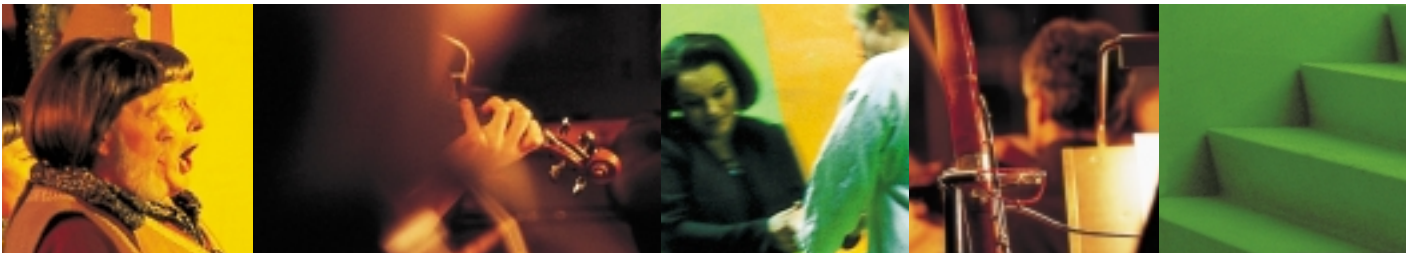




UBS is a global,  
integrated investment  
services firm  
and the leading bank  
in Switzerland.



Annual Review 1999.

## Who we are

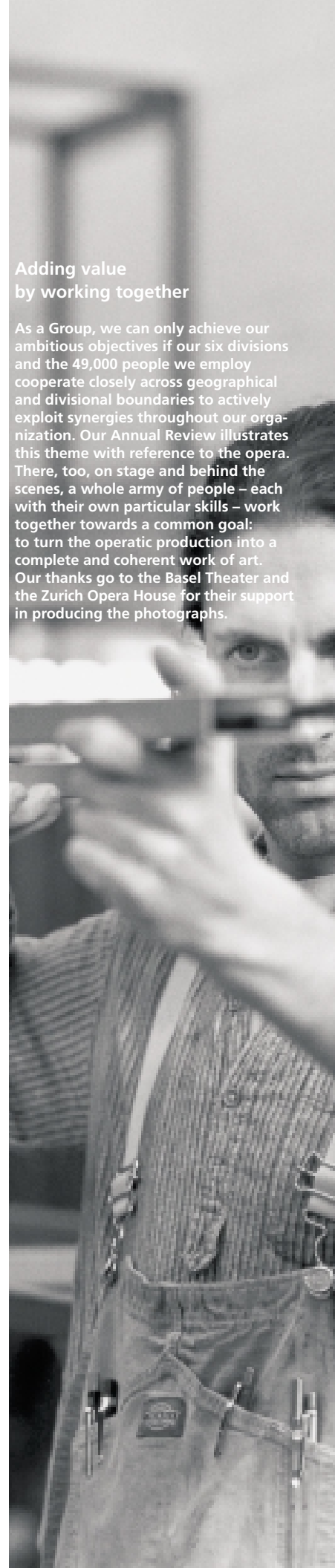
As a global, integrated investment services firm, UBS offers a full range of products and services to a diversified client base. Our core competencies are asset management, investment banking, securities and foreign exchange execution, risk management and, in Switzerland, retail and commercial banking. We combine innovation and global coverage with traditional Swiss values of financial solidity and a commitment to service excellence.

- We are one of the largest asset managers in the world and the premier international private bank.
- In Switzerland we are the market leader in retail and corporate banking.
- Outside Switzerland, we are one of the few global investment services firms serving major international corporations, institutional investors and public entities.

With our unique mix of integrated businesses and the synergies that result, we are well positioned to meet the new challenges facing the financial services industry and deliver a sustained return on equity of 15 to 20% to our shareholders.

### Adding value by working together

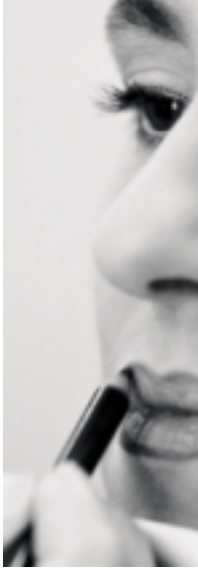
As a Group, we can only achieve our ambitious objectives if our six divisions and the 49,000 people we employ cooperate closely across geographical and divisional boundaries to actively exploit synergies throughout our organization. Our Annual Review illustrates this theme with reference to the opera. There, too, on stage and behind the scenes, a whole army of people – each with their own particular skills – work together towards a common goal: to turn the operatic production into a complete and coherent work of art. Our thanks go to the Basel Theater and the Zurich Opera House for their support in producing the photographs.



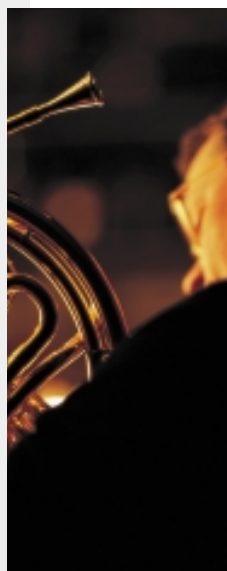
## A worldwide presence

UBS is a publicly traded, shareholder-driven company incorporated under Swiss law with head offices in Zurich and Basel. The UBS Group operates out of the following major international centers: Zurich, London, New York, Chicago, Singapore and Tokyo. We employ some 49,000 people

worldwide, 16,000 of them outside Switzerland, and operate 95 branches in over 50 countries. In Switzerland we have a large network of 385 locations and have made significant progress in implementing our multi-channel strategy.



Beschnitt Klappe 30 mm



# Our divisions

## Private Banking

With CHF 731 billion in client assets under management, UBS holds the leading position in the global private banking industry. UBS Private Banking is an integrated, global provider of a broad portfolio of financial products and services to wealthy clients, and the financial intermediaries advising them.

## Investment Banking

UBS Warburg is a leading global investment bank and securities firm in terms of client franchise, as well as financial servicing capabilities. The division provides wholesale financial and investment products and advisory services to institutional, corporate and sovereign clients worldwide.

## Private and Corporate Clients

Our Private and Corporate Clients Division is the market leader in Switzerland, serving more than four million clients from a network of 385 locations. As a complement to our physical branch network, we are rapidly developing alternative distribution systems like internet- or phone-banking under our multi-channel strategy. At the end of December 1999, client assets under management within the division totalled CHF 439 billion and the loan portfolio CHF 165 billion.

## Asset Management

With total assets under management of CHF 574 billion, UBS Asset Management is one of the largest institutional fund managers globally. A strong client franchise, geographical diversity and the inherent synergies resulting from linkages within the Group give UBS Asset Management a strong competitive edge.

## Private Equity

UBS Capital typically acquires majority holdings in established, unlisted companies with a view to divesting them with a capital gain over a time horizon of three to six years. Our global network of private equity teams spans over 30 countries in Western Europe, North and South America and the Asia/Pacific region.

## Corporate Center

The role of the Corporate Center is to ensure that synergies within the Group are actively exploited by coordinating the activities of the divisions and aligning them on UBS's overall corporate goals. In doing so, it contributes significantly to enhancing shareholder value.



### N.B.:

On 15 February 2000, we modernized our structure and reorganized our wealth management business. This Annual Review reflects the Group's 1999 structure.

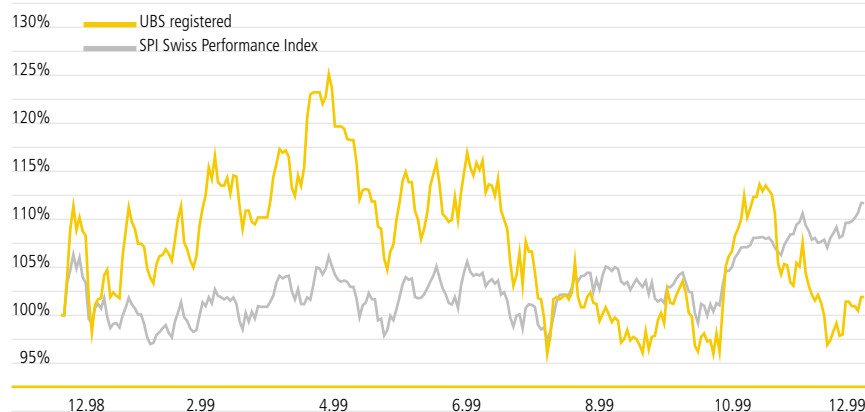
Key figures	1999	1998
Operating income (CHF million)	28,621	22,328
Operating expenses (CHF million)	20,452	18,258
Operating profit before tax (CHF million)	8,169	4,070
Net profit (CHF million)	6,300	3,030
Return on shareholder's equity before goodwill (%)	21.2	11.4
Market capitalization (CHF million)	92,642	90,720
Total assets (CHF million)	981,573	944,116
Shareholders' equity (CHF million)	34,835	32,395
BIS Tier 1 ratio (capital and reserves)	10.6	9.3
Assets under management (CHF billion)	1,744	1,572
Headcount	49,058	48,011
Of which in Switzerland	32,747	32,706

Per share data	1999	1998
Basic earnings per share before goodwill (CHF)	31.91	15.92
Dividends proposed (CHF)	11.–	10.–

## Financial calendar

Annual General Meeting	Tuesday, 18 April 2000
Dividend payment date	Wednesday, 26 April 2000
Publication first-quarter results	Thursday, 25 May 2000
Publication first-half results	Tuesday, 22 August 2000
Publication third-quarter results	Tuesday, 28 November 2000

## UBS share price chart



## Excellent fundamentals

UBS has obtained top ratings from all leading international rating agencies. These ratings reflect our strong capital base, the high quality of our assets, stringent risk management policies, solid liquidity as well as our diversified income streams. A number of other key ratios also testify to UBS's excellent financial credentials.

### Long term ratings

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

## To our Shareholders

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## Financial Report

This Annual Review is an abridged version of the Financial Report. The Financial Report, available in English and German, is the audited annual report prescribed by law. It is available on the internet ([www.ubs.com](http://www.ubs.com)) or can be ordered in printed form from: UBS AG, Informationszentrum CA50-XMB, P.O. Box, CH-8098 Zurich, Switzerland  
 English: SAP-R/3 80531E-0001, CIF-Pub-No. 012  
 German: SAP-R/3 80531D-0001, CIF-Pub-No. 012



In 1999 we accomplished a great deal. At the same time we recognize that there is still much to be done.





# Letter to Shareholders



## Dear Shareholders,

We are pleased to report that, in 1999, UBS net profit after tax reached CHF 6,300 million. This represents basic earnings per share of CHF 31.91 and a return on equity of 21.2% before goodwill. Our performance has strongly rebounded after a difficult 1998 when net profit after tax stood at CHF 3,030 million. That said, a number of significant one-off events in both 1999 and 1998 make like-for-like comparisons complex. However, even taking these one-off events into consideration, the year-on-year net profit increase is significant. Assets under management increased 11% or CHF 172 billion, to CHF 1,744 billion. The Board of Directors recommends to shareholders a dividend of CHF 11 per share, compared to CHF 10 last year.

### **What we accomplished in 1999**

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

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

While the successful accomplishment of the merger positions us more strongly than ever at the forefront of the financial services industry, it has undoubtedly had a short term impact. Private Banking, in particular, has not achieved the growth we anticipated

this year. With the merger now behind us, we see significant opportunity for our wealth management businesses in the years ahead. Our new structure, announced recently and which we explain below, is specifically designed to unlock and maximize the potential of our distinct client-facing businesses. UBS Warburg had a great year in 1999, with record profits and volumes in many of its business areas, led by an outstanding Equities performance. We are proud of our world-class investment banking and securities division, and particularly of the turnaround since the shocks of 1998. Our domestic business within the Private and Corporate Clients Division is consistently managed for enhanced profitability. Bottom line improve-

ments are starting to show through, and we are confident that, with the delivery of merger-related savings, a new level of profitability is attainable. Investment performance was the principal factor behind the disappointing results of our Asset Management Division. It also affected somewhat the growth of Private Banking assets under management. Diversification and a more “open” product offering will be the key to unlinking these performance risks, and, in that light, we are excited by the opportunities provided to private banking clients by the acquisition of Global Asset Management.

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

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

#### **Our strategy**

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

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

But our success will depend on far more than careful positioning. UBS will represent the best combination of

old and new banking methods. Our commitment, as ever, is to the highest standards of personalized service quality, delivered with the ultimate in professionalism and integrity.

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

#### **Our new business structure**

On 18 February 2000 we announced our new business structure, regrouping our wealth management businesses with the aim of unlocking their potential to generate superior growth. The new organization reflects a different way of thinking about client requirements. As new technologies transform the financial industry landscape, clients themselves increasingly decide – through their choice of services and channels – which client segment they belong to. Lifetime relationships mean seamlessly offering a continuously evolving service to match each client’s financial aspirations as they develop.

Swiss banking has a special place in the world of personal finance. By combining all Swiss-based and international offshore banking, we will focus and capitalize on this core asset. Our asset management businesses are now under one roof, allowing us to develop a variety of investment styles and selectively introduce more third-party products to our clients. At the same time, we will aggressively expand the marketing and distribution of our own mutual funds to clients outside UBS.

Investment services activities for international private clients have significant growth potential, and are now set to benefit additionally from





# Letter to Shareholders

proximity to investment banking skills, services and image.

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

## The way ahead

Our commitment to new technology will be demonstrated in 2000 through the launch of our new pan-European "e-services" personal investment business, expected in the autumn.

We manage this as a separate business unit with an emphasis on "time to market", and are excited by its prospects. This new initiative complements the already very successful e-commerce and mobile phone services offered by our Private and Corporate Clients Division.

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

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

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

And finally, our share buy-back program demonstrates our commitment to returning value to our shareholders, alongside our core focus on growing

top-line revenue and bottom-line earnings.

## Conclusion

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

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

UBS AG



Alex Krauer  
Chairman of the Board of Directors



Marcel Ospel  
Group Chief Executive Officer

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## Summary comment on the Group financial statement

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

**Net interest income** before credit loss expenses was down 4.6% to CHF 6,356 million. Credit loss expenses for 1999 amounted to CHF 956 million, almost unchanged compared to 1998 when a significant portion of the credit losses was appropriately charged against previously established provisions. The 1999 number reflects clear benefits from our efforts on our recovery portfolio and the improving macroeconomic climate.

**Net fee and commission income** remained stable at CHF 12,607 million. Strong increases in custodian fees reflect higher custodian assets and a new pricing model. Brokerage fees are higher, mainly due to strong volumes in UK, US and Asia. Underwriting and corporate finance fees are up 8% thanks to strong results in mergers and acquisitions. Credit-related fees and commissions decreased in line with reduced emerging market exposures and the sale of our international trade finance operations.

**Net trading income** benefited from generally good equity markets, leading to increased customer volumes. Fixed Income revenues were strong across all major products. At CHF 7,468 million trading income was significantly higher than in 1998 when adverse market conditions and one-off write-downs negatively impacted the results.

**Income from disposal of participations** of CHF 1,821 million and CHF 1,119 million respectively strongly influenced both 1999 and 1998 results.

**Personnel expenses** increased 28% to CHF 12,577 million, mainly due to higher performance-related compensation based on the good investment banking results. Personnel expenses in 1998 were significantly affected by merger-related issues and hence a year-on-year comparison is difficult.

**General and administrative expenses** decreased 9% to CHF 6,018 million. Excluding extraordinary impacts in both years general and administrative expenses fell 6.3%, reflecting stringent cost reduction programs.

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As an integrated group, we can exploit additional business opportunities, lower our costs and so enhance shareholder value.





## We have the unique potential to unlock synergies for our clients and shareholders.

They may never meet face to face, the investment specialist at UBS Asset Management in Chicago, the client advisor at the UBS office in Lucerne and the London-based securities dealer at UBS Warburg. Yet they work together closely on a daily basis. If a private client in Lucerne wants to build a diversified portfolio of equities, the local UBS client advisor could draw on the full investment expertise of UBS Asset Management or the newly-acquired range of GAM Products. Depending on the customer's requirements, the client advisor may well decide to invest in the equity fund managed by the investment specialist in Chicago. And if another

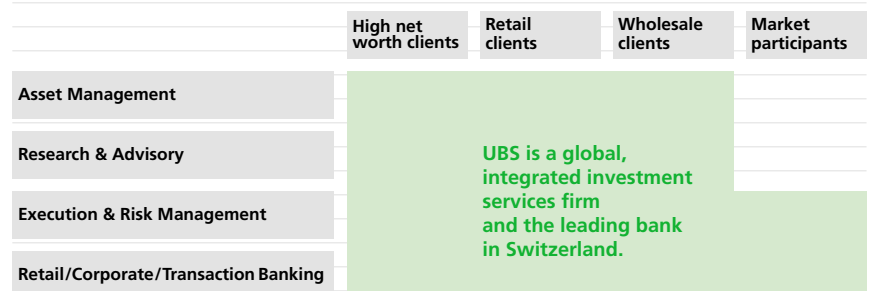
client wants to buy European bonds, the order from the client advisor will be swiftly executed by the securities dealer in London, or by one of his colleagues in Europe, Asia or America. These two examples illustrate how UBS people work together across geographical and divisional boundaries to serve our clients better and make UBS more successful.

### A global investment services firm

The philosophy underlying our business model is that each of our five operational divisions serves a clearly defined client segment. At the same time the division acts as a facilitator, providing its clients with direct access to the full spectrum of products and services of the UBS Group. As a global investment services firm and the leading bank in Switzerland, we serve a very broad client base: major international corporations, institutional investors, small and middle-market firms in Switzerland, sovereigns and public entities, other financial services providers and individual clients. Our

### Our business model

As a global, integrated investment services firm and the leading bank in Switzerland, we serve a diversified client base of retail customers, high net worth individuals and institutional and corporate clients across our core business competencies of asset management, research and advisory, debt and equity finance, securities trading and execution and risk management.



capabilities as a group cover asset management, research, corporate finance, securities trading and execution, and risk management. This represents a unique and attractive portfolio of profitable and growing client and business segments. In our five core businesses we have world-class franchises: we are the absolute market leader in international private banking and, together with UBS Asset Management, one of the largest fund managers in the world. UBS Warburg is in the top tier of global investment banks and ranks number one in Europe. In banking for private and corporate clients, we are the market leader in Switzerland. In private equity we are one of the few, truly global market players.

#### **Our integrated business model**

What makes UBS unique is not just the strengths we have in our individual core businesses but our ability to integrate all these core competencies within a single organization. Our integrated business model enables us to generate most of the added value in the value chain from within the organization, while leveraging additional business opportunities. For example, when we provide advisory services for our investment clients, we can draw on the unrivalled research and securities execution capabilities of UBS Warburg. Our private banking clients have the option of investing in alternative vehicles through UBS Capital. When UBS Capital brings one of its equity holdings to the stock market, UBS Warburg can handle the IPO. UBS Asset Management formulates investment strategies not only for its own clients but also provides input for the private banking, retail and corporate banking segments, in addition to managing all the UBS mutual funds. In all these cases and many others, our clients and we ourselves profit from the fact that we operate as a single, integrated group. We not only exploit synergies

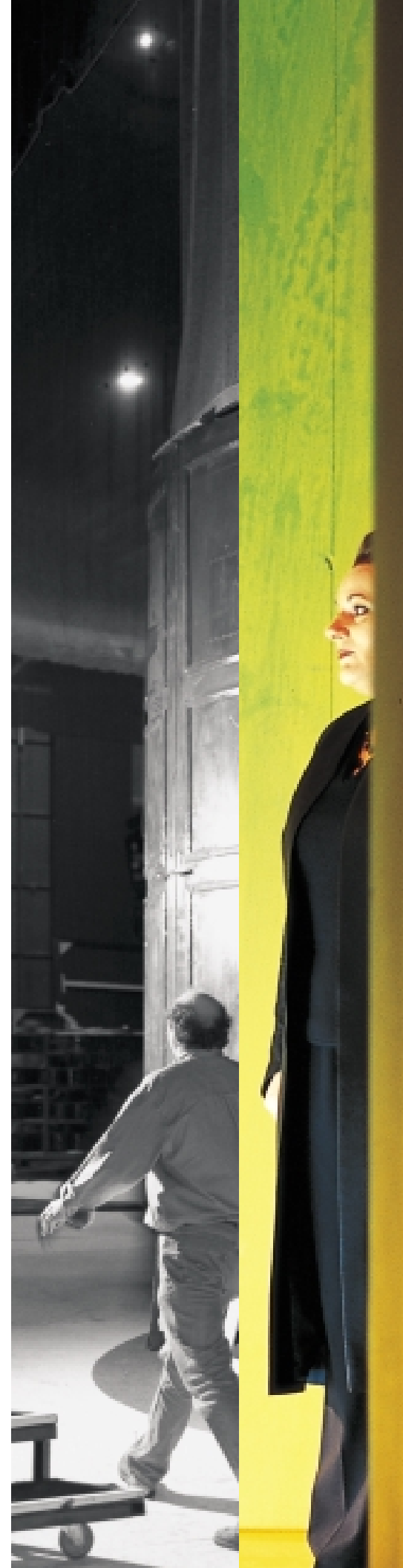
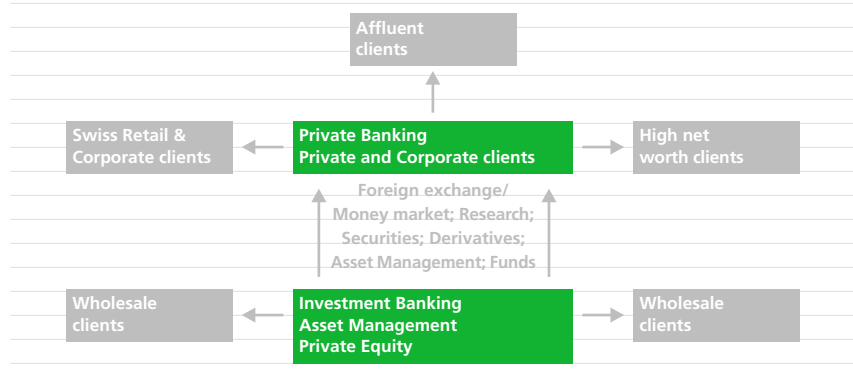


# Our business model

on the revenue side but also on the cost side: technology and premises, logistics, business processes and other support functions are typically shared across divisional lines. This potential for synergies within the Group gives us a strong competitive advantage. Maximizing it is a major strategic objective.

## Integrated client service

Our Investment Banking and Asset Management divisions provide wholesale clients with direct access to the international capital markets and with value-added investment information and risk management expertise. The products and services these divisions and Private Equity provide allows us to offer clients of UBS Private Banking and UBS Private and Corporate Clients a comprehensive advisory capability.





We employ some 49,000 people around the world. They are our most significant investment and without doubt the most valuable.

## Highlights 1999

- At the end of 1999, UBS had a total headcount of 49,058 employees worldwide across all divisions, up 2.2% or 1,047.
- The average employee turnover for the Group was 11.7% worldwide and 11% in Switzerland. Towards the end of the year the figures stabilized significantly in all divisions.
- In 1999 Group Human Resources was integrated into the CEO area. This underpins the importance of our employees and has led to substantial improvements and synergies in the fields of compensation and benefits, graduate and professional recruitment, training and development and performance evaluation.
- In 1999, the global staff appraisal process PMM was conducted via the intranet for the first time.

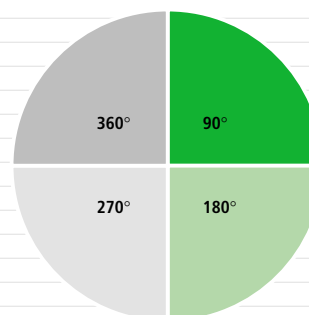
The changes facing the financial industry today are both rapid and far-reaching. Our ambition is to actively shape these developments, a goal we can only achieve with highly qualified and motivated employees. One of our greatest challenges is to become an “employer of choice” – a company which offers employees an attractive environment that allows them to develop and to give of their best.

## Developing people

Finding the best staff is only half the battle. Keeping them at the bank over the long term is, if anything, more important still. In the increasingly competitive market for highly skilled staff, we are focusing on providing a stimulating corporate culture which allows scope for entrepreneurial initiative and offers attractive career opportunities and avenues for development. The professional and personal development of our staff plays a key role in determining our success. We therefore offer talented people a first-class range of training packages, which can also include financial incentives or sabbaticals for employees who wish to pursue further education over longer periods.

## PMM – comprehensive staff appraisals

PMM (Performance Measurement and Management) features a whole range of assessments in addition to the conventional reports by line managers. Each member of staff writes a self-assessment (90°), and – depending on the function level – also receives reports from third parties, i.e. clients (180°), colleagues at the same management level (270°) and subordinates (360°). This makes for a more cogent and objective assessment process. The core element of the process is the intensive discussion of the results between the employee and the line manager. PMM provides the basis for training and development measures, promotions, financial compensation and for identifying future managers.



## Investing in the future

If we are to be successful going forward, it is essential that we identify the managers of tomorrow today and give them the training and resources they need to flourish. With this in mind, we are investing heavily in recruitment, and also in training and further education for our junior staff. In 1999, we took on 1,300 apprentices, 500 interns and 700 university graduates. Our target is to employ 700 first-rate university and college graduates a year, 350 of them in Switzerland. We define “first-rate” graduates as those who are in the top 20% of their year, and who can bring exceptional drive and commitment to our bank. For our part, we offer various induction programs which are challenging but which allow them

to assume responsibility from an early stage and thus lay the foundations for their careers as managers or specialists. The most highly qualified participants can then also apply for placements abroad, which last around two years. Being exposed to different cultures and languages allows our employees to gain first-hand experience of international business – a must in the cosmopolitan environment in which we operate.

## A culture based on meritocracy

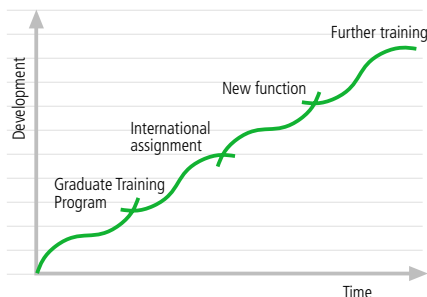
Rewarding performance is a cornerstone of our human resources policy. Recognition, remuneration and the assignment of greater responsibility all hinge on performance. The issue of compensation is linked directly to our intranet-based staff appraisal sys-

tem PMM (Performance Measurement and Management) which sets new standards for the financial industry. The process is used within UBS worldwide to assess the performance of each individual employee and to identify the expertise, skills and personal talents they bring to the bank. By helping to improve the contribution made by the individual members of staff, this system also enhances the overall performance of our company. To align the interests of our employees with those of our shareholders, the overall compensation package features a substantial variable component in the form of a bonus. This bonus is dependent on both the overall results of the bank and the employee’s personal performance. We also encourage our employees to see

## Development contracts shape careers

In today’s global marketplace, high-caliber people often only take a short-term perspective when it comes to career planning. Companies that want to keep their talented young employees must therefore create an attractive environment. A commitment to ongoing training is a key prerequisite if companies are to maintain their appeal in the job market over the long term. UBS has for many years offered successful training and development programs for university graduates with its “Junior Key People Program” and “Graduate Training Program”. Placements abroad are also possible under the “International Mobility Program”.

### Development contracts



## The intranet – a key success factor

Internet technology is becoming increasingly important, and not just in dealing with our clients. Since the merger, the UBS intranet (the Bank Web) has become the pivotal medium for internal information and communication, and its importance increases daily. The Bank Web gives our staff instant access to current information and services, and provides a simple and cost-efficient information platform for the entire Group.



themselves as partners in our business. The more responsibility our employees take on, the higher the portion of their salary that is paid out in the form of UBS shares and options. As of the end of 1999, our own staff held 3.8% of the shares registered.





## As a leading global investment services group, we acknowledge our responsibility to all our stakeholders.

We want to provide our clients with superior value-added financial services, generate sustainable returns for our shareholders, be an attractive employer for those who work for us and meet our responsibilities as a good citizen within the community.

### Common values

As a corporate citizen, we are a reliable, open and honest partner for all our stakeholder groups. In all our actions, we are committed to full compliance with the laws and regulatory requirements. We also adhere to “best practice” as applied locally and internationally by leading market participants. Differing regional rules and codes of conduct represent minimum standards here: in specific areas of special importance, we establish our own group-wide rules which may exceed the scope of local regulations. We are firmly committed to the following principles and values: we respect people’s individuality, whether they are a client, a shareholder, an employee or a third party unconnected with UBS. No-one within the Group may be discriminated against on the grounds of gender, race, religion, lifestyle or origin. We refuse any dealings with counterparties of doubtful reputation and strictly decline to engage in any business with a recognizable criminal background.

### Our contribution to the community

As a corporate citizen, we contribute to the community in a variety of ways. For our clients, we create value with our products and services. We are

a leading employer, providing 32,700 jobs in Switzerland alone. As a taxpayer, we make an important direct contribution to the community. And as a member of Switzerland’s financial services industry, we play a central role in the overall economy. We can only do this if we prosper as a company. Financial success is consequently fundamental in enabling us to fulfil our role in society. Credibility and acceptance are further important criteria. We are therefore committed to fostering an open and transparent dialogue with all our stakeholders: as a banking group we are among the industry leaders in Continental Europe in terms of the transparency of our financial disclosure practices. Transparency and dialogue are also implicit in two reports which we published in 1999: our Environmental Report, which can be consulted on the internet, and the Integration Status Report, which contains detailed information on the consequences of the merger for our employees and clients.

Community and social concerns are another area of direct involvement. This can range from financial support for organizations like Unicef or Orbis, an organization dedicated to

### Business principles

After the merger of the two predecessor banks, we took the opportunity to define standards in the areas of human resource policy, general business guidelines and management and leadership principles. These standards embody the shared values to which we subscribe throughout the Group.

the prevention of blindness, to backing for training and neighborhood initiatives like Community Links in East London, a volunteer organization which runs social projects for children, parents, pensioners and the disabled. Other examples are our SME Initiative in Switzerland, where we provide equity capital for young entrepreneurs in start-up situations to help create jobs and enhance Switzerland's competitiveness and capacity for innovation, or our participation in the "Changing Sides" scheme, under which UBS employees enrolled in our management development program spend five days on secondment with a social or charitable organization where they have an opportunity to apply and develop their social and interpersonal skills and gain experience and insight in different surroundings.

**Our commitment to the environment**

We believe sustainable development is an important aspect of responsible management. The Group Executive Board therefore ratified a group-wide environmental policy focusing on the three areas of banking, in-house ecology and environmental management. In banking, we seek to create share-



holder value by taking advantage of environmental opportunities in the market. The assets we manage in line with ecological criteria continued to grow in 1999 and at year-end totaled CHF 627 million. Environmental risks are also factored in to our risk management processes, particularly in the areas of credit policy and investment banking. In 1999, UBS Warburg approved a “Global Environmental Risk Policy”, setting out principles to be considered in the financial commitment and credit processes. UBS Warburg is one of the first investment banks to approve

such a policy. In the area of in-house ecology, we are actively seeking new ways to reduce the environmental impact of our operations. In 1999, we saved 960,000 kilowatt hours of energy at our Zurich head office alone, equivalent to the average annual consumption of 275 Swiss households. We ensure the efficient implementation of our environmental policy through an environmental management system which defines objectives and monitors progress and achievements. In 1999, we received ISO 14001 certification for this system worldwide.

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## Environmental Report

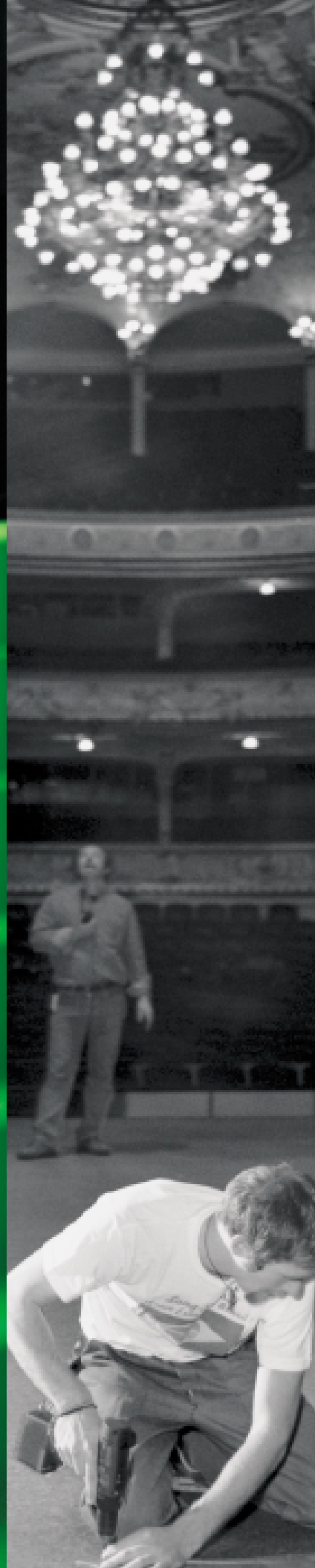
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We welcome open dialogue and communicate actively with all relevant stakeholders. One example here is our internet-based Environmental Report, which details how we integrate environmental concerns into our business activities. The report shows where we currently stand with the implementation of our environmental policy, where progress has been made and where there is still room for improvement ([www.ubs.com/umwelt](http://www.ubs.com/umwelt)).

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## Corporate and executive bodies and shareholder information

UBS is committed to the highest international standards of Corporate Governance and to best practice in its relationship with shareholders and regulators.

UBS has structured its organization to meet the highest international standards of corporate governance. Its organizational structure guarantees checks and balances between the Board of Directors and the Group Executive Board. The ultimate responsibility of both boards is to steer UBS on a successful course, in the interests of shareholders, clients, employees and the community.

### **Group Executive Board – the driving force**

A major focus at the Group Executive Board's biweekly meetings was on strategy issues. The financial services industry is quickly and continuously

## Our Group Executive Board

as of 15 February 2000



**Marcel Ospel (1950)**  
Group Chief Executive Officer



**Luqman Arnold (1950)**  
Chief Financial Officer



**Georges Gagnebin (1946)**  
CEO Private Banking

changing, and our targets and policies had to be adapted accordingly. By creating a new business area “e-services”, the Group Executive Board paved the way for UBS to participate in the worldwide challenge to exploit the growing opportunities which the new technologies offer. Major initiatives were also defined to take advantage of the synergies resulting from our integrated business approach. It is one of the dominant functions of the Group Executive Board to enhance synergies through cross-divisional cooperation. In 1999 the composition of the Group Executive Board underwent the following changes: Luqman Arnold, the

new Group Chief Financial Officer, assumed responsibility for all risk and control functions of the Group, with the Group Chief Risk Officer and the Group Chief Credit Officer now reporting to him. The former Group CFO Peter Wuffli took over from Gary Brinson as CEO of UBS Asset Management, and Markus Granzio was appointed CEO of the Investment Banking Division, replacing Hans de Gier. Pierre de Weck was named CEO of UBS Capital. On 15 February 2000, Georges Gagnebin took over the leadership of the Private Banking Division from Rudi Bogner in the course of the reorganization of our wealth management business.

**Board of Directors – ultimate strategic responsibility**

The Board of Directors convened eleven times for its official meetings together with the Group Executive Board. The common meetings serve to provide and maintain the optimal platform for high-level interaction between the two boards with both having clearly defined mandates, but sharing ultimate responsibility for the success of the company. The strategic direction of the Group, its organizational and its capital structure, and the plans to register with the US Securities and Exchange Commission (SEC) were major issues addressed, besides the routine review of the



**Markus J. Granzio (1952)**  
CEO UBS Warburg



**Stephan Haeringer (1946)**  
CEO UBS Switzerland



**Peter A. Wuffli (1957)**  
CEO UBS Asset Management



**Pierre de Weck (1950)**  
CEO UBS Capital



# Corporate and executive bodies and shareholder information

quarterly and year-end financial statements, the regular risk reports and the approval of the annual budgets.

The organizational structure of the Board of Directors observes the principles of best practice in corporate governance. The Chairman's Office with the Chairman and the two Vice-Chairmen acts as Remuneration Committee and as Audit Supervisory Board. In this capacity it assumes responsibility for the supervision of the internal audit. The Audit Committee, chaired by Peter Böckli, monitors the adequacy of the auditing work and the cooperation between internal and external auditors. It specifically reviews the auditing of the year-end results.

As of the date of the 1999 Annual General Meeting of Shareholders, two Board members resigned, Georges Schorderet and Manfred Zobl. Eric Honegger, Chairman designate of SAirGroup, was newly elected.

## Internal and external audit

With around 200 professionals worldwide, Group Internal Audit oversees the activities of the Group with a special focus on market, legal, compliance, operational, technological, and reputational risks. The formal audit reports are brought to the attention of the management responsible, to the CEO and the Chairman's Office. The Audit Committee and the Audit Supervisory Board are regularly informed about the major findings. The head of Group Internal Audit reports directly to the Chairman of the Board of Directors in order to guarantee full independence from the business. The efficiency of the auditing work is increased by intensive cooperation between Group Internal Audit and the external auditors. After an intensive selection process, ATAG Ernst & Young have been assigned the global audit mandate for the UBS Group.

## Shareholder information – commitment to transparency

More than 200,000 shareholders are entered in our share register. We are committed to providing them with quality information and to keeping them regularly informed about the important developments of their company. The annual and quarterly "Financial Reports", on the one hand, and the regular "Letters to Shareholders" and the "Annual Review", on the other, meet the different needs of our shareholders: comprehensive and detailed information and analyses here – important facts and illustrative comments there. In both cases we strive to give a true and fair picture of the financial situation of the Group, of its strengths and weaknesses, its challenges and achievements.

We are committed to transparency and openness in our communication with shareholders, institutional investors and equity analysts. We are constantly reviewing our disclosure policy to ensure that our information becomes even more consistent and reliable over time.

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## Our auditors

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### Internal audit

Walter Stürzinger, Head of Group Internal Audit

### External auditor

ATAG Ernst & Young Ltd., Basel  
Group and Statutory Auditors  
(appointed until AGM 2000)

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## Our Board of Directors

(31 December 1999)

**Alex Krauer (1931), Chairman**

(elected until 2002 AGM)

**Alberto Togni (1938), Vice-Chairman**

(elected until 2001 AGM)

**Markus Kündig (1931), Vice-Chairman**

(elected until 2002 AGM)

**Peter Böckli (1936)**

Partner in the law firm Böckli,  
Bodmer & Partner, Basel  
(elected until 2003 AGM)

**Eric Honegger (1946)**

Chairman designate of SAirGroup,  
Zurich-Airport  
(elected until 2003 AGM)

**Rolf A. Meyer (1943)**

Chairman and Delegate of the Board of  
Directors of Ciba Specialty Chemicals Inc., Basel  
(elected until 2003 AGM)

**Hans Peter Ming (1938)**

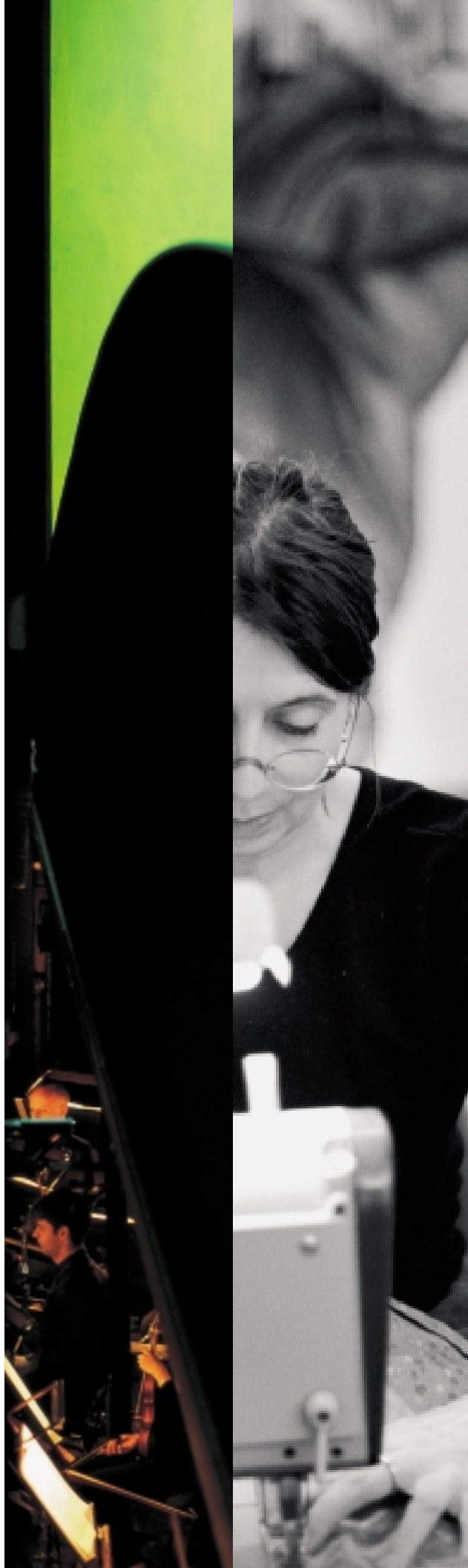
Chairman of Sika Finanz AG, Baar  
(elected until 2000 AGM)

**Andreas Reinhart (1944)**

Chairman of Volkart Brothers  
Holding Ltd., Winterthur  
(elected until 2000 AGM)

**Secretary to the Board of Directors**

Gertrud Erismann-Peyer





Close cooperation between  
our divisions across  
geographical and functional  
boundaries is our recipe  
for success.





## We want to build on our leadership in Swiss private banking and strengthen our position internationally.

### Highlights 1999

- The results of UBS Private Banking did not quite match our expectations. Lower levels of client transaction activity, substantial investments in the expansion of our domestic private banking activities outside of Switzerland, and a delay to establish a positive trend in net new money led in 1999 to a segment performance before tax of CHF 2,652 million compared to CHF 3,135 million in 1998 adjusted for the gain on the divestment of BSI-Banca della Svizzera Italiana as well as related operating revenues and expenses.
- Assets under management increased 20%, or CHF 124 billion, to CHF 731 billion in 1999. While performance and acquisition-related growth was CHF 119 billion, net new money contributed CHF 5 billion, which was low due to merger disruptions and the effects from some underperforming investment portfolios.
- The acquisition of GAM Global Asset Management by the UBS Group is an important step in widening the product range and investment styles available to private banking clients.
- UBS also acquired Bank of America's international private banking activities in Europe and Asia and expanded its domestic private banking outside Switzerland with the opening of new offices in several key European markets.
- The number of people employed in the division rose by 25%, reflecting growth in our private banking business outside of Switzerland, the strengthening of our service capabilities and the inclusion of GAM.
- In February 2000, the UBS Group announced a reorganization which will focus on reigniting growth in the wealth management businesses.

2,220,000,000,000 (2.22 trillion) dollars: that is the amount by which experts estimate financial asset wealth grows each year. At the same time, the number of investors seeking professional advice to preserve their assets from uncertainty and market volatility is also rising. Not surprisingly, private banking has developed into one of the most attractive segments within the financial services industry. Lured by the potential rewards, a large number of new entrants, including non-banks, have emerged on the market. As competition has grown fiercer, clients themselves have grown more sophisticated and demanding; with the advances made in telecommunications and information technology, they themselves now have direct access to up-to-date investment information and can handle their financial transactions cost-effectively through electronic channels.

### Unique positioning

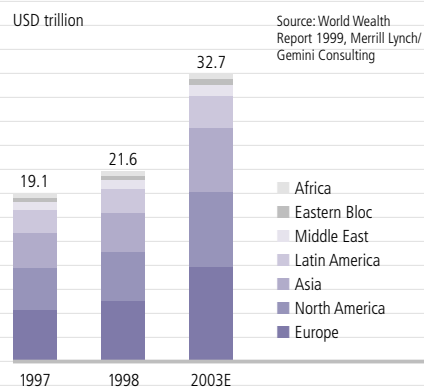
As a result of our integration within the UBS Group, we are uniquely positioned in this growing market. Our clients benefit from a full range of products and services and from customized investment advice based on world-class research and investment

### Excellent growth potential

The growth outlook for private banking is particularly auspicious. According to World Wealth Report 1999 estimates, the financial asset wealth of high net worth individuals (those with assets in excess of USD 1 million) is forecast to grow by 9% a year, and by 2003 will have reached some USD 32,700 billion. An additional factor here is "generational change" as wealth is passed on within families and new investment preferences favourably influence overall asset growth.



expertise, all delivered from a state-of-the-art technology and execution platform. Our financial strength means we can invest heavily in the development of new technologies and instruments, and in 1999 we expanded and enhanced the information and services we offer via the internet. Our size and the breadth of skills we can mobilize through our partner divisions enable us to customize our services and provide clients with the truly individual solutions they are looking for. Specific client segments have specific needs, and to address them we have created dedicated teams. One example is our new Global Executives Group. Its role is to provide financial and investment advice to senior executives around the world. Typically, the assets of this category of client are heavily slanted towards the shares of their employer corporation, exposing them to special risks. In addition to contributing tax and investment expertise, we place our skills in managing complex portfolios of this type specifically at the disposal of this client group. Other examples of dedicated teams are our Sports and Entertainment Advisory Group, our Corporate Advisory Group and our Real Estate Advisory Group.



## Extending our range of investment styles

The key to client satisfaction lies in service quality and long-term investment results. In 1999, the detrimental impact of UBS Asset Management's investment performance carried over into private banking. In an effort to unlink this concentration of investment performance risk, UBS will diversify the range of investment styles it offers. The acquisition of Global Asset Management (GAM), announced in September 1999 is an important step towards widening the product range available to private banking clients. GAM is a leading diversified asset management group with client assets of CHF 23 billion invested in 170 mutual funds and unit trusts. The group has made a name for itself developing innovative and varied asset management ser-

VICES, notably its multi-manager strategy where it employs a "best in class" approach to identify the world's best fund managers to invest its clients' assets. As part of UBS Asset Management, GAM will contribute directly to the diversification of investment styles and help to develop "screened" access to third-party funds.

## Strengthen the division's position internationally

The traditional private banking business – private banking in Switzerland for both Swiss and international cross-border clients – remains of critical importance to the UBS Group. 1999 was characterized by continuous strategic developments such as expansion of our services in London, Monaco, Luxembourg, New York and Singapore. In March 1999, UBS acquired Bank of America's inter-

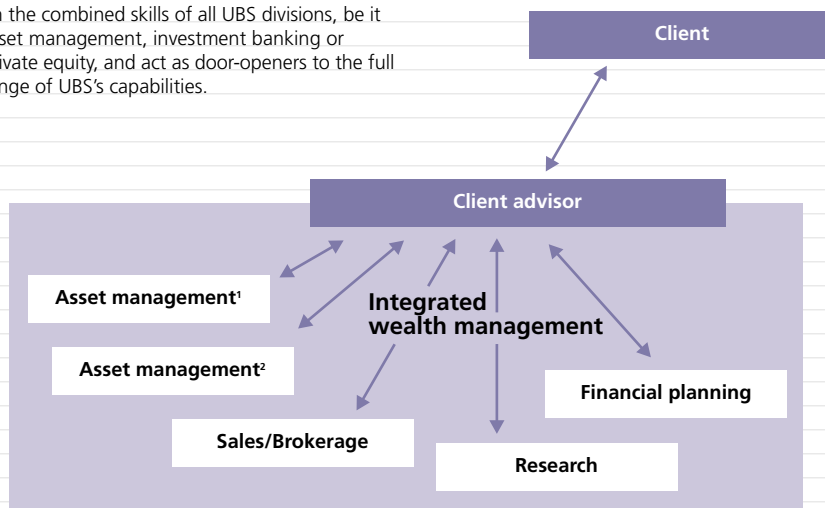
national private banking activities in Europe and Asia which added CHF 5 billion client assets to our Private Banking asset volume. Another key premise of our strategy in 1999 was the expansion of domestic private banking outside Switzerland, particularly in continental Europe. Thus we opened new offices during 1999 in Spain (Barcelona, Madrid, Marbella), Italy (Rome, Bologna), France (Paris) and Germany (Stuttgart).

## Reorganization of wealth management business

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

## Integrated wealth management

Our membership of the UBS Group means, we can deliver comprehensive, integrated services to our clients, tailor-made to take account of their diverse needs. Our client advisors can draw on the combined skills of all UBS divisions, be it asset management, investment banking or private equity, and act as door-openers to the full range of UBS's capabilities.



<sup>1</sup> Discretionary.

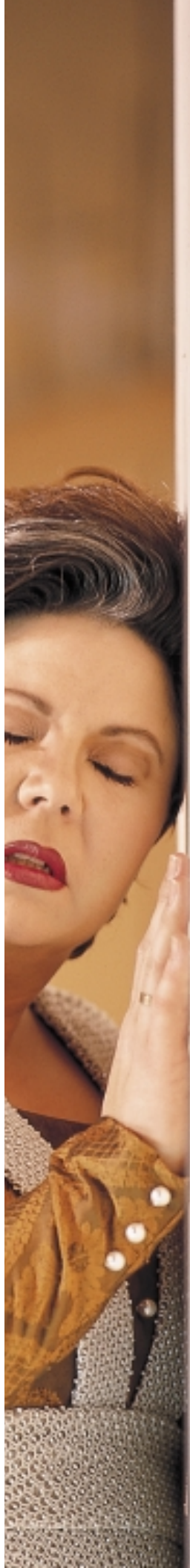
<sup>2</sup> Non-discretionary.

## [www.ubs.com/optimus](http://www.ubs.com/optimus)

Our magazine "optimus" provides our private banking clients with quarterly information on global investment and financial topics as well as on subjects of personal interest to investors. Together with our "optimus-online" internet site, which is only available to "optimus" readers, our clients have exclusive access to our research, to up-to-date market prices and rates, to details of changes in asset allocation strategies as well as to the magazine archive and abstracts of the main feature articles. "optimus" readers can additionally communicate with the bank via secure e-mail.



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



## We are a leading global investment banking and securities organization, and the market leader in Europe.

### Highlights 1999

- In 1999 UBS Warburg generated gross revenues of CHF 12,909 million, and segment results before tax of CHF 2,484 million, compared to a reported loss of CHF 1,021 million in 1998.
- Our Equities business continued to increase its overall market share, and we now rank as one of the leading global equities houses.
- We continued to reorient our Fixed Income business in 1999 to be more client-driven and dramatically increased profitability.
- Corporate Finance showed strong performance in M&A revenues and contributions from Equity and Debt Capital Markets in line with expectations.
- In 1999 we saw the first real benefits of the merger working through in higher earnings, a lower headcount, tighter control on costs and a lower capital requirement.
- We established a first-mover advantage in the e-services business with the launch of the world's first internet-based virtual exchange for euro medium-term notes. This has also laid the basis for the launch of a wider range of initiatives in early 2000, strengthening our position further.
- As of 1 May, Markus Granzio, previously head of the Equities and Rates business area, took over as Chief Executive of UBS Warburg.

Investment banking clients are increasingly demanding global, cross-border services. In future, the large, truly global institutions will be able to corner the lion's share of volumes and income. We have the ideal platform to take advantage of this opportunity. We are, for example, the only major investment bank whose client franchise, income structure and corporate culture are not dominated by any one nationality. With 12,694 employees in over 40 countries, our operations span the globe, and we are present in all the key financial centers. In the institutional clients segment, for example, we now have access through the merger to some 95% of institutional asset managers worldwide. We have also succeeded in significantly boosting our share of the global equities business, which accounts for over half our earnings in the institutional segment. In our business with large international corporates, we reinforced our position among the top ten investment banks.

### Expanding beyond our traditional strengths

Demonstrating our global strengths beyond our European home markets, we were awarded a mandate in the largest agreed corporate takeover deal ever, and this in the USA, the home turf of the Wall Street giants. In 1999 we were commissioned by Sprint, a global telecommunications company,

### Global research

Our analysts produce a broad range of research on the economy, equities, interest rates and currencies, providing clients with a solid basis for their investment decisions. The high quality of this research stems from a network of specialized teams spanning the globe. Our equity research team, for example, numbers more than 625 specialists in 28 countries covering around 3,600 of the most important companies worldwide.





to act as advisors in the planned takeover by MCI WorldCom. This was by no means pure luck or coincidence. We had already been working with the company for 12 years, and had guided it in almost all its major transactions over this period. Sprint regards us more as a US investment bank, although our global strength was of course a key factor in clinching this deal. Our strength in Europe was underscored by a number of key deals in 1999, including our role as advisor to Vodafone AirTouch of the UK in their takeover of Mannesmann of Germany, achievements which did not go unnoticed in the financial world. The trade magazine "Euromoney" selected us as Best Securities Firm in the Eurozone in 1999, for the fifth year running.

#### **Technology as a catalyst**

The advances being made in IT and communications represent an important trend in investment banking. These groundbreaking developments are redefining the relationship between banks and their clients and also driving major improvements in the efficiency of banking operations. Thanks to our strengths in technology and logistics, we can also boast a leading role in the field of e-commerce. Our research, for example, is distributed to 5,000 key clients worldwide via the internet, and our 50 largest clients transact at least 15% of their business with us online. Together with the Private and Corporate Clients Division we have developed the top online trading package in Switzerland, and in October launched the world's first virtual exchange for euro medium-term notes. We aim to be among the winners in the ongoing battle for technology leadership. In the year 2000 alone, investments in technology will account for 15% of our direct costs. This will enable us to strengthen our market position, while achieving a reduction in other non-personnel-related costs.



# Investment Banking

## Well positioned

A further and very important trend affecting the investment banking and securities industry is the continued and substantial growth of that industry. Client sophistication and increased competitive pressures are squeezing industry margins, but volume growth is consistently and significantly outpacing this trend, and overall market fee pools are increasing steadily. UBS Warburg is very well positioned to take advantage of all of these trends. We aim to be a leading global investment banking and securities organization in terms of client franchise, as well as financial servicing

capabilities and to provide UBS shareholders with a return on equity consistent with the leaders in the industry.

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

The division will be strongly placed to take advantage of the considerable growth potential resulting from putting investment banking and investment services activities for international clients under one roof.

## Awards

In 1998, "Corporate Finance" magazine named us Investment Bank of the Year. We followed this in 1999 with a whole range of accolades from clients and peers, which underscore our claim to be one of the world's leading investment banks. Opposite you can see the most important awards we received in 1999.

### Euromoney

Best Securities Firm in the Eurozone  
Best International Equity Underwriter  
Best Corporate Bond Firm

### International Financing Review

Equity Derivatives House of the Year

### Global Investor

No. 1 Overall European Equity Execution

### Reuters Surveys of Fund Managers

No. 1 in European Large Cap Research  
No. 1 in Hong Kong and China Research  
No. 2 UK Large Cap Research  
No. 2 Global Emerging Markets Research



## Institutional client franchise

Our institutional client business in equity products puts us in the top three globally, and makes us one of the largest players in equity-linked and equity derivatives products. Our strength in selling and servicing cash and derivative fixed income products with institutional clients is widely recognized, and we believe our growing market share places us 4<sup>th</sup> behind the major US houses. UBS Warburg is a leading player in the global foreign exchange markets, with an estimated market share of 6.5%.



Our trading floor in London, UK.



## We want to be the most profitable bank serving private, business and corporate clients in Switzerland.

### Highlights 1999

- Higher operating income, lower credit loss expenses and rigorous cost control led to very satisfying results in 1999. Segment performance before tax rose by 28%, or CHF 254 million, to CHF 1,162 million.
- Assets under management increased CHF 5 billion to CHF 439 billion.
- The loan portfolio remained stable at a level of CHF 165 billion. The overall recovery positions were reduced by 20%, from CHF 26 billion to CHF 21 billion at year-end 1999.
- A tremendous effort from our staff members enabled us to complete the transfer of 2.5 million client relationships to a common IT platform in record time.
- Our new UBS 24h-Banking service enables customers to bank around the clock, seven days a week.
- With UBS Telebanking Classic, UBS Tradepac, UBS Quotes, and UBS Quicken we now have an extremely competitive profile in internet banking.
- We have geared our organizational structure more closely towards our customers and now serve individual clients and corporate clients from two dedicated business areas.

In a year marked by intense competition, the Private and Corporate Clients Division maintained its leadership position in the Swiss market. Our clear commitment to this market has begun to bear fruit: in 1999 our financial results were encouraging, and we are well on track. The migration of 2.5 million client relationships to a common IT platform was completed in record time in the first half of the year, and we can continue to concentrate on exploiting potential synergies within the UBS Group for enhancing revenues, cutting costs and achieving our goal of becoming the most profitable Swiss bank in the private and corporate clients market.

### Electronic banking on the advance

We have made significant progress in implementing our multi-channel strategy. The launch of UBS 24h-Banking with UBS Tradepac, our own online stock-exchange package, enabled us to gain market share and consolidate our position as market leader. Clients can access our services quickly and conveniently via the internet, the telephone and, most recently, via WAP-enabled phone (Wireless Application Protocol). 24 hours a day, seven days a week, they can carry out their banking and stock-exchange business when and where they like and call up account information or market quotes. Dur-

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### Day and night at the service of our clients

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Nearly half a million clients already use our 24h-Banking service. Soon, every ninth customer will have enrolled. At the end of last year, 30% of total payment orders were issued by UBS clients through electronic channels. In December, some 11% of stock-exchange orders in the private and corporate clients segment were placed via UBS Telebanking. The figures for trading in equities, options and warrants are higher still.

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ing the year, public acceptance of these alternative channels once again grew in leaps and bounds. Nearly half a million UBS clients are now using our electronic services. In December alone, close to two million payment orders were executed via telebanking, equivalent to roughly 30% of the overall monthly volume of payments orders issued by UBS clients. The package enabling clients to place their own stock-exchange orders electronically is also proving steadily more popular: at the end of the year approximately 11% of stock-exchange orders in the private and corporate clients segment were placed through electronic channels – and the trend is rising.

**New client-oriented organizational structure**

We want to provide our clients with innovative products and services of a consistently superior quality to meet their individual requirements. An important milestone here is the new organizational structure of our division introduced in October, which sharpens our client focus. Individual clients (private and investment clients) and corporate clients (large corporates and small- and medium-sized businesses) are now each served out of a dedicated business area. A new function, that of Chief Credit Officer reporting directly to the



# Private and Corporate Clients

divisional CEO, was additionally created to assume overall responsibility for credit decisions. A further element in the reorganization was the creation of a special unit to actively manage the loan portfolio with a view to optimizing risks and returns. We thus satisfy the most stringent standards in terms of risk management and have a comprehensive system of checks and balances in place. All these initia-

tives significantly strengthen our capabilities in the market. As a result, our client advisors can concentrate fully on satisfying the needs of their customers.

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

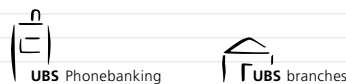
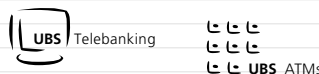
## A new benchmark

In July 1999, a bare 19 months after the merger was announced, we completed the technical integration of the two predecessor banks. During that time, we reconfigured our entire product range, migrated the data for 2.5 million clients to a common IT platform, closed 173 branches (including 144 duplicate locations), trained 23,000 employees in new products and processes and relocated over 30,000 workplaces.



## Comprehensive multi-channel offering

Clients can transact their banking business with us in a variety of ways. Depending on their personal needs and preferences, they can choose between telebanking via the internet, phonebanking, ATMs and our branches, and with the UBS 24h-Banking service package they have round-the-clock access to their account/securities account.



Our goal is clear – to significantly boost earnings through business initiatives and by leveraging our global platform.

#### Highlights 1999

- In 1999 the division's pre-tax performance declined by 26%, or CHF 115 million, to CHF 333 million. Excluding non-cash items, operating profits before tax showed a more moderate decline of 14%. These results reflect a 7% decrease in institutional revenues, a relatively flat development in non-institutional revenues, and a 7% rise in total expenses.
- Divisional assets under management grew by 8.1%, or CHF 43 billion, during 1999 to CHF 574 billion.
- While some areas again enjoyed positive performance, the results achieved in other asset classes (certain equity areas and balanced portfolios) were disappointing due to the fact that momentum- and growth-driven market segments were in favor.
- The acquisition of Allegis Realty Investors LLC, one of the largest real estate investment management firms in the USA, marked a significant expansion in our investment capabilities.
- We have introduced a new, client-centric business model, which involves increased devolution of powers and responsibilities to the front-line units.
- Peter Wuffli took over as Chief Executive Officer on 1 September.

Is BP Amoco a US or a UK company? Is Daimler-Chrysler a German car manufacturer or an American one? Can we still call Novartis a Swiss company, given that the bulk of its sales are generated abroad? From an investor's perspective, there is a very simple answer to these questions: it doesn't really matter. In what is increasingly a global economy, the nationality of a company is becoming less and less important. With national equity markets steadily merging into a single, major global market, professional investors will in future invest in the best stocks in a given sector or industry, irrespective of national boundaries. This investment philosophy is already being put into practice at UBS Asset Management. Our investments span the globe, as indeed does our client franchise. With our international presence of 15 locations worldwide, we offer clients excellent service and global investment capabilities, allowing us to keep close track of all the major investment markets. Our ability to customize our global research platform to fit the local demands of our clients and their respective regulatory requirements sets us apart.

#### Value-based investment philosophy

Besides service quality, investment performance and style are of primary importance to our clients. Our investment approach is value-driven, i.e. we assess the intrinsic value of a stock, for example, and then compare this with the current market price. We believe that periodic discrepancies between the investment value and the price of an investment create exploitable opportunities to create value for clients. Over the long term, this investment strategy has for the most part allowed us to achieve above-average performance. In 1999, however, investment performance was mixed for both the UBS Brinson and Phillips & Drew investment areas. Led by the US market, world equity

**Our divisions**  
**Asset Management**

markets became increasingly driven by momentum during 1999, with market returns dominated by a narrow segment of technology and e-commerce stocks. The fundamental price/value philosophies at the core of the Brinson and Phillips & Drew investment processes have led to an underweight of these stocks thereby negatively affecting investment performance versus benchmarks.

**Client-centric business model**

We want to build on our leading positions in the USA, the UK and Switzerland to establish ourselves as a leading global asset manager. We are also introducing special initiatives to accelerate growth. We plan to expand our share in the growth markets of Europe and Asia/Pacific. In 1999 we developed a new client-centric business model enhancing execution and client focus. Under this new model, we have defined new regional business areas in Europe and Asia/Pacific. Expanding our investment capabilities is another of

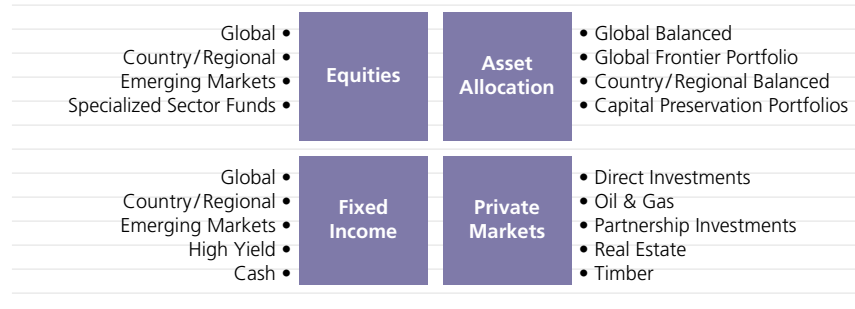
our strategic goals. To meet the increasing demand for alternative investment products from our clients, in the course of 2000 the broad-based expertise of the UBS Group in the field of alternative investments will be combined within our division. We have also been able to extend our offering further with the acquisition of Allegis Realty Investors LLC. With real estate investments of some CHF 9.7 billion, Allegis is one of the largest independent management firms in the USA.

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

**Comprehensive investment capabilities**

With assets under management totaling 574 billion Swiss francs, UBS Asset Management is one of the largest institutional asset managers worldwide. Our clients include pension funds, public bodies, foundations and central banks.

We also manage the investment funds of the UBS Group. We offer our clients a broad spectrum of investment capabilities, covering all the key investment instruments.







**Global presence**

Proximity to clients and investment markets is a crucial success factor for our business. We are present in 15 locations in the US, Europe and Asia. We have a strong client franchise in most of our target markets, and rank among the leading providers in the USA, the UK and Switzerland.



## Our aim is to establish ourselves as the industry role model for an integrated global private equity group.

### Highlights 1999

- In 1999, segment performance before tax decreased 64%, or CHF 272 million, to CHF 156 million. This reflects lower realized gains resulting from a reduced number of divestments in 1999 as compared to 1998.
- The 1999 investment rate target of CHF 800 million was easily exceeded with approximately CHF 1,394 million of investment additions to the portfolio.
- UBS Capital created an estimated value for the year 1999 of CHF 610 million. This includes gains realized in 1999 and the increase in the portfolio's unrealized gains.
- UBS Capital has grown substantially during 1999 with the establishment of new offices in Korea and Sydney, the achievement of investment targets and the development of our global funds strategy.
- We have been successful in developing important markets by making several key investments in Asia and Germany.
- We launched several funds in 1999 – including the USD 1 billion UBS Capital North American and USD 500 million Latin American Funds, the GBP 330 million Phildrew Ventures Fifth Fund and the Swiss-based CHF 300 million CapVis Fund.

Achieving excellence in the private equity business is not only a matter of making investments at the right price. It is also about trust, cooperation and providing financial solutions that are tailored to individual situations. To take one example: our 1999 acquisition of Digital Network Services (DNS), the pan-European provider of network computing technologies gives UBS Capital an ideal platform on which to build the business through strategic value-enhancing measures prior to a flotation. DNS has benefited from significant growth in the last few years. It now has operations in many Central European and Scandinavian countries and aims to become a major player as an architect of sophisticated network solutions targeting internet, intranet and e-commerce applications throughout Europe. For DNS, UBS Capital is the best partner. Our relationship with management, our financial backing and expertise in the sector allow us to develop a vision of the company's future.

### Creating value

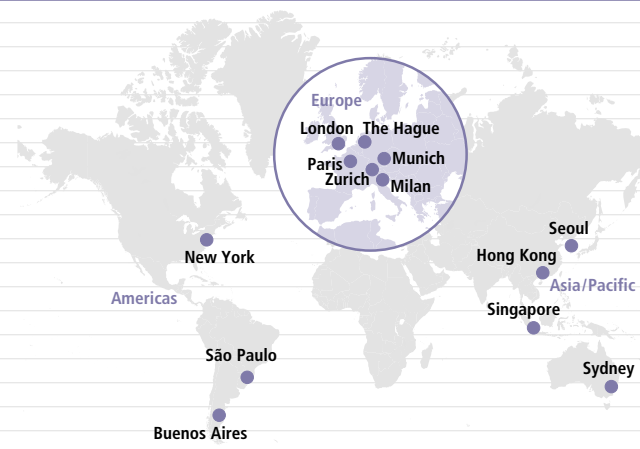
Every person we deal with, like every company we invest in, is unique. There are, however, key principles which hold true across the private

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### Global perspective

We are one of the few private equity groups to boast a truly global presence. We now have thirteen offices covering over thirty countries in Europe, the Americas and the Asia / Pacific region.

equity business. Our aim is to invest in unlisted companies, manage these investments and work with management over a medium-term (three to six years) time horizon to increase the value of the company and exit the investment in a manner that will maximize the capital gain. UBS Capital seeks to make majority and minority equity investments in established and emerging unlisted companies, either with our own capital or through sponsored investment funds. Although the main focus of our investments is late-stage financing, such as management buy-outs, expansion or replacement capital, we also invest about a quarter of the portfolio in early-stage investments in the technology and telecommunications sectors. The investments we made in 1999 underline the diversity of our portfolio, in terms of both geographic and industry spread. For example, we acquired stakes in the French banking and security services company Sersé, the climatic control operations of the Korean company Mando Corporation and Kipling, a leading designer, marketer and distributor of leisure bags. This diversity will continue as UBS Capital grows its business around the world. 1999 offered far fewer divestment





# Private Equity

opportunities due to the current portfolio's ageing profile. The portfolio is maturing in line with expectations, and significant harvesting will occur in future periods.

### Unique synergies within the Group

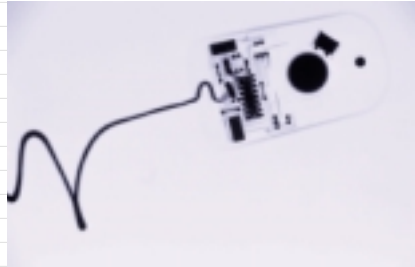
Following the Group's reorganization, UBS Capital is now operating with UBS Warburg and this is expected to yield rich rewards as the close relationship will continue to enhance the synergies between the businesses. Increased deal origination, funding and optimal exit strategies are just

a few of the benefits to be drawn from this move. UBS Capital will also continue to work closely with the Group's private banking business to offer innovative solutions to company owners, particularly European family businesses facing succession problems. Using the Group's own funds alongside third party investors allows UBS Capital to pursue a value strategy that differentiates the business from its competitors. The business is not forced to invest solely to meet target spend rates but considers transactions only if they offer fair value over the

period of an investment cycle. Additionally, UBS Capital's successful local network of teams means that we are able to combine local expertise and resources as required to provide tailor-made solutions for cross-regional and cross-border transactions, which are gaining in importance throughout the world.

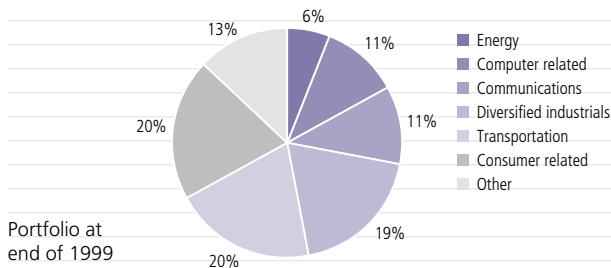
### Investments in the technology of the future

Early-stage expansion capital accounts for around 15% of our portfolio, with our target being a quarter of the portfolio. The focus of our early-stage investment is on telecoms, software and internet companies. Our German team recently closed an important investment in Germany with the acquisition of Digital Network Services, a German-based value added distributor of network services.



### Optimal diversification

One of UBS Private Equity's strengths is the diversification of its portfolio across countries and sectors.





UBS is greater than the sum of its individual divisions. To ensure our coherence and effectiveness as a group, we need a strong Corporate Center.

## Highlights 1999

- On 1 May, Luqman Arnold, formerly Chief Operating Officer at UBS Warburg, took over as Group Chief Financial Officer.
- The closely interrelated controlling, risk, credit, treasury and strategic functions were combined under the leadership of the CFO.
- To strengthen our market impact as an integrated investment services firm across all target groups, we streamlined and unified our brand architecture.
- Under the leadership of the Group CEO, a strategic initiative was launched to capture synergies in an area of spectacular growth within the financial services industry: the e-services businesses.

Our five business divisions are accountable for their results. Accordingly, they enjoy considerable autonomy in pursuing their business objectives. During the year, however, there was a growing appreciation throughout the Group of the need for a strong, counterbalancing Corporate Center to coordinate the activities of the divisions and align them with our overall corporate goals. This is the only way to exploit synergies effectively for the broader benefit of the Group. Except for its treasury function, the Corporate Center is not a revenue generator in the strict sense. Nevertheless, it exerts a decisive influence on shareholder value and profitability.

## Focus on shareholder value

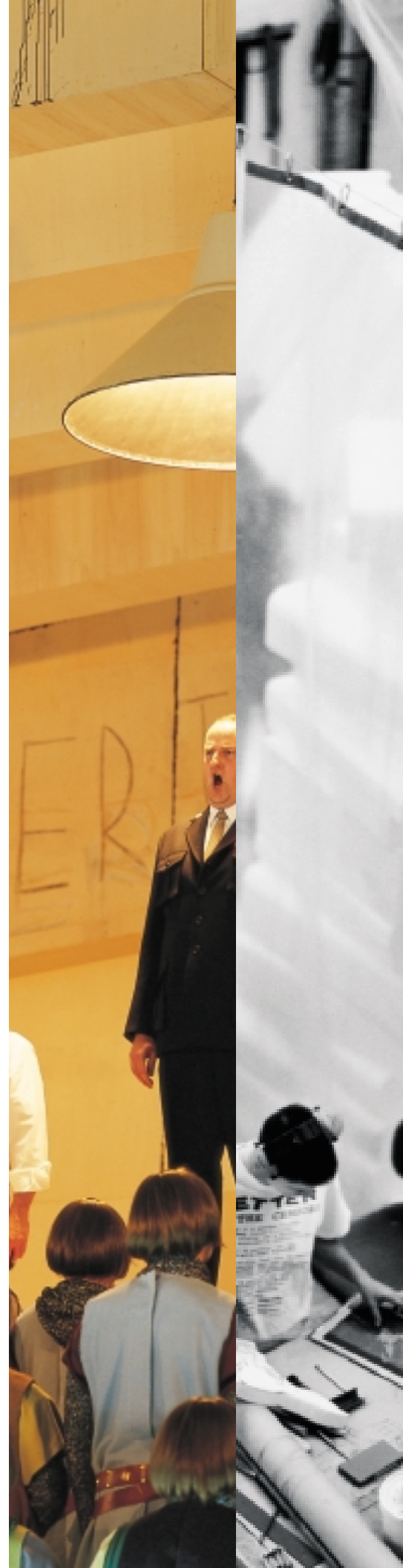
Some functions of the Corporate Center report directly to Marcel Ospel as Chief Executive Officer. In addition to responsibility for the Group as a whole, the CEO's remit includes assuring uniform group-wide legal and compliance standards, providing decision-making input on economic and political issues and overseeing internal and external communications. In 1999, the Group Communications Committee was created with a mandate to coordinate communication strategies at Group level in order to ensure transparent and consistent information for the media, investors, rating agencies, regulators, clients and our own staff members. Our employees are a key success factor for UBS, and the CEO this year also assumed overall responsibility for the group-wide human resources function. The Corporate Center includes the area of the Chief Financial Officer, led since 1 May by Luqman Arnold. The core activities of the CFO include the central treasury function for the Group. UBS was one of the first banks to recognize the opportunity presented by combining the controlling, risk, credit, treasury and strategic functions into a single area. These activities are all closely interrelated and are instru-



mental in maintaining an appropriate balance between risk and profit and allocating equity efficiently within the Group and among the divisions. The Corporate Center is thus able to perform one of its key roles – supporting the Group and the divisions in planning, formulating and implementing their strategic objectives – more effectively. After six months we can already observe that these sectors within the CFO area work very closely together. This is reflected in a number of major projects such as the refinement of our risk control and risk management processes, the preparations for registering UBS shares with the US Securities and Exchange Commission and the revision of our policy for financial targets and how we communicate them.

#### **Unlocking synergies**

The Corporate Center creates value by identifying potential synergies between the divisions and helping to exploit them. One way the Corporate Center exploits synergies is by coordinating important cross-divisional functions. The Group Operations Committee, for example, is responsible for optimizing areas like payments, securities trading and management or the control of operational risks, all of which have a group-wide dimension. Another area where coordination will be closer in future is information technology. An example of how the Corporate Center creates value on the cost side is through corporate sourcing. By coordinating and leveraging our buying power on a group-wide basis, we achieve substantial economies of scale. To exploit synergies in a key area of growth for the financial services industry, we launched a comprehensive e-services initiative in 1999. A new business area was set up to coordinate existing e-service activities within the divisions and to build a new multi-channel bank with a European license to serve affluent European clients. The full launch is planned for autumn 2000.





In 1999 we achieved sound results after an especially challenging year in 1998.





## UBS Group income statement

CHF million, except per share data

For the year ended	31.12.1999	31.12.1998	Change in %
<b>Operating income</b>			
Interest income	18,323	22,835	(20)
Interest expense	(11,967)	(16,173)	(26)
Net interest income	6,356	6,662	(5)
Credit loss expense	(956)	(951)	1
<b>Net interest income after credit loss expense</b>	<b>5,400</b>	<b>5,711</b>	<b>(5)</b>
Net fee and commission income	12,607	12,626	(0)
Net trading income	7,468	1,750	327
Net gains from disposal of associates and subsidiaries	1,821	1,119	63
Other income	1,325	1,122	18
<b>Total operating income</b>	<b>28,621</b>	<b>22,328</b>	<b>28</b>
<b>Operating expenses</b>			
Personnel	12,577	9,816	28
General and administrative	6,018	6,617	(9)
Depreciation and amortization	1,857	1,825	2
<b>Total operating expenses</b>	<b>20,452</b>	<b>18,258</b>	<b>12</b>
<b>Operating profit before tax and minority interests</b>	<b>8,169</b>	<b>4,070</b>	<b>101</b>
Tax expense	1,815	1,045	74
<b>Net profit before minority interests</b>	<b>6,354</b>	<b>3,025</b>	<b>110</b>
Minority interests	(54)	5	-
<b>Net profit</b>	<b>6,300</b>	<b>3,030</b>	<b>108</b>
Basic earnings per share (CHF)	30.28	14.31	112
Basic earnings per share (CHF) before goodwill <sup>1</sup>	31.91	15.92	100
Diluted earnings per share (CHF)	30.12	14.23	112
Diluted earnings per share (CHF) before goodwill <sup>1</sup>	31.75	15.84	100

<sup>1</sup> The amortization of goodwill and other purchased intangible assets are excluded from this calculation.

## Appropriation of retained earnings

The Board of Directors proposes to the Annual General Meeting the following appropriation:

	CHF million
Profit for the financial year 1999 as per the Parent Bank's Income Statement	6,788
Retained earnings from prior years	3
<b>Available for appropriation</b>	<b>6,791</b>
Appropriation to general statutory reserve	(215)
Appropriation to other reserves	(4,200)
Proposed dividends	(2,364)
<b>Retained earnings carried forward</b>	<b>12</b>

### Dividend distribution

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



## UBS Group balance sheet

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

### True and fair

The Group Auditors ATAG Ernst & Young Ltd. confirm that the Group Financial Statements, as published in the Financial Report 1999, "give a true and fair view of the financial position, the result of operations and the cash flows in accordance with International Accounting Standards (IAS), and comply with the Swiss law."

## UBS segment reporting by business

CHF million	UBS Private Banking		UBS Warburg		UBS Private & Corporate Clients		UBS Asset Management	
	31.12.99	31.12.98	31.12.99	31.12.98	31.12.99	31.12.98	31.12.99	31.12.98
<b>For the year ended</b>	<b>31.12.99</b>	31.12.98	<b>31.12.99</b>	31.12.98	<b>31.12.99</b>	31.12.98	<b>31.12.99</b>	31.12.98
Revenues	6,011	7,223	12,909	6,987	7,193	7,025	1,096	1,163
Credit loss expense <sup>1</sup>	(24)	(26)	(330)	(500)	(1,050)	(1,170)	0	0
<b>Total operating income</b>	<b>5,987</b>	7,197	<b>12,579</b>	6,487	<b>6,143</b>	5,855	<b>1,096</b>	1,163
Personnel expenses	1,694	1,458	6,861	4,333	3,363	3,238	444	454
General and administrative expenses	1,467	1,277	2,448	2,483	1,061	1,025	177	154
Depreciation <sup>2</sup>	138	111	652	535	555	680	29	29
Goodwill amortization <sup>3</sup>	36	15	134	157	2	4	113	78
<b>Total operating expenses</b>	<b>3,335</b>	2,861	<b>10,095</b>	7,508	<b>4,981</b>	4,947	<b>763</b>	715
<b>Segment performance before tax</b>	<b>2,652</b>	4,336	<b>2,484</b>	(1,021)	<b>1,162</b>	908	<b>333</b>	448
Tax expense								
<b>Net profit before minority interests</b>								
Minority interests								
<b>Net profit</b>								
Cost/income ratios (%) <sup>4</sup>								
before goodwill amortization	55	46	77	105	69	70	59	55
after goodwill amortization	55	46	78	107	69	70	70	61
Regulatory equity used (avg)	1,800	1,500	10,050	13,300	8,550	8,250	160	100
Assets under management (bn) <sup>5</sup>	731	607	0	0	439	434	574	531

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

### Private Banking

In 1999, segment performance before tax was CHF 2,652 million compared to CHF 3,135 million (CHF 4,336 million non-adjusted) in 1998 adjusted for the gain on the divestment of BSI-Banca della Svizzera Italiana as well as related operating revenues and expenses. The results of UBS Private Banking did not match the high standards it set itself. This is due to lower levels of client transaction activity, substantial investments in the expansion of our domestic private banking activities outside of Switzerland and a delay in establishing a positive trend in net new money. To achieve the integration of the two pre-merger private banking franchises according to our

original timetable, we temporarily diverted resources and planned a dip in new business development.

Total operating income after credit loss expenses, adjusting the 1998 period for gains and operating revenues from divestments, was up 2%, or CHF 116 million, to CHF 5,987 million in 1999. Besides lower transaction-related volumes and lower margins in some business segments, revenue growth was negatively impacted by the effect of internally hedging net income in foreign currencies and higher intra-group incentives paid for the distribution of investment funds. As asset growth did not accelerate until the 4<sup>th</sup> quarter, its positive impact on revenue growth was only limited.

Assets under management increased 20%, or CHF 124 billion, to CHF 731 billion in 1999. Strong markets, as well as the stronger US dollar led to a performance increase of CHF 85 billion for the full year. In addition, two acquisitions – Global Asset Management and the international private banking operations of Bank of Ameri-

ca – accounted for a further CHF 28 billion. Net new money contributed CHF 5 billion, which was low due to merger disruptions and the effects from some underperforming investment portfolios.

Total operating expenses, adjusting for divestment-related operating expenses increased 22%, or CHF 599 million, to CHF 3,335 million in 1999 and was to a large extent related to front-line staff hires as well as related infrastructure investments.

### UBS Warburg

In 1999, UBS Warburg generated gross revenues of CHF 12,909 million, and segment results before tax of CHF 2,484 million. The division enjoyed exceptionally strong revenues across almost all business areas and profitability was driven by our solid client franchise. With the integration of the investment bank now completed, the benefits of the merger have been significant in terms of increased revenues, reduced headcount, controlled costs and lower utilization of capital.

UBS Capital		Corporate Center		UBS Group	
31.12.99	31.12.98	31.12.99	31.12.98	31.12.99	31.12.98
315	585	2,053	296	29,577	23,279
0	0	448	745	(956)	(951)
315	585	2,501	1,041	28,621	22,328
105	121	110	212	12,577	9,816
47	35	818	1,643	6,018	6,617
2	0	141	128	1,517	1,483
5	1	50	87	340	342
159	157	1,119	2,070	20,452	18,258
156	428	1,382	(1,029)	8,169	4,070
				1,815	1,045
				6,354	3,025
				(54)	5
				6,300	3,030
49	27	n/a	n/a	68	77
50	27	n/a	n/a	69	78
340	250	7,850	6,350	28,750	29,750
0	0	0	0	1,744	1,572

The Equities business, with gross revenues of CHF 5,916 million, continued to increase its overall market share and now ranks as one of the leading global equities houses in both cash and derivative markets. Compared to 1998, revenues increased 130%, reflecting a more stable market environment, robust client flows and a strengthening of the UBS Warburg franchise with institutional clients. 1998's results included the loss of CHF 762 million in the pre-merger Global Equity Derivatives portfolio. Fixed Income continued to be more client driven and this resulted in revenues of CHF 2,460 million, with client flows driving both investor and issuer activities. As prior year revenues of CHF 399 million included losses from Long Term Capital Management and losses in emerging markets, a comparison between 1999 and 1998 results is not meaningful.

Treasury Products business produced revenues of CHF 1,801 million, primarily from Foreign Exchange and Cash & Collateral Trading businesses.

## Footnotes

<sup>1</sup> In order to show the relevant divisional performance over time, adjusted expected loss figures rather than the net credit loss expense are reported for all business divisions. The statistically derived adjusted expected losses reflect the inherent counterparty and country risks in the respective portfolios. The difference between the statistically derived adjusted expected loss figures to the net credit loss expenses for financial reporting purposes is reported in the Corporate Center. The divisional breakdown of the net credit loss expense for financial reporting purposes of CHF 956 million as of 31 December 1999 is as follows: UBS Private Banking CHF 11 million, UBS Warburg CHF (20) million, UBS Private and Corporate Clients CHF 974 million, Corporate Center CHF (9) million.

<sup>2</sup> The 1998 figures have been restated due to a refinement of the allocation methodology for depreciation.

<sup>3</sup> The amortization of goodwill includes other purchased intangible assets.

<sup>4</sup> Operating expenses/revenues before credit loss expenses (UBS Private Banking 1998 excluding the gain from divestment of BSI-Banca della Svizzera Italiana).

<sup>5</sup> UBS Asset Management December 1999: institutional assets CHF 376 billion, non-institutional assets CHF 198 billion.



# Management accounts

The foreign exchange business, while continuing to be profitable, experienced reduced levels of activity as a result of the introduction of the Euro, and narrowing margins from increased competition in the global markets.

The division's Precious Metals business was adversely impacted by the volatility in the gold market in the fourth quarter of 1999.

Corporate Finance, which includes Advisory, Equity Capital Markets and Debt Capital Markets businesses, delivered revenues of CHF 2,050 million, with strong performance in M&A revenues, and contributions from Equity and Debt Capital Markets in line with expectations. Non-core businesses generated revenues of CHF 682 million, which includes Global Trade Finance, Pre-Merger Global Equity Derivatives and lending to non-core clients. UBS Warburg's personnel costs were significantly higher in 1999 due primarily to performance-related compensation directly tied to the strong divisional results during the year.

### UBS Private and Corporate Clients

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

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

Assets under management increased CHF 5 billion to CHF 439 billion. This figure includes assets of the

banks business, which are transaction accounts and thus naturally volatile. Excluding this particular volume, assets under management increased CHF 28 billion, or 7%, to CHF 435 billion. This is mainly due to positive developments of the stock markets and new clients.

Notwithstanding the tremendous efforts in completing technology platform integration, UBS Private and Corporate Clients' total operating expenses remained almost stable at CHF 4,981 million.

The loan portfolio remained stable at a level of 165 billion. Continued implementation of Risk Adjusted Pricing has led to improved margins. With regard to the recovery portfolio major emphasis has been placed on the workout initiatives. This effort proved to be successful and reduced the overall recovery positions by 20%, from CHF 26 billion for 1998 to CHF 21 billion at year-end 1999.

### UBS Asset Management

The division's pre-tax performance year-on-year declined by 26%, or CHF 115 million, to CHF 333 million. Results were impacted by an increase in non-cash charges related to the buy-out of the former joint venture with the Long-Term Credit Bank of Japan (LTCB). Excluding non-cash items, the division's operating profit before tax showed a decline of 14%. Overall, total income declined by 6%, or CHF 67 million, to CHF 1,096 million in 1999. The year-on-year comparison of revenues reflects the decrease in institutional revenues, primarily attributable to the UK business, as well as new inter-divisional fee arrangements with UBS Private Banking.

Divisional assets under management increased by 8.1%, or CHF 43 billion, to CHF 574 billion during 1999. Institutional assets increased by roughly 4.4%, or CHF 16 billion year-on-year, to CHF 376 billion, driven by investment performance,

the acquisitions of Allegis and growth in private equity mandates. Partially offsetting these effects, net new money was negative, reflecting client attrition related to performance issues in certain equity-related mandate types. Total expenses versus the prior year increased by 7%, or CHF 48 million, to CHF 763 million. Personnel expense development was relatively neutral with a decline of 2%, to CHF 444 million. Increases in general and administrative expenses year-on-year relate to revisions in cost sharing arrangements between UBS Asset Management and other divisions in the Group, while non-cash charges went up versus the prior year primarily due to charges related to the acquisition of LTCB in 1998.

### UBS Capital

In 1999, segment performance before tax decreased 64%, or CHF 272 million, to CHF 156 million. This reflects a decrease in realized gains resulting from a reduced number of sales of investments in the year ended 31 December 1999 as compared to the year ended 31 December 1998. The semi-annual portfolio review and valuation resulted in an approximate market value of around CHF 4,155 million, compared to CHF 2,651 million at year-end 1998. This equates to current unrealized gains of approximately CHF 1,162 million as compared to CHF 867 million at year-end 1998. The value creation for the year 1999, which includes 1999 realized gains and the increase in the portfolio's unrealized gains, is estimated to be CHF 610 million.

Total operating income decreased 46%, or CHF 270 million, to CHF 315 million in 1999. The year offered fewer divestment opportunities due to the current portfolio's aging profile. Although 1999 total operating expenses increased by 1%, the CHF 159 million figure is still comfortably low. Operating expenses remained stable despite the expansion into new regions



and sectors, the recruitment of new professionals, the high level of investment activity and the associated investment costs.

Personnel expenses decreased 13%, or CHF 16 million, to CHF 105 million in 1999. General and administrative expenses increased 34%, or CHF 12 million, to CHF 47 million in 1999. This increase was mainly due to deal related expenses.

### **Corporate Center**

During 1999 the Corporate Center posted a pre-tax profit of CHF 1,382 million, versus a pre-tax loss of CHF 1,029 million in 1998. The 1998 results were negatively impacted by the CHF 842 million provision for the settlement relating to the role of Swiss banks during and after World War II and CHF 367 million relating to the write-off on Long Term Capital Management. During 1999, a number of significant financial events have impacted the results of Corporate Center as follows:

- Pre-tax gains of CHF 1,490 million and CHF 110 million relating to the divestment of our stakes in Swiss Life / Rentenanstalt and Julius Baer registered shares, respectively.
- An additional pre-tax restructuring charge of CHF 300 million in respect of the merger between Union Bank of Switzerland and Swiss Bank Corporation representing about 4% of the original CHF 7 billion provision. The majority of this provision is due to revised estimates of the cost of lease breaks and disposals.
- Additional pre-tax provisions of CHF 154 million relating to the settlement reached regarding dormant accounts and World War II-related claims.
- The booking of pre-paid employer pension contributions of CHF 456 million. This represents the recognition, in accordance with International Accounting Standards, of the difference between previously

recorded and actuarially determined pension expenses.

Revenues attributable to Corporate Center arise from the funding, capital and balance sheet management, and management of foreign currency earnings activities undertaken by Group Treasury. The credit loss expense booked in Corporate Center reconciles the difference between management accounting and financial accounting, i.e. the adjusted expected losses charged to the divisions and the credit loss expense recognized in the Group financial accounts.

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



**For changes of address**

UBS AG, Shareholder Services OP7L, P.O. Box, CH-8098 Zurich, Switzerland  
Tel.: +41-1-235 62 02, Fax +41-1-235 31 54

**For enquiries**

UBS AG, Investor Relations G41B, P.O. Box, CH-8098 Zurich, Switzerland  
Tel.: +41-1-234 41 00, Fax +41-1-234 34 15

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UBS AG  
P.O. Box, CH-8098 Zurich  
P.O. Box, CH-4002 Basel

[www.ubs.com](http://www.ubs.com)