

Handbook 2000/2001



Our Information Portfolio

This Handbook is available in English and German (SAP-80532-0101) and is supplemented by the following documents:

Annual Review 2000

Our Annual Review provides brief descriptions of our business groups and a summary review of the year 2000. It is available in English, German, French, Italian and Spanish (SAP-80530-0101).

Financial Report 2000

Our Financial Report contains our audited financial statements for the year 2000 and accompanying detailed analysis. It is available in English and German (SAP-80531-0101).

Quarterly Reports

UBS provides detailed quarterly financial reporting and analysis, including comment on the progress of its businesses and key strategic initiatives.

Our Commitment 1999/2000

The Report "Our Commitment 1999/2000" illustrates how we create value for our clients, employees, shareholders and the community and how we meet our responsibility to all our stakeholder groups. It is available in English, German and French (SAP-81011-0001).

Each of these reports is available on the internet at: www.ubs.com/investor-relations.

Alternatively, printed copies of these reports can be ordered, quoting the SAP number and language preference, from: UBS AG, Information Center, CA50-XMB, P.O. Box, CH-8098 Zurich, Switzerland.

"Excellence"

As sponsor of the UBS Verbier Festival Youth Orchestra, we provide support and encouragement for talented young musicians from all over the world as they rise to the top of their profession. Our Annual Review 2000 carries portraits of some of these young musicians, who are also shown on the front cover of this document.



Table of Contents

Introduction	2
The UBS Group	
UBS Group Financial Highlights	4
Strategy, Structure and History	5
The Business Groups	
UBS Switzerland	12
UBS Asset Management	22
UBS Warburg	26
Corporate Center	37
Risk	
Risk Management and Control	50
Risk Analysis	55
Asset and Liability Management	67
Corporate Governance	
Corporate Organization	78
Directors and Officers of UBS	81
Relations with Regulators	86
Financial Disclosure Principles	91
UBS Share Information	
The Global Registered Share	94
UBS Shares 2000	96

Introduction

The UBS Handbook, published here for the first time, brings together in one place a complete range of in-depth non-financial information about UBS.

The Handbook describes the UBS Group: its strategy and organization, and the businesses it operates. It outlines the principles by which the Group manages risk, and reports on developments during 2000 in the areas of Credit Risk, Market Risk, and Asset and Liability Management. It contains a description of the Group's environmental performance.

The Handbook introduces the value-based management processes that are being implemented at UBS, and describes the new brand management strategy that was put in place during 2000. It contains an extensive discussion of the Group's corporate governance arrangements and its relationships with regulators and shareholders, and provides detailed facts about the UBS share.

The UBS Handbook should be read in conjunction with the other information published by UBS, in particular the Financial Report 2000, which provides full statutory reporting and discussion of the Group's financial results for 2000. In addition, UBS publishes detailed Quarterly Financial Reports, analyzing its performance

during each quarter of the year, and an Annual Review, which provides a brief summary of the Group and its financial performance in 2000.

We hope that you will find the information in these documents useful and informative. We believe that UBS is among the leaders in corporate disclosure, but we would be very interested to hear your views on how we might improve the content and presentation of our information portfolio.

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The UBS Group

UBS Group Financial Highlights

<i>CHF million, except where indicated</i>				% change from
For the year ended	31.12.00	31.12.99 ¹	31.12.98 ¹	31.12.99
Income statement key figures				
Operating income	36,402	28,425	22,247	28
Operating expenses	26,203	20,532	18,376	28
Operating profit before tax	10,199	7,893	3,871	29
Net profit	7,792	6,153	2,972	27
Cost / income ratio (%) ²	72.2	69.9	79.2	
Cost / income ratio before goodwill (%) ^{2,3}	70.4	68.7	77.7	
Per share data (CHF)				
Basic earnings per share ^{4,7}	19.33	15.20	7.33	27
Basic earnings per share before goodwill ^{3,4,7}	20.99	16.04	8.18	31
Diluted earnings per share ^{4,7}	19.04	15.07	7.20	26
Diluted earnings per share before goodwill ^{3,4,7}	20.67	15.90	8.03	30
Return on shareholders' equity (%)				
Return on shareholders' equity ⁵	21.5	22.4	10.7	
Return on shareholders' equity before goodwill ^{3,5}	23.4	23.6	12.0	

<i>CHF million, except where indicated</i>				% change from
As of	31.12.00	31.12.99 ¹	31.12.98 ¹	31.12.99
Balance sheet key figures				
Total assets	1,087,552	896,556	861,282	21
Shareholders' equity	44,833	30,608	28,794	46
Market capitalization	112,666	92,642	90,720	22
BIS capital ratios				
Tier 1 (%)	11.7	10.6	9.3	
Total BIS (%)	15.7	14.5	13.2	
Risk-weighted assets	273,290	273,107	303,719	0
Total assets under management (CHF billion)	2,469	1,744	1,573	42
Headcount (full time equivalents)⁶	71,076	49,058	48,011	45
Long-term ratings				
Fitch, London	AAA	AAA	AAA	
Moody's, New York	Aa1	Aa1	Aa1	
Standard & Poor's, New York	AA+	AA+	AA+	

Earnings adjusted for significant financial events⁸

<i>CHF million, except where indicated</i>				% change from
For the year ended	31.12.00	31.12.99 ¹	31.12.99	
Operating income	36,402	26,587	37	
Operating expenses	25,763	20,534	25	
Operating profit before tax	10,639	6,053	76	
Net profit	8,132	4,665	74	
Cost / income ratio before goodwill (%) ^{2,3}	69.2	73.3		
Basic earnings per share before goodwill (CHF) ^{3,4,7}	21.83	12.37	76	
Diluted earnings per share before goodwill (CHF) ^{3,4,7}	21.50	12.26	75	
Return on shareholders' equity before goodwill (%) ^{3,5}	24.3	18.2		

¹ The 1999 and 1998 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see UBS Financial Report 2000). ² Operating expenses / operating income before credit loss recovery / (expense). ³ The amortization of goodwill and other intangible assets is excluded from the calculation. ⁴ For EPS calculation, see UBS Financial Report 2000. ⁵ Net profit / average shareholders' equity excluding dividends. ⁶ The Group headcount does not include the Klinik Hirslanden AG headcount of 1,839 and 1,853 for 31 December 2000 and 31 December 1999, respectively. ⁷ 1999 and 1998 share figures are restated for the two-for-one share split, effective 8 May 2000. ⁸ Details of Significant Financial Events can be found in the UBS Financial Report 2000.

Except where otherwise stated, all 31 December 2000 figures throughout this handbook include the impact of the acquisition of PaineWebber, which occurred on 3 November 2000.

Strategy, Structure and History

Our vision is to be the pre-eminent global integrated investment services firm and the leading bank in Switzerland. We are the world's leading provider of private banking services and one of the largest asset managers globally. In the investment banking and securities businesses, we are among the select bracket of major global houses. In Switzerland, we are the clear market leader in retail and corporate banking. As an integrated Group, not merely a holding company, we create added-value for clients by drawing on the combined resources and expertise of all our businesses.

We will only succeed by providing our *clients* with innovative and high-quality service coupled with long-term personal relationships. Client focus is the main driver of all our activities.

We seek to create value for our *shareholders* through sustainable growth of our business within appropriate risk parameters. Being dedicated to total value management means creating value for all stakeholders.

We are committed to succeed in the fierce competition for talent. The expertise and integrity of our *staff* create value for our clients and for the Group as a whole. We seek to be a highly attractive firm for our employees.

UBS's *reputation* is one of our most valuable assets. We aim to adhere to the highest ethical standards, and to manage our risks with the greatest care. We are committed to complying fully with the letter and spirit of the laws, rules and practices that govern UBS and its staff.

Strategy

UBS's strategy is to deliver top-quality investment products and advice to a premier client base across all client segments: individual, institutional and corporate. UBS aims to bring its content excellence to an ever wider client base, adding

distribution organically, through acquisition or through strategic partnership.

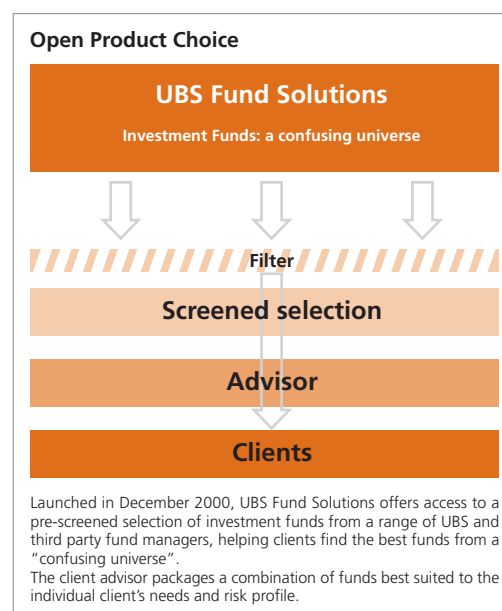
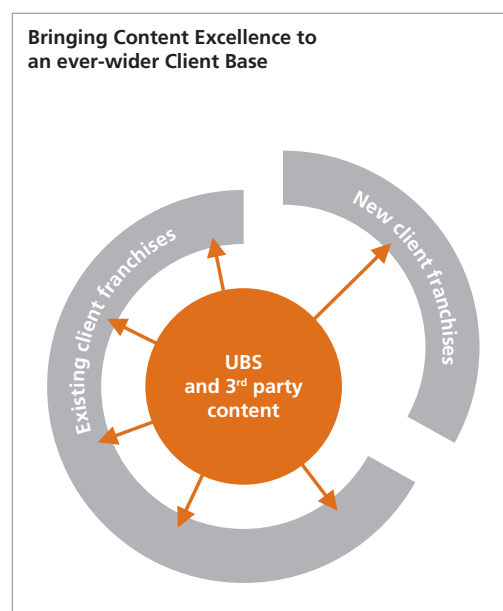
Choice is central to enhancing UBS's client offerings. The Group aims to increase product choice by supporting the in-house range with a quality-screened selection of third-party products.

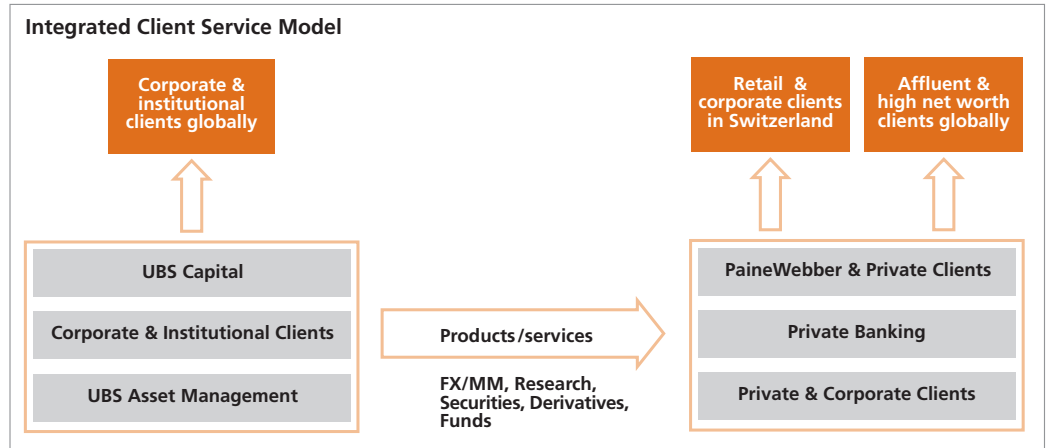
UBS believes that in the future, its clients will be global in outlook: either with global presence or global investments. All our businesses must compete on a global scale.

UBS is committed to attaining scale and scope in all its key businesses: this is both desirable and necessary to enable us to deliver the full spectrum of services at maximum efficiency, though price will rarely be a first-line competitive weapon.

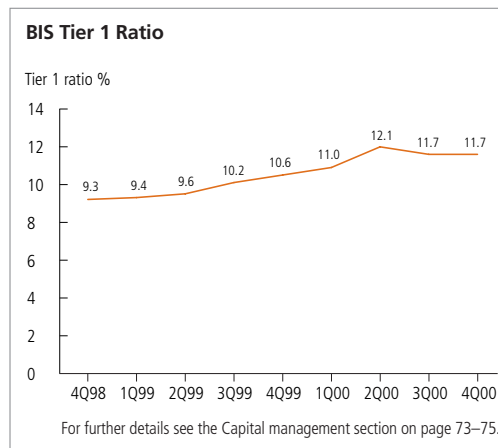
UBS's client philosophy is advice-led, with intimacy stemming from the quality of its relationship managers. UBS's businesses offer convenient access through multiple conventional and online channels, but put advice at the heart of relationships.

UBS is committed to being part of the technological elite, but sees e-commerce not as a business per se, nor as a discipline in its own right, but as integral to all its businesses. The Group aims to use technology to extend its reach to clients and markets it could not previously have accessed, to perfect clients' experience of UBS, to increase the number of products and services they buy, and to minimize the production cost of its services.





The first GOALS deal marketed to PaineWebber clients, in November 2000, demonstrates the strength of this model. GOALS are equity-linked securities created by UBS Warburg that combine a bond with a short put option on a specific stock. This deal provided access to an entirely new investment product for PaineWebber clients, using UBS Warburg's expertise in packaging structured products for private clients. The credit element of the product relied on UBS Group's rating and capital strength. Combined with the equity derivative features, this was a product that PaineWebber could not have originated before joining the UBS Group, and UBS Warburg could not have distributed in the US.



Capital strength

UBS has a strong and well-managed capital structure. Our financial stability stems from the fact that we are one of the best capitalized banks in the world. UBS believes that this financial strength is a key part of the value proposition it offers to both clients and investors.

UBS is committed to rigorous balance sheet management and the optimization of its capital structure. It uses the full range of capital management tools to apply any excess capital generated in the best interests of its shareholders, or to return it to them.

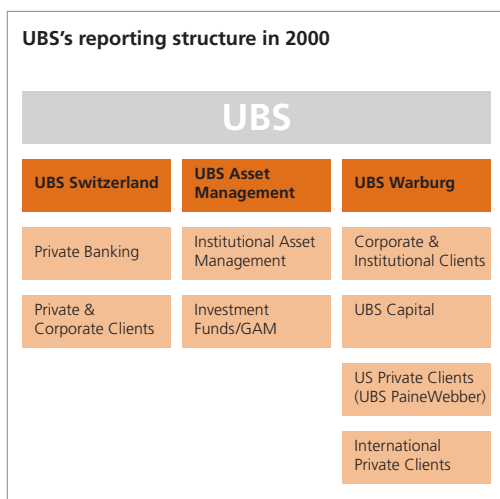
Business and management structure

UBS pursues its strategies through three Business Groups, all of which are in the top echelon of their businesses globally, and aims to further enhance the competitive position of each one. However, UBS is not merely a holding company – it operates an integrated client service model.

UBS's Business Groups are managed together to optimise shareholder value – to make the whole worth more than the sum of the parts.

In practice this means that products from the wholesale-focused units, Corporate and Institutional Clients, UBS Capital and UBS Asset Management, are distributed to their own corporate and institutional clients and through the units focused on individual clients, International Private Clients, US Private Clients and UBS Switzerland. This benefits both sides – UBS's individual clients get access to sophisticated products and services; UBS's wholesale units have access to premier distribution; and the Group captures the whole of the value chain.

Each Business Group is led by a member of the Group Executive Board who is individually responsible for the performance of the Business Group.



UBS Switzerland – Stephan Haeringer

UBS Switzerland's Private Banking business unit offers comprehensive wealth management services for private clients from across the world, who bank in Switzerland and other financial centers world-wide.

Private Banking is the world's biggest private bank. Its strategy is centered on the client advisor, combining strong personal relationships with a full range of products and services specifically designed for the wealthy client, complemented by leading-edge technology.

Within Switzerland, the Private and Corporate Clients business unit provides a complete set of banking and securities services for individual and corporate clients, focused foremost on customer service excellence, profitability and growth via multi-channel distribution.

UBS Asset Management – Peter Wuffli

UBS Asset Management provides asset management services and products to a broad range of institutional and mutual fund clients across the world. It offers a diverse range of investment management capabilities from the traditional to the alternative, with a core focus on price/value management. UBS Asset Management also provides investment fund products for the UBS Group and intends to increasingly widen its reach through third parties to individual clients outside the UBS Group.

UBS Asset Management is one of the top five institutional asset managers in the world, the largest investment fund manager in Europe and the leading fund manager in Switzerland.

UBS Warburg – Markus Granzio

UBS Warburg operates globally as a client-driven securities, investment banking and wealth management firm. For both its own corporate and institutional clients and for other parts of the UBS Group, UBS Warburg provides product innovation, top-quality research and advice, and complete access to the world's capital markets.

Through UBS PaineWebber, the fourth largest private client firm in the US, we provide advisory services and best-in-class products to a uniquely affluent US client base.

Corporate Center – Luqman Arnold

The UBS Group's portfolio of businesses is planned and managed exclusively for the long-term maximization of shareholder value. Risk/reward profiles are carefully monitored and controlled. Strong capitalization and ratings will remain key distinguishing characteristics of UBS. The Corporate Center ensures that the Business Groups operate as a coherent and effective whole with a common set of values and principles.

Corporate Center is led by Luqman Arnold, President of the Group Executive Board from April 2001.

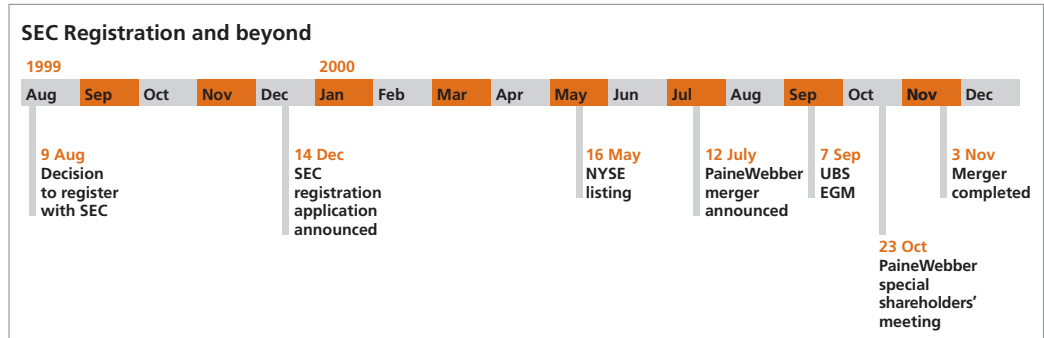
Board structure

In order to further the highest standards of corporate governance, UBS has a dual board structure. UBS's Board of Directors, a majority of whom are independent non-executive directors, has the ultimate responsibility for the strategic direction of the Group's business and the supervision and control of executive management. The Group Executive Board, which is UBS's most senior executive body, assumes overall responsibility for the development of the Group's strategies, for implementation of strategy and for the results of the business.

UBS's financial targets

UBS focuses on four key performance targets, designed to ensure that it delivers continually improving returns to its shareholders. UBS's performance against these targets is reported each quarter.

- UBS seeks to increase the value of the Group by achieving a sustainable, after-tax return on equity of 15–20%, across periods of varying market conditions.



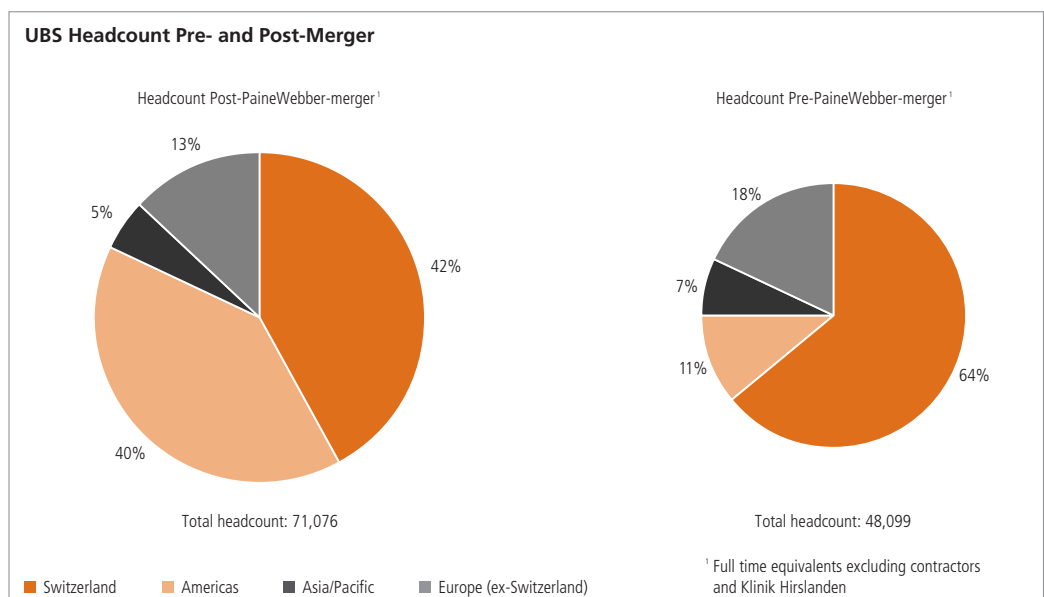
- UBS aims to increase shareholder value through double-digit average annual earnings per share (EPS) growth, across periods of varying market conditions.
 - Through cost reduction and earnings enhancement initiatives UBS aims to reduce the Group's cost/income ratio to a level that compares positively with best-in-class competitors.
 - UBS aims to achieve a clear growth trend in net new money in the private client businesses.
- The first three targets are all reported pre-goodwill amortization, and adjusted for significant financial events (see Financial Disclosure Principles on pages 91 to 92).

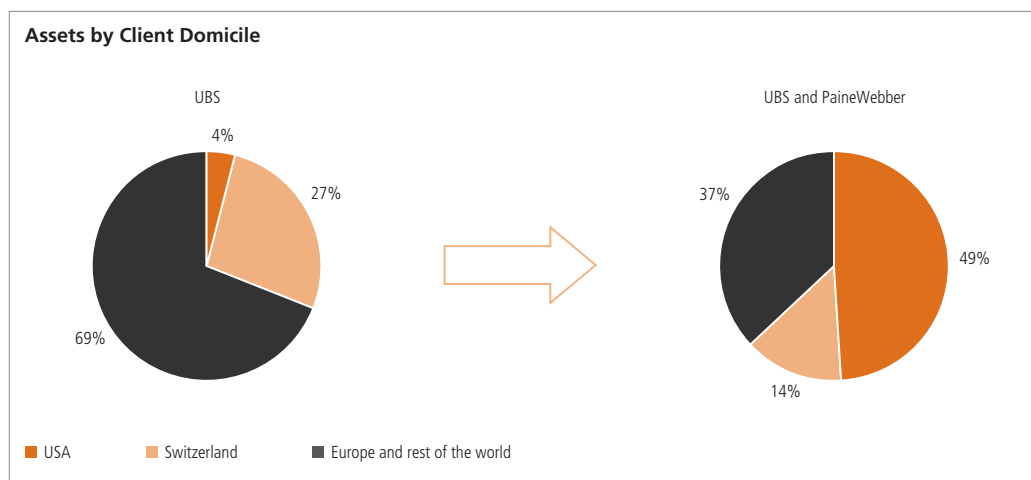
UBS seeks to achieve a fair market value by always communicating transparently, openly and consistently with investors and the financial markets.

PaineWebber

On 14 December 1999, UBS announced its plans to apply for registration with the US Securities and Exchange Commission and to list its shares on the New York Stock Exchange. It achieved this goal on 16 May 2000, when its shares started trading in New York. On 12 July 2000, it announced an agreement to merge with PaineWebber Group, Inc. The merger and associated capital issuance by UBS were approved by PaineWebber and UBS shareholders, and the merger was completed on 3 November 2000.

The progress of the integration of PaineWebber into UBS has been very successful with all businesses operationally integrated by the end of 2000, and no significant client advisor turnover. The merger has received an excellent reception from PaineWebber staff, with 98% of





those offered jobs in the new Group accepting them.

The merger with PaineWebber brings UBS a leading wealth management franchise in the US, with a focus on the higher end of the wealth management market. PaineWebber has a significantly higher average account size than its biggest rivals.

PaineWebber provides a new route for product distribution in the US, and transforms the size and geographic spread of UBS's client base, making it unique in extent and global coverage.

The impact of the merger extends beyond UBS's private client businesses. It expands UBS Warburg's US capabilities in asset-backed securities, real estate, corporate finance and fixed income sales, and transforms its US equities franchise, with UBS analysts now covering 90% of S&P 500 and NASDAQ 100 companies.

As well as this direct impact, the integration with PaineWebber has also positioned UBS Warburg much more strongly as an employer of choice in the US investment banking market, providing a platform on which to take advantage of the ongoing industry consolidation and build capabilities by hiring new staff across a wide range of products.

Industry trends

UBS believes that it is particularly well positioned to gain from the developing trends in global financial markets.

The increasing reliance of individuals on equity investment, for their personal savings and for their pension provision, will benefit firms

that manage assets or trade in capital market products.

Commoditization of wholesale products, with increased competition and shrinking margins, is a fact of life, but one that is least harmful to institutions like UBS with the scale, global reach and technology infrastructure to support the volumes required to maintain profitability.

UBS believes markets will further deregulate and globalize, driving sharp increases in cross-border investment, both corporate and institutional. These changes present enormous opportunities for a firm like UBS with a global presence and the expertise to capitalize on cross-border flows.

The biggest trend that will drive UBS's business in the coming years is the anticipated expansion and concentration of private wealth. In the US, wealthy households (those with USD 500,000 or more in net investable assets), represented 65% of assets in 1999. By 2003 they are expected to represent 78% of total household assets. In Europe, the effect is less pronounced, but still, wealthy individuals (in this case with more than EUR 500,000 of investable assets), are expected to represent 43% of total household assets by 2005, up from 35% in 2000. The combination of this growth in wealth with the increasing shift towards equity investments, will provide huge opportunities for the best, most global, asset managers. Those securities firms with large institutional franchises will experience significant growth servicing the expanding asset management industry. And of course, the concentration and growth of wealth will bring with it a huge demand for private banking services,

providing a further opportunity for the current market leaders to grow their market share.

All of UBS's businesses are positioned to benefit from this increase in private wealth. UBS Asset Management is among the top five global asset managers, with an increasingly diversified range of investment styles. UBS Warburg has an

extremely strong institutional client franchise – only 20% of its revenues derive from corporate clients. And the combination of Private Banking and PaineWebber already gives UBS the largest and most balanced share of the global wealth market.

History and development of UBS

UBS was formed on 29 June 1998, by the merger of two of Switzerland's leading banking Groups, Union Bank of Switzerland and Swiss Bank Corporation.

Union Bank of Switzerland's history as a powerful force in banking began in the 1860s with the founding of the Bank in Winterthur and the Toggenburger Bank. In 1912, the merger of these two financial institutions resulted in the creation of the Union Bank of Switzerland. Subsequently, Union Bank of Switzerland developed primarily through internal growth, although it also made certain significant acquisitions such as the asset management firm Phillips & Drew in 1985.

Swiss Bank Corporation celebrated its 125th anniversary in 1997. It was incorporated in Basel in 1872 and its history can be traced back to the creation of "Bankverein" from six private banking houses in 1854. Swiss Bank Corporation's expansion involved significant acquisitions, including:

- O'Connor & Associates, a group of affiliated firms specializing in the trading of options and other derivative instruments, in 1992;
- Brinson Partners, a leading institutional investment management firm, in 1995;
- the investment banking and securities operations of S.G. Warburg Group, in 1995, and
- Dillon Read & Co. Inc., a United States-based investment bank in 1997.

All the entities that have joined UBS have, regardless of their size, had a significant impact on its culture and ethos. O'Connor & Associates was a much smaller firm than Swiss Bank Corporation, but brought an affinity for technology, which has remained with UBS ever since, and a trading approach and risk management sophistication which still remains core to UBS today. The most significant benefit was the reverse cultural revolution O'Connor brought to SBC. This was quite deliberate; it transformed SBC and helped it move into the modern age in a dramatic way. Later mergers reinforced this pattern of cultural change, with S.G. Warburg bringing a deep and passionate client focus, and Brinson Partners redefining the asset management process.

This history of acquisition and openness to cultural diversity continues to be a key strength of the UBS Group. UBS is conscious of the importance of cultural change as a response to the growing challenges of the competitive global environment. The diversity of knowledge and experience offered by new acquisitions means UBS can import better corporate cultures, better ways of doing business and better insights.

In May 2000, UBS listed its Global Registered Share on the New York Stock Exchange (NYSE). On 3 November 2000, UBS transformed the scope and scale of its private client business in the US, through the merger with PaineWebber, one of the leading US wealth management firms. Like previous merger partners, we expect that PaineWebber will transform UBS; not just through increased US presence, but through the proven strengths in marketing, technology, product development and training that PaineWebber can now bring to all our private client businesses, leveraging PaineWebber's skills to drive UBS's European private banking strategy.

The Business Groups

UBS Switzerland

UBS Switzerland offers comprehensive wealth management services for private banking clients from across the world, banking in Switzerland and in other financial centers. Our strategy is centered on the client advisor, combining strong personal relationships with a full range of products and services specifically designed for the wealthy client, supplemented by leading-edge technology. Within Switzerland, we also provide a complete set of banking and securities services for individual and corporate clients, focused foremost on customer service excellence, profitability and growth via multi-channel distribution. We are the leading bank in Switzerland.

Reporting by Business Units

CHF million For the year ended	Private and Corporate Clients		Private Banking		UBS Switzerland	
	31.12.00	31.12.99 ¹	31.12.00	31.12.99 ¹	31.12.00	31.12.99 ¹
Income	7,443	7,193	6,739	5,568	14,182	12,761
Credit loss expense	(759)	(1,050)	(25)	(21)	(784)	(1,071)
Total operating income	6,684	6,143	6,714	5,547	13,398	11,690
Personnel expenses	3,187	3,363	1,572	1,328	4,759	4,691
General and administrative expenses	1,058	1,123	1,336	1,185	2,394	2,308
Depreciation	419	384	89	76	508	460
Goodwill amortization	27	2	35	21	62	23
Total operating expenses	4,691	4,872	3,032	2,610	7,723	7,482
Business Group performance before tax	1,993	1,271	3,682	2,937	5,675	4,208
Cost / income ratio (%)	63	68	45	47	54	59
Assets under management (CHF billion)	440	439	681	671	1,121	1,110
Headcount (full time equivalents)	21,100	24,098	7,685	7,256	28,785	31,354

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy and changes in presentation. The Business Group reporting for 1999 has been rearranged to reflect the new business structure for the Group.

Organization structure

The UBS Switzerland Business Group is made up of two business units:

- Private Banking; wealth management services
- Private and Corporate Clients; banking for private individuals and commercial clients in Switzerland.

These two business units were brought together under a single management in February 2000, to benefit from the synergies available from the utilization of a common infrastructure in the domestic market and the potential for shared distribution and servicing of clients located outside of Switzerland. In addition, the centralization of core functions such as investment research and financial planning and wealth management, allows us to serve all UBS Switzerland's client groups consistently, efficiently, to the highest standard, and without duplication.

e-Channels and Products

UBS Switzerland created a single "e-Channels and Products" business area in April 2000 to lead its e-banking activities and drive forward its e-commerce vision and strategy.

This new business area is responsible for all electronic channels and products, as well as associated services and customer support centers. All

revenues earned from e-banking activities are reflected in the results of the UBS Switzerland business units concerned and not within the "e-Channels and Products" business area which is run as a cost center. Its costs are shared between Private Banking and Private and Corporate Clients.

e-commerce strategy

e-commerce brings direct cost benefits to UBS Switzerland. Processing transactions which are entered online is less expensive and more efficient, and this is reflected in the new personal account charging structure introduced in Private and Corporate Clients in January 2001, which rewards clients for the use of electronic services.

Cost savings are not our key focus however. UBS Switzerland aims to use e-banking to help perfect the client experience – offering the information and services that clients want in the most convenient way, and increasing the personalization of their interface with the bank. Through this, UBS increases client retention, and increases the proportion of their savings and investments that clients hold with UBS rather than elsewhere. As internet usage increases, and the public becomes more used to transacting online, a top-class e-banking service can also encourage client acquisition.

There is obviously a risk of conflict between UBS's e-banking offerings and its traditional

channels. However, despite the growth of online banking, UBS Switzerland has not experienced a significant level of cannibalization of its revenues. Based on continuous monitoring of customer behavior online, UBS estimates that 80% of revenue-generating e-banking transactions during 2000 represented additional revenue, as the ease of transacting online leads clients to do more.

e-commerce highlights

UBS Switzerland's internet offering continues to grow at a significant rate, as new functions and services are added and client acceptance of this convenient and easy to use distribution channel increases. The number of customers with e-banking contracts has risen during 2000 from 454,000 to 555,000. In December 2000, 22% of all payment orders processed by UBS Switzerland were initiated through e-banking, as were 14% of stock exchange transactions, up from 6% in December 1999.

UBS Switzerland's comprehensive free on-line financial information service, UBS Quotes, is an integral part of UBS's e-commerce offering, acting both as a service for existing clients and a tool to attract new clients to the bank. UBS Quotes now has the broadest coverage of any free-access financial information system, with prices for more than 500,000 different financial instruments. It received an average of 22 million page views per month during 2000, up 60% from December 1999.

UBS Switzerland's e-banking solution is particularly noted for its integrated approach and seamless navigation, permitting rapid access to all e-banking offerings through a consistent user interface. Forrester Research's "Best of Europe's Net Banking" report, published in November 2000, ranked UBS e-banking as the number two internet bank in Europe, and in January 2001, BlueSky Rating, an independent provider of online broker ratings, named UBS e-banking as the best online broker in Switzerland.

UBS aims to remain at the forefront of technical developments in e-commerce, where clear client benefits are obvious. During 2000 we became one of the first banks in the world to offer stock market transactions via mobile phones, with the launch in August of a WAP-based mobile-telephone banking service. In September 2000, we were the first bank in Switzerland to introduce a fully integrated business to business electronic bill presentment and payment system.

UBS Switzerland has invested heavily in its e-commerce offering, and expects to continue to invest approximately CHF 100 million per year, to remain a market leader. UBS Switzerland will build on these strengths, and intends to further enhance its leading position by developing increased personalization of its websites and a broadened content offering.

Private and Corporate Clients mission is to further develop its position as the most profitable bank serving private and corporate clients in Switzerland. To achieve its objectives, Private and Corporate Clients has established a clear business strategy focused on creating additional value for its clients, and centered on providing integrated solutions incorporating world-class products and services.

Private and Corporate Clients

Business description and organization

The Private and Corporate Clients business unit of UBS Switzerland is the leading bank in Switzerland. It aims to provide our clients with optimal levels of convenience and service by continuously expanding our comprehensive range of alternative distribution channels, built around a successful e-banking offering, full-service ATM's, customer service centers and more physical locations across Switzerland than any of our competitors. At the same time, we follow a program of business excellence to ensure that our operating infrastructure is efficient, cost effective and capable of supporting our overall objectives.

Private and Corporate Clients is committed to providing its clients with innovative, personalized products, which consistently meet the highest standards, and to optimizing customer related processes.

At 31 December 2000, this business unit had CHF 440 billion in assets under management and a loan portfolio of approximately CHF 155 billion. Private and Corporate Clients employs over 21,000 people.

Private and Corporate Clients consists of six business areas, four of which have income generating activities (Individual Clients, Corporate Clients, Operations and Risk Transformation and Capital Management) and two of which provide essential support services (Resources and Information Technology).

Individual clients

This business area provides a comprehensive range of financial products and services for private clients, from residential mortgages to current accounts, savings products, wealth management and life insurance, combining UBS Group's own products with best-in-class third-party products, through an open product architecture.

At year end, Private and Corporate Clients had in excess of 4 million individual client accounts of which more than one-quarter related to affluent clients, with an account balance of between approximately CHF 50,000 and CHF 1 million. The trend towards growth in wealth is expected to benefit this key client group, and represents a significant opportunity – providing the financial products and services necessary to support and attract this key segment is a clear focus. An example of this effort is the recent introduction of UBS Fund Solutions, which provides clients access to a quality-screened selection of third party and UBS investment funds. UBS Switzerland's Investment Center selects a recommended list of funds on the basis of their asset allocation, past performance and the quality of their management. Individual clients and their client advisors then select the appropriate combination of these funds to meet the client's investment philosophy and risk profile.

Private and Corporate Clients also continues to promote its electronic services, both to increase convenience for clients and to reduce

Assets under Management

CHF billion	For the year ended		
	31.12.00	31.12.99	31.12.98
Individual clients	218	223	229
Corporate clients	217	212	178
Banks	5	4	27
Total	440	439	434

Assets under Management by Asset Class

CHF billion	For the year ended		
	31.12.00	31.12.99	31.12.98
Deposit and current accounts	128	129	153
Securities accounts	312	310	281
Total	440	439	434

costs. A new charging structure was introduced at the beginning of 2001, in which charges reflect more closely the type and cost of services used, rewarding customers who use low cost electronic alternatives such as e-banking and the extensive UBS ATM network. It is expected to further reduce the amount of routine transactional business carried out face to face or by phone to branches, giving client advisors more capacity, and allowing them to intensify sales efforts and enhance the quality of the advice they can offer.

During 2000, we further expanded our range of alternative distribution channels and closed another 36 branches, bringing the total number of post-merger closures to 209. We believe that we are fast approaching the optimal number of physical locations required to adequately serve our clients, but will continue to develop the profitability of all our sites.

Corporate clients

Private and Corporate Clients' corporate client list consists of some 160 top-tier companies, many of which are multinationals and whose needs include frequent use of the capital markets; approximately 7,500 large companies who require expertise in handling complex financial transactions, and some 180,000 small and medium size enterprises with specific needs related to business financing.

UBS Private and Corporate Clients provides its corporate clients with a full range of banking products and services including traditional credit products, transaction services, structured finance and investment advisory services. In addition, and in conjunction with UBS Warburg, it is able to assist its clients in accessing the world's capital markets. The Corporate Clients business area also supports promising Swiss-based enterprises by providing start-up financing, primarily in the form of equity participations, through its UBS Startcapital unit and the Aventic AG subsidiary.

The Corporate Clients business area has also taken an equity stake in plenaxx.com, the first comprehensive B2B internet portal for small and medium sized enterprises (SME) in Switzerland serving as the hub for the daily internet activities of SME's and their employees, and intends to further take advantage of the rapidly growing B2B marketplace during 2001 and beyond.

Operations

Operations provides transaction processing support to UBS Switzerland and to Swiss-based offices of other UBS units. This combined approach reduces duplication of efforts and ensures that synergies between the different units in Switzerland are fully realized.

The Operations business area also provides payment and custodial services to approximately 1,800 banking institutions throughout the industrialized world and some 700 in emerging markets.

Following the merger between UBS and SBC in 1998, and the tremendous efforts required to integrate the transaction processes of the combined bank, this unit is now focused on generating additional operating efficiencies and on realizing further economies of scale from the combined volumes of Private and Corporate Clients and Private Banking.

Risk Transformation and Capital Management

This business area was formed in 1999 and has responsibility for clients with impaired or non-performing loans and for managing the risk in the Private and Corporate Clients' loan portfolio. It is also responsible for optimizing capital utilization in UBS Switzerland, including equity participations, and works closely with Group Treasury and UBS Warburg on funding and other asset and liability management matters.

During 2000, Risk Transformation and Capital Management began implementation of its portfolio management strategy, which focuses on providing advice to the client servicing business areas within Private and Corporate Clients. It also achieved a number of "firsts" in the Swiss market by working closely with UBS Warburg on key secondary market initiatives.

At the end of the second quarter 2000, a special purpose vehicle, Helvetic Asset Trust AG (HAT), was created by UBS in order to securitize parts of the credit risk attached to a CHF 2.5 billion reference portfolio consisting primarily of loans to Swiss small and medium sized enterprises. This was the first domestic Swiss franc capital market transaction of its kind, in which the credit default risk, but not the loan itself, was transferred to the capital market in the form of a fixed-rate bond. The bond, which offered a higher yield than was previously available on debt of a simi-

lar quality, was well received by the markets and was named as the “Swiss Franc Bond of the Year” by the International Financial Review. HAT is another indication of the way in which UBS seeks to implement innovative solutions by providing investors, both institutional and private, with attractive portfolio diversification opportunities while, at the same time, optimizing the risk/return profile of its credit portfolio.

Risk Transformation and Capital Management also helped to reduce Private and Corporate Clients large exposure to the Swiss real estate sector by the creation and sale of two real estate companies, Impris AG and Nurestra SA.

Support areas

UBS businesses in Switzerland are provided with real estate, marketing, personnel and administrative services by the Resources business area and information technology by the Information Technology business area.

During 2000, the Information Technology business area embarked on a program to replace aging and multifaceted IT platforms with a new architecture utilizing components which can be used across all business units in Switzerland. This

standardization will help to provide efficient support for our multichannel distribution strategy, enhanced flexibility and the ability to more rapidly deploy new applications.

During fourth quarter 2000, UBS Warburg’s mainframe computer system in Stamford, used for processing worldwide foreign exchange trading, was closed-down and the processing moved onto systems operated by the Operations business area in Switzerland. The integration of these systems not only allows for significant cost savings but also demonstrates the ability of UBS to work on a truly global scale, creating synergies through the utilization of common technical resources across its different business groups. Further consolidation is planned later this year, with the move of UBS Warburg’s London-based securities transaction processing system onto mainframes in Zurich.

Loan portfolio

At 31 December 2000, about CHF 117 billion (or 75%) of the CHF 155 billion loan portfolio in Private and Corporate Clients related to mort-

Loan Portfolio by Loan Category

CHF billion	For the year ended		
	31.12.00	31.12.99	31.12.98
Commercial credits	38	44	44
Mortgages	117	121	121
Total	155	165	165
of which recovery	15	21	26

Development in UBS’s Recovery Portfolio

CHF billion	
Balance, 1 January 1998	29
Changes in 1998:	
New recovery loans added	7
Settlement of outstanding recovery loans	(10)
Balance, 31 December 1998	26
Changes in 1999:	
New recovery loans added	5
Settlement of outstanding recovery loans	(10)
Balance, 31 December 1999	21
Changes in 2000:	
New recovery loans added	3
Settlement of outstanding recovery loans	(9)
Balance, 31 December 2000	15.0

gages, of which approximately 84% were secured by residential real estate.

Recovery portfolio

Private and Corporate Clients' impaired loans, which include non-performing loans, are transferred to the Risk Transformation and Capital Management business area to be managed by the Recovery Group, which specializes in working-out or otherwise recovering the value of those loans. At 31 December 2000, Private and Corporate Clients' loan portfolio included approximately CHF 15 billion in this recovery portfolio. CHF 13.7 billion of Private and Corporate Clients' year-end recovery portfolio was impaired and related to provisioned positions and positions which resulted from the weakness in Swiss commercial real estate markets during the 1990s. Total provisions of CHF 7.3 billion have been established against the portion of impaired loans not secured by collateral or otherwise deemed uncollectable. Approximately CHF 1.4 billion of UBS's recovery portfolio was performing and unimpaired at 31 December 2000. The unimpaired loans included in UBS's recovery portfolio are outstanding with counterparties for whom other loans have become impaired. No provisions have been established against these loans. UBS's lending officers actively manage the recovery portfolio, seeking to transform the lending relationship with a goal of removing the loan from the recovery portfolio.

Approximately two-thirds of the loans that were originally included in UBS's recovery portfolio in 1997 have been worked-out and removed.

Credit quality

Private and Corporate Clients concentrates its lending activities on seeking out quality counterparties, rather than simply chasing increased market share. This, together with the continued implementation of risk-adjusted pricing, which differentiates loan pricing based on risk profiles, has led to improved credit quality and higher margins on UBS Switzerland's lending portfolio, resulting in a more effective use of UBS's capital.

Further information on the credit portfolio can be found in the Credit Risk section of the Review of Risk Management and Control on pages 55 to 63.

Strategic initiatives

Strategic Projects Portfolio

One of the key aims of UBS when it was formed in 1998 from the merger of Union Bank of Switzerland and Swiss Bank Corporation, was to generate synergies and increased revenue opportunities from the integration of the two Groups' Swiss based retail and corporate banking businesses. This has been a major and successful effort, which is still continuing.

A number of initiatives covering both revenue generation and cost saving, intended to enhance profitability and exploit merger synergies, are included within our Strategic Project Portfolio and continue to show good progress. UBS believes that in the two and half years since the merger, these strategic projects have contributed significant earnings enhancement, some of which has been reinvested in growth initiatives such as e-banking.

Our revenue enhancement initiatives include offering personalized client relationship management, based on the utilization of sophisticated data mining technologies in order to optimize advisory processes and maximize cross-selling opportunities. In addition, we continue to optimize our credit portfolio by implementing risk adjusted pricing, securitizing parts of the portfolio and realigning the balance of our exposures towards preferred risk classes. In order to meet the changing needs of our clients, we have also successfully launched a number of new products and services such as the Money Line flexible mortgage and UBS Fund Solutions.

The Strategic Projects Portfolio also has a strong focus on costs, primarily through process reengineering in logistics and IT areas, the automation of credit processes, and the rationalization of infrastructure, including branch closures and alternative distribution channels.

Our multichannel distribution strategy is aimed at reducing counter traffic and providing our customers with convenient alternative points of service, including our e-banking services. During 2000, we started implementing a two-zone concept in our branches, creating a cash services zone and a flexible advisory zone. We also continue to replace increasing numbers of traditional automated teller machines with sophisticated multifunctional BancomatPlus and Multimac machines which allow clients to perform core

banking transactions 24-hours a day at strategic sites throughout Switzerland.

UBS has also continued to close branches, reducing the duplication and redundancy in the network it inherited from its predecessor banks. 209 branches, or 38% of the pre-merger network had been closed by the end of 2000. The pace of branch closures is expected to slow-down this

year as the number of branches approaches the optimal level necessary to service UBS's clients effectively. However, UBS will not compromise the return requirements for its branch locations and will continue to evaluate each branch's profitability in light of changing client demands and willingness to utilize alternative distribution channels.

UBS Private Banking's mission is to provide customized solutions through a comprehensive range of financial products and services to wealthy private individuals. Caring for our clients is central. To achieve our objectives, we combine strong personal relationships with state-of-the-art technology and are committed to accessibility, quality and confidentiality.

Private Banking

Business description and organization

The Private Banking business unit of UBS Switzerland is the leading provider of private banking services in Switzerland and in other financial centers internationally. Its client advisors cater to the needs of wealthy individuals worldwide.

As of 31 December 2000, the Private Banking business unit had CHF 681 billion in assets under management with slightly more than 21% of these managed on a discretionary basis. Private Banking employs over 7,000 people and conducts business in more than 60 locations throughout the world, with products and services tailored to the specific needs of different markets and client segments. Key banking centers outside Switzerland include London, Luxembourg, Monaco, Jersey, New York, Singapore and Toronto.

Private Banking tailors its advice and products to the specific needs of its clients. Client advisors are organized by client market, which allows them to make best use of their extensive local market knowledge and to provide a high level of dedicated client focus. We also meet the needs of specialized client segments across regions, and have formed dedicated client advisor teams to serve entrepreneurs, executives, and sports and entertainment professionals.

The Private Banking business unit consists of four business areas which maintain direct client relationships:

- Europe, Middle East and Africa;
- Overseas – including the Americas and Asia;
- Swiss Clients – responsible for the domestic market;
- Private Banks: six independently branded, but wholly-owned Private Banks: Cantrade, Banco di Lugano, Ferrier Lullin, Ehinger, Armand von Ernst and Hyposwiss, and other areas which provide services to the rest of Private Banking:
- Investment Center,
- Investment Products and Services (IP&S),
- Logistics.

As part of UBS Switzerland, Private Banking uses support services from the Private and Corporate

Clients business unit, including its information technology platforms, securities and payment processing services and multichannel distribution platform. Private Banking also benefits from close cooperation with other parts of the UBS Group to help it provide its clients with a unique offering of global financial products.

Investment Center

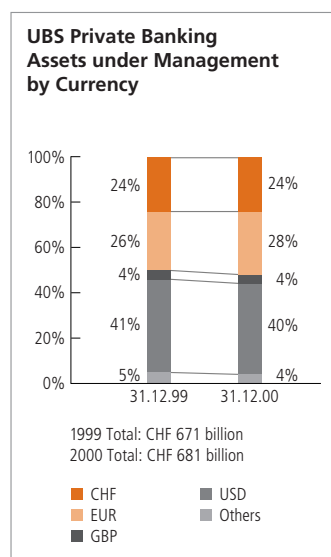
The Investment Center, which started operations on 1 October 2000, is responsible for developing coherent and high quality investment strategies for the core investment products and services offered by UBS Switzerland. The strategies developed by the Investment Center guide the investment process through which the two business units manage private wealth and advise their clients on their global investment decisions. The strategies and advice developed by the Investment Center are primarily “buy-side” oriented. The Center filters and further analyzes research, sourced both from inside UBS and from complementary external providers, and transforms this into investment strategies and advice specifically suited to private clients. The Investment Center also controls the tactical asset allocation for active advisory products, the UBS Strategy Funds and for discretionary managed portfolios. It is central to UBS Switzerland's new open architecture strategy, taking responsibility for the “screening” of third party investment funds for the new UBS Fund Solutions products.

Investment Products and Services

The Investment Products and Services business area includes the teams focusing on Active Advisory, Portfolio Management, Financial Planning and Wealth Management, and Credit Origination & Structuring. These units support the client-facing areas in delivering new, high quality products and providing active advisory services.

Logistics

This area manages Private Banking's relations with other service providers within the UBS Group, and provides additional IT and facilities management services where required.



Marketing, distribution, products and services

Private Banking's client advisors are central to the delivery of services to Private Banking's clients and retain primary responsibility for introducing new products and services to existing and prospective clients.

Each business area is responsible for its own marketing activities, supported by a centralized UBS Switzerland marketing function, which is responsible for co-ordinating brand management activities, advertizing, market research, and for sponsoring and the preparation of standardized marketing materials.

Private Banking is committed to leveraging UBS Switzerland's e-solutions and rolling out these services globally, adapting them to meet local requirements. Private Banking's e-strategy clearly places the client advisor at the center of the client relationship, with electronic channels providing complementary support and information. As well as offering UBS Switzerland's e-banking solutions to its clients, Private Banking is actively involved in the development of a personalized interface between the client and UBS. In addition to access to the full range of UBS's e-banking and information services, in a format designed by the client with his or her advisor, this will provide a direct channel between them for communication of advice and recommendations.

Private Banking provides a full range of financial products and services, including:

- financial planning and wealth management consulting, covering proprietary trusts and foundations, the execution of wills, corporate

and personal tax structuring, art banking and numismatics, and tax efficient investments;

- asset-based services such as portfolio management, custody, deposit accounts, loans and fiduciary products;
- transaction-based services, such as trading, brokerage, and investment funds;
- Private Banking also provides loan facilities to some of its clients. At 31 December 2000, outstanding loans amounted to CHF 28.6 billion, or 16% of UBS Switzerland's gross loan book.

Strategic initiatives

Product initiatives

UBS is committed to developing an open product platform, widening the choices available to its clients by complementing its own range of products with the sale of top quality third party products through a screened open-architecture. During 2000, Private Banking has made significant progress towards this goal.

In September 2000, Private Banking began offering GAM funds to its clients in Switzerland. GAM was acquired by UBS in December 1999 and is part of UBS Asset Management. Its business model is based on the belief that clients always deserve access to the best investment talent, and recognizes that this may not always be found in-house. GAM therefore operates a screened multi-manager program, giving access to the highest quality expertise in specialized areas. Private Banking clients now also have access to this investment talent.

Type of Engagement

CHF billion	Assets under management		
	31.12.00	31.12.99	31.12.98
Advisory	535	517	437
Discretionary	146	154	142
Total	681	671	579
Asset class			
Deposit and current accounts	63	59	50
Equities	187	196	148
Bonds	189	187	187
UBS Investment funds	104	119	93
Other	138	110	101
Total	681	671	579

In December 2000, UBS Switzerland extended this idea with the launch of UBS Fund Solutions. This new product offers access to a pre-screened selection of “best in class” investment funds from a range of UBS and third party fund managers, helping clients obtain the best funds from a “confusing universe”.

The entire population of funds available for sale in Switzerland is screened by the Investment Center using their expertise to select the best balance between performance and risk. Each individual client then receives a tailored sub-set of the screened funds, selected by their client advisor to suit their investment objectives and risk appetite, and pays an all-in “wrap” fee, based on the level of assets.

Private Banking is also focused on generating increased asset-based revenues, which currently represent about 65% of total revenues, and further reducing its reliance on more volatile transaction fees. Two new products provided by the Active Advisory Team are designed to achieve this goal:

- Active Portfolio Supervision (APS) in which a client receives investment recommendations whenever their portfolio breaches specified parameters; and
- Active Portfolio Advisory (APA) which, in addition, provides direct access to a dedicated investment specialist and tailor-made strategies.

Both are structured advisory services based on an all-inclusive fee.

European wealth management

Through its merger with PaineWebber, UBS now has scale and excellence in two different traditions of serving private clients: the banking model, through Private Banking; and the brokerage model, through UBS PaineWebber. UBS is therefore uniquely positioned to combine these capabilities, giving its clients access to the best of both

traditions, and the full range of its combined expertise, wherever they hold their accounts, whether in their home countries or internationally.

As an important step towards this vision, UBS is bringing together its domestic and international private client businesses in Europe, and infusing the new combination with the spirit and expertise of UBS PaineWebber – the key catalyst to build a successful future.

UBS’s strategy is to build on its successful domestic private client businesses in the key target markets of Germany, the UK, France, Italy and Spain, by adding the skills and experience of the UBS PaineWebber team – in marketing, product innovation, training and technology – and by transferring knowledge and resources from UBS Switzerland’s International Private Banking business. Client advisors will be central to the success of our plans, and we see potential for increasing the number of advisors in this business at an average rate of 250 per annum over the next five years, obviously carefully tailoring that growth to the evolving market opportunities.

The private banking industry will increasingly reflect the changing profile of high-net-worth individuals, emerging technologies and increased competition. Clients are taking a more active role in managing their wealth and are demanding more sophisticated products and a broader geographical range of services. They are focused on asset performance and allocation, quality of information and advice and extended availability of services, such as 24-hour, remote and internet access. More wealth now resides in the domestic markets where clients are domiciled, particularly in the form of equity and equity-linked investments, as capital markets become more developed. UBS believes that its unique mix of businesses positions it excellently to meet these trends.

UBS Asset Management

UBS Asset Management provides asset management services and products to a retail and institutional client base across the world. We have a diverse range of investment management capabilities from the traditional to the alternative, with a core focus on price/value management. UBS Asset Management also provides investment fund products for the UBS Group and will increasingly widen its reach through third parties to individual clients outside the UBS Group.

Reporting by Business Units

CHF million For the year ended	Institutional Asset Management		Investment Funds / GAM		UBS Asset Management	
	31.12.00	31.12.99 ¹	31.12.00	31.12.99 ¹	31.12.00	31.12.99 ¹
Income	1,301	1,099	652	270	1,953	1,369
Credit loss expense	0	0	0	0	0	0
Total operating income	1,301	1,099	652	270	1,953	1,369
Personnel expenses	631	458	249	58	880	516
General and administrative expenses	243	178	196	93	439	271
Depreciation	27	25	22	7	49	32
Goodwill amortization	173	113	90	0	263	113
Total operating expenses	1,074	774	557	158	1,631	932
Business Group performance before tax	227	325	95	112	322	437
Cost / income ratio (%)	83	70	85	59	84	68
Assets under management (CHF billion)	496	574	219	225	522	598
Headcount (full time equivalents)	1,728	1,653	1,132	923	2,860	2,576

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy and changes in presentation. The Business Group reporting for 1999 has been rearranged to reflect the new business structure for the Group.

Business description and organization

UBS Asset Management brings together all of UBS's asset management businesses. Formed in February 2000, it was organized in two business units during the year:

- Institutional Asset Management – one of the largest institutional asset managers in the world.
- Investment Funds / GAM – one of the two largest fund providers in Europe and the seventh largest in the world. GAM is a diversified asset management group focused on private client portfolios.

In 2001, these business units have been combined and will no longer be reported separately.

In February 2001, UBS PaineWebber's asset management unit, Mitchell Hutchins, also became a part of UBS Asset Management. UBS Asset Management is headquartered in Chicago, with offices across the world.

Institutional Asset Management

Based on assets under management, Institutional Asset Management is one of the largest institutional asset managers in the world and particularly prominent in the United States, the United Kingdom and Switzerland. At 31 Decem-

ber 2000, Institutional Asset Management had CHF 496 billion in assets under management, including CHF 300 billion of institutional assets and CHF 196 billion of non-institutional assets, including the UBS Investment Funds.

Institutional Asset Management markets its services under the UBS Asset Management umbrella, with two major sub-brands: Brinson Partners in the US, and Phillips & Drew in the UK. Institutional Asset Management will pursue growth opportunities in Continental Europe and Asia-Pacific and maintain its strong positions in the mature markets it serves in the United States, the United Kingdom and Switzerland.

Institutional Asset Management operates a client-centric business model with strong local presence through regional business areas in the UK, Americas, Asia and Europe. A new specialized unit branded O'Connor, was formed in June 2000. Reviving the name of the derivatives business which became part of the Group in 1992, O'Connor focuses on alternative investment strategies designed to provide attractive risk-adjusted returns with a low correlation to traditional investments.

Clients

Institutional Asset Management has a diverse institutional client base located throughout the world. Its clients consist of

Assets under Management by Client Type

<i>CHF billion</i>	31.12.00	31.12.99	31.12.98
Institutional	300	376	360
Non-institutional	196	198	171

Institutional Assets under Management by Client Location

<i>CHF billion</i>	31.12.00	31.12.99	31.12.98
Europe, Middle East & Africa	160	185	202
The Americas	100	140	122
Asia-Pacific	40	51	36
Total	300	376	360

Institutional Assets under Management by Client Mandate

<i>CHF billion</i>	31.12.00	31.12.99	31.12.98
Equity	89	125	115
Asset allocation	94	130	148
Fixed income	77	90	83
Private markets	40	31	14
Total	300	376	360

- corporate and public pension plans;
- endowments and private foundations;
- insurance companies;
- central banks and supranationals; and
- financial advisors.

Marketing and distribution

Institutional Asset Management uses its long-term track record and strong client franchise to increase the penetration of its services with both new and existing clients. It is a full service institutional asset management firm, offering its clients a comprehensive range of research and investment analysis as part of its overall service and capability package.

In consultant-driven markets, such as the United States and the United Kingdom, Institutional Asset Management relies on its strong relationships with the major consultants that advise corporate and public pension plans, endowments, foundations, and other institutions. It also dedicates resources to generating new business directly with large clients.

Brinson Advisors, the former PaineWebber Mitchell Hutchins business, provides products and services to the wholesale intermediary market in the US, focusing on three core areas: quantitatively driven investments, short-term fixed income products and municipal securities.

Investment process and research

Institutional Asset Management's client mandates reflect the very broad range of its capabilities, from fully discretionary global asset allocation portfolios to equity or fixed income portfolios with a single country emphasis, including alternative asset classes such as real estate, timber, and private equity. These portfolios are available through separately managed portfolios as well as through a comprehensive range of pooled investment funds.

Within this wide range of capabilities, Institutional Asset Management's core investment process is based on its efforts to determine and quantify investment value. Its method is to identify periodic discrepancies between market price and investment value and turn them to its clients' advantage.

Institutional Asset Management operates a global investment platform. Research and strategies are coordinated across regions, giving clients access to the whole of Institutional Asset Management's expertise, wherever they are located.

Investment Funds

Investment Funds is the leading investment fund provider in Switzerland in terms of assets under

Fund Category

CHF billion	31.12.00	31.12.99	31.12.98
Asset allocation	48	44	35
Money market	44	46	45
Bond	36	40	43
Equity	60	53	36
Capital preservation	6	12	12
Real estate	5	6	5
Total	199	201	176

management, and seventh largest in the world. As of 31 December 2000, Investment Funds had CHF 199 billion in assets under management, including CHF 9.3 billion in assets under management distributed through third-party partners. In addition, Investment Funds has a significant third-party fund administration business.

Investment Funds has an extensive product range of approximately 159 funds.

The continuing trend toward equity investments helped increase equity funds by 13% since the end of 1999, making it Investment Funds' largest asset category, accounting for 30% of total volume. UBS Switzerland's Investment Fund Accounts, which make it easy for clients to make regular savings in UBS Investment Funds, have grown in number by 57% to over 140,000 during 2000, with assets invested through them increasing by 20% to a total of CHF 3.1 billion at 31 December 2000.

Marketing and distribution

Investment Funds are distributed primarily through UBS Switzerland and UBS Warburg, with a minority of assets distributed through third-party providers.

Investment Fund's penetration of UBS Group's existing client base is already very high, and the implementation of screened open architecture in UBS Switzerland will make sales within the group increasingly competitive. Investment Funds is therefore evolving towards an open, multichannel distribution architecture, in which an increasing proportion of its funds will be sold by third parties, outside the UBS Group.

UBS's intermediary strategy, funds@ubs, was launched in November 2000. It is designed to boost third-party distribution of our funds by providing a turn-key solution for distribution partners, including technical, administrative and operational support. The first implementation, in partnership

with Lufthansa, provides Lufthansa Miles and More clients with access to UBS Investment Funds. A new web-site dedicated to Lufthansa clients provides investment education, advice on investment strategies and online decision support tools, and will provide automated online fund purchases. Over the coming months, UBS expects to announce similar joint ventures with other non-traditional intermediaries, using the same strategy and technical platform.

Other distribution initiatives include establishing additional partnerships with financial intermediaries, developing direct electronic sale channels and leveraging Institutional Asset Management's distribution efforts to better capture defined contribution opportunities for Investment Funds.

UBS is also expanding its distribution in Asia, with the creation of a joint venture investment advisory firm to manage Real Estate Investment Trusts in Japan and the acquisition of a majority holding of Taiwan-based mutual fund provider, Fortune Securities Investment & Trust Company.

Investment process and research

The Institutional Asset Management business unit is responsible for managing almost all the investment funds offered by Investment Funds, other than some real estate funds. However, Investment Funds is responsible for managing its product range, which is tailored to meet the needs of individual investors, and for the development and marketing of individual funds.

Global Asset Management

Acquired in late 1999, Global Asset Management, or GAM, is a diversified asset management group with CHF 20 billion of assets under management, slightly over 600 employees and operations in Europe, North America, Asia and the

Middle East. Its mandates include private client portfolios, over 230 mutual funds, and institutional mandates. GAM operates under its established brand name within UBS Asset Management and continues to employ its own distinctive investment style.

UBS Asset Management will increasingly leverage GAM's range of mutual funds and its external manager selection process, in which it selects the best from over 4,000 third-party fund providers, to enhance the range of its investment styles and products. GAM products are now actively distributed by UBS Switzerland.

Marketing and distribution

GAM operates a client-centric business model with regional client acquisition and servicing responsibilities.

Investment process and research

GAM was founded in 1983 to give private clients "access to great investment talent". As a result, its investment process is based on selecting the world's leading investment talent, whether the manager selected for a particular fund or mandate is employed by GAM or an external manager. GAM has pioneered a unique and highly disciplined approach to identifying, selecting and managing external fund managers.

An in-house team of investment professionals is responsible for managing the various internally managed mandates or funds, and also for creating external and multimanager mandates. Approximately 1,000 external managers are selected, using a quantitative database of 50,000 funds, and a qualitative database of over 4,000 investment managers. These are then subjected to detailed qualitative scrutiny to identify less than a hundred of the world's most talented investment managers, whose talents are then used to create single and multimanager funds for use by GAM clients.

The range of funds and mandates extends from traditional equity and bond funds to a comprehensive range of alternative investment funds.

Strategy

Industry trends and competitive positioning

UBS Asset Management operates in a business which is growing across all market segments and

geographic locations, with Europe and Japan leading the way. The US remains the largest market on an absolute basis, but shows slower growth rates and a much more competitive environment than other regions.

Externally managed pension assets constitute the majority of worldwide available institutional assets. The pension market is undergoing a shift from traditional defined benefit plans to defined contribution schemes. This is especially true in the US, while in other major markets defined contribution business is still in a relatively embryonic state. However, the need for pension reform is widely recognized.

UBS Asset Management believes that it is strongly positioned to take advantage of this growing and changing market:

- It has the reach to succeed in an increasingly global industry.
- It has a multispecialist offering of diverse investment capabilities matched by very few companies.
- It is one of very few investment management firms of its size with an equally strong institutional and mutual fund capability.

Investment performance

UBS Asset Management's biggest challenge in recent years has been the relative under-performance of its core value-based investment style compared to growth investment styles. 2000 saw a reversal of this trend, with a retreat in technology stock valuations and generally difficult market conditions, and consequently significant improvements in UBS Asset Management's performance relative to benchmarks and peers. UBS Asset Management has also invested in diversification of its investment approach, with the expansion of its growth capabilities and the very successful launch of O'Connor, its alternative investment business area. UBS Asset Management intends to further leverage the strengths of O'Connor and GAM to expand its range of investment capabilities and styles.

UBS Asset Management will continue to develop the integrated global investment platform it created in 2000, increasing the coverage of its research in all major asset classes, broadening its search for future investment opportunities in alternative asset classes and committing to product innovation.

UBS Warburg

UBS Warburg operates globally as a client-driven securities, investment banking and wealth management firm. For both its own corporate and institutional clients and for other parts of the UBS Group, UBS Warburg provides product innovation, top-quality research and advice, and complete access to the world's capital markets. Through UBS PaineWebber, the fourth largest private client firm in the US, UBS Warburg provides advisory services and best-in-class products to a uniquely affluent US client base.

Reporting by Business Units adjusted for Significant Financial Events

CHF million For the year ended	Corporate and Institutional Clients		UBS Capital		US Private Clients	
	31.12.00	31.12.99 ¹	31.12.00	31.12.99 ¹	31.12.00	31.12.99
Income	18,033	12,529	368	315	1,225	
Credit loss expense	(243)	(330)	0	0	0	
Total operating income	17,790	12,199	368	315	1,225	
Personnel expenses	9,284	6,861	142	105	955	
General and administrative expenses	2,779	2,429	49	46	258	
Depreciation	555	629	2	2	30	
Goodwill amortization	149	134	2	5	1	
Total operating expenses	12,767	10,053	195	158	1,244	
Business Group performance before tax	5,023	2,146	173	157	(19)	
Cost / income ratio (%)	71	80	53	50	102	
Assets under management (CHF billion)					794	
Headcount (full time equivalents)	15,262	12,694	129	116	21,490	

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy and changes in presentation. The Business Group reporting for 1999 has been rearranged to reflect the new business structure for the Group.

CHF million For the year ended	International Private Clients		e-services		UBS Warburg	
	31.12.00	31.12.99 ¹	31.12.00	31.12.99 ¹	31.12.00	31.12.99 ¹
Income	286	197	(1)	0	19,779	13,041
Credit loss expense	(4)	(3)	0	0	(247)	(333)
Total operating income	282	194	(1)	0	19,532	12,708
Personnel expenses	385	294	150	18	10,916	7,278
General and administrative expenses	188	187	134	18	3,408	2,680
Depreciation	30	25	35	3	652	659
Goodwill amortization	7	15	1	0	298	154
Total operating expenses	610	521	320	39	15,274	10,771
Business Group performance before tax	(328)	(327)	(321)	(39)	4,258	1,937
Cost / income ratio (%)	213	264			77	83
Assets under management (CHF billion)	33	36			827	36
Headcount (full time equivalents)	1,154	1,386	410	70	38,445	14,266

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy and changes in presentation. The Business Group reporting for 1999 has been rearranged to reflect the new business structure for the Group.

Business description and organization

During 2000, UBS Warburg, was organized along the following lines:

- The Corporate and Institutional Clients business unit is one of the leading global investment banking and securities firms, providing products and advice to institutional and corporate clients. The former capital markets business of Paine Webber Group Inc. is integrated into this business unit.
- UBS Capital is responsible for the private equity investment of UBS and third-party funds in a diverse global range of private companies.
- US Private Clients is the fourth largest private client broker in the US, operating under the brand of UBS PaineWebber.
- International Private Clients provides private banking products and services for high net worth individuals outside the US and Switzerland who bank in their country of residence. During 2001, the European part of this business is becoming part of UBS Switzerland's Private Banking business unit.
- e-services.

The global reach, breadth and diversification of Corporate and Institutional Clients direct access to investors is unique, and its relationship-enhancing technology is among the best in the world. Corporate and Institutional Clients aims to maintain its position as one of the leading global financial services firms, rivaling the top competitors both in terms of client franchise and profitability.

Corporate and Institutional Clients

Business description and organization

The Corporate and Institutional Clients business unit is one of the leading global investment banking and securities firms. Its diverse heritage has shaped a business with a truly global client base and culture.

Corporate and Institutional Clients provides wholesale products and advisory services globally to a diversified client base, which includes institutional investors, corporations, sovereign governments and supranational organizations. It has a significant corporate client financing and advisory business and is one of the top-ranked providers for institutional clients.

Corporate and Institutional Clients also manages cash and collateral trading and interest rate risks on behalf of the UBS Group and executes the vast majority of securities, derivatives and foreign exchange transactions for UBS's retail clients. Corporate and Institutional Clients' headquarters are in London and it employs 15,000 people in over 40 countries throughout the world.

Following the merger with PaineWebber in November 2000, the capital markets business of PaineWebber was integrated into the Corporate and Institutional Clients business unit, expanding its capabilities in asset-backed securities, real estate, equity research, corporate finance and equity and fixed income sales. As well as this direct and immediate impact, the integration of PaineWebber also positioned UBS Warburg much more strongly as an employer of choice in the critical US investment banking market.

Business areas

At 31 December 2000, Corporate and Institutional Clients operated four main business areas, organized by the type of products and services

offered and the nature of business risks: Equities, Fixed Income, Corporate Finance and Treasury Products.

Equities

The Equities business is a leading player in the secondary equity markets and in equity, equity-linked and equity derivative products for the primary markets. Primary areas of responsibility include

- researching companies, industry sectors, geographic markets and macro-economic trends;
- sales and trading of cash and derivative equity securities and equity structured products; and
- structuring, originating, distributing and trading newly issued equity, equity-linked and equity derivative products.

A multi-local model, with membership on over 28 different stock exchanges and a local presence in 40 offices globally, gives unparalleled market access. UBS also participates in a number of electronic exchange ventures.

Fixed Income

The Fixed Income business structures, originates, trades and distributes a variety of fixed income, banking and structured products. It is also responsible for loan syndication and the core loan portfolio.

The Fixed Income business serves a broad client base of investors and borrowers and offers a range of fixed income products and services, including

- interest rate-based credit products, including loans and government bonds;
- a variety of banking products, including structured finance and leveraged finance products;
- principal finance, which involves the purchase, origination and securitization of credit products;

Operating Income by Client Type

% of total	For the year ended	
	31.12.00	31.12.99
Investment banking	21	23
Other income from corporate clients	4	5
Institutional clients and markets	75	72
Total	100	100

Operating Income by Business Area¹

CHF million	For the year ended		
	31.12.00	31.12.99	31.12.98
Equities	10,429	5,724	3,253
Fixed income	2,969	2,464	(267)
Corporate finance	2,701	2,054	1,665
Treasury products	1,653	1,805	2,351
Non-core business	281	482	(96)
Total	18,033	12,529	6,906

¹ Before credit loss expense

- sales of investment-grade, high-yield and emerging market bonds;
- credit derivatives, including credit-linked notes and total return swaps;
- derivative products; and
- products structured to meet clients' individual risk management needs.

Corporate Finance

The Corporate Finance business manages UBS's relationships with large supranational, corporate and sovereign clients. It provides a variety of advisory services in areas such as mergers and acquisitions, strategic advisory and restructuring. The Corporate Finance business also provides primary capital markets and leveraged finance services, in co-operation with the Equity and Fixed Income businesses. Responsibilities include

- mergers and acquisitions;
- equity and equity-linked capital offerings, initial public offerings and other public and private equity offerings in conjunction with the Equities business area;
- investment grade and high-yield debt offerings in conjunction with the Fixed Income business area;
- leveraged debt offerings in conjunction with the Fixed Income business area; and
- structured finance.

Treasury Products

Treasury Products serves institutional investors, banks, sovereigns, and corporate clients, as well as retail and wholesale clients of UBS's other businesses. Treasury Products' primary areas of responsibility include

- sales and trading of foreign exchange (spot and derivatives), precious metals, short-term interest rate products and exchange-traded derivatives;
- collateral trading, securities lending and repurchase agreements;

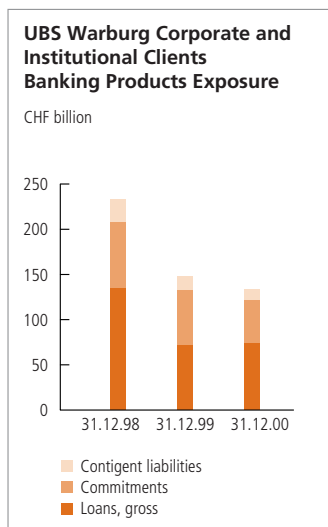
- bank note sales and distribution; and
- foreign currency research.

With effect from the beginning of 2001, the Treasury Products and Fixed Income business areas have been reorganized into two new areas, the Credit Fixed Income business area (the former Fixed Income business less interest rate derivatives and government bonds) and the Interest Rates and Foreign Exchange business area (the former Treasury Products business area, with the addition of interest rate derivatives and government bonds).

e-commerce initiatives

The institutional client business worldwide is rapidly moving to an electronic basis. Corporate and Institutional Clients is well positioned to capitalize on this trend. Recent e-commerce initiatives include

- Investment Banking On-Line (IBOL). IBOL provides extensive functionality from a single home page with direct access to prices, research, trade ideas and analytical tools for UBS Warburg's clients. Corporate and Institutional Clients delivers electronic research to over 5,000 clients and has signed up over 21,000 individual users. UBS intends to expand IBOL to include wireless and video links.
- Electronic Transactions for Securities (ETS) and Electronic Transactions for OTC Products (ETOP). ETS and ETOP provide a further roll-out of online order routing and trading capabilities for all securities, foreign exchange and derivatives products. 30% of all institutional orders are sent via the internet.
- Corporate Finance On-Line (CFOL). The CFOL initiative is intended to establish a secure connection for the exchange of transactional and pricing information with cor-



porate clients to support the execution and origination of advisory mandates.

- Debtweb. Using Debtweb, about USD 80 billion of primary market bond issuance was distributed online in 2000.
- DealKey. Designed for primary equity investors, DealKey uses the web as an additional channel for the distribution of value-added information relating to current equity and equity-linked offerings and provides investors with the ability to communicate feedback and enter orders for all UBS Warburg’s current primary equity issues.

Providing superior advice will be key to the Corporate and Institutional Clients business unit’s future success. UBS believes its e-commerce initiatives enhance its ability to add value to clients, as well as allowing it to extract value from the scale of its core business processes. Corporate and Institutional Clients already processes 100,000 domestic and cross-border securities trades per day automatically, and has the capacity to increase this amount five-fold within the existing infrastructure.

Loan portfolio

UBS took a strategic decision during 1998 to reduce the size of its international loan portfolio, limiting exposures unless they directly supported core client relationships. UBS continues to avoid engaging in balance-sheet-led earnings growth, with the result that the size of its international loan portfolio has reduced considerably from the level recorded in 1998.

See the Credit Risk section on page 55 to 63 for a more in-depth review of UBS’s credit portfolio and business, including a discussion of its impaired and non-performing loans.

Strategic initiatives

UBS Warburg is one of the few truly global content and advice providers for institutional clients, with a full range of products. The global reach, breadth and diversification of its direct access to investors is best-in-class. UBS Warburg will seek to extend these advantages, fully exploiting the added distribution potential and expanded capital markets capabilities brought to it by PaineWebber.

UBS Warburg is among the leaders in the provision of innovative e-commerce and technology solutions to institutional clients, using these to strengthen the link between advisors and their clients. It will continue to expand and enhance its web-based technology solutions, in order to simplify distribution of information and execution, and provide individualized services, analytic tools and transparency to its clients. UBS Warburg sees technology as an enabling tool, allowing clients to benefit from the expertise and skills of its advisors.

UBS Warburg intends to continue to expand its Equities business organically, investing in top-quality staff to broaden its geographical and sector coverage, particularly in US cash equities, and building presence in key Asian markets. It will closely monitor the moves to consolidate European stock exchanges and clearing houses, to ensure that it retains current levels of market access.

The merger with PaineWebber, which positions UBS Warburg more strongly as an employer of choice in the key US market, provides an excellent opportunity for UBS Warburg to grow its investment banking capabilities, through strategic hires in key sectors and regions. This approach has already generated some success, with recruitment of several senior investment bankers in the US in the second half of 2000 and early part of 2001. UBS intends to continue to grow its corporate franchise.

Actively adding value, UBS Capital is one of the few private equity operations with a truly global presence.

UBS Capital

Business description and organization

The UBS Capital business unit of UBS Warburg is the private equity business of UBS.

UBS Capital has increased the amount of its investments substantially in recent years with the book value of its investments increasing from about CHF 400 million at 31 December 1994, to about CHF 5.5 billion at 31 December 2000.

UBS Capital has offices in London, Zurich, New York, São Paulo, Buenos Aires, Paris, The Hague, Munich, Milan, Singapore, Hong Kong, Seoul, Sydney and Tokyo and employs about 130 people.

As a private equity group, UBS Capital invests primarily in unlisted companies, managing these investments over the medium-term to increase their value, and “exiting” the investments in a manner that will maximize capital gain. UBS Capital seeks to make both majority and minority equity investments in established and emerging unlisted companies, either with UBS’s own capital or through sponsored investment funds. Although the main focus of UBS’s investments is late-stage financing, such as management buy-outs, expansion or replacement capital, a minority of the portfolio targets early stage investments in the technology and telecommunications sectors. UBS Capital generally targets medium-sized businesses with enterprise values in the range of CHF 75 million to CHF 1.5 billion.

In addition to its international breadth, UBS Capital endeavors to differentiate itself from its competitors by working together with the management of companies it invests in over a three to six-year period to optimize performance.

Organizational structure

UBS Capital is structured on a country and sector basis and has fourteen individual teams covering

over 30 countries. UBS Capital’s established local presence and expertise, coupled with the global reach of its operations, leads to the early identification of opportunities and their timely and effective development.

UBS Capital’s teams are divided geographically between Western Europe, Asia-Pacific and the Americas. UBS Capital’s presence in the Asia-Pacific region started in Singapore and now includes Australia and new offices in South Korea and Hong Kong.

In 1999, UBS Capital established two private equity investment funds in the Americas. One of these investment funds makes private equity investments primarily in North America, while the other investment fund makes private equity investments in Latin America. UBS is the largest investor in both funds.

Cooperation with the rest of UBS

UBS Capital collaborates with the Corporate and Institutional Clients business unit on deal execution and IPOs. It has incentive schemes in place to encourage referrals of potential business leads from the investment banking business and from private banking, for example where a private banking client who is an owner-manager of a business faces management succession problems.

UBS Capital also provides fund products for sale to UBS’s private clients.

Investment portfolio

UBS Capital’s investment portfolio had a book value of approximately CHF 5.5 billion and a fair-market value of approximately CHF 6.9 billion at 31 December 2000.

UBS Capital has designed its portfolio to reduce risk exposure by

Investment Portfolio by Investment Stage

<i>CHF million; all amounts are book values</i>	31.12.00	31.12.99	31.12.98
Early stage	917	488	49
Late stage	4,632	2,505	1,735
Total	5,549	2,993	1,784

Aging (based on date of initial investment)

<i>CHF million; all amounts are book values</i>	31.12.00	31.12.99	31.12.98
Pre-1994	65	89	112
1994	253	199	195
1995	272	308	282
1996	166	204	183
1997	520	496	450
1998	842	718	562
1999	1,490	979	–
2000	1,941	–	–
Total	5,549	2,993	1,784

Geographic Region (by headquarters of investee)

<i>CHF million; all amounts are book values</i>	31.12.00	31.12.99	31.12.98
North America	2,406	1,389	939
Europe	2,284	1,153	689
Latin America	381	217	123
Asia-Pacific	478	234	33
Total	5,549	2,993	1,784

Industry Sector (based on industry classification codes)

<i>CHF million; all amounts are book values</i>	31.12.00	31.12.99	31.12.98
Consumer related	1,023	610	400
Transportation	640	605	186
Communications	380	326	208
Computer related	819	282	109
Energy	190	167	153
Other electronics related	247	38	32
Other manufacturing	106	45	53
Chemicals and materials	106	23	52
Industrial products and services	1,361	635	436
Others	677	262	155
Total	5,549	2,993	1,784

- geographically diversifying its portfolio and minimizing concentration of investment in specific locations;
- diversifying by industry sector to obtain a good mix between manufacturing and services sectors;
- investing a minority of the portfolio in early-stage growth opportunities, such as technology and telecommunications; and
- focusing on later-stage investments, such as management buy-outs of existing businesses.

At 31 December 2000, approximately 77% of the investment portfolio was three years old or less. Generally, investments are sold, and operating income recognized, between the third and the sixth year after the initial investment.

Investment process

UBS Capital concentrates on late-stage investments, believing that these have a better chance of producing superior risk-adjusted returns. At 31 December 2000, 83% of the book value of UBS Capital's investments was late-stage at the time of investment.

Investment opportunities originate from a variety of sources, including referrals from UBS Switzerland and UBS Warburg. UBS Capital's investment policy concentrates on five aims:

- negotiate an attractive entry price;
- increase the company's efficiency;
- implement a sales growth strategy;
- repay company debt and reduce leverage; and

- achieve an exit at a higher multiple of earnings than the entry price.

Where appropriate, UBS Capital tries to participate actively with the management of companies it invests in, developing their businesses over the medium term (three to six years) in order to optimize their performance. UBS Capital's exit strategies for the businesses include direct sales to strategic buyers, initial public offerings, leveraged recapitalizations and sales to other financial sponsors.

Strategic initiatives

Private equity funds

UBS Capital has committed to form private equity investment funds concentrating on each of four regions – Europe, North America, Latin America and Asia – which will provide opportunities for third-party investors to participate in investments made by UBS Capital and provide a larger pool of capital for its investments.

In late 1999, UBS Capital launched a USD 1 billion investment fund targeting North America to which it has committed up to USD 500 million, and a USD 500 million fund targeting Latin America, which UBS has committed to fund fully with the option to permit third-party investors to commit up to 25%. Two new funds were also launched in Europe during 1999. Phildrew Ventures V, a GBP 330 million United Kingdom private equity fund, and CapVis Equity Partners, which, at CHF 300 million, is Switzerland's largest private equity fund. Further funds are expected to be launched during 2001.

To support its fund products, the private equity business is launching a marketing campaign during 2001 to build its public profile.

Industry trends

Superior returns and the widespread recognition of private equity as an alternative asset class has led to a substantial growth in private equity funds raised in recent years. The number and amount of private equity funds raised has exceeded the number and amount of attractive and available private equity investments. This has led to increased competition among investment banks, investment funds and insurance companies and decreased returns for private equity investors.

In spite of the changing environment, UBS believes that opportunities for profitable investment will continue to arise in the private equity business. UBS believes this potential will be enhanced by a number of factors working in combination to produce a favorable business environment for astute market participants. These include the introduction of the euro and the resulting changes in the structure of business ownership in Europe, the worldwide trend of industrial consolidation, a growing awareness of the importance of shareholder value and the increasing need to solve succession issues in family-owned businesses.

New structure

During 2001, UBS will implement a unique new business model for its private equity business, designed to best capture the opportunities available from the growth of the international private equity market, and the strength of demand for the asset class.

UBS Capital will increase the level of funding sourced from third parties, reducing its dependence on direct funding from the UBS balance sheet. To support this move towards wider participation, the new business model will center on the formation of an autonomous investment management firm known as a fund advisor. The fund advisor will be 80% owned by UBS Capital's current management and 20% by UBS, and will adopt a new corporate identity towards the end of 2001.

The explicit autonomy of this structure is particularly attractive to third-party investors, and fully in line with best market practice in the private equity industry. Combined with UBS Capital's consistently impressive track record, it will provide a compelling investment proposition.

The formation of the fund advisor will have a neutral effect on the earnings stream of UBS. UBS will remain a cornerstone investor in new funds, continuing to benefit from a strong commitment to this product. The new fund advisor will remain strongly affiliated with UBS. UBS's private client and investment banking businesses will retain their close links to the private equity business. Individual clients will be supplied with a full range of proprietary private equity products, while maintaining complete freedom of choice to select private equity investments from other providers.

UBS Warburg will continue to benefit from IPO and M&A referrals.

In tandem with supporting this new business model, UBS has raised its target overall commit-

ment to private equity investment from CHF 5 billion to CHF 7.5 billion.

The newest member of UBS, US Private Clients, operating under the UBS PaineWebber brand, is a growth firm in a growth industry.

US Private Clients



Business description and organization

Operating under the brand name UBS PaineWebber, US Private Clients is the fourth largest private client business in the US, with one of the most affluent client bases in the industry. Its 9,000 financial advisors provide a full range of wealth management services to some 2.1 million affluent households in America. Its focus is on households with investable assets in excess of USD 500,000, the segment with the largest, fastest growing pool of assets in the US.

US Private Clients was formed from the combination of the Private Client, Insurance and Transaction Services groups of PaineWebber, with the US business of the former UBS Warburg Private Clients business unit. From the date of the merger with PaineWebber until the start of 2001, it also included Mitchell Hutchins, PaineWebber's asset management arm, which has since been transferred to UBS Asset Management.

Marketing, products and services

UBS PaineWebber financial advisors are key to its client relationships, supported, but never replaced, by its top class online services. Financial advisors build and maintain strong relationships with their clients, taking the time to understand their financial objectives and risk appetite, in order to help them select the specific products and services they need. They also form the front-line in client acquisition, responsible for developing relationships with prospective investors and converting them into UBS PaineWebber clients. UBS PaineWebber's financial advisors are based in 383 offices across the US, with representation in every major region.

Financial advisors' individual efforts are backed up by sophisticated and long-running marketing and advertising campaigns, featuring the long famous tag-line "Thank you, PaineWebber", and now its revised version "UBS PaineWebber, Thank you".

This new tag-line reflects the introduction in March 2001 of the new brand, UBS PaineWebber. The decision to introduce the new brand so

soon was taken in the light of the smooth progress of the PaineWebber integration and the benefits of interlocking UBS and PaineWebber. The new name is designed to underscore UBS and PaineWebber's complementary strengths and to reinforce the benefits of the merger to clients, financial advisors and other employees. UBS PaineWebber reflects PaineWebber's place as a core influence on UBS's future.

US Private Clients' financial advisors are backed up by comprehensive online capabilities, centered on UBS PaineWebber Online Services. Launched in 1997, this now reaches 352,000 client households, representing more than USD 223 billion in assets at year-end 2000. The system provides a wealth of information and analysis to each client, about their accounts, the markets and stocks they might want to invest in, and gives them a convenient means to keep in touch with their financial advisor. It also provides a range of trading, bill payment and other transactional tools. Each client and their client advisor has the opportunity to customize these services, extending the advisory relationship online, and empowering the client to make more confident decisions.

UBS PaineWebber provides a full range of wealth management services, including:

- financial planning and wealth management consulting;
- asset-based and advisory services such as discretionary and non-discretionary portfolio management, money market accounts, loans and fiduciary products; and
- transaction-based services, such as securities brokerage.

It covers the full range of products available to private clients, including purchase and sale of securities, option contracts, commodity and financial futures contracts, fixed income instruments, mutual funds, trusts, wrap-fee products, alternative investments and selected insurance products.

In addition the Transaction Services group provides prime brokerage and securities lending to major US and international investment firms, and execution and clearing services to correspondent broker-dealers across the US.

Strategic initiatives since the merger

UBS Private Clients remains clearly focused on increasing its market share of US household financial assets, by leveraging its broad domestic distribution capabilities and building the strength of the new UBS PaineWebber brand.

Emerging wealth

Employee stock option plans are a major source of new wealth creation in the US. To help address this large potential market, UBS PaineWebber launched a major initiative at the end of 2000, to significantly expand its already successful stock option finance business through the formation of Corporate Employee Financial Services.

Corporate Employee Financial Services features dedicated distribution, technology and service groups whose goal is to capture a larger share of the management and administration of the

USD 1 trillion of stock options awarded to corporate executives in the US. UBS PaineWebber already provides these services to well known companies such as Cisco, Enron, General Electric and Texas Instruments, whose 300,000 option holders together own more than USD 70 billion of in-the-money stock options managed by UBS PaineWebber.

The opportunity for UBS PaineWebber is twofold: to administer employee stock option services for additional Fortune 1000 and major international corporations, and simultaneously to offer the highest levels of online and personalized service through its financial advisors to the employees of those companies.

When properly co-ordinated, the combination of these services will allow UBS PaineWebber not only to execute option exercises, but also to capture clients as long-term investors, managing the wealth they have generated.

The PaineWebber merger is a transforming partnership for UBS, not just in the US, but through the strengths that UBS PaineWebber can bring across the private client businesses.

International Private Clients and e-services

International Private Clients

During 2000, our International Private Clients business unit provided private banking products and services for high net worth clients outside the US and Switzerland, banking in their country of residence. The business has offices in Germany, France, Italy, Spain, the United Kingdom, Japan and Australia. It provides wealth management products and services tailored to the specific cultural, legal and regulatory environment of each country.

e-services

The e-services initiative made good progress during 2000, successfully creating the technology backbone for our renewed efforts in European domestic private banking.

However, as a result of the merger with PaineWebber, UBS now has a unique opportunity to target the market for wealthy clients in Europe with an enhanced, advisor-centered wealth management service, taking advantage of the transforming potential of UBS PaineWebber's expertise and award winning online services. As part of this strategy, the e-services proposition has been integrated with our other wealth management businesses. UBS no longer plans to target the "mass affluent" segment separately.

European Wealth Management

Following the PaineWebber merger, UBS now has scale and excellence in two different types of private client business: the brokerage model, through UBS PaineWebber, and the banking model, through Private Banking. It is therefore uniquely positioned to combine these capabilities to provide a complete range of wealth management services to its clients. With this combination UBS can meet all the needs of a sophisticated

clientele, whether banking in their home country or internationally.

As an important step towards this vision, UBS is bringing together its domestic and international private client businesses in Europe. The International Private Clients business unit will therefore cease to exist, with its European businesses being transferred to UBS Switzerland's Private Banking business unit.

UBS's European strategy will focus on wealthy clients, with client self-segmentation based on content and pricing, and services designed primarily for those with more than EUR 500,000 of investable assets.

Our domestic banking efforts will be centered on Germany, the UK, France, Italy and Spain, a scope that covers about 80% of Europe's investable assets, while our international offering will continue to be pan-European. We intend to extend the single brand, UBS Private Banking, from the top international private banking brand, to become the top wealth management brand within each of our targeted countries.

UBS is clearly committed to open architecture and the provision of a full range of best-in-class investment products to all our clients. Client advisors will help to structure the appropriate range of products for each client, building portfolios to reflect their investment objectives and risk criteria. This advice-centered approach will be supported by online systems which combine the best of UBS PaineWebber's client interface technology with the core banking system developed by the e-services initiative.

UBS PaineWebber's top-class abilities in marketing, product management and innovation, technology, and training will be deployed as the key catalyst for our European businesses. UBS will accelerate the positive momentum of the existing domestic business, transferring knowledge and resources from the Private Banking business unit to add to the 170 existing advisors in 17 local offices in Europe, and supplementing them with a program of new hires.

Corporate Center

Our Business Groups are managed together to optimize shareholder value – making the whole worth more than the sum of the parts.

Reporting by Business Units adjusted for Significant Financial Events

<i>CHF million</i>	Corporate Center	
For the year ended	31.12.00	31.12.99 ¹
Income	358	372
Credit loss recovery	1,161	448
Total operating income	1,519	820
Personnel expenses	490	548
General and administrative expenses	281	385
Depreciation	320	366
Goodwill amortization	44	50
Total operating expenses	1,135	1,349
Business Group performance before tax	384	(529)
Headcount (full time equivalents)	986	862

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy and changes in presentation. The Business Group reporting for 1999 has been rearranged to reflect the new business structure for the Group.

Aims and objectives

UBS's commitment to an integrated business model remains as strong as ever. UBS is not merely a holding company. It is a portfolio of complementary businesses, managed together for optimal shareholder value, where the whole is worth more than the sum of its parts.

UBS's Business Groups are accountable for their results and enjoy considerable autonomy in pursuing their business objectives – hence the need for a strong Corporate Center, with the mission to maximize sustainable shareholder value by co-ordinating the activities of the Business Groups. It ensures that they operate as a coherent and effective Group with a common set of values and principles. To perform its role, Corporate Center avoids process ownership wherever possible, but instead establishes standards and principles, thereby minimizing its own staffing levels.

Functions

Finance and Risk management and control

Corporate Center includes the Group's accounting, treasury and risk management and control functions. These teams are responsible for safeguarding UBS's long-term financial stability by maintaining an appropriate balance between risk and rewards, so that the Group is competitively positioned in growing market places with an optimal business model and adequate resources.

Further details of risk management and control policies and Treasury activities can be found in the Risk Management and Control, and Asset and Liability Management sections of this Handbook.

Group Controlling

Group Controlling is responsible for devising and implementing integrated and consistent controlling and accounting processes throughout the Group, in order to produce the Group's regulatory, financial and management accounts.

Group Communications and Marketing

The Group Communications and Marketing function is responsible for the effective communication of our strategy, values and results to employees, clients, investors and the public, and for building the UBS brand worldwide.

Group Human Resources

Group Human Resources mission is to make UBS a global employer of choice, able to attract, develop, motivate and retain top talents by establishing standards, principles and procedures for performance evaluation, compensation and benefits, graduate and professional recruitment, training and development.

Legal and Compliance

Legal and Compliance protects UBS's reputation by managing its legal, compliance and regulatory affairs.

UBS's performance measurement framework considers the creation of value for shareholders and other stakeholders in a more explicit way than traditional profit-based measures. UBS believes that the measurement of value creation can only be effective in the context of a comprehensive value-based management (VBM) process which is truly embedded in its management decisions, and consistently applied across the organization.

Value-Based Management

UBS's value-based management (VBM) framework supports value-based decisions, performance assessment and external communication. The heart of the framework is a process for monitoring the development of the value of the Group and its constituent businesses, based on the identification of the fundamental drivers of value creation.

Overview of objectives and process

The aim of VBM is to create an understanding of the sources and drivers of value within all of UBS's businesses, and to integrate this understanding into its management processes and principles, translating the value creation mindset into action. The diagram below summarizes the VBM processes.

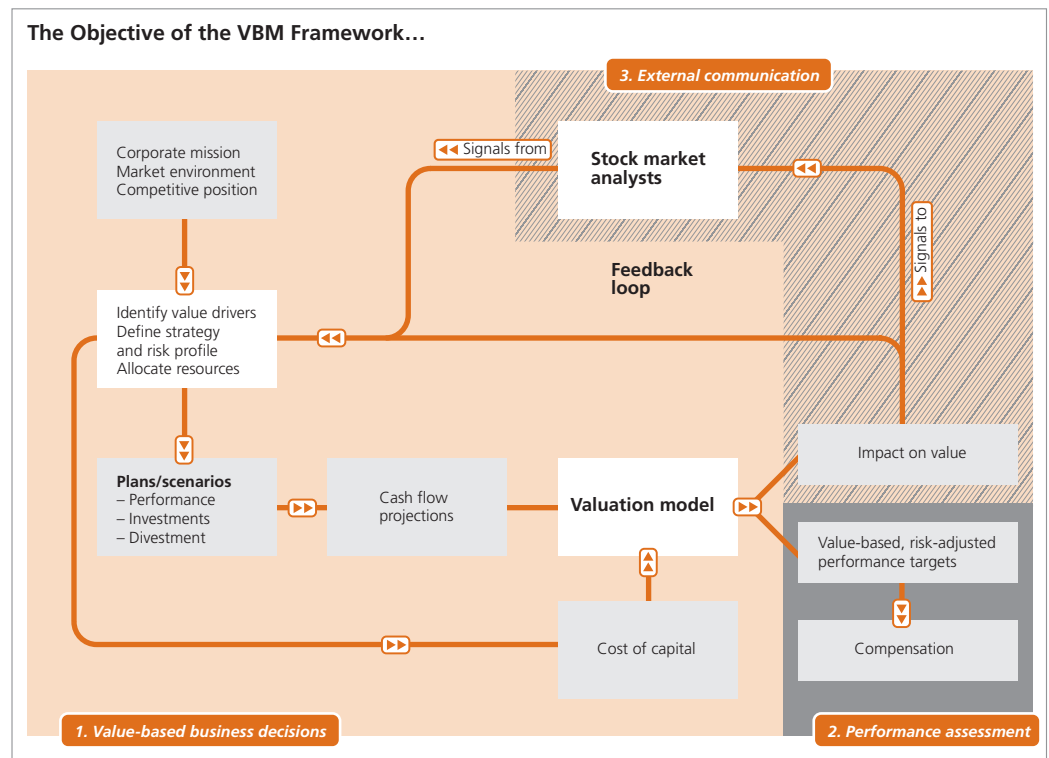
Value-based business decisions: To ensure that UBS's actions are value-enhancing, the Group evaluates strategic initiatives, acquisitions and

investments on the basis of the impact of their earnings potential and the inherent risk on shareholder value. Funding and capital resources are only allocated to business plans and projects that are expected to create value on a sustainable basis.

UBS benchmarks the internal assessment of a project's potential against analysts' and investors' expectations. The Group also assesses and manages the risk of current and planned business strategies by analyzing the impact of long-term industry and macro-economic trends on value.

Performance assessment: Performance measures are designed to communicate the extent to which value has been created: both the value derived from actual performance during the current reporting period and the value of future growth prospects resulting from tactical and strategic positioning.

External communication: Value creation is the focal point of our communication to investors and



analysts. The analysis and interpretation of sources of valuation gaps provides valuable evidence of the external evaluation of our internal plans.

Measuring value creation

Measuring value creation at the Group level

The fundamental assumption underlying the VBM framework is that the creation of sustainable value is the primary objective of business activity. By emphasizing sustainable value creation, UBS considers the interests of both its shareholders and other important stakeholders such as employees, clients and regulators. The framework views the management as fiduciaries of shareholder wealth. They are responsible for generating adequate returns on a risk-adjusted basis through strategic decisions and their effective implementation.

To ensure long-term success, a company must provide its owners with a total return greater than its risk-adjusted cost of capital. For the shareholders, the total return on their investment is a combination of dividends, capital repayments and share price appreciation over a specific period. Share price development is therefore a very important indicator of value creation at the corporate level, since it reflects the assessment by investors of current performance, of the ability of management to define, communicate and implement innovative and compelling strategies for the future and of the level of strategic risk those plans involve.

Measuring value creation at the business unit level

The share price is a useful indicator of the value creation performance of the Group, but it cannot be used to evaluate the performance of business units. As business units are not listed on any stock exchange, UBS needs a measure that corresponds to the total return on shares but is applicable to business units. For this, UBS has chosen *fair value* and *total return on fair value* as the most suitable measures of value creation.

The starting point in assessing value creation for a business unit is thus to assess its *fair value*, i.e., the theoretical value of the current franchise and associated earnings potential as well as the resources the business unit management has been entrusted with.

By relating realized cash earnings and the incremental value of strategic plans and invest-

ments to the initial fair value, we then calculate the *total return on fair value* of the business unit. Actual total return is compared to the business unit hurdle rate, which represents the minimum required return for a given level of business risk.

Technically, fair value is calculated as the sum of all future discounted free cash flows, which correspond to earnings adjusted for investments and depreciation. The discount rate reflects the financial and business risks of the unit and is also the targeted total return on fair value (the business unit hurdle rate). Discount rates are derived from historical market data using the capital asset pricing model (CAPM), which yields discount rates that account for the undiversifiable (systematic) risk of the business. Since our business units are not listed on any stock market, their cost of equity is inferred from stock market data of listed competitors and peers.

Generated free equity

An important difference between a financial institution and industrial firms is that borrowing and lending form part of everyday business activities and are not used merely for financing and placement of excess liquidity. This makes the traditional definition of cash flow, as used in industrial firms, difficult to apply to a bank. In addition, banks face regulatory constraints in the form of capital adequacy regulation, which reduce their discretion to determine and implement an optimal capital structure.

In view of these differences, free cash flow for banks is generally defined as residual cash, after investments and after all claims from debt holders (interests and amortization) have been serviced. UBS has dubbed this measure “Generated Free Equity” (GFE) as it is the amount that can be either reinvested or returned to shareholders via dividends and share repurchases. UBS uses GFE in the calculation of its fair value and the total return on fair value.

GFE is the sum of adjusted net profit after tax adjusted for significant financial events and change in regulatory equity requirements.

The VBM process

The implementation of a comprehensive VBM framework in a large organization like UBS is a

complex task and the full benefit of it will only materialize over time. To be truly effective the VBM framework must become an integrated part of key management processes, such as the formulation and evaluation of strategic plans and investments, the measurement and evaluation of performance, and the definition of criteria for performance related compensation.

Value drivers

In order to have an operational tool for analyzing the extent to which current and projected performance contribute to sustainable value creation, UBS has identified value drivers for each business unit, relating to revenue, cost and investment. Net new money growth and average margins on assets are examples of typical revenue drivers for the private banking and asset management businesses.

The analysis of the future development of value drivers extends beyond the standard business plan horizon of three years to consider the potential impact on value of long-term industry and macro-economic trends, and constitutes an important input in the evaluation of strategic options.

Internal value driver projections and valuations are benchmarked against external assessments and the expectations of the stock market and leading analysts and against performance of key competitors. They are also subjected to a sensitivity analysis, both to understand the sensitivity of the valuation to assumptions, and to test the impact on value of failing to meet plans. Together these measures help to avoid the risk that over-optimistic planning might distort the VBM process.

Value-based decisions in strategic planning

During 2000, the business units of UBS have begun to complement their standard business plans and budgets with explicit targets for key value drivers. Equity expenditures (investments and incremental working capital), which are required to increase or sustain current operating levels, are explicitly considered via their effect on generated free equity.

The impact of business plans on valuation is analyzed on the basis of the internal value driver targets and long-term forecasts on the development of value drivers beyond the planning horizon. The valuation analysis considers the views on sector and macro-economic development of

neutral internal and external experts and the impact of worst case scenarios.

Value-based decisions and strategic risk

UBS considers strategic risk, such as the failure to recognize changing customer priorities, the failure to recognize opportunities and threats from emerging technologies and business models or the failure to define and implement innovative, compelling value propositions for customers and investors, as the major challenge in today's competitive environment.

In order to meet this challenge, companies need to implement systematic and rigorous tools and processes (as has already been done in the case of market, credit and operational risk control) to identify and manage strategic risk. Value-based analysis constitutes a key input for assessing and addressing strategic risk.

In parallel with the changes in planning and investment appraisals, UBS has introduced a new value report. This quarterly report to management tracks actual generated free equity and the development of value drivers and also measures total return on fair value, which includes the incremental impact of new business initiatives. In addition, the value report contains a section which analyses the source of gaps between internal valuation and market capitalization and between internal valuation and leading external analysts' valuations of business units.

Compensation

A key aspect of a comprehensive VBM framework is compensation. The objective of value based compensation is to reward sustainable shareholder value creation. Managers and employees should receive an appropriate share of the value created in order to align their interests to the interests of shareholders. As with all other professional services organizations, human resources costs in banking are the single largest operating expense. As a result compensation is a highly sensitive area, where market practice and cultural considerations need to be taken into account.

Total return on fair value and the development of value drivers are very powerful measures for compensation and UBS currently is in the process of developing methods to include the VBM measures in its compensation scheme. However, UBS believes that compensation should never be

formula driven, so, while these measures will become important inputs, they will not replace managerial judgement in determining compensation levels.

External communication

Although VBM is essentially an internal management tool, it can also provide useful information for investors and analysts. Future public disclosure will therefore contain further quantitative information on the development of key value drivers.

Conclusion

UBS believes that the focus on value drivers in planning and performance tracking is the most effective and efficient way to direct the organization towards building value. It also allows the linking of compensation to the key drivers of sustainable profitability in a pragmatic way. Value based management combines the analysis of current performance with the analysis of future earnings potential. This increases management's focus on strategic risk and further improves UBS's ability to create sustainable value.

Brands are becoming formal assets that provide tangible benefit. In free and fiercely contested markets, they are a vital communication tool for attracting target clients. Nowhere is this more so than in the competitive market of financial services providers. UBS is responding to this challenge with integrated brand management and a clear brand strategy, with responsibility for brand equity taken at the highest level.

Brand Strategy at UBS

Brands are increasingly important in the financial services industry

Until recently, banks seldom went far beyond national borders. Clients did not shop around for a financial advisor, but were directed towards prestigious companies through word-of-mouth and often remained loyal to these institutions throughout their whole lives. As a result of this privileged market position, financial services providers deliberately cultivated an image of discretion and exclusivity.

The easing of regulatory restrictions, increased transparency of services and a shift to more consumer “activism”, has led to a dramatic increase in competition, making it much easier for new players to enter the financial markets, significantly expanding choice and turning the previously restricted world of privileged providers into a buyer’s market. Today, customer loyalty has weakened, and clients can change products and providers more easily than before. A new generation of wealthy clients is increasingly comfortable using the media to collect information on financial matters, often in the form of advertising and marketing messages. Clients increasingly select companies and products based on image and perception. Strong brands with a well-articulated and attractive message are becoming a crucial competitive factor in this type of environment. In a survey of American banking clients, at least 80 percent of those questioned said that the influence of brand was “fairly important” to “extremely important” in their choice of financial products.

A brand strategy for highly competitive financial markets

A strong and familiar brand with a clear profile offers the client focus and security, giving the company sustained competitive advantage. A firm such as UBS formed through merger and with a portfolio of legacy brands, faces particular challenges. UBS has therefore refined its brand strategy and, in July 2000, launched a brand campaign concentrating on the UBS brand as the focus for the entire UBS Group.

UBS’s brand identity

The only brands that make an impression amid the current flood of information and frenzied pace of communication are ones that are strong and communicate a clear message. Defining the brand message is therefore crucial to the success of brand communication.

The Group’s global reach, technology excellence, sophisticated products and services, integrated business platform and strong focus on advice are ideal brand attributes. “Partnership for success”, the core message of the UBS corporate brand, reflects these strengths. UBS’s brand stands for success through partnership: partnership with the outside world, partnership with our clients, partnership with shareholders, partnership with investors, but also partnership within UBS, thanks to the close co-operation that exists between the individual business areas.

Supporting this core message are a number of subsidiary associations. The UBS brand also stands for “value added solutions” and transparency of benefits and price. Furthermore, it symbolizes the committed and motivated employee and embodies the collective power of the UBS Group which comes from the combination of services provided by a wide range of business units. And finally, the brand conveys the trust which is associated with characteristics such as quality, reliability, security, stability and sense of responsibility.

Worldwide brand campaign

The UBS brand with its powerful message was positioned in the major markets through a worldwide campaign during 2000. The core message, “The Power of Partnership”, is based on a concept which can be applied across the board for all Business Groups, service and product categories. The pictures from the campaign symbolize the way to success through partnership.

UBS’s systematic approach to branding

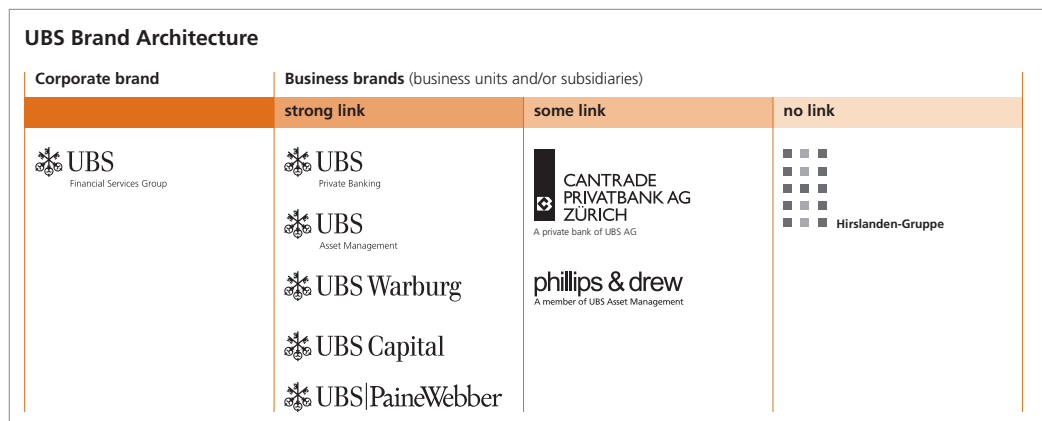
UBS’s systematic approach to branding is based on a corporate brand and a limited number of subsidiary business brands.

The corporate brand identifies the Group as a whole and reflects its values. It is aimed at steering clients towards the company when they make market decisions. Its visual appearance is determined by design guidelines which are binding, company-wide.

As a general rule the business brands (such as UBS Warburg) are strongly linked to the corporate brand. They represent the individual business units and subsidiaries with their range of products and services, with the linkage reflecting

the benefits offered by UBS as an integrated financial services group.

For jurisdictional or strategic reasons, such as identification of an asset management style, other business units may have a “some link” or a “no link” status, though the medium-term plan for brand development clearly focuses on a smooth transition from the current brand portfolio to a single brand. Finally there are also simple word brands for products and services, like KeyClub or Fund Solutions.



UBS aims to maintain best-in-class environmental standards in all that it does.

UBS and the Environment

Introduction

UBS strives to be among the leaders in all its businesses, but will only succeed if it anticipates long-term opportunities and risks. UBS is convinced that it is not only financial market trends and political developments that will shape its business, but to an increasing extent environmental conditions and social expectations as well. This section describes briefly how environmental aspects affect UBS's shareholder value in the Group's different areas of activity. Further details are available in UBS's Environmental Report 2000, which is available at www.ubs.com/environment.

UBS takes its responsibility towards its clients, shareholders and employees seriously. It believes that its international prominence confers "role model" status, and that its long-term success will only be guaranteed if the long-term consequences of all its actions are seen to be beneficial. For UBS it is self-evident that the Group should take as much care of natural resources as it does with the assets its clients entrust to it. A precondition for this is a forward-looking assessment of the environmental impact of the Group's actions.

This is why UBS aims to observe international environmental standards in all that it does – not only with respect to its own conduct but also in terms of the transactions it finances. UBS's commitment to the environment is underpinned with a professional environmental management system.

UBS views the ISO 14001 certification awarded to its environmental management system as the first important step towards comprehensive independent assessment of the corporate responsibility which it embodies in its corporate culture. During 2001, UBS will create a Corporate Responsibility Committee composed of Board, GEB and GMB members which will be responsible for corporate social responsibility issues, for supervision of the Group's adherence to relevant international standards, and for developing appropriate reporting in this area.

UBS – committed to sustainability

UBS's environmental policy

UBS's environmental policy has been approved by the Group Executive Board. The following extracts outline the key points of the policy.

Environmental protection is one of the most pressing issues facing our world today. Consequently environmental issues are a challenge for all companies in all sectors. UBS regards sustainable development as a fundamental aspect of sound business management.

UBS is committed to continuing the integration of environmental aspects into business activities.

We seek to build shareholder value by taking advantage of environmental market opportunities. At the same time, we will incorporate due consideration of environmental risks into our risk management processes, especially in lending and investment banking.

We will actively seek ways of reducing the environmental impact to air, soil and water from our in-house operations. The main focus is the reduction of greenhouse gas emissions.

We seek to ensure the efficient implementation of our environmental policy via an environmental management system which includes sound objectives, programs and monitoring.

The UN Global Compact and the UNEP Bank Declaration – a global commitment

UBS has undertaken to comply with the UN Global Compact principles proposed at the 1999 World Economic Forum in Davos. These principles set out the framework in which a company can help ensure sustainable development worldwide. In addition to protecting the environment, the nine principles deal with aspects such as respecting human rights and workplace rights.

UBS was one of the first signatories of the UNEP Bank Declaration and is helping to shape further developments through its role on the Steering Committee for financial institutions.

UBS does not just acknowledge these principles in theory, but takes concrete action to turn them into reality. Internally, compliance with so-

cial standards is a day-to-day reality within human resources. UBS is aware, however, that in the financial services industry the main focus of corporate social responsibility must be on client relationships. Financing transactions and managing assets for clients whose activities are seen as socially irresponsible can lead to financial and regulatory risks for the Group, and damage its reputation. UBS seeks to avoid these risks through the application of the highest standards of probity, and through its involvement in initiatives such as the Wolfsberg Anti-Money Laundering Principles.

The UBS environmental management system: the ISO 14001 certificate

In May 1999, UBS was the first bank to obtain ISO 14001 certification for its worldwide environmental management system in its banking business. ISO 14001 is an international standard for environmental management systems. UBS also received certification for its environmental management system for its corporate services in Switzerland. The certification was undertaken by an independent certification company, SGS International Certification Services AG.

Environmental ratings

UBS's share price is part of the Dow Jones Sustainability Group Index (DJSI). The DJSI comprises around 230 companies from various sectors that rank as leaders in their field in terms of social and environmental performance.

In October 2000, UBS was ranked first in the financial sector by DJSI.

In a survey published in January 2000, the Munich-based rating agency, Oekom Research, examined the environmental performance of larger European banks. The study, which looked at environmental management systems, products and services, and the quality of environmental data, ranked UBS first amongst the 26 banks examined.

The environmental factor in asset management

Highlights

- The performance of the "UBS (Lux) Equity Fund – Eco Performance" was 1.7% in 2000, outperforming the MSCI World Index by 15.7%.

- The size of the "UBS (Lux) Equity Fund – Eco Performance" and of the corresponding investment foundation for Swiss pension funds doubled in 2000 to 487 million Swiss francs.
- The Japanese fund "UBS Nihon Kabushiki Eco Fundo" was successfully launched on the market at the end of October 1999. The size of fund assets at end 2000 was around JPY 7 billion.
- UBS is currently reviewing the launch of a product which will allow clients to invest worldwide in projects aimed at reducing greenhouse gas emissions.

There are a number of factors involved in acquiring new client assets, including the financial performance of a company's products, the level of service it offers and its reputation. In addition, some clients now demand that asset management decisions take into account environmental and social aspects as well as economic ones. UBS's expertise in incorporating environmental and social aspects into its company research and portfolio management is becoming more and more important – particularly for institutional investors such as pension funds.

UBS's environmental investment research looks at how companies' strategies, processes and products impact both their financial success and the environment, and what contribution these elements make to each company and its employees. The stocks selected through this process are shares in companies which demonstrate long-term success and generate sustainable financial revenues. Specialist studies and stock indices show that there can be a positive link between environmental, social and economic performance.

Focusing on the concept of sustainability, UBS launched a new investment fund in 1997, the "UBS (Lux) Equity Fund – Eco Performance". This fund invests worldwide in stocks of exemplary sector leaders and forward-looking small and medium-sized companies. The selection criteria include above average environmental and social performance as well as a sound financial basis. This investment strategy and the fund's broad diversification has resulted in an excellent financial performance for the fund and a positive contribution to the value of UBS's asset management business.

The environmental factor in investment banking

While no two investment banking transactions are the same, they all have a common element that is crucial to their success, namely the ability to identify opportunities and risks early on, and to assess them correctly. Although financial risks dominate this assessment, environmental aspects can also be an important part of risk analysis.

First, environmental risks could become credit risks – for example, if a client can no longer repay a loan as a result of environmental problems. Second, liability risks could be incurred if, for example, UBS were to become owner of a company or were to sit on the management board of a company which finds itself facing environmental liabilities. Lastly, environmental risks could damage the Group's reputation if it were to be involved in a controversial transaction.

Based on its Global Environmental Risk Policy, UBS Warburg has introduced processes that allow early identification of environmental risk in relation to a transaction. In an initial phase, environmental factors are screened by investment banking staff. If there are indications of increased risk, environment specialists are called in to investigate the issues as part of the due diligence process.

The environmental factor in credit business

Highlights

- The assessment of environmental risks is integrated fully into the loan review process and the set of tools used.
- Almost all employees in recovery departments in Zurich, Bern and Lausanne were trained in environmental risk management in 2000. Professional management of environmental risks is particularly relevant in these departments, as they manage distressed debt.

A prerequisite for a healthy loan portfolio is professional risk analysis that takes account of all types of risk, including environmental risks. Alongside traditional rating factors such as key financial data and management quality, a careful review of financially relevant environmental aspects is an important part of UBS's credit risk

analysis. In assessing a loan application, the client advisor uses internal guidelines and up-to-date information to assess environmental risks, and includes environmental information in the data provided to the loan assessor.

UBS can take several courses of action if a client's credit-worthiness is compromised by environmental risks. If the risks involved cannot be calculated or estimated, it can refuse the credit transaction; it can demand a higher risk premium or additional collateral; it can reduce the term of the loan or repayment period, or it can offer advisory services or act as an agent to help resolve the problem.

The benefits of incorporating the "environmental factor" in lending business are threefold: UBS has a healthy loan portfolio, the client is aware of the environmental risks and opportunities for its company, and the environment itself benefits from the resulting improvements.

The environmental factor in-house

Highlights

- Environmental aspects are incorporated as a core part of our procurement and design processes for services such as cleaning or waste disposal services and for products such as paper or office materials.

The more efficiently and sparingly UBS uses its resources and hence reduces emission levels, the less it will have to pay in terms of costs. Energy management and in-house environmental initiatives enhance operating margins.

UBS impacts the environment primarily through its energy consumption, the running of its heating systems, its paper consumption and business travel. Professional know-how and an efficient environmental management system allow the Group to use resources better and bring down costs.

Costs can be optimized in three different ways. Firstly, the necessary level of environmental performance to comply with regulatory requirements must be achieved in as effective and cost-efficient a manner as possible. Secondly, costs can be reduced by improving internal processes or implementing technical measures, such as adjusting the heating or air conditioning of a building. Lastly, UBS and the specialist companies it works with are continually working to reduce the im-

pact on the environment using intelligent engineering, for example in the building services.

UBS's environmental performance in figures

Full details of UBS's environmental performance can be found in UBS's Environmental Report 2000.

The environmental report shows how UBS's environmental commitment affects its enterprise value, highlighting the effect of the “environmental

factor” on some of the Group's key value drivers. It includes data on UBS's performance against key environmental metrics in banking and corporate services, based on the EPI-Finance 2000 standard which was jointly developed by eleven finance and insurance companies. It also provides further details about UBS's ISO 14001 certification.

For further information please visit: www.ubs.com/environment, or contact: environment@ubs.com.

Risk

Risk Management and Control

Risk is an integral part of all our activities. Excellence in risk management and control is a key success factor and therefore requires everyone's commitment within our organization.

Risk management and control principles

UBS's approach to risk management and control has evolved over a number of years, and has been reviewed and refined in 2000, resulting in a statement of the Risk Management and Control Principles, which lay the foundations on which UBS builds its risk culture and risk process:

Business Management Accountability: The management of UBS's businesses owns the risks assumed throughout the Group and is responsible for the continuous and active management of all risk exposures so that risk and return are balanced.

Independent Controls: An independent control process is implemented when required by the nature of the risks and the fundamental incentive structure of the business processes. The control functions are responsible for providing an independent and objective check on risk taking activities to safeguard the integrity of the entire risk process.

Risk Disclosure: Comprehensive, transparent and objective risk reporting and disclosure to senior management and to shareholders is the cornerstone of the risk control process, reflecting the fundamental values of intellectual honesty and transparency.

Earnings Protection: Operating limits are set to quantify risk appetite and allocated among business lines to control normal periodic adverse results, in an attempt to limit such losses relative to the potential profit of each business. The Group's risk capacity is expressed through stress loss limits with the aim of protecting the Group from unacceptable damage to its annual earnings capacity, its dividend paying ability and, ultimately, its reputation and ongoing business viability.

Reputation Protection: Failure to manage and control any of the risks incurred in the course of its business could result in damage to UBS's reputation. For this reason:

- UBS continues to develop potential stress loss measures for credit and market risk;
- UBS will not take any extreme positions in tax, regulatory and accounting sensitive transactions;
- UBS aspires to the highest standards in protecting the confidentiality and integrity of its internal information; and
- UBS aims to maintain the highest ethical standards in all its businesses.

Every employee, but in particular those involved in risk decisions, must make UBS's reputation an overriding concern. Responsibility for the risk of reputation damage cannot be delegated or syndicated.

An integrated approach to risk management and control

Risk management and control are an integral part of UBS's commitment to providing consistent, high quality returns for its shareholders. UBS believes that delivery of superior shareholder returns depends on achieving the appropriate balance between risk and return, both in day-to-day business and in the strategic management of the balance sheet and capital. UBS recognizes that risk is integral to its business, but the approach to risk management and control seeks to limit the scope for adverse variations in earnings and, in particular, to protect UBS from the risk of severe loss in the event of unlikely, but plausible, stress scenarios arising from any of the material risks it faces.

UBS has an integrated, Group-wide function at the Corporate Center addressing all aspects of finance, strategic planning, risk control, and balance sheet and capital management. The independent risk control organization is mirrored in the Business Groups. Excellence in risk management is, however, most fundamentally based upon a business management team that makes risk identification, management and control critical components of their processes and plans.

Key responsibilities

The *Board of Directors* is responsible for the Group's fundamental approach to risk (the Risk Management and Control Principles), for the establishment and annual review of the Group's principal risk limits and for the determination of its risk capacity.

The *Group Executive Board (GEB)* is responsible for implementing the Risk Management and Control Principles, for approving core risk policies, for allocating risk limits to the Business Groups, and for managing the risk profile of the Group as a whole.

The *Chief Credit Officer (CCO)* is responsible for formulating credit risk policies, for determining methodologies to measure credit risks, and for setting and monitoring credit, settlement and country risk limits.

The *Chief Risk Officer (CRO)* is responsible for the policies, methodologies and limits for all other risk categories, and for aggregating and assessing the total risk exposure of the Group.

Business Group Risk Management Committees monitor all risks taken by the business units and are the primary risk management bodies. They are chaired by the Business Group Chief Executive Officers and include heads of business areas and delegates of the Group CRO and CCO.

The *Business Group CEOs* are responsible for all risk exposures within their business units and must take corrective action where appropriate, given the aggregate risk profile of the portfolio or the risks of specific positions.

The *Business Group Risk Control Functions*, headed by Chief Risk and Chief Credit Officers (CROs and CCOs), are empowered to enforce the Risk Management and Control Principles and are responsible for the implementation of independent control processes within their business units.

The risk control process

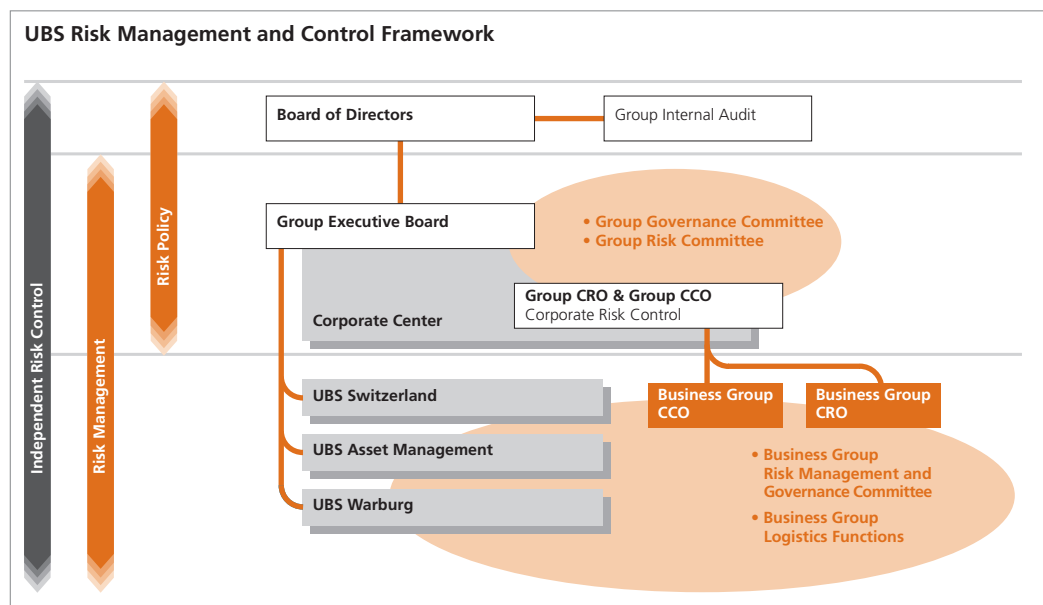
There are five critical elements in the independent risk control process:

- *risk identification*, particularly in new businesses and in complex or unusual transactions but also in response to external events and in the continuous monitoring of the portfolio;

- *risk measurement*, using approved methodologies and models which have been independently validated;
- *risk policies*, covering all risk categories, both at Group level and in the Business Groups, consistent with evolving business requirements and international best practice;
- comprehensive *risk reporting* to management at all levels against an approved risk limit framework, for all primary and consequential risk categories; and
- *risk control*, to enforce compliance with the Principles, and with policies, limits and regulatory requirements.

There are co-ordinated processes covering all risk categories which are applied before commencement of any new business or significant change, and before the execution of any transaction which is complex or unusual in its structure or motivation, to ensure that all these critical elements are addressed, including the assurance that transactions can be booked in a way that will permit appropriate ongoing risk measurement, reporting and control.

The risk control process extends beyond the independent risk control functions to *Financial Control* and the *Logistics Areas*, notably Operations, which are critical to establishing an effective control environment. Given their responsibility for the booking, settlement, and financial



reporting processes, comprehensive control by these functions creates a powerful defense against improper activity.

Group Internal Audit provides an independent view to the Board of Directors of the effectiveness of the Risk Management and Control Principles and their enforcement, and of the effectiveness of the independent control units.

Risk control developments

UBS has continued, in 2000, to strengthen, formalize and enhance the risk control process. Principles, policies and processes are reinforced through a “risk awareness” education program which will be disseminated to all employees during 2001, including a series of recorded presentations by UBS risk control professionals covering all aspects of risk control for all categories of risk. The program will be extended and enhanced as the approach to risk management and control evolves.

UBS monitors regulatory developments and strives to maintain good relationships with its lead regulator, the Swiss Federal Banking Commission, and other major regulators. This as an important aspect of the risk control process and UBS will continue to work closely with them to ensure a mutual understanding of the Group’s control structure and the regulators’ requirements.

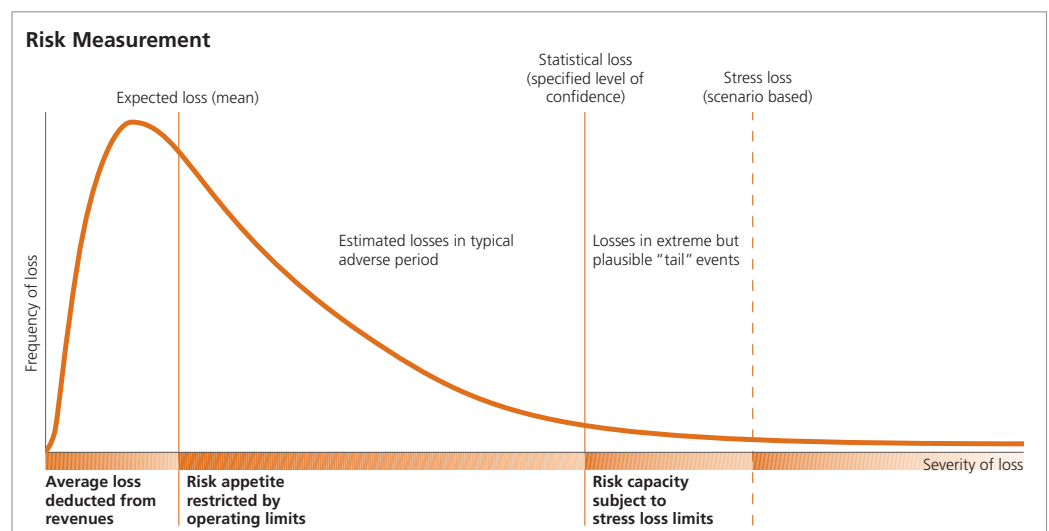
How UBS measures risk

Potential loss is measured at three levels – expected loss, statistical loss and stress loss.

Expected loss is the loss that is expected to arise on average in connection with an activity. It is the inherent cost of such activity, and should be budgeted and deducted from revenues directly. An example of expected loss is the valuation adjustments for liquidity or position size made in mark-to-market books. UBS is extending its expected loss framework to encompass all measurable risk categories.

Statistical loss (also known as “unexpected loss”) is the estimated loss in a typical adverse period, as statistically defined by a given confidence interval. UBS’s tolerance for such adverse results – the Group’s risk appetite, as determined by the Board of Directors – is the basis for the main operating limits. Formal statistical loss measures in the form of Value-at-Risk limits have been in place for market risk in UBS for a number of years, and are the basis of the market risk regulatory capital charge. Comparable portfolio measures are being developed for other risk categories, and the revision to the Basel Capital Accord, currently under discussion, is expected, ultimately, to extend the use of statistical loss measures for regulatory capital purposes.

Stress loss is the loss that could arise from an extreme, but plausible, stress or “tail” event (an event that falls in the tail of the probability distribution of potential events, beyond the level of confidence applied in the statistical loss measure). Risk capacity is defined as the maximum loss that the Board of Directors considers UBS could withstand in such stress events without unacceptable damage to earnings, dividend paying ability and, ultimate-



ly, reputation and ongoing business viability. It is formalized in stress loss limits. Stress loss measures are most extensively implemented for our trading activities and for country risk, but default stress loss measures have also been introduced for the UBS Warburg loan portfolio, with particular emphasis on lower rated borrowers. The stress loss framework will continue to be enhanced and progressively extended to all risk categories. The identification and quantification of potential tail risk, on a macro scale (affecting the Group in general or selected parts of the business or portfolio) and on a micro level (arising from individual transactions), is perhaps the most important function of the independent risk control units.

The risks UBS takes

Business risks – the risks associated with the chosen business strategy, including business cycles, industry cycles, and technological change are the sole responsibility of the business, and are not subject to an independent control process. They are, however, factored into the Group planning and budgeting process.

Inherent risks are the risks inherent in our business activities, which are subject to independent risk control. A distinction is made between primary and consequential risks.

Primary risks are the exposures deliberately entered into for business reasons and which are actively traded and managed:

- *credit risk* is the risk of loss resulting from client or counterparty default and arises on exposure to clients and counterparties in all forms, including settlement risk;
- *market risk* is the exposure to observable market variables such as interest rates, exchange rates and equity markets;
- *liquidity and funding risk* is the risk that the Group is unable to fund assets or meet obligations at a reasonable price or, in extreme situations, at any price. These risks are managed at the Group level, rather than in the business units, and are discussed in the Asset and Liability Management on pages 71 to 72.

Consequential risks (also known as operational risks) are exposures that are not actively taken, but which are incurred as a consequence of business undertaken:

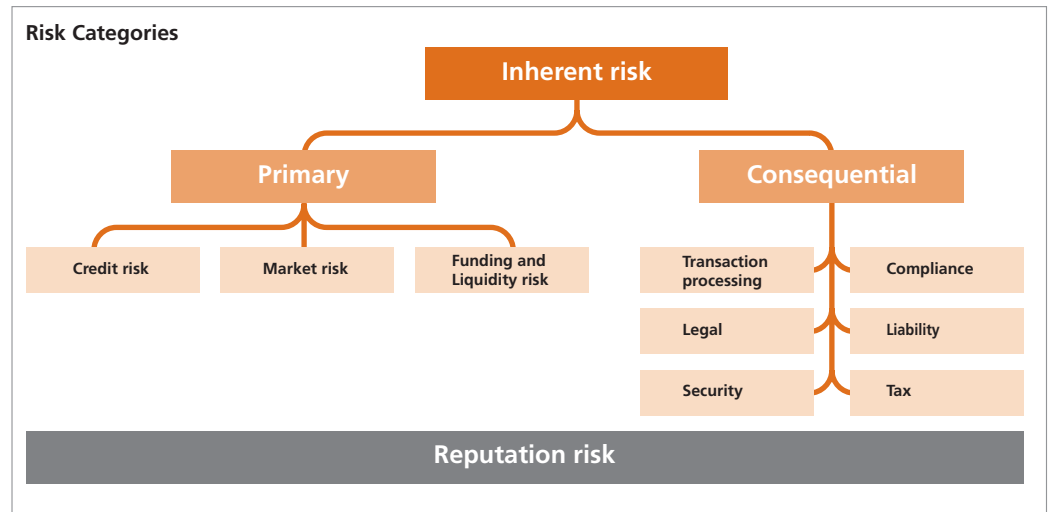
- *transaction processing risk* arises from errors, failures or shortcomings at any point in the transaction process, from deal execution and capture to final settlement;
- *compliance risk* is the risk of financial loss due to regulatory fines or penalties, restriction or suspension of business, or costs of mandatory corrective action. Such risks may be incurred by not adhering to applicable laws, rules, and regulations, local or international best practice (including ethical standards), and UBS's own internal standards;
- *legal risk* is the risk of financial loss resulting from the unenforceability of a contract due to inadequate or inappropriate contractual arrangements or other causes;
- *liability risk* is the risk of financial loss arising from a legal or equitable claim against the Group;
- *security risk* is the risk of loss of confidentiality, integrity, or availability of information or assets, through accident or crime, and includes both IT and physical security; and
- *tax risk* is the risk of financial loss due to tax authorities opposing the Group's position on tax matters.

A failure to adequately identify, manage or control any of these risks, including business risks, may result not only in financial loss but also in loss of reputation. Reputation risk is not directly quantifiable and cannot be managed and controlled independently of the other risks. Each of the inherent risks, if inadequately managed, has the potential to damage UBS's reputation, and repeated or widespread failure compounds the impact.

Credit and market risk are well established risk categories for which management and control processes, although constantly evolving, are widely established and understood in the industry. These risks are the basis of the Basel Capital Accord, which determines regulatory capital requirements for internationally active banks and which is currently under review. The shortcomings of the current treatment of credit risk are recognized by both regulators and practitioners, and it is critical that the present round of revision to the Basel Capital Accord establishes a more flexible framework which can adapt to changing markets and reduce the scope for regulatory capital arbitrage.

The Basel Capital Accord reform has also focused attention on consequential (or operational) risks. As the discussions have highlighted, risk categories are not insulated from each other (for example, an unenforceable contract or a transaction processing error can lead to unforeseen credit or market risk), nor is UBS's current cate-

gorization definitive. UBS will therefore continue to review the way risks are categorized. Stability of definition and approach is, however, critical to the establishment of a sound risk management and control process and to the creation of a loss database from which risks can be better understood and quantified.



Risk Analysis

Credit risk

Credit risk represents the loss which UBS would suffer if a counterparty or issuer failed to meet its contractual obligations. It is inherent in traditional banking products – loans, commitments to lend and other contingent liabilities, such as letters of credit – and in foreign exchange and derivatives contracts, such as swaps and options (“traded products”). Positions in tradable assets such as bonds and equities, including both direct holdings and synthetic positions through derivatives, also carry credit risk, but where they are held for trading and are marked to market they fall under the market risk limits and controls described in the Market Risk section below. They are, however, included in the credit risk exposures reported in the Composition of Credit Risk section below.

Credit risk management and control at UBS is governed by a Group Credit Policy Framework, and by detailed credit policies and procedures developed within the Business Groups.

To ensure a consistent and unified approach, with appropriate checks and balances, all Business Groups where material credit risk is taken have independent credit risk control (CRC) functions headed by chief credit officers (CCOs) reporting to the Group CCO and Business Group CEOs. Disciplined processes are in place, within the Business Groups and centrally, to promptly identify, accurately assess, properly approve and consistently monitor credit risk. Senior business management, the GEB and the Chairman’s Office are provided with regular, standardized reports of aggregate Business Group credit risk exposure by the CRC organization.

The approval and monitoring of new counterparties, and of new transactions giving rise to credit risk plays a central part in the risk control process. Credit approval authority is exercised within the independent CRC functions by authorized credit officers. The notional amount of their authority is dependent on the quality of the counterparty, the size and tenor of the exposure and any security, and on the experience and seniority of the credit officer.

The CRC function continuously monitors the credit quality of counterparties and UBS’s exposure to them, and the credit risk profile of the Business Group portfolios. CRC has sole authority over counterparty rating, credit risk assess-

ment and approval, and the establishment of allowances and provisions.

Risk measurement

UBS determines the amounts of credit loss expenses in its financial accounts and in the business unit reporting on a different basis. In the Group financial accounts, UBS reports its results according to International Accounting Standards (IAS) definitions. Under these rules, losses are recognized and charged to the financial accounts in the period when they arise (see the Provisioning Policies section on page 61). In contrast, in its segment and business unit reporting, UBS applies a different approach to the measurement of credit risk, which reflects the average annual cost that UBS anticipates will arise from transactions that become impaired. The following discussion describes this approach.

UBS’s approach to the measurement of credit risk is based on the premise that this risk exists in every credit engagement and that credit loss expenses must be expected as an inherent cost of the business.

The occurrence of actual credit losses is erratic in both timing and amount and those that arise usually relate to transactions entered into in previous accounting periods. In order to manage credit risk effectively by earning, over time, sufficient income to compensate for intermittent losses caused by impairment, UBS uses the concept of “*expected loss*” to encourage appropriate pricing of transactions and income recognition.

Expected loss, for UBS, is a statistical measure intended to reflect the average annual costs that it anticipates will arise from transactions that become impaired. The observed frequency of such events is expressed as counterparty default probability. The size of credit losses is determined from the exposure at default and the likely severity of the final loss, taking into account the seniority of the claim, collateral and other credit mitigation where available. Within UBS Switzerland, a model is used to project expected loss based on historical performance and an assessment of the economic outlook over the medium term. By contrast, the expected loss of the UBS Warburg portfolio is estimated primarily on the basis of market information including rating agencies, other default predicting models, and credit spreads. Once the expected loss has been estimated at business unit level, statistical methods are used to

UBS Rating Scale and Mapping to External Ratings

UBS Rating	Description	Moody's Investor Services equivalent	Standard and Poor's equivalent
1		Aaa	AAA
2	Investment grade	Aa1 to Aa3	AA+ to AA-
3		A1 to A3	A1 to A3
4		Baa1 to Baa2	BBB+ to BBB
5		Baa3	BBB-
6		Ba1	BB+
7		Ba2	BB
8	Sub-investment grade	Ba3	BB-
9		B1	B+
10		B2	B
11		B3	B-
12		Caa to C	Ccc to C
13	Impaired and defaulted	D	D
14		D	D

allocate the total to individual transactions in proportion to their stand-alone loss risk.

The default probabilities of individual counterparties are assessed by means of rating tools that are tailored to the various categories of counterparty. For the major part of the business within UBS Switzerland, UBS uses a statistical approach or “score card” to form groups of clients with similar propensity to default. UBS Warburg, with its less homogeneous client base, uses an approach under which credit officers review counterparties and assess their credit standing, based on guidelines and an analytical format or “template” to ensure consistency across the Group. In all cases, the analysis is founded on an assessment of both financial ratios and qualitative factors. The result of this counterparty specific analysis is expressed in a rating. UBS allocates a defined probability of default to each rating category, which allows the transaction specific expected loss to be calculated.

Clients are segmented into 14 rating classes, two being reserved for assets that are already impaired or defaulted. The UBS rating scale, which is based on probability of default, is shown in the table above. For information, comparable ratings by the major rating agencies are also shown, although there is not a direct match between UBS's categories and those of the rating agencies. The mapping is based on comparison of the probability of default attached to each UBS rating and the

default observations published by the agencies. These represent long-term averages and it should be noted that the mappings might not be borne out by experience in any given period.

The reports in the following section, Composition of Credit Risk, that show the rating distribution of UBS's counterparties refer to the probability of default only. Whether or not UBS benefits from collateral has no influence on these ratings.

Once an expected probability of default has been assigned to a counterparty, the resulting expected loss at the transaction and counterparty level is determined from the credit exposure and an estimate of loss severity based on a set of assumptions.

The concept of expected loss is employed within UBS for various business applications: individual credit policies refer to counterparty rating classes to determine, for example, the maximum tenor allowed for OTC derivative transactions; the rating concept is used to define credit authorities granted to individual credit officers across the Group and for some business processes within Private and Corporate Clients; and expected loss is used as an approximation for valuing the OTC derivative books and, thereby, accounting for the credit risk assumed on counterparties in these trades. UBS's internal measurement framework is consistent with the concepts emerging in the current review of the Basel Capital Accord which sets the rules under which banks determine minimum regulatory capital requirements.

UBS is developing internal models for the comprehensive measurement of *statistical loss* and *stress loss* for credit risk at the portfolio level. In the meantime, limits and controls are being applied to certain segments of the portfolio, where credit quality is low or counterparty concentrations are high.

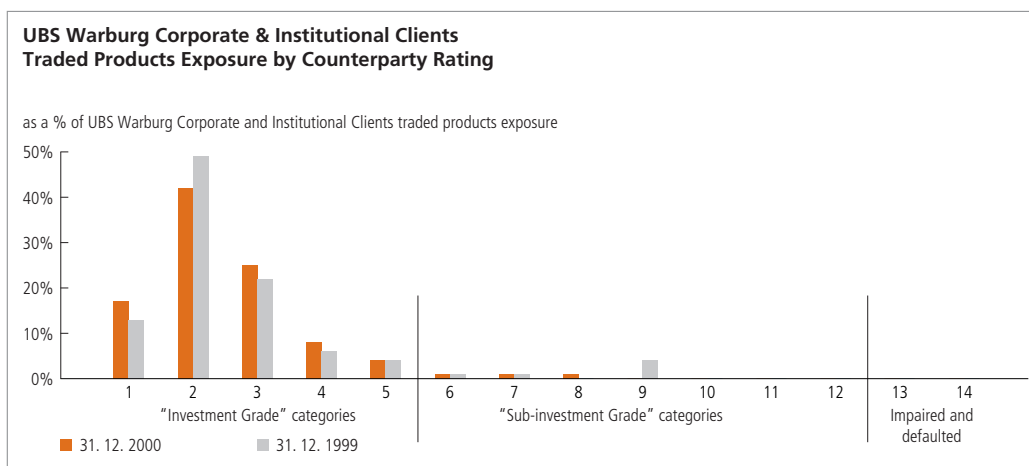
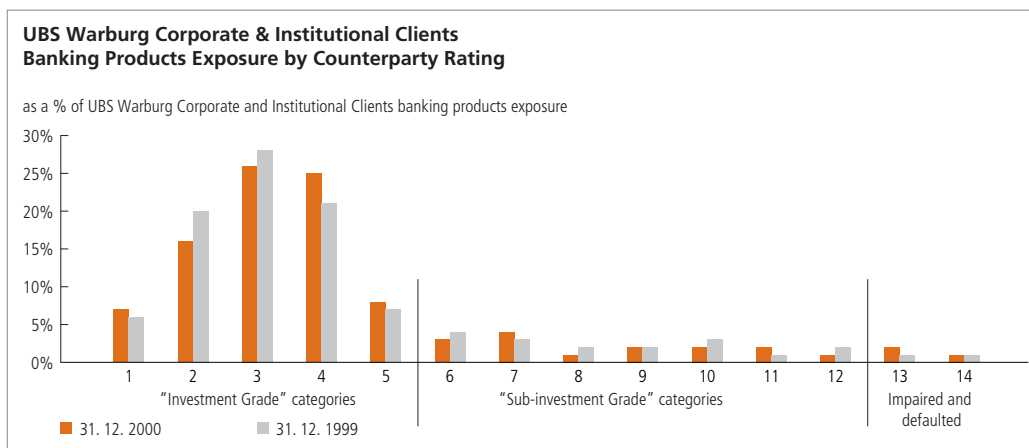
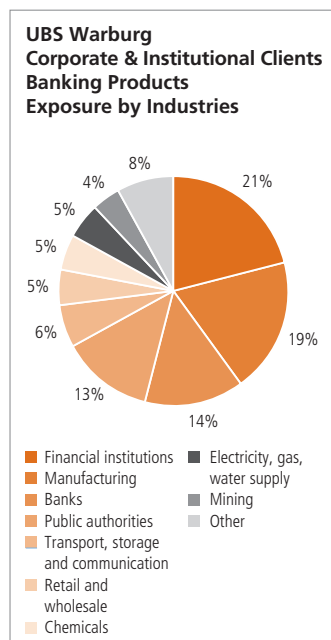
Composition of credit risk

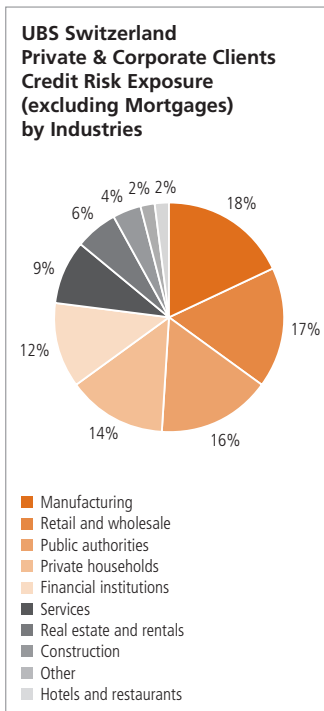
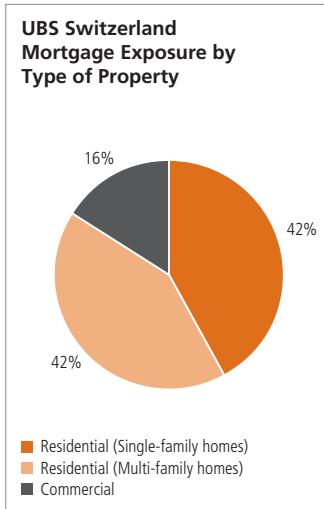
Credit risk is assumed, as an integral part of their businesses, by UBS Switzerland's Private and Corporate Clients business unit and by UBS Warburg's Corporate and Institutional Clients business unit and, to a lesser extent, by the private banking businesses of these Business Groups. The following table provides an overview of the aggregate credit risk exposure of the UBS Group.

Status of Total Credit Risk Exposure

CHF million For the year ending	UBS Switzerland		UBS Warburg		Other ¹		UBS Group		
	31.12.00	31.12.99	31.12.00	31.12.99	31.12.00	31.12.99	31.12.00	31.12.99	31.12.98
Loans utilization (gross)	183,943	199,960	99,787	77,151	786	903	284,516	278,014	330,964
Contingent claims	10,613	9,465	11,440	15,136	0	0	22,053	24,601	32,259
Unutilized committed lines	3,574	3,444	47,402	60,412	0	0	50,976	63,856	82,311
Total banking products	198,130	212,869	158,629	152,699	786	903	357,545	366,471	445,534
Unsecured OTC products	883	2,415	61,340	107,898	0	11	62,223	110,324	121,433
Other derivatives (secured exchange-traded)	2,288	2,338	8,994	8,133	0	0	11,282	10,471	
Securities lending	2,193	32	12,159	11,732	0	0	14,352	11,764	12,195
Repo	0	11	22,183	12,287	0	2	22,183	12,300	
Total traded products²	5,364	4,796	104,676	140,050	0	13	110,040	144,859	133,628
Total tradable assets³	2,626	2,785	219,070	219,019	136	471	221,832	222,275	86,288
Total credit risk exposure, gross	206,120	220,450	482,375	511,768	922	1,387	689,417	733,605	665,450
Total credit risk exposure, net of allowances	198,839	210,003	479,134	508,972	917	1,381	678,890	720,356	650,902

¹ Includes Corporate Center and UBS Asset Management. ² Traded products valuation: valued based on internal valuation methodology. ³ Tradable assets valuation: net long, maximum default exposure.





UBS Warburg's total gross credit exposure of CHF 482 billion includes exposure not only in the Corporate and Institutional Clients business unit, but also CHF 25.5 billion in the International Private Clients and US Private Clients business units. In the following analysis, only the Corporate and Institutional Clients business is considered since almost all other lending within UBS Warburg is secured.

A substantial majority of UBS Warburg Corporate and Institutional Clients' counterparties fall into the investment grade category (internal counterparty rating grades 1 to 5) for both banking products (82%) and the traded products portfolio (96%). These counterparties are primarily sovereigns, insurance companies, financial institutions, multinational corporate clients and investment funds. Exposure to lower rated counterparties is generally collateralized or otherwise structurally supported.

In order to allow pro-active management of counterparty credit risk, UBS Warburg launched Alpine Partners, L.P., the first ever synthetic securitization of counterparty credit exposure in a portfolio of OTC derivatives covered by ISDA master agreements. The issue, which met stringent rating agency and regulatory requirements, transferred USD 750 million of credit exposure on positive replacement values to the market, to the extent they exceed the subordinated layer retained by UBS.

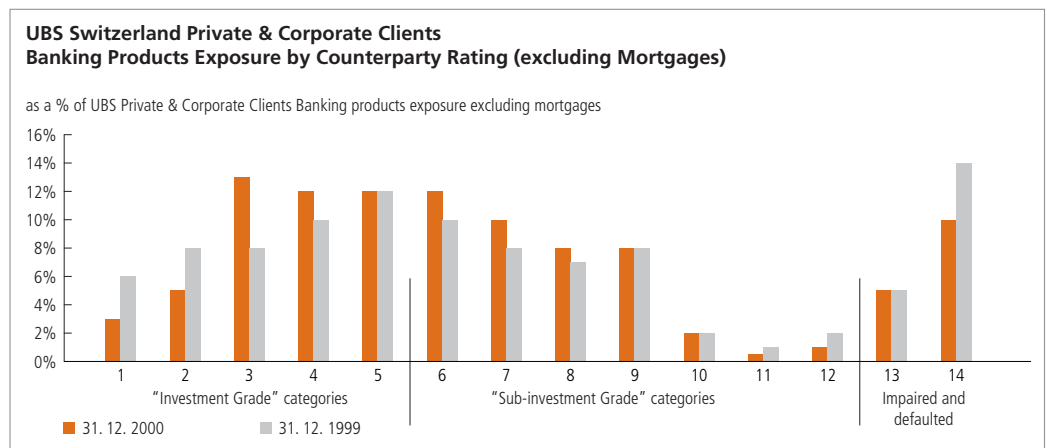
UBS Warburg Corporate and Institutional Clients' banking products portfolio is widely diversified across industry sectors. At 31 December 2000, the largest exposure (35%) was to the Finance sector. The 6% exposure to the Trans-

port, storage and communication sector includes CHF 8 billion exposure to the telecommunication industry.

Of UBS Switzerland's loans to customers of CHF 175 billion, 69% or CHF 121 billion are secured by mortgages. The graph to the left shows that UBS's exposure to the real estate sector is well diversified with 42% of its loans being secured on owner-occupied houses (single-family homes). The exposure on residential multi-family homes of 42% consists of owner occupied apartments and rented apartment buildings. In particular, the owner-occupied dwellings exhibit a low risk profile both in terms of individual assets and at portfolio level. Loans and other credit engagements with individual clients, excluding mortgages, are predominately extended against the pledge of marketable securities where UBS applies conservative standards to determine the advance value of the collateral.

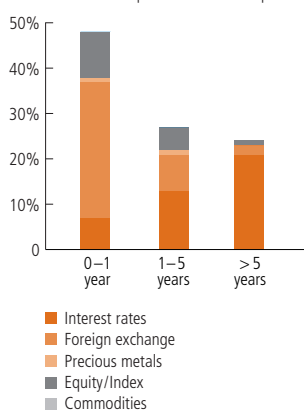
The remainder of the Private and Corporate Clients' portfolio, excluding mortgages, consists of exposures to corporate and individual clients. These clients are fairly widely spread across rating categories and industry sectors, which reflects UBS's position as a major lender to this segment of predominantly small to medium sized enterprises in Switzerland. The continued improvement in the Swiss economy and property markets has aided the overall improvement in the quality of this portfolio.

At the end of the second quarter 2000, Helvetic Asset Trust AG, an independent special purpose vehicle, was used by UBS Switzerland to securitize credit risk attached to a CHF 2.5 billion reference portfolio consisting primarily of Swiss



UBS Group OTC Derivative Exposure by Product Type and Maturity¹

as a % of UBS Group total derivative exposure



¹ Net replacement value.

UBS Warburg Corporate and Institutional Clients Banking Products

CHF billion	31.12.00	31.12.99	31.12.98
Loans (gross)	74.3	72.7	134.7
Commitments	47.4	60.4	73.8
Contingent liabilities	11.4	15.0	24.7
Total banking products	133.1	148.1	233.2

corporate loans, whereby part of the credit risk, but not the loans themselves, was transferred to the capital markets.

Loan portfolio

The UBS Group loan portfolio increased by CHF 6.5 billion to a total of CHF 284.5 billion at year end 2000. UBS Switzerland's portfolio continued to shrink, partly due to the sale of Solothurner Bank, a Swiss retail subsidiary, and partly due to continuing work-out of impaired loans. UBS Warburg's portfolio, by contrast, increased, predominantly as a result of the integration of UBS PaineWebber's primarily secured loan portfolio of some CHF 20 billion. UBS Warburg's Corporate and Institutional Clients business unit continued the strategy, begun immediately after the 1998 merger between Union Bank of Switzerland and Swiss Bank Corporation, of reducing international banking products exposure (loans, unfunded commitments and contingent liabilities), with the aim of improving the risk/reward profile of the international lending business. It included a shift in

focus away from emerging markets and into high quality credit in the major OECD countries. The table above highlights this reduction.

Over-the-counter (OTC) 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 involving the use of derivative products is a core service offered by UBS. Derivative products, by their nature, are sensitive to changes in market prices and UBS pays close attention to the management and control of these risks.

Counterparty exposure on most OTC derivatives is measured by modeling the potential evolution of the value of the portfolio of trades with each counterparty over its life (potential credit exposure), taking into account legally enforceable close out netting agreements where applicable. Credit limits for individual counterparties are applied to the "maximum likely exposure", derived from this analysis, a 95% confidence statistical measure of the exposure in each counterparty.

Total Loan Portfolio Exposure by Business Group

CHF million For the year ended	UBS Switzerland		UBS Warburg		Other ¹		UBS Group		
	31.12.00	31.12.99	31.12.00	31.12.99	31.12.00	31.12.99	31.12.00	31.12.99	31.12.98
Loans to banks (gross)	8,482	8,780	21,038	21,481	544	524	30,064	30,785	69,543
Loans to customers (gross)	175,461	191,180	78,749	55,670	242	379	254,452	247,229	261,421
Loans (gross)	183,943	199,960	99,787	77,151	786	903	284,516	278,014	330,964
Counterparty allowance	7,281	10,447	1,962	1,550	5	6	9,248	12,003	13,093
Country allowance	0	0	1,280	1,246	0	0	1,280	1,246	1,450
Allowances for loan losses²	7,281	10,447	3,242	2,796	5	6	10,528	13,249	14,543
Loans, net of allowances	176,662	189,513	96,545	74,355	781	897	273,988	264,765	316,421
Counterparty provision for contingent claims	22	0	19	19	0	0	41	19	435
Country provision for contingent claims	0	0	12	130	0	0	12	130	0
Total provisions³	22	0	31	149	0	0	53	149	435
Summary									
Allowances and provisions for counterparty risk	7,303	10,447	1,981	1,569	5	6	9,289	12,022	13,528
Allowances and provisions for country risk	0	0	1,292	1,376	0	0	1,292	1,376	1,450
Total allowances and provisions	7,303	10,447	3,273	2,945	5	6	10,581	13,398	14,978

¹ Includes Corporate Center and UBS Asset Management. ² Deducted from assets. ³ Booked as liabilities.

ty portfolio. These measures will continue to be enhanced and their coverage is to be extended to include all market sensitive products and associated collateral.

UBS's credit standards for entering into unsecured derivative contracts are high. Particular emphasis is placed on the maturity profile, and transactions with counterparties of lower quality are generally conducted only on a secured basis. In line with general market trends, UBS Warburg is increasingly entering into bilateral collateral agreements with other major banks to mitigate the potential concentrations of exposure arising from industry consolidation and the ongoing increase in volumes of OTC derivatives traded.

Settlement risk

UBS is exposed to settlement risk as a consequence of its international transactional businesses. Settlement risk arises in transactions involving the exchange of values between counterparties when they must honor their obligation to deliver cash or securities without first being able to determine that they have received the counter-value. This risk is particularly significant in relation to foreign exchange and precious metals transactions. UBS limits and monitors the risk on a continuous basis against settlement tolerances set for each of its counterparties based on their credit standing as determined by UBS. Settlement risk reduction is a high priority for CRC, Operations and business units. They work together to achieve shorter settlement cycles from payment release to reconciliation, and to reduce the amount of exposure by establishing risk reduction arrangements with counterparties, such as payment netting and covered settlements.

UBS participates in payment and securities clearing houses, and continues to play a major role in the Continuous Linked Settlement (CLS) project, an industry initiative to establish a global clearing house, CLS Bank, to settle foreign exchange transactions on a delivery versus payment basis. CLS is currently scheduled to go live at the end of 2001 and will substantially reduce both settlement and systemic risks faced by UBS and other major foreign exchange trading banks.

Country risk

UBS's definition of country risk covers all cross-border exposures from banking products and

traded products, including its own intra-Group cross-border positions, and exposure to issuers of tradable assets such as bonds and equities.

The CRC function at the Corporate Center assigns ratings to all major countries based on internal analysis of size and economic fundamentals and on external information. Smaller economies to which UBS has little exposure are rated based on external information only. Like the counterparty ratings, the sovereign ratings express the probability of the occurrence of a country risk event that leads to an impairment of UBS's exposures. The default probabilities and the mapping to the ratings of the major rating agencies are the same as for counterparty credit risks (see table on page 56). Country ratings are classified as industrialized (2 and better), emerging markets (3 to 11) and distressed (12 to 14).

At 31 December 2000, CHF 1,058 billion or 98.5% of UBS's country risk exposure was to industrialized countries, where the risk of default is judged to be negligible and, of this, CHF 593 billion, or 56% were intra-Group cross-border money market positions.

The remaining 1.5%, or CHF 16.3 billion, of UBS's country risk exposure is to emerging markets and distressed countries. This exposure has continued to decrease during 2000 in line with the strategy of limiting exposure to these sectors. Total exposure to emerging markets and distressed countries fell by CHF 8.3 billion between 31 December 1999 and 31 December 2000, a reduction of 34%. In view of the higher risk associated with emerging markets, UBS closely and continuously monitors this exposure, within the country ceilings approved by the Chairman's Office. The country risk ceiling is a primary limit for all transactions with counterparties in these countries, and extension of credit may be denied on the basis of a country risk ceiling even if there are adequate counterparty limits available. The table on the following page analyzes the emerging markets and distressed countries exposures by major geographical areas at 31 December 2000 compared to 31 December 1999.

Counterparty default resulting from multiple insolvencies (systemic risk) or general prevention of payments by authorities (transfer risk) is the most significant long-term effect of a country crisis. In its internal measurement and control of country risk, however, UBS seeks to also consider the probable financial impact of market disrup-

Emerging Markets Exposures by Major Geographical Areas

Region	Total			Banking products		Traded products ¹		Tradable assets ²	
	CHF million	31.12.99	31.12.98	31.12.00	31.12.99	31.12.00	31.12.99	31.12.00	31.12.99
Emerging Europe	1,612	1,586	1,755	809	919	395	248	408	419
Emerging Asia	7,642	10,055	14,406	4,053	5,003	1,355	3,873	2,234	1,179
Latin America	4,268	9,647	11,528	2,352	8,169	1,025	665	891	813
Africa/Middle East	2,736	3,314	4,740	1,564	2,539	669	659	503	116
Total	16,258	24,602	32,429	8,778	16,630	3,444	5,445	4,036	2,527

¹ Traded products consist of derivative instruments and repurchase agreements. ² Tradable assets consist of equity and fixed income financial instruments held for trading purposes, which are marked to market on a daily basis.

tion arising during and following a country crisis: severe falls in the country's markets and assets, longer-term devaluation of the currency and potential immobilization of currency balances.

As an enhancement to this wider measurement concept, UBS has started measuring country risk internally not only in nominal terms, but also on a stress loss basis covering market and credit risk, both at the country level, where individual country ceilings are applied, and across the portfolio, based on economic scenarios determined by country economists. Stress loss-based measures were first introduced at the country level in 2000 and will continue to be developed in the light of experience and changing market conditions.

Provisioning policies

UBS classifies a claim as impaired if the book value of the claim exceeds the present value of the cash flows actually expected in future periods - interest payments, scheduled principal repayments, or other payments due (for example on derivatives transactions), and including liquidation of collateral where available. Within this category, loans are also classified as non-performing where payment of interest, principal or fees is overdue by more than 90 days.

UBS has established policies to determine the carrying values of impaired claims are determined on a consistent and fair basis, especially for impaired loans for which no market estimate or benchmark for the likely recovery value is available. Each case is assessed on its merits, and the work-out strategy and estimation of cash flows considered recoverable are independently approved by the CRC function. The recovery value of mortgage loans is determined by capitalizing an economically sustainable rental yield, adjusted for the discount generally observed in forced liquidations and related costs, if the strategy is based on a foreclosure. For commercial

exposures, enterprise value is determined from an assessment of expected cash flows from future operations, if recovery is likely to be successful, or of the liquidation value of the assets, if bankruptcy proceedings are to be initiated against the borrower. All future cash flows considered recoverable are discounted to present value on the basis of the principles of International Accounting Standard 39. A provision is then made for the probable loss on the loan in question and charged to the income statement as credit loss expense.

Allowances and provisions for credit losses also include a component for country risk. UBS's approach to country risk provisioning follows the guidelines of the Swiss Bankers' Association, which allow 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 systemic risks. The appropriate provisions are then determined by evaluating the type of credit exposure and the loss severities that have been attributed to each exposure type. Furthermore UBS has specific allowances against exposures in countries that are subject to a moratorium or have been rescheduled. The amount of such allowances is determined case-by-case from an assessment of the amounts that UBS deems to be irrecoverable.

In general, Swiss practice is to write off loans entirely only on final settlement of bankruptcy proceedings, sale of the underlying assets, or formal debt forgiveness. By contrast, US practice is generally to write off non-performing loans much sooner, reducing the amount of such loans and corresponding provisions recorded at any given date. A consequence of this practice is that, for UBS, recoveries of amounts written off in prior accounting periods tend to be small.

Summary of Banking Products Exposure and Credit Risk Results

CHF million For the year ended	UBS Switzerland		UBS Warburg		Other ¹		UBS Group		
	31.12.00	31.12.99	31.12.00	31.12.99	31.12.00	31.12.99	31.12.00	31.12.99	31.12.98
Loans (gross)	183,943	199,960	99,787	77,151	786	903	284,516	278,014	330,964
Contingent claims	10,613	9,465	11,440	15,136	0	0	22,053	24,601	32,259
Unutilized committed lines	3,574	3,444	47,402	60,412	0	0	50,976	63,856	82,311
Total banking products exposure	198,130	212,869	158,629	152,699	786	903	357,545	366,471	445,534
Annual expected loss	784	1,071	247	333	0	0	1,031	1,404	1,696
Total credit loss (recovery) / expense	(695)	965	565	0	0	(9)	(130)	956	951
Corporate Center balancing items							(1,161)	(448)	(745)

¹ Includes Corporate Center and UBS Asset Management.

Credit loss expense

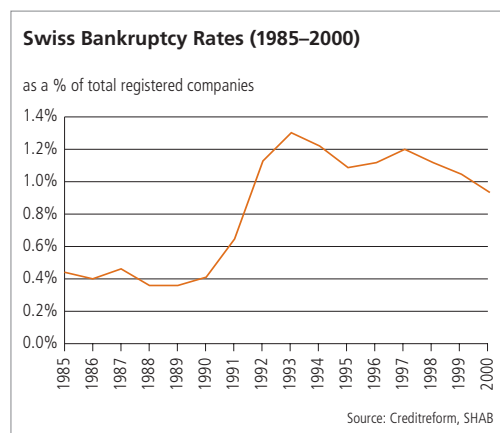
UBS reports its results according to IAS, under which credit loss expense charged to the financial accounts in any period are the sum of net allowances minus recoveries arising in that period, i.e. the credit losses actually incurred. In 2000, provisions on new impaired loans were more than offset by the effect of re-evaluating provisions on existing impaired loans resulting in a net credit to the income statement of CHF 130 million. This compares to a net credit loss expense charge in 1999 of CHF 956 million.

This positive result was due to the strong economy in Switzerland combined with successful recovery efforts. Previous provisions had been established against a background of several years of relatively low growth in the Swiss economy and relatively high credit losses. During the year 2000, the Swiss economy expanded at the fastest rate in a decade. The growth was broadly based, especially in the domestic sector, and was markedly higher than could have been foreseen in 1999. This turnaround has positively affected real estate values and the real estate construction market, which has led to reductions in existing provisions against loans in these portfolios and a decreased level of new defaults and impairments. In view of its significant exposure to the Swiss market, UBS's overall credit quality is highly dependent on economic developments in Switzerland. As the graph shows, the better performance of the Swiss economy has translated into a sustained reduction in the bankruptcy rate since 1999.

By contrast, mounting signs of a trend of increasing defaults in the international credit markets and particularly the US, required additional loan loss provisions to be taken on UBS Warburg's loan portfolio. Over the last few years UBS

has pursued a strategy of active reduction of international and emerging markets credit exposures and has increasingly used credit derivatives to hedge credit exposures. Despite the increase in provisions, this strategy, coupled with a reluctance to engage in balance sheet led earnings growth, has positioned UBS relatively well for the less positive outlook in the international credit markets.

The development of the total credit loss expense in 1998 and 1999 included the effect of allocations from the special reserve pools that had been established in 1996, by both Union Bank of Switzerland and Swiss Bank Corporation totaling some CHF 5.5 billion. These reserves were established in recognition of the fact that there might be a further deterioration in the quality of their loan portfolios as a result of adverse economic conditions, particularly in Switzerland. These reserves totaled CHF 3.6 billion at the beginning of 1998. CHF 3.3 billion was applied against specific loan exposures during 1998 and the remaining balance of CHF 300 million was applied or reversed in 1999. Following these allocations,



Allowances and Provisions for Credit Risk

CHF million As of	UBS Switzerland		UBS Asset Management		UBS Warburg		Corporate Center		UBS Group	
	31.12.00	31.12.99	31.12.00	31.12.99	31.12.00	31.12.99	31.12.00	31.12.99	31.12.00	31.12.99
Loans (gross)	183,943	199,960	561	213	99,787	77,151	225	690	284,516	278,014
Impaired loans ¹	13,671	19,166	–	–	4,797	3,226	26	64	18,494	22,456
Allowances for impaired loans	7,281	10,447	–	–	2,399	2,018	5	6	9,685	12,471
of which:										
Non-performing loans	7,872	11,416	–	–	2,554	1,594	26	63	10,452	13,073
Allowances for non-performing loans	4,702	7,315	–	–	2,143	1,341	5	5	6,850	8,661
Total allowances for impaired and non-performing loans	7,281	10,447	–	–	2,399	2,018	5	6	9,685	12,471
Other allowances and provisions for credit and country risk	22	–	–	–	874	927	–	–	896	927
Total allowances and provisions	7,303	10,447	–	–	3,273	2,945	5	6	10,581	13,398
of which country allowances and provisions	–	–	–	–	1,292	1,376	–	–	1,292	1,376
Ratios										
Impaired loans as a % of gross loans ¹	7.4	9.6	–	–	4.8	4.2	11.6	9.3	6.5	8.1
Non-performing loans as a % of gross loans	4.3	5.7	–	–	2.6	2.1	11.6	9.1	3.7	4.7
Allowances and provisions for credit loss as a % of gross loans	4.0	5.2	–	–	3.3	3.8	2.2	0.9	3.7	4.8
Allocated allowances as a % of impaired loans ¹	53.3	54.5	–	–	50.0	62.6	19.2	9.4	52.4	55.5
Allocated allowances as a % of non-performing loans	59.7	64.1	–	–	83.9	84.1	19.2	7.9	65.5	66.3

¹ Includes non-performing loans.

the credit loss expense incurred in 1998 amounted to CHF 951 million and in 1999 to CHF 956 million.

Impaired loans, allowances and provisions

As shown in the table above, the allowances and provisions for credit losses decreased by CHF 2,817 million, or 21%, from CHF 13,398 million at 31 December 1999 to CHF 10,581 million at 31 December 2000 (see also note 12b to the Financial Statements.) UBS believes that the probable losses in its portfolio are adequately covered by its allowances and provisions.

The component of provisions and allowances for emerging market-related exposures stood at CHF 1,292 million at 31 December 2000, compared with CHF 1,376 million at 31 December 1999 and CHF 1,450 million at 31 December 1998. The reduction is a consequence of the overall size of UBS's emerging market exposures and the improved outlook for the major emerging market economies since the crisis of 1998. The country risk scenarios used to assess portfolio provisions have changed over the three years with the focus shifting to some extent from Asia to Latin America.

Impaired loans have decreased to CHF 18,494 million at 31 December 2000 from CHF 22,456 million at 31 December 1999. Over the same period, the sub-set of non-performing loans has also decreased, to CHF 10,452 million from CHF 13,073 million and the non-performing loans ratio improved to 3.7% from 4.7%. This positive result was due in part to the unexpectedly strong performance of the economy in Switzerland, described above, which produced fewer new impaired and non-performing loans than in previous years, and in part to continuing efforts to conclude proceedings and reach settlement on existing non-performing loans. UBS Switzerland's portfolio therefore saw decreases in the impaired and non-performing loans of CHF 5,495 million and CHF 3,544 million, respectively.

UBS Warburg's portfolio, on the other hand, saw an increase in impaired loans of CHF 1,571 million and in non-performing loans of CHF 960 million, in line with the trends in the international credit markets and especially the US. Although UBS's non-performing loans ratio is somewhat higher than that of comparable US banks, the comparison reflects different charge-off practices rather than underlying asset quality.

Market risk

Market risk is the risk of loss arising from movements in observable market variables such as interest rates, exchange rates and equity markets. In addition to these and other general market risk factors, the risk of price movements specific to an individual issuer of securities or an individual issue are included in the measurement of market risk.

UBS's market risk is incurred principally through the trading activities of UBS Warburg. It arises primarily from market making and client facilitation activity in equities, fixed income and interest rate products and in foreign exchange and precious metals. Activity is mainly in OECD markets, with some business in emerging markets. Proprietary positions based on market views are also taken.

Group Treasury assumes market risk in the management of the Group's balance sheet where long-term interest rate risk is transferred from other Business Groups, and through the Group's structural foreign exchange positions. Group Treasury's activities are described in the Asset and Liability Management section on pages 67 to 75.

Further market risks arise, but to a much lesser extent, in other businesses, again, primarily from the facilitation of customer business, but also in the form of interest rate risk in the banking books of the private label banks of UBS Switzerland.

Market risk measures are applied to all the trading books of UBS Warburg, to all foreign exchange and precious metals exposures, to interest rate risk in the banking book taken by the private label banks and Group Treasury, and to any other material market risk arising.

Risk measurement

The expected, statistical and stress loss framework is applied to market risk as follows:

- Expected loss is reflected in the valuation adjustments made to the portfolio. These cover price uncertainties resulting from a lack of market liquidity or the absence of a reliable market price for an instrument or position, and model risk in more complex models.
- Statistical loss is measured using a Value-at-Risk (VaR) methodology. VaR expresses the potential loss on the current portfolio assuming a specified time horizon before positions can be adjusted (holding period), and meas-

ured to a specified level of confidence. UBS measures VaR on both a one-day and a ten-day holding period, in both cases to a 99% confidence level. Estimates are based on historical simulation, assessing the impact of historical market movements on today's portfolio, based on five years of historical data. One-day VaR exposure expresses the maximum daily mark to market loss that UBS is likely to incur on the current portfolio under normal market conditions with a larger loss being statistically likely only once in a hundred times.

- Stress loss is measured based on extreme but plausible market scenarios, approved by the Board of Directors, using stress moves in market variables which are regularly reviewed and approved by the Group CRO. Scenarios may be derived from severe historical events or based on prospective crisis scenarios developed from the current economic situation and perceived market trends.

The Board of Directors has set limits on market risk at the Group level in terms of both ten-day VaR (risk appetite) and stress loss (risk capacity). The Group VaR limit is allocated by the GEB among the Business Groups, the largest limit being in UBS Warburg, and within the Business Groups to lower organizational levels as necessary. The internal ten-day VaR measure is also the basis of UBS's market risk regulatory capital requirement.

All VaR models, while forward-looking, are based on past events and are dependent upon the quality of available market data. In order to enhance the continuing accuracy and effectiveness of the VaR model, actual revenues arising from closing positions are compared with the risk calculated on those positions, in a process known as backtesting. If the revenue, whether positive or negative, exceeds the one-day VaR, a "backtesting exception" is considered to have occurred. When VaR is measured at a 99% confidence level, a backtesting exception is expected, on average, one day in a hundred. A higher rate of occurrence may indicate that the VaR model (the combination of the inputs and the calculations) is not fully capturing all risks. UBS conducts backtesting daily at a number of organizational levels down to individual trading portfolios and investigates all backtesting exceptions to establish the cause and take remedial action where necessary.

Summary of 10-day 99% Confidence Value at Risk

UBS Warburg

CHF million	12 months ending 29.12.00 ¹				12 months ending 31.12.99			
	Min.	Max.	Average	29.12.00	Min.	Max.	Average	31.12.99
Risk type								
Equities	144.7	245.9	199.4	146.5	121.8	207.6	162.5	172.8
Interest rates	113.8	202.3	149.8	132.8	87.7	187.6	140.2	140.1
Foreign exchange	7.6	97.5	32.5	31.6	9.5	144.7	57.5	76.1
Precious metals	2.1	27.4	9.7	5.3	5.3	35.8	21.0	27.8
Diversification effect	– ²	– ²	(148.3)	(129)	– ²	– ²	(168.2)	(193.2)
Total UBS Warburg	186.8	296.1	243.0	187.1	176.6	275.7	213.1	223.6

¹ Positions from PaineWebber are included from legal merger date 3 November 2000 onwards. ² 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 VaR¹

CHF million	Limit	Utilization	
		29.12.00	31.12.99
Business Groups			
UBS Warburg	450.0	187.1	223.6
UBS Switzerland	50.0	3.7	4.3
Corporate Center	350.0	45.3	59.8
Reserves	100.0		
Diversification effect	n/a	(46.5)	(55.5)
UBS Group	600.0	189.6	232.2

¹ Remark: VaR numbers include interest rate exposures in the banking books of the Private Label Banks and Group Treasury.

Backtesting is also a regulatory requirement, and negative backtesting exceptions (where revenue is negative and greater than the previous one-day VaR) must be reported to the regulators.

The VaR and market risk stress loss limits are the principal controls on UBS's exposure to day-to-day movements in market prices, but complementary controls are also applied to prevent undue concentrations, including limits on exposure to individual market risk variables and limits on positions in the securities of individual issuers. These controls are set at levels which reflect variations in market depth and liquidity.

Investment positions

Investment positions, such as private equity, require different risk measures from those applied to trading positions, because their intended holding period and the time scale over which they can be hedged or liquidated is longer than the holding periods assumed in the trading book measures. They are not, therefore, included in the market risk measures described above, but are controlled through limits to prevent undue concentration in individual investments or sectors, and

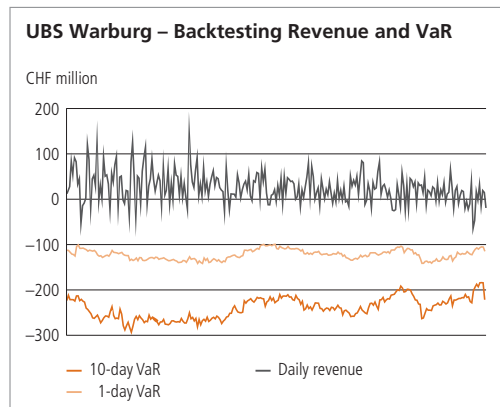
through close monitoring and management of exposures.

Market risk developments

The table above shows average, minimum, maximum and year end market risk exposure for UBS Warburg, as measured by 10-day 99% confidence VaR exposure.

Market risk in UBS Warburg, as measured by average VaR exposure, increased in 2000 compared with 1999, although the year end position was lower for 2000 than for 1999. The variations in VaR through the year can be seen in the graph on the following page.

As in 1999, the major VaR exposures arose in the equity and interest rate risk classes. Average VaR increased for both, but most noticeably in equities where there were particularly good trading opportunities. UBS Warburg has kept direct price exposure to the new economy stocks deliberately low and, as a consequence, has not suffered exceptional P&L swings from these highly volatile stocks, as can be seen from the revenue line in the graph on the following page. The overall reduction in UBS Warburg's VaR at year end was caused largely by reductions in equities positions.



The PaineWebber merger did not cause a significant change in UBS Warburg’s total VaR exposure.

Market risk positions in UBS Switzerland and Corporate Center have only a marginal impact on total VaR at Group level, the main contribution being from UBS Warburg.

UBS has had no regulatory backtesting exceptions in 2000.

Consequential risks

The consequential risk (or operational risk) categories are transaction processing risk, liability risk, legal risk, compliance risk, security risk and tax risk.

UBS is continuing to develop both qualitative and quantitative approaches to the management and control of consequential risks. A measurement framework has been formulated, but full implementation depends upon the existence of multiperiod exposure and loss data. Current efforts are therefore centered on building this history and on the qualitative aspects of risk management and control – identification and recording of risks and exposures, establishment of policies, standards and procedures, close monitoring and management of identified risks, and initia-

tion of corrective action where necessary in response to incidents.

By identifying and recording these risks and tracking their evolution, UBS will establish the basis from which the quantitative framework can be realized.

The consideration of consequential risks is an important element in the assessment of new businesses and of transactions with unusual structure.

Consequential risk developments

Under the Group and Business Group CROs, all consequential risks are now formally integrated into the independent risk control process.

With information security assuming ever increasing importance in today’s banking environment, UBS has separated information security risk control from IT development and production functions by creating independent information security risk control units, reporting to the Group CRO. The successful parrying of recent virus attacks against UBS has shown the expertise and strength of the information security risk control and management organization in protecting the confidentiality and integrity of our client data and assets.

UBS, as the largest Private Bank in the world, initiated and achieved international agreement with 11 major banks and Transparency International, the leading international organization dedicated to combating corruption, on global anti-money laundering guidelines for private banking – the “Wolfsberg Anti-Money Laundering Principles”. Their purpose is to try to prevent the use of banks’ worldwide operations for criminal purposes. Banks adopting these principles will endeavor to accept only those clients whose source of wealth and funds can be reasonably established to be legitimate. The principles deal with “know your customer” policies and the identification and follow-up of unusual or suspicious activities. UBS is committed to following these principles.

Asset and Liability Management

UBS's Asset and Liability Management processes are designed to manage all balance-sheet related risks on a co-ordinated Group-wide basis. Group Treasury is responsible for the management of these risks so that the financial resources of the Group are efficiently used.

The primary mission of our asset and liability management activities is to contribute to the maximization of UBS's shareholder value through the optimal management of the Group's financial resources. The individual goals of these processes are:

- Efficient management and control of the Group's non-trading interest rate and foreign exchange exposures.
- Sustainable and cost-efficient funding of the Group's balance sheet.
- Optimal liquidity management in order to generate cash when required.
- Efficient management of capital, while maintaining strategic flexibility, sound capitalization and strong ratings.
- Compliance with all applicable legal and regulatory requirements.

Group Treasury is governed by the Group's Risk Management and Control Principles, with its own specific processes and policies, tailored to the types of risk it manages: Group liquidity risk, Group funding risk and non-trading related foreign exchange and interest rate risk.

Principles

The Group's approach to interest rate risk management is based on a comprehensive framework in which only a limited number of business areas are allowed to actively manage interest rate risk. All non-trading interest rate risk is transferred, as it is incurred, to either Group Treasury or to UBS Warburg's Cash and Collateral Trading book (CCT), depending on the maturity and currency of the underlying transaction.

These two business areas manage these risks centrally, within pre-defined risk limits, exploiting the Group-wide netting potential. If appropriate, Group Treasury transfers some of its risk to CCT which, in turn, interacts with the external market.

These processes aim to immunize the originating business unit from all interest rate risk, providing them with an interest rate risk-free margin.

UBS's liquidity management ensures that the Group can at all times fulfil its payment obligations, without compromising its ability to take advantage of market opportunities as they arise. Liquidity management is based on an integrated system which encompasses all known cash flows within the Group, and takes account of the availability of high-grade collateral. The liquidity position is managed using scenario-based analysis taking stress factors into consideration.

Group Treasury and CCT operate an integrated collateral management process which both provides collateral for CCT's securities lending activities and constitutes a key element of the Group's liquidity management. CCT is able to generate substantial revenues for the Group and its clients through securities lending transactions.

Group Treasury co-ordinates all funding activities in order to ensure that the Group's businesses are funded at the lowest possible costs. It also seeks to maintain a well diversified portfolio of funding sources and to preserve a balanced liability structure.

UBS's currency management seeks to shield UBS's equity and expected future cash flows from adverse currency fluctuations against the Swiss franc.

Currency translation risk management ensures that UBS's equity is always invested in Swiss francs, while currency transaction risk management proactively hedges recognized future foreign currency exposures against the Swiss franc. The hedging process is centered on the use of a cost-efficient option strategy, designed to retain the upside potential of any favorable currency movements.

UBS's capital management aims to guarantee sound capitalization, strong credit ratings and compliance with regulatory requirements, while maximizing shareholder value. UBS's capital needs are constantly analyzed to ensure that the individual business areas are always supplied with sufficient capital to meet their anticipated requirements. Where excess capital is identified, UBS is committed to the innovative use of capital management techniques to return surplus funds to shareholders.

Interest rate risk management

Interest rate risk is inherent to many 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, because 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 the relevant pairs of floating rate indices, such as the savings rate and six months LIBOR. In addition, certain products have embedded options that affect their pricing and their effective maturity.

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 CCT or to the Group Treasury through a Group-wide transfer pricing mechanism. The risk is then managed centrally either by Group Treasury or by CCT in accordance with the relevant risk policies and limits. *(The private label banks of UBS Switzerland, while subject to the same transfer prices, are an exception to this rule, and manage their own interest rate risk separately.)*

Internal hedging process

In the case of client businesses which have no contractual maturity date or directly market-linked customer rate, such as savings accounts or current accounts, the interest rate risk is transferred from the business areas by pooled transactions to Group Treasury's Bank Book. Since these products effectively contain embedded options in respect of withdrawal/pre-payment and rate setting, they cannot be economically hedged by single back-to-back transactions. Group Treasury therefore manages the inherent interest rate risk in these products through the establishment of replicating portfolios of revolving fixed-rate transactions of predefined maturities which approximate the average cash flow behavior of these positions.

Until the end of 2000, the interest rate risk of long-term Swiss franc transactions with fixed maturities beyond 1 year was transferred by single back-to-back transactions from the originating

business area to CCT. In this way the originating business area was immunized from any residual interest rate risk and thus locked in an interest-rate-risk-free margin on these products. Since the start of 2001 these back-to-back transactions have been carried out with Group Treasury rather than with CCT. This allows UBS to benefit directly from the netting potential between these transactions and the replicating portfolios. Group Treasury then economically hedges all remaining risks (after netting) through internal transactions with CCT.

Short-term (fixed maturity below 1 year) and non-Swiss franc transactions continue to be transferred directly into the trading book of 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 Group's real estate, equity investments in associated companies and the investment of UBS'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 by Group Treasury by representing them as replicating portfolios, on the basis of decisions taken by the Group Executive Board as to the appropriate effective maturities.

All the replicating portfolios 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, making up each replicating portfolio, reduce the volume that must be economically hedged by the Bank Book at each monthly rollover. Even so, the new aggregate tranches are of such a size that they cannot be offset instantly. The Bank Book therefore assumes intra-month interest rate exposure while it executes the necessary offsetting hedges with CCT. The exposure in the Bank Book therefore tends to fluctuate between monthly rollovers.

Within its risk limits, CCT decides whether the internal hedge transactions will be offset with the external market or remain in its trading book.

Interest rate sensitivity of the Bank Book

The Group Executive Board has approved risk management policies, risk limits and a control

Interest Rate Sensitivity of the Bank Book

<i>CHF thousand per basis point</i>	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
CHF	(11)	60	239	493	(37)	744
USD	13	58	11	(342)	(183)	(443)
EUR	0	9	1	82	177	269
GBP	0	0	(36)	270	585	819
JPY	0	0	0	(1)	(4)	(5)
Others	0	0	0	0	0	0
Total	2	127	215	502	538	1,384
of which equity replicating portfolio						
CHF	28	11	288	7,295	2,981	10,603
Bank Book without equity replicating portfolio						
Total	(26)	116	(73)	(6,793)	(2,443)	(9,219)

framework for the entire interest rate risk management process, including the establishment of a Value-at-Risk (VaR) limit for the interest rate exposure of the Bank Book. The Market Risk Control function monitors the risk in both CCT and Group Treasury 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 with the defined risk limits.

UBS's approach to managing the interest rate risks in the Bank Book follows the regulatory framework recently introduced by Swiss Federal Banking Commission (FBC). In the course of 2000, it became 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 be disclosed in order to assist the regulators to identify "outliers" in terms of interest rate risk profiles – profiles which are not typical of a bank or the part of its business that is being monitored.

The table above shows the interest rate sensitivity of the Bank Book as at 31 December 2000 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 2000, the Group's equity was invested in a portfolio of fixed-rate CHF deposits with an average duration of 2.5 years and a sensitivity of CHF 10.6 million per basis point, in line with the strategic invest-

ment targets set by the Group Executive Board. In order to ensure that these targets are met, the Group's equity is offset by a liability position represented as a replicating portfolio reflecting this target benchmark. The Group's equity is thus automatically invested according to the strategic targets so as to offset the interest rate risk associated with this equity replicating portfolio. The interest rate sensitivity of these investments indicates the extent to which their fair value would be affected by a move in interest rates. This in turn is directly related to the chosen investment duration. However, when measured against the offsetting equity replicating portfolio, the residual interest rate risk is not significant. Moreover, any reduction in the interest rate sensitivity relating to the investment of UBS's equity would inevitably require investing at significantly shorter maturities, which would lead to a higher volatility in the Group's interest earnings.

In addition to the standard sensitivity measure shown above, UBS uses the following two measures to help 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. Since all client business with fixed maturities is "match funded", the product margins of these transactions are not affected by changes in interest rates. Therefore only net interest income positions resulting from replicating portfolios are exposed to market changes. The net interest income at risk figure estimates the impact of different changes in the level of in-

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.

- Economic value sensitivity, which is the potential change in market value of the Bank Book resulting from large 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:

- Re-pricing characteristics of assets and liabilities.
- The effect of rate barrier, such as caps and floors, on assets and liabilities.
- Maturity effects of replicating portfolios.
- Behavior of competitors.

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 predictor of future net interest income.

Both measures are based on the Bank Book's interest rate position excluding the liability position relating to the "equity replicating portfolio".

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 from all maturing positions over the next twelve months. The table below shows the change in risk under both measures between 31 December 1999 and 31 December 2000.

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 1999, the difference to the constant market rate scenario represented –5.6% of the year's total net interest income and –3.0% at 31 December 2000. 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 UBS had an exposure of CHF –555 million to that degree of rising rates at 31 December 1999 and CHF –908 million at 31 December 2000.

The substantial increase in the economic value sensitivity in the course of 2000 was primarily due to the decision to lengthen the duration of the Group's equity investment. The other main contribution to the increase resulted from the USD refinancing of the PaineWebber acquisition, which led to a negative sensitivity to USD rates.

Other effects of interest rate changes on UBS's profitability

Neither of these two methodologies gives a complete picture of the effect of interest rate changes on the Group's revenues and costs. In principle, higher rates give UBS opportunities to improve loan pricing and deposit margins. Income from invested equity also increases, particularly where the yield curve is steep, although as it is mostly invested long term the average rate only rises slowly. However, rising interest rates also cost the Group money, through the cost of funding its trading portfolios, especially if the yield curve is inverted. Loan demand may also reduce and deterioration in credit quality is likely, especially if rates rise towards the end of the yield cycle. At the same time, increased rates may reduce the prospects for growth in equity markets, leading to lower net new money and lower transaction volumes, both of which would impact our fee income. Furthermore, changes in rates in different currencies have stronger or weaker effects on

Change in Risk under two Methodologies

CHF million	For the year ended		
	31.12.00	31.12.99	31.12.98
Net interest income at risk	(247)	(355)	(265)
Economic value sensitivity	(908)	(555)	(493)

different aspects of the overall picture – trading related revenues are more exposed to changes in USD rates, but loans and deposit margins to changes in CHF rates.

A similarly complicated picture would apply to a reduction in interest rates. So, although the sensitivity of UBS's income to changes in the rates applied to its current balance sheet positions gives some indication of interest rate risk, the overall effect of a change in interest rates on the whole of the Group's business is much harder to model. It will partly depend on other factors, such as the shape of the yield curve, the position in the credit cycle and market perceptions of the progress of key economies.

Liquidity and funding management

The Group Executive Board (GEB) 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 (for example a net overnight funding limit). The risk limits are set by the GEB and monitored by the Group Treasury Committee which is chaired by the Group Treasurer and meets on a monthly basis to assess the Group's liquidity exposure. A second set of principles concentrates on liquidity crisis management for which detailed contingency plans have been developed. Regional committees constantly monitor the markets in which UBS operates for potential threats and regularly report their findings to the GTC. In the event of a liquidity crisis regional crisis task forces will perform all necessary contingency actions under the direction 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 policies and risk limits, while CCT undertakes operational cash and collateral management transactions within the established parameters. UBS's centralized cash and collateral management structure permits a tight control on both its global cash position and the stock of highly liquid and rediscountable securities.

Liquidity management approach

UBS's approach to liquidity management seeks to ensure that the Group will always have sufficient

liquidity to meet its liabilities when due, without compromising its ability to respond quickly to 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 and the availability of high-grade collateral, which could be used to secure additional funding if required. The liquidity position is prudently managed under a variety of potential scenarios, taking stress factors into due consideration. The range of scenarios analyzed encompasses both normal market conditions and stressed conditions, including both bank-specific and general market crises. For each scenario considered, the short-term liquidity position arising out of non-trading activities is determined by matching liabilities running off against maturing assets repaid. This gap is then augmented by that of the trading book by ascertaining the value of assets which could be liquidated as compared to the liabilities which would have to be repaid. Here, due account is also taken of UBS's large stock of high-quality collateral.

Benefits of centralization

Being a globally integrated financial services firm, UBS's range of business activities naturally generate asset and liability portfolios which are highly diversified with respect to market, product and currency. This lowers UBS's exposure to individual funding sources, and also provides a broader range of investment opportunities, which in turn reduces liquidity risk. The centralized approach to liquidity management adopted at UBS allows these advantages to be exploited. Group Treasury is, furthermore, instrumental in implementing an integrated collateral management process on a Group-wide basis to ensure that the large, high-quality pool of collateral gathered across the Group is made accessible to UBS Warburg's CCT activities. Through securities lending transactions, CCT creates additional revenues for both UBS Group and its clients. These activities also generate substantial funding on a secured basis and provide an additional liquidity cushion which could be crucial in crisis situations.

Funding management approach

UBS's funding strategy seeks to ensure that business activities are funded at the lowest possible cost. With a broad diversification of funding sources (by market, product and currency), UBS maintains a well-balanced portfolio of liabilities which generates 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.

Development during 2000

In the course of 2000, UBS's long-term debt portfolio has decreased from CHF 56.3 billion at 31 December 1999 to CHF 54.9 billion at 31 December 2000 as maturing issues were not fully replaced. The maturity profile of the long-term debt portfolio is well balanced with a slight bias towards shorter-term maturities. See note 21 to the Financial Statements in UBS's Financial Report 2000 for further information concerning long-term debt.

Currency management

UBS reports its results in Swiss francs (CHF), the currency of the country in which it is incorporated. UBS's corporate currency management activities are designed to protect the Group's equity and 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.

While managing this risk the following overarching principles are adhered to

- Equity must be invested in Swiss francs.
- Currency management processes must be designed to minimize exposures against the Swiss franc.
- Core currency exposures must be actively managed to protect them against adverse currency movements.

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. Foreign currency assets are therefore 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 Group's equity is always fully invested in Swiss francs.

Transaction (revenues/costs) currency risk

From 1 January 2001, a new process has been implemented to improve and streamline the process of transforming foreign currency results into Swiss francs, creating greater transparency for the currency risk management, budgeting and performance measurement processes.

The new process involves the regular conversion of each month's profits or losses from the original transaction currencies directly into Swiss francs at month end instead of the previous, annual, two-step process initially involving a conversion into the local reporting currency and only then into Swiss francs. Foreign currency exposures will be translated into Swiss francs at prevailing month end foreign exchange rates rather than at the yearly average rates previously used. The benefits of the new transaction currency risk management process are

- the monthly sell-down into Swiss francs will reduce volatility in the Group's earnings due to currency fluctuations;
- the visibility of the break-down into the underlying original transaction currencies enables UBS to more effectively manage the currency exposures inherent in the Group's cost and revenue flows;
- the foreign exchange rates used in the financial accounts will be the same as those used in management accounting.

While the new process will reduce the susceptibility of annual earnings to adverse currency movements, it will not completely immunize the Group against them. Group Treasury will therefore proactively hedge significant currency exposures (mainly USD, EUR and GBP), in accordance with the instructions of the Group Executive Board and subject to the VaR limit which has been established for this risk. Hedging strategies employed include a cost-efficient option strategy, providing a safety

Non-trading Currency Risk VaR

<i>CHF million</i>	Minimum	Maximum	Average	Last value of period
1999	1.4	77.8	37.1	59.7
2000	11.6	113.4	33.7	12.7

Capital Adequacy

<i>CHF million, except ratios</i>	31.12.00	31.12.99	31.12.98
BIS Tier 1 capital	31,892	28,952	28,220
BIS Tier 1 and Tier 2 capital	42,860	39,682	40,306
BIS Tier 1 capital ratio (%)	11.7	10.6	9.3
BIS Tier 1 and Tier 2 capital ratio (%)	15.7	14.5	13.2
Balance sheet assets	223,528	214,012	237,042
Off balance sheet and other positions	39,002	48,282	50,659
Market risk positions	10,760	10,813	16,018
Total BIS risk-weighted assets	273,290	273,107	303,719

net against unfavorable currency fluctuations while preserving the upside potential.

Process in use during 2000

The transaction currency risk management process in use during 2000 was designed to protect the budgeted annual foreign currency net profits against adverse currency movements during the year. Foreign currency net profits in each currency were actively managed by Group Treasury on behalf of the Group. The non-trading foreign currency exposures were mainly hedged with foreign exchange forward contracts, although foreign exchange options were also used, particularly where there was a measure of uncertainty about the magnitude of the underlying income. During the year, actual results were continuously monitored, and major budget deviations were communicated to Group Treasury for potential additional hedge transactions.

The table above summarizes the VaR usage in relation to transaction currency risk in the course of 2000.

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.

The principal contributors to non-trading currency exposure are operations in the UK and the US. In general under this previous process, the VaR position was highest at the beginning of the year when the budgeted net profits were transferred to Group Treasury and was gradually reduced during the year, depending on the exact

hedge strategy being used. The underlying policy was to keep the VaR of the non-trading currency position as low as practicable.

Non-trading currency risk VaR exposure in 2001 is expected to be lower, thanks to the new currency management process.

Capital management

Capital management is undertaken 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 business units as well as regulatory capital requirements.

As the table above shows, UBS is very well capitalized. In the course of 2000, the BIS Tier 1 ratio increased from 10.6% at 31 December 1999 to 11.7% at 31 December 2000. This improvement was possible despite the merger with PaineWebber thanks to the increase in retained earnings and the issuance of new equity and hybrid capital (a share capital increase of 12 million new shares to help fund the PaineWebber merger and the issuance of USD 1.5 billion Trust Preferred Securities) and a substantial decrease from UBS's in risk-weighted assets excluding the effect of adding PaineWebber's business.

The table above shows the key capital figures and ratios as of 31 December 2000 and 31 December 1999.

The ratios measure capital adequacy by comparing UBS's eligible capital with its risk-weighted assets, which include balance sheet assets, 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.

The calculation of capital requirements applicable to UBS under Swiss Federal Banking Commission regulations differs in certain respects from the calculation under the BIS guidelines. Most importantly

- where the BIS currently does not apply risk weightings above 100% to any asset category, the Swiss Federal Banking Commission applies risk weightings of greater than 100% to certain kinds of assets (for example real estate, bank premises, other fixed assets, equity securities and unconsolidated equity investments);
- where the BIS guidelines apply 20% risk weighting to obligations of OECD banks, the Swiss Federal Banking Commission's regulations apply risk weightings of 25% to 75% (depending on maturities) to debts from OECD banks.

As a result of these differences, UBS's risk-weighted assets are higher, and its ratios of total capital and Tier 1 capital are lower when calculated under the Swiss Federal Banking Commission regulations as compared to BIS guidelines. Nevertheless, UBS and its predecessor banks have always had total capital and Tier 1 capital in excess of the minimum requirements of both the BIS and the Swiss Federal Banking Commission, since the regulations and guidelines were first implemented in 1988.

Initiatives in 2000

UBS's capital management is primarily driven by shareholder value considerations, respecting the need to maintain strategic flexibility, sound capitalization and strong ratings. During the course of 2000 several major measures were taken to achieve these goals.

Share buy back and cancellation

In view of the continuous increase of capital from retained earnings experienced during 1999, the Group introduced a share buy-back program in January 2000, in order to reduce the number of issued shares and enhance earnings per share.

The program ran until June 2000, during which time a total of 18.4 million shares were repurchased at an average price of CHF 217, representing a total expenditure of CHF 4 billion and repurchase of about 4.3% of shares outstanding. These shares will be cancelled in July 2001, following the approval of shareholders at the Annual General Meeting on 26 April 2001.

Stock Split

At the Annual General Meeting in April 2000, shareholders approved a 2-for-1 stock split, effective 8 May 2000, reducing the par value of the share to the minimum of CHF 10 then permissible under Swiss law. The motivation behind the split was that, in absolute terms, the UBS share was of relatively high value per share compared to stocks of other European, and particularly US financial services providers.

New York Stock Exchange (NYSE) listing

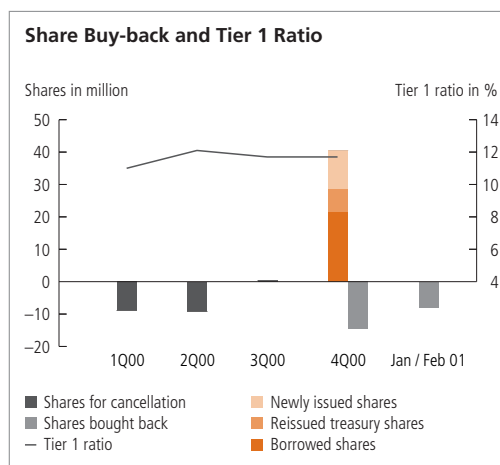
On 16 May 2000 our shares were listed on the NYSE in the form of global registered shares creating one global share traded in Zurich, New York and Tokyo. As the first Swiss company to list a global share in New York, UBS contributed to a significant enhancement in clearing and settlement infrastructure, most notably the creation of a link between the US and Swiss securities depositories to facilitate cross-border settlement.

Equity funding of the PaineWebber merger

UBS merged with Paine Webber Group Inc. on 3 November 2000. Half of the consideration was paid in UBS shares, requiring a total of 41 million shares.

At an extraordinary general meeting on 7 September 2000, UBS shareholders approved the creation of 38 million new shares in the form of authorized capital for the merger with PaineWebber and 17 million new shares in the form of conditional capital for PaineWebber options outstanding beyond the merger date. In order to minimize the dilutive effects of the merger to existing shareholders, UBS issued only 12 million new shares from authorized capital on the completion date. 7 million shares were re-issued out of the Group's Treasury holdings and 22 million shares were borrowed.

On 6 November 2000 a new share buy-back program was launched, which ran until 2 March 2001. Unlike the program which ran in the first half



of 2000 it was not designed to result in cancellation of the repurchased shares. 22 million shares were purchased under this program between November 2000 and January 2001, at an average price of CHF 262, and used to repay the shares borrowed to pay the PaineWebber merger consideration. The remaining 8 million shares purchased under this program will primarily be used to cover the requirements of UBS's employee share schemes.

Capital management plans for 2001

New second-line buy-back program

Given its continuing strong capital generation, UBS intends again to repurchase shares for capital reduction purposes under a "second-line" buy-back program, aimed at institutional investors, allowing tax efficient cancellation of shares.

This new second-line program becomes available from 5 March 2001 and may run until 5 March 2002. A maximum of CHF 5 billion worth of shares may be repurchased under the program. These shares will be cancelled following approval by the Annual General Meeting in April 2002.

Share split and distribution by par value reduction

The minimum par value allowed under law for a Swiss share is CHF 10. The share split that UBS implemented in May last year brought the par value of its share down to this level, removing any further opportunity to split the share.

Under new regulations, which are currently passing through the Swiss legislative process and are expected to become effective on 1 May 2001, the minimum par value is expected to be reduced to CHF 0.01. UBS intends to utilize this change to lower the market price per share to a level more in line with that of its global peer group, and to make a tax efficient payment to its shareholders in the form of a reduction in the nominal value of its shares.

If shareholder approval is granted, a distribution of CHF 1.60, in respect of the fourth quarter 2000, will be paid in the form of a par value reduction. This is treated in Switzerland as a return of capital to shareholders, not as income, and is therefore tax efficient for shareholders who pay tax in Switzerland. The par value reduction also has advantages for shareholders outside Switzerland, as no Swiss withholding tax is payable on it. Holders outside of Switzerland should consult their tax advisors in determining the tax implications in their country.

The distribution will reduce the par value of the share to CHF 8.40. UBS will then split its share 3 for 1, resulting in a new par value of CHF 2.80 per share.

Because of the legal and regulatory processes involved, the par value reduction is expected to take place on 16 July 2001, for payment on 18 July 2001 to holders of record on 13 July 2001 if the relevant legislation has come into force. The share split will also be implemented on 16 July 2001.

Proposed Changes to Par Value

	CHF
Par value at 01.01.01	10.0
Proposed distribution in the form of par value reduction	1.6
New par value	8.4
Proposed stock split	3 for 1
New par value after proposed distribution and stock split	2.8

Corporate Governance

Corporate Organization

UBS is committed to meeting the highest international standards of corporate governance in its organizational structure. Corporate and executive bodies are organized in line with the leading codes of best practice.

UBS's organizational structure, based on two separate boards having different functions and responsibilities, guarantees clear controls and a balance between the Board of Directors (Board) and the Group Executive Board (GEB).

The functions of Chairman of the Board of Directors (Chairman) and President of the Group Executive Board (President) are conferred on two different people, guaranteeing separation of powers.

Organizational principles

The shareholders elect each member of the Board. The Board appoints the Chairman, the Vice Chairmen and the members of the various Board committees from among the elected Board members. It also appoints the President and members of the GEB and the Group Managing Board (GMB).

The Board is the highest corporate body with responsibility for the ultimate direction and strategy of the company and the appointment and supervision of its executive management. A large majority of the Board members are non-executive and fully independent. The Chairman and at least one Vice Chairman have executive roles and assume supervisory and leadership responsibilities for matters including strategy, risk supervision, compensation principles and succession planning.

The GEB has executive management responsibility for the company. Together with the Chairman's Office it assumes overall responsibility for the development of UBS's strategies. It is responsible for the implementation and results of those strategies. Its membership includes the CEOs of the Business Groups, who are accountable to the President for the financial results and management of their Business Groups. The President and the GEB are accountable to the Chairman and his Board for the Group results, and the Board in turn is accountable to shareholders.

In order to ensure that the Board and GEB are independent of each other, no member of one board may also be a member of the other.

The Board of Directors

As at 31 December 2000, the Board consisted of eight Directors (see list on page 81). Alex Krauer, Chairman since 1998, and Andreas

Reinhart will step down from their functions at the Annual General Meeting of Shareholders (AGM), to be held on 26 April 2001. The Board will propose to the AGM that Marcel Ospel, currently Group Chief Executive Officer, be elected to the Board, and has decided to then appoint Marcel Ospel as its Chairman. In order to reflect UBS's global reach at board level, the AGM will also be asked to elect three new non-Swiss Directors: Sir Peter Davis (born 1941), CEO of Sainsbury plc, London; Johannes Antonie de Gier (1944), former Chairman and CEO of Warburg Dillon Read (now UBS Warburg), London; Lawrence Allen Weinbach (1940), Chairman and CEO of Unisys Corporation, New York.

The Board is organized as follows:

The Chairman operates a *Chairman's Office*, including the Vice-Chairmen, which meets regularly with the President and his appointees from the GEB to address fundamental issues for the Group, such as overall strategy, mid-term financial and business planning, mid-term succession plans, global compensation principles, and the risk profile of the Group. The Chairman's Office assumes special authority in the credit approval process. It also acts as the *Audit Supervisory Board*, with responsibility for the supervision of Group Internal Audit, and as the *Nomination Committee*.

Following the 2001 AGM, a separate *Compensation Committee* will be appointed, mainly from among the non-executive directors. It will have responsibility for setting the global compensation policy of the organization and for determining the individual compensation and bonus for the members of the Chairman's Office, GEB and GMB.

The Board appoints an *Audit Committee* from among its non-executive members. The Audit Committee meets at least three times a year to oversee the performance of the external Group and Statutory Auditors. It also monitors interaction between Group Internal Audit and the external auditors. All three members – Peter Böckli as Chairman, Rolf Meyer and Andreas Reinhart – are fully independent from UBS. They are financially literate and familiar with the accounting practices of international financial services groups. The Audit Committee does not itself perform audits, but supervises the auditing work done by internal and external auditors. Its primary responsibility is thereby to review the or-

ganization and efficiency of internal control procedures and the financial reporting process.

Following the 2001 AGM, the Board will appoint a *Corporate Responsibility Committee*, composed of Board, GEB and GMB members. The Committee will be responsible for corporate social responsibility issues, for supervision of the Group's adherence to relevant international standards, and for appropriate associated reporting.

The Group Executive Board

From 1 January 2001, the Group Executive Board (GEB) consisted of eight members (see list on page 83). Joseph J. Grano joined the GEB on 1 January 2001, following UBS's merger with PaineWebber. Marcel Ospel, Chief Executive Officer, will step down from his function after the 2001 AGM when he is to be proposed for election to the Board. Luqman Arnold, currently Chief Financial Officer, will assume the role of President of the GEB.

The GEB appoints the following major committees:

The *Group Governance Committee* is responsible for the co-ordination of the Group's interface with central banks and regulators, and for minimizing the Group's reputation risks.

The *Group Finance Committee* is responsible for co-ordinating the Group's accounting, risk management and control, treasury and financial communication processes, aiming for the long-term maximization of shareholder value. The Group Finance Committee includes the chairmen of the associated functional committees: Group Risk Committee, Group Controlling Committee, and Group Treasury Committee.

The *Group Communications and Marketing Committee* ensures that communication to all stakeholders, internally and externally, is transparent, accurate, concise, timely and consistent.

The *Group Human Resources Committee* has responsibility for the definition of human resources policies and standards which contribute to the identification, recruitment, development and retention of high-caliber staff.

The *Group IT Committee* ensures Group-wide coordination of policies and standards in the information technology area.

The Group Managing Board

As of 1 March 2001 the Group Managing Board (GMB) had 30 members all of whom hold high-

level functions in the business groups, or the Corporate Center (see list on page 85).

The GMB, is regularly informed of important decisions, and meets physically at least once a year to discuss fundamental Group issues.

Audit

Group Internal Audit

To guarantee full independence, the head of Group Internal Audit – Walter Stürzinger until 31 December 2000, Markus Ronner from 1 January 2001 – reports directly to the Chairman of the Board.

With 240 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, to the President and to the Chairman's Office via formal Audit Reports. The Audit Supervisory Board and the Audit Committee of the Board are regularly informed of important findings.

Extensive coordination and close cooperation with the external auditors enhances the efficiency of Group Internal Audit's work.

External auditors

Ernst & Young Ltd., Basel, have been assigned the mandate of global auditors for the UBS Group. They assume all auditing functions according to laws, regulatory requests, and the UBS Articles of Association (see also paragraph on Relations with Regulators). Ernst & Young Ltd. meets all independence requirements established by the Securities and Exchange Commission (SEC). As part of its audit process, Ernst & Young Ltd. informs the Audit Committee of the measures it takes to ensure its and its employees' independence from UBS, and outlines the non-audit services which it delivers to UBS.

At the Extraordinary General Meeting on 7 September 2000, UBS shareholders appointed Deloitte & Touche Experta AG, Basel, as Special auditors according to Article 31 paragraph 3 of the UBS Articles of Association. The Special auditors provided an audit opinion in respect of the details of the capital increase required for the PaineWebber transaction, independently from the normal auditors.

Senior management compensation principles

Overall philosophy

UBS operates in extremely competitive labor markets around the world. Accordingly, it seeks to attract, retain, motivate and develop highly qualified employees at all levels. In particular, it is critical to achieve this for positions where performance is most important to the UBS's overall success. UBS is prepared to provide superior compensation opportunities in return for superior performance, and has developed the measurement systems and decision processes necessary to ensure that pay is tied directly to performance.

Individual performance is measured on the basis of business area, Business Group, or Group-wide results, as appropriate to a particular executive's responsibilities. In assessing performance, the Group considers both quantitative and qualitative factors. It also makes a balanced assessment of both current results and key performance indicators – longer-term value drivers crucial to the Group's ability to deliver future performance and growth. This assessment is closely linked to the value-based management process which UBS is now implementing.

In conducting its assessments of executive performance, UBS reviews changes to its overall performance and the performance of its business units over time, against specifically established performance targets, and against the performance of our competitors, to the extent that such data are available.

Components of compensation

Compensation of senior executives consists of base salary and discretionary (performance-

based) bonus, a significant portion of which is paid in the form of forfeitable restricted stock and employee stock option grants. Annual examination of competitors' pay practices is conducted to ensure that UBS's compensation policies and practices continue to support the objectives of attracting outstanding new executives, and motivating and retaining valuable employees.

Bonuses are discretionary, and generally represent a substantial portion of total compensation for UBS's senior management.

Share ownership commitment

It is UBS's long-standing policy to strongly encourage significant levels of stock ownership among its senior management, aligning the interests of management closely with those of our shareholders. Share ownership is encouraged in the following ways:

- A significant portion of each senior executive's annual performance-based compensation is delivered in the form of UBS shares or employee stock options, on a mandatory basis.
- Additional incentives are provided for senior managers who voluntarily elect to take an even greater portion of their annual performance-based compensation in the form of shares or employee stock options.
- Below the senior executive level, significant numbers of employees are required to take a significant portion of their annual performance-based compensation in the form of shares, employee stock options, or other UBS equity-linked vehicles. Additionally, they are provided with opportunities to own stock through various programs.

Directors and Officers of UBS

The Board of Directors

Each member of the Board is elected at the Annual General Meeting of Shareholders for a four-year term. The initial term of office for each

Director is, however, fixed in such a way as to ensure that about a quarter of all the members have to be newly elected or reelected every year.

The table below shows information about the Board of Directors as at 31 December 2000.

Name and business address	Position held	Year of initial appointment	Expiration of current term of office
Alex Krauer UBS AG Bahnhofstrasse 45 CH-8098 Zurich	Chairman Member of the Audit Supervisory Board	1998	2002 ¹
Alberto Togni UBS AG Bahnhofstrasse 45 CH-8098 Zurich	Vice Chairman Chairman of the Audit Supervisory Board	1998	2001
Markus Kündig Bundesplatz 10 CH-6304 Zug	Vice Chairman Member of the Audit Supervisory Board	1998	2002
Peter Böckli Böckli Bodmer & Partners St. Jakobs-Strasse 41 P.O. Box 2348 CH-4002 Basel	Chairman of the Audit Committee	1998	2003
Rolf A. Meyer Heiniweidstrasse 18 CH-8806 Bäch	Member of the Audit Committee	1998	2003
Hans Peter Ming Sika Finanz AG Wiesenstrasse 7 CH-8008 Zurich	Board Member	1998	2004
Andreas Reinhart Volkart Brothers Holding Ltd. P.O. Box 343 CH-8401 Winterthur	Member of the Audit Committee	1998	2004 ¹
Eric Honegger SAirGroup CH-8058 Zurich-Airport	Board Member	1999	2003

¹ Alex Krauer and Andreas Reinhart will step down from their functions at the Annual General Meeting in April 2001.

Alex Krauer, Chairman of the Board of Directors since 1998, joined the Board of Directors of Swiss Bank Corporation in 1988. In 1994, he became First Vice Chairman of Swiss Bank Corporation, and following the merger between Swiss Bank Corporation and Union Bank of Switzerland was named Vice Chairman of UBS AG in 1998. Mr. Krauer previously held various management functions in Ciba Ltd. and subsequently Ciba-Geigy Ltd. He was Chairman and CEO of Ciba-Geigy Ltd. from 1987 to 1996, and after the merger between Ciba-Geigy Ltd. and Sandoz Ltd. Chairman of Novartis Inc. from 1996 to 1999. He also served as a member of the Boards of Directors of Bâloise Holding from 1980 to 1999 and of Chiron Corporation from 1995 to 1999. Mr. Krauer was born on 3 June 1931.

Alberto Togni, Vice Chairman of the Board of Directors, has been with UBS and SBC since 1959. From 1994 to 1997 he was Chief Risk Officer and a member of the Group Executive Committee of Swiss Bank Corporation. He previously held various functions in the Commercial division, becoming its head in 1993. In 1987 he was named General Manager and member of the Executive Board. Prior to that, he assumed different management roles in Zurich, New York, Tokyo and as representative for the Middle East in Beirut. Mr. Togni serves as a director of Unilever (Schweiz) AG, Zurich; Thomson Multimedia Ltd., Zurich; and Swiss National Bank, Zurich. Mr. Togni was born on 30 October 1938.

Markus Kündig, Vice Chairman of the Board of Directors, is also the Chairman of the Board of Directors of LZ Medien Holding AG and the Vice Chairman of the Board of Directors of Clariant. He is a member of the Boards of Directors of Metro International AG, Merck AG and Pelikan Holding AG. Until 1999, Mr. Kündig was the

proprietor of Kündig Printers Ltd. Mr. Kündig was born on 12 October 1931.

Peter Böckli, Chairman of the Audit Committee, is a partner in the law office of Böckli Bodmer & Partners and a part-time professor of tax and business law at the University of Basel. He is a member of the Boards of Directors of Nestlé S.A., and Firmenich. In addition, he is the Vice Chairman of the Board of Directors of Manufacture des Montres Rolex S.A. Mr. Böckli was born on 7 May 1936.

Rolf A. Meyer, a member of the Audit Committee, was until recently Chairman and CEO of Ciba Specialty Chemicals. He is now a consultant and is also a member of the Board of Siber Hegner AG. Mr. Meyer was born on 31 October 1943.

Hans Peter Ming, a member of the Board, is the Chairman of the Board of Directors of Sika Finanz AG. He is also a member of the Board of Directors of Swiss Steel and sits on the Board of the Swiss Society of Chemical Industries. Mr. Ming was born on 12 October 1938.

Andreas Reinhart, a member of the Audit Committee, is proprietor and Chairman of Volkart Group and a member of the Board of Directors of Volkart Foundation and Volkart Vision. He is Chairman of SAM Sustainability Group and of Non-Violence Project AG. He is a member of the Board of Directors of Scalo Publishers. Mr. Reinhart was born on 24 December 1944.

Eric Honegger, a member of the Board, is the Chairman of the Board of Directors of SAir-Group. He is also the Chairman of the Board of Directors of Neue Zürcher Zeitung. Before joining SAirGroup Mr. Honegger was a member of the Zurich Government. Mr. Honegger was born on 29 April 1946.

The Group Executive Board

The table below shows the membership of the Group Executive Board at 1 January 2001, following the appointment to the board of Joseph J. Grano.

Name	Position held	Year of initial appointment
Marcel Ospel	President and Group Chief Executive Officer	1998
Luqman Arnold	Chief Financial Officer	1999
Georges Gagnebin	Chief Executive Officer, UBS Private Banking	2000
Joseph J. Grano Jr.	President and CEO, UBS PaineWebber	2001
Markus Granzio	Chairman and Chief Executive Officer, UBS Warburg	1999
Stephan Haeringer	Chief Executive Officer, UBS Switzerland	1998
Pierre de Weck	Chief Executive Officer, UBS Capital	1998
Peter A. Wuffli	Chairman and Chief Executive Officer, UBS Asset Management	1998

The business address of all members of the Group Executive Board is UBS AG, Bahnhofstrasse 45, Zurich, Switzerland.

Marcel Ospel, Group Chief Executive Officer, was the President and Group Chief Executive Officer of Swiss Bank Corporation (SBC), from 1996 to 1998. He was made CEO of SBC Warburg in 1995, having been a member of the Executive Board of SBC since 1990. From 1987 to 1990, he was in charge of Securities Trading and Sales at SBC. From 1984 to 1987 Mr. Ospel was Managing Director with Merrill Lynch Capital Markets; and from 1980 to 1984, he worked at SBC London and New York in the Capital Markets division. He began his career at Swiss Bank Corporation in the Central Planning and Marketing Division in 1977. Mr. Ospel was born on 8 February 1950.

Luqman Arnold previously served as Chief Operating Officer of Warburg Dillon Read. Mr. Arnold joined SBC Warburg in 1996 as Chairman of the Asia/Pacific division and was later named Chief Executive Officer of the successor organization in Asia/Pacific. From 1993 to 1996 he was employed by Banque Paribas and was appointed to the Executive and Management Committees. Between 1983 and 1992 Mr. Arnold held various senior management positions at Credit Suisse First Boston. From 1973 to 1983 he worked at Manufacturers Hanover Corporation and at First National Bank in Dallas. Mr. Arnold was born on 16 April 1950.

Georges Gagnebin is the CEO of the Private Banking unit of UBS Switzerland. Before holding this function, he was the Head of the International Clients Europe, Middle East & Africa business area in the Private Banking division. In 1994, he was named General Manager and Member of the SBC Group Executive Board, and in 1992, he became Deputy General Manager and a Member of the Executive Board. Between 1987 and 1992, he served as Head of Finance & Investment at SBC in Berne and Lausanne. In 1982, he was named Head of the Finance & Investment unit of SBC in Berne. Mr. Gagnebin began his career in 1969 at SBC in Berne. Mr. Gagnebin was born on 3 March 1946.

Joseph J. Grano, Jr., President and CEO of UBS PaineWebber, joined the UBS AG Group Executive Board on 1 January 2001. In 1994, he was named President of PaineWebber Inc. He joined PaineWebber in 1988 as President of Retail Sales and Marketing. Before working for PaineWebber, Mr. Grano was with Merrill Lynch for 16 years holding various senior management positions including director of National Sales for Merrill Lynch Consumer Markets. Prior to joining Merrill Lynch in 1972, Mr. Grano served in the US Special Forces. Mr. Grano was born on 7 March 1948.

Markus Granziol, Chairman and CEO of UBS Warburg, served from 1998 to 1999 as Global Head Equities and Fixed Income at Warburg Dillon Read and was a member of the Group Managing Board. From 1996 to 1998, he was General Manager and member of the SBC Group Executive Board. Between 1995 and 1996 he served with SBC Warburg as the Joint Global Head of Equities. In 1994, he became Global Head of Equities at SBC in Hong Kong. Mr. Granziol joined SBC in 1987 as Head of the Securities Department at SBC in Zurich. Prior to that, he was Chief of Staff at the Swiss National Bank, and was also lecturer in macroeconomics and financial theory at the University of Zurich. Mr. Granziol was born on 21 January 1952.

Stephan Haeringer, CEO of UBS Switzerland and of its Private and Corporate Clients business unit, has held several positions with UBS during the last three decades. From 1996 to 1998, he was Chief Executive Officer Region Switzerland. From 1991 to 1996, he served as Division Head, Private Banking and Institutional Asset Management. In 1991, he was appointed member of the Group Executive Board, and in 1987 he became Executive Vice President and served as Head of the Financial division. During the years 1967 to 1988, Mr. Haeringer assumed various management roles within the areas of Investment Counseling, Specialized Investments, Portfolio Man-

agement, Securities Administration and Collateral Loans. Mr. Haeringer was born on 6 December 1946.

Pierre de Weck, CEO of UBS Capital, has assumed several functions at UBS. Until 1999, he served as Chief Credit Officer and Head of Private Equity. From 1995 to 1998, he served as a member of the Group Executive Board and Division Head Corporate and Institutional Finance. In 1994, Mr. de Weck was named Executive Vice President and member of the Group Executive Board while heading the Corporate Finance, Primary Markets and Merchant Banking division. Between 1992 and 1994 he was Chief Executive Officer Europe and between 1991 and 1992 Chief Executive Officer North America. In 1987, Mr. de Weck became Branch Manager in New York. He joined UBS in 1985 as Head of Project Finance in Zurich. Between 1976 and 1985 he held various positions at Citicorp in Zurich and New York. Mr. de Weck was born on 15 July 1950.

Peter A. Wuffli is the Chairman and CEO of UBS Asset Management. Most recently, he was Group Chief Financial Officer of UBS. From 1994 to 1998, he was the Chief Financial Officer at SBC and a member of SBC's Group Executive Committee. In 1984, he joined McKinsey & Co as management consultant and in 1990 became a partner of the McKinsey Switzerland senior management. Mr. Wuffli was born on 26 October 1957.

Group Managing Board

In addition to the members of the Group Executive Board, the following members belonged to the Group Managing Board as at 1 March 2001:

Colin Buchan	Global Head Equities, UBS Warburg
Crispian Collins	Vice Chairman, UBS Asset Management
John Costas	President and Chief Operating Officer, UBS Warburg
Arthur Decurtins	Head Business Area Asia, UBS Private Banking
Jeffrey J. Diermeier	Chief Investment Officer, UBS Asset Management
Regina Dolan	Chief Administrative Officer, UBS PaineWebber
Thomas K. Escher	Head Business Area IT, UBS Switzerland
John A. Fraser	Head Business Area Asia Pacific, UBS Asset Management
Robert Gillespie	Joint Global Head, Corporate Finance, UBS Warburg
Jürg Haller	Head Business Area Risk Transformation and Capital Management, UBS Switzerland
Eugen Haltiner	Head Business Area Corporate Clients, UBS Switzerland
Gabriel Herrera	Head Business Area Europe, Middle East and Africa, UBS Asset Management
Alan C. Hodson	Head of European Equities, UBS Warbu
Benjamin F. Lenhardt, Jr.	Head Business Area Americas, UBS Asset Management
Donald Marron	Chairman UBS Americas
Urs. B. Rinderknecht	Group Mandates
Alain Robert	Head Business Area Individual Clients, UBS Switzerland
Marcel Rohner	Chief Operating Officer, Deputy CEO, UBS Private Banking
Gian Pietro Rossetti	Head Business Area Swiss Clients, UBS Private Banking
Hugo Schaub	Group Controller
Jean Francis Sierro	Head Business Area Resources, UBS Switzerland
Robert H. Silver	Head Operations and Systems, UBS PaineWebber
J. Richard Sipes	Joint Head Business Area Europe, UBS Private Banking
Clive Standish	CEO Asia Pacific, UBS Warburg
Walter Stürzinger	Group Chief Risk Officer
Marco Suter	Group Chief Credit Officer
Mark B. Sutton	Head US Private Clients, UBS PaineWebber
Rory Tapner	Joint Global Head, Corporate Finance, UBS Warburg
Raoul Weil	Joint Head Business Area Europe, UBS Private Banking
Stephan Zimmermann	Head Business Area Operations, UBS Switzerlan

Auditors

External auditors	
Ernst & Young, Ltd., Basel	Auditors for the Parent Bank and for the Group (term expires AGM 2001, proposed for reelection)
Deloitte & Touche Experta, Ltd., Basel	Special auditors (term expires AGM 2003)
Internal Audit	
Markus Ronner	Head of Group Internal Audit

Relations with Regulators

The Group Governance Committee

The Group Governance Committee, chaired by the President of the GEB, ensures that adequate policies and procedures to minimize the Group's reputational risks exist and are enforced. The Committee co-ordinates the Group's public policy interface with governments, central banks and regulators. The permanent members of the committee are the Group Controller, Group Chief Risk Officer and Group Chief Credit Officer, the head of Group Internal Audit, the Group General Counsel and the Business Groups' heads of Corporate Governance and of Legal and Compliance.

As a Swiss-registered company, UBS's main regulator is the Swiss Federal Banking Commission, but it is also regulated by key regulators worldwide. UBS aims to comply with all local and regional provisions and to work closely with the regulators in all jurisdictions where it has offices, branches and subsidiaries.

Regulation and supervision

UBS's operations throughout the world are regulated and supervised by the relevant central banks and regulatory authorities in each of the jurisdictions in which it has offices, branches and subsidiaries. These authorities impose reserve and reporting requirements and controls on banks, including those relating to capital adequacy, depositor protection and prudential supervision. In addition, a number of countries where UBS operates impose additional limitations on or affecting foreign-owned or controlled banks and financial institutions, including

- restrictions on the opening of local offices, branches or subsidiaries and the types of banking and non-banking activities that may be conducted by those local offices, branches or subsidiaries;
- restrictions on the acquisition or level of ownership of local banks; and
- restrictions on investment and other financial flows entering or leaving the country.

Changes in the supervisory and regulatory regimes of the countries where UBS operates will determine, to some degree, its ability to expand into new markets, the services and products that it will be able to offer in those markets and how it structures specific operations.

The following sections describe the regulation and supervision of UBS's business in Switzerland, and, to extend discussion of our regulatory relationships, we also discuss regulation of our business in the United States and the United Kingdom, where a total of 49% of our staff are employed.

Regulation and supervision in Switzerland

UBS is regulated in Switzerland under a system established by the Swiss Federal Law relating to Banks and Savings Banks of 8 November 1934, as amended, and the related Implementing Ordinance of 17 May 1972, as amended, known as the Federal Banking Law (FBL). Under the FBL, banks in Switzerland are permitted to engage in a full range of financial services activities, including commercial banking, investment banking and funds management. Banking groups may also engage in insurance activities, but these must be undertaken through a separate subsidiary.

The FBL establishes a framework for supervision by the Federal Banking Commission (FBC). The FBC implements this framework through the issuance of Ordinances or Circular Letters to the banks that it supervises. In addition, the regulatory framework in Switzerland relies on self-regulation through the Swiss Bankers Association (SBA). The SBA issues guidelines to banks on conduct of business issues, such as

- The Due Diligence Convention, which established know your customer standards to protect against money laundering;
- Risk Management Guidelines for Trading and for the Use of Derivatives, which set out standards based on the recommendations on this subject from the Group of Thirty, The Basel Committee on Banking Supervision and The International Organization of Securities Commissions;
- Portfolio Management Guidelines, which set standards for banks when managing customer funds and administering assets on their behalf;
- Guidelines for the Management of Country Risk; and
- Guidelines on the Treatment of Dormant Accounts, Custody Accounts and Safe Deposit Boxes held in Swiss Banks.

In its capacity as a securities broker, UBS is governed by the Swiss Federal Law on Stock

Exchanges and Trading in Securities of 24 March 1995, as amended, which appoints the FBC as prime regulator for these activities. Certain aspects of securities broking, such as the organization of trading, are subject to self-regulation through the SWX Swiss Exchange and the SBA, but under the overall supervision of the FBC.

Mandatory annual audits

The approach to supervising banks in Switzerland places a particular emphasis on the role of the external auditor. UBS's auditors, who must be approved by the FBC to perform this role, are required to submit an annual report to the FBC that assesses UBS's financial situation and its compliance with the regulations and self-regulatory guidelines that are applicable to its business. If the audit reveals violations or other irregularities, the independent auditors must (1) inform the FBC if a correction is not carried out within a designated time limit or (2) inform the FBC immediately in the case of serious violations or irregularities. The FBC may issue directives as necessary to require a bank to address any issues identified by the auditors and may also appoint an expert to act as an observer of a bank if the claims of the bank's creditors appear to be seriously jeopardized.

Supervision by the FBC

In July 1999, the FBC established a dedicated unit called the Large Banking Groups Department which focuses solely on the supervision of UBS AG and the Credit Suisse Group. The group, which consists of experts covering all the main business activities in which UBS operates, supervises UBS directly through regular meetings with management and on-site visits. The group also co-ordinates the activities of the FBC with those of UBS's main overseas supervisors and the external auditors.

The FBC also monitors UBS's compliance with capital and liquidity requirements. These are described in detail in the Asset and Liability Management section, on pages 71 to 72 and 73 to 75.

Disclosures to the Swiss National Bank

Although the primary responsibility for supervision of banks under the FBL lies with the FBC, UBS also submits an annual statement of condition and detailed monthly interim balance sheets to the Swiss National Bank, which it uses to mon-

itor compliance with liquidity rules. The Swiss National Bank may require further disclosures from UBS concerning its financial condition and other information relevant to its regulatory oversight.

Regulation and supervision in the United States

Banking regulation

UBS's operations in the United States are subject to a variety of regulatory regimes. UBS maintains branches in California, Connecticut, Illinois and New York and agencies in Florida and Texas. UBS refers to these as its US "banking offices". UBS's California branches are located in Los Angeles and San Francisco and are licensed by the Office of the Comptroller of the Currency. Each of UBS's other US banking offices is licensed by the state banking authority of the state in which it is located. Each US banking office is subject to regulation and examination by its licensing authority. In addition, the Board of Governors of the Federal Reserve System exercises examination and regulatory authority over UBS's state-licensed US banking offices. None of UBS's US banking offices are insured by the Federal Deposit Insurance Corporation. The regulation of UBS's US banking offices imposes restrictions on the activities of those offices, as well as prudential restrictions, such as limits on extensions of credit to a single borrower, including UBS subsidiaries.

The licensing authority of each US banking office has the authority to take possession of the business and property of the office it licenses in certain circumstances. Such circumstances generally include violations of law, unsafe business practices and insolvency. So long as UBS maintains one or more federal branches, such as its California branches, state insolvency regimes that would otherwise be applicable to its state licensed offices may be preempted by US federal law. As a result, if the Office of the Comptroller of the Currency exercised its authority over UBS's US banking offices pursuant to federal law in the event of a UBS insolvency, all of UBS's US assets would be applied first to satisfy creditors of its US banking offices as a group, and then made available for application pursuant to any Swiss insolvency proceeding.

In addition to the direct regulation of its US banking offices, operating its US banking offices subjects UBS to regulation by the Board of Governors of the Federal Reserve System under various laws, including the International Banking Act of 1978, as amended, and the Bank Holding Company Act of 1956, as amended. The Bank Holding Company Act imposes significant restrictions on UBS's US non-banking operations and on its worldwide holdings of equity in companies operating in the United States. Historically, UBS's US non-banking activities were principally limited to activities that the Board of Governors of the Federal Reserve System found to be so "closely related to banking as to be a proper incident thereto". Moreover, prior approval by the Board of Governors of the Federal Reserve System has been required to engage in new activities and to make acquisitions in the United States.

The Gramm-Leach-Bliley Financial Modernization Act of 1999 was enacted last year, liberalizing the restrictions on the non-banking activities of banking organizations, including non-US banks operating US banking offices. Among other things, the Gramm-Leach-Bliley Act

- allows bank holding companies meeting management and capital standards to engage in a substantially broader range of non-banking activities than previously was permissible, including insurance underwriting and making merchant banking investments;
- allows insurers and other financial services companies to acquire banks;
- removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and
- revises the overall regulatory structure applicable to bank holding companies, including those that also engage in insurance and securities operations.

These provisions of the Gramm-Leach-Bliley Act became effective on 11 March 2000. On 10 April 2000, UBS AG was designated a "financial holding company" under the Gramm-Leach-Bliley Act, which generally permits it to exercise the new powers granted by that act.

The Gramm-Leach-Bliley Act also modifies other current financial laws, including laws related to the conduct of securities activities by US

banks and US banking offices. As a result, UBS will relocate certain activities now conducted by its US banking offices to a UBS subsidiary or elsewhere.

Other US regulation

In the United States, UBS's US registered broker-dealer entities, including Paine Webber, Incorporated, are subject to regulations that cover all aspects of the securities business, including

- sales methods,
- trade practices among broker-dealers,
- use and safekeeping of customers' funds and securities,
- capital structure,
- record-keeping,
- the financing of customers' purchases, and
- the conduct of directors, officers and employees.

These entities are regulated by a number of different government agencies and self-regulatory organizations, including the Securities and Exchange Commission and the National Association of Securities Dealers. Depending upon the specific nature of a broker-dealer's business, it may also be regulated by some or all of the New York Stock Exchange, the Municipal Securities Rulemaking Board, the US Department of the Treasury, the Commodities Futures Trading Commission, and other exchanges of which it may be a member. These regulators have available a variety of sanctions, including the authority to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders of the suspension or expulsion of the broker-dealer or its directors, officers or employees.

UBS subsidiaries in the United States, including the former PaineWebber businesses, are also subject to regulation by applicable federal and state regulators of their activities in the investment advisory, trust company, mortgage lending and insurance businesses.

Regulation and supervision in the United Kingdom

UBS operates in the United Kingdom under a regulatory regime that is undergoing comprehensive restructuring aimed at establishing the Financial Services Authority (FSA), as the United King-

dom's unified regulator. The Bank of England's responsibilities for regulation of banking activities were transferred to the FSA by the Bank of England Act 1998.

During 2000, UBS was regulated by the FSA in respect of its banking activities, the Securities and Futures Authority in respect of its investment banking, individual asset management, brokerage and principal trading activities, and by the Investment Management Regulatory Organization in respect of its institutional asset management and fund management activities.

Full implementation of the Financial Services and Markets Act 2000, the legislation establishing the complete role of the FSA, is currently anticipated in the second half of 2001. When it is fully implemented the responsibilities of the Securities and Futures Authority and Investment Management Regulatory Organization will be taken over by the FSA.

Some of UBS's subsidiaries and affiliates are also regulated by the London Stock Exchange and other United Kingdom securities and commodities exchanges of which UBS is a member.

The investment services that are subject to oversight by United Kingdom regulators are regulated in accordance with European Union directives requiring, among other things, compliance with certain capital adequacy standards, customer protection requirements and conduct of business rules. These standards, requirements and rules are similarly implemented, under the same directives, throughout the European Union and are broadly comparable in scope and purpose to the regulatory capital and customer protection requirements imposed under applicable US law.

A number of UBS's United Kingdom incorporated subsidiaries have the benefit of the "passport" conferred by European Directives, enabling them to establish branches in, and provide services cross-border into, other European Union countries without the need to comply with local (or "host state") licensing requirements, although host state customer protection requirements will often apply.

Basel Committee on Banking Supervision

UBS supports the current initiative of the Basel Committee on Banking Supervision to reform the

Capital Accord introduced in 1988, and is an active participant in industry dialogue with the Committee and with international regulators on this reform. It is critically important that the revision of the Capital Accord achieves a more flexible and risk-sensitive assessment of capital requirements, without undue complexity, and particularly that banks are not disadvantaged relative to securities firms that are not subject to the same capital requirements.

Relations with shareholders

UBS has almost 250,000 registered shareholders, ranging from sophisticated investment institutions to individual investors. All registered shareholders receive an illustrated Annual Review providing an overview of the Group during the year, and a short letter each quarter outlining new initiatives and UBS's financial performance during the quarter. More detailed financial reports are produced each quarter and each year, and can be received on request. All registered shareholders are informed by mail about extraordinary general meetings, or other special events.

Shareholder rights

Shareholders, as the owners of the company, have specific rights under Swiss law. UBS is committed to make it as easy as possible for shareholders to take part in its decision-making processes. There are no restrictions with regard to share ownership and voting rights, except for nominees and trustees, whose voting rights are limited to a maximum of 5% of the outstanding shares. This limitation exists in order to avoid the risk of unknown shareholders with extensive holdings being entered in the share register. An exception from the strict 5% rule exists for securities clearing organizations such as the Depository Trust Company (DTC) in New York and SegInterSettle (SIS) in Switzerland, which both fulfil a special fiduciary function for UBS shareholders.

UBS Annual General Meetings (AGMs) are open for participation to all shareholders. Personal invitations are sent to every registered shareholder at least 20 days ahead of the meeting. Shareholders may, if they do not wish to attend in person, issue instructions to accept, reject or abstain on each individual item on the agen-

da. They may also appoint UBS, another bank or the Independent Proxy to vote on their behalf. AGMs offer the opportunity to shareholders to raise any questions regarding the development of the company and the events of the year under review. The members of the Board and Group Executive Board as well as the internal and external auditors are present to answer these questions. Decisions are normally taken by the majority of votes cast and in some cases, defined by law or UBS Articles of Association, a two-third majority of the votes represented at the AGM is required.

Shareholders representing shares with an aggregate par value of one million Swiss francs may submit proposals for matters to be placed on the agenda for consideration by the AGM, provided that their proposals are submitted in writing within the deadline published by the company. Shareholders representing at least ten percent of the share capital, may ask that an Extraordinary General Meeting be convened to deal with a specific issue put forward by these shareholders.

UBS Group legal entity structure

The legal entity group structure of UBS is designed to support the Group's businesses within an efficient legal, tax, regulatory and funding framework. Neither the Business Groups of UBS (UBS Warburg, UBS Switzerland and UBS Asset Management) nor the Corporate Center operate through their own individual legal entities but rather they generally operate out of the parent bank, UBS AG, through its Swiss and foreign branches.

The goal of the focus on the parent bank structure is to capitalize on the synergies offered by the use of a single legal platform, enable the flexible use of capital in an efficient manner and to provide a structure where the activities of the Business Groups may be carried on without the need to set up separate subsidiaries beforehand.

Where it is either not possible or not efficient to operate out of the parent bank, usually due to local legal, tax or regulatory rules or due to additional legal entities joining the UBS Group via acquisition, then the businesses operate through local subsidiary companies. The significant operating subsidiary companies in the Group are listed in note 38 to the financial statements, in UBS's Financial Report 2000.

Financial Disclosure Principles

UBS's financial disclosure policies aim to achieve a fair market value for the UBS share by communicating transparently, openly and consistently with investors and the financial markets at all times.

UBS believes that the market accords a “transparency premium” to the share prices of companies who provide clear, consistent and informative disclosure about their business. UBS aims to communicate its strategy and results in such a way that investors can gain a full and accurate understanding of how the company works, what its growth prospects are and what risks there are that this growth will not be realized.

To continue to achieve these goals, UBS applies the following principles:

- *Transparency*: disclosure aims to enhance the understandability of the economic drivers and detailed results of the business building trust and credibility;
- *Consistency*: disclosure should be consistent and comparable within each reporting period and between reporting periods;
- *Simplicity*: disclosure of information is made in as simple a manner as possible to facilitate the required level of understanding of business performance;
- *Relevance*: information is disclosed only when relevant to UBS's stakeholders, or required by regulation or statute;
- *Best practice*: disclosure is in line with and, if possible, leads industry norms.

UBS reports its results quarterly, including a breakdown of results by business unit and extensive disclosures relating to credit and market risk. The quantity of disclosure and the quality of analysis and comment provided put UBS's reporting among the leaders in the banking sector, worldwide.

UBS also aims to take a prominent role in developing industry standards for disclosure. The Group is actively represented in committees and similar bodies helping to develop new accounting standards and risk disclosure standards.

UBS recently took the lead in proposing a new standard for measuring and reporting client assets. This has been well received by investors, analysts and peers and UBS is optimistic that the International Accounting Standards Committee will include such a standard in its revised publication of IAS 30 relating to bank-specific disclosure.

Performance measures and targets

Group targets

UBS focuses on four key performance targets, designed to ensure that it delivers continually

improving returns to its shareholders. UBS's performance against these targets is reported each quarter:

- UBS seeks to increase the value of the Group by achieving a sustainable, after-tax return on equity of 15–20%, across periods of varying market conditions.
- UBS aims to increase shareholder value through double-digit average annual earnings per share (EPS) growth, across periods of varying market conditions.
- Through cost reduction and earnings enhancement initiatives UBS aims to reduce the Group's cost/income ratio, to a level that compares positively with best-in-class competitors.
- UBS aims to achieve a clear growth trend in net new money in its private client businesses.

The first three targets are all reported pre-goodwill amortization, and adjusted for significant financial events (see page 92).

Business unit key performance indicators

UBS reports carefully chosen key performance indicators for each of its business units. These do not carry explicit targets, but are indicators of the business units' success in creating value for shareholders. They include financial metrics, such as the cost/income ratio and non-financial metrics such as client assets.

The key performance indicators are used for internal performance measurement as well as external reporting. This ensures that management have a clear responsibility to lead their businesses towards achieving success in the externally reported value drivers and reduce the risk of managing to purely internal performance measures.

Financial reporting policies

Accounting principles

UBS Group prepares its accounts according to International Accounting Standards, and provides additional information to reconcile its accounts to U.S. GAAP. A detailed explanation of the basis of UBS's accounting is given in Note 1 to the Financial Statements, which are published in the Financial Report 2000.

Significant financial events

UBS's financial targets and the analysis of financial results which is provided in quarterly and annual reports, concentrate on figures which have been adjusted by the exclusion of what UBS calls *Significant Financial Events*. This facilitates meaningful comparisons between different reporting periods, illustrating the underlying operational performance of the business, insulated from the impact of one-off gains or losses outside the normal course of business.

Treatment of an item as a significant financial event is at the discretion of the Group Executive Board, but in general the item should be:

- Non-recurring
- Event specific
- Material at Group level
- UBS-specific, not industry-wide

and should not be a consequence of the normal run of business.

Examples of items that are treated as significant financial events include the gain or loss on the sale of a significant subsidiary or associate, such as the divestment in 1999 of UBS's stake in Swiss Life/Rentenanstalt, or the restructuring costs associated with a major integration, such as the merger with PaineWebber.

Significant financial events are not a recognized accounting concept under International Accounting Standards, and are therefore not separately reflected in our financial statements. The use of numbers which have been adjusted for significant financial events is restricted to the business group and business unit reporting and to the analysis of the Group results and the accompanying illustrative tables. All adjusted figures are clearly identified as such, and the pre-tax amount of each individual significant financial event is disclosed in the quarter in which it is recorded, and in the annual report for that year, as is the net tax benefit or loss associated with the significant financial events recorded in each period.

Restatement of results

As required under IAS, UBS is committed to maintaining the transparency of its reported results and to ensuring that analysts and investors can make meaningful comparisons with previous periods. If there is a major reorganization of its business units or if changes to accounting standards or in-

terpretations lead to a material change in the Group's reported results, UBS restates results for previous periods to show how they would have been reported according to the new basis, and provides clear explanations of all changes.

Disclosure channels

UBS meets with its institutional investors regularly throughout the year, holding results presentations, specialist investor seminars, roadshows and one-on-one or group meetings across the world. Where possible, these events involve UBS senior management in addition to the UBS Investor Relations team. UBS is also developing the use of technology to further broaden access to its presentations through webcasting, audio links and cross-location video-conferencing for external audiences.

UBS fully subscribes to the principle of equal treatment of all shareholders. To ensure fair access to information, all UBS publications are made available to shareholders at the same time and key documents are generally available in both English and German. Shareholder letters and media releases are also translated into French and Italian. Letters to shareholders and material information related to corporate events are posted direct to all shareholders, while other information is distributed via press release and posted to UBS's website, at www.ubs.com/investor-relations.

US regulatory disclosure requirements

As a Swiss company listed on the New York Stock Exchange, UBS complies with disclosure requirements of the Securities and Exchange Commission (SEC) and the NYSE for foreign issuers with registered securities listed on the NYSE. These include the requirement to make certain filings with the SEC. As a foreign issuer, some of the SEC's regulations and requirements which apply to domestic issuers are not applicable to UBS. Instead, UBS files its regular quarterly reports with the SEC under cover of Form 6-K, and files an annual report on Form 20-F. These reports, as well as materials sent to shareholders in connection with annual and special meetings, are all available on our website, at www.ubs.com/investor-relations.

UBS Share Information

The Global Registered Share

UBS ordinary shares are registered shares with a par value of CHF 10 per share, fully paid up and non-assessable. As outlined in the Capital Management section on page 75, UBS plans to reduce the par value of its shares through a distribution and share split, which are expected to take place on 16 July 2001. If these plans are implemented the par value of the share will be reduced to CHF 2.80.

UBS is the first Swiss company pioneering the use of Global Registered Shares (GRS), which allows for cross-market portability at minimal cost to investors. The concept behind American Depository Receipts (ADRs), the most popular alternative to the GRS for accessing the US market, is the creation of tailor-made securities for individual unlinked markets, following local regulations. UBS believes that, with the globalization of financial markets, this concept is becoming less valid, and that securities will increasingly be traded in multiple markets. UBS also believes that a global fungible security can best track the changing patterns of liquidity across the world.

A Global Registered Share is a security that provides direct and equal ownership for all shareholders. It can be traded and transferred across applicable borders without the need for conversion, with identical shares traded on different stock exchanges in different currencies. For example, the same share purchased on the New York Stock Exchange (NYSE) can be sold on the SWX Swiss Exchange or vice versa. The UBS GRS is listed on the New York, Zurich and Tokyo Stock Exchanges.

The UBS ADR program was terminated at the time of the listing of the GRS on the New York Stock Exchange (NYSE) – 16 May 2000. UBS ADR owners still have the option to exchange any outstanding ADRs for UBS shares. The exchange ratio is 10 ADRs for 1 GRS. This option is open until May 2001, after which only a cash equivalent will be available.

Registration

A single register exists for UBS ordinary shares, split into two parts – a Swiss register, which is maintained by UBS acting as Swiss transfer agent, and a US register, which is maintained by The Bank of New York, as US transfer agent. A shareholder is entitled to hold shares registered in their name on either register and transfer shares from one register to the other upon giving proper instruction to the transfer agents.

Share liquidity and currency effects

For the foreseeable future, because of the greater volume of UBS shares traded on the SWX Swiss Exchange, Swiss trading will be the primary determinant of the share price and liquidity on the SWX Swiss Exchange will be higher.

During the hours in which both the SWX and NYSE are simultaneously open (currently 1530 to 1700 CET), price differences are likely to be arbitrated away by professional market makers. The NYSE price will therefore depend on both the SWX price and the prevailing USD/CHF exchange rate. When the SWX is closed, traded volumes will be lower, however the specialist firm making a market in UBS shares on the NYSE, Van der Moolen, will facilitate sufficient liquidity and an orderly market.

As a global financial services firm, UBS earns profits in many currencies. Since UBS prepares its accounts in CHF, changes in currency exchange rates, particularly CHF/USD and CHF/GBP, may have an effect on reported earnings.

With the PaineWebber merger the USD earnings component of UBS will increase.

The UBS dividend

UBS normally pays its regular annual dividend to shareholders registered as of the date of the Annual General Meeting (the record date). Payment is usually scheduled 3 business days thereafter.

Following an AGM, UBS shares typically begin trading ex-dividend. As a result of this structure, shareholders that sell shares on the SWX Swiss Exchange two business days prior to the payment date are required to compensate the purchaser for the amount of the dividend. An automated compensation system properly allocates the dividend for those transactions and allows SegInterSettle participants to execute transactions between the record date and the payment date.

These practices differ from the US norm of declaring dividends at least ten days in advance of the applicable record date and the commencement of ex-dividend trading two days before the record date. To ensure Swiss shareholders and US shareholders are similarly treated in connection with dividend payments, and to avoid disparities between the two markets, NYSE trading will be with due bills for the two business day period preceding the dividend record date.

UBS pays dividends in Swiss francs. For UBS ordinary shares held in street name through The

Depository Trust Company, any dividend will be converted into US dollars. Holders of UBS ordinary shares registered on the US register will receive dividend payments in US dollars, unless they provide notice to The Bank of New York, UBS's US transfer agent, that they wish to receive dividend payments in Swiss franc

UBS will fix the USD dividend amount on the basis of the DJ Interbank Foreign Exchange rate for sale of CHF against USD. The date for this fixing will be set at the same time as the respective ex-dividend, record and payment dates are set.

Holders of UBS shares who are US taxpayers are normally subject to 35% withholding tax on dividends they receive from UBS, although they can normally reclaim part of this, bringing their withholding tax rate down to 15%. UBS is currently in discussions with the Swiss tax authorities to change the withholding tax treatment of Global Registered Shares, so that either tax is only withheld at 15% for US tax payers, or to allow approved processors to file bulk reclamations on behalf of qualified UBS shareholders. Despite our efforts, there can be no assurance that this withholding tax will be reduced or eliminated.

UBS Shares 2000

UBS Share Data

		For the year ended	
		31.12.99	31.12.98
<i>Registered shares in 1000 units</i>	31.12.00		
Total shares outstanding	444,380	430,893	429,953
Total shares ranking for dividend	425,958	430,893	429,953
Treasury shares (average)	31,199	27,882	18,601
Treasury shares (year end)	18,422	36,874	24,457
Weighted average shares (for basic EPS calculation)	403,029	404,742	405,222
Weighted average shares (for diluted EPS calculation)	408,526	408,375	412,881
Per share data CHF			
Basic earnings per share	19.33	15.20	7.33
Basic earnings per share before goodwill	20.99	16.04	8.18
Diluted earnings per share	19.04	15.07	7.20
Diluted earnings per share before goodwill	20.67	15.90	8.03
Distribution	6.10	5.50	5.00
Market capitalization – CHF billion			
Year-end	112.7	92.6	90.7
% change year-on-year	21.70	2.09	0.55
As a % of the Swiss Market Index (SMI)	10.80	10.62	11.76
As a % of the Swiss Performance Index (SPI)	9.08	8.51	9.56
Trading volumes – 1000 units			
SWX total	403,767	346,405	244,080
SWX daily average	1,609	1,364	1,878
NYSE total	27,767		
NYSE daily average	175		

UBS share price performance in 2000

UBS's share price performed strongly in 2000, rising 23% through the year and generating a total return of 28% to investors if dividends are included.

UBS believes that three key factors underly this strong performance. Firstly UBS firmly demonstrated its commitment to achieving its strategic goals, improving investors' confidence in the Group's ability to revitalize under-performing businesses and position itself excellently to tap growth markets and opportunities. Secondly, financial results demonstrated the attractiveness of the Group's mix of businesses, and its ability to weather deteriorating international market conditions during the year and maintain its strong financial performance. Finally, UBS has maintained its commitment to manage its capital for the benefit of its shareholders, minimizing the dilution to existing shareholders that resulted from the PaineWebber merger and buying back over 18 million shares for cancellation.

The year started poorly for most banking stocks, including UBS, following concerns over the sustainability of the "new economy" para-

digm. Opening the year at CHF 215, the share price fell to its lowest point for the year of CHF 190.75 on 25 January. However, the stock recovered quickly and went on to reach CHF 250 in mid June as UBS began to deliver on its strategic commitments, with particularly positive reactions to the New York Stock Exchange listing and the communication of e-commerce strategy in May, and to our record first quarter results.

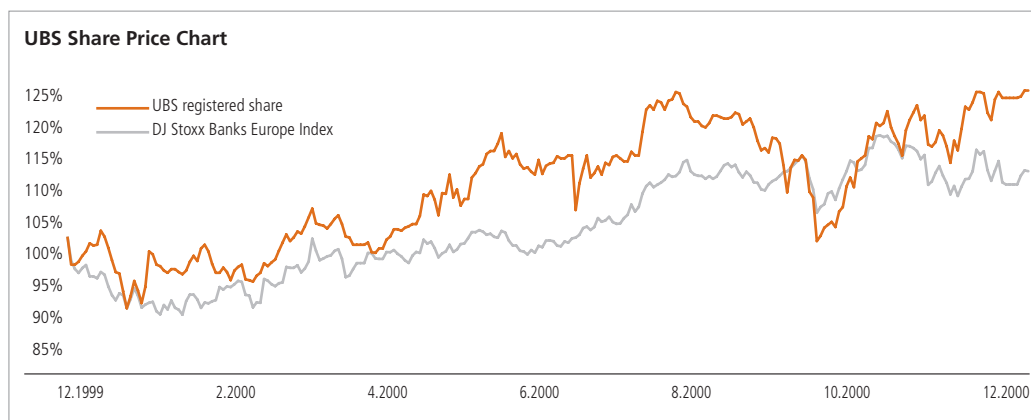
Announcement of the merger with PaineWebber brought a temporary technical arbitrage driven drop in the stock price, to CHF 224, but by 18 August the price recovered to a year-to-date high of CHF 264 as arbitrage pressures reduced. Investor concerns over losses in the investment banking sector, and increasing signs of a weakening US economy began to put downward pressure on the share price, which fell to CHF 213.50 on 11 October.

The shares recovered to close at a year's high of 264.50 as strong third quarter results demonstrated the resilience of UBS's earnings, and investors saw the benefits of exposure to the strong Swiss economy as a hedge against a potential downturn in international markets.

Stock Exchange Prices¹

	SWX Swiss Exchange			New York Stock Exchange		
	High (CHF)	Low (CHF)	Period end (CHF)	High (USD)	Low (USD)	Period end (USD)
2000	264.50	190.75	264.50	153.00	129.85	163.40
Fourth quarter 2000	264.50	213.50	264.50	163.40	141.80	163.40
Third quarter 2000	264.00	224.00	230.00	153.25	135.19	135.45
Second quarter 2000	250.00	209.50	239.00	153.00	129.85	147.00
First quarter 2000	218.50	190.75	218.50			
1999	264.00	202.50	215.00			
Fourth quarter 1999	239.75	202.50	215.00			
Third quarter 1999	246.75	202.50	211.50			
Second quarter 1999	264.00	221.00	232.00			
First quarter 1999	246.00	207.25	232.50			
1998²	326.50	135.00	211.00			

¹ The share prices and volumes have been adjusted for the two-for-one stock split that became effective on 8 May 2000. ² As a result of the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation, shares of UBS AG began trading on 29 June 1998. UBS ordinary shares did not trade at any time prior to that date.



UBS Shares and Market Capitalization

As of		Number of shares		% change from	
		31.12.00	31.12.99	31.12.98	31.12.99
	Total ordinary shares issued¹	444,379,729	430,893,162	429,952,612	3
	Less second trading line treasury shares	18,421,783			
	Net shares outstanding	425,957,946	430,893,162	429,952,612	(1)
	Market capitalization (CHF million)	112,666	92,642	90,720	22
	Second trading line treasury shares	18,421,783			
	Other treasury shares	0	36,873,714	24,456,698	(100)
	Total number of treasury shares	18,421,783	36,873,714	24,456,698	(50)

¹ Excludes 9,481,596 of shares to be delivered against borrowed own equity contracts, at 31 December 2000.

Distribution of UBS Shares at 31 December 2000

Number of shares registered	Shareholders registered		Shares registered		Total shares issued
	Number	%	Number	% of shares issued	
1–100	110,697	49.0	5,744,131	1.3	
101–1,000	102,038	45.1	31,548,461	7.1	
1,001–5,000	10,962	4.8	21,951,728	4.9	
5,001–10,000	1,176	0.5	8,242,804	1.9	
10,001–50,000	924	0.4	19,204,403	4.3	
50,001–100,000	127	0.1	8,663,750	2.0	
100,001–2,583,506 (1%)	207	0.1	115,639,346	26.0	
1–2%	1		4,516,000	1.0	
2–3%	0		0		
3–4%	1		14,852,677	3.3	
4–5%	0		0		
Over 5%	1 ³		27,987,339	6.3	
Total registered	226,134	100.0	258,350,639	58.1	258,350,639
Non-registered ²					186,029,090
Total					444,379,729

¹ 46,705,889 shares registered do not carry voting rights. ² Shares not entered in the share register at 31.12.2000. ³ As at 31.12.2000, Chase Nominees Ltd., London, was entered as a trustee/nominee holding 6.3% of all shares issued. No beneficial owner held more than 5% of the total of outstanding shares.

Details on shareholders and shares registered

	Shareholders		Shares	
	Number	%	Number	%
Individual shareholders	216,549	95.7	67,703,420	26.2
Legal entities	8,969	4.0	120,451,892	46.6
Nominees, fiduciaries	616	0.3	70,195,327	27.2
Total	226,134	100.0	258,350,639	100.0
Switzerland	210,860	93.3	144,552,709	56.0
Europe	9,580	4.2	63,850,105	24.7
North America	2,980	1.3	31,112,987	12.0
Other countries	2,714	1.2	18,834,838	7.3
Total	226,134	100.0	258,350,639	100.0

UBS employees held approximately 8% of all shares issued, and options equivalent to about 6%.

Cautionary statement regarding forward-looking statements

This communication contains statements that constitute "forward-looking statements", including, without limitation, statements relating to the implementation of strategic initiatives, including the implementation of the new European wealth management strategy and the implementation of a new business model for UBS Capital, and other statements relating to our future business development and economic performance.

While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

These factors include, but are not limited to, (1) general market, macro-economic, governmental and regulatory trends, (2) movements in local and international securities markets, currency exchange rates and interest rates, (3) competitive pressures, (4) technological developments, (5) changes in the financial position or credit-worthiness of our customers, obligors and counterparties, (6) legislative developments and (7) other key factors that we have indicated could adversely affect our business and financial performance which are contained in our past and future filings and reports, including those with the SEC.

More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC. UBS is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

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