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Distributed Speech

Marcel Ospel
Luqman Arnold

2nd Annual Investors' Day

Group Presentation to
Investors, Analysts and Media

Zurich, 14 December 1999

The spoken word is valid

MARK BRANSON

Slide 0: UBS Investors' Day

Good morning, ladies and gentlemen. My name is Mark Branson, and I am responsible for Investor Relations.

I am pleased to welcome you here today to the second annual UBS Investors' Day.

Slide 1: Agenda

On the screen above, you can see the order of the day's presentations. There is a corresponding agenda with the timings of the sessions at the front of your handout folders.

The morning session starts with the Group presentation given by Marcel Ospel and Luqman Arnold, after which the other members of the Group Executive Board will present their divisions.

Stephan Haeringer will discuss Private and Corporate Clients, Rudi Bogni private banking, and Peter Wuffli asset management.

Slide 2: Agenda (continued)

In the afternoon, Pierre De Weck will present the private equity business followed by Markus Granziol speaking on investment banking.

In addition to the Group and divisional presentations, there will be a presentation on our e-services initiatives given by Bill Johnson, member of the Group Managing Board.

Over lunch, and drinks following the closing of the formal agenda, members of the Group Executive Board and Bill Johnson will be available to chat with you informally.

In general, we have planned around 10 - 15 minutes of questions and answers to follow each presentation.

An exception to this is the Group presentation, which has half an hour of questions and answers scheduled. For this session, we have also invited other senior managers to be present, including the Chief Credit Officer, Chief Risk Officer and the Group Controller.

This year we have invited the financial media to attend the Group presentation along with our analysts and investors, and hence Bernhard Stettler, Head of Group Public Relations, is also with us.

Following the question and answer session, the media will have the opportunity to meet separately with Marcel Ospel and Luqman Arnold for follow-up interviews and questions.

Overall, we hope that you will find today's event informative. We have several important messages and initiatives to communicate to you throughout the day.

I would now like to hand over to Marcel Ospel.

MARCEL OSPEL

Slide 3: UBS Investors' Day: UBS Group

Ladies and gentlemen, representatives from the media, analysts and investors, welcome.

I know that you are expecting to hear today how we are going to deal with the key issues facing UBS. Foremost in our minds are:
- Re-igniting growth in Private Banking
- Our financial targets
- Cost control, and
- Communication.

Throughout the day, we will highlight to you the specific initiatives we are putting in place to tackle these areas. That said, we will also demonstrate to you our unique positioning, the enviable strength of our franchise and the breadth of our growth-focused initiatives.

First, I will take you through an analysis of the UBS Business Model. I will spend significant time on this to emphasize exactly why we believe we have a unique proposition in our Group structure and concept.

I will follow this with an explanation of our Group-wide and divisional initiatives.

Following my part of the presentation, Luqman Arnold will discuss in detail our financial targets strategy and cost control initiatives, our capital management strategy, and finally will give a perspective on how risk management and control directly add to UBS's shareholder value.

Slide 4: Group Mission

At UBS we have a clear mission.

And that is:
- to provide above-average returns to shareholders
- to provide clients with superior value-added investment services
- to be an employer of choice, and
- to be a good corporate citizen

Today is, of course, primarily about our plans to deliver on the first part of the mission.

By the end of the day, we expect to have demonstrated to you the strength and depth of our commitment to consistently realizing that goal.

Slide 5: UBS Business Model and Positioning (Agenda)

I would like to start with the UBS Group business model and positioning.

The Group model is central to how UBS functions -- and ultimately to our valuation.

Slide 6: Business Model Options -- Niche

Here I provide a framework for analyzing industry players – helping to explain precisely where we are positioned in the financial services landscape.

Along the top row, we find a range of client segments:
- High-net-worth clients are basically private banking clients
- Retail clients are private individuals as well as small- and medium-sized organizations
- Wholesale clients are institutions, such as pension and mutual funds, larger corporates, or sovereigns
- Market participants are financial services providers such as, for example, UBS

The left column represents financial services industry competencies:
- Asset management includes asset allocation and portfolio management
- Research and advisory encompasses for example equity research, M&A, as well as financial advisory services for clients
- Execution and risk management is, for example, securities sales and trading as well as management of the risk inherent in capital market activities
- Retail / corporate / transaction banking comprises banking services such as payment transactions, custody services and trade finance business as well as the standard retail credit-driven businesses
- Insurance can include both life and non-life
- Clearing and depository services represent clearing and settlement vehicles at the level of market infrastructure

As we go through the presentation, I will give examples of how financial services providers map to the matrix. Obviously, these examples are not all guaranteed to be exact fits.

To start with, we look at the niche player.

Typically this type of player focuses on the provision of a single business competency to a single client segment. Examples of firms favoring this model are:
- Private Bank: Cantrade
- Retail e-broker: E*TRADE
- Investment Bank: Lazard Brothers
- Retail Bank: Halifax
- Central Securities Depository: CREST

Niche players do not typically grow into dominant financial services providers.

However, they do act strongly in shaping the industry because of their intense and targeted focus on a particular business competency.

These players often provide much needed incentives for change in the industry.

For example, e-brokers have recently acted as both catalyst and role model. In the US, companies like Charles Schwab, Ameritrade, and E*TRADE amongst others have captured significant assets and trading volumes from traditional full service and execution-only brokers.

However, they are vulnerable to those larger firms with stronger client franchises and broader client service offerings who successfully reinvent their business model through adoption of the new technologies.

Slide 7: Business Model Options - Focus

Focus players concentrate on either:
- a specific business competency which they offer to clients across the board, or
- a specific set of clients to whom they offer a full range of business competencies.

Examples of firms based on this model include:
- Focused investment manager: Fidelity
- Focused retail, corporate or transaction bank: Bank of New York
- Focused institutional service provider: State Street

There are also a number of firms that focus on the geographical dimension, which is not shown here, for example Standard Chartered in emerging markets.

There is no doubt that focused providers can deliver attractive returns through applying specific expertise. One question is the extent to which they can be insulated from the shifting patterns of client demands and the changing financial services value chain.

Slide 8: Business Model Options - Investment Services

"Global investment services firm" is a phrase we use frequently. Now I will demonstrate absolute clarity in our definition.

It includes the full range of end-clients from high-net-worth individuals through retail clients to institutional and corporate clients. It covers the business competencies of asset management, research and advisory, and execution and risk management.

This grouping is a uniquely attractive combination of profitable and growing client and business segments.

It encompasses asset gathering businesses across all client types including, in particular, the fast-growing high-net-worth, affluent and defined contribution segments. It also includes our definition of investment banking, providing competitive product and risk management expertise to the asset gathering businesses. The investment bank also serves its own institutional and corporate client base, profiting from access to the rapidly expanding global securities markets.

Slide 9: Business Model Options - Multi-Business and Add-Ons

Global multi-business is our phrase for the combination of global investment services with other competencies, including retail banking, corporate banking, and transaction banking.

Examples of firms based on this model would include Chase and Deutsche Bank. At this level, the financial services provider becomes very broad indeed, perhaps broader than we would seek to be.

In contrast, other "add-on" competencies can be attached selectively to the basic models. These include bancassurance, a model favored by Citigroup and Fortis, or alliances with clearing houses such as the long-term relationship between J.P. Morgan and Euroclear, the termination of which was recently announced.

Slide 10: Business Model - UBS

This vision is not a sound-bite, but reflects careful positioning in the most attractive business segments and a strong embedded vision of our identity.

Slide 11: Group Vision: Integrated Client Service Model

So far, we have explained our vision of an integrated investment services provider with the exception of one word: "integrated." What do we mean by integrated and why does this give us what we see as a unique competitive advantage?

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

The base that these divisions provide allows us to offer the full range of value-added services to clients of our private banking and Private and Corporate Clients divisions, including:

- foreign exchange and money market products
- research
- securities trading and execution
- derivatives and risk management products and services
- asset and portfolio management services
- investment funds, including private equity funds

The integrated model allows us to capture in-house the profitability from the vast majority of the value chain. This insulates us from potential shifts in the allocation of margins as the industry transforms.

We are not so bold as to believe that we can predict how the value will be divided five years from now. However, with our spectrum of leading businesses, we are uniquely positioned to capture a significant share, whatever the future shape of the industry.

Slide 12: Core Message

UBS has specifically selected and is completely committed to its business model as a global, integrated investment services firm and the leading bank in Switzerland.

We believe that our current mix of businesses is essential to the success of this model.

Based on these strong foundations, we reaffirm the continuity of UBS Group and divisional strategies.

The initiatives outlined today have the strength, breadth and common strategic vision to deliver sustainable success for the UBS Group.

I am convinced of the power of the UBS Group business model and our positioning in the context of industry trends. The model is the vital underpinning for our strategies. And the initiatives we have under way throughout the Group will realize the benefits of these strategies.

In addition, I know that you all have high expectations of us with respect to communicating our strategy and our results.

We commit to working closely with
- you, the investors
- you, the analysts, and
- you, the media.

Slide 13: Summary of Group Initiatives (Agenda)

Now I will move on to a discussion of our Group-wide and divisional initiatives.

We will cover seven major Group-level initiatives. These are:
- optimizing our brand architecture
- our e-services programs
- aligning shareholder and employee interests
- our revised financial targets policy
- our cost-control commitments
- our application for SEC registration, and
- our new approach to capital management.

I will now cover the first three of these seven initiatives, and will then elaborate on the breadth of the growth initiatives driven by our divisions. Luqman Arnold will cover the remaining four Group-level initiatives.

Slide 14: Financial Market Environment: Selected Trends

A discussion on trends in the financial services industry is a commonly used theme for presentations like this. Instead of a comprehensive survey of these trends, I have picked out here three of the most relevant themes for UBS today.

First, banking products are becoming more and more commoditized. Uniqueness no longer lies in the capability to deliver a product, and brand is an increasing differentiator. Importantly, a pan-European "mega-brand" in the financial services sector has yet to be established.

Second, while technology is significantly impacting most sectors of the global economy, it is revolutionizing the financial services sector.

The internet, in particular, has completely changed how we think about distribution channels.

- It is lowering the traditionally high barriers to entry in the financial services industry
- And the Internet is fertile soil for a number of intriguing and stimulating new entrants. These new start-ups are acting as catalysts for the e-commerce strategies of mainstream players such as ourselves.

In this environment, adaptability and focus are key to success.

Third, there is increasing focus on the alignment of employee and shareholder interests. That alignment is best achieved through equity-related compensation.

Slide 15: Branding

As products in the industry are becoming -- to a greater extent -- homogeneous, clients will differentiate among financial services providers more and more through how products are packaged and combined, through quality of service, and through distinctive brand perceptions.

UBS has a unique brand. To better leverage this asset, UBS has decided to bring its corporate range of brands more in line with its concept of a global, integrated investment services firm.

Our new brand architecture reflects the integrated Group concept and organization more closely.

This initiative is a re-alignment of the previous UBS branding portfolio and not a re-branding of the businesses.

The core brand will remain. It consists of the "keys symbol," the name "UBS," and the descriptor "Financial Services Group."

The core brand of the "keys symbol" and the name "UBS" will be reflected in the brands of each division. Furthermore, all divisional brands will make reference to the specific business in which the division engages.

While we are communicating the strategic decision to change the brand architecture of UBS now, we will be implementing this architecture in a phased manner.

In summary, while the impact of technology may be pushing the financial services industry away from the traditional *manner* of doing banking, the traditional *values* of banking will remain.

Our brand reflects these values and what we stand for, most importantly: financial strength, integrity and expertise as well as security and confidentiality. Together, these values create our vision of a community of success.

Slide 16: Leveraging Technology in Finance

Technology is transforming the financial services industry.

Disintermediation is not just a threat but a reality. But as increasing amounts of commerce move on-line, a trusted brand will stand out amongst the new entrants as a powerful symbol of reliability, both attracting and retaining customers.

I should emphasize that the internet is more than a new delivery channel. We are consistently being shown its potential for developing new ways of packaging products and services.

UBS is determined to be part of the technological elite. Our success and reputation, especially in investment banking, has been substantially based on our record of technological innovation.

We clearly understand that technology will be the key enabler of business growth and are making significant investments in using technology to enhance client service and solutions.

Slide 17: e-services

The critical importance of learning how to manage and profit from these new channels means that we cannot approach e-services in a fragmented way.

All our divisions are internet-enabling their existing business, and more importantly they are building new client franchises and creating new specific products and offerings.

At a Group level, the Internet will provide the principal delivery platform for the implementation of our pan-European asset gathering proposition.

To bring this all together, we have appointed Bill Johnson to drive this new European initiative and to coordinate all e-services activities throughout the Group.

Slide 18: Human Resources

In terms of human resources, we strive to be *the* team that talented people compete to be part of.

This means that we must provide a challenging, meritocratic culture where bright people excel at what they do in an atmosphere of intellectual honesty. And it also means that we must have the human resources infrastructure that attracts, retains and develops them in such a way that top-notch performance is ensured.

We will continue to recruit the very best. We have set an ambitious target of recruiting 600 graduates annually; half for Switzerland and half for the rest of the world. They must be in the top 20% of their peer group. To illustrate our selectivity, we received over 11,000 graduate applications in the 12-month period ending 30 June 1999. We hired less than 5%.

Our professional hires must not only have the expertise we need, they must also have a cultural awareness that will help them to flourish in a diverse organization such as ours.

Directly linked to the reward process, an industry-leading web-based HR management tool is helping UBS to measure employee contribution and identify employee competencies.

An integral part of our retention program is our competitive compensation strategy, providing us with strong pay-to-performance relationships. UBS delivers a significant compensation component of employees' pay in the form of equity-based compensation because we believe this mode of compensation truly aligns employee and shareholder interests. UBS has a number of equity-based pay programs and UBS employees potentially hold more than CHF 4 billion in the company, in vested and unvested options and shares.

Slide 19: Growth Initiatives: Highlights

To conclude, I would like to run through a further selection of the most important initiatives supporting our strategies.

In Private Banking, we will leverage from the investments already made in domestic private banking outside Switzerland.

We will increase the promotion of sophisticated high-margin advisory and wealth management products.

And, we will continue to extend the range of investment styles available to our private clients, as evidenced by our announced acquisition of Global Asset Management.

I am totally committed to delivering the turn-around that you all expect in our Private Banking asset and profitability growth.

I would remind you that this time last year you made the same demands of Warburg Dillon Read's performance -- and UBS and Warburg Dillon Read have delivered. In the same way, but in a quite different set of circumstances, we will deliver in Private Banking.

Slide 20: Growth Initiatives: Highlights

We will continue to build the scope and profitability of our investment banking franchise.

Markus Granziol will demonstrate to you the strength of our institutional client franchise. E-commerce will become our primary tool for adding value to that franchise.

At the same time, we will strengthen our corporate client franchise focusing on targeted global sectors.

UBS Warburg is already showing results from its cost control programs, including strong downward pressure on non-personnel costs and a rigorous approach to prioritizing investment spend.

Slide 21: Growth Initiatives: Highlights

In Switzerland, UBS will emphasize the development of its corporate banking franchise with an emphasis on advice and solutions.

We will continue to capitalize on our leading Swiss e-commerce platform as part of our best-in-class multi-channel distribution strategy.

The Strategic Initiatives Portfolio is our primary tool for delivering revenue enhancements and cost reductions. We will continue to manage the portfolio aggressively and expect to be able to communicate substantial success over the coming years, including of course next year.

Slide 22: Growth Initiatives: Highlights

In asset management, diversification of investment styles will extend our range of products and offerings to individual, corporate and institutional clients across the Group. This will coincide with the expansion of investment capabilities across the spectrum of asset classes, as characterized by the Allegis real estate management acquisition.

We will also be combining and expanding Alternative Asset Management capabilities across the group.

Slide 23: Growth Initiatives: Highlights

In private equity, we will continue to build our portfolio significantly through increased focus on funds -- which are already very successfully cross-sold throughout the divisions -- matched by UBS investment.

The record and potential of our private equity business are second to none. We believe that the market significantly undervalues this division.

Slide 24: UBS Strengths

To conclude my part of the Group presentation, I believe that UBS is in the privileged position of having a uniquely strong franchise.

These strengths include:
- a leading industry position across all our core businesses
- strong ratings and capitalization
- a unique client franchise and brand
- a record of technological innovation and a compelling e-services story
- sound risk management and control capabilities
- proven expertise in mergers and acquisitions, and their successful integration, and
- a culture which embraces change

From this privileged position, we will continue to launch the initiatives necessary to create substantial sustainable value for you, our shareholders.

I will now hand over to Luqman Arnold.

LUQMAN ARNOLD

Slide 25: Luqman Arnold (Agenda)

Slide 26: Agenda

Thanks, Marcel.

I will now discuss in detail our financial targets strategy and cost control initiatives, our SEC registration plans, our capital management strategy, and finally I will give a perspective on how risk management and control directly add to UBS's shareholder value.

Slide 27: Financial Targets Policy (Agenda)

Slide 28: UBS Financial Targets: Review of Current Targets

At the time of the merger, UBS presented targets for the new Group. We stated that the targets would be reached through a combination of organic growth and acquisitions.

Over the past two years, we have not been able to complete the expected level of acquisitions, while still meeting both our strategic and investment criteria.

This is due to higher-than-expected multiples resulting in fewer targets meeting our investment hurdles, and a limited number of targets meeting our strategic criteria.

We could only have completed the expected level of acquisitions through deals that would have eroded shareholder value.

And UBS will not pursue acquisitions that erode shareholder value.

This is not to say, however, that we exclude the possibility of attractive acquisitions in the future.

While key ratio targets remain broadly achievable, neither the absolute profit nor absolute Assets under Management targets for 2002 will be pursued at the expense of shareholder value.

Slide 29: UBS Financial Targets: Market Approach

To help define a revised policy for financial targets we have surveyed industry best practice.

The communication of forward-looking information varies substantially on a regional basis due to different legal and regulatory environments. In particular, the communication of detailed forward-looking information can create increased liability risk in the US environment.

There is a split in current market practice in the communication of forward-looking information. One group consists of continental European companies who are not registered in the US. The other includes continental European companies who are registered in the US, as well as UK and US companies.

The first group of firms tends to publish numerous, detailed targets – both ratio and absolute -- at Group and segmental levels. The second group communicates a more limited range of targets, primarily at Group level and concentrating on ratios rather than absolute numbers.

UBS' new targets strategy will be consistent with the best practice of US, UK and SEC-registered European firms.

Slide 30: UBS Financial Targets: New Approach

In the future, our policy will be based on the clear principles of consistent, demanding, but achievable targets.

Targets will relate only to organic growth. However, I will comment on how we will treat goodwill from acquisitions in our targets.

We are already operating in a market that places greater emphasis on earnings before goodwill amortization. The rapid elimination of "pooling of interests" accounting will encourage the use of purchase accounting, and the consequent disclosure of earnings before and after goodwill amortization.

Our return on equity target will be based on earnings before the deduction of goodwill amortization, but set against the full equity base.

Our earnings per share growth target will be based on earnings before the deduction of goodwill amortization, although we will disclose both pre- and post-goodwill earnings per share.

As we announce acquisitions, we will disclose the expected impact on our targets and adjust them accordingly if required.

In the future, we will no longer emphasize absolute targets. Instead, we will focus on those ratios that best measure shareholder return. This small number of core ratio targets for the Group will be supplemented by specific initiative-based targets where appropriate.

We will expect acquisitions to meet normal hurdle criteria, in particular to provide risk-adjusted returns in the medium-term exceeding the cost of investment.

Our targets will be supplemented by additional disclosure of selected value-drivers at the divisional level, as part of our quarterly financial reporting.

Slide 31: UBS Financial Targets: New Group Targets

We are confident in the ability of our existing businesses to provide good returns for our shareholders from organic earnings growth and value creation.

We will therefore achieve:
- a return on equity averaging 15-20%, across periods of varying market conditions
- double-digit average annual earnings per share growth, across periods of varying market conditions
- active, continuous focus and downward pressure on the Group cost-revenue ratio substantiated by divisional initiatives
- clear demonstration of a strong growth trend in net new money in the Private Banking and Affluent segment

Slide 32: Cost Control Initiatives

At this stage, I would like to update you on our cost control initiatives. Sustainable merger-related cost savings will amount to approximately CHF 2 billion per annum by the end of the year.

Within two years of the merger, UBS Warburg has concluded its merger-related cost cutting programs with total savings of CHF 1.7 billion per annum, close to the original target of CHF 1.9 billion.

Cost control initiatives are being implemented in all divisions and are already well structured at UBS Warburg and UBS Private and Corporate Clients. UBS Warburg continues to focus on cost management with particular downward pressure on non-personnel costs. In addition, it has established the Infrastructure Investment Working Group to rigorously prioritize investment project spend.

Within the UBS Private and Corporate Clients division, the Strategic Initiatives Portfolio will both enhance revenues and reduce costs, including the realization of the merger-related cost savings targets. We will continue to track and communicate the progress of this portfolio.

Slide 33: SEC Registration (Agenda)

Slide 34: SEC Registration

As you know, the recently enacted Gramm-Leach-Bliley Financial Modernization Act will liberalize restrictions in the financial sector in the US.

Some of the more important effects of the Modernization Act on the US financial services industry will include:

- allowing bank holding companies to engage in a broader range of non-banking activities than was previously permissible, including insurance underwriting and making merchant banking investments
- allowing insurers and other financial services companies to acquire banks
- removing various restrictions that currently apply to bank holding company ownership of securities firms and mutual fund advisory companies

These forces will create cross-border consolidation opportunities. We are preparing ourselves to be able to take advantage of such opportunities as may develop across the investment services spectrum.

In this connection, we are applying to register our shares or ADRs with the US Securities and Exchange Commission. We hope to achieve registration in the first half of next year subject to completion of the SEC review process.

We would also intend to apply to list our shares or ADRs on the New York Stock Exchange, a step we have not yet taken. We would then be in a position to utilize our stock as an acquisition currency for tax-free exchange offers.

We would stress that this step should only be construed as a move to increase our strategic flexibility and to ensure that we are not excluded from opportunities due to any lack of preparedness on our part.

Slide 35: UBS Capital Management Strategy (Agenda)

I will now discuss our capital management strategy, and address the issue of how we will deal with the continued generation of capital in excess of immediate needs.

We believe that a strong capitalization and rating are part of UBS's particular value proposition for both clients and shareholders. We therefore remain committed to this objective.

Slide 36: Capital Management Context

We intend to introduce greater flexibility in the management of our equity, to the extent that this proves desirable as a result of our continued earnings-generated capital accumulation.

On 12 March this year, we introduced a treasury stock buy-back program, which was intended to run for a period of two years. At the end of the third quarter -- our most recent reporting period -- UBS held 8.6 million shares representing about four percent of our outstanding shares.

The objective of the buy-back program was to utilize the shares for acquisitions and the employee stock ownership program. In the meantime, we have concluded that this program is too limited for our purposes. This is because of the continuous increase in capital we project from on-going retained earnings and the selective reduction in our risk profile as well as increasing capital efficiency.

Slide 37: Capital Management Strategy

We will not accumulate capital purely as a contingency for possible major acquisitions, since in most cases we would anyway be approaching our shareholders, in such an instance.

The continuous projected increase in capital is now focusing us on ensuring that any buyback can be cancelled in a tax-efficient way.

For this reason, we have decided to discontinue the treasury stock buy-back program. It is our firm intent to replace the current program with a Swiss-specific buy-back program targeted at Swiss institutional shareholders which is the only tax-efficient means that we have identified to achieve cancellation. This is called a “second trading line” program.

The second trading line program will be implemented subject to agreement on the final conditions with the relevant authorities. The subsequent cancellation of the shares bought back through the second trading line requires shareholders' approval.

We also recognize and will address over time the potential for introducing a more active management of the composition of our capital.

Slide 38: Risk Control and Shareholder Value (Agenda)

Slide 39: Risk Control and Shareholder Value

Our focus on shareholder value also means that achieving the right balance between risk and return across all our businesses is a critical element of our strategy.

Managing the *risk* side of the risk-return equation is just as important as managing the return side.

Because we focus so much on this equation, we put our risk control and credit risk functions together with the other CFO functions earlier this year.

Achieving a sustained, superior valuation depends on our ability to deliver lower volatility in earnings than our key competitors.

On the one hand, this is achieved by developing the right business model, strategy and corresponding set of growth initiatives. Marcel Ospel and I have just set out the key elements which we expect to lead to attractive earnings growth over the next years.

On the other hand, it is equally important that we can keep the variability of our earnings as low as feasible, consistent with achieving our financial targets.

In particular we must do all we reasonably can to ensure that we avoid excessive exposure to those extremely rare but potentially very significant so-called "tail events" -- events at the extreme ends of a distribution curve.

Thus, the primary focus of our independent risk control function is to ensure that risk is properly factored into our day-to-day business decision-making. In particular, we focus on stress analysis to mitigate tail events as well as the establishment of appropriate limit structures for the risks which we face.

Slide 40: Simplified Model of Earnings Volatility

In approaching this challenge, a common understanding of "risk" helps to develop a firm-wide approach to risk control and to organize and prioritize our efforts effectively. For this purpose, we use a simplified model of the components of the variability of our earnings.

The model represents the fact that any change in our earnings from period to period will be made up of three main elements:
1. the change in value of our trading and credit portfolios
2. the change in our other business revenues such as fees and commissions, and
3. the change in our costs

Linking these three elements of the earnings model to the risk factors we face generates three distinct buckets of risk:
- Primary risk stems from changes in our exposure to market and credit risks. Our customers pay us to assume these risks, and they are inherent in the financial services industry.
- Group risk is the risk inherent in making decisions regarding the strategic direction of the company. Group-wide risk is also present in items such as funding risk, the interest rate risk in our balance sheet, and tax risk.
- Finally, consequential risks reflect the changes to costs from our exposure to what are broadly termed operational risks. We think of these risks as the consequential risk of being in business, and they encompass legal risk, liability risk, compliance risk, transaction processing risk, and security risk, which includes IT security as well as physical security.

Slide 41: Management of Risk Classes: Primary Risks

With respect to the primary risks of market and credit risk, we have taken a number of steps to improve our overall risk profile recently.

Average UBS Warburg VaR usage has moved from around CHF 260 million at the time of the merger to around CHF 197 million during the third quarter of this year. This does not reflect a rationing of risk but a choice taken by UBS Warburg management based on the risk-return opportunities in the market.

This reduction has in fact been achieved at a time when we have generated some of our strongest earnings, which reflects a significant improvement in the risk-return profile of our businesses.

With regard to the international credit portfolio, we have rebalanced our risk-return profile, and as a result have reduced the portfolio from over CHF 250 billion at the time of the merger to around CHF 107 billion now. Furthermore, we have reduced our emerging market exposure from around CHF 37 billion to about CHF 25 billion now. We are pleased that this reduction in risk has been achieved by UBS Warburg with no material adverse impact on their client franchise.

As we emphasize protecting against tail risks, we have further refined our system of stress loss limits. On a regular basis we assess the extent to which our portfolios might be adversely affected if certain predefined scenarios were to materialize. For example we look at events like a Year 2000 liquidity squeeze or a significant interest rate hike with the consequent knock-on effects.

If we find that the impact of certain scenarios would result in losses that exceed the stress loss limit, we will reduce our overall risk exposure. Because we quantify our risk exposure on a regular basis, we are able to quickly adjust our portfolios if we find that our exposures fall outside the established parameters.

Slide 42: Management of Risk Classes: Group Risks

With respect to the Group risk factors, which include funding risk, interest rate risk in the balance sheet and tax risk, our approach to risk management is different.

We manage these risks at the Corporate Center in accordance with policies that have been established by the Board of Directors. For example, in the context of our funding risk, our approach is to place limits on our overall positions in order to ensure that we would always be able to obtain the funding we need under a number of different scenarios. We have put in place very detailed contingency plans for year-end in case of market disruptions related to the Year 2000 transition.

Similarly, in managing our exposure to the interest rate risk in our balance sheet, one of our objectives is to neutralize UBS Private and Corporate Clients' revenues from adverse interest rate changes while adopting a broadly neutral position at the Corporate Center.

In order to do this we transfer all the fixed maturity interest rate risk into the UBS Warburg trading book. There it becomes subject to our overall trading limits for interest rate risk. In the case of assets and liabilities with uncertain maturities, we use our own model to replicate their characteristics and create a theoretical fixed maturity portfolio. We then transfer those risks also to the UBS Warburg trading book.

Our approach to tax risk is also very conservative. The bank's risk policy framework requires tax risks to be monitored on a regular basis. It also requires that appropriate tax provisions be established such that we have a very high degree of confidence that adverse tax events or rulings will not have a material impact on the bank's earnings.

Slide 43: Management of Risk Classes: Consequential Risks

Fitting consequential risks into our risk control framework has in a number of ways proved to be the most challenging part of our process.

First, these risks are by their nature difficult to quantify.

It also takes much longer to alter the extent of our exposure to risks such as transaction processing risk or security risk than is the case with market or credit risk. The change can only be effected over time as we alter our processes and systems to reduce our overall exposure to certain risks.

In the meantime we still need to be able to identify where we might be exposed to unacceptably large losses from these consequential risks and do whatever we can to protect our earnings stream from the effects of such losses if they were to materialize.

For this reason, we are actively looking at the risk financing market, or insurance, as a way of protecting the bank against losses of this type.

Slide 44: Key Objectives for Risk Control

Our key objective for risk control is to establish a Group-wide process that enables us to control all the main risks that we face as consistently and transparently as possible.

In particular, we are determined to develop a risk-adjusted performance measurement process, which will ensure very specific focus on activities that clearly add to shareholder value.

We are also ensuring that our independent risk control function encompasses the broad range of material risk factors across the Group in a comprehensive and robust manner.

Last, we are continuing to develop and strengthen the linkages between our different control functions, as all have an important part in a genuinely effective risk control process.

Slide 45: Conclusion (Agenda)

Slide 46: Conclusion

Before we commence questions, I would like to re-emphasize some of the key points of our presentation:

- Our core strategies remain unchanged
- We will focus on our communication
- We are aligning our branding with our business model
- We are launching a major new e-services initiative in Europe
- We now have a much simplified and clarified approach to financial targets
- We continue to focus rigorously on cost control
- We are applying to register our stock with the SEC, and
- We will adjust our capital management strategy to allow for cancellation of stock

We would be pleased to take questions from you at this time. Thank you.