Report submitted to SEC

Report of Independent Auditors

The Board of Directors and Group Executive Board UBS AG:

We have audited the accompanying consolidated balance sheets of UBS AG and subsidiaries as of 30 September 1999 and 31 December 1998, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the nine months ended 30 September 1999 and the years ended 31 December 1998 and 31 December 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UBS AG as of 30 September 1999 and 31 December 1998, and the consolidated results of their operations and their cash flows for the nine months ended 30 September 1999 and the years ended 31 December 1998 and 31 December 1997, in conformity with International Accounting Standards ("IAS").

Accounting principles generally accepted by IAS vary in certain significant respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States of America would have affected shareholders' equity as of 30 September 1999 and 31 December 1998 and the results of operations for the nine months ended 30 September 1999 and the year ended 31 December 1998 to the extent summarized in Note 41 of the Notes to the Financial Statements.

Basel, 8 March 2000
except for Note 38, as to
which the date is 18 April 2000

ATAG Ernst & Young
Auditing Ltd.

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

UBS Group Income Statement

For the period ended

CHF million, except per share data	Note	**30.9.1999**	31.12.1998	31.12.1997
Operating income				
Interest income	4	**12 939**	22 835	23 669
Less: Interest expense	4	**8 102**	16 173	16 733
Net interest income		**4 837**	6 662	6 936
Less: Credit loss expense	12	**910**	951	1 278
Total		**3 927**	5 711	5 658
Net fee and commission income	5	**9 250**	12 626	12 234
Net trading income	6	**6 013**	1 750	5 491
Income from disposal of associates and subsidiaries	7	**1 772**	1 119	198
Other income	8	**801**	1 122	1 299
Total		**21 763**	22 328	24 880
Operating expenses				
Personnel	9	**9 923**	9 816	11 559
General and administrative	9	**3 724**	6 617	5 315
Depreciation and amortization	9	**1 290**	1 825	1 762
Total		**14 937**	18 258	18 636
Operating profit before restructuring costs, tax and minority interests		**6 826**	4 070	6 244
Restructuring costs	24			7 000
Operating profit / (loss) before tax and minority interests		**6 826**	4 070	(756)
Tax expense / (benefit)	25	**1 612**	1 045	(105)
Group profit / (loss)		**5 214**	3 025	(651)
Less: Minority interests	26	**35**	(5)	16
Net profit / (loss)		**5 179**	3 030	(667)
Basic earnings per share (CHF)	10	**12.43**	7.15	(1.59)
Diluted earnings per share (CHF)	10	**12.36**	7.11	(1.59)

UBS Group Balance Sheet

CHF million	Note	**30.9.1999**	31.12.1998
Assets			
Cash and balances with central banks		**2 746**	3 267
Money market paper	11	**63 606**	18 390
Due from banks	12	**35 526**	68 495
Cash collateral on securities borrowed	13	**88 648**	91 695
Reverse repurchase agreements	14	**147 510**	141 285
Trading portfolio assets	15	**162 059**	162 588
Positive replacement values	27	**121 619**	169 936
Loans, net of allowance for credit losses	12	**240 135**	247 926
Financial investments	16	**6 283**	6 914
Accrued income and prepaid expenses		**6 809**	6 627
Investments in associates	17	**1 082**	2 805
Property and equipment	18	**10 093**	9 886
Intangible assets and goodwill	19	**2 227**	2 210
Other assets	20	**11 781**	12 092
Total assets		**900 124**	944 116
Total subordinated assets		***601***	*496*
Liabilities			
Money market paper issued		**67 417**	51 527
Due to banks	21	**81 624**	85 716
Cash collateral on securities lent	13	**13 029**	19 171
Repurchase agreements	14	**147 532**	137 617
Trading portfolio liabilities	15	**43 126**	47 033
Negative replacement values	27	**147 112**	205 080
Due to customers	21	**275 964**	274 850
Accrued expenses and deferred income		**12 075**	11 232
Long term debt	22	**55 524**	50 783
Other liabilities	23,24,25	**23 053**	27 722
Total liabilities		**866 456**	910 731
Minority interests		**370**	990
Shareholders' equity			
Share capital		**4 306**	4 300
Share premium account		**13 873**	13 740
Foreign currency translation		**(458)**	(456)
Retained earnings		**19 380**	16 293
Treasury shares		**(3 803)**	(1 482)
Total shareholders' equity		**33 298**	32 395
Total liabilities, minority interests and shareholders' equity		**900 124**	944 116
Total subordinated liabilities		***14 329***	*13 652*

UBS Group Statement of Changes in Equity

CHF million

For the period ended	**30.9.1999**	31.12.1998	31.12.1997
Issued and paid up share capital			
Balance at the beginning of the year	**4 300**	4 296	4 255
Issue of share capital	**6**	4	41
Balance at the end of the period [1]	**4 306**	4 300	4 296
Share premium			
Balance at the beginning of the year	**13 740**	13 260	13 001
Premium on shares issued, warrants exercised	**9**	111	130
Premium on disposal of Treasury shares	**124**	369	129
Balance at the end of the period	**13 873**	13 740	13 260
Foreign currency translation			
Balance at the beginning of the year	**(456)**	(111)	(155)
Movements during the period	**(2)**	(345)	44
Balance at the end of the period	**(458)**	(456)	(111)
Retained earnings			
Balance at the beginning of the year	**16 293**	15 464	16 931
Net profit / (loss) for the period	**5 179**	3 030	(667)
Dividends paid	**(2 092)**	(2 201)	(800)
Balance at the end of the period	**19 380**	16 293	15 464
Treasury shares, at cost			
Balance at the beginning of the year	**(1 482)**	(1 982)	(702)
Acquisitions	**(3 377)**	(2 796)	(3 172)
Disposals	**1 056**	3 296	1 892
Balance at the end of the period [2]	**(3 803)**	(1 482)	(1 982)
Total shareholders' equity	**33 298**	32 395	30 927

[1] Comprising 430,578,786 ordinary shares at 30 September 1999; 429,952,612 ordinary shares at 31 December 1998 and 428,724,700 ordinary shares at 31 December 1997 (as restated for the merger), at CHF 10 each, fully paid.

[2] Comprising 17,250,428 shares at 30 September 1999; 8,300,300 shares at 31 December 1998 and 11,692,326 shares at 31 December 1997.

In addition to the treasury shares, a maximum of 1,372,284 unissued shares (conditional capital) (1,998,458 at 31 December 1998 and 2,884,672 at 31 December 1997) can be issued without the approval of the shareholders. This amount consists of unissued and reserved shares for the former Swiss Bank Corporation employee share ownership plan and optional dividend warrants. The optional dividend warrants were the warrants granted in lieu of a cash dividend by the former Swiss Bank Corporation in February 1996 (at the option of the shareholder).

UBS Group Statement of Cash Flows

For the period ended *CHF million*	**30.9.1999**	31.12.1998	12/31/97
Cash flow from / (used in) operating activities			
Net profit / (loss)	**5 179**	3 030	(667)
Adjustments to reconcile to cash from / (used in) operating activities			
Non cash items included in net profit / (loss) and other adjustments:			
Depreciation and amortization	**1 290**	1 825	1 762
Provision for credit losses	**910**	951	1 278
Income from associates	**(116)**	(301)	(432)
Deferred tax expenses / (benefit)	**279**	491	(1 035)
Restructuring provision	**0**	0	7 000
Net gain from investing activities	**(2 196)**	(1 803)	(967)
Net increase / (decrease) in operating assets:			
Net due from / to banks	**(1 611)**	(65 172)	22 503
Reverse repurchase agreements	**(3 178)**	66 031	(52 440)
Trading portfolio including net replacement values	**(13 029)**	41 488	(38 388)
Loans due to / from customers	**7 995**	(5 626)	2 865
Accrued income, prepaid expenses and other assets	**128**	2 107	(350)
Net increase / (decrease) in operating liabilities:			
Repurchase agreements	**3 773**	(49 145)	24 594
Accrued expenses, deferred income and other liabilities	**(3 028)**	1 686	1 037
Income taxes paid	**(722)**	(733)	(1 185)
Net cash flow from / (used in) operating activities	**(4 326)**	(5 171)	(34 425)
Cash flow from (used in) investing activities			
Investments in subsidiaries and associates	**(308)**	(1 319)	(1 349)
Disposal of subsidiaries and associates	**3 650**	1 539	1 294
Purchase of property and equipment	**(1 969)**	(1 818)	(1 785)
Disposal of property and equipment	**420**	1 138	1 101
Net (investment) / divestment in financial investments	**1 004**	6 134	(731)
Net cash flow from / (used in) investing activities	**2 797**	5 674	(1 470)
Cash flow from (used in) financing activities			
Money market paper issued	**15 890**	(4 073)	23 303
Net movements in Treasury Shares	**(2 197)**	869	(1 151)
Capital increase	**15**	115	408
Capital repayment	**0**	0	(795)
Dividends paid	**(2 092)**	(2 201)	(800)
Issuance of long term debt	**8 141**	5 566	17 155
Repayment of long term debt	**(3 400)**	(9 068)	(9 105)
Repayment of minority interests	**(689)**	0	0
Net cash flow from / (used in) financing activities	**15 668**	(8 792)	29 015
Effects of exchange rate differences	**67**	(386)	(571)
Net increase / (decrease) in cash equivalents	**14 206**	(8 675)	(7 451)
Cash and cash equivalents, beginning of year	**83 679**	92 354	99 805
Cash and cash equivalents, end of year	**97 885**	83 679	92 354
Cash and cash equivalents comprise:			
Cash and balances with central banks	**2 746**	3 267	4 638
Money market paper	**63 606**	18 390	36 353
Bank deposits maturing in less than 3 months	**31 533**	62 022	51 363
Total	**97 885**	83 679	92 354

Notes to the financial statements

Note 1 Summary of significant accounting Policies

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

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

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

The effects of intra-group transactions are eliminated in preparing the Group financial statements, except for certain intercompany derivatives for which hedge accounting is used.

Equity and net income attributable to minority interests are shown separately in the balance sheet and income statement respectively.

c) Offsetting
Assets and liabilities are offset only when the Group has a legal right to offset amounts with the same counterparty and transactions are expected to be settled on a net basis.

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

On a date subsequent to the trade date, the terms of spot and forward trading transactions are fulfilled ("settlement date") and a resulting financial asset or liability is recognized on the balance sheet at the fair value of the consideration given or received.

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

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

f) Business and geographical segments
The Group is organized on a world-wide basis into five major operating divisions and Corporate Center. These divisions are the basis upon which the Group reports its primary segment information.

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

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

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

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

Securities purchased subject to commitments to resell at a future date are treated as loans collateralized by the security and are included in reverse repurchase agreements.

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

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

j) Loans and allowance for credit losses
Loans are initially recorded at cost. For loans originated by the Group, the cost is the amount lent to the borrower. For loans acquired from a third party the cost is the fair value at the time of acquisition.

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

The allowance for credit losses provides for risks of losses inherent in the credit extension process, including loans and lending-related commitments. Such commitments include letters of credit, guarantees and commitments to extend credit. Counterparties are individually rated and periodically reviewed and analyzed. The allowance is adjusted for impairments identified on a loan-by-loan basis. If there are indications that there are significant probable losses in the portfolio that have not specifically been identified, allowances would also be provided for on a portfolio basis.

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

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

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

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

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

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

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

k) Financial investments

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

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

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

Private equity investments are carried at cost less write-downs for impairments in value. Reductions of the carrying amount and reversals of such reductions as well as gains and losses on disposal are included in other income.

l) Investments in associates

Investments in associates in which the Group has a significant influence are accounted for by the equity method. Investments in which the Group has a significant influence, but which are acquired and held with a view to their subsequent disposal are included in financial investments (see private equity above).

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

m) Property and equipment

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

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

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

n) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net asset of the acquired subsidiary or associate at the date of acquisition. Goodwill is recognized as an asset and is amortized using the straight-line basis over its estimated useful economic life, not exceeding 20 years. At each balance sheet date, goodwill is reviewed for indicators of impairment. If such indicators exist an analysis is performed including an assessment for future cash flows to determine if a write-down should be taken.

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

o) Income taxes

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

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

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

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

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

p) Own shares, own bonds and derivatives on own shares

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

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

q) Retirement benefits

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

For defined benefit plans, expense is calculated on an actuarial basis to recognize expense in the periods in which employees render service as opposed to a cash basis. Typically, actuarially determined expense differs from cash contributions made by the Group to such plans.

r) Derivative instruments

Derivative instruments are carried at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. The fair values of derivative instruments are shown in the balance sheet as positive and negative replacement values. Realized and unrealized gains and losses are recognized in net trading income. Valuation adjustments to cover credit and market liquidity risks have been made.

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

s) Comparability

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

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

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

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

t) Recent accounting standards not yet adopted

IAS 37, Provisions, Contingent Liabilities and Contingent Assets

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

IAS 38, Intangible Assets

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

IAS 39, Recognition and Measurement of Financial Instruments

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

IAS 10 (revised), Contingencies and Events Occurring After the Balance Sheet Date

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

Interpretation SIC 16, Share Capital – Reacquired Own Equity Instruments (Treasury Shares)

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

Note 2 Segment Reporting by Business Division

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

For the nine-month period ended 30 September 1999

CHF million	Note	UBS Private Banking	UBS Warburg	UBS Private & Corporate Clients	UBS Asset Management	UBS Private Equity	Corporate Center ²	Group total
Operating income		4 425	10 081	5 447	811	254	1 655	22 673
Less: Credit loss expense	1	12	238	836	0	0	(176)	910
Total		4 413	9 843	4 611	811	254	1 831	21 763
Personnel, general and administrative expenses		2 271	7 182	3 364	472	112	246	13 647
Depreciation and amortization		119	584	406	103	4	74	1 290
Total		2 390	7 766	3 770	575	116	320	14 937
Segment performance before tax		**2 023**	**2 077**	**841**	**236**	**138**	**1 511**	**6 826**
Tax expense								1 612
Group profit								**5 214**
Less: Minority interests								35
Net profit								**5 179**

[1]In order to show the relevant divisional performance over time, adjusted expected loss figures rather than the net credit loss expense are reported for all business divisions. The statistically derived adjusted expected losses reflect the inherent counterparty and country risks in the respective portfolios. The difference between the statistically derived adjusted expected loss figures to the financially booked net credit loss expenses at Group level is reported in the Corporate Center. The divisional breakdown of the net credit loss expense of CHF 910 million at 30 September 1999 is as follows: UBS Private Banking CHF 13 million, UBS Warburg CHF (15) million, UBS Private & Corporate Clients CHF 913 million, Corporate Center CHF (1) million.

[2]Corporate Center operating income includes gains on the divestments of the Group's investments in Swiss Life/Rentenanstalt for CHF 1,490 million and Julius Baer registered shares for CHF 110 million.

For the year ended 31 December 1998

CHF million	Note	UBS Private Banking	UBS Warburg	UBS Private & Corporate Clients	UBS Asset Management	UBS Private Equity	Corporate Center	Group total
Operating income		7 223	6 987	7 025	1 163	585	296	23 279
Less: Credit loss expense	1	26	500	1 170	0	0	(745)	951
Total		7 197	6 487	5 855	1 163	585	1 041	22 328
Personnel, general and administrative expenses	2	2 735	6 816	4 263	608	156	1 855	16 433
Depreciation and amortization	2	126	692	684	107	1	215	1 825
Total		2 861	7 508	4 947	715	157	2 070	18 258
Segment performance before tax		**4 336**	**(1 021)**	**908**	**448**	**428**	**(1 029)**	**4 070**
Tax expense								1 045
Group profit								**3 025**
Less: Minority interests								(5)
Net profit								**3 030**

[1]In order to show the relevant divisional performance over time, adjusted expected loss figures rather than the net credit loss expense are reported for all business divisions. The statistically derived adjusted expected losses reflect the inherent counterparty and country risks in the respective portfolios. The difference between the statistically derived adjusted expected loss figures to the financially booked net credit loss expenses at Group level is reported in the Corporate Center. The divisional breakdown of the net credit loss expense of CHF 951 million at 31 December 1998 is as follows: UBS Private Banking CHF 48 million, UBS Warburg CHF 506 million, UBS Private & Corporate Clients CHF 397 million.

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

For the year ended 31 December 1997

CHF million	Note	UBS Private Banking	UBS Warburg	UBS Private & Corporate Clients	UBS Asset Management	UBS Private Equity	Corporate Center	Group total
Operating income		6 215	10 888	7 005	1 040	492	518	26 158
Less: Credit loss expense	1	59	300	1 092	0	0	(173)	1 278
Total		6 156	10 588	5 913	1 040	492	691	24 880
Personnel, general and administrative expenses	2	2 869	8 641	4 497	542	110	215	16 874
Depreciation and amortization	2	122	668	660	95	1	216	1 762
Total		2 991	9 309	5 157	637	111	431	18 636
Segment performance before tax		**3 165**	**1 279**	**756**	**403**	**381**	**260**	**6 244**
Tax expense								1 395
Group profit								**4 849**
Less: Minority interests								16
Net profit before restructuring costs								**4 833**

[1] Basically the same methodology as for the year 1998 Segment Reporting is applied. Due to the unavailability of certain pre-merger data and different organisational structures, the divisional breakdown of the financially booked net credit loss expenses are not available.

[2] The 1997 figures have been restated due to a refinement of the allocation methodology for depreciation.

The 1997 results do not take into account the merger provision and the merger impact to taxes. The net loss for the Group including these items was CHF (667) million.

Note 3 Segment Reporting by Geographical Location

The geographical analysis of total assets is based on customer domicile whereas operating income and capital investment is based on the location of the office in which the transactions and assets are recorded. Because of the global nature of financial markets the Group's business is managed on an integrated basis world-wide, with a view to profitability by product line. The geographical analysis of operating income, total assets, and capital investment is provided in order to comply with International Accounting Standards, and does not reflect the way the Group is managed. Management believes that analysis by business division, as shown in Note 2 to these financial statements, is a more meaningful representation.

For the nine-month period ended 30 September 1999

	Total operating income		**Total assets**		**Capital investment**	
	CHF m	**Share %**	**CHF m**	**Share %**	**CHF m**	**Share %**
Switzerland	**11 405**	**53**	**250 601**	**28**	**1 425**	**72**
Europe / Africa / Middle East	**5 897**	**27**	**286 076**	**32**	**371**	**19**
Americas	**3 047**	**14**	**239 464**	**26**	**124**	**6**
Asia / Pacific	**1 414**	**6**	**123 983**	**14**	**49**	**3**
Total	**21 763**	**100**	**900 124**	**100**	**1 969**	**100**

For the year ended 31 December 1998

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

Income Statement

Note 4 Net Interest Income

For the period ended *CHF million*	**30.9.1999**	31.12.1998	31.12.1997
Interest income			
Interest earned on loans and advances to banks	**4 687**	7 361	4 031
Interest earned on loans and advances to customers	**8 029**	14 111	17 565
Interest from finance leasing	**36**	60	90
Interest income from financial investments	**72**	293	460
Dividend income from financial investments	**32**	79	38
Other	**83**	931	1 485
Total	**12 939**	22 835	23 669
Interest expense			
Interest on amounts due to banks	**3 506**	7 879	7 247
Interest on amounts due to customers	**5 908**	9 890	10 074
Interest on medium and long term debt	**3 910**	5 045	4 468
Funding costs for trading positions	**(5 222)**	(6 641)	(5 056)
Total	**8 102**	16 173	16 733
Total	**4 837**	6 662	6 936

Note 5 Net Fee and Commission Income

For the period ended *CHF million*	**30.9.1999**	31.12.1998	31.12.1997
Credit-related fees and commissions			
Guarantee and letter of credit commissions	**144**	282	343
Other	**156**	277	450
Total	**300**	559	793
Security trading and investment activities fees			
Underwriting and corporate finance fees	**1 251**	1 694	1 645
Brokerage fees	**2 810**	3 670	4 145
Fiduciary fees	**243**	349	375
Custodian fees	**1 278**	1 386	1 188
Portfolio and other management and advisory fees	**2 101**	3 335	2 549
Investment fund fees	**1 405**	1 778	1 457
Other	**75**	110	233
Total	**9 163**	12 322	11 592
Commission income from other services	**575**	776	784
Total fee and commission income	**10 038**	13 657	13 169
Fee and commission expense			
Brokerage fees paid	**567**	704	694
Other	**221**	327	241
Total	**788**	1 031	935
Net fee and commission income	**9 250**	12 626	12 234

Note 6 Net Trading Income

For the period ended *CHF million*	**30.9.1999**	31.12.1998	31.12.1997
Foreign exchange and bank notes	**673**	1 765	2 306
Fixed income	**1 378**	(762)	1 843
Equities	**3 900**	719	1 098
Precious metals / commodities	**62**	28	244
Total	**6 013**	1 750	5 491

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

Note 7 Gains / (Losses) from Disposal of Associates and Subsidiaries

For the period ended *CHF million*	**30.9.1999**	31.12.1998	31.12.1997
Net income from disposal of consolidated subsidiaries	**3**	1 149	154
Net gains / (losses) from the disposal of investments in associates	**1 769**	(30)	44
Total	**1 772**	1 119	198

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

Note 8 Other Income

For the period ended *CHF million*	**30.9.1999**	31.12.1998	31.12.1997
Investments in financial assets (debt and equity)			
Net income from disposal of private equity investments	**293**	587	418
Net income from disposal of other financial assets	**90**	398	338
Net gains / (losses) from revaluation of financial assets	**(47)**	(556)	(16)
Total	**336**	429	740
Investments in property			
Net income from disposal of properties held for resale	**56**	33	20
Net gains / (losses) from revaluation of properties held for resale	**(19)**	(106)	(90)
Subtotal	**37**	(73)	(70)
Net income from other properties	**51**	328	99
Total	**88**	255	29
Net income from investments in associates	**116**	225	231
Other	**261**	213	299
Total	**801**	1 122	1 299

Note 9 Operating Expenses

For the period ended *CHF million*	**30.9.1999**	31.12.1998	31.12.1997
Personnel expenses			
Salaries and bonuses	**7 672**	7 203	8 932
Contractors	**609**	535	365
Insurance and social contributions	**562**	421	536
Contributions to retirement benefit plans	**337**	614	580
Employee share plans	**131**	201	143
Other personnel expenses	**612**	842	1 003
Total	**9 923**	9 816	11 559
General and administrative expenses			
Occupancy	**599**	822	830
Rent and maintenance of machines and equipment	**216**	390	460
Telecommunications and transportation	**548**	820	819
Administration	**476**	759	794
Marketing and public relations	**192**	262	306
Travel and entertainment	**379**	537	528
Professional fees, including IT outsourcing	**1 236**	1 792	1 464
Other	**78**	1 235	114
Total	**3 724**	6 617	5 315
Depreciation and amortization			
Property and equipment	**1 038**	1 483	1 623
Intangible assets and goodwill	**252**	342	139
Total	**1 290**	1 825	1 762
Total	**14 937**	18 258	18 636

Note 10 Earnings per Share

For the period ended	**30.9.1999**	31.12.1998	31.12.1997
Basic earnings / (loss) per share calculation			
Net profit / (loss) for the period (CHF million)	**5 179**	3 030	(667)
Weighted average shares outstanding:			
Registered ordinary shares	**430 434 800**	429 710 128	426 994 240
Less: Treasury shares	**13 786 746**	6 115 172	7 724 236
Weighted average shares for basic earnings per share	**416 648 054**	423 594 956	419 270 004
Basic earnings / (loss) per share (CHF)	**12.43**	7.15	(1.59)
Diluted earnings / (loss) per share calculation			
Net profit / (loss) for the period (CHF million)	**5 179**	3 030	(667)
Weighted average shares for basic earnings per share	**416 648 054**	423 594 956	419 270 004
Add: Potential dilutive ordinary shares resulting from outstanding options, warrants and convertible debt securities	**2 277 264**	2 286 824	576 290
Weighted average shares for diluted earnings per share	**418 925 318**	425 881 780	419 846 294
Diluted earnings / (loss) per share (CHF)	**12.36**	7.11	(1.59)

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

Balance Sheet: Assets
Note 11 Money Market Paper

CHF million	**30.9.1999**	31.12.1998
Government treasury notes and bills	**39 462**	9 568
Money market placements	**23 644**	8 262
Other bills and cheques	**500**	560
Total	**63 606**	18 390
thereof eligible for discount at central banks	***60 688***	*16 512*

Note 12a Due from Banks and Loans to Customers

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

CHF million	**30.9.1999**	31.12.1998
Banks	**36 412**	69 543
Allowance for credit losses	**(886)**	(1 048)
Total	**35 526**	68 495
Non-banks		
Mortgages	**130 373**	140 785
Other loans	**122 914**	120 636
Subtotal	**253 287**	261 421
Allowance for credit losses	**(13 152)**	(13 495)
Total	**240 135**	247 926
Total net of allowance for credit losses	**275 661**	316 421
thereof subordinated	*197*	*133*

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

CHF million	**30.9.1999**	31.12.1998
Switzerland	**182 370**	187 223
Europe / Africa / Middle East	**48 399**	56 043
Americas	**34 146**	44 556
Asia / Pacific	**24 784**	43 142
Subtotal	**289 699**	330 964
Allowance for credit losses	**(14 038)**	(14 543)
Total net of allowance for credit losses	**275 661**	316 421

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

CHF million	**30.9.1999**	31.12.1998
Secured by mortgages	**133 403**	145 247
Collateralized by securities	**9 234**	13 185
Guarantees and other collateral	**36 410**	27 953
Unsecured	**110 652**	144 579
Subtotal	**289 699**	330 964
Allowance for credit losses	**(14 038)**	(14 543)
Total net of allowance for credit losses	**275 661**	316 421

Note 12b Allowance and Provision for Credit Losses

The allowance and provision for credit losses developed as follows:

CHF million	**Specific allowances**	**Country risk provision**	**30.9.1999**	31.12.1998
Balance at beginning of year	**13 528**	**1 450**	**14 978**	16 213
Write-offs	**2 157**	**8**	**2 165**	2 324
Recoveries	**55**	**0**	**55**	59
Increase / (decrease) in credit loss allowance and provision	**993**	**(83)**	**910**	951
Net foreign exchange and adjustments [1]	**374**	**65**	**439**	79
Balance at end of the period	**12 793**	**1 424**	**14 217**	14 978

[1] Includes allowance for doubtful interest of CHF 323 million at 30.9.1999 and CHF 423 million at 31.12.1998.

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

CHF million	**30.9.1999**	31.12.1998
As a reduction of due from banks	**886**	1 048
As a reduction of loans to customers	**13 152**	13 495
Subtotal	**14 038**	14 543
Included in other liabilities related to commitments and contingent liabilities	**179**	435
Total allowances and provisions for credit losses	**14 217**	14 978

Note 12c Non Performing Loans

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

CHF million	**30.9.1999**	31.12.1998
Non-performing loans at beginning of year	**16 114**	16 664
Net additions	**321**	2 258
Write-offs and disposals	**2 841**	2 808
Non-performing loans at end of period	**13 594**	**16 114**

The non-performing loans by type of exposure at the end of the reporting period, were as follows:

CHF million	**30.9.1999**	31.12.1998
Banks	**493**	477
Non-banks		
Mortgages	**8 000**	9 280
Other	**5 101**	6 357
Subtotal	**13 101**	15 637
Total non-performing loans	**13 594**	16 114

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

CHF million	**30.9.1999**	31.12.1998
Switzerland	**11 928**	14 023
Europe	**239**	405
Americas	**585**	1 156
Asia / Pacific	**572**	281
Africa / Middle East	**270**	249
Total non-performing loans	**13 594**	**16 114**

When principal and interest are overdue by 90 days, loans are classified as non-performing, the recognition of interest income ceases and a charge is recognised against income for the unpaid interest receivable. Allowances are provided for non-perfoming loans to reflect their net estimated recoverable amount. Unrecognised interest related to such loans totaled CHF 323 million for the period ended 30.09.1999 and CHF 423 million for the year ended 31.12.1998.

Note 13 Cash Collateral on Securities Borrowed and Lent

CHF million	**30.9.1999 Securities borrowed**	**30.9.1999 Securities lent**	31.12.1998 Securities borrowed	31.12.1998 Securities lent
Cash collateral by counterparties				
Banks	**74 465**	**6 888**	68 186	5 337
Customers	**14 183**	**6 141**	23 509	13 834
Total	**88 648**	**13 029**	91 695	19 171

Note 14 Repurchase and Reverse Repurchase Agreements

CHF million	**30.9.1999 Reverse Repurchase Agreements**	**30.9.1999 Repurchase Agreements**	31.12.1998 Reverse Repurchase Agreements	31.12.1998 Repurchase Agreements
Agreements split by counterparties				
Banks	**114 296**	**91 292**	107 565	77 942
Customers	**33 214**	**56 240**	33 720	59 675
Total	**147 510**	**147 532**	141 285	137 617

Note 15 Trading Portfolio

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

CHF million	**30.9.1999**	12/31/98
Trading Portfolio Assets		
Debt instruments		
Swiss government and government agencies	**371**	13 448
US Treasury and government agency	**11 607**	9 969
Other government	**41 874**	62 639
Corporate listed instruments (excluding own bonds)	**28 015**	7 911
Own bonds	**2 075**	608
Other unlisted instruments	**3 038**	8 100
Total	**86 980**	102 675
Equity instruments		
Listed instruments (excluding own shares)	**65 823**	49 848
Own shares	**3 849**	3 409
Unlisted instruments	**1 508**	841
Total	**71 180**	54 098
Precious metals	**3 899**	5 815
Total	**162 059**	162 588
Trading Portfolio Liabilities		
Debt instruments		
Swiss government and government agencies	**0**	96
US Treasury and government agency	**12 906**	4 455
Other government	**14 426**	34 979
Corporate listed instruments	**7 647**	3 060
Own bonds	**122**	94
Total	**35 101**	42 684
Equity instruments		
Listed instruments	**8 025**	4 349
Total	**43 126**	47 033

The Group trades debt, equity, precious metals, foreign currency and derivatives to meet the financial needs of its customers and to generate revenue through its trading activities. Note 27 provides a description of the various classes of derivatives together with the related volumes used in the Group's trading activities, whereas Notes 13 and 14 provide further details about cash collateral on securities borrowed and lent and repurchase and reverse repurchase agreements.

Note 16 Financial Investments

CHF million	**30.9.1999**	31.12.1998
Debt instruments		
Listed	**1 381**	1 880
Unlisted	**231**	547
Total	**1 612**	2 427
Equity investments		
Listed	**290**	400
Unlisted	**749**	1 048
Total	**1 039**	1 448
Private equity investments	**2 376**	1 759
Properties held for resale	**1 256**	1 280
Total	**6 283**	6 914

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

	30.9.1999		31.12.1998	
CHF million	**Book value**	**Fair value**	Book value	Fair value
Valued in accordance with the accrual method				
Debt instruments	**547**	**556**	1 530	1 551
Debt instruments	**1 065**	**1 098**	897	907
Equity instruments	**1 039**	**1 136**	1 448	1 552
Properties held for resale	**1 256**	**1 275**	1 280	1 369
Total	**3 360**	**3 509**	3 625	3 828
Valued at cost less value adjustments for other than temporary impairments				
Private equity investments	**2 376**	**3 455**	1 759	2 574
Total	**6 283**	**7 520**	6 914	7 953

Note 17 Investments in Associates

CHF million	Carrying amount as of 31.12.1998	**Equity share of profits**	**Write-offs**	**Additions**	**Disposals**	**Carrying amount as of 30.9.1999**
Total	2 805	**116**	**1**	**39**	**1 877**	**1 082**

The figure of CHF 1877 million for disposals in the nine-month period ended 30 September 1999 primarily consists of the sale of Swiss Life/Rentenanstalt.

Note 18 Property and Equipment

CHF million	Historical cost	Accumulated depreciation as of 31.12.1998	Carrying amount as of 31.12.1998	**Additions**	**Disposals**	**Depreciation, write-offs**	**Carrying amount as of 30.9.1999**	**Accumulated depreciation as of 30.9.1999**
Bank premises	10 668	4 096	6 572	**349**	**105**	**195**	**6 621**	**4 077**
Other properties	1 802	656	1 146	**552**	**117**	**30**	**1 551**	**476**
Equipment and	6 035	3 867	2 168	**1 068**	**147**	**1 168**	**1 921**	**3 975**
Total	18 505	8 619	9 886	**1 969**	**369**	**1 393**	**10 093**	**8 528**
Of which charged to restructuring provision						*355*		

Note 19 Intangible Assets and Goodwill

CHF million	Historical cost	Accumulated amortization at the end of 31.12.1998	Carrying amount at end of 31.12.1998	**Additions**	**Amortization, write-offs**	**Carrying amount at the end of 30.9.1999**	**Accumulated amortization at end of 30.9.1999**
Intangible assets	553	301	252	**51**	**31**	**272**	**332**
Goodwill	3 464	1 506	1 958	**218**	**221**	**1 955**	**1 727**
Total	4 017	1 807	2 210	**269**	**252**	**2 227**	**2 059**

Note 20 Other Assets

CHF million	**30.9.1999**	31.12.1998
Deferred tax assets	**835**	1 205
Settlement and clearing accounts	**4 420**	5 543
VAT and other tax receivables	**735**	839
Other	**5 791**	4 505
Total	**11 781**	12 092

Additional tax information is provided in note 25

Balance Sheet: Liabilities
Note 21 Due to Banks and Customers

CHF million	**30.9.1999**	31.12.1998
Due to banks	**81 624**	85 716
Due to customers in savings and investment accounts	**80 604**	79 723
Amounts due to customers on demand and time	**195 360**	195 127
Total due to customers	**275 964**	274 850
Total	**357 588**	360 566

Note 22 Long-Term Debt

	UBS AG (parent)		**Subsidiaries**			
CHF million	**Fixed rate**	**Floating rate**	**Fixed rate**	**Floating rate**	**Total 30.9.1999**	Total 31.12.1998
Contractual maturity date						
1999	**3 436**	**298**	**796**	**0**	**4 530**	8 208
2000	**8 982**	**1 452**	**699**	**178**	**11 311**	7 803
2001	**7 527**	**447**	**1 443**	**133**	**9 550**	8 368
2002	**4 977**	**538**	**1 341**	**398**	**7 254**	6 534
2003	**3 003**	**409**	**740**	**443**	**4 595**	3 772
2004 - 2008	**10 463**	**681**	**543**	**2 652**	**14 339**	12 562
Thereafter	**3 354**	**104**	**114**	**373**	**3 945**	3 536
Total	**41 742**	**3 929**	**5 676**	**4 177**	**55 524**	50 783

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

Subordinated debt securities are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group. At 30 September 1999 and 31 December 1998, the Group had CHF 12,503 million and CHF 12,071 million, respectively, in subordinated debt excluding convertible and exchangeable debt and notes with warrants which have been included in the following paragraph. Subordinated debt pays interest annually and provides for single principal payments upon maturity. At 30 September 1999 and 31 December 1998, the Group had CHF 40,921 million and CHF 36,379 million, respectively, in unsubordinated debt.

The Group issues convertible obligations that can be exchanged for common stock of UBS AG and notes with warrants attached on UBS AG shares. Furthermore, the Group issues notes exchangeable into common stock or preferred stock of other companies, or repaid based on the performance of an index or group of securities. At 30 September 1999 and 31 December 1998, the Group had CHF 2,100 million and CHF 2,333 million, respectively, in convertible and exchangeable debt and notes with warrants attached outstanding.

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

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

Note 23 Other Liabilities

CHF million	**30.9.1999**	31.12.1998
Provision, including restructuring provision	**6 494**	7 094
Provision for commitments and contingent liabilities	**179**	435
Current tax liabilities	**1 838**	1 016
Deferred tax liabilities	**879**	1 012
VAT and other tax payables	**600**	869
Settlement and clearing accounts	**7 566**	9 502
Other	**5 497**	7 794
Total	**23 053**	27 722

Note 24 Provisions, including Restructuring Provision

Business risk provision

CHF million	**30.9.1999**	31.12.1998
Balance brought forward at 1 January	**4 121**	1 142
New provisions charged to income	**570**	3 133
Provisions applied	**(219)**	(484)
Recoveries and adjustments	**452**	330
Balance at the end of the period	**4 924**	4 121

Restructuring provision

Balance brought forward at 1 January	**2 973**	7 000
Provisions applied [1]		
Personnel	**(315)**	(2 024)
IT	**(561)**	(797)
Premises	**(415)**	(267)
Other	**(112)**	(939)
Total utilised during the period	**1 403**	4 027
Balance at the end of the period	**1 570**	2 973
Total Provisions	**6 494**	7 094

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

Provision for restructuring costs At the time of the merger, it was announced that the merged bank's operations in various locations would be combined, resulting in vacant properties, reductions in personnel, elimination of redundancies in the information technology platforms, exit costs and other costs. As a result, the individual banks estimated that the cost of the post-merger restructuring would be approximately CHF 7 billion, to be expended over a period of four years. By the end of September 1999, the Group had utilised CHF 5.4 billion of the provision.

Note 25 Income Taxes

For the period ended

CHF million	**30.9.1999**	31.12.1998	31.12.1997
Federal and Cantonal			
Current payable	**952**	354	511
Deferred	**377**	463	(191)
Foreign			
Current payable	**381**	200	419
Deferred	**(98)**	28	(844)
Total income tax expense (benefit)	**1 612**	1 045	(105)

The Group made net tax payments, including domestic federal, cantonal and foreign taxes, of CHF 722 million and CHF 733 million in the first three quarters of 1999 and for the full year ended 31 December 1998, respectively.

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

CHF million	**30.9.1999**	31.12.1998	31.12.1997
Operating profit / (loss) before tax	**6 826**	4 070	(756)
Domestic	**5 680**	10 486	1 202
Foreign	**1 146**	(6 416)	(1 958)
Income taxes at statutory rate	**1 706**	1 018	(189)
Increase / (decrease) resulting from:			
Applicable tax rates differing from statutory rate	**35**	86	(3)
Tax losses not recognized	**52**	1 436	310
Previously unrecorded tax losses now recognized	**(103)**	(142)	(201)
Non-taxable income	**(209)**	(1 849)	(333)
Non-deductible expenses	**83**	172	171
Adjustments related to prior years	**(62)**	7	(27)
Capital taxes	**69**	93	96
Change in deferred tax valuation allowance	**41**	224	71
Income tax expense (benefit)	**1 612**	1 045	(105)

As of 30 September 1999 the Group had accumulated unremitted earnings from foreign subsidiaries on which deferred taxes had not been provided as the undistributed earnings of these foreign subsidiaries are indefinitely reinvested. In the event these earnings were distributed it is estimated that Swiss taxes of approximately CHF 35 million would be due.

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

CHF million	**30.9.1999**	31.12.1998	31.12.1997
Deferred tax assets			
Compensation and benefits	**114**	114	106
Restructuring provision	**365**	718	1 100
Allowance for credit losses	**242**	370	573
Net operating loss carryforwards	**1 422**	1 610	672
Others	**181**	170	270
Total	**2 324**	2 982	2 721
Valuation allowance	**(1 489)**	(1 777)	(647)
Net deferred income tax asset	**835**	1 205	2 074
Deferred tax liabilities			
Property and equipment	**455**	484	602
Investments in associates	**196**	299	287
Other provisions	**165**	109	501
Unrealized gains on investment securities	**31**	103	69
Others	**32**	17	36
Total	**879**	1 012	1 495

The change in the balance of the net deferred tax asset (liability) at 30 September 1999, 31 December 1998 and 31 December 1997 does not equal the deferred tax expense (benefit) in those years. This is due to the effect of foreign currency rate changes on tax assets and liabilities denominated in currencies other than CHF.

Certain foreign branches and subsidiaries of the Group have deferred tax assets related to net operating loss carryforwards and other items. Because recognition of these assets is uncertain, the Group has established valuation allowances of CHF 1,489 million, CHF 1,777 million and CHF 647 million at 30 September 1999 and 31 December 1998 and 1997, respectively.

Net operating loss carryforwards totaling CHF 7,391 million at 30 September 1999 are available to reduce future taxable income of certain branches and subsidiaries.

The carryfowards expire as follows:	**30.9.1999**
Following year	**0**
Next 3 years	**93**
After 4 years	**7 298**
Total	**7 391**

Balance Sheet: Equities

Note 26 Minority Interests

CHF million	Note	**30.9.1999**	31.12.1998
Minority interests in profit / (loss)		**35**	(5)
Preferred stock	1	**0**	689
Minority interests in equity		**335**	306
Total minority interests		**370**	990

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

OFF BALANCE SHEET AND OTHER INFORMATION

Note 27 Derivative Instruments

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

Derivatives held or issued for non-trading purposes
The Group also uses derivatives as part of its asset / liability management activities.
When the Group purchases assets and issues liabilities at fixed interest rates it subjects itself to fair value fluctuations as market interest rates change. These fluctuations in fair value are managed by entering into interest rate contracts, mainly interest rate swaps which change the fixed rate characteristics of the instrument into variable rate characteristics.
When the Group purchases foreign currency denominated assets, issues foreign currency denominated debt or has foreign net investments, it subjects itself to changes in value as exchange rates move. These fluctuations are managed by entering into currency swaps and forwards.

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

Swaps
Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. Interest rate swap contracts generally represent the contractual exchange of fixed and floating rate payments of a single currency, based on a notional amount and an interest reference rate.

Cross currency interest rate swaps generally involve the exchange of payments which are based on the interest reference rates available at the inception of the contract on two different currency principal balances that are exchanged. The principal balances are re-exchanged at an agreed upon rate at a specified future date. Interest rate swaps subject the Group to market risks associated with changes in interest rates and possibly foreign exchange rates. Exposure to the credit risk associated with counterparty default also exists.

Forwards and futures
Forwards and futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized contracts that are transacted on regulated exchanges. Varying levels of credit risk and market risk exist with respect to these instruments. For futures contracts closed prior to settlement, the cash receipt or payment is limited to the change in value of the underlying instrument. Futures contracts allow for daily cash settlement therefore, the credit risk is generally limited to one day's variation margin. Forward contracts are settled at maturity by the exchange of notional amounts specified under the contracts. Forwards generally have a greater degree of credit risk since daily cash settlements are not required.

Options
Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) by or at a set date, a specified amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right. For options purchased, the Group is subject to credit and market risk to the extent of the carrying value of the options. For options sold, the Group is subject to market risk in excess of the carrying values but is not subject to credit risk, except that for put options sold, credit risk may arise from the underlying instrument that the Group may be obligated to buy.

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

Some derivatives are standardized in terms of their nominal amounts and settlement dates, and these are designed to be bought and sold in active markets (exchange traded). Others are packaged specifically for individual customers and are not exchange traded although they may be bought and sold between counterparties at negotiated prices (over-the-counter or OTC instruments).Positive replacement value represents the cost to the Group of replacing all transactions with a receivable amount if all the Group's counterparties were to default. This measure is the industry standard for the calculation of current credit exposure. Positive replacement values represent current credit risk without giving effect to any possible reductions due to master netting agreements, collateral, or other security. Negative replacement value is the cost to the Group's counterparties of replacing all the Group's transactions with a commitment if the Group were to default. The total positive and negative replacement values are included in the balance sheet separately.

For the period ended 30.9.1999

		Term to maturity										Total notional amount in CHF bn
		Within 3 months		3 -12 months		1 -5 years		over 5 years				
CHF million	Note	PRV	NRV	PRV	NRV	PRV	NRV	PRV	NRV	**Total PRV[1]**	**Total NRV[2]**	
Interest rate contracts												
Over the counter (OTC) contracts												
Forward contracts		429	264	36	25	6	4	0	0	**471**	**293**	783.6
Swaps		2 256	2 321	8 159	7 184	24 872	25 435	29 981	33 729	**65 268**	**68 669**	1 931.7
Options		59	33	76	67	1 028	476	1 655	3 568	**2 818**	**4 144**	1 073.4
Exchange-traded contracts	3											
Futures		0	0	0	0	13	0	0	0	**13**	**0**	290.5
Options		0	0	0	0	0	0	0	0	**0**	**0**	64.9
Total		**2 744**	**2 618**	**8 271**	**7 276**	**25 919**	**25 915**	**31 636**	**37 297**	**68 570**	**73 106**	**4 144.1**
Foreign exchange contracts												
Over the counter (OTC) contracts												
Forward contracts		11 010	18 236	1 610	1 370	223	408	15	0	**12 858**	**20 014**	1 446.9
Interest and currency swaps		749	547	1 410	1 350	7 429	6 046	2 301	1 533	**11 889**	**9 476**	180.2
Options		5 575	7 034	3 134	3 214	772	699	13	4	**9 494**	**10 951**	1 050.5
Exchange-traded contracts	3											
Futures		0	1	0	0	0	0	0	0	**0**	**1**	5.0
Options		82	39	86	92	135	107	21	12	**324**	**250**	3.2
Total		**17 416**	**25 857**	**6 240**	**6 026**	**8 559**	**7 260**	**2 350**	**1 549**	**34 565**	**40 692**	**2 685.8**
Precious metals contracts												
Over the counter (OTC) contracts												
Forward contracts		1 298	1 170	105	78	113	42	0	0	**1 516**	**1 290**	36.7
Options		2 859	2 439	75	135	61	83	51	1	**3 046**	**2 658**	127.2
Exchange-traded contracts	3											
Futures		0	0	0	0	0	0	0	0	**0**	**0**	2.5
Options		3	0	0	48	0	3	0	0	**3**	**51**	5.2
Total		**4 160**	**3 609**	**180**	**261**	**174**	**128**	**51**	**1**	**4 565**	**3 999**	**171.6**
Equity / Index contracts												
Over the counter (OTC) contracts												
Forward contracts		224	658	488	1 091	366	1 578	1 246	1 410	**2 324**	**4 737**	410.6
Options		1 594	1 395	1 566	3 659	6 729	16 590	438	2 088	**10 327**	**23 732**	459.6
Exchange-traded contracts	3											
Futures		40	60	3	24	0	0	0	0	**43**	**84**	19.8
Options		679	71	413	557	60	67	0	1	**1 152**	**696**	68.2
Total		**2 537**	**2 184**	**2 470**	**5 331**	**7 155**	**18 235**	**1 684**	**3 499**	**13 846**	**29 249**	**958.3**
Commodity contracts												
Over the counter (OTC) contracts												
Forward contracts		40	33	0	0	0	0	0	0	**40**	**33**	0.1
Options		33	33	0	0	0	0	0	0	**33**	**33**	0.0
Total		**73**	**66**	**0**	**0**	**0**	**0**	**0**	**0**	**73**	**66**	**0.1**
Total 30 September 1999		**26 930**	**34 334**	**17 161**	**18 894**	**41 807**	**51 538**	**35 721**	**42 346**	**121 619**	**147 112**	**--**

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

For the year ended 31.12.1998

CHF million	Note	Term to maturity: Within 3 months PRV	Within 3 months NRV	3 -12 months PRV	3 -12 months NRV	1 -5 years PRV	1 -5 years NRV	over 5 years PRV	over 5 years NRV	**Total PRV**[1]	**Total NRV**[2]	Total notional amount in CHF bn
Interest rate contracts												
Over the counter (OTC)												
Forward contracts		783	932	309	271	45	29	42	23	**1 179**	**1 255**	217.7
Swaps		3 488	4 502	6 657	6 024	36 464	35 799	38 056	34 758	**84 665**	**81 084**	3 722.5
Options		233	327	465	615	2 947	4 476	3 207	4 427	**6 852**	**9 845**	2 519.2
Exchange-traded contracts	3											
Futures		12	7	0	1	2	0	0	0	**14**	**7**	732.3
Options		0	0	0	0	0	0	0	0	**0**	**0**	77.8
Total		**4 517**	**5 768**	**7 430**	**6 911**	**39 458**	**40 304**	**41 305**	**39 208**	**92 710**	**92 191**	**7 269.5**
Foreign exchange contracts												
Over the counter (OTC)												
Forward contracts		3 439	498	6 493	9 455	278	261	164	237	**10 375**	**10 451**	888.4
Interest and currency swaps		2 456	3 009	1 718	2 683	4 626	5 202	4 974	5 097	**13 775**	**15 991**	235.4
Options		4 718	17 168	10 123	218	1 945	619	604	604	**17 390**	**18 610**	921.9
Exchange-traded contracts	3											
Futures		0	0	0	0	0	0	0	0	**0**	**0**	2.5
Options		156	120	193	0	0	5	0	0	**348**	**124**	5.2
Total		**10 770**	**20 794**	**18 528**	**12 356**	**6 849**	**6 087**	**5 742**	**5 938**	**41 889**	**45 175**	**2 053.4**
Precious metals contracts												
Over the counter (OTC)												
Forward contracts		4 539	4 633	216	295	75	60	10	0	**4 840**	**4 988**	47.7
Options		2 840	2 915	24	6	41	0	0	0	**2 905**	**2 921**	56.2
Exchange-traded contracts	3											
Futures		0	0	0	0	0	0	0	0	**0**	**0**	1.2
Options		4	0	15	0	2	0	0	0	**21**	**0**	5.0
Total		**7 383**	**7 548**	**254**	**301**	**119**	**60**	**10**	**0**	**7 766**	**7 909**	**110.2**
Equity / Index contracts												
Over the counter (OTC)												
Forward contracts		279	383	325	608	791	2 421	159	446	**1 554**	**3 858**	57.3
Options		8 220	15 347	4 619	8 480	8 700	25 726	1 687	4 598	**23 227**	**54 151**	939.6
Exchange-traded contracts	3											
Futures		3	15	0	0	0	0	0	0	**3**	**15**	17.7
Options		320	242	703	392	754	305	75	9	**1 851**	**948**	62.0
Total		**8 822**	**15 988**	**5 647**	**9 480**	**10 245**	**28 452**	**1 921**	**5 053**	**26 635**	**58 972**	**1 076.6**
Commodity contracts												
Over the counter (OTC)												
Forward contracts		114	52	244	214	325	359	65	66	**749**	**691**	8.9
Options		8	0	62	70	24	0	5	0	**99**	**70**	3.0
Exchange-traded contracts	3											
Futures		0	0	85	65	0	0	0	0	**85**	**65**	2.2
Options		0	0	0	7	2	0	0	0	**2**	**7**	0.9
Total		**122**	**52**	**391**	**355**	**352**	**359**	**70**	**66**	**936**	**832**	**14.9**
Total 1998		**31 614**	**50 150**	**32 251**	**29 404**	**57 023**	**75 261**	**49 048**	**50 265**	**169 936**	**205 080**	**--**

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

Note 28 Pledged Assets

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

CHF million	Note	**30.9.1999** Carrying amount	**30.9.1999** Related liability	31.12.1998 Carrying amount	31.12.1998 Related liability
Money market paper		**24 183**	**5**	6 981	5
Mortgage loans		**2 460**	**1 777**	2 955	2 047
Securities	1	**23 582**	**700**	13 902	5 636
Property and equipment		**147**	**67**	147	71
Other		**2 650**	**0**	0	0
Total		**53 022**	**2 549**	23 985	7 759

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

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

Note 29 Fiduciary Transactions

CHF million	**30.9.1999**	31.12.1998
Placements with third parties	**59 976**	60 612
Fiduciary credits and other fiduciary financial transactions	**497**	652
Total	**60 473**	61 264

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

Note 30 Commitments and Contingent Liabilities

CHF million	Note	**30.9.1999**	31.12.1998
Contingent liabilities			
Credit guarantees and similar instruments	1	**19 822**	22 697
Less: sub-participations		**3 255**	5 217
Total		**16 567**	17 480
Performance guarantees and similar instruments	2	**7 150**	12 092
Less: sub-participations		**277**	216
Total		**6 873**	11 876
Irrevocable commitments under documentary credits		**2 469**	2 942
Less: sub-participations		**0**	39
Total		**2 469**	2 903
Total contingent liabilities		**29 441**	37 731
Less: sub-participations		**3 532**	5 472
Total		**25 909**	32 259
Irrevocable commitments			
Undrawn irrevocable credit facilities		**62 469**	82 337
Less: sub-participations		**2 381**	26
Total		**60 088**	82 311
Liabilities for calls on shares and other equities		**64**	109
Total irrevocable commitments		**62 533**	82 446
Less: sub-participations		**2 381**	26
Total		**60 152**	82 420
Total Commitments and Contingent Liabilities		**91 974**	120 177
Less: sub-participations		**5 913**	5 498
Total		**86 061**	114 679

[1]Credit guarantees in the form of bill of exchange and other guarantees, including guarantees in the form of irrevocable letters of credit, endorsement liabilities from bills rediscounted, advance payment guarantees and similar facilites.

[2] Bid bonds, performance bonds, builders' guarantees, letters of indemnity, other performance guarantees in the form of irrevocable letters of credit and similar facilities.

CHF million	Mortgage collateral	Other collateral	Unsecured	**Total**
Overview of collateral				
Contingent liabilities	218	11 116	18 107	**29 441**
Irrevocable committments	82	9 769	52 618	**62 469**
Liabilities for calls on shares and other equities	0	0	64	**64**
Total 30.9.1999	**300**	**20 885**	**70 789**	**91 974**
Total 31.12.1998	389	33 363	86 425	120 177

Commitments and Contingencies represent potential future liabilities of the Group resulting from credit facilities available to clients, but not yet drawn upon by them. They are subject to expiration at fixed dates. The Group engages in providing open credit facilities to allow clients quick access to funds required to meet their short term obligations as well as their long term financing needs. The credit facilities can take the form of guarantees, whereby the Group might guarantee repayment of a loan taken out by a client with a third party; standby letters of credit, which are credit enhancement facilities enabling the client to engage in trade finance at lower cost; documentary letters of credit, which are trade finance-related payments made on behalf of a client; commitments to enter into repurchase agreements, which are described under short term financing; note issuance facilities and revolving underwriting facilities, which allow clients to issue money market paper or medium term notes when needed without engaging in the normal underwriting process each time.

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

Note 31 Operating Lease Commitments

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

CHF million	**30.9.1999**
Operating leases due:	
1999	**61**
2000	**220**
2001	**142**
2002	**136**
2003	**137**
2004	**119**
Thereafter	**1511**
Total commitments for minimum payments under operating leases	**2 326**

Operating expenses include CHF 502 million and CHF 797 million in respect of operating lease rentals for the nine-month period ended 30.09.1999 and for the year ended 31.12.1998 respectively.

Note 32 Litigation

In the United States, several class actions, in relation to what is known as the Holocaust affair, have been brought against 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. To the extent that other Swiss companies agreed to participate in this fund, and to the extent of applicable payments to beneficiaries of eligible dormant accounts, our share was to be reduced. Based on our estimate of such expected contributions, we provided a reserve of $610 million (CHF 842 million) in 1998. 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 the first half of 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 additional provision.

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

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

OTHER INFORMATION
Note 33 Financial Instruments Risk Position

Overall Risk Position

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

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

a) Interest Rate Risk

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

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

The tables below set out the extent to which the Group was exposed to interest rate risk at 30 September 1999 and 31 December 1998. The tables show the potential impact of a one basis point (0.01%) increase in market interest rates which would influence the fair values of both assets and liabilities that are subject to fixed interest rates. The impact of such an increase in rates depends on the net asset or net liability position of the Group in each category, currency and time band in the table. A negative amount in the table reflects a potential loss to the Group due to the changes in fair values as a result of an increase in interest rates. A positive amount reflects a potential gain as a result of an increase in interest rates. Both primary and derivative instruments in trading and non-trading activities, as well as off-balance-sheet commitments are included in the table.

Interest rate sensitivity position

		Interest sensitivity by time bands as at 30.09.1999					
CHF thousand per basis point		**within 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**over 5 years**	**Total**
CHF	**Trading**	**169**	**(156)**	**(1 185)**	**559**	**(48)**	**(661)**
	Non-trading	**(20)**	**(4)**	**(487)**	**(6 438)**	**(1 061)**	**(8 010)**
USD	**Trading**	**(230)**	**(132)**	**390**	**(23)**	**(268)**	**(263)**
	Non-trading	**0**	**3**	**(50)**	**89**	**1 185**	**1 227**
Euro	**Trading**	**95**	**(426)**	**(248)**	**821**	**(884)**	**(642)**
	Non-trading	**2**	**(6)**	**0**	**80**	**226**	**302**
GBP	**Trading**	**(6)**	**147**	**(170)**	**(147)**	**(255)**	**(431)**
	Non-trading	**0**	**(17)**	**15**	**69**	**769**	**836**
JPY	**Trading**	**107**	**(1 264)**	**2 112**	**(1 057)**	**(338)**	**(440)**
	Non-trading	**3**	**0**	**0**	**(1)**	**(3)**	**(1)**
Others	**Trading**	**7**	**(38)**	**72**	**(214)**	**28**	**(145)**
	Non-trading	**0**	**0**	**0**	**0**	**0**	**0**

		Interest sensitivity by time bands as at 31.12.1998					
CHF thousand per basis point		within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
CHF	Trading	189	(672)	450	(322)	(464)	(819)
	Non-trading	(23)	6	(350)	(7 522)	(546)	(8 435)
USD	Trading	(28)	93	8	(575)	1 254	752
	Non-trading	1	(21)	7	72	1 502	1 561
Euro	Trading	(34)	(22)	(158)	(559)	339	(434)
	Non-trading	0	(8)	0	48	256	296
GBP	Trading	10	(214)	560	(919)	491	(72)
	Non-trading	0	2	(18)	130	876	990
JPY	Trading	(32)	(698)	(402)	1 002	263	133
	Non-trading	0	3	(5)	6	146	150
Others	Trading	11	(98)	47	(158)	(152)	(350)
	Non-trading	0	0	0	0	0	0

Trading

The major part of the trading related interest rate risk is generated in fixed income securities trading, fixed income derivatives trading, trading in currency forward contracts and money market trading and is being managed within the Value at Risk model. Interest rate sensitivity arising from trading activities is quite sizeable in US$ and Euro as these are still the predominantly traded currencies in the global interest rate markets. It should be noted that it is management's view that an interest sensitivity analysis at a particular point in time has limited relevance with respect to trading positions, which can vary significantly on a daily basis.

Non-trading

The interest rate risk related to client business with undefined maturities and non-interest bearing business including the strategic management of overall balance sheet interest rate exposure is managed by the Corporate Center. Significant contributors to the overall US$ and GBP interest rate sensitivity were strategic long-term subordinated notes issues which are intentionally unswapped since they are regarded as constituting a part of the Group's equity for asset and liability management purposes. At 30 September 1999, the Group's equity was invested in a portfolio of fixed rate CHF deposits with an average duration of 2.0 years. As this equity investment is the most significant component of the CHF book, this results in the entire book having an interest rate sensitivity of CHF (8.0) million, which is reflected in the table above. This is in line with the duration and sensitivity targets set by the Group Executive Board. Investing in shorter-term or variable rate instruments would mean exposing the earnings stream (interest income) to higher fluctuations.

(b) Credit Risk

Credit risk is the risk of loss from the default by an obligor or counterparty. This risk is managed primarily based on reviews of the financial status of each specific counterparty. Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location.

(b)(i) On-balance sheet assets

As of 30 September 1999, due from banks and loans to customers amounted to CHF 290 billion (as of 31 December 1998 CHF 331 billion). 63.6% (56.6%) of these are with clients domiciled in Switzerland. Please refer to note 12 for a breakdown by region.

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

Credit commitments and contingent liabilities

Of the CHF 92 billion in credit commitment and contingent liabilities as of 30 September 1999 (as of 31 December 1998 CHF 120 billion), 6% (11 %) relate to clients domiciled in Switzerland, 37% (21%) in Europe (excluding Switzerland) and 44% (55%) in North America.

Derivatives

Credit risk represents the current replacement value of all outstanding derivative contracts in a gain position without factoring in the impact of master netting agreements or the value of any collateral. Positive replacement values amounted to CHF 122 billion as at 30 September 1999 (CHF 169 billion as at 31 December 1998), before applying any master netting agreements. Based on the location of the ultimate counterparty, 3% (8%) of this credit risk amount relates to Switzerland, 50% (47%) to Europe (excluding Switzerland) and 37% (33%) to North America. 72% (76%) of the positive replacement values are with other banks.

(b)(iii) Credit risk mitigation techniques

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

Master netting agreements eliminate risk to the extent that liabilities to the same counterparty are due to be settled after the corresponding assets are realized. The impact of master netting agreements as at 30 September 1999 is to mitigate credit risk on derivative instruments by approximately CHF 70 billion (as of 31 December 1998 CHF 68 billion). The impact can change substantially over short periods of time, because the exposure is affected by each transaction subject to the arrangement.

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

Note 33 Financial Instruments Risk Position (Continued)
(c) Currency Risk

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

Breakdown of assets and liabilities by currencies

	30.9.1999			31.12.1998		
CHF billion	**CHF**	**USD**	**Other**	CHF	USD	Other
Assets						
Cash and balances with central banks	**1.8**	**0.2**	**0.7**	2.4	0.3	0.6
Money market paper	**0.8**	**28.2**	**34.6**	2.2	10.3	5.9
Due from banks	**5.4**	**9.0**	**21.1**	12.7	13.3	42.5
Cash collateral on securities borrowed	**0.1**	**80.7**	**7.9**	0.2	74.5	17.0
Reverse repurchase agreements	**1.0**	**36.4**	**110.1**	0.2	38.3	102.8
Trading portfolio	**29.4**	**39.6**	**93.1**	24.8	40.0	97.8
Positive replacement values	**13.2**	**13.4**	**95.0**	17.8	20.9	131.2
Loans, net of allowance for credit losses	**169.6**	**35.3**	**35.2**	173.5	40.0	34.4
Financial investments	**2.3**	**2.5**	**1.5**	2.6	2.5	1.8
Accrued income and prepaid expenses	**2.2**	**1.7**	**2.9**	1.2	1.8	3.6
Investments in associates	**0.9**	**0.1**	**0.1**	2.6	0.0	0.2
Property and equipment	**8.7**	**0.6**	**0.8**	8.5	0.6	0.8
Intangible assets and goodwill	**0.4**	**1.8**	**0.0**	0.3	1.7	0.2
Other assets	**4.5**	**1.7**	**5.6**	4.9	3.1	4.1
Total assets	**240.3**	**251.2**	**408.6**	253.9	247.3	442.9
Liabilities						
Money market paper issued	**1.4**	**57.5**	**8.5**	1.0	38.5	12.0
Due to banks	**9.0**	**46.5**	**26.1**	25.4	33.6	26.7
Cash collateral on securities lent	**0.1**	**4.5**	**8.4**	0.1	5.9	13.2
Repurchase agreements	**11.4**	**72.2**	**63.9**	10.7	74.3	52.6
Trading portfolio liabilities	**0.0**	**28.9**	**14.2**	0.2	8.1	38.7
Negative replacement values	**19.9**	**13.0**	**114.2**	27.3	19.8	158.0
Due to customers	**132.3**	**89.1**	**54.6**	138.0	80.2	56.7
Accrued expenses and deferred income	**4.7**	**3.7**	**3.7**	3.3	2.6	5.3
Long-term debt	**24.7**	**15.6**	**15.2**	23.4	16.9	10.5
Other liabilites	**9.4**	**4.7**	**9.0**	14.6	6.1	7.0
Minority interests	**0.3**	**0.0**	**0.1**	1.0	0.0	0.0
Shareholders' equity	**33.3**	**0.0**	**0.0**	32.4	0.0	0.0
Total liabilities, minority interests and shareholders' equity	**246.5**	**335.7**	**317.9**	277.4	286.0	380.7

(d) Liquidity Risk

Contractual maturity analysis of assets and liabilities

CHF billion	On demand	Subject to notice[1]	Due within 3 mths	Due between 3 and 12 mths	Due between 1 and 5 years	Due after 5 years	Total
Assets							
Cash and balances with central banks	2.7	-	-	-	-	-	2.7
Money market papers	-	-	27.7	35.9	-	-	63.6
Due from banks	11.1	-	20.5	2.8	0.8	0.3	35.5
Cash collateral on securities borrowed	-	-	88.7	-	-	-	88.7
Reverse repurchase agreements	-	-	135.4	12.1	-	-	147.5
Trading portfolio	162.1	-	-	-	-	-	162.1
Positive replacment values	121.6	-	-	-	-	-	121.6
Loans, net of allowance for credit losses	-	54.6	64.0	35.4	79.1	7.0	240.1
Financial investments	4.7	-	0.1	0.1	0.6	0.8	6.3
Accrued income and prepaid expenses	6.8	-	-	-	-	-	6.8
Investments in associates	-	-	-	-	-	1.1	1.1
Property and equipment	-	-	-	-	-	10.1	10.1
Intangible assets and goodwill	-	-	-	-	-	2.2	2.2
Other assets	11.8	-	-	-	-	-	11.8
Total 30.9.1999	**320.8**	**54.6**	**336.4**	**86.3**	**80.5**	**21.5**	**900.1**
Total 31.12.1998	376.6	59.9	375.8	43.5	66.0	22.3	944.1
Liabilities							
Money market paper issued	-	-	32.5	34.9	-	-	67.4
Due to banks	10.6	2.7	62.2	5.3	0.5	0.3	81.6
Cash collateral on securities lent	-	-	13.0	-	-	-	13.0
Repurchase agreements	-	-	146.6	0.9	-	-	147.5
Trading portfolio liabilities	43.1	-	-	-	-	-	43.1
Negative replacement values	147.1	-	-	-	-	-	147.1
Due to customers	58.6	84.0	118.9	10.7	1.6	2.2	276.0
Accrued expenses and deferred income	12.1	-	-	-	-	-	12.1
Long-term debt	-	-	3.6	8.7	29.3	13.9	55.5
Other liabilities	23.1	-	-	-	-	-	23.1
Total 30.9.1999	**294.6**	**86.7**	**376.8**	**60.5**	**31.4**	**16.4**	**866.4**
Total 31.12.1998	367.9	83.5	371.1	42.2	29.7	16.3	910.7

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

(e) Capital adequacy

Risk-weighted assets (BIS)

CHF million	Note	**30.9.1999** **Balance sheet / notional amount**	**30.9.1999** **Risk-weighted amount**	31.12.1998 Balance sheet / notional amount	31.12.1998 Risk-weighted amount
Balance sheet assets					
Due from banks and other collateralized lendings		**224 286**	**8 041**	244 246	13 845
Net positions in securities	1	**70 972**	**5 762**	28 109	8 316
Positive replacement values		**121 619**	**15 806**	169 936	29 494
Loans, net of allowances for credit losses and other collateralized lendings		**287 532**	**167 986**	305 155	164 113
Accrued income and prepaid expenses		**6 809**	**4 717**	6 627	3 190
Property and equipment	2	**10 093**	**11 349**	9 886	11 166
Other assets		**11 781**	**9 058**	12 092	7 900
Off-balance sheet and other positions					
Contingent liabilities		**29 441**	**15 500**	37 731	19 471
Irrevocable commitments		**62 533**	**16 814**	82 337	18 197
Forward and swap contracts	3	**4 789 813**	**13 514**	5 177 912	7 130
Purchased options	3	**421 520**	**3 205**	489 005	5 861
Market risk positions	4	**--**	**11 920**	--	16 018
Total risk-weighted assets		**--**	**283 672**	--	304 701

[1]Excluding positions in the trading book, these are included in market risk positions

[2]Including CHF 1,256 million (1998: CHF 1,280 million) foreclosed properties and properties held for disposal, which are recorded in the balance sheet under financial investments

[3]The risk-weighted amount corresponds to the security margin (add-on) of the contracts

[4]Value at risk according to the internal model multiplied by a factor of 12.5 to create the risk weighted amount of the market risk positions in the trading book.

BIS Capital ratios

	30.9.1999 **Capital**	**30.9.1999** **BIS %**	31.12.1998 Capital	31.12.1998 BIS %
Tier 1 and Tier 2 Capital	**39 517**	**13.9**	40 385	13.3
Tier 1 capital	**29 069**	**10.2**	28 299	9.3

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

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

The net positions in securities not held in the trading book reflect the Group's exposure to an issuer of securities arising from its physical holdings and other related transactions in that security.
For contingent liabilities and irrevocable facilities granted, the credit equivalent is calculated by multiplying the nominal value of each transaction by its corresponding credit conversion factor. The resulting amounts are then weighted for credit risk using the same percentage as for balance sheet assets. In the case of OTC forward contracts and purchased options, the credit equivalent is computed on the basis of the current replacement value of the respective contract plus a security margin (add-on) to cover the future potential credit risk during the remaining duration of the contract.

UBS calculates its capital requirement for market risk positions, which includes interest-rate instruments and equity securities in the trading book as well as positions in foreign exchange and commodities throughout the Group, using an internal Value at Risk (VaR) model. This approach was introduced in the BIS 1996 market risk amendment to the Basel Accord of July 1988 and incorporated in the Swiss capital adequacy rules of the Banking Ordinance.
The BIS proposal requires that the regulators perform tests of the bank internal models before giving permission for these models to be used to calculate the market risk capital. Based on extensive checks performed by internal and external auditors, the use of the Group internal models was accepted by the Swiss Federal Banking Commission (FBC) in July 1999.

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

NOTE 34 Fair Value of Financial Instruments

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

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

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

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

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

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

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

(e) the fair value of fixed rate loans and mortgages is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognized separately by deducting the amount of the allowance for credit losses from both book and fair values.

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

Fair Value of Financial Instruments

CHF billion	**30.9.1999** **Carrying Value**	**Fair Value**	**Unrealised Gain / (Loss)**	31.12.1998 Carrying Value	Fair Value	Unrealised Gain / (Loss)
Assets						
Cash and balances with central banks	**2.7**	**2.7**	**0.0**	3.3	3.3	0.0
Money market paper	**63.6**	**63.6**	**0.0**	18.4	18.4	0.0
Due from banks	**38.4**	**38.4**	**0.0**	68.6	68.7	0.1
Cash collateral on securities borrowed	**88.6**	**88.6**	**0.0**	91.7	91.7	0.0
Reverse repurchase agreements	**147.5**	**147.5**	**0.0**	141.3	141.3	0.0
Trading portfolio	**162.1**	**162.1**	**0.0**	162.6	162.6	0.0
Positive replacement values	**121.6**	**121.6**	**0.0**	169.9	169.9	0.0
Loans, net of allowance for credit losses	**241.3**	**241.6**	**0.3**	248.3	250.7	2.4
Financial investments	**5.2**	**6.4**	**1.2**	5.7	6.5	0.8
Liabilities						
Money market paper issued	**67.4**	**67.4**	**0.0**	51.5	51.5	0.0
Due to banks	**82.6**	**82.6**	**0.0**	86.1	86.1	0.0
Cash collateral on securities lent	**13.0**	**13.0**	**0.0**	19.2	19.2	0.0
Repurchase agreements	**147.5**	**147.5**	**0.0**	137.6	137.6	0.0
Trading portfolio liabilities	**43.1**	**43.1**	**0.0**	47.0	47.0	0.0
Negative replacement values	**147.1**	**147.1**	**0.0**	205.1	205.1	0.0
Due to customers	**278.8**	**278.9**	**(0.1)**	275.3	275.6	(0.3)
Long-term debt	**55.7**	**57.1**	**(1.4)**	51.0	53.3	(2.3)
Fair value effect on income of hedging derivatives recorded on the accrual basis			**0.5**			1.0
Net difference between carrying value and fair value			**0.5**			1.7

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

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

Changes in the fair value of the Group's fixed rate loans, long- and medium term notes and bonds issued are hedged by derivative instruments, mainly interest rate swaps. The interest rate risk inherent in the balance sheet positions with no specific maturity is also hedged with derivative instruments based on the management view on the economic maturity of the products.

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

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

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

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

Note 35 Retirement Benefit Plans and Other Employee Benefits

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

Swiss Pension Plans until 30 June 1999

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

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

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

Swiss Pension Plans starting 1 July 1999

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

As a result of the merger of the plans of the former Banks in Switzerland, on 1 July 1999 there was a one-time increase of vested plan benefits for the beneficiaries of such plans. This had the effect of increasing the Defined Benefit Obligation at this date by CHF 3,020 million. In accordance with IAS 19 (revised 1998) this resulted in a one-time charge to income which was offset by the recognition of assets (previously unrecognized due to the paragraph 58 (b) limitation of IAS 19 (revised 1998) used to fund this increase in benefits.

The main plan, the Pension Plan, covers practically all employees in Switzerland and exceeds the minimum benefits requirements under the Swiss law.

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

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

The Group was required to adopt IAS 19 (revised 1998) Employee Benefits as of 1 January 1999. The result of the adoption of this standard did not have an immediate impact on net profit for the period ended 30 September 1999. However, the adoption gave rise to a contingent asset of approximately CHF 420 million. This represents amounts paid by the respective predecessor banks in excess of amounts required under Swiss Law and therefore should be available to the Company in the future to reduce its required contributions to the benefit plans ("Excess Employer Contributions"). However, legal uncertainties exist surrounding the Group's ability to utilize the Excess Employer Contributions. These contributions will be recognized as a prepaid pension assets under IAS 19 (revised 1998) by way of a one-time credit to income in the period in which the legal uncertainties surrounding their use are clarified.

Retirement Benefit Plans and Other Employee Benefits

CHF million	**30.9.1999**	31.12.1998	31.12.1997
Swiss pension plans			
Defined benefit obligation at the end of the period	**(16 536)**	(14 944)	(14 431)
Plan assets at fair value at the end of the period	**17 676**	17 885	17 224
Plan assets in excess of benefit obligation	**1 140**	2 941	2 793
Unrecognised net actuarial (gains) / losses	**145**	(385)	(385)
Unrecognised assets (limit under art. 58 (b))	**(1 285)**	(2 556)	(2 408)
Prepaid pension cost	**0**	0	0
Unfunded accrued pension cost	**0**	0	0
Additional details to fair value of plan assets			
Own financial instruments included in plan assets	**5 022**	2 761	2 202
Any assets used by the bank included in plan assets	**190**	176	176
Retirement benefits expense			
Current service cost - benefits earned	**337**	535	524
Interest cost on projected benefit obligation	**467**	726	705
Expected return on plan assets	**(667)**	(856)	(756)
Adjustment to limit prepaid pension cost	**264**	148	22
Amortization of unrecognized prior service costs	**150**	6	(8)
Employee contributions	**(137)**	(185)	(194)
Actuarially determined net periodic pension cost	**414**	374	293
Actual return on plan assets	**5.9%**	6.7%	15.5%

Principal actuarial assumptions used (%)			
Discount rate	**4.0**	5.0	5.0
Expected rate of return on assets p.a.	**5.0**	5.0	5.0
Expected rate of salary increase	**2.0 - 3.0**	3.5 - 5.5	3.5 - 5.5
Rate of pension increase	**1.5**	2.0	2.0

Foreign Pension Plans

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

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

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

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

CHF million	**30.9.1999**	31.12.1998	31.12.1997
Pension plans abroad			
Defined benefit obligation at the end of the period	**(2 264)**	(2 009)	(1 950)
Plan assets at fair value at the end of the period	**2 594**	2 173	2 187
Plan assets in excess of benefit obligation	**330**	164	237
Unrecognized net actuarial (gains)	**(266)**	(63)	(160)
Unrecognised transition amount	**1**	2	(17)
Unrecognised past service cost	**2**	0	0
Unrecognised assets (limit under art. 58 (b))	**(41)**	(60)	(24)
Prepaid pension cost	**26**	43	36
Unfunded accrued pension cost	**0**	0	0
Movement of net liability (or asset) during the period			
Prepaid pension cost / (benefit) at 1 January	**43**	36	(12)
Less: net periodic pension cost / (benefit) for the reporting period	**40**	33	(9)
Employer contributions	**19**	43	39
Prepaid pension cost at the end of the period	**22**	46	36
Currency adjustment at the end of the period	**4**	(3)	0
Prepaid pension cost at the end of the period	**26**	43	36
Retirement benefits expense			
Current service cost - benefits earned	**88**	116	114
Interest cost on projected benefit obligation	**91**	140	115
Expected return on plan assets	**(136)**	(191)	(147)
Amortization of net transition (assets) or liability	**0**	2	(85)
Adjustment to limit prepaid pension cost	**13**	2	0
Immediate recognition of transition assets under IAS 8	**0**	(23)	0
Amortization of unrecognized prior service costs	**0**	7	0
Amortization of unrecognized net (gain)	**(4)**	(3)	0
Effect of any curtailment or settlement	**0**	(8)	0
Employee contributions	**(12)**	(9)	(6)
Actuarially determined net periodic pension cost	**40**	33	(9)
Actual return on plan assets	**5.7%**	5.2%	21.4%

Principal actuarial assumptions used %			
Discount rate	**5.75 - 7.50**	6.50 - 7.50	6.50 - 7.50
Expected rates of return on assets p.a.	**8.00 - 8.50**	8.50 - 8.75	8.50 - 8.75
Expected rate of salary increase (including inflation)	**3.50 - 5.50**	3.50 - 9.00	3.50 - 9.00
Rate of pension increase	**0.00 - 2.50**	0.00 - 3.75	0.00 - 3.75

Postretirement Medical and Life Plans

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

The benefit obligation in excess of plan assets for those plans amounts to CHF 106 million as of 30 September 1999 (1998 CHF 93 million, 1997 CHF 100 million) and the total unfunded accrued postretirement liabilities to CHF 75 million (1998 CHF 62 million, 1997 CHF 50 million). The actuarially determined net postretirement cost is CHF 12 million for the first nine months in 1999 (1998 CHF 17 million, 1997 CHF 14 million).

Note 36 Equity Participation Plans

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

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

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

The Group's policy is to recognize expense as of the date of grant for equity participation instruments (stock, warrants, options and other derivatives for which the underlying is the Group's own shares). The amount of expense recognized is equal to the intrinsic value of the instrument at such date.

Options in UBS AG Shares

	30.9.1999		**31.12.1998**		**31.12.1997**	
	Number of Options	**Weighted Average Exercise Price (in CHF)**	Number of Options	Weighted Average Exercise Price (in CHF)	Number of Options	Weighted Average Exercise Price (in CHF)
Outstanding, beginning of the year/period	**7,202,786**	**177**	1,899,924	186	0	-
Granted during the year/period	**3,429,808**	**237**	5,811,778	182	1,899,924	186
Exercised during the year/period	**18,600**	**186**	11,485	178	0	-
Forfeited during the year/period	**348,098**	**192**	485,946	268	0	-
Outstanding, end of the year/period	**10,265,896**	**197**	7,202,786	177	1,899,924	186
Exercisable at end of the year/period	**693,720**	**186**	0	-	0	-

Of the total options outstanding at 30 September 1999: 10,092,704 options (693,720 of which were exercisable) had exercise prices ranging from CHF 170 to CHF 237, or CHF 195 on average, and had a weighted-average remaining contractual life of 4.81 years; and 173,192 options (none of which were exercisable) had exercise prices ranging from CHF 255 to CHF 270, or CHF 261 on average, and had a weighted-average remaining contractual life of 4.75 years.

Note 37 Related Parties

Related parties include the Board of Directors, the Group Executive Board, the Group Managing Board, close family members and enterprises which are controlled by these individuals.

Total remuneration of related parties recognized in the income statement during the first nine months of the year amounted to CHF 136.2 million and CHF 102.8 million for the year ended 1998. The number of long-term stock options outstanding from equity plans was 274,616 at 30 September 1999 and 255,000 at 31 December 1998. This scheme is further explained in Note 36 Equity Participation Plans.

Total amount of shares and warrants held by members of the Board of Directors, Group Executive Board and Group Managing Board were 2,456,092 and 22,849,028 as of 30 September 1999 and 4,635,804 and 6,178,748 as of 31 December 1998.

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

CHF million	1999
Mortgages at 1 January	27.1
Additions	6.0
Reductions	(5.5)
Mortgages at 30 September	27.6

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

Loans and advances to significant associated companies were as follows:

CHF million	1999
Loans and advances as of 1 January	165.0
Additions	41.8
Reductions	(144.2)
Loans and advances as of 30 September	62.6

Note 39 provides a list of significant associates.

Note 38 Post Balance Sheet Events

There have been no material post-balance sheet events which would require disclosure or adjustment to the September 1999 financial statements except as follows: at the annual general meeting of shareholders held on 18 April 2000, a two-for-one stock split was approved, effective 8 May 2000. Accordingly, share, per share, stock options and exercise price information have been adjusted to retroactively reflect the stock split.

Note 39 Significant Subsidiaries and Associates

Significant subsidiaries

Company	Registered office	Share capital in millions		Equity interest accumulated (%)
Armand von Ernst & Cie AG	Bern	CHF	5.0	100.0
Baltos Service AG	Zurich	CHF	3.0	100.0
Bank Ehinger & Cie AG	Basel	CHF	6.0	100.0
BDL Banco di Lugano	Lugano	CHF	50.0	100.0
Cantrade Privatbank AG	Zurich	CHF	10.0	100.0
Ferrier Lullin & Cie SA	Geneva	CHF	30.0	100.0
HYPOSWISS, Schweizerische Hypotheken- und Handelsbank	Zurich	CHF	26.0	100.0
Intrag	Zurich	CHF	10.0	100.0
Schröder Münchmeyer Hengst AG	Hamburg	DEM	100.0	100.0
UBS Anlage-Service GmbH	Frankfurt	EUR	0.1	100.0
UBS (Bahamas) Ltd	Nassau	USD	4.0	100.0
UBS Bank (Canada)	Toronto	CAD	50.2 [1]	100.0
UBS (Cayman Islands) Ltd	Georgetown	USD	5.6	100.0
UBS (Espana) SA	Madrid	EUR	28.3	100.0
UBS (France) SA	Paris	EUR	10.0	100.0
UBS Fund Holding (Luxembourg) SA	Luxembourg	LUF	1 000.0	100.0
UBS Fund Holding (Switzerland) AG	Basel	CHF	18.0	100.0
UBS Fund Management (Japan) Co. Ltd.	Tokyo	JPY	1 000.0	100.0
UBS Fund Management (Switzerland) AG	Basel	CHF	1.0	100.0
UBS Fund Services (Luxembourg) S.A.	Luxembourg	CHF	2.5	100.0
UBS Invest Kapitalanlagegesellschaft mbH	Frankfurt	DEM	5.0	64.0
UBS (Italia) SpA	Milan	ITL	43 000.0	100.0
UBS (Luxembourg) SA	Luxembourg	CHF	150.0	100.0
UBS (Monaco) SA	Monte Carlo	EUR	9.2	100.0
UBS (Panama) SA	Panama	USD	6.0	100.0
UBS Trust (Canada)	Toronto	CAD	10.0	100.0
UBS Trustees (Channel Island) Ltd.	St. Helier	GBP	0.2	100.0
UBS (Trust and Banking) Ltd	Tokyo	JPY	9 000.0	100.0
Brunswick Warburg Limited	Georgetown	USD	50.0	50.0
NYRE Holding Corp	Wilmington	USD	119.3 [1]	100.0
PT Warburg Dillon Read Indonesia	Jakarta	IDR	11 000.0	85.0
SG Warburg & Co International BV	Amsterdam	GBP	140.4 [1]	100.0
SG Warburg Securities SA	Geneva	CHF	14.5	100.0
UBS (Argentina) S.R.L.	Buenos Aires	USD	-	100.0
UBS Australia Holdings Ltd	Sydney	AUD	11.7	100.0
UBS Australia Ltd	Sydney	AUD	15.0	100.0
UBS Beteiligungs-GmbH & Co KG	Frankfurt	EUR	399.3	100.0
UBS Futures & Options Limited	London	GBP	2.0	100.0
UBS Inc.	New York	USD	563.3 [1]	100.0
UBS Lease Finance LLC	New York	USD	16.7	100.0
UBS Limited	London	GBP	10.0	100.0
UBS UK Limited	London	GBP	609.0	100.0
UBS UK Holding Ltd.	London	GPB	992.0	100.0

[1] share capital+share premium

Significant subsidiaries (continued)

Company	Registered office	Share capital in millions		Equity interest accumulated (%)
UBS Securities (East Asia) Ltd	Hong Kong	HKD	250.0	100.0
UBS Securities (Hong Kong) Ltd	Hong Kong	HKD	20.0	100.0
UBS Securities Limited	London	GBP	10.0	100.0
UBS Securities Trading Limited	London	GBP	10.0	100.0
UBS Services (Japan) Ltd	London	JPY	41 358.5	100.0
UBS Services Limited	London	GBP	-	100.0
UBS (Sydney) Limited	Sydney	AUD	12.7	100.0
UBS (USA) , Inc.	Delaware	USD	563.3 [1]	100.0
Warburg Dillon Read AG	Frankfurt	EUR	155.7	100.0
Warburg Dillon Read (Asia) Ltd	Hong Kong	HKD	20.0	100.0
Warburg Dillon Read (Australia) Corporation Pty Limited	Sydney	AUD	23.5	100.0
Warburg Dillon Read Australia Ltd	Sydney	AUD	61.5	100.0
Warburg Dillon Read Derivatives Ltd	Hong Kong	HKD	20.0	100.0
Warburg Dillon Read (Espana) SA	Madrid	EUR	1.2	100.0
Warburg Dillon Read (France) SA	Paris	FRF	150.0	100.0
Warburg Dillon Read Futures Inc.	Delaware	USD	12.3 [1]	100.0
Warburg Dillon Read (Futures + Options) Pte Ltd	Singapore	SGD	5.5	100.0
Warburg Dillon Read (Hong Kong) Ltd	Hong Kong	HKD	30.0	100.0
Warburg Dillon Read (Italia) S.I.M. SpA	Milan	EUR	1.8	100.0
Warburg Dillon Read International Limited	London	GBP	808.0 [1]	100.0
Warburg Dillon Read (Japan) Ltd	Georgetown	JPY	30 000.0	50.0
Warburg Dillon Read LLC	New York	USD	1 491.4 [1]	100.0
Warburg Dillon Read (Malaysia) Sdn. Bhd.	Kuala Lumpur	MYR	0.5	100.0
Warburg Dillon Read Pte.Ltd.	Singapore	SGD	3.0	100.0
Warburg Dillon Read Securities (South Africa) (Pty) Ltd	Sandton	ZAR	22.0	100.0
Warburg Dillon Read Securities Co. Ltd	Bangkok	THB	400.0	100.0
Warburg Dillon Read Securities (Espana) SVB SA	Madrid	EUR	13.4	100.0
Warburg Dillon Read Securities (India) Private Ltd	Mumbai	INR	0.4	75.0
Warburg Dillon Read Securities Ltd.	London	GBP	140.0	100.0
Warburg Dillon Read Securities (Philippines) Inc	Makati	PHP	120.0	100.0
Warburg Dillon Read (South Africa) (Pty) Ltd	Sandton	ZAR	-	100.0
WDR (Nederland) BV	Amsterdam	EUR	10.9	100.0
Aventic AG	Zurich	CHF	30.0	100.0
UBS Card Center AG	Glattbrugg	CHF	40.0	100.0
Factors AG	Zurich	CHF	5.0	100.0
IL Immobilien-Leasing AG	Opfikon	CHF	5.0	100.0
Solothurner Bank SoBa	Solothurn	CHF	50.0	100.0
Systor AG	Zurich	CHF	5.0	60.0
UBS Immoleasing AG	Zurich	CHF	3.0	100.0
UBS Leasing AG	Brugg	CHF	10.0	100.0

[1] share capital+share premium

Significant subsidiaries (continued)

Company	Registered office	Share capital in millions		Equity interest accumulated (%)
Brinson Partners Inc.	Chicago	USD	-	100.0
Philips & Drew Fund Management Limited	London	GBP	1.0	100.0
Philips & Drew Limited	London	GBP	8.0	100.0
UBS Brinson Asset Management Co.Ltd	Tokyo	JPY	800.0	100.0
UBS Brinson Inc.	New York	USD	0.5	100.0
UBS Brinson Limited	London	GBP	8.8	100.0
UBS Brinson Ltd	Sydney	AUD	2.5	100.0
UBS Brinson Pte Ltd	Singapore	SGD	4.0	100.0
UBS Brinson SA	Paris	FRF	325.1 [1]	100.0
Crédit Industriel SA	Zurich	CHF	10.0	100.0
EIBA "Eidgenössische Bank"	Zurich	CHF	14.0	100.0
Indelec Holding AG	Basel	CHF	10.0	100.0
SBC Equity Partners AG	Opfikon	CHF	71.7	100.0
SBC Overseas Holding BV	Amsterdam	EUR	21.9 [1]	100.0
Thesaurus Continentale Effekten-Gesellschaft Zürich	Zurich	CHF	30.0	100.0
UBS Capital AG	Zurich	CHF	0.5	100.0
UBS Capital Asia Limited	Georgetown	USD	5.0	100.0
UBS Capital Asia Pacific (S) Limited	Singapore	SGD	1.0	100.0
UBS Capital BV	The Hague	EUR	104.1 [1]	100.0
UBS Capital GmbH	Frankfurt	EUR	-	100.0
UBS Capital II LLC	Delaware	USD	0.1	100.0
UBS Capital Latin America LDC	Georgetown	USD	-	100.0
UBS Capital LLC	New York	USD	0.1	100.0
UBS Capital Partners Ltd	London	GBP	6.7	100.0
UBS Capital S.p.A.	Milan	ITL	50 000.0	100.0
UBS Investment Management Pte Ltd	Singapore	SGD	0.5	90.0
UBS Finance (Cayman Islands) Limited	Georgetown	USD	0.5	100.0
UBS Finance (Curaçao) NV	Curaçao	USD	0.1	100.0
UBS Finance (Delaware) Inc.	Delaware	USD	37.0 [1]	100.0
UBS Finanzholding AG	Zurich	CHF	10.0	100.0

[1] share capital+share premium

Significant Associates

Company	Equity interest	Share capital in million	
Giubergia Warburg SIM SpA, Milan	50.0%	ITL	29 000.0
Motor Columbus AG, Baden	35.6%	CHF	253.0
National Versicherung AG, Basel	28.5%	CHF	35.0
Telekurs Holding AG, Zürich	33.3%	CHF	45.0
Swiss Financial Services Group AG, Zurich	32.8%	CHF	26.0

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

Note 40 Significant Foreign Currency Translation Rates

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

	Spot rate			Average rate		
	30.9.1999	31.12.1998	31.12.1997	**30.9.1999**	31.12.1998	31.12.1997
1 EUR	1.60	--	--	1.60	--	--
1 GBP	2.48	2.29	2.41	2.40	2.41	2.37
1 USD	1.51	1.38	1.46	1.48	1.45	1.45
100 DEM	--	82.19	81.24	--	82.38	83.89
100 JPY	1.42	1.22	1.12	1.28	1.11	1.19

Note 41 Differences Between International Accounting Standards and United States Generally Accepted Accounting Principles

41.1 Valuation and income recognition differences between International Accounting Standards and United States Generally Accepted Accounting Principles

The consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards ("IAS"). The principles of IAS differ in certain respects from United States Generally Accepted Accounting Principles ("US GAAP").

The following is a summary of the significant accounting and valuation differences between IAS and US GAAP.

a. Purchase accounting

Under IAS, the Group accounted for the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation under the pooling of interests method. The balance sheets and income statements of the banks were combined and no adjustments to the carrying values of the assets and liabilities were made.

Under US GAAP, the business combination creating UBS AG is being accounted for under the purchase method with Union Bank of Switzerland being considered the accounting acquirer. Under the purchase method, the cost of acquisition is measured at fair value and the acquirer's interests in identifiable tangible assets and liabilities of the acquiree are restated to fair values at the date of acquisition. Any excess consideration paid over the fair value of net tangible assets acquired is allocated, first to identifiable intangible assets based on their fair values, if determinable, with the remainder allocated to goodwill.

Goodwill

Under US GAAP, goodwill and other intangible assets acquired are capitalized and amortized over the expected periods to be benefited with adjustments, if any, for impairment.

For purposes of the US GAAP reconciliation, the excess of the consideration paid for Swiss Bank Corporation over the fair value of the net tangible assets received has been recorded as Goodwill and is being amortized on a straight line basis over a weighted average life of 13 years beginning 29 June 1998.

Other purchase accounting adjustments

Under US GAAP, the results of operations of Swiss Bank Corporation would have been included in the Group's consolidated financial statements beginning 29 June 1998. For purposes of the US GAAP reconciliation, Swiss Bank Corporation's Net profit for the 6 month period ended 29 June 1998 has been excluded from the Group's Net profit. For purposes of the US GAAP reconciliation, the restatement of Swiss Bank Corporation's net assets to fair value resulted in decreasing net tangible assets by CHF 1 077 million. This amount will be amortized over a period ranging from 2 years to 20 years depending upon the nature of the restatement.

b. Harmonization of accounting policies

The business combination noted above was accounted for under the pooling of interests method under IAS. Under the pooling of interests method of accounting, a single uniform set of accounting policies was adopted and applied to all periods presented. This resulted in a restatement of 1997 Shareholders' equity and Net loss.

US GAAP requires that accounting changes be accounted for in the income statement in the period the change is made. For purposes of the US GAAP reconciliation the accounting policy harmonization recorded in 1997 was reversed because the business combination noted above is being accounted for under the purchase method and the impact of the accounting changes was recorded in 1998.

The income statement effects of this conforming adjustment were as follows;

(CHF million)	**30.09.1999**	**31.12.1998**
Depreciation policies	**(20)**	(338)
Credit risk adjustments on derivatives		(193)
Policies for other real estate owned		(140)
Retirement benefit and equity participation plans		(47)
Settlement-risk adjustments on derivatives		(33)
Total	**(20)**	(751)

c. Restructuring provision

Under IAS, restructuring provisions are recognized when a legal or constructive obligation has been incurred. In 1997, the Group recognized a CHF 7 000 million restructuring provision to cover personnel, IT, premises and other costs associated with combining and restructuring the merged Group.

Under US GAAP, restructuring provisions for business combinations are not recognized prior to the consummation date of the business combination. Also, the criteria for establishing liabilities of this nature are more stringent than under IAS. Established restructuring provisions are required to be periodically reviewed for appropriateness and revised if necessary.

For purposes of the US GAAP reconciliation, the CHF 7000 million restructuring provision was reversed. As a result of the business combination with Swiss Bank Corporation, and the decision was made to combine and streamline certain activities of the banks for the purpose of reducing costs and improving efficiencies, Union Bank of Switzerland recognized a restructuring provision of CHF 1575 million during 1998 for purposes of the US GAAP reconciliation. CHF 759 million of this provision related to estimated costs for restructuring the operations and activities of Swiss Bank Corporation and such amount was recorded as a liability of the acquired business. The remaining CHF 816 million of estimated costs were charged to restructuring expense during 1998. The reserve is expected to be substantially utilized by 2001.

The restructuring provision initially included CHF 756 million for employee termination benefits, CHF 332 million for the closure and write downs of owned and leased premises, and CHF 487 million for professional fees, IT costs, miscellaneous transfer taxes and statutory fees.

The usage of the restructuring provision was as follows:

(CHF million)	**1998 Provision**	**1998 usage**	**Balance 31.12.1998**	**1999 usage**	**1999 revision**	**Balance 30.09.1999**
Personnel	756	(374)	382	(192)	547	737
Premises	332	(27)	305	(115)	125	315
IT	93	(68)	25	(2)	(21)	2
Other	394	(81)	313	(16)	(143)	154
Total	1 575	(550)	1 025	(325)	508	1 208

d. Derivatives instruments held or issued for non-trading purposes

Under IAS, the Group recognizes transactions in derivative instruments hedging non-trading positions in the income statement using the accrual or deferral method, which is generally the same accounting as the underlying item being hedged.

US GAAP requires that derivatives be reported at fair value with changes in fair value recorded in income unless specified criteria are met to obtain hedge accounting treatment (accrual or deferral method).

The Group is not required to comply with all of the criteria necessary to obtain hedge accounting treatment under US GAAP. Accordingly, for purposes of the US GAAP reconciliation, derivative instruments held or issued for non-trading purposes that did not meet US GAAP hedging criteria have been carried at fair value with changes in fair value recognized as adjustments to Interest income.

e. Own shares and derivatives on own shares - trading
Under IAS, the Group's own shares and derivatives on own shares held for trading are carried at fair value similar to other trading assets and liabilities. Changes in fair value and dividends received are recognized as Net trading income.

Under US GAAP, all own shares are treated as treasury shares and reduce total shareholders' equity, as well as the number of shares outstanding. Options on own shares are classified as assets, liabilities or in shareholders' equity depending upon the manner of settlement.

For purposes of the US GAAP reconciliation, unrealized and realized gains/losses on own shares, dividends received on own shares, and derivatives on own shares where the Group has the choice or obligation to settle in shares have been excluded from Net trading income. Own share positions and derivatives on own shares where the Group has the choice or obligation to settle in shares included in the Trading portfolio have been reclassified to Shareholders' equity.

f. Financial investments
Under IAS, financial investments are classified as either current investments or long-term investments. The Group considers current financial investments to be held for sale and carried at lower of cost or market value. The Group accounts for long-term financial investments at cost.

Under US GAAP, investments are classified as either held to maturity (essentially debt securities) which are carried at amortized cost or available for sale (debt and marketable equity securities), which are carried at fair value with changes in fair value recorded as a separate component of shareholders' equity. Realized gains and losses are recognized in net profit in the period sold.

For purposes of the US GAAP reconciliation, amounts reflected in Other income for the changes in market values of held for sale investments are reclassified as a component of Shareholders' equity. Held to maturity investments that do not meet US GAAP criteria are reclassified to the available for sale category. Unrealized gains or unrealized losses relating to these investments are recorded as a component of Shareholders' equity.

g. Retirement benefit plans
Under IAS, the Group has recorded pension expense based on a specific method of actuarial valuation of projected plan liabilities for accrued service including future expected salary increases and expected return on plan assets. Plan assets are held in a separate trust to satisfy plan liabilities. Plan assets are recorded at fair value. The recognition of a prepaid asset on the books of the Group is subject to certain limitations. These limitations cause amounts recognized as expense to equal amounts funded in the same period. Any amount not recognized as a prepaid asset and the corresponding impact on pension expense has been disclosed in the financial statements.

Under US GAAP, pension expense, generally, is based on the same method of valuation of liabilities and assets as under IAS. Differences in the levels of expense and liabilities (or prepaid assets) exist due to the different transition date rules and the stricter provisions as well as industry practice under IAS for recognition of a prepaid asset.

As a result of the merger of the plans of Union Bank of Switzerland and Swiss Bank Corporation, there was a one time increase of the vested plan benefits for the beneficiaries of such plans. This had the effect of increasing the Defined Benefit Obligation at this date by CHF 3 020 million. Under IAS this resulted in a one time charge to income which was offset by the recognition of assets (previously unrecognized due to certain limitations under IAS).

Under US GAAP, in a business combination that is accounted under the purchase method, the assignment of the purchase price to individual assets acquired and liabilities assumed shall include a liability for the projected plan liabilities in excess of plan assets or an asset for plan assets in excess of the projected plan liabilities, thereby recognizing any previously existing unrecognized net gains or losses, unrecognized prior service cost, or unrecognized net liabilities or assets.

For purposes of the US GAAP reconciliation, the Group recorded a prepaid asset for the Union Bank of Switzerland plans as of 1 January 1998. Swiss Bank Corporation recorded a purchase price adjustment to recognize its prepaid asset at 29 June 1998. The recognition of these assets impacts the pension expense recorded under US GAAP versus IAS. The pension expense for the nine months ended 30 September 1999 is also impacted by the different treatment of the merger of the plans under IAS versus US GAAP. The assets recognized under IAS (which had been previously unrecognized due to certain limitations under IAS) were already recognized under US GAAP due to the absence of such limitations under US GAAP.

h. Other employee benefits

Under IAS, the Group has recorded expenses and liabilities for post-retirement benefits determined under a methodology similar to that described above under retirement benefit plans.

Under US GAAP, expenses and liabilities for post-retirement benefits would be determined under a similar methodology as under IAS. Differences in the levels of expenses and liabilities have occurred due to different transition date rules and the treatment of the merger of Union Bank of Switzerland and Swiss Bank Corporation under the purchase method.

i. Equity participation plans

IAS does not specifically address the recognition and measurement requirements for equity participation plans.

US GAAP permits the recognition of compensation cost on the grant date for the estimated fair value of equity instruments issued (SFAS No. 123) or based on the intrinsic value of equity instruments issued (APB No. 25), with the disclosure of the pro forma effects of equity participation plans on net profit and earnings per share, as if the fair value had been recorded on the grant date. The Group recognized only intrinsic values at the grant date with subsequent changes in value not recognized.

For purposes of the US GAAP reconciliation, certain of the Group's option awards have been determined to be variable,
primarily because they may be settled in cash or the Group has offered to hedge their value. Additional compensation expense from these options awards for the nine months ended 30 September 1999 and the year ended 31 December 1998, is CHF 24 million and CHF 1 million, respectively. In addition, certain of the Group's equity participation plans provide for deferral of the awards, and the instruments are held in trusts for the participants. Certain of these trusts are recorded on the Group's balance sheet for US GAAP presentation. The effect of recording these asset and liabilities is a credit to expense of CHF 2 million and nil for the nine months ended 30 September 1999 and the year ended 31 December 1998, respectively. This credit results primarily from the difference between the value of shares as of the award dates and the value of the shares at the balance sheet dates.

j. Software capitalization

Costs associated with the acquisition or development of internal use software are recorded as Operating expenses as incurred by the Group.

Under US GAAP, effective 1 January 1999, certain costs associated with the acquisition or development of internal use software are required to be capitalized. Once the software is ready for its intended use, the costs capitalized are amortized to the Income statement over estimated lives.

For purposes of the US GAAP reconciliation, costs associated with the acquisition or development of internal use software that meet US GAAP software capitalization criteria have been reversed from Operating expenses and amortized over a period of 2 years.

k. Credit loss expense

The allowance for credit losses provides for risks of losses inherent in the credit extension process. Counterparties are individually rated and continuously reviewed and analyzed. The allowance is adjusted for impairments identified on a loan-by-loan basis. If there are indications that there are significant probable losses in the portfolio that have not specifically been identified, allowances would also be provided for on a portfolio basis. As described in Note 1 (j), "Loans and allowance for credit losses," the allowance for credit losses has three components: counterparty-specific, country-specific, and specific reserve pools.

Specific reserve pools were established in 1996 to absorb probable losses not specifically identified at that time but which experience indicated were present in the portfolio. The utilization of the unallocated specific reserve pools was periodically reviewed by the Group. These pools have been applied to specific loans based on the analysis of individual credit exposures.

Under US GAAP, the allowance for loan losses also is an accounting estimate of credit losses inherent in a company's loan portfolio that have been incurred as of the balance-sheet date. The practice of using a procedural discipline in determining all components of the allowance for loan losses to be reported is followed under US GAAP. The Group's evaluation of the specific reserve pools at September 30, 1999 (CHF 130 million) did not follow a procedural discipline and therefore is not in full compliance with US GAAP. As a result, the Group has made an adjustment in its US GAAP reconciliation in the amount of CHF 130 million.

l. Recently issued US accounting standards

Accounting for derivative instruments and hedging activities

In June 1998, the US Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, which, as amended, is required to be adopted for financial statements as of 1 January 2001. The standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. While the specific impact on earnings and financial position of SFAS No. 133 has not been determined, the activities that will be most affected by the new Standard have been identified. Specifically, UBS Warburg and Corporate Center use derivatives to hedge loans, deposits, and issuance of debt, primarily to hedge interest rate risk. The Group's lending activities use credit derivatives to hedge credit risk, and to a lesser extent, use other derivatives to hedge interest rate risk. Management is currently evaluating the impact of SFAS No. 133 on the Group's hedging strategies. The actual assessment of the impact on the Group’s earnings and financial position will be based on the 1 January 2001 positions in accordance with the Standard.

41.2 Reconciliation of IAS Shareholders' equity and Net profit/(loss) to US GAAP

	Shareholders' equity		Net profit / (loss)	
CHF million	**30.09.1999**	31.12.1998	**30.09.1999**	31.12.1998
Amounts determined in accordance with IAS:	**33 298**	32 395	**5 179**	3 030
Adjustments in respect of:				
a. SBC purchase accounting:				
Goodwill	**20 315**	21 612	**(1 297)**	(864)
Other purchase accounting adjustments	**(867)**	(895)	**28**	(2 590)
b. Harmonization of accounting policies	**0**	20	**(20)**	(751)
c. Restructuring provision	**361**	1 948	**(1 587)**	(3 982)
d. Derivative instruments held or issued for non-trading purposes	**809**	1 052	**(243)**	(405)
e. Own shares and derivatives on own shares-trading	**(3 737)**	(3 601)	**(126)**	94
f. Financial investments	**112**	108	**28**	23
g. Retirement benefit plans	**2 262**	1 858	**404**	88
h. Other employee benefits	**(24)**	(26)	**2**	(20)
i. Equity participation plans	**(87)**	(40)	**(22)**	(1)
j. Software capitalization	**300**	-	**300**	-
k. Credit loss expense	**130**	-	**130**	-
Sub-total	**19 574**	22 036	**(2 403)**	(8 408)
Tax effect of the adjustments	**702**	330	**396**	1 713
Total adjustments	**20 276**	22 366	**(2 007)**	(6 695)
Amounts determined in accordance with US GAAP:	**53 574**	54 761	**3 172**	(3 665)

41.3 Earnings per share

Under IAS and US GAAP, basic earnings per share ("EPS") is computed by dividing income available to common shareholders' by the weighted-average number of common shares outstanding. Diluted EPS includes the determinants of basic EPS and, in addition, gives effect to dilutive potential common shares that were outstanding during the period.

The computation of basic and diluted EPS for the period ended 30 September 1999 and year ended 31 December 1998 are presented in the following table:

	30.09.1999	31.12.1998
Net profit/(loss) available for ordinary shares (CHF million):		
IAS	**5 179**	3 030
US GAAP	**3 172**	(3 665)
Weighted average shares outstanding:		
IAS	**416 648 054**	423 594 956
US GAAP	**407 357 602** (1)	414 609 886
Diluted weighted average shares outstanding:		
IAS	**418 925 318**	425 881 780
US GAAP	**410 542 226**	414 609 886
Basic earnings/(loss) per share (CHF):		
IAS	**12.43**	7.15
US GAAP	**7.79**	(8.84)
Diluted earnings/(loss) per share (CHF):		
IAS	**12.36**	7.11
US GAAP	**7.73**	(8.84)

The following are adjustments to the calculation of weighted average outstanding common shares which result from valuation and presentation differences between IAS and US GAAP:

Weighted average share outstanding:	**30.09.1999**	31.12.1998
Basic weighted-average common shares (IAS)	**416 648 054**	423 594 956
Treasury shares reclassed to equity from trading assets	**9 290 452**	8 985 070
Basic weighted-average common shares (US GAAP)	**407 357 602**	414 609 886
Diluted weighted-average common shares (IAS)	**418 925 318**	(1)
Treasury shares reclassed to equity from trading assets	**9 290 452**	(1)
Convertible debt and warrants	**907 360**	(1)
Diluted weighted-average common shares (US GAAP)	**410 542 226**	414 609 886 (1)

41.4 Presentation differences between IAS and US GAAP

In addition to the differences in valuation and income recognition, other differences, essentially related to presentation, exist between IAS and US GAAP. Although, these differences do not cause differences between IAS and US GAAP reported shareholders' equity and net profit; it may be useful to understand them to interpret the financial statements presented in accordance with US GAAP. The following is a summary of presentation differences that relate to the basic IAS financial statements.

1. Purchase accounting

As described in Note 41.1, under US GAAP the business combination creating UBS AG was accounted for under the purchase method with Union Bank of Switzerland being considered the accounting acquirer. In the US GAAP Condensed Consolidated Balance Sheet, the assets and liabilities of Swiss Bank Corporation have been restated to fair value at the date of acquisition (29 June 1998). In addition, the following table presents summarized financial results of SBC for the period from 1 January to 29 June 1998 which, under US GAAP, would be excluded from the US GAAP condensed consolidated Income statement for the year ended 31 December 1998:

Operating income	
Interest income	5 004
Less: interest expense	3 307
Net interest income	1 697
Less: Credit loss expense	164
Total	1 533
Net fee and commission income	3 701
Net trading income	2 171
Income from disposal of associates and subsidiaries	1 035
Other income	364
Total	8 804
Operating expenses	
Personnel	3 128
General and administrative	1 842
Depreciation and amortization	511
Total	5 481
Operating profit before taxes and minority interests	3 323
Tax expense	552
Profit	2 771
Less: Minority interests	(1)
Net profit	2 772

2. Settlement date vs. trade date accounting

The Group's transactions from securities activities are recorded on the settlement date for balance sheet and on the trade date for income statement purposes. This results in recording an off-balance sheet forward transaction during the period between the trade date and the settlement date. Forward positions relating to trading activities are revalued to fair value and any unrealized profits and losses are recognized in Net profit.

Under US GAAP, trade date accounting is required for purchases and sales of securities. For purposes of US GAAP presentation, all purchases and sales of securities previously recorded on settlement date have been recorded as of trade date for balance sheet purposes. Trade date accounting has resulted in receivables and payables to broker-dealers and clearing organizations recorded in Other assets and Other liabilities.

3. Repurchase and reverse repurchase agreements

Under IAS, the Group's repurchase agreements are accounted for as collateralized borrowings. Reverse repurchase agreements are accounted for as collateralized lending transactions. Cash collateral is reported on the balance sheet at amounts equal to the collateral advanced or received.

Under US GAAP, repurchase agreements also generally are accounted for as collateralized borrowings. Reverse repurchase agreements generally are accounted for as loans collateralized by the securities received. Collateral movements may be recorded depending upon which party maintains control, as defined, over the collateral. Strict criteria evidencing surrender of control for de-recognition exists.

For purposes of US GAAP presentation, obligations due from and due to counterparties for the collateralized lendings and borrowings requiring recognition under US GAAP are recorded on the Balance sheet in Due from banks, Due to banks, Loans and Due from/to customers. Transactions for which no margin requirements are agreed upon or no substitution of the securities is contracted are recognized as sales (repurchase agreements) or as purchases (reverse repurchase agreements).

4. Financial investments

Under IAS, the Group's private equity investments, real estate held for sale and non-marketable equity financial investments have been included in Financial investments.

Under US GAAP, private equity investments, real estate held for sale and non-marketable financial investments generally are reported in Other assets or reported as a separate caption in the Balance sheet.

For purposes of US GAAP presentation, private equity investments are reported as a separate caption in the Balance sheet and real estate held for sale and non-marketable equity financial investments are reported in Other assets.

5. Net trading income

Under IAS, interest income on trading related assets (cash collateral on securities borrowed and reverse repurchase agreements) and interest expense on trading related liabilities (cash collateral on securities lent and repurchase agreements), along with associated funding costs have been reported under the caption Net trading income.

Under US GAAP, net trading income should not include interest income on trading related assets or liabilities. Funding costs associated with trading assets are also not included in net trading income under US GAAP. For purposes of US GAAP presentation, all of these amounts have been reclassified from Net trading income and reported as Interest income and Interest expense, respectively.

6. Equity participation plans

Certain of the Group's equity participation plans provide for deferral of the awards, and the instruments are held in trusts for the participants. Certain of these trusts are recorded on the Group's balance sheet for US GAAP presentation, the effect of which is to increase assets by CHF 631 million and CHF 197 million, liabilities by CHF 693 million and CHF 236 million, and decrease shareholders' equity by CHF 64 million and CHF 39 million (for UBS AG shares held by the trusts which are treated like treasury stock) at 30 September 1999 and 31 December 1998, respectively.

7. Own bonds - trading

Under IAS, the Group's own bonds held for trading are carried at fair value similar to other trading assets and liabilities. Changes in fair value are recognized as Net trading income.

Under US GAAP, all own bonds are treated as Long-term debt and a reduction to the amount of own bonds outstanding.

For purposes of US GAAP presentation, own bond positions included in the Trading portfolio and Trading portfolio liabilities have been reclassified to Long-term debt.

41.5 Consolidated Income Statement

The following is a Consolidated Income Statement of the Group, for the nine months ended 30 September 1999 and the year ended 31 December 1998, restated to reflect the impact of valuation and income recognition differences and presentation differences between IAS and US GAAP.

		30.09.1999		31.12.1998	
CHF million	**Reference**	**US GAAP**	**IAS**	US GAAP	IAS
Operating income					
Interest income	a, d, 1, 5	**15 593**	**12 939**	22 322	22 835
Less: interest expense	a, 1, 5	**13 298**	**8 102**	19 486	16 173
Net interest income		**2 295**	**4 837**	2 836	6 662
Less: Credit loss expense	k, 1	**780**	**910**	787	951
Total		**1 515**	**3 927**	2 049	5 711
Net fee and commission income	1	**9 250**	**9 250**	8 925	12 626
Net trading income	b, c, d, e, 1, 5	**8 064**	**6 013**	982	1 750
Income from disposal of associates and subsidiaries	1	**1 772**	**1 772**	84	1 119
Other income	b, f, 1	**829**	**801**	641	1 122
Total		**21 430**	**21 763**	12 681	22 328
Operating expenses					
Personnel	b, c, g, h, i, j, 1	**9 432**	**9 923**	7 938	9 816
General and administrative	a, c, j, 1	**4 443**	**3 724**	6 141	6 617
Depreciation and amortization	a, b, j, 1	**2 472**	**1 290**	2 403	1 825
Restructuring costs	c	**658**	**0**	1 089	0
Total		**17 005**	**14 937**	17 571	18 258
Operating profit/(loss) before taxes and minority interests		**4 425**	**6 826**	(4 890)	4 070
Tax expense/(benefit)	1	**1 218**	**1 612**	(1 221)	1 045
Group profit/(loss)		**3 207**	**5 214**	(3 669)	3 025
Less: Minority interests	1	**35**	**35**	(4)	(5)
Net profit/(loss)		**3 172**	**5 179**	(3 665)	3 030

Note: References above coincide with the discussions in Note 41.1 and Note 41.4. These references indicate which IAS to US GAAP adjustments affect an individual financial statement caption.

41.6 Condensed Consolidated Balance Sheet

The following is a Condensed Consolidated Balance Sheet of the Group, as of 30 September 1999 and 31 December 1998, restated to reflect the impact of valuation and income recognition principles and presentation differences between IAS and US GAAP.

		30.09.1999		31.12.1998	
CHF million	**Reference**	**US GAAP**	**IAS**	US GAAP	IAS
Assets					
Cash and balances with central banks		**2 746**	**2 746**	3 267	3 267
Money market paper		**63 606**	**63 606**	18 390	18 390
Due from banks	3, a	**53 763**	**35 526**	103 158	68 495
Cash collateral on securities borrowed		**88 648**	**88 648**	91 695	91 695
Reverse repurchase agreements		**147 510**	**147 510**	141 285	141 285
Trading portfolio assets	b, e, 2, 3, 7	**149 380**	**162 059**	161 440	162 588
Positive replacement values	2, e	**122 270**	**121 619**	169 753	169 936
Loans, net of allowance for credit losses	3, a, k	**244 638**	**240 135**	254 750	247 926
Financial investments	b, f, 4	**2 040**	**6 283**	2 962	6 914
Accrued income and prepaid expenses		**6 809**	**6 809**	6 627	6 627
Investments in associates		**1 082**	**1 082**	2 805	2 805
Property and equipment	a, b, j	**10 966**	**10 093**	10 523	9 886
Intangible assets and goodwill	a	**20 604**	**2 227**	21 707	2 210
Private equity investments	4	**2 376**	**0**	1 759	0
Other assets	b, d, g, h, k, 4, 6	**44 347**	**11 781**	29 398	12 092
Total assets		**960 785**	**900 124**	1 019 519	944 116
Liabilities					
Money market paper issued		**67 417**	**67 417**	51 528	51 527
Due to banks	3	**95 975**	**81 624**	114 903	85 716
Cash collateral on securities lent	3	**13 029**	**13 029**	19 127	19 171
Repurchase agreements	3	**145 149**	**147 532**	136 824	137 617
Trading portfolio liabilities	3, 7	**43 004**	**43 126**	51 600	47 033
Negative replacement values	e, 2	**147 588**	**147 112**	205 090	205 080
Due to customers	3, a	**279 185**	**275 964**	282 543	274 850
Accrued expenses and deferred income		**12 075**	**12 075**	11 232	11 232
Long-term debt	a, 7	**53 723**	**55 524**	50 445	50 783
Other liabilities	a, b, c, d, f, i, 2, 3	**49 696**	**23 053**	40 476	27 722
Total liabilities		**906 841**	**866 456**	963 768	910 731
Minority interests		**370**	**370**	990	990
Total shareholders' equity		**53 574**	**33 298**	54 761	32 395
Total liabilities, minority interests and shareholders' equity		**960 785**	**900 124**	1 019 519	944 116

Note: References above coincide with the discussions in Note 41.1 and Note 41.4. These references indicate which IAS to US GAAP adjustments affect an individual financial statement caption.

41.7 Comprehensive Income

Comprehensive income is defined as the change in Shareholders' equity excluding transactions with shareholders. Comprehensive income has two major components: Net profit, as reported in the income statement, and Other comprehensive income. Other comprehensive income includes such items as foreign currency translation and unrealized gains in available-for-sale securities. The components and accumulated other comprehensive income amounts for the year ended 31 December 1998 and nine months ended 30 September 1999 are as follows:

CHF million	**Foreign currency translation**	**Unrealized gains in available-for-sale securities**	**Accumulated other comprehensive income**	**Comprehensive income**
Balance, 1 January 1998	(111)	47	(64)	
Net loss				(3 665)
Other comprehensive income				
Foreign currency translation	(345)		(345)	
Unrealized gains, arising during the year, net of CHF 89 million tax		267	267	
Less: Reclassification adjustment for gains realized in net profit, net of CHF 76 million tax		(229)	(229)	(307)
Comprehensive loss				(3 972)
Balance, 31 December 1998	(456)	85	(371)	
Net profit				**3 172**
Other comprehensive income				
Foreign currency translation	**(2)**		**(2)**	
Unrealized gains, arising during the year, net of CHF 22 million tax		**65**	**65**	
Less: Reclassification adjustment for gains realized in net profit, net of CHF 22 million tax		**(66)**	**(66)**	**(3)**
Comprehensive income				**3 169**
Balance, 30 September 1999	**(458)**	**84**	**(374)**	

Note 42 Additional Disclosures required under US GAAP

In addition to the differences in valuation and income recognition and presentation, disclosure differences exist between IAS and US GAAP. The following are additional US GAAP disclosures that relate to the basic financial statements.

42.1 Business Combinations

On 29 June 1998, Union Bank of Switzerland and Swiss Bank Corporation consummated a merger of the banks, resulting in the formation of UBS AG (the Group). New shares totaling 428,746,982were issued exclusively for the exchange of the existing shares of Union Bank of Switzerland and Swiss Bank Corporation. Under the terms of the merger agreement, Union Bank of Switzerland shareholders received 5 registered shares for each bearer share held and 1 registered share for each registered share held, totaling 257,500,000shares of the Group. Swiss Bank Corporation shareholders received 1 1/13 registered shares of the Group for each Swiss Bank Corporation registered share held, totaling 171,246,982shares. The combined share capital amounted to CHF 5,754 million. As a result of the exchange of shares, CHF 1,467 million were transferred from share capital to the share premium account. The merger was accounted under the pooling of interests method and, accordingly, the information included in the financial statements presents the combined results of Union Bank of Switzerland and Swiss Bank Corporation as if the merger had been in effect for all periods presented.

Summarized results of operations of the separate companies for the period from 1 January 1998 through 29 June 1998, the date of combination, are as follows:

CHF million	**Union Bank of Switzerland**	**Swiss Bank Corporation**
Total operating income	5 702	8 804
Net profit	739	2 772

As a result of the merger, the Group harmonized its accounting policies that have then been retrospectively applied for the restatement of comparative information and opening retained earnings at 1 January 1997. As a result, adjustments were required for the accounting for treasury shares, netting of balance sheet items, repurchase agreements, depreciation, and employee share plans.

Summarized results of operations of the separate companies for the year ended 31 December 1997 are as follows:

CHF million	**Total operating income**	**Net loss**
Union Bank of Switzerland	13 114	(129)
Swiss Bank Corporation	13 026	(248)
Total as previously reported	26 140	(377)
Impact of accounting policy harmonization	(1 260)	(290)
Consolidated	24 880	(667)

Prior to 29 June 1998, Union Bank of Switzerland and Swiss Bank Corporation entered into certain transactions with each other in the normal course of business. These intercompany transactions have been eliminated in the accompanying financial statements.

42.2 Restructuring Provision

See Note 24 for information on the restructuring provision.

At the time of the merger announcement in December 1997, it was announced that the merged bank's operations in various locations would be combined, resulting in vacant properties, reductions in personnel, elimination of redundancies in the information technology platforms, exit costs and other costs. As a result, a restructuring provision of CHF 7 000 million was established, to be used over a period of four years. At the end of September 1999, the Group had utilized CHF 5 430 million of the provision.

The restructuring provision, initially, included CHF 3 000 million for employee termination benefits; CHF 1 200 million for sale and lease breakage costs associated with the closure of premises; CHF 1 650 for information technology integration projects and write-offs of equipment; and CHF 1 150 million for other costs, including professional fees, miscellaneous transfer taxes and statutory fees. For income statement purposes, these costs would normally be classified as personnel expense, general and administrative expense or other income.

	Utilization through 30 September 1999				
CHF million	**Personnel**	**IT**	**Premises**	**Other**	**Total**
UBS Private and Corporate Clients	167	885	125	190	1 367
UBS Warburg	1 931	368	0	393	2 692
UBS Private Banking	127	100	9	13	249
UBS Asset Management	21	4	0	0	25
UBS Private Equity	4	0	0	0	4
Corporate Center	89	1	548	455	1 093
Group Total	**2 339**	**1 358**	**682**	**1 051**	**5 430**
Total Provision					**7 000**
Future Utilization					**1 570**

The employee terminations affected all functional levels and all operating divisions within the Group. The CHF 2 000 million portion of the provision related to employee severance and early retirement costs reflects the costs of eliminating approximately 7 800 positions, after considering attrition and redeployment within the Company. CHF 1 000 million of the provision relates to payments to maintain stability in the workforce during the integration period. As of 30 September 1999, approximately 5 600 employees had been severed or early retired and the remaining personnel restructuring reserve balance was CHF 661 million.

42.3 Segment Reporting

See Note 2 and Note 3 for segment reporting information.

The UBS Private Banking division ("Private Banking") serves high net worth individuals with a broad range of comprehensive wealth management services and financial products. The Group's approach is to focus on establishing long-term client relationships and emphasizing the life-time value of these relationships. Private Banking provides a number of asset-based, transaction-based and other services. Asset-based services include custodial services, deposit accounts, loans and fiduciary services while transaction-based services include trading and brokerage and investment fund services. Private Banking also provides financial planning and consulting and offers financial planning instruments to clients. These services include establishing proprietary trusts and foundations, the execution of wills, corporate and tax structuring and tax efficient investments.

UBS Warburg is a global investment bank and the leading investment bank that is headquartered in Europe. UBS Warburg provides wholesale financial and investment products and 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 on behalf of the Group and executes the vast majority of the Group's retail securities, derivatives and foreign currency exchange transactions.

The UBS Private and Corporate Clients division is the leading retail bank in Switzerland and targets individual clients with assets of up to approximately CHF 1 million and business and corporate clients in Switzerland. The UBS Private and Corporate Clients division provides a broad range of products and services to these clients, including retail banking, investment services and lending.

The UBS Asset Management division is responsible for the Group's institutional asset management business. UBS Asset Management's diverse institutional client base located throughout the world consists of corporate and public pension plans, endowments and private foundations, insurance companies, central banks and supranationals, quasi-institutions, and financial advisers.

UBS Capital is the Group's global private equity business. UBS Capital generally seek to make majority and minority equity investments in established unlisted companies, either with the Group's own capital or through sponsored investment funds, and manage these investments over a medium-term time horizon to increase the value of the investee company and "exiting" the investment in a manner that will maximize the capital gain. The division endeavors to create investment value by working together with management to develop the businesses over the medium term in order to optimize their performance.

The Corporate Center encompasses Group level functions which cannot be devolved to the divisions. Additionally, the Corporate Center plays an active role with regard to funding, capital and balance sheet management and management of foreign currency earnings.

42.4 Net Trading Income

See Note 7 for information on net trading income. Foreign exchange and bank notes trading income include gains and losses from spot and forward contracts, options, futures, and translation of foreign currency assets and liabilities. Fixed income net trading income includes the results of making markets in both developed and emerging countries in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options, and other derivatives. Equities net trading income includes the results of making markets in global equity securities and equity derivatives such as swaps, options, futures, and forward contracts.

42.5 Loans

See Note 12 for information on loans. The following table summarizes the Group's impaired loans at and for the nine month period ended 30 September 1999 and year ended 31 December 1998:

CHF million	**30.09.1999**	**31.12.1998**
Impaired loans[1, 2]	**24 748**	26 447
Amount of allowance for credit losses related to impaired loans	**13 242**	13 582
Average impaired loans[3]	**24 969**	25 939

Included in the impaired loans information above are non-performing loans, which are as set forth below. Unrecognized interest on non-performing loans was CHF 323 million and CHF 423 million for the nine-month period ended 30 September 1999 and year ended 31 December 1998, respectively.

CHF million	**30.9.1999**	**31.12.1998**
Non-performing loans	**13 594**	16 114
Amount of allowance for credit losses related to non-performing loans	**9 135**	10 006
Average non-performing loans[2]	**15 000**	16 587

1 All impaired loans have a specific allowance for credit losses.

2 Interest income on impaired loans recognized in the period ended 30 September 1999 and the year ended 31 December 1998 is immaterial.

3 Average balances for the period ended 30 September 1999 are calculated from quarterly data. Average balances for the year ended 31 December 1998 are calculated from year-end balances

42.6 Financial Investments

See Note 16 for information on financial investments. The following table summarizes the Group's financial investments as of 30 September 1999 and 31 December 1998:

CHF million	**Book value**	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
30 September 1999					
Equity Securities	**290**	**318**	**68**	**0**	**386**
Debt Securities Issued by the Swiss National Government and Agencies	**82**	**82**	**5**	**0**	**87**
Debt Securities Issued by Swiss Local Governments	**91**	**91**	**3**	**1**	**93**
Debt Securities Issued by the U.S. Treasury and Agencies	**384**	**384**	**0**	**0**	**384**
Debt Securities issued by Foreign Governments and Official Institutions	**329**	**329**	**8**	**1**	**336**
Corporate Debt Securities	**604**	**604**	**26**	**1**	**629**
Mortgage-Backed Securities	**28**	**28**	**0**	**0**	**28**
Other Debt Securities	**94**	**94**	**4**	**0**	**98**
Total	**1 902**	**1 930**	**114**	**3**	**2 041**
31 December 1998					
Equity Securities	400	423	82	0	505
Debt Securities Issued by the Swiss National Government and Agencies	85	85	8	0	93
Debt Securities Issued by Swiss Local Governments	89	89	7	0	96
Debt Securities Issued by the U.S. Treasury and Agencies	373	373	4	0	377
Debt Securities issued by Foreign Governments and Official Institutions	426	426	9	0	435
Corporate Debt Securities	1 044	1 044	4	9	1 039
Mortgage-Backed Securities	26	26	3	0	29
Other Debt Securities	384	384	5	1	388
Total	2 827	2 850	122	10	2 962

The following presents an analysis of the contractual maturities of the investments in debt securities as of 30 September 1999:

CHF million, except percentages	**within 1 year**		**1-5 years**		**5-10 years**		**over 10 years**	
	Amount	**Yield (%)**	**Amount**	**Yield (%)**	**Amount**	**Yield (%)**	**Amount**	**Yield (%)**
Swiss National Government and Agencies	26	6.17%	29	4.87%	22	4.42%	5	3.60%
Swiss Local Governments	7	5.36%	41	5.08%	43	3.86%		
U.S. Treasury and Agencies			384	4.99%				
Foreign Governments and Official Institutions	90	8.74%	222	7.73%	17	2.39%		
Corporate Debt Securities	263	3.30%	306	6.67%	33	4.43%	2	2.64%
Mortgage-Backed Securities			18	4.61%	10	2.22%		
Other Debt Securities	29	7.02%	55	5.61%	10	7.39%		
Total amortized cost	**415**		**1 055**		**135**		**7**	
Total market value	**418**		**1 090**		**139**		**8**	

Proceeds from sales and maturities of investment securities available for sale during the nine months ended 30 September 1999 and the year ended 31 December 1998 were CHF 1,345 million and CHF 1,002 million, respectively. Gross gains of CHF 90 million and gross losses of CHF 2 million were realized in 1999 on those sales, and gross gains of CHF 398 million and gross losses of CHF 92 million were realized in 1998.

42.7 Derivative Instruments

The Group uses derivative instruments for trading and non-trading purposes. All derivatives instruments held or issued for trading or used to hedge another financial instrument carried at fair value are accounted at fair value with changes in fair value recorded in Net trading income. The Group uses interest rate swaps in its asset/liability management. These interest rate swaps are accounted for on the accrual basis of accounting as an adjustment of Net interest income. No specific criteria is required for interest rate swaps to be classified on the accrual basis. Gains and losses on terminations of non-trading interest rate swaps are deferred and amortized to Net interest income over the remaining original maturity of the contract. All other derivatives used in asset/liability management are accounted for on a fair value basis of accounting due to the short term nature of these derivatives.

The following table presents the fair value, average fair value and notional amounts for each class of derivative financial instrument for the period ended 30 September 1999 and the year ended 31 December 1998 distinguished between held or issued for trading purposes and held or issued for non-trading purposes. See Note 27 for information on derivative instruments including a discussion of the distinction between trading and non-trading. Positive replacement values ("PRV") and negative replacement values ("NRV") represent the fair values of derivative instruments. Average balances for the period ended 30 September 1999 and for the year ended 31 December 1998 are calculated from quarterly data.

CHF million

Trading	**30.09.1999**					**31.12.1998**				
	total PRV	**average PRV**	**total NRV**	**average NRV**	**total notional CHF bn**	**total PRV**	**average PRV**	**total NRV**	**average NRV**	**total notional CHF bn**
Interest rate contracts	**68 457**	**84 136**	**73 071**	**83 498**	**4 142**	92 627	75 741	92 036	73 835	12 081
Foreign exchange contracts	**34 489**	**36 596**	**40 641**	**37 482**	**2 671**	41 857	49 358	45 169	45 101	2 048
Precious metals contracts	**4 565**	**4 935**	**3 999**	**4 860**	**171**	7 766	5 659	7 909	5 511	110
Equity/Index contracts	**13 767**	**16 965**	**29 172**	**38 982**	**956**	26 326	30 242	58 467	59 936	1 061
Commodity contracts	**73**	**469**	**66**	**258**	**1**	936	420	832	389	15
Total trading	**121 351**	**143 101**	**146 949**	**165 080**		169 512	161 420	204 413	184 772	

Non-trading	**30.09.1999**					**31.12.1998**				
	total PRV	**average PRV**	**total NRV**	**average NRV**	**total notional CHF bn**	**total PRV**	**average PRV**	**total NRV**	**average NRV**	**total notional CHF bn**
Interest rate contracts	**113**	**68**	**35**	**101**	**2**	84	80	156	229	10
Foreign exchange contracts	**76**	**106**	**51**	**46**	**15**	32	200	5	157	6
Equity/Index contracts	**79**	**135**	**77**	**214**	**2**	308	1 141	506	1 310	15
Total non-trading	**268**	**309**	**163**	**361**		424	1 421	667	1 696	
Total	**121 619**	**143 410**	**147 112**	**165 441**		169 936	162 841	205 080	186 468	

42.8 Retirement Benefit Plans and Other Employee Benefits

See Note 35 for information on retirement benefit plans and other employee benefits. Under U.S GAAP a reconciliation of beginning and ending balances of the plan benefit obligation is required. The following is the reconciliation of the plan benefit obligation for the Swiss and Foreign pension plans:

CHF million	**30.09.1999**	**31.12.1998**
Swiss pension plans		
Defined benefit obligation at beginning of period	**14 944**	14 431
Service cost	**337**	535
Interest cost	**467**	726
Plan amendments	**3 169**	119
Special termination benefits	**(1 076)**	0
Actuarial gain (loss)	**(571)**	6
Benefits paid	**(734)**	(873)
Defined benefit obligation at end of period	**16 536**	14 944

	30.09.1999	**31.12.1998**
Foreign pension plans		
Defined benefit obligation at beginning of period	**2 009**	1 950
Service cost	**88**	116
Interest cost	**91**	140
Plan amendments	**0**	7
Special termination benefits	**0**	(40)
Actuarial gain (loss)	**0**	(32)
Benefits paid	**(60)**	(60)
Other	**136**	(72)
Defined benefit obligation at end of period	**2 264**	2 009

Under U.S. GAAP a reconciliation of beginning and ending balances of the fair value of plan assets is required. The following is the reconciliation of the fair value of plan assets for the Swiss and Foreign pension plans:

CHF million	**30.09.1999**	**31.12.1998**
Swiss pension plans		
Fair value of plan assets at beginning of period	**17 885**	17 224
Actual return of plan assets	**1 050**	856
Employer contributions	**414**	493
Plan participant contributions	**137**	185
Benefits paid	**(734)**	(873)
Special termination benefits	**(1 076)**	0
Fair value of plan assets at end of period	**17 676**	17 885

	30.09.1999	**31.12.1998**
Foreign pension plans		
Fair value of plan assets at beginning of period	**2 173**	2 188
Actual return of plan assets	**130**	267
Employer contributions	**18**	41
Plan participant contributions	**12**	9
Benefits paid	**(60)**	(60)
Other	**321**	(272)
Fair value of plan assets at end of period	**2 594**	2 173

42.9 Other employee benefits

The United Kingdom and the United States of America offer postretirement health care benefits that contribute to the health care coverage of the employees after retirement. US GAAP presentation requires a reconciliation of beginning and ending balances of the postretirement health care benefits be disclosed. The following is the reconciliation of the postretirement health care benefits obligation:

CHF million	**30.09. 1999**	**31.12.1998**
Postretirement benefit obligation at beginning of period	**96**	103
Service cost	**2**	7
Interest cost	**5**	8
Plan amendments	**0**	5
Actuarial gain (loss)	**0**	9
Benefits paid	**(3)**	(4)
Other	**9**	(32)
Postretirement benefit obligation at end of period	**109**	96

Under U.S. GAAP a reconciliation of beginning and ending balances of the postretirement plan assets is required. The following is the reconciliation of the postretirement care plan assets:

CHF million	**30.09.1999**	**31.12.1998**
Fair value of plan assets at beginning of period	**3**	3
Actual return of plan assets	**0**	1
Company contributions	**3**	3
Benefits paid	**(3)**	(4)
Fair value of plan assets at end of period	**3**	3

The assumed health care cost trend rate used in determining benefit expense for September 1999 is 4.6%. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would increase the US postretirement benefit cost by 5.6% and decreases the benefit cost by 3.6%.

42.10 Equity Participation Plans

See Note 36 for information on equity participation plans. Additional disclosure for the equity participation plans required by US GAAP follows. The accrued expense for the nine months ended 30 September 1999 and year ended 31 December 1998 was CHF 354 million and CHF 996 million, respectively. The 1998 accrual covers equity instruments issued in 1999 (generally awards are issued in the beginning of the following year). The 1999 accrual covers additional equity instrument awards and stock purchase awards issued in 1999, the Group has not yet determined the awards to be made under its plans for the full year.

Stock award and stock purchase plans

The following table shows the shares awarded and the weighted-average fair-market value per share for these plans. The fair values for the stock purchase awards reflect the purchase price paid. For 1999, in addition to the 1998 plan-year awards, the stock bonus awards include 978,000 shares issued in an exchange for previously issued non-share awards and for special bonuses and the stock purchase awards include 618,000 shares issued for the first six months of the year.

Stock Bonus Plans	**30.9.1999**	31.12.1998
Shares awarded	**3 042 000**	2 524 000
Weighted-average fair-market value per share (in CHF)	**221**	210

Stock Purchase Plans	**30.9.1999**	31.12.1998
Shares awarded	**1 756 000**	1 338 000
Weighted-average fair-market value per share (in CHF)	**149**	155

Shares awarded in 1998 under both types of plans included Swiss Bank Corporation shares issued to employees prior to the merger. For the above table, the number of these shares and their fair market value have been adjusted for the 1 1/13 Swiss Bank Corporation to UBS AG share conversion rate of the merger.

Stock Option Plans

During 1998, options that had been issued to Swiss Bank Corporation employees were revised to reflect the 1 1/13 SBC to UBS AG share conversion rate of the merger. Also, during 1998, because of a significant drop in UBS AG share price in the third quarter, employees were given the opportunity to convert options received earlier in the year with a strike price of CHF 270 to a reduced number (2/3) of options with a strike price of CHF 170. The stock option award information in Note 36 reflects both these changes.

Companies that apply APB 25 in determining compensation costs for stock-based compensation awards are required to disclose the effects of the application of the "fair value method" determined under the guidance provided in SFAS No. 123. Under SFAS No. 123, the fair value of compensation cost is recognized, using option pricing models intended to estimate the fair value of the awards at the grant date. The table below illustrates the pro forma effects of applying the fair value method.

CHF million, except per share data		**30.9.99**	31.12.98
Net income	As reported	**5 179**	3 030
	Pro forma	**5 075**	2 951
Basic EPS	As reported	**12.43**	7.15
	Pro forma	**12.18**	6.97
Diluted EPS	As reported	**12.36**	7.11
	Pro forma	**12.11**	6.93

The pro forma amounts in the table above reflect the vesting periods of all options granted. The effects of applying the guidance contained in SFAS 123 for recognizing compensation expense and providing pro forma disclosures are not likely to be representative of the effects on reported Net profit for future years.

The weighted-average fair-value of options granted in 1999 and 1998 was CHF 58 and CHF 54 per share, respectively. The fair value of options granted was determined as of the date of issuance using a proprietary option pricing model, substantially similar to the Black-Scholes, with the following assumptions:

	30.9.1999	31.12.1998
Expected volatility	**33%**	40%
Risk free interest rate	**2.30%**	2.56%
Expected dividends	**6.2**	6.9
Expected life	**6 years**	6 years

42.11 Regulatory capital

Internationally, it has been agreed that the Bank for International Settlements (BIS) ratio must be at least 8%. At 30 September 1999, the Group's BIS ratio and Tier 1 ratios were 13.9% and 10.2%, respectively, as compared to 13.3% and 9.3%, respectively, as of 31 December 1998. At 30 September 1999, the Group was adequately capitalized under the regulatory provisions outlined under BIS.

Interim Consolidated Financial Statements

UBS AG

Nine month periods ended 30 September 1999 and 1998

UBS Group Income Statement

For the nine month period ended	**30.09.1999**	30.09.1998 (unaudited)
CHF million, except per share data		
Operating income		
Net interest income	**4 837**	4 954
Less : Credit loss expense	**910**	464
Total	**3 927**	4 490
Net fee and commission income	**9 250**	9 702
Net trading income	**6 013**	598
Income from disposal of associates and subsidiaries	**1 772**	1 196
Other income	**801**	633
Total	**21 763**	16 619
Operating expenses		
Personnel	**9 923**	7 205
General and administrative	**3 724**	4 606
Depreciation and amortization	**1 290**	1 343
Total	**14 937**	13 154
Operating profit before tax and minority interests	**6 826**	3 465
Tax expense	**1 612**	907
Group profit	**5 214**	2 558
Less : Minority interests	**35**	(42)
Net profit	**5 179**	2 600
Basic earnings per share (CHF)	**12.43**	6.13
Diluted earnings per share (CHF)	**12.36**	6.10

UBS Group Balance Sheet	**30.09.1999**	31.12.1998
CHF million		
Assets		
Cash and balances with central banks	**2 746**	3 267
Money market paper	**63 606**	18 390
Due from banks	**35 526**	68 495
Cash collateral on securities borrowed	**88 648**	91 695
Reverse repurchase agreements	**147 510**	141 285
Trading portfolio assets	**162 059**	162 588
Positive replacement values	**121 619**	169 936
Loans, net of allowance for credit losses	**240 135**	247 926
Financial investments	**6 283**	6 914
Accrued income and prepaid expenses	**6 809**	6 627
Investments in associates	**1 082**	2 805
Property and equipment	**10 093**	9 886
Intangible assets and goodwill	**2 227**	2 210
Other assets	**11 781**	12 092
Total assets	**900 124**	944 116
Total subordinated assets	***601***	*496*
Liabilities		
Money market paper issued	**67 417**	51 527
Due to banks	**81 624**	85 716
Cash collateral on securities lent	**13 029**	19 171
Repurchase agreements	**147 532**	137 617
Trading portfolio liabilities	**43 126**	47 033
Negative replacement values	**147 112**	205 080
Due to customers	**275 964**	274 850
Accrued expenses and deferred income	**12 075**	11 232
Long-term debt	**55 524**	50 783
Other liabilities	**23 053**	27 722
Total liabilities	**866 456**	910 731
Minority interests	**370**	990
Shareholders' equity		
Share capital	**4 306**	4 300
Share premium account	**13 873**	13 740
Foreign currency translation	**(458)**	(456)
Retained earnings	**19 380**	16 293
Treasury shares	**(3 803)**	(1 482)
Total shareholders' equity	**33 298**	32 395
Total liabilities, minority interests and shareholders' equity	**900 124**	944 116
Total subordinated liabilities	***14 329***	*13 652*

UBS Group Statement of Changes in Equity

For the nine month period ended *CHF million*	**30.09.1999**	30.09.1998 (unaudited)
Issued and paid up share capital		
Balance at the beginning of the period	**4 300**	4 296
Issue of share capital	**6**	4
Balance at the end of the period	**4 306**	4 300
Comprising 430,578,786and 429,907,926, respectively, ordinary registered shares at CHF 10 each, fully paid		
Share premium account		
Balance at the beginning of the period	**13 740**	13 260
Premium on shares issued, warrants exercised	**9**	150
Premium/(loss) on disposal of Treasury Shares	**124**	(310)
Balance at the end of the period	**13 873**	13 100
Foreign currency translation		
Balance as at beginning of the period	**(456)**	(111)
Movements during the period	**(2)**	56
Balance at the end of the period	**(458)**	(55)
Retained earnings		
Balance at the beginning of the period	**16 293**	15 464
Net profit for the period	**5 179**	2 600
Dividends proposed and paid	**(2 092)**	(2 236)
Balance at the end of the period	**19 380**	15 828
Treasury shares, cost		
Balance as at beginning of the period	**(1 482)**	(1 982)
Acquisitions	**(3 377)**	(2 317)
Disposals	**1 056**	3 324
Balance as of the end of the period	**(3 803)**	(975)
Total shareholders' equity	**33 298**	32 198

UBS Group Statement of Cash Flows

For the nine month period ended

CHF million	**30.09.1999**	30.09.1998 (unaudited)
Net cash from (used in) operating activities	**(4 326)**	3 003
Cash flow from investing activities		
Investments in subsidiaries and associates	**(308)**	(1 376)
Purchase of property and equipment	**(1 969)**	(1 613)
Disposal of subsidiaries and associates	**3 650**	1 377
Disposal of property and equipment	**420**	695
Net decrease in financial investments	**1 004**	4 987
Net cash flow from investing activities	**2 797**	4 070
Cash flow from financing activities		
Money market paper issued/ (redeemed)	**15 890**	(9 111)
Net movements in Treasury Shares	**(2 197)**	697
Capital increase	**15**	154
Dividends paid	**(2 092)**	(2 236)
Issue of long term debt	**8 141**	1 628
Repayment of long term debt	**(3 400)**	(7 207)
Repayment of minority interests	**(689)**	0
Net cash flow used in financing activities	**15 668**	(16 075)
Effects of exchange rate differences	**67**	88
Net increase / (decrease) in cash equivalents	**14 206**	(8 914)
Cash and cash equivalents, beginning of year	**83 679**	92 354
Cash and cash equivalents, end of year	**97 885**	83 440
Cash and cash equivalents comprise:		
Cash and balances with central banks	**2 746**	3 261
Money market paper	**63 606**	14 191
Bank deposits maturing in less than 3 months	**31 533**	65 988
Total	**97 885**	83 440

Note 1 Basis of Presentation

The interim consolidated financial statements of the Group have been prepared in accordance with and comply with IAS 34 “External Financial Reporting”. These financial statements do not include all the information and the footnotes required by IAS for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements for the nine months ended 30 September 1998 reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of financial position, results of operations and cash flows of the Group for the interim periods presented in accordance with IAS and are not necessarily indicative of all full year’s results. In preparing the unaudited interim consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

These interim consolidated financial statements should be read in conjunction with and qualified by reference to the Consolidated Financial Statements and notes thereto for the nine months ended 30 September 1999, and for each of the two years ended 31 December 1998 included elsewhere herein.

Note 2 Segment Reporting by Business Division

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

For the nine month period ended 30 September 1998 (unaudited)

CHF millions	**UBS Private Banking**	**UBS Warburg**	**UBS Private & Corporate Clients**	**UBS Asset Management**	**UBS Private Equity**	**Corporate Center**	**Total**
Operating income/(loss)	6 211	4 566	5 141	868	499	(202)	17 083
Less : Credit loss expense (expected losses) [1]	20	294	780	0	0	(630)	464
Total	6 191	4 272	4 361	868	499	428	16 619
Personnel, general and administrative expenses	2 241	4 993	3 123	486	94	874	11 811
Depreciation and amortization	93	509	503	87	0	151	1 343
Total	2 334	5 502	3 626	573	94	1 025	13 154
Segment performance before tax	3 857	(1 230)	735	295	405	(597)	3 465
Tax expense							907
Group profit							2 558
Less: Minority interests							(42)
Net profit							2 600

1 In order to show the relevant divisional performance over time, expected loss figures rather than the net credit loss expense are reported for all business divisions. The statistically derived adjusted expected losses reflect the inherent counterparty and country risks in the respective portfolios. The difference between the statistically derived expected loss figures to the financially booked net credit loss expenses at Group level is reported in the Corporate Center. The divisional breakdown of the financially booked credit loss expense of CHF 464 million as of 30 September 1998 is as follows: UBS Private Banking CHF 58 million, UBS Warburg CHF 219 million, and UBS Private and Corporate Clients CHF 187 million.

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

Note 3 Income Statement Analysis

Net Fee and Commission Income

CHF million	**30.9.1999**	30.9.1998 (unaudited)
Credit-related fees and commissions		
Guarantee and letter of credit commissions	**144**	209
Other	**156**	222
Total	**300**	431
Security trading and investment activities fees		
Underwriting and corporate finance fees	**1 251**	1 305
Brokerage fees	**2 810**	2 921
Fiduciary fees	**243**	269
Custodian fees	**1 278**	1 046
Portfolio and other management fees and advisory fees	**2 101**	2 469
Investment fund fees	**1 405**	1 387
Other	**75**	80
Total	**9 163**	9 477
Commission income from other services	**575**	559
Total Fee and Commission Income	**10 038**	10 467
Commission expense		
Brokerage fees paid	**567**	537
Other	**221**	228
Total	**788**	765
Net Fee and Commission Income	**9 250**	9 702

Net Trading Income

Foreign exchange and bank notes	**673**	1 425
Fixed income	**1 378**	(764)
Equities	**3 900**	(121)
Precious metals / commodities	**62**	58
Total	**6 013**	598

Note 3 Income Statement Analysis (continued)

Other Income

CHF million	**30.9.1999**	30.9.1998 (unaudited)
Net income from financial investments	**336**	268
Income from investments in associates	**116**	181
Net income from real estate holdings	**88**	28
Other	**261**	156
Total	**801**	633

Operating Expense

Personnel expenses		
Salaries and bonuses	**7 672**	5 175
Contractors	**609**	357
Insurance and social contributions	**562**	394
Contributions to retirement benefit plans	**337**	467
Employee share plans	**131**	140
Other personnel expenses	**612**	672
Total	**9 923**	7 205
General and Administrative Expenses		
Occupancy expense	**599**	624
Maintenance expense	**216**	287
Telecommunications and transportation	**548**	601
Administrative expense	**476**	580
Marketing and public relations expense	**192**	164
Travel and entertainment	**379**	383
Professional fees, including IT outsourcing	**1 236**	1 197
Other	**78**	770
Total	**3 724**	4 606
Depreciation and Amortization		
Property and equipment	**1 038**	1 125
Intangible assets and goodwill	**252**	218
Total	**1 290**	1 343
Total Operating Expenses	**14 937**	13 154

Note 4 Earnings per Share

For the nine month period ended	**30.09.1999**	30.09.1998 (unaudited)
Basic earnings per share calculation		
Net profit for the period (CHF million)	**5 179**	2 600
Weighted average shares outstanding:		
Registered ordinary shares	**430 434 800**	429 631 964
Less : Treasury Shares	**13 786 746**	5 369 716
Weighted average shares for basic earnings per share	**416 648 054**	424 262 248
Basic earnings per share (CHF)	**12.43**	6.13
Diluted earnings per share calculation		
Net profit for the period (CHF million)	**5 179**	2 600
Weighted average shares for basic earnings per share	**416 648 054**	424 262 248
Add: Potential ordinary shares resulting from the issuance of outstanding options and warrants	**2 277 264**	1 966 536
Weighted average shares for diluted earnings per share	**418 925 318**	426 228 784
Diluted earnings per share (CHF)	**12.36**	6.10

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

Note 5 Comprehensive Income

Comprehensive income for the nine month periods ended 30 September 1999 and 1998 was CHF 5,177 million and CHF 2,700 million, respectively, consisting of net profit earned for period adjusted for foreign currency translation not recognized in the income statement.

Note 6 Restructuring Provision

For a discussion of the Group's restructuring costs for 30 September 1999, refer to Note 24 of the Group's 30 September 1999 financial statements included elsewhere herein.

The following table shows the usage of the restructuring provision as of 30 September 1998:

CHF million	**Personnel**	**IT**	**Premises**	**Other**	**Total Usage 30.9.1998**
UBS Private & Corporate Clients	68	142	0	16	226
UBS Warburg	1 543	81	50	204	1 878
UBS Private Banking	48	4	0	4	56
UBS Asset Management	3	0	0	1	4
UBS Private Equity	0	0	0	0	0
Corporate Center	51	1	0	170	222
Group Total	**1 713**	**228**	**50**	**395**	**2 386**

Note 7 Reconciliation of IAS shareholders' equity and net profit to US GAAP (unaudited)

	30.09.1998	
CHF million	**Shareholders' Equity**	**Net profit**
Amount determined in accordance with IAS	32 198	2 600
Adjustments in respect of:		
a. SBC purchase accounting:		
Goodwill and other identifiable intangible assets	22 044	(432)
Other purchase accounting adjustments	(987)	(2 682)
b. Harmonization of accounting policies	105	(666)
c. Restructuring provision	3 332	(2 598)
d. Derivative instruments held or issued for non-trading purposes	887	(570)
e. Own shares and derivatives on own shares - trading	(2793)	160
f. Financial investments	101	17
g. Retirement benefit plans	1 821	73
h. Other employee benefits	(21)	(15)
i. Equity participation plans	(25)	0
Sub-total	24 464	(6 713)
Tax effect of the adjustments	(338)	1 056
Total adjustments	24 126	(5 657)
Amounts determined in accordance with US GAAP:	56 324	(3 057)

The valuation and income recognition differences between IAS and US GAAP are described in Note 41.

Pro forma Net Profit

UBS AG

Year ended 31 December 1998

Reconciliation of unaudited pro forma consolidated Net profit

The Group consolidated financial statements and related notes reflect the inclusion of Swiss Bank Corporation for the full year ended 31 December 1998 as accounted for under the pooling of interest method. The reconciliation of IAS net profit to US GAAP in Note 41 to the consolidated financial statements includes Swiss Bank Corporation from the date of its acquisition, 29 June 1998 accounted for under the purchase method.

The pro forma information below repeats in summary form the UBS Group income statement for the year ended 31 December 1998, in which Swiss Bank Corporation is included for the full year, followed by the adjustments necessary to reconcile net profit to US GAAP and to derive pro forma net profit on a US GAAP basis giving effect to the acquisition of Swiss Bank Corporation as of 1 January 1998. This unaudited pro forma Group income statement information has been presented for informational purposes only and should not be construed as indicative of the Group's results of operations on a US GAAP basis had the acquisition of Swiss Bank Corporation occurred on 1 January 1998.

CHF million	**Year ended 31.12.1998**
Net interest income	6 662
Less: Credit loss expense	951
Total	5 711
Net fee and commission income	12 626
Net trading income	1 750
Income from disposal of associates and subsidiaries	1 119
Other income	1 122
Total	22 328
Operating expenses	18 258
Operating profit before taxes	4 070
Tax expense	1 045
Group profit	3 025
Less: Minority interests	(5)
Net profit determined in accordance with IAS	3 030

Reconciliation of unaudited pro forma consolidated Net profit (continued)

UBS Group net profit determined in accordance with IAS	3 030	
Total UBS AG adjustments to reconcile to US GAAP	(6 695)	
UBS Group net loss determined in accordance with US GAAP		(3 665)
Pro forma adjustments:		
Swiss Bank Corporation IAS Net profit (1.1.1998 - 29.06.1998)	2 772	
Adjustments for valuation and income recognition differences between IAS and US GAAP: [1]		
Restructuring provision	(311)	
Derivative instruments held or issued for non-trading purposes	229	
Own shares and derivatives on own shares - trading	(176)	
Financial investments	23	
Retirement benefit plans	5	
Sub-total	(230)	
Tax effect of the adjustments	(19)	
Total Swiss Bank Corporation adjustments to reconcile to US GAAP		(249)
Swiss Bank Corporation Net profit determined in accordance with US GAAP		2 523
Other pro forma purchase accounting US GAAP adjustment		
Amortization of goodwill (1.1.1998 - 29.06.1998)	(864)	
Other purchase accounting adjustments	181	
Other pro forma purchase accounting US GAAP adjustment		(683)
Pro forma net loss determined in accordance with US GAAP		(1 825)

[1] The valuation and income recognition differences between IAS and US GAAP are described in Note 41. The restructuring provision presented above does not include the restructuring provision recorded by Swiss Bank Corporation and Union Bank of Switzerland due to the fact that it is non-recurring.