SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended 31 December 1999

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-15026

UBS AG

(Exact name of registrant as specified in its charter)

SWITZERLAND
(Jurisdiction of incorporation or organization)

Bahnhofstrasse 45, Zurich, Switzerland, and Aeschenvorstadt 1, Basel, Switzerland
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares (par value of CHF 10 each)..	The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares (as adjusted to reflect the two-for-one stock split, the effective date of which was 8 May 2000) of each of the issuer's classes of capital or common stock at 31 December 1999:

Ordinary shares, par value CHF 10 per share . . . . . . 430,893,162 ordinary shares (including 36,873,714 treasury shares)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☐ NO ☒

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☒

PRESENTATION OF INFORMATION

In this Annual Report on Form 20-F, the term “shares” refers to units of registered shares, par value CHF 10 per unit, and ISIN Number CH0008470921, of UBS AG.

DEFINITIONS

For the purposes of this Annual Report, the terms “UBS”, the “Group”, “we”, “our” and “us” mean UBS AG and its consolidated subsidiaries.

The term “merger” means the merger of Union Bank of Switzerland and Swiss Bank Corporation, which was consummated on 29 June 1998.

REPORTING CURRENCY

Our financial statements have been prepared in accordance with International Accounting Standards and are denominated in Swiss francs, or “CHF”, the legal tender of Switzerland. For convenience, certain amounts referred to in this Annual Report have been translated from Swiss francs into United States dollars, or “$” at the rate of CHF 1 = $0.6277, which was the noon buying rate on 31 December 1999. This translation should not be construed as a representation that the Swiss franc amounts actually denote such United States dollar amounts or have been, could have been or could be, converted into U.S. dollars at the rate indicated.

EXCHANGE RATE INFORMATION

The table below sets forth, for the periods and dates indicated, information concerning the noon buying rate for the Swiss franc, expressed in US$ per one Swiss franc. The “noon buying rate” is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

Year ended 31 December	High	Low	Average Rate(1)	At Period End
		(US$ per 1 CHF)		
1995	0.8951	0.7616	0.8466	0.8666
1996	0.8641	0.7399	0.8090	0.7468
1997	0.7446	0.6510	0.6890	0.6845
1998	0.7731	0.6485	0.6894	0.7281
1999	0.7361	0.6244	0.6605	0.6277
2000 (through 31 May)	0.5748	0.6441	0.5958	0.5923

(1) The average of the noon buying rates on the last business day of each full month during the relevant period.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains statements that constitute “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. In addition, other written or oral statements which constitute forward-looking statements have been made and may in the future be made on our behalf. In this annual report, such forward-looking statements include, without limitation, statements relating to:

- the implementation of strategic initiatives
- the development of revenues overall and within specific business areas
- the development of operating expenses, particularly personnel expenses
- the development of other operating expenses
- the anticipated level of capital expenditures and associated depreciation expense
- the expected impact of the risks that affect our business, including the risk of loss resulting from the default of an obligor or counterparty
- expected credit losses based upon our credit review
- other statements relating to our future business development and economic performance

The words “anticipate”, “believe”, “expect”, “estimate”, “intend”, “plan” and other similar expressions identify some of these forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements because actual events may differ materially from those described by these forward-looking statements and as a result, financial results could differ from those set forth and those differences may be material to our financial statements.

Many factors may influence our actual results and cause them to differ materially from expected results as described in the forward-looking statements. These factors include:

- general market trends affecting demand for our products and services
- developments in the competitive environment in Switzerland and around the world
- developments in technology
- changes in our expenses associated with acquisitions and dispositions
- our ability to attract and retain skilled personnel
- credit ratings and the financial position of obligors and counterparties
- our ability to control risk in our businesses, including our ability to improve our overall risk profile

- macroeconomic trends and government and regulatory policies affecting business in Switzerland and around the world, including changes in the level of interest or tax rates and movements in foreign currency exchange rates

UBS AG

ANNUAL REPORT ON FORM 20-F

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Merger Agreement, dated 5/6 December 1997, between Union Bank of Switzerland, Swiss Bank Corporation and UBS AG (as amended on 19 March 1998 and on 28 April/1 May 1998) ... *

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* Incorporated by reference from our Registration Statement on Form 20-F filed 9 May 2000.

PART I

Item 1 DESCRIPTION OF BUSINESS

Mission

The UBS mission is to:

- provide clients with superior value-added investment services
- provide above average rewards to shareholders
- be an employer of choice
- be a good corporate citizen

Overview

UBS is a global, integrated investment services firm and the leading bank in Switzerland. Our business is managed through three main business groups and our Corporate Center. The business groups are:

- UBS Switzerland
- UBS Warburg
- UBS Asset Management

The philosophy of our business model is that each of the business groups holds primary responsibility for managing relationships with well-defined client segments, while ensuring appropriate access to the products and services of the entire Group. Our clients include international corporations, small and medium sized businesses in Switzerland, governments and other public bodies, financial institutions, market participants and individuals. Individuals include high net worth individuals, affluent clients and retail customers. The Group provides its clients with a broad range of products and services. These include:

- wealth management services
- investment funds
- corporate advisory (mergers and acquisitions) services
- equity and debt underwriting
- securities and financial market research
- securities and derivatives sales and trading

- structured risk management
- retail, commercial and transaction banking in Switzerland
- asset management
- private equity funds

Each of the business groups is one of the leaders in its field. UBS has the world's largest private banking business and is a leading global asset manager, as measured by assets under management. UBS Warburg is among the leading corporate and institutional investment banks, and it is differentiated by its European roots. UBS is the leading retail and commercial bank in Switzerland.

Our Corporate Center encompasses Group level functions which cannot be delegated to the business groups.

All of our business groups work together in an integrated investment services firm. We believe this allows us to provide several types of services to our clients, resulting in additional profits. Examples of inter-group synergies include:

- UBS Warburg provides research, securities brokerage and foreign exchange execution services to clients of UBS Switzerland
- UBS Switzerland and UBS Warburg banking clients also have the opportunity to invest in UBS Capital and UBS Asset Management funds
- UBS Asset Management researches and recommends the asset allocation strategies employed by UBS Warburg and UBS Switzerland, in particular with respect to investment funds
- technology and premises infrastructure, operations and other support services are generally shared between all business groups in a given country, especially in Switzerland.

Set forth below is summary information relating to UBS.

	1999	1998	1997
	(CHF in millions except per share data)		
Operating income	28,621	22,328	24,880
Operating expenses	20,452	18,258	18,636
Group operating profit before restructuring costs and tax	8,169	4,070	6,244
Net profit (loss)[1]	6,300	3,030	(667)
Earnings per share before restructuring costs and tax	30.28	14.31	23.05
(at period end)			
Total assets	981,573	944,116	1,086,414
Shareholders' equity	34,835	32,395	30,927
Assets under management[2]	1,744,000	1,572,000	1,512,000

(1) The year ended 31 December 1997 includes a restructuring provision of CHF 7 billion, which was recorded after Group operating profit. An additional CHF 300 million restructuring provision was recorded in the year ended 31 December 1999 as an operating expense. No restructuring provisions were recorded in any of the other periods.

(2) Assets under management is defined as third-party on- and off-balance sheet assets for which we have investment responsibility, as well as deposits and current accounts. This includes discretionary assets (deposited with us or externally), where we have a mandate to invest and manage the assets, as well as advisory assets. The major product categories of assets under management are mutual funds, securities (bonds and equities) and deposit and current accounts.

Our financial stability stems from the fact that we are one of the most well capitalized banks in the world. We believe that this financial strength is a key part of the value proposition offered to both clients and investors. The long-term credit ratings assigned to us by rating agencies are set out below:

	At 31 December 1999	At 31 December 1998
Moody's, New York	Aa1	Aa1
Fitch/IBCA, London	AAA	AAA
Standard & Poor's, New York	AA+	AA+
Thomson BankWatch, New York	AA	AA

Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of such rating may only be obtained from such rating agency. There is no assurance that any such credit rating will remain in effect for any given period of time or that such rating will not be lowered, suspended or withdrawn entirely by the applicable rating agency, if in such rating agency's judgment, circumstances so warrant.

Strategy

We seek to grow the profitability and enhance the efficiency of all our businesses, while continuously improving the provision of products and services to our clients. We will build our franchise either through investments in internal growth or, where appropriate, through selected acquisitions. We believe that our business model and our recent history of embracing and managing change will enable flexible responses to the rapid and unpredictable changes taking place in the financial services industry. The ability to integrate new businesses, including our retained staff expertise, is a core competency of UBS. In order to maintain an edge in the highly competitive markets in which we operate, we will continue to make ongoing investments in top quality staff and technology.

In addition to the delivery of products and services through traditional channels, we are strengthening our e-commerce initiatives. Our business groups are well advanced in formulating and implementing their e-commerce strategies.

- UBS Switzerland will invest CHF 90-100 million annually over the next few years to extend its electronic banking and mobile banking initiatives. Since April 2000, a single unit has been responsible for handling all the business group's e-banking activities with its primary goal being to bring personalized service to private clients. A further goal is to expand relationships with active online clients, strengthening cross-selling in the process.

- UBS Warburg has launched its web-based business-to-business solution Investment Banking On-Line or IBOL. From the IBOL homepage, institutional and corporate clients can access services and content electronically and link to execution capabilities across all product areas. UBS Warburg will invest an additional CHF 310 million in 2000 and comparable amounts over the next few years in its new pan-European multi-channel e-services initiative targeted at affluent individuals in Europe. The initiative centers around marketing a differentiated array of investment services, including products from third-party providers, linked with investment advice, financial planning and asset allocation.

Background

On 29 June 1998, Union Bank of Switzerland and Swiss Bank Corporation merged to form UBS. Union Bank of Switzerland was created by the merger of two Swiss regional banks in 1912; these two Swiss regional banks can trace their history back to 1862 and 1863. Swiss Bank Corporation 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.

Prior to the merger, Union Bank of Switzerland developed primarily through internal growth, although it made certain significant acquisitions such as Phillips and Drew in 1985. Swiss Bank Corporation expanded mainly through acquisitions. These included the acquisitions of (1) O'Connor & Associates, a group of affiliated firms specializing in the trading of options and other derivative instruments (1992); (2) Brinson Partners, a leading institutional investment management firm in terms of assets under management (1995); (3) the investment banking operating subsidiaries of S.G. Warburg Group p.l.c. (1995) and (4) Dillon Read & Co., Inc., a United States-based investment bank (1997).

The integration of Union Bank of Switzerland and Swiss Bank Corporation was largely completed within one year, despite the additional challenges presented by preparation for the Year 2000 and the introduction of the Euro. As a result, we are well positioned to benefit from the retained staff expertise that has resulted from the merger and earlier integrations, as we seek to continue to build the

premier client franchise in each of our core businesses and expand our offerings of products and services around the world.

Business and Management Structure

Prior to the merger, Union Bank of Switzerland operated four strategic business segments:

- private banking and institutional asset management
- corporate and institutional finance
- trading, sales and risk management services
- retail banking

Swiss Bank Corporation also operated in four divisions prior to the merger:

- SBC Private Banking
- SBC Warburg Dillon Read (investment banking)
- SBC Switzerland (corporate and retail banking)
- SBC Brinson (investment management)

The combined entity initially had the following five operating divisions and the Corporate Center:

- UBS Private Banking
- Warburg Dillon Read
- UBS Private and Corporate Clients
- UBS Brinson, which was renamed UBS Asset Management
- UBS Private Equity

On 18 February 2000, we regrouped our wealth management businesses into the following three main business groups to align our business as closely as possible to client needs.

- UBS Switzerland, which is composed of two business areas:
  - the previous Private and Corporate Clients business
  - our private banking services offered to all offshore and Swiss high net worth clients who bank in Switzerland or other offshore centers
- UBS Warburg, which is now comprised of four business units:

- Corporate and Institutional Clients: securities and investment banking products and services for institutional and corporate clients. This includes the Corporate Finance, Equities, Fixed Income and Treasury Products businesses

- UBS Capital: investment of Group and third-party funds in a diverse range of private, and occasionally public, companies on a global basis

- Private Clients: our onshore private banking services for high net worth individuals outside Switzerland

- e-services: personalized investment and advisory services for affluent clients in Europe, delivered via a multi-channel structure which integrates internet, call centers and investment centers

- UBS Asset Management, which now includes:

  - Institutional Asset Management: our existing Brinson Partners and Phillips & Drew business areas which are being integrated to form a single global investment platform

  - Investment Funds / GAM: The UBS Investment Funds and Global Asset Management, or GAM, business areas, transferred from UBS Private Banking

Our Board of Directors, which consists exclusively of non-executive directors in accordance with Swiss Banking Law, has the ultimate responsibility for the strategic direction of our business and the supervision and control of executive management. The Group Executive Board, which is our most senior executive body, assumes overall responsibility for the development of the Group's strategies and the implementation and results thereof.

In the remainder of this Business section and in Management's Discussion and Analysis of Financial Condition and Results of Operations below, the discussion will be divided into the five divisions as they existed on 31 December 1999, with reference to the changes that have been effected as a result of the regrouping into three business groups.

UBS Private Banking

Overview

We are one of the leading international private banks, as measured by assets under management. At 31 December 1999, we had CHF 731 billion in assets under management. Our private banking business serves high net worth individuals with a broad range of comprehensive wealth management services and financial products. High net worth individuals generally commit at least CHF 1 million to invest. Our approach is to focus on establishing long-term client relationships and emphasizing the life-time value of these relationships.

The private banking industry is in the process of undergoing some fundamental changes resulting from the changing profile of high net worth individuals, emerging technologies and increased competition. Clients are increasingly taking a more active role in managing their wealth and are demanding more sophisticated products and a broader geographic 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. The private banking industry is also experiencing an increase in the wealth that remains in onshore markets, particularly in the form of equity and equity linked investments, as domestic capital markets become more developed and generate higher returns.

To address this changing environment, we are seeking to further penetrate our existing client base with enhanced wealth management solutions. Our size allows us the flexibility to offer our clients customized and expanded service offerings tailored to their particular needs. We are also committed to the strategy of developing onshore private banking markets outside Switzerland. Thus, during 1999 UBS Private Banking opened new offices in Spain, Italy, France and Germany. At the same time, the division strengthened its existing onshore private banking platforms in major financial centers such as London, New York, Singapore and Hong Kong.

We believe that our focus on these onshore markets will enable us to increase assets under management by retaining assets that are migrating to these markets and tapping new sources of assets to which we would otherwise not have access. To further increase our assets under management in our private banking business, we also intend to continue to consider select acquisition opportunities that may arise, as evidenced by our recent acquisitions of the Bank of America's international private banking activities and the acquisition of Global Asset Management, which was completed in December 1999.

Set forth below is summary information, based on management accounting, relating to UBS Private Banking, which is discussed in greater detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations — UBS Private Banking".

	1999	**1998**	**1997**
	(CHF in millions)		
Operating income before credit loss expense	6,011	7,223	6,215
Credit loss expense	24	26	59
Personnel, general and administrative expenses	3,161	2,735	2,869
Depreciation and amortization	174	126	122
Operating profit before restructuring costs and tax	2,652	4,336	3,165
(at period end)			
Assets under management	731,000	607,000	610,000
Number of employees	9,565	7,634	7,862

Organizational Structure

As described above, on 18 February 2000, we regrouped our wealth management businesses to align them more closely to our clients' needs. As a result, we re-aligned the businesses organized under the UBS Private Banking division as of 31 December 1999 under one of the three new business groups.

- we aligned our private banking services offered to offshore and Swiss high net worth clients who bank in Switzerland or other offshore centers within UBS Switzerland
- we transferred our onshore banking services offered to high net worth individuals outside Switzerland to UBS Warburg

- we transferred our mutual funds business and the newly acquired Global Asset Management into UBS Asset Management

As a result, we will no longer report UBS Private Banking as a separate division.

Marketing and Distribution

We provide wealth management services to our clients in a number of geographic regions and seek to tailor our service offerings to meet the specific needs of particular client segments and markets. To better understand the needs of our existing and prospective clients, we differentiate our clients by geographic location and the amount of assets under management and then based on their product needs and utilization and service requirements. The client advisors who serve our clients are principally organized by respective markets, which allows them a higher level of client focus. We believe that this approach fosters valued long-term client relationships.

Our client advisors retain primary responsibility for introducing products and services to our existing and prospective private banking clients. The business areas that deal directly with clients are generally responsible for their own marketing activities. The client advisors are central to the delivery of services to our clients and are responsible for increasing the penetration of our service offerings with our existing customer base. The client advisors are supported by a separate marketing department, which is responsible for market research and the preparation of standardized marketing materials.

Products and Services

We provide a number of asset-based, transaction-based and other services to our private banking clients. Asset-based services include custodial services, deposit accounts, loans and fiduciary services while transaction-based services include trading and brokerage and investment fund services. We also provide financial planning and consulting and offer financial planning instruments to our clients. These services include establishing proprietary trusts and foundations, the execution of wills, corporate and tax structuring and tax efficient investments. Our private banking business has the following three core product and service business areas:

- ***Financial Planning and Wealth Management*** — Responsible for developing integrated comprehensive wealth management services in the form of tax and estate planning, liquidity and retirement lifestyle planning, insurance products, art and real estate advisory services and a variety of sophisticated capital enhancement and asset protection strategies;

- ***Portfolio Management*** — Responsible for providing portfolio management services to our private banking clients and for the investment clients of UBS Private and Corporate Clients;

- ***Active Advisory Team*** — Provides sales brokerage, investment advisory services and investment advisory products to key private banking locations worldwide. The Active Advisory Team provides information concerning, and facilitates investments in, primary initial public offerings and secondary placements. This team also provides fiduciary services and the execution of private banking orders outside Switzerland.

At 31 December 1999, about one-quarter of UBS Private Banking's assets under management were managed on a discretionary basis. The remaining assets under management related to advisory

engagements. For discretionary engagements, portfolio managers work with clients to tailor an investment strategy to meet their particular needs within the boundaries and asset allocation criteria established by UBS Asset Management. UBS Asset Management is also responsible for managing the asset allocation and investment strategies for UBS's investment funds, other than the real estate funds.

The following table shows information concerning assets under management by type of engagement and asset class in UBS Private Banking at 31 December 1999, 1998 and 1997:

	Assets Under Management		
Type of Engagement	**1999**	**1998**	**1997**
		(CHF in millions)	
Advisory	548,000	458,000	470,000
Discretionary	183,000	149,000	140,000
Total	731,000	607,000	610,000
Asset Class			
Deposit and current accounts	66,000	52,000	49,000
Equities	212,000	156,000	146,000
Bonds	205,000	196,000	207,000
UBS Investment Funds	131,000	97,000	116,000
Other[(1)]	117,000	106,000	92,000
Total	731,000	607,000	610,000

(1) Includes money market instruments, UBS medium-term notes, derivatives, mutual funds not managed by UBS and precious metals.

Investment Funds Business

As a result of the merger, we have become the leading investment fund provider in Europe and Switzerland in terms of investment fund assets under management. These investment funds are offered to our private banking clients and other clients of UBS Switzerland and UBS Warburg. Our investment funds business was regrouped under UBS Asset Management in April 2000.

The following table shows total assets under management in these investment funds by fund category at 31 December 1999, 1998 and 1997:

Fund Category	**1999**	**1998**	**1997**
		(CHF in millions)	
Asset Allocation	44,200	35,000	24,100
Money Market	46,200	45,500	49,600
Bond	40,200	42,500	39,700
Equity	52,300	35,400	27,000
Capital Preservation	12,100	12,400	8,000
Real Estate	6,000	4,800	4,500
Total	201,000	175,600	152,900

UBS Warburg

Overview

UBS Warburg is one of the leading global investment banks. UBS Warburg provides wholesale financial and investment products and advisory services globally to a diversified client base, which includes institutional investors (including institutional asset managers and broker-dealers), corporations, sovereign governments and supranational organizations. UBS Warburg also manages cash and collateral trading and interest rate risks on behalf of the Group and executes the vast majority of the Group's retail securities, derivatives and foreign currency exchange transactions. UBS Warburg's headquarters are in London and, at 31 December 1999, it employed about 13,000 people in over 40 countries throughout the world.

In the merger, the investment banking businesses of the two banks came together to form UBS Warburg. Within Union Bank of Switzerland, securities trading began in New York and London in the 1970s and grew in the 1980s with the acquisition of Phillips & Drew in 1985. Within Swiss Bank Corporation, the acquisition of O'Connor & Associates in 1992 and the investment banking businesses of S.G. Warburg in 1995 led to the formation of SBC Warburg as a global investment bank, which was further strengthened in the United States with the 1997 acquisition of Dillon, Read & Co., Inc.

UBS Warburg has a large corporate client financing and advisory business and is one of the top-ranked investment banks engaged in institutional client business. The business area has achieved industry-wide recognition for its performance in the following areas:

- equity sales and trading (ranked number three globally in 1999 based on equity commission revenues based on an independent survey);

- cash and derivative fixed income sales and trading with institutional investors (ranked number four globally in 1999 based on information compiled and classified by the Securities Data Company and other publicly available information);

- eurobond trading (received Award of Excellence and named Eurobond Trading Firm of the year in July 1999 by Euromoney);

- global foreign exchange (ranked number four in May 1999 by Euromoney FX poll, which ranks investment banks and banks on a global basis by market share);

- research, with a global research sales team that includes about 630 specialist analysts based in over 30 countries and covering over 4,600 companies (ranked fourth in Institutional Investor Global Research in December 1999 and third in European Research in February 2000 as well as receiving Euromoney's award in October 1999 for best overall Asian research);

- debt and equity capital (1999, ranked number five in international equity; number three in international equity-linked issuances; number two in eurobond origination; and number one in its target franchise segments of international bonds by Bondware. UBS Warburg's target franchise markets exclude asset-backed, self-issuance and U.S. agencies);

- privatizations (including its role as lead manager in the Swisscom privatization, which was named privatization of the year by Institutional Investor and International Financing Review in 1998).

As a result of the Group reorganization, the business areas operated within UBS Warburg have expanded. While retaining the existing organization and structure of the securities and investment banking business areas, UBS Warburg will also include UBS Capital, onshore banking for individuals outside Switzerland and e-services.

Set forth below is summary information, based on management accounting, relating to UBS Warburg (pre-reorganization), which is discussed in greater detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations — UBS Warburg".

	1999	1998	1997
	(CHF in millions)		
Operating income before credit loss expense	12,909	6,987	10,888
Credit loss expense	330	500	300
Personnel, general and administrative expenses	9,309	6,816	8,641
Depreciation and amortization	786	692	668
Operating profit (loss) before restructuring costs and tax	2,484	(1,021)	1,279
Average regulatory equity used[1]	10,050	13,300	13,600
Number of employees (*at period end*)	12,694	13,794	18,620

(1) Average regulatory equity used is the monthly average of the regulatory capital used by a division. Average regulatory equity is calculated by applying the average equity/capital ratio of the Group to the average monthly, regulatory capital usage calculated by the divisions in accordance with BIS rules, adjusted by a margin of 10%.

Business Areas

At 31 December 1999, UBS Warburg operated four main business areas that have been organized by the type of products and services offered and their risk exposure. These four business areas consist of Equities, Fixed Income, Corporate Finance and Treasury Products. The Corporate Finance business area works with the Equities and Fixed Income business areas through the Equity Capital Markets Group, the Debt Capital Markets Group and Leveraged Finance to originate new equities capital markets business, fixed income capital markets business and leveraged finance business. Consequently, operating income from the Equity Capital Markets Group is shared between Equities and Corporate Finance and operating income from the Debt Capital Markets Group and Leveraged Finance is shared between Fixed Income and Corporate Finance. The table below sets forth the operating income before credit loss expense attributable to each of UBS Warburg's main business areas for the years ended 31 December 1999, 1998 and 1997:

	Operating Income Before Credit Loss Expense[1]		
	1999	1998	1997[2]
	(CHF in millions)		
Equities	5,916	3,334	
Fixed Income	2,460	(267)	
Corporate Finance	2,050	1,665	
Treasury Products	1,801	2,351	
Non-core business	682	(96)	
Total	12,909	6,987	10,888

(1) Operating income before credit loss expense broken down by business area has been restated to conform to 1999 presentation whereby operating income from non-core business is disclosed separately.

(2) Prior to the merger, the businesses were reported under different management reporting structures. A breakdown of 1997 revenues in accordance with our management reporting structure for 1999 and 1998 is, therefore, not possible.

Equities

Equities is a leader in equity, equity-linked and equity derivative products in primary markets and a large cross-border trader in secondary equity markets. Equities' secondary market business represented over 60% of the operating income from Equities in 1999. Equities' primary areas of responsibility include:

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

Through our branches and affiliates, we are a member of most major stock exchanges, including New York, London, Tokyo and Zurich. We are also participants in a number of electronic exchange ventures, including Tradepoint, through our equity investment in TP Group Limited, and NYFIX Millennium L.L.C.

Fixed Income

Fixed Income structures, originates, trades and distributes a variety of fixed income, banking and structured products. It also is responsible for loan syndication and core-loan portfolio functions. Fixed Income serves a broad client base consisting 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, such as structured finance and leveraged finance products
- principal finance services, which involves the purchase, origination and securitization of credit products
- investment grade, high yield and emerging market bonds
- credit-structured vehicles and credit derivatives, including credit-linked notes and total return swaps
- various derivative products
- structured products to meet clients' risk management needs

Corporate Finance

Corporate Finance manages the relationships with our large supranational, corporate and sovereign clients. It provides a variety of advisory services in areas such as mergers and acquisitions, strategic advisory and restructuring. Corporate Finance also provides capital markets and leveraged financing services in conjunction with the Equity Capital Markets Group, the Debt Capital Markets Group and Leveraged Finance. Utilizing our existing resources, UBS Warburg's strategy is to further expand its presence in targeted global sectors in the areas of mergers and acquisitions and primary capital markets activities, including the targeted sectors in the United States. Corporate Finance's responsibilities include:

- mergers and acquisitions
- country and global sector coverage
- equity and equity-linked capital, initial public offerings and other public and private equity offerings in conjunction with the Equity Capital Markets Group
- investment grade and high-yield debt offerings in conjunction with the Debt Capital Markets Group
- leveraged debt offerings in conjunction with Leveraged Finance
- structured finance

Treasury Products

Treasury Products serves institutional investors, banks, sovereigns, corporate clients, as well as other retail and wholesale clients of our other divisions. Treasury Products' primary areas of responsibility include:

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

- bank notes sales and distribution
- foreign currency research
- our alternative asset management business

Clients

UBS Warburg has a diverse global client base, including institutional investors, corporations, supranational organizations and governments. This diversity has allowed us to establish ourselves as a leading investment bank headquartered in Europe and the leading distributor of non-U.S. investment products to United States investors.

The table below sets forth the percentage of operating income attributable to each category of clients for 1999 and 1998. The total operating income used to calculate the percentage of operating income by client type only includes operating income generated from or attributed to clients.

	Operating Income from Clients	
	1999	**1998**
	(% of total)	
Corporate clients	26%	39%
Institutional investors	70	55
Governments and supranationals	4	6
Total	100%	100%

E-commerce/Product Initiatives

The institutional client business worldwide is rapidly moving to an electronic basis. We believe UBS Warburg is well positioned to capitalize on this trend. Recent e-commerce initiatives include:

- ***Investment Banking On-Line (IBOL).*** IBOL provides extensive client desktop capability from a single home page with direct access to prices, research, trade ideas and analytical tools for our equities, fixed income and treasury products. We deliver electronic research to over 5,000 clients and have signed up over 10,000 users. We intend to expand IBOL to include wireless and video links.

- ***Electronic Transactions of Securities (ETS) and Electronic Transactions for OTC Products (ETOP).*** ETS and ETOP provide a further rollout of on-line order routing and trading capabilities for all securities, foreign exchange and derivatives products. 30% of all institutional orders are sent via the internet and 90% of all retail orders are executed using straight through processing, or STP.

- ***Corporate Finance On-Line (CFOL).*** The CFOL initiative is intended to establish a secure connection for the exchange of transactional and pricing information with corporate clients to support execution and the origination of advisory mandates, as well as create on-line connectivity for capital markets participants.

- ***Debtweb.*** Using Debtweb, about 25% of all new bond issue volume in the first quarter of 2000 was delivered on-line.

- ***Transactional Websites.*** We have established transactional websites for euro commercial paper and euro medium-term notes, including consolidated site information links to euro credit markets, credit indices and bond analytics.

- ***New Web Services.*** Other new web services include:

  - KeyLink Web, which provides secure international electronic banking for cash, foreign exchange and securities

  - Adviser Web, which relates to Australian equities

  - Global eHelp Service Desk, which provides support for clients 24 hours a day, 6 days a week

Providing superior advice and maintaining contacts with clients will be key to UBS Warburg's future success. We believe our e-commerce initiatives will enhance our ability to add value to clients, as well as allow us to extract value from the processing power and scale of our core business processes and development standards to maximize the benefits we can achieve from technological innovations. UBS Warburg already does fully automated processing of 100,000 domestic and cross-border securities trades per day with the capacity to increase this amount five-fold within the existing infrastructure.

Loan Portfolio

In 1998, we decided that UBS Warburg's loans and commitments that were (1) not part of the loan trading portfolio, (2) not issued in conjunction with leveraged finance transactions or (3) not directly supporting our core client relationships, would be separated from the core activities of UBS Warburg and wound down. As a result of this initiative, our total loans and committed and undrawn lines of credit have been reduced.

The following table sets forth information regarding the UBS Warburg loan portfolio before allowance for loan loss at 31 December 1999 and 1998:

	1999	**1998**
	(CHF in millions)	
Due from banks	25,891	62,272
Loans to customers	56,374	72,425
Total loans	82,265	134,697

See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management — Credit Risk" for a more in-depth review of our credit portfolio and business, including a discussion of our impaired and non-performing loans.

UBS Private and Corporate Clients

Overview

UBS Private and Corporate Clients is the leading retail bank in Switzerland and targets individual clients with assets of up to approximately CHF 1 million as well as business and corporate clients in Switzerland. At 31 December 1999, this business had about CHF 439 billion in assets under management and a loan portfolio of approximately CHF 165 billion. UBS Private and Corporate Clients employs over

24,000 people in its headquarters in Zurich and its offices throughout Switzerland. UBS Private and Corporate Clients is now part of UBS Switzerland.

Set forth below is summary information, based on management accounting, relating to UBS Private and Corporate Clients, which is discussed in greater detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations — UBS Private and Corporate Clients".

	1999	1998	1997
	(CHF in millions)		
Operating income before credit loss expense	7,193	7,025	7,005
Credit loss expense	1,050	1,170	1,092
Personnel, general and administrative expenses	4,424	4,263	4,497
Depreciation and amortization	557	684	660
Operating profit before restructuring costs and tax	1,162	908	756
Average regulatory equity used[1]	8,550	8,250	8,600
(*at period end*)			
Assets under management	439,000	434,000	398,000
Total loans	164,743	164,840	N/A[2]
Number of employees	24,098	24,043	25,641

(1) Average regulatory equity used is the monthly average of the regulatory capital used by a division. Average regulatory equity is calculated by applying the average equity/capital ratio of the Group to the average monthly, regulatory capital usage calculated by the divisions in accordance with BIS rules, adjusted by a margin of 10%.
(2) Total loans are not available for dates prior to the merger.

Organizational Structure

UBS Private and Corporate Clients operates four main business areas:

- ***Individual Clients*** — This business area includes over 4,000,000 client accounts, of which over 25% are client accounts that relate to clients with assets over CHF 50,000.

- ***Corporate Clients*** — This business area focuses on Swiss corporate clients and includes 170 top corporations, over 10,000 large corporate clients and 180,000 small- and medium-sized businesses.

- ***Operations*** — In addition to providing operational support to the retail banking business and other Swiss-based UBS units, this business area provides payment and custodial services to approximately 1,800 banking institutions throughout the world.

- ***Risk Transformation and Capital Management*** — This business area has responsibility for clients with impaired or non-performing loans and manages the risk in UBS Private and Corporate Clients' loan portfolio. It is also responsible for optimizing capital utilization.

UBS Private and Corporate Clients also includes the Resources business area, which provides real estate, marketing, personnel and administrative services to UBS Private and Corporate Clients and the

other UBS divisions in Switzerland, and the Information Technology business area, which provides information technology services to UBS Private and Corporate Clients and the other Swiss-based UBS units.

Profit Enhancement Initiatives

The domestic retail banking sector in Switzerland has historically been a high cost, low return business. In order to further enhance the profitability of the retail business and to exploit the synergies after the merger, we have developed and commenced a number of initiatives that are intended to reduce costs and increase revenue. These include

- The further development and enhancement of alternative distribution channels, including
  - UBS Telebanking (on-line internet and teletext banking) and telephone banking
  - UBS Multimat and UBS Bancomat Plus, which together offer a direct electronic link to the customer's account and to a full range of traditional ATM services, including accepting cash deposits, and permits additional functions, such as the set-up and maintenance of payment and standing orders
- Increasing revenue principally through improvements in pricing, increased focus on higher yielding investment products and fee-based businesses, and improvements in the distribution of our products, including implementing risk-adjusted pricing in our new and maturing loan business and by expanding our "24-Hour Banking" services
- Reducing costs by continuing to close branches, which we have reduced by over 190 branches, or 32%, still leaving us with more branches than either predecessor institution
- Increasing efficiency and productivity of our processes by standardizing our products and taking advantage of automation and other technological developments

Clients

We have a diverse client base, ranging from individual clients to corporate clients and international banking institutions. We provide a broad range of products and services to these clients, including retail banking, investment services and lending. We believe that clients choose UBS Private and Corporate Clients primarily based on our leading position as a bank and an asset manager in Switzerland, our broad distribution network and our ability to provide a comprehensive range of financial products and services. Based on market surveys, over 96% of the Swiss market readily recognizes the UBS brand, which has a long history and is well established in Switzerland.

The table below sets forth assets under management attributable to each of UBS Private and Corporate Client's main client areas at 31 December 1999 and 1998.

	1999	1998
	(CHF in billions)	
Individual Clients	223	229
Corporate Clients	212	178
Banks	4	27
Total	439	434

Client/Product Initiatives

Rapid growth of technology has made available a number of alternative distribution channels. We have offered telebanking since 1985 and, based upon our market research, we have the leading position in the Swiss telebanking market, initiating in excess of one-half of all telebanking transactions in Switzerland during 1998.

Since 1997, we have expanded our product offerings and taken steps to market additional services to our client base. Key initiatives include

- The launch of UBS Tradepac, an expanded all-inclusive internet based offering aimed at serving the on-line trading needs of our customers and providing access to six international exchanges. As part of UBS Tradepac, we have established a partnership with Intuit Inc. that has permitted us to introduce UBS Quicken, a specially adapted version of the Quicken software that includes enhanced financial management functions and adds to the attractiveness of our product offering

- The launch of our small- and medium-sized business enterprises initiative, which is intended to respond to the lack of risk capital for small business enterprises

Investment Services

Our investment services for UBS Private and Corporate Clients are a collaborative effort among:

- UBS Asset Management, which manages the UBS mutual fund portfolio and sets forth the investment strategy, delivers monthly tactical asset allocations and manages discretionary mandates of our institutional clients

- UBS Warburg, which provides research and access to the securities exchanges

- UBS Switzerland, which actively markets and distributes investment products to its clients after making the appropriate revisions to take into account the needs of our clients

The principal result is a full range of investment options to offer our clients.

The following table illustrates UBS Private and Corporate Clients' assets under management by asset class at 31 December 1999 and 1998.

	1999	1998
	(CHF in billions)	
Deposit and current accounts	129	153
Securities accounts	310	281
Total	439	434

Loan Portfolio

The following table shows the loan portfolio before all allowances in UBS Private and Corporate Clients, broken down by our main business areas at 31 December 1999 and 1998.

	1999	1998
	(CHF in billions)	
Individual Clients	76	90
Corporate Clients	68	49
Recovery Portfolio	21	26
Total	165	165

The following table shows the loan portfolio in UBS Private and Corporate Clients, broken down by loan category at 31 December 1999 and 1998.

	1999	1998
	(CHF in billions)	
Fixed rate mortgages	81	80
Commercial credits	44	44
Variable rate mortgages	30	36
Other	10	5
Total	165	165

At 31 December 1999, about CHF 121 billion of the CHF 165 billion (or 73%) of the loan portfolio in UBS Private and Corporate Clients related to mortgages, of which approximately 81% were secured by residential real estate. A discussion of our loan portfolio classified by industry is included under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Selected Statistical Information — Loans".

UBS Private and Corporate Clients' impaired loans, which include non-performing loans, are transferred to our Risk Transformation and Capital Management business area to be managed by our Recovery Group, which specializes in working-out or otherwise recovering the value of those loans. At 31 December 1999, our loan portfolio included approximately a CHF 21 billion recovery portfolio. Approximately CHF 19 billion of our 31 December 1999 recovery portfolio was impaired and related to provisional positions and positions stemming back to weakness in the Swiss commercial real estate markets during the 1990s. A provision of CHF 10.4 billion has been established against the portion of impaired loans not secured by collateral or otherwise deemed uncollectible. Approximately CHF 2

billion of our 31 December 1999 recovery portfolio is performing and unimpaired. The unimpaired loans included in our recovery portfolio are outstanding with counterparties for whom other loans have become impaired. No provisions have been established against these loans. Our lending officers actively manage the recovery portfolio, seeking to restructure the lending relationship with a goal of removing the loan from the recovery portfolio. The following table describes the development in our recovery portfolio from 1 January 1998 to 31 December 1999:

	(CHF in billions)
Balance, 1 January 1998	29
Changes in 1998:	
New recovery loans added	7
Settlements of outstanding recovery loans	(10)
Balance, 31 December 1998	26
Changes in 1999:	
New recovery loans added	5
Settlements of outstanding recovery loans	(10)
Balance, 31 December 1999	21

Approximately one-half of the loans that were originally included in our recovery portfolio in 1997 have been worked out and removed. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management — Credit Risk" for a further description of our process for credit risk management and control and a discussion of impaired and non-performing loans.

UBS Private and Corporate Clients' continued implementation of "risk-adjusted pricing", which differentiates loan pricing based on risk profiles, has led to improved margins on our lending portfolio and has resulted in more effective use of our capital. For a discussion of our credit approval process and how we manage our interest rate risk, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Asset and Liability Management — Interest Rate Management".

The credit approval activities of UBS Private and Corporate Clients are the responsibility of the division, coordinated by a separate chief credit officer who is accountable to the UBS Chief Credit Officer, or CCO. Generally, loans are approved by a credit officer who does not participate in the client relationship, but works with the lending officer to establish a set of lending criteria that are applicable to the risk profile rating of the borrower. The exception is for certain high risk lending relationships, in which case the credit officer directly corresponds with the borrower. UBS Private and Corporate Clients' chief credit officer reviews the division's loans on a periodic basis (annually for most loans and at least quarterly for high-risk loans) to confirm the ratings. The CCO further coordinates our lending activities and credit exposure with the lending activities and credit exposure of UBS Warburg and the remainder of UBS Switzerland.

UBS Asset Management

Overview

UBS Asset Management is responsible for our institutional asset management business. Based on assets under management, we are one of the largest institutional asset managers in the world and among the industry leaders in the United States, the United Kingdom and Switzerland. At 31 December 1999, we managed over CHF 574 billion in assets including CHF 376 billion of institutional assets and CHF 198 billion of investment fund assets and portfolio management mandates for UBS Private Banking. UBS Asset Management is headquartered in Chicago and has offices in Bahrain, Basel, Frankfurt,

Geneva, Hong Kong, London, Melbourne, New York, Paris, Rio de Janeiro, Singapore, Sydney, Tokyo and Zurich.

We believe that our broad geographic spread of operations and strong brand names will help us pursue growth opportunities in Continental Europe, Asia-Pacific and Latin America and maintain our strong positions in the mature markets we serve in the United States, the United Kingdom and Switzerland.

Set forth below is summary information, based on management accounting, relating to UBS Asset Management, which is discussed in greater detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations — UBS Asset Management".

	1999	**1998**	**1997**
Operating income	1,096	1,163	1,040
Personnel, general and administrative expenses	621	608	542
Depreciation and amortization	142	107	95
Operating profit before restructuring costs and tax	333	448	403
(*at period end*)			
Assets under management	574,000	531,000	504,000
Number of employees	1,653	1,497	1,364

Organizational Structure

We have recently modified the organizational structure of UBS Asset Management to strengthen local and regional roles. We believe that our new organizational structure will improve accountability for results and the business group's effectiveness and efficiency. At 31 December 1999, UBS Asset Management's organizational structure consisted of the following business areas:

- ***UBS Brinson/Brinson Partners and Phillips & Drew.*** These business areas have the mandate to optimize contribution from their existing markets, to further develop their investment capabilities and to contribute to global business development efforts in Europe and the Asia-Pacific region.

- ***Europe, Middle East & Africa and Asia Pacific.*** These business areas have a mandate to capture profitable growth opportunities in their assigned geographic markets and to optimize the contribution from existing businesses in these regions. These mandates strengthen the regional accountability for results and resources. At the same time, both regional business areas continue to contribute to the UBS Asset Management global investment process as well as ensure their adaptation to regional client needs where appropriate.

- ***Private Banking Investment Services.*** UBS Asset Management provides institutional quality asset management for individual investors through UBS Switzerland and UBS Warburg. This business area serves these divisions, and is also involved in the development of investment solutions for other major clients.

- ***IT and Operations.*** This business area is responsible for implementing and maintaining information technology and delivery platforms.

UBS Asset Management's organizational structure was subsequently modified as a result of our reorganization. With the transfer of Global Asset Management and the UBS Investment Funds from the UBS Private Banking division, all our asset management capabilities are now under UBS Asset Management's responsibility in the following business areas:

- ***Institutional Asset Management.*** Comprises our existing Brinson Partners and Phillips & Drew business areas which, as announced at the beginning of March 2000, will be integrated to form a single global investment platform. This decision reflects their shared investment philosophies, based on capturing price-value discrepancies, focus on fundamental research, and similar meritocratic cultures. New leadership for investment management and research has been drawn from within the business, maintaining the continuity of investment process and personnel. This pooling of investment talent and resources will enable Institutional Asset Management to better meet the increasingly specialized needs of its clients.

- ***Investment Funds / GAM.*** Comprises the UBS Investment Funds and Global Asset Management, or GAM, business areas transferred from UBS Private Banking. GAM is a leading diversified asset management group with operations in Europe, North America, Asia and the Middle East. GAM will retain its approach and identity within UBS Asset Management and play a central role in increasing our investment style diversification. UBS Investment Funds is the largest funds provider of investment funds in Europe and the seventh largest in the world. To reach our relevant client segment, we pursue an open multi-channel distribution strategy, including electronic distribution. Additionally, UBS Investment Funds is responsible for implementing a screened open architecture for our private clients, utilizing its mutual fund expertise and the multi-manager capabilities of GAM.

In addition, at the beginning of March 2000, we announced that UBS Brinson/Brinson Partners and Phillips & Drew were being combined to establish a global investment management and research platform. The investment styles of Phillips & Drew and UBS Brinson/Brinson Partners are based on capturing price-value discrepancies identified through fundamental research.

Clients

UBS Asset Management has a diverse institutional client base located throughout Europe, the Middle East, Africa, the Asia-Pacific region and the Americas. Our clients consist of:

- corporate and public pension plans
- endowments and private foundations
- insurance companies
- central banks and supranationals
- financial advisers

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. One of our strategic initiatives is to position ourselves to take advantage of the opportunities created in this changing environment.

We have established direct links between UBS Asset Management and UBS Switzerland and UBS Warburg to provide their clients with access to the same level of investment capabilities that we provide to our institutional clients. UBS Asset Management manages the UBS Investment Funds, other than the real estate funds, which are offered to clients through UBS Switzerland and UBS Warburg.

The following table shows assets under management broken down between institutional assets and non-institutional assets at 31 December 1999, 1998 and 1997. Non-institutional assets include the UBS Investment Funds.

	1999	**1998**	**1997**
		(CHF in millions)	
Institutional	376,000	360,000	373,000
Non-institutional	198,000	171,000	131,000
Total	574,000	531,000	504,000

We are well represented in the United States, Europe and Australia, and are one of the largest foreign investment managers in Japan. We believe this gives us a strong platform to meet the increasingly complex global investment and servicing needs of our major clients, and to expand our presence in growth markets.

The following table shows institutional assets under management by the geographic location of our clients at 31 December 1999, 1998 and 1997.

	1999	**1998**	**1997**
		(CHF in millions)	
Europe, Middle East & Africa	185,000	202,000	233,000
The Americas	140,000	122,000	125,000
Asia-Pacific	51,000	36,000	15,000
Total	376,000	360,000	373,000

Marketing and Distribution

Clients differentiate among institutional asset managers based on client service, investment performance, process and philosophy, fees and continuity of staff. We seek to use our long-term track record and strong client franchise, to increase the penetration of our services with both new and existing clients. We are a full service institutional asset management firm, offering our clients a comprehensive range of research and investment analysis as part of our overall service and capability package.

Consultants advise institutional investors based on their expert knowledge of managers' investment performance, process and client service capabilities, as well as other factors. In consultant driven markets, such as the United States and the United Kingdom, we rely on our strong relationships with the major consultants that advise corporate and public pension plans, endowments, foundations, and other institutions. We also dedicate resources to generating new business directly with large clients.

We seek to increase our revenues from existing clients. Each of our client-facing business areas has dedicated account management teams that service existing clients and seek to find new ways to address client needs. These account managers are also focused on further developing and solidifying the relationships we have with the major consultants that serve our clients.

Client Mandates

We seek to deliver sustained value-added investment performance relative to client-mandated benchmarks. Our client mandates range from fully discretionary global asset allocation portfolios to equity or fixed income portfolios with a single country emphasis to other asset classes, including real estate, timber, oil and gas, and private equity. These portfolios are available through separately managed portfolios as well as through a comprehensive range of pooled investment funds.

The following chart sets forth institutional assets under management by client mandate at 31 December 1999, 1998 and 1997:

	1999	1998	1997
		(CHF in millions)	
Equity	128,000	115,000	116,000
Asset Allocation	130,000	148,000	161,000
Fixed Income	86,000	83,000	85,000
Private Markets	32,000	14,000	11,000
Total	376,000	360,000	373,000

Within each of these broad client mandate categories, we have a diverse range of particular mandates that we provide to our clients without a high concentration of business in any particular segment. For example, within the equity, asset allocation and fixed income areas, we offer a range of mandates on global, regional, emerging market and sector-specific bases. The private markets category includes such mandates as direct investments, oil and gas, partnership investments, real estate and timber.

Investment Process and Research

At 31 December 1999, we had 540 professionals responsible for conducting research and analysis in the division. Our senior investment professionals set policy and oversee research activity within the units, drawing upon the expertise of investment specialists in each asset class. Our asset allocation and investment strategies are based on comprehensive proprietary research in major financial markets around the world. Our method is to identify periodic discrepancies between market price and investment value and turn them to our clients' advantage.

Our investment process is based on our efforts to determine and quantify investment value. We emphasize long-term fundamental research performed by our internal investment specialists. These specialists also consult with external analysts, economists, consultants and academics. They develop research and provide input into our quantitative valuation models. We estimate long-term expected returns for asset classes, markets, and securities using proprietary valuation models that consider cash flows discounted at risk-adjusted rates. We then evaluate potential strategies in the context of forecasted returns as well as our forecasted risks and correlations.

We create portfolios and monitor and adjust them based on relative price/value discrepancies. Where no significant discrepancies exist between price and value, we continue our research and analysis.

We believe that our approach allows us to respond to market changes, while we provide our clients with the benefit of our knowledge and experience and maintain the flexibility to customize portfolios to meet their requirements.

UBS Capital

Overview

As the private equity business of UBS, UBS Capital has increased the value 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 3 billion at 31 December 1999.

Following our realignment, UBS Capital now operates within the UBS Warburg business group. This is expected to further strengthen the business synergies between the investment banking and private equity businesses while maintaining strong links between UBS Capital and UBS Switzerland.

UBS Capital has a local presence throughout major industrialized regions in Europe, North America, Latin America and the Asia-Pacific region, with about 121 employees, as of 31 December 1999. UBS Capital has offices in London, Zurich, New York, Sao Paolo, Buenos Aires, Paris, The Hague, Munich, Milan, Singapore, Hong Kong, Seoul and Sydney.

As a private equity group, UBS Capital's business involves investing in unlisted companies, managing these investments over a medium-term time horizon to increase their value and "exiting" the investment in a manner that will maximize the capital gain. UBS Capital seeks to make both majority and minority equity investments in established and emerging unlisted companies, either with our own capital or through sponsored investment funds. Although the main focus of our investments is late-stage financing, such as management buyouts, expansion or replacement capital, a minority of the portfolio targets early stage investments in the technology and telecommunications sectors.

In addition to its international specialization, UBS Capital endeavors to differentiate itself from its competitors by creating and adding value by working together with an investee company's management over a three to six year period to develop the business and optimize their performance.

Set forth below is summary information, based on management accounting, relating to UBS Capital, which is discussed in greater detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations — UBS Capital".

	1999	**1998**	**1997**
	(CHF in millions)		
Operating income	315	585	492
Personnel, general and administrative expenses	152	156	110
Depreciation and amortization	7	1	1
Operating profit before restructuring costs and tax	156	428	381
(at period end)			
Number of employees	116	122	90
Investments (at book value)	2,993	1,784	1,080

Competitive Position

Superior returns and the widespread recognition of private equity as an alternative asset class has led to a substantial growth in the number of 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, we believe that opportunities for profitable investment will continue to arise in the private equity business. We believe this potential will be enhanced by a number of factors working in combination to produce a favorable business environment for astute market participants. These factors include the introduction of the Euro, 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. UBS Capital generally targets medium-sized businesses with enterprise values in the range of CHF 75 million to CHF 1.5 billion.

Organizational Structure

UBS Capital is structured on a country and sector approach and, as of 31 December 1999, had thirteen individual teams covering over 30 countries. We believe that UBS Capital's established local presence and expertise, coupled with the global reach of our operations, generates the early identification of opportunities and their timely and effective development.

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

Last year, 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 beneficial investor in each of the North America, and Latin America, funds.

In connection with the establishment of the new funds, UBS and the team managing the investments of UBS Capital in the Americas formed two limited liability company advisors, one to advise each fund. Each fund's advisor is jointly owned by the managers and principals of the management team and UBS. Effective 31 December 1999, the managers and principals of the management team resident in the United States are no longer employed by UBS and are not employed by either advisor. The remaining employees of UBS Capital in the Americas are either members or employees of the respective advisors.

Investment Portfolio

UBS Capital's investment portfolio had a book value of approximately CHF 3.0 billion and an estimated fair value of approximately CHF 4.2 billion at 31 December 1999. To augment its competitive strengths, UBS Capital plans to gradually increase its annual investment rate, targeting a portfolio book value of CHF 5 billion in committed capital from UBS and CHF 5 billion from third parties.

UBS Capital has designed its portfolio to reduce our exposure to risk by:

- 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 earlier stage growth opportunities, such as technology and telecommunications
- focusing on later-stage investments, such as management buy-outs of existing businesses

The following table provides information regarding UBS Capital's investment portfolio by geographic region, by industry sector and by age of investment at 31 December 1999, 1998 and 1997.

Geographic Region (by headquarters of Investee)	1999	1998	1997
	(CHF in millions; all amounts are book values)		
North America	1,389	939	562
Europe	1,153	689	434
Latin America	217	123	48
Asia-Pacific	234	33	36
	2,993	1,784	1,080

Industry Sector (based on industry classification codes)	1999	1998	1997
	(CHF in millions; all amounts are book values)		
Consumer related	610	400	405
Diversified industrials	587	376	85
Transportation	605	186	61
Communications	326	208	84
Computer related	282	109	38
Energy	167	153	134
Other electronics related	38	32	49
Other manufacturing	45	53	93
Chemicals and materials	23	52	20
Industrial products and services	48	60	51
Others	263	155	60
	2,993	1,784	1,080

Aging (based on date of initial investment)	1999	1998	1997
	(CHF in millions; amounts are book values)		
Pre- 1994	89	112	109
1994	199	195	161
1995	308	282	180
1996	204	183	171
1997	496	450	459
1998	718	562	
1999	979		
	2,993	1,784	1,080

As shown in the table above, at 31 December 1999, approximately 73% 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

At 31 December 1999, 79% of the book value of our investments were late-stage at the time of our investment. The following table provides information about UBS Capital's investment portfolio by investment stage as determined at the time of our investment.

	1999	1998	1997
		(CHF in millions)	
Early stage	488	49	32
Late stage	2,505	1,735	1,048
	2,993	1,784	1,080

Investment opportunities originate from a variety of sources, including from UBS Switzerland and UBS Warburg. Our investment policy concentrates on five "value drivers":

- negotiate an attractive entry price
- increase the company's efficiency
- implement a sales growth strategy
- repay company debt and reduce leverage
- achieve an exit at a higher multiple than the entry price, or what we call "multiple arbitrage"

Where appropriate, we try to participate actively with the management of our investee companies in developing their businesses over the medium term (three to six years) in order to optimize their performance. Our exit strategies for the businesses include direct sales to strategic buyers, initial public offerings, leveraged recapitalizations and sales to other financial sponsors.

More recently, given the industry trend toward larger sized transactions, we have also begun to concentrate on the formation of four regional funds – Europe, North America, Latin America and Asia. In late 1999 in the United States, we launched a $1 billion investment fund targeting North America to which we have committed up to $500 million. In late 1999, we also launched a $500 million fund targeting Latin America, which we have committed to fund fully with the option to permit third-party investors to commit up to 25% of such funds. In addition to these funds, two new funds were launched in Europe during 1999. Phildrew Ventures V, a United Kingdom private equity fund with a fund size of GBP 330 million and CapVis Equity Partners, which is Switzerland's largest private equity fund with a fund size of CHF 300 million. Phildrew Ventures is our vehicle for investing in the United Kingdom and Ireland and CapVis Equity Partners is UBS Capital's vehicle for investing in Switzerland and Austria. A European fund and an Asian fund are expected to be launched during 2000.

Corporate Center

In the context of a global integrated investment services firm, the role of Corporate Center is to contribute to the long-term maximization of shareholder value by:

- competitively positioning us in growing market places with an optimal business model and adequate resources
- maintaining an appropriate balance between risk and profit to provide financial stability on a Group-wide basis
- ensuring that the divisions, while being accountable for their results, operate as a coherent and effective Group with a common set of values and principles

To perform its role, Corporate Center establishes standards and principles to be applied by the divisions, thereby permitting us to minimize staffing levels within Corporate Center.

The following functions are part of Corporate Center:

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

Additionally, the Corporate Center plays an active role with regard to funding, capital and balance sheet management and management of foreign currency earnings.

During 1999, the Corporate Center housed the start-up of the e-services business, which has also been transferred to UBS Warburg.

Competition

We operate in a highly competitive environment in all of our businesses and markets. Many large financial services groups compete with us in the provision of sophisticated banking, investment banking and investment management services to corporate, institutional and individual customers on a global basis, while local banks and other financial services companies, which may be of substantial size, often provide significant competition within national markets. We also compete with other banks, money market funds and mutual funds for deposits, investments, and other sources of funds. In some jurisdictions, many of our competitors are not subject to the same regulatory restrictions that apply to us.

Employees

At 31 December 1999, we had 49,058 employees. Set forth below are the number of employees of UBS broken down by our five operating divisions and Corporate Center at 31 December 1999, 1998 and 1997.

	1999	1998	1997
UBS Private and Corporate Clients	24,098	24,043	25,641
UBS Warburg	12,694	13,794	18,620
UBS Private Banking	9,565	7,634	7,862
UBS Asset Management	1,653	1,497	1,364
UBS Capital	116	122	90
Corporate Center	932	921	1,599
Group Total	49,058	48,011	55,176

During 1998, we experienced significant movements in headcount, predominantly as a result of the merger and divestments. The increase in headcount in 1999 was mainly attributable to UBS Private Banking's expansion of its domestic private banking business outside Switzerland and the acquisitions of Global Asset Management and Allegis Realty Investors LLC in December 1999, which was partially offset by decreases in UBS Warburg relating to the winding down of non-core businesses and merger related reductions.

We have not experienced any significant strike, work stoppage or labor dispute in recent years. We consider our relations with employees to be good.

Regulation and Supervision

Our operations throughout the world are regulated and supervised by the relevant central banks and regulatory authorities in each of the jurisdictions in which we have 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 in which we operate impose additional limitations on (or that affect) foreign or 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 of local banks or requiring a specified percentage of local ownership
- restrictions on investment and other financial flows entering or leaving the country

Changes in the supervisory and regulatory regimes of the countries where we operate will determine to some degree our ability to expand into new markets, the services and products that we will be able to offer in those markets and how we structure specific operations.

The most important jurisdictions that regulate and supervise our activities are Switzerland, the United States and the United Kingdom.

Regulation and Supervision in Switzerland

We are regulated in Switzerland under a system which is 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, or the "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 have to be undertaken through a separate subsidiary.

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

- 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 sets standards for banks when managing customers funds and administering assets on their behalf

Mandatory Annual Audits

The approach to supervising banks in Switzerland places a particular emphasis on the role of the external auditor. Our auditors, who have to be approved to perform this role by the FBC, are required to submit an annual report to the FBC which assesses our financial situation as well as our compliance with the relevant regulations and self-regulatory guidelines which are applicable to our business. In the event that 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

Since July 1999, the FBC has 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 we operate, supervises us directly through regular meetings with management as well as on-site visits. The group also coordinates the activities of the FBC with those of our main overseas supervisors as well as with the external auditors.

Capital Requirements

For purposes of complying with Swiss capital requirements, bank capital is divided into three main categories:

- core (or Tier 1) capital
- supplementary (or Tier 2) capital
- additional (or Tier 3) capital

Tier 1 capital primarily includes paid-in share capital, reserves (defined to include retained earnings), current-year profits and capital participations of minority shareholders in fully consolidated subsidiaries, and is reduced by, among other items, the bank's holdings of its own shares. Tier 1 capital is supplemented, for capital adequacy purposes, by Tier 2 capital, which consists of, among other things, two categories of subordinated debt instruments that may be issued by a bank, and by Tier 3 capital, which consists of certain subordinated debt obligations. The use of Tier 2 and Tier 3 capital in complying with solvency ratio requirements is, however, subject to limitations.

Under Swiss law, a bank must maintain a minimum capital ratio of 8%, calculated by dividing adjusted core and supplementary capital by aggregate risk weighted assets and measured on both a consolidated and an unconsolidated basis. We are required to file a statement of our required and existing capital resources together with our annual statement of condition and interim balance sheet with both the FBC and the Swiss National Bank.

Liquidity Requirements

Under Swiss law, banks are required to maintain specified measures of primary and secondary liquidity. Primary liquidity is measured by comparing Swiss franc-denominated liabilities to liquid assets in Swiss francs. For this purpose liabilities are defined as balances due to banks, due on demand or due within three months, as well as 20% of deposits in savings and similar accounts. Under current law, our liquid assets must be maintained at the level of at least 2.5% of these kinds of liabilities.

To measure secondary liquidity, assets maturing within one month which are readily marketable and suitable for offsetting are subtracted from the short-term and suitable for offsetting liabilities due to banks on demand or maturing within one month, time deposits repayable within one month and certain other liabilities maturing within one month (such as debentures, cash bonds and cash certificates). Any excess of such liabilities remaining after this calculation is then added to the total of 50% of demand deposits and certain other deposit accounts, which have no restrictions on withdrawal, and 15% of the thrift, deposit and savings book accounts as well as similar accounts, which are subject to restrictions on withdrawal. The total of our liquid and readily marketable assets must be at least equal to 33% of the short term liabilities as calculated above.

We are required to file monthly statements reflecting our primary liquidity position and quarterly statements reflecting our secondary liquidity position

Disclosures to the Swiss National Bank

Although the primary responsibility for supervision of banks under the FBL lies with the FBC, we also submit an annual statement of condition and detailed monthly interim balance sheets to the Swiss

National Bank. The Swiss National Bank may require further disclosures from us concerning our financial condition as well as other information relevant to regulatory oversight by the Swiss National Bank.

Regulation and Supervision in the United States

Banking Regulation

Our operations in the United States are subject to a variety of regulatory regimes. We maintain branches in California, Connecticut, Illinois and New York and an agency in Florida. We refer to these as our U.S. "Banking Offices". Our California Branches are located in Los Angeles and San Francisco and are licensed by the U.S. Comptroller of the Currency. Each of our other U.S. Banking Offices is licensed by the state banking authority in the state in which it is located. Each U.S. Banking Office is subject to regulation and examination by its licensing authority. In addition, the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") exercises examination and regulatory authority over our state licensed U.S. Banking Offices. None of our U.S. Banking Offices are insured by the Federal Deposit Insurance Corporation (the "FDIC"). The regulation of our U.S. 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 Group subsidiaries.

The licensing authority of each U.S. 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 we maintain one or more federal branches, such as our California Branches, state insolvency regimes that would otherwise be applicable to our state licensed offices are preempted by U.S. federal law. As a result, pursuant to federal law all of our U.S. assets would be applied first to satisfy creditors of our U.S. Banking Offices as a group, and then made available for application pursuant to a Swiss insolvency proceeding.

In addition to the direct regulation of our U.S. Banking Offices, operating our U.S. Offices subjects us to regulation by the Federal Reserve Board under various laws, including the International Banking Act of 1978, as amended, and the Bank Holding Company Act of 1956, as amended (the "BHCA"). The BHCA imposes significant restrictions on our U.S. nonbanking operations and on our worldwide holdings of equity in companies operating in the United States. Historically, our U.S. nonbanking activities were principally limited to activities that the Federal Reserve Board found to be so "closely related to banking as to be a proper incident thereto." Moreover, prior Federal Reserve Board approval 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 recently enacted, liberalizing the restrictions on the nonbanking activities of banking organizations, including non-U.S. banks operating U.S. Banking Offices. The Modernization Act will:

- allow bank holding companies meeting management, capital and, in the case of companies owning FDIC insured banks, Community Reinvestment Act standards to engage in a substantially broader range of nonbanking activities than currently is permissible, including insurance underwriting and making merchant banking investments;

- allow insurers and other financial services companies to acquire banks;

- remove various restrictions that currently apply to bank holding company ownership of securities firms and mutual fund advisory companies; and

- revise the overall regulatory structure applicable to bank holding companies, including those that also engage in insurance and securities operations.

This part of the Modernization Act became effective on 11 March 2000, and we believe we have met the requirements for the broader range of activities that are permitted by the Modernization Act.

The Modernization Act will also modify other current financial laws, including laws related to the conduct of securities activities by U.S. banks and U.S. Banking Offices. As a result, we may relocate certain activities now conducted by our U.S. Banking Offices to a Group subsidiary or elsewhere.

Other

In the United States, our U.S. registered broker-dealer is regulated by the Securities and Exchange Commission as a registered broker-dealer. Broker-dealers 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

- the conduct of directors, officers and employees

In addition, our U.S. registered broker-dealer is a member of and regulated by the New York Stock Exchange and is regulated by the individual State Securities authorities in the states in which it operates.

The U.S. government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer or its directors, officers or employees.

Regulation and Supervision in the United Kingdom

We operate in the United Kingdom under a regulatory regime that is undergoing comprehensive restructuring aimed at implementing the Financial Services Authority as the United Kingdom's unified regulator. Through 1999, we were regulated by the Securities and Futures Authority Limited in respect of our investment banking, individual asset management, brokerage and principal trading activities, and the Investment Management Regulatory Organization in respect of our institutional asset management and fund management activities. Some of our subsidiaries and affiliates are also regulated by the London

Stock Exchange and other United Kingdom securities and commodities exchanges of which we are a member. Commencing in 2000, however, the responsibilities of the Securities and Futures Authority Limited and Investment Management Regulatory Organization have been taken over by the Financial Services Authority. 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 U.S. law.

Item 2 DESCRIPTION OF PROPERTY

At 31 December 1999, we operated about 1,200 offices and branches worldwide, of which about 80% were in Switzerland. Of the remaining 20%, 10% were in Europe, 6% were in the Americas and 4% were in Asia. About half of the offices and branches in Switzerland are owned directly by us with the remainder, along with most of our offices outside Switzerland, being held under commercial leases. The premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for our current and anticipated operations.

Item 3 LEGAL PROCEEDINGS

Except as described below, there are no legal or arbitration proceedings pending or threatened of which we are aware involving UBS which may or have had a significant effect on the financial position of UBS taken as a whole.

In the United States, several class actions, in relation to what is known as the Holocaust affair, have been brought against us (as legal successor to Swiss Bank Corporation and Union Bank of Switzerland, in the United States District Court for the Eastern District of New York (Brooklyn)). These lawsuits were initially filed in October 1996. Another Swiss bank has been designated as a defendant alongside us. On 12 August 1998, however, a settlement was reached between the parties. This settlement provides for a payment by the defendant banks to the plaintiffs, under certain terms and conditions, of an aggregate amount of $1.25 billion. UBS agreed to contribute up to two-thirds of this amount. The settlement is subject to approval by the court. To the extent that other Swiss companies agreed to participate in this fund, and to the extent of applicable payments to beneficiaries of eligible dormant accounts, our share was to be reduced. For these purposes, dormant accounts are defined as accounts with banks and other financial institutions prior to May 9, 1945 which are part of the settlement agreement.

In Switzerland, dormant or abandoned accounts remain on the books of the bank in perpetuity, until claimed or settled. Therefore, if such dormant or abandoned accounts are identified as balances that should be used to fund the settlement, the payment of cash to claimants causes the account to be liquidated from the Company's records, thereby reducing cash and reducing the dormant account liability, as well as the remaining settlement amount liability. Accordingly, to the extent that such accounts are identified at institutions other than UBS, our exposure to this matter will be reduced. Based on our estimate of such expected contributions, we provided a reserve of $610 million (CHF 842 million) in 1998 and an additional $95 million (CHF 154 million) in 1999. A number of persons have elected to opt out of the settlement and not participate in the class action. It is expected that a decision approving the settlement will be issued in 2000, which will be followed by hearings on the allocation of the settlement amount. We will continue to monitor the contributions of other Swiss companies, in order to determine whether we will need to make any adjustment to the reserve.

Item 4 CONTROL OF REGISTRANT

As far as we are aware, we are neither directly nor indirectly owned nor controlled by another corporation or any government and there are no arrangements in place the operation of which may result in a change in control.

As of 31 May 2000, our directors and executive officers as a group beneficially held 2,368,412 of our issued shares. For the purposes of this analysis, our executive officers are the members of our Group Managing Board. The Group Managing Board consists of the seven members of the Group Executive Board, 23 members who hold office on the Divisional Executive Boards and four members who are responsible for special functions at the top level of our organization. See also “Item 12 – Options to Purchase Securities from Registrant or Subsidiaries” for a discussion of options and warrants issued by UBS.

Item 5 NATURE OF TRADING MARKET

Trading on the Swiss Exchange

The Swiss Exchange (Schweizer Börse/Bourse Suisse) was founded in 1993 as the successor to the local stock exchanges of Zurich, Basel and Geneva. Trading in foreign equities and derivatives began in December 1995. In August 1996, the Swiss Exchange introduced full electronic trading in Swiss equities, derivatives and bonds. The aggregate turnover of the Swiss Exchange, for both equity and debt instruments, was in excess of CHF 1.1 trillion in 1999. As of 31 December 1999, the equity securities of 412 corporations, including 173 foreign corporations, were listed and traded on the Swiss Exchange.

Trading on the Swiss Exchange occurs through a fully integrated trading system covering the entire process from trade order through settlement. Trading begins each business day at 9:00 a.m. and continues until 5:00 p.m. After close of exchange trading, new orders can be entered or deleted until 10:00 p.m. From 6:00 a.m. (the system is not available between 10:00 p.m. and 6:00 a.m.) new entries and inquiries can be made until 9:00 a.m. For the opening phase (starting at 9:00 a.m.) the system closes the order book and starts opening procedures; it establishes the opening prices and determines orders to be executed according to established rules that match bid and asked prices.

Transactions take place through the automatic matching of orders. Each valid order is entered and listed according to the price limit. In general, market orders (orders placed at best price) are executed first, followed by limit orders (orders placed at a price limit), provided that if several orders are listed at the same price, they are executed according to the time of entry. Transactions in shares effected by or through members of the Swiss Exchange are subject to a stock exchange levy of up to 0.02%, calculated on the settlement price.

Banks and broker-dealers doing business in Switzerland are required to report all transactions in listed securities traded on the Swiss Exchange. For transactions effected via the exchange system, reporting occurs automatically. Off-exchange transactions must be reported to the Swiss Exchange within 30 minutes. Transaction information is collected, processed and immediately distributed by the Exchange. Transactions outside trading hours (*i.e.*, between 10:00 p.m. and 6:00 a.m.) must be reported no later than the next opening. The Swiss Exchange distributes a comprehensive range of information through various publications, including in particular the Swiss Market Feed, or “SMF”. The SMF supplies Swiss Exchange data in real time to all subscribers as well as to other information providers such as Reuters.

Exchange transactions are usually settled on a T+3 basis, meaning that delivery and payment of exchange transactions occur three days after the trade date. The Swiss Exchange promotes efficient processing by automatically transmitting transactions to SIS SEGAINTERSETTLE AG (or Intersettle) via the SECOM electronic settlement system.

A quotation may be suspended by the Swiss Exchange if large price fluctuations are observed, if important, price-sensitive information is about to be disclosed, or in other situations that might endanger fair and orderly trading. Surveillance and monitoring is the responsibility of the Swiss Exchange as the organizer of the market (self-regulation). The aim of supervision is to ensure fair trading and an orderly market.

UBS Shares

At 31 May 2000, we had issued and paid up share capital of 431,192,263 shares of capital stock, of which 1,053,082 shares are at the disposal of the Board of Directors. In addition to the issued and paid up share capital, 758,807 shares are unissued and are reserved for the employee share ownership plan and optional dividend warrants. In the aggregate, these 431,951,070 shares represent the maximum amount of shares that may be issued in the future without further approval from the stockholders.

The principal trading market for the shares is the Swiss Exchange.

The following table sets forth, for the calendar quarters indicated, the reported highest and lowest closing price for one share on the Swiss Exchange, as derived from the Swiss Exchange, and the trading volume for our shares on the Swiss Exchange.

	Ordinary Shares [(1)]		
	High	**Low**	**Volume** [(3)]
	(in CHF)		
1998[(2)]:			
Third quarter	326.5	135.0	165.4
Fourth quarter	221.0	137.5	134.0
1999:			
First quarter	246.0	207.5	106.2
Second quarter	264.0	221.5	76.2
Third quarter	247.0	202.5	78.2
Fourth quarter	240.0	202.5	95.8
2000:			
First quarter	218.5	191.0	107.4
Second quarter (through 16 June 2000)	227.75	211.0	85.9

(1) The share prices and volumes in this table have been adjusted for the two-for-one stock split, the effective date of which is 8 May 2000.

(2) As a result of the merger, shares of UBS began trading on 29 June 1998. Our shares did not trade at any time prior to that date.

(3) In millions of ordinary shares on the Swiss Exchange.

Official trading of our shares on the New York Stock Exchange began on 16 May 2000, under the symbol "UBS". The following table sets forth, for the period indicated, the reported highest and lowest closing price for one share on the New York Stock Exchange, as derived from the New York Stock Exchange, and the trading volume for our shares on the New York Stock Exchange.

	Ordinary Shares		
	High	**Low**	**Volume**
	(in US$)		
16 May – 16 June 2000	153	130 $^{7}/_{16}$	398,200

Effective with the listing of our shares on the New York Stock Exchange on 16 May 2000, we terminated our American Depositary Receipt, or ADR, program. At 30 April 2000, there were approximately 12 holders of record of ADRs holding ADRs representing approximately 7,184,900 American Depositary Shares, or ADSs, or 718,490 shares as adjusted to reflect the two-for-one stock split, the effective date of which is 8 May 2000.

At 30 April 2000, approximately 7,179,066 shares were held by approximately 1,043 stockholders with registered addresses in the U.S. The combined shareholdings of these stockholders comprise approximately 1.4% of the total number of shares on issue, including treasury shares, at 30 April 2000. These figures do not include either the number of shares held by stockholders with registered addresses outside the U.S. in which U.S. residents have an interest or the number of any such U.S. residents.

Item 6 EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

There are no restrictions under our Articles of Association or Swiss law, presently in force, that limit the right of non-resident or foreign owners to hold our securities freely or, when entitled, to vote our securities freely. There are currently no Swiss foreign exchange controls or laws restricting the import or export of capital. There are currently no restrictions under Swiss law affecting the remittance of dividends, interest or other payments to non-resident holders of our securities.

Item 7 TAXATION

The following is a summary of some of the material Swiss and United States federal income tax consequences of the ownership of shares by a holder that holds the shares as capital assets. This summary does not purport to address all tax consequences of the ownership of shares and does not take into account the specific circumstances of any particular holders (such as tax-exempt entities, certain insurance companies, broker-dealers, traders in securities that elect to mark to market, holders liable for alternative minimum tax, holders that actually or constructively own 10% or more of the voting stock of UBS, holders that hold shares as part of a straddle or a hedging or conversion transaction or holders whose functional currency is not the U.S. dollar), some of which may be subject to special rules. This summary is based on the tax laws of Switzerland and the United States (including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings

and court decisions) as in effect on the date hereof, as well as the Convention Between the United States of America and Switzerland, which we call the "Treaty", all of which are subject to change (or change in interpretation), possibly with retroactive effect.

For purposes of this discussion, a "U.S. holder" is any beneficial owner of shares that is (1) a citizen or resident of the United States, (2) a corporation organized under the laws of the United States or any State, (3) an estate the income of which is subject to United States federal income tax without regard to its source or (4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust.

The discussion does not generally address any aspects of United States taxation other than federal income taxation or any aspects of Swiss taxation other than income and capital taxation. Holders are urged to consult their tax advisors regarding the United States federal, state and local and the Swiss and other tax consequences of owning and disposing of shares.

Swiss Taxation

Withholding Tax on Dividends and Distributions

Dividends paid and similar cash or in-kind distributions made by UBS to a holder of shares (including dividends on liquidation proceeds and stock dividends) are subject to a federal withholding tax at a rate of 35%. The withholding tax must be withheld by UBS from the gross distribution, and be paid to the Swiss Federal Tax Administration.

Obtaining a Refund of Swiss Withholding Tax for U.S. Residents

The Treaty provides for a mechanism whereby a United States resident or United States corporations can seek a refund of the Swiss withholding tax paid on dividends in respect of shares of UBS, to the extent such withholding exceeds 15%.

A U.S. holder that qualifies for Treaty benefits may apply for a refund of the withholding tax withheld in excess of the 15% Treaty rate. The claim for refund must be filed with the Swiss Federal Tax Administration, Eigerstrasse 65, 3003 Berne, Switzerland. The form used for obtaining a refund is Swiss Tax Form 82 (82C for companies; 82E for other entities; 82I for individuals), which may be obtained from any Swiss Consulate General in the United States or from the Swiss Federal Tax Administration at the address above. The form must be filled out in triplicate with each copy duly completed and signed before a notary public in the United States. The form must be accompanied by evidence of the deduction of withholding tax withheld at the source.

Stamp Duties upon Transfer of Securities

The sale of shares, whether by Swiss resident or non-resident holders, may be subject to a Swiss securities transfer stamp duty of up to 0.15% calculated on the sale proceeds if it occurs through or with a Swiss bank of other Swiss securities dealer as defined in the Swiss Federal Stamp Tax Act. In addition to the stamp duty, the sale of shares by or through a member of the Swiss Exchange may be subject to a stock exchange levy. See "Item 5: Nature of Trading Market – Trading on the Swiss Exchange".

United States Federal Income Taxation

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company, or "PFIC", rules discussed below, U.S. holders will include in gross income the gross amount of any dividend paid (before reduction for Swiss withholding taxes) by UBS out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) as ordinary income when the dividend is actually or constructively received by the U.S. holder. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from the other United States corporations. The amount of the dividend distribution included in income of a U.S. holder will be the U.S. dollar value of the Swiss franc payments made, determined at the spot Swiss franc/U.S. dollar rate on the date such dividend distribution is included in the income of the U.S. holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in income to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss. Such gain or loss will generally be income from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a return of capital to the extent of the U.S. holder's basis in the shares and thereafter as capital gain.

Subject to certain limitations, the Swiss tax withheld in accordance with the Treaty and paid over to Switzerland will be creditable against the U.S. holder's United States federal income tax liability. To the extent a refund of the tax withheld is available to a U.S. holder under the laws of Switzerland or under the Treaty, the amount of tax withheld that is refundable will not be eligible for credit against the U.S. holder's United States federal income tax liability. See "Swiss Taxation—Obtaining a Refund of Swiss Withholding Tax for U.S. Residents", above, for the procedures for obtaining a refund of tax.

PFIC Rules

We believe that shares should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination made annually and thus may be subject to change. In general, UBS will be a PFIC with respect to a U.S. holder if, for any taxable year in which the U.S. holder held UBS's shares, either (1) at least 75% of the gross income of UBS for the taxable year is passive income or (2) at least 50% of the value (determined on the basis of a quarterly average) of UBS's assets is attributable to assets that produce or are held for the production of passive income. If UBS were to be treated as a PFIC, unless a U.S. holder makes a mark-to-market election, gain realized on the sale or other disposition of shares would in general not be treated as capital gain, and a U.S. holder would be treated as if such holder had realized such gain and certain "excess distributions" ratably over the holder's holding period for the shares and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year.

Item 8 SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below at 31 December 1999 and 1998 and for each of the years ended 31 December 1999, 1998 and 1997 have been derived from our Consolidated Financial Statements and the Notes thereto. Such Consolidated Financial Statements have been audited by ATAG Ernst & Young, our independent auditors. This financial data should be read in conjunction

with and are qualified by reference to the Consolidated Financial Statements and Notes thereto for each of the years ended 31 December 1999, 1998 and 1997 included elsewhere herein.

Our Consolidated Financial Statements are prepared in accordance with International Accounting Standards, or "IAS", which differ in some significant respects from United States generally accepted accounting principles, or "U.S. GAAP". Note 42 of Notes to the Consolidated Financial Statements includes a description of the significant differences between IAS and U.S. GAAP and a reconciliation of certain income statement and balance sheet items to U.S. GAAP.

	1999		1998	1997
	(in millions, except per share amounts)			
	US$[1]	CHF		
Income statement data				
Interest income	11,524	18,323	22,835	23,669
Interest expense	7,526	11,967	16,173	16,733
Net interest income	3,998	6,356	6,662	6,936
Credit loss expense	601	956	951	1,278
Total	3,397	5,400	5,711	5,658
Net fee and commission income	7,929	12,607	12,626	12,234
Net trading income	4,697	7,468	1,750	5,491
Other income, including income from disposal of associates and subsidiaries	1,979	3,146	2,241	1,497
Total income	18,002	28,621	22,328	24,880
Operating expenses	12,863	20,452	18,258	18,636
Operating profit before restructuring costs and taxes	5,139	8,169	4,070	6,244
Restructuring costs	–	–	–	7,000
Tax expense (benefit)	1,142	1,815	1,045	(105)
Minority interests	(34)	(54)	(5)	16
Net profit (loss)	3,963	6,300	3,030	(667)
Basic earnings per share	9.52	15.14	7.15	(1.59)
Fully diluted earnings per share	9.47	15.06	7.11	(1.59)
Cash dividends declared per share (CHF)[2]	N/A	5.50	5.00	N/A
Cash dividends declared per share (US$)[2][5]	3.31	3.31	3.31	N/A

	1999		1998	1997
	(in millions)			
	US$[1]	CHF	CHF	CHF
Balance sheet data				
Assets:				
Total assets	617,342	981,573	944,116	1,086,414
Due from banks	18,809	29,907	68,495	66,582
Cash collateral on securities borrowed	71,171	113,162	91,695	82,656
Reverse repurchase agreements	91,067	144,796	141,285	216,355
Trading portfolio	136,479	217,001	162,588	210,738
Positive replacement values[3]	82,075	130,500	169,936	149,538
Loans, net of allowances for credit losses	147,709	234,858	247,926	270,917
Liabilities:				
Due to banks	48,028	76,365	85,716	159,634
Cash collateral on securities lent	8,070	12,832	19,171	14,140
Repurchase agreements	131,595	209,236	137,617	191,793
Trading portfolio liabilities	34,331	54,586	47,033	68,215
Negative replacement values[3]	101,838	161,922	205,080	170,162
Due to customers	176,075	279,960	274,850	302,516
Long term debt	35,429	56,332	50,783	54,284
Shareholders' equity	21,909	34,835	32,395	30,927

	1999	1998	1997
Ratios			
Return on average assets	0.67%	0.28%	(0.07)%
Return on average equity	19.03%	9.21%	(2.00)%
Dividend payout ratio	36.33%	70.27%	NM[4]
Average equity to average assets	3.52%	3.06%	3.40%

(1) 31 December 1999 CHF amounts have been translated into U.S. dollars at the exchange rate of one US$=CHF 1.59, the noon buying rate in New York City on 31 December 1999, except dividends as described in note 5.

(2) Dividends are declared and paid in the year subsequent to the reporting period. Prior to the merger, Union Bank of Switzerland and Swiss Bank Corporation each paid dividends in accordance with their own dividend policies. Dividends for 1997 and prior, reflected at actual historical amounts, were paid by Union Bank of Switzerland on its bearer shares and registered shares and by Swiss Bank Corporation, as follows from 1994 until the merger:

	Union Bank of Switzerland				Swiss Bank Corporation	
	Bearer Shares		Registered Shares		Shares	
	CHF	US$[5]	CHF	US$[5]	CHF	US$[5]
1994	32.00	28.20	6.40	5.64	8.00	6.67
1995	32.00	26.25	6.40	5.25	8.00	6.29
1996	32.00	21.85	6.40	4.37	10.00	6.61
1997	50.00	33.65	10.00	6.73	12.00	8.01

(3) Positive and negative replacement values represent the fair value of derivative contracts.

(4) In 1997, we recorded a net loss of CHF 667 million. In 1997, our predecessors paid dividends of CHF 2,201 million.

(5) Dividend payment amounts have been translated to U.S. dollars at an exchange rate equal to the noon buying rate in New York City on the date of payment.

	1999		**1998**
	(in millions, except per share amounts)		
	US$[1]	**CHF**	**CHF**
U.S. GAAP income statement data			
Interest income[3]	21,925	34,860	28,731
Interest expense[3]	18,654	29,660	25,773
Net interest income	3,271	5,200	2,958
Credit loss expense	601	956	787
Total	2,670	4,244	2,171
Net fee and commission income	7,929	12,607	8,925
Net trading income	4,855	7,719	860
Other income, including income from disposal of associates and subsidiaries	2,001	3,181	725
Total income	17,455	27,751	12,681
Operating expenses	14,636	23,271	17,571
Operating profit (loss) before taxes and minority interests	2,819	4,480	(4,890)
Tax expense (benefit)	999	1,589	(1,221)
Minority interests	(34)	(54)	(4)
Net profit (loss)	1,786	2,837	(3,665)
Basic earnings per share	4.41	7.01	(8.84)
Fully diluted earnings per share	4.37	6.95	(8.84)

	1999		1998
	US$[1]	CHF	CHF
		(in millions)	
U.S. GAAP balance sheet data			
Assets:			
Total assets	628,525	999,354	1,019,519
Due from banks	31,511	50,103	103,158
Cash collateral on securities borrowed	71,171	113,162	91,695
Reverse repurchase agreements	91,067	144,796	141,285
Trading portfolio assets	119,185	189,504	161,440
Positive replacement values[2]	81,658	129,837	169,753
Loans, net of allowances	148,248	235,714	254,750
Intangible assets and goodwill	13,477	21,428	21,707
Other assets	11,772	18,717	29,398
Liabilities:			
Due to banks	56,674	90,112	114,903
Cash collateral on securities lent	8,070	12,832	19,127
Repurchase agreements	117,083	186,162	136,824
Trading portfolio liabilities	33,086	52,606	51,600
Negative replacement values[2]	101,136	160,806	205,090
Due to customers	183,393	291,595	282,543
Long term debt	35,251	56,049	50,445
Other liabilities	12,723	20,230	40,476
Shareholders' equity	32,599	51,833	54,761

(1) CHF amounts have been translated into U.S. dollars at the exchange rate of one US$ = CHF 1.59, the noon buying rate in New York City on 31 December 1999.

(2) Positive and negative replacement values represent the fair value of derivative contracts.

Item 9 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes thereto included elsewhere in this annual report. Our consolidated financial statements have been prepared in accordance with IAS, which differ in certain significant respects from U.S. GAAP. We refer you to Note 42 of our consolidated financial statements for a description of the significant differences between IAS and U.S. GAAP and the reconciliation of shareholders' equity and net profit (loss) to U.S. GAAP. Unless otherwise stated, all of our financial information presented herein is presented on a consolidated basis under IAS.

All references to 1999, 1998 and 1997 refer to our fiscal years ended 31 December 1999, 1998 and 1997, respectively. The financial statements for each of these periods have been audited by ATAG Ernst & Young, as described in the "Report of Independent Auditors" on page F-1.

Introduction

We are a global, integrated investment services firm and, at 31 December 1999, operated through five operating divisions and our Corporate Center. These five operating divisions consisted of the following:

- UBS Private Banking
- UBS Warburg
- UBS Private and Corporate Clients
- UBS Asset Management
- UBS Capital

The following table sets forth the contributions to operating profit before restructuring costs and taxes from each of our five operating divisions and Corporate Center.

	1999	1998	1997
	(CHF in millions)		
UBS Private Banking	2,652	4,336	3,165
UBS Warburg	2,484	(1,021)	1,279
UBS Private and Corporate Clients	1,162	908	756
UBS Asset Management	333	448	403
UBS Capital	156	428	381
Corporate Center	1,382	(1,029)	260
Total	8,169	4,070	6,244

The merger, which was completed on 29 June 1998, was accounted for under the "pooling-of-interests" method of accounting. Under the pooling-of-interests method, a single uniform set of accounting policies was adopted and applied retrospectively for the restatement of comparative

information. After the merger was effected, we began the process of integrating the operations of the two banks. This process involved streamlining operations, eliminating duplicate information technology infrastructure, consolidating banking premises and various other measures to bring the two banks together. At the time of the merger, we established a restructuring provision of CHF 7 billion to cover our expected restructuring costs associated with the merger. An additional pre-tax restructuring charge of CHF 300 million in respect of the merger, representing about four percent of the original CHF 7 billion provision, was recognized in December 1999. The majority of the extra provision is due to revised estimates of the cost of lease breaks and property disposals. We have now largely completed the integration and restructuring process and, at 31 December 1999, have used approximately CHF 5.9 billion of the restructuring provision.

During the last three years, a number of significant events occurred which had a significant effect on our results of operations during these periods. These events included:

- During 1999, we recognized pre-tax gains of CHF 1,490 million on the sale of our 25% stake in Swiss Life/Rentenanstalt; CHF 110 million on Julius Baer registered shares; CHF 200 million on the sale of our international Global Trade Finance business; and CHF 38 million on Long Term Capital Management L.P.

- During the first half of 1998, we divested Banca della Svizzera Italiana, or "BSI", and Adler & Co. Ltd., or "Adler", to satisfy a condition of the Swiss Competition Commission in connection with the merger. We recognized pre-tax gains of CHF 1,058 million on these sales.

- During 1998, due to extremely volatile market conditions, we incurred losses of CHF 1,160 million relating to the write-down of our trading and investment positions in Long Term Capital Management L.P. and CHF 762 million relating to our Global Equity Derivatives portfolio.

- As of 31 December 1998, we established a provision of CHF 842 million in connection with the claim relating to the role of Swiss banks during and after World War II. We recognized additional pre-tax provisions of CHF 154 million relating to this claim in 1999.

- In the fourth quarter of 1999, we recognized a one-time credit of CHF 456 million in connection with excess pension fund employer prepayments, recorded in accordance with IAS.

As a global financial services firm, our businesses are affected by the external environment in the markets in which we operate. In particular, the results of our business in Switzerland, and notably the results of our credit-related activities, would be adversely affected by any deterioration in the state of the Swiss economy because of the impact this would have on our customers' creditworthiness. More generally, economic and political conditions in different countries can also impact our results of operations and financial position by affecting the demand for our products and services and the credit quality of our borrowers and counterparties. Similarly, any prolonged weakness in international securities markets would affect our business revenues through its effect on our clients' investment decisions and the value of portfolios under management, which would in turn reduce our revenues from our private banking and asset management businesses.

Competitive forces – We face intense competition in all aspects of our business. We compete with asset management entities, retail and commercial banks, investment banking firms, merchant banks, broker-dealers and other investment services firms. In addition, the trend toward consolidation in the global financial services industry is enhancing the competitive position of some of our competitors by broadening the range of their product and service offerings and increasing their access to capital. These competitive pressures could result in increased pricing pressure on a number of our products and services, particularly as competitors seek to win market share.

Fluctuations in currency exchange rates and interest rates – Because we prepare our accounts in Swiss francs, changes in currency exchange rates, particularly between the Swiss franc and the U.S. dollar and the Swiss franc and the British pound, may have an effect on the earnings that we report. Our approach to managing the risk is explained below under "— Asset and Liability Management — Currency Management". In addition, changes in exchange rates can affect our business earnings. For example, the establishment of the Euro during 1999 has started to have an effect on the foreign exchange markets in Europe by reducing the extent of foreign exchange dealings among member countries and generating more harmonized financial products. Movements in interest rates can also affect our results. As interest rates decline, our interest rate margins generally come under pressure and mortgage borrowers may seek to repay their borrowings early, which can affect our net interest income. Interest rate movements can also affect our fixed income trading portfolio and the investment performance of our asset management businesses.

Operational Risks – Our businesses are dependent on our ability to process a large number of complex transactions across numerous and diverse markets in different currencies and subject to many different legal and regulatory regimes. Our systems and processes are designed to ensure that the risks associated with our activities are appropriately controlled, but we recognize that any weaknesses in these systems could have a negative impact on our results of operations during the affected period.

As a result of these and other factors beyond our control, our revenues and operating profit have been and are likely to continue to be subject to a measure of variability from period to period. Therefore our revenues and operating profit for any particular fiscal period may not be indicative of sustainable results, may vary from year to year and may impact our ability to achieve our strategic objectives. Nevertheless, our risk management and control procedures have been designed keep the risk of such variability at an acceptably low level. For further discussion of our risk management and control see "— Risk Management — Consequential Risk".

Consolidated Results of Operations

The following table sets forth our consolidated results of operations for the years ended 31 December 1999, 1998 and 1997:

	1999	1998	1997
	(CHF in millions)		
Operating income:			
Interest income	18,323	22,835	23,669
Interest expense	11,967	16,173	16,733
Net interest income	6,356	6,662	6,936
Credit loss expense	956	951	1,278
Total	5,400	5,711	5,658
Net fee and commission income	12,607	12,626	12,234
Net trading income	7,468	1,750	5,491
Other income, including income from disposal of associates and subsidiaries	3,146	2,241	1,497
Operating income	28,621	22,328	24,880
Operating expenses:			
Personnel	12,577	9,816	11,559
General and administrative	6,018[(1)]	6,617	5,315
Depreciation and amortization	1,857	1,825	1,762
Operating expenses	20,452	18,258	18,636
Operating profit before restructuring costs and tax	8,169	4,070	6,244
Restructuring costs	-[(1)]	-	7,000
Tax expense (benefit)	1,815	1,045	(105)
Group profit (loss)	6,354	3,025	(651)
Minority interests	(54)	(5)	16
Net profit (loss)	6,300	3,030	(667)

(1) In 1999, CHF 300 million of restructuring costs were recorded as general and administrative expense.

Year Ended 31 December 1999 Compared to Year Ended 31 December 1998

Net interest income decreased by CHF 306 million, or 4.6%, from CHF 6,662 million in 1998 to CHF 6,356 million in 1999. Higher interest margins in the domestic loan portfolio in 1999 from more consistent application of our risk-adjusted pricing model were more than offset by the sale of business activities which had contributed to net interest income in 1998, as well as the impact of lower returns on invested equity and the reduction of the international loan portfolio.

Credit loss expense had a slight increase of CHF 5 million from CHF 951 million in 1998 to CHF 956 million in 1999. During 1999, we experienced general improvements in the economy and in the

credit performance of our loan portfolio, and a reduction in impaired loans in the aggregate. Although impaired loans decreased, additional provisions were required for some of the impaired domestic loans remaining in the portfolio.

Net fee and commission income decreased by CHF 19 million from CHF 12,626 million in 1998 to CHF 12,607 million in 1999. Excluding the effect of divestments in 1998, the decrease was roughly 1%.

The following table sets forth our net fee and commission income for each of the years ended 31 December 1999 and 1998.

	1999	**1998**
	(CHF in millions)	
Credit-related fees and commissions	372	559
Security trading and investment activity fees:		
Underwriting and corporate finance fees	1,831	1,694
Brokerage fees	3,934	3,670
Fiduciary fees	317	349
Custodian fees	1,583	1,386
Portfolio and other management and advisory fees	2,984	3,335
Investment fund fees	1,915	1,778
Other	57	110
Total	12,621	12,322
Commission income from other services	765	776
Total fee and commission income	13,758	13,657
Fee and commission expense:		
Brokerage fees paid	795	704
Other	356	327
Total	1,151	1,031
Net fee and commission income	12,607	12,626

Credit-related fees and commissions decreased in line with reduced emerging market exposures and the sale of our international Global Trade Finance operations. As a result of strong results in mergers and acquisitions in 1999, underwriting and corporate finance fees increased 8% relative to exceptionally strong performance in 1998. Brokerage fees were higher in 1999 than in 1998 mainly due to strong volumes in the UK, US and Asia. A CHF 137 million increase in investment fund fees was attributable to higher volumes and pricing adjustments from the integration of the two pre-merger product platforms. Strong increases in custodian fees reflected higher custodian assets and a new pricing model.

Net trading income increased CHF 5,718 million from CHF 1,750 million in 1998 to CHF 7,468 million in 1999.

The following table sets forth our net trading income by major business area for each of the years ended 31 December 1999 and 1998:

	1999	1998
	(CHF in millions)	
Foreign exchange [1]	841	1,793
Fixed income	2,178	(762)
Equities	4,449	719
	7,468	1,750

(1) Includes other trading income such as banknotes, precious metals and commodities

Net trading income from foreign exchange decreased CHF 952 million, or 53.1%, from 1998 to 1999 mostly as a result of lower volumes in key markets. The reduced levels of activity resulted from the introduction of the Euro and narrowing margins from increased competition in global markets.

Net trading income from fixed income increased CHF 2,940 million from 1998 to 1999. During 1998, net trading income from fixed income was negatively impacted by the pre-tax CHF 790 million write-down of our trading position in Long Term Capital Management, L.P., or LTCM, and approximately CHF 690 million in losses in our emerging markets trading portfolios. Excluding those write downs from the 1998 results, net trading income from fixed income increased approximately 200% in 1999 over 1998. Fixed income trading revenues were strong across all major products during 1999, led by swaps and options and investment grade debt. Net trading income from equities increased CHF 3,730 million from 1998 to 1999. During 1998, net trading income was negatively impacted by pre-tax CHF 762 million in losses from the Global Equities Derivatives positions. In 1999, net trading income benefited from very strong customer volumes in equity products globally.

Other income, including income from disposal of associates and subsidiaries, increased CHF 905 million, or 40.4%, from CHF 2,241 million in 1998 to CHF 3,146 million in 1999. Total disposal-related pre-tax gains were CHF 1,821 million in 1999 compared to disposal-related pre-tax gains of CHF 1,119 million in 1998. The first time consolidation of Klinik Hirslanden in 1999 resulting in other income of CHF 395 million was partially offset by less income from investments in associates as a result of the divestments as well as lower income from other properties. The CHF 370 million portion of the LTCM write-down negatively impacted other income in 1998.

Personnel expense increased CHF 2,761 million, or 28.1%, from CHF 9,816 million in 1998 to CHF 12,577 million in 1999, despite only a minor increase in headcount from 48,011 at 31 December 1998 to 49,058 at 31 December 1999. At the end of 1997, we foresaw the probability of a shortfall in profit in our investment banking business as a result of the merger. In order to protect our investment banking franchise, we realized we would probably need to make payments to personnel in excess of amounts determined by normal compensation methodologies. An amount of approximately CHF 1 billion was recorded as part of the merger-related restructuring reserve for this purpose. By the end of 1998, this shortfall had materialized, and CHF 1,007 million of accrued payments to personnel were charged against the restructuring reserve as planned. The shortfall in profits noted above was aggravated by losses associated with LTCM and the Global Equity Derivatives portfolio. Adjusting the prior year for the CHF 1,007 million, personnel expenses in 1999 increased by 16%, which was primarily attributable to higher performance-related compensation based on the good investment banking result in 1999.

Personnel expense in 1999 was reduced by the recognition of CHF 456 million in pre-paid employer pension contributions.

General and administrative expense decreased CHF 599 million, or 9.1%, from CHF 6,617 million in 1998 to CHF 6,018 million in 1999. General and administrative expense in 1998 includes the provision of CHF 842 million for the settlement related to the role of Swiss banks during and after World War II. In 1999, the following were included:

- The additional restructuring provision of CHF 300 million
- An additional provision of CHF 154 million for the settlement related to the role of Swiss banks during and after World War II
- CHF 130 million from the first-time consolidation of Klinik Hirslanden

Excluding the impact of these items in 1998 and 1999, general and administrative expenses decreased 6% year-on-year reflecting stringent cost reduction programs.

Depreciation and amortization increased CHF 32 million, or 1.8%, from CHF 1,825 million 1998 to CHF 1,857 million in 1999. Excluding the impact of the first-time consolidation of Klinik Hirslanden in 1999, depreciation and amortization remained flat.

Tax expense increased CHF 770 million, or 73.7%, from CHF 1,045 million 1998 to CHF 1,815 million in 1999, principally due to increased operating profit. The effective tax rate of 22.2% is lower than 25.7%, the rate in 1998, primarily due to the utilization of tax loss carry forwards.

Year Ended 31 December 1998 Compared to Year Ended 31 December 1997

Net interest income decreased CHF 274 million, or 4.0%, from CHF 6,936 million in 1997 to CHF 6,662 million in 1998. The decrease primarily resulted from lower variable-rate mortgage volumes and the elimination of operations in 1998 that generated interest income during 1997. Lower variable rate mortgage volumes during 1998 more than offset an increase in fixed-rate mortgages. In addition, although lower savings and deposit accounts reduced interest expense in 1998, it also resulted in lower interest income from deposits during the year.

Our credit loss expense decreased CHF 327 million, or 25.6%, from CHF 1,278 million in 1997 to CHF 951 million in 1998. Credit loss expense improved because of positive developments in the overall Swiss economy. This was offset in part by the rapid deterioration of emerging market economies, most notably in Latin America and Southeast Asia. This caused an approximately CHF 275 million net increase in country provisions from 1997 to 1998 and other increases in individual counterparty

allowances. The largest provisions in the emerging markets economies were as follows at 31 December 1998 and 1997:

	1998	**1997**
	(CHF in millions)	
Brazil	276	55
Indonesia	168	29
South Korea	186	19

Net fee and commission income increased CHF 392 million, or 3.2%, from CHF 12,234 million in 1997 to CHF 12,626 million in 1998. Increases in underwriting and corporate finance fees, custodian fees, portfolio and other management and advisory fees, and fees from investment funds resulting from strong markets, growth in assets under management and the acquisition of Dillon Read & Co., Inc. in late 1997 all contributed to this net increase. These increases were partially offset by a decrease in credit-related fees and commissions and brokerage fees.

Net trading income decreased CHF 3,741 million, or 68.1%, from CHF 5,491 million in 1997 to CHF 1,750 million in 1998. The decrease primarily resulted from the CHF 790 million write-down of our trading position in LTCM, the CHF 762 million loss on our Global Equities Derivatives portfolio and approximately CHF 810 million of losses on our emerging markets trading portfolios. Net trading income from foreign exchange and bank notes decreased by CHF 541 million primarily reflecting losses in foreign exchange trading which were partially offset by unusually strong results in our cash and collateral trading business. In addition, net trading income from precious metals and commodities decreased by CHF 216 million, or 89%, from CHF 244 million in 1997 to CHF 28 million in 1998 due primarily to the wind-down of some of these businesses and difficult trading conditions.

Other income, including income from disposal of associates and subsidiaries, increased CHF 744 million, or 49.7%, from CHF 1,497 million in 1997 to CHF 2,241 million in 1998. The increase primarily reflected CHF 1,058 million gains on the sales of BSI and Adler and gains in our real estate and private equity activities, partially offset by the CHF 370 million write-down of our investment in LTCM attributable to other income.

Personnel expense decreased CHF 1,743 million, or 15.1%, from CHF 11,559 million in 1997 to CHF 9,816 million in 1998, reflecting reduced headcount of 13.0% from 55,176 people as of 31 December 1997 to 48,011 people as of 31 December 1998. The headcount reduction primarily resulted from efficiencies gained from the merger and divestments of specific businesses. As discussed above, CHF 1,007 million of accrued payments to personnel were charged against the restructuring reserve in 1998. Adjusting 1998 for this amount, personnel expenses decreased 6.4% in 1998 compared to 1997.

General and administrative expense increased CHF 1,302 million, or 24.5%, from CHF 5,315 million in 1997 to CHF 6,617 million in 1998. This increase primarily resulted from a CHF 842 million charge taken in 1998 for the settlement of the claim relating to the role of Swiss banks during and after World War II and approximately CHF 397 million in expenses recorded in 1998 associated with preparing for implementation of the Euro and for Year 2000 readiness.

Depreciation and amortization increased CHF 63 million, or 3.6%, from CHF 1,762 million in 1997 to CHF 1,825 million in 1998. Increased amortization of goodwill and other intangible assets primarily resulting from additional goodwill recorded in 1998 on Brinson Partners, the acquisition of Dillon, Read & Co., Inc. in September 1997 and the accelerated amortization of goodwill on Russian and

Brazilian subsidiaries due to the worsening markets in these countries in 1998 were the primary reasons for the increase from 1997 to 1998. These increases were offset by a decrease in depreciation from the disposal of property and equipment.

Tax expense increased CHF 1,150 million, from a tax benefit in 1997 of CHF 105 million to a tax expense in 1998 of CHF 1,045 million. In 1997, UBS recognized a total current and deferred tax benefit of approximately CHF 1,600 million related to the CHF 7,000 million restructuring provision. Excluding the restructuring reserve, operating profit before tax would have been CHF 6,244 million in 1997 and we would have accrued tax expenses of CHF 1,395 million.

Operational Reserves

We maintain operational reserves to provide for losses associated with existing transaction errors in processing and other operational losses. The reserves cover probable losses that exist in the portfolio as of the balance sheet date. We have experienced an overall increase in the level of these reserves during 1999, primarily related to our continuing program of integrating the two predecessor banks' domestic operations. As planned, this integration is taking longer than the integration of operations outside Switzerland. These reserves are subject to senior management review and approval within the specific business unit, functional operations and financial control management and at the Group Executive Board.

Restructuring Provision

At the announcement of the merger in 1997, UBS estimated the costs it believed would result from integrating and restructuring the operations of the two pre-existing banks and recorded a charge of CHF 7 billion. The charge included estimates for personnel-related costs, costs for the elimination of duplicate infrastructures and the merging of bank premises, and other merger related restructuring costs. An additional pre-tax restructuring charge of CHF 300 million in respect of the merger, representing about 4% of the original CHF 7 billion provision, was recognized in December 1999. The majority of the extra charge was taken to provide for revised estimates of the cost of lease breaks and property disposals. We have now largely completed the integration and restructuring process and, at 31 December 1999, have used approximately CHF 5.9 billion of the CHF 7.3 billion restructuring provision.

During 1998, CHF 4,027 million of the restructuring provision was utilized including:

- CHF 2 billion for personnel-related expenses
- CHF 797 million for information technology integration projects and write-offs of equipment which management had committed to dispose of
- CHF 267 million for merging premises
- CHF 939 million for costs associated with the exit of specific businesses, as well as merger administration costs.

Included in the CHF 2 billion of personnel-related expenses are severance payments and payments required to maintain stability in the workforce during the merger integration period, as well as some performance-related compensation as discussed above.

During 1999, CHF 1,844 million of the restructuring provision was utilized bringing the total utilization to CHF 5,871 million at 31 December 1999. The transition to one common technology

platform and parallel operation of the systems in UBS Private and Corporate Clients and the merger of bank premises, including related moving, outfitting and vacancy costs, recognized in Corporate Center, were the primary uses of the provision 1999. The following table analyzes the usage of the restructuring provision.

	Usage in 1999					
	Personnel	**IT**	**Premises**	**Other**	**1999**	**1998**
			(CHF in millions)			
UBS Private Banking	40	103	1	13	157	147
UBS Warburg	181	75	0	60	316	2,382
UBS Private Corporate Clients	123	461	165	45	794	717
UBS Asset Management	9	0	0	0	9	18
UBS Capital	3	0	0	0	3	2
Corporate Center	22	3	507	33	565	761
Group Total	378	642	673	151	1,844	4,027

Restructuring provision as of 31 December 1997	7,000
Additional provision in 1999	300
Total usage through 31 December 1999	5,871
Restructuring provision remaining	1,429

The substantial majority of the remaining restructuring reserve balance is attributed to employees and real estate located in Switzerland. We estimate that the balance of the reserve will be used in 2000 and 2001.

We have achieved merger-related cost savings of CHF 2 billion per year, including savings related to headcount reductions of CHF 1.6 billion and savings for other costs estimated to be around CHF 0.4 billion per year, including approximately CHF 75 million in eliminated depreciation expenses and other costs related to real estate.

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

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

UBS Private and Corporate Clients has been rapidly integrating its business in line with a detailed timetable and project schedule. For example, the branch network has been reduced by 31%, or over 170 branches, to 385 branches. In addition, now that the integration of the technology platforms has been completed and in line with employee association agreements made in 1998, redundancy plans will gain momentum during 2000 and 2001. Furthermore, although the technology platform integration was completed in mid-1999, one platform still remains to be decommissioned in 2000.

As with any merger, cost savings attributable directly to the merger are becoming increasingly difficult to track. Across all divisions, normal organic business growth, new investments and initiatives,

and at least three acquisitions and six divestments cloud underlying developments since the time of the merger.

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

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

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

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

Long Term Capital Management. In the third quarter of 1998, we realized a post-tax loss of CHF 984 million as a result of a write-down of our investment in Long Term Capital Management, L.P., or LTCM, and a post-tax loss of CHF 919 million as a result of unrealized losses in the value of our Global Equity Derivatives, or GED, portfolio.

In the case of LTCM, the loss arose from a structured transaction in which we sold an option which gave the optionholder the right to purchase shares in LTCM at a predetermined price over a seven-year period. In order to hedge the risk of this option, we held $800 million of LTCM shares to create an incrementally risk neutral position. Separate from the structured transaction, we also made a further direct equity investment of $266 million in LTCM. In normal market conditions, the structured transaction would have behaved in a controlled manner. However, the structured transaction could not be effectively hedged, particularly in the event of extreme market movements. As a result of the structured transaction, UBS was exposed to a sudden and severe downward movement in the value of LTCM equity, and had very limited scope to hedge this exposure. LTCM's equity was not traded and was only valued periodically based on the underlying instruments held by LTCM. Moreover, LTCM did not provide detailed information about its investment results. Consequently, UBS could not hedge with any precision against adverse moves in the value of LTCM's equity. In particular, when LTCM was faced by a sharp adverse move in market prices relating to certain specific investment strategies, UBS was unable to hedge this risk itself as it had no knowledge of the details of these strategies.

At the time of the recapitalization of LTCM in 1998, we wrote down our initial investment in LTCM and also agreed to provide a further $300 million (out of $3.6 billion provided by a group of financial institutions) of "consortium" equity in order to avoid a forced liquidation of LTCM and to enable LTCM's portfolio to be managed under the oversight of a management board which would oversee the orderly winding down of LTCM's portfolio.

On 24 November 1999, at the release of our nine month 1999 results, we reported that our initial investment, which was written down to $106 million, has been bought back by LTCM with an immaterial impact on our income statement. That position is now closed. In addition, as part of our "consortium" investment, four cash payments totaling $296 million were received by 31 December 1999. $271 million of these cash repayments were treated as a return of our $300 million investment, to leave a remaining balance of $29 million, and $25 million was recorded as income.

Global Equity Derivatives (GED) Portfolio. The other major contributory factor to the third-quarter 1998 losses related to the GED portfolio. This portfolio consists of a number of structured equity derivative transactions. This portfolio was analyzed at the time of the merger and it was recognized that it contained a number of positions which possessed the potential for significant short-term variance. Consequently, when equity market volatilities increased significantly as a result of the market turmoil in the third quarter of 1998, an unrealized loss of about CHF 728 million on the value of the portfolio arose. Over the next 12 months, as volatilities fell and positions were reduced, income from the portfolio of approximately CHF 306 million was recognized.

We continue to manage the exposure associated with this portfolio in order to minimize the risk of further adverse effects on earnings. The positions have now been included in our standard equity risk management platform and are subject to our normal risk control and stress loss processes. We have been reducing the market risk associated with the portfolio and will continue to do so through specific hedges, close-outs and the passage of time. These positions, including the associated hedges, are all carried at fair value. However, given that the average maturity of the transactions in the portfolio is about two years, it will take some time to wind down this exposure, and during this time the portfolio will continue to be exposed to adverse moves in equity markets.

Reconciliation of IAS to U.S. GAAP

Our consolidated results of operations are prepared in accordance with IAS, which differs in certain respects from U.S. GAAP. A reconciliation of the effects on shareholders' equity and net profit/(loss) to U.S. GAAP for the years ended 31 December 1999 and 1998 is included in Note 42 of our consolidated financial statements.

Results of Operations by Division

Our management reporting system and policies were used to determine the revenues and expenses directly attributable to each division. Internal charges and transfer pricing adjustments have been reflected in the performance of each division. The basis of the reporting reflects our management structure as it existed during 1999 and during 1998 following the merger.

Inter-divisional revenues and expenses include transfers between business divisions and between geographical locations. Inter-divisional expense charges are recorded as a reduction to expenses in the division providing the service. Corporate Center expenses are allocated to the five operating business divisions, to the extent possible, whereby the division controlling the process which is driving the expense bears the expense.

The credit loss expense included in the divisional results is a statistically derived adjusted annual expected loan loss that reflects the inherent counterparty and country risks in the respective portfolios. The expected loss is based on assumptions about developments covering a full economic cycle and on cumulative loss probabilities over the entire life of the loan portfolio. In determining the inherent

counterparty and country risk in the portfolio, we take into consideration the statistical probability of default by the customer and the severity of loss.

As each division is ultimately responsible for its credit decisions, the difference between actual credit losses and annual expected loan loss will eventually be charged or credited back to the division in order to ensure that the risks and rewards of credit decisions are fully reflected in its results. The difference between the statistically adjusted expected loss which is charged to the management accounts of the divisions and the credit loss expense recorded in the financial accounts in accordance with IAS is included in Corporate Center results.

The following table compares the expected credit loss charged to the management accounts to the credit loss expense calculated in accordance with IAS, broken down by division for the years ended 31 December 1999 and 1998.

	Expected Credit Loss		**IAS Credit Expense**	
	1999	**1998**	**1999**	**1998**
	(CHF in millions)			
UBS Private Banking	24	26	11	48
UBS Warburg	330	500	(20)	506
UBS Private and Corporate Clients	1,050	1,170	974	397
Corporate Center	(448)	(745)	(9)	0
Total	956	951	956	951

UBS Private Banking

UBS Private Banking derives its operating income from:

- fees for financial planning and wealth management services
- fees for discretionary services, including its investment funds
- transaction-related fees

UBS Private Banking's fees are based on the market value of assets under management and the level of transaction-related activity. As a result, UBS Private Banking's operating income is affected by such factors as fluctuations in assets under management, changes in market conditions, investment performance and inflows and outflows of client funds.

In March 1999, we acquired Bank of America's international private banking activities in Europe and Asia thereby increasing the assets under management in UBS Private Banking by approximately CHF 5 billion as of 31 December 1999. In December 1999, we completed the acquisition of Global Asset Management, a firm with assets under management of CHF 23 billion as of 31 December 1999, comprised primarily of private clients' portfolios and investment funds as well as institutional mandates. The purchase price was paid in cash and UBS stock. The acquisition of Global Asset Management had no material impact on results for 1999 although GAM is reflected in our year-end balance sheet.

The following table sets forth the results of UBS Private Banking for the years ended 31 December 1999, 1998 and 1997.

.	1999	1998	1997
		(CHF in millions)	
Operating income:			
Operating income before credit loss expense	6,011	7,223	6,215
Credit loss expense	24	26	59
Operating income	5,987	7,197	6,156
Operating expenses:			
Personnel, general and administrative expense	3,161	2,735	2,869
Depreciation and amortization	174	126	122
Operating expenses	3,335	2,861	2,991
Operating profit before restructuring costs and tax	2,652	4,336	3,165
Assets under Management ***(at period end)*****:**			
Advisory	548,000	458,000	470,000
Discretionary	183,000	149,000	140,000
Total	731,000	607,000	610,000

Year Ended 31 December 1999 Compared to Year Ended 31 December 1998

Operating income decreased CHF 1,210 million, or 16.8%, from CHF 7,197 million in 1998 to CHF 5,987 million in 1999. This significant decrease principally reflected lower transaction-based revenues due to lower levels of client transaction activity. In addition, the disappointing level of net new money remains an area for focus and development. CHF 1,058 million gains from the divestments of BSI and Adler, as well as CHF 268 million of operating income relating to BSI's operations, are included in operating income for 1998 and did not recur in 1999. Excluding the disposal related income, operating income from UBS Private Banking increased 2.0% from 1998 to 1999.

Notwithstanding the decrease in operating income, assets under management increased during 1999 by CHF 124 billion, or 20.4%. Strong markets, especially in Europe, the United States and in the technology sector, as well as the stronger U.S. dollar led to a performance increase of CHF 85 billion for 1999. In addition, the Global Asset Management acquisition and the acquisition of the international private banking operations of Bank of America accounted for an additional CHF 28 billion while interdivisional transfers resulted in another CHF 6 billion. This increase was primarily a reflection of investment performance during the first two quarters. This increase was partially offset, however, by decreased volumes from existing clients during the second half of 1999.

Operating expenses, adjusting for CHF 125 million in divestment-related operating expenses, increased 22%, or CHF 599 million, to CHF 3,335 million in 1999, to a large extent, as a result of our expansion in the front-line staff as well as infrastructure related investments. Cost growth is expected to flatten out during 2000.

Personnel, general and administrative expense increased CHF 426 million, or 15.6%, from CHF 2,735 million in 1998 to CHF 3,161 million 1999. Personnel costs increased 16.2%, or CHF 236 million,

to CHF 1,694 million, in 1999 due to an increase in headcount of 1,931 from 7,634 at 31 December 1998 to 9,565 at 31 December 1999. Growth was in line with expansion strategy we had in place at that time relative to our onshore private banking business outside of Switzerland. In addition to growth in our client-facing staff, the division has increased its logistics staff in support of the expansion strategy, as well as adding 501 people due to the GAM acquisition. Operating expenses in 1998 also included CHF 125 million related to BSI which did not occur in 1999.

Goodwill amortization, excluding GAM, increased CHF 21 million to CHF 36 million in 1999 as a result of the acquisition of the international banking operations of Bank of America and an increase in depreciation due to additional fixed assets purchased. Depreciation and amortization of other intangibles increased CHF 27 million, or 24.3%, from CHF 111 million in 1998 to CHF 138 million in 1999.

Year Ended 31 December 1998 Compared to Year Ended 31 December 1997

Operating income increased CHF 1,041 million, or 16.9%, from CHF 6,156 million in 1997 to CHF 7,197 million in 1998. This increase primarily reflected non-recurring gains of CHF 1,058 million realized on the sales of BSI and Adler. Excluding these gains from 1998 operating income, operating income decreased marginally from 1997 to 1998. The decrease primarily reflected adverse market conditions in the second half of 1998. Despite this difficult environment and the occurrence of the merger on 29 June 1998, UBS Private Banking was able to maintain relatively stable performance, with assets under management decreasing only slightly from CHF 610 billion at 31 December 1997 to CHF 607 billion at 31 December 1998.

Personnel, general and administrative expense decreased CHF 134 million, or 4.7%, from CHF 2,869 million in 1997 to CHF 2,735 million in 1998. Headcount decreased 2.9% from 7,862 at 31 December 1997 to 7,634 at 31 December 1998. Headcount in Switzerland, along with related personnel costs, decreased primarily from the sales of BSI and Adler. This decrease was partially offset by an increase in headcount outside of Switzerland due to the development of our private banking business outside of Switzerland.

Depreciation and amortization increased slightly, from CHF 122 million in 1997 to CHF 126 million in 1998.

UBS Warburg

UBS Warburg generates operating income from:

- commissions on agency transactions and spreads or markups on principal transactions
- fees from debt and equity capital markets transactions, leverage finance and structuring derivatives and complex transactions
- mergers and acquisitions advisory fees
- interest income on principal transactions and from the loan portfolio
- gains and losses on market making, proprietary and arbitrage positions

As a result, UBS Warburg's operating income is affected by movements in market conditions, interest rate swings, the level of trading activity in primary and secondary markets and the extent of

merger and acquisition activity. These and other factors outside the control of UBS Warburg have had and may in the future have a significant impact on its results of operations from year to year.

It should be noted that our Corporate Finance business area provides both advisory services and financing services. The financing services include both equity and fixed-income offerings undertaken in cooperation with the Equity Capital Markets, Debt Capital Markets and Leveraged Finance groups. Accordingly, a portion of operating income associated with these equity and fixed-income financing services is allocated to Corporate Finance and the remaining operating income is allocated to the Equities business area or Fixed Income business area as appropriate.

As a result of the Group reorganization announced in February 2000, the business areas operated within UBS Warburg have expanded. While retaining the existing organization structure of the securities and investment banking business areas, UBS Warburg will also include UBS Capital, international onshore Private Banking and e-services.

In October and November 1998, the Board of Directors mandated and undertook a review of our risk profile and risk management as well as our control processes and procedures. The review placed particular emphasis on the Fixed Income business area, which had experienced losses on credit exposures in certain emerging market assets. Each of the business areas selected for review was assessed as to whether it supported the UBS and UBS Warburg franchises and, if so, whether the expected return as compared to the estimated risk justified a continuation of the business. UBS Warburg used the review to define its core and non-core business areas, and decided to wind down over time the identified non-core businesses.

The businesses identified as non-core in late 1998 are:

- Lease Finance
- Commodities Trading (energy, base metals, electricity)
- Non-structured Asset-backed Finance
- Distressed Debt Trading
- Global Trade Finance, with the exception of the Swiss corporate business
- Conduit Finance
- Non-core loans – loans and commitments which are not part of our tradeable asset portfolio, not issued in conjunction with our Leveraged Finance business or credit exposures we wish to reduce
- Project Finance

The identified non-core businesses are being wound down over time and will be disposed of as appropriate. While we consider all of our non-core businesses to be held for sale (including those listed above), none of these businesses constitutes a segment to be treated as a discontinued operation, as defined by U.S. GAAP. Businesses designated as non-core businesses remain consolidated for purposes of both IAS and U.S. GAAP unless and until such businesses are actually sold or we otherwise dispose of such a business. Most of our international Global Trade Finance business was sold during the first quarter of 1999 and our Conduit Finance business was sold during the third quarter of 1999. Our non-core loan portfolio decreased approximately CHF 46 billion, or 54.1%, from approximately CHF 85 billion as of 31 December 1998 to CHF 39 billion as of 31 December 1999.

Negotiations for the sale of the Project Finance portfolio and residual Global Trade Finance positions were completed in December 1999 for proceeds approximating their carrying values. As a result, no material losses were realized. Certain aspects of our Global Equities Derivatives portfolio previously identified at the merger date as inconsistent with our risk profile were also designated as a non-core business during late 1998 in order to segregate this activity from the rest of our Equities business. We accrued CHF 154 million as a restructuring reserve for this portion of the portfolio.

In 1999, UBS Warburg's operating income before credit loss expense from core businesses amounted to CHF 12,227 million and its operating income before credit loss expense from non-core businesses was CHF 682 million.

The following table sets forth the results of UBS Warburg for the years ended 31 December 1999, 1998 and 1997:

	1999[1]	1998[1]	1997[2]
Operating income:			
Equities	5,916	3,334	
Fixed Income	2,460	(267)	
Corporate Finance	2,050	1,665	
Treasury Products	1,801	2,351	
Non-core Business	682	(96)	
Total operating income before credit loss expense	12,909	6,987	10,888
Credit loss expense	330	500	300
Operating income	12,579	6,487	10,588
Operating expenses:			
Personnel, general and administrative	9,309	6,816	8,641
Depreciation and amortization	786	692	668
Operating expenses	10,395	7,508	9,309
Operating profit (loss) before restructuring costs and tax	2,484	(1,021)	1,279

(1) Operating income before credit loss expense broken down by business area has been restated to conform to 1999 presentation whereby operating income from non-core businesses is disclosed separately.

(2) Prior to the merger, the businesses were reported under different management reporting structures. A breakdown of 1997 operating income in accordance with our current management reporting structure in effect for 1999 and 1998 was, therefore, not possible.

Year Ended 31 December 1999 Compared to Year Ended 31 December 1998

Operating income from Equities increased CHF 2,582 million, from CHF 3,334 million in 1998 to CHF 5,916 million in 1999. This increase was primarily due to continued strong growth throughout 1999 compared to weaker results and losses in 1998 that did not recur. Equities performed well during the six months ended 30 June 1998, but experienced a more difficult trading environment in the second half of 1998 as a result of higher volatility levels in equity markets. In 1999 Equities performed strongly in all major markets. Continuing strong secondary cash and derivatives business with institutional and corporate clients contributed significantly to the positive results.

Operating income from Fixed Income increased CHF 2,727 million from CHF (267) million in 1998 to CHF 2,460 million in 1999. The improvement in Fixed Income largely reflected particularly strong performance in swaps and options and investment grade corporate debt products during 1999. Strong client flows drove both investor and issuer activities resulting in increased revenues. Weaker than expected results in Fixed Income in 1998 were due primarily to significant losses in the Group's emerging market portfolio, which were largely attributable to UBS Warburg and a write-down of CHF 790 million in the division's LTCM trading position.

Operating income from Corporate Finance increased CHF 385 million, or 23.1%, from CHF 1,665 million in 1998 to CHF 2,050 million in 1999. Strong performance in mergers and acquisitions, resulting in higher advisory fees, and contributions from our Equity and Debt Capital Markets Groups were the primary drivers of the increase.

Operating income from Treasury Products decreased CHF 550 million, or 23.4%, from CHF 2,351 million in 1998 to CHF 1,801 million in 1999. Foreign exchange trading, while continuing to be profitable, was adversely affected by diminished volumes in key markets in 1999. The reduced levels of activity resulted from the introduction of the Euro and narrowing margins from increased competition in the global markets. UBS Warburg's precious metals business was adversely impacted by the dramatic volatility in the gold market in the fourth quarter of 1999.

Operating income from the non-core business as identified above increased CHF 778 million from CHF (96) million in 1998 to CHF 682 million in 1999. In 1998, Equities recognized losses of CHF 762 million from the Global Equity Derivatives portfolio as compared to 1999, during which this portfolio generated CHF 99 million in positive revenues. The losses recognized in 1998 were partially offset by CHF 498 million in revenues generated by Global Trade Finance. In addition, during 1999 the Global Trade Finance business was sold for a CHF 200 gain after generating approximately CHF 160 million in revenues in 1999.

Credit loss expense decreased CHF 170 million, or 34.0%, from CHF 500 million in 1998 to CHF 330 million in 1999. This reflected a decrease in expected credit losses due primarily to the continued wind-down of the non-core loan portfolio and the sale of the international Global Trade Finance business in mid-1999. See "—UBS Private and Corporate Clients" for a discussion of the impact of the transfer of our Swiss Global Trade Finance business to UBS Private and Corporate Clients. The non-core loan portfolio will continue to be wound-down.

Personnel, general and administrative expense increased CHF 2,493 million, or 36.6%, from CHF 6,816 million in 1998 to CHF 9,309 million in 1999. Despite a reduction in headcount of 1,100 from 13,794 at 31 December 1998 to 12,694 at 31 December 1999, personnel expenses increased CHF 2,528 million, or 58.3%, to CHF 6,861 in 1999, due primarily to performance-related compensation tied directly to the strong divisional results for the year. In addition, in 1998, CHF 1,007 million of accrued payments to personnel was charged against the restructuring reserve. At the end of 1997, UBS foresaw the probability of a shortfall in profit in its investment banking business as a result of the merger. In order to protect its investment banking franchise, UBS realized it would probably need to make payments to personnel in excess of amounts determined by normal compensation methodologies. An amount of approximately CHF 1 billion was recorded as part of the merger-related restructuring reserve for this purpose. By the third quarter of 1998, this shortfall had materialized, and the CHF 1,007 million of accrued payments to personnel were charged against the restructuring reserve as planned. The shortfall in profits noted above was aggravated by losses associated with LTCM and the Global Equity Derivatives portfolio. After adjusting 1998 for the amount charged to the restructuring reserve, personnel expenses in 1999 increased 28.5% against the comparative prior period.

General and administrative expenses remained relatively flat from 1998 to 1999.

Depreciation and amortization increased CHF 94 million, or 12.0%, from CHF 692 million in 1998 to CHF 786 million in 1999, primarily reflecting accelerated amortization of the goodwill on a Latin American subsidiary.

Year Ended 31 December 1998 Compared to Year Ended 31 December 1997

Total operating income before credit loss expense decreased CHF 3,901 million or 35.8%, from CHF 10,888 million in 1997 to CHF 6,987 million in 1998, with decreases recognized across all business areas. Equities experienced a difficult trading environment in the second half of 1998 in addition to recognizing net losses on the Global Equity Derivatives portfolio of CHF 762 million, although this was offset somewhat by high commission levels and income from new issues. Fixed Income's operating income decreased from 1997 to 1998 due to the write-down in 1998 of our holdings in LTCM by CHF 790 million and CHF 725 million in emerging markets. This emerging markets loss consisted of CHF 455 million in losses in Russia, CHF 215 million in Latin America and CHF 55 million in Asia and other Eastern European countries. These losses were somewhat offset by strong primary and secondary bond activity.

Corporate Finance exceeded expectations in 1998 resulting from strong mergers and acquisitions activity and improved results from equity and equity-linked issues. In 1997 and 1998, Treasury Products performed well in cash and collateral trading, as well as in foreign exchange.

Credit loss expense increased CHF 200 million, or 66.7%, from CHF 300 million in 1997 to CHF 500 million in 1998. This increase resulted from increased exposures from the start-up of the leveraged finance business in early 1998 and an increase in over-the-counter derivatives exposures due primarily to counterparty and country rating downgrades resulting from the Asian and Russian crises.

Personnel, general and administrative expense decreased CHF 1,825 million, or 21.1%, from CHF 8,641 million in 1997 to CHF 6,816 million in 1998. This primarily reflected a reduction in personnel related costs resulting from a reduction in headcount by 25.9% from 18,620 at 31 December 1997 to 13,794 at 31 December 1998 as a result of the merger. Merger integration for UBS Warburg was substantially completed during 1998. As discussed above, CHF 1,007 million of accrued payments to personnel were charged against the restructuring reserve in 1998. Adjusting 1998 for this amount, personnel expenses decreased from 1997 by 6.4%.

Depreciation and amortization increased CHF 24 million, or 3.6%, from CHF 668 million in 1997 to CHF 692 million in 1998. This reflected increased goodwill amortization in 1998 due to the acquisition of Dillon Read & Co., Inc. in September 1997 and the accelerated amortization of goodwill on Russian and Brazilian subsidiaries of CHF 35 million due to weak market conditions in these countries in 1998.

UBS Private and Corporate Clients

UBS Private and Corporate Clients derives its operating income principally from:

- interest income on its loan portfolio
- fees for investment and asset management services
- transaction fees

- investment income from deposits

As a result, UBS Private and Corporate Clients' operating income is affected by movements in interest rates, fluctuations in assets under management, client activity, investment performance and changes in market conditions.

The following table sets forth the results of UBS Private and Corporate Clients for the years ended 31 December 1999, 1998 and 1997.

	1999	**1998**	**1997**[(2)]
	(CHF in millions)		
Operating income:			
Individual clients	4,553	4,785	
Corporate clients	1,855	1,728	
Risk transformation and capital management[(1)]	330		
Operations	313	448	
Other	142	64	
Total operating income	7,193	7,025	7,005
Credit loss expense	1,050	1,170	1,092
Operating income	6,143	5,855	5,913
Operating Expenses:			
Personnel, general and administrative expense	4,424	4,263	4,497
Depreciation and amortization	557	684	660
Operating expenses	4,981	4,947	5,157
Operating profit before restructuring costs and taxes	1,162	908	756
(at year end) Assets under management	439,000	434,000	398,000
Total loans	164,743	164,840	N/A[(3)]

(1) Newly created business area in 1999. 1998 income included in individual and corporate clients.

(2) Prior to the merger, the businesses were reported under different management reporting structures. A breakdown of 1997 operating income in accordance with our current management reporting structure is, therefore, not possible.

(3) Total loans are not available for dates prior to the merger.

Year Ended 31 December 1999 Compared to Year Ended 31 December 1998

Operating income before credit loss expense increased CHF 168 million, or 2.4%, from CHF 7,025 million in 1998 to CHF 7,193 million 1999. This improvement was primarily due to higher margins on interest-related business, such as mortgages, as well as the first full-year impact of the amalgamation and repricing of products from the two former banks. UBS Private and Corporate Clients' divisional results are dependent on interest-related business, which contribute almost 60% of operating income. In conjunction with the creation of the Risk Transformation and Capital Management business area in October 1999, the business areas within the UBS Private and Corporate Clients division were

realigned in 1999. These realignments and the resulting effects on 1999 operating income were as follows.

- The Business Client segment was transferred from Individual Clients to Corporate Clients resulting in a decrease in operating income from Individual Clients from 1998 to 1999.

- Operating income from Corporate Clients increased from 1998 to 1999 primarily due to the transfer in of the Business Client segment, the transfer in of the Global Trade Finance business from UBS Warburg and improving interest margins. The transfer out of the Recovery portfolio to Risk Transformation and Capital Management partially offset these increases.

- Operating income from Operations decreased compared to 1998. This was the net effect of the transfer of emerging market bank activities from UBS Warburg into UBS Private and Corporate Clients and the transfer of the industrialized bank activities to UBS Warburg during 1999.

Our credit loss expense decreased CHF 120 million, or 10.3%, from CHF 1,170 million in 1998 to CHF 1,050 million in 1999 as a result of accelerated reduction of impaired positions and the movement to higher quality businesses. This was partially offset by increased loss expectations primarily resulting from the transfer of the remainder of the Global Trade Finance business from UBS Warburg during 1999.

Personnel, general and administrative expense increased CHF 161 million, or 3.8%, from CHF 4,263 million in 1998 to CHF 4,424 million in 1999. This increase was due primarily to changes in methodology which resulted in additional costs or cost allocations being attributed to this division in 1999. A portion of corporate real estate costs which were previously borne by our Corporate Center were allocated to the UBS Private and Corporate Clients division during 1999. In addition, these expenses increased with the transfer into the division of our Swiss Global Trade Finance business. This business, with approximately 400 professionals, was transferred from UBS Warburg in early 1999. These increases were partially offset by cost savings resulting from the closure of redundant branches.

Depreciation and amortization expense decreased CHF 127 million, or 18.6%, from CHF 684 million in 1998 to CHF 557 million in 1999, primarily due to reduced assets employed subsequent to the merger.

Year Ended 31 December 1998 Compared to Year Ended 31 December 1997

Total operating income before credit loss expense increased slightly from CHF 7,005 million in 1997 to CHF 7,025 million in 1998. Included in operating income in 1997 was a CHF 97 million pre-tax gain on the sale of Bank Aufina AG. Included in operating income in 1998 were total gains from the sales of Boss Lab SA, a technology company, and Bank Prokredit AG, a leasing and consumer credit company, of CHF 50 million. The small increase in operating income before credit loss expense from 1997 to 1998 excluding the gains from the divestitures was primarily attributable to improved margins resulting from risk-adjusted pricing.

Our credit loss expense increased CHF 78 million, or 7.1%, from CHF 1,092 million in 1997 to CHF 1,170 million in 1998, reflecting increased loss expectations.

Personnel, general and administrative expense decreased CHF 234 million, or 5.2%, from CHF 4,497 million in 1997 to CHF 4,263 million in 1998. This decrease primarily reflected reduced costs due

to a reduction in headcount from 25,641 in 1997 to 24,043 in 1998 resulting from the sales of Boss Lab SA and Bank Prokredit AG and additional reductions from the closing of redundant branches.

UBS Asset Management

Prior to the reorganization of the UBS Group, UBS Asset Management generated most of its revenue from the asset management services it provides to institutional clients. This will be more evenly divided between institutional and non-institutional sources in 2000 due to the addition of GAM and the UBS Investment Funds. Fees charged to institutional clients and on investment funds are based on the market value of assets under management. As a result, UBS Asset Management's revenues are affected by changes in market conditions as well as new and lost business.

The following table sets forth the results of UBS Asset Management for the years ended 31 December 1999, 1998 and 1997:

	1999	1998	1997
	(CHF in millions)		
Operating income	1,096	1,163	1,040
Operating expenses:			
Personnel, general and administrative expense	621	608	542
Depreciation and amortization	142	107	95
Operating expenses	763	715	637
Operating profit before restructuring costs and tax	333	448	403
Assets under Management ***(at period end)*****:**			
Institutional	376,000	360,000	373,000
Non-institutional	198,000	171,000	131,000
Total	574,000	531,000	504,000

Year Ended 31 December 1999 Compared to Year Ended 31 December 1998

Operating income decreased CHF 67 million, or 5.8%, from CHF 1,163 million in 1998 to CHF 1,096 million in 1999. Assets under management increased 8.1%, or CHF 43 billion, to CHF 574 billion at 31 December 1999, with increases in both institutional and non-institutional categories year-on-year. Despite the 4.4% increase in Institutional assets under management which primarily resulted from investment performance, the acquisition of Allegis Realty Investors LLC and growth in private client mandates, institutional revenues decreased. This decrease from CHF 968 million in 1998 to CHF 903 million in 1999 reflects a slight decline in average institutional assets under management from 1998 to 1999, as gains from performance and currency were offset by client attrition and performance issues in certain mandate types. Average non-institutional assets increased by 18% during 1999, however, non-institutional revenues declined slightly to CHF 193 million as a result of new interdivisional fee arrangements with UBS Private Banking.

Personnel, general and administrative expense increased CHF 13 million, or 2.1%, from CHF 608 million in 1998 to CHF 621 million in 1999. Headcount increased from 1,497 as of 31 December 1998 to 1,653 as of 31 December 1999, primarily as a result of the acquisition of Allegis Realty Investors LLC in

December 1999. Personnel expenses decreased slightly from CHF 454 million in 1998 to CHF 444 million in 1999 reflecting decreased incentive compensation. General and administrative expenses increased 14.9% to CHF 177 million in 1999 as a result of revisions in cost-sharing arrangements between UBS Asset Management and other divisions in the Group.

Depreciation and amortization expense increased CHF 35 million, or 32.7%, from CHF 107 million in 1998 to CHF 142 million in 1999, reflecting increased goodwill amortization related to the buy-out of our joint venture with the Long-Term Credit Bank of Japan. Depreciation was flat year-on-year. We expect our goodwill amortization expense to further increase in future years as a result of Global Asset Management being transferred into the division in early 2000.

Year Ended 31 December 1998 Compared to Year Ended 31 December 1997

Operating income increased CHF 123 million, or 11.8%, from CHF 1,040 million in 1997 to CHF 1,163 million in 1998, reflecting growth in assets under management from our acquisition in Japan and positive market performance. Non-institutional assets under management, including assets from Private Banking increased CHF 40 billion, or 30.5%, from 1997 to 1998. These positive developments were partially offset by a decline in the U.K. business' operating income and assets under management due to short-term performance issues and a very competitive U.K. marketplace.

Personnel, general and administrative expense increased CHF 66 million, or 12.2%, from CHF 542 million in 1997 to CHF 608 million in 1998. This increase reflects the expansion in Europe and the acquisition of Long-Term Credit Bank of Japan's asset management business during 1998. Principally as a result of these expansions, headcount increased 9.8% from 1,364 at 31 December 1997 to 1,497 at 31 December 1998.

Depreciation and amortization increased CHF 12 million, or 12.6%, from CHF 95 million in 1997 to CHF 107 million in 1998. This increase reflects an increase in goodwill amortization due to additional goodwill recorded in 1998 upon the payment of the remaining obligation to the previous owners of Brinson Partners.

UBS Capital

UBS Capital's primary source of operating income is capital gains from the disposition or sale of its investments, which are recorded at the time of ultimate divestment. As a result, appreciation in fair market value is only recognized as operating income at the time of sale. The level of annual operating income from UBS Capital is directly affected by the level of investment dispositions that take place during the course of a year. With the formation of regional funds, UBS Capital has begun to receive management fees from funds we manage and sponsor, which are recorded as operating income.

The following table sets forth the results of UBS Capital for the years ended 31 December 1999, 1998 and 1997:

	1999	**1998**	**1997**
Operating income	315	585	492
Operating expenses:			
Personnel, general and administrative expense	152	156	110
Depreciation and amortization	7	1	1
Operating expenses	159	157	111
Operating profit before restructuring costs and tax	156	428	381
Investments (*at book value at period end*)	2,993	1,784	1,080

Year Ended 31 December 1999 Compared to Year Ended 31 December 1998

Operating income decreased CHF 270 million, or 46.2%, from CHF 585 million in 1998 to CHF 315 million in 1999. This reflects a decrease in realized gains resulting from a reduced number of sales of investments in 1999 as compared to1998. In 1999, operating income included CHF 13 million of management fees paid by funds that we manage and sponsor.

Personnel, general and administrative expense decreased slightly by CHF 4 million, or 2.6%, from CHF 156 million in 1998 to CHF 152 million 1999. These expenses remained stable despite the division's expansion into new regions and sectors, the recruitment of new professionals, the high level of investment activity during 1999 and the associated investment costs. As part of the restructuring related to the merger, one team from UBS Capital moved to another division effective 1 January 1999. This resulted in a lower headcount during most of 1999 when compared to 1998, and therefore personnel costs decreased 13.2% to CHF 105 million in 1999. General and administrative expenses increased CHF 12 million to CHF 47 million in 1999 mainly due to deal-related expenses.

UBS Capital made approximately CHF 1,400 million of new investments and add-ons during 1999. UBS Capital plans to gradually increase its annual investment rate, as demonstrated by the higher investment rate in 1999 as compared to 1998. UBS Capital has a target portfolio book value of approximately CHF 5 billion from its own investments and CHF 5 billion from third party funds.

Year Ended 31 December 1998 Compared to Year Ended 31 December 1997

Operating income increased CHF 93 million, or 18.9%, from CHF 492 million in 1997 to CHF 585 million in 1998, reflecting generally favorable conditions in Western markets allowing for the disposals of investments in Switzerland, the United States, and the Benelux and Nordic region. UBS Capital's portfolio in 1998 was, and it continued to be during 1999, primarily focused on the United States and Western Europe with minor exposure to Latin America and Asia. Therefore, the emerging markets crises which took place during 1998 had little impact on the division's performance.

Personnel, general and administrative expense increased CHF 46 million, or 41.8%, from CHF 110 million in 1997 to CHF 156 million in 1998. Higher performance-related compensation in 1998 than in 1997 primarily resulted from the stronger performance in 1998. Staff losses due to the merger were minimal.

UBS Capital made investments totaling approximately CHF 800 million during 1998 compared to approximately CHF 600 million during 1997, further demonstrating steady growth in its investment rate.

Corporate Center

The following table sets forth the consolidated results of Corporate Center for the years ended 31 December 1999, 1998 and 1997:

	1999	1998	1997
Operating income:			
Operating income before credit loss expense..........	2,053	296	518
Credit loss expense..	(448)	(745)	(173)
Operating income...	2,501	1,041	691
Operating expenses:			
Personnel, general and administrative expense..	928	1,855	215
Depreciation and amortization...............................	191	215	216
Operating expenses...	1,119	2,070	431
Operating profit (loss) before restructuring costs and tax	1,382	(1,029)	260

Year Ended 31 December 1999 Compared to Year Ended 31 December 1998

Operating income before credit loss expense activities increased CHF 1,757 million from CHF 296 million in 1998 to CHF 2,053 million in 1999, primarily due to the following:

- Gains on the divestments of Swiss Life/Rentenanstalt of CHF 1,490 million and our interest in Julius Baer registered shares of CHF 110 million included in 1999.
- Approximately CHF 380 million due to the first time consolidation of Klinik Hirslanden AG included in 1999.
- Negative impact on 1998 operating income due to the loss of CHF 370 million from LTCM.

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

Credit loss expense in Corporate Center reconciles the difference between management accounting and financial accounting, that is between the adjusted expected losses charged to the divisions and the credit loss expense recognized in the Group financial accounts.

Personnel, general and administrative expense decreased CHF 927 million, or 50.0%, from CHF 1,855 million in 1998 to CHF 928 million in 1999.

Personnel costs decreased 48.1% to CHF 110 million in 1999 from CHF 212 million in 1998 primarily as a result of the recognition in 1999 of pre-paid employer pension contributions of CHF 456 million. This represents the difference between previously recorded and actuarially determined pension expenses and was recognized in 1999 after the resolution of certain legal and regulatory issues. Excluding the recognition of this benefit, personnel expenses increased from 1998 to 1999 despite only a slight increase in headcount from 921 in 1998 to 932 in 1999. This increase year-on-year is largely attributable to the first-time consolidation of Klinik Hirslanden AG in 1999.

General and administrative expenses decreased 50.2% to CHF 818 million in 1999 from CHF 1,643 million in 1998, primarily as a result of a charge for the settlement in the United States of the litigation regarding the role of Swiss banks during and after World War II of CHF 842 million 1998. In addition, the following items were included in general and administrative expenses for 1999:

- An additional charge of CHF 154 million related to settlement in the United States of the litigation regarding the role of Swiss banks during and after World War II.
- An additional pre-tax restructuring charge of CHF 300 million in respect of the merger
- Expenses of Klinik Hirslanden AG as a result of the first-time consolidation of this entity in 1999

In addition, total operating expenses in Corporate Center have been reduced from 1998 to 1999 mainly due to a further refinement of service level agreements with the business groups. This reduction has been partially offset by costs related to the build-up of the "e-services" business area.

Depreciation and amortization decreased CHF 24 million, or 11.1%, from CHF 215 million in 1998 to CHF 191 million in 1999, reflecting a change in allocation methodology to charge out a greater portion of real estate depreciation to the divisions in 1999. The remaining portion of depreciation and amortization includes depreciation of workstations and information technology equipment, goodwill and intangibles as well as general depreciation of fixed assets.

Year Ended 31 December 1998 Compared to Year Ended 31 December 1997

Operating income before credit loss expense from Corporate Center activities decreased CHF 222 million, or 42.9%, from CHF 518 million in 1997 to CHF 296 million in 1998, reflecting a CHF 370 million charge resulting from the write-down in 1998 of our investment in LTCM. In addition, revenues attributable to Corporate Center arise from the funding, capital and balance sheet management, and the management of foreign currency earnings activities undertaken by Group Treasury.

Personnel, general and administrative expense increased CHF 1,640 million from CHF 215 million in 1997 to CHF 1,855 million in 1998, primarily resulting from a CHF 842 million provision taken in 1998, for the settlement in the United States of the litigation regarding the role of Swiss banks during and after World War II, additional provisions for litigation and adjustments to the pricing of interdivisional allocations on the basis of service level agreements.

Depreciation and amortization decreased CHF 1 million, or 0.5%, from CHF 216 million in 1997 to CHF 215 million in 1998. This represented the charge for depreciation on goodwill and intangibles, information technology infrastructure, real estate and other fixed assets.

Liquidity and Capital Resources

Group liquidity and capital management is undertaken at UBS by Group Treasury as an integral asset and liability management function. For a detailed discussion of our asset and liability management, see "— Risk Management –Asset and Liability Management" and for a detailed discussion of our liquidity risk management, see "— Risk Management – Liquidity and Funding Management".

Consolidated Cash Flows

We generated significant positive cash flow during the year ended 31 December 1999 resulting in a net increase in cash equivalents of CHF 18,598 million. Operating activities provided a net cash flow of CHF 2,859 million during the year ended 31 December 1999. The strong positive results and reduction in our customers' loan exposures at UBS Warburg during the year, offset in part by a net cash outflow from trading-related balances, generated the net positive cash flow from operating activities. Net cash from investing activities included cash outflows due to the purchase of property and equipment and investments in subsidiaries and associates which were more than offset by positive cash flows generated from the sale of subsidiaries and associates, property and equipment and financial investments. The net cash inflow from financing activities was principally due to the issuance of CHF 13,128 million in money market paper and CHF 12,661 million in long term debt which was partially offset by the payment of dividends, treasury share transactions, the repayment of CHF 7,801 million in long term debt and minority interests.

During the year ended 31 December 1998 our net cash outflows from operating and financing activities more than offset our net cash inflow from investing activities resulting in a decrease in our cash equivalents of CHF 8,675 million. The negative cash flow from operating activities principally resulted from the redemption of money market paper and the net increases in trading related balances, which was partially offset by positive operating results in 1998. Further contributing to the net decrease in cash equivalents was the negative cash flow from financing activities of CHF 8,792 million. This negative cash flow was primarily due to the repayment of long term debt, the reduction in money market paper outstanding and the payment of dividends which was partially offset by the issuance of long term debt. Positive net cash flow from investing activities resulted primarily from the sale and maturity of financial investments.

During the year ended 31 December 1997 our net cash outflows of CHF 35,895 million from operating and investing activities more than offset our net cash inflow from financing activities of CHF 29,015 million resulting in a decrease in cash equivalents of CHF 7,451 million. Our operating activities generated negative net cash flow principally due to a net increase in our trading related balances which was only partially offset by strong operating results before the restructuring reserve and the issuance of money market paper. Investing activities generated a net cash outflow of CHF 1,671 million during the period primarily due to the purchase of property and equipment and financial investments. Net cash inflow from financing activities resulted principally from the issuance of long term debt.

Capital Resources

Capital management is undertaken at UBS by Group Treasury as an integral asset and liability management function. We do not have any material commitments for capital expenditures as of 31 December 1999. Our overall capital needs are continually reviewed to ensure that our capital base can appropriately support the anticipated needs of the divisions as well as the regulatory capital requirements. See "— Risk Management — Asset and Liability Management".

The Bank for International Settlements (BIS) is an international organization fostering the cooperation of central banks and international financial institutions. Among other activities, it provides guideline formulas for evaluating capital adequacy.

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

	At 31 December	
	1999	**1998**
	(CHF in millions, except ratios)	
BIS Tier 1 Capital	29,529	28,299
BIS Tier 1 and Tier 2 Capital	40,259	40,385
BIS Tier 1 Capital Ratio	10.6%	9.3%
BIS Tier 1 and Tier 2 Capital Ratio	14.5%	13.3%
Balance sheet assets	219,383	238,024
Off balance sheet and other positions	8,282	50,659
Market risk options	10,813	16,018
Total BIS risk-weighted assets	278,478	304,701

The ratios measure capital adequacy by comparing our eligible capital with the risk-weighted asset positions, which include balance sheet assets, the net positions in securities not held in the trading portfolio, off-balance sheet transactions converted into their credit equivalents and market risk positions at a weighted amount to reflect their relative risk.

We are committed to maintaining a strong capitalization and rating as a distinguishing characteristic of UBS for both clients and shareholders. On 12 March 1999, we introduced a treasury stock buy-back program, which was intended to run for a period of two years. At 31 December 1998, we held 8,300,300 shares, or 2% of our outstanding shares, as treasury stock, as adjusted for the two-for-one stock split, the effective date of which is 8 May 2000. As of 31 December 1999, a total of 15,660,220 shares, or 3.6%, had been acquired as treasury stock, as adjusted for the two-for-one stock split, the effective date of which is 8 May 2000. This amount includes 1,053,082 shares that are at the disposal of our Board of Directors. The objective of the buy-back program was to utilize the shares for acquisitions and the employee stock ownership program. We have subsequently concluded that this program is too limited for our purposes because of the continuous increase in capital which is projected to arise from on-going retained earnings and the selective reduction in the risk profile as well as increasing capital efficiency.

For this reason, we announced in December 1999 that we would replace the treasury stock buy-back program by a Swiss-specific program targeted at Swiss institutional shareholders, which is the only tax-efficient means that has been identified to achieve cancellation. This is called a "second trading line" program. The second trading line program was implemented in January 2000. The subsequent cancellation of the shares bought back through the second trading line requires shareholders' approval. At our annual shareholders' meeting on 18 April 2000, shareholders approved the repurchase of shares up

to a maximum amount of CHF 4 billion. As of 31 May 2000, we had repurchased 16,362,772 shares for about CHF 3.5 billion.

Balance Sheet

We maintain a significant percentage of liquid assets, including collateralized receivables and trading portfolios that can be converted into cash on relatively short notice and with a limited impact on our results in order to meet short-term funding needs. Collateralized receivables include reverse repurchase agreements and cash collateral on securities borrowed which are secured by U.S. government and agency securities, and marketable corporate debt and equity securities and a portion of our loans and due from banks which are secured primarily by real estate. The value of our collateralized receivables and our trading portfolio will fluctuate depending on market conditions and client business. The individual components of our total assets may vary significantly from period to period due to changing client needs, economic and market conditions and trading strategies.

Total assets increased CHF 37,457 million, or 4.0%, at 31 December 1999 compared to total assets at 31 December 1998. This increase primarily resulted from significant increases in money market paper, cash collateral on securities borrowed and trading portfolio assets which were partially offset by significant decreases in our positive replacement values resulting from a decreases in all categories of derivative products, and in due from banks.

Total liabilities increased CHF 35,573 million, or 4.0%, at 31 December 1999 compared to total liabilities at 31 December 1998 principally due to a significant increase in amounts due under repurchase agreements offset in part by a decrease in negative replacement values resulting from decreases in all categories of derivative products.

In the course of 1999, our long term debt portfolio increased from CHF 50.8 billion at 31 December 1998 to CHF 56.3 billion at 31 December 1999. During this year CHF 12.6 billion of long-term securities were issued while at the same time CHF 7.1 billion matured. We believe the maturity profile of the long-term debt portfolio is well balanced with slight bias towards shorter-term maturities to match the maturity profile of our assets. See Note 22 to our Consolidated Financial Statements for a discussion of our long term debt.

The following table sets forth information regarding total shareholders' equity at 31 December 1999 and 1998:

	1999	**1998**
	(CHF in millions, except ratios)	
Total shareholders' equity	34.835	32,395
Total shareholders' equity to total assets..........	3.5%	3.4%

Shareholders' equity increased CHF 2,440 million, or 7.5%, from 31 December 1998 to 31 December 1999. The increase in treasury shares was more than offset by the increase in net income resulting in the steady increase in total shareholders' equity.

Credit Ratings

We use the debt capital markets to fund a significant portion of our operations. The cost and availability of debt financing is influenced by our credit ratings. Credit ratings are also important in

certain markets and in entering into certain transactions, such as derivative transactions. A reduction in our credit ratings could increase our borrowing costs and limit our access to the capital markets. We have been able to maintain strong credit ratings over the past few years, even during periods of a difficult trading environment.

The following table sets forth our credit ratings on our long-term debt as of 31 December 1999 and 31 December 1998:

	1999	1998
Moody's, New York	Aa1	Aa1
Fitch/IBCA, London	AAA	AAA
Standard & Poor's, New York	AA+	AA+
Thomson BankWatch, New York	AA	AA

Recent Accounting Developments

For a discussion of recent accounting developments, including those that have not yet been adopted, see Note 1 to the Consolidated Financial Statements.

Risk Management

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

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

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

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

- Consequential risks: risks which we face as a consequence of the operational activities we undertake to provide services to our customers. This is sometimes referred to as "operational

risk". Principal consequential risks are transaction processing risk, legal risk, compliance risk, liability risk and security risk.

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

The Board of Directors establishes the risk parameters within which we operate and reviews a report on our risk profile from the CCO and the CRO on at least a quarterly basis. The Board establishes two limits: normal earnings volatility and potential losses under a stress scenario. Our risk appetite defines the amount of earnings volatility which the Board deems to be acceptable in normal market conditions in order to achieve divisional growth targets. This potential volatility is measured by the risk control organization using measures that estimate statistically possible losses. Value at risk, or VaR, methodology is the principal quantitative measure we use for evaluating risk.

Our risk bearing capacity seeks to establish a limit to the potential scale of the loss which we might face in unlikely but possible stress situations. Stress loss limits are set by the Board of Directors taking into account our overall earnings capacity. They are set in order to protect us from unacceptable damage to annual earnings, dividend paying capability, business viability and reputation. We currently adopt this approach to risk limits in the context of our trading activities and our country risk credit exposure. In addition, the Board of Directors approves our key risk policies and the Chairman's office maintains an ongoing oversight of the integrity of the risk management and control processes through our internal audit function.

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

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

requirement for amendments to risk policies or limits is identified and where appropriate is escalated in a timely manner to the GEB.

Analysis of Risks

Within our risk framework, we have identified a number of risk factors as being of particular importance to our business. The following section summarizes the main trends and developments in the key risks which we face.

Credit Risk

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

In order to manage our exposure to credit risk effectively, and in particular to encourage appropriate pricing of transactions involving credit, we measure our exposure to credit risk using a forward looking statistical estimate of the expected loss based on the estimated probability of default of our counterparties. Such estimates are based on the volume and type of exposure, the value of potential collateral or support, and the quality of each counterparty. The quality of the counterparty is expressed in a rating with a specific default probability. For this purpose, we classify all counterparties into a 14 point rating scale and the transfer risk into a 15 point country rating scale.

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

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

By contrast, the largest single component of the loan portfolio within UBS Private and Corporate Clients consists of residential mortgage lending in Switzerland, over half of which is classified within our lowest internal investment grade rating class of C5. The rating of the remainder of the Swiss portfolio, excluding mortgages, is fairly widely spread with the largest concentration being in rating classes C4-C6 comparable to Moody's rating of Baa1 to Ba1. The continued improvement in the Swiss economy and property markets has aided in the overall improvement in the quality of this portfolio. UBS Private and Corporate Clients' largest exposure at 31 December 1999 is to private households in Switzerland. Other

significant exposures include construction and real estate (15%), manufacturing (7%), distribution and retailing (6%) and public administration (5%).

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

Loan Portfolio. The most significant development in our loan portfolio in 1999 has been the reduction in the UBS Warburg portfolio. This is a continuation of the strategy that began immediately after the merger in 1998 with the objective to improve the risk/reward profile of the international lending business. This initiative included the shift in focus away from Emerging Markets and into high quality credits in the major OECD (Organization for Economic Cooperation and Development) countries and the sale of the non-Swiss portion of the Global Trade Finance business.

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

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

The following table shows our loan portfolio and related allowances and provisions by division at 31 December 1999 and 1998:

All Amounts in CHF million	UBS Private and Corporate Clients		UBS Private Banking		UBS Warburg		Corporate Center		UBS Group	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
Loans to banks (gross)	-	-	4,456	6,989	25,891	62,272	438	282	30,785	69,543
Loans to customers (gross)	164,743	164,840	26,076	24,133	56,374	72,425	36	23	247,229	261,421
Loans, gross	164,743	164,840	30,532	31,122	82,265	134,697	474	305	278,014	330,964
Counterparty allowance	10,373	11,844	95	66	1,526	1,178	9	5	12,003	13,093
Country allowance	-	-	-	-	1,246	1,450	-	-	1,246	1,450
Allowances for loan losses (deducted from assets)	10,373	11,844	95	66	2,772	2,628	9	5	13,249	14,543
Loans, net of allowances	154,370	152,996	30,437	31,056	79,493	132,069	465	300	264,765	316,421
Counterparty provision for contingent claims	-	-	-	-	13	435	6	-	19	435
Country provision for contingent claims	-	-	-	-	130	-	-	-	130	-
Total Provisions (recorded as liabilities)	-	-	-	-	143	435	6	-	149	435
Summary										
Allowances and provisions for counterparty risk	10,373	11,844	95	66	1,539	1,613	15	5	12,022	13,528
Allowances and provisions for country risk	-	-	-	-	1,376	1,450	-	-	1,376	1,450
Total allowances and provisions	10,373	11,844	95	66	2,915	3,063	15	5	13,398	14,978

See "—Selected Statistical Information—Loans" for a breakdown of the loan exposure by type of counterparty.

Over the Counter Derivative Contracts. A significant proportion of UBS Warburg's credit risk arises from its trading activities, including its trading of derivative products. The provision of risk management solutions which involve the use of derivative products is a core service which we offer to our clients. Derivative products by their nature are particularly sensitive to changes in market prices and consequently we pay close attention to the management and control of these risks. Our credit standards for entering into unsecured derivative contracts are very high and particular emphasis is placed on the maturity profile. 97% of UBS Warburg's credit risk on derivative products falls within our internal rating classes C1-C5. Transactions with counterparties of lower quality are generally only conducted on a secured basis. Consistent with this approach, our exposure to those counterparties we have rated internally a C9, which is comparable to Moody's rating B1, is for the most part fully secured and, we believe, represents a good risk despite the low rating. We measure our credit risk exposure to derivative contracts on the basis of replacement value plus an add-on which reflects the residual term of the contract. A new system has been introduced in February 2000 to monitor this risk on the basis of a statistically calculated potential exposure, or the Potential Credit Exposure (PCE), which will allow an even more precise valuation of the credit equivalents.

Settlement risk. Due to our international business, we are also exposed to settlement risk. Settlement risk arises in transactions involving the exchange of values where a counterparty fails to honor its obligation to deliver cash or securities. This risk is particularly significant in relation to foreign exchange and precious metals transactions. We limit our exposure to settlement risk by tolerance levels assigned to each counterparty in relation to its rating. In addition, we monitor this risk on a permanent basis and seek to shorten, as much as practicable, the period during which we are exposed. We have also been an active participant in an industry initiative to establish a new organization, called CLS Bank, which is being established in order to substantially reduce settlement risk between major international financial institutions. The participation in regulated payment and securities clearing systems also reduces settlement exposure.

Country risk exposure. Our definition of country risk comprises all cross-border exposures from loans, derivative products and trading products. This definition includes our own intracompany cross-border positions, which amounted to CHF 416 billion at 31 December 1999, about 44.6% of the total non-emerging market country risk exposure of CHF 880 billion. At 31 December 1999, 97.3% of our country risk exposure was included in our three highest internal ratings classes. This portion of our country risk exposure was with OECD countries where the risk of default is judged to be negligible. The following table summarizes our country transfer risk exposure grouped by rating classes as of 31 December 1999 compared to 31 December 1998.

Country Categories	Banking Products	Traded Products[1]	Tradeable Assets[2]	Total
		(CHF millions)		
Industrialized Countries				
Countries rated S0 - S2	**504,724**	**156,101**	**219,495**	**880,320**
Change from Dec 98	*28,270*	*-23,380*	*26,207*	*31,097*
Emerging Markets				
Countries rated S3 - S14	**16,630**	**5,445**	**2,527**	**24,602**
Change from Dec 98	*-7,533*	*-1,794*	*1,500*	*-7,827*
Total	**521,354**	**161,546**	**222,022**	**904,922**
Change from Dec 98	*20,737*	*-25,174*	*27,707*	*23,270*

(1) Traded products consists of derivative instruments and repurchase agreements.

(2) Tradeable assets consist of equity and fixed income financial instruments held for trading purposes, which are marked to market on a daily basis.

The remaining 2.7%, or CHF 24.6 billion, of our country risk exposure is to emerging markets which are classified in rating classes S3 to S14. This exposure has decreased as a result of the restructuring of the international loan portfolio and the exit from the non-Swiss Global Trade Finance business. Total exposure to the emerging markets group of countries fell by CHF 7.8 billion between 31 December 1998 and 31 December 1999 – a reduction of 24%. In view of the higher risk associated with emerging markets, we closely monitor this exposure on an ongoing basis within the country limits approved by the Board of Directors. All significant new transactions in emerging and distressed markets require approval from the respective country risk manager in addition to the standard counterparty credit approval. The country risk limit operates as the primary limit for such transactions and extension of credit may be denied on the basis of a country risk limit even though adequate counterparty limits may be available for the customer concerned.

The following table analyzes the emerging markets exposures by the major geographical areas as of 31 December 1999 compared to 31 December 1998:

Region	Banking Products	Traded Products[1]	Tradeable Assets[2]	Total
	(CHF millions)			
Emerging Europe	**919**	**248**	**419**	**1,586**
Change from Dec 98	*-402*	*-6*	*239*	**-169**
Emerging Asia	**5,003**	**3,873**	**1,179**	**10,055**
Change from Dec 98	*-4,230*	*-971*	*850*	*-4,351*
Latin America	**8,169**	**665**	**813**	**9,647**
Change from Dec 98	*-1,649*	*-603*	*371*	*-1,881*
Africa / Middle East	**2,539**	**659**	**116**	**3,314**
Change from Dec 98	*-1,252*	*-214*	*40*	*-1,426*
Total	**16,630**	**5,445**	**2,527**	**24,602**
Change from Dec 98	*-7,533*	*-1,794*	*1,500*	*-7,827*

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(1) Traded products consists of derivative instruments and repurchase agreements.

(2) Tradeable assets consist of equity and fixed income financial instruments held for trading purposes, which are marked to market on a daily basis.

See "—Selected Statistical Information—Cross-border Outstandings" for additional details on our country risk exposures.

Impaired and non-performing loans. We classify a loan as impaired when we determine that there is a high probability that we will suffer a partial or full loss. A provision is then made with respect to the probable loss to be incurred for the loan in question. Within this category, non-performing loans are defined as loans where payment of interest, principal or fees is overdue for 90 days.

The following table provides a breakdown by divisions of the impaired and non-performing loans as of 31 December 1999 and 1998.

	UBS Private & Corporate Clients		UBS Warburg		UBS Private Banking & Corporate Center		UBS Group	
	1999	1998	1999	1998	1999	1998	1999	1998
	(CHF in millions)							
Impaired Loans								
Total Impaired Loans	19,050	22,953	3,202	3,319	204	175	22,456	26,447
Allocated Allowances	10,373	11,844	1,994	1,667	104	71	12,471	13,582
Impaired Loans, net of Allowances	8,677	11,109	1,208	1,652	100	104	9,985	12,865
Non Performing Loans								
Total Non-Performing Loans	11,353	14,003	1,586	2,043	134	68	13,073	16,114
Allocated Allowances	7,264	8,646	1,336	1,289	61	71	8,661	10,006
Non-Performing Loans, net of Allowances	4,089	5,357	250	754	73	3	4,412	6,108

Non-performing loans have decreased to CHF 13,073 million at 31 December 1999 from CHF 16,114 million at 31 December 1998. The reduction reflects an accelerated write-down in the Swiss domestic portfolio, a substantial reduction in our emerging markets exposure, a significant improvement in the macroeconomic situation in Switzerland and a faster than expected recovery in key Asian economies.

The following table provides a breakdown of impaired loans by type at 31 December 1999 and 1998.

	1999	1998
	(CHF in millions)	
Loans (Gross)	278,014	330,964
Impaired Loans		
Counterparties:		
Non-performing loans	12,649	15,717
Other impaired loans	9,096	9,884
Sub-total	21,745	25,601
Country:		
Non-performing loans	424	397
Other impaired loans	287	449
Sub-total	711	846
Total impaired loans	22,456	26,447

	1999	1998
	(CHF in millions)	
Ratios		
Impaired loans in % of gross loans	8.1%	8.0%
Non-performing loans in % of gross loans	4.7%	4.9%

See "Selected Statistical Information—Non-performing and Restructured Loans" for further information on impaired and non-performing loans.

Allowances and Provisions. The adequacy of the allowances and provisions which we make for impaired loans is assessed by the Credit Risk Management and Control function which is independent from the divisions. Allowances and provisions are determined based upon an individual assessment of counterparties and countries and their creditworthiness as well as the amount of collateral available to us to offset against the probable loss. We believe that the probable losses in our portfolio are adequately covered by our allowances and provisions.

Allowances and Provisions for Impaired Loans

Counterparties:		
Allowances for non-performing loans	8,243	9,609
Allowances for other impaired loans	3,760	3,484
Subtotal allowances and provisions for counterparty risk	12,003	13,093
Country:		
Allowances for non-performing loans	418	397
Allowances for other impaired loans	50	92
Subtotal allowances and provisions for country risk	468	489
Allowances and provisions for country risk	908	961
Allowances for contingent liabilities	19	435
Total allowances and provisions for credit losses	13,398	14,978
Allowances and provisions for credit losses in % of gross loans	4.8%	4.5%
Allowances and provisions for credit losses in % of impaired loans	55.5%	51.4%

The following analysis provides an overview of our credit loss experience for the years ended 31 December 1999 and 1998:

	1999	**1998**
Balance at beginning of year	14,978	16,213
Net write-offs	(3,210)	(2,265)
Increase in credit loss allowances	956	951
Other Adjustments (primarily net foreign exchange and provisions for doubtful interest)	674	79
Balance at end of year	13,398	14,978

The allowances and provisions for credit losses decreased CHF 1,580 million, or 10.5%, from CHF 14,978 million at 31 December 1998 to CHF 13,398 million at 31 December 1999 caused by net write-offs and recoveries and partially offset by the establishment of additional credit loss provisions. Impaired loans were reduced by approximately CHF 4 billion and non-performing loans by more than CHF 3 billion.

The development of the total credit loss expense in 1998 and 1999 includes the effect of allocations from the special reserve pools which had been established in 1996, prior to the merger, 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 totalled CHF 3.6 billion at the beginning of 1998. CHF 3.3 billion was applied against specific loan exposures during 1998 and the balance of CHF 300 million was used or reversed in 1999.

Following these allocations, the credit loss expense incurred in 1998 amounted to CHF 951 million and in 1999 CHF 956 million. We do not believe there is a current need for such allowances. See "—Selected Statistical Information – Summary of Movements of Allowances and Provisions for Credit Losses" for a further analysis of credit losses.

The allowance and provisions for credit losses include a component for country risk. Our approach to country risk provisioning follows the guidelines of the Swiss Bankers' Association, which allows banks to establish provisions based on their own portfolio scenarios. We establish 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 allowances and provisions are then determined by evaluating the type of credit exposure and the loss severities that have been attributed to each exposure type. Total provisions and allowances for emerging market related exposures stood at CHF 1,376 million at 31 December 1999 and CHF 1,450 million at 31 December 1998, reflecting both the reduction in the overall size of our emerging market exposure and reallocation of provisions from Asia to Latin America.

See "Selected Statistical Information—Summary of Movements in Allowances and Provisions for Credit Losses and Allocation of the Allowances and Provisions for Credit Losses" for further analyses of the allowances and provisions for credit risk and related credit losses.

Market risk

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

We measure our exposure to market risk using the framework of expected loss, statistical loss and stress loss, as follows:

- In the context of market risk, *expected losses* are the value adjustments made to the portfolio to adjust for price uncertainties resulting from a lack of market liquidity or the absence of a reliable market price for a particular instrument.

- Statistical loss is measured based on a value at risk, or VaR, methodology. VaR is a forward looking estimate of potential loss. 1-day VaR looks forward one trading day, while 10-day VaR looks forward ten days. We calculate VaR using a 99% confidence level. In other words, under normal market conditions, we would expect over the course of a day a loss more than our 1-day VaR to occur with a 1 in 100 chance.

- *Stress scenario* loss is defined as the risk of an extreme market move affecting particular predefined market variables.

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

We calculate the VaR associated with our exposure to market risk and consequently also our regulatory capital requirement using the historical simulation technique, based on five years of data. VaR is calculated both on a 1-day 99% confidence interval and a 10-day 99% confidence interval, and the latter is used both for internal limits setting and for calculating regulatory capital. The calculation incorporates both the risk from general market moves such as moves in foreign exchange rates, equity indices and market interest rates as well as the risk from price movements that are specific to an individual issuer. During 1999, UBS Warburg operated within a CHF 450 million 10-day VaR limit.

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

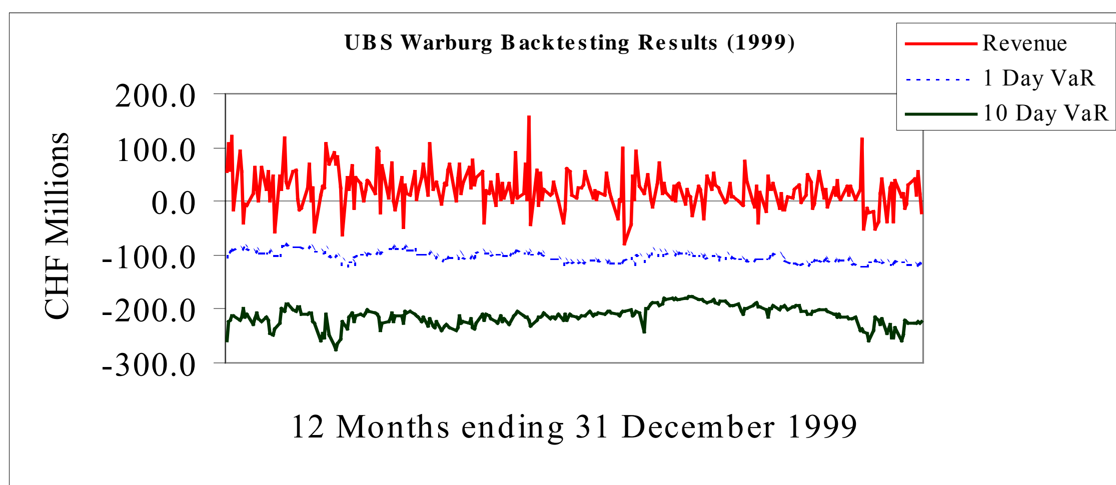
While a VaR measure is the principal measure of our exposure to day-to-day movements in market prices, our risk control process is specifically focused on tail risks (or the risk of a loss significantly larger than the VaR number as a result of large movements in the risk factors, such as equity indices,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

UBS Warburg Market Risk Developments. Since the merger, UBS Warburg has taken a number of steps to improve its overall risk profile. These include adjusting its market risk profile, including its exposure to emerging market risk and equity market volatility. As the table below shows, VaR utilization within UBS Warburg has dropped across all major product lines in the course of 1999 compared to the six months ended 31 December 1998. This does not reflect a rationing of risk but a choice taken by UBS Warburg management based on the risk-return opportunities in the market. This reduction has in fact been achieved at a time when UBS Warburg has generated some of its strongest earnings, which reflects a significant improvement in the risk-return profile of our businesses.

Summary of 10 day 99% Confidence Value at Risk (CHF million)

UBS Warburg	Risk Type	12 Months ending 31/12/99				6 Months ending 31/12/98			
		Min	Max	Average	31.12.1999	Min	Max	Average	31.12.1998
	Equities	121.8	207.6	162.5	172.8	151.6	303.6	216.1	215.2
	Interest Rates	87.7	187.6	140.2	140.1	128.9	278.6	181.1	169.9
	Foreign Exchange	9.5	144.7	57.5	76.1	21.0	83.8	47.1	72.5
	Precious Metals	5.3	35.8	21.0	27.8	16.3	48.4	31.5	19.1
	Diversification Effect	✕	✕	- 168.2	- 193.2	✕	✕	-181.0	-216.8
	TOTAL	177.0	276.0	213.0	223.6	210.1	399.6	294.8	259.9

All VaR models, while forward looking, are based on past events and are dependent upon the quality of available market data. In order to evaluate the VaR model actual revenues are compared with the 1-day VaR on a daily basis, a process known as "backtesting", with losses greater than the VaR estimate being known as "exceptions". As the chart below shows, UBS Warburg's backtesting results showed no exceptions from the CHF 450 million VaR limit in the course of 1999.



Market Risk in the Other Divisions. Although we assume almost all of our active market risk in UBS Warburg, the Group wide VaR for trading book market risk exposure includes all sources of market risk. This includes a small amount of risk which is assumed in order to facilitate customer business by UBS Private Banking in Switzerland as well as the risk associated with the structural foreign exchange hedge positions managed by Corporate Center, which are discussed below under "– Asset and Liability Management". As the table below shows, however, the overall impact of these additional risks is to a significant degree offset by positions in the UBS Warburg portfolio. This is shown by the measure of the diversification effect which arises when total VaR for market risk is calculated at the Group level.

Summary of 10 day 99% confidence / Value at Risk (CHF millions) for UBS Group

UBS Group VaR	**31.12.1999**	**31.12.1998**
UBS Warburg	223.6	259.9
Corporate Center	59.8	79.2
Other	4.3	5.4
Diversification Effect	-55.5	-62.0
UBS Group	**232.2**	**282.5**

Consequential risks

In addition to credit and market risks which we assume as an integral part of our business activities, we also assume a number of consequential risks – often referred to as "operational risk" – which arise as a consequence of our business activities. These risks include:

- operations or transactions processing risk
- legal risk
- compliance risk
- liability risk
- security risk

We are addressing the measurement of our consequential risks through the introduction of a generic operational risk-modeling framework. This framework groups risks into predetermined risk categories and identifies the factors behind the risk exposure. Operational risk scenarios are developed to stress our processes and procedures underlying the exposure. This helps us to measure the risk of loss from the identified exposure in a similar manner to the statistical loss measurements of our credit and/or market risk exposures. We review whether this framework, which contains varied and sophisticated techniques, provides the potential to assess more accurately our risk exposures to help ensure they are in accordance with our risk appetite and risk-bearing capacity.

Year 2000 issue. An important element of our operational risks over the past two years has been the need to address the Year 2000 issue. We recognized early the potential problems that could arise from computer systems failing to properly recognize the change of date from 1999 to 2000. To combat this problem, starting in 1996, we and each of our operating divisions established and implemented a program responsible for addressing the Year 2000 issue.

We have not experienced any material problems related to the Year 2000 date change. The total cost to us of the Year 2000 program was CHF 493 million in 1998 and CHF 279 million in 1999.

Asset and Liability Management

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

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

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

- efficient management of the bank's non trading interest rate and foreign exchange exposures
- sustainable and cost-efficient funding of the bank's balance sheet
- optimal liquidity management in order to generate cash when required
- compliance with legal and regulatory requirements

Interest Rate Management

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

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

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

In the case of client business, such as savings accounts or current accounts, which have no contractual maturity date or directly market-linked customer rate the interest rate risk is transferred from the business areas by pooled transactions to the Bank Book. Since these products effectively contain various embedded options in respect of withdrawal/prepayment and rate-setting, they cannot be hedged by single back-to-back transactions. Consequently, Group Treasury manages the inherent interest rate risk in these products in the Bank Book through the establishment of replicating portfolios of revolving

fixed-rate transactions of predefined maturities which approximate the average cash flow behavior of these positions. Group Treasury then hedges the overall risk in the Bank Book by means of internal transactions with CCT. As a result of this process, all interest rate risks arising from client business are transferred either directly or indirectly via the Bank Book, to CCT.

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

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

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

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

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

CHF thousand per basis point	**within 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**over 5 years**	**TOTAL**
CHF	-11	11	39	850	-610	279
USD	3	-33	-10	83	1,207	1,250
EUR	0	-3	3	30	210	240
GBP	0	5	-39	77	815	858
JPY	0	0	0	-1	-4	-5
Others	0	0	0	0	0	0
TOTAL	**-8**	**-20**	**-7**	**1,039**	**1,618**	**2,622**
Of which Replicated Equity:						
CHF	19	19	437	7,054	610	8,139
Bank Book without Replicated Equity:						
TOTAL	**-27**	**-39**	**-444**	**-6,015**	**1,008**	**-5,517**

The most significant component of the Bank Book sensitivity stems from the investment of the Group's equity. At 31 December 1999, this was invested in a portfolio of fixed-rate CHF deposits with an average duration of 2.2 years and a sensitivity of CHF -8.1 million per basis point, in line with the strategic investment targets set by the Group Executive Board. In order to ensure that these GEB targets are met, the Group's equity is represented as a liability position by a replication portfolio reflecting this target benchmark. The Group's equity is thus automatically invested according to the GEB's strategic targets so as to offset the interest rate risk associated with this equity replication portfolio. The interest rate sensitivity of these investments indicates the extent to which their marked-to-market value would be affected by an upward move in interest rates. This in turn is directly related to the investment duration chosen by the GEB. However, when measured against the equity replication portfolio itself, the residual interest rate risk is negligible. Moreover, any reduction in this measure of the interest rate sensitivity relating to the investment of our equity would inevitably require investing at significantly shorter maturities, which would lead to a higher volatility of our interest earnings.

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

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

- *The economic value sensitivity*, which is defined as the potential change in market value of the Bank Book resulting from changes in interest rates. This estimates the effect of an immediate interest rate shock on the net position in the Bank Book.

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

- repricing characteristics of assets and liabilities
- rate barrier effects, such as caps and floors, on assets and liabilities
- maturity effects of replicating portfolios
- behavior of competitors

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

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

	1999	**1998**
	(CHF in millions)	
Net interest income at risk..	- 355	- 265
Economic value sensitivity..	- 555	- 493

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

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

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

Liquidity and Funding Management

Our approach to liquidity management seeks to ensure that we will always have sufficient liquidity to meet our liabilities in a timely manner while preserving the option of exploiting potential strategic market opportunities. Our 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. Our liquidity management is based on an integrated framework

that incorporates an assessment of all known cash flows within the Group as well as the availability of high grade collateral which could be used to secure additional funding if required. The liquidity position is prudently managed under different potential scenarios taking stress factors into due consideration.

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

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

Our funding strategy seeks to ensure that business activities are funded at the lowest possible costs. With a broad diversification (by market, product and currency) of funding sources we maintain a well balanced portfolio of liabilities which generate a stable flow of financing and additionally provides protection in the event of market disruptions. In this context our 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, we can raise funds globally in a very efficient manner and minimize our dependence on any particular source of funding.

See "–Liquidity and Capital Resources" for additional information.

Currency Management

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

The following principles guide the approach to managing this risk:

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

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

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

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

The following table summarizes the VaR usage during the second half of 1998 and during 1999.

VaR (CHF millions)	Minimum	Maximum	Average	Last value of period
1 Jul. – 31 Dec. 1998	37.2	133.7	77.5	79.2
1999	1.4	77.8	37.1	59.7

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

The large currency exposure in the course of 1998 is due to the effects of the merger as well as to the unexpected losses in relation to the Global Equities Derivatives portfolio and LTCM which resulted in a significant divergence between budgeted and actual income.

Capital Management

Capital management is undertaken at UBS by Group Treasury as an integral asset and liability management function. Our overall capital needs are continually reviewed to ensure that our capital base can appropriately support the anticipated needs of the divisions as well as the regulatory capital requirements. See "–Liquidity and Capital Resources – Capital Resources" for further details.

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

Divisional business plans, planned acquisitions, investments and divestments are evaluated and approved on the basis of their expected contribution to shareholder value. Actual performance is appraised using division specific hurdle rates and according to the contribution to value creation. The

implicit costs of risk tolerance as well as the consumption of regulatory equity and risk control efforts are therefore considered in an appropriate way.

Selected Statistical Information

The tables below set forth selected statistical information regarding the Group's banking operations. Unless otherwise indicated, average balances for the year ended 31 December 1999 are calculated from monthly data and averages for the years ended 31 December 1998 and 1997 are calculated from quarterly data. The distinction between domestic and foreign generally is based on the domicile of the booking location. For loans, this method is not significantly different from an analysis based on domicile of the borrower. Disclosures for the years ended 31 December 1996 and 1995, where applicable, are presented for Union Bank of Switzerland and Swiss Bank Corporation individually. Combined data is not presented for these periods because differences between accounting policies of the predecessor banks were significant or could not be quantified, or because significant inter-company balances could not be identified and eliminated. For purposes of this selected statistical information, "UBS" refers to Union Bank of Switzerland and "SBC" refers to Swiss Bank Corporation.

Average Balances and Interest Rates

The following table sets forth average interest-earning assets and average interest-bearing liabilities, along with the average rates, for the years ended 31 December 1999, 1998 and 1997.

	1999			1998			1997		
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)
	(CHF in millions, except percentages)								
Assets									
Money market paper									
Domestic	2,798	27	1.0%	4,002	70	1.7%	6,768	181	2.7%
Foreign	48,179	1,144	2.4%	20,679	763	3.7%	27,416	1,133	4.1%
Due from banks									
Domestic	19,451	705	3.6%	22,703	916	4.0%	22,823	926	4.1%
Foreign	28,999	1,269	4.4%	43,705	2,852	6.5%	33,003	2,278	6.9%
Securities borrowed and reverse repurchase agreements									
Domestic	3,265	117	3.6%	7,751	89	1.2%	-	-	-
Foreign	223,962	11,305	5.0%	275,549	10,290	3.7%	257,090	11,328	4.4%
Trading portfolio									
Domestic	36,269	72	0.2%	78,211	78	0.1%	19,915	139	0.7%
Foreign	124,564	4,460	3.6%	119,629	3,802	3.2%	153,211	4,059	2.6%
Loans									
Domestic	200,111	7,733	3.9%	207,937	8,839	4.3%	216,114	10,646	4.9%
Foreign	58,634	3,326	5.7%	72,445	5,440	7.5%	61,110	5,400	8.8%
Financial investments									
Domestic	2,066	74	3.6%	3,481	104	3.0%	3,819	119	3.1%
Foreign	3,737	85	2.3%	7,105	268	3.8%	9,491	379	4.0%
Net interest on swaps	-	2,133	-	-	1,701	-	-	725	-
Total interest-earning assets	752,035	32,450	4.3%	863,197	35,212	4.1%	810,760	37,313	4.6%
Non-interest-earning assets									
Positive replacement values	146,036			164,708			124,224		
Fixed assets	8,824			11,316			12,628		
Other	34,957			33,897			32,846		
Total average assets	941,852			1,073,118			980,458		

	1999			1998			1997		
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)
				(CHF in millions, except percentages)					
Liabilities and Equity									
Money market paper issued									
Domestic	146	1	0.7%	255	2	0.8%	625	12	1.9%
Foreign	57,956	2,394	4.1%	51,435	2,557	5.0%	42,565	1,920	4.5%
Due to banks									
Domestic	37,581	1,303	3.5%	69,140	2,772	4.0%	76,269	1,749	2.3%
Foreign	41,583	1,704	4.1%	51,209	3,205	6.3%	63,498	4,155	6.5%
Securities lent and repurchase agreements									
Domestic	12,830	106	0.8%	12,261	71	0.6%	-	-	-
Foreign	144,837	8,340	5.8%	186,819	7,472	4.0%	177,128	9,660	5.5%
Trading portfolio									
Domestic	-	-	-	-	-	-	-	-	-
Foreign	48,560	2,070	4.3%	65,677	1,741	2.7%	40,541	1,492	3.7%
Due to customers									
Domestic	155,887	1,920	1.2%	161,688	2,613	1.6%	169,514	3,030	1.8%
Foreign	122,411	5,593	4.6%	132,338	7,275	5.5%	121,305	6,505	5.4%
Long term debt									
Domestic	16,241	979	6.0%	21,267	1,138	5.4%	29,010	1,481	5.1%
Foreign	37,963	2,130	5.6%	31,024	1,348	4.3%	23,788	1,055	4.4%
Total interest-bearing liabilities	675,995	26,540	3.9%	783,113	30,194	3.9%	744,243	31,059	4.2%
Non-interest-bearing liabilities									
Negative replacement values	171,800			187,934			136,151		
Other	60,946			69,184			66,755		
Total liabilities	908,741			1,040,231			947,149		
Shareholders' equity	33,111			32,887			33,309		
Total average liabilities and shareholders' equity	941,852			1,073,118			980,458		
Net interest income		5,910			5,018			6,254	
Net yield on interest-earning assets			0.8%			0.6%			0.8%

All assets and liabilities are translated into Swiss Francs at uniform month-end rates. Income and expenses are translated at monthly average rates.

Average rates earned and paid on assets and liabilities can change from period to period based on the changes in interest rates in general, but also are affected by changes in the currency mix included in the assets and liabilities. This especially is true for foreign assets and liabilities. Tax exempt income is not recorded on a tax-equivalent basis. For all three years presented, it is considered to be insignificant and therefore the impact from such income is negligible.

Interest income and expense on certain accounts are reported as trading income in our Consolidated Financial Statements, but are reported against those accounts in the table. These accounts include: money market paper, securities borrowed and lent; reverse repurchase and repurchase agreements, and trading assets and liabilities. Also, the interest expense in our Consolidated Financial Statements is reduced by an amount for funding costs for trading positions, which is not reflected in the preceding table. The following table reconciles net interest on interest-earnings assets as shown in the table above to net interest income in our Consolidated Financial Statements for the years ended 31 December 1999, 1998 and 1997.

	1999	1998	1997
		(CHF in millions)	
Net interest on interest-earning assets	5,910	5,018	6,254
Money market paper	(1,067)	(22)	-
Securities borrowed and reverse repurchase agreements	(11,422)	(10,379)	(11,328)
Trading portfolio assets	(4,532)	(3,880)	(4,198)
Securities lent and repurchase agreements	8,446	7,543	9,660
Trading portfolio liabilities	2,070	1,741	1,492
Funding costs for trading positions	6,951	6,641	5,056
Net interest per financial statements	6,356	6,662	6,936

Analysis of Changes in Interest Income and Expense

The following tables allocate, by categories of interest-earning assets and interest-bearing liabilities, the changes in interest income and expense due to changes in volume and interest rates for the year ended 31 December 1999 compared to the year ended 31 December 1998, and for the year ended 31 December 1998 compared to the year ended 31 December 1997. Volume and rate variances have been calculated on movements in average balances and changes in interest rates. Changes due to a combination of volume and rate have been allocated proportionally.

	1999 over 1998			1998 over 1997		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
			(CHF in millions)			
Interest-earning assets						
Money market paper						
Domestic	(21)	(22)	(43)	(74)	(37)	(111)
Foreign	1,014	(633)	381	(278)	(92)	(370)
Due from banks						
Domestic	(131)	(80)	(211)	(5)	(4)	(9)
Foreign	(960)	(623)	(1,583)	739	(165)	574
Securities borrowed and reverse repurchase agreements						
Domestic	(52)	79	28	89	-	89
Foreign	(1,926)	2,941	1,015	813	(1,851)	(1,038)
Trading portfolio						
Domestic	(42)	36	(6)	407	(468)	(61)
Foreign	157	(501)	658	(890)	633	(257)
Loans						
Domestic	(333)	(773)	(1,106)	(403)	(1,404)	(1,807)
Foreign	(1,037)	(1,077)	(2,114)	1,002	(962)	40
Financial investments						
Domestic	(13)	(17)	(30)	(11)	(4)	(15)
Foreign	(126)	(57)	(183)	(95)	(16)	(111)
Interest income						
Domestic	(592)	(777)	(1,369)	3	(1,917)	(1,914)
Foreign	(2,878)	(1,053)	(1,825)	1,291	(2,453)	(1,162)
Total interest-earning assets	(3,470)	276	(3,194)	1,294	(4,370)	(3,076)
Net interest on swaps			431			976
Total interest income			(2,763)			(2,100)
Interest-bearing liabilities						
Money market paper issued						
Domestic	(1)	(0)	(1)	(7)	(3)	(10)
Foreign	324	(487)	(163)	400	237	637
Due to banks						
Domestic	(1,265)	(204)	(1,469)	(164)	1,187	1,023
Foreign	(602)	(899)	(1,501)	(804)	(146)	(950)
Securities lent and repurchase agreements						
Domestic	3	32	35	71	-	71
Foreign	(1,679)	2,547	868	529	(2,717)	(2,188)
Trading portfolio						
Domestic	-	-	-	-	-	-
Foreign	(454)	783	329	926	(677)	249
Due to customers						
Domestic	(94)	(599)	(693)	(140)	(277)	(417)
Foreign	(546)	(1,136)	(1,682)	592	178	770
Long term debt						
Domestic	(269)	110	(159)	(395)	52	(343)
Foreign	302	480	782	321	(28)	293
Interest expense						
Domestic	(1,626)	(661)	(2,287)	(635)	959	324
Foreign	(2,655)	1,288	(1,367)	1,964	(3,153)	(1,189)
Total interest-bearing liabilities	(4,281)	627	(3,654)	1,329	(2,194)	(865)

Deposits

The following table analyzes average deposits and the average rates on each deposit category listed below at and for the years ended 31 December 1999, 1998 and 1997. The geographic allocation is based on the location of the office or branch where the deposit is made.

	1999		1998		1997	
	Average Deposit	**Average Rate (%)**	**Average Deposit**	**Average Rate (%)**	**Average Deposit**	**Average Rate (%)**
	(CHF in millions, except percentages)					
Banks						
Domestic offices:						
Demand deposits	12,736	0.9%	11,890	0.6%	9,856	0.8%
Time deposits	6,715	4.8%	10,813	4.7%	12,967	2.5%
Total domestic offices	19,451	2.2%	22,703	2.6%	22,823	1.8%
Foreign offices:						
Interest-bearing deposits (1)	28,999	4.1%	43,705	6.3%	33,003	6.5%
Total due to banks	48,450	3.4%	66,408	5.0%	55,826	4.6%
Customer accounts						
Domestic offices:						
Demand deposits	49,261	0.6%	44,569	0.7%	41,411	0.8%
Savings deposits	80,543	1.1%	82,561	1.6%	85,027	1.8%
Time deposits	26,083	2.8%	34,558	2.9%	43,076	2.7%
Total domestic offices	155,887	1.2%	161,688	1.6%	169,514	1.8%
Foreign offices:						
Demand deposits	122,411	4.6%	132,338	5.5%	121,305	5.4%
Total due to customers	278,298	2.7%	294,026	3.4%	290,819	3.3%

(1) Includes mostly time deposits.

At 31 December 1999, the maturity of time deposits exceeding CHF 150,000, or an equivalent amount in other currencies, was as follows:

	At 31 December 1999	
	Domestic	**Foreign**
	(CHF in millions)	
Within 3 months	32,466	117,260
3 to 12 months	4,620	7,784
1 to 5 years	1,027	978
Over 5 years	429	2,333
Total time deposits	38,542	128,355

Short-term Borrowings

The following table presents our period-end, average and maximum month-end outstanding amounts for short-term borrowings, along with the average rates and period-end rates at and for the years ended 31 December 1999, 1998 and 1997.

	Money Market Paper Issued			Due to Banks			Repurchase Agreements		
	1999	**1998**	**1997**	**1999**	**1998**	**1997**	**1999**	**1998**	**1997**
	(CHF in millions)								
Period-end balance	64,655	51,527	55,600	40,580	10,361	84,952	217,736	137,617	191,792
Average balance	58,103	51,690	43,190	30,714	53,941	83,941	149,071	177,298	153,028
Maximum month-end balance	76,368	53,710	55,600	64,562	89,072	105,332	217,736	202,062	191,792
Average interest rate during the period	4.1%	5.0%	4.5%	4.5%	4.9%	4.0%	4.8%	3.6%	5.3%
Average interest rate at period-end	4.6%	4.6%	4.5%	4.8%	4.4%	4.2%	3.9%	4.9%	4.5%

Loans

Our loans are widely dispersed over customer categories both within and outside of Switzerland. No one concentration of loans, with the exceptions of private households in Switzerland and foreign commercial and manufacturing, accounted for more than 10% of our total loan portfolio. For further discussion of our loan portfolio, see "— Risk Management — Credit Risk". The following table illustrates the diversification of our loan portfolio among customer categories at 31 December 1999, 1998, 1997, 1996 and 1995. The industry categories presented are consistent with the classification of loans for reporting to the Swiss Federal Banking Commission and Swiss National Bank (SNB).

				1996		1995	
	1999	**1998**	**1997**	**UBS**	**SBC**	**UBS**	**SBC**
	(CHF in millions)						
Domestic:							
Banks	5,802	4,543	17,751	15,039	2,532	2,700	2,467
Financial institutions	9,387	10,240	11,371	14,465	6,752	12,865	6,673
Construction	6,577	7,897	9,627	6,022	4,556	3,737	4,644
Services (1)	14,862	11,582	13,083	7,841	6,383	6,011	6,401
Retail and wholesale	10,904	8,912	10,512	7,220	6,602	6,772	6,323
Hotels and restaurants	4,259	4,129	4,668	4,815	2,200	4,311	2,219
Real estate and rentals (2)	19,835	21,231	22,915	N/A	N/A	N/A	N/A
Manufacturing	11,377	13,505	16,440	9,650	9,019	10,113	9,788
Public authorities	5,277	5,858	6,354	3,271	4,972	2,727	4,484
Private households	93,846	97,664	109,044	55,088	59,098	48,935	56,732
Other	1,818	1,662	1,862	1,156	694	1,629	747
Total domestic	183,944	187,223	223,627	124,567	102,808	99,800	100,478
Foreign:							
Banks	24,983	65,000	49,559	25,048	70,758	88,586	42,689
Other loans (3)	69,087	78,741	80,054	33,412	34,758	55,188	29,814
Total foreign	94,070	143,741	129,613	58,460	105,516	143,774	72,503
Total gross loans	278,014	330,964	353,240	183,027	208,324	243,574	172,981

(1) Includes transportation, communication, health and social work, education and other social and personal service activities.

(2) Includes real estate development, buying, selling and leasing of real estate, agency activities and real estate management. The SNB introduced this category in 1997; prior years' balances cannot be restated.

(3) Includes commercial and manufacturing (52%), financial institutions (25%), commodities (8%) and other (15%) at 31 December 1999.

The following table analyzes our mortgage portfolio by geographic origin of the customer and type of mortgage at 31 December 1999, 1998, 1997, 1996 and 1995. Mortgages are included in the aforementioned industry categories.

	1999	1998	1997	1996		1995	
				UBS	SBC	UBS	SBC
	(CHF in millions)						
Mortgages:							
Domestic	126,677	138,306	142,919	68,534	70,966	67,200	67,098
Foreign	1,310	2,479	3,883	1,657	2,266	1,306	2,372
Total gross mortgages	127,987	140,785	146,802	70,191	73,232	68,506	69,470
Mortgages:							
Residential	91,408	106,093	105,926	48,508	49,794	48,711	46,083
Commercial	36,579	34,692	40,876	21,683	23,438	19,795	23,387
Total gross mortgages	127,987	140,785	146,802	70,191	73,232	68,506	69,470

Loan Maturities

The following table discloses loans by maturities at 31 December 1999. The determination of maturities is based on contract terms. Information on interest rate sensitivities can be found in Note 33 of our Consolidated Financial Statements.

	Within 1 Year	1 to 5 Years	Over 5 Years	Total
	(CHF in millions)			
Domestic:				
Banks	5,756	21	25	5,802
Mortgages	66,787	57,582	2,308	126,677
Other loans	39,665	9,304	2,496	51,465
Total domestic	112,208	66,907	4,829	183,944
Foreign:				
Banks	24,286	453	244	24,983
Mortgages	802	287	221	1,310
Other loans	62,140	4,124	1,513	67,777
Total foreign	87,228	4,864	1,978	94,070
Total gross loans	199,436	71,771	6,807	278,014

Impaired, Non-performing and Restructured Loans

We classify a loan as impaired when we determine that there is a high probability that we will suffer a partial or full loss. A provision is then made with respect to the probable loss to be incurred for the loan in question. Within the category are non-performing loans, for which the contractual payments of principal and/or interest are in arrears for 90 days or more. After the 90-day period, we no longer recognize interest income on the loan and we take a charge for the unpaid and accrued interest receivable. Unrecognized interest related to non-performing loans amounted to CHF 409 million, CHF 423 million and CHF 450 million for the years ended 31 December 1999, 1998 and 1997, respectively. The table below provides an analysis of our non-performing and restructured loans at 31 December 1999, 1998, 1997, 1996 and 1995. For further discussion of impaired and non-performing loans, see "Risk Management — Credit Risk".

	1999	1998	1997	1996 UBS	1996 SBC	1995 UBS	1995 SBC
			(CHF in millions)				
Non-performing loans:							
Domestic	11,435	14,023	15,238	7,171	9,587	7,787	10,582
Foreign	1,638	2,091	1,426	414	1,446	424	1,703
Total non-performing loans	13,073	16,114	16,664	7,585	11,033	8,211	12,285
Foreign restructured loans (1)	287	449	638	473	289	439	301

(1) Amounts presented for 1999 and 1998 include only performing foreign restructured loans. Amounts presented for prior years include both performing and non-performing foreign restructured loans. We do not, as a matter of policy, typically restructure loans to accrue interest at rates different from the original contractual terms or reduce the principal amount of loans. Instead, specific loan allowances are established as necessary. Unrecognized interest related to the foreign restructured loans was not material to our results of operations.

In addition to the aforementioned data analyzing non-performing loans, at 31 December 1999 we had CHF 9,383 million in "other impaired loans". These are loans that are current, or less than 90 days in arrears, with respect to payment of principal or interest, however our credit officers have expressed doubts as to the ability of the borrowers to repay the loan and specific allowances of CHF 3,810 million have been established against them. These loans are primarily domestic.

Cross-border Outstandings

Cross-border outstandings consist of general banking products such as loans and deposits with third parties, credit equivalents of over-the-counter derivatives and repurchase agreements, and the market value of the inventory of securities. The outstandings are monitored and reported on an ongoing basis by the credit risk management organization with a dedicated country risk information system. With the exception of the 27 most developed economies the exposures are rigorously limited.

Claims which are secured by third party guarantees are recorded against the guarantor's country of domicile. Outstandings which are secured by collateral are recorded against the country where the asset could be liquidated. This follows the "Guidelines for the Management of Country Risk", which are applicable to all banks that report to the Swiss Federal Banking Commission as the supervisory body.

The following tables list those countries for which the cross-border outstandings exceeded 0.75% of total assets at 31 December 1999, 1998 and 1997. At 31 December 1999, there were no outstandings that exceeded 0.75% of total assets in any country currently facing liquidity problems that we expect would materially impact the country's ability to service its obligations.

For more information on cross-border outstandings, see "—Risk Management".

	At 31 December 1999					
	Banking Products		Traded	Tradeable		% of Total
	Banks	Non-Banks	Products[1]	Assets[2]	Total	Assets
	(CHF in millions)					
United States	3,202	2,508	41,970	48,012	95,692	9.7%
Japan	1,117	965	7,153	69,194	78,429	8.0%
United Kingdom........	3,417	3,193	11,273	58,300	76,183	7.8%
Germany...................	4,455	3,174	41,422	8,181	57,232	5.8%
Italy	2,462	762	6,803	8,708	18,735	1.9%
Netherlands	1,932	1,149	6,648	4,993	14,722	1.5%
France.......................	1,200	1,395	7,324	4,379	14,298	1.5%
Australia...................	2,688	409	6,342	3,735	13,174	1.3%
Canada	866	492	5,233	807	7,398	0.8%

	At 31 December 1998					
	Banking Products		Traded	Tradeable		% of Total
	Banks	Non-Banks	Products[1]	Assets[2]	Total	Assets
	(CHF in millions)					
United States	13,882	2,292	27,922	65,543	109,639	11.6%
United Kingdom........	4,006	2,583	10,912	32,348	49,849	5.3%
Japan	1,633	768	7,879	38,133	48,413	5.1%
Germany...................	7,850	2,500	20,666	15,903	46,919	5.0%
France.......................	2,490	1,420	10,037	8,521	22,468	2.4%
Italy	2,174	1,201	8,236	9,394	21,005	2.2%
Australia...................	6,749	543	3,097	4,760	15,149	1.6%
Netherlands	1,221	1,086	6,134	6,363	14,804	1.6%
Sweden.....................	449	812	3,710	8,091	13,062	1.4%
Canada	755	549	5,162	3,479	9,945	1.1%
Austria......................	769	82	1,513	5,436	7,800	0.8%
Spain	913	350	2,495	3,701	7,459	0.8%
Belgium....................	1,248	162	2,393	3,599	7,402	0.8%
Luxembourg.............	1,212	2,130	1,723	2,195	7,260	0.8%

(1) Traded products consists of derivative instruments and repurchase agreements.

(2) Tradeable assets consist of equity and fixed income financial instruments held for trading purposes, which are marked to market on a daily basis.

	UBS At 31 December 1997				
	Banking Products	Traded Products[1]	Tradeable Assets	Total	% of Total Assets
	(CHF in millions)				
United States..................	8,306	10,063	-	18,369	3.2%
France	7,338	3,450	-	10,788	1.9%
Germany	5,074	4,704	-	9,778	1.7%
United Kingdom	2,741	6,963	-	9,704	1.7%
Italy................................	6,088	1,748	-	7,836	1.4%
Singapore........................	5,930	739	-	6,669	1.2%
Luxembourg....................	4,832	1,123	-	5,955	1.0%
Japan..............................	1,641	4,101	-	5,742	1.0%
Netherlands.....................	3,524	1,114	-	4,638	0.8%

	SBC At 31 December 1997				
	Banking Products	Traded Products[1]	Tradeable Assets[2]	Total	% of Total Assets
	(CHF in millions)				
United States................	23,084	11,432	26,170	60,686	13.8%
Germany	4,790	10,404	8,768	23,962	5.5%
Japan..............................	2,022	6,555	11,870	20,447	4.7%
France	1,271	5,150	2,900	9,321	2.1%
Netherlands...................	2,621	4,009	2,379	9,009	2.1%
Italy................................	2,419	2,541	3,988	8,948	2.0%
Sweden	1,144	2,096	1,254	4,494	1.0%
Belgium	365	1,664	2,035	4,064	0.9%
Canada	655	2,531	818	4,004	0.9%
Australia	73	1,982	1,671	3,726	0.8%
Cayman Islands.............	771	1,443	1,328	3,542	0.8%

(1) Traded products consists of derivative instruments and repurchase agreements.

(2) Tradeable assets consists of equity and fixed income financial instruments held for trading purposes, which are marked to market on a daily basis.

Summary of Movements in Allowances and Provisions for Credit Losses

The following table provides an analysis of movements in allowances and provisions for credit losses for the years ended 31 December 1999, 1998, 1997, 1996 and 1995.

As a result of the Swiss bankruptcy laws, banks will write off loans against allowances only upon final settlement of bankruptcy proceedings, the sale of the underlying asset and/or in case of the forgiveness of debt. Under Swiss law, a creditor can continue to collect from a debtor who has emerged from bankruptcy, unless the debt has been forgiven through a formal agreement.

	1999	1998	1997	1996 UBS	1996 SBC	1995 UBS	1995 SBC
	(CHF in millions)						
Balance at beginning of year	14,978	16,213	18,135	6,413	6,700	6,412	7,403
Write-offs:							
Domestic:							
Banks	(4)	(2)	(5)	-	-	(3)	-
Financial institutions	(92)	(66)	(226)	(32)	(284)	(57)	(88)
Construction	(296)	(228)	(408)	(103)	(140)	(447)	(166)
Services (1)	(315)	(116)	(229)	(220)	(54)	(283)	(100)
Retail and wholesale	(210)	(178)	(227)	(108)	(46)	(192)	(68)
Hotels and restaurants	(137)	(98)	(138)	(28)	(37)	(46)	(35)
Real estate and rentals (2)	(823)	(610)	(871)	(561)	(263)	(386)	(278)
Manufacturing	(242)	(214)	(514)	(179)	(111)	(197)	(171)
Public authorities	-	(2)	(19)	-	(3)	-	(2)
Private households	(598)	(534)	(1,214)	(306)	(389)	(220)	(867)
Other	(41)	(15)	(29)	(85)	(35)	(155)	(28)
Total domestic	(2,758)	(2,063)	(3,880)	(1,622)	(1,362)	(1,986)	(1,803)
Foreign	(517)	(261)	(240)	(49)	(350)	(73)	(339)
Total write-offs	(3,275)	(2,324)	(4,120)	(1,671)	(1,712)	(2,059)	(2,142)
Recoveries:							
Domestic	54	59	406	438	71	354	78
Foreign	11	-	36	25	20	8	-
Total recoveries	65	59	442	463	91	362	78
Net write-offs	(3,210)	(2,265)	(3,678)	(1,208)	(1,621)	(1,697)	(2,064)
Increase in credit loss allowances	956	951	1,432	1,272	1,018	1,084	874
Special provisions (3)	-	-	-	2,289	2,480	711	-
Other adjustments (4)	674	79	324	140	652	(97)	487
Balance at end of year	13,398	14,978	16,213	8,906	9,229	6,413	6,700

(1) Includes transportation, communication, health and social work, education and other social and personal service activities.
(2) Includes real estate development, buying, selling and leasing of real estate, agency activities and real estate management.
(3) The 1996 UBS amount includes a special provision of CHF 3,000 million for credit risks and the release of a CHF 711 million provision for general banking risks from the prior year.
(4) Includes the following for 1999, 1998 and 1997:

(CHF in millions)	1999	1998	1997
Doubtful interest	409	423	450
Net foreign exchange	351	(98)	91
Subsidiaries sold and other	(86)	(246)	(217)
Total adjustments	674	79	324

Allocation of the Allowances and Provisions for Credit Losses

The following tables provide an analysis of the allocation of the allowances and provisions for credit losses by customer categories and geographic location at 31 December 1999, 1998, 1997, 1996 and 1995. For a description of our procedures with respect to allowances and provisions for credit losses, see "— Risk Management — Credit Risk".

	1999	1998	1997	1996 UBS	1996 SBC	1995 UBS	1995 SBC
	(CHF in millions)						
Domestic:							
Banks	41	49	34	9	39	43	32
Financial institutions	342	668	510	152	403	132	370
Construction	1,247	1,671	1,449	716	539	602	471
Services (1)	934	766	661	429	160	440	157
Retail and wholesale	779	825	723	371	263	318	212
Hotels and restaurants	690	657	512	172	135	113	112
Real estate and rentals (2)	2,696	3,333	2,591	1,286	1,335	1,314	1,163
Manufacturing	1,223	1,331	1,036	603	438	547	385
Public authorities	40	107	59	1	66	1	47
Private households	2,350	2,741	2,264	970	1,459	976	1,396
Other	141	71	52	40	19	19	34
Total domestic	10,483	12,219	9,891	4,749	4,856	4,505	4,379
Foreign	1,539	1,309	1,399	353	1,286	340	1,539
Country provisions	1,376	1,450	1,175	804	404	857	559
Total foreign (3)	2,915	2,759	2,574	1,157	1,690	1,197	2,098
Unallocated allowances (4)	-	-	3,748	3,000	2,683	711	223
Total allowances and provisions for credit losses	13,398	14,978	16,213	8,906	9,229	6,413	6,700

(1) Includes transportation, communication, health and social work, education and other social and personal service activities.
(2) Includes real estate development, buying, selling and leasing of real estate, agency activities and real estate management.
(3) The 1999 and 1998 amounts include CHF 149 million and CHF 435 million of provisions and commitments for contingent liabilities, respectively.
(4) The 1997 amount includes a provision for commitments and contingent liabilities of CHF 472 million. In addition, the 1996 SBC amount includes CHF 603 million of provisions for commitments and contingent liabilities. The 1995 UBS and SBC amounts represent provisions for general banking risks and commitments and contingent liabilities, respectively.

The following table presents the percentage of loans in each category to total loans at 31 December 1999, 1998, 1997, 1996 and 1995. This table can be read in conjunction with the preceding table showing the breakdown of the allowances and provisions for credit losses by loan categories to evaluate the credit risks in each of the categories.

	1999	1998	1997	1996 UBS	1996 SBC	1995 UBS	1995 SBC
Domestic:							
Banks	2.1%	1.4%	5.0%	8.2%	1.2%	1.1%	1.4%
Financial institutions	3.4%	3.1%	3.2%	7.9%	3.2%	5.3%	3.9%
Construction	2.4%	2.4%	2.7%	3.3%	2.2%	1.5%	2.7%
Services	5.3%	3.5%	3.7%	4.3%	3.1%	2.5%	3.7%
Retail and wholesale	3.9%	2.7%	3.0%	3.9%	3.2%	2.8%	3.6%
Hotels and restaurants	1.5%	1.2%	1.3%	2.6%	1.0%	1.8%	1.3%
Real estate and rentals	7.1%	6.4%	6.5%	0.0%	0.0%	0.0%	0.0%
Manufacturing	4.1%	4.1%	4.7%	5.3%	4.3%	4.1%	5.7%
Public authorities	1.9%	1.8%	1.8%	1.8%	2.4%	1.1%	2.6%
Private households	33.8%	29.5%	30.9%	30.1%	28.4%	20.1%	32.8%
Other	0.7%	0.5%	0.5%	0.6%	0.3%	0.7%	0.4%
Total domestic	66.2%	56.6%	63.3%	68.0%	49.3%	41.0%	58.1%

	1999	1998	1997	1996 UBS	1996 SBC	1995 UBS	1995 SBC
Foreign:							
Banks	9.0%	19.6%	14.0%	13.7%	34.0%	36.4%	24.7%
Other loans	24.8%	23.8%	22.7%	18.3%	16.7%	22.6%	17.2%
Total foreign	33.8%	43.4%	36.7%	32.0%	50.7%	59.0%	41.9%
Total gross loans	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Loss History Statistics

The following is a summary of our loan loss history at 31 December 1999, 1998, 1997, 1996 and 1995.

	1999	1998	1997	1996 UBS	1996 SBC	1995 UBS	1995 SBC
	(CHF in millions, except percentages)						
Gross loans	278,014	330,964	353,240	183,027	208,324	243,574	172,981
Impaired loans	22,456	26,447	N/A	N/A	N/A	N/A	N/A
Non-performing loans	13,073	16,114	16,664	7,585	11,033	8,211	12,285
Allowances and provisions for credit losses	13,398	14,978	16,213	8,906	9,229	6,413	6,700
Net write-offs	3,210	2,265	3,678	1,208	1,621	1,697	2,064
Credit loss expense	956	951	1,432	1,272	1,018	1,084	874
RATIOS:							
Impaired loans / Gross loans	8.1%	8.0%	N/A	N/A	N/A	N/A	N/A
Non-performing loans / Gross loans	4.7%	4.9%	4.7%	4.1%	5.3%	3.4%	7.1%
Allowance and provisions for credit losses as a percentage of:							
Gross loans	4.8%	4.5%	4.6%	4.9%	4.4%	2.6%	3.9%
Impaired loans	59.7%	56.6%	N/A	N/A	N/A	N/A	N/A
Non-performing loans	102.5%	93.0%	97.3%	117.4%	83.6%	78.1%	54.5%
Net write-offs as a percentage of:							
Gross loans	1.2%	0.7%	1.0%	0.7%	0.8%	0.7%	1.2%
Allowance and provisions for credit losses	24.0%	15.1%	22.7%	13.6%	17.6%	26.5%	30.8%
Allowance and provisions for credit losses as a multiple of net write-offs	4.17	6.61	4.41	7.37	5.69	3.78	3.25

N/A = Not Available

Item 9A QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risk Management – Market Risk”.

Item 10 DIRECTORS AND OFFICERS OF REGISTRANT

The Board of Directors has ultimate responsibility for the strategic direction of our business and the supervision and control of our executive management. The Board consists exclusively of non-executive directors in accordance with Swiss Banking Law. Each member of the Board is elected at the annual general meeting of shareholders for a four-year term. However, at the initial annual general meeting, the terms varied between one and four years to provide for staggered terms for Board members. In order to ensure its independence, the Chief Executive Officer is not permitted to be a member of the Board. The Articles of Association and the Organizational Regulations prescribe the presentation of information on our affairs to the members of the Board.

The Group Executive Board is our most senior executive body. It assumes overall responsibility for the development of our strategies, and the implementation of the results thereof. The GEB is comprised of seven members, namely the CEO, the CEOs of the five divisions and the CFO. The Group Executive Board normally convenes bi-weekly. Information concerning the members of the Board of Directors is set forth in the table below.

Name	Positions held	Year of Initial Appointment	Expiration of Term of Office
Alex Krauer	Chairman Member of the Audit Supervisory Board	1998	2002
Alberto Togni	Vice Chairman Chairman of the Audit Supervisory Board	1998	2001
Markus Kündig	Vice Chairman Member of the Audit Supervisory Board	1998	2002
Peter Böckli	Chairman of the Audit Committee	1998	2003
Rolf A. Meyer	Member of the Audit Committee	1998	2003
Hans Peter Ming	Board member	1998	2000
Andreas Reinhart	Member of the Audit Committee	1998	2000
Eric Honegger	Board member	1999	2003

Information concerning the members of the Group Executive Board is set forth below.

Name	Positions 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 of Private Banking	2000
Markus Granziol	Chairman and Chief Executive of UBS Warburg	1999
Stephan Haeringer	Deputy of the Group Chief Executive Officer and Chief Executive Officer of UBS Switzerland	1998
Pierre de Weck	Chief Executive Officer of UBS Capital	1998
Peter A. Wuffli	Chief Executive Officer of UBS Asset Management	1998

Item 11 COMPENSATION OF DIRECTORS AND OFFICERS

The aggregate compensation paid by us to our directors and officers as a group in 1998 was approximately CHF 102.8 million, including bonus compensation and approximately CHF 10.3 million in accrued pension benefits. The aggregate compensation paid by us to our directors and officers as a group in 1999 was approximately CHF 193.1 million, including bonus compensation and approximately CHF 2.7 million in accrued pension benefits. For the purposes of this analysis, our executive officers are the members of our Group Managing Board, which consists of the seven members of the Group Executive Board, 16 members who hold office on the Divisional Executive Boards and nine members who are responsible for special functions at the top level of our organization.

Item 12 OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

We offer employees options on our shares under five plans, described below:

Under the Group's Employee Ownership Plan and Senior Management Compensation Program, key personnel are awarded that portion of their performance-related compensation in excess of a predetermined amount in UBS shares, warrants or options, which are restricted for a specified number of years.

Under the Group's Employee Investment Plan, employees have the option to invest part or all of their annual bonus in our shares, warrants or other derivatives on our shares. A certain holding period applies during which the instruments cannot be sold or exercised.

Under the Group's Long Term Incentive and Key Award plans, long-term stock options are granted to key employees. We consider the key employee's performance, potential, years of service and the performance of the division in which the employee works in determining the amount of the award. The options are blocked for a certain period of time during which they cannot be exercised. For the 1997 options and certain of the 1998 options, one half of each grant is subject to an acceleration clause after which certain forfeiture provisions lapse. One option gives the right to purchase one registered share at the option's strike price.

The following table provides information concerning options to purchase UBS AG registered shares at 31 May 2000.

Instrument Type	Number Issued	Weighted-Average Exercise Price (in CHF)	Weighted-Average Expiration (in years)
Options	14,553,474	198	4.6
Warrants	6,697,924	221	2.4
Total	21,251,398	205	3.9

The total securities called for by such options and warrants being held by officers and directors as of 31 May 2000 is 3,342,189.

Item 13 INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

Total loans and advances receivable from the Board of Directors, the Group Executive Board, the Group Managing Board, close family members and enterprises which are controlled by these individuals were as follows:

CHF million	1999
Mortgages at 1 January	27
Additions	6
Reductions	5
Mortgages at 31 December	28

Members of the Board of Directors, Group Executive Board and Group Managing Board are granted mortgages at the same terms and conditions as other employees. Terms and conditions are based on third party conditions excluding credit margin. No loans or advances other than mortgage loans are made to our officers or directors.

PART II

Item 14 DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable.

PART III

Item 15 DEFAULTS UPON SENIOR SECURITIES

None.

Item 16 CHANGES IN SECURITIES, CHANGES IN SECURITY FOR REGISTERED SECURITIES AND USE OF PROCEEDS

None.

PART IV

Item 17 FINANCIAL STATEMENTS

Not applicable.

Items 18 and 19 FINANCIAL STATEMENTS AND EXHIBITS

(a) **Financial Statements**

Report of Independent Auditors F-1

Income Statement F-2

Balance Sheet F-3

Statement of Changes in Equity F-4

Statement of Cash Flows F-5

Notes to Financial Statements F-6

(b) **Exhibits**

Articles of Association .... *

Merger Agreement, dated 5/6 December 1997, between Union Bank of Switzerland, Swiss Bank Corporation and UBS AG (as amended on 19 March 1998 and on 28 April/1 May 1998)........ *

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* Incorporated by reference from our Registration Statement on Form 20-F filed 9 May 2000.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities and Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

UBS AG

By: ___________________________
Name:
Title:

By: ___________________________
Name:
Title:

Date: