs in Europe, in the US and in Asia, UBS can raise funds globally in a very efficient manner and minimize its dependence on any particular source of funding.

In the course of 1999, UBS's long term debt portfolio has increased from CHF 50.8 billion as of 31 December 1998 to CHF 56.3 billion as of 31 December 1999. During this period CHF 12.6 billion of new long term securities were issued while at the same time CHF 7.1 billion have matured. The maturity profile of the long term debt portfolio is well balanced with a slight bias towards shorter term maturities due to the maturity profile of the bank's assets. See the Notes to the Consolidated Financial Statements for further information concerning long term debt.

Currency management

UBS's corporate currency management activities are designed to protect the bank's equity and the expected future foreign currency cash flows from adverse currency movements against the Swiss franc while preserving the option of exploiting any market opportunities which may arise.

The following principles guide the approach to managing this risk:

- Equity must be invested in Swiss francs (translation risk management).
- Recognized foreign currency exposures must be hedged proactively for the whole financial year, which represents the cycle of financial accounting (transaction risk management).

Translation (balance sheet) currency risk:
UBS aims to maintain the flexibility to allow foreign assets (a business unit or a non-financial asset) to be divested at any time without adverse currency impacts. To eliminate these undesired foreign exchange impacts on investments and divestments of these assets, foreign currency assets are match funded in the relevant currency. The match-funding principle is also applied to the financing of foreign investments, including foreign equity investments. This strategy, together with the repatriation into Swiss francs of foreign currency dividends and capital, ensures that the bank's equity is always fully invested in Swiss francs.

The following table summarizes the VaR usage in the course of 1999:

Value at risk

CHF million	Minimum	Maximum	Average	Last value of period
1 July 1998 – 31 December 1998	37.2	133.7	77.5	79.2
1 January 1999 – 31 December 1999	1.4	77.8	37.1	59.7

Transaction (revenues/costs) currency risk: UBS's transaction currency risk management process is designed to protect the budgeted annual foreign currency net profits against adverse currency movements during the relevant reporting period. Foreign currency net profits are actively managed by Group Treasury on behalf of the Group in accordance with the instructions of the Group Executive Board and subject to the VaR limit which has been established for this risk. The budgeted net profits are treated as long forward foreign exchange exposures in the local reporting currency against the Swiss franc.

The non-trading foreign currency exposures are mainly hedged with foreign exchange forward contracts, although foreign exchange options are also used particularly where there is a measure of uncertainty about the magnitude of the underlying income. The net position of the budgeted net profits and the corresponding hedges, is the basis for the VaR calculation on Group Treasury's non-trading currency position. During the year, actual results are continuously monitored. Major budget deviations must be communicated to Group Treasury for potential additional hedge transactions. The VaR analysis, which is performed daily, is based on the same 10 day 99% confidence level as applies in UBS Warburg. The validity of the VaR measurement is evaluated by conducting backtests, which compare the estimated VaR amount with the actual shift of the positions' profit or loss due to exchange rate movements.

The principal contributors to our non-trading currency exposure are the operations in the UK and the US. In general, the VaR position is highest at the beginning of the year when the budgeted net profits are transferred to Group Treasury and is gradually reduced during the year depending on the exact hedge strategy being used. The underlying policy is to keep the VaR of the non-trading currency position as low as practicable.

Capital management

Capital management is undertaken at UBS by Group Treasury as an integral part of the Group's asset and liability management function. UBS's overall capital needs are continually reviewed to ensure that our capital base can appropriately support the anticipated needs of the divisions as well as the regulatory capital requirements.

As the table on the next page shows, UBS is very well capitalized. In the course of 1999, UBS's BIS Tier 1 Ratio increased from 9.3% at 31 December 1998 to 10.6 % at 31 December 1999 primarily resulting from a significant increase in retained earnings coupled with a reduction in risk weighted assets. The decrease in risk weighted assets is principally a result of reduced positive replacement values, off-balance sheet contingent liabilities and the reduction in the size of the international loan book. See Note 33c in the consolidated financial statements for additional information on capital adequacy.

The ratios measure capital adequacy by comparing UBS's eligible capital with the risk-weight-

The following table shows the key capital figures and ratios as of 31 December 1999 and 31 December 1998:

CHF million	**31.12.1999**	31.12.1998
Balance sheet assets	**219,383**	238,024
Off-balance sheet and other positions	**48,282**	50,659
Market risk positions	**10,813**	16,018
Total risk-weighted assets	**278,478**	304,701

The following table sets forth BIS risk-weighted assets as of 31 December 1999 and 31 December 1998:

CHF million	31.12.1999	31.12.1998
BIS Tier 1 capital	**29,529**	28,299
BIS Tier 1 and Tier 2 capital	**40,259**	40,385
in %		
BIS Tier 1 ratio	**10.6**	9.3
BIS Tier 1 and Tier 2		
Capital ratio	**14.5**	13.3

ed asset positions, which include balance sheet assets, the net positions in securities not held in the trading portfolio, off-balance sheet transactions converted into their credit equivalents and market risk positions at a weighted amount to reflect their relative risk.

UBS is committed to maintaining a strong capitalization and rating as a distinguishing characteristic of UBS for both clients and shareholders. On 12 March 1999, UBS introduced a treasury stock buy-back program, planned to run for a period of two years. As of 31 December 1999, a total of 7.3 million shares had been acquired, representing about 3.4% of the total of outstanding shares. The objective of the buy-back program was to utilize the shares for acquisitions and the employee stock ownership program. UBS has subsequently concluded that this program is too limited for its purposes because of the continuous increase in capital which is projected to arise from ongoing retained earnings and the selective reduction in the risk profile as well as increasing capital efficiency.

For this reason, UBS announced in December 1999 that it would replace the treasury stock buy-back program by a Swiss-specific program targeted at Swiss institutional shareholders, which is the only tax-efficient means that has been identified to achieve cancellation. This is called a second trading line program. The second trading line program was implemented in January 2000. The subsequent cancellation of the shares bought back through the second trading line requires shareholders' approval. In addition to this initiative, UBS recognizes and will address over time the potential for introducing a more active management of the composition of its capital. As of 23 February 2000, the program has resulted in the repurchase of about 2.8 million shares, or about 1.3% of our market capitalization. Through this program we plan to buy back a maximum value of CHF 4 billion which will then be earmarked for cancellation on shareholders' approval. This program may last at a maximum until March 2001.

Performance measurement

UBS is in the process of implementing a comprehensive value based management approach to support management in key tasks like planning, investments, capital allocation, performance appraisal and compensation, strategic risk management and communication to investors and analysts.

Divisional business plans, planned acquisitions, investments and divestments are evaluated and approved on the basis of their expected contribution to shareholder value. Actual performance is appraised using division specific hurdle rates and according to the contribution to value creation. The implicit costs of risk tolerance as well as the consumption of regulatory equity and risk control efforts are therefore considered in an appropriate way.

UBS Group
Financial Statements

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Group Financial Review

Overview

- Net profit was CHF 6,300 million in 1999, up from CHF 3,030 million in 1998.
- Both years contain several significant financial events and thus direct comparisons are complex.
- For 1999, return on equity stood at 21.2% before goodwill amortization and 20.1% after goodwill amortization, with comparable numbers for 1998 of 11.4% and 10.3% respectively.
- The cost/income ratio was 68.0% before goodwill amortization and 69.1% after goodwill amortization in 1999, versus 77.0% and 78.4% in 1998, respectively.
- In 1999 basic earnings per share reached CHF 31.91 before goodwill amortization, and CHF 30.28 after goodwill amortization against CHF 15.92 and CHF 14.31 in 1998, respectively.
- Since 31 December 1998, Group assets under management have increased 10.9% to CHF 1,744 billion.

Significant financial events

1999 total operating income includes:
- CHF 1,490 million pre-tax gain relating to the sale of our 25% stake in Swiss Life / Rentenanstalt.
- CHF 110 million pre-tax gain from the disposal of Julius Baer registered shares.
- CHF 200 million pre-tax gain from the international Global Trade Finance disposal.
- CHF 38 million pre-tax gain from the Long Term Capital Management rescue fund.

1999 total operating expenses include:
- The booking of pre-paid employer pension contributions of CHF 456 million. This represents the recognition, in accordance with International Accounting Standards, of the difference between previously recorded and actuarially determined pension expenses. This pre-payment has been recognized in 1999 after the resolution of certain legal and regulatory issues related to the utilization of these contributions subsequent to the integration of the pre-merger banks' pension plans.
- An additional pre-tax restructuring charge of CHF 300 million in respect of the merger between Union Bank of Switzerland and Swiss Bank Corporation, representing about four percent of the original CHF 7 billion provision. The majority of this extra provision is due to revised estimates of the cost of lease breaks and property disposals.
- Additional pre-tax provisions of CHF 154 million relating to the settlement reached regarding dormant accounts and World War II related claims. When we created the corresponding provisions in 1998, we expected a certain level of contributions from Swiss industry. In the fourth quarter, it became clear that this level of contributions was not forthcoming as expected.

1999 impact on net profit:
- In sum, the significant financial items listed above represent pre-tax gains of CHF 1,840 million (CHF 1,488 million post-tax).
- The acquisition of the international private banking business of Bank of America has had no material impact on Group or divisional results.
- The Global Asset Management and Allegis acquisitions were completed in the final days of December 1999. Both are consolidated and have no material impact on the 1999 income statement.

Income statement

Total operating income increased 28% to CHF 28,621 million, while total operating expenses increased 12% to CHF 20,452 million.

Net interest income

Net interest income before credit loss expenses decreased 4.6% compared to 1998, to 6,356 million. Higher margins in the domestic loan portfolio which resulted from more consistently applied risk-adjusted pricing were more than offset by the reduction of the international loan portfolio, the impact of the sale of activities (BSI, Adler) which contributed to the 1998 result, and lower returns on invested equity.

Credit loss expense

The credit loss expense for 1999 amounted to CHF 956 million. During 1998 a significant portion of credit losses was charged against previously established provisions, thus reducing the credit loss expense at December 1998 to CHF 951 million.

Domestically we clearly benefited from our efforts on the recovery portfolio and the improving macro-economic climate. Internationally, the absence of a major emerging market crisis and recoveries of previously provisioned exposures have impacted the results significantly and led to a release of country provisions.

Net fee and commission income

At CHF 12,607 million in 1999, net fee and commission income remained stable compared with CHF 12,626 million in 1998. Excluding the effect of divestments no longer reflected in 1999 figures, there was an increase of roughly one percent.

The increase in investment fund fees of CHF 137 million is attributable to higher volumes and to pricing adjustments from the integration of the two pre-merger product platforms. Strong increases in custodian fees reflect higher custodian assets and a new pricing model.

Brokerage fees are higher period-on-period mainly due to strong volumes in the UK, US and Asia.

Underwriting and corporate finance fees are up 8% thanks to strong results in mergers and acquisitions.

Credit-related fees and commissions decreased in line with reduced emerging market exposures and the sale of the international Global Trade Finance operations.

Net trading income

Net trading income was CHF 7,468 million in 1999, up from CHF 1,750 million in 1998. During 1998, net trading income was negatively impacted by the pre-tax CHF 793 million and CHF 762 million write-downs on LTCM and pre-merger Global Equities Derivatives positions respectively, as well as mark-to-market losses in emerging markets.

Net trading income comprises predominantly the net trading result of UBS Warburg and certain activities related to Group asset and liability management in the Corporate Center. The UBS Warburg trading result includes largely customer-related activities (market making, derivatives and foreign exchange), as well as some proprietary trading.

During 1999, Group net trading income benefited from very strong customer volumes in equity products globally. Fixed income trading revenues were strong across all major products, led by swaps and options, and investment grade debt. Income from foreign exchange and banknotes trading was down period-on-period, as a result of Group asset and liability management, as well as lower volumes, and volatility in foreign exchange markets.

Income from disposal of associates and subsidiaries

Income from disposal of associates and subsidiaries was CHF 1,821 million during full-year 1999. Major items driving this line include – as mentioned above – the pre-tax gains of CHF 1,490 million from the sale of our stake in Swiss Life / Rentenanstalt and CHF 110 million from the disposal of Julius Baer registered shares. In 1998, disposal-related pre-tax gains of CHF 1,119 million resulted mainly from the sale of BSI.

Other income

Other income increased by CHF 203 million to CHF 1,325 million in 1999. Main contributors were the pre-tax CHF 200 million gain from the disposal of international Global Trade Finance and CHF 395 million from the first-time consolidation of Klinik Hirslanden. This was partially offset by less income from investment in associates as a result of divestments and lower income from other properties. 1998 was negatively impacted by the CHF 367 million portion of the LTCM write-down.

Personnel expenses

Personnel expenses amounted to CHF 12,577 million in 1999. In 1998, this amount stood at CHF 9,816 million.

At the end of 1997, UBS foresaw the probability of a shortfall in profit in its investment banking business as a result of the merger. In order to protect its investment banking franchise, UBS realized it would probably need to make payments to personnel in excess of amounts determined by normal compensation methodologies. An amount of approximately CHF 1 billion was recorded as part of the merger-related restructuring reserve for this purpose.

By the end of 1998, this shortfall had materialized, and CHF 1,007 million of accrued payments to personnel were charged against the restructuring reserve as planned. The shortfall in profits noted above was aggravated by losses associated with LTCM and the Global Equity Derivatives portfolio. Adjusting the prior year for the CHF 1,007 million, personnel expenses in 1999 increased by 16%. This is chiefly attributable to higher performance-related compensation based on the good investment banking result in 1999.

As discussed above, UBS recognized CHF 456 million as an asset and a credit in personnel expense.

General and administrative expenses

General and administrative expenses decreased 9%, or CHF 599 million, to CHF 6,018 million. Excluding the impact of the provision for the settlement related to the role of Swiss banks during and after World War II, representing CHF 154 million in 1999 and CHF 842 million in 1998, as well as the additional restructuring provision of CHF 300 million in 1999 and the CHF 130 million impact from the first-time full consolidation of Klinik Hirslanden, general and administrative expenses fell 6%, reflecting stringent cost reduction programs throughout the Group.

Depreciation and amortization

Depreciation and amortization increased two percent to CHF 1,857 million. Excluding the impact of Klinik Hirslanden, depreciation and amortization remained flat.

Tax expense

UBS Group incurred a tax expense of CHF 1,815 million. The effective tax rate of 22.2% is lower than in 1998 principally because some income was sheltered by tax losses carried forward.

Balance sheet

Total balance sheet

Total assets increased four percent to CHF 982 billion. Excluding currency-related effects, total assets declined four percent. Risk-weighted assets declined 8.6% over the year to CHF 278 billion reflecting mainly the reduction of the international credit portfolio and the decrease in positive replacement values.

Loan book

The reduction in our customers' loan exposures from CHF 261 billion to CHF 247 billion is almost entirely attributable to UBS Warburg. The Private and Corporate Clients Division's gross loans outstanding remained stable at CHF 165 billion as new business was offset by a transfer of exposure to UBS Private Banking during the process of integration as well as write-offs.

The improved economic environment both in Switzerland and in Asia caused the quality of our loan book to further improve. With the continued positive economic outlook in mind, management believes that current provisioning levels adequately cover the risks inherent in the portfolio.

Treasury shares

On 12 March 1999, UBS announced its intention to invest unallocated capital in its own stock. At 31 December 1998, UBS held 4,150,150 shares, or 2% of outstanding shares, in treasury stocks. At 31 December 1999, UBS held 7,830,110 shares, or 3.6% of its own shares in treasury stocks. This amount includes 526,541 shares that are at the disposal of our Board of Directors.

On 14 December 1999 UBS announced a strategic change to its share buy-back program and the opening of a second trading line. This trading line has been open since 17 January 2000. As of 23 February 2000, the program has resulted in the repurchase of about 2.8 million shares, or about 1.3% of our market capitalization.

Financial Statements

UBS Group Income Statement

CHF million, except per share data *For the year ended*	Note	31.12.1999	31.12.1998	Change	%
Operating income					
Interest income	4	18,323	22,835	(4,512)	(20)
Interest expense	4	(11,967)	(16,173)	4,206	(26)
Net interest income		6,356	6,662	(306)	(5)
Credit loss expense	12b	(956)	(951)	(5)	1
Net interest income after credit loss expense		5,400	5,711	(311)	(5)
Net fee and commission income	5	12,607	12,626	(19)	0
Net trading income	6	7,468	1,750	5,718	327
Net gains from disposal of associates and subsidiaries	7	1,821	1,119	702	63
Other income	8	1,325	1,122	203	18
Total operating income		28,621	22,328	6,293	28
Operating expenses					
Personnel	9	12,577	9,816	2,761	28
General and administrative	9	6,018	6,617	(599)	(9)
Depreciation and amortization	9	1,857	1,825	32	2
Total operating expenses		20,452	18,258	2,194	12
Operating profit before tax and minority interests		8,169	4,070	4,099	101
Tax expense	25	1,815	1,045	770	74
Net profit before minority interests		6,354	3,025	3,329	110
Minority interests	26	(54)	5	(59)	–
Net profit		6,300	3,030	3,270	108
Basic earnings per share (CHF)	10	30.28	14.31	15.97	112
Basic earnings per share (CHF) before goodwill [1]	10	31.91	15.92	15.99	100
Diluted earnings per share (CHF)	10	30.12	14.23	15.89	112
Diluted earnings per share (CHF) before goodwill [1]	10	31.75	15.84	15.91	100

[1] The amortization of goodwill and other purchased intangible assets are excluded from this calculation.

UBS Group Balance Sheet

CHF million	Note	31.12.1999	31.12.1998	Change	%
Assets					
Cash and balances with central banks		**5,073**	3,267	1,806	55
Money market paper	11	**69,717**	18,390	51,327	279
Due from banks	12	**29,907**	68,495	(38,588)	(56)
Cash collateral on securities borrowed	13	**113,162**	91,695	21,467	23
Reverse repurchase agreements	14	**144,796**	141,285	3,511	2
Trading portfolio assets	15	**217,001**	162,588	54,413	33
Positive replacement values	27	**130,500**	169,936	(39,436)	(23)
Loans, net of allowance for credit losses	12	**234,858**	247,926	(13,068)	(5)
Financial investments	16	**7,039**	6,914	125	2
Accrued income and prepaid expenses		**5,167**	6,627	(1,460)	(22)
Investments in associates	17	**1,102**	2,805	(1,703)	(61)
Property and equipment	18	**8,701**	9,886	(1,185)	(12)
Intangible assets and goodwill	19	**3,543**	2,210	1,333	60
Other assets	20	**11,007**	12,092	(1,085)	(9)
Total assets		**981,573**	944,116	37,457	4
Total subordinated assets		***600***	*496*	*104*	*21*
Liabilities					
Money market paper issued		**64,655**	51,527	13,128	25
Due to banks	21	**76,365**	85,716	(9,351)	(11)
Cash collateral on securities lent	13	**12,832**	19,171	(6,339)	(33)
Repurchase agreements	14	**209,236**	137,617	71,619	52
Trading portfolio liabilities	15	**54,586**	47,033	7,553	16
Negative replacement values	27	**161,922**	205,080	(43,158)	(21)
Due to customers	21	**279,960**	274,850	5,110	2
Accrued expenses and deferred income		**12,040**	11,232	808	7
Long term debt	22	**56,332**	50,783	5,549	11
Other liabilities	23, 24, 25	**18,376**	27,722	(9,346)	(34)
Total liabilities		**946,304**	910,731	35,573	4
Minority interests	26	**434**	990	(556)	(56)
Shareholders' equity					
Share capital		**4,309**	4,300	9	0
Share premium account		**13,929**	13,740	189	1
Foreign currency translation		**(442)**	(456)	14	(3)
Retained earnings		**20,501**	16,293	4,208	26
Treasury shares		**(3,462)**	(1,482)	(1,980)	134
Total shareholders' equity		**34,835**	32,395	2,440	8
Total liabilities, minority interests and shareholders' equity		**981,573**	944,116	37,457	4
Total subordinated liabilities		***14,801***	*13,652*	*1,149*	*8*

UBS Group statement of Changes in Equity

CHF million *For the year ended*	31.12.1999	31.12.1998
Issued and paid up share capital		
Balance at the beginning of the year	4,300	4,296
Issue of share capital	9	4
Balance at the end of the year [1]	4,309	4,300
Share premium		
Balance at the beginning of the year	13,740	13,260
Premium on shares issued, warrants exercised	45	111
Premium on disposal of Treasury shares	144	369
Balance at the end of the year	13,929	13,740
Foreign currency translation		
Balance at the beginning of the year	(456)	(111)
Movements during the year	14	(345)
Balance at the end of the year	(442)	(456)
Retained earnings		
Balance at the beginning of the year	16,293	15,464
Net profit for the year	6,300	3,030
Dividends paid	(2,092)	(2,201)
Balance at the end of the year	20,501	16,293
Treasury shares, at cost		
Balance at the beginning of the year	(1,482)	(1,982)
Acquisitions	(3,595)	(2,796)
Disposals	1,615	3,296
Balance at the end of the year [2]	(3,462)	(1,482)
Total shareholders' equity	34,835	32,395

[1] Comprising 215,446,581 ordinary shares at 31 December 1999 and 214,976,306 ordinary shares at 31 December 1998, at CHF 20 each, fully paid. [2] Comprising 7,830,110 ordinary shares at 31 December 1999 and 4,150,150 shares at 31 December 1998.

In addition to Treasury shares, a maximum of 528,954 unissued shares (conditional capital) (999,229 at 31 December 1998) can be issued without the approval of the shareholders. This amount consists of unissued and reserved shares for the former Swiss Bank Corporation employee share ownership plan and optional dividend warrants. The optional dividend warrants were granted in lieu of a cash dividend by the former Swiss Bank Corporation in February 1996 (at the option of the shareholder).

UBS Group statement of Cash Flows

CHF million *For the year ended*	31.12.1999	31.12.1998
Cash flow from / (used in) operating activities		
Net profit	6,300	3,030
Adjustments to reconcile to cash flow from / (used in) operating activities		
Non cash items included in net profit / (loss) and other adjustments:		
Depreciation and amortization	1,857	1,825
Provision for credit losses	956	951
Income from associates	(211)	(377)
Deferred tax expense / (benefit)	479	491
Net gain from investing activities	(2,282)	(1,803)
Net increase / (decrease) in operating assets:		
Net due from / to banks	(5,298)	(65,172)
Reverse repurchase agreements, cash collateral on securities borrowed	(24,978)	66,031
Trading portfolio including net replacement values	(50,582)	41,488
Loans due to / from customers	17,222	(5,626)
Accrued income, prepaid expenses and other assets	2,545	2,107
Net increase / (decrease) in operating liabilities:		
Repurchase agreements, cash collateral on securities lent	65,280	(49,145)
Accrued expenses and other liabilities	(7,366)	1,686
Income taxes paid	(1,063)	(733)
Net cash flow from / (used in) operating activities	2,859	(5,247)
Cash flow from / (used in) investing activities		
Investments in subsidiaries and associates	(1,720)	(1,563)
Disposal of subsidiaries and associates	3,782	1,858
Purchase of property and equipment	(2,820)	(1,813)
Disposal of property and equipment	1,880	1,134
Net (investment) / divestment in financial investments	356	6,134
Net cash flow from / (used in) investing activities	1,478	5,750
Cash flow from / (used in) financing activities		
Money market paper issued	13,128	(4,073)
Net movements in Treasury shares	(1,836)	869
Capital issuance	54	115
Dividends paid	(2,092)	(2,201)
Issuance of long term debt	12,661	5,566
Repayment of long term debt	(7,112)	(9,068)
Repayment of minority interests	(689)	0
Net cash flow from / (used in) financing activities	14,114	(8,792)
Effects of exchange rate differences	147	(386)
Net increase / (decrease) in cash equivalents	18,598	(8,675)
Cash and cash equivalents, beginning of year	83,679	92,354
Cash and cash equivalents, end of year	102,277	83,679
Cash and cash equivalents comprise:		
Cash and balances with central banks	5,073	3,267
Money market paper	69,717	18,390
Bank deposits maturing in less than 3 months	27,487	62,022
Total	102,277	83,679

Notes to the Financial Statements

Note 1 Summary of significant accounting policies

a) Basis of accounting

UBS AG and subsidiaries (the "Group") provides a broad range of financial services such as advisory, underwriting, financing, market making, asset management, brokerage, and retail banking on a global level. The Group was formed on 29 June 1998 when Swiss Bank Corporation and Union Bank of Switzerland merged. The merger was accounted for using the pooling of interests method of accounting. Due to the merger, the Group harmonized its accounting policies which have been retrospectively applied for the presentation of comparative information.

The consolidated financial statements are stated in Swiss francs, the currency of the country in which UBS AG is incorporated. They are prepared in accordance with International Accounting Standards. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported. Actual results could differ from such estimates and the differences may be material to the consolidated financial statements.

b) Consolidation

The consolidated financial statements comprise those of the parent company (UBS AG), its subsidiaries and its special purpose entities, presented as a single economic entity. Subsidiaries and special purpose entities which are directly or indirectly controlled by the Group are consolidated. Subsidiaries acquired are consolidated from the date control passes. Companies which are acquired and held with a view to their subsequent disposal are recorded 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

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.

On a date subsequent to the trade date, the terms of spot and forward trading transactions are fulfilled ("settlement date") 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 foreign currency translation within shareholders' equity.

f) Business and geographical segments

The Group is organized on a worldwide basis into five major operating divisions and Corporate Center. These divisions are the basis upon which the Group reports its primary segment information.

Segment revenue, segment expenses and segment performance include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive prices charged to unaffiliated customers for similar services.

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 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 repurchase agreements 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 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 collateralized by the 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 on trading assets as well as the funding costs for holding these positions.

j) Loans and allowance for credit losses

Loans are initially recorded at cost. For loans originated by the Group, 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.

The allowance for credit losses provides for risks of losses inherent in the credit extension process, including loans and lending-related commitments. Such commitments include letters of credit, guarantees and commitments to extend credit. Counterparties are individually rated and periodically reviewed and analyzed. The allowance is adjusted for impairments identified on a loan-by-loan basis.

Impairments in loans are recognized when it becomes probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loans. The carrying amounts of the loans are reduced to their 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.

This management process has resulted in the following components of the overall allowance:

Counterparty-specific: Individual credit exposures are evaluated based upon the borrower's character, overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, if appropriate, the realizable value of any collateral. Impairment is measured and allowances are established based on discounted expected cash flows.

Country-specific: Probable losses resulting from exposures in countries experiencing political and transfer risk, countrywide economic distress, or problems regarding the legal enforceability of contracts are assessed using country specific scenarios and taking into consideration the nature of the individual exposures and their importance for the economy. Specific country allowances exclude exposures addressed in counterparty-specific allowances.

Specific reserve pools: Specific risk reserve pools were established in 1996 to absorb probable losses not specifically identified at that time, but which experience indicated were present in the portfolio. These pools subsequently have been applied to specific loans based on the analysis of individual credit exposures. The Group does not believe there is a current need for such allowances.

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.

k) Financial investments

Financial investments are debt and equity securities held for the accretion of wealth through distributions, 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 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 impairments 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 (see private equity above).

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

m) Property and equipment

Property and equipment includes land, buildings, furnishings, fixtures, leasehold improvements, computer, telecommunications and other equipment. Property and equipment is carried at cost less accumulated depreciation and is periodically reviewed for impairment.

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 improvements	Not exceeding 10 years
Equipment	Not exceeding 5 years

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 and intangibles resulting from the acquisition of client franchises are recognized as an asset and are amortized using the straight-line basis over their estimated useful economic life, not exceeding 20 years. At each balance sheet date, goodwill is reviewed for indications of impairment. If such indications exist an analysis is performed including an assessment of future cash flows to determine if a write-down is necessary.

Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries are treated as local currency balances and are translated into Swiss francs at the closing rate at subsequent balance sheet dates.

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, own bonds and derivatives on own shares

In the normal course of its trading and market making activities, the Group buys and sells own shares, own bonds and derivatives on own shares. These instruments are held in the trading portfolio similar to other trading instruments, and are carried at fair value. Changes in fair value and dividends received on UBS AG shares and interest on own bonds in the trading portfolio are recognized as net trading income.

The Group also holds its own shares for non-trading purposes for instance employee compensation schemes and other strategic purposes. These shares are recorded within treasury shares and are deducted from shareholders' equity. The difference between the proceeds of the sale of treasury shares and their cost basis is recognized in share premium. Dividends relating to treasury shares are not recognized.

q) Retirement benefits

The Group sponsors a number of retirement benefit plans for its employees worldwide. These plans include both defined benefit and defined contribution plans and various other retirement benefits such as post-employment medical benefit. As of 1 January 1999, the Group adopted IAS 19 (revised 1998) ("IAS 19") to account for such plans. Under IAS 19, Group contributions to defined contribution plans are expensed when employees have rendered services in exchange for such contributions, generally in the year of contribution.

In accordance with IAS 19, the Group uses the projected unit credit actuarial method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

The principal actuarial assumptions made by the actuary are set out in note 35.

The Group recognizes a portion of its actuarial gains and losses as income or expenses if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

a) 10% of present value of the defined benefit obligation at that date (before deducting plan assets); and
b) 10% of the fair value of any plan assets at that date.

The unrecognized actuarial gains and losses exceeding the greater of the two values are recognized in the income statement over the expected average remaining working lives of the employees participating in the plans.

r) Derivative instruments

Derivative instruments are carried at fair value. 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. Realized and unrealized gains and losses are recognized in net trading income. Valuation adjustments to cover credit and market liquidity risks 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.

s) Comparability

Certain amounts have been reclassified from previous years to conform to the 1999 presentation.

The prior year financial statements reflect the requirements of the following revised or new International Accounting Standards, which the Group implemented in 1999:

IAS 1 Presentation of Financial Statements
IAS 14 Segment Reporting
IAS 17 Accounting for Leases
IAS 19 Employee Benefits
IAS 36 Impairment of Assets.

The implementation of the above standards had no material impact for the Group.

t) Recent accounting standards not yet adopted

IAS 37, Provisions, contingent liabilities and contingent assets

In July 1998, the IASC issued IAS 37, Provisions, Contingent Liabilities and Contingent Assets, which is required to be adopted for the Group's financial statements as of 1 January 2000. The Standard provides accounting and disclosure requirements for contingent liabilities and contingent assets. IAS 37 also provides recognition and measurement requirements for provisions. The Group is currently assessing the impact of adoption on its financial statements.

IAS 38, Intangible assets
In July 1998, the IASC issued IAS 38, Intangible Assets, which is required to be adopted for the Group's financial statements as of 1 January 2000. The Standard requires the capitalization and amortization of intangible assets, if it is probable that the future economic benefits that are attributable to the assets will flow to the enterprise and the cost of the asset can be measured reliably. The amortization period for recognized intangible assets should not exceed 20 years. If adopted in 1999 this standard would have increased operating profit by approximately CHF 300 million.

IAS 39, Recognition and measurement of financial instruments
In December 1998, the IASC issued IAS 39, Recognition and Measurement of Financial Instruments, which is required to be adopted for the Group's financial statements as of 1 January 2001 on a prospective basis. The Standard provides comprehensive guidance on accounting for financial instruments. Financial instruments include conventional financial assets and liabilities and derivatives. IAS 39 requires that all financial instruments should be recognized on the balance sheet. Most financial instruments should be carried at fair value. IAS 39 also establishes hedge accounting criteria and guidelines. While the specific impact on earnings and financial position of IAS 39 has not been determined, the activities that will be most affected by the new Standard have been identified. Specifically, the use of derivatives to hedge loans, deposits, and issuance of debt, primarily hedge of interest rate risk, will be affected by IAS 39. Management is currently evaluating the impact of IAS 39. The actual assessment of the impact of IAS 39 on the Group's earnings and financial position will be based on the 1 January 2001 financial position, among other things, in accordance with the Standard.

IAS 10 (revised), Events after the balance sheet date
In May 1999, the IASC issued IAS 10 (revised), Events After the Balance Sheet Date, which is required to be adopted for the Group's financial statements as of 1 January 2000. IAS 10 (revised) establishes requirements for the recognition and disclosure of events after the balance sheet date.

Interpretation SIC 16, Share capital – reacquired own equity instruments (Treasury shares)
In May 1999, the IASC issued Interpretation SIC 16, Share Capital – Reacquired Own Equity Instruments (Treasury Shares), which is required to be adopted for the Group's financial statements as of 1 January 2000. The Interpretation provides guidance for the recognition, presentation, and disclosure of Treasury shares. SIC 16 applies to own shares and derivatives on own shares held for trading and non-trading purposes. SIC 16 requires own shares and derivatives on own shares to be presented as Treasury shares and deducted from Shareholders' equity. Gains and losses relating to the sale of own shares are not recognized in the income statement but rather as a change in Shareholders' equity. The specific impact on the Group's financial statements of SIC 16 will be determined and based on levels of activity upon adoption.

Note 2 Segment reporting by business division

To enable a more meaningful analysis of UBS's results, these 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. The basis of the reporting reflects the management of the business within UBS Group. Total revenue includes income, which is directly attributable to a segment whether from sales to external customers or from transactions with other segments. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis. Transactions between business segments are conducted at arms length.

For the year ended 31 December 1999

CHF million	UBS Private Banking	UBS Warburg	UBS Private & Corporate Clients	UBS Asset Management	UBS Capital	Corporate Center[2]	UBS Group
Revenues	6,011	12,909	7,193	1,096	315	2,053	29,577
Credit loss expense[1]	(24)	(330)	(1,050)	0	0	448	(956)
Total operating income	5,987	12,579	6,143	1,096	315	2,501	28,621
Personnel expenses	1,694	6,861	3,363	444	105	110	12,577
General and administrative expenses	1,467	2,448	1,061	177	47	818	6,018
Depreciation	138	652	555	29	2	141	1,517
Goodwill amortization[3]	36	134	2	113	5	50	340
Total operating expenses	3,335	10,095	4,981	763	159	1,119	20,452
Segment performance before tax	**2,652**	**2,484**	**1,162**	**333**	**156**	**1,382**	**8,169**
Tax expense							1,815
Net profit before minority interests							**6,354**
Minority interests							(54)
Net profit							**6,300**
Other information as of 31.12.1999							
Total assets[4]	133,562	730,575	199,817	2,438	3,222	(88,041)	981,573
Total liabilities[4]	131,553	721,636	191,205	1,983	2,796	(102,435)	946,738

[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 net credit loss expenses for financial reporting purposes is reported in the Corporate Center. The divisional breakdown of the net credit loss expense for financial reporting purposes of CHF 956 million as of 31 December 1999 is as follows: UBS Private Banking CHF 11 million, UBS Warburg CHF (20) million, UBS Private and Corporate Clients CHF 974 million, Corporate Center CHF (9) million. [2] Corporate Center operating income includes gains on the divestments of Swiss Life/Rentenanstalt for CHF 1,490 million and Julius Baer registered shares for CHF 110 million. [3] The amortization of goodwill includes other purchased intangible assets. [4] The funding surplus / requirement is reflected in each division and adjusted in Corporate Center.

For the year ended 31 December 1998

CHF million	UBS Private Banking	UBS Warburg	UBS Private & Corporate Clients	UBS Asset Manage-ment	UBS Capital	Corporate Center	UBS Group
Revenues	7,223	6,987	7,025	1,163	585	296	23,279
Credit loss expense [1]	(26)	(500)	(1,170)	0	0	745	(951)
Total operating income	7,197	6,487	5,855	1,163	585	1,041	22,328
Personnel expenses	1,458	4,333	3,238	454	121	212	9,816
General and administrative expenses	1,277	2,483	1,025	154	35	1,643	6,617
Depreciation [2]	111	535	680	29	0	128	1,483
Goodwill amortization [3]	15	157	4	78	1	87	342
Total operating expenses	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							1,045
Net profit before minority interests							**3,025**
Minority interests							5
Net profit							**3,030**
Other information as of 31.12.1998							
Total assets [4]	107,772	685,921	173,028	800	1,800	(25,205)	944,116
Total liabilities [4]	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 net credit loss expenses for financial reporting purposes is reported in the Corporate Center. The divisional breakdown of the net credit loss expense for financial reporting purposes of CHF 951 million as of 31 December 1998 is as follows: UBS Private Banking CHF 48 million, UBS Warburg CHF 506 million, UBS Private and Corporate Clients CHF 397 million. [2] The 1998 figures have been restated due to a refinement of the allocation methodology for depreciation. [3] The amortization of goodwill includes other purchased intangible assets. [4] The funding surplus / requirement is reflected in each division and adjusted in Corporate Center.

Note 3 Segment reporting by geographic location

The geographic analysis of total assets is based on customer domicile whereas operating income and capital investment 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 worldwide, 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 reflect the way the Group is managed. Management believes that analysis by business division, as shown in Note 2 to these financial statements, is a more meaningful representation of the way in which the Group is managed.

For the year ended 31 December 1999

	Total operating income		Total assets		Capital investment	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	15,172	53	227,821	23	1,990	70
Europe	7,626	27	326,112	33	356	13
Americas	3,861	13	316,363	32	386	14
Asia / Pacific	1,945	7	103,703	11	87	3
Africa / Middle East	17	0	7,574	1	1	0
Total	**28,621**	**100**	**981,573**	**100**	**2,820**	**100**

For the year ended 31 December 1998

	Total operating income		Total assets		Capital investment	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	16,838	75	221,945	24	234	13
Europe	1,655	8	405,675	43	765	42
Americas	2,548	11	216,989	23	513	28
Asia / Pacific	1,251	6	95,402	10	304	17
Africa / Middle East	36	0	4,105	0	2	0
Total	**22,328**	**100**	**944,116**	**100**	**1,818**	**100**

Income statement

Note 4 Net interest income

CHF million *For the year ended*	31.12.1999	31.12.1998
Interest income		
Interest earned on loans and advances to banks	7,116	7,361
Interest earned on loans and advances to customers	10,792	14,111
Interest from finance leasing	49	60
Interest income from financial investments	117	293
Dividend income from financial investments	41	79
Other	208	931
Total	18,323	22,835
Interest expense		
Interest on amounts due to banks	5,762	7,879
Interest on amounts due to customers	7,680	9,890
Interest on medium and long term debt	5,476	5,045
Funding costs for trading positions	(6,951)	(6,641)
Total	11,967	16,173
Net interest income	6,356	6,662

Note 5 Net fee and commission income

CHF million *For the year ended*	31.12.1999	31.12.1998
Credit-related fees and commissions	372	559
Security trading and investment activity fees		
Underwriting and corporate finance fees	1,831	1,694
Brokerage fees	3,934	3,670
Fiduciary fees	317	349
Custodian fees	1,583	1,386
Portfolio and other management and advisory fees	2,984	3,335
Investment fund fees	1,915	1,778
Other	57	110
Total	12,621	12,322
Commission income from other services	765	776
Total fee and commission income	13,758	13,657
Fee and commission expense		
Brokerage fees paid	795	704
Other	356	327
Total	1,151	1,031
Net fee and commission income	12,607	12,626

Note 6 Net trading income

CHF million *For the year ended*	31.12.1999	31.12.1998
Foreign exchange [1]	841	1,793
Fixed income	2,178	(762)
Equities	4,449	719
Net trading income	**7,468**	1,750

[1] Includes other trading income such as banknotes, precious metals and commodities.

Interest and dividends derived from the securities and derivative product portfolios held for trading are included within net trading income. The funding costs of holding these assets are charged to net trading income and credited to interest expense.

Note 7 Gains / (Losses) from disposal of associates and subsidiaries

CHF million *For the year ended*	31.12.1999	31.12.1998
Net income from disposal of consolidated subsidiaries	8	1,149
Net gains / (losses) from the disposal of investments in associates	1,813	(30)
Net gains from disposal of associates and subsidiaries	**1,821**	1,119

While the 1999 figure represents mainly the disposal gains from our investments in Swiss Life / Rentenanstalt and Julius Baer registered shares, the 1998 number is mainly attributable to the disposal of the BSI – Banca della Svizzera Italiana.

Note 8 Other income

CHF million *For the year ended*	31.12.1999	31.12.1998
Investments in financial assets (debt and equity)		
Net income from disposal of private equity investments	374	587
Net income from disposal of other financial assets	180	398
Net gains / (losses) from revaluation of financial assets	(102)	(556)
Total	452	429
Investments in property		
Net income from disposal of properties held for resale	78	33
Net gains / (losses) from revaluation of properties held for resale	(49)	(106)
Net income from other properties	(20)	328
Total	9	255
Equity income from investments in associates	211	377
Other	653	61
Total other income	**1,325**	1,122

Note 9 Operating expenses

CHF million *For the year ended*	**31.12.1999**	31.12.1998
Personnel expenses		
Salaries and bonuses	**9,872**	7,082[1]
Contractors	**886**	535
Insurance and social contributions	**717**	542[1]
Contributions to retirement benefit plans	**8**[2]	614
Employee share plans	**151**	201
Other personnel expenses	**943**	842
Total	**12,577**	9,816
General and administrative expenses		
Occupancy	**847**	822
Rent and maintenance of machines and equipment	**410**	390
Telecommunications and postage	**756**	820
Administration	**784**	759
Marketing and public relations	**335**	262
Travel and entertainment	**552**	537
Professional fees, including IT outsourcing	**1,815**	1,792
Other	**519**	1,235
Total	**6,018**	6,617
Depreciation and amortization		
Property and equipment	**1,517**	1,483
Goodwill and other intangible assets	**340**	342
Total	**1,857**	1,825
Total operating expenses	**20,452**	18,258

[1] CHF 121 million of bonus related social contribution costs have been reclassed from Salaries and bonuses to Insurance and social contributions.
[2] Includes CHF 456 million prepaid employer contributions (see Group Financial Review).

Note 10 Earnings per share

For the year ended	**31.12.1999**	31.12.1998
Basic earnings per share calculation		
Net profit for the year (CHF million)	**6,300**	3,030
Net profit for the year (CHF million) before goodwill amortization [1]	**6,640**	3,372
Weighted average shares outstanding:		
Registered ordinary shares	**215,248,513**	214,855,064
Treasury shares	**(7,191,412)**	(3,057,586)
Weighted average shares for basic earnings per share	**208,057,101**	211,797,478
Basic earnings per share (CHF)	**30.28**	14.31
Basic earnings per share (CHF) before goodwill amortization [1]	**31.91**	15.92
Diluted earnings per share calculation		
Net profit for the year (CHF million)	**6,300**	3,030
Net profit for the year (CHF million) before goodwill amortization [1]	**6,640**	3,372
Weighted average shares for basic earnings per share	**208,057,101**	211,797,478
Potential dilutive ordinary shares resulting from outstanding options, warrants and convertible debt securities	**1,109,278**	1,143,412
Weighted average shares for diluted earnings per share	**209,166,379**	212,940,890
Diluted earnings per share (CHF)	**30.12**	14.23
Diluted earnings per share (CHF) before goodwill amortization [1]	**31.75**	15.84

[1] See Note 9 for reconciliation of goodwill included in other expenses. The amortization of goodwill and other purchased intangible assets is excluded from this calculation.

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

Balance sheet: assets

Note 11 Money market paper

CHF million	**31.12.1999**	31.12.1998
Government treasury notes and bills	**32,724**	9,568
Money market placements	**36,540**	8,262
Other bills and cheques	**453**	560
Total money market paper	**69,717**	18,390
thereof eligible for discount at central banks	***64,671***	*16,512*

Note 12a Due from banks and loans to customers

The composition of due from banks, the loan portfolio and the allowance for credit losses by type of exposure at the end of the year was as follows:

CHF million	**31.12.1999**	31.12.1998
Banks	**30,785**	69,543
Allowance for credit losses	**(878)**	(1,048)
Net due from banks	**29,907**	68,495
Loans to customers		
Mortgages	**127,987**	140,785
Other loans	**119,242**	120,636
Subtotal	**247,229**	261,421
Allowance for credit losses	**(12,371)**	(13,495)
Net loans to customers	**234,858**	247,926
Net due from banks and loans to customers	**264,765**	316,421
thereof subordinated	***86***	*133*

The composition of due from banks and loans to customers by geographical region based on the location of the borrower at the end of the year was as follows:

CHF million	**31.12.1999**	31.12.1998
Switzerland	**183,944**	187,223
Europe	**44,796**	53,013
Americas	**31,285**	44,556
Asia / Pacific	**13,451**	43,142
Africa / Middle East	**4,538**	3,030
Subtotal	**278,014**	330,964
Allowance for credit losses	**(13,249)**	(14,543)
Net due from banks and loans to customers	**264,765**	316,421

Note 12a Due from banks and loans to customers (continued)

The composition of due from banks and loans to customers by type of collateral at the end of the year was as follows:

CHF million	31.12.1999	31.12.1998
Secured by mortgages	130,835	145,247
Collateralized by securities	19,061	13,185
Guarantees and other collateral	28,725	27,953
Unsecured	99,393	144,579
Subtotal	278,014	330,964
Allowance for credit losses	(13,249)	(14,543)
Net due from banks and loans to customers	264,765	316,421

Note 12b Allowance and provision for credit losses

The allowance and provision for credit losses developed as follows:

CHF million	Specific allowance	Country risk provision	Total 31.12.1999	Total 31.12.1998
Balance at the beginning of the year	13,528	1,450	14,978	16,213
Write-offs	(3,271)	(4)	(3,275)	(2,324)
Recoveries	65	0	65	59
Increase / (decrease) in credit loss allowance and provision	1,122	(166)	956	951
Net foreign exchange and other adjustments [1]	578	96	674	79
Balance at the end of the year	12,022	1,376	13,398	14,978

[1] Includes allowance for doubtful interest of CHF 409 million at 31.12.1999 and CHF 423 million at 31.12.1998.

At the end of the year the aggregate allowances and provisions were apportioned and displayed as follows:

CHF million	31.12.1999	31.12.1998
As a reduction of due from banks	878	1,048
As a reduction of loans to customers	12,371	13,495
Subtotal	13,249	14,543
Included in other liabilities related to commitments and contingent liabilities	149	435
Total allowance and provision for credit losses	13,398	14,978

Note 12c Non-performing loans

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

CHF million	**31.12.1999**	31.12.1998
Banks	**499**	477
Loans to customers		
Mortgages	**7,105**	9,280
Other	**5,469**	6,356
Subtotal	**12,574**	15,636
Total non-performing loans [1]	**13,073**	16,113

[1] Includes non-performing loans of CHF 423 million at 31.12.1999 and CHF 397 million at 31.12.1998 that defaulted based on transfer risk previously not aggregated.

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

CHF million	**31.12.1999**	31.12.1998
Switzerland	**11,435**	14,022
Europe	**223**	405
Americas	**697**	1,156
Asia / Pacific	**373**	281
Africa / Middle East	**345**	249
Total non-performing loans [1]	**13,073**	16,113

[1] Includes non-performing loans of CHF 423 million at 31.12.1999 and CHF 397 million at 31.12.1998 that defaulted based on transfer risk previously not aggregated.

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. Allowances are provided for non-performing loans to reflect their net estimated recoverable amount. Unrecognized interest related to such loans totaled CHF 409 million for the year ended 31.12.1999 and CHF 423 million for the year ended 31.12.1998.

Note 13 Cash collateral on securities borrowed and lent

CHF million	**Securities borrowed 31.12.1999**	**Securities lent 31.12.1999**	Securities borrowed 31.12.1998	Securities lent 31.12.1998
Cash collateral by counterparties				
Banks	**99,810**	**8,926**	68,186	5,337
Customers	**13,352**	**3,906**	23,509	13,834
Total cash collateral on securities borrowed and lent	**113,162**	**12,832**	91,695	19,171

Note 14 Repurchase and reverse repurchase agreements

CHF million	**Reverse repurchase agreements 31.12.1999**	**Repurchase agreements 31.12.1999**	Reverse repurchase agreements 31.12.1998	Repurchase agreements 31.12.1998
Agreements by counterparties				
Banks	**100,077**	**131,970**	107,565	77,942
Customers	**44,719**	**77,266**	33,720	59,675
Total repurchase and reverse repurchase agreements	**144,796**	**209,236**	141,285	137,617

Note 15 Trading portfolio

Trading assets and liabilities are carried at fair value. The following table presents the carrying value of trading assets and liabilities at the end of the reporting period.

CHF million	**31.12.1999**	31.12.1998
Trading portfolio assets		
Debt instruments		
Swiss government and government agencies	**7,391**	13,448
US Treasury and government agency	**21,821**	9,969
Other government	**65,821**	62,639
Corporate listed instruments	**13,646**	8,519
Other unlisted instruments	**8,439**	8,100
Total	**117,118**	102,675
Equity instruments		
Listed instruments (excluding own shares)	**87,227**	49,848
Own shares	**4,561**	3,409
Unlisted instruments	**2,968**	841
Total	**94,756**	54,098
Precious metals	**5,127**	5,815
Total trading portfolio assets	**217,001**	162,588
Trading portfolio liabilities		
Debt instruments		
Swiss government and government agencies	**0**	96
US Treasury and government agency	**24,535**	4,455
Other government	**11,917**	34,979
Corporate listed instruments	**6,459**	3,154
Total	**42,911**	42,684
Listed equity instruments	**11,675**	4,349
Total trading portfolio liabilities	**54,586**	47,033

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 27 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 provide further details about cash collateral on securities borrowed and lent and repurchase and reverse repurchase agreements.

Note 16 Financial investments

CHF million	31.12.1999	31.12.1998
Debt instruments		
Listed	1,357	1,880
Unlisted	609	547
Total	1,966	2,427
Equity investments		
Listed	356	400
Unlisted	557	1,048
Total	913	1,448
Private equity investments	3,001	1,759
Properties held for resale	1,159	1,280
Total financial investments	7,039	6,914
thereof eligible for discount at central banks	*563*	*544*

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

CHF million	Book value 31.12.1999	Fair value 31.12.1999	Book value 31.12.1998	Fair value 31.12.1998
Valued at amortized cost				
Debt instruments	677	687	1,530	1,551
Valued at the lower of cost or market value				
Debt instruments	1,289	1,314	897	907
Equity instruments	913	939	1,448	1,552
Properties held for resale	1,159	1,194	1,280	1,369
Total	3,361	3,447	3,625	3,828
Valued at cost less adjustments for impairments				
Private equity investments	3,001	4,146	1,759	2,574
Total financial investments	7,039	8,280	6,914	7,953

Note 17 Investments in associates

CHF million	Carrying amount as of 31.12.1998	Income	Additions	Disposals	Carrying amount as of 31.12.1999
Total investments in associates	2,805	211	47	(1,961)	1,102

The figure of CHF 1,961 million for disposals for the year ended 31 December 1999 primarily consists of the sale of Swiss Life / Rentenanstalt.

Note 18 Property and equipment

CHF million	Historical cost	Accumulated depreciation as of 31.12.1998	Carrying amount as of 31.12.1998	Additions	Disposals	Depreciation, write-offs	Carrying amount as of 31.12.1999	Accumulated[3] depreciation as of 31.12.1999
Bank premises	10,668	(4,096)	6,572	292	(1,050)	(354)	5,460	(3,625)
Other properties	1,802	(656)	1,146	705	(325)	(59)	1,467	(539)
Equipment and furniture	6,035	(3,867)	2,168	1,823	(525)	(1,692)	1,774	(4,345)
Total property and equipment[1]	18,505	(8,619)	9,886	2,820	(1,900)	(2,105)[2]	8,701	(8,509)

[1] Fire insurance value of property and equipment is CHF 15,004 million (1998: CHF 14,941 million). [2] Depreciation, write-offs of CHF 2,105 million include a charge of CHF 588 million that was charged against the restructuring provision. [3] After elimination of CHF 2,215 million accumulated depreciation relating to disposals.

Note 19 Intangible assets and goodwill

CHF million	Historical cost	Accumulated amortization as of 31.12.1998	Carrying amount as of 31.12.1998	Additions[1]	Amortization, write-offs	Carrying amount as of 31.12.1999	Accumulated amortization[2] as of 31.12.1999
Intangible assets	553	(301)	252	55	(42)	265	(40)
Goodwill	2,447	(489)	1,958	1,618	(298)	3,278	(951)
Total intangible assets and goodwill	3,000	(790)	2,210	1,673	(340)	3,543	(991)

[1] Including currency translation differences. [2] After elimination of CHF 139 million accumulated amortization relating to intangible assets fully written off and no longer used.

Note 20 Other assets

CHF million	31.12.1999	31.12.1998
Deferred tax assets[1]	742	1,205
Settlement and clearing accounts	4,911	5,543
VAT and other tax receivables	702	839
Other receivables	4,652	4,505
Total other assets	11,007	12,092

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

Balance sheet: liabilities

Note 21 Due to banks and customers

CHF million	31.12.1999	31.12.1998
Due to banks	76,365	85,716
Due to customers in savings and investment accounts	78,640	79,723
Amounts due to customers on demand and time	201,320	195,127
Total due to customers	279,960	274,850
Total due to banks and customers	356,325	360,566

Note 22 Long term debt

CHF million	
Total bond issues	48,305
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	2,055
Medium term notes	5,972
Total long term debt	**56,332**

Contractual maturity date

	UBS AG (parent)		Subsidiaries			
CHF million	Fixed rate	Floating rate	Fixed rate	Floating rate	**Total 31.12.1999**	Total 31.12.1998
2000	13,395	524	818	0	**14,737**	8,208
2001	7,866	121	1,354	0	**9,341**	7,803
2002	5,313	270	2,158	399	**8,140**	8,368
2003	3,093	147	129	0	**3,369**	6,534
2004	2,316	47	286	1,705	**4,354**	3,772
2005–2009	9,795	208	581	1,378	**11,962**	12,562
Thereafter	3,476	32	921	0	**4,429**	3,536
Total	**45,254**	**1,349**	**6,247**	**3,482**	**56,332**	50,783

The Group issues both CHF and non-CHF denominated fixed and floating rate debt. Publicly placed fixed rate debt pays interest at rates up to 16%. Floating rate debt pays interest based on the three-month or six-month London Interbank Offered Rate ("LIBOR").

Subordinated debt securities are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group. At 31 December 1999 and 31 December 1998, the Group had CHF 13,106 million and CHF 12,071 million, respectively, in subordinated debt excluding convertible and exchangeable debt and notes with warrants which have been included in the following paragraph. Subordinated debt usually pays interest annually and provides for single principal payments upon maturity. At 31 December 1999 and 31 December 1998, the Group had CHF 41,093 million and CHF 36,379 million, respectively, in unsubordinated debt.

The Group issues convertible obligations that can be exchanged for common stock of UBS AG and notes with warrants attached on UBS AG shares. Furthermore, the Group issues notes exchangeable into common stock or preferred stock of other companies, or repaid based on the performance of an index or group of securities. At 31 December 1999 and 31 December 1998, the Group had CHF 2,133 million and CHF 2,333 million, respectively, in convertible and exchangeable debt and notes with warrants attached outstanding.

The Group, as part of its interest-rate risk management process, utilizes derivative instruments to modify the repricing and maturity characteristics of the notes/bonds issued. The Group also utilizes other derivative instruments to manage the foreign exchange impact of certain long term debt obligations. Interest rate swaps are utilized to convert the economic characteristics of fixed rate debt to those of floating rate debt.

The Group issues credit-linked notes generally through private placements. The credit-linked notes are usually senior unsecured obligations of UBS AG, acting through one of its branches, and can be subject to early redemption at the option of the Group or in the event of a defined credit event. Payment of interest and/or principal is dependent upon the performance of a reference entity or security. The rate of interest on each credit-linked note is either floating and determined by reference to LIBOR plus a spread or fixed. Medium term and credit-linked notes have been included in the amounts disclosed above as unsubordinated debt.

Note 22 Long term debt (continued)

Publicly placed bond issues of UBS AG (parent company) outstanding as of 31.12.1999

Year of issue	Interest rate in %	Remarks	Maturity	Premature redemption possible	Currency	Amount in millions
1995	7.000		05.01.2000	–	DEM	370 [6,17]
1996	3.500		18.01.2000	–	CHF	200 [6,17]
1990	7.000		15.02.2000	–	CHF	300 [17]
1997	6.750		25.02.2000	–	GBP	100 [6,17]
1990	7.250	Subordinated	15.03.2000	–	CHF	300 [17]
1998	9.150		27.03.2000	–	ITL	224,000 [6,22]
1998	9.700		27.04.2000	–	ITL	150,000 [6,23]
1994	5.000		20.06.2000	–	CHF	300 [18]
1997	6.000		24.07.2000	–	USD	200 [6,17]
1990	6.750		31.07.2000	–	CHF	300 [18]
1999	11.500		15.08.2000	–	EUR	75 [6,44]
1999	14.000		25.08.2000	–	EUR	100 [6,36]
1998	10.250		08.09.2000	–	DEM	600 [6,24]
1998	9.000		14.09.2000	–	CHF	255 [6,25]
1980	3.750	Subordinated	25.09.2000	–	CHF	100 [1,17]
1999	15.250		25.09.2000	–	USD	150 [6,38]
1999	15.300		02.10.2000	–	SEK	40 [6,52]
1998	11.500		09.10.2000	–	CHF	315 [6,26]
1999	16.000		20.10.2000	–	USD	65 [6,40]
1999	9.000		27.10.2000	–	JPY	9,001 [6,54]
1999	8.250		14.11.2000	–	CHF	200 [6,29]
1999	9.000		20.11.2000	–	JPY	6,387 [6,55]
1999	11.000		20.11.2000	–	EUR	100 [6,64]
1993	2.750		01.12.2000	–	CHF	200 [18]
1999	12.000		04.12.2000	–	EUR	30 [6,51]
1999	14.500		06.12.2000	–	GBP	10 [6,58]
1999	15.250		06.12.2000	–	GBP	10 [6,63]
1999	13.000		11.12.2000	–	USD	90 [6,39]
1999	11.000		14.12.2000	–	JPY	10,000 [6,56]
1999	13.000		18.12.2000	–	EUR	12 [6,53]
1996	2.500		20.12.2000	–	CHF	300 [18]
1995	4.500		21.12.2000	–	CHF	300 [6,17]
1998	10.000		21.12.2000	–	USD	65 [6,27]
1999	10.000		29.12.2000	–	CHF	250 [6,31]
1999	10.250		12.01.2001	–	EUR	125 [6,43]
1996	3.000		07.02.2001	–	USD	100 [6,17]
1999	10.000		12.02.2001	–	CHF	300 [6,41]
1999	12.250		15.02.2001	–	GBP	20 [6,45]
1999	14.130		27.03.2001	–	SEK	193 [6,52]
1999	12.000		29.03.2001	–	GBP	25 [6,48]
1999	11.000		30.03.2001	–	USD	50 [6,47]
1996	3.625		10.04.2001	–	CHF	400 [18]
1991	5.000		15.04.2001	–	CHF	60 [17]
1998	7.500		11.05.2001	–	CHF	852 [6,26]
1998	7.000		18.05.2001	–	CHF	738 [6,29]
1999	12.500		06.06.2001	–	GBP	10 [6,62]
1999	5.250		14.06.2001	–	CHF	410 [6,30]
1999	10.750		15.06.2001	–	EUR	20 [6,57]
1999	11.000		06.07.2001	–	EUR	30 [6,42]
1998	7.500		10.07.2001	–	CHF	412 [6,30]
1993	5.125		15.07.2001	–	CHF	30 [18,21]
1997	1.750		25.07.2001	–	USD	125 [6,15,17]
1998	8.000		03.08.2001	–	CHF	920 [6,31]
1998	8.000		17.08.2001	–	CHF	500 [6,32]
1991	7.000	Subordinated	04.09.2001	–	CHF	250 [17]
1994	5.375		07.09.2001	–	CHF	200 [18]
1999	8.500		05.10.2001	–	CHF	50 [6,49]

Footnotes

1 Floating rate.
6 Issued by UBS Jersey Branch.
15 Convertible into Nikkei 225 Index.
17 Issued by former SBC.
18 Issued by former UBS.
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.
29 GOAL on Novartis shares.
30 GOAL on Roche GS.
31 GOAL on UBS shares.
32 GOAL on Zurich shares.
36 GOAL on Nokia.
38 GOAL on Compaq Computer.
39 GOAL on Pfizer.
40 GOAL on America Online.
41 GOAL on Swisscom.
42 GOAL on Bank Austria.
43 GOAL on Royal Dutch.
44 GOAL on Telefonica.
45 GOAL on Lloyds TSB.
47 GOAL on S&P.
48 Goal on British Telecom.
49 GOAL on ABB.
51 GOAL on Banco Bilbao Vizcaya.
52 Omvand Konvertible Svensk Basportfolj.
53 GOAL on Total Fina.
54 Convertible into Bank of Tokyo.
55 Convertible into DDI Corp.
56 Convertible into Sumitomo.
57 GOAL on SAP.
58 GOAL on Tesco.
62 GOAL on BP Amoco.
63 GOAL on BG plc.
64 GOAL on Deutsche Telekom.

Note 22 Long term debt (continued)

Publicly placed bond issues of UBS AG (parent company) outstanding as of 31.12.1999

Year of issue	Interest rate in %	Remarks	Maturity	Premature redemption possible	Currency	Amount in millions
1999	11.625		06.12.2001	–	GBP	10 [6,59]
1992	7.000	Subordinated	06.02.2002	–	CHF	200 [18]
1998	5.750		18.03.2002	–	USD	250 [6]
1996	4.000		18.04.2002	–	CHF	200 [17]
1999	11.000		06.06.2002	–	GBP	10 [6,60]
1990	7.500	Subordinated	07.06.2002	–	CHF	300 [17]
1992	7.500	Subordinated	10.07.2002	–	CHF	200 [18]
1997	6.500		18.07.2002	–	USD	300 [6,17]
1997	1.000		07.08.2002	–	DEM	45 [6,12,17]
1996	2.000		23.08.2002	–	CHF	301 [6,9,17]
1997	1.000		17.09.2002	–	DEM	75 [6,10,17]
1992	7.000	Subordinated	16.10.2002	–	CHF	200 [18]
1996	6.750		18.10.2002	–	USD	250 [6,17]
1997	1.250		05.11.2002	–	DEM	260 [6,11,17]
1995	4.375		07.11.2002	–	CHF	250 [18]
1996	3.250		20.12.2002	–	CHF	350 [17]
1991	7.500	Subordinated	15.02.2003	15.02.2001	CHF	300 [17]
1998	1.000		25.02.2003	–	EUR	110 [6,33]
1993	4.875	Subordinated	03.03.2003	–	CHF	200 [18]
1997	1.500		14.03.2003	–	DEM	80 [6,16,17]
1998	1.000		20.03.2003	–	NLG	200 [6,34]
1993	4.000	Subordinated	31.03.2003	–	CHF	200 [18]
1993	3.500	Subordinated	31.03.2003	–	CHF	200 [18]
1999	1.000		05.05.2003	–	USD	150 [6,65]
1998	1.625		14.05.2003	–	USD	100 [6,28]
1991	7.000	Subordinated	16.05.2003	16.05.2001	CHF	200 [18]
1995	5.250	Subordinated	20.06.2003	–	CHF	200 [6,17]
1996	1.500		20.11.2003	–	CHF	45 [6,8,17]
1993	3.000		26.11.2003	–	CHF	200 [18]
1994	6.250	Subordinated	06.01.2004	–	USD	300 [6,17]
1992	7.250	Subordinated	10.01.2004	10.01.2002	CHF	150 [17]
1991	4.250		25.06.2004		CHF	300 [18]
1999	3.500		01.07.2004	–	EUR	250 [6]
1999	0		07.10.2004	–	USD	46 [6,50]
1997	7.375	Subordinated	26.11.2004	–	GBP	250 [18,19]
1993	4.750	Subordinated	08.01.2005	08.01.2003	CHF	200 [18]
1995	4.000	Subordinated	07.02.2005	–	CHF	150 [18]
1995	5.500		15.02.2005	–	CHF	150 [17]
1995	5.625	Subordinated	13.04.2005	–	CHF	150 [18]
1995	8.750	Subordinated	20.06.2005	–	GBP	250 [6,17]
1995	6.750	Subordinated	15.07.2005	–	USD	200 [7,17]
1995	5.250	Subordinated	18.07.2005	–	CHF	200 [18]
1995	5.000	Subordinated	24.08.2005	–	CHF	250 [18]
1995	4.500		21.11.2005	–	CHF	300 [17]
1999	0	PEP	08.12.2005	08.12.2000	USD	50 [6,61]
1999	3.500		26.01.2006	–	EUR	650 [6]
1996	4.250	Subordinated	06.02.2006	–	CHF	250 [18]
1996	4.000		14.02.2006	–	CHF	200 [17]
1999	2.500		29.03.2006	–	CHF	250 [6]
1999	1.500		12.07.2006	–	USD	100 [20,46]
1996	7.250	Subordinated	15.07.2006	–	USD	500 [7,18]
1996	7.250	Subordinated	03.09.2006	–	USD	150 [7,17]
1995	5.000	Subordinated	07.11.2006	–	CHF	250 [18]
1996	6.250	Subordinated	06.12.2006	–	DEM	500 [6,17]
1997	8.000	Subordinated	08.01.2007	–	GBP	450 [18,19]
1997	5.750	Subordinated	12.03.2007	–	DEM	350 [18,19]
1998	3.500		27.08.2008	–	CHF	300

Footnotes

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.
16 Indexed to UBS Currency Portfolio.
17 Issued by former SBC.
18 Issued by former UBS.
19 Issued by UBS London Branch.
20 Issued by UBS Stamford Branch.
28 Convertible into UBS Oil Basket.
33 Convertible into FTSE shares.
34 Convertible into UBS Dutch Corporate Basket.
46 Convertible into AT&T.
50 GROI on Chesapeake.
59 GOAL on Granada Group.
60 GOAL on Glaxo.
61 PEP on Internet Pref. Basket/1st call at 120% thereafter annual step-ups of 20%.
65 Quanto style exchangeable bonds into Sony.

PEP Protected Equity Participation

Note 22 Long term debt (continued)

Publicly placed bond issues of UBS AG (parent company) outstanding as of 31.12.1999

Year of issue	Interest rate in %	Remarks	Maturity	Premature redemption possible	Currency	Amount in millions
1997	5.875	Subordinated	18.08.2009	–	FRF	2,000 [18,19]
1986	5.000	Subordinated	10.02.2011	10.02.2001	CHF	250 [2,17]
1995	7.375	Subordinated	15.07.2015	–	USD	150 [7,17]
1995	7.000	Subordinated	15.10.2015	–	USD	300 [7,17]
1997	7.375	Subordinated	15.06.2017	–	USD	300 [7,17]
1990	0		31.12.2019	–	CHF	351 [3,5,17]
1990	0		31.03.2020	–	CHF	59 [3,4,17]
1995	7.500	Subordinated	15.07.2025	–	USD	350 [7,17]
1995	8.750	Subordinated	18.12.2025	–	GBP	150 [6,17]
1996	7.750	Subordinated	03.09.2026	–	USD	300 [7,17]
UBS Finance (Cayman Islands) Ltd., Grand Cayman						
1997	0.000	GROI on Russian Basket	08.06.2000	–	USD	19
1994 [66]	5.000		01.07.2000	–	CHF	150
1991 [66]	0.000		28.02.2001	–	GBP	200 [67]
UBS Australia Limited, Sydney [66]						
1997	3.250		02.10.2001	–	USD	100
1999	5.000		25.02.2002	–	AUD	100
1999	5.000		25.02.2004	–	AUD	100
UBS Finance (Curaçao) N.V. Netherlands Antilles [66]						
1995	6.500		02.05.2000	–	DEM	250
1993	9.250		23.08.2000	–	ITL	250,000
1996	2.500		01.03.2001	–	USD	5 [69]
1996	2.500		30.10.2001	–	DEM	350
1990	9.125		08.02.2002	–	USD	225
1997	2.750		16.06.2002	–	USD	325 [70]
1992	FRN [70]		13.11.2002	–	USD	250
1997	0		29.01.2027	–	ITL	2,500,000 [72]
1998	0		03.03.2028	–	DEM	880 [71]
S.G.W. Finance plc. [3]						
1991	13.250		21.03.2001	–	AUD	60
S.G. Warburg Group plc.						
1994	9.000		perpetual	–	GBP	113
1986	7.625		preference share GBP 1.–		GBP	11

Footnotes
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.
17 Issued by former SBC.
18 Issued by former UBS.
19 Issued by UBS London Branch.
66 Guaranteed by UBS.
67 Zero coupon, issue price 36.55%.
68 Guaranteed by S.G. Warburg Group plc.
69 Convertible into shares of Gillette Company.
70 Convertible into shares of UBS.
71 Zero coupon, issue price 15.68285%.
72 Zero coupon, issue price 12.41%.

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	**31.12.1999**	31.12.1998
Provisions, including restructuring provision [1]	**5,995**	7,094
Provision for commitments and contingent liabilities	**149**	435
Current tax liabilities	**1,876**	1,016
Deferred tax liabilities	**994**	1,012
VAT and other tax payables [2]	**759**	869
Settlement and clearing accounts	**4,789**	9,502
Other payables	**3,814**	7,794
Total other liabilities	**18,376**	27,722

[1] Further details to business risk and restructuring provisions are provided in note 24. [2] Additional information regarding income tax is provided in Note 25.

Note 24 Provisions, including restructuring provision

Business risk provision

CHF million	**31.12.1999**	31.12.1998
Balance at the beginning of the year	**4,121**	1,142
New provisions charged to income	**539**	3,133
Provisions applied	**(705)**	(484)
Recoveries and adjustments	**611**	330
Balance at the end of the year	**4,566**	4,121

Restructuring provision

CHF million	**31.12.1999**	31.12.1998
Balance at the beginning of the year	**2,973**	7,000
Addition	**300**	
Applied [1]		
Personnel	**(378)**	(2,024)
IT	**(642)**	(797)
Premises	**(673)**	(267)
Other	**(151)**	(939)
Total utilized during the year	**(1,844)**	(4,027)
Balance at the end of the year	**1,429**	2,973
Total provisions, including restructuring provision	**5,995**	7,094

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

Provision for restructuring costs

At the time of the merger, it was announced that the merged banks' 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. By the end of December 1999, the Group had utilized CHF 6 billion of the provision.

As of today, many of the actions under these plans are completed or near completion. As a result of the real estate lease breaks or disposals which have been identified, the Group recognized an additional restructuring provision of CHF 300 million.

Note 25 Income taxes

CHF million *For the year ended*	**31.12.1999**	31.12.1998
Federal and Cantonal		
Current payable	**978**	354
Deferred	**511**	463
Foreign		
Current payable	**359**	200
Deferred	**(33)**	28
Total income tax expense	**1,815**	1,045

The Group made net tax payments, including domestic federal, cantonal and foreign taxes, of CHF 1,063 million and CHF 733 million for the full year of 1999 and 1998, respectively.

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the amounts calculated at the statutory rate of 25% are as follows:

CHF million *for the year ended*	**31.12.1999**	31.12.1998
Operating profit before tax	**8,169**	4,070
Domestic	**7,233**	10,486
Foreign	**936**	(6,416)
Income taxes at statutory rate of 25%	**2,042**	1,018
Increase / (decrease) resulting from:		
Applicable tax rates differing from statutory rate	**16**	86
Tax losses not recognized	**39**	1,436
Previously unrecorded tax losses now recognized	**(215)**	(142)
Lower taxed income	**(278)**	(1,849)
Non-deductible expenses	**132**	172
Adjustments related to prior years	**(112)**	7
Capital taxes	**99**	93
Change in deferred tax valuation allowance	**92**	224
Income tax expense	**1,815**	1,045

As of 31 December 1999 the Group had accumulated unremitted earnings from foreign subsidiaries on which deferred taxes had not been provided as the undistributed earnings of these foreign subsidiaries are indefinitely reinvested. In the event these earnings were distributed it is estimated that Swiss taxes of approximately CHF 35 million would be due.

Note 25 Income taxes (continued)

Significant components of the Group's deferred income tax assets and liabilities (gross) are as follows:

CHF million	31.12.1999	31.12.1998
Deferred tax assets		
Compensation and benefits	316	114
Restructuring provision	316	718
Allowance for credit losses	138	370
Net operating loss carryforwards	2,194	1,610
Others	237	170
Total	3,201	2,982
Valuation allowance	(2,459)	(1,777)
Net deferred tax assets	742	1,205
Deferred tax liabilities		
Property and equipment	342	484
Investments in associates	153	299
Other provisions	142	109
Unrealized gains on investment securities	93	103
Others	264	17
Total	994	1,012

The change in the balance of the net deferred tax asset (liability) at 31 December 1999 and 31 December 1998 does not equal the deferred tax expense (benefit) in those years. This is due to the effect of foreign currency rate changes on tax assets and liabilities denominated in currencies other than CHF.

Certain foreign branches and subsidiaries of the Group have deferred tax assets related to net operating loss carryforwards and other items. Because recognition of these assets is uncertain, the Group has established valuation allowances of CHF 2,459 million and CHF 1,777 million at 31 December 1999 and 31 December 1998, respectively.

Net operating loss carryforwards totalling CHF 9,149 million at 31 December 1999 are available to reduce future taxable income of certain branches and subsidiaries.

The carryforwards have lives as follows:	31.12.1999
One year	15
2 to 4 years	215
More than 4 years	8,919
Total	9,149

Note 26 Minority interests

CHF million	31.12.1999	31.12.1998
Minority interests in profit / (loss)	54	(5)
Preferred stock [1]		689
Minority interests in equity	380	306
Total minority interests	434	990

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

Off balance sheet and other information

Note 27 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 favorable 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 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 (OTC), 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 27 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 (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 27 Derivative instruments (continued)

CHF million	Term to maturity: Within 3 months PRV[1]	NRV[2]	3 to 12 months PRV	NRV	1 to 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	34	55	68	19	6	1	0	0	**108**	**75**	554.0
Swaps	5,386	2,100	3,163	2,871	22,843	24,168	35,942	30,301	**67,334**	**59,440**	2,650.9
Options	108	27	47	742	268	12	4	2,018	**427**	**2,799**	1,877.0
Exchange-traded contracts [3]											
Futures	0	0	0	0	0	0	0	0	**0**	**0**	774.1
Options	0	0	0	0	0	0	0	0	**0**	**0**	54.4
Total	**5,528**	**2,182**	**3,278**	**3,632**	**23,117**	**24,181**	**35,946**	**32,319**	**67,869**	**62,314**	**5,910.4**
Foreign exchange contracts											
Over-the-counter (OTC) contracts											
Forward contracts	9,669	14,264	3,661	7,008	445	851	25	37	**13,800**	**22,160**	1,077.1
Interest and currency swaps	622	520	2,036	1,826	529	6,076	2,567	1,518	**5,754**	**9,940**	252.3
Options	3,344	2,708	3,934	3,138	8,883	411	30	10	**16,191**	**6,267**	813.5
Exchange-traded contracts [3]											
Futures	0	1	0	0	0	0	0	0	**0**	**1**	3.5
Options	0	1	4	1	0	0	0	0	**4**	**2**	3.7
Total	**13,635**	**17,494**	**9,635**	**11,973**	**9,857**	**7,338**	**2,622**	**1,565**	**35,749**	**38,370**	**2,150.1**
Precious metals contracts											
Over-the-counter (OTC) contracts											
Forward contracts	1,112	1,047	53	62	80	60	0	0	**1,245**	**1,169**	30.0
Options	277	215	594	466	1,168	1,059	117	130	**2,156**	**1,870**	82.9
Exchange-traded contracts [3]											
Futures	0	0	0	0	0	0	0	0	**0**	**0**	0.8
Options	0	5	5	8	0	10	0	0	**5**	**23**	4.9
Total	**1,389**	**1,267**	**652**	**536**	**1,248**	**1,129**	**117**	**130**	**3,406**	**3,062**	**118.6**
Equity / Index contracts											
Over-the-counter (OTC) contracts											
Forward contracts	526	1,721	1,148	2,044	503	5,325	1,762	2,787	**3,939**	**11,877**	149.4
Options	1,941	1,611	4,013	10,021	10,146	27,182	439	2,985	**16,539**	**41,799**	264.7
Exchange-traded contracts [3]											
Futures	74	46	0	0	0	0	0	0	**74**	**46**	25.1
Options	1,061	304	1,744	4,047	72	63	0	0	**2,877**	**4,414**	79.8
Total	**3,602**	**3,682**	**6,905**	**16,112**	**10,721**	**32,570**	**2,201**	**5,772**	**23,429**	**58,136**	**519.0**
Commodity contracts											
Over-the-counter (OTC) contracts											
Forward contracts	32	25	0	0	0	0	0	0	**32**	**25**	167.9
Options	15	15	0	0	0	0	0	0	**15**	**15**	79.7
Total	**47**	**40**	**0**	**0**	**0**	**0**	**0**	**0**	**47**	**40**	**247.6**
Total derivative instruments 31.12.1999	**24,201**	**24,665**	**20,470**	**32,253**	**44,943**	**65,218**	**40,886**	**39,786**	**130,500**	**161,922**	**–**
Total derivative instruments 31.12.1998	31,614	50,150	32,251	29,404	57,023	75,261	49,048	50,265	169,936	205,080	–

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

Note 28 Pledged assets

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

CHF million	Carrying amount 31.12.1999	Related liability 31.12.1999	Carrying amount 31.12.1998	Related liability 31.12.1998
Money market paper	35,578	707	6,981	5
Mortgage loans	2,536	1,736	2,955	2,047
Securities [1]	23,837	585	13,902	5,636
Property and equipment	170	91	147	71
Other	2,110	0	0	0
Total pledged assets	**64,231**	**3,119**	23,985	7,759

[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. These assets are also segregated persuant to certain regulatory requirements.

Note 29 Fiduciary transactions

CHF million	31.12.1999	31.12.1998
Placements with third parties	60,221	60,612
Fiduciary credits and other fiduciary financial transactions	1,438	652
Total fiduciary transactions	**61,659**	61,264

Fiduciary placement represents funds which customers have instructed the Group to place in foreign banks. The Group is not liable to the customer for any default by the foreign bank nor do creditors of the Group have a claim on the assets placed.

Note 30 Commitments and contingent liabilities

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; note issuance facilities and revolving underwriting facilities, which allow clients to issue money 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 30 Commitments and contingent liabilities (continued)

CHF million	31.12.1999	31.12.1998
Contingent liabilities		
Credit guarantees and similar instruments [1]	**18,822**	22,697
Sub-participations	**(3,665)**	(5,217)
Total	**15,157**	17,480
Performance guarantees and similar instruments [2]	**6,782**	12,092
Sub-participations	**(42)**	(216)
Total	**6,740**	11,876
Irrevocable commitments under documentary credits	**2,704**	2,942
Sub-participations	**0**	(39)
Total	**2,704**	2,903
Gross contingent liabilities	**28,308**	37,731
Sub-participations	**(3,707)**	(5,472)
Net contingent liabilities	**24,601**	32,259
Irrevocable commitments		
Undrawn irrevocable credit facilities	**65,693**	82,337
Sub-participations	**(1,836)**	(26)
Total	**63,857**	82,311
Liabilities for calls on shares and other equities	**57**	109
Gross irrevocable commitments	**65,750**	82,446
Sub-participations	**(1,836)**	(26)
Net irrevocable commitments	**63,914**	82,420
Gross commitments and contingent liabilities	**94,058**	120,177
Sub-participations	**(5,543)**	(5,498)
Net commitments and contingent liabilities	**88,515**	114,679

[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.

CHF million	Mortgage collateral	Other collateral	Unsecured	Total
Overview of collateral				
Gross contingent liabilities	191	11,356	16,761	**28,308**
Gross irrevocable commitments	386	8,774	56,533	**65,693**
Liabilities for calls on shares and other equities	0	0	57	**57**
Total 31.12.1999	**577**	**20,130**	**73,351**	**94,058**
Total 31.12.1998	389	33,363	86,425	**120,177**

Note 31 Operating lease commitments

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

CHF million	31.12.1999
Operating leases due	
2000	247
2001	202
2002	184
2003	187
2004	153
2005 and thereafter	1,919
Total commitments for minimum payments under operating leases	**2,892**

Operating expenses include CHF 742 million and CHF 797 million in respect of operating lease rentals for the year ended 31.12.1999 and for the year ended 31.12.1998 respectively.

Note 32 Litigation

In the United States, several class actions, in relation to what is known as the Holocaust affair, have been brought against the bank (as legal successor to Swiss Bank Corporation and Union Bank of Switzerland) in the United States District Court for the Eastern District of New York (Brooklyn). These lawsuits were initially filed in October 1996. Another Swiss bank has been designated as a defendant alongside us. On 12 August 1998, however, a settlement was reached between the parties. 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. UBS agreed to contribute up to two-thirds of this amount. To the extent that other Swiss companies agreed to participate in this fund, and to the extent of applicable payments to beneficiaries of eligible dormant accounts, our share was to be reduced. Based on our estimate of such expected contributions, we provided a reserve of USD 610 million in 1998 and an additional USD 95 million in 1999. A number of persons have elected to opt out of the settlement and not participate in the class action. It is expected that a decision approving the settlement will be issued in 2000, which will be followed by hearings on the allocation of the settlement amount.

In addition, the bank 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 33 Financial instruments risk position

Overall risk position

The Group manages risk in a number of ways, including the use of a value-at-risk model combined with a system of trading limits.

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 following sets out the extent to which the Group was exposed to interest rate risk at 31 December 1999. 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.

Note 33 Financial instruments risk position (continued)
a) Interest rate risk (continued)

Interest rate sensitivity position

		Interest sensitivity by time bands as of 31.12.1999					
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	171	(902)	466	506	(417)	**(176)**
	Non-trading	(30)	(8)	(398)	(6,204)	(1,220)	**(7,860)**
USD	Trading	(411)	1,018	386	(109)	(908)	**(24)**
	Non-trading	3	(33)	(10)	83	1,207	**1,250**
EUR	Trading	(39)	(239)	113	600	(1,406)	**(971)**
	Non-trading	0	(3)	3	30	210	**240**
GBP	Trading	1	43	10	(34)	(77)	**(57)**
	Non-trading	0	5	(39)	77	815	**858**
JPY	Trading	484	(1,708)	927	(101)	135	**(263)**
	Non-trading	0	0	0	(1)	(4)	**(5)**
Others	Trading	(34)	46	50	(195)	24	**(109)**
	Non-trading	0	0	0	0	0	**0**

		Interest sensitivity by time bands as of 31.12.1998					
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**

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 sizable 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 with respect to trading positions, which can vary significantly on a daily basis.

Note 33 Financial instruments risk position (continued)
a) Interest rate risk (continued)

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 1999, the Group's equity was invested in a portfolio of fixed rate CHF deposits with an average duration of 2.16 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 (7.9) 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.

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 1999, due from banks and loans to customers amounted to CHF 278 billion. 66.2% of the loans were 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 94 billion in credit commitment and contingent liabilities as at 31 December 1999, 11% related to clients domiciled in Switzerland, 36% in Europe (excluding Switzerland) and 42% in North America.

Derivatives

Credit risk represents the current replacement value of all outstanding derivative contracts in a gain position without factoring in the impact of master netting agreements or the value of any col-

Note 33 Financial instruments risk position (continued)
b) Credit risk (continued)

lateral. Positive replacement values amounted to CHF 130 billion as at 31 December 1999, before applying any master netting agreements. Based on the location of the ultimate counterparty, 4% of this credit risk amount related to Switzerland, 49% to Europe (excluding Switzerland) and 37% to North America. 71% 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 derivative transactions is to use collateralization arrangements.

Master netting agreements eliminate risk to the extent that only the net claim is due to be settled in the case of a default of the counterparty. The impact of master netting agreements as at 31 December 1999 is to mitigate credit risk on derivative instruments by approximately CHF 66 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 33 Financial instruments risk position (continued)
c) Currency risk

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

Breakdown of assets and liabilities by currencies

	31.12.1999				31.12.1998		
CHF billion	**CHF**	**USD**	**EUR**	**Other**	CHF	USD	Other
Assets							
Cash and balances with central banks	**3.4**	**0.2**	**0.5**	**1.0**	2.4	0.3	0.6
Money market paper	**1.5**	**38.6**	**0.7**	**28.9**	2.2	10.3	5.9
Due from banks	**7.5**	**7.7**	**5.3**	**9.4**	12.7	13.3	42.5
Cash collateral on securities borrowed	**0.1**	**106.4**	**1.1**	**5.6**	0.2	74.5	17.0
Reverse repurchase agreements	**2.0**	**54.8**	**37.9**	**50.1**	0.2	38.3	102.8
Trading portfolio assets	**34.1**	**77.4**	**26.9**	**78.6**	24.8	40.0	97.8
Positive replacement values	**16.7**	**11.5**	**1.3**	**101.0**	17.8	20.9	131.2
Loans, net of allowance for credit losses	**166.4**	**35.0**	**5.3**	**28.2**	173.5	40.0	34.4
Financial investments	**2.5**	**2.9**	**0.7**	**0.9**	2.6	2.5	1.8
Accrued income and prepaid expenses	**1.7**	**1.8**	**0.5**	**1.2**	1.2	1.8	3.6
Investments in associates	**0.9**	**0.1**	**0.0**	**0.1**	2.6	0.0	0.2
Property and equipment	**7.4**	**0.5**	**0.1**	**0.7**	8.5	0.6	0.8
Intangible assets and goodwill	**1.2**	**2.2**	**0.0**	**0.1**	0.3	1.7	0.2
Other assets	**3.1**	**1.9**	**2.5**	**3.5**	4.9	3.1	4.1
Total assets	**248.5**	**341.0**	**82.8**	**309.3**	253.9	247.3	442.9
Liabilities							
Money market paper issued	**1.0**	**55.7**	**0.3**	**7.7**	1.0	38.5	12.0
Due to banks	**8.1**	**36.3**	**14.5**	**17.5**	25.4	33.6	26.7
Cash collateral on securities lent	**0.1**	**6.5**	**1.0**	**5.2**	0.1	5.9	13.2
Repurchase agreements	**16.5**	**103.6**	**27.8**	**61.3**	10.7	74.3	52.6
Trading portfolio liabilities	**0.0**	**38.2**	**5.4**	**11.0**	0.2	8.1	38.7
Negative replacement values	**21.7**	**11.7**	**3.4**	**125.1**	27.3	19.8	158.0
Due to customers	**127.5**	**93.8**	**23.7**	**35.0**	138.0	80.2	56.7
Accrued expenses and deferred income	**3.1**	**4.9**	**0.5**	**3.6**	3.3	2.6	5.3
Long term debt	**23.7**	**17.6**	**3.1**	**11.9**	23.4	16.9	10.5
Other liabilities	**9.1**	**4.0**	**0.8**	**4.5**	14.6	6.1	7.0
Minority interests	**0.3**	**0.0**	**0.0**	**0.1**	1.0	0.0	0.0
Shareholders' equity	**34.8**	**0.0**	**0.0**	**0.0**	32.4	0.0	0.0
Total liabilities, minority interests and shareholders' equity	**245.9**	**372.3**	**80.5**	**282.9**	277.4	286.0	380.7

Note 33 Financial instruments risk position (continued)
d) Liquidity risk

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	5.1	–	–	–	–	–	5.1
Money market papers		–	67.8	1.9		–	69.7
Due from banks	8.4		19.1	1.6	0.5	0.3	29.9
Cash collateral on securities borrowed			112.7		0.5		113.2
Reverse repurchase agreements			142.9	1.9			144.8
Trading portfolio assets	217.0	–	–	–	–	–	217.0
Positive replacement values	130.5						130.5
Loans, net of allowance for credit losses		53.4	64.9	39.2	70.8	6.6	234.9
Financial investments	5.0		0.1	0.2	0.9	0.8	7.0
Accrued income and prepaid expenses	5.2						5.2
Investments in associates	–	–	–	–	–	1.1	1.1
Property and equipment	–	–	–	–	–	8.7	8.7
Intangible assets and goodwill	–	–	–	–	–	3.5	3.5
Other assets	11.0						11.0
Total 31.12.1999	**382.2**	**53.4**	**407.5**	**44.8**	**72.7**	**21.0**	**981.6**
Total 31.12.1998	376.6	59.9	375.8	43.5	66.0	22.3	944.1
Liabilities							
Money market paper issued			24.3	40.4			64.7
Due to banks	10.1	1.1	60.2	4.4	0.3	0.3	76.4
Cash collateral on securities lent			12.8				12.8
Repurchase agreements			197.9	11.3			209.2
Trading portfolio liabilities	54.6						54.6
Negative replacement values	161.9						161.9
Due to customers	58.6	82.1	127.0	8.1	1.7	2.5	280.0
Accrued expenses and deferred income	12.0						12.0
Long term debt	–	0.4	6.3	8.4	28.0	13.2	56.3
Other liabilities	18.4	–					18.4
Total 31.12.1999	**315.6**	**83.6**	**428.5**	**72.6**	**30.0**	**16.0**	**946.3**
Total 31.12.1998	367.9	83.5	371.1	42.2	29.7	16.3	910.7

[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 33 Financial instruments risk position (continued)
e) Capital adequacy

Risk-weighted assets (BIS)

CHF million	Balance sheet / notional amount 31.12.1999	Risk-weighted amount 31.12.1999	Balance sheet / notional amount 31.12.1998	Risk-weighted amount 31.12.1998
Balance sheet assets				
Due from banks and other collateralized lendings	229,794	9,486	244,246	13,845
Net positions in securities [1]	77,858	11,177	28,109	8,316
Positive replacement values	130,500	18,175	169,936	29,494
Loans, net of allowances for credit losses and other collateralized lendings	292,928	159,835	305,155	164,113
Accrued income and prepaid expenses	5,167	3,164	6,627	3,190
Property and equipment [2]	8,701	9,860	9,886	11,166
Other assets	11,007	7,686	12,092	7,900
Off-balance sheet and other positions				
Contingent liabilities	28,308	14,459	37,731	19,471
Irrevocable commitments	65,693	17,787	82,337	18,197
Forward and swap contracts [3]	4,881,483	13,213	5,177,912	7,130
Purchased options [3]	406,208	2,823	489,005	5,861
Market risk positions [4]	–	10,813	–	16,018
Total risk-weighted assets	–	278,478	–	304,701

[1] Excluding positions in the trading book, these are included in market risk positions. [2] Including CHF 1,159 million (1998: CHF 1,280 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

	Capital CHF million 31.12.1999	Ratio % 31.12.1999	Capital CHF million 31.12.1998	Ratio % 31.12.1998
Tier 1	29,529	10.6	28,299	9.3
Tier 2	10,730	–	12,086	–
Total BIS	40,259	14.5	40,385	13.3

Among other measures UBS monitors the adequacy of its capital using ratios established by the Bank for International Settlements (BIS). The Group has maintained all BIS and Swiss capital adequacy rules for all periods presented. 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

Note 33 Financial instruments risk position (continued)
e) Capital adequacy (continued)

an issuer of securities arising from its physical holdings and other related transactions in that security.

For contingent liabilities and irrevocable facilities granted, the credit equivalent is calculated by multiplying the nominal value of each transaction by its corresponding credit conversion factor. The resulting amounts are then weighted for credit risk using the same percentage as for balance sheet assets. In the case of OTC forward contracts and purchased options, the credit equivalent is computed on the basis of the current replacement value of the respective contract plus a security margin (add-on) to cover the future potential credit risk during the remaining duration of the contract.

UBS calculates 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, the use of the Group internal models was accepted by the Swiss Federal Banking Commission in July 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 subordinated long term debt.

Note 34 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 are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then 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

Note 34 Fair value of financial instruments (continued)

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 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.

CHF billion	**Carrying value 31.12.1999**	**Fair value 31.12.1999**	**Unrealized gain/(loss) 31.12.1999**	Carrying value 31.12.1998	Fair value 31.12.1998	Unrealized gain/(loss) 31.12.1998
Assets						
Cash and balances with central banks	**5.0**	**5.0**	**0**	3.3	3.3	0
Money market paper	**69.7**	**69.7**	**0**	18.4	18.4	0
Due from banks	**30.0**	**30.0**	**0**	68.6	68.7	0.1
Cash collateral on securities borrowed	**113.2**	**113.2**	**0**	91.7	91.7	0
Reverse repurchase agreements	**144.8**	**144.8**	**0**	141.3	141.3	0
Trading portfolio assets	**217.0**	**217.0**	**0**	162.6	162.6	0
Positive replacement values	**130.5**	**130.5**	**0**	169.9	169.9	0
Loans, net of allowance for credit losses	**235.1**	**235.3**	**0.2**	248.3	250.7	2.4
Financial investments	**5.9**	**7.1**	**1.2**	5.7	6.5	0.8
Liabilities						
Money market paper issued	**64.7**	**64.7**	**0**	51.5	51.5	0
Due to banks	**76.9**	**76.9**	**0**	86.1	86.1	0
Cash collateral on securities lent	**12.8**	**12.8**	**0**	19.2	19.2	0
Repurchase agreements	**209.2**	**209.2**	**0**	137.6	137.6	0
Trading portfolio liabilities	**54.6**	**54.6**	**0**	47.0	47.0	0
Negative replacement values	**161.9**	**161.9**	**0**	205.1	205.1	0
Due to customers	**280.1**	**280.1**	**0**	275.3	275.6	(0.3)
Long term debt	**56.4**	**57.6**	**(1.2)**	51.0	53.3	(2.3)
Fair value effect on income of hedging derivatives recorded on the accrual basis			**0.5**			1.0
Net difference between carrying value and fair value			**0.7**			1.7

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

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 by derivative instruments, mainly interest rate swaps. The interest rate risk inherent in the balance sheet positions

Note 34 Fair value of financial instruments (continued)

with no specific maturity is also hedged with derivative instruments based on the management view on the economic maturity of the products.

The hedging derivative instruments are carried at fair value on the balance sheet and are part of the replacement values in the above table. The difference between the total amount of valuation gains and losses and the amortized amount is deferred and shown net in the table as fair value effect on income of hedging derivatives recorded on accruals basis.

During 1999, the interest rate level of leading economies increased substantially. The biggest move in rates was noted in Switzerland, where in particular mid and long term rates increased. These moves in rates had direct impact on the fair value calculation of fixed term transactions.

As the bank has an excess volume of fixed rate long term assets over fixed rate long term liabilities, the net fair value unrealized gain is reduced substantially. In addition to fixed rate balance sheet positions, the bank has a number of retail products traditionally offered in Switzerland such as variable mortgage loans and customer savings and deposits. These instruments have no maturity or have a contractual repricing maturity of less than one year. Based on the assumptions and the guidance under IAS, they are excluded from the fair value calculations of the table above.

The exclusion of the above traditional banking products from the fair value calculation leads to certain fair value swings. By calculating the fair value differences based on the economic maturity of the non maturity liabilities, such as savings and deposits, in an environment of raising interest rates, they would generate fair value gains which may offset most of the fair value loss reported for fixed term transactions.

Note 35 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, the UK, the US and Germany. Independent actuarial valuations are performed for the plans in those locations.

Swiss pension plans until 30 June 1999

The pension funds of the Group are set up as trusts, domiciled in Basel 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% and 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.

Swiss pension plans starting 1 July 1999

The pension plans of both former banks in Switzerland are in the process of being liquidated and a new foundation with domicile in Zurich has been created as of 21 January 1999. The new pension scheme became operational as of 1 July 1999.

As a result of the merger of the plans of the former banks in Switzerland, on 1 July 1999 there was a one-time increase of vested plan benefits for the beneficiaries of such plans. This had the effect of increasing the Defined Benefit Obligation at this date by CHF 3,525 million. In accordance with IAS 19 (revised 1998) this resulted in a one-time charge to income which was offset by the recognition of assets (previously unrecognized due to the paragraph 58 (b) limitation of IAS 19) (revised 1998) used to fund this increase in benefits.

The pension plan, covers practically all employees in Switzerland and exceeds the mini-

Note 35 Retirement benefit plans and other employee benefits (continued)

mum benefits requirements under the Swiss law. Contributions for the pension plan are paid for by the employees and the Group. The employee contributions are calculated as a percentage of the insured annual salary and are deducted monthly. The percentages deducted from the salary for the full benefit coverage (including risk benefits) are depending on age and vary between 7% and 10%. The Group pays a variable contribution that ranges between 150% and 220% of the sum of the employees' contributions.

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.

The Group booked an amount of CHF 456 million in 1999 related to the recognition of "Excess Employer Contributions". These assets were recognized in the fourth quarter as certain legal and regulatory issues related to the Group's ability to utilize these assets for future funding purposes were resolved.

CHF million	**31.12.1999**	31.12.1998
Swiss pension plans		
Defined benefit obligation	**(17,011)**	(14,944)
Plan assets at fair value	**18,565**	17,885
Plan assets in excess of benefit obligation	**1,554**	2,941
Unrecognized net actuarial (gains) / losses	**(724)**	(385)
Unrecognized assets	**(374)**	(2,556)
(Unfunded accrued) / prepaid pension cost	**456**	0
Additional details to fair value of plan assets		
Own financial instruments and securities lent to UBS included in plan assets	**6,785**	2,761
Any assets used by the bank included in plan assets	**187**	176
Retirement benefits expense		
Current service cost	**464**	535
Interest cost	**636**	726
Expected return on plan assets	**(883)**	(856)
Adjustment to limit prepaid pension cost	**(150)**	148
Amortization of unrecognized prior service costs	**172**	6
Employee contributions	**(180)**	(185)
Actuarially determined net periodic pension cost	**59**	374
Actual return on plan assets (%)	**11.9**	6.7
Principal actuarial assumptions used (%)		
Discount rate	**4.0**	5.0
Expected rate of return on assets p.a.	**5.0**	5.0
Expected rate of salary increase	**2.0–3.0**	3.5–5.5
Rate of pension increase	**1.5**	2.0

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 in the UK, the US and Germany. These locations together with Switzerland cover nearly 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.

Note 35 Retirement benefit plans and other employee benefits (continued)

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

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

Postretirement medical and life plans

The Group in the US and the UK offers retiree medical benefits that contribute to the health care coverage of the employees and beneficiaries after retirement. In addition to retiree medical, the US also provides retiree life insurance benefits.

The benefit obligation in excess of plan assets for those plans amounts to CHF 113 million as of 31 December 1999 (1998 CHF 93 million, 1997 CHF 100 million) and the total unfunded accrued postretirement liabilities to CHF 83 million (1998 CHF 62 million, 1997 CHF 50 million). The actuarially determined net postretirement cost amounts to CHF 17 million for 1999 (1998 CHF 17 million, 1997 CHF 14 million).

CHF million	**31.12.1999**	31.12.1998
Pension plans abroad		
Defined benefit obligation	**(2,444)**	(2,009)
Plan assets at fair value	**2,880**	2,173
Plan assets in excess of benefit obligation	**436**	164
Unrecognized net actuarial (gains) / losses	**(474)**	(63)
Unrecognized transition amount	**1**	2
Unrecognized past service cost	**2**	0
Unrecognized assets	**(28)**	(60)
(Unfunded accrued) / prepaid pension cost	**(63)**	43
Movement of net (liability) or asset		
Prepaid pension cost at the beginning of the period	**43**	36
Net periodic pension cost	**(123)**	(33)
Employer contributions	**22**	43
Currency adjustment	**(5)**	(3)
(Unfunded accrued) / prepaid pension cost at the end of the year	**(63)**	43
Retirement benefits expense		
Current service cost	**118**	116
Interest cost	**123**	140
Expected return on plan assets	**(195)**	(191)
Amortization of net transition liability	**0**	2
Adjustment to limit prepaid pension cost	**21**	2
Immediate recognition of transition assets under IAS 8	**0**	(23)
Amortization of unrecognized prior service costs	**77**	7
Amortization of unrecognized net (gain) / losses	**(6)**	(3)
Effect of any curtailment or settlement	**0**	(8)
Employee contributions	**(15)**	(9)
Actuarially determined net periodic pension cost	**123**	33
Actual return on plan assets (%)	**15.3**	5.2
Principal actuarial assumptions used (%)		
Discount rate	**5.75–7.5**	6.5–7.5
Expected rates of return on assets p.a.	**8.0–8.5**	8.5–8.75
Expected rate of salary increase	**3.5–5.6**	3.5–9.0
Rate of pension increase	**0.0–2.5**	0.0–3.75

Note 36 Equity participation plans

UBS AG has established various equity participation plans in the form of stock plans and stock option plans to further align the long term interests of managers, staff and shareholders.

Key personnel are awarded a portion of their performance-related compensation in UBS AG shares or options, which are restricted for a specified number of years. Long-term stock options are granted to key employees under another plan. A number of awards under these plans are made in notional shares or options, which generally are settled in cash and are treated as liabilities. Participation in both plans is mandatory. Long term stock options are blocked for three or five years, during which they cannot be exercised. For the 1997 options and certain of the 1998 options, one half of each award is subject to an acceleration clause after which certain forfeiture provisions lapse. One option gives the right to purchase one registered UBS AG share at the option's strike price. Neither the fair value nor the intrinsic value of the options granted is recognized as an expense in the financial statements.

Other employees have the choice to invest part of their annual bonus in UBS AG shares or in options or derivatives on UBS AG shares, which may be exercised or settled in cash. A number of awards under these plans are made in notional shares or instruments, which generally are settled in cash. A holding period, generally three years, applies during which the instruments cannot be sold or exercised. In addition, participants in the plan receive a restricted matching contribution of additional UBS AG shares or derivatives. Shares awarded under the plan are purchased or hedged in the market. Under another plan, employees in Switzerland are entitled to purchase a specified number of UBS AG shares at a predetermined discounted price each year (the discount is recorded as compensation expense). 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. Information on shares available for issuance under these plans is included in the Group Statement of Changes in Equity.

	Number of options 31.12.1999	Weighted-average exercise price (in CHF) 31.12.1999	Number of options 31.12.1998	Weighted-average exercise price (in CHF) 31.12.1998
Outstanding, at the beginning of the year	3,601,393	353	949,962	371
Granted during the year	1,719,571	474	2,905,889	363
Exercised during the year	(35,883)	357	(11,485)	355
Forfeited during the year	(215,850)	380	(242,973)	535
Outstanding, at the end of the year	5,069,231	393	3,601,393	353
Exercisable, at the end of the year	325,320	371	0	0

Of the total options outstanding at 31 December 1999: 4,987,385 options (325,320 of which were exercisable) had exercise prices ranging from CHF 340 to CHF 474, or CHF 391 on average, and had a weighted-average remaining contractual life of 4.58 years; and 81,846 options (none of which were exercisable) had exercise prices ranging from CHF 510 to CHF 540, or CHF 521 on average, and had a weighted-average remaining contractual life of 4.45 years.

Note 37 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.
Total remuneration of related parties recognized in the income statement during the year amounted to CHF 193.1 million and CHF 102.8 million for the year ended 1998. The number of long term stock options outstanding from equity plans was 137,308 at 31 December 1999 and 127,500 at 31 December 1998. This scheme is further explained in note 36 Equity Participation Plans.
Total amount of shares and warrants held by members of the Board of Directors, Group Executive Board and Group Managing Board were 1,228,046 and 11,424,514 as of 31 December 1999 and 2,317,902 and 3,089,374 as of 31 December 1998.

Total loans and advances receivable (mortgages only) from related parties were as follows:

CHF million	**1999**
Mortgages at the beginning of the year	27
Additions	6
Reductions	(5)
Mortgages at the end of the year	**28**

Members of the Board of Directors, Group Executive Board and Group Managing Board are granted mortgages at the same terms and conditions as other employees. Terms and conditions are based on third party conditions excluding credit margin.

Loans and advances to significant associated companies were as follows:

CHF million	**1999**
Loans and advances at the beginning of the year	165
Additions	42
Reductions	(145)
Loans and advances at the end of the year	**62**

Note 39 provides a list of significant associates.

Note 38 Post-balance sheet events

There have been no material post-balance sheet events which would require disclosure or adjustment to the December 1999 financial statements.

Note 39 Significant subsidiaries and associates

Significant subsidiaries

Company	Registered office	Division		Share capital in millions	Equity interest accumulated in %
Armand von Ernst & Cie AG	Bern	PB [1]	CHF	5.0	100.0
Aventic AG	Zurich	PCC [2]	CHF	30.0	100.0
Bank Ehinger & Cie AG	Basel	PB	CHF	6.0	100.0
BDL Banco di Lugano	Lugano	PB	CHF	50.0	100.0
Brinson Partners Inc.	Chicago	AM [3]	USD	–	100.0
Brunswick Warburg Limited	Georgetown	WA [4]	USD	50.0	50.0
Cantrade Privatbank AG	Zurich	PB	CHF	10.0	100.0
Cantrade Private Bank Switzerland (CI) Ltd	St Helier	PB	GBP	0.7	100.0
Crédit Industriel SA	Zurich	CAP [5]	CHF	10.0	100.0
EIBA “Eidgenössische Bank”	Zurich	CAP	CHF	14.0	100.0
Factors AG	Zurich	PCC	CHF	5.0	100.0
Ferrier Lullin & Cie SA	Geneva	PB	CHF	30.0	100.0
Global Asset Management Ltd	Hamilton	AM	USD	2.0	100.0
HYPOSWISS, Schweizerische Hypotheken- und Handelsbank	Zurich	PB	CHF	26.0	100.0
IL Immobilien-Leasing AG	Opfikon	PCC	CHF	5.0	100.0
Indelec Holding AG	Basel	CAP	CHF	10.0	100.0
Intrag	Zurich	PB	CHF	10.0	100.0
Klinik Hirslanden AG	Zurich	CC [6]	CHF	22.5	91.2
NYRE Holding Corp	Wilmington	WA	USD	102.9 [7]	100.0
Phillips & Drew Fund Management Limited	London	AM	GBP	–	100.0
Phillips & Drew Limited	London	AM	GBP	8.0	100.0
PT Warburg Dillon Read Indonesia	Jakarta	WA	IDR	11,000.0	85.0
SBC Equity Partners AG	Opfikon	CAP	CHF	71.7	100.0
Schröder Münchmeyer Hengst AG	Hamburg	PB	DEM	100.0	100.0
SG Warburg & Co International BV	Amsterdam	WA	GBP	148.0 [7]	100.0
SG Warburg Securities SA	Geneva	WA	CHF	14.5	100.0
Solothurner Bank SoBa	Solothurn	PCC	CHF	50.0	100.0
Systor AG	Zurich	PCC	CHF	5.0	100.0
Thesaurus Continentale Effekten-Gesellschaft Zürich	Zurich	CAP	CHF	30.0	100.0
UBS Investment Management Pte Ltd	Singapore	WA	SGD	0.5	90.0
UBS (Bahamas) Ltd	Nassau	PB	USD	4.0	100.0
UBS (Cayman Islands) Ltd	Georgetown	PB	USD	5.6	100.0
UBS (France) SA	Paris	WA	EUR	10.0	100.0
UBS (Italia) SpA	Milan	PB	ITL	43,000.0	100.0
UBS (Luxembourg) SA	Luxembourg	PB	CHF	150.0	100.0
UBS (Monaco) SA	Monte Carlo	PB	EUR	9.2	100.0
UBS (Panama) SA	Panama	PB	USD	6.0	100.0
UBS (Sydney) Limited	Sydney	WA	AUD	12.7	100.0
UBS (Trust and Banking) Ltd	Tokyo	PB	JPY	10,500.0	100.0
UBS (USA), Inc.	Delaware	WA	USD	763.3 [7]	100.0
UBS Australia Holdings Ltd	Sydney	WA	AUD	11.7	100.0
UBS Australia Ltd	Sydney	WA	AUD	15.0	100.0
UBS Bank (Canada)	Toronto	PB	CAD	90.4 [7]	100.0
UBS Beteiligungs-GmbH & Co KG	Frankfurt	WA	EUR	398.8	100.0
UBS Brinson Asset Management Co. Ltd	Tokyo	AM	JPY	800.0	100.0
UBS Brinson Inc.	New York	AM	USD	72.7 [7]	100.0
UBS Brinson Investment GmbH	Frankfurt	AM	DEM	10.0	100.0
UBS Brinson Limited	London	AM	GBP	8.8	100.0
UBS Brinson Ltd	Sydney	AM	AUD	8.0	100.0
UBS Brinson Pte Ltd	Singapore	AM	SGD	4.0	100.0
UBS Brinson SA	Paris	AM	EUR	0.8	100.0
UBS Capital AG	Zurich	CAP	CHF	0.5	100.0
UBS Capital Asia Pacific Ltd	Georgetown	CAP	USD	5.0	100.0
UBS Capital BV	The Hague	CAP	EUR	104.1 [7]	100.0
UBS Capital GmbH	Frankfurt	CAP	EUR	–	100.0
UBS Capital II LLC	Delaware	CAP	USD	2.7 [7]	100.0
UBS Capital LLC	New York	CAP	USD	18.6 [7]	100.0

Footnotes
1 PB: UBS Private Banking.
2 PCC: UBS Private and Corporate Clients.
3 AM: UBS Asset Management.
4 WA: UBS Warburg.
5 CAP: UBS Capital.
6 CC: Corporate Center.
7 Share capital + share premium.

Note 39 Significant subsidiaries and associates (continued)

Significant subsidiaries (continued)

Company	Registered office	Division		Share capital in millions	Equity interest accumulated in %
UBS Capital Partners Ltd	London	CAP	GBP	6.7	100.0
UBS Capital S.p.A.	Milan	CAP	ITL	50,000.0	100.0
UBS Card Center AG	Glattbrugg	PCC	CHF	40.0	100.0
UBS España SA	Madrid	PB	EUR	35.3	100.0
UBS Finance (Cayman Islands) Limited	Georgetown	CC	USD	0.5	100.0
UBS Finance (Curaçao) NV	Curaçao	CC	USD	0.1	100.0
UBS Finance (Delaware) LLC	Wilmington	WA	USD	37.3[7]	100.0
UBS Finanzholding AG	Zurich	CC	CHF	10.0	100.0
UBS Fund Holding (Luxembourg) SA	Luxembourg	PB	CHF	42.0	100.0
UBS Fund Holding (Switzerland) AG	Basel	PB	CHF	18.0	100.0
UBS Fund Management (Japan) Co. Ltd	Tokyo	PB	JPY	1,000.0	100.0
UBS Fund Management (Switzerland) AG	Basel	PB	CHF	1.0	100.0
UBS Fund Services (Luxembourg) S.A.	Luxembourg	PB	CHF	2.5	100.0
UBS Futures & Options Limited	London	WA	GBP	2.0	100.0
UBS Immoleasing AG	Zurich	PCC	CHF	3.0	100.0
UBS Inc.	New York	WA	USD	308.7[7]	100.0
UBS International Holdings BV	Amsterdam	CC	CHF	5.5	100.0
UBS Invest Kapitalanlagegesellschaft mbH	Frankfurt	PB	DEM	5.0	64.0
UBS Lease Finance LLC	New York	WA	USD	16.7	100.0
UBS Leasing AG	Brugg	PCC	CHF	10.0	100.0
UBS Limited	London	WA	GBP	10.0	100.0
UBS Overseas Holding BV	Amsterdam	CAP	EUR	18.1[7]	100.0
UBS Securities (Hong Kong) Ltd	Hong Kong	WA	HKD	20.0	100.0
UBS Securities Limited	London	WA	GBP	10.0	100.0
UBS (International) Limited	London	WA	GBP	10.0	100.0
UBS Services (Japan) Ltd	London	WA	JPY	41,353.5	100.0
UBS Services Limited	London	WA	GBP	–	100.0
UBS Trust (Canada)	Toronto	PB	CAD	10.0	100.0
UBS UK Holding Ltd	London	WA	GBP	5.0	100.0
UBS UK Limited	London	WA	GBP	609.0	100.0
Warburg Dillon Read (Asia) Ltd	Hong Kong	WA	HKD	20.0	100.0
Warburg Dillon Read (Australia) Corporation Pty Limited	Sydney	WA	AUD	50.4[7]	100.0
Warburg Dillon Read (España) SA	Madrid	WA	EUR	1.2	100.0
Warburg Dillon Read (France) SA	Paris	WA	EUR	22.9	100.0
Warburg Dillon Read (Hong Kong) Ltd	Hong Kong	WA	HKD	30.0	100.0
Warburg Dillon Read (Italia) S.I.M. SpA	Milan	WA	EUR	1.8	100.0
Warburg Dillon Read (Japan) Ltd	Georgetown	WA	JPY	30,000.0	50.0
Warburg Dillon Read (Malaysia) Sdn. Bhd.	Kuala Lumpur	WA	MYR	0.5	100.0
Warburg Dillon Read (Nederland) BV	Amsterdam	WA	EUR	10.9	100.0
Warburg Dillon Read AG	Frankfurt	WA	EUR	155.7	100.0
Warburg Dillon Read Australia Ltd	Sydney	WA	AUD	571.5[7]	100.0
Warburg Dillon Read Derivatives Ltd	Hong Kong	WA	HKD	20.0	100.0
Warburg Dillon Read Futures Inc.	Chicago	WA	USD	14.3[7]	100.0
Warburg Dillon Read International Limited	London	WA	GBP	18.0	100.0
Warburg Dillon Read LLC	New York	WA	USD	535.0[7]	100.0
Warburg Dillon Read Pte Ltd	Singapore	WA	SGD	3.0	100.0
Warburg Dillon Read Securities (España) SVB SA	Madrid	WA	EUR	13.4	100.0
Warburg Dillon Read Securities (India) Private Ltd	Mumbai	WA	INR	0.4	75.0
Warburg Dillon Read Securities (Philippines) Inc	Makati	WA	PHP	120.0	100.0
Warburg Dillon Read Securities (South Africa) (Pty) Ltd	Sandton	WA	ZAR	22.0	100.0
Warburg Dillon Read Securities Co. Ltd	Bangkok	WA	THB	400.0	100.0
Warburg Dillon Read Securities Ltd	London	WA	GBP	140.0	100.0

Footnotes
[1] PB: UBS Private Banking.
[2] PCC: UBS Private and Corporate Clients.
[3] AM: UBS Asset Management.
[4] WA: UBS Warburg.
[5] CAP: UBS Capital.
[6] CC: Corporate Center.
[7] Share capital + share premium.

Note 39 Significant subsidiaries and associates (continued)

Significant associates

Company	Equity interest in %	Share capital in millions	
Giubergia Warburg SIM SpA, Milan	50.0	ITL	29,000
Motor Columbus AG, Baden	35.6	CHF	253
National Versicherung AG, Basel	28.4	CHF	35
Telekurs Holding AG, Zurich	33.3	CHF	45
Swiss Financial Services Group AG, Zurich	30.7	CHF	26

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

Consolidated companies: changes in 1999

New companies
Global Asset Management Ltd., Hamilton
Klinik Hirslanden AG, Zurich
UBS Brinson Realty Investors LLC, Hartford (formerly Allegis Realty Investors LLC)
UBS Capital AG, Zurich
UBS España SA, Madrid
UBS (France) SA, Paris
UBS Trustees (Channel Island) Ltd., Jersey (formerly Bankamerica Trust Company)

Deconsolidated companies

Name	Reason for deconsolidation
UBS (East Asia) Ltd, Singapore	Deregistered
UBS Securities (Singapore) Pte Ltd, Singapore	Deregistered

Note 40 Significant currency translation rates

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

	Spot rate		Average rate	
	31.12.1999	31.12.1998	**31.12.1999**	31.12.1998
1 USD	**1.59**	1.38	**1.50**	1.45
1 EUR	**1.61**	–	**1.60**	–
1 GBP	**2.58**	2.29	**2.43**	2.41
100 JPY	**1.56**	1.22	**1.33**	1.11
100 DEM	**82.07**	82.19	**81.88**	82.38

Note 41 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	**31.12.1999**	31.12.1998
Differences in the balance sheet		
Securities borrowing and lending		
Assets		
Trading portfolio / Money market paper	**47,401**	97,907
Due from banks / customers	**273,093**	40,915
Liabilities		
Due to banks / customers	**375,080**	185,855
Trading portfolio liabilities	**(54,586)**	(47,033)
Treasury shares		
Assets		
Financial investments	**3,136**	1,482
Differences in the income statement		
Treasury shares	**(182)**	369
Reclassification of extraordinary income and expense		
Other income, including income from associates	**(1,726)**	(1,350)
General administrative expenses	**(519)**	(1,235)
Differences in the shareholders' equity		
Treasury shares	**3,462**	1,482

ATAG ERNST & YOUNG

Aeschengraben 9
Postfach 2149
CH-4002 Basel

Telefon 061 286 86 86
Telefax 061 272 40 60

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 31 December 1999.

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, 8 March 2000

ATAG Ernst & Young Ltd.

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

Enclosures

ATAG ERNST & YOUNG AG Niederlassungen in Basel, Aarau, Bern/Thun, Biel, Brig, Chur, Freiburg, Genf, Kreuzlingen, Lausanne, Lugano, Luzern, Neuenburg/La Chaux-de-Fonds, St. Gallen/Buchs, Sitten, Solothurn, Zug, Zürich Mitglied der Treuhand-Kammer

UBS AG
(Parent Bank)

UBS AG (Parent Bank) Table of Contents

Parent Bank Review

Income statement

Due to the merger of Union Bank of Switzerland and Swiss Bank Corporation, the financial year of the parent bank UBS AG in 1998 covered a 15-month period from 1 October 1997 to 31 December 1998. This should be borne in mind when comparing the two income statements where the profit of CHF 6,788 million for 1999 relates to CHF 650 million for the 15 months in 1998.

– Income from investments in associates decreased to CHF 1,669 million from CHF 2,974 million in 1998 due to the reduction of repatriation of capital to the parent bank.
– Sundry income from ordinary activities amounted to CHF 894 million in 1999, down from CHF 1,162 million in 1998. It includes a CHF 200 million gain from the disposal of the international Global Trade Finance business.
– Allowances, provisions and losses were CHF 1,815 million. In 1998 they were CHF 4,849 million. This variance is discussed in more detail in the Group Financial Statements.
– Extraordinary income amounted to CHF 2,518 million, while in 1998 it stood at CHF 3,940 million, reflecting the disposal of associated companies and the sale of bank premises. Further information regarding extraordinary income and expenses can be found in the Additional Income Statement Information.

Balance sheet

Total assets grew by CHF 58 billion to CHF 1,099 billion by 31 December 1999. Excluding currency related effects total assets declined 1%. The growing volume of reverse repurchase agreements and securities lending and borrowing led to an increase in assets and liabilities due from and to banks. Note that these transactions are presented differently in the Group balance sheet. These increases were offset by declining replacement values.

Financial Statements

Income Statement

CHF million	**01.01.1999–31.12.1999**	01.10.1997–31.12.1998
Interest and discount income	**24,172**	33,205
Interest and dividend income from financial assets	**41**	240
Interest expense	**(18,148)**	(25,412)
Net interest income	**6,065**	8,033
Credit-related fees and commissions	**361**	766
Fee and commission income from securities and investment business	**7,758**	9,229
Other fee and commission income	**534**	687
Fee and commission expense	**(763)**	(781)
Net fee and commission income	**7,890**	9,901
Net trading income	**5,593**	383
Net income from disposal of financial assets	**440**	756
Income from investments in associated companies	**1,669**	2,974
Income from real estate holdings	**30**	38
Sundry income from ordinary activities	**894**	1,162
Sundry ordinary expenses	**(21)**	(185)
Other income from ordinary activities	**3,012**	4,745
Operating income	**22,560**	23,062
Personnel	**9,178**	7,977
General administrative	**5,154**	6,290
Operating expenses	**14,332**	14,267
Operating profit	**8,228**	8,795
Depreciation and write-offs on fixed assets	**423**	815
Allowances, provisions and losses	**1,815**	4,849
Profit before extraordinary items and taxes	**5,990**	3,131
Extraordinary income	**2,518**	3,940
Extraordinary expenses	**411**	7,046
Tax expense / (benefit)	**1,309**	(625)
Profit for the period	**6,788**	650

Balance Sheet

CHF million	**31.12.1999**	31.12.1998	Change	%
Assets				
Liquid assets	**3,975**	2,876	1,099	38
Money market paper	**62,154**	14,610	47,544	325
Due from banks	**356,858**	303,032	53,826	18
Due from customers	**195,464**	192,429	3,035	2
Mortgage loans	**123,151**	131,788	(8,637)	(7)
Trading balances in securities and precious metals	**196,782**	191,578	5,204	3
Financial assets	**5,067**	3,010	2,057	68
Investments in associated companies	**6,727**	6,153	574	9
Tangible fixed assets	**5,709**	6,840	(1,131)	(17)
Accrued income and prepaid expenses	**3,555**	5,293	(1,738)	(33)
Positive replacement values	**131,730**	173,020	(41,290)	(24)
Other assets	**7,923**	10,318	(2,395)	(23)
Total	**1,099,095**	1,040,947	58,148	6
Total subordinated assets	***939***	*1,236*	*(297)*	*(24)*
Total amounts receivable from Group companies	***197,211***	*115,140*	*82,071*	*71*

Liabilities				
Money market paper issued	**47,931**	30,963	16,968	55
Due to banks	**352,775**	314,258	38,517	12
Due to customers on savings and deposit accounts	**76,414**	77,964	(1,550)	(2)
Other amounts due to customers	**341,509**	295,381	46,128	16
Medium term note issues	**5,918**	8,303	(2,385)	(29)
Bond issues and loans from central mortgage institutions	**44,254**	36,180	8,074	22
Accruals and deferred income	**8,746**	9,853	(1,107)	(11)
Negative replacement values	**159,713**	207,410	(47,697)	(23)
Other liabilities	**7,835**	14,915	(7,080)	(47)
Value adjustments and provisions	**18,554**	15,176	3,378	22
Share capital	**4,309**	4,300	9	0
General statutory reserve	**14,528**	14,295	233	2
Reserve for own shares	**3,462**	490	2,972	607
Other reserves	**6,356**	10,806	(4,450)	(41)
Profit brought forward	**3**	3	0	0
Profit for the period	**6,788**	650	6,138	944
Total	**1,099,095**	1,040,947	58,148	6
Total subordinated liabilities	***13,362***	*12,528*	*834*	*7*
Total liabilities to Group companies	***160,055***	*108,666*	*51,389*	*47*

Statement of appropriation of retained earnings

	CHF million
The Board of Directors proposes to the Annual General Meeting the following appropriation:	
Profit for the financial year 1999 as per the Parent Bank's Income Statement	**6,788**
Retained earnings from prior years	**3**
Available for appropriation	**6,791**
Appropriation to general statutory reserve	**(215)**
Appropriation to other reserves	**(4,200)**
Proposed dividends	**(2,364)**
Retained earnings carried forward	**12**

Dividend distribution

Upon acceptance of this proposal, the dividend for 1999 will amount to CHF 11.– gross per share of CHF 20.– par value. The dividend will be paid on 26 April 2000, to shareholders or to their depository bank, after deduction of 35% Swiss withholding tax.

Notes to the Financial Statements

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 41 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. 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	**01.01.1999– 31.12.1999**	01.10.1997– 31.12.1998
Foreign exchange and banknotes	**717**	2,156
Bonds and other interest rate instruments	**1,816**	(1,440)
Equities	**3,089**	(421)
Precious metals and commodities	**(29)**	88
Total	**5,593**	383

Extraordinary income and expenses

Extraordinary income contains CHF 2,100 million (1998: CHF 1,532 million) from the sale of former subsidiaries, CHF 417 million (1998: CHF 33 million) from the sale of tangible fixed assets and CHF 0 million (1998: CHF 2,183 million) from a release of provisions no longer required.

Extraordinary expenses consist mainly of losses of CHF 157 million (1998: CHF 38 million) from the disposal of investments in associated companies and CHF 254 million (1998: CHF 8 million) from the sale of tangible fixed assets.

Additional balance sheet information

Value adjustments and provisions

CHF million	Balance at 31.12.1998	**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 31.12.1999**
Default risks (credit and country risk)	14,027	**(2,980)**	**705**	**1,601**	**(424)**	**12,929**
Other business risks [1]	2,943	**(358)**	**510**	**1,356**	**(1,184)**	**3,267**
Capital and income taxes	394	**(146)**	**28**	**964**	**(87)**	**1,153**
Other provisions	3,895	**(2,097)**	**(223)**	**1,287**	**(482)**	**2,380**
Total allowance for general credit losses and other provisions	21,259	**(5,581)**	**1,020**	**5,208**	**(2,177)**	**19,729**
Allowances deducted from assets	(6,083)	**–**	**–**	**–**	**–**	**(1,175)**
Total provisions as per balance sheet	15,176	**–**	**–**	**–**	**–**	**18,554**

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

Additional balance sheet information (continued)

Statement of shareholders' equity

CHF million	**31.12.1999**	31.12.1998	Change	%
Shareholders' equity				
Share capital at the beginning of the period	**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)
Total shareholders' equity at the beginning of the period (before distribution of profit)	**30,544**	32,668	(2,124)	(7)
– Reduction of nominal capital		(1,467)	1,467	–
+ Increase in General statutory reserves	**190**	1,467	(1,277)	(87)
+ Capital increase / (decrease)	**9**	12	(3)	(25)
+ Premium	**45**	82	(37)	(45)
+ Other allocations	**(38)**	35	(73)	(209)
– Allocation / (release) of Reserves for general banking risks	**0**	(667)	667	–
– Prior-year dividend	**(2,092)**	(2,236)	144	(6)
+ Profit for the period	**6,788**	650	6,138	944
Total shareholders' equity at the end of the period (before distribution of profit)	**35,446**	30,544	4,902	16
of which:				
Share capital	**4,309**	4,300	9	0
General statutory reserves	**14,528**	14,295	233	2
Reserves for own shares	**3,462**	490	2,972	607
Other reserves	**6,356**	10,806	(4,450)	(41)
Retained earnings	**6,791**	653	6,138	940

Share capital

	Par value		Ranking for dividends	
	No. of shares	Capital in CHF	No. of shares	Capital in CHF
Issued and paid up	215,446,581	**4,308,931,620**	214,920,040	**4,298,400,800**
Conditional share capital	528,954	**10,579,080**	–	**–**

Off-balance sheet and other information

Assets pledged or assigned as security for own obligations, assets subject to reservation of title

CHF million	31.12.1999 Book value	31.12.1999 Effective liability	31.12.1998 Book value	31.12.1998 Effective liability	Change in % Book value	Change in % Effective liability
Money market paper	**35,475**	**702**	6,956	0	410	–
Mortgage loans	**1,869**	**1,325**	2,410	1,602	(22)	(17)
Securities	**3,722**	**188**	14,852	8,883	(75)	(98)
Total	**41,066**	**2,215**	24,218	10,485	70	(79)

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 membership.

Fiduciary transactions

CHF million	**31.12.1999**	31.12.1998	Change	%
Deposits				
with other banks	**47,802**	46,180	1,622	4
with Group banks	**759**	1,543	(784)	(51)
Loans and other financial transactions	**415**	479	(64)	(13)
Total	**48,976**	48,202	774	2

Due to UBS pension plans, loans to corporate bodies / related parties

CHF million	**31.12.1999**	31.12.1998	Change	%
Due to UBS pension plans (including securities borrowed) and UBS securities held by pension plans	**6,785**	1,250	5,535	443
Loans to directors, senior executives and auditing bodies [1]	**61**	70	(9)	(13)

[1] Loans to directors, senior executives and auditing bodies are loans to members of the Board of Directors, the Group Executive Board, 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.

ATAG ERNST & YOUNG

Aeschengraben 9
Postfach 2149
CH-4002 Basel

Telefon 061 286 86 86
Telefax 061 272 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 year ended 31 December 1999.

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, 8 March 2000

ATAG Ernst & Young Ltd.

Roger K. Perkin
Chartered Accountant
in charge of the audit

Peter Heckendorn
lic. oec.
in charge of the audit

Enclosures

ATAG ERNST & YOUNG AG Niederlassungen in Basel, Aarau, Bern/Thun, Biel, Brig, Chur, Freiburg, Genf, Kreuzlingen, Lausanne, Lugano, Luzern, Neuenburg/La Chaux-de-Fonds, St. Gallen/Buchs, Sitten, Solothurn, Zug, Zürich Mitglied der Treuhand-Kammer

UBS Corporate Governance

Corporate and Executive Bodies

UBS is committed to meet the highest international standards of corporate governance in its organizational structure and its system of checks and balances. Corporate and executive bodies are organized in line with the leading codes of best practice as well as with Swiss legal requirements.

The Board of Directors

As of 31 December 1999, the Board of Directors (BoD) consisted of eight non-executive Directors, while the Articles of Association provide flexibility to elect between eight and twelve members. The BoD has ultimate responsibility for the strategic direction of the UBS Group, developed and proposed by the Group Executive Board (GEB). The BoD is also responsible for the supervision and control of the Group's executive management. At the 1999 Annual General Meeting (AGM), two BoD members resigned: Georges Schorderet and Manfred Zobl. Eric Honegger, Chairman designate of SAirGroup, was newly elected.

The BoD is organized as follows: the Chairman and the two Vice-Chairmen form the *Chairman's Office,* which assumes a special level of authority within the organization, mainly in credit approval and compensation issues. The Chairman's Office also acts as the *Remuneration Committee*. It fixes the remuneration of the BoD's full-time members, the members of the Group Executive Board and of the Group Managing Board, and it proposes to the BoD the individual remuneration for its part-time members.

In its capacity as the *Audit Supervisory Board*, the Chairman's Office also assumes responsibility for the supervision of internal audit. The Audit Supervisory Board and the head of Group Internal Audit meet four times per year to discuss issues raised by both internal and external audit, and decide subsequently if any special measures need to be taken. The Audit Supervisory Board also reviews the annual objectives and activity reports of Group Internal Audit.

The *Audit Committee* monitors the functional adequacy of the auditing work and the co-operation between internal and external audit. It is chaired by Peter Böckli with Rolf A. Meyer as Vice-Chairman and Andreas Reinhart as an additional member. The Audit Committee meets two to three times per year together with the head of Group Internal Audit and the external auditors, and – specifically for the review of the annual accounts – with the Chief Financial Officer.

With this structure in place, UBS observes the principles of best practice in corporate governance. The world is, however, moving forward, and new principles are being discussed and introduced, primarily in the US. UBS carefully watches these developments and aims to remain at the forefront of organizational excellence.

During 1999, the Board of Directors met eleven times for ordinary meetings, which are attended by the members of the Group Executive Board in an advisory capacity. The common meetings serve to provide a platform for high-level interaction between the two boards which have both clearly defined mandates, but share ultimate responsibility for the success of the company. In addition the BoD attended a full-day meeting to review the Group strategy proposed by the GEB, and it was informed in detail about the Group's communication activities and the targets of the Human Resources departments during a one-day offsite together with the GEB. The further development of the Group, its organizational and capital structure and the plans to register with the US Securities and Exchange Commission (SEC) were major issues addressed. The review of the quarterly and year-end financial statements, the regular risk reports and the approval of the annual budgets are among the core authorities of the BoD.

The Group Executive Board

The seven members of the Group Executive Board (GEB) assume ultimate responsibility for the development of the Group's strategy, its implementation and the financial results. As of 1 May 1999, Hans de Gier, CEO of the investment banking division, retired. He was replaced by Markus Granziol, head of the Equity business area of UBS Warburg. Peter Wuffli, UBS Group CFO until the end of April, took over from Gary Brinson as CEO of the Asset Management Division on 1 September. The position of the Group's Chief Financial Officer was assigned to Luqman Arnold, previously Chief Operating Officer of UBS Warburg. These personnel changes were followed by some fundamental organizational alterations: all risk and control functions were combined and put under the leadership of the CFO, with the Group Chief Risk Officer and the Group Chief Credit Officer now reporting to the CFO. Pierre de Weck was named CEO of UBS Capital.

As of 15 February 2000, Rudi Bogni, CEO of the Private Banking Division, left the Bank in connection with the reorganization of the Group's asset management businesses. Georges Gagnebin, head of the business area "International Clients", became CEO of Private Banking and was appointed Member of the Group Executive Board.

At its biweekly meetings, the Group Executive Board discussed business issues of major importance. In a two-day seminar at the beginning of the year, the GEB evaluated the Group's strategy. During the year under review, it redefined internal medium-term planning targets, elaborated a new policy of disclosing financial results and forecasts, and informed the financial community about these decisions during Investors' Day on December 14. The growing importance of e-services in the financial industry was another focus of numerous GEB meetings. A new business area "e-services" was created as a result of these discussions. An important concern for the GEB remained, of course, the integration of the two merged banks. Major initiatives were defined to take advantage of the possible synergies resulting from an integrated approach to the Group's activities. It is one of the dominant functions of the GEB to enhance synergies through cross-divisional cooperation.

The Group Managing Board

The 32 members of the Group Managing Board (GMB) – 7 GEB members, 16 members of Divisional Management Boards and 9 members with key roles at the top level of the organization – met in London at the beginning of May to discuss strategic issues and to initiate the 1999 planning cycle.

Group Internal Audit

To guarantee full independence from the business, the head of Group Internal Audit, Walter Stürzinger, reports directly to the Chairman of the Board of Directors.

With around 200 professionals worldwide, Group Internal Audit provides an independent review of the effectiveness of the system of internal controls and compliance with key rules and regulations.

All key issues raised by Group Internal Audit are communicated to the management responsible, the CEO and the Chairman's Office via formal Audit Reports. The Audit Supervisory Board and the Audit Committee are regularly informed about the major findings. State-of-the-art systems technology helps ensure that all significant audit issues raised are globally monitored and subsequently resolved. The efficiency of audit work is increased by extensive cooperation between Group Internal Audit and our external auditors.

External auditors

After an intensive selection process ATAG Ernst & Young Ltd. have been assigned the global audit mandate for the UBS Group. In the past, different firms assumed audit functions on behalf of UBS.

Corporate and Executive Bodies

Board of Directors

Alex Krauer (AGM 2002)[1]
Chairman
Member of the Audit Supervisory Board

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

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

Peter Böckli (AGM 2003)
Chairman of the Audit Committee
Partner in the law firm Böckli, Bodmer & Partner, Basel

Eric Honegger (AGM 2003)
Chairman designate of SAirGroup, Zurich-Airport

Rolf A. Meyer (AGM 2003)
Member of the Audit Committee
Chairman and Delegate of the Board of Ciba Specialty Chemicals Inc., Basel

Hans Peter Ming (AGM 2000)
Chairman of Sika Finanz AG, Baar

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

Secretary to the Board of Directors:
Gertrud Erismann-Peyer

[1] Term of office until AGM of the year indicated.

Group Executive Board

Marcel Ospel
Group Chief Executive Officer

Luqman Arnold
Chief Financial Officer

Rodolfo Bogni
CEO Private Banking Division (until 15 February 2000)

Georges Gagnebin
CEO Private Banking Division (since 15 February 2000)

Markus Granziol
CEO Investment Banking and Securities Division

Stephan Haeringer
CEO Private and Corporate Clients Division

Pierre de Weck
CEO Private Equity Division

Peter A. Wuffli
CEO Asset Management Division

Group Managing Board

In addition to the members of the Group Executive Board the following gentlemen belong to the Group Managing Board:

Gary Brinson
Chairman and Chief Investment Officer,
UBS Asset Management Division

Colin Buchan
Global Head of Equity, UBS Warburg Division

Richard C. Capone
Regional Manager for UBS AG's operations in the Americas,
CEO Warburg Dillon Read LLC

Crispian Collins
CEO Phillips & Drew London,
UBS Asset Management Division

John Costas
Chief Operating Officer and Global Head Fixed Income and Treasury Products, UBS Warburg Division

Arthur Decurtins
Deputy CEO and Head Products, Services and Logistics,
UBS Private Banking Division

Jeffrey J. Diermeier
Deputy Chief Investment Officer UBS Brinson / Brinson Partners, UBS Asset Management Division

Thomas K. Escher
Business Area Head IT, UBS Private and Corporate Clients Division

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

Jürg Haller
Business Area Head Risk Transformatioin and Capital Management, UBS Private and Corporate Clients Division

Eugen Haltiner
Business Area Head Corporate Clients,
UBS Private and Corporate Clients Division

William (Bill) Johnson
Business Area Head E-Services, Corporate Center

Benjamin F. Lenhardt, Jr.
CEO UBS Brinson/Brinson Partners,
UBS Asset Management Division

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

Urs B. Rinderknecht
Group Mandates, Corporate Center

Marcel Rohner
Group Chief Risk Officer, Corporate Center

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

Hugo Schaub
Group Controller, Corporate Center

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

Clive Standish
CEO Warburg Dillon Read Asia/Pacific,
UBS Warburg Division

Marco Suter
Group Chief Credit Officer, Corporate Center

Rory Tapner
Joint Global Head Corporate Finance,
UBS Warburg Division

Markus Weiss
Business Area Head Private Banks,
UBS Private Banking Division

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

Auditors

External Auditor
ATAG Ernst & Young Ltd., Basel
Auditors for the Parent Bank and for the Group as prescribed by Company Law and Swiss Banking Law
(term expires AGM 2000)

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

Corporate Information

UBS adopts best practice in its relationship with shareholders, rating agencies and regulators, and it has made transparency vis-à-vis regulators, the financial community and the media one of its strategic targets.

Relationship with regulators

As UBS is a Swiss registered company, our main regulator is the Swiss Federal Banking Commission. Major regulatory contacts, however, also exist with the Federal Reserve Board (US Fed) and the UK Financial Services Authority (FSA), the two countries where we have the most significant non-Swiss business units. UBS also maintains extensive contacts with other regulatory bodies. It is our aim to comply with all local and regional provisions, and we work closely together with the respective regulators. In an attempt to provide comprehensive, transparent, timely and up-to-date information, we are in a process of developing a web-based corporate information tool which will be accessible to selected regulatory users. The Group Governance Committee, chaired by the CEO, coordinates the Group's public policy interface with governments, central banks and regulators. It ensures that adequate policies and procedures exist and are enforced in order to minimize the bank's reputational risks. The Group CFO, the Group Controller, the Chief Risk and Chief Credit Officers, the head of Group Internal Audit, the Group General Counsel and the divisional heads of Corporate Governance and Legal and Compliance are the permanent members of the Committee.

Relationship with shareholders

More than 200,000 shareholders are entered in our share register. We are committed to providing quality information and keeping them regularly informed about the important developments of their company. For institutional shareholders and for all individual shareholders with an interest in in-depth information, we produce the annual and quarterly "Financial Reports". These documents provide all information required by International Accounting Standards and the Swiss accounting regulations as well as analyses of, and comments on, the financial situation of the Group, its strengths and weaknesses, and its challenges and achievements. A more concise, easy-to-read "Letter to Shareholders" is sent to all shareholders each quarter and explains the major factors driving the Group's development. The "Annual Review" is a condensed report, centering on the annual results, the achievements of the Group and the divisions, and selected additional issues.

The Annual General Meeting offers the opportunity to our shareholders to raise any questions regarding the development of the company and the achievements of the year under review. The members of the BoD and of the GEB as well as the internal and external auditors are present to answer these questions. Proxy voting offers all shareholders the option to express their views on each agenda point.

UBS is committed to transparency and openness in its communication with shareholders, institutional investors and equity analysts. We are continually improving our disclosure policies, making our information more transparent, consistent and reliable over time. We are committed to reporting our results on an absolute rather than on a cumulative quarterly basis starting with the first quarter of 2000, and publishing and explaining a detailed set of value drivers every quarter.

For information about the distribution of UBS shares (size of individual holdings, geographic origin of shareholders, individual/corporate shareholders) see page 149.

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.

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.

associate
An enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor. Significant influence is the power to participate in (but not control) the financial and operating policy decisions of the investee.

B

basic earnings per share
The per share net profit or loss that is attributable to ordinary shareholders. It is calculated by dividing the net profit or loss for the period by the weighted average number of ordinary shares outstanding during the period.

BIS capital ratio
A measure of the capital resources underpinning the operations of banks (capital adequacy), as set by the Basel Committee on Banking Supervision which meets at the Bank for International Settlements (BIS). Eligible 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 positions is the BIS capital ratio.

business segment
A distinguishable component of an enterprise that is engaged in providing a group of related services which are subject to risks and returns that are different from those of other business segments.

C

commitment
Future obligation to enter into a transaction, backed by an agreement.

compliance risk
The risk that the conduct of business does not comply or appears not to comply with the applicable laws, internal or external regulations, industry directives, restrictions or professional standards and practice, which may lead in particular to regulatory or criminal sanctions, costs and fees or reputational damages.

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

contingency
A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence, or non-occurrence, of one or more uncertain future events.

contract volume
Corresponds to the receivable side of the underlying value or notional/nominal amount underlying derivative instruments.

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

credit risk
The risk of loss to the bank due to a counterparty unable or not willing to perform payment obligations or other terms of contract. (Note that credit risk includes e.g. transfer risk.)

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

D

deferred tax asset
The amount of income taxes recoverable in future periods in respect of (1) deductible temporary differences; (2) the carry forward of unused tax losses and unused tax credits. Deductible temporary differences are those differences between the carrying amount of an asset or liability and its tax base that will result in amounts deductible in determining taxable profit (tax loss) of future periods.

deferred tax liability
The amount of income taxes payable in future periods in respect of taxable temporary differences. Taxable temporary differences are those differences between the carrying amount of an asset or liability and its tax base that will result in taxable amounts in determining taxable profit (tax loss) of future periods.

defined benefit plan
A post-employment benefit plan where the enterprise's obligation is to provide the defined benefits to current and former employees. Actuarial risks (that benefits will cost more than expected) and investment risks (that the assets invested will be insufficient) fall in substance on the enterprise.

defined contribution plan
A post-employment benefit plan under which an enterprise pays defined contributions. The enterprise's obligation is limited to the amount that it agrees to contribute.

derivative financial instrument
Financial instrument (1) whose value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or similar variable (often called the 'underlying'); (2) that requires no initial net investment or little initial net investment relative to other types of contracts that have a similar response to changes in market conditions; and (3) that is settled at a future date.

diluted earnings per share
The basic earnings per share adjusted by the potential after tax dilutive effect of financial instruments or other contracts that entitle their holders to ordinary shares. Dilutive means that only the effect that results in a decrease from the basic earnings per share are taken into consideration.

E

employee benefits
All forms of consideration given by an enterprise in exchange for services rendered by employees.

equity method
The method used to account for associates. The investment in the associate is initially recorded at cost and adjusted thereafter for the post acquisition change in the investors' share of net assets of the associate.

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 instrument
A contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

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.

financial investments
Equity and debt securities held for the accretion of wealth through distribution, such as interest and dividends, and for capital appreciation.

forwards and futures
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.

G

goodwill
Any excess of the cost of an 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.

the Group
UBS AG (parent) and all its subsidiaries.

H

hedging
An action which reduces risk, usually at the expense of potential reward, by use of one or more financial instruments (hedging instruments) so that their change in fair value is an offset, in whole or in part, to the change in fair value or cash flows of a hedged item.

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

interest rate risk
The risk of gain or loss as a result of movements in interest rates.

International Accounting Standards (IAS)
Accounting standards issued by the International Accounting Standards Committee (IASC), with the objective of achieving uniformity in the accounting principles which are used by businesses and other organizations for financial reporting around the world.

investment fund
A fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities, or money market securities. It offers investors the advantages of diversification and professional management and charges a management fee for these services. Product owners in the UBS Group are Private Banking, UBS Brinson and Warburg Dillon Read.

L

legal risk
The risk of loss because a contract cannot be enforced. This includes risks arising from inadequate documentation, insufficient capacity or authority of a counterparty (ultra vires) or uncertain legality.

liability risk
The risk of loss due to an entity 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.

liquidity risk
Risk that an entity will have to sell assets at a loss to meet cash demands. It is generally explained as a ratio comparing available liquidity to the demand for funds.

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

market risk
Uncertainty to which future earnings are exposed as a result of changes of the market prices of financial instruments. This risk is primarily a consequence of 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 profit or loss and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent.

mutual fund
See investment fund.

N

negative replacement value
Amount representing the fair value of a derivative financial instrument in a payable position.

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

O

operating lease
In an operating lease, the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

operational risk
The risk that deficiencies in information systems or internal controls will result in unexpected loss. This risk is associated with human error or human misbehaviour, system failures and inadequate procedures and controls. Particular elements of operational risk are legal risk, compliance risk, liability risk or physical and crime risk.

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)
Refers to financial instruments that are not traded on an organized exchange or are traded on 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 or damage to the bank due to natural forces, environmental dangers, fire and explosion, war or civil unrest, criminal or any other activity, which may cause a violation of the bank's standards or of laws and regulations.

positive replacement value
Amount representing the fair value of a derivative financial instrument in a receivable position.

private equity
Equity financing provided to, typically, unquoted companies, in order to actively increase their value and resell them after 3 to 6 years. This is the business of UBS Capital.

R

repurchase agreement
An agreement whereby the holder of a security sells the security to a buyer, with a simultaneous agreement to repurchase the security at a fixed future date at a stipulated price.

reverse repurchase agreement
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. From the buyer's viewpoint it is a repurchase agreement.

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
Organizational principles, methods and measures (policies, structures, processes) to manage and control risks.

ROE (return on equity)
Net result of the 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 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 in making a payment or delivery on «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). Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

swaps
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.

T

trading
Entering into positions which are actively managed and intended to be held in order to profit in the short term from fluctuations in the market price.

V

value at risk
A measure of the maximum loss which would be expected to occur in a given portfolio with a given level of statistical probability. Value at risk (VaR) 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

UBS Shares

UBS share price performance in 1999 was disappointing. After a good performance in the first six months of the year, UBS's share price declined on the basis of results lower than market expectations and pressure on financial stocks generally to close the year at CHF 430.

UBS share data

Year-end registered shares in 1000 units	**31.12.1999**	31.12.1998[1]
Total shares outstanding	**215,447**	214,976
Total shares ranking for dividend	**214,920[2]**	214,450
Treasury shares (average)	**7,191**	3,058
Weighted average shares (for basic EPS calculation)	**208,057**	211,797
Weighted average shares (for diluted EPS calculation)	**209,166**	212,941
Per share data (basic) (CHF)		
Gross operating profit	**137.56**	105.43
Group profit before taxes	**39.26**	19.22
Net profit	**30.28**	14.31
Dividend	**11.00**	10.00
Book value	**167.43**	152.95
Per share data (diluted) (CHF)		
Gross operating profit	**136.83**	104.86
Group profit before taxes	**39.06**	19.12
Net profit	**30.12**	14.23
Book value	**166.54**	152.13
Stock exchange prices		
Year-end 1999 (CHF)	**430**	422
High / low 1999 (CHF)	**528 / 405**	657 / 270
Price / net earnings (P / E) (basic)	**14.2**	29.5
Price / book value (P / BV) (basic)	**2.6**	2.8
Dividend yield, gross (high / low) (in percent)	**2.7 / 2.1**	3.7 / 1.5
Total return	**4.3[3]**	2.6[3]
Total return Swiss Market Index (SMI)	**5.7**	15.7
Total return Swiss Performance Index (SPI)	**11.7**	16.8
Market capitalization (CHF billion)		
Year-end	**92.6**	90.7
% change year-on-year	**2.09**	n / a
In % of the Swiss Market Index (SMI)	**10.6**	11.8
In % of the Swiss Performance Index (SPI)	**8.5**	9.6
High (3 May)	**113.5**	140.0
Low (10 August and 25 October)	**87.2**	57.9
Trading volumes (SWX only) (CHF million)		
Total	**97,584**	67,198
Daily average	**384[4]**	517[5]
Trading volumes (SWX only) (1000 units)		
Total	**214,695**	153,078
Daily average	**845[4]**	1,178[5]

[1] In 1998, trading period of UBS registered shares was 29 June until 31 December. [2] Difference between shares outstanding and shares ranking for dividend are reserved shares. [3] Return from dividend and price changes. [4] In 1999 there were a total of 254 trading days. [5] Trading period 29 June until 31 December 1998 equals 130 trading days.

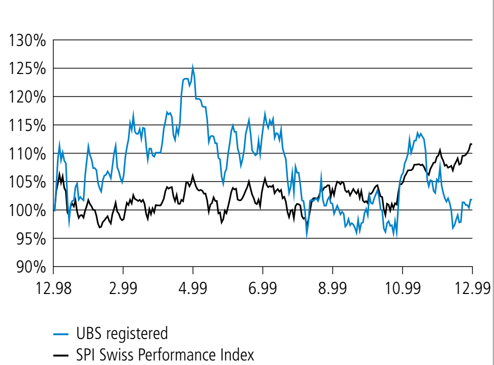
Our disappointing share-price performance has two main causes. First, UBS Private Banking and UBS Asset Management reported weaker than expected asset growth. The negative development of net new money in the third quarter had a particularly strong adverse effect. Second, rising interest rates held back the share price development of financial institutions in the second half of the year.

In 1999, the world economy recovered from the Asian, Russian and Brazilian crises. Most developing economies stabilized and regained access to the capital markets. While Europe embarked on a modest cyclical recovery, the US remained the driver of global growth.

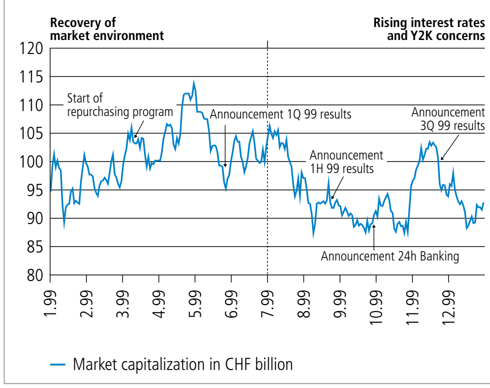
Despite the worldwide shifts towards a tighter monetary policy, global equity markets performed well last year. However, the performance among different sectors and regions diverged substantially. In particular, the financial services industry was not able to match the performance of technology and telecommunications stocks. In the second half of the year, rising interest rates concerns and Year 2000 concerns affected bank stock valuations.

In line with overall market trends, UBS shares moved to a high of CHF 528 on 3 May. In the second half of the year, this trend reversed. UBS shares reached their low of CHF 405 on 10 August. Although the share price recovered to CHF 479.50 during the third quarter, it closed the year at CHF 430 reflecting an annual performance of 1.9%.

UBS share price chart
100% = 1 December 1998



UBS market capitalization



Distribution of UBS shares registered as of 31 December 1999

Number of shares registered (1% = 1,099,263 shares)	Number of shareholders registered	% of shareholders registered	Number of shares registered	% of shares registered
1–100	133,741	66.010	5,643,487	5.134
101–1,000	62,645	30.920	17,109,278	15.564
1,001–5,000	5,050	2.493	10,069,612	9.160
5,001–10,000	521	0.257	3,647,688	3.319
10,001–50,000	462	0.228	9,518,063	8.659
50,001–100,000	71	0.035	5,066,789	4.609
>100,000	116	0.057	58,871,390	53.555
Total	**202,606**	**100**	**109,926,307**	**100**
0–1%	202,603	99.999	94,469,146	85.939
1–2%	2	0.001	7,112,118	6.470
2–3%	0	0.000	0	0.000
3–4%	0	0.000	0	0.000
4–5%	1	0.000	8,345,043	7.591
over 5%	0	0.000	0	0.000
Total	**202,606**	**100**	**109,926,307**	**100**

As of 31 December 1999 no identified investor was holding 5% or more of the total 215 million UBS shares outstanding. UBS employees were holding 3.8% of the shares registered.

Individual shareholders	193,583	95.546	32,370,006	29.447
Legal entities	8,578	4.234	55,356,193	50.358
Nominees, fiduciaries	445	0.220	22,200,108	20.195
Total	**202,606**	**100**	**109,926,307**	**100**
Switzerland	189,906	93.731	72,266,335	65.740
Europe	9,230	4.556	26,435,883	24.049
North America	1,043	0.515	3,081,205	2.803
Other countries	2,427	1.198	8,142,884	7.408
Total	**202,606**	**100**	**109,926,307**	**100**

28,718,415 shares registered do not carry voting rights. 105,363,086 shares are classified as "non registered", i.e. not entered in the share register as of 31 December 1999.

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 = 1 UBS Share
Exchange	OTC (over the counter)
Symbol	UBBSY
CUSIP	# 90261R105

Financial calendar

Annual General Meeting	Thuesday, 18 April 2000
Dividend payment date	Wednesday, 26 April 2000
Publication first-quarter results	Thursday, 25 May 2000
Publication first-half results	Tuesday, 22 August 2000
Publication third-quarter results	Tuesday, 28 Nov. 2000

For information contact

UBS AG
Investor Relations G41B
P.O. Box
CH-8098 Zurich
Phone +41-1-234 41 00
Fax +41-1-234 34 15

Change of address

UBS AG
Shareholder Services FNNB
P.O. Box
CH-8098 Zurich
Phone +41-1-235 62 02
Fax +41-1-235 31 54

Cautionary statement regarding forward-looking statements

This Financial Report contains statements that constitute "forward-looking statements". In addition, other written or oral statements which constitute forward-looking statements have been made and may in the future be made on our behalf. In this Financial Report, such forward-looking statements include, without limitation, statements relating to:
– the implementation of strategic initiatives
– the development of revenues overall and within specific business areas
– the development of operating expenses
– the anticipated level of capital expenditures and associated depreciation expense
– the expected impact of the risks that affect our business, including the risk of loss resulting from the default of an obligor or counterparty
– expected credit losses based upon our credit review
– other statements relating to our future business development and economic performance

The words "anticipate", "believe", "expect", "estimate", "intend", "plan" and other similar expressions identify some of these forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements because actual events may differ materially from those described by these forward-looking statements and as a result, financial results could differ from those set forth and those differences may be material to our financial statements.

Many factors may influence our actual results and cause them to differ materially from expected results as described in the forward-looking statements. These factors include:
– general market trends affecting demand for our products and services
– developments in the competitive environment in Switzerland and around the world
– developments in technology
– changes in our expenses associated with acquisitions and dispositions
– our ability to attract and retain skilled personnel
– credit ratings and the financial position of obligors and counterparties
– our ability to control risk in our businesses, including our ability to improve our overall risk profile
– macroeconomic trends and government and regulatory policies affecting business in Switzerland and around the world, including changes in the level of interest or tax rates and movements in foreign currency exchange rates.

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UBS

UBS AG
P.O. Box, CH-8098 Zurich
P.O. Box, CH-4002 Basel

www.ubs.com