

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM F-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

UBS AG (Exact name of Registrant as specified in its charter)	UBS Americas Inc. (Exact name of Registrant as specified in its charter)	PWG Capital Trust I (Exact name of Registrant as specified in its charter)	PWG Capital Trust II (Exact name of Registrant as specified in its charter)
Switzerland (State or other jurisdiction of incorporation or organization)	Delaware (State or other jurisdiction of incorporation or organization)	Delaware (State or other jurisdiction of incorporation or organization)	Delaware (State or other jurisdiction of incorporation or organization)
6021 (Primary Standard Industrial Classification Code Number)	6211 (Primary Standard Industrial Classification Code Number)	6211 (Primary Standard Industrial Classification Code Number)	6211 (Primary Standard Industrial Classification Code Number)
98-0186363 (I.R.S. Employer Identification Number)	06-1595848 (I.R.S. Employer Identification Number)	13-7099828 (I.R.S. Employer Identification Number)	13-7099829 (I.R.S. Employer Identification Number)
Bahnhofstrasse 45, Zurich, Switzerland, 011 41-1-234 11 11 and Aeschenvorstadt 1, Basel, Switzerland, 011 41-61-288 20 20 (Address, including Zip Code, and telephone number, including area code, of Registrant's principal executive offices)	677 Washington Boulevard Stamford, Connecticut 06901 (203) 719-3000 (Address, including Zip Code, and telephone number, including area code, of Registrant's principal executive offices)	677 Washington Boulevard Stamford, Connecticut 06901 (203) 719-3000 (Address, including Zip Code, and telephone number, including area code, of Registrant's principal executive offices)	677 Washington Boulevard Stamford, Connecticut 06901 (203) 719-3000 (Address, including Zip Code, and telephone number, including area code, of Registrant's principal executive offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Pursuant to Rule 429 under the Securities Act, this Registration Statement constitutes a new registration statement in respect of the guarantees of UBS AG described in the prospectuses contained in this Registration Statement, and a post-effective amendment to the registration statement described below. Filing fees were paid in respect of all of the securities of UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.), PWG Capital Trust I and PWG Capital Trust II at or prior to the effectiveness of the registration statement relating to each of such securities. No filing fee is payable in respect of the UBS AG guarantees, as no separate consideration will be paid or received in respect of such guarantees.

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As noted above, this Registration Statement is a new registration statement and also constitutes Post-Effective Amendment No. 1 to Registration Statement No. 2-99979, which was declared effective on 31 October 1985; Post-Effective Amendment No. 1 to Registration Statement No. 33-7738, which was declared effective on 26 August 1986; Post-Effective Amendment No. 1 to Registration Statement No. 33-29253, which was declared effective on 22 June 1989; Post-Effective Amendment No. 1 to Registration Statement No. 33-39818, which was declared effective on 29 July 1991; Post-Effective Amendment No. 1 to Registration Statement No. 33-47267, which was declared effective on 22 June 1989; Post-Effective Amendment No. 1 to Registration Statement No. 33-51149, which was declared effective on 29 November 1993; Post-Effective Amendment No. 1 to Registration Statement No. 33-58124, which was declared effective on 25 February 1993; Post-Effective Amendment No. 1 to Registration Statement Nos. 333-13831 and 333-13831-01 to -04, which was declared effective on 29 November 1996; Post-Effective Amendment No. 1 to Registration Statement No. 333-17913, which was declared effective on 23 December 1996; Post-Effective Amendment No. 1 to Registration Statement No. 333-63107, which was declared effective on 23 September 1998; and Post-Effective Amendment No. 1 to Registration Statement Nos. 333-67187 and 333-67187-01 to -03, which was declared effective on 23 February 1999.

The registrants hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until the registrants shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Explanatory Note

The Registration Statement relates to and constitutes Post-Effective Amendment No. 1 to Registration Statement No. 2-99979, which was declared effective on 31 October 1985; Post-Effective Amendment No. 1 to Registration Statement No. 33-7738, which was declared effective on 26 August 1986; Post-Effective Amendment No. 1 to Registration Statement No. 33-29253, which was declared effective on 22 June 1989; Post-Effective Amendment No. 1 to Registration Statement No. 33-39818, which was declared effective on 29 July 1991; Post-Effective Amendment No. 1 to Registration Statement No. 33-47267, which was declared effective on 22 June 1989; Post-Effective Amendment No. 1 to Registration Statement No. 33-51149, which was declared effective on 29 November 1993; Post-Effective Amendment No. 1 to Registration Statement No. 33-58124, which was declared effective on 25 February 1993; Post-Effective Amendment No. 1 to Registration Statement Nos. 333-13831 and 333-13831-01 to -04, which was declared effective on 9 November 1996; Post-Effective Amendment No. 1 to Registration Statement No. 333-17913, which was declared effective on 23 December 1996; Post-Effective Amendment No. 1 to Registration Statement No. 333-63107, which was declared effective on 23 September 1998; and Post-Effective Amendment No. 1 to Registration Statement Nos. 333-67187 and 333-67187-01 to -03, which was declared effective on 23 February 1999. These registration statements were filed by Paine Webber Group Inc. and, in the case of Registration Statements Nos. 333-13831 and 333-13831-01 to -04 and 333-67187 and 333-67187-01 to -03, by PWG Capital Trust I and PWG Capital Trust II, in connection with the initial issuance of the securities covered by this Registration Statement.

This Post-Effective Amendment No. 1 is being filed to:

- amend the prospectuses contained in such registration statements to reflect the issuance of the guarantees of such securities by UBS AG, following the acquisition of Paine Webber Group Inc. by UBS AG, and the merger of Paine Webber Group Inc. with and into UBS Americas Inc., a wholly owned subsidiary of UBS AG,
- to add UBS AG as a registrant under the Registration Statement,
- to file the Registration Statement on Form F-1, rather than Form S-3, because UBS AG and, as a result of the guarantees provided by UBS AG, UBS Americas Inc., PWG Capital Trust I and PWG Capital Trust II, are eligible to file on Form F-1, and
- to amend the plan of distribution to reflect that any affiliate of UBS AG may engage in market-making transactions with respect to the securities.

This registration statement contains two prospectuses relating to market-making transactions that may occur on an ongoing basis in securities that have been previously issued.

The first prospectus, which is included in its entirety, relates to the debt securities previously issued by UBS Americas Inc. (the successor by merger to Paine Webber Group Inc.). The second prospectus, for which only alternate pages are included, relates to preferred trust securities previously issued by PWG Capital Trust I and PWG Capital Trust II, the junior subordinated debentures issued by UBS Americas Inc., the preferred trust securities guarantees by UBS Americas Inc. and the guarantees of UBS AG.

These prospectuses are intended to be used only in market-making transactions. This registration statement does not provide for the issuance of new securities by any of the registrants.



UBS Americas Inc. Certain Debt Securities

fully and unconditionally guaranteed, as described in this prospectus, by

UBS AG

This prospectus relates to outstanding debt securities of UBS Americas Inc. UBS Americas Inc. is the successor by merger to Paine Webber Group Inc. Before the merger, Paine Webber Group Inc. issued the following debt securities, of which the indicated aggregate principal amounts are outstanding:

- \$150,000,000 of 9¼% Notes Due 2001
- \$100,000,000 of 7⅞% Notes Due 2003
- \$200,000,000 of 6½% Notes Due 2005
- \$100,000,000 of 6¾% Notes Due 2006
- \$200,000,000 of 7⅞% Notes Due 2014
- \$125,000,000 of 8⅞% Notes Due 2005
- \$125,000,000 of 8¼% Notes Due 2002
- \$150,000,000 of 7⅞% Notes Due 2008
- \$250,000,000 of 6.55% Notes Due 2008
- \$340,000,000 of 6.45% Notes Due 2003
- \$525,000,000 of 6⅞% Notes Due 2004
- \$275,000,000 of 7⅞% Notes Due 2009
- \$175,000,000 of 7¾% Subordinated Notes Due 2002
- Varying principal amounts and maturities of Medium-Term Senior Notes, Series C
- Varying principal amounts and maturities of Medium-Term Subordinated Notes, Series D

As a result of the merger of Paine Webber Group Inc. into UBS Americas Inc., UBS Americas is now the issuer of all the debt securities listed above.

UBS Americas is a wholly owned subsidiary of UBS AG. Following the merger of UBS Americas and Paine Webber Group, UBS AG issued its guarantee of the payment obligations of UBS Americas under all the debt securities issued above. Under this guarantee, UBS AG has fully and unconditionally guaranteed all the obligations of UBS Americas under these securities. However, the obligations of UBS AG under its guarantee of the subordinated debt securities listed above are subordinated as well, as described in this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The debt securities are not deposit liabilities of UBS AG and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency of the United States, Switzerland or any other jurisdiction.

This prospectus is to be used by UBS AG and its affiliates, including UBS Warburg LLC and PaineWebber Incorporated, in connection with offers and sales of the debt securities when UBS AG and its affiliates engage in market-making transactions. These transactions may be executed at negotiated prices that are related to market prices at the time of purchase or sale, or at other prices. UBS AG and its affiliates may act as principal or agent in these transactions. No new debt securities are being offered.

UBS Warburg LLC

PaineWebber Incorporated

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Prospectus Summary

The following summary does not contain all the information that may be important to you. You should read the entire prospectus before making an investment decision.

UBS AG

UBS AG is a global, integrated investment services firm and the leading bank in Switzerland. UBS's business is managed through three main business groups and its Corporate Center. The business groups are: UBS Switzerland, UBS Warburg and UBS Asset Management. UBS's clients include international corporations, small- and medium-sized businesses in Switzerland, governments and other public bodies, financial institutions, market participants and individuals. UBS AG's ordinary shares are listed on the New York Stock Exchange under the symbol "UBS.N," on the Zurich Stock Exchange under the symbol "UBSNZn.S" and on the Tokyo Stock Exchange under the symbol "UBS.T."

On 3 November 2000, UBS acquired Paine Webber Group Inc., one of the largest full-service securities firms in the United States. UBS purchased all outstanding shares of PaineWebber stock for a combination of cash and stock representing a total purchase price of \$11.8 billion (based on the UBS share price on 3 November 2000).

The principal executive offices of UBS AG are located at Bahnhofstrasse 45, Zurich, Switzerland and Aeschenvorstadt 1, Basel, Switzerland. Its telephone numbers are 011-41-1-234-11-11 and 011-41-61-288-20-20.

UBS Americas

UBS Americas Inc. is the successor by merger to Paine Webber Group Inc. Paine Webber Group Inc. was the holding company for the PaineWebber group of companies. UBS Americas is a direct, wholly owned subsidiary of UBS AG, and continues to act as the holding company for the U.S. onshore private banking operations of UBS. UBS Americas' principal executive offices are located at 677 Washington Boulevard, Stamford, Connecticut 06901, and its telephone number is 203-719-3000.

The Offering

This prospectus relates to the outstanding debt securities of UBS Americas and the related guarantees of UBS. The specific terms of each debt security are described under “Description of the Debt Securities” below in this prospectus.

The Debt Securities	<p>This prospectus relates to the following outstanding debt securities of UBS Americas:</p> <p>\$150,000,000 of 9¼% Notes Due 2001 \$100,000,000 of 7⅞% Notes Due 2003 \$200,000,000 of 6½% Notes Due 2005 \$100,000,000 of 6¾% Notes Due 2006 \$200,000,000 of 7⅞% Notes Due 2014 \$125,000,000 of 8⅞% Notes Due 2005 \$125,000,000 of 8¼% Notes Due 2002 \$150,000,000 of 7⅞% Notes Due 2008 \$250,000,000 of 6.55% Notes Due 2008 \$340,000,000 of 6.45% Notes Due 2003 \$525,000,000 of 6⅜% Notes Due 2004 \$275,000,000 of 7⅞% Notes Due 2009 \$175,000,000 of 7¾% Subordinated Notes Due 2002 Varying principal amounts and maturities of Medium-Term Senior Notes, Series C Varying principal amounts and maturities of Medium-Term Subordinated Notes, Series D.</p>
Issuer	UBS Americas Inc.
Guarantor	UBS AG.
Terms of the Debt Securities	As stated in the applicable description below.
Market for the Debt Securities	UBS Warburg LLC and PaineWebber Incorporated currently make a market in the debt securities. However, they are not required to do so, and they can stop doing so at any time without notice. As a result, there is no assurance as to the liquidity of any market for the debt securities.
Use of Proceeds	All of the sales of debt securities under this prospectus will be market-making transactions — that is, transactions in which UBS AG, UBS Warburg LLC, PaineWebber Incorporated, or one of UBS AG’s other affiliates, resells securities that the seller, or one of its affiliates, has previously bought from another party. UBS Americas will not receive any of the proceeds from these resales of the debt securities. In general, we expect that the entity that resells any particular debt securities will retain the proceeds of its market-making resales and will not pay the proceeds to UBS Americas or, if the resales are not made by UBS AG, to UBS AG.

Plan of Distribution

This prospectus relates to market-making transactions in the debt securities by UBS AG and its affiliates. The affiliates that may engage in these transactions include, but are not limited to, UBS AG itself, UBS Warburg LLC and PaineWebber Incorporated. These transactions may be executed at negotiated prices that are related to prevailing market prices at the time of sale, or at other prices. UBS AG and its affiliates may act as principal or agent in these transactions. No new securities are offered.

Ratio of Earnings to Fixed Charges

The following table sets forth UBS AG's ratio of earnings to fixed charges, for the periods indicated.

	Year Ended 31 December			Six Months Ended	
	1997	1998	1999	1999	2000
	CHF in millions, except ratios				
International Accounting Standards ("IAS")(1)					
Ratio of earnings to fixed charges(2)	0.95	1.11	1.25	1.36	1.28
US Generally Accepted Accounting Principles ("GAAP")(1)					
Ratio of earnings to fixed charges(3)	x	0.80	1.14	x	1.16

- (1) *The ratio is provided using both IAS and US GAAP values, as the ratio is materially different between the two accounting standards. No US GAAP information is provided for 31 December 1997 and 30 June 1999 as a US GAAP reconciliation was not required for those periods.*
- (2) *The deficiency in the coverage of fixed charges by earnings before fixed charges on an IAS basis at 31 December 1997 of CHF 851 million is due to restructuring charges of CHF 7,000 million under IAS charged in that period. Without that charge, the ratio would have been 1.36.*
- (3) *The deficiency in the coverage of fixed charges by earnings before fixed charges at 31 December 1998 of CHF 5,319 million is due to restructuring charges of CHF 3,982 million under US GAAP, as well as 1,706 million of pre-tax losses from significant financial events charged for that period. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Introduction." Without those charges the ratio would have been 1.01.*

Use of Proceeds

All of the sales of debt securities under this prospectus will be market-making transactions—that is, transactions in which UBS AG, UBS Warburg LLC, PaineWebber Incorporated, or one of UBS AG’s other affiliates, resells securities that the seller, or one of its affiliates, has previously bought from another party. UBS Americas will not receive any of the proceeds from these resales of the debt securities. In general, we expect that the entity that resells any particular debt securities will retain the proceeds of its market-making resales and will not pay the proceeds to UBS Americas or, when the resales are not made by UBS AG, to UBS AG.

Cautionary Note Regarding Forward-Looking Information

This prospectus contains forward-looking information. The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as the information is identified as forward looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. Forward-looking information is indicated by the use of words such as “anticipates,” “expects,” “believes,” “should,” “could,” “intends,” “estimates” and “may,” or other comparable language.

We identify the following important factors that could cause UBS’s actual results to differ materially from any results that might be projected by UBS in forward-looking information. All of these factors are difficult to predict, and many are beyond the control of UBS. Accordingly, although we believe that the assumptions underlying the forward-looking information are reasonable, there can be no assurance that those assumptions will approximate actual experience. The important factors include the following:

- general economic conditions, including prevailing interest rates and performance of financial markets, which may affect UBS’s ability to sell its products,
- the market value of UBS’s investments,
- UBS’s and PaineWebber’s ability to achieve anticipated cost savings and efficiencies from their merger, to integrate their sales and distribution channels in a timely manner and to retain their key employees,
- changes in federal tax laws, which could adversely affect the tax advantages of certain of UBS’s products and subject it to increased taxation,
- industry consolidation and competition,
- changes affecting the banking industry generally and UBS’s banking operations specifically, including asset quality,
- increasing levels of competition in emerging markets and general competitive factors, locally, nationally, regionally and globally, and
- changes in currency exchange rates, including the exchange rate for the Swiss franc into U.S. dollars.

You should also consider other risks and uncertainties discussed in documents filed by UBS with the SEC, including UBS’s Annual Report on Form 20-F for the fiscal year ended December 31, 1999. We have no obligation to update forward-looking information to reflect actual results.

Capitalization of UBS

The following table sets forth the consolidated capitalization of UBS in accordance with International Accounting Standards and translated into U.S. dollars, at the rate of CHF 1 = \$0.5532, the exchange rate as of 31 October 2000.

	As of	
	31 October 2000	
	CHF	U.S.\$
	(in millions)	
Debt		
Money market paper issued	66,811	36,960
Due to banks	103,370	57,184
Cash collateral on securities lent	21,416	11,847
Due to customers	298,839	165,318
Long-term debt	<u>50,670</u>	<u>28,031</u>
Total Debt	541,106	299,340
Minority Interest	3,134	1,734
Shareholders' Equity	<u>35,325</u>	<u>19,542</u>
Total Capitalization	<u>579,565</u>	<u>320,616</u>

None of the indebtedness listed above is secured.

Recent Developments

On 28 November 2000, UBS announced its results for the third quarter of 2000. These results, and certain changes to the composition of UBS's Board of Directors and senior management, are set forth in an appendix to this prospectus, beginning at page A-1. This annex also updates some of the other information provided elsewhere in this prospectus.

In addition, on 14 December 2000, UBS announced that Joseph J. Grano Jr., the former President and Chief Executive Officer of PaineWebber and now President and CEO of the Private Clients and Asset Management division in UBS Warburg, will join UBS's Group Executive Board as of January 1, 2001.

UBS

Description of Business

Mission

The UBS mission is to:

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

Overview

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

- UBS Switzerland;
- UBS Warburg; and
- UBS Asset Management.

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

- wealth management services;
- investment funds;
- corporate advisory (mergers and acquisitions) services;
- equity and debt underwriting;
- securities and financial market research;
- securities and derivatives sales and trading;
- structured risk management;
- retail, commercial and transaction banking in Switzerland;
- asset management; and
- private equity funds.

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

UBS

UBS's Corporate Center encompasses Group level functions that cannot be delegated to the business groups.

All of UBS's business groups work together in an integrated investment services firm. UBS believes this allows it to provide several types of services to its clients, resulting in additional profits. Examples of inter-group synergies include:

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

Set forth below is summary information relating to UBS.

	For the Six Months Ended 30 June		For the Year Ended 31 December(1)	
	2000	1999(1)	1999	1998
	(CHF in millions, except per share data)			
Operating income	18,557	15,102	28,425	22,247
Operating expenses	<u>12,997</u>	<u>10,071</u>	<u>20,532</u>	<u>18,376</u>
Operating profit before tax and minority interests	<u>5,560</u>	<u>5,031</u>	<u>7,893</u>	<u>3,871</u>
Net profit	<u>4,268</u>	<u>3,859</u>	<u>6,153</u>	<u>2,972</u>
Basic earnings per share	<u>10.91</u>	<u>9.38</u>	<u>15.20</u>	<u>7.33</u>
(at period end)				
Total assets	946,307		898,888	861,282
Shareholders' equity	31,876		30,608	28,794
Assets under management (CHF billion)(2)	1,711		1,744	1,572

(1) Certain amounts have been restated to conform to the 2000 presentation.

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

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

	At 30 June 2000	At 31 December 1999	At 31 December 1998
Moody's, New York	Aa1	Aa1	Aa1
Fitch/IBCA, London	AAA	AAA	AAA
Standard & Poor's, New York	AA+	AA+	AA+
Thomson BankWatch, New York	AA	AA	AA

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

Strategy

UBS seeks to grow the profitability and enhance the efficiency of all of its businesses, while continuously improving the provision of products and services to its clients. UBS will build its franchise either through investments in internal growth or, where appropriate, through selected acquisitions, such as the merger with PaineWebber. UBS believes that its business model and its recent history of embracing and managing change will enable flexible responses to the rapid and unpredictable changes taking place in the financial services industry. In order to maintain an edge in the highly competitive markets in which UBS operates, UBS will continue to make ongoing investments in top quality staff and technology.

In addition to the delivery of products and services through traditional channels, UBS is strengthening its e-commerce initiatives. UBS's business groups are well advanced in formulating and implementing their e-commerce strategies.

- UBS Switzerland will invest CHF 90-100 million annually over the next few years to extend its electronic banking and mobile phone banking initiatives. Since April 2000, a single unit has been responsible for handling all the business group's e-banking activities with its primary goal being to bring personalized service to private clients. A further goal is to expand relationships with active online clients, strengthening cross-selling in the process.
- UBS Warburg has launched its web-based business-to-business solution, Investment Banking On-Line or "IBOL." From the IBOL homepage, corporate and institutional clients can access services and content electronically and link to execution capabilities across all product areas.

Background

On 29 June 1998, Union Bank of Switzerland and Swiss Bank Corporation merged to form UBS. Union Bank of Switzerland was created by the merger of two Swiss regional banks in 1912; these two Swiss regional banks can trace their history back to 1862 and 1863. Swiss Bank Corporation was incorporated in Basel in 1872 and its history can be traced back to the creation of "Bankverein" from six private banking houses in 1854.

Prior to the 1998 merger, Union Bank of Switzerland developed primarily through internal growth, although it made certain significant acquisitions such as Phillips & Drew in 1985. Swiss Bank Corporation expanded mainly through acquisitions. These included the acquisitions of:

- O'Connor & Associates, a group of affiliated firms specializing in the trading of options and other derivative instruments (1992);
- Brinson Partners, a leading institutional investment management firm in terms of assets under management (1995);
- the investment banking operating subsidiaries of S.G. Warburg Group p.l.c. (1995); and
- Dillon Read & Co., Inc., a United States-based investment bank (1997).

The integration of Union Bank of Switzerland and Swiss Bank Corporation was largely completed within one year, despite the additional challenges presented by preparation for the Year 2000 and the introduction of the euro.

Merger with PaineWebber

On 3 November 2000, UBS acquired Paine Webber Group Inc. UBS purchased all outstanding shares of PaineWebber stock for a combination of cash and stock representing a total purchase price of \$11.8 billion (based on the UBS share price on 3 November 2000).

PaineWebber was one of the largest full-service securities and commodities firms in the United States. Founded in 1879, PaineWebber employed approximately 23,175 people in 385 offices worldwide at the time of the merger.

At the time of the merger, PaineWebber offered a wide variety of products and services, consisting of those of a full service broker-dealer to primarily a domestic market, through its two operating segments: Individual and Institutional. The Individual segment offered brokerage services and products, asset management and other investment advisory and portfolio management products and services, and execution and clearing services for transactions originated by individual investors. The Institutional segment principally included capital markets products and services such as securities dealer activities and investment banking.

Business and Management Structure

Prior to the 1998 merger, Union Bank of Switzerland operated four strategic business segments:

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

Swiss Bank Corporation also operated in four divisions prior to the 1998 merger:

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

The combined entity following the 1998 merger initially had the following five operating divisions and the Corporate Center:

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

On 18 February 2000, UBS regrouped its businesses into the following three main business groups to align itself as closely as possible to client needs.

- UBS Switzerland, which is now composed of two business units:
 - Private and Corporate Clients: Swiss retail and commercial banking.
 - Private Banking: private banking services offered to all Swiss and international high net worth clients who bank in Switzerland or offshore centers.
- UBS Asset Management, which now includes:
 - Institutional Asset Management: Brinson Partners and Phillips & Drew business areas, which are now integrated to form a single global investment platform.
 - Investment Funds/GAM: The Investment Funds and Global Asset Management, or “GAM,” business areas, transferred from UBS Private Banking.
- UBS Warburg, which is now comprised of four business units:
 - Corporate and Institutional Clients: securities and investment banking products and services for institutional and corporate clients. This includes the Corporate Finance, Equities, Fixed Income and Treasury Products businesses.
 - UBS Capital: investment of UBS and third-party funds in a diverse range of private, and occasionally public, companies on a global basis.
 - Private Clients: UBS’s onshore private banking services for high net worth individuals worldwide, outside of Switzerland.
 - e-services: personalized investment and advisory services at competitive fees for affluent clients in Europe, delivered via a multi-channel structure that integrates internet, call centers and investment centers.

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

The Chief Executive Officer of each business group is a member of the Group Executive Board and is responsible and accountable for the results of the business group as a whole. However, when the new business group structure was introduced, UBS committed to continue to provide summary financial and management information about the business units, in order to maintain transparency in its affairs and allow shareholders to make meaningful comparisons to the performance of the Group under its previous structure. Therefore, the discussion in this section describes the business groups mainly in terms of their constituent business units.

In the remainder of this section, the discussion will be divided into the three business groups and their constituent business units, as they exist now, not the five divisions as they existed on 31 December 1999.

UBS Switzerland

The UBS Switzerland business group is made up of two business units:

- *Private and Corporate Clients* — The leading retail and commercial bank in Switzerland.
- *Private Banking* — Covers all Swiss and international high net worth clients who bank in Switzerland or offshore centers.

The onshore Private Clients business, formerly part of Private Banking, is now managed within the UBS Warburg business group.

UBS Switzerland is the leading Swiss bank for individual and corporate clients and a premier Swiss private banking institution. UBS Switzerland offers a continuum of services to all Swiss-based clients. It benefits from an integrated infrastructure and the opportunity for shared distribution via its developing multi-channel architecture.

To drive forward its e-commerce vision and strategy, UBS Switzerland has created a single business area called “e-Channels and Products” to lead all its e-banking activities. The new business area will be responsible for all electronic channels and products as well as associated service and support centers and will oversee all e-banking functions of UBS Switzerland. Its costs are shared between Private Banking and Private and Corporate Clients, based on service level agreements.

Private and Corporate Clients. The Private and Corporate Clients business unit of UBS Switzerland is the leading retail bank in Switzerland and targets individual clients with assets of up to approximately CHF 1 million as well as business and corporate clients in Switzerland. At 30 June 2000, this business unit had about CHF 439 billion in assets under management and a loan portfolio of approximately CHF 163 billion. Private and Corporate Clients employs over 22,000 people in its headquarters in Zurich and its offices throughout Switzerland.

Set forth below is summary information, based on management accounting data, relating to the Private and Corporate Clients business unit, which is discussed in greater detail under “—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations by Business Unit—UBS Switzerland—Private and Corporate Clients.”

	2000	For the Six Months Ended 30 June 1999(1) (CHF in millions)	1999	For the Year Ended 31 December(1) 1998
Operating income before credit loss expense	3,803	3,599	7,193	7,025
Credit loss expense	412	554	1,050	1,170
Personnel, general and administrative expenses	2,154	2,224	4,486	4,263
Depreciation and amortization	219	200	386	684
Operating profit before tax	<u>1,018</u>	<u>621</u>	<u>1,271</u>	<u>908</u>
Average regulatory equity used (at period end)	8,850	8,400	8,550	8,250
Assets under management (CHF in billions)	439	443	439	434
Numbers of employees	22,270	24,186	24,098	24,043
Total loans	162,752	167,004	164,743	164,840

(1) Certain amounts have been restated to conform to the 2000 presentation.

Organizational Structure. Private and Corporate Clients operates four main business areas:

- *Individual Clients* — This business area includes over 4,000,000 client accounts, of which over 25% are client accounts that relate to clients with assets over CHF 50,000.
- *Corporate Clients* — This business area focuses on Swiss corporate clients and includes 160 top corporations, over 7,500 large corporate clients and 180,000 small- and medium-sized businesses.
- *Operations* — In addition to providing operational support to the retail banking business and other Swiss-based UBS units, this business area provides payment and custodial services to approximately 1,800 banking institutions throughout the world.
- *Risk Transformation and Capital Management* — This business area has responsibility for clients with impaired or non-performing loans and manages the risk in Private and Corporate Clients' loan portfolio. It is also responsible for optimizing capital utilization.

Private and Corporate Clients also includes the Resources business area, which provides real estate, marketing, personnel and administrative services to Private and Corporate Clients and the other UBS business units in Switzerland, particularly Private Banking, and the Information Technology business area, which provides information technology services to Private and Corporate Clients and the other Swiss-based UBS offices, again with Private Banking as the main recipient.

Profit Enhancement Initiatives. The domestic retail banking sector in Switzerland has historically been a high-cost, low-return business. In order to further enhance the profitability of the retail business and to exploit the synergies after the 1998 merger, UBS has developed and commenced a number of initiatives that are intended to reduce the costs and increase the revenues of this business unit. These include:

- The further development and enhancement of alternative distribution channels, including:
 - UBS e-banking, on-line internet and teletext banking, and telephone banking.
 - UBS Multimatt and UBS Bancomat Plus, which together offer a direct electronic link to the customer's account and to a full range of traditional ATM services, including accepting cash deposits, and permits additional functions, such as the set-up and maintenance of payment and standing orders.
- Increasing revenue principally through improvements in pricing, increased focus on higher yielding investment products and fee-based businesses, and improvements in the distribution of UBS's products, including implementing risk-adjusted pricing in its new and maturing loan business and by expanding its e-banking services.
- Reducing costs by continuing to close branches. Since the 1998 merger, UBS has closed 200 branches, or 36%, still leaving UBS with more branches than either predecessor institution.
- Increasing the efficiency and productivity of Private and Corporate Clients' processes by standardizing its products and taking advantage of automation and other technological developments.

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

UBS

The table below sets forth assets under management attributable to each of Private and Corporate Client's main client areas at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 (CHF in billions)	31 December 1998
Individual Clients	221	223	229
Corporate Clients	213	212	178
Banks	<u>5</u>	<u>4</u>	<u>27</u>
Total	<u>439</u>	<u>439</u>	<u>434</u>

Client/Product Initiatives. Rapid growth of technology has made available a number of alternative distribution channels. UBS has offered telebanking since 1985 and, based upon its market research, UBS has the leading position in the Swiss telebanking market, initiating in excess of one-half of all telebanking transactions in Switzerland during 1998.

Since 1997, UBS has expanded its product offerings and taken steps to market additional services to its client base. Key initiatives include:

- The launch of UBS Tradepac, an expanded all-inclusive internet-based offering aimed at serving the on-line trading needs of UBS's customers and providing access to six international exchanges. As part of UBS Tradepac, UBS has established a partnership with Intuit Inc. that has permitted it to introduce UBS Quicken, a specially adapted version of the Quicken software that includes enhanced financial management functions and adds to the attractiveness of its product offering.
- The launch of UBS's small- and medium-sized business enterprises initiative, which is intended to respond to the lack of risk capital for small business enterprises.

Investment Services. UBS's investment services for Private and Corporate Clients are a collaborative effort among:

- UBS Asset Management, which manages the UBS mutual fund portfolio and determines the investment strategy for, delivers monthly tactical asset allocations to, and manages discretionary mandates of, Private and Corporate Clients' institutional clients.
- UBS Warburg, which provides research and access to the securities exchanges.
- UBS Switzerland, which actively markets and distributes investment products to its clients after making the appropriate revisions to take into account the needs of those clients.

The principal result is a full range of investment options to offer UBS's clients including those of Private and Corporate Clients.

The following table illustrates Private and Corporate Clients' assets under management by asset class at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 (CHF in billions)	31 December 1998
Deposit and current accounts	125	129	153
Securities accounts	<u>314</u>	<u>310</u>	<u>281</u>
Total	<u>439</u>	<u>439</u>	<u>434</u>

Loan Portfolio. The following table shows the loan portfolio (excluding Solothurner Bank) before all allowances, in Private and Corporate Clients, broken down by Private and Corporate Clients' main business areas at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 (CHF in billions)	31 December 1998
Individual Clients	77	76	90
Corporate Clients	68	68	49
Recovery Portfolio	<u>18</u>	<u>21</u>	<u>26</u>
Total	<u>163</u>	<u>165</u>	<u>165</u>

The following table shows the loan portfolio in Private and Corporate Clients, broken down by loan category at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 (CHF in billions)	31 December 1998
Fixed rate mortgages	79	81	80
Commercial credits	40	44	44
Variable rate mortgages	28	30	36
Other	<u>16</u>	<u>10</u>	<u>5</u>
Total	<u>163</u>	<u>165</u>	<u>165</u>

At 30 June 2000, about CHF 107 billion (or 66%) of the CHF 163 billion loan portfolio in Private and Corporate Clients related to mortgages, of which approximately 81% were secured by residential real estate. A discussion of UBS's loan portfolio classified by industry is included under "—Management's Discussion and Analysis of Financial Condition and Results of Operations—Selected Statistical Information—Loans."

Private and Corporate Clients' impaired loans, which include non-performing loans, are transferred to the Risk Transformation and Capital Management business area to be managed by UBS's Recovery Group, which specializes in working-out or otherwise recovering the value of those loans. At 30 June 2000, Private and Corporate Clients' loan portfolio included approximately a CHF 18 billion recovery portfolio. Approximately CHF 16 billion of Private and Corporate Clients' 30 June 2000 recovery portfolio was impaired and related to provisional positions and positions stemming back to weakness in the Swiss commercial real estate markets during the 1990s. A provision of CHF 9 billion has been established against the portion of impaired loans not secured by collateral or otherwise deemed uncollectible. Approximately CHF 2 billion of UBS's 30 June 2000 recovery portfolio is performing and unimpaired. The unimpaired loans included in UBS's recovery portfolio are outstanding with counterparties for whom other loans have become impaired. No provisions have been established against these loans. UBS's lending officers actively manage the recovery portfolio, seeking to restructure the lending relationship with a goal of removing the loan from the recovery portfolio. The following table describes the development in UBS's recovery portfolio from 1 January 1998 to 30 June 2000.

	(CHF in billions)
Balance, 1 January 1998	29
Changes in 1998:	
New recovery loans added	7
Settlements of outstanding recovery loans	<u>(10)</u>
Balance, 31 December 1998	26
Changes in 1999:	
New recovery loans added	5
Settlements of outstanding recovery loans	<u>(10)</u>
Balance, 31 December 1999	21
Changes in 2000:	
New recovery loans added	1
Settlements of outstanding recovery loans	<u>(4)</u>
Balance, 30 June 2000	<u>18</u>

Approximately 60% of the loans that were originally included in UBS's recovery portfolio in 1997 have been worked out and removed. See “—Management's Discussion and Analysis of Financial Condition and Results of Operations—Analysis of Risks—Credit Risk” for a further description of UBS's process for credit risk management and control and a discussion of impaired and non-performing loans.

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

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

Private Banking. UBS is one of the leading international private banks, as measured by assets under management. At 30 June 2000, Private Banking had CHF 683 billion in assets under management. Private Banking serves high net worth individuals with a broad range of comprehensive wealth management services and financial products. Private Banking's approach is to focus on establishing long-term client relationships and emphasizing the life-time value of these relationships.

The private banking industry is in the process of undergoing some fundamental changes resulting from the changing profile of high net worth individuals, emerging technologies and increased competition. Clients are increasingly taking a more active role in managing their wealth and are demanding more sophisticated products and a broader geographic range of services. They are focused on asset

performance and allocation, quality of information and advice and extended availability of services, such as 24-hour, remote and internet access. The private banking industry is also experiencing an increase in the wealth that remains in onshore markets, particularly in the form of equity and equity-linked investments, as domestic capital markets become more developed and generate higher returns.

To address this changing environment, Private Banking is seeking to further penetrate its existing client base with enhanced wealth management solutions. Private Banking's size provides it with the flexibility to offer its clients customized and expanded service offerings tailored to their particular needs. To further increase its assets under management in its private banking business, UBS will also continue to consider select acquisition opportunities that may arise, as evidenced by the acquisition in 1999 of Bank of America's international private banking activities. Set forth below is summary information, based on management accounting data, relating to the Private Banking business unit of UBS Switzerland, which is discussed in greater detail under "—Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations by Business Unit—UBS Switzerland—Private Banking."

	For the Six Months Ended		For the Year Ended	
	2000	1999	1999	1998
	(CHF in millions)			
Operating income before credit loss expense	3,471	2,728	5,568	6,933
Credit loss expense	11	6	21	16
Personnel, general and administrative expenses	1,425	1,147	2,513	2,411
Depreciation and amortization	55	38	97	91
Operating profit before tax	<u>1,980</u>	<u>1,537</u>	<u>2,937</u>	<u>4,415</u>
(at period end)				
Assets under management (CHF in billions)	683	630	671	579
Number of employees	7,447	6,697	7,256	6,546

(1) Certain amounts have been restated to conform to the 2000 presentation.

Marketing and Distribution. Private Banking provides wealth management services to its clients in a number of geographic regions and seeks to tailor its service offerings to meet the specific needs of particular client segments and markets. To better understand the needs of its existing and prospective clients, Private Banking differentiates its clients by geographic location and the amount of assets under management and then based on their product needs and utilization and service requirements. The client advisors who serve Private Banking's clients are principally organized by client market, which allows them a higher level of client focus. Private Banking believes that this approach fosters valued long-term client relationships.

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

Products and Services. Private Banking provides a number of asset-based, transaction-based and other services to its clients. Asset-based services include custodial services, deposit accounts, loans and

fiduciary services while transaction-based services include trading and brokerage and investment fund services. Private Banking also provides financial planning and consulting and offers financial planning instruments to its clients. These services include establishing proprietary trusts and foundations, the execution of wills, corporate and personal tax structuring and tax efficient investments. Private Banking has the following three core product and service business areas:

- *Financial Planning and Wealth Management* — Responsible for developing integrated comprehensive wealth management services in the form of tax and estate planning, liquidity and retirement lifestyle planning, insurance products, art and real estate advisory services and a variety of sophisticated capital enhancement and asset protection strategies.
- *Portfolio Management* — Responsible for providing portfolio management services to Private Banking clients and for the investment clients of Private and Corporate Clients.
- *Active Advisory Team* — Provides sales brokerage, investment advisory services and products to key private banking locations worldwide. The Active Advisory Team provides information concerning, and facilitates investments in, primary initial public offerings and secondary placements. This team also provides fiduciary services and the execution of private banking orders outside Switzerland.

At 30 June 2000, slightly more than one-fifth of Private Banking's assets under management were managed on a discretionary basis. The remaining assets under management related to advisory engagements.

The following table shows information concerning assets under management by type of engagement and asset class in Private Banking at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 (CHF in millions)	31 December 1998
Type of Engagement			
Advisory	533,000	501,000	437,000
Discretionary	<u>150,000</u>	<u>170,000</u>	<u>142,000</u>
Total	<u>683,000</u>	<u>671,000</u>	<u>579,000</u>
Asset Class			
Deposit and current accounts	59,000	59,000	50,000
Equities	199,000	196,000	148,000
Bonds	194,000	187,000	187,000
Investment Funds	106,000	119,000	93,000
Other(1)	<u>125,000</u>	<u>110,000</u>	<u>101,000</u>
Total	<u>683,000</u>	<u>671,000</u>	<u>579,000</u>

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

UBS Asset Management

UBS Asset Management brings together UBS's asset management activities. It consists of two business units:

- *Institutional Asset Management* — One of the largest institutional asset managers in the world.
- *Investment Funds/GAM* — Investment Funds is one of the leading funds providers in Europe and the seventh largest in the world. GAM is a diversified asset management group with assets composed primarily of private client accounts, institutional and mutual funds.

UBS Asset Management benefits from an integrated business model and single management team.

Institutional Asset Management. Based on assets under management, Institutional Asset Management is one of the largest institutional asset managers in the world and among the industry leaders in the United States, the United Kingdom and Switzerland. At 30 June 2000, Institutional Asset Management had over CHF 525 billion in assets under management, including CHF 326 billion of institutional assets and CHF 199 billion of non-institutional assets, including the UBS Investment Funds offered by the Investment Funds business area of the Investment Funds/GAM business unit, which are managed by Institutional Asset Management. Institutional Asset Management is headquartered in Chicago and has offices in Dallas/Houston, Frankfurt, Geneva, Hartford, Hong Kong, London, Melbourne, New York, Paris, Rio de Janeiro, San Francisco, Singapore, Sydney, Tokyo and Zurich.

Institutional Asset Management markets its services under the UBS Asset Management name, with Brinson Partners and Phillips & Drew serving as sub-brands within the Americas and the United Kingdom, respectively. Institutional Asset Management believes that its broad geographic spread of operations and strong brand names will help it pursue growth opportunities in Continental Europe, Asia-Pacific and Latin America and maintain its strong positions in the mature markets it serves in the United States, the United Kingdom and Switzerland.

Set forth below is summary information, based on management accounting data, relating to Institutional Asset Management, which is discussed in greater detail under “—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations by Business Unit—UBS Asset Management—Institutional Asset Management.”

	2000	For the Six Months Ended 30 June 1999(1)	1999	For the Year Ended 31 December(1) 1998
	(CHF in millions)			
Operating income	638	542	1,099	1,163
Personnel, general and administrative expenses	402	331	636	619
Depreciation and amortization	98	63	138	107
Operating profit before tax	<u>138</u>	<u>148</u>	<u>325</u>	<u>437</u>
(at period end)				
Assets under management (CHF in billions)	525	563	574	531
Number of employees	1,712	1,507	1,653	1,497

(1) Certain amounts have been restated to conform to the 2000 presentation.

Organizational Structure. During 1999, Institutional Asset Management implemented a client-centric business model and modified its organizational structure to strengthen local and regional roles. Institutional Asset Management believes that its new organizational structure will improve

accountability for results and the business group’s effectiveness and efficiency. At 30 June 2000, Institutional Asset Management’s organizational structure consisted of the following business areas:

- *Brinson Partners and Phillips & Drew* — These business areas have the mandate to optimize the contribution from the Americas and the United Kingdom, respectively, and to further develop their investment capabilities and to contribute to global business development efforts in Europe and the Asia-Pacific region.
- *Europe, Middle East & Africa and Asia Pacific* — These two business areas have a mandate to capture profitable growth opportunities in their assigned geographic markets and to optimize the contribution from existing businesses in these regions. These mandates strengthen the regional accountability for results and resources. At the same time, both regional business areas continue to contribute to the UBS Asset Management global investment process as well as ensure their adaptation to regional client needs where appropriate.
- *O’Connor* — Launched at the beginning of June 2000, O’Connor is comprised of part of the proprietary equity trading group of UBS Warburg, as well as the Fund of Funds and Currency Funds businesses of UBS Warburg. O’Connor will focus on alternative investments, or investment strategies designed to provide attractive risk-adjusted returns with a low correlation to traditional investments.
- *IT and Operations* — This business area is responsible for implementing and maintaining information technology and delivery platforms for the Institutional Asset Management business unit.

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

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

Externally managed pension assets constitute the majority of worldwide available institutional assets. The pension market is undergoing a shift from traditional defined benefit plans to defined contribution schemes. One of Institutional Asset Management’s strategic initiatives is to position itself to take advantage of the opportunities created in this changing environment.

The following table shows assets under management broken down between institutional assets and non-institutional assets at 30 June 2000 and 31 December 1999 and 1998. Non-institutional assets include the UBS Investment Funds, which are managed by Institutional Asset Management.

	30 June 2000	31 December 1999	31 December 1998
		(CHF in millions)	
Institutional	326,000	376,000	360,000
Non-institutional	<u>199,000</u>	<u>198,000</u>	<u>171,000</u>
Total	<u>525,000</u>	<u>574,000</u>	<u>531,000</u>

Institutional Asset Management is well represented in the United States, Europe and Australia, and is one of the largest foreign investment managers in Japan. Institutional Asset Management believes this gives it a strong platform to meet the increasingly complex global investment and servicing needs of its major clients, and to expand its presence in growth markets.

The following table shows Institutional Asset Management's institutional assets under management by the geographic location of its clients at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 (CHF in millions)	31 December 1998
Europe, Middle East & Africa	171,000	185,000	202,000
The Americas	110,000	140,000	122,000
Asia-Pacific	<u>45,000</u>	<u>51,000</u>	<u>36,000</u>
Total	<u>326,000</u>	<u>376,000</u>	<u>360,000</u>

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

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

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

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

The following table sets forth institutional assets under management for Institutional Asset Management by client mandate at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 (CHF in millions)	31 December 1998
Equity	100,000	125,000	115,000
Asset Allocation	110,000	130,000	148,000
Fixed Income	79,000	90,000	83,000
Private Markets	<u>37,000</u>	<u>31,000</u>	<u>14,000</u>
Total	<u>326,000</u>	<u>376,000</u>	<u>360,000</u>

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

Investment Process and Research. At the beginning of March 2000, Institutional Asset Management announced that Brinson Partners and Phillips & Drew were being combined to establish a common global investment management platform. This decision reflected the shared investment philosophies of Phillips & Drew and Brinson Partners, based on capturing price-value discrepancies identified through fundamental research as well as similar cultures. The initial integration was completed according to schedule at the beginning of May 2000.

The investment process is based on Institutional Asset Management efforts to determine and quantify investment value. Senior investment professionals set policy and oversee research activity within the units, drawing upon the expertise of investment specialists in each asset class. These specialists consult with external analysts, economists, consultants and academics. They develop research and provide input into Institutional Asset Management's quantitative valuation models. Institutional Asset Management estimates long-term expected returns for asset classes, markets, and securities using proprietary valuation models that consider cash flows discounted at risk-adjusted rates and then evaluates potential strategies in the context of forecasted returns as well as its forecasted risks and correlations.

Institutional Asset Management creates portfolios and monitors and adjusts them based on relative price/value discrepancies. Its method is to identify periodic discrepancies between market price and investment value and turn them to its clients' advantage. Where no significant discrepancies exist between price and value, Institutional Asset Management continues its research and analysis. Institutional Asset Management believes that its approach allows it to respond to market changes, while providing its clients with the benefit of its knowledge and experience and maintains the flexibility to customize portfolios to meet their requirements.

Investment Funds/GAM. As part of the re-grouping announced in February 2000, the Global Asset Management, or GAM, and Investment Funds areas of the former Private Banking division were transferred to UBS Asset Management, bringing together all of UBS's asset management activities.

UBS Asset Management will benefit from an integrated business model and single management team. Within this framework GAM will be distinctly positioned and maintain its brand identity as well as its unique investment styles.

Set forth below is summary information, based on management accounting data, relating to the Investment Funds/GAM business unit, which is discussed in greater detail under “—Management’s Discussion and Analysis of Financial Condition and Results of Operations—UBS Asset Management—Investment Funds/GAM.”

	Six Months Ended 2000	For the 30 June 1999(1) (CHF in millions)	For the Year Ended 31 December(1) 1999	For the Year Ended 1998
Operating income	334	102	270	195
Personnel, general and administrative expenses	215	75	151	124
Depreciation and amortization	<u>55</u>	<u>3</u>	<u>7</u>	<u>6</u>
Operating profit before tax	<u>64</u>	<u>24</u>	<u>112</u>	<u>65</u>
(at period end)				
Assets under management (CHF in billions)	225	190	225	176
Number of employees	1,038	392	923	366

(1) Certain amounts have been restated to conform to the 2000 presentation.

The following table sets forth assets under management by business area within the Investment Funds/GAM business unit at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 (CHF in millions)	31 December 1998
Investment Funds	202,500	201,000	175,600
GAM	<u>22,100</u>	<u>23,500</u>	<u>0</u>
Total	<u>224,600</u>	<u>224,500</u>	<u>175,600</u>

Investment Funds. As a result of the merger between the Union Bank of Switzerland and Swiss Bank Corporation, Investment Funds became the leading investment fund provider in Europe and Switzerland in terms of investment fund assets under management. By year-end 1999, Investment Funds’ assets under management increased 15% with growth primarily attributable to investment performance. UBS has received numerous awards, including being named “Switzerland’s Best Overall Management Group” by Standard & Poor’s Fund Services in 1999.

Marketing and Distribution. Investment Funds are distributed primarily through UBS Switzerland and UBS Warburg, with a minority of assets distributed through third-party distribution partners. As of 30 June 2000, Investment Funds had CHF 203 billion in assets under management, including CHF 9.2 billion in assets under management distributed through third-party distribution partners. In addition, Investment Funds has a significant business administering assets for third-parties.

As part of the Group reorganization, Investment Funds is evolving towards an open, multi-channel distribution architecture. Initiatives include establishing additional third-party distribution partnerships, developing electronic sales channels and combining distribution efforts with Institutional Asset Management in various markets to better capture defined contribution opportunities. Additionally, the Investment Funds business unit is currently developing an e-based investment fund distribution strategy. This channel will offer clients personalized advisory services, investor education content, online decision support tools, and automated trade execution, delivered through intermediaries.

Client Mandates. Investment Funds has an extensive product range of approximately 163 funds. The following table shows total assets under management in these investment funds by fund category at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 (CHF in millions)	31 December 1998
Asset Allocation	46,700	44,200	35,000
Money Market	44,100	46,200	45,500
Bond	37,100	40,200	42,500
Equity	61,900	52,300	35,400
Capital Preservation	7,600	12,100	12,400
Real Estate	<u>5,100</u>	<u>6,000</u>	<u>4,800</u>
Total	<u>202,500</u>	<u>201,000</u>	<u>175,600</u>

The continuing trend toward equity investments helped increase equity funds by 75% since the end of 1998, making Equity Investment Funds' largest asset category, accounting for 31% of total Investment Funds volume. The number of Investment Fund accounts, which make it easy for clients to make regular savings in UBS Investment Funds, has grown by 80% to 90,000, with assets invested through them increasing by 39% to a total of CHF 2.5 billion in 1999.

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

Global Asset Management. Acquired in late 1999, Global Asset Management, or "GAM," is a diversified asset management group with approximately 600 employees and operations in Europe, North America, Asia and the Middle East. It manages assets comprised of private client portfolios and over 170 private client mutual funds, as well as institutional mandates. GAM continues to operate under its established brand name within UBS Asset Management and continues to employ its own distinctive investment style.

UBS Asset Management will increasingly take advantage of GAM's range of mutual funds and its multi-manager selection process, in which it selects the top 90 out of about 6,000 third-party fund providers, to enhance the range of its investment styles and products.

Marketing and Distribution. Marketing and distribution for GAM is divided into three areas: Private Clients, Mutual Funds and Institutional. Each area markets and services clients within its specific segment.

- *Private Clients* — Offers and manages a broad range of tailored investment strategies for its clients across the risk/return spectrum and from all major reference currency perspectives. Implementation is through a combination of GAM funds, under guidance established by GAM's investment committee.

The private client area seeks clients from a variety of sources including referrals from its existing client base, intermediaries, and professional advisors. Clients receive a high level of service from a dedicated team of portfolio managers. Communication is ongoing and includes regular formal review meetings.

- *Mutual Funds* — GAM distributes mutual funds on a global basis, including within the United States. GAM's Mutual Funds area seeks clients at the high end of the market. Mutual funds are

distributed through multiple channels, including brokerage firms, banks, portfolio and fund managers, financial advisors, family offices, employee pension plans, and directly to major investors.

- *Institutional* — GAM provides a full range of services to its institutional clients through dedicated account managers. Institutions are offered the same products developed to support GAM's private client and fund distributions businesses. This includes traditional equity portfolio management, as well as multi-manager funds and alternative assets classes.

Investment Process and Research. GAM was founded in 1983 to give private clients "access to great investment talent." As a result, the investment process is based on selecting the world's leading investment talent, whether the manager selected for a particular fund or mandate is internal to GAM or an external manager. Beginning in 1989, GAM extended its investment process to pioneer the development of the multi-manager concept.

An in-house team of investment professionals is responsible for managing the various internally managed mandates or funds. Members of this team also create multi-manager mandates using a quantitative database of 50,000 funds, and by carefully scrutinizing all aspects of external managers employing a qualitative database of 6,000 investment managers. The investment objective of multi-manager funds or mandates is diversifying risk by employing complementary managers using different strategies.

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

UBS Warburg

UBS Warburg is composed of four business units:

- *Corporate and Institutional Clients* — Securities and investment banking products and services for institutional and corporate clients.
- *UBS Capital* — Investment of UBS and third-party funds in a diverse range of private, and occasionally public, companies on a global basis.
- *Private Clients* — Onshore private banking services for high net worth individuals worldwide, outside of Switzerland.
- *e-services* — Personalized investment and advisory services at competitive fees for affluent clients in Europe, delivered via a multi-channel structure that integrates internet, call centers and investment centers.

Corporate and Institutional Clients. The Corporate and Institutional Clients business unit is one of the leading global investment banks. It provides wholesale financial and investment products and advisory services globally to a diversified client base, which includes institutional investors (including institutional asset managers and broker-dealers), corporations, sovereign governments and supranational organizations. Corporate and Institutional Clients also manages cash and collateral trading and interest rate risks on behalf of UBS and executes the vast majority of UBS's retail securities, derivatives and foreign currency exchange transactions. Corporate and Institutional Clients's headquarters are in London and, at 30 June 2000, it employed about 13,000 people in over 40 countries throughout the world.

In the 1998 merger, the investment banking businesses of the two banks came together to form what is now the Corporate and Institutional Clients business unit. Within Union Bank of Switzerland, securities trading began in New York and London in the 1970s and grew in the 1980s with the

acquisition of Phillips & Drew in 1985. Within Swiss Bank Corporation, the acquisition of O'Connor & Associates in 1992 and the investment banking businesses of S.G. Warburg Group p.l.c. in 1995 led to the formation of SBC Warburg as a global investment bank, which was further strengthened in the United States with the 1997 acquisition of Dillon Read & Co., Inc.

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

- equity sales and trading (ranked number two globally in the first quarter of 2000 based on equity commission revenues based on an independent survey);
- cash and derivative fixed income sales and trading with institutional investors (ranked number four globally in 1999 based on information compiled and classified by the Securities Data Company and other publicly available information);
- eurobond trading (named Best Foreign Bond Firm in the Eurozone, the United Kingdom and Australia in July 2000 by Euromoney);
- global foreign exchange (ranked number four in May 2000 by Euromoney FX poll, which ranks investment banks and banks on a global basis by market share);
- research, with a global research sales team that includes about 630 specialist analysts based in over 30 countries and covering over 4,600 companies (ranked fourth in Institutional Investor Global Research in December 1999 and third in European Research in February 2000 as well as receiving Euromoney's award in October 1999 for best overall Asian research);
- debt and equity capital markets (1999, ranked number five in international equity; number three in international equity-linked issuances; number two in eurobond origination; and number one in its target franchise segments of international bonds by Bondware. Corporate and Institutional Clients's target franchise markets exclude asset-backed, self-issuance and U.S. agencies); and
- privatizations (including its role as lead manager in the Swisscom privatization, which was named privatization of the year by Institutional Investor and International Financing Review in 1998).

Set forth below is summary information, based on management accounting data, relating to Corporate and Institutional Clients, which is discussed in greater detail under “—Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations by Business Unit—UBS Warburg—Corporate and Institutional Clients.”

	Six Months Ended	For the	For the	For the
	2000	30 June	31 December(1)	1998
		1999(1)	1999	
		(CHF in millions)		
Operating income before credit loss expense	9,909	6,966	12,729	6,906
Credit loss expense	113	171	330	500
Personnel, general and administrative expenses	6,601	4,972	9,290	6,816
Depreciation and amortization	330	393	763	692
Operating profit (loss) before tax	<u>2,865</u>	<u>1,430</u>	<u>2,346</u>	<u>(1,102)</u>
(at period end)				
Average regulatory equity used	9,850	10,750	10,050	13,300
Number of employees	12,730	13,148	12,694	13,794

(1) Certain amounts have been restated to conform to the 2000 presentation.

Business Areas. At 30 June 2000, Corporate and Institutional Clients operated four main business areas that have been organized by the type of products and services offered and their risk exposure. These four business areas consist of Equities, Fixed Income, Corporate Finance and Treasury Products. The Corporate Finance business area works with the Equities and Fixed Income business areas through the Equity Capital Markets Group, the Debt Capital Markets Group and Leveraged Finance to originate new equities capital markets business, fixed income capital markets business and leveraged finance business. Consequently, operating income from the Equity Capital Markets Group is shared between Equities and Corporate Finance and operating income from the Debt Capital Markets Group and Leveraged Finance is shared between Fixed Income and Corporate Finance. The table below sets forth the operating income before credit loss expense attributable to each of Corporate and Institutional Clients's main business areas for the years ended 31 December 1999 and 1998:

	For the Year Ended 31 December(1)	
	1999	1998
	(CHF in millions)	
Equities	5,724	3,253
Fixed Income	2,464	(267)
Corporate Finance	2,054	1,665
Treasury Products	1,805	2,351
Non-core business	682	(96)
Total	<u>12,729</u>	<u>6,906</u>

(1) Certain amounts have been restated to conform to the 2000 presentation.

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

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

Through UBS's branches and affiliates, UBS is a member of most major stock exchanges, including New York, London, Tokyo and Zurich. UBS also participates in a number of electronic exchange ventures, including Tradepoint, through its equity investment in TP Group Limited, and NYFIX Millennium L.L.C.

Fixed Income. Fixed Income structures, originates, trades and distributes a variety of fixed income, banking and structured products. It also is responsible for loan syndication and core-loan portfolio functions. Fixed Income serves a broad client base consisting of investors and borrowers and offers a range of fixed income products and services, including:

- interest rate based credit products, including loans and government bonds;
- a variety of banking products, such as structured finance and leveraged finance products;
- principal finance services, which involves the purchase, origination and securitization of credit products;
- investment grade, high-yield and emerging market bonds;

- credit-structured vehicles and credit derivatives, including credit-linked notes and total return swaps;
- various derivative products; and
- structured products to meet clients' risk management needs.

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

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

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

- sales and trading of foreign exchange (spot and derivatives), precious metals, short-term interest rate cash and derivative products and exchange-traded derivatives;
- collateral trading, securities lending and repurchase agreements;
- bank note sales and distribution;
- foreign currency research; and
- UBS's alternative asset management business.

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

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

	For the Year Ended	
	31 December 1999	31 December 1998
	(% of total)	
Corporations.....	26%	33%
Institutional investors	70%	61%
Governments and supranational organizations	4%	6%
Total	<u>100%</u>	<u>100%</u>

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

- *Investment Banking On-Line (IBOL).* IBOL provides extensive client desktop capability from a single home page with direct access to prices, research, trade ideas and analytical tools for Corporate and Institutional Clients' equities, fixed income and treasury products businesses. Corporate and Institutional Clients delivers electronic research to over 5,000 clients and has signed up over 10,000 users. UBS intends to expand IBOL to include wireless and video links.
- *Electronic Transactions for Securities (ETS) and Electronic Transactions for OTC Products (ETOP).* ETS and ETOP provide a further rollout of on-line order routing and trading capabilities for all securities, foreign exchange and derivatives products. 30% of all institutional orders are sent via the internet and 90% of all retail orders are executed using straight through processing, or "STP."
- *Corporate Finance On-Line (CFOL).* The CFOL initiative is intended to establish a secure connection for the exchange of transactional and pricing information with corporate clients to support the execution and origination of advisory mandates, as well as to create on-line connectivity for capital markets participants.
- *Debtweb.* Using Debtweb, about 25% of all new bond issue volume in the first quarter of 2000 volume was delivered on-line.
- *DealKey.* Designed for primary equity investors, it uses the web as an additional channel for the distribution of value-added information relating to current equity and equity-linked offerings.
- *Transactional Websites.* UBS has established transactional websites for euro commercial paper and euro medium-term notes, including consolidated site information links to euro credit markets, credit indices and bond analytics.
- *New Web Services.* Other new web services include:
 - KeyLink Web, which provides secure international electronic banking for cash, foreign exchange and securities;
 - Adviser Web, which relates to Australian equities; and
 - Global eHelp Service Desk, which provides support for clients 24 hours a day, 6 days a week.

Providing superior advice and maintaining contacts with clients will be key to Corporate and Institutional Clients' future success. UBS believes its e-commerce initiatives will enhance its ability to add value to clients, as well as allow it to extract value from the processing power and scale of its core business processes and development standards, in order to maximize the benefits it can achieve from technological innovations. Corporate and Institutional Clients already processes 100,000 domestic and cross-border securities trades per day automatically, and has the capacity to increase this amount five-fold within the existing infrastructure.

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

The following table sets forth information regarding the Corporate and Institutional Clients loan portfolio before allowance for loan loss at 31 December 1999 and 1998.

	As of 31 December	
	1999	1998
	(CHF in millions)	
Due from banks	25,891	62,272
Loans to customers	<u>56,374</u>	<u>72,425</u>
Total loans	<u>82,265</u>	<u>134,697</u>

See “—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Analysis of Risks—Credit Risk” for a more in-depth review of UBS’s credit portfolio and business, including a discussion of its impaired and non-performing loans.

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

UBS Capital has increased the value of its investments substantially in recent years with the book value of its investments increasing from about CHF 400 million at 31 December 1994 to about CHF 3.8 billion at 30 June 2000.

Until earlier this year, UBS Capital was managed as an independent division within UBS. Following UBS’s realignment, UBS Capital now operates within the UBS Warburg business group. This is expected to further strengthen the business synergies between the investment banking and private equity businesses, while maintaining strong links between UBS Capital and UBS Switzerland.

UBS Capital has a local presence throughout major industrialized regions in Europe, North America, Latin America and the Asia-Pacific region, with about 113 employees as of 30 June 2000. UBS Capital has offices in London, Zurich, New York, Saõ Paolo, Buenos Aires, Paris, The Hague, Munich, Milan, Singapore, Hong Kong, Seoul, Sydney and Tokyo.

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

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

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

	Six Months Ended 30 June 2000	For the 1999(1)	For the Year Ended 31 December(1) 1999	For the Year Ended 1998
	(CHF in millions)			
Operating income	151	120	315	585
Personnel, general and administrative expenses	76	60	151	156
Depreciation and amortization	4	3	7	1
Operating profit before tax	<u>71</u>	<u>57</u>	<u>157</u>	<u>428</u>
Average regulatory equity used (at period end)	500	300	340	250
Investments (at book value)	3,765	2,422	2,993	1,784
Number of employees	113	111	116	122

(1) Certain amounts have been restated to conform to the 2000 presentation.

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

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

Organizational Structure. UBS Capital is structured on a country and sector approach and, as of 30 June 2000, had fourteen individual teams covering around 30 countries. UBS believes that UBS Capital's established local presence and expertise, coupled with the global reach of its operations, generates the early identification of opportunities and their timely and effective development.

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

Last year, UBS Capital established two private equity investment funds in the Americas. One of these investment funds makes private equity investments primarily in North America, while the other investment fund makes private equity investments in Latin America. UBS is the largest beneficial investor in each of the North America and Latin America funds.

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

Investment Portfolio. UBS Capital's investment portfolio had a book value of approximately CHF 3.8 billion and an estimated fair value of approximately CHF 5.2 billion at 30 June 2000. To augment its competitive strengths, UBS Capital plans to gradually increase its annual investment rate, targeting a portfolio book value of CHF 5 billion in committed capital from UBS and CHF 5 billion from third parties.

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

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

The following table provides information regarding UBS Capital's investment portfolio by geographic region, by industry sector and by age of investment at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999	31 December 1998
	(CHF in millions; all amounts are book values)		
Geographic Region (by headquarters of investee)			
North America.....	1,538	1,389	939
Europe.....	1,650	1,153	689
Latin America.....	238	217	123
Asia-Pacific.....	339	234	33
	<u>3,765</u>	<u>2,993</u>	<u>1,784</u>

	30 June 2000	31 December 1999	31 December 1998
	(CHF in millions; all amounts are book values)		
Industry Sector (by industry classification code)			
Consumer related.....	820	610	400
Diversified industrials.....	638	587	376
Transportation.....	768	605	186
Communications.....	369	326	208
Computer related.....	353	282	109
Energy.....	190	167	153
Other electronics related.....	127	38	32

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	30 June 2000	31 December 1999	31 December 1998
	(CHF in millions; all amounts are book values)		
Other manufacturing	67	45	53
Chemicals and materials	21	23	52
Industrial products and services	84	48	60
Others	328	262	155
	<u>3,765</u>	<u>2,993</u>	<u>1,784</u>

	30 June 2000	31 December 1999	31 December 1998
	(CHF in millions; all amounts are book values)		
Aging (by date of initial investment)			
Pre-1994	70	89	112
1994	220	199	195
1995	310	308	282
1996	190	204	183
1997	492	496	450
1998	709	718	562
1999	1,071	979	—
2000	703	—	—
	<u>3,765</u>	<u>2,993</u>	<u>1,784</u>

At 30 June 2000, approximately 74% of the investment portfolio was three years old or less. Generally, investments are sold, and operating income recognized, between the third and the sixth year after the initial investment.

Investment Process. At 30 June 2000, 85% of the book value of UBS Capital’s investments were late-stage at the time of its investment. The following table provides information about UBS Capital’s investment portfolio by investment stage, at 30 June 2000 and 31 December 1999 and 1998, as determined at the time of UBS Capital’s investment.

	30 June 2000	31 December 1999	31 December 1998
	(CHF in millions)		
Early stage	582	488	49
Late stage	<u>3,183</u>	<u>2,505</u>	<u>1,735</u>
	<u>3,765</u>	<u>2,993</u>	<u>1,784</u>

Investment opportunities originate from a variety of sources, including from UBS Switzerland and UBS Warburg. UBS Capital’s investment policy concentrates on five “value drivers”:

- negotiate an attractive entry price;
- increase the company’s efficiency;
- implement a sales growth strategy;
- repay company debt and reduce leverage; and
- achieve an exit at a higher multiple than the entry price, or what UBS Capital calls “multiple arbitrage.”

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

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

Private Clients. UBS Warburg's Private Clients business unit provides onshore private banking services for high net worth individuals in key markets worldwide.

Private Clients' target markets include Germany, France, Italy, Spain, the United Kingdom, the United States, Japan, Australia and Taiwan.

Private Clients had CHF 37 billion of assets under management at 30 June 2000 and 1,277 employees. In the first half of 2000, Private Clients earned revenues after credit loss expense of CHF 133 million.

The business is mainly in the relatively early stages of start-up operations and, with the exception of Germany and Australia, where the businesses are based around an established private bank and an existing domestic brokerage business, Private Clients' franchise is small.

	Six Months Ended	For the	For the	
	2000	30 June	Year Ended	
		1999(1)	1999	1998
		(CHF in millions)		
Operating income after credit loss expense	133	93	194	190
Personnel, general and administrative expenses	365	216	481	294
Depreciation and amortization	14	18	40	29
Operating loss before tax	<u>(246)</u>	<u>(141)</u>	<u>(327)</u>	<u>(133)</u>
Average regulatory equity used (at period end)	340	282	289	229
Assets under management (CHF in billions)	37	29	36	27
Number of employees	1,277	1,167	1,386	722

(1) Certain amounts have been restated to conform to the 2000 presentation.

Organizational Structure. The offshore Private Clients business was moved to UBS Warburg in February 2000. UBS Warburg aims to take advantage of the considerable growth potential resulting from putting investment banking and investment services activities for private clients under one roof.

The decision to bring Private Clients and the e-services business, described below, closer together offers many potential synergies including the ability to enrich the private banking offering with a full complement of online investment information and execution capabilities. Significant savings are possible in the medium term from a shared information technology platform as well as shared operations and infrastructure and a coordinated sales and distribution process.

Products and Services. Private Clients will focus on delivering a sophisticated product offering to its high net worth client base, including the specifically targeted executive and entrepreneur segments. Traditional private banking services will be combined with investment banking innovation. For example, Private Clients will further develop its innovative products allowing clients to release value from own-company shareholdings or options.

UBS believes that on-line capabilities should be an integrated part of the service offering. As such, the e-services initiative described below, which will target affluent, advice-seeking private investors, is moving towards an integrated product and infrastructure approach with Private Clients in Europe.

Private Clients also will increasingly collaborate with UBS Warburg's Corporate Finance team for client introductions and support on clients' corporate needs.

e-services. e-services is a new business initiative started in the third quarter of 1999. e-services intends to offer personalized investment and advisory services targeted at affluent European individuals, and will be launched progressively in Germany and thereafter in the United Kingdom and other European countries, starting in late 2000. e-services plans to implement an integrated multi-channel "clicks and mortar" distribution concept, including online channels, call centers and investment centers. e-services had 226 employees at 30 June 2000.

e-services intends to deliver a distinctive set of services, including advanced financial planning and asset allocation, and investment products such as UBS and third-party funds, securities and pension products.

Organizational Structure. e-services continues to build its organizational structure and establish critical elements of its infrastructure, marketing approach and product offering. The infrastructure component has long lead times and e-services has made significant progress. e-services has formed major alliances with major information technology vendors, including Siebel Systems Incorporated, Broadvision Incorporated and Artificial Life Incorporated, which have accelerated time-to-market considerably.

e-services has completed the full deployment of its technical platform and software infrastructure and has established customer call centers in Edinburgh, Scotland and Maastricht, Holland.

Total expenditures for e-services were CHF 144 million in the first half of 2000 and are expected to reach CHF 310 million this year, and comparable amounts over the next few years, although future costs will depend on the exact roll-out schedule, and the possibility of partnering to share cost. e-services does not expect to record revenues until 2001.

Target Clients. e-services will target advice-seeking, affluent investors in major European markets. The value proposition is tailored to investors with a need for quick access, quality advice and flawless execution. The business will use online channels, telephone service centers and investment centers to provide multi-channel client service.

Products and Services. The e-services product offering will be based around a central cash management account, with capabilities for a broad base of products, services and advice using a sophisticated array of tools covering financial planning, financial analysis, asset allocation and decision support.

e-services is adopting an open architecture model, integrating and distributing third-party content where this will enrich the service offering.

Marketing and Distribution. A key focus on acquiring clients will be directed at establishing deeper relationships with intermediaries and aggregators.

These companies, be they full-service brokers, online discount brokers, online banks, private banks or independent financial advisors, are increasingly faced with greater demands for investment services and products in an intensively competitive environment. UBS is strongly positioned to act as a lead supplier of content, products, platforms and market access to these companies. Through this channel UBS expects to be able to increase its order flow, generate incremental revenues, improve its understanding of the mass market segment, and further brand UBS Warburg as a leading supplier of investment advisory content and investment products.

Corporate Center

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

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

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

The following functions are part of Corporate Center:

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

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

Competition

UBS operates in a highly competitive environment in all of its businesses and markets. Many large financial services groups compete with UBS in the provision of sophisticated banking, investment banking and investment management services to corporate, institutional and individual customers on a global basis, while local banks and other financial services companies, which may be of substantial size, often provide significant competition within national markets. UBS also competes with other banks, money market funds and mutual funds for deposits, investments, and other sources of funds. In

some jurisdictions, many of UBS's competitors are not subject to the same regulatory restrictions that apply to UBS.

Employees

At 30 June 2000, UBS had 47,744 employees. Set forth below are the number of employees of UBS broken down by its eight business units and Corporate Center at 30 June 2000 and 31 December 1999 and 1998.

	As of 30 June 2000	As of 31 December 1999	As of 31 December 1998
Private and Corporate Clients	22,270	24,098	24,043
Private Banking	7,447	7,256	6,546
Institutional Asset Management	1,712	1,653	1,497
Investment Funds/GAM	1,038	923	366
Corporate and Institutional Clients	12,730	12,694	13,794
UBS Capital	113	116	122
Private Clients	1,277	1,386	722
e-services	226	70	0
Corporate Center	931	862	921
Total	<u>47,744</u>	<u>49,058</u>	<u>48,011</u>

The decrease in headcount in the first half of 2000 was mainly attributable to the transfer of the Systor business, an IT services provider, from Private and Corporate Clients to become a venture capital investment of UBS Capital and to 1998 merger-related savings in Private and Corporate Clients. These were partly offset by increases due to the continuing build up of the e-services business, which will launch later this year, and to investment in growth initiatives in the Investment Funds business area.

The increase in headcount in 1999 was mainly attributable to expansion of UBS Warburg's Private Clients business unit, the onshore private banking business outside Switzerland, and by the acquisitions of Global Asset Management and Allegis Realty Investors LLC in December 1999, partially offset by decreases in UBS Warburg's Corporate and Institutional Clients business unit, relating to the winding down of non-core businesses and 1998 merger-related reductions.

UBS has not experienced any significant strike, work stoppage or labor dispute in recent years. UBS considers its relations with employees to be good.

Regulation and Supervision

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

- restrictions on the opening of local offices, branches or subsidiaries and the types of banking and non-banking activities that may be conducted by those local offices, branches or subsidiaries;
- restrictions on the acquisition of local banks or requiring a specified percentage of local ownership; and

- restrictions on investment and other financial flows entering or leaving the country.

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

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

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

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

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

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

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

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

- core (or Tier 1) capital,
- supplementary (or Tier 2) capital, and

- additional (or Tier 3) capital.

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

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

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

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

UBS is required to file monthly statements reflecting its primary liquidity position and quarterly statements reflecting its secondary liquidity position.

Disclosures to the Swiss National Bank. Although the primary responsibility for supervision of banks under the FBL lies with the FBC, UBS also submits an annual statement of condition and detailed monthly interim balance sheets to the Swiss National Bank. The Swiss National Bank may require further disclosures from UBS concerning its financial condition as well as other information relevant to regulatory oversight by the Swiss National Bank.

Regulation and Supervision in the United States.

Banking Regulation. UBS's operations in the United States are subject to a variety of regulatory regimes. UBS maintains branches in California, Connecticut, Illinois and New York and agencies in Florida and Texas. UBS refers to these as its U.S. "banking offices." UBS's California branches are located in Los Angeles and San Francisco and are licensed by the Office of the Comptroller of the Currency. Each of UBS's other U.S. banking offices is licensed by the state banking authority of the state in which it is located. Each U.S. banking office is subject to regulation and examination by its licensing authority. In addition, the Board of Governors of the Federal Reserve System exercises examination and regulatory authority over UBS's state-licensed U.S. banking offices. None of UBS's U.S. banking offices are insured by the Federal Deposit Insurance Corporation. The regulation of UBS's

U.S. banking offices imposes restrictions on the activities of those offices, as well as prudential restrictions, such as limits on extensions of credit to a single borrower, including UBS subsidiaries.

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

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

The Gramm-Leach-Bliley Financial Modernization Act of 1999 was recently enacted, liberalizing the restrictions on the nonbanking activities of banking organizations, including non-U.S. banks operating U.S. Banking Offices. The Gramm-Leach-Bliley Act:

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

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

The Gramm-Leach-Bliley Act will also modify other current financial laws, including laws related to the conduct of securities activities by U.S. banks and U.S. banking offices. As a result, UBS may relocate certain activities now conducted by its U.S. banking offices to a UBS subsidiary or elsewhere.

Other. In the United States, UBS's U.S. registered broker-dealer is regulated by the SEC as a registered broker-dealer. Broker-dealers are subject to regulations that cover all aspects of the securities business, including:

- sales methods,
- trade practices among broker-dealers,

- use and safekeeping of customers' funds and securities,
- capital structure,
- record-keeping,
- the financing of customers' purchases, and
- the conduct of directors, officers and employees.

In addition, UBS's U.S. registered broker-dealer is a member of and regulated by the New York Stock Exchange and is regulated by the individual state securities authorities in the states in which it operates.

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

Regulation and Supervision in the United Kingdom. UBS operates in the United Kingdom under a regulatory regime that is undergoing comprehensive restructuring aimed at implementing the Financial Services Authority as the United Kingdom's unified regulator. Through 1999, UBS was regulated by the Securities and Futures Authority Limited in respect of its investment banking, individual asset management, brokerage and principal trading activities, and by the Investment Management Regulatory Organization in respect of its institutional asset management and fund management activities. Commencing in 2000, however, the responsibilities of the Securities and Futures Authority Limited and Investment Management Regulatory Organization have been taken over by the Financial Services Authority. Some of UBS's subsidiaries and affiliates are also regulated by the London Stock Exchange and other United Kingdom securities and commodities exchanges of which UBS is a member. The investment services that are subject to oversight by United Kingdom regulators are regulated in accordance with European Union directives requiring, among other things, compliance with certain capital adequacy standards, customer protection requirements and conduct of business rules. These standards, requirements and rules are similarly implemented, under the same directives, throughout the European Union and are broadly comparable in scope and purpose to the regulatory capital and customer protection requirements imposed under applicable U.S. law.

Description of Property

At 30 June 2000, UBS operated about 1,230 offices and branches worldwide, of which about 82.7% were in Switzerland. Of the remaining 17.3%, 8.6% were in Europe, 5.8% were in the Americas and 2.9% were in Asia. Approximately 43% of the offices and branches in Switzerland are owned directly by UBS with the remainder, along with most of UBS's offices outside Switzerland, being held under commercial leases. The premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for UBS's current and anticipated operations.

Legal Proceedings

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

In the United States, several class action lawsuits, in relation to what is known as the Holocaust affair, have been brought against UBS, as legal successor to Swiss Bank Corporation and Union Bank of Switzerland, in the United States District Court for the Eastern District of New York (Brooklyn). These

lawsuits were initially filed in October 1996. Credit Suisse Group has been designated as a defendant alongside UBS. On 12 August 1998, a settlement was reached between the parties. This settlement provides for a payment by the defendant banks to the plaintiffs, under certain terms and conditions, of an aggregate amount of \$1.25 billion. UBS agreed to contribute up to two-thirds of this amount.

To the extent that other Swiss companies agreed to participate in this fund, and to the extent of applicable payments to beneficiaries of eligible dormant accounts, UBS's share was to be reduced. For these purposes, dormant accounts are defined as accounts with banks and other financial institutions prior to 9 May 1945 which are part of the settlement agreement. In Switzerland, dormant or abandoned accounts remain on the books of the bank in perpetuity, until claimed or settled. Therefore, if such dormant or abandoned accounts are identified as balances that should be used to fund the settlement, the payment of cash to claimants causes the account to be liquidated from the company's records, thereby reducing cash and reducing the dormant account liability, as well as the remaining settlement amount liability. Accordingly, to the extent that such accounts are identified at institutions other than UBS, UBS's exposure to this matter will be reduced. Based on UBS's estimate of such expected contributions, UBS provided a reserve of \$610 million (CHF 842 million) in 1998 and an additional \$95 million (CHF 154 million) in 1999.

During the second quarter of 2000, as part of the continuing review of this matter, UBS recognized that the amounts in dormant accounts attributable to Holocaust victims at UBS as well as at other Swiss banks are vastly below the initially expected level, and that UBS needed to adjust its reserve. In addition, on 26 July 2000, Judge Korman, the presiding judge in this matter, approved the settlement agreement. The final settlement approved by the judge describes a new mechanism to include Holocaust-related insurance claims for insurance companies. As a consequence, contributions by insurance companies will not serve to offset the banks' liabilities, contrary to UBS's previous understanding. As a result, in the second quarter of 2000, UBS provided an additional reserve of \$122 million (CHF 200 million), bringing the total provision to \$827 million (CHF 1,196 million). The difference between the amount accrued and the maximum potential liability of \$833 million represents amounts specifically identified in UBS's customer accounts that are eligible for offset.

Exchange Controls and Other Limitations Affecting Security Holders

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

Control of UBS

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

As of 31 August 2000, UBS's directors and executive officers as a group beneficially held 2,368,412 of UBS's issued and outstanding ordinary shares. However, none of UBS's directors or officers owns 1% or more of any class of UBS's securities. For the purposes of this analysis, UBS's executive officers are the members of the UBS Group Managing Board. The Group Managing Board consists of the seven members of the Group Executive Board, and 26 members who hold senior positions at the top level of UBS's organization in the Business Groups and Corporate Center. See also "—Options to Purchase Securities from UBS" on page 51 for a discussion of options and warrants issued by UBS.

Directors and Officers of UBS

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

The UBS Group Executive Board is UBS's most senior executive body. It assumes overall responsibility for the development of UBS's strategies, and the implementation of the results of these strategies. The UBS Group Executive Board is comprised of seven members, namely the UBS Chief Executive Officer, the Chief Executive Officer of the three Business Groups, the Private Banking business unit and of UBS Capital, and the UBS Chief Financial Officer. The UBS Group Executive Board normally convenes bi-weekly.

The Board of Directors

Information concerning the members of the Board of Directors is set forth in the table below.

Name and Business Address	Position Held	Year of Initial Appointment	Expiration of Current Term of Office
Alex Krauer UBS AG Bahnhofstrasse 45 8021 Zurich	Chairman Member of the Audit Supervisory Board	1998	2002*
Alberto Togni UBS AG Bahnhofstrasse 45 8021 Zurich	Vice Chairman Chairman of the Audit Supervisory Board	1998	2001
Markus Kündig P.O. Box 4463 6304 Zug	Vice Chairman Member of the Audit Supervisory Board	1998	2002
Peter Böckli Böckli, Thomann & Partners St. Jakobs-Strasse 41 P.O. Box 2348 4002 Basle	Chairman of the Audit Committee	1998	2003

* On 11 October 2000, Alex Krauer announced that he would step down from his function as Chairman of the Board of Directors after the Annual General Meeting in April 2001. See Appendix A for more information.

UBS

Name and Business Address	Position Held	Year of Initial Appointment	Expiration of Current Term of Office
Rolf A. Meyer Ciba Spezialitätenchemie AG P.O. Box 343 4002 Basle	Member of the Audit Committee	1998	2003
Hans Peter Ming Silka Finanz AG Wiesenstrasse 7 8008 Zurich	Board Member	1998	2004
Andreas Reinhart Gebrüder Volkart Holding AG P.O. Box 343 8401 Winterthur	Member of the Audit Committee	1998	2004
Eric Honegger SAir Group 8058 Zurich-Airport	Board Member	1999	2003

Alex Krauer, the Chairman of the Board of Directors, joined the Board of Directors of Swiss Bank Corporation in 1988. In 1994, he became First Vice-Chairman of Swiss Bank Corporation, and he became Vice-Chairman of UBS AG in 1998. Mr. Krauer was born on June 3, 1931.

Alberto Togni, Vice Chairman of the Board of Directors, has served with UBS since 1959. Most recently, Mr. Togni served from 1994 to 1997 as the Chief Risk Officer and a member of the Group Executive Committee for Swiss Bank Corporation. In 1993, he was the Head of Commercial Division, and in 1987, he became the General Manager and a member of the Executive Board. Prior to that, he was the Central Manager and a Member of the Executive Board; a Senior Vice President, Zurich Office, from 1978 to 1980; a Senior Vice President and Head of the New York Branch from 1976 to 1978; and from 1970 to 1975 he was in the Tokyo Office, serving as the head of that office from 1971. In 1969, Mr. Togni was Swiss Bank Corporation's Representative for the Middle East in Beirut; and from 1959 to 1969, he completed professional training at the Lausanne and New York offices of Swiss Bank Corporation, and completed assignments in various divisions of the Zurich Office and General Management. Mr. Togni serves as a director of Daimler-Benz Holding AG, Zurich; Danzas Holding AG, Basel; Unilever (Schweiz) AG, Zurich; and Swiss National Bank, Zurich. Mr. Togni was born on October 30, 1938.

Markus Kündig, Vice Chairman of the Board of Directors, also serves as the Chairman of the Board of Directors of LZ Medien Holding AG; the Vice Chairman of the Board of Directors of Clariant; and as a member of the Boards of Directors of Metro International AG, Merck AG and Pelikan Holding AG. Mr. Kündig was born on October 12, 1931.

Peter Böckli, the Chairman of the Audit Committee and a member of the Board of Directors, is a partner in the law office of Böckli Thomann & Partners. He is a member of the Board of Directors of Nestlé SA, and Firmenich. Mr. Böckli was born on May 7, 1936.

Rolf A. Meyer, who is a member of the Audit Committee, is the Chairman of the Board of Ciba Specialty Chemicals. He is also a member of the Board of the Swiss Stock Exchange. Mr. Meyer was born on October 31, 1943.

Hans Peter Ming, a member of the Board of Directors, is the Chairman of the Board of Directors of SIKA Finanz AG. Mr. Ming is also a member of the Board of Directors of Swiss Steel. Mr. Ming was born on October 12, 1938.

Andreas Reinhart, a member of the Audit Committee, is the owner and Chairman of Volkart Group. He is also a member of the Board of Directors of Volkart Foundation and Volkart Vision. Mr. Reinhart was born on December 24, 1944.

Eric Honneger, a member of the Board of Directors, is the Vice Chairman (and Chairman designate) of the Board of Directors of SAirGroup. He is also the Chairman of the Board of Directors of Neue Zürcher Zeitung. Mr. Honneger was born on April 29, 1946.

The Group Executive Board

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

Name	Position Held	Year of Initial Appointment
Marcel Ospel	President and Group Chief Executive Officer	1998
Luqman Arnold	Chief Financial Officer	1999
Georges Gagnebin	Chief Executive Officer of Private Banking Business Unit	2000
Markus Granziol	Chairman and Chief Executive of UBS Warburg	1999
Stephan Haeringer	Chief Executive Officer of UBS Switzerland and of Private and Corporate Clients Business Unit	1998
Pierre de Weck	Chief Executive Officer of UBS Capital	1998
Peter A. Wuffli	Chief Executive Officer of UBS Asset Management	1998

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

Marcel Ospel, the Group Chief Executive Officer, joined Swiss Bank Corporation in the Central Planning and Marketing Division in 1977. Most recently, he was the President and Group Chief Executive Officer of SBC, from 1996 to 1998. Prior to that, he was CEO of SBC Warburg. In 1990, he became a member of the Executive Board. From 1987 to 1990, he served as Senior Vice President of SBC, in charge of Securities Trading and Sales. From 1984 through 1987 he was the Managing Director at Merrill Lynch Capital Markets; and from 1980 to 1984, he worked at SBCI London and New York, Capital Markets division. Mr. Ospel was born on February 8, 1950.

Luqman Arnold is the Group Chief Financial Officer and a Member of the Group Executive Board. He joined SBC Warburg in 1996 as Chairman of the Asia/Pacific division. As of October 13, 1998, he was the UBS AG, Chief Operating Officer, Warburg Dillon Read. Prior to that, he served as the UBS AG, Chief Executive Officer Asia/Pacific, Warburg Dillon Read (as of June 29, 1998). Mr. Arnold was a Member of the Group Managing Board in 1998 as well. In 1997, he became the Chief Executive Officer Asia/Pacific at Warburg Dillon Read and a member of the Group Executive Board, Swiss Bank Corporation. Mr. Arnold was born on April 16, 1950.

Georges Gagnebin is the CEO Private Banking Division, Business Group UBS Switzerland and a Member of the Group Executive Board. Immediately preceding this position, he served as UBS AG's Business Area Head International Clients Europe, Middle East & Africa in the Private Banking Division; a Member of the Business Committee Private Banking and a Member of the Group Managing Board, UBS AG. He joined SBC in 1969 at Bern. He was the General Manager, a Member

of SBC's Management Board SBC Private Banking and a Member of the Group Executive Board from 1997 to 1998. In 1994, Mr. Gagnebin became the General Manager and a Member of the Executive Board Switzerland and of the Group Executive Board. In 1992, he was the Deputy General Manager and a Member of the Executive Board. Between 1987 and 1992, he was the Senior Vice President, Head of Finance & Investment (at SBC Lausanne from 1990-1992, and at SBC Bern from 1987-1990). In 1985, he became a First Vice President, and beginning in 1982, he served as the Vice President, Head of Finance & Investment, SBC Bern. Mr. Gagnebin was born on March 3, 1946.

Markus Granziol, the CEO of Business Group UBS Warburg and a Member of the Group Executive Board, most recently was UBS AG, CEO Warburg Dillon Read (Investment Banking Division) and a Member of the Group Executive Board. From 1998 to 1999, he served as UBS AG, Global Head Equities and Rates, Warburg, Dillon Read and a Member of Group Managing Board, UBS AG. Mr. Granziol served with SBC from 1987 through 1998. From 1996 to 1998, he was the General Manager and Member of the Group Executive Board. Prior to that, between 1995 and 1996 he served with SBC Warburg as the Joint Global Head of Equities Business, and as a Member of the Executive Board and of the Investment Banking Board. In 1994, he was the Global Head of Equities Business at SBC, Hong Kong. In 1987 he was the Head of the Securities Department at SBC, Zurich (previously Global Head Risk Control). Mr. Granziol was born on January 21, 1952.

Stephan Haeringer is the CEO of Business Group UBS Switzerland and Division Private and Corporate Clients, and has been a Member of the Group Executive Board of UBS AG since 1998. Between June 29, 1998 and February 15, 2000, he was UBS AG Division Head Private and Corporate Clients. He has held several positions with SBC. From 1996 to 1998, he was the Chief Executive Officer Region Switzerland. He was a Member of SBC's Group Executive Board, Division Head Private Banking and Institutional Asset Management from 1991 to 1996. Between 1991 and 1994 he was a member of the Executive Board Switzerland, Sector Head Private Banking and Securities Administration. During the years 1981 to 1988, he served in several positions: Executive Vice President, Head of Financial Division; Deputy Executive Vice President, Sector of Investment Counseling, Specialized Instruments, Portfolio Management, Securities Administration and Collateral Loans Worldwide; Head of Department of Investment Counseling and Portfolio Management Worldwide; and Department Head International Investment Counseling. From 1967 to 1981, he was in the Stock Exchange and Securities Department, Investment Research, Training at Williams de Broe in London, and was involved with Investment Counseling. Mr. Haeringer was born December 6, 1946.

Pierre de Weck, the CEO of UBS Capital (Private Equity), Business Group UBS Warburg and a Member of the Group Executive Board, UBS AG, has held several positions at SBC. Most recently, he served as UBS AG's Chief Credit Officer and Head Private Equity. He started in 1985 with SBC as the Head of Project Finance at Head Office in Zurich. In 1987, he became the Branch Manager of New York. In 1991, he served as the Chief Executive Officer North America and was a Member of the Enlarged Group Executive Board, on which he served until 1995. From 1992 to 1994, he was the Chief Executive Officer (in Zurich). From 1994 to 1995, Mr. de Weck was the Executive Vice President, Member of the Group Executive Board, and Division Head Corporate Finance, Primary Markets, Merchant Banking. From 1995 to 1998, he served as a Member of the Group Executive Board, and Division Head Corporate and Institutional Finance. Mr. de Weck was born July 15, 1950.

Peter A. Wuffli is the CEO of Business Group UBS Asset Management and a Member of the Group Executive Board. Most recently, he was UBS AG, Group Chief Financial Officer and a Member of the Group Executive Board. From 1994 to 1998, he was the Chief Financial Officer from SBC and a Member of SBC's Group Executive Committee. Mr. Wuffli was born October 26, 1957.

The Audit Committee and the Compensation Committee

The Audit Committee of the Board of Directors monitors the functional adequacy of the auditing work and the cooperation between internal and external audit. It is chaired by Peter Böckli with Rolf A. Meyer as Vice-Chairman and Andreas Reinhart as an additional member. The Audit Committee meets two to three times per year together with the head of Group Internal Audit and the external auditors, and — specifically for the review of the annual accounts — with the Chief Financial Officer. All members of the committee are non-executives and fully independent of UBS.

The Remuneration Committee of the Board of Directors fixes the remuneration of the Board of Director's full-time members, the members of the Group Executive Board and of the Group Managing Board, and it proposes to the Board of Directors the individual remuneration for its part-time members. The three members are Alex Krauer (Chairman), Alberto Togni, and Markus Kundig. The committee meets as often as necessary.

Compensation of Directors and Officers

The aggregate compensation paid by UBS to its directors and officers as a group in 1998 was approximately CHF 102.8 million, including bonus compensation and approximately CHF 10.3 million in accrued pension benefits. The aggregate compensation paid by UBS to its directors and officers as a group in 1999 was approximately CHF 193.1 million, including bonus compensation and approximately CHF 2.7 million in accrued pension benefits. For the purposes of this analysis, UBS's executive officers are the members of the UBS Group Managing Board, as described above under “— Control of Registrant.”

The external members of the Board of Directors do not have employment or service contracts with UBS, and thus are not entitled to benefits upon termination of their service on the Board of Directors. The full-time Chairman and Vice-Chairman have top-management employment contracts and receive pension benefits upon retirement.

Options to Purchase Securities from UBS

UBS offers employees options on UBS ordinary shares under five plans, as described below:

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

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

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

Prior to the merger PaineWebber offered employees options under three plans, as described below:

Under the Equity Plus Program (“EPP”) employees are granted two stock options for each share the employee purchases. The funds for the purchase are collected through payroll deductions and the stock purchase and option grants are made quarterly.

As part of the Financial Advisor recruiting effort, new recruits are eligible to contribute a portion of their employee forgivable loan to receive options in a manner similar to the EPP.

Senior management as well as key managers may also receive option grants for their performance and/or potential.

These stock option plans will be continuing for employees under UBS.

The following table provides information concerning options to purchase UBS ordinary shares at 30 November 2000. The amounts in the table incorporate options outstanding under the PaineWebber plans.

Instrument Type	Number Issued	Weighted-Average Exercise Price (in CHF)	Weighted-Average Expiration (in years)
Options	22,010,506	177.07	4.62
Warrants	6,232,786	228.50	2.08
Total	28,243,292	188.42	4.06

The total number of UBS ordinary shares subject to issuance under such options and warrants held by officers and directors of UBS as of 30 November 2000 is 3,021,689.

Interest of Management in Certain Transactions

Mortgages receivable from members of the UBS Board of Directors, the UBS Group Executive Board, the UBS Group Managing Board, close family members of these individuals and enterprises controlled by these individuals were as follows:

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

Members of the UBS Board of Directors, UBS Group Executive Board and UBS Group Managing Board are granted mortgages at the same terms and conditions as other employees. Terms and conditions are based on third party terms, excluding the credit margin. In addition, fully secured personal loans totalling approximately CHF 3.6 million have been extended to members of this group, all of which are due and payable within 24 months.

Names and Addresses of UBS’s Auditors

UBS’s auditors for the last three years have been Ernst & Young Ltd. (formerly known as ATAG Ernst & Young). Ernst & Young Ltd. is a member of the Swiss Chamber of Auditors and is a member firm of Ernst & Young International. Ernst & Young Ltd.’s address is Aeschengraben 9, CH-4002, Basel, Switzerland.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with UBS's consolidated financial statements and the related notes included elsewhere in this prospectus. UBS's consolidated financial statements have been prepared in accordance with International Accounting Standards, or "IAS," which differ in certain significant respects from U.S. GAAP. Please refer to Note 42 of UBS's consolidated financial statements for a description of the significant differences between IAS and U.S. GAAP and the reconciliation of shareholders' equity and net profit (loss) to U.S. GAAP. Unless otherwise stated, all of UBS's financial information presented in this prospectus is presented on a consolidated basis under IAS.

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

For comparative purposes, 1999 and 1998 figures have been restated to conform to the 2000 presentation, which gives effect to certain accounting changes, including:

- the removal from net trading income of profit on UBS ordinary shares held for trading purposes;
- the treatment of these shares as treasury shares, reducing both the number of shares and the shareholders' equity used in ratio calculations;
- the reclassification of trading-related interest revenues from net trading income to net interest income;
- the removal of the credit to net interest income and matching debit to net trading income for the cost of funding trading positions; and
- the capitalization of costs relating to the in-house development of software.

Note 1(t) of UBS's consolidated financial statements includes a complete explanation of these accounting changes.

Introduction

UBS is a global, integrated investment services firm and operates through three business groups, which are divided into eight operating business units, and its Corporate Center. The business units within each of the three business groups, share senior management, infrastructure and other resources. The three business groups are:

- UBS Switzerland, which is made up of two business units: *Private and Corporate Clients* and *Private Banking*;
- UBS Asset Management, which consists of two business units: *Institutional Asset Management* and *Investment Funds/GAM*; and
- UBS Warburg, which is composed of four business units: *Corporate & Institutional Clients*, *UBS Capital*, *Private Clients* and *e-services*.

UBS

The following table sets forth the contributions to operating profit before tax from each of the three business groups, and the eight business units within them, and for the Corporate Center.

	2000	For the Six Months Ended 30 June 1999(1)	1999	For the Year Ended 31 December(1) 1998
	(CHF in millions)			
UBS Switzerland:				
Private and Corporate Clients	1,018	621	1,271	908
Private Banking	<u>1,980</u>	<u>1,537</u>	<u>2,937</u>	<u>4,415</u>
UBS Switzerland	2,998	2,158	4,208	5,323
UBS Asset Management:				
Institutional Asset Management	138	148	325	437
Investment Funds/GAM	<u>64</u>	<u>24</u>	<u>112</u>	<u>65</u>
UBS Asset Management	202	172	437	502
UBS Warburg:				
Corporate and Institutional Clients	2,865	1,430	2,346	(1,102)
UBS Capital	71	57	157	428
Private Clients	(246)	(141)	(327)	(133)
e-services	<u>(158)</u>	<u>0</u>	<u>(39)</u>	<u>0</u>
UBS Warburg	2,532	1,346	2,137	(807)
Corporate Center	<u>(172)</u>	<u>1,355</u>	<u>1,111</u>	<u>(1,147)</u>
Total	<u>5,560</u>	<u>5,031</u>	<u>7,893</u>	<u>3,871</u>

(1) Certain amounts have been restated to conform to the 2000 presentation.

The 1998 merger of Swiss Bank Corporation and Union Bank of Switzerland, which was completed on 29 June 1998, was accounted for under the “pooling-of-interests” method of accounting. Under the pooling-of-interests method, a single uniform set of accounting policies was adopted and applied retrospectively for the restatement of comparative information. After the 1998 merger was effected, UBS began the process of integrating the operations of the two banks. This process involved streamlining operations, eliminating duplicate information technology infrastructure, consolidating banking premises and various other measures to bring the two banks together. At the time of the 1998 merger, UBS established a restructuring provision of CHF 7 billion to cover its expected restructuring costs associated with the 1998 merger. An additional pre-tax restructuring charge of CHF 300 million in respect of the 1998 merger, representing about 4% of the original CHF 7 billion provision, was recognized in December 1999. The majority of the extra provision was due to revised estimates of the cost of lease breaks and property disposals. UBS has now largely completed the integration and restructuring process relating to the 1998 merger and, at 30 June 2000, has used approximately CHF 6.1 billion of the CHF 7.3 billion restructuring provision.

In addition, during the last three and a half years, a number of other events occurred that also had a significant effect on UBS’s results of operations during these periods. These events included:

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

- During the first half of 1998, UBS divested Banca della Svizzera Italiana, or “BSI,” and Adler & Co. Ltd. to satisfy a condition of the Swiss Competition Commission in connection with the 1998 merger. UBS recognized pre-tax gains of CHF 1,058 million on these sales.
- During 1998, due to extremely volatile market conditions, UBS incurred losses of CHF 1,160 million relating to the write-down of its trading and investment positions in Long Term Capital Management, L.P. and CHF 762 million relating to its Global Equity Derivatives portfolio.
- As of 31 December 1998, UBS established a provision of CHF 842 million in connection with the claims relating to the matter known as the Holocaust affair. UBS recognized additional pre-tax provisions of CHF 154 million relating to this claim in 1999 and CHF 200 million in 2000.
- In the fourth quarter of 1999, UBS recognized a one-time credit of CHF 456 million in connection with excess pension fund employer prepayments, recorded in accordance with IAS.

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

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

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

Operational Risks. UBS’s businesses are dependent on its ability to process a large number of complex transactions across numerous and diverse markets in different currencies and subject to many different legal and regulatory regimes. UBS’s systems and processes are designed to ensure that the risks associated with UBS’s activities are appropriately controlled, but UBS recognizes that any

weaknesses in these systems could have a negative impact on its results of operations during the affected period.

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

Consolidated Results of Operations

The following table sets forth UBS's consolidated results of operations for the half years ended 30 June 2000 and 1999 and for the years ended 31 December 1999 and 1998.

	2000	For the Six Months Ended 30 June 1999(1)	1999	For the Year Ended 31 December(1) 1998
	(CHF in millions)			
Operating income:				
Interest income	24,079	16,293	35,604	37,442
Interest expense	<u>19,753</u>	<u>13,540</u>	<u>29,695</u>	<u>32,424</u>
Net interest income	4,326	2,753	5,909	5,018
Credit loss expense	<u>(83)</u>	<u>635</u>	<u>956</u>	<u>951</u>
Net interest income after credit loss expense ..	4,409	2,118	4,953	4,067
Net fee and commission income	7,835	6,184	12,607	12,626
Net trading income	5,669	4,460	7,719	3,313
Other income, including income from disposal of associates and subsidiaries	<u>644</u>	<u>2,340</u>	<u>3,146</u>	<u>2,241</u>
Total operating income	<u>18,557</u>	<u>15,102</u>	<u>28,425</u>	<u>22,247</u>
Operating expenses:				
Personnel	8,876	6,819	12,577	9,816
General and administrative	3,174	2,388	6,098	6,735
Depreciation and amortization	<u>947</u>	<u>864</u>	<u>1,857</u>	<u>1,825</u>
Total operating expenses	12,997	10,071	20,532	18,376
Operating profit before tax and minority interests	5,560	5,031	7,893	3,871
Tax expense	<u>1,257</u>	<u>1,151</u>	<u>1,686</u>	<u>904</u>
Net profit before minority interests	4,303	3,880	6,207	2,967
Minority interests	<u>(35)</u>	<u>(21)</u>	<u>(54)</u>	<u>5</u>
Net profit	<u>4,268</u>	<u>3,859</u>	<u>6,153</u>	<u>2,972</u>

(1) Certain amounts have been restated to conform to the 2000 presentation.

Half Year to 30 June 2000 Compared to Half Year to 30 June 1999. Net interest income increased by CHF 1,573 million, or 57.1%, from CHF 2,753 million in the first half of 1999 to CHF 4,326 million in the first half of 2000. This was principally the result of higher coupon income, in line with an increase of interest bearing instruments in the trading portfolio.

As a result of the significant recovery of the Swiss economy in the first half of 2000 and especially its effect on the real estate and real estate construction markets, UBS was able to write back CHF 237 million of domestic credit loss provisions in the first half of 2000. These writebacks were offset by additional provisions on the international portfolio of CHF 154 million, leading to a net credit of CHF 83 million in the credit loss expense line for the first half of 2000, compared to an expense of CHF 635 million in the first half of 1999.

Net fee and commission income increased by CHF 1,651 million, or 26.7%, from CHF 6,184 million in the first half of 1999 to CHF 7,835 million in the first half of 2000, as the result of increased client activity, driven by strong markets, especially in the first quarter of 2000. The following table sets forth UBS's net fee and commission income for the first half of 2000 and 1999.

	For the Six Months Ended 30 June	
	2000	1999(1)
	(CHF in millions)	
Credit-related fees and commissions	145	215
Security trading and investment activity fees:		
Underwriting and corporate finance fees	1,069	826
Brokerage fees	2,979	1,882
Fiduciary fees	175	162
Custodian fees	726	788
Portfolio and other management and advisory fees	1,913	1,476
Investment fund fees	1,360	925
Other	29	53
Total	<u>8,251</u>	<u>6,112</u>
Commission income from other services	<u>391</u>	<u>367</u>
Total fee and commission income	<u>8,787</u>	<u>6,694</u>
Fee and commission expense:		
Brokerage fees paid	582	359
Other	<u>370</u>	<u>151</u>
Total	<u>952</u>	<u>510</u>
Net fee and commission income	<u>7,835</u>	<u>6,184</u>

(1) Certain amounts have been restated to conform to the 2000 presentation.

Credit-related fees and commissions decreased in the first half of 2000 as a result of the sale of UBS's International Global Trade Finance business in the second half of 1999. Underwriting and corporate finance fees increased by 29% over the first half of 1999 with strong results in both equity and fixed income underwriting, and continuing increases in corporate finance revenues. Brokerage fees were 58.3% higher in the first half of 2000 than in the first half of 1999 as a result of high levels of client activity in the context of strong market volumes. The increase in investment fund fees from the first half of 1999 to the first half of 2000 resulted from higher volumes and the inclusion in the first half of 2000 of GAM, which was acquired in the fourth quarter of 1999. Portfolio and other management and advisory fees increased CHF 437 million due to higher asset-related fees in the first half of 2000.

Net trading income increased CHF 1,209 million, or 27.1%, to CHF 5,669 million for the first half of 2000, compared to CHF 4,460 million for the first half of 1999, driven by strong growth in equity trading income and through increased client activity, particularly in the first quarter of 2000. The

following table sets forth UBS's net trading income by major business area for the first half of 2000 and 1999.

	Six Months Ended 2000	For the Six Months Ended 30 June 1999(1)
	(CHF in millions)	
Foreign exchange(2)	680	718
Fixed income	643	1,303
Equities	<u>4,346</u>	<u>2,439</u>
Total	<u>5,669</u>	<u>4,460</u>

(1) Certain amounts have been restated to conform to the 2000 presentation.

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

Net trading income from foreign exchange decreased CHF 38 million, or 5.3%, from the first half of 1999 to the first half of 2000 in difficult trading conditions, with lower levels of market activity and narrowing margins on derivative products.

Net trading income from fixed income decreased CHF 660 million, or 50.7%, from the first half of 1999 to CHF 643 million in the first half of 2000. The fixed income component of net trading income does not represent the full revenue picture of the Fixed Income business area within the Corporate and Institutional Clients business unit. In particular, coupon income is managed as an integral part of the trading portfolio. The relative revenue contributions of mark-to-market gains, coupon income and other factors are somewhat volatile, because they depend on trading strategies and the instrument composition. In the first half of 2000, while fixed income trading income fell, coupon income, which is reported in net interest income, rose substantially. The sum of the two results suggests significantly more stable revenue development than either component standing alone. In total, in the first half of 2000, revenues in the Fixed Income business area of Corporate and Institutional Clients rose 13.6% over the first half of 1999.

Net trading income from equities increased CHF 1,907 million, or 78.2%, from the first half of 1999 to the first half of 2000. Positive markets led to an exceptionally good first quarter of 2000, with record client volumes and strong performances in European, U.S., U.K. and Japanese equities. Performance in the second quarter fell slightly in more mixed market conditions, but was still well ahead of second quarter of 1999.

Other income, including income from disposal of associates and subsidiaries, decreased CHF 1,696 million, or 72.5%, from CHF 2,340 million in the first half of 1999 to CHF 644 million in the first half of 2000. Total disposal-related pre-tax gains were CHF 1,778 million in the first half of 1999 compared to CHF 23 million in the first half of 2000. The first half of 1999 included pre-tax gains of CHF 1,490 million from the sale of UBS's stake in Swiss Life/Rentenanstalt, CHF 200 million from the disposal of the Global Trade Finance business and CHF 110 million from the sale of Julius Baer registered shares. Excluding income from disposal of associates and subsidiaries, other income increased CHF 59 million due to increased income from the disposal of private equity investments and the consolidation of Klinik Hirslanden AG's results in the first half of 2000 but not in the first half of 1999, offset by a reduction of income from investments in associates and losses from the revaluation of properties held for resale.

Personnel expense increased CHF 2,057 million, or 30.2%, from CHF 6,819 million in the first half of 1999 to CHF 8,876 million in the first half of 2000, despite an almost unchanged headcount of

47,744 at 30 June 2000, compared to 48,066 at 30 June 1999. This is primarily attributable to higher performance-related compensation based on the very strong results in the first half of 2000. In addition, CHF 567 million of the increase is the result of adverse currency movements and CHF 182 million is due to the consolidation of Klinik Hirslanden AG's results in the first half of 2000 but not in the first half of 1999 and the inclusion of GAM, acquired in the fourth quarter of 1999.

General and administrative expenses increased CHF 786 million, or 32.9%, from CHF 2,388 million in the first half of 1999 to CHF 3,174 million in the first half of 2000. General and administrative expenses in the first half of 2000 includes a final provision of CHF 200 million related to the U.S. global settlement of Holocaust-related claims and CHF 110 million from the consolidation of Klinik Hirslanden AG and the inclusion of GAM. Marketing and public relations costs increased by CHF 102 million in the first half of 2000, mainly due to the corporate re-branding program. CHF 146 million of the increase primarily relates to information technology outsourcing charges for work that was previously carried out in-house.

Depreciation and amortization increased CHF 83 million, or 9.6%, from CHF 864 million in the first half of 1999 to CHF 947 million in the first half of 2000, mainly as a result of the acquisition of GAM and Allegis in the fourth quarter of 1999.

Tax expense increased CHF 106 million, or 9.2%, from CHF 1,151 million in the first half of 1999 to CHF 1,257 million in the first half of 2000, principally due to increased operating profit. The effective tax rate of 22.6% in the first half of 2000 is very slightly lower than the 22.9% rate in the first half of 1999.

Year to 31 December 1999 Compared to Year to 31 December 1998. Net interest income increased by CHF 891 million, or 17.8%, from CHF 5,018 million in 1998 to CHF 5,909 million in 1999. Increased trading-related interest income and higher interest margins in the domestic loan portfolio in 1999 from more consistent application of UBS's risk-adjusted pricing model were partially offset by the sale of business activities which had contributed to net interest income in 1998, as well as the impact of lower returns on invested equity and the reduction of the international loan portfolio.

Credit loss expense had a slight increase of CHF 5 million from CHF 951 million in 1998 to CHF 956 million in 1999. During 1999, UBS experienced general improvements in the economy and in the credit performance of its loan portfolio, and a reduction in impaired loans in the aggregate. Although impaired loans decreased, additional provisions were required for some of the impaired domestic loans remaining in the portfolio.

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

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

	For the Year Ended 31 December(1)	
	1999	1998
	(CHF in millions)	
Credit-related fees and commissions	372	559
Security trading and investment activity fees:		
Underwriting and corporate finance fees	1,831	1,694
Brokerage fees	3,934	3,670
Fiduciary fees	317	349
Custodian fees	1,583	1,386
Portfolio and other management and advisory fees	2,984	3,335
Investment fund fees	1,915	1,778
Other	57	110
Total	<u>12,621</u>	<u>12,322</u>
Commission income from other services	765	776
Total fee and commission income	<u>13,758</u>	<u>13,657</u>
Fee and commission expense:		
Brokerage fees paid	795	704
Other	356	327
Total	<u>1,151</u>	<u>1,031</u>
Net fee and commission income	<u>12,607</u>	<u>12,626</u>

(1) Certain amounts have been restated to conform to the 2000 presentation.

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

Net trading income increased CHF 4,406 million, or 133%, from CHF 3,313 million in 1998 to CHF 7,719 million in 1999. The following table sets forth UBS's net trading income by major business area for each of the years ended 31 December 1999 and 1998.

	For the Year Ended 31 December(1)	
	1999	1998
	(CHF in millions)	
Foreign exchange(2)	1,108	1,992
Fixed income	2,603	162
Equities	<u>4,008</u>	<u>1,159</u>
Total	<u>7,719</u>	<u>3,313</u>

(1) Certain amounts have been restated to conform to the 2000 presentation.

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

Net trading income from foreign exchange decreased CHF 884 million, or 44.4%, from 1998 to 1999 mostly as a result of lower volumes in key markets. The reduced levels of activity resulted from the introduction of the euro and narrowing margins from increased competition in global markets.

Net trading income from fixed income increased CHF 2,441 million from 1998 to 1999. During 1998, net trading income from fixed income was negatively impacted by the pre-tax approximately CHF 790 million write-down of UBS's trading position in Long Term Capital Management, L.P., or "LTCM," and approximately CHF 690 million in losses in UBS's emerging markets trading portfolios. Excluding those write downs from the 1998 results, net trading income from fixed income increased approximately 58% in 1999 over 1998. Fixed income trading revenues were strong across all major products during 1999, led by swaps and options and investment grade debt.

Net trading income from equities increased CHF 2,849 million from 1998 to 1999. During 1998, net trading income was negatively impacted by pre-tax CHF 762 million in losses from the Global Equities Derivatives positions. In 1999, net trading income benefited from very strong customer volumes in equity products globally.

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

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

expenses in 1999 increased by 16%, which was primarily attributable to higher performance-related compensation based on the good investment banking result in 1999. Personnel expense in 1999 was reduced by the recognition of CHF 456 million in pre-paid employer pension contributions.

General and administrative expenses decreased CHF 637 million, or 9.5%, from CHF 6,735 million in 1998 to CHF 6,098 million in 1999. General and administrative expenses in 1998 includes the provision of CHF 842 million for the settlement related to the Holocaust litigation. In 1999, the following were included:

- the additional restructuring provision of CHF 300 million;
- an additional provision of CHF 154 million for the U.S. global settlement of Holocaust-related claims; and
- CHF 130 million from the first-time consolidation of Klinik Hirslanden.

Excluding the impact of these items in 1998 and 1999, general and administrative expenses decreased 6.4% year-on-year reflecting stringent cost reduction programs.

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

Tax expense increased CHF 782 million, or 86.5%, from CHF 904 million in 1998 to CHF 1,686 million in 1999, principally due to increased operating profit. The effective tax rate of 21.4% is lower than 23.4%, the rate in 1998, primarily due to the utilization of tax loss carry forwards.

Year Ended 31 December 1998 Compared to Year Ended 31 December 1997. The following figures have not been restated for the changes in accounting policy and restructuring of the UBS business groups that have been introduced during 2000, as such a restatement of the 1997 data was not practicable. As a result of the differences in the reporting by the predecessor banks' accounting and reporting policies, the unavailability of certain data, and the shut down and modification of significant computer systems as a result of the 1998 merger and to address Year 2000 issues, there is insufficient information to permit UBS to restate the 1997 results for the changes in accounting policy.

	31 December	
	1998	1997
	(CHF in millions)	
Operating income:		
Interest income	22,835	23,669
Interest expense	<u>16,173</u>	<u>16,733</u>
Net interest income	6,662	6,936
Credit loss expense	<u>951</u>	<u>1,278</u>
Total	5,711	5,658
Net fee and commission income	12,626	12,234
Net trading income	1,750	5,491
Other income, including income from disposal of associates and subsidiaries ...	<u>2,241</u>	<u>1,497</u>
Operating income	<u>22,328</u>	<u>24,880</u>

	31 December	
	1998	1997
	(CHF in millions)	
Operating expenses:		
Personnel	9,816	11,559
General and administrative	6,617	5,315
Depreciation and amortization	<u>1,825</u>	<u>1,762</u>
Operating expenses	<u>18,258</u>	<u>18,636</u>
Operating profit before tax	4,070	6,244
Restructuring costs	—	7,000
Tax expense (benefit)	<u>1,045</u>	<u>(105)</u>
Net profit (loss) before minority interests	3,025	(651)
Minority interests	<u>5</u>	<u>(16)</u>
Net profit (loss)	<u><u>3,030</u></u>	<u><u>(667)</u></u>

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

UBS's credit loss expense decreased CHF 327 million, or 25.6%, from CHF 1,278 million in 1997 to CHF 951 million in 1998. Credit loss expense improved because of positive developments in the overall Swiss economy. This was offset in part by the rapid deterioration of emerging market economies, most notably in Latin America and Southeast Asia. This caused an approximately CHF 275 million net increase in country provisions from 1997 to 1998 and other increases in individual counterparty allowances. The largest provisions in the emerging markets economies were as follows at 31 December 1998 and 1997.

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

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

Net trading income decreased CHF 3,741 million, or 68.1%, from CHF 5,491 million in 1997 to CHF 1,750 million in 1998. The decrease primarily resulted from the CHF 790 million write-down of UBS's trading position in LTCM, the CHF 762 million loss on UBS's Global Equities Derivatives portfolio and approximately CHF 810 million of losses on UBS's emerging markets trading portfolios. Net trading income from foreign exchange and bank notes decreased by CHF 541 million primarily reflecting losses in foreign exchange trading that were partially offset by unusually strong results in UBS's cash and collateral trading business. In addition, net trading income from precious metals and

commodities decreased by CHF 216 million, or 89%, from CHF 244 million in 1997 to CHF 28 million in 1998 due primarily to the wind-down of some of these businesses and difficult trading conditions.

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

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

General and administrative expenses increased CHF 1,302 million, or 24.5%, from CHF 5,315 million in 1997 to CHF 6,617 million in 1998. This increase primarily resulted from a CHF 842 million charge taken in 1998 for the settlement of the claim relating to the Holocaust litigation and approximately CHF 397 million in expenses recorded in 1998 associated with preparing for implementation of the euro and for Year 2000 readiness.

Depreciation and amortization increased CHF 63 million, or 3.6%, from CHF 1,762 million in 1997 to CHF 1,825 million in 1998. Increased amortization of goodwill and other intangible assets primarily resulting from additional goodwill recorded in 1998 on Brinson Partners, the acquisition of Dillon Read & Co., Inc. in September 1997 and the accelerated amortization of goodwill on Russian and Brazilian subsidiaries due to the worsening markets in these countries in 1998 were the primary reasons for the increase from 1997 to 1998. These increases were offset by a decrease in depreciation from the disposal of property and equipment.

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

Operational Reserves. UBS maintains operational reserves to provide for losses associated with existing transaction errors in processing and other operational losses. The reserves cover probable losses that exist in the portfolio as of the balance sheet date, and are subject to senior management review and approval within the specific business unit, functional operations and financial control management and at the Group Executive Board.

UBS experienced an overall increase in the level of these reserves during 1999, primarily related to UBS's continuing program of integrating the two predecessor banks' domestic operations. As planned, this integration is taking longer than the integration of operations outside Switzerland. There has been no significant change in the level of these reserves in the first half of 2000.

Restructuring Provision. At the announcement of the 1998 merger in 1997, UBS estimated the costs it believed would result from integrating and restructuring the operations of the two pre-existing banks and recorded a charge of CHF 7 billion. The charge included estimates for personnel-related costs, costs for the elimination of duplicate infrastructures and the merging of bank premises, and other 1998 merger-related restructuring costs. An additional pre-tax restructuring charge of CHF 300 million in

respect of the 1998 merger, representing about 4% of the original CHF 7 billion provision, was recognized in December 1999. The majority of the extra charge was taken to provide for revised estimates of the cost of lease breaks and property disposals. UBS has now largely completed the integration and restructuring process and, at 30 June 2000, has used approximately CHF 6.1 billion of the CHF 7.3 billion restructuring provision.

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

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

Included in the CHF 2 billion of personnel-related expenses are severance payments and payments required to maintain stability in the workforce during the 1998 merger-related integration period, as well as some performance-related compensation as discussed above.

During 1999, CHF 1,844 million of the restructuring provision was utilized, bringing the total utilization to CHF 5,871 million at 31 December 1999. The transition to one common technology platform and parallel operation of the systems in UBS Switzerland's Private and Corporate Clients business unit and the merger of bank premises, including related moving, outfitting and vacancy costs, recognized in Corporate Center, were the primary uses of the provision in 1999.

During the first half of 2000, the main use of the restructuring provision related to premises costs in Corporate Center, including moving, outfitting and vacancy costs that were charged against the provision, and also to costs relating to the early retirement plan in Private and Corporate Clients. The following table analyzes the use of the restructuring provision through the first half of 2000.

	Personnel	IT	Usage in 2000		30 June 2000	31 December 1999	31 December 1998
			Premises	Other			
(CHF in millions)							
Private and Corporate Clients	53	14	1	20	88	794	717
Private Banking	<u>0</u>	<u>5</u>	<u>0</u>	<u>0</u>	<u>5</u>	<u>122</u>	<u>104</u>
UBS Switzerland	53	19	1	20	93	916	821
Institutional Asset Management	1	0	0	0	1	9	18
Investment Funds/GAM	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6</u>	<u>4</u>
UBS Asset Management	1	0	0	0	1	15	22
Corporate and Institutional Clients	0	0	0	0	0	316	2,382
UBS Capital	0	0	0	0	0	3	2
Private Clients	0	0	0	0	0	29	39
e-Services	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
UBS Warburg	0	0	0	0	0	348	2,423
Corporate Center	<u>3</u>	<u>0</u>	<u>91</u>	<u>3</u>	<u>97</u>	<u>565</u>	<u>761</u>
Total	<u>57</u>	<u>19</u>	<u>92</u>	<u>23</u>	<u>191</u>	<u>1,844</u>	<u>4,027</u>

The substantial majority of the remaining restructuring reserve balance is also attributed to employees and real estate located in Switzerland. UBS estimates that the balance of the reserve will be used in the second half of 2000 and in 2001.

UBS has achieved 1998 merger-related cost savings of CHF 2 billion per year, including savings related to headcount reductions of CHF 1.6 billion and savings for other costs estimated to be around CHF 0.4 billion per year, including approximately CHF 75 million in eliminated depreciation expenses and other costs related to real estate.

Since the 1998 merger was announced, UBS Warburg has essentially completed its integration including the reduction of personnel and the integration of information technology platforms. As expected, most of the cost savings over the past two years have been attributable to UBS Warburg.

UBS Asset Management has also essentially completed its integration, while in the Corporate Center UBS expects the write-off or sale of the remaining redundant real estate to proceed in 2000 and 2001.

Within UBS Switzerland, Private Banking's integration is essentially complete. Private and Corporate Clients, meanwhile, has been rapidly integrating its business in line with a detailed timetable and project schedule. For example, the branch network has been reduced by 36%, or 200 branches. In addition, now that the integration of the technology platforms has been completed and in line with employee association agreements made in 1998, redundancy plans will gain momentum during 2000 and 2001.

As with any merger, cost savings attributable directly to the 1998 merger are becoming increasingly difficult to track. Across all divisions, normal organic business growth, new investments and initiatives, and at least three acquisitions and six divestitures have clouded underlying developments since the time of the 1998 merger.

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

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

In addition, the Corporate and Institutional Clients Investment Committee has carried out a rigorous review process to ensure that investments in the business unit's infrastructure are fully aligned with the strategy of the business.

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

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

Long Term Capital Management. In the case of LTCM, the loss arose from a structured transaction in which UBS sold an option that gave the optionholder the right to purchase shares in LTCM at a predetermined price over a seven-year period. In order to hedge the risk of this option, UBS held \$800 million of LTCM shares to create an incrementally risk neutral position. Separate from the structured

transaction, UBS also made a further direct equity investment of \$266 million in LTCM. In normal market conditions, the structured transaction would have behaved in a controlled manner. However, the structured transaction could not be effectively hedged, particularly in the event of extreme market movements. As a result of the structured transaction, UBS was exposed to a sudden and severe downward movement in the value of LTCM equity, and had very limited scope to hedge this exposure. LTCM's equity was not traded and was valued only periodically based on the underlying instruments held by LTCM. Moreover, LTCM did not provide detailed information about its investment results. Consequently, UBS could not hedge with any precision against adverse moves in the value of LTCM's equity. In particular, when LTCM was faced by a sharp adverse move in market prices relating to certain specific investment strategies, UBS was unable to hedge this risk itself as it had no knowledge of the details of these strategies.

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

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

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

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

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

Results of Operations by Business Unit

UBS's management reporting system and policies were used to determine the revenues and expenses directly attributable to each business unit. Internal charges and transfer pricing adjustments have been

reflected in the performance of each business unit. The basis of the reporting reflects UBS's current management structure (UBS Warburg, UBS Asset Management, UBS Switzerland and Corporate Center), rather than the management structure that existed during 1999 and during 1998, following the 1998 merger (UBS Asset Management, UBS Private Banking, UBS Capital, UBS Private and Corporate Clients, UBS Warburg and Corporate Center).

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

The credit loss expense included in the business unit results is a statistically derived adjusted annual expected loan loss that reflects the inherent counterparty and country risks in the respective portfolios. The expected loss is based on assumptions about developments covering a full economic cycle and on cumulative loss probabilities over the entire life of the loan portfolio. In determining the inherent counterparty and country risk in the portfolio, UBS takes into consideration the statistical probability of default by the customer and the severity of loss.

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

The following table compares the expected credit loss charged to the management accounts to the credit loss expense calculated in accordance with IAS, broken down by business unit for the half years to 30 June 2000 and 1999 and for the years ended 31 December 1999 and 1998.

	Expected Credit Loss		IAS Credit Expense		Expected Credit Loss		IAS Credit Expense	
	30 June 2000	30 June 1999	30 June 2000	30 June 1999	31 December 1999	31 December 1998	31 December 1999	31 December 1998
	(CHF in millions)				(CHF in millions)			
UBS Switzerland	423	560	(237)	617	1,071	1,186	985	445
UBS Asset Management					0	0	0	0
UBS Warburg	115	171	154	14	333	510	(20)	506
Corporate Center	(621)	(96)		4	(448)	(745)	(9)	0
Total	<u>(83)</u>	<u>635</u>	<u>(83)</u>	<u>635</u>	<u>956</u>	<u>951</u>	<u>956</u>	<u>951</u>

Business unit results are presented according to the current management structure and current accounting treatment for the following periods:

- Six months ended 30 June 2000 compared to six months ended 30 June 1999; and
- Year ended 31 December 1999 compared to year ended 31 December 1998.

Results for the year ended 31 December 1998 compared to the year ended 31 December 1997 are presented in terms of the business divisions through which UBS was managed at that time, namely UBS Private Banking, UBS Private and Corporate Clients, UBS Warburg, UBS Capital, UBS Asset Management and Corporate Center. As a result of the differences in the reporting by the predecessor banks' accounting and reporting policies, the unavailability of certain data, and the shut down and modification of significant computer systems as a result of the 1998 merger and to address Year 2000

issues, there is insufficient information to permit UBS to restate these results in terms of the current business group and business unit structure.

The principal differences between the structure in 1997 and the current structure are that the UBS Asset Management Investment Funds business unit and the UBS Warburg Private Clients business unit were part of the Private Banking Division, and their results are included within that Division. In addition, UBS Warburg's UBS Capital business unit was an autonomous division, and UBS Warburg itself consisted only of what is now the UBS Warburg Corporate and Institutional Clients business unit.

In addition the comparison of the year ended 31 December 1998 with the year ended 31 December 1997 is based on results which are presented without restatement for new accounting policies introduced in 2000. The principal effect of this is within UBS Warburg. For further details, see Note 1(t) to UBS's consolidated financial statements.

In considering these results it is important to bear in mind the following representations with regard to the factors that may affect the operating income of each business unit.

Introduction.

UBS Switzerland.

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

- interest income on its loan portfolio;
- fees for investment and asset management services;
- transaction fees; and
- investment income from deposits.

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

Private Banking. Private Banking derives its operating income from:

- fees for financial planning and wealth management services;
- fees for discretionary services; and
- transaction-related fees.

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

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

UBS Warburg.

Corporate and Institutional Clients. Corporate and Institutional Clients generates operating income from:

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

As a result, Corporate and Institutional Clients's operating income is affected by movements in market conditions, interest rate swings, the level of trading activity in primary and secondary markets and the extent of merger and acquisition activity. These and other factors outside the control of Corporate and Institutional Clients have had and may in the future have a significant impact on its results of operations from year to year.

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

Private Clients. Private Clients derives its operating income from:

- fees for financial planning and wealth management services;
- fees for discretionary services; and
- transaction-related fees.

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

e-services. The e-services business unit has not yet generated revenues, but expects to generate revenues from fees for financial planning and wealth management services, fees for discretionary services and transaction related fees. It is expected that these fees will be based on the market value of assets under management and the level of transaction-related activity. As a result, e-services' operating income will be affected by such factors as fluctuations in assets under management, changes in market conditions, investment performance and inflows and outflows of client funds. In addition, e-services is a new business with no existing clients and an as yet unproven business model. e-services' possible future income will be affected by its ability to attract clients and by the success or failure of its business model.

UBS Switzerland. The business group UBS Switzerland is made up of two business units:

- Private and Corporate Clients, the leading retail and commercial bank in Switzerland; and
- Private Banking, which covers all Swiss and international high net worth clients who bank in Switzerland or offshore centers.

Private and Corporate Clients. The following table sets forth the results of Private and Corporate Clients for the half years ended 30 June 2000 and 30 June 1999 and the years ended 31 December 1999 and 1998.

	2000	For the Six Months Ended 30 June(1) 1999(2)	1999	For the Year Ended 31 December(2) 1998
	(CHF in millions)			
Operating income:				
Individual clients			4,553	4,785
Corporate clients			1,855	1,728
Risk transformation and capital management			330	—
Operations			313	448
Other			<u>142</u>	<u>64</u>
Total operating income before credit loss expense	3,803	3,599	7,193	7,025
Credit loss expense	<u>412</u>	<u>554</u>	<u>1,050</u>	<u>1,170</u>
Operating income	<u>3,391</u>	<u>3,045</u>	<u>6,143</u>	<u>5,855</u>
Operating expenses:				
Personnel, general and administrative expenses	2,154	2,224	4,486	4,263
Depreciation and amortization	<u>219</u>	<u>200</u>	<u>386</u>	<u>684</u>
Operating expenses	<u>2,373</u>	<u>2,424</u>	<u>4,872</u>	<u>4,947</u>
Operating profit before tax	<u>1,018</u>	<u>621</u>	<u>1,271</u>	<u>908</u>
(at period end)				
Assets under management (CHF in billions)	<u>439</u>	<u>443</u>	<u>439</u>	<u>434</u>
Total loans	<u>162,752</u>	<u>167,004</u>	<u>164,743</u>	<u>164,840</u>

(1) Income by business area is only reported at year end.

(2) Certain amounts have been restated to conform to the 2000 presentation.

Half Year to 30 June 2000 Compared to Half Year to 30 June 1999. Operating income before credit loss expense increased CHF 204 million, or 5.7%, from CHF 3,599 million in the first half of 1999 to CHF 3,803 million in the first half of 2000. This improvement was primarily due to increased brokerage revenues in the strong market conditions, particularly in the first quarter of 2000. Private and Corporate Clients' results are dependent on interest-related businesses, which contribute almost 60% of operating income.

Private and Corporate Clients' credit loss expense decreased CHF 142 million, or 26%, from CHF 554 million in the first half of 1999 to CHF 412 million in the second half of 2000 as a result of improved asset quality and increased collateral values.

Personnel, general and administrative expenses decreased CHF 70 million, or 3.1%, from CHF 2,224 million in the first half of 1999 to CHF 2,154 million in the first half of 2000. This decrease was due primarily to continued reduction in personnel expense, in line with headcount reductions as a result of the 1998 merger. General and administrative expenses increased by 1%, or CHF 6 million, from CHF 501 million in the first half of 1999 to CHF 507 million in the first half of 2000, while personnel expenses fell 4% or CHF 76 million to CHF 1,647 million in the first half of 2000.

Year to 31 December 1999 Compared to Year to 31 December 1998. Operating income before credit loss expense increased CHF 168 million, or 2.4%, from CHF 7,025 million in 1998 to CHF 7,193 million in 1999. This improvement was primarily due to higher margins on interest-related business, such as mortgages, as well as the first full-year impact of the amalgamation and repricing of products from the two former banks. In conjunction with the creation of the Risk Transformation and Capital Management business area in October 1999, the business areas within Private and Corporate Clients were realigned in 1999. These realignments and the resulting effects on 1999 operating income were as follows:

- The Business Client segment was transferred from Individual Clients to Corporate Clients resulting in a decrease in operating income from Individual Clients from 1998 to 1999.
- Operating income from Corporate Clients increased from 1998 to 1999 primarily due to the transfer in of the Business Client segment, the transfer in of the Swiss Global Trade Finance business from UBS Warburg and improving interest margins. The transfer out of the Recovery portfolio to Risk Transformation and Capital Management partially offset these increases.
- Operating income from Operations decreased compared to 1998. This was the net effect of the transfer of emerging market bank activities from UBS Warburg into UBS Private and Corporate Clients and the transfer of industrialized bank activities to UBS Warburg during 1999.

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

Personnel, general and administrative expenses increased CHF 223 million, or 5.2%, from CHF 4,263 million in 1998 to CHF 4,486 million in 1999. This increase was due primarily to merger related IT integration work, work relating to the Year 2000 transition and the costs associated with the shift of the Swiss Trade Finance business from UBS Warburg. This business, with approximately 400 professionals, was transferred from UBS Warburg in early 1999. These increases were partially offset by cost savings resulting from the closure of redundant branches.

Depreciation and amortization expense decreased CHF 298 million, or 43.6%, from CHF 684 million in 1998 to CHF 386 million in 1999, primarily due to reduced assets employed subsequent to the merger.

Private Banking. The following table sets forth the results of Private Banking for the half years ended 30 June 2000 and 30 June 1999 and the years ended 31 December 1999 and 1998.

	2000	For the Six Months Ended 30 June 1999(1)	For the Year Ended 31 December(1) 1999	For the Year Ended 1998
		(CHF in millions)		
Operating Income:				
Operating income before credit loss expense	3,471	2,728	5,568	6,933
Credit loss expense	<u>11</u>	<u>6</u>	<u>21</u>	<u>16</u>
Operating income	<u>3,460</u>	<u>2,722</u>	<u>5,547</u>	<u>6,917</u>

	2000	For the Six Months Ended 30 June 1999(1)	For the Year Ended 31 December(1) 1999	1998
		(CHF in millions)		
Operating expenses:				
Personnel, general and administrative expenses	1,425	1,147	2,513	2,411
Depreciation and amortization	55	38	97	91
Operating expenses	<u>1,480</u>	<u>1,185</u>	<u>2,610</u>	<u>2,502</u>
Operating profit before tax	<u>1,980</u>	<u>1,537</u>	<u>2,937</u>	<u>4,415</u>
(at period end)				
Assets under Management (CHF in billions):				
Advisory	533	470	501	437
Discretionary	150	160	170	142
Total	<u>683</u>	<u>630</u>	<u>671</u>	<u>579</u>

(1) Certain amounts have been restated to conform to the 2000 presentation.

Half Year to 30 June 2000 Compared to Half Year to 30 June 1999. Operating income before credit loss expense increased CHF 743 million, or 27.2%, from CHF 2,728 million in the first half of 1999 to CHF 3,471 million in the first half of 2000. This increase principally reflected higher transaction-based revenues due to higher levels of client transaction activity and asset growth since 30 June 1999.

Assets under management increased CHF 53.0 billion, or 8.4%, from 30 June 1999 to 30 June 2000, with most of the increase due to positive performance trends, partially offset by a net decline of CHF 3 billion in new money.

Operating expenses increased 24.8%, or CHF 295 million, to CHF 1,480 million from the first half of 1999 to the first half of 2000, mainly due to increased general and administrative expense.

Personnel, general and administrative expenses increased CHF 278 million, or 24.2%, from CHF 1,147 million in the first half of 1999 to CHF 1,425 million in the first half of 2000. Personnel costs increased 16.5%, or CHF 109 million, to CHF 769 million in the first half of 2000, due to increased performance-related compensation in line with strong first half 2000 results and an increase in headcount. Headcount went up by 750 from 6,697 at 30 June 1999 to 7,447 at 30 June 2000 as Private Banking expanded its front line staff and strengthened its logistics. General and administrative expenses increased 34.7%, or CHF 169 million, from the first half of 1999 to the first half of 2000 due to increases in IT and marketing expenses and higher intra-Group cost recoveries, driven by higher transaction levels.

Goodwill amortization increased CHF 9 million, or 112.5%, to CHF 17 million in the first half of 2000 as a result of the acquisition of Bank of America's international private banking business, which took place in the second quarter of 1999. Depreciation increased CHF 8 million, or 26.6%, from CHF 30 million in the first half of 1999 to CHF 38 million in the first half of 2000.

Year to 31 December 1999 Compared to Year to 31 December 1998. In March 1999, UBS acquired Bank of America's international private banking operations in Europe and Asia, thereby increasing the assets under management in UBS Private Banking by approximately CHF 5 billion as of 31 December 1999. The remainder of the increase was principally performance related.

Operating income before credit loss expense decreased CHF 1,365 million, or 19.7%, from CHF 6,933 million in 1998 to CHF 5,568 million in 1999. This significant decrease principally reflected lower

transaction-based revenues due to lower levels of client transaction activity. CHF 1,058 million gains from the divestitures of BSI and Adler, as well as CHF 268 million of operating income relating to BSI's operations, are included in operating income for 1998 and did not recur in 1999. Excluding the disposal related income, operating income from UBS Private Banking increased 2.3% from 1998 to 1999.

Notwithstanding the decrease in operating income, assets under management increased during 1999 by CHF 92 billion, or 15.9%. Strong markets, especially in Europe, the United States and in the technology sector, as well as the stronger U.S. dollar, led to a performance increase of CHF 80 billion for 1999. In addition, the acquisition of the international private banking operations of Bank of America accounted for an additional CHF 5 billion while interdivisional transfers resulted in another CHF 6 billion. This increase was partially offset, however, by decreased volumes from existing clients during the second half of 1999.

Operating expenses, adjusting for CHF 125 million in divestiture-related operating expenses, increased 4.3%, or CHF 108 million, to CHF 2,610 million in 1999, to a large extent as a result of UBS's expansion in the front-line staff as well as infrastructure related investments.

Personnel, general and administrative expenses increased CHF 102 million, or 4.2%, from CHF 2,411 million in 1998 to CHF 2,513 million in 1999. Personnel costs increased 9.7%, or CHF 118 million, to CHF 1,328 million, in 1999 due to an increase in headcount of 710 from 6,546 at 31 December 1998 to 7,256 at 31 December 1999. Headcount growth resulted from the acquisition in 1999 of Bank of America's international private banking operations, enhancement of UBS's logistics capabilities and support for the introduction of new portfolio monitoring and advisory capabilities. Operating expenses in 1998 also included CHF 125 million related to BSI that did not occur in 1999.

As a result of the acquisition of the international private banking operations of Bank of America, goodwill amortization increased by CHF 21 million in 1999. Depreciation decreased CHF 15 million, or 16.5%, from CHF 91 million in 1998 to CHF 76 million in 1999.

UBS Asset Management.

Institutional Asset Management. The following table sets forth the results of Institutional Asset Management for the half years ended 30 June 2000 and 30 June 1999 and the years ended 31 December 1999 and 1998.

	For the Six Months Ended		For the Year Ended	
	2000	30 June 1999(1)	31 December(1) 1999	1998
	(CHF in millions)			
Operating income	638	542	1,099	1,163
Operating expenses:				
Personnel, general and administrative expenses	402	331	636	619
Depreciation and amortization	<u>98</u>	<u>63</u>	<u>138</u>	<u>107</u>
Operating expenses	<u>500</u>	<u>394</u>	<u>774</u>	<u>726</u>
Operating profit before tax	<u>138</u>	<u>148</u>	<u>325</u>	<u>437</u>
(at period end)				
Assets under management (CHF in billions):	525	563	574	531

(1) Certain amounts have been restated to conform to the 2000 presentation.

Half Year to 30 June 2000 Compared to Half Year to 30 June 1999. Assets under management decreased 6.7% or CHF 38 billion, from CHF 563 billion at 30 June 1999 to CHF 525 billion at 30

June 2000, with increases in non-institutional assets under management more than offset by losses in institutional assets under management. Non-institutional assets under management increased primarily because of market performance, while institutional assets under management declined mainly due to client losses, as a result of performance issues in equity related mandates, offset by the effect of currency movements and the acquisition of Allegis Realty Investors LLC in December 1999.

Operating income increased CHF 96 million, or 17.5%, from CHF 542 million in the first half of 1999 to CHF 638 million in the first half of 2000. Despite the decrease in assets under management, operating income increased as a result of the acquisition of Allegis, the addition of the O'Connor alternative asset management business formed in June 2000 and positive currency movements, partially offset by lost revenue from client losses.

Personnel, general and administrative expenses increased CHF 71 million, or 21.5%, from CHF 331 million in the first half of 1999 to CHF 402 million in the first half of 2000. Headcount increased 13.6% from 1,507 as of 30 June 1999 to 1,712 as of 30 June 2000, primarily as a result of the acquisition of Allegis in December 1999 and the creation of the O'Connor business in June 2000. Personnel expenses increased 18.7% from CHF 252 million in the first half of 1999 to CHF 299 million in the first half of 2000 due to the acquisition of Allegis, the addition of the O'Connor business and currency movements. General and administrative expenses increased 30.4% to CHF 103 million in the period as a result of the acquisition of Allegis and currency movements.

Depreciation and amortization expense increased CHF 35 million, or 56%, from CHF 63 million in the first half of 1999 to CHF 98 million in the first half of 2000, reflecting the acquisition of Allegis.

Year to 31 December 1999 Compared to Year to 31 December 1998. Operating income decreased CHF 64 million, or 5.5%, from CHF 1,163 million in 1998 to CHF 1,099 million in 1999. Assets under management increased 8.1%, or CHF 43 billion, to CHF 574 billion at 31 December 1999, with increases in both institutional and non-institutional categories year-on-year. Despite the 4.4% increase in institutional assets under management, which primarily resulted from investment performance, the acquisition of Allegis and growth in private client mandates, institutional revenues decreased. This decrease from CHF 968 million in 1998 to CHF 903 million in 1999 reflects a slight decline in average institutional assets under management from 1998 to 1999, as gains from performance and currency were offset by loss of clients and performance issues in certain mandate types. Non-institutional assets increased by 16% during 1999; however, non-institutional revenues declined slightly to CHF 193 million as a result of new interdivisional fee arrangements with UBS Private Banking.

Personnel, general and administrative expenses increased CHF 17 million, or 2.7%, from CHF 619 million in 1998 to CHF 636 million in 1999. Headcount increased from 1,497 as of 31 December 1998 to 1,653 as of 31 December 1999, primarily as a result of the acquisition of Allegis in December 1999. Personnel expenses decreased slightly from CHF 465 million in 1998 to CHF 458 million in 1999 reflecting decreased incentive compensation. General and administrative expenses increased 15.6% to CHF 178 million in 1999 as a result of revisions in cost-sharing arrangements between Institutional Asset Management and other divisions of UBS.

Depreciation and amortization expense increased CHF 31 million, or 29%, from CHF 107 million in 1998 to CHF 138 million in 1999, reflecting increased goodwill amortization related to the buy-out of UBS's joint venture with the Long-Term Credit Bank of Japan.

Investment Funds/GAM. The following table sets forth the results of Investment Funds/GAM for the half years ended 30 June 2000 and 1999 and the years ended 31 December 1999 and 1998.

	Six Months Ended 2000	For the 30 June 1999(1)	For the Year Ended 31 December(1) 1999	For the Year Ended 1998
	(CHF in millions)			
Operating income	334	102	270	195
Operating expenses:				
Personnel, general and administrative expenses	215	75	151	124
Depreciation and amortization	<u>55</u>	<u>3</u>	<u>7</u>	<u>6</u>
Operating expenses	<u>270</u>	<u>78</u>	<u>158</u>	<u>130</u>
Operating profit before tax	<u>64</u>	<u>24</u>	<u>112</u>	<u>65</u>
(at period end)				
Assets under management (CHF in billions)	225	190	225	175

(1) Certain amounts have been restated to conform to the 2000 presentation.

Half Year to 30 June 2000 Compared to Half Year to 30 June 1999. Assets under management increased 18.4%, or CHF 35 billion, from CHF 190 billion at 30 June 1999 to CHF 225 billion at 30 June 2000, as a result of the acquisition of GAM, which had CHF 24 billion assets under management at 31 December 1999, and positive market performance.

Operating income increased CHF 232 million, or 227.5%, from CHF 102 million in the first half of 1999 to CHF 334 million in the first half of 2000. This was a result of the GAM acquisition and increases in Investment Fund fees from higher asset levels.

Personnel, general and administrative expenses increased CHF 140 million, or 187%, from CHF 75 million in the first half of 1999 to CHF 215 million in the first half of 2000. Headcount increased 165% from 392 as of 30 June 1999 to 1,038 as of 30 June 2000, primarily as a result of the acquisition of GAM and an increase of about 100 people to support increased marketing and distribution initiatives in Investment Funds. Personnel expenses increased 321% from CHF 29 million in the first half of 1999 to CHF 122 million in the first half of 2000 due to the acquisition of GAM. General and administrative expenses increased 102.2% from 30 June 1999 to CHF 93 million at 30 June 2000 as a result of the acquisition of GAM and marketing and distribution initiatives in Investment Funds.

Depreciation and amortization expense increased CHF 52 million, or 1,733% from CHF 3 million in the first half of 1999 to CHF 55 million in the first half of 2000, reflecting goodwill amortization following the acquisition of GAM.

Year to 31 December 1999 Compared to Year to 31 December 1998. Operating income increased CHF 75 million, or 38.5%, from CHF 195 million in 1998 to CHF 270 million in 1999. This was principally due to higher Investment Funds assets and the transfer from Private Banking of some client responsibility and related income. The acquisition of GAM did not impact income or expenses in 1999.

Assets under management increased 28.1%, or CHF 50 billion, to CHF 225 billion at 31 December 1999. CHF 24 billion of this increase was due to the acquisition of GAM in December 1999. The remainder was mainly due to positive investment performance.

Personnel, general and administrative expenses increased CHF 27 million, or 21.7%, from CHF 124 million in 1998 to CHF 151 million in 1999. Headcount increased from 366 as of 31 December 1998 to 923 as of 31 December 1999, primarily as a result of the acquisition of GAM in December 1999. Excluding GAM, headcount increased by 69, as a result of efforts to build the Investment Funds business, including the launching of new funds and expansion of distribution efforts. Personnel expenses increased 16% from CHF 50 million in 1998 to CHF 58 million in 1999 in line with the increase in headcount. General and administrative expenses increased 25.7% to CHF 93 million in 1999 reflecting increased investment in international distribution and the costs of launching new funds, offset by synergies from the 1998 merger, including reduced fees for market data systems and the combination of fund valuation and management systems.

Depreciation and amortization expense increased CHF 1 million, or 16.7%, from CHF 6 million in 1998 to CHF 7 million in 1999, as a result of changes in the holding structure of some of the business unit's real estate funds.

UBS Warburg.

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

The following table sets forth the results of Corporate and Institutional Clients for the half years ended 30 June 2000 and 1999 and the years ended 31 December 1999 and 1998.

	For the Six Months Ended 30 June		For the Year Ended 31 December(1)	
	2000	1999(1)(2)	1999	1998
	(CHF in millions)			
Operating income:				
Equities			5,724	3,253
Fixed Income			2,464	(267)
Corporate Finance			2,054	1,665
Treasury Products			1,805	2,351
Non-Core Business			682	(96)
Total operating income before credit loss expense	9,909	6,966	12,729	6,906
Credit loss expense	113	171	330	500
Operating income	<u>9,796</u>	<u>6,795</u>	<u>12,399</u>	<u>6,406</u>
Operating expenses:				
Personnel, general and administrative	6,601	4,972	9,290	6,816
Depreciation and amortization	330	393	763	692
Operating expenses	<u>6,931</u>	<u>5,365</u>	<u>10,053</u>	<u>7,508</u>
Operating profit (loss) before tax	<u>2,865</u>	<u>1,430</u>	<u>2,346</u>	<u>(1,102)</u>

(1) Certain amounts have been restated to conform to the 2000 presentation.

(2) Income by business area is only reported at year end.

Half Year to 30 June 2000 Compared to Half Year to 30 June 1999. Operating income increased CHF 3,001 million, or 44.2% from CHF 6,795 million in the first half of 1999 to CHF 9,796 million in the first half of 2000. Corporate Finance revenues increased in the first half of 2000 with a strong performance in mergers and acquisitions, and both Equities and Fixed Income produced record revenues reflecting active markets and record levels of client commissions, offset by slightly weaker performances by Treasury Products.

Credit loss expense decreased CHF 58 million, or 33.9%, from CHF 171 million in the first half of 1999 to CHF 113 million in the first half of 2000. This reflected a decrease in expected credit losses due primarily to the continued wind-down of the non-core loan portfolio and the sale of the international Global Trade Finance business in mid-1999.

Personnel, general and administrative expenses increased CHF 1,629 million, or 32.8%, from CHF 4,972 million in the first half of 1999 to CHF 6,601 million in the first half of 2000. Despite a slight reduction in headcount of 418 from 13,148 at 30 June 1999 to 12,730 at 30 June 2000, personnel expenses increased CHF 1,464 million, or 37.6%, to CHF 5,362 million in the first half of 2000, due primarily to performance-related compensation tied directly to the strong results for the half. General and administrative expenses increased by CHF 165 million, or 15.4%, from the first half of 1999 to the first half of 2000, mainly driven by increased investments in e-commerce and technology.

Depreciation and amortization decreased CHF 63 million, or 16%, from CHF 393 million in the first half of 1999 to CHF 330 million in the first half of 2000, as the depreciation impact of 1998 merger-related IT and premises projects diminished.

Year to 31 December 1999 Compared to Year to 31 December 1998. In October and November 1998, UBS's Board of Directors mandated and undertook a review of UBS's risk profile and risk management as well as UBS's control processes and procedures. The review placed particular emphasis on the Fixed Income business area, which had experienced losses on credit exposures in certain emerging market assets. Each of the business areas selected for review was assessed as to whether it supported the UBS and UBS Warburg franchises and, if so, whether the expected return as compared to the estimated risk justified a continuation of the business. Corporate and Institutional Clients used the review to define its core and non-core business areas, and decided to wind down over time the identified non-core businesses.

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

- Lease Finance;
- Commodities Trading (energy, base metals, electricity);
- Non-structured Asset-Backed Finance;
- Distressed Debt Trading;
- Global Trade Finance, with the exception of the Swiss corporate business;
- Conduit Finance;
- Non-core loans — loans and commitments that are not part of UBS's tradeable asset portfolio, that are not issued in conjunction with UBS's Leveraged Finance business or that are credit exposures UBS wishes to reduce; and
- Project Finance.

The identified non-core businesses are being wound down over time and will be disposed of as appropriate. While UBS considers all of its non-core businesses to be held for sale (including those

listed above), none of these businesses constitutes a segment to be treated as a discontinued operation, as defined by U.S. GAAP. Businesses designated as non-core businesses remain consolidated for purposes of both IAS and U.S. GAAP unless and until such businesses are actually sold or otherwise disposed of. Most of UBS's international Global Trade Finance business was sold during the first quarter of 1999 and its Conduit Finance business was sold during the third quarter of 1999. UBS's non-core loan portfolio decreased approximately CHF 65 billion, or 61.3%, from approximately CHF 106 billion as of 31 December 1998 to CHF 41 billion as of 31 December 1999.

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

In 1999, Corporate and Institutional Clients' operating income before credit loss expense from core businesses amounted to CHF 12,047 million and its operating income before credit loss expense from non-core businesses was CHF 682 million.

Operating income from Equities increased CHF 2,471 million, or 76%, from CHF 3,253 million in 1998 to CHF 5,724 million in 1999. This increase was primarily due to continued strong growth throughout 1999 compared to weaker results and losses in 1998 that did not recur. Equities performed well during the six months ended 30 June 1998, but experienced a more difficult trading environment in the second half of 1998 as a result of higher volatility levels in equity markets. In 1999, Equities performed strongly in all major markets. Continuing strong secondary cash and derivatives business with institutional and corporate clients contributed significantly to the positive results.

Operating income from Fixed Income increased CHF 2,731 million from CHF (267) million in 1998 to CHF 2,464 million in 1999. The improvement in Fixed Income largely reflected particularly strong performance in swaps and options and investment grade corporate debt products during 1999. Strong client flows drove both investor and issuer activities, resulting in increased revenues. Weaker than expected results in Fixed Income in 1998 were due primarily to significant losses in the Group's emerging market portfolio, which were largely attributable to Corporate and Institutional Clients and a write-down of CHF 790 million in the division's LTCM trading position.

Operating income from Corporate Finance increased CHF 389 million, or 23.4%, from CHF 1,665 million in 1998 to CHF 2,054 million in 1999. Strong performance in mergers and acquisitions, resulting in higher advisory fees, and contributions from UBS's Equity and Debt Capital Markets Groups were the primary drivers of the increase.

Operating income from Treasury Products decreased CHF 546 million, or 23.2%, from CHF 2,351 million in 1998 to CHF 1,805 million in 1999. Foreign exchange trading, while continuing to be profitable, was adversely affected by diminished volumes in key markets in 1999. The reduced levels of activity resulted from the introduction of the euro and narrowing margins from increased competition in the global markets. Corporate and Institutional Clients' precious metals business was adversely impacted by the dramatic volatility in the gold market in the fourth quarter of 1999.

Operating income from the non-core business as identified above increased CHF 778 million from CHF (96) million in 1998 to CHF 682 million in 1999. In 1998, Equities recognized losses of CHF 762 million from the Global Equity Derivatives portfolio as compared to 1999, during which this portfolio generated CHF 74 million in positive revenues. The losses recognized in 1998 were partially offset by CHF 498 million in revenues generated by Global Trade Finance. In addition, during 1999

the Global Trade Finance business was sold for a CHF 200 gain after generating approximately CHF 160 million in revenues in 1999.

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

Personnel, general and administrative expenses increased CHF 2,474 million, or 36.3%, from CHF 6,816 million in 1998 to CHF 9,290 million in 1999. Despite a reduction in headcount of 1,100, or 8%, from 13,794 at 31 December 1998 to 12,694 at 31 December 1999, personnel expenses increased CHF 2,528 million, or 58.3%, to CHF 6,861 million in 1999, due primarily to performance-related compensation tied directly to the strong divisional results for the year. In addition, in 1998, CHF 1,007 million of accrued payments to personnel was charged against the restructuring reserve. At the end of 1997, UBS foresaw the probability of a shortfall in profit in its investment banking business as a result of the merger. In order to protect its investment banking franchise, UBS realized it would probably need to make payments to personnel in excess of amounts determined by normal compensation methodologies. An amount of approximately CHF 1 billion was recorded as part of the merger-related restructuring reserve for this purpose. By the third quarter of 1998, this shortfall had materialized, and the CHF 1,007 million of accrued payments to personnel were charged against the restructuring reserve as planned. The shortfall in profits noted above was aggravated by losses associated with LTCM and the Global Equity Derivatives portfolio. After adjusting 1998 for the amount charged to the restructuring reserve, personnel expenses in 1999 increased 28.5% against the comparative prior period.

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

Depreciation and amortization increased CHF 71 million, or 10.3%, from CHF 692 million in 1998 to CHF 763 million in 1999, primarily reflecting accelerated amortization of the goodwill on a Latin American subsidiary.

UBS Capital. The following table sets forth the results of UBS Capital for the half years ended 30 June 2000 and 1999 and the years ended 31 December 1999 and 1998.

	Six Months Ended 2000	For the Six Months Ended 30 June 1999(1)	For the Year Ended 31 December(1) 1999	For the Year Ended 31 December(1) 1998
	(CHF in millions)			
Operating income	151	120	315	585
Operating expenses:				
Personnel, general and administrative	76	60	151	156
Depreciation and amortization	4	3	7	1
Operating expenses	<u>80</u>	<u>63</u>	<u>158</u>	<u>157</u>
Operating profit before tax	<u>71</u>	<u>57</u>	<u>157</u>	<u>428</u>

(1) Certain amounts have been restated to conform to the 2000 presentation.

Half Year to 30 June 2000 Compared to Half Year to 30 June 1999. Operating income increased CHF 31 million, or 25.8% from CHF 120 million in the first half of 1999 to CHF 151 million in the

first half of 2000. This reflects an increase in realized gains resulting from an increased number of sales of investments in the first half of 2000 as compared to 1999, partially offset by write-downs of the value of some under-performing companies in the portfolio.

Personnel, general and administrative expenses increased by CHF 16 million, or 26.7%, from CHF 60 million in the first half of 1999 to CHF 76 million in the first half of 2000. This was mainly driven by bonus expenses. Bonuses are accrued when an investment is successfully exited, so personnel expenses increase when divestments occur.

UBS Capital made approximately CHF 0.8 billion of new investments and add-ons between 31 December 1999 and 30 June 2000, compared to CHF 0.6 billion in the equivalent period in 1999. UBS Capital is gradually increasing its annual investment rate, as demonstrated by the higher investment rate in the first half of 2000 as compared to the first half of 1999. UBS Capital has a target portfolio book value of approximately CHF 5 billion from its own investments and CHF 5 billion from third-party funds.

Year to 31 December 1999 Compared to Year to 31 December 1998. Operating income decreased CHF 270 million, or 46.2%, from CHF 585 million in 1998 to CHF 315 million in 1999. This reflects a decrease in realized gains resulting from a reduced number of sales of investments in 1999 as compared to 1998. In 1999, operating income included CHF 13 million of management fees paid by funds that UBS manages and sponsors.

Personnel, general and administrative expenses decreased slightly by CHF 5 million, or 3.2%, from CHF 156 million in 1998 to CHF 151 million in 1999. These expenses remained stable despite the business unit's expansion into new regions and sectors, the recruitment of new professionals, the high level of investment activity during 1999 and the associated investment costs. As part of the restructuring related to the 1998 merger, one team from UBS Capital moved to another business unit effective 1 January 1999. This resulted in a lower headcount during most of 1999 when compared to 1998, and therefore personnel costs decreased 13.2% from CHF 121 million in 1998 to CHF 105 million in 1999. General and administrative expenses increased CHF 11 million, or 31.4%, to CHF 46 million in 1999 mainly due to deal-related expenses.

UBS Capital made approximately CHF 1.4 billion of new investments and add-ons during 1999.

Private Clients. The following table sets forth the results of Private Clients for the half years ended 30 June 2000 and 1999 and the years ended 31 December 1999 and 1998.

	2000	For the Six Months Ended 30 June 1999(1)	For the Year Ended 31 December(1) 1999	1998
	(CHF in millions)			
Operating income	133	93	194	190
Operating expenses:				
Personnel, general and administrative	365	216	481	294
Depreciation and amortization	14	18	40	29
Operating expenses	<u>379</u>	<u>234</u>	<u>521</u>	<u>323</u>
Operating loss before tax	<u>(246)</u>	<u>(141)</u>	<u>(327)</u>	<u>(133)</u>
(at period end)				
Assets under management (CHF in billions)	37	29	36	27

(1) Certain amounts have been restated to conform to the 2000 presentation.

Half Year to 30 June 2000 compared to Half Year to 30 June 1999. Operating income increased CHF 40 million, or 43%, from CHF 93 million in the first half of 1999 to CHF 133 million in the first half of 2000. Revenues have increased as assets under management have grown and a wider range of products and services has been offered to clients. With the exception of its business activities in Germany and Australia, UBS Warburg's Private Clients business is in the relatively early stages of development and its client relationships have not yet delivered their full revenue potential. Private Clients opened new offices in Rome, Madrid, Barcelona and Marbella in January 1999 and in Stuttgart and Paris in June 1999.

Assets under management increased by CHF 8 billion, or 27.6%, from 30 June 1999 to 30 June 2000, driven primarily by market performance.

Operating expenses increased 62%, or CHF 145 million, from CHF 234 million in the first half of 1999 to CHF 379 million in the first half of 2000, mainly due to the expansion of Private Clients' offices during the year. This included a restructuring charge of CHF 93 million taken as a result of scaling back operations in certain markets, subsequent to integration of Private Clients into UBS Warburg in February 2000. CHF 60 million of the charge relates to personnel costs, the remainder to general and administrative expenses.

Personnel, general and administrative expenses increased CHF 149 million, or 69.0%, from CHF 216 million in the first half of 1999 to CHF 365 million in the first half of 2000. Personnel costs increased 86.6%, or CHF 116 million, to CHF 250 million in the first half of 2000, versus the first half of 1999, including the restructuring charge of CHF 60 million as explained above. Excluding this restructuring charge, personnel expenses increased 41.8% in line with increases in headcount, and bonus accruals increased in line with improved revenue performance. General and administrative expenses increased CHF 33 million, or 40%, from the first half of 1999 to the first half of 2000, due to the restructuring provision explained above. Excluding this provision, general and administrative expenses were unchanged, reflecting continued close management of non-personnel costs in the context of a growing business.

Year to 31 December 1999 Compared to Year to 31 December 1998. Results for the year ended 31 December 1998 are driven by a business consisting primarily of the private banking operations of

Schröder Münchmeyer Hengst, a German private bank acquired by the former Union Bank of Switzerland in August 1997, domestic private banking activities in Australia, and limited onshore private banking activities conducted in the United States and Italy, established by the former Union Bank of Switzerland.

Operating income increased CHF 4 million, or 2%, from CHF 190 million in 1998 to CHF 194 million in 1999.

Assets under management increased during 1999 by CHF 9 billion, or 33%.

Operating expenses increased 61%, or CHF 198 million, to CHF 521 million in 1999, as a result of expansion in front-line and support staff, office locations, and infrastructure related investments.

Personnel, general and administrative expenses increased CHF 187 million, or 64%, from CHF 294 million in 1998 to CHF 481 million in 1999. Personnel costs increased 57%, or CHF 107 million, to CHF 294 million in 1999 due to an increase in headcount of 664, or 92%, from 722 at 31 December 1998 to 1,386 at 31 December 1999. General and administrative expenses increased CHF 80 million, or 75%, from 1998 to CHF 187 million in 1999, due to increases in information technology, property and other infrastructure costs to support the new offices and increased headcount.

e-services. UBS Group established the e-services project in the third quarter of 1999.

The following table sets forth the results of e-services for the half year ended 30 June 2000 and the year ended 31 December 1999.

	For the Six Months Ended 30 June 2000 (CHF in millions)	For the Year Ended 31 December 1999(1)
Operating income	0	0
Operating expenses:		
Personnel, general and administrative	144	36
Depreciation and amortization	<u>14</u>	<u>3</u>
Operating expenses	<u>158</u>	<u>39</u>
Operating loss before tax	<u>(158)</u>	<u>(39)</u>

(1) Certain amounts have been restated to conform to the 2000 presentation.

e-services has yet to be launched to the public. Accordingly, there have been no revenues.

Operating expenses were CHF 158 million in the first half of 2000, mainly related to the hiring of front-line staff as well as infrastructure-related investments in core technologies. Personnel, general and administrative expenses were CHF 144 million in the first half of 2000 and CHF 36 million in 1999, of which CHF 84 million and CHF 18 million were personnel costs. These expenses are primarily related to

- the hiring of the management team across a broad range of functions,
- the establishment of the operations infrastructure, including new call centers in Maastricht and Edinburgh,
- the installation and testing of systems platforms, and
- the testing of the marketing concept.

Corporate Center. The following table sets forth the results of Corporate Center for the half years ended 30 June 2000 and 1999 and the years ended 31 December 1999 and 1998.

	2000	For the Six Months Ended 30 June 1999	1999	For the Year Ended 31 December(1) 1998
	(CHF in millions)			
Operating income:				
Operating income before credit loss expense	33	1,587	2,010	191
Credit loss expense	(621)	(96)	(448)	(745)
Operating income	<u>654</u>	<u>1,683</u>	<u>2,458</u>	<u>936</u>
Operating expenses:				
Personnel general and administrative expenses	668	182	931	1,868
Depreciation and amortization	<u>158</u>	<u>146</u>	<u>416</u>	<u>215</u>
Operating expenses	<u>826</u>	<u>328</u>	<u>1,347</u>	<u>2,083</u>
Operating profit (loss) before tax	<u>(172)</u>	<u>1,355</u>	<u>1,111</u>	<u>(1,147)</u>

(1) Certain amounts have been restated to conform to the 2000 presentation.

Half Year to 30 June 2000 Compared to Half Year to 30 June 1999. Operating income before credit loss expense decreased CHF 1,554 million from CHF 1,587 million in the first half of 1999 to CHF 33 million in the first half of 2000, primarily due to one-time gains on the divestitures of the stake in Swiss Life/Rentenanstalt of CHF 1,490 million and of Julius Baer registered shares of CHF 110 million included in the first half of 1999. Operating income before credit loss expense included CHF 216 million in the first half of 2000, due to the consolidation of Klinik Hirslanden AG. Other gains and losses attributable to Corporate Center arise from funding, capital and balance sheet management, the management of corporate real estate and the management of foreign currency earnings activities undertaken by Group Treasury.

Credit loss expense in Corporate Center reconciles the difference between management accounting and financial accounting, that is between the adjusted expected losses charged to the divisions and the actual credit loss expense recognized in the Group financial accounts. The Swiss economy has been strong in the first half of 2000 and has led to lower than expected credit losses, and a write back of credit loss provisions of CHF 208 million, resulting in a credit of CHF 621 million in this line.

Personnel, general and administrative expenses increased CHF 486 million, or 267%, from CHF 182 million in the first half of 1999 to CHF 668 million in the first half of 2000.

Personnel costs increased CHF 208 million, or 254%, in the first half of 2000 from CHF 82 million in the first half of 1999 to CHF 290 million in the first half of 2000. This increase is largely attributable to the first-time consolidation of Klinik Hirslanden AG beginning in the second half of 1999.

General and administrative expenses increased 278%, or CHF 278 million, to CHF 378 million in the first half of 2000 from CHF 100 million in the first half of 1999, primarily as a result of the following items, which were included in general and administrative expenses for the first half of 2000:

- an additional charge of CHF 200 million for the U.S. global settlement of Holocaust-related claims; and
- expenses of Klinik Hirslanden AG as a result of the consolidation of this entity in the first half of 2000, but not in the first half of 1999.

Depreciation and amortization increased CHF 12 million, or 8.2%, from CHF 146 million in the first half of 1999 to CHF 158 million in 1999, principally reflecting the inclusion of Klinik Hirslanden AG

in the first half of 2000. The remaining portion of depreciation and amortization includes depreciation of workstations and information technology equipment, goodwill and other intangible assets as well as depreciation of other fixed assets.

Year to 31 December 1999 Compared to Year to 31 December 1998. Operating income before credit loss expense increased CHF 1,819 million, or 952%, from CHF 191 million in 1998 to CHF 2,010 million in 1999, primarily due to the following:

- gains on the divestments of Swiss Life/Rentenanstalt of CHF 1,490 million and of UBS's interest in Julius Baer registered shares of CHF 110 million included in 1999;
- approximately CHF 380 million due to the first time consolidation of Klinik Hirslanden AG included in 1999; and
- negative impact on 1998 operating income due to the loss of CHF 370 million from LTCM.

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

Personnel, general and administrative expenses decreased CHF 937 million, or 50.2%, from CHF 1,868 million in 1998 to CHF 931 million in 1999.

Personnel costs decreased 56.6% to CHF 92 million in 1999 from CHF 212 million in 1998 primarily as a result of the recognition in 1999 of pre-paid employer pension contributions of CHF 456 million. This represents the difference between previously recorded and actuarially determined pension expenses and was recognized in 1999 after the resolution of certain legal and regulatory issues. Excluding the recognition of this benefit, personnel expenses increased from 1998 to 1999 despite a slight decrease in headcount from 921 in 1998 to 862 in 1999. This increase year-on-year is largely attributable to the first-time consolidation of Klinik Hirslanden AG in 1999.

General and administrative expenses decreased CHF 817 million, or 49.3%, to CHF 839 million in 1999 from CHF 1,656 million in 1998, primarily as a result of a charge for the U.S. global settlement of Holocaust-related claims of CHF 842 million in 1998. In addition, the following items were included in general and administrative expenses for 1999:

- an additional charge of CHF 154 million related to the settlement of Holocaust-related claims in the United States;
- an additional pre-tax restructuring charge of CHF 300 million in respect of the 1998 merger; and
- expenses of Klinik Hirslanden AG as a result of the first-time consolidation of this entity in 1999.

In addition, total operating expenses in Corporate Center were reduced from 1998 to 1999 mainly due to a further refinement of service level agreements with the business groups.

Depreciation and amortization increased CHF 201 million, or 93.5%, from CHF 215 million in 1998 to CHF 416 million in 1999, principally as a result of a reclassification of certain items which appeared in general and administrative expenses in 1998.

Divisional Results for Year Ended 31 December 1998 Compared to Year Ended 31 December 1997

Results for the year ended 31 December 1998 compared to year ended 31 December 1997 are shown in terms of the old divisional structure which existed at that time, and without taking account of the accounting changes implemented during 2000.

The principal differences from the current structure were that the UBS Asset Management Investment Funds business unit and the UBS Warburg Private Clients business unit were part of the Private Banking Division, and their results are included within that division. In addition, UBS Warburg's UBS Capital business unit was an autonomous division, and UBS Warburg itself consisted only of what is now the UBS Warburg Corporate and Institutional Clients business unit. The e-services business did not exist in 1998 or 1997.

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

	As of Year Ended 31 December	
	1998	1997(1)
(CHF in millions)		
Operating income:		
Individual clients	4,785	
Corporate clients	1,728	
Operations	448	
Other	<u>64</u>	
Total operating income	7,025	7,005
Credit loss expense	<u>1,170</u>	<u>1,092</u>
Operating income	<u>5,855</u>	<u>5,913</u>
Operating expenses:		
Personnel, general and administrative expenses	4,263	4,497
Depreciation and amortization	<u>684</u>	<u>660</u>
Operating expenses	<u>4,947</u>	<u>5,157</u>
Operating profit before tax	<u>908</u>	<u>756</u>
(at year end)		
Assets under management (CHF in billions)	434	398
Total loans	<u>164,840</u>	<u>N/A(2)</u>

(1) Prior to the 1998 merger, the businesses were reported under different management reporting structures. A breakdown of 1997 operating income in accordance with UBS's current management reporting structure is, therefore, not possible.

(2) Total loans are not available for dates prior to the 1998 merger.

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

Private and Corporate Clients' credit loss expenses increased CHF 78 million, or 7.1%, from CHF 1,092 million in 1997 to CHF 1,170 million in 1998, reflecting increased loss expectations.

Personnel, general and administrative expense decreased CHF 234 million, or 5.2%, from CHF 4,497 million in 1997 to CHF 4,263 million in 1998. This decrease primarily reflected reduced costs due to a reduction in headcount from 25,641 in 1997 to 24,043 in 1998 resulting from the sales of Boss Lab SA and Bank Prokredit AG and additional reductions from the closing of redundant branches.

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

	For the Year Ended 31 December	
	1998	1997
	(CHF in millions)	
Operating income:		
Operating income before credit loss expense	7,223	6,215
Credit loss expense	<u>26</u>	<u>59</u>
Operating income	<u>7,197</u>	<u>6,156</u>
Operating expenses:		
Personnel, general and administrative expenses	2,735	2,869
Depreciation and amortization	<u>126</u>	<u>122</u>
Operating expenses	<u>2,861</u>	<u>2,991</u>
Operating profit before tax (at period end)	<u>4,336</u>	<u>3,165</u>
Assets under Management (CHF in billions):		
Advisory	458	470
Discretionary	<u>149</u>	<u>140</u>
Total	<u>607</u>	<u>610</u>

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

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

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

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

	For the Year Ended 31 December	
	1998	1997
	(CHF in millions)	
Operating income	1,163	1,040
Operating expenses:		
Personnel, general and administrative expense	608	542
Depreciation and amortization	107	95
Operating expenses	<u>715</u>	<u>637</u>
Operating profit before tax	<u>448</u>	<u>403</u>
(at period end):		
Assets under management (CHF in billions):		
Institutional	360	373
Non-institutional	<u>171</u>	<u>131</u>
Total	<u>531</u>	<u>504</u>

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

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

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

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

	31 December	
	1998	1997(1)
	(CHF in millions)	
Operating income:		
Equities	3,334	
Fixed income	(267)	
Corporate Finance	1,665	

	31 December	
	1998	1997(1)
	(CHF in millions)	
Treasury Products	2,351	
Non-core Business	<u>(96)</u>	
Total operating income before credit loss expense	6,987	10,888
Credit loss expense	<u>500</u>	<u>300</u>
Operating income	<u>6,487</u>	<u>10,588</u>
Operating expenses:		
Personnel, general and administrative	6,816	8,641
Depreciation and amortization	<u>692</u>	<u>668</u>
Operating expenses	<u>7,508</u>	<u>9,309</u>
Operating profit (loss) before restructuring costs and tax	<u>(1,021)</u>	<u>1,279</u>

(1) Prior to the 1998 merger, these businesses were reported under different management reporting structures. A breakdown of 1997 operating income in accordance with UBS's current management reporting structure in effect for 1998 was, therefore, not possible.

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

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

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

Personnel, general and administrative expenses decreased CHF 1,825 million, or 21.1%, from CHF 8,641 million in 1997 to CHF 6,816 million in 1998. This primarily reflected a reduction in personnel related costs resulting from a reduction in headcount by 25.9% from 18,620 at 31 December 1997 to 13,794 at 31 December 1998 as a result of the merger. Merger integration for UBS Warburg in connection with the 1998 merger was substantially completed during 1998. As discussed above, CHF 1,007 million of accrued payments to personnel were charged against the restructuring reserve in 1998. Adjusting 1998 for this amount, personnel expenses decreased from 1997 by 9.5%.

Depreciation and amortization increased CHF 24 million, or 3.6%, from CHF 668 million in 1997 to CHF 692 million in 1998. This reflected increased goodwill amortization in 1998 due to the acquisition of Dillon Read & Co., Inc. in September 1997 and the accelerated amortization of

goodwill on Russian and Brazilian subsidiaries of CHF 35 million due to weak market conditions in these countries in 1998.

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

	31 December	
	1998	1997
	(CHF in millions)	
Operating income	<u>585</u>	<u>492</u>
Operating expenses:		
Personnel, general and administrative expense	156	110
Depreciation and amortization	<u>1</u>	<u>1</u>
Operating expenses	<u>157</u>	<u>111</u>
Operating profit before tax	<u>428</u>	<u>381</u>

(at period end)

Investments (at book value)	1,748	1,080
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Operating income increased CHF 93 million, or 18.9%, from CHF 492 million in 1997 to CHF 585 million in 1998, reflecting generally favorable conditions in Western markets allowing for the disposals of investments in Switzerland, the United States, and the Benelux and Nordic region. UBS Capital's portfolio in 1998 was, and it continued to be during 1999, primarily focused on the United States and Western Europe with minor exposure to Latin America and Asia. Therefore, the emerging markets crises which took place during 1998 had little impact on the division's performance.

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

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

Corporate Center. The following table sets forth the results of Corporate Center for the years ended 31 December 1998 and 1997.

	31 December	
	1998	1997
	(CHF in millions)	
Operating income:		
Operating income before credit loss expense	<u>296</u>	<u>518</u>
Credit loss expense	<u>(745)</u>	<u>(173)</u>
Operating income	<u>1,041</u>	<u>691</u>
Operating expenses:		
Personnel, general and administrative expenses	1,855	215
Depreciation and amortization	<u>215</u>	<u>216</u>
Operating expenses	<u>2,070</u>	<u>431</u>
Operating profit (loss) before restructuring costs and tax	<u>(1,029)</u>	<u>260</u>

Operating income before credit loss expense from Corporate Center activities decreased CHF 222 million, or 42.9%, from CHF 518 million in 1997 to CHF 296 million in 1998, reflecting a CHF 370

million charge resulting from the write-down in 1998 of UBS's investment in LTCM. In addition, revenues attributable to Corporate Center arise from the funding, capital and balance sheet management, and the management of foreign currency earnings activities undertaken by Group Treasury.

Personnel, general and administrative expenses increased CHF 1,640 million, or 763%, from CHF 215 million in 1997 to CHF 1,855 million in 1998, primarily resulting from a CHF 842 million provision taken in 1998, for the settlement in the United States of the Holocaust-related litigation, additional provisions for litigation and adjustments to the pricing of interdivisional allocations on the basis of service level agreements.

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

UBS Financial Targets

UBS focuses on four key financial targets. These targets are to achieve:

- A pre-goodwill return on equity, or "RoE," averaging between 15% and 20%, across periods of varying market conditions.
- Double-digit average annual growth in pre-goodwill earnings per share, across periods of varying market conditions.
- Focus and downward pressure on UBS's cost/income ratio.
- Strong growth in net new money in UBS's private client businesses.

Adjusted for the final provision of CHF 200 million relating to the U.S. global settlement, UBS's annualized pre-goodwill return on equity for the first six months of 2000 was 31.9%. Pre-goodwill earnings per share grew 92% over the first six months of 1999, adjusted for divestments and one-off provisions, reaching UBS's target of double-digit growth. UBS's cost/income ratio is well below that of the first half of 1999. After a positive start to the year, net new money in the private client businesses was slightly negative in the second quarter of 2000, against a more muted market background for asset growth than the first quarter.

UBS's performance against its performance targets for the six months ended 30 June 2000 and the year ended 31 December 1999 are as follows:

UBS Performance Against Targets

	For the Six Months Ended 30 June 2000	For the Year Ended 31 December 1999
RoE (% , annualized)		
As reported	29.5	22.4
Before goodwill amortization and adjusted for significant financial events ^{1,2}	31.9	18.2
Basic EPS (CHF) ³		
As reported	10.91	15.20
Before goodwill amortization and adjusted for significant financial events ^{1,2}	12.01	12.37
Cost/income ratio (%)		
As reported	70.4	69.9
Before goodwill amortization and adjusted for significant financial events ^{1,2}	67.8	73.3
Net New Money for Private Client Businesses ⁴	4	5

(1) The amortization of goodwill and other purchased intangible assets are excluded from the calculation.

(2) Significant financial events are excluded from the calculation. In 1999, these events included the disposal of the registered shares of Julius Baer, the sale of UBS's 25% stake in Swiss Life/Rentenanstalt, the sale of UBS's international Global Trade Finance business, and the pre-tax gains on Long Term Capital Management, L.P., the one-time credit recognized during the fourth quarter of 1999 in connection with excess pension fund employer prepayments, the additional provisions recognized in 1999 in connection with the U.S. global settlement and the utilization of the restructuring provision relating to the 1998 merger. In the first six months of 2000, these events included the further provision recognized in relation to the U.S. global settlement.

(3) The 1999 figures are restated for the two-for-one stock split relating to the UBS ordinary shares, which became effective on 8 May 2000.

(4) For this purpose, Private Client Businesses consist of the UBS Warburg Private Clients business unit and the UBS Switzerland Private Banking business unit. Excludes interest and dividend income.

There can be no assurance that UBS will be able to achieve its financial targets, and these targets are subject to change at the discretion of UBS's management. A variety of factors could prevent UBS from achieving these targets, including the factors referred to under "Cautionary Note Regarding Forward-Looking Information."

Liquidity and Capital Resources

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

Consolidated Cash Flows. In the half year to 30 June 2000, cash equivalents decreased CHF 13,788 million, principally as a result of operating activities. UBS's net profit of CHF 4,268 million was more than offset by a high net cash outflow for repurchase and reverse repurchase agreements, cash collateral on securities borrowed and lent and for investments in trading positions. Negative cash flow of CHF 2,293 million from investing activities was principally due to the purchase of financial investments. Net cash inflow from financing activities of CHF 14,507 million was principally generated

by the issuance of CHF 20,754 million in money market paper and CHF 7,452 million in long-term debt, offset by the repayment of CHF 10,794 million of long-term debt, dividend payments of CHF 2,164 million and treasury share transactions.

UBS generated significant positive cash flow during the year ended 31 December 1999 resulting in a net increase in cash equivalents of CHF 18,599 million. Operating activities provided a net cash flow of CHF 3,338 million during the year ended 31 December 1999. The strong positive results and reduction in UBS's customers' loan exposures at UBS Warburg during the year, offset in part by a net cash outflow from trading-related balances, generated the net positive cash flow from operating activities. Net cash from investing activities included cash outflows due to the purchase of property and equipment and investments in subsidiaries and associates, which were more than offset by positive cash flows generated from the sale of subsidiaries and associates, property and equipment and financial investments. The net cash inflow from financing activities was principally due to the issuance of CHF 13,128 million in money market paper and CHF 12,661 million in long-term debt which was partially offset by the payment of dividends, treasury share transactions, the repayment of CHF 7,801 million in long-term debt and minority interests.

During the year ended 31 December 1998, UBS's net cash outflows from operating and financing activities more than offset its net cash inflow from investing activities resulting in a decrease in UBS's cash equivalents of CHF 8,675 million. The main contributor to the net decrease in cash equivalents was the negative cash flow from financing activities of CHF 12,335 million. This negative cash flow was primarily due to the repayment of long-term debt, the reduction in money market paper outstanding, the payment of dividends and treasury share transactions, partially offset by the issuance of long-term debt. Positive net cash flow from investing activities resulted primarily from the sale and maturity of financial investments.

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

Capital Resources. Capital management is undertaken at UBS by Group Treasury as an integral asset and liability management function. UBS does not have any material commitments for capital expenditures as of 30 June 2000. UBS's overall capital needs are continually reviewed to ensure that its capital base can appropriately support the anticipated needs of the divisions as well as the regulatory capital requirements. See "—Asset and Liability Management."

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

As the following table shows, UBS's BIS Tier 1 Ratio increased from 9.3% at 31 December 1998 to 10.6% at 31 December 1999 primarily resulting from a significant increase in retained earnings coupled with a reduction in risk weighted assets. The decrease in risk weighted assets is principally a result of reduced positive replacement values, off balance sheet contingent liabilities and the reduction in the size of the international loan book.

UBS's BIS Tier 1 Ratio has continued to increase, from 10.6% at 31 December 1999 to 12.1% at 30 June 2000. The effect of UBS's share buy back program was more than offset by a significant increase in UBS's retained earnings as well as a further reduction in risk weighted assets.

	Pro Forma(1) 30 June 2000	30 June 2000	31 December 1999	31 December 1998
	(CHF in millions except ratios)			
BIS Tier 1 Capital	24,982	31,904	28,952	28,220
BIS Tier 1 and Tier 2 Capital	35,921	42,173	39,682	40,306
BIS Tier 1 Capital Ratio	8.51%	12.1%	10.6%	9.3%
BIS Tier 1 and Tier 2 Capital Ratio	12.24%	15.9%	14.5%	13.2%
Balance sheet risk-weighted assets	239,359	210,538	214,011	237,042
Off balance sheet and other positions	41,718	41,718	48,282	50,659
Market risk positions	<u>12,450</u>	<u>12,450</u>	<u>10,813</u>	<u>16,018</u>
Total BIS risk-weighted assets	<u><u>293,527</u></u>	<u><u>264,706</u></u>	<u><u>273,106</u></u>	<u><u>303,719</u></u>

(1) Gives effect to the combined pro forma financial position of UBS and PaineWebber.

The ratios measure capital adequacy by comparing UBS's eligible capital with the risk-weighted asset positions, which include balance sheet assets, the net positions in securities not held in the trading portfolio, off-balance sheet transactions converted into their credit equivalents and market risk positions at a weighted amount to reflect their relative risk. See Note 33c in UBS's consolidated financial statements for additional information on capital adequacy.

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

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

As a result of these differences, UBS's risk-adjusted assets are higher, and its ratios of total capital and Tier 1 capital are lower, when calculated pursuant to the Swiss Federal Banking Commission's regulations as compared to the BIS guidelines. However, since the BIS and Swiss Federal Banking Commission first implemented their risk-based capital guidelines and regulations in 1987, UBS and its predecessor banks have always had total capital and Tier 1 capital in excess of the minimum requirements of both the BIS and the Swiss Federal Banking Commission. For the years ended 31 December 1998 and 31 December 1999 and the six-months ended 30 June 2000, UBS has maintained significant levels of total capital and Tier 1 capital in excess of the minimum requirements of both the BIS and the Swiss Federal Banking Commission. Although no assurance can be given that UBS will continue to have total capital and Tier 1 capital in excess of the minimum requirements of both the BIS and the Swiss Federal Banking Commission, UBS does not expect that credit losses, risk-weighted asset growth and similar events will eliminate UBS's excess total capital or Tier 1 capital.

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

For this reason, UBS announced in December 1999 that it would replace the treasury stock buy-back program with a Swiss-specific program targeted at Swiss institutional shareholders, which is the only tax-efficient means that has been identified to achieve cancellation. This is called a "second trading line" program. At UBS's annual shareholders' meeting on 18 April 2000, shareholders approved the repurchase of shares up to a maximum amount of CHF 4 billion, through the second trading line program. The second trading line program was implemented in January 2000 and concluded on 28 June 2000. During this time UBS repurchased 18,421,783 shares, representing 4.3% of its share capital, at an average price of CHF 217.00. The final cancellation of the shares bought back through the second trading line requires shareholders' approval which the board of directors will seek at the annual general meeting scheduled for April 2001. In the opinion of UBS, its working capital is sufficient for its present requirements.

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

Total assets increased CHF 47,419 million, or 5.3%, at 30 June 2000 compared to total assets at 31 December 1999. This was principally a result of an increase in cash collateral on securities borrowed, reverse repurchase and trading portfolio assets, which was partially offset by significant decreases in cash and balances with central banks and money market paper as liquidity levels were adjusted following Y2K, a reduction in positive replacement values resulting from decreases in derivative products, and decreases in amounts due from banks.

Total liabilities increased CHF 46,151 million, or 5.3%, at 30 June 2000, compared to total liabilities at 31 December 1999, principally due to a significant increase in amounts due under repurchase agreements, cash collateral on securities lent and trading portfolio liabilities and an increase in money market paper issued, offset in part by a decrease in negative replacement values resulting from decreases in derivative products.

In the course of the first half of 2000, UBS's long-term debt portfolio decreased from CHF 56.3 billion at 31 December 1999 to CHF 53.0 billion at 30 June 2000. During this half year CHF 7,452 million of long-term securities were issued while CHF 10,794 million matured. UBS believes the maturity profile of the long-term debt portfolio is well balanced with slight bias towards shorter-term maturities to match the maturity profile of UBS's assets.

The following table sets forth information regarding total shareholders' equity at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 1998	
	(CHF in millions, except ratios)		
Total shareholders' equity	31,876	30,608	28,794
Total shareholders' equity to total assets	3.4%	3.4%	3.3%

Shareholders' equity increased CHF 1,268 million, or 4.1%, from 31 December 1999 to 30 June 2000. The increase in treasury shares was more than offset by the increase in net income, resulting in a steady increase in total shareholders' equity.

Credit Ratings. UBS uses the debt capital markets to fund a significant portion of its operations. The cost and availability of debt financing is influenced by UBS's credit ratings. Credit ratings are also important in certain markets and in entering into certain transactions, such as derivative transactions. A reduction in UBS's credit ratings could increase its borrowing costs and limit its access to the capital markets. UBS has been able to maintain strong credit ratings over the past few years, even during periods of a difficult trading environment.

The following table sets forth UBS's credit ratings on its long-term debt as of 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 1998	
Moody's, New York	Aa1	Aa1	Aa1
Fitch/IBCA, London	AAA	AAA	AAA
Standard & Poor's, New York	AA+	AA+	AA+
Thomson BankWatch, New York	AA	AA	AA

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

Recent Accounting Developments

For a discussion of recent accounting developments, including those that have not yet been adopted, see Note 1 to UBS's consolidated financial statements, which are included elsewhere in this prospectus.

Risk Management

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

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

- Primary risks: risks inherent in the businesses that UBS undertakes. The principal primary risks are credit risk and market risk.
- Group risks: risks that UBS faces at the Group level in managing its business and balance sheet. Principal group risks are tax risk, liquidity and funding risk and residual balance sheet related interest rate risk.
- Consequential risks: risks that UBS faces as a consequence of the operational activities it undertakes to provide services to customers. This is sometimes referred to as "operational risk." Principal consequential risks are transaction processing risk, legal risk, compliance risk, liability risk and security risk.

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

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

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

The responsibility for implementing the risk framework on a day to day basis is delegated by the Board of Directors to the Group Executive Board, which allocates risk limits to the divisions and monitors UBS's aggregate risk profile on an ongoing basis. The Group Executive Board, together with

the CRO and CCO, constitutes itself as UBS's Risk Council and usually meets twice a month to review outstanding risk issues, large exposures and significant transactions. In addition, the Group Executive Board has established a Group Risk Committee and a Group Governance Committee. These committees, which meet quarterly, consist of representatives of the risk control organization at the Corporate Center and from the business groups and consider issues relating to the implementation and development of the risk framework.

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

Analysis of Risks

Within UBS's risk framework, UBS has identified a number of risk factors as being of particular importance to its business. The following section summarizes the main trends and developments in the key risks that UBS faces.

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

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

Composition of Credit Risk. Credit risk is assumed, as an integral part of their business, by UBS Warburg and UBS Switzerland.

The composition of UBS's credit exposure differs appreciably between these two business groups. At 30 June 2000, a substantial majority of UBS Warburg's counterparties fell into the internal counterparty rating categories C1-C5 both with respect to banking products (83%) and the traded products portfolio (97%). UBS's internal rating classes C1-C5 compare to Moody's Investor Services ratings Aaa to Baa3 and are considered investment grade. UBS Warburg's counterparties are primarily sovereigns, insurance companies, financial institutions, multi-national corporate clients and investment

funds. UBS Warburg's exposure to lower rated customers is generally collateralized or otherwise structurally supported. UBS's aggregate, unsecured exposure to hedge funds measured in terms of net replacement value amounted to USD 5 million at 30 June 2000 compared to USD 55 million at 31 December 1999 and USD 81 million at 31 December 1998.

By contrast, the largest single component of the loan portfolio within UBS Switzerland consists of residential mortgage lending in Switzerland, over half of which is classified within UBS's lowest internal investment grade rating class of C5. The rating of the remainder of the Swiss portfolio, excluding mortgages, is fairly widely spread with the largest concentration being in rating classes C3-C5 comparable to Moody's rating of A2 to Baa3. Credits to Private Clients are predominately extended against the pledge of marketable securities and against single-family real estate property.

The continued improvement in the Swiss economy and property markets has aided in the overall improvement in the quality of this portfolio. UBS Switzerland's largest exposure at 30 June 2000 was to private households in Switzerland.

Loan Portfolio. The UBS Warburg loan portfolio remained unchanged during the first half of 2000. In 1999 this portfolio had been significantly reduced. This was a continuation of the strategy that began immediately after the 1998 merger with the objective of improving the risk/reward profile of the international lending business. This initiative included the shift in focus away from Emerging Markets and into high quality credits in the major OECD (Organization for Economic Cooperation and Development) countries and the sale of the non-Swiss portion of the Global Trade Finance business.

The overall impact of this shift has been a reduction in UBS Warburg's international banking portfolio (consisting of loans and unfunded commitments to corporates and institutional clients, excluding banks) from over CHF 250 billion at June 1998 to CHF 96 billion by 30 June 2000 (CHF 99 billion by 31 December 1999).

The following table shows UBS's loan portfolio and related allowances and provisions by business groups at 30 June 2000 and 31 December 1999.

All amounts in CHF millions	UBS Switzerland		UBS Asset Management		UBS Warburg		Corporate Center		Total	
	June 00	Dec 99	June 00	Dec 99	June 00	Dec 99	June 00	Dec 99	June 00	Dec 99
Loans to Banks (Gross)	11,673	8,780	352	181	14,442	21,481	93	343	26,560	30,785
Loans to Customers (Gross)	188,579	191,180	59	32	54,758	55,670	1,022	347	244,418	247,229
Loans, Gross	200,252	199,960	411	213	69,200	77,151	1,115	690	270,978	278,014
Counterparty Allowance	9,267	10,447	—	—	1,764	1,550	6	6	11,037	12,003
Country Allowance	—	—	—	—	1,166	1,246	—	—	1,166	1,246
Allowances for Loan Losses(1)	9,267	10,447	—	—	2,930	2,796	6	6	12,203	13,249
Loans, Net of Allowances	190,985	189,513	411	213	66,270	74,355	1,109	684	258,775	264,765
Counterparty Provision for Contingent Claims ..	12	—	—	—	24	19	—	—	36	19
Country Provision for Contingent Claims	—	—	—	—	151	130	—	—	151	130
Total Provisions(2)	12	—	—	—	175	149	—	—	187	149
Summary:										
Allowances & Provisions for Counterparty Risk	9,279	10,447	—	—	1,788	1,569	6	6	11,073	12,022
Allowances & Provisions for Country Risk	—	—	—	—	1,317	1,376	—	—	1,317	1,376
Total Allowances & Provisions	9,279	10,447	—	—	3,105	2,945	6	6	12,390	13,398

(1) Deducted from assets.

(2) Booked as liabilities.

See “—Selected Statistical Information—Loans” for a breakdown of the loan exposure by type of borrower.

Over-the-Counter Derivative Contracts. A significant proportion of UBS Warburg’s credit risk arises from its trading activities, including its trading of derivative products. The provision of risk management solutions that involve the use of derivative products is a core service that UBS offers to its clients. Derivative products by their nature are particularly sensitive to changes in market prices and consequently UBS pays close attention to the management and control of these risks. UBS’s credit standards for entering into unsecured derivative contracts are very high and particular emphasis is placed on the maturity profile. Ninety-seven percent of UBS Warburg’s credit risk on derivative products falls within UBS’s internal rating classes C1-C5. Transactions with counterparties of lower quality are generally conducted only on a secured basis. A new system has been introduced in February 2000 to monitor credit risk exposure to derivative contracts on the basis of a statistically calculated potential exposure, or Potential Credit Exposure or “PCE,” which will allow an even more precise valuation of the credit equivalents.

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

Country Risk Exposure. UBS’s definition of country risk comprises all cross-border exposures from loans, derivative products and trading products. This definition includes its own intracompany cross-border positions, which amounted to CHF 419 billion at 30 June 2000, about 49% of the total non-emerging market country risk exposure of CHF 851 billion. At 30 June 2000, 98.0% of UBS’s country risk exposure was included in its three highest internal ratings classes. This portion of UBS’s country risk exposure was with OECD countries where the risk of default is judged to be negligible. The following table summarizes UBS’s country transfer risk exposure grouped by rating classes as of 30 June 2000 compared to 31 December 1999 and 31 December 1999 compared to 31 December 1998.

Country Categories	Banking Products	Traded Products(1)	Tradable Assets(2)	Total
	(CHF in millions)			
<u>Industrialized Countries</u>				
Countries rated S0 - S2	496,212	183,839	170,784	850,835
Change from December 1999	-8,512	27,738	-48,711	-29,485
Change December 1999/December 1998	28,270	-23,380	26,207	31,097

Country Categories	Banking Products	Traded Products(1)	Tradable Assets(2)	Total
		(CHF in millions)		
Emerging Markets				
Countries rated S3 - S14	11,020	3,478	2,941	17,439
Change from December 1999	-5,610	-1,967	414	-7,163
Change December 1999/December 1998	-7,533	-1,794	1,500	-7,827
Total	507,232	187,317	173,725	868,274
Change from December 1999	-14,122	25,771	-48,297	-36,648
Change December 1999/December 1998	20,737	-25,174	27,707	23,270

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

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

The remaining 2.0%, or CHF 17.4 billion, of UBS's country risk exposure is to emerging markets that are classified in rating classes S3 to S14. This exposure has decreased as a result of the restructuring of the international loan portfolio and the exit from the non-Swiss Global Trade Finance business in 1999. Total exposure to the emerging markets group of countries fell by CHF 7.2 billion between 31 December 1999 and 30 June 2000 — a reduction of 29% — and by CHF 15.0 billion between 31 December 1998 and 30 June 2000 — a reduction of 46%. In view of the higher risk associated with emerging markets, UBS closely monitors this exposure on an ongoing basis within the country limits approved by the Board of Directors. All significant new transactions in emerging and distressed markets require approval from the respective country risk manager in addition to the standard counterparty credit approval. The country risk limit operates as the primary limit for such transactions and extension of credit may be denied on the basis of a country risk limit even though adequate counterparty limits may be available for the customer concerned.

The following table analyzes the emerging markets exposures by the major geographical areas as of 30 June 2000 compared to 31 December 1999 and 31 December 1999 compared to December 1998.

Region	Banking Products	Traded Products(1)	Tradable Assets(2)	Total
		(CHF in millions)		
Emerging Europe	711	210	351	1,272
Change from December 1999	-208	-38	-68	-314
Change from December 1999/December 1998	-402	-6	239	-169
Emerging Asia	5,152	1,657	1,257	8,066
Change from December 1999	149	-2,216	78	-1,989
Change from December 1999/December 1998	-4,230	-971	850	-4,351
Latin America	3,168	998	1,267	5,433
Change from December 1999	-5,001	333	454	-4,214
Change from December 1999/December 1998	-1,649	-603	371	-1,881
Africa/Middle East	1,989	613	66	2,668
Change from December 1999	-550	-46	-50	-646
Change from December 1999/December 1998	-1,252	-214	40	-1,426

Region	Banking Products	Traded Products(1) (CHF in millions)	Tradable Assets(2)	Total
Total	11,020	3,478	2,941	17,439
Change from December 1999	-5,610	-1,967	414	-7,163
Change from December 1999/December 1998	-7,533	-1,794	1,500	-7,827

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

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

Impaired loans were reduced from 31 December 1998 to 31 December 1999 by approximately CHF 1.4 billion and non-performing loans by about CHF 1 billion.

See “—Selected Statistical Information—Cross-Border Outstandings” for additional details on UBS’s country risk exposures.

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

The following table provides a breakdown by business groups of the impaired and non-performing loans as of 30 June 2000 and 31 December 1999. UBS Asset Management did not have any impaired loans or non-performing loans in any of the periods presented.

	UBS Switzerland		UBS Warburg		Corporate Center		UBS Group	
	30 June 2000	31 December 1999	30 June 2000	31 December 1999	30 June 2000	31 December 1999	30 June 2000	31 December 1999
	(CHF in millions)							
Impaired Loans:								
Total impaired loans	16,658	19,166	4,310	3,226	43	64	21,011	22,456
Allocated allowances	<u>9,267</u>	<u>10,447</u>	<u>2,279</u>	<u>2,018</u>	<u>6</u>	<u>6</u>	<u>11,552</u>	<u>12,471</u>
Impaired loans, net of allowances ...	<u>7,391</u>	<u>8,719</u>	<u>2,031</u>	<u>1,208</u>	<u>37</u>	<u>58</u>	<u>9,459</u>	<u>9,985</u>
Non-Performing Loans:								
Total non-performing loans	10,270	11,416	1,772	1,594	43	63	12,085	13,073
Allocated allowances	<u>6,486</u>	<u>7,315</u>	<u>1,383</u>	<u>1,341</u>	<u>5</u>	<u>5</u>	<u>7,874</u>	<u>8,661</u>
Non-performing loans, net of allowances	<u>3,784</u>	<u>4,101</u>	<u>389</u>	<u>253</u>	<u>38</u>	<u>58</u>	<u>4,211</u>	<u>4,412</u>

Non-performing loans have decreased to CHF 12,085 million at 30 June 2000 from CHF 13,073 million at 31 December 1999. This positive result was principally due to the unexpectedly strong performance of the economy in Switzerland, especially in the second quarter. Previous provisions were established against a background of several years of relatively low growth in the Swiss economy and relatively high credit losses. Since the beginning of this year, the Swiss economy started improving, and accelerated further during the last quarter, with the Swiss National Bank recently raising its 2000 growth forecast from 1.8% to 3.0%. In particular, this turnaround has affected real estate values and the real estate construction market, which has led to recoveries of provisions against loans in these portfolios. UBS expects to recognize additional recoveries if current economic trends continue. Non-performing loans decreased to CHF 13,073 million at 31 December 1999 from CHF 16,113 million at 31 December 1998. The reduction reflects an accelerated writedown in the Swiss domestic portfolio, a substantial reduction in UBS’s emerging markets exposure, a significant improvement in the macroeconomic situation in Switzerland and a faster than expected recovery in key Asian economies.

The following table provides a breakdown of impaired loans by type at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 (CHF in millions)	31 December 1998
Loans (Gross)	<u>270,978</u>	<u>278,014</u>	<u>330,964</u>
<i>Impaired Loans:</i>			
<i>Counterparties:</i>			
Non-performing loans	11,625	12,649	15,717
Other impaired loans	<u>8,677</u>	<u>9,096</u>	<u>9,884</u>
Sub-total	20,302	21,745	25,601
<i>Country:</i>			
Non-performing loans	460	424	397
Other impaired loans	<u>249</u>	<u>287</u>	<u>449</u>
Sub-total	<u>709</u>	<u>711</u>	<u>846</u>
Total impaired loans	<u>21,011</u>	<u>22,456</u>	<u>26,447</u>
<i>Ratios:</i>			
Impaired loans as a percentage of gross loans ...	7.8%	8.1%	8.0%
Non-performing loans as a percentage of gross loans	4.5%	4.7%	4.9%

See “—Selected Statistical Information—Impaired, Non-Performing and Restructured Loans” for further information on impaired and non-performing loans.

Allowances and Provisions. The adequacy of the allowances and provisions that UBS makes for impaired loans is assessed by the Credit Risk Management and Control function which is independent from the business units. Allowances and provisions are determined based upon an individual assessment of counterparties and countries and their creditworthiness as well as the amount of collateral available to UBS to offset against the probable loss. UBS believes that the probable losses in its portfolio are adequately covered by its allowances and provisions.

The following table provides a breakdown of allowances and provisions by type at 30 June 2000 and 31 December 1999 and 1998.

	30 June 2000	31 December 1999 (CHF in millions)	31 December 1998
<i>Counterparties:</i>			
Allowances for non-performing loans	7,435	8,243	9,609
Allowances for other impaired loans	<u>3,602</u>	<u>3,760</u>	<u>3,484</u>
Subtotal allowances and provisions for counterparty risk	11,037	12,003	13,093
<i>Country:</i>			
Allowances for non-performing loans	439	418	397
Allowances for other impaired loans	<u>76</u>	<u>50</u>	<u>92</u>
Subtotal allowances and provisions for country risk	515	468	489
Allowances and provisions for country risk	802	908	961
Allowances for contingent liabilities	<u>36</u>	<u>19</u>	<u>435</u>
Total allowances and provisions for credit losses	<u>12,390</u>	<u>13,398</u>	<u>14,978</u>

	30 June 2000	31 December 1999 (CHF in millions)	31 December 1998
Allowances and provisions for credit losses as a percentage of gross loans	4.6%	4.8%	4.5%
Allowances and provisions for credit losses as a percentage of impaired loans	58.9%	59.7%	56.6%

The following analysis provides an overview of UBS's credit loss experience for 30 June 2000 and 31 December 1999 and 1998:

	For the Six Months Ended 30 June 2000	For the Year Ended 30 December 1999 (CHF in millions)	For the Year Ended 30 December 1998
Balance at beginning of period	13,398	14,978	16,213
Net write-offs	(1,142)	(3,210)	(2,265)
Increase (Decrease) in credit loss allowances	(83)	956	951
Other Adjustments (primarily net foreign exchange and provisions for doubtful interest)	217	674	79
Balance at end of period	<u>12,390</u>	<u>13,398</u>	<u>14,978</u>

The allowances and provisions for credit losses decreased CHF 1,008 million, or 7.5%, from CHF 13,398 million at 31 December 1999 to CHF 12,390 million at 30 June 2000. During the first half of 2000, UBS realized a decrease in credit loss allowances of CHF 83 million compared to an increase of CHF 956 million for 1999. This positive result was essentially due to the continuous strong economy in Switzerland, where recoveries and write-backs of previously established provisions by far exceeded new provisioning requirements. The Swiss economy is expanding at the fastest rate in a decade and accelerated further during the quarter. The growth is broadly supported, especially in the domestic sector, and was markedly higher than what could have been expected in 1999.

The development of the total credit loss expense in 1998 and 1999 includes the effect of allocations from the special reserve pools that had been established in 1996, prior to the 1998 merger, by both Union Bank of Switzerland and Swiss Bank Corporation totaling some CHF 5.5 billion. These reserves were established in recognition of the fact that there might be a further deterioration in the quality of their loan portfolios as a result of adverse economic conditions particularly in Switzerland. These reserves totaled CHF 3.6 billion at the beginning of 1998. CHF 3.3 billion was applied against specific loan exposures during 1998 and the balance of CHF 300 million was used or reversed in 1999. Following these allocations, the credit loss expense incurred in 1998 amounted to CHF 951 million and in 1999 to CHF 956 million. UBS does not believe there is a current need for such allowances. See "—Selected Statistical Information—Summary of Movements in Allowances and Provisions for Credit Losses" for a further analysis of credit losses.

The allowance and provisions for credit losses include a component for country risk. UBS's approach to country risk provisioning follows the guidelines of the Swiss Bankers' Association, which allows banks to establish provisions based on their own portfolio scenarios. UBS establishes country-specific scenarios, which are reviewed and used on an ongoing basis to evaluate the current and future probability of default due to country risk incidents or country-specific systemic risks. The appropriate allowances and provisions are then determined by evaluating the type of credit exposure and the loss severities that have been attributed to each exposure type. Total provisions and allowances for emerging market-related exposures stood at CHF 1,317 million at 30 June 2000, CHF 1,376 million at 31 December 1999 and CHF 1,450 million at 31 December 1998, reflecting both the reduction in the

overall size of UBS's emerging market exposure and reallocation of provisions from Asia to Latin America during 1999.

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

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

UBS measures its exposure to market risk using the framework of expected loss, statistical loss and stress loss, as follows:

- In the context of market risk, expected losses are the value adjustments made to the portfolio to adjust for price uncertainties resulting from a lack of market liquidity or the absence of a reliable market price for a particular instrument.
- One-day loss is measured based on a value at risk, or “VaR,” methodology. VaR is a forward-looking estimate of potential loss. One-day VaR looks forward one trading day, while 10-day VaR looks forward ten days. UBS calculates VaR using a 99% confidence level. In other words, under normal market conditions, UBS would expect over the course of a day a loss of more than its 1-day VaR to occur 1 in 100 times.
- Stress scenario loss is defined as the risk of an extreme market move affecting particular predefined market variables.

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

UBS calculates the VaR associated with its exposure to market risk and consequently also its regulatory market risk capital requirement using the historical simulation technique, based on five years of data. VaR is calculated both on a 1-day 99% confidence interval and a 10-day 99% confidence interval, and the latter is used both for internal limits setting and for calculating regulatory market risk capital. The calculation incorporates both the risk from general market moves, such as moves in foreign exchange rates, equity indices and market interest rates, as well as the risk from price movements that are specific to an individual issuer. During 1999 and in the first six months of 2000, UBS Warburg operated within a CHF 450 million 10-day VaR limit.

The Swiss Federal Banking Commission, or “FBC,” approved the use of UBS's VaR model to compute regulatory capital requirements for market risks in 1999.

While a VaR measure is the principal measure of UBS's exposure to day-to-day movements in market prices, UBS's risk control process is specifically focused on tail risks (or the risk of a loss on UBS's portfolios significantly larger than the VaR number as a result of large movements in the risk factors, such as equity indices, foreign exchange rates and interest rates). UBS has a consistent set of predefined large price movements, or shocks, and risk limits, which apply to all the major risk factors to which UBS is exposed as a basis to prevent risk concentration. This is the primary protection against any extreme event. In addition to this first level protection, a stress loss limit has been introduced as a

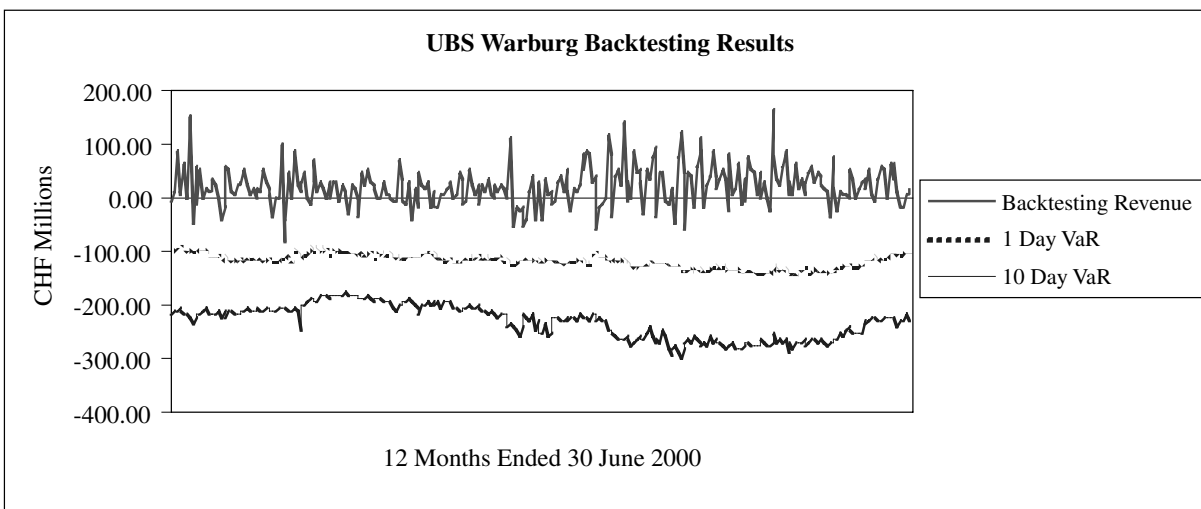
portfolio control for all the trading activities that are concentrated within UBS Warburg. The potential stress loss is calculated with respect to eight base scenarios which are supplemented by ad hoc analyses depending on external developments or specific portfolio concentrations such as Year 2000, which UBS added to its stress test analysis in the third quarter of 1999. This ensures that both historical crises as well as forward-looking extreme scenarios are incorporated in the analysis. Implementing this stress loss limit is a way of protecting UBS's earnings during periods of extreme market stress.

UBS Warburg Market Risk Developments. Market risk exposure as measured by the 10-day 99% confidence VaR was generally higher over 1999 and the first half of 2000. However, utilization remained well within the limits. The main market risk drivers continued to be Equity and Interest Rate risk.

Summary of 10-day 99% Confidence VaR Utilization for UBS Warburg

Risk Type	Six Months Ended 30 June 2000			Year Ended 31 December 1999			
	Min.	Max.	Average	Min.	Max.	Average	
Equities	169.5	245.9	210.2	189.6	121.8	207.6	162.5
Interest Rates	127.0	181.2	152.5	133.7	87.7	187.6	140.2
Foreign Exchange	8.7	97.5	41.0	9.5	9.5	144.7	57.5
Precious Metals	4.3	27.4	12.2	12.1	5.3	35.8	21.0
Diversification Effect	—	—	(159.8)	(113.6)	—	—	(168.2)
UBS Warburg	214.6	296.1	256.1	231.3	176.6	275.7	213.1

All VaR models, while forward-looking, are based on past events and are dependent upon the quality of available market data. In order to evaluate the VaR model, actual revenues are compared with the 1-day VaR on a daily basis, a process known as “backtesting,” with losses greater than the VaR estimate being known as “exceptions.” As the chart below shows, UBS Warburg’s backtesting results showed no exceptions over the last 12 months. In addition, there were no exceptions during 1999.



Market Risk in the Other Business Groups. Although UBS assumes almost all of its active market risk in UBS Warburg, the Group-wide VaR utilization includes all sources of market risk. This includes a small amount of risk that is assumed in order to facilitate customer business by UBS Private Banking in Switzerland as well as the risk associated with the structural foreign exchange and interest rate hedge positions managed by Corporate Center, which are discussed below under “—Asset and Liability Management.” However, market risk exposure at the UBS group level continues to be dominated by the UBS Warburg positions.

Summary of 10-day 99% Confidence VaR Utilization for UBS Group

	Six Months Ended	Year Ended	
	30 June 2000	31 December 1999	31 December 1998
	(CHF in millions)		
Division:			
UBS Warburg	231.3	223.6	259.9
UBS Switzerland	3.8	4.3	5.4
Corporate Center	62.8	59.8	79.2
Diversification Effect	(69.2)	(55.5)	(62.0)
UBS Group	<u>228.7</u>	<u>232.2</u>	<u>282.5</u>

Consequential Risks. In addition to credit and market risks that UBS assumes as an integral part of its business activities, UBS also assumes a number of consequential risks—often referred to as “operational risk”—which arise as a consequence of its business activities. These risks include:

- operations or transactions processing risk;
- legal risk;
- compliance risk;
- liability risk; and
- security risk.

UBS is addressing the measurement of its consequential risks through the introduction of a generic operational risk-modeling framework. This framework groups risks into predetermined risk categories and identifies the factors behind the risk exposure. Operational risk scenarios are developed to stress UBS’s processes and procedures underlying the exposure. This helps UBS to measure the risk of loss from the identified exposure in a similar manner to the statistical loss measurements of its credit and/or market risk exposures. This framework is relatively new and is periodically reviewed and enhanced so that risks are accurately assessed and are in accordance with UBS’s risk appetite and risk-bearing capacity.

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

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

Asset and Liability Management

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

UBS recognizes that the market and credit risk framework that is set out above cannot be fully applied to its asset and liability management activities. Consequently, specific processes and policies have been established for managing these risks. UBS's asset and liability management function is undertaken at the Corporate Center by the Group Treasury department, which reports directly to the CFO. Group Treasury is responsible for establishing and effectively managing the processes in relation to these risks in accordance with policies that have been approved by the Board of Directors.

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

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

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

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

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

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

transactions with CCT. As a result of this process, all interest rate risks arising from client business are transferred either directly or indirectly via the Bank Book to CCT.

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

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

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

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

The following table shows the interest rate sensitivity of the Bank Book as at 30 June 2000 measured in terms of the potential impact of a one basis point (0.01%) parallel rise in interest rates on the market value of each balance sheet item.

	within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
	(CHF thousand per basis point)					
CHF	6	(5)	55	212	(627)	(359)
USD	8	(34)	(29)	(119)	505	331
EUR	0	(3)	3	106	192	298
GBP	0	0	(47)	288	531	772
JPY	0	0	0	1	(6)	(5)
Others	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	14	(42)	(18)	488	595	1,037

	within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
	(CHF thousand per basis point)					
<i>Of which Replicated Equity:</i>						
CHF	16	23	237	6,990	1,710	8,976
<i>Bank Book without Replicated Equity:</i>						
Total	(2)	(65)	(255)	(6,502)	(1,115)	(7,939)

The most significant component of the Bank Book sensitivity stems from the investment of UBS's equity. At 30 June 2000, this was invested in a portfolio of fixed-rate CHF deposits with an average duration of 2.5 years and a sensitivity of CHF (9.0) million per basis point, in line with the strategic investment targets set by the Group Executive Board. In order to ensure that these Group Executive Board targets are met, UBS's equity is represented as a liability position by a replication portfolio reflecting this target benchmark. UBS's equity becomes then automatically invested according to the Group Executive Board's strategic targets so as to offset the interest rate risk associated with this equity replication portfolio. The interest rate sensitivity of these investments indicates the extent to which their marked-to-market value would be affected by an upward move in interest rates. This in turn is directly related to the investment duration chosen by the Group Executive Board. However, when measured against the equity replication portfolio itself, the residual interest rate risk is negligible. Moreover, any reduction in this measure of the interest rate sensitivity relating to the investment of UBS's equity would inevitably require investing at significantly shorter maturities, which would lead to a higher volatility of UBS's interest earnings.

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

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

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

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

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

The two methodologies provide different measures of the level of interest rate risk. The economic value sensitivity measure provides a longer term view, since this considers the present value of all future cash flows generated from the existing balance sheet positions. The net interest income at risk measure provides a shorter term view, as it considers the repricing effect of all maturing positions over the next twelve months. The table below shows the change in risk under both measures at 30 June 2000, 31 December 1999 and 1998.

	30 June 2000	31 December 1999	31 December 1998
	(CHF in millions)		
Net interest income at risk	(188)	(355)	(265)
Economic value sensitivity	(787)	(555)	(493)

Among various scenarios that have been analyzed the net interest income at risk figure shown is the worst case and relates to an interest rate shock (parallel shift) of –200 basis points. At 31 December 1998, the difference to the constant market rate scenario represents –4.07% of UBS’s 1998 total net interest income, –5.6% at 31 December 1999 and –3.0% at 30 June 2000. In this extreme scenario the largest part of the decrease would occur due to lower margins on deposit accounts and lower returns on the investment of UBS’s equity.

The economic value sensitivity shows the effect of a 100 basis point adverse interest rate shock, implying that the bank had an exposure of CHF (493) million to rising interest rates at 31 December 1998, CHF (555) million at 31 December 1999 and CHF (787) million at 30 June 2000.

Liquidity and Funding Management. UBS’s approach to liquidity management seeks to ensure that UBS will always have sufficient liquidity to meet its liabilities in a timely manner while preserving the option of exploiting potential strategic market opportunities. UBS’s centralized approach to liquidity management encompasses the entire network of branches and all subsidiaries and ensures that the liquidity position is more than adequate to cover short-term liabilities at all times. UBS’s liquidity management is based on an integrated framework that incorporates an assessment of all known cash flows within UBS as well as the availability of high grade collateral that could be used to secure additional funding if required. The liquidity position is prudently managed under different potential scenarios taking stress factors into due consideration.

UBS’s Board of Directors has approved a policy that establishes the core principles for liquidity management and has defined an appropriate contingency plan. A first set of principles relates to the establishment of liquidity risk limits, such as a net overnight funding limit. The risk limits are set by the Group Executive Board and monitored by the Group Treasury Committee, or “GTC,” which is chaired by the Group Treasurer and meets on a monthly basis in order to assess the bank’s liquidity exposure. A second set of principles concentrates on liquidity crisis management for which detailed contingency plans have been worked out. Regional committees constantly monitor the markets in which UBS operates for potential threats and regularly report their findings to the GTC. If a liquidity crisis occurs, regional crisis task forces will perform all necessary contingency actions under the command of senior management.

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

UBS’s funding strategy seeks to ensure that business activities are funded at the lowest possible costs. With a broad diversification (by market, product and currency) of funding sources UBS maintains a

well balanced portfolio of liabilities which generate a stable flow of financing and additionally provides protection in the event of market disruptions. In this context UBS's strong domestic retail business is a very valuable, cost efficient and reliable source of funding. Through the establishment of short-, medium- and long-term funding programs in Europe, in the US and in Asia, UBS can raise funds globally in a very efficient manner and minimize its dependence on any particular source of funding.

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

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

The following principles guide the approach to managing this risk:

- UBS's equity must be invested in Swiss francs (translation risk management); and
- Recognized foreign currency exposures must be hedged proactively for the whole financial year, which represents the cycle of financial accounting (transaction risk management).

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

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

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

The following table summarizes the VaR usage during the second half of 1998, 1999 and the first half of 2000.

VaR	Minimum	Maximum	Average (CHF in millions)	Last value of period
1 July — 31 December 1998	37.2	133.7	77.5	79.2
1999	1.4	77.8	37.1	59.7
1 January — 30 June 2000	11.7	113.4	52.2	12.2

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

Capital Management. Capital management is undertaken at UBS by Group Treasury as an integral asset and liability management function. UBS's overall capital needs are continually reviewed to ensure that its capital base can appropriately support the anticipated needs of the divisions as well as regulatory capital requirements. See “—Liquidity and Capital Resources—Capital Resources” for further details.

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

Divisional business plans, planned acquisitions, investments and divestments are evaluated and approved on the basis of their expected contribution to shareholder value. Actual performance is appraised using division specific hurdle rates and according to the contribution to value creation. The implicit costs of risk tolerance as well as the consumption of regulatory equity and risk control efforts are therefore considered in an appropriate way.

Selected Statistical Information

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

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

	1999		1998		1997	
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)
	(CHF in millions, except percentages)					
Assets						
Money market paper						
Domestic	2,798	27	1.0%	4,002	70	1.7%
Foreign	48,179	1,144	2.4%	20,679	763	3.7%
Due from banks						
Domestic	19,451	705	3.6%	22,703	916	4.0%
Foreign	28,999	1,269	4.4%	43,705	2,852	6.5%
Securities borrowed and reverse repurchase agreements						
Domestic	3,265	117	3.6%	7,751	89	1.2%
Foreign	223,962	11,305	5.0%	275,549	10,290	3.7%
Trading portfolio						
Domestic	36,269	72	0.2%	78,211	78	0.1%
Foreign	124,564	4,460	3.6%	119,629	3,802	3.2%
Loans						
Domestic	200,111	7,733	3.9%	207,937	8,839	4.3%
Foreign	58,634	3,326	5.7%	72,445	5,440	7.5%
Financial investments						
Domestic	2,066	74	3.6%	3,481	104	3.0%
Foreign	3,737	85	2.3%	7,105	268	3.8%
Net interest on swaps	—	2,132	—	—	1,701	—
Total interest-earning assets	752,035	32,449	4.3%	863,197	35,212	4.1%
Non-interest-earning assets						
Positive replacement values	146,036			164,708		
Fixed assets	8,824			11,316		
Other	34,957			33,897		
Total average assets	941,852			1,073,118		
Liabilities and Equity						
Money market paper issued						
Domestic	146	1	0.7%	255	2	0.8%
Foreign	57,956	2,394	4.1%	51,435	2,557	5.0%
Due to banks						
Domestic	37,581	1,303	3.5%	69,140	2,772	4.0%
Foreign	41,583	1,704	4.1%	51,209	3,205	6.3%

	1999			1998			1997		
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)
	(CHF in millions, except percentages)								
Securities loaned and repurchase agreements									
Domestic	12,830	106	0.8%	12,261	71	0.6%	—	—	—
Foreign	144,837	8,340	5.8%	186,819	7,472	4.0%	177,128	9,660	5.5%
Trading portfolio									
Domestic	—	—	—	—	—	—	—	—	—
Foreign	48,560	2,070	4.3%	65,677	1,741	2.7%	40,541	1,492	3.7%
Due to customers									
Domestic	155,887	1,920	1.2%	161,688	2,613	1.6%	169,514	3,030	1.8%
Foreign	122,411	5,593	4.6%	132,338	7,275	5.5%	121,305	6,505	5.4%
Long-term debt									
Domestic	16,241	979	6.0%	21,267	1,138	5.4%	29,010	1,481	5.1%
Foreign	<u>37,963</u>	<u>2,130</u>	5.6%	<u>31,024</u>	<u>1,348</u>	4.3%	<u>23,788</u>	<u>1,055</u>	4.4%
Total interest-bearing liabilities	675,995	26,540	3.9%	783,113	30,194	3.9%	744,243	31,059	4.2%
Non-interest-bearing liabilities									
Negative replacement values	171,800			187,934			136,151		
Other	<u>60,946</u>			<u>69,184</u>			<u>66,755</u>		
Total liabilities	908,741			1,040,231			947,149		
Shareholders' equity	<u>33,111</u>			<u>32,887</u>			<u>33,309</u>		
Total average liabilities and shareholders' equity	<u>941,852</u>			<u>1,073,118</u>			<u>980,458</u>		
Net interest income		5,909			5,018			6,254	
Net yield on interest-earning assets			0.8%			0.6%			0.8%

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

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

Interest income and expense on certain accounts are reported as trading income in UBS's 1997 consolidated financial statements, but are reported against those accounts in the table. These accounts include: money market paper, securities borrowed and lent, reverse repurchase and repurchase agreements, and trading assets and liabilities. Also, the interest expense in UBS's 1997 consolidated financial statements is reduced by an amount for funding costs for trading positions, which is not

reflected in the preceding table. The following table reconciles net interest on interest-earnings assets as shown in the table above to net interest income in UBS's 1997 consolidated financial statements.

	1997 (CHF in millions)
Net interest on interest-earning assets	6,254
Money market paper	—
Securities borrowed and reverse repurchase agreements	(11,328)
Trading portfolio assets	(4,198)
Securities loaned and repurchase agreements	9,660
Trading portfolio liabilities	1,492
Funding costs for trading positions	<u>5,056</u>
Net interest per financial statements	<u>6,936</u>

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

	1999 over 1998			1998 over 1997		
	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
			Increase (decrease) due to changes in			Increase (decrease) due to changes in
			(CHF in millions)			
Interest-earning assets						
Money market paper						
Domestic	(21)	(22)	(43)	(74)	(37)	(111)
Foreign	1,014	(633)	381	(278)	(92)	(370)
Due from banks						
Domestic	(131)	(80)	(211)	(5)	(4)	(9)
Foreign	(960)	(623)	(1,583)	739	(165)	574
Securities borrowed and reverse repurchase agreements						
Domestic	(52)	79	27	89	—	89
Foreign	(1,926)	2,941	1,015	813	(1,851)	(1,038)
Trading portfolio						
Domestic	(42)	36	(6)	407	(468)	(61)
Foreign	157	501	658	(890)	633	(257)
Loans						
Domestic	(333)	(773)	(1,106)	(403)	(1,404)	(1,807)
Foreign	(1,037)	(1,077)	(2,114)	1,002	(962)	40
Financial investments						
Domestic	(13)	(17)	(30)	(11)	(4)	(15)
Foreign	(126)	(57)	(183)	(95)	(16)	(111)
Interest income						
Domestic	(592)	(777)	(1,369)	3	(1,917)	(1,914)
Foreign	(2,878)	1,053	(1,825)	1,291	(2,453)	(1,162)
Total interest-earning assets	(3,470)	276	(3,194)	1,294	(4,370)	(3,076)
Net interest on swaps			431			976
Total interest income			(2,763)			(2,100)

	1999 over 1998			1998 over 1997		
	Average Volume	Average Rate	Net Change (CHF in millions)	Average Volume	Average Rate	Net Change
Interest-bearing liabilities						
Money market paper issued						
Domestic	(1)	(0)	(1)	(7)	(3)	(10)
Foreign	324	(487)	(163)	400	237	637
Due to banks						
Domestic	(1,265)	(204)	(1,469)	(164)	1,187	1,023
Foreign	(602)	(899)	(1,501)	(804)	(146)	(950)
Securities loaned and repurchase agreements						
Domestic	3	32	35	71	—	71
Foreign	(1,679)	2,547	868	529	(2,717)	(2,188)
Trading portfolio						
Domestic	—	—	—	—	—	—
Foreign	(454)	783	329	926	(677)	249
Due to customers						
Domestic	(94)	(599)	(693)	(140)	(277)	(417)
Foreign	(546)	(1,136)	(1,682)	592	178	770
Long-term debt						
Domestic	(269)	110	(159)	(395)	52	(343)
Foreign	302	480	782	321	(28)	293
Interest expense						
Domestic	(1,626)	(661)	(2,287)	(635)	959	324
Foreign	(2,655)	1,288	(1,367)	1,964	(3,153)	(1,189)
Total interest-bearing liabilities	<u>(4,281)</u>	<u>627</u>	<u>(3,654)</u>	<u>1,329</u>	<u>(2,194)</u>	<u>(865)</u>

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

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

(1) Includes mostly time deposits.

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

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

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

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

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

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

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

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

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

UBS

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

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

Loan Maturities. The following table discloses loans by maturity at 31 December 1999. The determination of maturities is based on contract terms. Information on interest rate sensitivities can be found in Note 33 of UBS's consolidated financial statements.

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

Impaired, Non-Performing and Restructured Loans. UBS classifies a loan as impaired when it is determined that there is a high probability that the bank will suffer a partial or full loss. A provision is then made with respect to the probable loss to be incurred for the loan in question. Within the category are non-performing loans, for which the contractual payments of principal and/or interest are in arrears for 90 days or more. After the 90-day period, UBS no longer recognizes interest income on the loan and takes a charge for the unpaid and accrued interest receivable. Unrecognized interest related to non-performing loans amounted to CHF 409 million, CHF 423 million and CHF 450 million for the years ended 31 December 1999, 1998 and 1997, respectively. The table below provides an analysis of the Group's non-performing and restructured loans at 31 December 1999, 1998, 1997, 1996 and 1995. For further discussion of impaired and non-performing loans, see “—Analysis of Risks—Credit Risk.”

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

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

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

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

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

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

For more information on cross-border outstandings, see “—Analysis of Risks—Credit Risk—Country Risk Exposure.”

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

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

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

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

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

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

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

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

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

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

(2) Includes real estate development, buying, selling and leasing of real estate, agency activities and real estate management.

(3) The 1996 UBS amount includes a special provision of CHF 3,000 million for credit risks and the release of a CHF 711 million provision for general banking risks from the prior year.

(4) Includes the following for 1999, 1998 and 1997:

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

Allocation of the Allowances and Provisions for Credit Losses. The following tables provide an analysis of the allocation of the allowances and provisions for credit losses by customer categories and geographic location at 31 December 1999, 1998, 1997, 1996 and 1995. For a description of the bank's procedures with respect to allowances and provisions for credit losses, see "—Analysis of Risks—Credit Risk."

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

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

(2) Includes real estate development, buying, selling and leasing of real estate, agency activities and real estate management.

(3) The 1999 and 1998 amounts include CHF 149 million and CHF 435 million of provisions and commitments for contingent liabilities, respectively.

(4) The 1997 amount includes a provision for commitments and contingent liabilities of CHF 472 million. In addition, the 1996 SBC amount includes CHF 603 million of provisions for commitments and contingent liabilities. The 1995 UBS and SBC amounts represent provisions for general banking risks and commitments and contingent liabilities, respectively.

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

	1999	1998	1997	1996		1995	
				UBS	SBC	UBS	SBC
Domestic:							
Banks	2.1%	1.4%	5.0%	8.2%	1.2%	1.1%	1.4%
Financial institutions	3.4%	3.1%	3.2%	7.9%	3.2%	5.3%	3.9%
Construction	2.4%	2.4%	2.7%	3.3%	2.2%	1.5%	2.7%
Services	5.3%	3.5%	3.7%	4.3%	3.1%	2.5%	3.7%
Retail and wholesale	3.9%	2.7%	3.0%	3.9%	3.2%	2.8%	3.6%
Hotels and restaurants	1.5%	1.2%	1.3%	2.6%	1.0%	1.8%	1.3%
Real estate and rentals	7.1%	6.4%	6.5%	0.0%	0.0%	0.0%	0.0%

UBS

	1999	1998	1997	1996		1995	
				UBS	SBC	UBS	SBC
Manufacturing	4.1%	4.1%	4.7%	5.3%	4.3%	4.1%	5.7%
Public authorities	1.9%	1.8%	1.8%	1.8%	2.4%	1.1%	2.6%
Private households	33.8%	29.5%	30.9%	30.1%	28.4%	20.1%	32.8%
Other	0.7%	0.5%	0.5%	0.6%	0.3%	0.7%	0.4%
Total domestic	66.2%	56.6%	63.3%	68.0%	49.3%	41.0%	58.1%
Foreign:							
Banks	9.0%	19.6%	14.0%	13.7%	34.0%	36.4%	24.7%
Other loans	24.8%	23.8%	22.7%	18.3%	16.7%	22.6%	17.2%
Total foreign	33.8%	43.4%	36.7%	32.0%	50.7%	59.0%	41.9%
Total gross loans	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Loss History Statistics. The following is a summary of UBS's loan loss history at 30 June 2000 and 31 December 1999, 1998, 1997, 1996 and 1995.

	30 June 2000	1999	1998	1997	1996		1995	
					UBS	SBC	UBS	SBC
					(CHF in millions except percentages)			
Gross loans	270,978	278,014	330,964	353,240	183,027	208,324	243,574	172,981
Impaired loans	21,011	22,456	26,447	N/A	N/A	N/A	N/A	N/A
Non-performing loans	11,552	13,073	16,114	16,664	7,585	11,033	8,211	12,285
Allowances and provisions for credit losses	12,390	13,398	14,978	16,213	8,906	9,229	6,413	6,700
Net writeoffs	1,142	3,210	2,265	3,678	1,208	1,621	1,697	2,064
Credit loss expense	(83)	956	951	1,432	1,272	1,018	1,084	874
RATIOS:								
Impaired loans/Gross loans	7.8%	8.1%	8.0%	N/A	N/A	N/A	N/A	N/A
Non-performing loans/ Gross loans	4.3%	4.7%	4.9%	4.7%	4.1%	5.3%	3.4%	7.1%
Allowance and provisions for credit losses as a percentage of:								
Gross loans	4.6%	4.8%	4.5%	4.6%	4.9%	4.4%	2.6%	3.9%
Impaired loans	58.9%	59.7%	56.6%	N/A	N/A	N/A	N/A	N/A
Non-performing loans	107.3%	102.5%	93.0%	97.3%	117.4%	83.6%	78.1%	54.5%
Net writeoffs as a percentage of:								
Gross loans	0.4%	1.2%	0.7%	1.0%	0.7%	0.8%	0.7%	1.2%
Allowance and provisions for credit losses	9.2%	24.0%	15.1%	22.7%	13.6%	17.6%	26.5%	30.8%
Allowance and provisions for credit losses as a multiple of net writeoffs	10.85%	4.17	6.61	4.41	7.37	5.69	3.78	3.25

N/A = Not Available

Quantitative and Qualitative Disclosure About Market Risk

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

UBS Americas

UBS Americas Inc. is the successor by merger to Paine Webber Group Inc. Paine Webber Group Inc. was the holding company for the PaineWebber group of companies. UBS Americas is a direct, wholly owned subsidiary of UBS AG. See “UBS AG — Description of Business — Merger with PaineWebber.”

Unaudited Pro Forma Condensed Consolidated Financial Information

The accompanying unaudited pro forma financial statements on pages 129 to 154 present the condensed consolidated balance sheet of UBS and PaineWebber as of 30 June 2000 and the related condensed consolidated income statements for the six-month period ended 30 June 2000 and the year ended 31 December 1999, as if the merger had occurred on 1 January 1999. The presentation is made both on the basis of IAS and U.S. GAAP. In order to present this information and show the reader the source of the information, several schedules are required.

The first set of schedules included present the unaudited pro forma financial statements on the basis of IAS, in Swiss francs (CHF). This is achieved by presenting in the first two columns the financial statements of PaineWebber in accordance with IAS in U.S. Dollars (USD), and then showing the translation into CHF. The third column presents the IAS financial statements of UBS in CHF. We then present accounting entries to reflect the results of the merger, each of which is explained in a footnote, and the final resulting column presents the unaudited pro forma condensed consolidated financial statements. Since IAS will be the primary accounting framework of the consolidated company, we present this information first.

PaineWebber presents its financial statements on the basis of U.S. GAAP rather than IAS. The second set of schedules shows the restatement of the U.S. GAAP financial statements of PaineWebber into IAS. The first column presents the U.S. GAAP financial statements of PaineWebber, after reflecting certain reclassification entries required to conform to the UBS presentation. These reclassification entries do not affect net income or shareholders' equity, and are therefore not presented separately in this prospectus. The next column presents the accounting entries required to restate the financial statements on the basis of IAS, and each entry is explained in a footnote. The final resulting column presents the PaineWebber financial statements in accordance with IAS, and is the same as the first column in the first set of schedules described in the preceding paragraph.

The third set of schedules presents the unaudited pro forma condensed consolidated financial statements in accordance with U.S. GAAP. In much the same way that UBS is required to present a reconciliation of its primary financial statements from IAS to U.S. GAAP, we have also presented this reconciliation. The first column presents the IAS unaudited pro forma condensed consolidated financial statements and is the same as the next to last column in the first set of schedules described two paragraphs above. The next two columns present the accounting entries required to restate the unaudited pro forma financial statements for UBS and PaineWebber, respectively, in accordance with U.S. GAAP. Each of the entries is described in a footnote. The final column presents the unaudited pro forma condensed consolidated financial statements in accordance with U.S. GAAP.

The unaudited pro forma financial statements were prepared during August 2000, shortly after the merger was announced, and they have not been updated since then. As of the date of this prospectus, the analyses necessary to complete the purchase accounting entries required to reflect the merger have not been finalized. However, several of the assumptions and data inputs used in preparing the pro forma financial statements have changed. The more significant changes include:

- Price of UBS Stock. UBS stock was assumed to be valued at \$148.75 (CHF 245.70) per share for purposes of computing the fair value of the stock consideration given in the merger. The actual closing price on 3 November 2000 (the date the merger was consummated) was \$143.30 (CHF 252.5) per share.
- Employee stock options. The pro forma financial statements assume that all outstanding PaineWebber employee stock options would have been exercised prior to consummation of the

Unaudited Pro Forma Condensed Consolidated Financial Information

merger. In fact, a significant number of options were exchanged for options on UBS stock rather than being exercised.

- UBS partial dividend. The partial dividend authorized by UBS shareholders in their Extraordinary General Meeting has not been reflected in the pro forma financial statements.
- Fair value of PaineWebber debt. At the time the merger was announced, PaineWebber debt instruments were being traded generally at a discount to face value. Since that time, the market for these instruments has changed reflecting the prospective guarantee announced by UBS and they are now valued at a premium to face value.
- Final identification of all acquisitions related liabilities has not been completed.
- Analyses necessary to conform PaineWebber accounting policies to those of UBS and to adjust other PaineWebber assets and liabilities to fair value in accordance with purchase accounting have not yet been completed.

All of these matters will result in changes to the estimates included in the accompanying pro forma financial information, which will, in the aggregate be significant. While we do not expect the changes to result in any material change to operating income as presented in the pro formas, these changes will increase the recorded balance of goodwill significantly, as well as the related annual amortization.

Unaudited Pro Forma Condensed Consolidated Financial Information

UBS and PaineWebber Unaudited Pro Forma Condensed Consolidated Balance Sheet and Income Statement As of and for the Six Months Ended 30 June 2000

The following unaudited pro forma condensed consolidated balance sheet and income statement as of and for the six months ended 30 June 2000 is derived from the unaudited consolidated financial statements of UBS as of and for the six month period then ended and PaineWebber's unaudited condensed consolidated financial statements as of and for the same period, as adjusted to IAS and translated into Swiss francs, after giving effect to the pro forma adjustments described in the notes to the UBS and PaineWebber unaudited pro forma condensed consolidated balance sheet and income statement below. These adjustments have been made as if the merger took place on 1 January 1999, the first day of the earliest period presented in the UBS and PaineWebber unaudited pro forma condensed consolidated financial information. This information has been prepared from, and should be read together with, the respective unaudited consolidated financial statements and related notes of UBS and the unaudited condensed consolidated financial statements of PaineWebber, which are included in this prospectus. These statements have been prepared in accordance with IAS.

Unaudited Pro Forma Condensed Consolidated Income Statement For the Six Months Ended 30 June 2000

(in millions)	PaineWebber		UBS	UBS and PaineWebber Combined		Pro Forma Adjustment(2)	Reference(2)	UBS and PaineWebber Consolidated Pro Forma	Convenience Translation UBS and PaineWebber Consolidated Pro Forma
	US\$	CHF(1)	CHF	CHF	CHF	CHF		CHF	US\$(3)
Operating income									
Interest income	2,056	3,410	24,079	27,489				27,489	16,820
Interest expense	1,729	2,868	19,753	22,621	299	e,g	22,920	14,024	
Net interest income	327	542	4,326	4,868	(299)		4,569	2,796	
Credit loss expense	—	—	(83)	(83)			(83)	(51)	
Net interest income after credit loss expense	327	542	4,409	4,951	(299)		4,652	2,847	
Net fee and commission income	2,025	3,359	7,835	11,194			11,194	6,850	
Net trading income	473	784	5,669	6,453			6,453	3,948	
Other income, including income from disposal of associates and subsidiaries	81	134	644	778			778	475	
Total operating income . .	2,906	4,819	18,557	23,376	(299)		23,077	14,120	
Operating expenses									
Personnel	1,781	2,955	8,876	11,831	166	h	11,997	7,340	
General and administrative	605	1,003	3,174	4,177			4,177	2,556	
Depreciation and amortization	63	104	947	1,051	372	d,k	1,423	871	
Total operating expense	2,449	4,062	12,997	17,059	538		17,597	10,767	
Operating profit before tax and minority interests	457	757	5,560	6,317	(837)		5,480	3,353	
Tax expense	166	274	1,257	1,531	(169)	l	1,362	834	
Net profit before minority interests	291	483	4,303	4,786	(668)		4,118	2,519	
Minority interests	0	0	35	35	111	f	146	89	
Net profit	291	483	4,268	4,751	(779)		3,972	2,430	
Basic earnings per share		3.32	10.91				9.15	5.60	
Diluted earnings per share		3.15	10.79				9.03	5.52	

The notes to the UBS and PaineWebber unaudited pro forma condensed consolidated balance sheet and income statement are an integral part of this pro forma information.

Unaudited Pro Forma Condensed Consolidated Financial Information

Unaudited Pro Forma Condensed Consolidated
Balance Sheet
As of 30 June 2000

(in millions)	PaineWebber US\$	PaineWebber CHF(1)	UBS CHF	UBS and PaineWebber Combined CHF	Pro Forma Adjustment(2) CHF	Reference(2)	UBS and PaineWebber Consolidated Pro Forma CHF	Convenience Translation UBS and PaineWebber Consolidated Pro Forma US\$(3)
Assets								
Cash and balances with central banks	—	—	3,457	3,457			3,457	2,115
Money market paper	4,284	7,002	61,504	68,506			68,506	41,918
Due from banks	1,682	2,749	25,761	28,510			28,510	17,445
Cash collateral on securities borrowed	10,517	17,188	146,199	163,387			163,387	99,974
Reverse repurchase agreements	17,622	28,800	164,866	193,666			193,666	118,501
Trading portfolio assets	15,939	26,048	215,649	241,697			241,697	147,891
Positive replacement values	190	310	57,758	58,068			58,068	35,531
Loans, net of allowance for credit losses	11,108	18,152	233,015	251,167			251,167	153,685
Financial investments	862	1,408	9,504	10,912	50	b	10,962	6,708
Accrued income and prepaid expenses	575	940	5,817	6,757	776	h	7,533	4,610
Investments in associates	—	—	818	818			818	501
Property and equipment	723	1,182	8,216	9,398			9,398	5,750
Intangible assets and goodwill	676	1,105	3,545	4,650	12,669	b,c,d,k	17,319	10,597
Other assets	1,408	2,301	10,198	12,499	1,601	b,l	14,100	8,628
Total assets	65,586	107,185	946,307	1,053,492	15,096		1,068,588	653,854
Liabilities								
Money market paper issued	1,157	1,890	85,409	87,299			87,299	53,417
Due to banks	1,496	2,445	75,172	77,617	7,724	a	85,341	52,219
Cash collateral on securities lent	7,249	11,847	15,334	27,181			27,181	16,632
Repurchase agreements	28,825	47,109	230,565	277,674			277,674	169,904
Trading portfolio liabilities	4,239	6,928	60,279	67,207			67,207	41,123
Negative replacement values	320	523	77,926	78,449			78,449	48,002
Due to customers	10,228	16,716	279,915	296,631			296,631	181,503
Accrued expenses and deferred income	2,197	3,591	14,492	18,083	802	e	18,885	11,555
Long-term debt	5,603	9,157	52,990	62,147	(307)	b,g	61,840	37,839
Other liabilities	1,121	1,829	21,950	23,779	303	b,f,l	24,082	14,736
Total liabilities	62,435	102,045	914,032	1,016,067	8,522		1,024,589	626,930
Minority interests	—	—	399	399	2,478	a	2,877	1,761
Total shareholders' equity	3,151	5,150	31,876	37,026	4,096	a,b,c,f,h,j	41,122	25,163
Total liabilities, minority interests and shareholders' equity	65,586	107,185	946,307	1,053,492	15,096		1,068,588	653,854

The notes to the UBS AG and PaineWebber unaudited pro forma condensed consolidated balance sheet and income statement are an integral part of this pro forma information.

Unaudited Pro Forma Condensed Consolidated Financial Information

**UBS and PaineWebber Unaudited Pro Forma Condensed Consolidated
Income Statement
For the Year Ended 31 December 1999**

The following unaudited pro forma condensed consolidated income statement for the year ended 31 December 1999 is derived from the audited consolidated financial statements of UBS for the year then ended and from the audited consolidated financial statements of PaineWebber for the year then ended as adjusted to IAS and translated into Swiss francs, after giving effect to the pro forma adjustments described in the notes to the UBS and PaineWebber unaudited pro forma condensed consolidated balance sheet and income statement. These adjustments have been determined as if the merger took place on 1 January 1999, the first day of the earliest financial period presented in the UBS and PaineWebber unaudited pro forma condensed consolidated financial information. This information has been prepared from, and should be read together with, the respective historical consolidated financial statements of UBS and PaineWebber, which are included in this prospectus. These statements have been prepared in accordance with IAS.

For the Year Ended 31 December 1999

(in millions)	PaineWebber		UBS AG	UBS and PaineWebber Combined	Pro Forma Adjustment(2)	Ref(2)	UBS and PaineWebber Consolidated Pro Forma	Convenience Translation UBS and PaineWebber Consolidated Pro Forma
	US\$	CHF(1)	CHF	CHF	CHF		CHF	US\$(3)
Operating income								
Interest income	3,123	4,694	35,604	40,298			40,298	24,658
Interest expense	<u>2,647</u>	<u>3,979</u>	<u>29,695</u>	<u>33,674</u>	545	e,g	<u>34,219</u>	<u>20,938</u>
Net interest income	476	715	5,909	6,624	(545)		6,079	3,720
Credit loss expense	—	—	956	956			956	585
Net interest income after credit loss expense	476	715	4,953	5,668	(545)		5,123	3,135
Net fee and commission income	3,343	5,024	12,607	17,631			17,631	10,788
Net trading income	1,090	1,638	7,719	9,357			9,357	5,726
Other income, including income from disposal of associates and subsidiaries	171	257	3,146	3,403			3,403	2,082
Total operating income	<u>5,080</u>	<u>7,634</u>	<u>28,425</u>	<u>36,059</u>	<u>(545)</u>		<u>35,514</u>	<u>21,731</u>
Operating expenses								
Personnel	3,069	4,613	12,577	17,190	331	h	17,521	10,721
General and administrative	1,016	1,526	6,098	7,624			7,624	4,665
Depreciation and amortization ..	98	147	1,857	2,004	746	d,k	2,750	1,683
Total operating expenses	<u>4,183</u>	<u>6,286</u>	<u>20,532</u>	<u>26,818</u>	<u>1,077</u>		<u>27,895</u>	<u>17,069</u>
Operating profit before tax and minority interests	<u>897</u>	<u>1,348</u>	<u>7,893</u>	<u>9,241</u>	<u>(1,622)</u>		<u>7,619</u>	<u>4,662</u>
Tax expense	366	550	1,686	2,236	(306)	l	1,930	1,181
Net profit before minority interests	<u>531</u>	<u>798</u>	<u>6,207</u>	<u>7,005</u>	<u>(1,316)</u>		<u>5,689</u>	<u>3,481</u>
Minority interests	—	—	54	54	223	f	277	169
Net profit	<u>531</u>	<u>798</u>	<u>6,153</u>	<u>6,951</u>	<u>(1,539)</u>		<u>5,412</u>	<u>3,312</u>
Basic earnings per share		<u>5.51</u>	<u>15.20</u>				<u>12.10</u>	<u>7.40</u>
Diluted earnings per share		<u>5.21</u>	<u>15.07</u>				<u>11.97</u>	<u>7.32</u>

The notes to the UBS and PaineWebber unaudited pro forma condensed consolidated balance sheet and income statement are an integral part of this information.

NOTES TO THE UBS AND PAINE WEBBER UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT

As of and for the Six Months Ended 30 June 2000 and for the Year Ended 31 December 1999

1. Translation of PaineWebber Financial Statements

PaineWebber presents its financial statements on a U.S. GAAP basis and in U.S. dollars. These financial statements have been restated into IAS. The restated income statement of PaineWebber has been translated into Swiss francs at the average rate of CHF 1.66 per U.S. \$1.00 for the six months ended 30 June 2000 and CHF 1.50 per U.S. \$1.00 for the year ended 31 December 1999.

The restated PaineWebber balance sheet has been translated into Swiss francs at the spot rate of CHF 1.63 per U.S. \$1.00 at 30 June 2000 and CHF 1.59 per U.S. \$1.00 at 31 December 1999.

These translations should not be taken as assurances that the CHF amounts currently represent U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate, at any time.

2. Pro Forma Acquisition Adjustments

The unaudited pro forma condensed consolidated financial information records the merger as being accounted for as an acquisition with the excess of the fair value of the consideration over the fair value of net assets acquired being allocated to goodwill. See the discussion below for information related to recording the issuance of UBS ordinary shares, trust preferred securities and debt to effect the purchase, the related retirement of shares of PaineWebber common stock, the adjustment of PaineWebber's assets and liabilities to fair value, and the recording of the resulting goodwill.

Issuance of UBS Securities and the Retirement of PaineWebber Securities

The unaudited pro forma condensed consolidated financial information assumes a total purchase price of \$12,696 million (CHF 20,970 million). Pursuant to the terms of the merger agreement, UBS will issue approximately 42.7 million UBS ordinary shares, equivalent to \$6,348 million (CHF 10,485 million), and pay \$6,348 million (CHF 10,485 million) in cash in exchange for 172.8 million shares of PaineWebber common stock at an exchange ratio of 0.4954. The total purchase price assumed is based on the closing price of UBS ordinary shares on the New York Stock Exchange on 11 July 2000, which was \$148.75 (CHF 245.70). Additional costs relevant to the merger include estimated professional fees of \$90 million (CHF 149 million) (primarily legal, investment bankers' and accountants' fees) to be accounted for as acquisition costs.

For purposes of determining the number of PaineWebber shares to be canceled, it is assumed that, in addition to the 146.8 million shares outstanding as of 11 July 2000, PaineWebber employee stock options and convertible debt representing approximately 33.6 million shares will be exercised or converted at an aggregate strike price of \$908 million (CHF 1,500 million), at a range of \$6.69 to \$48.56, or CHF 11.05 to CHF 80.21, per share, and reduced by approximately 7.6 million shares of PaineWebber common stock that may be repurchased from employees at \$73.50 (CHF 121.42) per share for a total price of \$562 million (CHF 928 million) to satisfy their individual tax withholding requirements.

a. This entry records the cash consideration of \$6,348 million (CHF 10,485 million) to be paid in the merger, on the basis of the assumptions noted in this footnote. We have assumed, for purposes of these pro forma financial statements, that UBS will issue, directly or indirectly through subsidiaries, \$1,500 million (CHF 2,478 million) in trust preferred securities during the third and fourth quarters of 2000. Although it has not yet been determined how the proceeds of these trust preferred securities will be applied by UBS, we have assumed, solely for the purposes of these pro forma financial statements, that the cash consideration in the merger will be financed from the proceeds of those trust preferred securities and through the issuance of short-term debt instruments. UBS will also enter into certain interest rate swap transactions in order to produce the effect of issuing medium- to long-term debt.

Unaudited Pro Forma Condensed Consolidated Financial Information

NOTES TO THE UBS AND PAINE WEBBER UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT — (Continued)

The pro forma net cash requirement relating to the merger, including additional cost considerations and sources of funding, are shown below.

	US\$ (in millions)	CHF (in millions)
Cash consideration	6,348	10,485
Professional fees	<u>90</u>	<u>149</u>
Purchase price net cash requirement	6,438	10,634
Additional funding:		
1. Purchase of PaineWebber shares for tax withholding (see b) ..	562	928
2. Employee retention program (see h)	19	31
3. Proceeds from PaineWebber employee stock options (see i) ...	(908)	(1,500)
4. Swiss assessment for issuance of UBS ordinary shares (see j) ..	<u>66</u>	<u>109</u>
Total cash required to fund the merger	<u>6,177</u>	<u>10,202</u>
Sources of funding:		
Short-term debt	4,677	7,724
Issuance of trust preferred securities	<u>1,500</u>	<u>2,478</u>
	<u>6,177</u>	<u>10,202</u>

Fair Value and Book Value Adjustments

b. This entry records the adjustments to state the net assets of PaineWebber at their fair market values and additional book value adjustments as of 30 June 2000. A preliminary allocation of the purchase price has been performed for purposes of the unaudited pro forma condensed consolidated financial information based on initial appraisal estimates and other valuation studies which are in process and on certain assumptions that UBS believes are reasonable. The final allocation is subject to completion of these studies, which is expected to be within the next twelve months. However, UBS does not expect the differences between the preliminary and final allocations to have a material impact on shareholders' equity or net profit for the periods. A summary, in accordance with IAS, is shown on the following page.

Certain financial and non-financial assets, long-term debt and corresponding hedging derivatives, and pension obligations have been adjusted to reflect their estimated fair values. All remaining assets and liabilities are reported in the historical accounts at approximately their respective fair values. The fair value adjustments have been shown pre-tax, with an aggregate tax effect, based on a 35% effective tax rate, disclosed.

PaineWebber vested and non-vested options and convertible debt outstanding as of 11 July 2000 are assumed to be fully exercised or converted prior to the merger. The resulting proceeds, related tax benefit and redemption of shares of PaineWebber common stock in satisfaction of employees' tax withholding requirements have been reflected in the adjustments.

NOTES TO THE UBS AND PAINE WEBBER UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT — (Continued)

	US\$ (in millions)	CHF (in millions)
Book value of PaineWebber net assets in accordance with IAS	3,151	5,205
Proceeds upon exercise of existing PaineWebber stock options	908	1,500
Tax benefit upon exercise/conversion of existing PaineWebber stock options/convertible debt and net tax benefit upon vesting of (restricted) shares	714	1,179
Redemption of shares in satisfaction of employees' individual tax withholding requirements	(562)	(928)
Fair value adjustments:		
1. Elimination of existing goodwill	(660)	(1,090)
2. Revaluation of financial assets	30	50
3. Revaluation of non-financial assets	39	64
4. Recognition of fair value of lease obligations	145	240
5. Revaluation of long-term debt and associated hedging derivatives	85	141
6. Revaluation of pension obligations	(21)	(35)
Tax effect of fair value adjustments	<u>134</u>	<u>221</u>
Fair value of net assets acquired	<u>3,962</u>	<u>6,545</u>

Determination of Goodwill

c. This entry records payment of the total purchase consideration, the elimination of PaineWebber's equity accounts, and the recognition of the resulting goodwill.

	US\$ (in millions)	CHF (in millions)
Share consideration		
Share capital	635	1,049
Share premium	<u>5,713</u>	<u>9,436</u>
Total share consideration	6,348	10,485
Cash consideration	6,348	10,485
Acquisition costs	<u>90</u>	<u>149</u>
Total purchase consideration	12,786	21,119
Less: Fair value of net assets acquired (see above)	<u>3,962</u>	<u>6,545</u>
Goodwill	<u>8,824</u>	<u>14,574</u>

The purchase consideration and pro forma adjustments shown above are based in part on the assumption that all of the 33.6 million PaineWebber employee stock options and convertible debt are exercised/converted and the resulting shares (net of shares repurchased by PaineWebber) are tendered as part of the share exchange. UBS stock options will be issued to replace PaineWebber options and convertible debt that are not exercised/converted. If none of the PaineWebber stock options/convertible debt were exercised/converted, 16.7 million UBS options would be issued, with a fair value of \$1,845

Unaudited Pro Forma Condensed Consolidated Financial Information

NOTES TO THE UBS AND PAINE WEBBER UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT — (Continued)

million. (CHF 3,048 million). This would change the pro forma information presented in this prospectus as follows:

	US\$ (in millions except for earnings per share)	CHF (in millions except for earnings per share)	% Change
Decrease in purchase price	(184)	(305)	(1.5%)
Decrease in cash consideration	(1,014)	(1,675)	(16.0%)
Decrease in net assets acquired	(1,096)	(1,810)	(27.7%)
Increase in goodwill	911	1,505	10.3%
Change in pro forma net profit and EPS:			
Six months ended 30 June 2000			
Net profit	(9.56)	(15.67)	(0.4%)
Basic EPS	0.07	0.11	1.2%
Diluted EPS	(0.08)	(0.14)	(1.5%)
Year ended 31 December 1999			
Net profit	(19.12)	(35.48)	(0.7%)
Basic EPS	0.08	0.11	0.9%
Diluted EPS	(0.21)	(0.33)	(2.8%)

d. This entry records the amortization of goodwill of \$221 million (CHF 364 million) in the six months ended 30 June 2000, and \$441 million (CHF 729 million) in the year ended 31 December 1999.

Other Merger-Related Adjustments

e. This entry records interest expense accrued on \$4,677 million (CHF 7,724 million) of merger-related short-term debt. The interest expense assumes a weighted average rate of 6.85% on the short-term debt and a 0.50% rate on swaps used to hedge the short-term debt, for a total interest rate of 7.35%. The resulting adjustment to interest expense is \$172 million (CHF 285 million) for the six months ended 30 June 2000, and \$344 million (CHF 517 million) for the year ended 31 December 1999. The effect of a 1/8% increase in interest rates would be to increase interest expense by \$3 million (CHF 5 million) for the six months ended 30 June 2000 and by \$6 million (CHF 9 million) for the year ended 31 December 1999.

f. This entry records the distributions accrued on \$1,500 million (CHF 2,478 million) of trust preferred securities issued, assuming a distribution rate of 9%. The distributions accrued are \$68 million (CHF 111 million) for the six months ended 30 June 2000, and \$135 million (CHF 223 million) for the year ended 31 December 1999. The effect of a 1/8% increase in rates would be to increase distributions by \$1 million (CHF 2 million) for the six months ended 30 June 2000 and by \$2 million (CHF 3 million) for the year ended 31 December 1999.

g. This entry records amortization of net discount resulting from fair market valuation of PaineWebber long-term debt and associated hedging swaps. The amortization period is a straight line period of 5 years (the average maturity of the long-term debt). The amounts amortized are \$9 million (CHF 14 million) for the six months ended 30 June 2000 and \$17 million (CHF 28 million) for the year ended 31 December 1999.

NOTES TO THE UBS AND PAINE WEBBER UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT — (Continued)

- h. This entry records the establishment of an employee retention bonus program. For purposes of this pro forma presentation, it is assumed that approximately 5 million restricted UBS ordinary shares, 2 million UBS stock options and \$37.5 million (CHF 62 million) cash, with an aggregate value of \$875 million (CHF 1,446 million), subject to vesting restrictions of 2 to 4 years, will be awarded to certain employees of PaineWebber. It is further assumed that the options will be issued with strike prices equivalent to the current market value of UBS ordinary shares. No compensation expense is recorded for the options. The assumed issuance of restricted UBS ordinary shares results in incremental compensation expense of \$94 million (CHF 156 million) for the six months ended 30 June 2000 and \$188 million (CHF 310 million) for the year ended 31 December 1999. The related deferred compensation expense at the end of such periods is \$470 million (CHF 776 million) and \$564 million (CHF 931 million), respectively. The cash component of the award results in compensation expense of \$6 million (CHF 10 million) for the six months ended 30 June 2000 and \$13 million (CHF 21 million) for the year ended 31 December 1999. For purposes of computing the cash requirements in a. above, initial funding of the cash awards includes the total amount expensed through the periods ending 30 June 2000, \$19 million (CHF 31 million).
- i. This entry records PaineWebber's recognition of \$908 million (CHF 1,500 million) in proceeds from the exercise of existing PaineWebber employee stock options as a reduction in short term borrowings used to fund the merger.
- j. This entry records the payment of \$66 million (CHF 109 million) in Swiss assessments required upon the issuance of new UBS ordinary shares in the merger. For purposes of this entry, we have assumed the entire stock component of the purchase consideration will be newly issued shares. The actual amount of newly issued shares may differ if UBS issues shares from treasury stock or enters into stock borrow transactions as a funding source.
- k. This entry records the amortization of the fair market valuation of lease obligations. The amortization period is a straight line period of 14 years (the average economic life of existing lease obligations, to be fair valued). The amortization expense is \$5 million (CHF 8 million) for the six months ended 30 June 2000 and \$10 million (CHF 17 million) for 31 December 1999.
- l. This entry records the tax effects of the relevant pro forma adjustments arising from the acquisition at the assumed effective rate of 35%, for both balance sheet and income statement purposes, resulting in a net tax benefit of \$102 million (CHF 169 million) for the six months ended 30 June 2000 and \$203 million (CHF 306 million) for the year ended 31 December 1999.

3. Convenience Translation

30 June 2000 and 31 December 1999 CHF amounts have been translated into U.S. dollars at the exchange rate of one US\$=CHF 1.63, the exchange rate on 30 June 2000.

4. PaineWebber Earnings per Share

The EPS amounts presented for PaineWebber reflect pro forma IAS adjustments to income and effects of currency translation and will thus differ from those presented in PaineWebber's historical audited and unaudited consolidated financial statements.

NOTES TO THE UBS AND PAINE WEBBER UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT — (Continued)

5. Proposed Dividend

At the extraordinary general meeting of UBS AG, held on 7 September 2000, the UBS shareholders approved the UBS Board of Directors proposal that a partial dividend be paid to UBS shareholders on record as of 2 October 2000. The payment, which was made on 5 October 2000, relates to the first nine months of the year 2000. The payment of \$2.75 (CHF 4.50) per share amounted to approximately \$1.1 billion (CHF 1.8 billion). This dividend has not been reflected in the assumptions made for purposes of presenting pro forma financial information.

Unaudited Pro Forma Condensed Consolidated Financial Information

**PaineWebber Unaudited Pro Forma
Condensed Consolidated Statement of Financial Condition and Income Statement
Conversion from U.S. GAAP to IAS
As of and for the Six Months Ended 30 June 2000**

The following unaudited condensed consolidated statement of financial condition and income statement as of and for the six months ended 30 June 2000 is derived from the historical unaudited condensed consolidated statement of financial condition and income statement of PaineWebber as of and for the six months then ended, after giving effect to the unaudited IAS adjustments described in the notes to the PaineWebber unaudited pro forma condensed consolidated statement of financial condition and income statement: conversion from U.S. GAAP to IAS. This information has been prepared from, and should be read together with, the unaudited condensed consolidated financial statements and related notes of PaineWebber for the six months ended 30 June 2000, which are included in this prospectus.

**Income Statement
For the Six Months Ended 30 June 2000**

(in US\$ millions)	U.S. GAAP(1)	IAS Adjustment(2)	Reference(2)	Paine Webber IAS
Operating income				
Interest income	2,056			2,056
Interest expense	<u>1,713</u>	<u>16</u>	i	<u>1,729</u>
Net interest income	343	(16)		327
Credit loss expense	<u>—</u>	<u>—</u>		<u>—</u>
Net interest income after credit loss expense	343	(16)		327
Net fee and commission income	2,093	(68)	j,k	2,025
Net trading income	491	(18)	f,j	473
Other income, including income from disposal of associates and subsidiaries ..	<u>81</u>	<u>—</u>		<u>81</u>
Total operating income	<u>3,008</u>	<u>(102)</u>		<u>2,906</u>
Operating expenses				
Personnel	1,789	(8)	f	1,781
General and administrative	653	(48)	j	605
Depreciation and amortization	<u>64</u>	<u>(1)</u>	a,d	<u>63</u>
Total operating expenses	<u>2,506</u>	<u>(57)</u>		<u>2,449</u>
Operating profit before tax and minority interests				
	<u>502</u>	<u>(45)</u>		<u>457</u>
Tax expense	<u>182</u>	<u>(16)</u>	g	<u>166</u>
Net profit before minority interests	<u>320</u>	<u>(29)</u>		<u>291</u>
Minority interests	<u>16</u>	<u>(16)</u>	i	<u>0</u>
Net profit	<u>304</u>	<u>(13)</u>		<u>291</u>
Basic earnings per share	<u>2.09</u>			<u>2.00</u>
Diluted earnings per share	<u>1.98</u>			<u>1.90</u>

The notes to the PaineWebber unaudited pro forma condensed consolidated statement of financial condition and income statement: conversion from U.S. GAAP to IAS are an integral part of this pro forma information.

Unaudited Pro Forma Condensed Consolidated Financial Information

Statement of Financial Condition
As of 30 June 2000

(in USD millions)	US GAAP(1)	IAS adj(2)	Ref(2)	IAS
Assets				
Cash and balances with central banks	—			—
Money market paper	4,302	(18)	f	4,284
Due from banks	1,682			1,682
Securities received as collateral	907	(907)	c	—
Cash collateral on securities borrowed	10,517			10,517
Reverse repurchase agreements	15,313	2,309	c	17,622
Trading portfolio assets	18,194	(2,255)	c,e,f	15,939
Positive replacement values	190			190
Loans, net of allowance for credit losses	11,108			11,108
Financial investments	892	(30)	k	862
Accrued income and prepaid expenses	575			575
Investments in associates	—			—
Property and equipment	748	(25)	a	723
Intangible assets and goodwill	693	(17)	d	676
Other assets	1,282	126	b	1,408
Total assets	<u>66,403</u>	<u>(817)</u>		<u>65,586</u>
Liabilities				
Money market paper issued	1,157			1,157
Due to banks	2,393	(897)	e	1,496
Cash collateral on securities lent	7,249			7,249
Obligation to return securities received as collateral	907	(907)	c	—
Repurchase agreements	27,918	907	c	28,825
Trading portfolio liabilities	4,081	158	c,e	4,239
Negative replacement values	194	126	b	320
Due to customers	10,228			10,228
Accrued expenses and deferred income	2,197			2,197
Long-term debt	5,209	394	i	5,603
Other liabilities	1,285	(164)	f,g	1,121
Total liabilities	<u>62,818</u>	<u>(383)</u>		<u>62,435</u>
Minority interests	<u>394</u>	<u>(394)</u>	i	<u>—</u>
Total shareholders' equity	<u>3,191</u>	<u>(40)</u>	a,d,g	<u>3,151</u>
Total liabilities, minority interests and shareholders' equity	<u>66,403</u>	<u>(817)</u>		<u>65,586</u>

The notes to the PaineWebber unaudited pro forma condensed consolidated statement of financial condition and income statement: conversion from US GAAP to IAS are an integral part of this pro forma information.

Unaudited Pro Forma Condensed Consolidated Financial Information

**PaineWebber Unaudited Pro Forma
Condensed Consolidated Income Statement
Conversion from U.S. GAAP to IAS
For the Year Ended 31 December 1999**

The following unaudited condensed consolidated income statement for the year ended 31 December 1999 is derived from the historical audited consolidated income statement of PaineWebber for the year then ended, after giving effect to the unaudited IAS adjustments described in the notes to the PaineWebber unaudited pro forma condensed consolidated statement of financial condition and income statement: conversion from U.S. GAAP to IAS. This information has been prepared from, and should be read together with, the historical consolidated financial statements and related notes of PaineWebber, which are included in this prospectus.

For the Year Ended 31 December 1999

(in US\$ millions)	U.S. GAAP(1)	IAS Adjustment(2)	Reference(2)	IAS
Operating income				
Interest income	3,123			3,123
Interest expense	2,532	115	h,i	2,647
Net interest income	591	(115)		476
Credit loss expense	—			—
Net interest income after credit loss expense	591	(115)		476
Net fee and commission income	3,418	(75)	j	3,343
Net trading income	1,110	(20)	j	1,090
Other income, including income from disposal of associates and subsidiaries	171			171
Total operating income	5,290	(210)		5,080
Operating expenses				
Personnel	3,050	19	a	3,069
General and administrative	1,105	(89)	a,j	1,016
Depreciation and amortization	100	(2)	a,d	98
Total operating expense	4,255	(72)		4,183
Operating profit before tax and minority interests ..	1,035	(138)		897
Tax expense	374	(8)	g	366
Net profit before minority interests	661	(130)		531
Minority interests	32	(32)	i	—
Net profit	629	(98)		531
Dividends and amortization of discount on preferred stock	83	(83)	h	—
Net profit applicable to common shares	546	(15)		531
Basic earnings per share	3.77			3.67
Diluted earnings per share	3.56			3.47

The notes to the PaineWebber unaudited pro forma condensed consolidated statement of financial condition and income statement: conversion from U.S. GAAP to IAS are an integral part of this pro forma information.

**NOTES TO THE PAINWEBBER UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AND INCOME STATEMENT
CONVERSION FROM U.S. GAAP TO IAS
AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2000 AND
THE YEAR ENDED 31 DECEMBER 1999**

1. Reclassification to Conform PaineWebber Accounts with UBS Financial Presentation

Reclassifications have been made to the PaineWebber historical financial information presented under U.S. GAAP to conform to UBS's presentation under IAS.

The principal income statement reclassifications relate to:

1. Commission revenue, Asset management revenue, and Investment banking revenue have been reclassified as Net fees and commission revenue.
2. Compensation and benefits expense has been reclassified into the Personnel balance.
3. Office and equipment expense, Communication expense, Business development expense, Professional services expense, and Other expenses have been reclassified into the General and administrative and Depreciation and Amortization expense balances.

The principal balance sheet reclassifications relate to:

1. Cash and cash equivalents, Cash and securities segregated and on deposit for federal and other regulations, and Receivables from broker dealers have been reclassified into Due from banks.
2. Treasury bills and money market securities have been removed from Financial instruments owned and moved into Money market paper.
3. Positive and negative replacement values on derivatives have been separated from Financial instruments owned or sold, not yet purchased into their own respective line items.
4. Receivables from clients have been reclassified to Loans, net of allowances for credit losses.
5. Dividend and interest receivables and Fees and other receivables have been reclassified into Accrued income and prepaid expenses.
6. Intangible assets and goodwill have been removed from Other assets and classified into their own line item.
7. Commercial and money market paper issued by PaineWebber have been removed from Short term borrowings and reclassified into Money market paper issued.
8. Short term borrowings, excluding those removed above, and Payables to broker dealers have been reclassified into Due to banks.
9. Dividends and interest payable and Other liabilities and accrued expenses have been reclassified into Accrued expenses and deferred income.
10. Accrued compensation and benefits have been reclassified into Other liabilities.
11. Company-obligated mandatorily redeemable preferred securities of subsidiary trusts have been reclassified into Minority interest.
12. Certain investments were reclassified from Financial instruments owned to Financial investments and all other Financial instruments owned have been reclassified into Trading portfolio assets.

None of these reclassification adjustments has an impact on net income or shareholders' equity.

2. U.S. GAAP To IAS Adjustments

Accounting principles generally accepted in the United States differ in material respects from IAS. The differences that are material to restating the historical consolidated financial statements of PaineWebber to comply with IAS are described below.

NOTES TO THE PAINWEBBER UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AND INCOME STATEMENT
CONVERSION FROM U.S. GAAP TO IAS — (Continued)

Adjustments to Historical PaineWebber Financial Statements:

a. Software Capitalization

IAS 38, Intangible Assets, became effective 1 January 2000 for entities reporting on a calendar year basis. This standard requires that companies capitalize certain costs of acquiring or developing internal use software. Prior to 1 January 2000, these costs were expensed. Under U.S. GAAP, PaineWebber early adopted SOP 98-1, Accounting for the Costs of Software Developed or Obtained for Internal Use, and capitalized such costs beginning in 1998. For purposes of the pro forma presentation, the effects of capitalization and related amortization prior to 1 January 2000 are reversed and costs are instead recognized in expense as incurred.

b. Hedge Accounting

Under U.S. GAAP, unrealized gains and losses on derivatives that qualify for hedge accounting are not recognized on the face of the balance sheet. Under IAS, the replacement value of all derivative products, including those qualifying for hedge accounting, are recognized on the balance sheet. For purposes of the pro forma presentation, positive and negative replacement values for derivatives qualifying for hedge accounting are reported on the face of the balance sheet, with the net offset reported as other assets.

c. Repurchase, Resale, and Securities Lending Transactions

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

Under U.S. GAAP, securities lending and repurchase transactions are also generally accounted for as collateralized borrowing and lending transactions. However, certain such transactions may be deemed sale or purchase transactions under specific circumstances. The accounting for these transactions has been reversed for purposes of the IAS presentation.

Additionally, under U.S. GAAP, when specific control conditions exist, securities collateral controlled is recognized as an asset with an offsetting obligation to return such securities collateral. For purposes of IAS presentation, such controlled securities collateral has been de-recognized.

d. Goodwill and Other Intangibles

Under IAS, amortization of goodwill and other intangible assets is generally limited to a maximum period of 20 years. U.S. GAAP provides that goodwill and other intangibles are amortizable over their useful economic life with a maximum life of 40 years. For purposes of the pro forma presentation, the amortization of PaineWebber's goodwill and other intangibles has been restated using the maximum 20 year period.

e. Trade Date v. Settlement Date

UBS follows a settlement date convention of accounting for inventory in its trading portfolio, for balance sheet presentation purposes. PaineWebber recognizes purchases and sales of inventory on its statement of financial condition at their trade date. For purpose of pro forma presentation PaineWebber's statement of financial condition has been restated as if it followed settlement date accounting.

NOTES TO THE PAINEWEBBER UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AND INCOME STATEMENT
CONVERSION FROM U.S. GAAP TO IAS — (Continued)

f. Rabbi Trusts

PaineWebber has transferred certain compensation related assets into “Rabbi Trusts.” U.S. GAAP requires consolidation of the assets and liabilities of a Rabbi Trust. IAS, however, applies a “controls” approach in determining whether an entity should be consolidated. Under this approach the Rabbi Trusts would not be consolidated and therefore, for purposes of the pro forma presentation, such assets and liabilities and their related income and expenses have been eliminated from the statement of financial condition and income statement, respectively.

g. Income Taxes

Records the tax effect pertaining to the conversion from U.S. GAAP to IAS on the unaudited consolidated statement of financial condition and income statement of PaineWebber, assuming an effective tax rate of 37.3%.

h. Redemption of Mandatorily Redeemable Preferred Stock

Under IAS, preferred shares having mandatory redemption features are classified as debt with associated dividends recognized in interest expense. For purposes of pro forma presentation, the Unamortized discount charged to equity on redemption of preferred stock and Dividends and amortization of discount on preferred stock, thereon, have been reclassified as Interest expense.

i. Trust Preferred Securities

Under IAS, trust preferred securities having mandatory redemption features are classified as debt with associated dividends recognized in interest expense. For purposes of pro forma presentation, Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts have been reclassified to Long-term debt and the related Minority interest expense to Interest expense.

j. Brokerage, Clearing and Exchange Fees

PaineWebber records certain brokerage, clearing and exchange fees as separate components of expense for purposes of its U.S. GAAP financial statements. Under IAS, expenses directly connected with a transaction are charged against revenues.

k. Private Equity Investments

PaineWebber carries private equity related investments for which there exist trading restrictions at estimated net realizable value under U.S. GAAP. UBS records similar investments at cost, less writedowns for impairments in value. This adjustment reverses unrealized gains on such investments reflected in the PaineWebber accounts.

Unaudited Pro Forma Condensed Consolidated Financial Information

UBS and PaineWebber Unaudited Pro Forma Condensed
Consolidated Balance Sheet and Income Statement
Conversion from IAS to U.S. GAAP
As of and for the Six Months Ended 30 June 2000

The following unaudited pro forma condensed consolidated balance sheet and income statement as of and for the six months ended 30 June 2000 is derived from the unaudited consolidated balance sheet and income statements of UBS and PaineWebber as of and for the six months then ended, after giving effect to the U.S. GAAP adjustments described in the notes to the UBS and PaineWebber unaudited pro forma condensed consolidated balance sheet and income statement: conversion from IAS to U.S. GAAP and the pro forma adjustments presented in the notes to the UBS and PaineWebber unaudited pro forma condensed consolidated balance sheet and income statement. This information has been prepared from, and should be read together with, the respective unaudited consolidated financial statements and related notes of UBS and of PaineWebber, which are included in this prospectus.

Income Statement
For the Six Months Ended 30 June 2000

(in millions)	UBS and PaineWebber Consolidated Pro Forma IAS CHF	UBS U.S. GAAP Adjustment(1) CHF	Reference(1)	PaineWebber U.S. GAAP Adjustment CHF	UBS and PaineWebber Consolidated U.S. GAAP CHF	Convenience Translation UBS and PaineWebber Consolidated Pro forma U.S. GAAP US\$(2)
Operating income						
Interest income	27,489	(91)	a		27,398	16,764
Interest expense	22,920	(15)	a	(27)	22,878	13,999
Net interest income	4,569	(76)		27	4,520	2,765
Credit loss expense	(83)				(83)	(51)
Net interest income after credit loss expense	4,652	(76)		27	4,603	2,816
Net fee and commission income ..	11,194			112	11,306	6,918
Net trading income	6,453	(1,270)	c	30	5,213	3,190
Other income, including income from disposal of associates and subsidiaries	778	25	d		803	493
Total operating income	23,077	(1,321)		169	21,925	13,417
Operating expenses						
Personnel	11,997	(7)	e,f,g	13	12,003	7,344
General and administrative	4,177	27	b	79	4,283	2,621
Depreciation and amortization	1,423	839	a,h	3	2,265	1,386
Restructuring costs	—	130	b		130	80
Total operating expenses	17,597	989		95	18,681	11,431
Operating profit before tax and minority interests	5,480	(2,310)		74	3,244	1,986
Tax expense	1,362	(71)	a	26	1,317	807
Net profit before minority interests	4,118	(2,239)		48	1,927	1,179
Minority interests	146			27	173	106
Net profit	3,972	(2,239)		21	1,754	1,073
Other comprehensive income	—	34	o		34	21
Comprehensive income	3,972	(2,205)		21	1,788	1,094
Basic earnings per share	9.15				4.04	
Diluted earnings per share	9.03				3.99	

The notes to the UBS and PaineWebber unaudited pro forma condensed consolidated balance sheet and income statement: conversion from IAS to U.S. GAAP are an integral part of this pro forma information.

Unaudited Pro Forma Condensed Consolidated Financial Information

Balance Sheet
As of 30 June 2000

(in millions)	UBS and PaineWebber Consolidated Pro Forma IAS CHF	UBS U.S. GAAP Adjustment(1) CHF	Reference(1)	PaineWebber U.S. GAAP Adjustment CHF	UBS and PaineWebber Consolidated U.S. GAAP CHF	Convenience Translation UBS and PaineWebber Consolidated Pro Forma U.S. GAAP US\$(2)
Assets						
Cash and balances with central banks . . .	3,457				3,457	2,115
Money market paper	68,506			30	68,536	41,936
Due from banks	28,510	18,866	a,j	741	48,117	9,442
Cash collateral on securities borrowed	163,387				163,387	99,974
Reverse repurchase agreements	193,666			(3,773)	189,893	116,192
Trading portfolio assets	241,697	(10,307)	g,i,j	3,685	235,075	143,839
Positive replacement values	58,068	(380)	i		57,688	35,298
Loans, net of allowance for credit losses	251,167	8,787	a,j	741	60,695	159,515
Financial investments	10,962	(5,880)	d	(1,458)	3,624	2,217
Accrued income and prepaid expenses	7,533				7,533	4,609
Investments in associates	818				818	501
Property and equipment	9,398	878	a,h	41	10,317	6,313
Intangible assets and goodwill	17,319	16,965	a,h	59	34,343	21,014
Other assets	14,100	15,025	c,d,e,f	1,253	30,378	18,588
Total assets	<u>1,068,588</u>	<u>43,954</u>		<u>1,319</u>	<u>1,113,861</u>	<u>681,553</u>
Liabilities						
Money market paper issued	87,299				87,299	53,417
Due to banks	85,341	18,104	j	2,206	105,651	64,649
Cash collateral on securities lent	27,181				27,181	16,632
Repurchase agreements	277,674	(15,703)	j	(1,482)	260,489	159,389
Trading portfolio liabilities	67,207			(259)	66,948	40,964
Negative replacement values	78,449	(378)	i	(205)	77,866	47,645
Due to customers	296,631	18,519	a,j	741	315,891	193,288
Accrued expenses and deferred income	18,885				18,885	11,555
Long-term debt	61,840	130	a,g	(644)	61,326	37,524
Other liabilities	24,082	4,212	a,b,c,d,g,i,j	250	28,544	17,466
Total liabilities	<u>1,024,589</u>	<u>24,884</u>		<u>607</u>	<u>1,050,080</u>	<u>642,526</u>
Minority interests	2,877			644	3,521	2,154
Total shareholders' equity	<u>1,122</u>	<u>19,070</u>		<u>68</u>	<u>60,260</u>	<u>36,873</u>
Total liabilities, minority interests and shareholders' equity	<u>1,068,588</u>	<u>43,954</u>		<u>1,319</u>	<u>1,113,861</u>	<u>681,553</u>

The notes to the UBS and PaineWebber unaudited pro forma condensed consolidated balance sheet and income statement: conversion from IAS to U.S. GAAP are an integral part of this pro forma information.

Unaudited Pro Forma Condensed Consolidated Financial Information

UBS and PaineWebber Unaudited Pro Forma Condensed
Consolidated Income Statement
Conversion from IAS to U.S. GAAP
For the Year Ended 31 December 1999

The following unaudited pro forma condensed consolidated income statement for the year ended 31 December 1999 is derived from the audited consolidated income statement of UBS for the year then ended and from the unaudited pro forma condensed consolidated income statement of PaineWebber for the year then ended, after giving effect to the U.S. GAAP adjustments described in the notes to the UBS and PaineWebber unaudited pro forma condensed consolidated balance sheet and income statement: conversion from IAS to U.S. GAAP and the pro forma adjustments presented in the notes to the UBS and PaineWebber unaudited pro forma condensed consolidated income statement. This information has been prepared from, and should be read together with, the respective consolidated financial statements and related notes of UBS and PaineWebber, which are included in this prospectus.

For the Year Ended 31 December 1999

(in millions)	UBS and PaineWebber Consolidated Pro Forma IAS CHF	UBS U.S. GAAP Adjustment(1) CHF	Reference	PaineWebber U.S. GAAP Adjustment CHF	UBS and PaineWebber Consolidated U.S. GAAP CHF	Convenience Translation UBS and PaineWebber Consolidated Pro Forma U.S. GAAP US\$(2)
Operating income						
Interest income	40,298	(200) a			40,098	24,536
Interest expense	34,219	(35) a		(173)	34,011	20,811
Net interest income	6,079	(165)		173	6,087	3,725
Credit loss expense	956				956	585
Net interest income after credit loss expense	5,123	(165)		173	5,131	3,140
Net fee and commission income	17,631			113	17,744	10,857
Net trading income	9,357	(545) a,b,c		30	8,842	5,411
Other income, including income from disposal of associates and subsidiaries ..	3,403	36 a,d			3,439	2,104
Total operating income	35,514	(674)		316	35,156	21,512
Operating expenses						
Personnel	17,521	(94) a,b,e,f,g,h		(29)	17,398	10,646
General and administrative	7,624	566 a,b,h		134	8,324	5,093
Depreciation and amortization	2,750	1,597 a,h		3	4,350	2,662
Restructuring costs	—	750 b			750	459
Total operating expenses	27,895	2,819		108	30,822	18,860
Operating profit before tax and minority interests	7,619	(3,493)		208	4,334	2,652
Tax expense	1,930	(177) a		12	1,765	1,080
Net profit before minority interests	5,689	(3,316)		196	2,569	1,572
Minority interests	277			48	325	199
Net profit	5,412	(3,316)		148	2,244	1,373
Dividends and amortization of discount on preferred stock	—			125	125	76
Net profit/(loss) applicable to common shares	5,412	(3,316)		23	2,119	1,297
Basic earnings per share	12.10				4.74	
Diluted earnings per share	11.97				4.69	

The notes to the UBS and PaineWebber unaudited pro forma condensed consolidated balance sheet and income statement: conversion from IAS to U.S. GAAP are an integral part of this pro forma information.

NOTES TO THE UBS AND PAINWEBBER UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT
CONVERSION FROM IAS TO U.S. GAAP
AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2000
AND FOR THE YEAR ENDED 31 DECEMBER 1999

1. IAS to U.S. GAAP Adjustments

IAS accounting principles differ in material respects from accounting principles generally accepted in the U.S. The differences which are material to restating the historical consolidated financial statements of UBS and PaineWebber to comply with U.S. GAAP, are described below.

Adjustments to UBS and PaineWebber Unaudited Pro Forma Condensed Consolidated Balance Sheets and Income Statements

The differences which are material to restating the UBS unaudited pro forma consolidated balance sheets and income statements to U.S. GAAP relate to purchase accounting, restructuring provisions, derivatives held for non-trading purposes, financial investments, retirement and benefit plans, other employee benefits, equity participation plans, software capitalization, settlement date vs. trade date accounting and repurchase, resale and securities lending transactions as described in notes (a), (b), (c), (d), (e), (f), (g), (h), (i) and (j), respectively. PaineWebber's IAS to U.S. GAAP adjustments have been documented in the notes to the PaineWebber unaudited pro forma condensed consolidated statement of financial condition and income statement: conversion from U.S. GAAP to IAS, note #2: U.S. GAAP to IAS adjustments. In addition, for purposes of conforming PaineWebber's accounts to UBS's presentation under U.S. GAAP, certain investments have been reclassified from financial investments to Other Assets.

a. Purchase Accounting

General

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

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

Goodwill

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

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

Unaudited Pro Forma Condensed Consolidated Financial Information

**NOTES TO THE UBS AND PAINWEBBER UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT
CONVERSION FROM IAS TO U.S. GAAP — (Continued)**

Other Purchase Accounting Adjustments

For purposes of the U.S. GAAP reconciliation, the restatement of Swiss Bank Corporation's net assets to fair value resulted in decreasing net tangible assets by CHF 1,077 million. This amount will be amortized over a period ranging from 2 years to 20 years depending upon the nature of the restatement.

b. Restructuring Provision

Under IAS, restructuring provisions are recognized when a legal or constructive obligation has been incurred. In 1997, UBS recognized a CHF 7,000 million restructuring provision to cover personnel, information technology ("IT"), premises and other costs associated with combining and restructuring the merged Group. An additional CHF 300 million provision was recognized in the fourth quarter of 1999, reflecting the impact of increased precision in the estimation of certain leased and owned property costs.

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

For purposes of the U.S. GAAP reconciliation, the aggregate CHF 7,300 million restructuring provision was reversed. As a result of the business combination with Swiss Bank Corporation, the decision to combine and streamline certain activities of the banks for the purpose of reducing costs and improving efficiencies, Union Bank of Switzerland recognized a restructuring provision of CHF 1,575 million during 1998 for purposes of the U.S. GAAP reconciliation. CHF 759 million of this provision related to estimated costs for restructuring the operations and activities of Swiss Bank Corporation and such amount was recorded as a liability of the acquired business. The remaining CHF 816 million of estimated costs were charged to restructuring expense during 1998. Adjustments of CHF 130 million and 600 million to the restructuring provision were recognized in the six months ended 30 June 2000 and in the year ended 31 December 1999, respectively, for purposes of the U.S. GAAP reconciliation. The reserve is expected to be substantially exhausted by the end of 2001.

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

The usage of the U.S. GAAP restructuring provision was as follows:

(CHF millions)	Balance 1 January 1999	1999 Usage	1999 Revision	Balance 31 December 1999	Jan-Jun 2000 Usage	Jan-Jun 2000 Revision	Balance 30 June 2000
Personnel	382	(254)	553	681	57	70	694
Premises	305	(244)	179	240	98	45	187
IT	25	(5)	7	27	3	—	24
Other	313	(45)	(139)	129	6	15	138
Total	<u>1,025</u>	<u>(548)</u>	<u>600</u>	<u>1,077</u>	<u>164</u>	<u>130</u>	<u>1,043</u>

NOTES TO THE UBS AND PAINWEBBER UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT
CONVERSION FROM IAS TO U.S. GAAP — (Continued)

Additionally, for purposes of the U.S. GAAP reconciliation, nil and CHF 150 million of restructuring costs were expensed as incurred in the six months ended 30 June 2000 and the year ended 31 December 1999, respectively.

c. Derivatives Instruments Held or Issued for Non-Trading Purposes

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

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

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

d. Financial Investments

Under IAS, financial investments are classified as either current investments or long-term investments. UBS considers current financial investments to be held for sale and carried at lower of cost or market value. UBS accounts for long-term financial investments at cost, less any permanent impairment.

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

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

e. Retirement Benefit Plans

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

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

NOTES TO THE UBS AND PAINWEBBER UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT
CONVERSION FROM IAS TO U.S. GAAP — (Continued)

As a result of the merger of the retirement benefit plans of Union Bank of Switzerland and Swiss Bank Corporation after the 1998 merger, there was a one time increase of the vested plan benefits for the beneficiaries of such plans. This had the effect of increasing the defined benefit obligation at this date by CHF 3,020 million. Under IAS this resulted in a one-time charge to income which was offset by the recognition of assets (previously unrecognized due to certain limitations under IAS).

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

For purposes of the U.S. GAAP reconciliation, UBS recorded a prepaid asset for the Union Bank of Switzerland plans as of 1 January 1998. Swiss Bank Corporation recorded a purchase price adjustment to recognize its prepaid asset at 29 June 1998. The recognition of these assets impacts the pension expense recorded under U.S. GAAP versus IAS. The pension expense for the year ended 31 December 1999 is also impacted by the different treatment of the merger of the plans under IAS versus U.S. GAAP. The assets recognized under IAS (which had been previously unrecognized due to certain limitations under IAS) were already recognized under U.S. GAAP due to the absence of such limitations under U.S. GAAP.

f. Other Employee Benefits

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

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

g. Equity participation plans

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

U.S. GAAP permits the recognition of compensation cost on the grant date for the estimated fair value of equity instruments issued (Statement of Financial Accounting Standards No. 123) or based on the intrinsic value of equity instruments issued (Accounting Principles Board Opinion No. 25), with the disclosure of the pro forma effects of equity participation plans on net profit and earnings per share, as if the fair value had been recorded on the grant date. UBS recognized only intrinsic values at the grant date with subsequent changes in value not recognized.

For purposes of the U.S. GAAP reconciliation, certain of UBS's option awards have been determined to be variable, primarily because they may be settled in cash or UBS has offered to hedge their value. Additional compensation expense from these options awards for the six months ended 30 June and the year ended 31 December 1999, is CHF 44 million and CHF 41 million, respectively. In addition, certain of UBS's equity participation plans provide for deferral of the awards, and the instruments are held in trusts for the participants. Certain of these trusts are recorded on UBS's balance sheet for U.S.

NOTES TO THE UBS AND PAINWEBBER UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT
CONVERSION FROM IAS TO U.S. GAAP — (Continued)

GAAP presentation, the effect of which is to increase assets by CHF 1,070 million and CHF 655 million, liabilities by CHF 1,162 million and CHF 717 million, and decrease shareholders' equity by CHF 92 million and CHF 62 million (for UBS shares held by the trusts, which are treated as treasury shares) at 30 June 2000 and 31 December 1999, respectively.

h. Software capitalization

Under IAS, effective 1 January 2000, certain costs associated with the acquisition or development of internal use software are required to be capitalized. Once the software is ready for its intended use, the costs capitalized are amortized to the income statement over estimated lives. Under U.S. GAAP, the same principal applies; however this standard was effective beginning 1 January 1999. For purposes of the U.S. GAAP reconciliation, the costs associated with the acquisition or development of internal use software that met the U.S. GAAP software capitalization criteria in 1999 have been reversed from Operating expenses and amortized over a life of 2 years. From 1 January 2000, the only remaining reconciliation item is the amortization of software capitalized in 1999 for U.S. GAAP purposes.

i. Settlement Date vs. Trade Date Accounting

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

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

j. Repurchase, Resale and Securities Lending Transactions

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

Under U.S. GAAP, securities lending and repurchase transactions are also generally accounted for as collateralized borrowing and lending transactions. However, certain such transactions may be deemed sale or purchase transactions under specific circumstances. Additionally, under U.S. GAAP, UBS is required to recognize securities collateral controlled and an offsetting obligation to return such securities collateral on certain financing transactions, when specific control conditions exist.

For purposes of U.S. GAAP presentation, securities collateral recognized under financing transactions is reflected in Due from banks or loans, net of allowance for credit losses, depending on the counterparty. The related obligation to return the securities collateral is reflected in the balance sheet in Due to banks or Due to customers, as appropriate.

NOTES TO THE UBS AND PAINWEBBER UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT
CONVERSION FROM IAS TO U.S. GAAP — (Continued)

2. Convenience Transaction

30 June 2000 and 31 December 1999 CHF amounts have been translated into U.S. dollars at the exchange rate of one US\$ = CHF 1.63, the exchange rate on 30 June 2000.

3. Proposed Dividend

At the extraordinary general meeting of UBS AG, held on 7 September 2000, the UBS shareholders approved the UBS Board of Directors proposal that a partial dividend be paid to UBS shareholders on record as of 2 October 2000. The payment, which was made on 5 October 2000, relates to the first nine months of the year 2000. The payment of \$2.75 (CHF 4.50) per share amounted to approximately \$1.1 billion (CHF 1.8 billion).

Description of Debt Securities

Please note that in this section entitled “Description of Debt Securities,” references to UBS Americas refer only to UBS Americas Inc. and not to its consolidated subsidiaries. Similarly, references to UBS refer only to UBS AG and not to its consolidated subsidiaries. Also, in this section, references to Holders mean those who own debt securities registered in their own names on the books that we or the trustee maintain for this purpose, and not those who own beneficial interests in debt securities registered in street name or in debt securities issued in book-entry form through one or more depositories. Because all of the debt securities are currently held by the Depository Trust Company in the form of global debt securities, DTC is currently the only Holder of any of the debt securities. Owners of beneficial interests in the debt securities should read the subsection entitled “— Global Debt Securities.”

This Section Is Only a Summary

The applicable indenture and its associated documents, including your note, contain the full legal text governing the matters described in this section.

This section summarizes all the material terms of the applicable indenture and your note. It does not, however, describe every aspect of the indenture and your note. For example, in this section, we use terms that have been given special meaning in the indenture, but we describe the meaning of only the more important of those terms.

All of the debt securities were issued in various issuances by Paine Webber Group Inc. before Paine Webber Group Inc. merged with UBS Americas Inc. Some of the debt securities were issued as separate series of securities, and these are listed in the first table under “—Fixed Rate Securities” below. Other debt securities were issued as medium-term notes, either as part of Paine Webber Group Inc.’s Medium-Term Senior Notes, Series C, or as part of Paine Webber Group Inc.’s Medium-Term Subordinated Notes, Series D. These are listed in the other tables under “—Fixed Rate Securities” and “—Floating Rate Securities” below.

The Indentures

Each of the debt securities was issued under one of two Indentures, each of which is between UBS Americas and The Chase Manhattan Bank, as Trustee.

The senior debt securities were issued under the Senior Indenture, dated as of 15 March 1988, as amended by a supplemental indenture dated as of 22 September 1989, by a supplemental indenture dated as of 22 March 1991, and by a supplemental indenture dated as of 3 November 2000, between UBS Americas (as successor by merger to PaineWebber) and The Chase Manhattan Bank (formerly known as Chemical Bank), as Trustee, as well as by a supplemental indenture dated as of 22 December 2000 among UBS Americas, the Trustee and UBS AG, as guarantor. When we refer to The Chase Manhattan Bank, acting as Trustee under the Senior Indenture, we will call it the “Senior Trustee.” The debt securities issued under the Senior Indenture constitute Superior Indebtedness and rank *pari passu* with all other unsecured debt of UBS Americas except subordinated debt. The Chase Manhattan Bank’s address is 270 Park Avenue, New York, NY 10017.

The subordinated debt securities were issued under the Subordinated Indenture, dated as of 15 March 1988, as amended by a supplemental indenture dated as of 22 September 1989, by a supplemental indenture dated as of 22 March 1991, by a supplemental indenture dated as of 30 November 1993, and by a supplemental indenture dated as of 3 November 2000, between UBS Americas (as successor by merger to PaineWebber) and Chase Manhattan Bank USA, National Association (formerly known

Description of Debt Securities

as Chemical Bank (Delaware)), as Trustee, as well as by a supplemental indenture dated as of 22 December 2000 among UBS Americas, the Trustee and UBS AG, as guarantor. When we refer to Chase Manhattan Bank USA, acting as Trustee under the Subordinated Indenture, we will call it the “Subordinated Trustee.” The debt securities issued under the Subordinated Indenture are subordinated in right of payment, to the extent and in the manner listed in the Subordinated Indenture, to the prior payment in full of all Superior Indebtedness, as described below under “—Subordination.” Chase Manhattan Bank USA’s address is 1201 Market Street, Wilmington, DE 19801.

In this prospectus, we sometimes refer to the Senior Indenture and the Subordinated Indenture together as the “Indentures.” Similarly, we sometimes refer to the Senior Trustee and the Subordinated Trustee together as the “Trustees.” Both Indentures are filed as exhibits to the registration statement that includes this prospectus. See “Where You Can Find More Information” below for information on how to obtain a copy.

The Indentures do not restrict (i) a consolidation, merger or sale of assets or other similar transactions that may adversely affect the creditworthiness of the Company or a successor or combined entity, (ii) a change of control of the Company or (iii) leveraged transactions involving the Company, whether or not involving a change of control. In addition, under the terms of the Indentures the Company is entitled to defease the Offered Securities. As a result, the Indentures do not protect Holders against a substantial decline in the value of the Offered Securities which may result from the aforementioned transactions.

Form

All of the debt securities were issued in fully registered form without coupons. All of the debt securities that are denominated in U.S. dollars were issued in denominations of \$1,000 and integral multiples of \$1,000. All of the debt securities that are denominated in Japanese yen were issued in denominations of ¥250,000,000 and integral multiples of ¥250,000,000 or ¥100,000,000 and integral multiples of ¥100,000,000.

Principal

All of the debt securities are denominated in U.S. dollars, with the exception of three series of fixed rate Medium-Term Notes, Series C, which are payable in Japanese yen, as indicated below. The principal of, and interest on, the yen-denominated debt securities is payable in Japanese yen, except under the circumstances described under “—Payment Currency” below. For each debt security, the aggregate principal amount outstanding is equal to the initial aggregate principal amount for that debt security. The full principal amount of each series of debt securities will be due and payable on the maturity date specified for that series below.

Interest Rate

All of the debt securities bear interest, either at a fixed rate or at a floating rate. Each debt security will bear interest from its date of issuance until its principal is paid or made available for payment. The interest will be payable on each interest payment date and at maturity as described below under “—Payment of Principal and Interest.”

Fixed Rate Debt Securities

Each fixed rate debt security will bear interest at a fixed rate, payable semi-annually on the dates specified in the table below. The description below designates the fixed rate of interest per annum payable on each of the fixed rate debt securities.

Description of Debt Securities

The following tables list the fixed rate debt securities, as well as their primary terms:

Title	Initial Aggregate Principal Amount	Maturity Date	Interest Payment Dates	Regular Record Dates	Held Through DTC
7 ³ / ₈ % Notes Due 2009	\$275 million	1 December 2009	1 June and 1 December	15 May and 15 November	Yes
6 ³ / ₈ % Notes Due 2004	\$525 million	15 May 2004	15 May and 15 November	30 April and 31 October	Yes
6.45% Notes Due 2003	\$340 million	1 December 2003	1 June and 1 December	15 May and 15 November	Yes
6.55% Notes Due 2008	\$250 million	15 April 2008	15 April and 15 October	1 April and 1 October	No
7 ³ / ₈ % Notes Due 2008	\$150 million	15 October 2008	15 April and 15 October	1 April and 1 October	No
8 ¹ / ₄ % Notes Due 2002	\$125 million	1 May 2002	1 May and 1 November	15 April and 15 October	No
8 ⁷ / ₈ % Notes Due 2005	\$125 million	15 March 2005	15 March and 15 September	1 March and 1 September	No
7 ³ / ₈ % Notes Due 2014	\$200 million	15 February 2014	15 February and 15 August	1 February and 1 August	No
6 ³ / ₄ % Notes Due 2006	\$100 million	1 February 2006	1 February and 1 August	15 January and 15 July	No
6 ¹ / ₂ % Notes Due 2005	\$200 million	1 November 2005	1 May and 1 November	15 April and 15 October	No
7 ⁷ / ₈ % Notes Due 2003	\$100 million	15 February 2003	15 February and 15 August	1 February and 1 August	No
9 ¹ / ₄ % Notes Due 2001	\$150 million	15 December 2001	15 June and 15 December	1 June and 1 December	No
7 ³ / ₄ % Subordinated Notes Due 2002	\$175 million	1 September 2002	1 March and 1 September	15 February and 15 August	No

Description of Debt Securities

Medium-Term Senior Notes, Series C*

Initial Aggregate Principal Amount	Maturity Date	Interest Payment Dates	Regular Record Dates	Interest Rate
¥ 900 million**	1 July 2002	1 January and 1 July	15 December and 15 June	1.0100
¥ 9 billion**	13 March 2003	13 March and 13 September	1 March and 1 September	1.2700
¥ 900 million**	1 July 2003	1 January and 1 July	15 December and 15 June	1.3400
\$ 20 million	25 January 2001	1 March and 1 September	15 February and 15 August	5.8300
\$ 25 million	21 May 2001	1 March and 1 September	15 February and 15 August	6.1850
\$ 10 million	08 June 2001	1 March and 1 September	1 March and 1 September	5.8100
\$ 1 million	13 June 2001	1 March and 1 September	15 February and 15 August	7.6400
\$ 25 million	23 July 2001	1 March and 1 September	15 February and 15 August	6.5850
\$ 5 million	24 July 2001	1 March and 1 September	15 February and 15 August	7.2800
\$ 5 million	11 September 2001	1 March and 1 September	15 February and 15 August	7.5200
\$ 22 million	26 September 2001	1 March and 1 September	15 February and 15 August	6.5200
\$ 22 million	28 September 2001	1 March and 1 September	15 February and 15 August	6.4400
\$ 10 million	14 December 2001	1 March and 1 September	15 February and 15 August	6.5800
\$ 20 million	28 March 2002	1 March and 1 September	15 February and 15 August	6.0150
\$ 45 million	22 April 2002	1 March and 1 September	15 February and 15 August	6.0200
\$ 25 million	15 October 2002	1 March and 1 September	15 February and 15 August	6.6500
\$ 25 million	4 February 2003	1 March and 1 September	15 February and 15 August	6.2500
\$ 12 million	14 February 2003	1 March and 1 September	15 February and 15 August	7.0200
\$ 45 million	18 March 2003	1 March and 1 September	15 February and 15 August	6.3200
\$ 25 million	20 May 2003	1 March and 1 September	15 February and 15 August	6.3310
\$ 30 million	1 July 2003	1 March and 1 September	15 February and 15 August	6.7850

* All of the Medium-Term Senior Notes, Series C, are held through DTC.

** Redeemable under the limited circumstances described under “—Payment of Additional Amounts” below.

Description of Debt Securities

Medium-Term Senior Notes, Series C*

	Initial Aggregate Principal Amount	Maturity Date	Interest Payment Dates	Regular Record Dates	Interest Rate
\$	20 million	15 October 2003	1 March and 1 September	15 February and 15 August	7.3000
\$	5 million	21 October 2003	1 March and 1 September	15 days prior to each interest payment date	6.3100
\$	1 million	17 November 2003	1 March and 1 September	15 days prior to each interest payment date	6.6800
\$	1 million	24 November 2003	1 March and 1 September	15 days prior to each interest payment date	6.7700
\$	20 million	20 January 2004	1 March and 1 September	15 days prior to each interest payment date	6.7300
\$	20 million	26 January 2004	1 March and 1 September	15 days prior to each interest payment date	6.7300
\$	5 million	27 January 2004	1 March and 1 September	15 February and 15 August	7.1150
\$	5 million	28 January 2004	1 March and 1 September	15 February and 15 August	7.1400
\$	2.2 million	3 February 2004	1 March and 1 September	15 days prior to each interest payment date	6.6700
\$	20 million	10 February 2004	1 March and 1 September	15 days prior to each interest payment date	6.6800
\$	13.5 million	10 February 2004	1 March and 1 September	15 February and 15 August	7.0150
\$	5 million	13 September 2004	1 March and 1 September	15 February and 15 August	7.0700
\$	25 million	4 October 2004	1 March and 1 September	15 February and 15 August	7.5500
\$	13 million	4 October 2004	1 March and 1 September	15 February and 15 August	6.7900
\$	11.5 million	15 October 2004	1 March and 1 September	15 February and 15 August	7.4900
\$	30 million	6 April 2005	1 March and 1 September	15 February and 15 August	6.5200
\$	5 million	25 May 2005	1 March and 1 September	15 days prior to each interest payment date	8.0000

* All of the Medium-Term Senior Notes, Series C, are held through DTC.

Description of Debt Securities

Medium-Term Senior Notes, Series C*

	Initial Aggregate Principal Amount	Maturity Date	Interest Payment Dates	Regular Record Dates	Interest Rate
\$	5 million	11 August 2005	1 March and 1 September	15 days prior to each interest payment date	7.7650
\$	1 million	14 November 2005	1 March and 1 September	15 days prior to each interest payment date	6.9500
\$	2 million	4 October 2006	1 March and 1 September	15 February and 15 August	7.7500
\$	1 million	10 October 2006	1 March and 1 September	15 February and 15 August	7.5200
\$	10 million	20 February 2007	1 March and 1 September	15 February and 15 August	7.2200
\$	35 million	1 April 2008	1 March and 1 September	15 February and 15 August	6.7200
\$	42.5 million	3 April 2008	1 March and 1 September	15 February and 15 August	6.7300
\$	10 million	21 April 2008	1 March and 1 September	15 February and 15 August	6.5200
\$	25 million	5 February 2009	1 March and 1 September	15 February and 15 August	6.6400
\$	2 million	9 February 2009	1 March and 1 September	15 days prior to each interest payment date	7.0100
\$	25 million	13 April 2010	1 March and 1 September	15 February and 15 August	6.6500
\$	30 million	14 April 2010	1 March and 1 September	15 February and 15 August	6.6400
\$	10 million	16 May 2011	1 March and 1 September	15 February and 15 August	6.7600
\$	5 million	30 January 2012	1 March and 1 September	15 February and 15 August	7.7400
\$	10 million	30 January 2012	1 March and 1 September	15 February and 15 August	7.7400
\$	5 million	30 January 2012	1 March and 1 September	15 February and 15 August	7.7400
\$	5 million	4 October 2016	1 March and 1 September	15 February and 15 August	8.2700
\$	25 million	17 January 2017	1 March and 1 September	15 February and 15 August	8.0600
\$	2 million	27 January 2017	1 March and 1 September	15 February and 15 August	7.9400
\$	10 million	6 February 2017	1 March and 1 September	15 February and 15 August	7.9300
\$	1 million	13 February 2017	1 March and 1 September	15 February and 15 August	7.8100

* All of the Medium-Term Senior Notes, Series C, are held through DTC.

Description of Debt Securities

Medium-Term Senior Notes, Series C*

	Initial Aggregate Principal Amount	Maturity Date	Interest Payment Dates	Regular Record Dates	Interest Rate
\$	15 million	13 February 2017	1 March and 1 September	15 February and 15 August	7.8100
\$	20 million	17 March 2017	1 March and 1 September	15 February and 15 August	7.9100
\$	5 million	5 June 2017	1 March and 1 September	15 February and 15 August	8.0400
\$	10 million	9 June 2017	1 March and 1 September	15 February and 15 August	7.9900
\$	19.31 million	17 July 2017	1 March and 1 September	15 February and 15 August	7.6050
\$	10 million	11 September 2017	1 March and 1 September	15 February and 15 August	7.6330
\$	25 million	16 October 2017	1 March and 1 September	15 February and 15 August	7.3900

* All of the Medium-Term Senior Notes, Series C, are held through DTC.

Medium-Term Subordinated Notes, Series D

	Initial Aggregate Principal Amount	Maturity Date	Interest Payment Dates	Regular Record Dates	Interest Rate
\$	1 million	22 August 2001	1 March and 1 September	15 days prior to each interest payment date	9.7500
\$	1 million	10 September 2001	1 March and 1 September	15 days prior to each interest payment date	9.7500
\$	1 million	26 November 2001	1 March and 1 September	15 days prior to each interest payment date	9.3750
\$	200,000	19 February 2002	1 March and 1 September	15 days prior to each interest payment date	9.2500
\$	5.5 million	22 May 2002	1 March and 1 September	15 days prior to each interest payment date	8.9500
\$	6 million	24 July 2002	1 March and 1 September	15 days prior to each interest payment date	8.3900
\$	2 million	7 August 2002	1 March and 1 September	15 days prior to each interest payment date	8.2000

Description of Debt Securities

Medium-Term Subordinated Notes, Series D

Initial Aggregate Principal Amount	Maturity Date	Interest Payment Dates	Regular Record Dates	Interest Rate
\$ 1 million	13 August 2002	1 March and 1 September	15 days prior to each interest payment date	8.0700
\$ 2 million	24 January 2003	1 March and 1 September	15 days prior to each interest payment date	8.3000
\$ 2.5 million	5 February 2003	1 March and 1 September	15 days prior to each interest payment date	8.0400
\$ 7 million	1 July 2003	1 March and 1 September	15 days prior to each interest payment date	7.1300
\$ 28 million	15 August 2003	1 March and 1 September	15 days prior to each interest payment date	6.9300
\$ 9 million	15 August 2003	1 March and 1 September	15 days prior to each interest payment date	6.9000
\$ 15 million	9 February 2004	1 March and 1 September	15 days prior to each interest payment date	6.9000
\$ 1 million	19 August 2004	1 March and 1 September	15 days prior to each interest payment date	8.0200
\$ 1 million	31 August 2004	1 March and 1 September	15 days prior to each interest payment date	8.0600
\$ 1 million	8 September 2004	1 March and 1 September	15 days prior to each interest payment date	8.0000

Floating Rate Debt Securities

Each floating rate debt security bears interest at a variable rate determined by reference to LIBOR of the specified “index maturity”, adjusted by adding a “spread.” The “spread” for a floating rate debt security is the number of basis points (one basis point equals one-hundredth of a percentage point) specified below as being applicable to the interest rate for that debt security. “Index maturity” means, with respect to a floating rate debt security, the period to maturity of the LIBOR rate on which the interest rate formula is based, as specified in the tables below. The Chase Manhattan Bank is the calculation agent with respect to each floating rate debt security.

“LIBOR” is indexed to the offered rate for U.S. dollar deposits and is determined by the calculation agent in accordance with the following provisions:

- With respect to any interest determination date, LIBOR is determined on the basis of the rate for deposits in U.S. dollars having the index maturity specified in the table below, beginning on the second London banking day immediately following the interest determination date, that appears on Telerate Screen Page 3750 as of 11:00 A.M., London time, on that interest determination date, if the relevant rate appears on Telerate Screen Page 3750.

Description of Debt Securities

“Telerate Screen Page 3750” means the display designated as page 3750 on the Dow Jones Market Service (or the other page or pages that may replace page 3750 on that service for the purpose of displaying London interbank offered rates of major banks).

- If no rate appears on Telerate Screen Page 3750, LIBOR for the interest determination date will be determined on the basis of the rates at approximately 11:00 A.M., London time, on such interest determination date at which deposits in U.S. dollars having the index maturity specified in the table below, beginning on the second London banking day immediately following that interest determination date and in a principal amount equal to an amount of not less than \$1,000,000 that in the calculation agent’s judgment is representative for a single transaction in that market at that time, are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the calculation agent. The calculation agent will request the principal London office of each of these banks to provide a quotation of its rate. If at least two such quotations are provided, LIBOR for the interest determination date will be the arithmetic mean of the provided quotations. If fewer than two quotations are provided, LIBOR for the interest determination date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., New York City time, on that interest determination date by three major banks in New York City, selected by the calculation agent, for loans in U.S. dollars to leading European banks having the index maturity specified in the table below beginning on the second London banking day immediately following that interest determination date and in a principal amount equal to an amount of not less than \$1,000,000 that in the calculation agent’s judgment is representative for a single transaction in the relevant market at that time. However, if the banks selected by the calculation agent are not quoting as described above, LIBOR with respect to the interest determination date will be LIBOR in effect on that interest determination date.

If the determination of any interest rate requires the calculation agent to obtain quotes of rates from banks or other sources, those quotes may be given by the calculation agent or an affiliate of the calculation agent, so long as the calculation agent or affiliate satisfies all of the applicable criteria for such a bank or other source listed below. Unless there is a manifest error, any calculation made by the calculation agent will be conclusive and binding on UBS Americas, the applicable Trustee and the Holders and owners of the applicable debt securities.

The tables below specify the index maturity, the spread, and the interest reset dates with respect to each floating rate debt security. We describe below how these terms are used.

The rate of interest on each floating rate debt security is reset monthly, quarterly or semi-annually, as specified in the tables below. We refer to the dates on which the interest rate is reset as the “interest reset dates.” The interest reset dates are the dates specified in the tables below. Each interest reset date with respect to a debt security is also an interest payment date for that debt security. The regular record date for each interest payment date is the fifteenth day prior to that interest payment date.

If any interest reset date for any floating rate debt security would otherwise be a day that is not a business day, the interest reset date will be postponed to the next day that is a business day, except that if that business day is in the next succeeding calendar month, the interest reset date will be the immediately preceding business day.

The “interest determination date” pertaining to each interest reset date will be the second London banking day preceding the interest reset date.

The “calculation date” pertaining to any interest determination date will be the earlier of:

- The tenth day after the interest determination date or, if that day is not a New York business day, the next succeeding New York business day.

Description of Debt Securities

- The New York business day next preceding the relevant interest payment date or maturity of the debt security, as the case may be.

All percentages resulting from any calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with five one-millionths of a percentage point being rounded upward) and all currency or composite currency amounts used in or resulting from the calculation will be rounded, if necessary, to the nearest one-hundredth of a unit (with .005 of a unit being rounded upward).

The interest rate on the debt securities will never be higher than the maximum rate permitted by New York law, as modified by United States federal law of general application. Under current New York law, the maximum rate of interest is 25% per annum on a simple interest basis. This limit does not apply to debt securities in which \$2,500,000 or more has been invested.

Upon the request of the holder of any floating rate debt security, the calculation agent will provide the interest rate then in effect, and, if determined, the interest rate that will become effective on the next interest reset date with respect to that floating rate debt security.

The following tables list the floating rate debt securities, as well as their primary terms:

Medium-Term Senior Notes, Series C*

Initial Aggregate Principal Amount	Maturity Date	Spread	Index Maturity	Interest Reset Dates
\$ 15 million	11 January 2001	80 basis points	3 months	Third Wednesday of March, June, September and December
\$ 5 million	15 May 2001	35 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 8 million	16 May 2001	40 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 48 million	17 May 2001	16 basis points	1 month	Monthly on the third Wednesday
\$ 49 million	18 June 2001	14 basis points	1 month	Monthly on the third Wednesday
\$ 7.5 million	20 June 2001	40 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 7 million	26 June 2001	21 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 12 million	19 November 2001	43 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 5 million	26 November 2001	43.5 basis points	1 month	Monthly on the third Wednesday

* All of the Medium-Term Senior Notes, Series C, are held through DTC.

Description of Debt Securities

Medium-Term Senior Notes, Series C*

Initial Aggregate Principal Amount	Maturity Date	Spread	Index Maturity	Interest Reset Dates
\$ 20 million	18 February 2002	25 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 10 million	18 March 2002	37 basis points	1 month	Monthly on the third Wednesday
\$ 5 million	26 March 2002	37.5 basis points	1 month	Monthly on the third Wednesday
\$ 25 million	14 May 2002	40 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 25 million	2 May 2002	47 basis points	1 month	Monthly on the third Wednesday
\$ 12 million	20 May 2002	37 basis points	3 months	Third Wednesday of March, June, September, and December
\$100 million	15 July 2002	56 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 25 million	14 August 2002	37.5 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 15 million	27 August 2002	35 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 25 million	19 September 2002	35 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 10 million	03 October 2002	55 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 40 million	18 November 2002	50 basis points	3 months	The 18th Day of February, May, August and November
\$ 11 million	18 December 2002	50 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 12 million	03 February 2003	48 basis points	3 months, with last coupon 2 months	Third Wednesday of March, June, September, and December
\$ 10 million	13 March 2003	45 basis points	3 months	Third Wednesday of March, June, September, and December

* All of the Medium-Term Senior Notes, Series C, are held through DTC.

Description of Debt Securities

Medium-Term Senior Notes, Series C*

Initial Aggregate Principal Amount	Maturity Date	Spread	Index Maturity	Interest Reset Dates
\$ 10 million	23 June 2003	32 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 5 million	23 July 2003	63 basis points	1 month	Monthly on the third Wednesday
\$ 2 million	23 July 2003	63 basis points	1 month	Monthly on the third Wednesday
\$ 350,000	24 July 2003	62.5 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 15 million	01 December 2003	135 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 10 million	28 January 2004	92 basis points	3 months	Third Wednesday of March, June, September and December
\$ 5 million	09 February 2004	45 basis points	3 months	Third Wednesday of March, June, September and December
\$ 12 million	10 February 2004	85 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 10 million	12 February 2004	90 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 45 million	11 May 2004	60 basis points	3 months	The 11th Day of February, May, August and November
\$ 12 million	27 May 2004	62 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 25 million	18 August 2004	40 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 30 million	13 October 2004	68 basis points	3 months, with last coupon 1 month	The 13th Day of March, June, September and December
\$ 20 million	25 October 2004	35 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 25 million	27 January 2005	65 basis points	3 months	The 27th Day of January, April, July and October

* All of the Medium-Term Senior Notes, Series C, are held through DTC.

Description of Debt Securities

Medium-Term Senior Notes, Series C*

Initial Aggregate Principal Amount	Maturity Date	Spread	Index Maturity	Interest Reset Dates
\$ 12 million	11 February 2005	65 basis points	3 months	The 11th Day of February, May, August and November
\$ 45 million	15 March 2005	80 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 25 million	15 July 2005	88 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 29 million	14 November 2005	70 basis points	3 months	The 14th Day of February, May, August and November
\$ 10 million	01 May 2006	67 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 10 million	01 May 2006	67 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 4.1 million	07 August 2006	75 basis points	6 months	March 1 and September 1
\$ 25 million	22 October 2007	45 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 10 million	31 July 2008	52 basis points	3 months	Third Wednesday of March, June, September, and December
\$ 13 million	07 May 2018	65 basis points	3 months, with last coupon 2 months	Third Wednesday of March, June, September, and December

Exchange, Registration and Transfer

Debt securities of any series are exchangeable for other debt securities of the same series and of the same aggregate principal amount and tenor of any authorized denominations.

No service charge will be made for any transfer or exchange of the debt securities, but UBS Americas may require payment of a sum sufficient to cover any tax or other governmental charge in connection with the transfer or exchange.

Debt securities may be presented for exchange as provided above, and debt securities may be presented for registration of transfer (duly endorsed, or accompanied by a satisfactory instrument of transfer), at the office of the security registrar or at the office of any transfer agent designated by UBS Americas for such purpose with respect to any series of debt securities, without service charge and upon payment of any taxes and other governmental charges as described in the applicable Indenture. UBS Americas has appointed The Chase Manhattan Bank as security registrar for each Indenture. If UBS Americas

* All of the Medium-Term Senior Notes, Series C, are held through DTC.

Description of Debt Securities

designates any transfer agents in addition to the security registrar with respect to any series of debt securities, UBS Americas may at any time rescind the designation of any such transfer agent or approve a change in the location through which any such transfer agent acts, except that UBS Americas will be required to maintain a transfer agent for each series in each place of payment for that series. UBS Americas may at any time designate additional transfer agents with respect to any series of debt securities.

UBS Americas is not required to: (i) issue, register the transfer of or exchange debt securities of any series during a period beginning at the opening of business 15 days before any selection of debt securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption; or (ii) register the transfer of or exchange any debt security, or portion thereof, called for redemption, except the unredeemed portion of any debt security being redeemed in part.

For a discussion of restrictions on the exchange, registration and transfer of global debt securities, see “— Global Debt Securities” below.

Payment and Paying Agents

General Provisions

The corporate trust office of The Chase Manhattan Bank in the Borough of Manhattan, New York City, has been designated as UBS Americas’ paying agent in the Borough of Manhattan, New York City, for payments with respect to the debt securities. UBS Americas may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, except that UBS Americas is required to maintain a paying agent in each place of payment for such series. Chase Manhattan Bank’s address is 270 Park Avenue, New York, NY 10017.

All money paid by UBS Americas to a paying agent for the payment of principal of or premium, if any, or any interest on any debt security that remains unclaimed at the end of two years after such principal, premium or interest is due and payable will be repaid to UBS Americas, and the Holder of such debt security must look only to UBS Americas for payment of those amounts.

Interest will be payable to the person in whose name a debt security is registered at the close of business on the regular record date preceding each interest payment date. However, interest payable at maturity will be payable to the person to whom principal is payable. Unless otherwise indicated in the tables above, the “regular record date” with respect to any debt security will be the fifteenth calendar day prior to each interest payment date, whether or not such date is a business day.

Payments of interest on any debt security with respect to any interest payment date or at maturity will include interest accrued from and including the later of the date of issuance of such debt security and the most recent interest payment date for such debt security to which interest has been paid or provided for to but excluding such current interest payment date or maturity.

With respect to a floating rate debt security, accrued interest from the date of issuance or from the last date to which interest has been paid or provided for is calculated by multiplying the face amount of such floating rate debt security by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day from the date of issuance, or from the last date to which interest has been paid or provided for, to the date for which accrued interest is being calculated. The interest factor (expressed as a decimal) for each such day is computed by dividing the interest rate (expressed as a decimal) applicable to such date by 360. Interest on fixed rate debt securities will be computed on the basis of a 360-day year of twelve 30-day months.

Description of Debt Securities

Any payment of principal, premium, if any, or interest required to be made on a debt security on a day that is not a business day need not be made on such day, but may be made on the next day that is a business day with the same force and effect as if made on such day, and no interest will accrue as a result of such delayed payment, except that in connection with any floating rate debt security, if the next succeeding business day is in the next succeeding calendar month, the payment will be made on the immediately preceding business day. The term “business day” means each day, other than a Saturday or Sunday, that is (i) not a day on which banking institutions in the business day centers with respect to such debt security are authorized or obligated by law or executive order to close and (ii) if the debt security is a floating rate debt security, a London banking day. “Business day centers” with respect to any debt security means New York City and, in the case of the yen-denominated debt securities, Tokyo, Japan. “London banking day” means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

Payments on U.S. Dollar-Denominated Securities

Payment of principal of and premium, if any, and any interest on U.S. dollar denomination debt securities other than medium-term notes will be made at the office of such paying agent or paying agents as UBS Americas may designate from time to time, except that at the option of UBS Americas payment of any interest may be made by check mailed to the address of the person entitled to the payment, as the address appears in the security register.

Payments in U.S. dollars of interest on medium-term notes (other than interest payable at maturity) will be made by mailing a check to the Holders of the medium-term notes entitled to the payment at their addresses appearing on the security register for the debt securities. However, at the option of UBS Americas, such payments may be made by wire transfer to an account with a bank located in the continental United States (or other jurisdiction acceptable to UBS Americas and the Senior Trustee, in the case of senior debt securities, or the paying agent, in the case of subordinated debt securities), but only if appropriate payment instructions from the registered Holder of a certificated debt security have been received in writing by the Senior Trustee or the paying agent, as the case may be, not less than five business days prior to the applicable interest payment date. Payments of principal of and premium, if any, and interest on the medium-term notes will be made, if at stated maturity or upon earlier redemption, on the stated maturity or the date fixed for redemption, as applicable, upon surrender of the medium-term notes at the Trustee’s corporate trust office. Payment of principal of and premium, if any, and interest upon a repayment prior to stated maturity will be made on the applicable date for repayment, provided the Holder has complied with the requirements for repayment listed in this prospectus and in the debt securities. See “—Optional Redemption, Repayment and Repurchase” below. These payments will be made in immediately available funds, provided that the medium-term notes to be paid are presented to the Trustee’s corporate trust office in time for the Senior Trustee or the paying agent, as the case may be, to make the payments in such funds in accordance with its normal procedures. Beneficial owners of book-entry debt securities will be paid in accordance with DTC’s and its participants’ procedures in effect at the relevant time as described below under “—Global Debt Securities.”

Payments on Yen-Denominated Debt Securities

Payments of principal of and premium, if any, and interest on the yen-denominated debt securities will be made on the date due by wire transfer to such account with a bank located in Japan or another jurisdiction acceptable to UBS Americas and the Senior Trustee, for any Senior Notes, or the paying agent, for any Subordinated Notes, as are designated at least 15 days prior to the applicable interest payment date or maturity, as the case may be, by the Holder of the debt security. However, in the case of payment of principal, premium, if any, and interest due at maturity, the debt security must be

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presented to the relevant Trustee or paying agent, as the case may be, in time for the Trustee or the paying agent, as the case may be, to make the payments in the appropriate funds in accordance with its normal procedures. This designation must be made by filing the appropriate information with the relevant Trustee or the paying agent, as the case may be, at the debt securities office and, unless an appropriate revocation is received by the Trustee or the paying agent, as the case may be, any such designation made with respect to any debt security by a Holder will remain in effect with respect to any further payments with respect to such debt security payable to such Holder. If a payment with respect to any such debt security cannot be made by wire transfer because the required designation has not been received by the relevant Trustee or paying agent, as the case may be, on or before the requisite date or for any other reason, a notice will be mailed to the registered Holder of the relevant debt security at its registered address requesting a designation pursuant to which the relevant wire transfer can be made and, upon receipt by the Trustee or the paying agent, as the case may be, of such a designation, the payment will be made within 15 days of receipt of the designation.

UBS Americas will pay any administrative costs imposed by banks in connection with making payments by wire transfer, but any tax, assessment or governmental charge imposed upon payments will be borne by the registered Holders of the debt securities in respect of which payments are made.

At the option of UBS Americas, payments on a debt security may be made for value on any date on which a payment of principal, premium, if any, or interest is due in a place other than the United States, even though, as a result of time zone differences, it may at the time the payment is made to the Holder of the debt security be the preceding day in the United States or it may be necessary to make a payment on the preceding day in the United States in order that the payment be available to be credited for value on the due date in the place the payment is made.

If the Japanese yen is not available (as determined by UBS Americas) on any payment date to make a payment on the yen-denominated debt securities due to the imposition of exchange controls or other circumstances beyond UBS Americas' control, or is no longer used by the government of Japan or for the settlement of transactions by public institutions of or within the international banking community, then all payments due on the relevant payment date will be made in U.S. dollars. The amount payable on any such payment date in Japanese yen will be converted into U.S. dollars at a rate determined by the exchange rate agent as of the second business day prior to the date on which the payment is due on the basis of the most recently available exchange rate for Japanese yen. Any payment made under such circumstances in U.S. dollars where the required payment is in other than U.S. dollars will not constitute an event of default under the applicable Indenture. Any such determination by UBS Americas made in good faith will be binding on the relevant Trustee or the paying agent, as the case may be, and such Holder.

All determinations referred to above made by the exchange rate agent will be at its sole discretion and, in the absence of manifest error, will be conclusive for all purposes and binding on Holders of the debt securities and UBS Americas, and the exchange rate agent will have no liability for the determination.

The yen-denominated debt securities provide that, in the event of an official redenomination of the Japanese yen, the obligations of UBS Americas with respect to payments on those debt securities will, in all cases, be deemed immediately following such redenomination to provide for payment of that amount of the redenominated Japanese yen representing the amount of such obligations immediately before such redenomination.

Global Debt Securities

If the tables above indicate that the debt securities of a series are held through DTC, then those debt securities were issued in the form of one or more global debt securities that were deposited with, or on behalf of, The Depository Trust Company. Each global debt security was issued in registered form.

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Each global debt security is registered in the name of DTC or its nominee. Upon the issuance of a global debt security, DTC credited, on its book-entry registration and transfer system, the respective principal amounts of the debt securities represented by such global debt security to the accounts of institutions that have accounts with DTC or its nominee (“participants”). Ownership of beneficial interests in a global debt security are limited to participants or persons that may hold interests through participants. Ownership of a beneficial interest in such global debt security is shown on, and the transfer of that ownership is effected only through, records maintained by DTC or its nominee (with respect to participants’ interests) or by participants or persons that hold through participants. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to transfer beneficial interests in a global debt security.

So long as DTC, or its nominee, is the owner of a global debt security, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the debt securities represented by that global debt security for all purposes under the Indenture governing those debt securities. Except as described below, owners of beneficial interests in a global debt security will not be entitled to have debt securities represented by that global debt security registered in their names, will not receive or be entitled to receive physical delivery of debt securities in definitive form and will not be considered the owners or Holders of the debt securities under the applicable Indenture. Accordingly, each person owning a beneficial interest in a global debt security must rely on the procedures of DTC and, if such person is not a participant, on the procedures of the participant and, if applicable, the indirect participant, through which the person owns its interest, to exercise any rights of a Holder under the applicable Indenture.

Payment of principal of and premium, if any, and any interest on debt securities registered in the name of or held by DTC or its nominee will be made to DTC or its nominee, as the case may be, as the Holder of the global debt security representing the relevant debt securities. None of UBS Americas, UBS AG, the trustee for such debt securities, any paying agent, any authenticating agent or the security registrar for any debt securities will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in any global debt security or for maintaining, supervising or reviewing any records relating to any beneficial ownership interests.

UBS Americas expects that DTC, upon receipt of any payment of principal of or premium, if any, or any interest on a global debt security, will credit immediately participants’ accounts with payments in amounts proportionate to their respective holdings in principal amount of beneficial interest in that global debt security as shown on the records of DTC. UBS Americas also expects that payments by participants to owners of beneficial interests in the global debt security held through those participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in “street name.” Those payments will be the responsibility of the participants.

Unless and until it is exchanged in whole for debt securities in definitive form, a global debt security may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any nominee to a successor of DTC or a nominee of such a successor. If DTC is at any time unwilling or unable to continue as depository and a successor depository is not appointed by UBS Americas within ninety days, UBS Americas will issue debt securities of that series in like tenor and terms in definitive registered form in exchange for the global debt security or global debt securities representing all of the relevant debt securities. In addition, UBS Americas may at any time and in its sole discretion determine not to have any debt securities of a series represented by global debt securities and, in that event, will issue debt securities of that series in like tenor and terms in definitive registered form in exchange for the global debt security or global debt securities representing all of the relevant debt securities. In any such instance, an owner of a

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beneficial interest in a global debt security will be entitled to physical delivery in definitive form of debt securities of the series represented by that global debt security equal in aggregate principal amount to that beneficial interest and to have those debt securities registered in the name of the owner of the beneficial interest.

DTC has advised UBS Americas and the paying agent as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to DTC’s system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Optional Redemption, Repayment and Repurchase

None of the debt securities can be redeemed prior to its stated maturity except under the limited circumstances described under “—Payment of Additional Amounts” below. The debt securities are not subject to any sinking fund. If less than all of the debt securities having the same terms (except as to principal amount and date of issuance) are to be redeemed, the debt securities to be redeemed will be selected by the applicable Trustee by a method the Trustee deems fair and appropriate and otherwise as provided under the applicable Indenture.

None of the debt securities can be repaid at the Holder’s option prior to its stated maturity.

UBS Americas and its affiliates may at any time repurchase debt securities at any price in the open market or otherwise. Debt securities so purchased by UBS Americas may, at the discretion of UBS Americas, be held or resold or surrendered to the applicable Trustee for cancellation.

Payment of Additional Amounts

Subject to the limitations and exceptions listed below, UBS Americas will pay to the Holder of any yen-denominated debt security who is a United States alien (as defined below) additional amounts that are necessary in order to ensure that every net payment of principal of, premium, if any, and interest on the debt security, is not less than the amount provided for in the debt security to be then due and payable. These amounts will be decreased by any deduction or withholding by UBS Americas, any Trustee, the paying agent or any of UBS Americas’ other paying agents for or on account of any present or future tax, assessment or other governmental charge imposed upon the Holder with respect to or as a result of such payment by the United States or any political subdivision or taxing authority of the United States. However, this obligation to pay additional amounts does not apply to any of the following:

- (a) any tax, assessment or other governmental charge that would not have been imposed but for (i) the existence of any present or former connection between the Holder (or between a fiduciary, settlor or beneficiary of, or person holding a power over, the Holder, if the Holder is an estate or a trust,

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or between a member or shareholder of the Holder, if the Holder is a partnership or corporation) and the United States, including, without limitation, the Holder (or such fiduciary, settlor, beneficiary, person holding a power, member or shareholder) being or having been a citizen or resident or treated as a resident thereof or being or having been engaged in a trade or business therein or being or having been present therein or having or having had a permanent establishment therein, or (ii) the Holder's present or former status as a domestic or foreign personal holding company, a passive foreign investment company or a controlled foreign corporation, a private foundation or other tax-exempt organization for United States Federal income tax purposes or a corporation that accumulates earnings to avoid United States Federal income tax;

- (b) any tax, assessment or other governmental charge that would not have been imposed but for the presentation by the Holder of the debt security for payment on a date more than 15 days after the date on which the payment became due and payable or the date on which payment was duly provided for, whichever occurs later;
- (c) any estate, inheritance, gift, sales, transfer, excise or personal property tax or any similar tax, assessment or other governmental charge;
- (d) any tax, assessment or other governmental charge that would not have been imposed but for the failure to comply with certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the United States of the Holder or beneficial owner of the debt security, if compliance is required by statute or by regulation of the United States or any U.S. taxing authority as a precondition to relief or exemption from the tax, assessment or other governmental charge;
- (e) any tax, assessment or other governmental charge that is (i) payable otherwise than by deduction or withholding from payments of principal of or premium, if any, or interest on the debt security or (ii) required to be deducted or withheld by any paying agent from any payment, if (and only if) the payment can be made without a deduction or withholding by any other paying agent;
- (f) any tax, assessment or other governmental charge imposed on interest received by a person holding, actually or constructively, 10 percent or more of the total combined voting power of all classes of stock of UBS Americas entitled to vote (taking into account the applicable attribution of ownership rules under Section 871(h)(3) of the Internal Revenue Code of 1986, as amended) or that is a controlled foreign corporation related to UBS Americas (directly or indirectly) through stock ownership; or
- (g) any combination of items (a), (b), (c), (d), (e) and (f).

Furthermore, additional amounts will not be paid with respect to payment of the principal of or premium, if any, or interest on the debt security to any United States alien that is a fiduciary or partnership or to a person other than the sole beneficial owner of the debt security to the extent that a beneficiary or settlor with respect to such fiduciary or a member of the partnership or a beneficial owner would not have been entitled to the additional amounts had the beneficiary, settlor, member or beneficial owner been the Holder of the relevant debt security.

Any debt security registered in the name of a United States alien may be redeemed at the option of UBS Americas in whole, but not in part, at any time, on giving not less than 30 nor more than 45 days' notice in accordance with the provisions described in "—Notices" below (which notice will be irrevocable). This redemption would be a redemption price equal to the principal amount of the debt security together with accrued interest to the redemption date, if UBS Americas determines that UBS Americas has or will become obligated to pay additional amounts with respect to the debt security on the next succeeding interest payment date as a result of any change in, or amendment to, the laws (or any regulations or rulings under the laws) of the United States or any political subdivision

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or taxing authority, or any change in the application or official interpretation of such laws, regulations or rulings by a taxing authority, court or regulatory agency, or any action taken by any taxing authority, court or regulatory agency (including any change in administrative policy or enforcement practice of such taxing authority), which change or amendment becomes effective, or action is taken, on or after the original issuance date of the debt security, and the obligation cannot be avoided by UBS Americas taking reasonable measures available to it. Before giving a notice of redemption, UBS Americas will deliver to the applicable Trustee a certificate stating that UBS Americas is entitled to make the redemption and showing that the conditions precedent to this right of have occurred. UBS Americas will also deliver an opinion of independent legal counsel addressed to UBS Americas and the Trustee to the effect that UBS Americas has or will become obligated to pay additional amounts as a result of a change or amendment. Notice of UBS Americas' intention to redeem any debt security pursuant to this paragraph will not be given earlier than 90 days prior to the earliest date that the obligation to pay additional amounts would arise were a payment in respect of the debt security due on such date.

As used in this prospectus, "United States alien" means any person who, for United States Federal income tax purposes, is a foreign corporation, a nonresident alien individual, a nonresident alien fiduciary of a foreign estate or trust, or a foreign partnership, one or more of the members of which is, for United States Federal income tax purposes, a foreign corporation, a nonresident alien individual or a nonresident alien fiduciary of a foreign estate or trust.

These provisions apply only to the yen-denominated fixed-rate securities, and not to any other securities.

Subordination

The payment of the principal of and premium, if any, and any interest on the subordinated debt securities, including sinking fund payments, is subordinated in right of payment, to the extent and in the manner provided in the Subordinated Indenture, to the prior payment in full of all "superior indebtedness" of UBS Americas.

Superior indebtedness is defined as:

- the principal of, premium, if any, and accrued and unpaid interest on (a) indebtedness of UBS Americas for money borrowed, whether outstanding on the date of execution of the Subordinated Indenture or later created, incurred or assumed, (b) guarantees by UBS Americas of indebtedness for money borrowed by any other person, whether outstanding on the date of execution of the Subordinated Indenture or later created, incurred or assumed, (c) indebtedness evidenced by notes, debentures, bonds or other instruments of indebtedness for the payment of which UBS Americas is responsible or liable, by guarantees or otherwise, whether outstanding on the date of execution of the Subordinated Indenture or later created, incurred or assumed, and (d) obligations of UBS Americas under any agreement to lease, or any lease of, any real or personal property, whether outstanding on the date of execution of the Subordinated Indenture or later created, incurred or assumed,
- any other indebtedness, liability or obligation, contingent or otherwise, of UBS Americas and any guarantee, endorsement or other contingent obligation of UBS Americas in respect of any indebtedness, liability or obligation, whether outstanding on the date of execution of the Subordinated Indenture or later created, incurred or assumed, and
- modifications, renewals, extensions and refundings of any such indebtedness, liabilities, obligations or guarantees, unless, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such indebtedness, liabilities, obligations or guarantees, or

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such modification, renewal, extension or refunding, are not superior in right of payment to the subordinated debt securities.

However, superior indebtedness will not be deemed to include, and all the subordinated debt securities will rank equal in right of payment to, any other subordinated debt securities. The Subordinated Indenture and the subordinated debt securities do not contain any covenants or other provisions that would limit the issuance of additional superior indebtedness.

No payment by UBS Americas on account of principal of or premium, if any, or any interest on the subordinated debt securities may be made if any default or event of default with respect to any superior indebtedness has occurred and is continuing and written notice of that default as an event of default has been given to the Subordinated Trustee by UBS Americas or to UBS Americas and the Trustee by the Holders of at least 10% in principal amount of any kind or category of any superior indebtedness (or a representative or trustee on their behalf). Upon any acceleration of the principal due on the subordinated debt securities or any payment or distribution of assets of UBS Americas to creditors upon any dissolution, winding up, liquidation or reorganization, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all principal of and premium, if any, and interest due or to become due on all superior indebtedness must be paid in full before the Holders of subordinated debt securities are entitled to receive or retain any payment (other than shares of stock or subordinated indebtedness provided by a plan of reorganization or adjustment that does not alter the rights of Holders of superior indebtedness).

Subject to the payment in full of all superior indebtedness, the Holders of the subordinated debt securities are to be subrogated to the rights of the Holders of superior indebtedness to receive payments or distributions of assets of UBS Americas applicable to superior indebtedness until the subordinated debt securities are paid in full.

By reason of such subordination, in the event of insolvency, creditors of UBS Americas who are Holders of superior indebtedness, as well as certain general creditors of UBS Americas, may recover more, ratably, than the Holders of the subordinated debt securities.

In addition, because UBS Americas is a holding company, UBS Americas' right, and therefore the right of its creditors (including holders of debt securities) to participate in any distribution of assets of any subsidiary of UBS Americas upon its liquidation or reorganization or otherwise is necessarily subject to the prior claims of creditors of the subsidiary, except to the extent that claims of UBS Americas itself as a creditor of the subsidiary may be recognized. Also, dividend payments and advances to UBS Americas by PaineWebber Incorporated, its largest subsidiary, are restricted by the provisions of the net capital rules of the SEC and the NYSE and covenants in various loan agreements. The operations of UBS Americas are conducted through its subsidiaries and, therefore, UBS Americas is dependent upon the earnings and cash flow of its subsidiaries to meet its obligations, including obligations under the senior debt securities and subordinated debt securities. The senior debt securities and subordinated debt securities will be effectively subordinated to all indebtedness of UBS Americas' subsidiaries.

Certain Restrictive Provisions

The Senior Indenture provides that, with certain limited exceptions, UBS Americas will not, nor will it permit any restricted subsidiary (as defined in the Senior Indenture) to, pledge as security for any loan the capital stock or indebtedness of any restricted subsidiary or create, incur, assume or permit to exist any lien on any property or asset of UBS Americas. This provision applies to all the senior debt securities.

Modification of the Indentures

Each Indenture provides that UBS Americas and the applicable Trustee may, without the consent of any Holders of debt securities, enter into supplemental indentures for the purpose, among other things, of adding to UBS Americas' covenants, adding additional events of default, establishing the form or terms of debt securities or, so long as the relevant action will not adversely affect the interests of the Holders of any series of debt securities in any material respect, curing ambiguities or inconsistencies in the applicable Indenture or making other provisions.

Each Indenture contains provisions permitting UBS Americas, with the consent of the Holders of not less than 66 $\frac{2}{3}$ % in principal amount of the outstanding debt securities of each affected series, to execute supplemental indentures adding any provisions to or changing or eliminating any of the provisions of the relevant Indenture or modifying the rights of the Holders of the debt securities of the series.

However, no such supplemental indenture may, without the consent of the Holders of all the affected outstanding debt securities, among other things:

- change the maturity of the principal of, or any installment of principal of or interest on, any of the debt securities;
- reduce the principal amount of those debt securities, any premium on those debt securities or the rate of interest on those debt securities;
- change the currency or currencies, in which any of the debt securities or any premium or interest on these debt securities is payable;
- change any obligation of UBS Americas to maintain an office or agency in the places and for the purposes required by the relevant Indenture;
- impair the right to institute suit for the enforcement of any payment due on any debt securities on or after their applicable maturity date;
- reduce the percentage in principal amount of the outstanding debt securities of any series, the consent of the Holders of which is required for any supplemental indenture or for any waiver of compliance with certain provisions of, or of certain defaults under, the applicable Indenture; or
- with certain exceptions, modify the provisions for the waiver of certain covenants and defaults and any of the foregoing provisions.

Waiver of Certain Covenants

The Senior Indenture provides that UBS Americas will not be required to comply with certain restrictive covenants (including those described above under “—Certain Restrictive Provisions”) if the Holders of at least 66 $\frac{2}{3}$ % in principal amount of each affected series of outstanding debt securities waive compliance with those restrictive covenants.

Events of Default, Notice and Waiver

An event of default in respect of any series of debt securities is:

- a default for 30 days in the payment of any installment of interest upon any of the debt securities of that series when due;
- a default in the payment of principal of or premium, if any, on any of the debt securities of that series when due;

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- a default in the performance, or breach, of any other covenants or warranties of UBS Americas in the applicable Indenture which has not been remedied for a period of 60 days after notice from the Trustee under the applicable Indenture or the Holders of not less than 25% in principal amount of the outstanding debt securities of that series; and
- certain events of bankruptcy, insolvency or reorganization of UBS Americas.

If an event of default in respect of any series of outstanding debt securities has occurred and is continuing, either the relevant Trustee or the Holders of not less than 25% in principal amount of the outstanding debt securities of the relevant series may declare the principal of all of the outstanding debt securities of that series to be immediately due and payable.

The Holders of not less than a majority in principal amount of the outstanding debt securities of any series may direct the time, method and place of conducting any proceeding for any remedy available to the relevant Trustee, or exercising any trust or power conferred on that Trustee, with respect to the debt securities of that series. However, the Trustee may act in any way that is not inconsistent with those directions and may decline to act if any direction is contrary to law or to the Indenture or would involve that Trustee in personal liability.

The Holders of not less than a majority in principal amount of the outstanding debt securities of any series may on behalf of the Holders of all of the outstanding debt securities of such series waive any past default under the applicable Indenture with respect to that series and its consequences, except a default (i) in the payment of the principal of or premium, if any, or any interest on any of the debt securities of the series or (ii) in respect of a covenant or provision of the applicable Indenture which, under the terms of that Indenture, cannot be modified or amended without the consent of the Holders of all of the affected outstanding debt securities of the series.

Each Indenture contains provisions entitling the relevant Trustee, subject to the duty of that Trustee during an event of default in respect of any series of debt securities to act with the required standard of care, to be indemnified by the Holders of the debt securities of that series before proceeding to exercise any right or power under the applicable Indenture at the request of the Holders of the debt securities of the relevant series.

The Trustee thereunder will, within 90 days after the occurrence of a default in respect of any series of debt securities, give to the Holders of the debt securities of that series notice of all uncured and unwaived defaults known to it. However, except in the case of a default in the payment of the principal of or premium, if any, or any interest on any of the debt securities of that series, the Trustee will be protected in withholding notice if it in good faith determines that the withholding of notice is in the interest of the Holders of the debt securities of that series. Furthermore, the notice will not be given until at least 30 days after the occurrence of an event of default regarding the performance, or breach, of any covenant or warranty of UBS Americas under the applicable Indenture other than for the payment of the principal of or premium, if any, or any interest on any of the debt securities of the series. The term “default” for the purpose of this provision only means any event that is, or after notice or lapse of time, or both, would become, an event of default with respect to the debt securities of the relevant series.

Each Indenture requires UBS Americas to file annually with the relevant Trustee a certificate, executed by an officer of UBS Americas, indicating whether UBS Americas is in default under that Indenture.

Meetings

Each Indenture contains provisions for convening meetings of the Holders of debt securities of a series to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action that may be made, given or taken by the Holders pursuant to the applicable Indenture. A

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meeting may be called at any time by the Trustee under the applicable Indenture, and also, upon request, by UBS Americas or the Holders of at least 10% in principal amount of the outstanding debt securities of the relevant series, upon notice given as described under “—Notices” below. Persons entitled to vote a majority in principal amount of the outstanding debt securities of a series will constitute a quorum at a meeting of Holders of debt securities of that series. However, if any action is to be taken at the meeting with respect to a consent or waiver that is required to be given by the Holders of not less than 66²/₃% in principal amount of the outstanding debt securities of a series, the persons entitled to vote 66²/₃% in principal amount of the outstanding debt securities of that series will constitute a quorum. In the absence of a quorum, (i) a meeting called by UBS Americas or the Trustee will be adjourned for a period of not less than 10 days, and in the absence of a quorum at any such adjourned meeting, the meeting will be further adjourned for a period of not less than 10 days, and (ii) a meeting called by the Holders will be dissolved.

Any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action that may be made, given or taken by the Holders of a specified percentage in principal amount of outstanding debt securities of a series may be adopted at a meeting or adjourned meeting duly reconvened at which a quorum is present by the affirmative vote of the Holders of the specified percentage in principal amount of the outstanding debt securities of that series. Any resolution passed or decision taken at any meeting of Holders of debt securities of any series duly held in accordance with the applicable Indenture will be binding on all Holders of debt securities of that series, whether or not present or represented at the meeting. With respect to any consent, waiver or other action that the applicable Indenture expressly provides may be given by the Holders of a specified percentage of the affected outstanding debt securities of all series (acting as one class), only the principal amount of outstanding debt securities of any series represented at a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid and voting in favor of such action will be counted for purposes of calculating the aggregate principal amount of affected outstanding debt securities of all series favoring such action.

Consolidation, Merger and Sale of Assets

Without the consent of any Holders of debt securities, UBS Americas may consolidate with or merge into any other corporation or transfer or lease its assets substantially as an entirety to any person or may acquire or lease the assets of any person substantially as an entirety or may permit any corporation to merge into UBS Americas, so long as:

- The successor is a corporation organized under the laws of any domestic jurisdiction.
- The successor corporation, if other than UBS Americas, assumes UBS Americas’ obligations under the applicable Indenture and all the debt securities issued under it.
- Immediately after giving effect to the transaction, no event of default and no event that, after notice or lapse of time, or both, would become an event of default, has occurred and is continuing.
- Certain other conditions are also met.

Notices

Notices to Holders of debt securities will be given by mail to the addresses of such Holders as they appear in the security register, within the time prescribed for the giving of such notice.

Title

UBS Americas, UBS AG, the appropriate Trustee and any agent of UBS Americas, UBS AG or such Trustee may treat the registered owner of any debt security as the absolute owner of that security

Description of Debt Securities

(whether or not the debt security is overdue and notwithstanding any notice to the contrary) for the purpose of making payment, delivering notices and all other purposes.

Replacement of Debt Securities

Any mutilated debt security will be replaced by UBS Americas at the expense of the Holder upon surrender of the mutilated debt security to the applicable Trustee. Debt securities that become destroyed, stolen or lost will be replaced by UBS Americas at the expense of the Holder upon delivery to the applicable Trustee of evidence of the destruction, loss or theft of the debt security satisfactory to UBS Americas and the applicable Trustee. In the case of a destroyed, lost or stolen debt security, an indemnity satisfactory to the applicable Trustee and UBS Americas may be required at the expense of the Holder of the debt security before a replacement debt security will be issued.

Defeasance

UBS Americas at its option (i) will be discharged (as this term is defined in the applicable Indenture) from any and all obligations in respect of the debt securities (except for certain obligations to register the transfer or exchange of debt securities, replace stolen, lost or mutilated debt securities, maintain paying agencies and hold moneys for payment in trust) or (ii) need not comply with certain restrictive covenants of the applicable Indenture (including those described above under “—Certain Restrictive Provisions”), if there is deposited with the Trustee money and/or (a) in the case of debt securities denominated in U.S. dollars, U.S. government obligations (as defined in the applicable Indenture), or (b) in the case of the yen-denominated debt securities, foreign government securities (as defined in the applicable Indenture), that in each case through the payment of interest and principal in accordance with their terms will provide money in an amount sufficient to pay all the principal of, and interest on, the debt securities on the dates such payments are due in accordance with the terms of the debt securities. Among the conditions to UBS Americas’s exercising any such option, UBS Americas is required to deliver to the applicable Trustee an opinion of counsel to the effect that the deposit and related defeasance would not cause the Holders of the relevant debt securities to recognize income, gain or loss for United States Federal income tax purposes and that the Holders will be subject to United States Federal income tax in the same amounts, in the same manner and at the same times as would have been the case if such deposit and related defeasance had not occurred.

Governing Law

The debt securities and the Indentures are governed by and will be construed in accordance with the laws of the State of New York.

Judgements Under Yen-Denominated Debt Securities

Courts in the United States customarily have not rendered judgments for money damages denominated in any currency other than the U.S. dollar. The Judiciary Law of the State of New York provides, however, that, in an action based upon an obligation denominated in a currency other than U.S. dollars, a court will render or enter a judgment or decree in the currency of the underlying obligation and the judgment or decree will be converted into U.S. dollars at the rate of exchange prevailing on the date of entry of the judgment or decree. It is not known whether the foregoing provision would be applied (a) in any action based on an obligation denominated in a composite currency or (b) by a Federal court sitting in the State of New York.

The Trustees Under the Indentures

The Chase Manhattan Bank is the Trustee under the Senior Indenture. Chase Manhattan Bank USA, National Association is the Trustee under the Subordinated Indenture. The Chase Manhattan Bank is a depository for funds and performs other services for, and transacts other banking business with, UBS Americas in the normal course of business.

The Guarantees

Senior Debt Securities Guarantee

UBS AG has unconditionally and irrevocably guaranteed the senior debt securities of UBS Americas Inc. issued under the Senior Indenture. UBS AG has guaranteed all the obligations of UBS Americas under the senior debt securities, including the payment of the principal of and premium, if any, and interest on the senior debt securities (including any additional interest or other amounts payable in accordance with the terms of the senior debt securities).

If UBS Americas fails to make any timely payment under the senior debt securities, the Holders of the senior debt securities or the Senior Trustee may institute legal proceedings directly against UBS without first proceeding against UBS Americas.

UBS has agreed that the senior debt securities guarantee is an absolute, present and continuing guarantee of payment and not of collectability. UBS has also agreed that its obligations under the guarantee are unconditional, irrespective of:

- the validity, legality or enforceability of the senior debt securities or the Senior Indenture,
- the absence of any action to enforce the senior debt securities or to collect from UBS Americas,
- any waiver or consent by the Holder of the senior debt securities with respect to the provisions of the senior debt securities, and
- the recovery of any judgment against UBS Americas or any action to enforce a judgment or any other circumstance that might otherwise result in a legal or equitable discharge or defense of a guarantor.

The senior debt securities guarantee is a direct, unconditional and unsecured obligation of UBS.

Subordinated Debt Securities Guarantee

UBS AG has unconditionally and irrevocably guaranteed the subordinated debt securities of UBS Americas Inc. issued under the Subordinated Indenture. UBS AG has guaranteed all the obligations of UBS Americas under the subordinated debt securities, including the payment of the principal of and premium, if any, and interest on the subordinated debt securities (including any additional interest or other amounts payable in accordance with the terms of the subordinated debt securities).

If UBS Americas fails to make any timely payment under the subordinated debt securities, the Holders of the subordinated debt securities or the Subordinated Trustee may institute legal proceedings directly against UBS without first proceeding against UBS Americas.

UBS has agreed that the subordinated debt securities guarantee is an absolute, present and continuing guarantee of payment and not of collectability and that its obligations under the guarantee are unconditional, irrespective of:

- the validity, legality or enforceability of the subordinated debt securities or the Subordinated Indenture,
- the absence of any action to enforce the subordinated debt securities or to collect from UBS Americas,
- any waiver or consent by the Holder of the subordinated debt securities with respect to the provisions of the subordinated debt securities, and

The Guarantees

- the recovery of any judgment against UBS Americas or any action to enforce the same or any other circumstance that might otherwise result in a legal or equitable discharge or defense of a guarantor.

The subordinated debt securities guarantee is a direct, unconditional and unsecured obligation of UBS. The obligations of UBS under this guarantee are subordinated in right of payment to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS (including all deposit liabilities and other liabilities of the head office and all offices of UBS wherever located), except

- (i) any liabilities that by their terms rank *pari passu* with or are subordinated to the obligations of UBS under this guarantee;
- (ii) any existing *pari passu* obligations;
- (iii) any liabilities that by their terms rank *pari passu* with or are subordinated to liabilities which by their terms rank *pari passu* with or are subordinated to the obligations of UBS under this guarantee or any existing *pari passu* obligations; and
- (iv) any existing junior subordinated obligations.

UBS's obligations under this guarantee rank *pari passu* with any existing *pari passu* obligations and any liabilities that by their terms rank *pari passu* with this guarantee or any existing *pari passu* obligations. UBS's obligations under this guarantee are senior to any existing junior subordinated obligations and any liabilities that by their terms are subordinated to the obligations of UBS under this guarantee or under any existing *pari passu* obligations.

As of 30 November 2000, the amount of senior liabilities of UBS AG to which the Holders of the subordinated debt securities would be subordinated under the UBS guarantee would be approximately CHF 580 billion. The Holders would also be structurally subordinated to all liabilities of UBS AG's subsidiaries.

For purposes of this guarantee, the term "existing *pari passu* obligations" means the obligations of UBS under the 7³/₄% Subordinated Debentures due 2026, the 7% Subordinated Debentures due 15 October 2015, the 6³/₄% Subordinated Notes due 15 July 2005, the 7³/₈% Subordinated Debentures due 15 July 2015 and the 7 1/2% Subordinated Debentures due 15 July 2025, and any other indebtedness or liability that, in accordance with its terms, ranks *pari passu* with any of the foregoing obligations.

For purposes of this guarantee, the term "existing junior subordinated obligations" means

- (i) the obligations of UBS under (x) the Amended and Restated Limited Liability Company Agreement of UBS Preferred Funding Company LLC I dated as of 3 October 2000, (y) the Subordinated Guarantee Agreement dated as of 3 October 2000 by UBS, Wilmington Trust Company, as trustee, and Wilmington Trust Company, as trustee, for the benefit of holders from time to time of Company Preferred Securities (as defined therein) of UBS Preferred Funding Company LLC I, and (z) the 8.622% Perpetual Subordinated Notes issued by UBS; and
- (ii) the obligations of UBS pursuant to the guarantees of the obligations of UBS Americas under (A) the outstanding unsecured debentures issued under the Indenture dated as of 9 December 1996 between UBS Americas and The Chase Manhattan Bank, a New York banking corporation, as trustee, as supplemented by the First Supplemental Indenture dated as of 9 December 1996, the Second Supplemental Indenture dated as of 14 March 1997, the Third Supplemental Indenture dated as of 3 November 2000 and the Fourth Supplemental Indenture dated as of 22 December 2000, (B) the Guarantee Agreement of PWG Capital Trust I dated as of 9 December 1996 between UBS Americas, as guarantor, and The Chase Manhattan Bank, a New York banking corporation, as guarantee trustee, (C) the Amended and Restated Declaration of Trust of PWG Capital Trust I

The Guarantees

dated and effective as of 9 December 1996 (the “Trust I Declaration”) by the trustees named therein, UBS Americas and the holders from time to time of undivided beneficial interests in the assets of PWG Capital Trust I issued pursuant to the Trust I Declaration, (D) the Guarantee Agreement of PWG Capital Trust II dated as of 14 March 1997 between UBS Americas, as guarantor, and The Chase Manhattan Bank, a New York banking corporation, as guarantee trustee, and (E) the Amended and Restated Declaration of Trust of PWG Capital Trust II (the “Trust II Declaration”), dated and effective as of 14 March 1997, by the trustees named therein, UBS Americas and the holders from time to time of undivided beneficial interests in the assets of PWG Capital Trust II issued pursuant to the Trust II Declaration.

Foreign Currency Risks

PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN FINANCIAL AND LEGAL ADVISERS AS TO THE RISKS ENTAILED BY AN INVESTMENT IN NOTES DENOMINATED OR PAYABLE IN A CURRENCY OTHER THAN U.S. DOLLARS. SUCH NOTES ARE NOT AN APPROPRIATE INVESTMENT FOR PERSONS WHO ARE UNSOPHISTICATED WITH RESPECT TO FOREIGN CURRENCY TRANSACTIONS.

Exchange Rates and Exchange Controls

An investment in debt securities that are denominated or payable in a specified currency other than U.S. dollars, like the Japanese yen-denominated Medium-Term Senior Notes, Series C, entails significant risks that are not associated with a similar investment in a security denominated and payable in U.S. dollars. Such risks include, without limitation, the possibility of significant changes in rates of exchange between the U.S. dollar and such specified currency and the possibility of the imposition or modification of foreign exchange controls by either the U.S. or foreign governments. Such risks generally depend on factors over which UBS Americas has no control, such as economic and political events and the supply of and demand for the relevant currencies.

In recent years, rates of exchange between the U.S. dollar and the Japanese yen have been highly volatile and such volatility may be expected in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations in the rate that may occur during the term of any debt security. Depreciation of the Japanese yen against the U.S. dollar would result in a decrease in the effective yield of the debt security below its coupon rate and, in certain circumstances, could result in a loss to the investor on a U.S. dollar basis.

The following table sets forth the noon buying rate for cable transfers in New York City payable in Japanese yen, expressed in Japanese yen per U.S. dollar as reported by the Federal Reserve Bank of New York on the last New York business day of the months indicated. These rates are provided solely for your convenience and should not be construed as a representation that Japanese yen amounts actually represent such U.S. dollar amounts or that such Japanese yen amounts could have been, or could be, converted into U.S. dollars that rate or any other rate.

Month-End	Japanese Yen/ U.S. Dollar Exchange Date
1995	
March	86.85
June	84.78
September	99.10
December	103.28
1996	
March	107.00
June	109.48
September	111.65
December	115.88

Foreign Currency Risks

Month-End	Japanese Yen/ U.S. Dollar Exchange Rate
1997	
March	123.72
June	114.61
September	120.71
December	130.45
1998	
March	133.29
June	138.29
September	136.59
December	113.08
1999	
March	118.43
June	120.94
September	106.82
December	102.16
2000	
March	105.46
June	106.14
September	107.90

The debt securities have not been and will not be registered under the Securities and Exchange Law of Japan and UBS Americas has agreed that it will not, directly or indirectly, solicit offers to purchase or, directly or indirectly, offer, sell or deliver any debt securities in Japan or to any resident in Japan except as permitted by the Securities and Exchange Law of Japan and any other applicable laws of Japan.

Governments have imposed from time to time, and may in the future impose, exchange controls which could affect exchange rates as well as the availability of the Japanese yen for making payments with respect to a debt security. There can be no assurances that exchange controls will not restrict or prohibit payments of principal or any premium or interest in the Japanese yen. Even if there are no actual exchange controls, it is possible that, on a payment date with respect to any particular debt security, the Japanese yen would not be available to UBS Americas. In that event, UBS Americas will make any required payment in the manner listed above under “Description of Debt Securities — Payment Currency.”

Foreign exchange rates can either be fixed by sovereign governments or float. Exchange rates of most economically developed nations are permitted to fluctuate in value relative to the U.S. dollar. Sovereign governments, however, rarely voluntarily allow their currencies to float freely in response to economic forces. Sovereign governments in fact use a variety of techniques, such as intervention by a country’s central bank or imposition of regulatory controls or taxes, to affect the exchange rate of their currencies. Governments may also issue a new currency to replace an existing currency or alter the exchange rate or relative exchange characteristics by devaluation or revaluation of a currency. Thus, a special risk in purchasing a debt security that is denominated or payable in a foreign currency or composite currency is that its U.S. dollar equivalent yield could be affected by governmental actions which could change or interfere with theretofore freely determined currency valuation, fluctuations in response to other market forces and the movement of currencies across borders.

Foreign Currency Risks

Currently, there are limited facilities in the United States for conversion of U.S. dollars into foreign currencies and vice versa, and few banks offer non-U.S. dollar-denominated checking or savings account facilities in the United States. Accordingly, payment of principal of and premium, if any, and interest on debt securities made in Japanese yen will be made from an account with a bank located in Japan.

The information listed in this prospectus is directed to prospective purchasers of debt securities who are United States residents, and UBS Americas disclaims any responsibility to advise prospective purchasers who are residents of countries other than the United States with respect to any matters that may affect the purchase or holding of, or receipt of payments of principal of and premium, if any, and interest on, debt securities. Such persons should consult their own legal and financial advisors with regard to such matters.

Certain United States Federal Income Tax Considerations

This section describes the material United States federal income tax consequences of owning the debt securities we are offering. It is the opinion of Sullivan & Cromwell, counsel to UBS Americas. It applies to you only if you acquire debt securities in a sale governed by this prospectus and you hold your debt securities as capital assets for tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a bank,
- a life insurance company,
- a tax-exempt organization,
- a person that owns debt securities that are a hedge or that are hedged against interest rate or currency risks,
- a person that owns debt securities as part of a straddle or conversion transaction for tax purposes, or
- a person whose functional currency for tax purposes is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

Please consult your own tax advisor concerning the consequences of owning these debt securities in your particular circumstances under the Code and the laws of any other taxing jurisdiction.

United States Holders

This subsection describes the tax consequences to a United States holder. You are a United States holder if you are a beneficial owner of a debt security and you are:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If you are not a United States holder, this section does not apply to you and you should refer to “-United States Alien Holders” below.

Payments of Interest

You will be taxed on any interest on your debt security, whether payable in U.S. dollars or a foreign currency, as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes.

Certain United States Federal Income Tax Considerations

Cash Basis Taxpayers. If you are a taxpayer that uses the cash receipts and disbursements method of accounting for tax purposes and you receive an interest payment that is denominated in, or determined by reference to, a foreign currency, you must recognize income equal to the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether you actually convert the payment into U.S. dollars.

Accrual Basis Taxpayers. If you are a taxpayer that uses an accrual method of accounting for tax purposes, you may determine the amount of income that you recognize with respect to an interest payment denominated in, or determined by reference to, a foreign currency by using one of two methods. Under the first method, you will determine the amount of income accrued based on the average exchange rate in effect during the interest accrual period or, with respect to an accrual period that spans two taxable years, that part of the period within the taxable year.

If you elect the second method, you would determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period, or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. Additionally, under this second method, if you receive a payment of interest within five business days of the last day of your accrual period or taxable year, you may instead translate the interest accrued into U.S. dollars at the exchange rate in effect on the day that you actually receive the interest payment. If you elect the second method it will apply to all debt instruments that you hold at the beginning of the first taxable year to which the election applies and to all debt instruments that you subsequently acquire. You may not revoke this election without the consent of the Internal Revenue Service.

When you actually receive an interest payment, including a payment attributable to accrued but unpaid interest upon the sale or retirement of your debt security, denominated in, or determined by reference to, a foreign currency for which you accrued an amount of income, you will recognize ordinary income or loss measured by the difference, if any, between the exchange rate that you used to accrue interest income and the exchange rate in effect on the date of receipt, regardless of whether you actually convert the payment into U.S. dollars.

Market Discount

You will be treated as if you purchased your debt security at a market discount, and your debt security will be a market discount debt security if:

- the difference between the debt security's stated redemption price at maturity and the price you paid for your debt security is equal to or greater than $\frac{1}{4}$ of 1 percent of your debt security's stated redemption price at maturity multiplied by the number of complete years to the debt security's maturity.

If your debt security's stated redemption price at maturity does not exceed the price you paid for the debt security by $\frac{1}{4}$ of 1 percent multiplied by the number of complete years to the debt security's maturity, the excess constitutes de minimis market discount, and the rules discussed below are not applicable to you.

You must treat any gain you recognize on the maturity or disposition of your market discount debt security as ordinary income to the extent of the accrued market discount on your debt security. Alternatively, you may elect to include market discount in income currently over the life of your debt security. If you make this election, it will apply to all debt instruments with market discount that you acquire on or after the first day of the first taxable year to which the election applies. You may not revoke this election without the consent of the Internal Revenue Service. If you own a market discount debt security and do not make this election, you will generally be required to defer

Certain United States Federal Income Tax Considerations

deductions for interest on borrowings allocable to your debt security in an amount not exceeding the accrued market discount on your debt security until the maturity or disposition of your debt security.

You will accrue market discount on your market discount debt security on a straight-line basis unless you elect to accrue market discount using a constant-yield method. If you make this election, it will apply only to the debt security with respect to which it is made and you may not revoke it.

Debt Securities Purchased at a Premium

If you purchase your debt security for an amount in excess of its principal amount, you may elect to treat the excess as amortizable bond premium. If you make this election, you will reduce the amount required to be included in your income each year with respect to interest on your debt security by the amount of amortizable bond premium allocable to that year, based on your debt security's yield to maturity. If your debt security is denominated in, or determined by reference to, a foreign currency, you will compute your amortizable bond premium in units of the foreign currency and your amortizable bond premium will reduce your interest income in units of the foreign currency. Gain or loss recognized that is attributable to changes in exchange rates between the time your amortized bond premium offsets interest income and the time of the acquisition of your debt security is generally taxable as ordinary income or loss. If you make an election to amortize bond premium, it will apply to all debt instruments, other than debt instruments the interest on which is excludible from gross income, that you hold at the beginning of the first taxable year to which the election applies or that you thereafter acquire, and you may not revoke it without the consent of the Internal Revenue Service.

Purchase, Sale and Retirement of the Debt Securities

Your tax basis in your debt security will generally be the U.S. dollar cost, as defined below, of your debt security, adjusted by:

- adding any market discount previously included in income with respect to your debt security, and then
- subtracting any amortizable bond premium applied to reduce interest on your debt security.

If you purchase your debt security with foreign currency, the U.S. dollar cost of your debt security will generally be the U.S. dollar value of the purchase price on the date of purchase. However, if you are a cash basis taxpayer, or an accrual basis taxpayer if you so elect, and your debt security is traded on an established securities market, as defined in the applicable Treasury regulations, the U.S. dollar cost of your debt security will be the U.S. dollar value of the purchase price on the settlement date of your purchase.

You will generally recognize gain or loss on the sale or retirement of your debt security equal to the difference between the amount you realize on the sale or retirement and your tax basis in your debt security. If your debt security is sold or retired for an amount in foreign currency, the amount you realize will be the U.S. dollar value of such amount on:

- the date payment is received, if you are a cash basis taxpayer and the debt securities are not traded on an established securities market, as defined in the applicable Treasury regulations,
- the date of disposition, if you are an accrual basis taxpayer, or
- the settlement date for the sale, if you are a cash basis taxpayer, or an accrual basis taxpayer that so elects, and the debt securities are traded on an established securities market, as defined in the applicable Treasury regulations.

Certain United States Federal Income Tax Considerations

You will recognize capital gain or loss when you sell or retire your debt security, except to the extent:

- described above under “— Market Discount”,
- attributable to accrued but unpaid interest, or
- attributable to changes in exchange rates as described below.

Capital gain of a noncorporate United States holder is generally taxed at a maximum rate of 20% where the property is held more than one year.

You must treat any portion of the gain or loss that you recognize on the sale or retirement of a debt security as ordinary income or loss to the extent attributable to changes in exchange rates. However, you take exchange gain or loss into account only to the extent of the total gain or loss you realize on the transaction.

Exchange of Amounts in Other Than U.S. Dollars

If you receive foreign currency as interest on your debt security or on the sale or retirement of your debt security, your tax basis in the foreign currency will equal its U.S. dollar value when the interest is received or at the time of the sale or retirement. If you purchase foreign currency, you generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of your purchase. If you sell or dispose of a foreign currency, including if you use it to purchase debt securities or exchange it for U.S. dollars, any gain or loss recognized generally will be ordinary income or loss.

United States Alien Holders

This subsection describes the tax consequences to a United States alien holder. You are a United States alien holder if you are the beneficial owner of a debt security and are, for United States federal income tax purposes:

- a nonresident alien individual,
- a foreign corporation,
- a foreign partnership, or
- an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a debt security.

If you are a United States holder, this section does not apply to you.

Under present United States federal income and estate tax law, and subject to the discussion of backup withholding below, if you are a United States alien holder of a debt security:

- we and other payors will not be required to deduct United States withholding tax from payments of principal, premium, if any, and interest to you if, in the case of interest;
 1. you do not actually or constructively own 10% or more of the total combined voting power of all classes of stock of UBS Americas entitled to vote,
 2. you are not a controlled foreign corporation that is related to UBS Americas through stock ownership, and
 - a. you certify to us or a U.S. payor, under penalties of perjury, that you are not a United States holder and provide your name and address, or
 - b. a non-U.S. securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business and holds the debt security

Certain United States Federal Income Tax Considerations

certifies to us or a U.S. payor under penalties of perjury that a similar statement has been received from you by it or by a similar financial institution between it and you and furnishes the payor with a copy thereof, and

- no deduction for any United States federal withholding tax will be made from any gain that you realize on the sale or exchange of your debt security.

Further, a debt security held by an individual who at death is not a citizen or resident of the United States will not be includible in the individual's gross estate for United States federal estate tax purposes if:

- the decedent did not actually or constructively own 10% or more of the total combined voting power of all classes of stock of UBS Americas entitled to vote at the time of death and
- the income on the debt security would not have been effectively connected with a United States trade or business of the decedent at the same time.

If you receive a payment after 31 December 2000, recently finalized Treasury regulations will apply. Under these final withholding regulations, after 31 December 2000, you may use an alternative method to satisfy the certification requirement described above. Additionally, if you are a partner in a foreign partnership, after 31 December 2000, you, in addition to the foreign partnership, must provide the certification described above and the partnership must provide certain information. The Internal Revenue Service will apply a look-through rule in the case of tiered partnerships.

Backup Withholding and Information Reporting

United States Holders

In general, if you are a noncorporate United States holder, we and other payors are required to report to the Internal Revenue Service all payments of principal, any premium and interest on your debt security. In addition, the proceeds of the sale of your debt security before maturity within the United States will be reported to the Internal Revenue Service. Additionally, backup withholding at a rate of 31% will apply to any payments if you fail to provide an accurate taxpayer identification number, or you are notified by the Internal Revenue Service that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

United States Alien Holders

You are generally exempt from backup withholding and information reporting with respect to any payments of principal, premium or interest made by us and other payors provided that you provide the certification described under “— United States Alien Holders,” and provided further that the payor does not have actual knowledge that you are a United States person. See “— United States Alien Holders” above for a discussion of the rules under the final withholding regulations. We and other payors, however, may report payments of interest on your debt securities on Internal Revenue Service Form 1042-S.

In general, payment of the proceeds from the sale of debt securities to or through a United States office of a broker is subject to both United States backup withholding and information reporting. If, however, you are a United States alien holder, you will not be subject to information reporting and backup withholding if you certify as to your non-United States status, under penalties of perjury, or otherwise establish an exemption. Payments of the proceeds from the sale by a United States alien holder of a debt security made to or through a foreign office of a broker will not be subject to information reporting or backup withholding. However, information reporting, but not backup

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withholding, may apply to a payment made outside the United States of the proceeds of a sale of a debt security through an office outside the United States if the broker is:

- a United States person,
- a controlled foreign corporation for United States tax purposes,
- a foreign person 50% or more of whose gross income is effectively connected with a United States trade or business for a specified three-year period, or
- with respect to payments made after 31 December 2000, a foreign partnership, if at any time during its tax year:
 - one or more of its partners are “U.S. persons”, as defined in U.S. Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership, or
 - such foreign partnership is engaged in a United States trade or business unless the broker has documentary evidence in its records that you are a non-U.S. person and does not have actual knowledge that you are a U.S. person, or you otherwise establish an exemption.

Tax Considerations Under The Laws of Switzerland

The tax information set forth below is based on the opinion of Ernst & Young AG, dated 21 December 2000, and has been approved by them for its accuracy. In this section, we summarize the principal tax consequences under the laws of Switzerland of owning debt securities fully and unconditionally guaranteed by UBS AG, Switzerland.

Under the scope of Swiss withholding tax legislation, debt securities issued by an entity domiciled outside of Switzerland (the issuer) are not subject to the Swiss withholding tax of 35% on any interest payments on those securities. If the issuer is a permanent establishment outside of Switzerland or a subsidiary that is not a resident of Switzerland, and that entity is vested with a guarantee by the parent company that is a resident of Switzerland, Swiss withholding tax does not apply if the proceeds of such securities are not used in Switzerland. If the proceeds from the sale of debt instruments by these issuers are not used in Switzerland, both (1) interest payments by the issuer and (2) any guarantee payment or comparable payment by the Swiss parent company in connection with such debt securities are free from Swiss withholding tax.

The guarantees relate to debt securities, which were issued by Paine Webber Inc. before the merger with UBS Americas Inc. UBS AG and UBS Americas Inc. will ensure that the proceeds from the sale of these debt securities are not used in Switzerland. Consequently, current and future interest payments on the debt securities should not be subject to Swiss withholding tax.

Neither the present Swiss withholding tax law nor the current practice of the Federal Tax Administration of Switzerland indicate that a guarantee payment related to interest could be re-characterized as an interest payment itself, which would be subject to withholding tax. For this reason, we believe that a possible guarantee payment will not be subject to Swiss withholding tax, irrespective of whether it is made for the principal, interest or other amounts payable in accordance with the terms of the debt securities.

ERISA Matters

A fiduciary of a pension, profit-sharing or other employee benefit plan subject to the Employment Retirement Income Security Act of 1974, as amended (“ERISA”), should consider the fiduciary standards of ERISA in the context of the plan’s particular circumstances before authorizing an investment in debt securities. Among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan.

Section 406 of ERISA and Section 4975 of the Code prohibit an employee benefit plan, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Code, from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to the plan. A violation of these “prohibited transaction” rules may result in excise tax or other liabilities under ERISA and Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption. Therefore, a fiduciary of an employee benefit plan should also consider whether an investment in debt securities might constitute or give rise to a prohibited transaction under ERISA and the Internal Revenue Code. Employee benefit plans which are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and foreign plans (as described in Section 4(b)(4) of ERISA) generally are not subject to the requirements of ERISA or Section 4975 of the Code.

UBS AG, UBS Americas, Paine Webber Group Inc., PaineWebber International and other affiliates of UBS Americas may each be considered a party in interest or disqualified person with respect to many employee benefit plans. This could be the case, for example, if one of these companies is a service provider to a plan. Special caution should be exercised, therefore, before debt securities are purchased by an employee benefit plan. In particular, the fiduciary of the plan should consider whether exemptive relief is available under an applicable administrative exemption. The Department of Labor has issued five prohibited transaction class exemptions that could apply to exempt the purchase, sale and holding of debt securities from the prohibited transaction provisions of ERISA and the Code. Those class exemptions are Prohibited Transaction Exemption 96-23 (for transactions determined by in-house asset managers), Prohibited Transaction Exemption 95-60 (for certain transactions involving insurance company general accounts), Prohibited Transaction Exemption 91-38 (for certain transactions involving bank investment funds), Prohibited Transaction Exemption 90-1 (for certain transactions involving insurance company separate accounts), and Prohibited Transaction Exemption 84-14 (for certain transactions determined by independent qualified asset managers).

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing debt securities on behalf of or with “plan assets” of any employee benefit plan consult with their counsel regarding the consequences under ERISA and the Code of the acquisition of debt securities and the availability of exemptive relief under Prohibited Transaction Exemption 96-23, 95-60, 91-38, 90-1 or 84-14.

Plan of Distribution

This prospectus is to be used by USB AG, UBS Warburg LLC, PaineWebber Incorporated and other affiliates of UBS AG in connection with offers and sales related to market-making transactions in the debt securities by and through UBS AG, UBS Warburg LLC, PaineWebber Incorporated and such other affiliates. These transactions may be executed at negotiated prices that are related to prevailing market prices at the time of sale, or at other prices. UBS AG, UBS Warburg LLC, PaineWebber Incorporated and such other affiliates may act as principal or agent in these transactions. No new securities are offered. These market-making transactions will settle in accordance with customary market practices, or as otherwise agreed by the parties. None of these affiliates will receive any compensation from UBS Americas or UBS AG for engaging in these transactions.

UBS Warburg LLC and PaineWebber Incorporated currently make a market in the debt securities. However, they are not required to do so, and they can stop doing so at any time without notice. As a result, there is no assurance as to the liquidity of any market for the debt securities.

Validity of the Securities

The validity of the debt securities was passed on, at the time of their initial issuance, by Theodore A. Levine, then PaineWebber's general counsel.

The validity of the guarantees was passed upon for UBS by Sullivan & Cromwell, New York, New York, in reliance upon the opinion of internal counsel for UBS AG as to certain matters under Swiss law. Sullivan & Cromwell has in the past represented and continues to represent UBS on a regular basis and in a variety of matters.

Experts

The consolidated financial statements of UBS AG at 31 December 1999 and 1998 and for each of the three years in the period ended 31 December 1999 appearing in this prospectus have been audited by Ernst & Young Ltd., independent auditors, as set forth in their report thereon appearing elsewhere in this prospectus, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing. The consolidated financial statements of Paine Webber Group Inc. at 31 December 1999 and 1998 and for each of the three years in the period ended 31 December 1999 appearing in this prospectus have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere in this prospectus and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

Limitation on Enforcement of U.S. Laws Against UBS, Its Management and Others

UBS is a Swiss bank. Many of its directors and executive officers, including some of the persons who signed the registration statement of which this prospectus is a part, and certain experts named in this prospectus, are resident outside the United States, and all or a substantial portion of UBS's assets and the assets of such persons are located outside the United States. As a result, it may be difficult for you to serve legal process on UBS or its management or have any of them appear in a U.S. court. We have been advised by UBS internal counsel that there is doubt as to enforceability in Switzerland, in original actions or in actions for enforcement of judgment of U.S. courts, of liabilities based solely on the federal securities laws of the United States.

Where You Can Find More Information

UBS files periodic reports and other information with the Securities and Exchange Commission. You may read and copy any document that UBS files with the SEC at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its public reference room. You may also inspect UBS's SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We have filed an amendment on Form F-1 to PaineWebber's registration statements on Form S-3 under the Securities Act with the SEC covering the debt securities and UBS's guarantees. For further information on the debt securities, the guarantees, UBS Americas and UBS, you should review our registration statement and its exhibits. This prospectus summarizes material provisions of the contracts and other documents that we refer you to. Since this prospectus may not contain all the information that you may find important, you should review the full text of these documents. We have included copies of these documents as exhibits to our registration statement.

Presentation of Financial Information

UBS's financial statements have been prepared in accordance with International Accounting Standards and are denominated in Swiss francs, or "CHF," the legal tender of Switzerland. For convenience, 31 December 1999 CHF amounts have been translated into United States dollars, or "\$," at the rate of CHF 1=\$0.6277, which was the noon buying rate on 31 December 1999, and 30 June 2000 CHF amounts have been translated into United States dollars at the rate of CHF 1=\$0.6129, which was the noon buying rate on 30 June 2000. This translation should not be construed as a representation that the Swiss franc amounts actually denote such United States dollar amounts or have been, could have been or could be, converted into United States dollars at the rate indicated.

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

Year Ended 31 December	High	Low	Average Rate(1) (\$ per 1 CHF)	At Period End
1995	0.8951	0.7616	0.8466	0.8666
1996	0.8641	0.7399	0.8090	0.7468
1997	0.7446	0.6510	0.6890	0.6845
1998	0.7731	0.6485	0.6894	0.7281
1999	0.7361	0.6244	0.6605	0.6277
2000 (through 30 September)	0.6441	0.5596	0.5941	0.5792

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

Presentation of Financial Information

Month	High	Low
June 2000	0.6181	0.5925
July 2000	0.6165	0.5959
August 2000	0.5967	0.5739
September 2000	0.5804	0.5596
October 2000	0.5773	0.5479
November 2000	0.5759	0.5529

Financial Statements of UBS

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Group Executive Board UBS AG:

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

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

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

IAS vary in certain significant respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States of America would have affected shareholders' equity as of 31 December 1999 and 1998 and the results of operations for the two years then ended to the extent summarized in Note 42 of the Notes to the Financial Statements.

Basel, 8 March 2000, except for Note 38,
as to which the date is 18 April 2000
and Note 1(t) as to which
the date is 17 August 2000

ATAG Ernst & Young Ltd.

/s/	<u>ROGER K. PERKIN</u>	/s/	<u>PETER HECKENDORN</u>
	Roger K. Perkin		Peter Heckendorn
	Chartered Accountant		lic. oec.
	in charge of the audit		in charge of the audit

Consolidated Financial Statements

UBS GROUP

Years ended 31 December 1999, 1998 and 1997

UBS GROUP
INCOME STATEMENT

<u>For the year ended</u>	<u>Note</u>	<u>31.12.1999(1)</u>	<u>31.12.1998(1)</u>	<u>31.12.1997</u>
CHF million, except per share data				
Operating income				
Interest income	4	35,604	37,442	23,669
Interest expense	4	<u>(29,695)</u>	<u>(32,424)</u>	<u>(16,733)</u>
Net interest income		5,909	5,018	6,936
Credit loss expense	12b	<u>(956)</u>	<u>(951)</u>	<u>(1,278)</u>
Net interest income after credit loss expense		<u>4,953</u>	<u>4,067</u>	<u>5,658</u>
Net fee and commission income	5	12,607	12,626	12,234
Net trading income	6	7,719	3,313	5,491
Income from disposal of associates and subsidiaries ..	7	1,821	1,119	198
Other income	8	<u>1,325</u>	<u>1,122</u>	<u>1,299</u>
Total operating income		28,425	22,247	24,880
Operating expenses				
Personnel	9	12,577	9,816	11,559
General and administrative	9	6,098	6,735	5,315
Depreciation and amortization	9	<u>1,857</u>	<u>1,825</u>	<u>1,762</u>
Total operating expenses		<u>20,532</u>	<u>18,376</u>	<u>18,636</u>
Operating profit before restructuring costs, tax and minority interests		<u>7,893</u>	<u>3,871</u>	<u>6,244</u>
Restructuring costs				<u>7,000</u>
Operating profit/(loss) before tax and minority interests		<u>7,893</u>	<u>3,871</u>	<u>(756)</u>
Tax expense/(benefit)	25	<u>1,686</u>	904	<u>(105)</u>
Net profit/(loss) before minority interests		<u>6,207</u>	<u>2,967</u>	<u>(651)</u>
Minority interests	26	<u>(54)</u>	5	<u>(16)</u>
Net profit/(loss)		<u>6,153</u>	<u>2,972</u>	<u>(667)</u>
Basic earnings per share (CHF)	10	15.20	7.33	(1.59)
Diluted earnings per share (CHF)	10	<u>15.07</u>	<u>7.20</u>	<u>(1.59)</u>

(1) The 1999 and 1998 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable IAS and changes in presentation (see Note 1: Basis of Accounting).

UBS GROUP
BALANCE SHEET

<u>For the year ended</u> CHF million	<u>Note</u>	<u>31.12.1999(1)</u>	<u>31.12.1998(1)</u>
Assets			
Cash and balances with central banks		5,073	3,267
Money market paper	11	69,717	18,390
Due from banks	12a	29,907	68,495
Cash collateral on securities borrowed	13	113,162	91,695
Reverse repurchase agreements	14	132,474	141,285
Trading portfolio assets	15	212,440	159,179
Positive replacement values	27	64,698	90,511
Loans, net of allowance for credit losses	12a	234,858	247,926
Financial investments	16	7,039	6,914
Accrued income and prepaid expenses		5,167	6,627
Investments in associates	17	1,102	2,805
Property and equipment	18	8,701	9,886
Intangible assets and goodwill	19	3,543	2,210
Other assets	20	11,007	12,092
Total assets		<u>898,888</u>	<u>861,282</u>
<i>Total subordinated assets</i>		<u>600</u>	<u>496</u>
Liabilities			
Money market paper issued		64,655	51,527
Due to banks	21	76,365	85,716
Cash collateral on securities lent	13	12,832	19,171
Repurchase agreements	14	196,914	137,617
Trading portfolio liabilities	15	54,586	47,033
Negative replacement values	27	95,786	125,847
Due to customers	21	279,960	274,850
Accrued expenses and deferred income		12,040	11,232
Long-term debt	22	56,332	50,783
Other liabilities	23,24,25	18,376	27,722
Total liabilities		<u>867,846</u>	<u>831,498</u>
Minority interests	26	<u>434</u>	<u>990</u>
Shareholders' equity			
Share capital		4,309	4,300
Share premium account		14,437	13,617
Foreign currency translation		(442)	(456)
Retained earnings		20,327	16,224
Treasury shares		(8,023)	(4,891)
Total shareholders' equity		<u>30,608</u>	<u>28,794</u>
Total liabilities, minority interests and shareholders' equity		<u>898,888</u>	<u>861,282</u>
<i>Total subordinated liabilities</i>		<u>14,801</u>	<u>13,652</u>

(1) The 1999 and 1998 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable IAS and changes in presentation (see Note 1: Basis of Accounting).

UBS GROUP
STATEMENT OF CHANGES IN EQUITY

<u>For the year ended</u>	<u>31.12.1999(1)</u>	<u>31.12.1998(1)</u>	<u>31.12.1997</u>
CHF million			
Issued and paid up share capital			
Balance at the beginning of the year	4,300	4,296	4,255
Issue of share capital	<u>9</u>	<u>4</u>	<u>41</u>
Balance at the end of the year(2)	<u>4,309</u>	<u>4,300</u>	<u>4,296</u>
Share premium			
Balance at the beginning of the year as previously reported	13,740	13,260	13,001
Change in accounting policy	(123)	1406 (4)	0
Balance at the beginning of the year (restated)	13,617	14,666	13,001
Premium on shares issued, and warrants exercised	45	111	130
Own equity derivatives	526	(1,598)	0
Net premium on treasury share and own equity derivative activity	<u>249</u>	<u>438</u>	<u>129</u>
Balance at the end of the year	<u>14,437</u>	<u>13,617</u>	<u>13,260</u>
Foreign currency translation			
Balance at the beginning of the year	(456)	(111)	(155)
Movements during the year	<u>14</u>	<u>(345)</u>	<u>44</u>
Balance at the end of the year	<u>(442)</u>	<u>(456)</u>	<u>(111)</u>
Retained earnings			
Balance at the beginning of the year as previously reported	16,293	15,464	16,931
Change in accounting policy	(69)	0	0
Balance at the beginning of the year (restated)	16,224	15,464	16,931
Net profit/(loss) for the year restated	6,153	2,972	(667)
Dividends paid restated	<u>(2,050)</u>	<u>(2,212)</u>	<u>(800)</u>
Balance at the end of the year	<u>20,327</u>	<u>16,224</u>	<u>15,464</u>
Treasury shares, at cost			
Balance at the beginning of the year as previously reported	(1,482)	(1,982)	(702)
Change in accounting policy	(3,409)	(2,345)(4)	0
Balance at the beginning of the year (restated)	(4,891)	(4,327)	(702)
Acquisitions restated	(6,595)	(3,860)	(3,172)
Disposals restated	<u>3,463</u>	<u>3,296</u>	<u>1,892</u>
Balance at the end of the year(3)	<u>(8,023)</u>	<u>(4,891)</u>	<u>(1,982)</u>
Total shareholders' equity	<u>30,608</u>	<u>28,794</u>	<u>30,927</u>

(1) The 1999 and 1998 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable IAS and changes in presentation (see Note 1: Basis of Accounting).

(2) Comprising 430,893,162 ordinary shares at 31 December 1999; 429,952,612 ordinary shares at 31 December 1998; and 428,724,700 ordinary shares at 31 December 1997 (as restated for the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation), at CHF 10 each, fully paid.

(3) Comprising 36,873,714 shares at 31 December 1999; 24,456,698 shares at 31 December 1998; and 11,692,326 shares at 31 December 1997.

(4) Opening balance sheet adjustment to 1 January 1998, with no restatement to 1997.

In addition to the Treasury shares, a maximum of 1,057,908 unissued shares (conditional capital) (1,998,458 at 31 December 1998 and 2,884,672 at 31 December 1997) can be issued without the approval of the shareholders. This amount consists of unissued and reserved shares for the former Swiss Bank Corporation employee share ownership plan and optional dividend warrants. The optional dividend warrants were the warrants granted in lieu of a cash dividend by the former Swiss Bank Corporation in February 1996 (at the option of the shareholder).

UBS GROUP
STATEMENT OF CASH FLOWS

<u>For the year ended</u>	<u>31.12.1999(1)</u>	<u>31.12.1998(1)</u>	<u>31.12.1997</u>
CHF million			
Cash flow from/(used in) operating activities			
Net profit/(loss)	6,153	2,972	(667)
Adjustments to reconcile to cash flow from/(used in) operating activities			
Non cash items included in net profit/(loss) and other adjustments:			
Depreciation and amortization	1,857	1,825	1,762
Provision for credit losses	956	951	1,278
Income from associates	(211)	(377)	(231)
Deferred tax expense/(benefit)	479	491	(1,035)
Restructuring provision	0	0	7,000
Net gain from investing activities	(2,282)	(1,803)	(967)
Net increase/(decrease) in operating assets:			
Net due from/to banks	(5,298)	(65,172)	22,503
Reverse repurchase agreements, cash collateral on securities borrowed	(12,656)	66,031	(52,440)
Trading portfolio including net replacement values	(49,956)	45,089	(38,388)
Loans due to/from customers	17,222	(5,626)	2,865
Accrued income, prepaid expenses and other assets	2,545	2,107	(350)
Net increase/(decrease) in operating liabilities:			
Repurchase agreements, cash collateral on securities lent	52,958	(49,145)	24,594
Accrued expenses and other liabilities	(7,366)	1,686	1,037
Income taxes paid	(1,063)	(733)	(1,185)
Net cash flow from/(used in) operating activities	<u>3,338</u>	<u>(1,704)</u>	<u>(34,224)</u>
Cash flow from/(used in) investing activities			
Investments in subsidiaries and associates	(1,720)	(1,563)	(1,550)
Disposal of subsidiaries and associates	3,782	1,858	1,294
Purchase of property and equipment	(2,820)	(1,813)	(1,785)
Disposal of property and equipment	1,880	1,134	1,101
Net (investment)/divestment in financial investments	356	6,134	(731)
Net cash flow from/(used in) investing activities	<u>1,478</u>	<u>5,750</u>	<u>(1,671)</u>
Cash flow from/(used in) financing activities			
Money market paper issued	13,128	(4,073)	23,303
Net movements in treasury shares and treasury share contract activity	(2,312)	(2,552)	(1,151)
Capital issuance	9	4	408
Capital repayment	0	0	(795)
Dividends paid	(2,050)	(2,212)	(800)
Issuance of long term debt	12,661	5,566	17,155
Repayment of long term debt	(7,112)	(9,068)	(9,105)
Repayment of minority interests	(689)	0	0
Net cash flow from/(used in) financing activities	<u>13,635</u>	<u>(12,335)</u>	<u>29,015</u>
Effects of exchange rate differences	148	(386)	(571)
Net increase/(decrease) in cash equivalents	<u>18,599</u>	<u>(8,675)</u>	<u>(7,451)</u>
Cash and cash equivalents, beginning of year	<u>83,678</u>	<u>92,353</u>	<u>99,805</u>
Cash and cash equivalents, end of year	<u>102,277</u>	<u>83,678</u>	<u>92,354</u>
Cash and cash equivalents comprise:			
Cash and cash balances with central banks	5,073	3,267	4,638
Money market paper	69,717	18,390	36,353
Bank deposits maturing in less than 3 months	27,487	62,021	51,363
Total	<u>102,277</u>	<u>83,678</u>	<u>92,354</u>

(1) The 1999 and 1998 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable IAS and changes in presentation (see Note 1: Basis of Accounting).

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS

Note 1 Summary of significant accounting policies

a) Basis of accounting

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

The Group adopted new International Accounting Standards (“IAS”) and changed the presentation of certain financial information effective 1 January 2000. The consolidated financial statements have been restated, where practicable, to give retroactive effect to these changes — see t) below.

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

b) Consolidation

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

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

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

c) Offsetting

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

d) Trade date/settlement date accounting

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

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

e) Foreign currency translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the income statement.

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

f) Business and geographical segments

The Group is organized on a worldwide basis into five major operating divisions and Corporate Center. These divisions are the basis upon which the Group reports its primary segment information.

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

g) Securities borrowing and lending

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

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

h) Repurchase and reverse repurchase transactions

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

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

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

i) Trading portfolio

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

j) Loans and allowance for credit losses

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

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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

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

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

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

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

k) Financial investments

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

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

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

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

l) Investments in associates

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

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

m) Property and equipment

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

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

- | | |
|----------------------------|------------------------|
| • Buildings | Not exceeding 50 years |
| • Furnishings and fixtures | Not exceeding 10 years |
| • Leasehold improvements | Not exceeding 10 years |
| • Equipment | Not exceeding 5 years |

n) Goodwill

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

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

o) Income taxes

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

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

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

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

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

In the normal course of its trading and market making activities, the Group buys and sells its own shares, own bonds and derivatives on its own shares. In 1997, these instruments were held in the trading portfolio similar to other trading instruments, and carried at fair value. Changes in fair value and dividends received on UBS AG shares and interest on its own bonds in the trading portfolio were recognized as net trading income (See Note t).

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

q) Retirement benefits

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

In accordance with IAS 19, the Group uses the projected unit credit actuarial method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

The principal actuarial assumptions made by the actuary are set out in Note 35.

The Group recognizes a portion of its actuarial gains and losses as income or expenses if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

- a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
- b) 10% of the fair value of any plan assets at that date.

The unrecognized actuarial gains and losses exceeding the greater of the two values are recognized in the income statement over the expected average remaining working lives of the employees participating in the plans.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

r) Derivative instruments

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

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

s) Comparability

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

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

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

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

t) Retroactive application of accounting changes adopted 1 January 2000

The consolidated financial statements as of and for the years ended 31 December 1999 and 1998 have been restated to reflect retroactively changes in accounting policy arising from newly applicable IAS and changes in presentation adopted 1 January 2000, as discussed below. 1997 financial information has not been restated due to unavailability of certain pre-merger data and different organizational structures.

The following notes to the financial statements also have been revised to reflect the changes referred to in this Note: Notes 2, 3, 4, 6, 10, 14, 15, 25, 27, 33, 34, 41, 42 and 43.

Standing Interpretations Committee ("SIC") 16, Share Capital — Reacquired Own Equity Instruments (Treasury Shares)

In May 1999, the International Accounting Standards Committee ("IASC") issued Interpretation SIC 16, Share Capital — Reacquired Own Equity Instruments (Treasury Shares) which the Group adopted as of 1 January 2000. The Interpretation provides guidance for the recognition, presentation, and disclosure of Treasury shares. SIC 16 applies to own shares and derivatives on own shares held for trading and non-trading purposes. SIC 16 requires own shares and derivatives on own shares to be presented as Treasury shares and deducted from Shareholders' equity. Gains and losses relating to the sale of own shares and derivatives on own shares are not recognized in the income statement but rather as a change in Shareholders' equity.

As a result of the retroactive application of Interpretation SIC 16, net trading income was reduced by CHF 196 million and CHF 81 million, and income tax expense was reduced by CHF 49 million and CHF 23 million for the years ended 31 December 1999 and 1998, respectively; these amounts were recorded in shareholders' equity. Shareholders' equity and total assets were reduced by CHF 4,227 million and CHF 3,601 million as of 31 December 1999 and 1998, respectively, to reflect the

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

reclassification of own shares and derivatives on own shares held at those dates. Of the CHF 4,227 million for 31 December 1999, CHF 4,561 million was a reduction in trading portfolio assets and the remaining CHF 334 million was an increase in positive replacement values. Of the CHF 3,601 million for 31 December 1998, CHF 3,409 million was a reduction to trading portfolio assets and the remaining CHF 192 million was a reduction to positive replacement values. In addition, shareholders' equity was adjusted as of 1 January 1998.

Offsetting of Amounts Related to Certain Contracts

In order to improve comparability with its main competitors, the Group has offset positive and negative replacement values and reverse repurchase agreements and repurchase agreements with the same counter-party for transactions covered by legally enforceable master netting agreements. Positive and negative replacement values have been reduced by CHF 66,136 million and CHF 79,233 million as of 31 December 1999 and 1998, respectively. Reverse repurchase and repurchase agreements have been reduced by CHF 12,322 million as of 31 December 1999.

Interest and Dividend Income and Expense on Trading Assets and Liabilities

In prior periods, interest and dividend income and expense on trading assets and liabilities were included in net trading income. In order to improve comparability with its main competitors, the Group has included interest and dividend income on trading assets and interest expense on trading liabilities in interest income and interest expense, respectively, and has discontinued the allocation of funding costs to net trading income.

Interest income was increased by CHF 17,281 million and CHF 14,607 million for the years ended 31 December 1999 and 1998, respectively. Interest expense was increased by CHF 17,728 million and CHF 16,251 million for the years ended 31 December 1999 and 1998, respectively. Net trading income was increased by CHF 447 million and CHF 1,644 million for the years ended 31 December 1999 and 1998, respectively.

Tax Expense

Capital taxes were included in tax expense. The Group has reclassified CHF 80 million and CHF 118 million in Capital taxes from tax expense to General and administrative expenses for the years ended 31 December 1999 and 1998, respectively.

Segment Information

In the first half of 2000, the Group reorganized its business divisions. The segment reporting for the year ended 31 December 1999 and 1998 has been restated to reflect the new Group structure.

The following IAS were adopted as of 1 January 2000, but this adoption had no material impact on the prior periods presented herein.

IAS 37, Provisions, Contingent Liabilities and Contingent Assets

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

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

IAS 38, Intangible Assets

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

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

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

u) Recent accounting standards not yet adopted

IAS 39, Recognition and Measurement of Financial Instruments

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

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 2 Segment Reporting by Business Group

The business group results have been presented on a management reporting basis. Consequently, internal charges and transfer pricing adjustments have been reflected in the performance of each business. The basis of the reporting reflects the management of the business within the Group. Total revenue includes income which is directly attributable to a business group whether from sales to external customers or from transactions with other segments. Revenue sharing agreements are used to allocate external customer revenues to a business group on a reasonable basis. Transactions between business groups are conducted at arm's length.

<u>For the year ended 31 December 1999(2)</u>	<u>UBS Switzerland</u>	<u>UBS Asset Management</u>	<u>UBS Warburg</u>	<u>Corporate Center</u>	<u>UBS Group</u>
CHF million					
Revenues	12,761	1,369	13,241	2,010	29,381
Credit loss expense(1)	(1,071)	0	(333)	448	(956)
Total operating income	<u>11,690</u>	<u>1,369</u>	<u>12,908</u>	<u>2,458</u>	<u>28,425</u>
Personnel expenses	4,691	516	7,278	92	12,577
General and administrative expenses	2,308	271	2,680	839	6,098
Depreciation	460	32	659	366	1,517
Amortization of goodwill and other intangible assets	<u>23</u>	<u>113</u>	<u>154</u>	<u>50</u>	<u>340</u>
Total operating expenses	<u>7,482</u>	<u>932</u>	<u>10,771</u>	<u>1,347</u>	<u>20,532</u>
Segment performance before tax	4,208	437	2,137	1,111	7,893
Tax expense					<u>1,686</u>
Net profit before minority interests					6,207
Minority interests					<u>(54)</u>
Net profit					<u><u>6,153</u></u>
Other information as of 31.12.1999					
Total assets(3)	254,577	10,451	721,900	(88,040)	898,888
Total liabilities(3)	270,137	4,614	695,965	(102,436)	868,280

- (1) In order to show the relevant business group performance over time, adjusted expected loss figures rather than the net credit loss expense are reported for all business groups. 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 and the net credit loss expense 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 for the year ended 31 December 1999 is as follows: UBS Switzerland CHF 985 million, UBS Warburg CHF (20) million, Corporate Center CHF (9) million.
- (2) The 1999 figures have been restated to reflect the new Group structure and retroactive changes in accounting policy and changes in presentation (see Note 1: Basis of Accounting).
- (3) The funding surplus/requirement is reflected in each business group and adjusted in Corporate Center.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

<u>For the year ended 31 December 1998(2)</u> CHF million	<u>UBS Switzerland</u>	<u>UBS Asset Management</u>	<u>UBS Warburg</u>	<u>Corporate Center</u>	<u>UBS Group</u>
Revenues	13,958	1,358	7,691	191	23,198
Credit loss expense(1)	(1,186)	0	(510)	745	(951)
Total operating income	<u>12,772</u>	<u>1,358</u>	<u>7,181</u>	<u>936</u>	<u>22,247</u>
Personnel expenses	4,448	515	4,641	212	9,816
General and administrative expenses	2,226	228	2,625	1,656	6,735
Depreciation	771	35	549	128	1,483
Amortization of goodwill and other intangible assets	4	78	173	87	342
Total operating expenses	<u>7,449</u>	<u>856</u>	<u>7,988</u>	<u>2,083</u>	<u>18,376</u>
Segment performance before tax	5,323	502	(807)	(1,147)	3,871
Tax expense					<u>904</u>
Net profit before minority interests					2,967
Minority interests					<u>5</u>
Net profit					<u><u>2,972</u></u>
Other information as of 31.12.1998					
Total assets(3)	217,215	7,266	662,006	(25,205)	861,282
Total liabilities(3)	228,583	2,848	637,676	(36,619)	832,488

- (1) In order to show the relevant divisional performance over time, adjusted expected loss figures rather than the net credit loss expense are reported for all business divisions. The statistically derived adjusted expected losses reflect the inherent counterparty and country risks in the respective portfolios. The difference between the statistically derived adjusted expected loss figures and the net credit loss expense 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 951 million as of 31 December 1998 is as follows: UBS Private Banking CHF 48 million, UBS Warburg CHF 506 million, UBS Private & Corporate Clients CHF 397 million.
- (2) The 1998 figures have been restated to reflect the new Group structure and retroactive changes in accounting policy and changes in presentation (see Note 1: Basis of Accounting).
- (3) The funding surplus/requirement is reflected in each division and adjusted in Corporate Center.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

<u>For the year ended 31 December 1997</u>	<u>UBS Private Banking</u>	<u>UBS Warburg</u>	<u>UBS Private & Corporate Clients</u>	<u>UBS Asset Management</u>	<u>UBS Capital</u>	<u>Corporate Center</u>	<u>UBS Group</u>
CHF million							
Revenues	6,215	10,888	7,005	1,040	492	518	26,158
Credit loss expense(1)	<u>(59)</u>	<u>(300)</u>	<u>(1,092)</u>	<u>0</u>	<u>0</u>	<u>173</u>	<u>(1,278)</u>
Total operating income	<u>6,156</u>	<u>10,588</u>	<u>5,913</u>	<u>1,040</u>	<u>492</u>	<u>691</u>	<u>24,880</u>
Personnel, general and administrative expenses	2,869	8,641	4,497	542	110	215	16,874
Depreciation and amortization	<u>122</u>	<u>668</u>	<u>660</u>	<u>95</u>	<u>1</u>	<u>216</u>	<u>1,762</u>
Total operating expenses	<u>2,991</u>	<u>9,309</u>	<u>5,157</u>	<u>637</u>	<u>111</u>	<u>431</u>	<u>18,636</u>
Segment performance before tax	3,165	1,279	756	403	381	260	6,244
Tax expense							<u>1,395</u>
Net profit before minority interests ...							4,849
Minority interests							<u>16</u>
Net profit before restructuring costs ...							<u>4,833</u>

(1) Basically the same methodology as for the year 1998 segment reporting is applied. Due to the unavailability of certain pre-1998 merger data and different organizational structures, the divisional breakdown of the financially booked net credit loss expense is not available.

The 1997 results do not take into account the 1998 merger provision and the impact of the 1998 merger on taxes. The net loss for the Group including these items was CHF (667) million. Due to the unavailability of certain pre-merger (1998 merger) data, 1997 assets and liabilities by business group are not presented.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 3 Segment Reporting by Geographical Location

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

	31 December 1999					
	Total operating income		Total assets		Capital investment	
	CHF m	Share %	CHF m	Share %	CHF m	Share %
Switzerland	14,976	52	227,821	25	1,990	70
Europe	7,626	27	243,427	27	356	13
Americas	3,861	14	316,363	35	386	14
Asia/Pacific	1,945	7	103,703	12	87	3
Africa/Middle East	17	0	7,574	1	1	0
Total	28,425	100	898,888	100	2,820	100

	31 December 1998					
	Total operating income		Total assets		Capital investment	
	CHF m	Share %	CHF m	Share %	CHF m	Share %
Switzerland	16,757	75	221,945	26	234	13
Europe	1,655	8	322,841	38	765	42
Americas	2,548	11	216,989	25	513	28
Asia/Pacific	1,251	6	95,402	11	304	17
Africa/Middle East	36	0	4,105	0	2	0
Total	22,247	100	861,282	100	1,818	100

Note 4 Net Interest Income

<u>For the year ended</u>	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997(1)</u>
CHF million			
Interest income			
Interest earned on loans and advances to banks	6,105	7,687	4,031
Interest earned on loans and advances to customers	12,077	14,111	17,565
Interest from finance leasing	49	60	90
Interest earned on securities borrowed and reverse repurchase agreements	11,422	10,380	0
Interest and dividend income from financial investments	160	372	498
Interest and dividend income from trading portfolio	5,598	3,901	0
Other	193	931	1,485
Total	35,604	37,442	23,669

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

<u>For the year ended</u> CHF million	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997(1)</u>
Interest expense			
Interest on amounts due to banks	5,515	8,205	7,247
Interest on amounts due to customers	8,330	9,890	10,074
Interest on securities lent and repurchase agreements	8,446	7,543	0
Interest on medium and long term debt	5,334	5,045	4,468
Interest and dividend expense from trading portfolio	2,070	1,741	0
Funding costs for trading positions	<u>0</u>	<u>0</u>	<u>(5,056)</u>
Total	<u>29,695</u>	<u>32,424</u>	<u>16,733</u>
Net interest income	<u>5,909</u>	<u>5,018</u>	<u>6,936</u>

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

Note 5 Net Fee and Commission Income

<u>For the year ended</u> CHF million	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
Credit-related fees and commissions	<u>372</u>	<u>559</u>	<u>793</u>
Security trading and investment activity fees			
Underwriting and corporate finance fees	1,831	1,694	1,645
Brokerage fees	3,934	3,670	4,145
Investment fund fees	1,915	1,778	1,457
Fiduciary fees	317	349	375
Custodian fees	1,583	1,386	1,188
Portfolio and other management and advisory fees	2,984	3,335	2,549
Other	<u>57</u>	<u>110</u>	<u>233</u>
Total	<u>12,621</u>	<u>12,322</u>	<u>11,592</u>
Commission income from other services	765	776	784
Total fee and commission income	<u>13,758</u>	<u>13,657</u>	<u>13,169</u>
Fee and commission expense			
Brokerage fees paid	795	704	694
Other	<u>356</u>	<u>327</u>	<u>241</u>
Total	<u>1,151</u>	<u>1,031</u>	<u>935</u>
Net fee and commission income	<u>12,607</u>	<u>12,626</u>	<u>12,234</u>

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 6 Net Trading Income

<u>For the year ended</u>	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997(2)</u>
CHF million			
Foreign exchange(1)	1,108	1,992	2,550
Fixed income	2,603	162	1,843
Equities	<u>4,008</u>	<u>1,159</u>	<u>1,098</u>
Net trading income	<u>7,719</u>	<u>3,313</u>	<u>5,491</u>

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

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

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

<u>For the year ended</u>	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
CHF million			
Net income from disposal of consolidated subsidiaries	8	1,149	154
Net gains/(losses) from disposal of investments in associates	<u>1,813</u>	<u>(30)</u>	<u>44</u>
Net gains from disposal of associates and subsidiaries	<u>1,821</u>	<u>1,119</u>	<u>198</u>

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

Note 8 Other Income

<u>For the year ended</u>	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
CHF million			
Investments in financial assets (debt and equity)			
Net income from disposal of private equity investments	374	587	418
Net income from disposal of other financial assets	180	398	338
Net gains/(losses) from revaluation of financial assets	<u>(102)</u>	<u>(556)</u>	<u>(16)</u>
Total	<u>452</u>	<u>429</u>	<u>740</u>
Investments in property			
Net income from disposal of properties held for resale	78	33	20
Net gains/(losses) from revaluation of properties held for resale	(49)	(106)	(90)
Net income from other properties	<u>(20)</u>	<u>328</u>	<u>99</u>
Total	<u>9</u>	<u>255</u>	<u>29</u>
Equity income from investments in associates	<u>211</u>	<u>377</u>	<u>231</u>
Other	<u>653</u>	<u>61</u>	<u>299</u>
Total other income	<u>1,325</u>	<u>1,122</u>	<u>1,299</u>

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 9 Operating Expenses

<u>For the year ended</u> CHF million	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
Personnel expenses			
Salaries and bonuses	9,872	7,082(1)	8,932
Contractors	886	535	365
Insurance and social contributions	717	542(1)	536
Contributions to retirement benefit plans	8(2)	614	580
Employee share plans	151	201	143
Other personnel expenses	<u>943</u>	<u>842</u>	<u>1,003</u>
Total	<u><u>12,577</u></u>	<u><u>9,816</u></u>	<u><u>11,559</u></u>
General and administrative expenses			
Occupancy	847	822	830
Rent and maintenance of machines and equipment	410	390	460
Telecommunications and postage	756	820	819
Administration	784	759	794
Marketing and public relations	335	262	306
Travel and entertainment	552	537	528
Professional fees, including IT outsourcing	1,815	1,792	1,464
Other	<u>599</u>	<u>1,353</u>	<u>114</u>
Total	<u><u>6,098</u></u>	<u><u>6,735</u></u>	<u><u>5,315</u></u>
Depreciation and amortization			
Property and equipment	1,517	1,483	1,623
Goodwill and other intangible assets	<u>340</u>	<u>342</u>	<u>139</u>
Total	<u><u>1,857</u></u>	<u><u>1,825</u></u>	<u><u>1,762</u></u>
Total operating expenses	<u><u>20,532</u></u>	<u><u>18,376</u></u>	<u><u>18,636</u></u>

(1) CHF 121 million of bonus related social contribution costs have been reclassified from Salaries and bonuses to Insurance and social contributions.

(2) Includes CHF 456 million prepaid employer contributions.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 10 Earnings per Share

<u>For the year ended</u>	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
Basic earnings/(loss) per share calculation			
Net profit/(loss) for the year (CHF million)	6,153	2,972	(667)
Weighted average shares outstanding:			
Registered ordinary shares	430,497,026	429,710,128	426,994,240
Treasury shares	<u>(25,754,544)</u>	<u>(24,487,833)</u>	<u>(7,724,236)</u>
Weighted average shares for basic earnings per share	404,742,482	405,222,295	419,270,004
Basic earnings/(loss) per share (CHF)	<u>15.20</u>	<u>7.33</u>	<u>(1.59)</u>
Diluted earnings/(loss) per share calculation			
Net profit/(loss) for the period (CHF million)	6,153	2,972	(667)
Weighted average shares for basic earnings per share	404,742,482	405,222,295	419,270,004
Potential dilutive ordinary shares resulting from outstanding options, warrants and convertible debt securities	<u>3,632,670</u>	<u>7,658,746</u>	<u>576,290</u>
Weighted average shares for diluted earnings per share	<u>408,375,152</u>	<u>412,881,041</u>	<u>419,846,294</u>
Diluted earnings/(loss) per share (CHF)	<u>15.07</u>	<u>7.20</u>	<u>(1.59)</u>

The weighted average number of shares is calculated based upon the average outstanding shares at the end of each month. 1999 share figures are restated for the two-for-one stock split, approved at the shareholder meeting of 18 April 2000.

Note 11 Money Market Paper

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Government treasury notes and bills	32,724	9,568
Money market placements	36,540	8,262
Other bills and cheques	<u>453</u>	<u>560</u>
Total money market paper	<u>69,717</u>	<u>18,390</u>
<i>thereof eligible for discount at central banks</i>	64,671	16,512

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 12a Due from Banks and Loans to Customers

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

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Banks	30,785	69,543
Allowance for credit losses	(878)	(1,048)
Net due from banks	<u>29,907</u>	<u>68,495</u>
Loans to customers:		
Mortgages	127,987	140,785
Other loans	<u>119,242</u>	<u>120,636</u>
Subtotal	247,229	261,421
Allowance for credit losses	(12,371)	(13,495)
Net loans to customers	<u>234,858</u>	<u>247,926</u>
Net due from banks and loans to customers	<u>264,765</u>	<u>316,421</u>
<i>thereof subordinated</i>	<u>86</u>	<u>133</u>

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

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Switzerland	183,944	187,223
Europe	44,796	53,013
Americas	31,285	44,556
Asia/Pacific	13,451	43,142
Africa/Middle East	<u>4,538</u>	<u>3,030</u>
Subtotal	278,014	330,964
Allowance for credit losses	(13,249)	(14,543)
Net due from banks and loans to customers	<u>264,765</u>	<u>316,421</u>

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

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Secured by mortgages	130,835	145,247
Collateralized by securities	19,061	13,185
Guarantees and other collateral	28,725	27,953
Unsecured	<u>99,393</u>	<u>144,579</u>
Subtotal	278,014	330,964
Allowance for credit losses	(13,249)	(14,543)
Net due from banks and loans to customers	<u>264,765</u>	<u>316,421</u>

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 12b Allowance and Provision for Credit Losses

The allowance and provision for credit losses developed as follows:

CHF million	Specific allowance	Country risk provision	Total	
			31.12.1999	31.12.1998
Balance at the beginning of the year	13,528	1,450	14,978	16,213
Write-offs	(3,271)	(4)	(3,275)	(2,324)
Recoveries	65	0	65	59
Increase/(decrease) in credit loss allowance and provision	1,122	(166)	956	951
Net foreign exchange and other adjustments(1) . . .	578	96	674	79
Balance at the end of the year	<u>12,022</u>	<u>1,376</u>	<u>13,398</u>	<u>14,978</u>

(1) Includes allowance for doubtful interest of CHF 409 million at 31 December 1999 and CHF 423 million at 31 December 1998.

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

CHF million	31.12.1999	31.12.1998
As a reduction of due from banks	878	1,048
As a reduction of loans to customers	<u>12,371</u>	<u>13,495</u>
Subtotal	13,249	14,543
Included in other liabilities related to commitments and contingent liabilities	<u>149</u>	<u>435</u>
Total allowance and provision for credit losses	<u>13,398</u>	<u>14,978</u>

Note 12c Non-Performing Loans

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

CHF million	31.12.1999	31.12.1998
Non-performing loans at beginning of year	16,113	16,664
Net additions	(638)	2,258
Write-offs and disposals	<u>(2,402)</u>	<u>(2,809)</u>
Non-performing loans at the end of the year	<u>13,073</u>	<u>16,113</u>

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

CHF million	31.12.1999	31.12.1998
Banks	<u>499</u>	<u>477</u>
Loans to customers:		
Mortgages	7,105	9,280
Other	<u>5,469</u>	<u>6,356</u>
Subtotal	<u>12,574</u>	<u>15,636</u>
Total non-performing loans	<u>13,073</u>	<u>16,113</u>

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Switzerland	11,435	14,022
Europe	223	405
Americas	697	1,156
Asia/Pacific	373	281
Africa/Middle East	345	249
Total non-performing loans	<u>13,073</u>	<u>16,113</u>

When principal and interest are overdue by 90 days, loans are classified as non-performing, the recognition of interest income ceases and a charge is recognized against income for the unpaid interest receivable. Allowances are provided for non-performing loans to reflect their net estimated recoverable amount. Unrecognized interest related to such loans totaled CHF 409 million for the year ended 31 December 1999 and CHF 423 million for the year ended 31 December 1998.

Note 13 Cash Collateral on Securities Borrowed and Lent

<u>CHF million</u>	<u>31.12.1999</u>		<u>31.12.1998</u>	
	<u>Securities borrowed</u>	<u>Securities lent</u>	<u>Securities borrowed</u>	<u>Securities lent</u>
Cash collateral by counterparties				
Banks	99,810	8,926	68,186	5,337
Customers	13,352	3,906	23,509	13,834
Total cash collateral on securities borrowed and lent	<u>113,162</u>	<u>12,832</u>	<u>91,695</u>	<u>19,171</u>

Note 14 Repurchase and Reverse Repurchase Agreements

<u>CHF million</u>	<u>31.12.1999</u>		<u>31.12.1998</u>	
	<u>Reverse Repurchase Agreements</u>	<u>Repurchase Agreements</u>	<u>Reverse Repurchase Agreements</u>	<u>Repurchase Agreements</u>
Agreements by counterparties				
Banks	93,161	125,054	107,565	77,942
Customers	39,313	71,860	33,720	59,675
Total repurchase and reverse repurchase agreements	<u>132,474</u>	<u>196,914</u>	<u>141,285</u>	<u>137,617</u>

Note 15 Trading Portfolio

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

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Trading Portfolio Assets		
Debt instruments		
Swiss government and government agencies	7,391	13,448
U.S. Treasury and government agency	21,821	9,969

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Other government	65,821	62,639
Corporate listed instruments	13,646	8,519
Other unlisted instruments	<u>8,439</u>	<u>8,100</u>
Total	<u>117,118</u>	<u>102,675</u>
Equity instruments		
Listed instruments (excluding own shares)	87,227	49,848
Unlisted instruments	<u>2,968</u>	<u>841</u>
Total	<u>90,195</u>	<u>50,689</u>
Precious metals	<u>5,127</u>	<u>5,815</u>
Total trading portfolio assets	<u><u>212,440</u></u>	<u><u>159,179</u></u>
Trading Portfolio Liabilities		
Debt instruments		
Swiss government and government agencies	0	96
U.S. Treasury and government agency	24,535	4,455
Other government	11,917	34,979
Corporate listed instruments	<u>6,459</u>	<u>3,154</u>
Total	<u>42,911</u>	<u>42,684</u>
Listed equity instruments	<u>11,675</u>	<u>4,349</u>
Total trading portfolio liabilities	<u><u>54,586</u></u>	<u><u>47,033</u></u>

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

Note 16 Financial Investments

<u>CHF million</u>	<u>31.12.1999</u>	<u>12.31.1998</u>
Debt instruments		
Listed	1,357	1,880
Unlisted	<u>609</u>	<u>547</u>
Total	<u>1,966</u>	<u>2,427</u>
Equity investments		
Listed	356	400
Unlisted	<u>557</u>	<u>1,048</u>
Total	<u>913</u>	<u>1,448</u>
Private equity investments	3,001	1,759
Properties held for resale	<u>1,159</u>	<u>1,280</u>
Total financial investments	<u><u>7,039</u></u>	<u><u>6,914</u></u>
<i>thereof eligible for discount at central banks</i>	563	544

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

CHF million	31.12.1999		31.12.1998	
	Book value	Fair value	Book value	Fair value
Valued at amortized cost				
Debt instruments	<u>677</u>	<u>687</u>	<u>1,530</u>	<u>1,551</u>
Valued at the lower of cost or market value				
Debt instruments	1,289	1,314	897	907
Equity instruments	913	939	1,448	1,552
Properties held for resale	<u>1,159</u>	<u>1,194</u>	<u>1,280</u>	<u>1,369</u>
Total	<u>3,361</u>	<u>3,447</u>	<u>3,625</u>	<u>3,828</u>
Valued at cost less adjustments for impairments				
Private equity investments	<u>3,001</u>	<u>4,146</u>	<u>1,759</u>	<u>2,574</u>
Total financial investments	<u>7,039</u>	<u>8,280</u>	<u>6,914</u>	<u>7,953</u>

Note 17 Investments in Associates

CHF million	Carrying amount as of 31.12.1998	Income	Additions	Disposals	Carrying amount as of 31.12.1999
Total investments in associates	<u>2,805</u>	<u>211</u>	<u>47</u>	<u>(1,961)</u>	<u>1,102</u>

The figure of CHF 1,961 million for disposals for the year ended 31 December 1999 primarily consists of the sale of Swiss Life/Rentenanstalt.

Note 18 Property and Equipment

CHF million	Historical cost	Accumulated amortization as of 31.12.1998	Carrying amount as of 31.12.1998	Additions	Disposals	Depreciation, write-offs	Carrying amount as of 31.12.1999	Accumulated depreciation as of 31.12.1999(3)
Bank premises	10,668	(4,096)	6,572	292	(1,050)	(354)	5,460	(3,625)
Other properties	1,802	(656)	1,146	705	(325)	(59)	1,467	(539)
Equipment and furniture	<u>6,035</u>	<u>(3,867)</u>	<u>2,168</u>	<u>1,823</u>	<u>(525)</u>	<u>(1,692)</u>	<u>1,774</u>	<u>(4,345)</u>
Total property and equipment(1)	<u>18,505</u>	<u>(8,619)</u>	<u>9,886</u>	<u>2,820</u>	<u>(1,900)</u>	<u>(2,105)(2)</u>	<u>8,701</u>	<u>(8,509)</u>

(1) Fire insurance value of property and equipment is CHF 15,004 million (1998: CHF 14,941 million).

(2) Depreciation, write-offs of CHF 2,105 million include a charge of CHF 588 million that was charged against the restructuring provision.

(3) After elimination of CHF 2,215 million accumulated depreciation relating to disposals.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 19 Intangible Assets and Goodwill

CHF million	Historical cost	Accumulated amortization as of 31.12.1998	Carrying amount as of 31.12.1998	Additions(1)	Amortization, write-offs	Carrying amount as of 31.12.1999	Accumulated amortization as of 31.12.1999(2)
Intangible assets	553	(301)	252	55	(42)	265	(40)
Goodwill	<u>2,447</u>	<u>(489)</u>	<u>1,958</u>	<u>1,618</u>	<u>(298)</u>	<u>3,278</u>	<u>(951)</u>
Total intangible assets and goodwill	<u>3,000</u>	<u>(790)</u>	<u>2,210</u>	<u>1,673</u>	<u>(340)</u>	<u>3,543</u>	<u>(991)</u>

(1) Including currency translation differences.

(2) After elimination of CHF 139 million accumulated amortization relating to intangible assets fully written off and no longer used.

Note 20 Other Assets

CHF million	31.12.1999	31.12.1998
Deferred tax assets(1)	742	1,205
Settlement and clearing accounts	4,911	5,543
VAT and other tax receivables	702	839
Other receivables	<u>4,652</u>	<u>4,505</u>
Total other assets	<u>11,007</u>	<u>12,092</u>

(1) Additional tax information is provided in Note 25.

Note 21 Due to Banks and Customers

CHF million	31.12.1999	31.12.1998
Due to banks	76,365	85,716
Due to customers in savings and investment accounts	78,640	79,723
Amounts due to customers on demand and time	<u>201,320</u>	<u>195,127</u>
Total due to customers	<u>279,960</u>	<u>274,850</u>
Total due to banks and customers	<u>356,325</u>	<u>360,566</u>

Note 22 Long-Term Debt

CHF million	31.12.1999
Total bond issues	48,305
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	2,055
Medium term notes	<u>5,972</u>
Total long-term debt	<u>56,332</u>

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<u>CHF million</u>	UBS AG (parent)		Subsidiaries		Total 31.12.1999	Total 31.12.1998
	Fixed rate	Floating rate	Fixed rate	Floating rate		
Contractual maturity date						
2000	13,395	524	818	0	14,737	8,208
2001	7,866	121	1,354	0	9,341	7,803
2002	5,313	270	2,158	399	8,140	8,368
2003	3,093	147	129	0	3,369	6,534
2004	2,316	47	286	1,705	4,354	3,772
2005-2009	9,795	208	581	1,378	11,962	12,562
Thereafter	3,476	32	921	0	4,429	3,536
Total	<u>45,254</u>	<u>1,349</u>	<u>6,247</u>	<u>3,482</u>	<u>56,332</u>	<u>50,783</u>

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

Subordinated debt securities are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group. At 31 December 1999 and 31 December 1998, the Group had CHF 13,106 million and CHF 12,071 million, respectively, in subordinated debt excluding convertible and exchangeable debt and notes with warrants which have been included in the following paragraph. Subordinated debt usually pays interest annually and provides for single principal payments upon maturity. At 31 December 1999 and 31 December 1998, the Group had CHF 41,093 million and CHF 36,379 million, respectively, in unsubordinated debt.

The Group issues convertible obligations that can be exchanged for ordinary shares of UBS AG and notes with warrants attached on UBS AG shares. Furthermore, the Group issues notes exchangeable into common stock or preferred stock of other companies, or repaid based on the performance of an index or group of securities. At 31 December 1999 and 31 December 1998, the Group had CHF 2,133 million and CHF 2,333 million, respectively, in convertible and exchangeable debt and notes with warrants attached outstanding.

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

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

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Note 23 Other Liabilities

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Provision, including restructuring provision(1)	5,995	7,094
Provision for commitments and contingent liabilities	149	435
Current tax liabilities	1,747	875
Deferred tax liabilities	994	1,012
VAT and other tax payables(2)	888	1,010
Settlement and clearing accounts	4,789	9,502
Other payables	<u>3,814</u>	<u>7,794</u>
Total other liabilities	<u>18,376</u>	<u>27,722</u>

(1) Further details to business risk and restructuring provisions are provided in Note 24.

(2) Additional information regarding income tax is provided in Note 25.

Note 24 Provisions, including Restructuring Provision

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Business risk provision		
Balance at the beginning of the year	4,121	1,142
New provisions charged to income	539	3,133
Provisions applied	(705)	(484)
Recoveries and adjustments	<u>611</u>	<u>330</u>
Balance at the end of the year	<u>4,566</u>	<u>4,121</u>
Restructuring provision		
Balance at the beginning of the year	2,973	7,000
Addition	300	0
Applied(1)		
Personnel	(378)	(2,024)
IT	(642)	(797)
Premises	(673)	(267)
Other	<u>(151)</u>	<u>(939)</u>
Total utilized during the year	<u>(1,844)</u>	<u>(4,027)</u>
Balance at the end of the year	<u>1,429</u>	<u>2,973</u>
Total provisions, including restructuring provision	<u>5,995</u>	<u>7,094</u>

(1) The expense categories refer to the nature of the expense rather than the income statement expense line.

Provision for restructuring costs: At the time of the 1998 merger, it was announced that the merged banks' operations in various locations would be combined, resulting in vacant properties, reductions in personnel, elimination of redundancies in the information technology platforms, exit costs and other costs. As a result, the individual banks estimated that the cost of the post-merger (1998 merger) restructuring would be approximately CHF 7 billion, to be expended over a period of four years. By the end of December 1999, the Group had utilized CHF 6 billion of the provision.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

As of today, many of the actions under these plans are completed or near completion. As a result of the real estate lease breaks or disposals which have been identified, the Group recognized an additional restructuring provision of CHF 300 million in 1999.

Note 25 Income Taxes

<u>For the year ended</u>	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
CHF million			
Federal and Cantonal			
Current payable.....	849	213	511
Deferred	511	463	(191)
Foreign			
Current payable.....	359	200	419
Deferred	(33)	28	(844)
Total income tax expense (benefit)	<u>1,686</u>	<u>904</u>	<u>(105)</u>

The Group made net tax payments, including domestic federal, cantonal and foreign taxes, of CHF 1,063 million and CHF 733 million for the full year of 1999 and 1998, respectively.

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

<u>For the year ended</u>	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
CHF million			
Operating profit/(loss) before tax.....	7,893	3,871	(756)
Domestic.....	6,957	10,287	1,202
Foreign	936	(6,416)	(1,958)
Income taxes at statutory rate of 25%	1,973	968	(189)
Increase/(decrease) resulting from:			
Applicable tax rates differing from statutory rate.....	55	88	(3)
Tax losses not recognized	39	1,436	310
Previously unrecorded tax losses now recognized	(215)	(142)	(201)
Lower taxed income.....	(278)	(1,849)	(333)
Non-deductible expenses	132	172	171
Adjustments related to prior years.....	(112)	7	(27)
Capital taxes	0	0	96
Change in deferred tax valuation allowance	92	224	71
Income tax expense (benefit).....	<u>1,686</u>	<u>904</u>	<u>(105)</u>

As of 31 December 1999 the Group had accumulated unremitted earnings from foreign subsidiaries on which deferred taxes had not been provided as the undistributed earnings of these foreign subsidiaries are indefinitely reinvested. In the event these earnings were distributed it is estimated that Swiss taxes of approximately CHF 35 million would be due.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
Deferred tax assets			
Compensation and benefits	316	114	106
Restructuring provision	316	718	1,100
Allowance for credit losses	138	370	573
Net operating loss carryforwards	2,194	1,610	672
Others	<u>237</u>	<u>170</u>	<u>270</u>
Total	3,201	2,982	2,721
Valuation allowance	<u>(2,459)</u>	<u>(1,777)</u>	<u>(647)</u>
Net deferred tax assets	<u>742</u>	<u>1,205</u>	<u>2,074</u>
Deferred tax liabilities			
Property and equipment	342	484	602
Investments in associates	153	299	287
Other provisions	142	109	501
Unrealized gains on investment securities	93	103	69
Others	<u>264</u>	<u>17</u>	<u>36</u>
Total	<u>994</u>	<u>1,012</u>	<u>1,495</u>

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

Certain foreign branches and subsidiaries of the Group have deferred tax assets related to net operating loss carryforwards and other items. Because recognition of these assets is uncertain, the Group has established valuation allowances of CHF 2,459 million, CHF 1,777 million and CHF 647 million at 31 December 1999, 1998 and 1997, respectively.

Net operating loss carryforwards totaling CHF 9,149 million at 31 December 1999 are available to reduce future taxable income of certain branches and subsidiaries.

The carryforwards have lives as follows:

	<u>31.12.1999</u>
One year	15
2 to 4 years	215
More than 4 years	<u>8,919</u>
Total	<u>9,149</u>

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 26 Minority Interests

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Minority interests in profit/(loss)	54	(5)
Preferred stock(1)	0	689
Minority interests in equity	<u>380</u>	<u>306</u>
Total minority interests	<u><u>434</u></u>	<u><u>990</u></u>

(1) Represents Auction Market Preferred Stock, issued by UBS Inc., New York, a subsidiary whose ordinary share capital is completely owned by UBS AG.

Note 27 Derivative Instruments

Derivatives held or issued for trading purposes

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

Derivatives held or issued for non-trading purposes

The Group also uses derivatives as part of its asset/liability management activities.

The majority of derivative positions used in UBS's asset and liability management activities are established via intercompany transactions with independently managed UBS dealer units within the Group. When the Group purchases assets and issues liabilities at fixed interest rates it subjects itself to fair value fluctuations as market interest rates change. These fluctuations in fair value are managed by entering into interest rate contracts, mainly interest rate swaps which change fixed rate instruments into variable rate instruments.

When the Group purchases foreign currency denominated assets, issues foreign currency denominated debt or has foreign net investments, it subjects itself to changes in value as exchange rates move. These fluctuations are managed by entering into currency swaps and forwards.

Type of derivatives

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

Swaps

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.

Interest rate swap contracts generally represent the contractual exchange of fixed and floating rate payments of a single currency, based on a notional amount and an interest reference rate.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

Forwards and futures

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

Options

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

Notional amounts and replacement values

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

Some derivatives are standardized in terms of their nominal amounts and settlement dates, and these are designed to be bought and sold in active markets (exchange traded). Others are packaged specifically for individual customers and are not exchange traded although they may be bought and sold between counterparties at negotiated prices (over-the-counter or OTC instruments).

Positive replacement value represents the cost to the Group of replacing all transactions with a receivable amount if all the Group's counterparties were to default. This measure is the industry standard for the calculation of current credit exposure. Positive replacement values represent current credit risk without giving effect to any possible reductions due to master netting agreements, collateral, or other security. Negative replacement value is the cost to the Group's counterparties of replacing all the Group's transactions with a commitment if the Group were to default. The total positive and negative replacement values are reported separately on the balance sheet on a net by counterparty basis.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

For the year ended 31.12.1999

	Term to maturity										Total notional amount CHF bn
	Within 3 months		3-12 months		1-5 years		over 5 years		Total	Total	
	PRV(1)	NRV(2)	PRV	NRV	PRV	NRV	PRV	NRV	PRV(4)	NRV(4)	
	CHF million										
Interest rate contracts											
Over the counter (OTC) contracts											
Forward contracts	34	55	68	19	6	1	0	0	108	75	554.0
Swaps	5,386	2,100	3,163	2,871	22,843	24,168	35,942	30,301	67,334	59,440	2,650.9
Options	108	27	47	742	268	12	4	2,018	427	2,799	1,877.0
Exchange-traded contracts(3)											
Futures	0	0	0	0	0	0	0	0	0	0	774.1
Options	0	0	0	0	0	0	0	0	0	0	54.4
Total	5,528	2,182	3,278	3,632	23,117	24,181	35,946	32,319	67,869	62,314	5,910.4
Foreign exchange contracts											
Over the counter (OTC) contracts											
Forward contracts	9,669	14,264	3,661	7,008	445	851	25	37	13,800	22,160	1,077.1
Interest and currency swaps	622	520	2,036	1,826	529	6,076	2,567	1,518	5,754	9,940	252.3
Options	3,344	2,708	3,934	3,138	8,883	411	30	10	16,191	6,267	813.5
Exchange-traded contracts(3)											
Futures	0	1	0	0	0	0	0	0	0	1	3.5
Options	0	1	4	1	0	0	0	0	4	2	3.7
Total	13,635	17,494	9,635	11,973	9,857	7,338	2,622	1,565	35,749	38,370	2,150.1
Precious metals contracts											
Over the counter (OTC) contracts											
Forward contracts	1,112	1,047	53	62	80	60	0	0	1,245	1,169	30.0
Options	277	215	594	466	1,168	1,059	117	130	2,156	1,870	82.9
Exchange-traded contracts(3)											
Futures	0	0	0	0	0	0	0	0	0	0	0.8
Options	0	5	5	8	0	10	0	0	5	23	4.9
Total	1,389	1,267	652	536	1,248	1,129	117	130	3,406	3,062	118.6
Equity/Index contracts											
Over the counter (OTC) contracts											
Forward contracts	526	1,721	1,148	2,044	503	5,325	1,762	2,787	3,939	11,877	149.4
Options	1,941	1,611	4,013	10,021	10,146	27,182	439	2,985	16,539	41,799	264.7
Exchange-traded contracts(3)											
Futures	74	46	0	0	0	0	0	0	74	46	25.1
Options	1,395	304	1,744	4,047	72	63	0	0	3,211	4,414	79.8
Total	3,936	3,682	6,905	16,112	10,721	32,570	2,201	5,772	23,763	58,136	519.0
Commodity contracts											
Over the counter (OTC) contracts											
Forward contracts	32	25	0	0	0	0	0	0	32	25	167.9
Options	15	15	0	0	0	0	0	0	15	15	79.7
Total	47	40	0	0	0	0	0	0	47	40	247.6
Total derivative instruments 31.12.1999	24,535	24,665	20,470	32,253	44,943	65,218	40,886	39,786	130,834	161,922	—

(1) PRV Positive replacement value.

(2) NRV Negative replacement value.

(3) Exchange-traded products include proprietary trades only.

(4) The figures above are presented on a gross by counterparty basis for disclosure purposes, but shown net in the balance sheet (see Note 1: Basis of Accounting).

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

For the year ended 31.12.1998

	Term to maturity										Total notional amount CHF bn
	Within 3 months		3-12 months		1-5 years		over 5 years		Total	Total	
	PRV(1)	NRV(2)	PRV	NRV	PRV	NRV	PRV	NRV	PRV(4)	NRV(4)	
	CHF million										
Interest rate contracts											
Over the counter (OTC) contracts											
Forward contracts	783	932	309	271	45	29	42	23	1,179	1,255	217.7
Swaps	3,488	4,502	6,657	6,024	36,464	35,799	38,056	34,758	84,665	81,084	3,722.5
Options	233	327	465	615	2,947	4,476	3,207	4,427	6,852	9,845	2,519.2
Exchange-traded contracts(3)											
Futures	12	7	0	1	2	0	0	0	14	7	732.3
Options	0	0	0	0	0	0	0	0	0	0	77.8
Total	4,516	5,768	7,431	6,911	39,458	40,304	41,305	39,208	92,710	92,191	7,269.5
Foreign exchange contracts											
Over the counter (OTC) contracts											
Forward contracts	3,439	498	6,493	9,455	278	261	164	237	10,375	10,451	888.4
Interest and currency swaps	2,456	3,009	1,718	2,683	4,626	5,202	4,974	5,097	13,775	15,991	235.4
Options	4,718	17,168	10,123	218	1,945	619	604	604	17,390	18,610	921.9
Exchange-traded contracts(3)											
Futures	0	0	0	0	0	0	0	0	0	0	2.5
Options	156	120	193	0	0	5	0	0	348	124	5.2
Total	10,769	20,795	18,527	12,356	6,849	6,087	5,742	5,938	41,888	45,176	2,053.4
Precious metals contracts											
Over the counter (OTC) contracts											
Forward contracts	4,539	4,633	216	295	75	60	10	0	4,840	4,988	47.7
Options	2,840	2,915	24	6	41	0	0	0	2,905	2,921	56.2
Exchange-traded contracts(3)											
Futures	0	0	0	0	0	0	0	0	0	0	1.2
Options	4	0	15	0	2	0	0	0	21	0	5.0
Total	7,383	7,548	255	301	118	60	10	0	7,766	7,909	110.1
Equity/Index contracts											
Over the counter (OTC) contracts											
Forward contracts	279	383	325	608	791	2,421	159	446	1,554	3,858	57.3
Options	8,220	15,347	4,619	8,480	8,700	25,726	1,687	4,598	23,227	54,151	939.6
Exchange-traded contracts(3)											
Futures	3	15	0	0	0	0	0	0	3	15	17.7
Options	128	242	703	392	754	305	75	9	1,659	948	62.0
Total	8,630	15,987	5,647	9,480	10,245	28,452	1,921	5,053	26,443	58,972	1,076.6
Commodity contracts											
Over the counter (OTC) contracts											
Forward contracts	114	52	244	214	325	359	65	66	749	691	8.9
Options	8	0	62	70	24	0	5	0	99	70	3.0
Exchange-traded contracts(3)											
Futures	0	0	85	65	0	0	0	0	85	65	2.2
Options	0	0	0	7	2	0	0	0	2	7	0.9
Total	122	52	391	356	351	359	70	66	935	823	15.0
Total derivative instruments											
31.12.1998	31,420	50,150	32,251	29,404	57,022	75,262	49,048	50,265	169,742	205,081	—

(1) PRV Positive replacement value.

(2) NRV Negative replacement value.

(3) Exchange-traded products include proprietary trades only.

(4) The figures above are presented on a gross by counterparty basis for disclosure purposes, but shown net in the balance sheet (see Note I: Basis of Accounting).

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 28 Pledged Assets

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

	31.12.1999		31.12.1998	
	Carrying amount	Related liability	Carrying amount	Related liability
CHF million				
Money market paper	35,578	707	6,981	5
Mortgage loans	2,536	1,736	2,955	2,047
Securities(1)	23,837	585	13,902	5,636
Property and equipment	170	91	147	71
Other	<u>2,110</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total pledged assets	<u>64,231</u>	<u>3,119</u>	<u>23,985</u>	<u>7,759</u>

(1) Excluding securities pledged in respect of securities borrowing and repurchase agreements.

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

Note 29 Fiduciary Transactions

	31.12.1999	31.12.1998
CHF million		
Placements with third parties	60,221	60,612
Fiduciary credits and other fiduciary financial transactions	<u>1,438</u>	<u>652</u>
Total fiduciary transactions	<u>61,659</u>	<u>61,264</u>

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

Note 30 Commitments and Contingent Liabilities

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

The figures disclosed in the accompanying tables represent the amounts at risk should clients draw fully on all facilities and then default, and there is no collateral. Determination of the creditworthiness

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

of the clients is part of the normal credit risk management process, and the fees charged for maintenance of the facilities reflect the various credit risks.

	<u>31.12.1999</u>	<u>31.12.1998</u>
CHF million		
Contingent liabilities		
Credit guarantees and similar instruments(1)	18,822	22,697
Sub-participations	<u>(3,665)</u>	<u>(5,217)</u>
Total	<u>15,157</u>	<u>17,480</u>
Performance guarantees and similar instruments(2)	6,782	12,092
Sub-participations	<u>(42)</u>	<u>(216)</u>
Total	<u>6,740</u>	<u>11,876</u>
Irrevocable commitments under documentary credits	2,704	2,942
Sub-participations	<u>0</u>	<u>(39)</u>
Total	<u>2,704</u>	<u>2,903</u>
Gross contingent liabilities	28,308	37,731
Sub-participations	<u>(3,707)</u>	<u>(5,472)</u>
Net contingent liabilities	<u>24,601</u>	<u>32,259</u>
Irrevocable commitments		
Undrawn irrevocable credit facilities	65,693	82,337
Sub-participations	<u>(1,836)</u>	<u>(26)</u>
Total	<u>63,857</u>	<u>82,311</u>
Liabilities for calls on shares and other equities	<u>57</u>	<u>109</u>
Gross irrevocable commitments	65,750	82,446
Sub-participations	<u>(1,836)</u>	<u>(26)</u>
Net irrevocable commitments	<u>63,914</u>	<u>82,420</u>
Gross commitments and contingent liabilities	94,058	120,177
Sub-participations	<u>(5,543)</u>	<u>(5,498)</u>
Net commitments and contingent liabilities	<u>88,515</u>	<u>114,679</u>

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

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

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

<u>CHF million</u>	<u>Mortgage collateral</u>	<u>Other collateral</u>	<u>Unsecured</u>	<u>Total</u>
Overview of collateral				
Gross contingent liabilities	191	11,356	16,761	28,308
Gross irrevocable commitments	386	8,774	56,533	65,693
Liabilities for calls on shares and other equities	<u>0</u>	<u>0</u>	<u>57</u>	<u>57</u>
Total 31.12.1999	<u>577</u>	<u>20,130</u>	<u>73,351</u>	<u>94,058</u>
Total 31.12.1998	<u>389</u>	<u>33,363</u>	<u>86,425</u>	<u>120,177</u>

Note 31 Operating Lease Commitments

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

<u>CHF million</u>	<u>31.12.1999</u>
Operating leases due:	
2000	247
2001	202
2002	184
2003	187
2004	153
2005 and thereafter	<u>1,919</u>
Total commitments for minimum payments under operating leases	<u>2,892</u>

Operating expenses include CHF 742 million and CHF 797 million in respect of operating lease rentals for the year ended 31 December 1999 and for the year ended 31 December 1998 respectively.

Note 32 Litigation

In the United States, several class actions, in relation to what is known as the Holocaust affair, have been brought against UBS AG (as legal successor to Swiss Bank Corporation and Union Bank of Switzerland) in the United States District Court for the Eastern District of New York (Brooklyn). These lawsuits were initially filed in October 1996. Another Swiss bank has been designated as a defendant alongside us. On 12 August 1998, however, a settlement was reached between the parties. This settlement provides for a payment by the defendant banks to the plaintiffs, under certain terms and conditions, of an aggregate amount of USD 1.25 billion. UBS agreed to contribute up to two-thirds of this amount. To the extent that other Swiss companies agreed to participate in this fund, and to the extent of applicable payments to beneficiaries of eligible dormant accounts, our share was to be reduced. Based on our estimate of such expected contributions, we provided a reserve of USD 610 million in 1998 and an additional USD 95 million in 1999. A number of persons have elected to opt out of the settlement and not participate in the class action. It is expected that a decision approving the settlement will be issued in 2000, which will be followed by hearings on the allocation of the settlement amount. We will continue to monitor the contributions of other Swiss companies, in order to determine whether we will need an adjustment to the reserve.

In addition, UBS AG and other companies within the Group are subject to various claims, disputes and legal proceedings, as part of the normal course of business. The Group makes provision for such matters when, in the opinion of management and its professional advisors, it is probable that a

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

payment will be made by the Group, and the amount can be reasonably estimated. All litigation provisions are included under Business risk provision within Other liabilities in the accompanying Group Balance Sheet.

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

OTHER INFORMATION

Note 33 Financial Instruments Risk Position

Overall Risk Position

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

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

(a) Interest Rate Risk

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

Interest rate sensitivity

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

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

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Interest rate sensitivity position

		Interest sensitivity by time bands as at 31.12.1999					
		within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
		CHF thousand per basis point					
CHF	Trading	171	(902)	466	506	(417)	(176)
	Non-trading	(30)	(8)	(398)	(6,204)	(1,220)	(7,860)
USD	Trading	(411)	1,018	386	(109)	(908)	(24)
	Non-trading	3	(33)	(10)	83	1,207	1,250
EUR	Trading	(39)	(239)	113	600	(1,406)	(971)
	Non-trading	0	(3)	3	30	210	240
GBP	Trading	1	43	10	(34)	(77)	(57)
	Non-trading	0	5	(39)	77	815	858
JPY	Trading	484	(1,708)	927	(101)	135	(263)
	Non-trading	0	0	0	(1)	(4)	(5)
Others	Trading	(34)	46	50	(195)	24	(109)
	Non-trading	0	0	0	0	0	0

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

Trading

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

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Non-trading

The interest rate risk related to client business with undefined maturities and non-interest bearing business including the strategic management of overall balance sheet interest rate exposure is managed by the Corporate Center. Significant contributors to the overall USD and GBP interest rate sensitivity were strategic long-term subordinated note issues which are intentionally unswapped since they are regarded as constituting a part of the Group's equity for asset and liability management purposes. At 31 December 1999, the Group's equity was invested in a portfolio of fixed rate CHF deposits with an average duration of 2.16 years. As this equity investment is the most significant component of the CHF book, this results in the entire book having an interest rate sensitivity of CHF (7.9) million, which is reflected in the table above. This is in line with the duration and sensitivity targets set by the Group Executive Board. Investing in shorter-term or variable rate instruments would mean exposing the earnings stream (interest income) to higher fluctuations.

(b) Credit Risk

Credit risk is the risk of loss from the default by an obligor or counterparty. This risk is managed primarily based on reviews of the financial status of each specific counterparty. Credit risk is greater when counterparties are concentrated in a single industry or geographical region. This is because a group of otherwise unrelated counterparties could be adversely affected in their ability to repay their obligations because of economic developments affecting their common industry or region.

Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location.

(b)(i) On-balance sheet assets

As of 31 December 1999, due from banks and loans to customers amounted to CHF 278 billion (as of 31 December 1998 CHF 331 billion). 66.2% (56.6%) of the loans were with clients domiciled in Switzerland. Please refer to Note 12 for a breakdown by region.

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

Credit commitments and contingent liabilities

Of the CHF 94 billion in credit commitment and contingent liabilities as of 31 December 1999 (as of 31 December 1998 CHF 120 billion), 11% (11%) relate to clients domiciled in Switzerland, 36% (21%) in Europe (excluding Switzerland) and 42% (55%) in North America.

Derivatives

Credit risk represents the current replacement value of all outstanding derivative contracts in a gain position without factoring in the impact of master netting agreements or the value of any collateral. Positive replacement values amounted to CHF 130 billion as at 31 December 1999 (CHF 169 billion as at 31 December 1998), before applying any master netting agreements. Based on the location of the ultimate counterparty, 4% (8%) of this credit risk amount relates to Switzerland, 49% (47%) to Europe (excluding Switzerland) and 37% (33%) to North America. 71% (76%) of the positive replacement values are with other banks.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

(b)(iii) Credit risk mitigation techniques

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

Master netting agreements eliminate risk to the extent that only the net claim is due to be settled in the case of a default of the counterparty. The impact of master netting agreements as at 31 December 1999 is to mitigate credit risk on derivative instruments by approximately CHF 66 billion (as of 31 December 1998 CHF 79 billion). The impact can change substantially over short periods of time, because the exposure is affected by each transaction subject to the arrangement.

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

(c) Currency Risk

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

Breakdown of assets and liabilities by currencies

CHF billion	31.12.1999				31.12.1998		
	CHF	USD	EUR	Other	CHF	USD	Other
Assets							
Cash and balances with central banks	3.4	0.2	0.5	1.0	2.4	0.3	0.6
Money market paper	1.5	38.6	0.7	28.9	2.2	10.3	5.9
Due from banks	7.5	7.7	5.3	9.4	12.7	13.3	42.5
Cash collateral on securities borrowed	0.1	106.4	1.1	5.6	0.2	74.5	17.0
Reverse repurchase agreements	2.0	42.5	37.9	50.1	0.2	38.3	102.8
Trading portfolio assets	29.5	77.4	26.9	78.6	21.4	40.0	97.8
Positive replacement values	8.3	5.7	0.6	50.1	9.5	11.1	69.9
Loans, net of allowance for credit losses	166.4	35.0	5.3	28.2	173.5	40.0	34.4
Financial investments	2.5	2.9	0.7	0.9	2.6	2.5	1.8
Accrued income and prepaid expenses	1.7	1.8	0.5	1.2	1.2	1.8	3.6
Investments in associates	0.9	0.1	0.0	0.1	2.6	0.0	0.2
Property and equipment	7.4	0.5	0.1	0.7	8.5	0.6	0.8
Intangible assets and goodwill	1.2	2.2	0.0	0.1	0.3	1.7	0.2
Other assets	3.1	1.9	2.5	3.5	4.9	3.1	4.1
Total assets	<u>235.5</u>	<u>322.9</u>	<u>82.1</u>	<u>258.4</u>	<u>242.2</u>	<u>237.5</u>	<u>381.6</u>
Liabilities							
Money market paper issued	1.0	55.7	0.3	7.7	1.0	38.5	12.0
Due to banks	8.1	36.3	14.5	17.5	25.4	33.6	26.7
Cash collateral on securities lent	0.1	6.5	1.0	5.2	0.1	5.9	13.2
Repurchase agreements	16.5	91.3	27.8	61.3	10.7	74.3	52.6
Trading portfolio liabilities	0.0	38.2	5.4	11.0	0.2	8.1	38.7
Negative replacement values	12.8	6.9	2.0	74.0	16.8	12.1	97.0

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

CHF billion	31.12.1999				31.12.1998		
	CHF	USD	EUR	Other	CHF	USD	Other
Due to customers	127.5	93.8	23.7	35.0	138.0	80.2	56.7
Accrued expenses and deferred income	3.1	4.9	0.5	3.6	3.3	2.6	5.3
Long-term debt	23.7	17.6	3.1	11.9	23.4	16.9	10.5
Other liabilities	9.1	4.0	0.8	4.5	14.6	6.1	7.0
Minority interests	0.3	0.0	0.0	0.1	1.0	0.0	0.0
Shareholders' equity	30.6	0.0	0.0	0.0	28.8	0.0	0.0
Total liabilities, minority interests and shareholders' equity	232.8	355.2	79.1	231.8	263.3	278.3	319.7

(d) Liquidity Risk

Maturity analysis of assets and liabilities

CHF billion	On demand	Subject to notice(1)	Due within 3 mths	Due between 3 and 12 mths	Due between 1 and 5 years	Due after 5 years	Total
Assets							
Cash and balances with central banks	5.1	—	—	—	—	—	5.1
Money market paper	—	—	67.8	1.9	—	—	69.7
Due from banks	8.4	—	19.1	1.6	0.5	0.3	29.9
Cash collateral on securities borrowed	—	—	112.7	—	0.5	—	113.2
Reverse repurchase agreements	—	—	130.6	1.9	—	—	132.5
Trading portfolio assets	212.4	—	—	—	—	—	212.4
Positive replacement values	64.7	—	—	—	—	—	64.7
Loans, net of allowance for credit losses	—	53.4	64.9	39.2	70.8	6.6	234.9
Financial investments	5.0	—	0.1	0.2	0.9	0.8	7.0
Accrued income and prepaid expenses	5.2	—	—	—	—	—	5.2
Investments in associates	—	—	—	—	—	1.1	1.1
Property and equipment	—	—	—	—	—	8.7	8.7
Intangible assets and goodwill	—	—	—	—	—	3.5	3.5
Other assets	11.0	—	—	—	—	—	11.0
Total 31.12.1999	311.8	53.4	395.2	44.8	72.7	21.0	898.9
Total 31.12.1998	293.8	59.9	375.8	43.5	66.0	22.3	861.3
Liabilities							
Money market paper issued	—	—	24.3	40.4	—	—	64.7
Due to banks	10.1	1.1	60.2	4.4	0.3	0.3	76.4
Cash collateral on securities lent	—	—	12.8	—	—	—	12.8
Repurchase agreements	—	—	185.6	11.3	—	—	196.9
Trading portfolio liabilities	54.6	—	—	—	—	—	54.6
Negative replacement values	95.7	—	—	—	—	—	95.7
Due to customers	58.6	82.1	127.0	8.1	1.7	2.5	280.0

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

CHF billion	On demand	Subject to notice(1)	Due within 3 mths	Due between 3 and 12 mths	Due between 1 and 5 years	Due after 5 years	Total
Accrued expenses and deferred income	12.0	—	—	—	—	—	12.0
Long-term debt	—	0.4	6.3	8.4	28.0	13.2	56.3
Other liabilities	18.4	—	—	—	—	—	18.4
Total 31.12.1999	249.4	83.6	416.2	72.6	30.0	16.0	867.8
Total 31.12.1998	288.7	83.5	371.1	42.2	29.7	16.3	831.5

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

(e) Capital adequacy

Risk-weighted assets (BIS)

CHF million	31.12.1999		31.12.1998	
	Balance sheet/notional amount	Risk-weighted amount	Balance sheet/notional amount	Risk-weighted amount
Balance sheet assets				
Due from banks and other collateralized lendings	229,794	9,486	244,246	13,845
Net positions in securities(1)	77,858	5,805	28,109	7,334
Positive replacement values	64,698	18,175	90,511	29,494
Loans, net of allowances for credit losses and other collateralized lendings	292,928	159,835	305,155	164,113
Accrued income and prepaid expenses	5,167	3,164	6,627	3,190
Property and equipment(2)	8,701	9,860	9,886	11,166
Other assets	11,007	7,686	12,092	7,900
Off-balance sheet and other positions				
Contingent liabilities	28,308	14,459	37,731	19,471
Irrevocable commitments	65,693	17,787	82,337	18,197
Forward and swap contracts(3)	4,881,483	13,213	5,177,912	7,130
Purchased options(3)	406,208	2,823	489,005	5,861
Market risk positions(4)	—	10,813	—	16,018
Total risk-weighted assets	—	273,106	—	303,719

(1) Excluding positions in the trading book, these are included in market risk positions.

(2) Including CHF 1,159 million (1998: CHF 1,280 million) foreclosed properties and properties held for disposal, which are recorded in the balance sheet under financial investments.

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

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

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

BIS Capital ratios

	31.12.1999		31.12.1998	
	Capital	BIS %	Capital	BIS %
Tier 1	28,952	10.6%	28,220	9.3%
Tier 2	10,730	—	12,086	—
Total BIS	<u>39,682</u>	<u>14.5%</u>	<u>40,306</u>	<u>13.2%</u>

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

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

The net positions in securities not held in the trading book reflect the Group's exposure to an issuer of securities arising from its physical holdings and other related transactions in that security.

For contingent liabilities and irrevocable facilities granted, the credit equivalent is calculated by multiplying the nominal value of each transaction by its corresponding credit conversion factor. The resulting amounts are then weighted for credit risk using the same percentage as for balance sheet assets. In the case of OTC forward contracts and purchased options, the credit equivalent is computed on the basis of the current replacement value of the respective contract plus a security margin (add-on) to cover the future potential credit risk during the remaining duration of the contract.

UBS calculates its capital requirement for market risk positions, which includes interest-rate instruments and equity securities in the trading book as well as positions in foreign exchange and commodities throughout the Group, using an internal Value at Risk (VaR) model. This approach was introduced in the BIS 1996 market risk amendment to the Basel Accord of July 1988 and incorporated in the Swiss capital adequacy rules of the Banking Ordinance.

The BIS proposal requires that the regulators perform tests of the bank internal models before giving permission for these models to be used to calculate the market risk capital. Based on extensive checks, the use of the Group internal models was accepted by the Swiss Federal Banking Commission (FBC) in July 1999.

Tier 1 capital consists of permanent shareholders' equity and retained earnings less goodwill and investments in unconsolidated subsidiaries. Tier 2 capital includes the Group's subordinated long-term debt.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 34 Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Fair Value of Financial Instruments

CHF billion	31.12.1999			31.12.1998		
	Carrying Value	Fair Value	Unrealized Gain/(Loss)	Carrying Value	Fair Value	Unrealized Gain/(Loss)
Assets						
Cash and balances with central banks	5.0	5.0	0.0	3.3	3.3	0.0
Money market paper	69.7	69.7	0.0	18.4	18.4	0.0
Due from banks	30.0	30.0	0.0	68.6	68.7	0.1
Cash collateral on securities borrowed	113.2	113.2	0.0	91.7	91.7	0.0
Reverse repurchase agreements	132.5	132.5	0.0	141.3	141.3	0.0
Trading portfolio assets	212.4	212.4	0.0	159.2	159.2	0.0
Positive replacement values	64.7	64.7	0.0	90.5	90.5	0.0
Loans, net of allowance for credit losses	235.1	235.3	0.2	248.3	250.7	2.4
Financial investments	5.9	7.1	1.2	5.7	6.5	0.8
Liabilities						
Money market paper issued	64.7	64.7	0.0	51.5	51.5	0.0
Due to banks	76.9	76.9	0.0	86.1	86.1	0.0
Cash collateral on securities lent	12.8	12.8	0.0	19.2	19.2	0.0
Repurchase agreements	196.9	196.9	0.0	137.6	137.6	0.0
Trading portfolio liabilities	54.6	54.6	0.0	47.0	47.0	0.0
Negative replacement values	95.8	95.8	0.0	125.8	125.8	0.0
Due to customers	280.1	280.1	0.0	275.3	275.6	(0.3)
Long-term debt	56.4	57.6	(1.2)	51.0	53.3	(2.3)
Fair value effect on income of hedging derivatives recorded on the accrual basis			0.5			1.0
Net difference between carrying value and fair value			0.7			1.7

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

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

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

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

Note 35 Retirement Benefit Plans and Other Employee Benefits

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

Swiss Pension Plans until 30 June 1999

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

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

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

Swiss Pension Plans starting 1 July 1999

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

As a result of the merger of the plans of the former banks in Switzerland, on 1 July 1999 there was a one-time increase of vested plan benefits for the beneficiaries of such plans. This had the effect of increasing the defined benefit obligation at this date by CHF 3,525 million. In accordance with IAS 19 (revised 1998) this resulted in a one-time charge to income which was offset by the recognition of

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

assets (previously unrecognized due to the paragraph 58(b) limitation of IAS 19 (revised 1998)) used to fund this increase in benefits.

The pension plan covers practically all employees in Switzerland and exceeds the minimum benefits requirements under the Swiss law.

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

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

The Group booked an amount of CHF 456 million in 1999 related to the recognition of "Excess Employer Contributions." These assets were recognized in the fourth quarter as certain legal and regulatory issues related to the Group's ability to utilize these assets for future funding purposes were resolved.

CHF million	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
Swiss pension plans			
Defined benefit obligation	(17,011)	(14,944)	(14,431)
Plan assets at fair value	<u>18,565</u>	<u>17,885</u>	<u>17,224</u>
Plan assets in excess of benefit obligation	1,554	2,941	2,793
Unrecognized net actuarial (gains)/losses	(724)	(385)	(385)
Unrecognized assets	<u>(374)</u>	<u>(2,556)</u>	<u>(2,408)</u>
Prepaid pension cost	<u>456</u>	<u>0</u>	<u>0</u>
Additional details to fair value of plan assets			
Own financial instruments and securities lent to UBS included in plan assets	<u>6,785</u>	<u>2,761</u>	<u>2,202</u>
Any assets used by the bank included in plan assets	<u>187</u>	<u>176</u>	<u>176</u>
Retirement benefits expense			
Current service cost	464	535	524
Interest cost	636	726	705
Expected return on plan assets	(883)	(856)	(756)
Adjustment to limit prepaid pension cost	(150)	148	22
Amortization of unrecognized prior service costs	172	6	(8)
Employee contributions	<u>(180)</u>	<u>(185)</u>	<u>(194)</u>
Actuarially determined net periodic pension cost	<u>59</u>	<u>374</u>	<u>293</u>
Actual return on plan assets	11.9%	6.7%	15.5%
Principal actuarial assumptions used (%)			
Discount rate	4.0	5.0	5.0
Expected rate of return on assets p.a.	5.0	5.0	5.0
Expected rate of salary increase	2.0–3.0	3.5–5.5	3.5–5.5
Rate of pension increase	<u>1.5</u>	<u>2.0</u>	<u>2.0</u>

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Foreign Pension Plans

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

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

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

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

Postretirement Medical and Life Plans

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

The benefit obligation in excess of plan assets for those plans amounts to CHF 113 million as of 31 December 1999 (1998 CHF 93 million, 1997 CHF 100 million) and the total unfunded accrued postretirement liabilities to CHF 83 million (1998 CHF 62 million, 1997 CHF 50 million). The actuarially determined net postretirement cost amounts to CHF 17 million for 1999 (1998 CHF 17 million, 1997 CHF 14 million).

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
Pension plans abroad			
Defined benefit obligation	(2,444)	(2,009)	(1,950)
Plan assets at fair value	<u>2,880</u>	<u>2,173</u>	<u>2,187</u>
Plan assets in excess of benefit obligation	436	164	237
Unrecognized net actuarial (gains)/losses	(474)	(63)	(160)
Unrecognized transition amount	1	2	(17)
Unrecognized past service cost	2	0	0
Unrecognized assets	<u>(28)</u>	<u>(60)</u>	<u>(24)</u>
(Unfunded accrued)/Prepaid pension cost	<u>(63)</u>	<u>43</u>	<u>36</u>
Movement of net (liability)/asset			
Prepaid pension cost/(benefit) at the beginning of the year . . .	43	36	(12)
Net periodic pension cost	(123)	(33)	9
Employer contributions	22	43	39
Currency adjustment	<u>(5)</u>	<u>(3)</u>	<u>—</u>
(Unfunded accrued)/Prepaid pension cost at the end of the year	<u>(63)</u>	<u>43</u>	<u>36</u>

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
Retirement benefits expense			
Current service cost	118	116	114
Interest cost	123	140	115
Expected return on plan assets	(195)	(191)	(147)
Amortization of net transition (assets)/liability	0	2	(85)
Adjustment to limit prepaid pension cost	21	2	0
Immediate recognition of transition assets under IAS 8	0	(23)	0
Amortization of unrecognized prior service costs	77	7	0
Amortization of unrecognized net (gain)/losses	(6)	(3)	0
Effect of any curtailment or settlement	0	(8)	0
Employee contributions	(15)	(9)	(6)
Actuarially determined net periodic pension cost	<u>123</u>	<u>33</u>	<u>(9)</u>
Actual return on plan assets	15.3%	5.2%	21.4%
Principal actuarial assumptions used (%)			
Discount rate	5.75–7.50	6.50–7.50	6.50–7.50
Expected rates of return on assets p.a	8.00–8.50	8.50–8.75	8.50–8.75
Expected rate of salary increase	3.50–5.60	3.50–9.00	3.50–9.00
Rate of pension increase	<u>0.00–2.50</u>	<u>0.00–3.75</u>	<u>0.00–3.75</u>

Note 36 Equity Participation Plans

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

Options in UBS AG Shares

	Number of options 31.12.1999	Weighted- average exercise price (in CHF) 31.12.1999	Number of options 31.12.1998	Weighted- average exercise price (in CHF) 31.12.1998	Number of options 31.12.1997	Weighted- average exercise price (in CHF) 31.12.1997
Outstanding, at the beginning of the year	7,202,786	177	1,899,924	186	0	—
Granted during the year	3,439,142	237	5,811,778	182	1,899,924	186
Exercised during the year	(71,766)	179	(22,970)	178	0	—
Forfeited during the year	(431,700)	190	(485,946)	268	0	—
Outstanding, at the end of the year . .	<u>10,138,462</u>	<u>197</u>	<u>7,202,786</u>	<u>177</u>	<u>1,899,924</u>	<u>186</u>
Exercisable, at the end of the year . .	<u>650,640</u>	<u>186</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>—</u>

Of the total options outstanding at 31 December 1999: 9,974,770 options (650,640 of which were exercisable) had exercise prices ranging from CHF 170 to CHF 237, or CHF 196 on average, and had a weighted-average remaining contractual life of 4.58 years; and 163,692 options (none of which were exercisable) had exercise prices ranging from CHF 255 to CHF 270, or CHF 261 on average, and had a weighted-average remaining contractual life of 4.45 years.

Note 37 Related Parties

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

Total remuneration of related parties recognized in the income statement during the year amounted to CHF 193.1 million and CHF 102.8 million for the year ended 1998. The number of long-term stock options outstanding from equity plans was 274,616 at 31 December 1999 and 255,000 at 31 December 1998. This scheme is further explained in Note 36.

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

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

<u>CHF million</u>	<u>31.12.1999</u>
Mortgages at the beginning of the year	27
Additions	6
Reductions	(5)
Mortgages at the end of the year	<u>28</u>

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

Loans and advances to significant associated companies were as follows:

<u>CHF million</u>	<u>31.12.1999</u>
Loans and advances at the beginning of the year	165
Additions	42
Reductions	<u>(145)</u>
Loans and advances at the end of the year	<u>62</u>

Note 39 provides a list of significant associates.

Note 38 Post Balance Sheet Events

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

Note 39 Significant Subsidiaries and Associates

Significant Subsidiaries

<u>Company</u>	<u>Registered office</u>	<u>Division</u>	<u>Share capital in millions</u>	<u>Equity interest accumulated in %</u>
Armand von Ernst & Cie AG	Bern	PB(1)	CHF 5.0	100.0
Aventic AG	Zurich	PCC(2)	CHF 30.0	100.0
Bank Ehinger & Cie AG	Basel	PB	CHF 6.0	100.0
BDL Banco di Lugano	Lugano	PB	CHF 50.0	100.0
Brinson Partners Inc.	Chicago	AM(3)	USD —	100.0
Brunswick Warburg Limited	Georgetown	WA(4)	USD 50.0	50.0
Cantrade Privatbank AG	Zurich	PB	CHF 10.0	100.0
Cantrade Private Bank Switzerland (CI) Ltd	St Helier	PB	GBP 0.7	100.0
Crédit Industriel SA	Zurich	CAP(5)	CHF 10.0	100.0
EIBA "Eidgenössische Bank"	Zurich	CAP	CHF 14.0	100.0
Factors AG	Zurich	PCC	CHF 5.0	100.0
Ferrier Lullin & Cie SA	Geneva	PB	CHF 30.0	100.0
Global Asset Management Ltd	Hamilton	AM	USD 2.0	100.0
HYPOSWISS, Schweizerische Hypotheken- und Handelsbank	Zurich	PB	CHF 26.0	100.0
IL Immobilien-Leasing AG	Opfikon	PCC	CHF 5.0	100.0

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

<u>Company</u>	<u>Registered office</u>	<u>Division</u>	<u>Share capital in millions</u>	<u>Equity interest accumulated in %</u>
Indelec Holding AG	Basel	CAP	CHF 10.0	100.0
Intrag	Zurich	PB	CHF 10.0	100.0
Klinik Hirslanden AG	Zurich	CC(6)	CHF 22.5	91.2
NYRE Holding Corp	Wilmington	WA	USD 102.9(7)	100.0
Phillips & Drew Fund Management Limited	London	AM	GBP —	100.0
Phillips & Drew Limited	London	AM	GBP 8.0	100.0
PT Warburg Dillon Read Indonesia	Jakarta	WA	IDR 11000.0	85.0
SBC Equity Partners AG	Opfikon	CAP	CHF 71.7	100.0
Schröder Münchmeyer Hengst AG	Hamburg	PB	DEM 100.0	100.0
SG Warburg & Co International BV	Amsterdam	WA	GBP 148.0(7)	100.0
SG Warburg Securities SA	Geneva	WA	CHF 14.5	100.0
Solothurner Bank SoBa	Solothurn	PCC	CHF 50.0	100.0
Systor AG	Zurich	PCC	CHF 5.0	100.0
Thesaurus Continentale Effekten-Gesellschaft Zürich	Zurich	CAP	CHF 30.0	100.0
UBS Investment Management Pte Ltd	Singapore	WA	SGD 0.5	90.0
UBS (Bahamas) Ltd	Nassau	PB	USD 4.0	100.0
UBS (Cayman Islands) Ltd	Georgetown	PB	USD 5.6	100.0
UBS (France) SA	Paris	WA	EUR 10.0	100.0
UBS (Italia) SpA	Milan	PB	ITL 43000.0	100.0
UBS (Luxembourg) SA	Luxembourg	PB	CHF 150.0	100.0
UBS (Monaco) SA	Monte Carlo	PB	EUR 9.2	100.0
UBS (Panama) SA	Panama	PB	USD 6.0	100.0
UBS (Sydney) Limited	Sydney	WA	AUD 12.7	100.0
UBS (Trust and Banking) Ltd	Tokyo	PB	JPY 10500.0	100.0
UBS (USA), Inc.	Delaware	WA	USD 763.3(7)	100.0
UBS Australia Holdings Ltd	Sydney	WA	AUD 11.7	100.0
UBS Australia Ltd	Sydney	WA	AUD 15.0	100.0
UBS Bank (Canada)	Toronto	PB	CAD 90.4(7)	100.0
UBS Beteiligungs-GmbH & Co KG	Frankfurt	WA	EUR 398.8	100.0
UBS Brinson Asset Management Co. Ltd	Tokyo	AM	JPY 800.0	100.0
UBS Brinson Inc.	New York	AM	USD 72.7(7)	100.0
UBS Brinson Investment GmbH	Frankfurt	AM	DEM 10.0	100.0
UBS Brinson Limited	London	AM	GBP 8.8	100.0
UBS Brinson Ltd	Sydney	AM	AUD 8.0	100.0
UBS Brinson Pte Ltd	Singapore	AM	SGD 4.0	100.0

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

<u>Company</u>	<u>Registered office</u>	<u>Division</u>	<u>Share capital in millions</u>	<u>Equity interest accumulated in %</u>
UBS Brinson SA	Paris	AM	EUR 0.8	100.0
UBS Capital AG	Zurich	CAP	CHF 0.5	100.0
UBS Capital Asia Pacific Ltd	Georgetown	CAP	USD 5.0	100.0
UBS Capital BV	The Hague	CAP	EUR 104.1(7)	100.0
UBS Capital GmbH	Frankfurt	CAP	EUR —	100.0
UBS Capital II LLC	Delaware	CAP	USD 2.7	100.0
UBS Capital LLC	New York	CAP	USD 18.6(7)	100.0
UBS Capital Partners Ltd	London	CAP	GBP 6.7	100.0
UBS Capital S.p.A	Milan	CAP	ITL 50000.0	100.0
UBS Card Center AG	Glattbrugg	PCC	CHF 40.0	100.0
UBS España SA	Madrid	PB	EUR 35.3	100.0
UBS Finance (Cayman Islands) Limited	Georgetown	CC	USD 0.5	100.0
UBS Finance (Curaçao) NV	Curaçao	CC	USD 0.1	100.0
UBS Finance (Delaware) LLC	Wilmington	WA	USD 37.3(7)	100.0
UBS Finanzholding AG	Zurich	CC	CHF 10.0	100.0
UBS Fund Holding (Luxembourg) SA	Luxembourg	PB	CHF 42.0	100.0
UBS Fund Holding (Switzerland) AG	Basel	PB	CHF 18.0	100.0
UBS Fund Management (Japan) Co. Ltd	Tokyo	PB	JPY 1000.0	100.0
UBS Fund Management (Switzerland) AG	Basel	PB	CHF 1.0	100.0
UBS Fund Services (Luxembourg) S.A.	Luxembourg	PB	CHF 2.5	100.0
UBS Futures & Options Limited	London	WA	GBP 2.0	100.0
UBS Immoleasing AG	Zurich	PCC	CHF 3.0	100.0
UBS Inc.	New York	WA	USD 308.7(7)	100.0
UBS International Holdings BV	Amsterdam	CC	CHF 5.5	100.0
UBS Invest Kapitalanlagegesellschaft mbH	Frankfurt	PB	DEM 5.0	64.0
UBS Lease Finance LLC	New York	WA	USD 16.7	100.0
UBS Leasing AG	Brugg	PCC	CHF 10.0	100.0
UBS Limited	London	WA	GBP 10.0	100.0
UBS Overseas Holding BV	Amsterdam	CAP	EUR 18.1(7)	100.0
UBS Securities (Hong Kong) Ltd	Hong Kong	WA	HKD 20.0	100.0
UBS Securities Limited	London	WA	GBP 10.0	100.0
UBS International Limited	London	WA	GBP 10.0	100.0
UBS Services (Japan) Ltd	London	WA	JPY 41,358.5	100.0
UBS Services Limited	London	WA	GBP —	100.0
UBS Trust (Canada)	Toronto	PB	CAD 10.0	100.0
UBS UK Holding Ltd	London	WA	GBP 5.0	100.0

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

<u>Company</u>	<u>Registered office</u>	<u>Division</u>	<u>Share capital in millions</u>	<u>Equity interest accumulated in %</u>
UBS UK Limited	London	WA	GBP 609.0	100.0
Warburg Dillon Read (Asia) Ltd	Hong Kong	WA	HKD 20.0	100.0
Warburg Dillon Read (Australia) Corporation Pty Limited	Sydney	WA	AUD 50.4(7)	100.0
Warburg Dillon Read (España) SA	Madrid	WA	EUR 1.2	100.0
Warburg Dillon Read (France) SA	Paris	WA	EUR 22.9	100.0
Warburg Dillon Read (Hong Kong) Ltd	Hong Kong	WA	HKD 30.0	100.0
Warburg Dillon Read (Italia) S.I.M. SpA	Milan	WA	EUR 1.8	100.0
Warburg Dillon Read (Japan) Ltd	Georgetown	WA	JPY 30000.0	50.0
Warburg Dillon Read (Malaysia) Sdn. Bhd	Kuala Lumpur	WA	MYR 0.5	100.0
Warburg Dillon Read (Nederland) BV	Amsterdam	WA	EUR 10.9	100.0
Warburg Dillon Read AG	Frankfurt	WA	EUR 155.7	100.0
Warburg Dillon Read Australia Ltd	Sydney	WA	AUD 571.5(7)	100.0
Warburg Dillon Read Derivatives Ltd	Hong Kong	WA	HKD 20.0	100.0
Warburg Dillon Read Futures Inc.	Chicago	WA	USD 14.3(7)	100.0
Warburg Dillon Read International Limited	London	WA	GBP 18.0	100.0
Warburg Dillon Read LLC	New York	WA	USD 535.0(7)	100.0
Warburg Dillon Read Pte. Ltd	Singapore	WA	SGD 3.0	100.0
Warburg Dillon Read Securities (España) SVB SA	Madrid	WA	EUR 13.4	100.0
Warburg Dillon Read Securities (India) Private Ltd	Mumbai	WA	INR 0.4	75.0
Warburg Dillon Read Securities (Philippines) Inc	Makati	WA	PHP 120.0	100.0
Warburg Dillon Read Securities (South Africa) (Pty) Ltd	Sandton	WA	ZAR 22.0	100.0
Warburg Dillon Read Securities Co. Ltd	Bangkok	WA	THB 400.0	100.0
Warburg Dillon Read Securities Ltd	London	WA	GBP 140.0	100.0

(1) PB: UBS Private Banking.

(2) PCC: UBS Private and Corporate Clients.

(3) AM: UBS Asset Management.

(4) WA: UBS Warburg.

(5) CAP: UBS Capital.

(6) CC: Corporate Center.

(7) Share Capital + share premium.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Significant Associates

<u>Company</u>	<u>Equity interest</u>	<u>Share capital in millions</u>
Giubergia Warburg SIM SpA, Milan	50.0%	ITL 29,000
Motor Columbus AG, Baden	35.6%	CHF 253
National Versicherung AG, Basel	28.4%	CHF 35
Telekurs Holding AG, Zürich	33.3%	CHF 45
Swiss Financial Services Group AG, Zurich	30.7%	CHF 26

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

Consolidated Companies: Changes in 1999

New companies

Global Asset Management Ltd., Hamilton
 Klinik Hirslanden AG, Zürich
 UBS Brinson Realty Investors LLC, Hartford (formerly Allegis Realty Investors LLC)
 UBS Capital AG, Zürich
 UBS España SA, Madrid
 UBS (France) SA, Paris
 UBS Trustees (Channel Island) Ltd., Jersey (formerly Bankamerica Trust Company)

Deconsolidated companies

<u>Name</u>	<u>Reason for deconsolidation</u>
UBS (East Asia) Ltd., Singapore	Deregistered
UBS Securities (Singapore) Pte Ltd., Singapore	Deregistered

Note 40 Significant Foreign Currency Translation Rates

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

	<u>Spot rate</u>			<u>Average rate</u>		
	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
1 EUR	1.61	—	—	1.60	—	—
1 GBP	2.58	2.29	2.41	2.43	2.41	2.37
1 USD	1.59	1.38	1.46	1.50	1.45	1.45
100 DEM	82.07	82.19	81.24	81.88	82.38	83.89
100 JPY	1.56	1.22	1.12	1.33	1.11	1.19

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 41 Swiss Banking Law Requirement

The significant differences between International Accounting Standards (IAS), which are the principles followed by the Group, and the accounting for banks under Swiss laws and regulations, are as follows:

Securities borrowing and lending

Under IAS, only the cash collateral delivered or received is recognized in the balance sheet. There is no recognition or derecognition for the securities received or delivered. The Swiss requirement is to recognize the securities received or delivered in the balance sheet along with any collateral in respect of those securities for which control is transferred.

Treasury shares

Treasury shares is the term used to describe the holding by an enterprise of its own equity instruments. In accordance with IAS, treasury shares are presented in the balance sheet as a deduction from equity. No gain or loss is recognized in the income statement on the sale, issuance, or cancellation of those shares. Consideration received is presented in the financial statement as a change in equity.

Under Swiss requirements, treasury shares and derivatives on treasury shares would be carried in the balance sheet as financial investments with gains and losses on the sale, issuance, or cancellation of treasury shares reflected in the income statement.

Extraordinary income and expense

Under IAS, most items of income and expense arise in the course of ordinary business, and extraordinary items are expected to be rare. Under the Swiss requirements, income and expense not directly related with the core business activities of the enterprise (*e.g.*, sale of fixed assets or bank premises) are recorded as extraordinary income or expense.

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Differences in the balance sheet		
Securities borrowing and lending		
Assets		
Trading portfolio assets/Money market paper	47,401	97,907
Due from banks/customers	273,093	40,915
Liabilities		
Due to banks/customers	375,080	185,855
Trading portfolio liabilities	(54,586)	(47,033)
Treasury shares		
Assets		
Trading portfolio assets	4,561	3,409
Positive replacement values	334	192
Financial investments	3,136	1,482

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

<u>For the year ended</u>	<u>31.12.1999</u>	<u>31.12.1998</u>	<u>31.12.1997</u>
CHF million			
Differences in the income statement			
Treasury shares	(36)	427	129
Reclassification of extraordinary income and expense			
Other income, including income from associates	(1,726)	(1,350)	(162)
General and administrative expenses	(519)	(1,235)	(114)
Differences in the shareholders' equity			
Treasury shares	7,543	5,025	1,982

Note 42 Differences Between International Accounting Standards and United States Generally Accepted Accounting Principles

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

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

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

a. Purchase accounting

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

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

Goodwill

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

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

In 1999, goodwill was reduced by CHF 118 million due to the recognition of deferred tax assets of Swiss Bank Corporation which had previously been subject to valuation reserves.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Other purchase accounting adjustments

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

b. Harmonization of accounting policies

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

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

The income statement effects of this conforming adjustment was as follows:

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Depreciation policies	(20)	(338)
Credit risk adjustments on derivatives	0	(193)
Policies for other real estate owned	0	(140)
Retirement benefit and equity participation plans	0	(47)
Settlement-risk adjustments on derivatives	<u>0</u>	<u>(33)</u>
Total	<u>(20)</u>	<u>(751)</u>

c. Restructuring provision

Under IAS, restructuring provisions are recognized when a legal or constructive obligation has been incurred. In 1997, the Group recognized a CHF 7,000 million restructuring provision to cover personnel, information technology ("IT"), premises and other costs associated with combining and restructuring the merged Group. An additional CHF 300 million provision was recognized in the fourth quarter of 1999, reflecting the impact of increased precision in the estimation of certain leased and owned property costs.

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

For purposes of the U.S. GAAP reconciliation, the aggregate CHF 7,300 million restructuring provision was reversed. As a result of the business combination with Swiss Bank Corporation, and the decision to combine and streamline certain activities of the banks for the purpose of reducing costs and improving efficiencies, Union Bank of Switzerland recognized a restructuring provision of CHF 1,575 million during 1998 for purposes of the U.S. GAAP reconciliation. CHF 759 million of this provision related to estimated costs for restructuring the operations and activities of Swiss Bank Corporation and

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

such amount was recorded as a liability of the acquired business. The remaining CHF 816 million of estimated costs were charged to restructuring expense during 1998. A CHF 600 million adjustment to the restructuring provision was recognized in 1999 for purposes of the U.S. GAAP reconciliation. The reserve is expected to be substantially exhausted by the end of 2001.

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

The usage of the U.S. GAAP restructuring provision was as follows:

CHF million	1998 Provision	1998 Usage	Balance 31.12.1998	1999 Provision	1999 Usage	Balance 31.12.1999
Personnel	756	(374)	382	553	(254)	681
Premises	332	(27)	305	179	(244)	240
IT	93	(68)	25	7	(5)	27
Other	394	(81)	313	(139)	(45)	129
Total	<u>1,575</u>	<u>(550)</u>	<u>1,025</u>	<u>600</u>	<u>(548)</u>	<u>1,077</u>

Additionally, for purposes of the U.S. GAAP reconciliation, CHF 150 million and CHF 273 million of restructuring costs were expensed as incurred in 1999 and 1998, respectively.

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

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

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

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

e. Own shares and derivatives on own shares — trading

As of 1 January 2000, upon adoption of SIC 16 “Share Capital — Reacquired Own Equity Instruments (Treasury Shares)” for IAS, all own shares are treated as treasury shares and reduce total shareholders’ equity. This applies also to the number of shares outstanding. Derivatives on own shares are classified as assets, liabilities or shareholders’ equity depending upon the manner of settlement. As a result of this adoption, there is no difference between IAS and U.S. GAAP. For 1999 and 1998, figures have been retroactively restated (see Note 1(t)).

f. Financial investments

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

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

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

g. Retirement benefit plans

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

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

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

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

For purposes of the U.S. GAAP reconciliation, the Group recorded a prepaid asset for the Union Bank of Switzerland plans as of 1 January 1998. Swiss Bank Corporation recorded a purchase price adjustment to recognize its prepaid asset at 29 June 1998. The recognition of these assets impacts the pension expense recorded under U.S. GAAP versus IAS. The pension expense for the year ended 31 December 1999 is also impacted by the different treatment of the merger of the plans under IAS versus U.S. GAAP. The assets recognized under IAS (which had been previously unrecognized due to certain limitations under IAS) were already recognized under U.S. GAAP due to the absence of such limitations under U.S. GAAP.

h. Other employee benefits

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

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

i. Equity participation plans

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

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

For purposes of the U.S. GAAP reconciliation, certain of the Group’s option awards have been determined to be variable, primarily because they may be settled in cash or the Group has offered to hedge their value. Additional compensation expense from these options awards for the years ended 31 December 1999 and 31 December 1998 is CHF 41 million and CHF 1 million, respectively. In addition, certain of the Group’s equity participation plans provide for deferral of the awards, and the instruments are held in trusts for the participants. Certain of these trusts are recorded on the Group’s balance sheet for U.S. GAAP presentation. The effect of recording these asset and liabilities is a debit to expense of CHF 8 million and CHF nil for the years ended 31 December 1999 and 31 December 1998, respectively.

j. Software capitalization

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

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

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

k. Credit loss expense

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

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

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reserve pools was periodically reviewed by the Group. At 31 December 1999 there were no specific reserve pools and none were required.

Under U.S. GAAP, the allowance for loan losses also is an accounting estimate of credit losses inherent in a company's loan portfolio that have been incurred as of the balance-sheet date. The practice of using a procedural discipline in determining all components of the allowance for loan losses to be reported is followed under U.S. GAAP. The Group's evaluation of the specific reserve pools at 30 September 1999 did not follow a procedural discipline and therefore is not in full compliance with U.S. GAAP. An adjustment to the U.S. GAAP reconciliation was made at 30 September 1999 but not required at 31 December 1999.

1. Recently issued US accounting standards

Accounting for derivative instruments and hedging activities

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

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42.2 Reconciliation of IAS Shareholders' equity and Net profit/(loss) to U.S. GAAP

CHF million	Shareholders' equity		Net profit/(loss)	
	31.12.1999	31.12.1998	31.12.1999	31.12.1998
Amounts determined in accordance with IAS:	30,608	28,794	6,153	2,972
Adjustments in respect of:				
a. SBC purchase accounting:				
Goodwill	19,765	21,612	(1,729)	(864)
Other purchase accounting adjustments	(858)	(895)	37	(2,415)
b. Harmonization of accounting policies	0	20	(20)	(751)
c. Restructuring provision	350	1,948	(1,598)	(3,982)
d. Derivative instruments held or issued for non-trading purposes	507	1,052	(545)	(405)
f. Financial investments	52	108	36	23
g. Retirement benefit plans	1,839	1,858	(19)	88
h. Other employee benefits	(24)	(26)	2	(20)
i. Equity participation plans	(113)	(40)	(47)	(1)
j. Software capitalization	389	0	389	0
k. Credit loss expense	0	0	0	0
l. Tax adjustments	(682)	330	178	1,690
Total adjustments	<u>21,225</u>	<u>25,967</u>	<u>(3,316)</u>	<u>(6,637)</u>
Amounts determined in accordance with U.S. GAAP:	<u>51,833</u>	<u>54,761</u>	<u>2,837</u>	<u>(3,665)</u>

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42.3 Earnings per share

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

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

	<u>31.12.1999</u>	<u>31.12.1998</u>
Net profit/(loss) available for ordinary shares (CHF million):		
IAS	6,153	2,972
U.S. GAAP	2,837	(3,665)
Weighted average shares outstanding:		
IAS	404,742,482	405,222,295
U.S. GAAP	404,742,482	414,609,886
Diluted weighted average shares outstanding:		
IAS	408,375,152	412,881,041
U.S. GAAP	408,375,152	414,609,886
Basic earnings/(loss) per share (CHF):		
IAS	15.20	7.33
U.S. GAAP	7.01	(8.84)
Diluted earnings/(loss) per share (CHF):		
IAS	15.07	7.20
U.S. GAAP	6.95	(8.84)

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

<u>Weighted average shares outstanding:</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Basic weighted-average ordinary shares (IAS)	404,742,482	405,222,295
add: Treasury shares adjustments	<u>0</u>	<u>9,387,591(2)</u>
Basic weighted-average ordinary shares (U.S. GAAP)	<u>404,742,482</u>	<u>414,609,886</u>
Diluted weighted-average ordinary shares (IAS)	<u>408,375,152</u>	<u>0(1)</u>
Diluted weighted-average ordinary shares (U.S. GAAP)	<u>408,375,152</u>	<u>414,609,886</u>

- (1) No potential ordinary shares may be included in the computation of any diluted per-share amount when a loss from continuing operations exists.
- (2) This adjustment is due to the difference in weighted average shares calculated under purchase accounting for U.S. GAAP versus the pooling method under IAS for the Union Bank of Switzerland merger with Swiss Bank Corporation on 29 June 1998. There is otherwise no difference between IAS and U.S. GAAP for the calculation of weighted average shares for EPS.

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42.4 Presentation differences between IAS and U.S. GAAP

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

1. Purchase accounting

As described in Note 42.1, under U.S. GAAP the business combination creating UBS AG was accounted for under the purchase method with Union Bank of Switzerland being considered the accounting acquirer. In the U.S. GAAP Condensed Consolidated Balance Sheet, the assets and liabilities of Swiss Bank Corporation have been restated to fair value at the date of acquisition (29 June 1998). In addition, the following table presents summarized financial results of SBC for the period from 1 January to 29 June 1998 which, under U.S. GAAP, would be excluded from the U.S. GAAP condensed consolidated Income statement for the year ended 31 December 1998:

Operating income	
Interest income	8,205
Less: interest expense	<u>6,630</u>
Net interest income	1,575
Less: Credit loss expense	<u>164</u>
Total	<u>1,411</u>
Net fee and commission income	3,701
Net trading income	2,135
Income from disposal of associates and subsidiaries	1,035
Other income	<u>364</u>
Total	<u>8,646</u>
Operating expenses	
Personnel	3,128
General and administrative	1,842
Depreciation and amortization	<u>511</u>
Total	<u>5,481</u>
Operating profit before taxes and minority interests	<u>3,165</u>
Tax expense	<u>552</u>
Profit	<u>2,613</u>
Less: Minority interests	<u>(1)</u>
Net profit	<u><u>2,614</u></u>

2. Settlement date vs. trade date accounting

The Group's transactions from securities activities are recorded on the settlement date for balance sheet and on the trade date for income statement purposes. This results in recording an off-balance sheet forward transaction during the period between the trade date and the settlement date. Forward

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positions relating to trading activities are revalued to fair value and any unrealized profits and losses are recognized in Net profit.

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

3. Repurchase, resale and securities lending transactions

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

Under U.S. GAAP, securities lending and repurchase transactions are also generally accounted for as collateralized borrowing and lending transactions. However, certain such transactions may be deemed sale or purchase transactions under specific circumstances. Additionally, under U.S. GAAP, the Group is required to recognize securities collateral controlled and an offsetting obligation to return such securities collateral on certain financing transactions, when specific control conditions exist.

For purposes of U.S. GAAP presentation, securities collateral recognized under financing transactions is reflected in Due from banks or Due from customers, depending on the counterparty. The related obligation to return the securities collateral is reflected in the Balance sheet in Due to banks or Due to customers, as appropriate.

4. Financial investments

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

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

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

5. Net trading income

The Group has implemented a change in accounting policy for interest and dividend income and expenses on trading related assets and liabilities (see Note 1(t)). For the years ended 31 December 1999 and 31 December 1998, figures have been retroactively restated. As a result of this change, there is no longer a difference between IAS and U.S. GAAP.

6. Equity participation plans

Certain of the Group's equity participation plans provide for deferral of the awards, and the instruments are held in trusts for the participants. Certain of these trusts are recorded on the Group's balance sheet for U.S. GAAP presentation, the effect of which is to increase assets by CHF 655 million and CHF 197 million, liabilities by CHF 717 million and CHF 236 million, and decrease shareholders'

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equity by CHF 62 million and CHF 39 million (for UBS AG shares held by the trusts which are treated as treasury shares) at 31 December 1999 and 31 December 1998, respectively.

7. *Own bonds — trading*

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

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

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

42.5 *Consolidated Income Statement*

The following is a Consolidated Income Statement of the Group, for the years ended 31 December 1999 and 31 December 1998, restated to reflect the impact of valuation and income recognition differences and presentation differences between IAS and U.S. GAAP.

CHF million	Reference	31.12.1999		31.12.1998	
		US GAAP	IAS	US GAAP	IAS
Operating income					
Interest income	a, 1	35,404	35,604	29,136	37,442
Less: interest expense	a, 1	29,660	29,695	25,773	32,424
Net interest income		5,744	5,909	3,363	5,018
Less: Credit loss expense	1	956	956	787	951
Total		4,788	4,953	2,576	4,067
Net fee and commission income	1	12,607	12,607	8,925	12,626
Net trading income	b, c, d, 1	7,174	7,719	455	3,313
Net gains from disposal of associates and subsidiaries	1	1,821	1,821	84	1,119
Other income	b, f, 1	1,361	1,325	641	1,122
Total		27,751	28,425	12,681	22,247
Operating expenses					
Personnel	b, c, g, h, i, j, 1	12,483	12,577	7,938	9,816
General and administrative	a, c, j, 1	6,664	6,098	6,259	6,735
Depreciation and amortization	a, b, j, 1	3,454	1,857	2,403	1,825
Restructuring costs	c	750	0	1,089	0
Total		23,351	20,532	17,689	18,376

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

CHF million	Reference	31.12.1999		31.12.1998	
		US GAAP	IAS	US GAAP	IAS
Operating profit/(loss) before tax and minority interests		<u>4,400</u>	<u>7,893</u>	<u>(5,008)</u>	<u>3,871</u>
Tax expense/(benefit)	1	<u>1,509</u>	<u>1,686</u>	<u>(1,339)</u>	<u>904</u>
Net profit/(loss) before minority interests		<u>2,891</u>	<u>6,207</u>	<u>(3,669)</u>	<u>2,967</u>
Minority interests	1	<u>(54)</u>	<u>(54)</u>	<u>4</u>	<u>5</u>
Net profit/(loss)		<u>2,837</u>	<u>6,153</u>	<u>(3,665)</u>	<u>2,972</u>

Note: References above coincide with the discussions in Note 42.1 and Note 42.4. These references indicate which IAS to U.S. GAAP adjustments affect an individual financial statement caption.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

42.6 Condensed Consolidated Balance Sheet

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

CHF million	Reference	31.12.1999		31.12.1998	
		U.S. GAAP	IAS	U.S. GAAP	IAS
Assets					
Cash and balances with central banks		5,073	5,073	3,267	3,267
Money market paper		69,717	69,717	18,390	18,390
Due from banks	3, a	50,103	29,907	103,158	68,495
Cash collateral on securities borrowed		113,162	113,162	91,695	91,695
Reverse repurchase agreements		132,474	132,474	141,285	141,285
Trading portfolio assets	b, 2, 3, 7	189,504	212,440	161,440	159,179
Positive replacement values	2	64,035	64,698	90,520	90,511
Loans, net of allowance for credit losses	3, a	235,714	234,858	254,750	247,926
Financial investments	b, f, 4	2,378	7,039	2,962	6,914
Accrued income and prepaid expenses		5,167	5,167	6,627	6,627
Investments in associates		1,102	1,102	2,805	2,805
Property and equipment	a, b, j	9,655	8,701	10,523	9,886
Intangible assets and goodwill	a	21,428	3,543	21,707	2,210
Private equity investments	4	3,001	0	1,759	0
Other assets	b, d, g, h, 4, 6	18,717	11,007	29,398	12,092
Total assets		921,230	898,888	940,286	861,282
Liabilities					
Money market paper issued		64,655	64,655	51,528	51,527
Due to banks	3	90,112	76,365	114,903	85,716
Cash collateral on securities lent	3	12,832	12,832	19,127	19,171
Repurchase agreements	3	173,840	196,914	136,824	137,617
Trading portfolio liabilities	2,3,7	52,606	54,586	51,600	47,033
Negative replacement values	2	95,004	95,786	125,857	125,847
Due to customers	3,a	291,595	279,960	282,543	274,850
Accrued expenses and deferred income		12,040	12,040	11,232	11,232
Long-term debt	a, 7	56,049	56,332	50,445	50,783
Other liabilities	a, b, c, d, f, i, 2, 3	20,230	18,376	40,476	27,722

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CHF million	Reference	31.12.1999		31.12.1998	
		U.S. GAAP	IAS	U.S. GAAP	IAS
Total liabilities		<u>868,963</u>	<u>867,846</u>	<u>884,535</u>	<u>831,498</u>
Minority interests		<u>434</u>	<u>434</u>	<u>990</u>	<u>990</u>
Total shareholders' equity		<u>51,833</u>	<u>30,608</u>	<u>54,761</u>	<u>28,794</u>
Total liabilities, minority interests and shareholders' equity		<u>921,230</u>	<u>898,888</u>	<u>940,286</u>	<u>861,282</u>

Note: References above coincide with the discussions in Note 42.1 and Note 42.4. These references indicate which IAS to U.S. GAAP adjustments affect an individual financial statement caption.

42.7 Comprehensive Income

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

CHF million	Foreign currency translation	Unrealized gains in available-for-sale securities	Accumulated other comprehensive income	Comprehensive income
Balance, 1 January 1998	(111)	47	(64)	
Net loss				(3,665)
Other comprehensive income				
Foreign currency translation	(345)		(345)	
Unrealized gains, arising during the year, net of CHF 89 million tax		267	267	
Less: Reclassification adjustment for gains realized in net profit, net of CHF 76 million tax		(229)	(229)	(307)
Comprehensive loss				<u>(3,972)</u>
Balance, 31 December 1998	<u>(456)</u>	<u>85</u>	<u>(371)</u>	
Net profit				2,837
Other comprehensive income				
Foreign currency translation	14		14	
Unrealized gains, arising during the year, net of CHF 18 million tax		74	74	
Less: Reclassification adjustment for gains realized in net profit, net of CHF 40 million tax		(143)	(143)	(55)
Comprehensive income				<u>2,782</u>
Balance, 31 December 1999	<u>(442)</u>	<u>16</u>	<u>(426)</u>	

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Note 43 Additional Disclosures required under U.S. GAAP

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

43.1 Business Combinations

On 29 June 1998, Union Bank of Switzerland and Swiss Bank Corporation consummated a merger of the banks, resulting in the formation of UBS. New shares totaling 428,746,982 were issued exclusively for the exchange of the existing shares of Union Bank of Switzerland and Swiss Bank Corporation. Under the terms of the merger agreement, Union Bank of Switzerland shareholders received 5 registered shares for each bearer share held and 1 registered share for each registered share held, totaling 257,500,000 shares of UBS AG. Swiss Bank Corporation shareholders received 1¹/₁₃ registered shares of the Group for each Swiss Bank Corporation registered share held, totaling 171,246,982 shares. The combined share capital amounted to CHF 5,754 million. As a result of the exchange of shares, CHF 1,467 million were transferred from share capital to the share premium account. The merger was accounted under the pooling of interests method and, accordingly, the information included in the financial statements presents the combined results of Union Bank of Switzerland and Swiss Bank Corporation as if the merger had been in effect for all periods presented.

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

<u>CHF million</u>	<u>Union Bank of Switzerland</u>	<u>Swiss Bank Corporation</u>
Total operating income	5,702	8,646
Net profit	739	2,614

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

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

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

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

43.2 Restructuring Provision

See Note 24 for information on the restructuring provision.

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

At the time of the merger announcement in December 1997, it was announced that the merged bank's operations in various locations would be combined, resulting in vacant properties, reductions in personnel, elimination of redundancies in the IT platforms, exit costs and other costs. As a result, restructuring provisions of CHF 7,300 million (of which CHF 7,000 million was recognized as a restructuring expense in 1997 and CHF 300 million was recognized as a component of general and administrative expense in the fourth quarter of 1999) were established, to be used over a period of four years. At 31 December 1999, the Group had utilized CHF 5,871 million of the provisions.

The restructuring provisions included CHF 3,000 million for employee termination benefits, CHF 1,500 million for sale and lease breakage costs associated with the closure of premises, CHF 1,650 for IT integration projects and write-offs of equipment which management had committed to dispose of; and CHF 1,150 million for other costs, including professional fees, miscellaneous transfer taxes and statutory fees. For income statement purposes, these costs would normally be classified as personnel expense, general and administrative expense or other income.

CHF million	Utilization through 31 December 1999				
	Personnel	IT	Premises	Other	Total
UBS Switzerland.....	300	1,054	180	203	1,737
Private and Corporate Clients	205	929	176	201	1,511
Private Banking	95	125	4	2	226
UBS Asset Management	25	9	0	3	37
UBS Warburg	1,983	373	1	414	2,771
Corporate Center	94	3	759	470	1,326
Group Total	<u>2,402</u>	<u>1,439</u>	<u>940</u>	<u>1,090</u>	<u>5,871</u>
					<u>31.12.99</u>
Restructuring provision as of 31.12.1997					7,000
Additional provision in 1999					300
Used in 1998					4,027
Used in 1999					<u>1,844</u>
Total used through 31.12.1999					<u>5,871</u>
Restructuring provision remaining					<u>1,429</u>

The employee terminations affected all functional levels and all operating divisions within the Group. The CHF 2,000 million portion of the provision related to employee severance and early retirement costs reflects the costs of eliminating approximately 7,800 positions, after considering attrition and redeployment within the Company. CHF 1,000 million of the provision relates to payments to maintain stability in the workforce during the integration period. As of 31 December 1999, approximately 5,700 employees had been severed or early retired and the remaining personnel restructuring reserve balance was CHF 598 million.

43.3 Segment Reporting

See Note 2 and Note 3 for segment reporting information.

UBS is organized into three business groups: UBS Switzerland, UBS Warburg and UBS Asset Management, and our Corporate Center.

UBS Switzerland encompasses Private Banking and Private and Corporate Clients.

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Private Banking offers a broad portfolio of financial products and services to offshore and Swiss high net worth clients who bank in Switzerland or other offshore centers, and to the financial intermediaries advising them. The business unit's products and services are aimed at encompassing the complete life cycle of the client, including succession planning and the generational change. Private Banking provides a number of asset-based, transaction-based and other services. Asset-based services include custodial services, deposit accounts, loans and fiduciary services while transaction-based services include trading and brokerage and investment fund services. The business unit also provides financial planning and consulting and offers financial planning instruments to clients. These services include establishing proprietary trusts and foundations, the execution of wills, corporate and tax structuring and tax efficient investments.

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

UBS Warburg is made up of four business units, Corporate and Institutional Clients, UBS Capital, Private Clients and e-services.

Corporate and Institutional Clients is one of the leading global investment banks and is headquartered in London. It provides wholesale financial and investment products and services globally to a diversified client base, which includes institutional investors (including institutional asset managers and broker-dealers), corporations, sovereign governments and supranational organizations. Corporate and Institutional Clients also manages cash and collateral trading on behalf of the Group and executes the vast majority of the Group's retail securities, derivatives and foreign currency exchange transactions.

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

Private Clients provides onshore private banking services for high net worth individuals in key markets world-wide, providing a similar range of services to Private Banking, but specializing in combining traditional private banking services with investment banking innovation. For example, Private Clients offers innovative products allowing clients to release value from own-company shareholdings or options.

e-services is a new business, currently working towards a client launch in Germany in the Autumn of 2000. e-services will provide personalized investments and advisory services at competitive fees for affluent clients in Europe, delivered via a multi-channel structure which integrates internet, call centers and investment centers. e-services will deliver a distinctive set of services, including advanced financial planning and asset allocation, and investment products such as UBS and third-party funds, securities and pension products.

UBS Asset Management is made up of two business units: Institutional Asset Management and Investment Funds/GAM.

Institutional Asset Management is responsible for the Group's institutional asset management business, and for the investment management of the Groups mutual funds. Its diverse institutional client base located throughout the world consists of corporate and public pension plans, endowments and private

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

foundations, insurance companies, central banks and supranationals, quasi-institutions, and financial advisers.

Investment Funds/GAM is the mutual funds business of UBS. Investment Funds is one of the leading mutual funds providers in Europe and the seventh largest in the world. GAM is a diversified asset management group with assets composed primarily of private client accounts, institutional and mutual funds. Global Asset Management operates under its established brand name within UBS Asset Management and employs its own distinctive investment style. UBS Asset Management will increasingly leverage Global Asset Management's range of mutual funds and its multi-manager selection process, in which it selects the top 90 out of about 6,000 third-party fund providers, to enhance the range of its investment styles and products.

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

43.4 Net Trading Income

See Note 6 for information on net trading income. Foreign exchange net trading income include gains and losses from spot and forward contracts, options, futures, and translation of foreign currency assets and liabilities, bank notes, precious metals, and commodities. Fixed income net trading income includes the results of making markets in both developed and emerging countries in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options, and other derivatives. Equities net trading income includes the results of making markets in global equity securities and equity derivatives such as swaps, options, futures, and forward contracts.

43.5 Loans

See Note 12 for information on loans. The following table summarizes the Group's impaired loans at and for the years ended 31 December 1999 and 31 December 1998:

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Impaired loans(1),(2)	22,456	26,447
Amount of allowance for credit losses related to impaired loans	12,471	13,582
Average impaired loans(3)	24,467	25,939

Included in the impaired loans information above are non-performing loans, which are as set forth below. Unrecognized interest on non-performing loans was CHF 409 million and CHF 423 million for the years ended 31 December 1999 and year ended 31 December 1998, respectively.

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Non-performing loans	13,073	16,113
Amount of allowance for credit losses related to non-performing loans	8,661	10,006
Average non-performing loans(2)	14,615	16,587

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- (1) All impaired loans have a specific allowance for credit losses.
(2) Interest income on impaired loans recognized in the years ended 31 December 1999 and 31 December 1998 is immaterial.
(3) Average balances for the year ended 31 December 1999 are calculated from quarterly data. Average balances for the year ended 31 December 1998 are calculated from year-end balances.

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

43.6 *Financial Investments*

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

<u>CHF million</u>	<u>Book value</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
31 December 1999					
Equity Securities	356	388	3	14	377
Debt Securities Issued by the Swiss National Government and Agencies	78	78	3	0	81
Debt Securities Issued by Swiss Local Governments	81	81	3	1	83
Debt Securities Issued by the U.S. Treasury and Agencies	410	410	0	0	410
Debt Securities Issued by Foreign Governments and Official Institutions	321	321	6	1	326
Corporate Debt Securities	847	851	24	6	869
Mortgage-Backed Securities	109	109	1	1	109
Other Debt Securities	120	120	3	0	123
Total	<u>2,322</u>	<u>2,358</u>	<u>43</u>	<u>23</u>	<u>2,378</u>
31 December 1998					
Equity Securities	400	423	82	0	505
Debt Securities Issued by the Swiss National Government and Agencies	85	85	8	0	93
Debt Securities Issued by Swiss Local Governments	89	89	7	0	96
Debt Securities Issued by the U.S. Treasury and Agencies	373	373	4	0	377
Debt Securities Issued by Foreign Governments and Official Institutions	426	426	9	0	435
Corporate Debt Securities	1,044	1,044	4	9	1,039
Mortgage-Backed Securities	26	26	3	0	29
Other Debt Securities	384	384	5	1	388
Total	<u>2,827</u>	<u>2,850</u>	<u>122</u>	<u>10</u>	<u>2,962</u>

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

The following presents an analysis of the contractual maturities of the investments in debt securities as of 31 December 1999:

CHF million, except percentages	within 1 year		1-5 years		5-10 years		over 10 years	
	Amount	Yield(%)	Amount	Yield(%)	Amount	Yield(%)	Amount	Yield(%)
Swiss National Government and Agencies	22	5.49%	42	4.91%	9	5.32%	5	3.59%
Swiss Local Governments	6	5.79%	46	5.31%	29	4.18%	0	
U.S. Treasury and Agencies	0		4	4.93%	0		406	5.11%
Foreign Governments and Official Institutions	87	5.60%	199	3.09%	22	3.61%	13	5.56%
Corporate Debt Securities	107	5.14%	469	5.60%	275	2.11%	0	
Mortgage-Backed Securities	0		107	5.96%	2	2.46%	0	
Other Debt Securities	37	6.59%	71	5.81%	12	8.16%	0	
Total amortized cost	<u>259</u>		<u>938</u>		<u>349</u>		<u>424</u>	
Total market value	<u>260</u>		<u>966</u>		<u>351</u>		<u>424</u>	

Proceeds from sales and maturities of investment securities available for sale during the year ended 31 December 1999 and the year ended 31 December 1998 were CHF 1,482 million and CHF 1,002 million, respectively. Gross gains of CHF 180 million and gross losses of CHF 3 million were realized in 1999 on those sales, and gross gains of CHF 398 million and gross losses of CHF 92 million were realized in 1998.

43.7 Derivative Instruments

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

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

	31.12.1999					31.12.1998				
	total PRV	average PRV	total NRV	average NRV	total notional CHF bn	total PRV	average PRV	total NRV	average NRV	total notional CHF bn
CHF millions, except where stated										
Trading										
Interest rate contracts	67,857	80,880	62,311	79,260	5,909	92,627	75,741	92,036	73,835	12,081
Foreign exchange contracts	35,649	36,407	38,239	37,634	2,136	41,857	49,358	45,169	45,101	2,048
Precious metals contracts	3,407	4,630	3,063	4,501	119	7,766	5,659	7,909	5,511	110
Equity/Index contracts	23,558	18,217	58,011	42,788	517	26,134	30,242	58,467	59,936	1,061
Commodity contracts	47	383	40	213	248	936	420	832	389	15
Total trading	130,518	140,517	161,664	164,396		169,320	161,420	204,413	184,772	
CHF millions, except where stated										
Non-trading										
Interest rate contracts	12	57	4	81	1	84	80	156	229	10
Foreign exchange contracts	100	105	131	63	14	32	200	5	157	6
Equity/Index contracts	204	149	123	196	2	308	1141	506	1310	15
Total non-trading	316	311	258	340		424	1421	667	1696	
Total	130,834	140,828	161,922	164,736		169,744	162,841	205,080	186,468	

(1) The figures above are presented on a gross by counterparty basis for disclosure purposes, but shown net in the balance sheet (see Note 1: Basis of Accounting).

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

43.8 Retirement Benefit Plans and Other Employee Benefits

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

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Swiss pension plans		
Defined benefit obligation at beginning of year	14,944	14,431
Service cost	464	535
Interest cost	636	726
Plan amendments	3,517	119
Special termination benefits	(1,000)	0
Actuarial gain (loss)	(571)	6
Benefits paid	<u>(979)</u>	<u>(873)</u>
Defined benefit obligation at end of year	17,011	14,944
<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Foreign pension plans		
Defined benefit obligation at beginning of year	2,009	1,950
Service cost	118	116
Interest cost	123	140
Plan amendments	2	7
Special termination benefits	0	(40)
Actuarial gain (loss)	(2)	(32)
Benefits paid	(133)	(60)
Other	<u>327</u>	<u>(72)</u>
Defined benefit obligation at end of year	2,444	2,009

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

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Swiss pension plans		
Fair value of plan assets at beginning of year	17,885	17,224
Actual return of plan assets	2,136	856
Employer contributions	515	493
Plan participant contributions	180	185
Benefits paid	(979)	(873)
Special termination benefits	<u>(1,172)</u>	<u>0</u>
Fair value of plan assets at end of year	18,565	17,885

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Foreign pension plans		
Fair value of plan assets at beginning of year	2,173	2,188
Actual return of plan assets	352	267
Employer contributions	21	41
Plan participant contributions	14	9
Benefits paid	(133)	(60)
Other	<u>452</u>	<u>(272)</u>
Fair value of plan assets at end of year	2,879	2,173

43.9 Other employee benefits

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

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Postretirement benefit obligation at beginning of year	96	103
Service cost	2	7
Interest cost	6	8
Plan amendments	0	5
Actuarial gain (loss)	0	9
Benefits paid	(4)	(4)
Other	<u>17</u>	<u>(32)</u>
Postretirement benefit obligation at end of year	117	96

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

<u>CHF million</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Fair value of plan assets at beginning of year	3	3
Actual return of plan assets	1	1
Company contributions	4	3
Benefits paid	<u>(4)</u>	<u>(4)</u>
Fair value of plan assets at end of year	4	3

The assumed health care cost trend rate used in determining benefit expense for December 1999 is 4.6%. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would change the U.S. postretirement benefit obligation and the service and interest cost components of net periodic postretirement benefit costs by CHF 7.8 million.

43.10 Equity Participation Plans

See Note 36 for information on equity participation plans. Additional disclosure for the equity participation plans required by U.S. GAAP follows. The accrued expense for the years ended 31 December 1999 and 31 December 1998 was CHF 2,045 million and CHF 996 million, respectively. The accruals include awards earned currently but issued in the following year.

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Stock award and stock purchase plans

The following table shows the shares awarded and the weighted-average fair-market value per share for these plans. The fair values for the stock purchase awards reflect the purchase price paid. For 1999, in addition to the 1998 plan-year awards, the stock bonus awards include 1,405,000 shares issued in an exchange for previously issued non-share awards and for special bonuses and the stock purchase awards include 666,000 shares issued for the current year.

<u>Stock Bonus Plans</u>	<u>31.12.1999</u>	<u>31.12.1998</u>
Shares awarded	3,469,000	2,524,000
Weighted-average fair market value per share (in CHF)	220	210
<u>Stock Purchase Plans</u>		
Shares awarded	1,802,000	1,338,000
Weighted-average fair market value per share (in CHF)	148	155

Shares awarded in 1998 under both types of plans included Swiss Bank Corporation shares issued to employees prior to the merger. For the above table, the number of these shares and their fair market value have been adjusted for the 1¹/₁₃ Swiss Bank Corporation to UBS AG share conversion rate of the merger.

Stock Option Plans

During 1998, options that had been issued to Swiss Bank Corporation employees were revised to reflect the 1¹/₁₃ SBC to UBS AG share conversion rate of the merger. Also, during 1998, because of a significant drop in UBS AG share price in the third quarter, employees were given the opportunity to convert options received earlier in the year with a strike price of CHF 270 to a reduced number (2²/₃) of options with a strike price of CHF 170. The stock option award information in Note 36 reflects both these changes.

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

<u>CHF million, except per share data</u>		<u>31.12.99</u>	<u>31.12.98</u>
Net income	As reported	6,153	2,972
	Pro forma	6,027	2,893
Basic EPS	As reported	15.20	7.33
	Pro forma	14.89	7.14
Diluted EPS	As reported	15.07	7.20
	Pro forma	14.76	7.01

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

The weighted-average fair-value of options granted in 1999 and 1998 was CHF 59 and CHF 54 per share, respectively. The fair value of options granted was determined as of the date of issuance using a proprietary option pricing model, substantially similar to the Black-Scholes, with the following assumptions:

	<u>31.12.1999</u>	<u>31.12.1998</u>
Expected volatility	33%	40%
Risk free interest rate	2.07%	2.56%
Expected dividends	6.2	6.9
Expected life	6 years	6 years

43.11 Regulatory capital

See Note 33 for information on regulatory capital. Internationally, it has been agreed that the Bank for International Settlements (BIS) ratio must be at least 8%. At 31 December 1999, the Group's BIS ratio and Tier 1 ratios were 14.5% and 10.6%, respectively, as compared to 13.2% and 9.3%, respectively, as of 31 December 1998. At 31 December 1999 and 1998, the Group was adequately capitalized under the regulatory provisions outlined under BIS.

Consolidated Interim Financial Statements

UBS GROUP

**Six-month Periods Ended 30 June 2000 and 1999
(Unaudited)**

UBS GROUP
INCOME STATEMENT
(Unaudited)

<u>For the six-month period ended</u> <u>CHF million, except per share data</u>	<u>Note</u>	<u>30.6.00</u>	<u>30.6.99(1)</u>
Operating income			
Interest income	3	24,079	16,293
Interest expense	3	<u>(19,753)</u>	<u>(13,540)</u>
Net interest income		4,326	2,753
Credit loss recovery/expense		<u>83</u>	<u>(635)</u>
Net interest income after credit loss recovery/expense		<u>4,409</u>	<u>2,118</u>
Net fee and commission income	4	7,835	6,184
Net trading income	5	5,669	4,460
Net gains from disposal of associates and subsidiaries	6	23	1,778
Other income	7	<u>621</u>	<u>562</u>
Total operating income		<u>18,557</u>	<u>15,102</u>
Operating expenses			
Personnel	8	8,876	6,819
General and administrative	8	3,174	2,388
Depreciation and amortization	8	<u>947</u>	<u>864</u>
Total operating expenses		12,997	10,071
Operating profit before tax and minority interests		<u>5,560</u>	<u>5,031</u>
Tax expense		<u>1,257</u>	<u>1,151</u>
Net profit before minority interests		<u>4,303</u>	<u>3,880</u>
Minority interests		<u>(35)</u>	<u>(21)</u>
Net profit		<u>4,268</u>	<u>3,859</u>
Basic earnings per share (CHF)(3)	9	10.91	9.38
Basic earnings per share before goodwill (CHF)(2)(3)	9	11.61	9.79
Diluted earnings per share (CHF)(3)	9	10.79	9.30
Diluted earnings per share before goodwill (CHF)(2)(3)	9	<u>11.49</u>	<u>9.71</u>

- (1) The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable IAS and changes in presentation (see Note 1: Basis of Accounting).
- (2) The amortization of goodwill and other purchased intangible assets is excluded from this calculation.
- (3) 1999 share figures are restated for the two-for-one stock split, approved at the shareholder meeting of 18 April 2000.

UBS GROUP
BALANCE SHEET

<u>CHF million</u>	<u>30.6.00</u> (Unaudited)	<u>31.12.99(1)</u>
Assets		
Cash and balances with central banks	3,457	5,073
Money market paper	61,504	69,717
Due from banks	25,761	29,907
Cash collateral on securities borrowed	146,199	113,162
Reverse repurchase agreements	164,866	132,474
Trading portfolio assets	215,649	212,440
Positive replacement values	57,758	64,698
Loans, net of allowance for credit losses	233,015	234,858
Financial investments	9,504	7,039
Accrued income and prepaid expenses	5,817	5,167
Investments in associates	818	1,102
Property and equipment	8,216	8,701
Intangible assets and goodwill	3,545	3,543
Other assets	<u>10,198</u>	<u>11,007</u>
Total assets	<u>946,307</u>	<u>898,888</u>
<i>Total subordinated assets</i>	<u>330</u>	<u>600</u>
Liabilities		
Money market paper issued	85,409	64,655
Due to banks	75,172	76,365
Cash collateral on securities lent	15,334	12,832
Repurchase agreements	230,565	196,914
Trading portfolio liabilities	60,279	54,586
Negative replacement values	77,926	95,786
Due to customers	279,915	279,960
Accrued expenses and deferred income	14,492	12,040
Long term debt	52,990	56,332
Other liabilities	<u>21,950</u>	<u>18,376</u>
Total liabilities	<u>914,032</u>	<u>867,846</u>
Minority interests	<u>399</u>	<u>434</u>
Shareholders' equity		
Share capital	4,317	4,309
Share premium account	14,554	14,437
Foreign currency translation	(557)	(442)
Retained earnings	22,431	20,327
Treasury shares	<u>(8,869)</u>	<u>(8,023)</u>
Total shareholders' equity	<u>31,876</u>	<u>30,608</u>
Total liabilities, minority interests and shareholders' equity	<u>946,307</u>	<u>898,888</u>
<i>Total subordinated liabilities</i>	<u>14,089</u>	<u>14,801</u>

(1) The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable IAS and changes in presentation (see Note 1: Basis of Accounting).

UBS GROUP
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<u>For the six-month period ended</u>	<u>30.6.00</u>	<u>30.6.99(1)</u>
CHF million		
Issued and paid up share capital		
Balance at the beginning of the period	4,309	4,300
Issue of share capital	<u>8</u>	<u>6</u>
Balance at the end of the period(2)	<u>4,317</u>	<u>4,306</u>
Share premium		
Balance at the beginning of the period as previously reported	13,929	13,740
Change in accounting policy	508	(123)
Balance at the beginning of the period (restated)	14,437	13,617
Premium on shares issued, and warrants exercised	74	9
Own equity derivatives	(181)	467
Net premium on treasury share and own equity derivative activity	<u>224</u>	<u>179</u>
Balance at the end of the period	<u>14,554</u>	<u>14,272</u>
Foreign currency translation		
Balance at the beginning of the period	(442)	(456)
Movements during the period	<u>(115)</u>	<u>(81)</u>
Balance at the end of the period	<u>(557)</u>	<u>(537)</u>
Retained earnings		
Balance at the beginning of the period as previously reported	20,501	16,293
Changes in accounting policy	(174)	(69)
Balance at the beginning of the period (restated)	20,327	16,224
Net profit for the period	4,268	3,859
Dividends paid	<u>(2,164)</u>	<u>(2,051)</u>
Balance at the end of the period	<u>22,431</u>	<u>18,032</u>
Treasury shares, at cost		
Balance at the beginning of the period as previously reported	(3,462)	(1,482)
Change in accounting policy	(4,561)	(3,409)
Balance at the beginning of the period (restated)	(8,023)	(4,891)
Acquisitions	(6,591)	(2,983)
Disposals	<u>5,745</u>	<u>3,002</u>
Balance at the end of the period(3)	<u>(8,869)</u>	<u>(4,872)</u>
Total shareholders' equity	<u>31,876</u>	<u>31,201</u>

(1) The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable IAS and changes in presentation (see Note 1: Basis of Accounting).

(2) Comprising 431,696,624 ordinary shares as of 30 June 2000 and 430,577,614 ordinary shares as of 30 June 1999, at CHF 10 each, fully paid.

(3) Comprising 40,269,350 ordinary shares as of 30 June 2000 and 22,395,766 ordinary shares as of 30 June 1999.

In addition to treasury shares, a maximum of 254,446 unissued shares (conditional capital) (1,373,456 as of 30 June 1999) can be issued without the approval of the shareholders. This amount consists of unissued and reserved shares for the former Swiss Bank Corporation employee share ownership plan and optional dividend warrants. The optional dividend warrants were granted in lieu of a cash dividend by the former Swiss Bank Corporation in February 1996 (at the option of the shareholder).

UBS GROUP
STATEMENT OF CASH FLOWS
(Unaudited)

<u>For the six-month period ended</u>	<u>30.6.00</u>	<u>30.6.99(1)</u>
<u>CHF million</u>		
Cash flow from/(used in) operating activities		
Net profit	4,268	3,859
Adjustments to reconcile to cash flow from/(used in) operating activities		
Non cash items included in net profit and other adjustments:		
Depreciation and amortization	947	864
Provision for credit losses	(83)	635
Income from associates	(59)	(102)
Deferred tax expense	213	193
Net gain from investing activities	(299)	(1,997)
Net increase/(decrease) in operating assets:		
Net due from/to banks	(1,005)	(2,091)
Reverse repurchase agreements, cash collateral on securities borrowed	(65,429)	13,509
Trading portfolio including net replacement values	(8,436)	1,257
Loans due to/from customers	1,881	14,486
Accrued income, prepaid expenses and other assets	159	306
Net increase/(decrease) in operating liabilities:		
Repurchase agreements, cash collateral on securities lent	36,153	(2,637)
Accrued expenses and other liabilities	6,354	(6,647)
Income taxes paid	(535)	(591)
Net cash flow from/(used in) operating activities	<u>(25,871)</u>	<u>21,044</u>
Cash flow from/(used in) investing activities		
Investments in subsidiaries and associates	(282)	(339)
Disposal of subsidiaries and associates	370	3,350
Purchase of property and equipment	(928)	(1,096)
Disposal of property and equipment	763	279
Net (investment)/divestment in financial investments	(2,216)	293
Net cash flow from/(used in) investing activities	<u>(2,293)</u>	<u>2,487</u>
Cash flow from financing activities		
Money market paper issued	20,754	4,463
Net movements in treasury shares and treasury share contract activity	(729)	674
Capital issuance	8	6
Dividends paid	(2,164)	(2,051)
Issuance of long term debt	7,452	5,225
Repayment of long term debt	(10,794)	(1,081)
Repayment of minority interests	(20)	(689)
Net cash flow from financing activities	<u>14,507</u>	<u>6,547</u>
Effects of exchange rate differences	(131)	(46)
Net increase/(decrease) in cash equivalents	<u>(13,788)</u>	<u>30,032</u>
Cash and cash equivalents, beginning of period	<u>102,277</u>	<u>83,678</u>
Cash and cash equivalents, end of period	<u>88,489</u>	<u>113,710</u>
Cash and cash equivalents comprise:		
Cash and balances with central banks	3,457	3,135
Money market paper	61,504	65,688
Bank deposits maturing in less than 3 months	23,528	44,887
Total	<u>88,489</u>	<u>113,710</u>

(1) The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable IAS and changes in presentation (see Note 1: Basis of Accounting).

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of accounting

The consolidated interim financial statements have been prepared in accordance with and comply with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting.”

In the first half of 2000, the Group reorganized its business divisions. The segment reporting for the six-month period ended 30 June 2000, as well as the comparative segment reporting for the first six-month period ended 30 June 1999, have been restated to reflect the new Group structure.

At the Annual General Meeting of shareholders held on 18 April 2000, a two-for-one stock split was approved to be effective 8 May 2000. Share and per share information have been adjusted to retroactively reflect the stock split.

In preparing the consolidated interim financial statements, the same accounting policies and methods of computation are followed as in the consolidated financial statements as of 31 December 1999 and for the year then ended, with the exception of the following changes in accounting policies:

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

In July 1998, the IASC issued IAS 37, Provisions, Contingent Liabilities and Contingent Assets, which has been adopted for the Group’s financial statements as of 1 January 2000. The Standard provides recognition and measurement requirements for provisions. IAS 37 also provides accounting and disclosure requirements for contingent liabilities and contingent assets.

IAS 38 Intangible Assets

In July 1998, the IASC issued IAS 38 Intangible Assets, which the Group adopted prospectively as of 1 January 2000. The standard requires the capitalization and amortization of certain intangible assets, if it is probable that the future economic benefits that are attributable to the assets will flow to the enterprise and the cost can be measured reliably.

IAS 10 (revised), Events after the Balance Sheet Date

In May 1999, the IASC issued IAS 10 (revised), Events after the Balance Sheet Date, which has been adopted for the Group’s financial statements as of 1 January 2000. IAS 10 (revised) establishes requirements for the recognition and disclosure of events after the balance sheet date. The adoption of IAS 10 (revised) had no impact on any comparative financial information.

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

In May 1999, the IASC issued Interpretation SIC 16, Share Capital — Reacquired Own Equity Instruments (Treasury Shares), which the Group adopted as of 1 January 2000. The interpretation provides guidance for the recognition, presentation and disclosure of treasury shares. SIC 16 applies to own shares and derivatives on own shares held for trading and non-trading purposes. SIC 16 requires own shares and derivatives on own shares to be presented as treasury shares and deducted from shareholders’ equity. Gains and losses relating to the sale of own shares and derivatives on own shares are recognized as a change in shareholders’ equity.

As a result of the adoption of Interpretation SIC 16, prior periods presented have been retroactively restated. Net trading income and income tax expense were reduced by CHF 138 million and CHF 35 million, respectively, for the six-month period ended 30 June 1999. Shareholders’ equity and total assets were reduced by CHF 4,277 million for 31 December 1999. Of the CHF 4,227 million

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

reduction to total assets, CHF 4,561 million was a reduction in trading portfolio assets and the remaining CHF 334 million was a reduction to negative replacement values. In addition, the opening balance in shareholders' equity was adjusted as of 1 January 1998.

Offsetting of Amounts Related to Certain Contracts

In order to improve comparability with its main competitors, the Group has offset positive and negative replacement values and reverse repurchase agreements and repurchase agreements with the same counter-party for transactions covered by legally enforceable master netting agreements. This change became effective as of 1 January 2000 and all prior periods presented have been restated. Positive and negative replacement values have been reduced by CHF 66,136 million as of 31 December 1999. Reverse repurchase and repurchase agreements have been reduced by CHF 12,322 million as of 31 December 1999.

Interest and Dividend Income and Expenses on Trading Assets and Liabilities

In prior periods, interest and dividend income and expense on trading assets and liabilities were included in net trading income. In order to improve comparability with its main competitors, the Group has included interest and dividend income on trading assets and interest expense on trading liabilities in interest income and interest expense, respectively, and has discontinued the allocation of funding costs to net trading income. This change in presentation became effective as of 1 January 2000. The comparative financial information for 1999 has been restated to comply with this change.

Interest income and interest expense was increased by CHF 8,144 million and CHF 8,756 million, respectively, for the six-month period ended 30 June 1999. In addition, net trading income was increased by CHF 612 million for the six-month period ended 30 June 1999.

Tax Expense

In prior periods, capital taxes were included in tax expense. The Group has reclassified capital taxes from tax expense to general and administrative expenses for the six-month period ended 30 June 1999.

Note 2 Reporting by Business Group

The business group results have been presented on a management reporting basis. Consequently, internal charges and transfer pricing adjustments have been reflected in the performance of each business. The basis of the reporting reflects the management of the business within the Group. Total revenue includes income, which is directly attributable to a business group whether from sales to external customers or from transactions with other segments. Revenue sharing agreements are used to allocate external customer revenues to a business group on a reasonable basis. Transactions between business groups are conducted at arms length.

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

For the six-month period ended 30 June 2000

CHF million	UBS Switzerland	UBS Asset Management	UBS Warburg	Corporate Center	UBS Group
Revenues	7,274	972	10,195	33	18,474
Credit loss recovery(1)	(423)	0	(115)	621	83
Total operating income	<u>6,851</u>	<u>972</u>	<u>10,080</u>	<u>654</u>	<u>18,557</u>
Personnel expenses	2,416	421	5,749	290	8,876
General and administrative expenses	1,163	196	1,437	378	3,174
Depreciation	230	22	285	135	672
Amortization of goodwill and other intangible assets	44	131	77	23	275
Total operating expenses	<u>3,853</u>	<u>770</u>	<u>7,548</u>	<u>826</u>	<u>12,997</u>
Segment performance before tax	2,998	202	2,532	(172)	5,560
Tax expense	—	—	—	—	1,257
Net profit before minority interests	—	—	—	—	4,303
Minority interests	—	—	—	—	(35)
Net profit	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,268</u>

(1) In order to show the relevant business group performance over time, adjusted expected loss figures rather than the net credit recovery are reported for all business groups. 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 recovery/(expense) for financial reporting purposes of CHF 83 million for the six month period ended 30 June 2000 is as follows: UBS Switzerland CHF 237 million, UBS Warburg CHF (154) million.

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

For the six-month period ended 30 June 1999(2)

	<u>UBS Switzerland</u>	<u>UBS Asset Management</u>	<u>UBS Warburg</u>	<u>Corporate Center</u>	<u>UBS Group</u>
CHF million					
Revenues	6,327	644	7,179	1,587	15,737
Credit loss expense(1)	<u>(560)</u>	<u>0</u>	<u>(171)</u>	<u>96</u>	<u>(635)</u>
Total operating income	<u>5,767</u>	<u>644</u>	<u>7,008</u>	<u>1,683</u>	<u>15,102</u>
Personnel expenses	2,383	281	4,073	82	6,819
General and administrative expenses	988	125	1,175	100	2,388
Depreciation	229	9	332	123	693
Amortization of goodwill and other intangible assets	<u>9</u>	<u>57</u>	<u>82</u>	<u>23</u>	<u>171</u>
Total operating expenses	<u>3,609</u>	<u>472</u>	<u>5,662</u>	<u>328</u>	<u>10,071</u>
Segment performance before tax	2,158	172	1,346	1,355	5,031
Tax expense	—	—	—	—	<u>1,151</u>
Net profit before minority interests	—	—	—	—	3,880
Minority interests	—	—	—	—	<u>(21)</u>
Net profit	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,859</u>

- (1) In order to show the relevant business group performance over time, adjusted expected loss figures rather than the net credit loss expense are reported for all business groups. 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 635 million for the six-month period ended 30 June 1999 is as follows: UBS Switzerland CHF 617 million, UBS Warburg CHF 14 million, Corporate Center CHF 4 million.
- (2) The 1999 figures have been restated to reflect the new Group structure and retroactive changes in accounting policy arising from newly applicable IAS and changes in presentation (see Note 1: Basis of Accounting).

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Income Statement

Note 3 Net Interest Income

<u>For the six-month period ended</u>	<u>30.06.00</u>	<u>30.06.99(1)</u>
CHF million		
Interest income		
Interest earned on loans and advances to banks	2,079	2,467
Interest earned on loans and advances to customers	7,153	5,639
Interest from finance leasing	19	23
Interest earned on securities borrowed and reverse repurchase agreements	9,019	5,392
Interest and dividend income from financial investments	100	66
Interest and dividend income from trading portfolio	5,576	2,622
Other	<u>133</u>	<u>84</u>
Total	<u>24,079</u>	<u>16,293</u>
Interest expense		
Interest on amounts due to banks	2,230	1,695
Interest on amounts due to customers	4,453	4,060
Interest on securities lent and repurchase agreements	6,707	4,218
Interest and dividend expense from trading portfolio	2,724	1,078
Interest on medium and long term debt	<u>3,639</u>	<u>2,489</u>
Total	<u>19,753</u>	<u>13,540</u>
Net interest income	<u>4,326</u>	<u>2,753</u>

(1) The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable IAS and changes in presentation (see Note 1: Basis of Accounting).

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 4 Net Fee and Commission Income

<u>For the six-month period ended</u>	<u>30.6.00</u>	<u>30.6.99</u>
CHF million		
Credit-related fees and commissions	<u>145</u>	<u>215</u>
Security trading and investment activity fees		
Underwriting and corporate finance fees	1,069	826
Brokerage fees	2,979	1,882
Investment fund fees	1,360	925
Fiduciary fees	175	162
Custodian fees	726	788
Portfolio and other management and advisory fees	1,913	1,476
Other	<u>29</u>	<u>53</u>
Total	<u>8,251</u>	<u>6,112</u>
Commission income from other services	<u>391</u>	<u>367</u>
Total fee and commission income	<u>8,787</u>	<u>6,694</u>
Fee and commission expense		
Brokerage fees paid	582	359
Other	<u>370</u>	<u>151</u>
Total	<u>952</u>	<u>510</u>
Net fee and commission income	<u>7,835</u>	<u>6,184</u>

Note 5 Net Trading Income

<u>For the six-month period ended</u>	<u>30.6.00</u>	<u>30.6.99(1)</u>
CHF million		
Foreign exchange(2)	680	718
Fixed income	643	1,303
Equities	<u>4,346</u>	<u>2,439</u>
Net trading income	<u>5,669</u>	<u>4,460</u>

(1) The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable IAS and changes in presentation (see Note 1: Basis of Accounting).

(2) Includes other trading income such as bank notes, precious metals and commodities.

Note 6 Net Gains from Disposal of Associates and Subsidiaries

<u>For the six-month period ended</u>	<u>30.6.00</u>	<u>30.6.99</u>
CHF million		
Net income from disposal of consolidated subsidiaries	0	1
Net gains from the disposal of investments in associates	<u>23</u>	<u>1,777</u>
Net gains from disposal of associates and subsidiaries	<u>23</u>	<u>1,778</u>

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 7 Other Income

<u>For the six-month period ended</u>	<u>30.6.00</u>	<u>30.6.99</u>
CHF million		
Investments in financial assets (debt and equity)		
Net income from disposal of private equity investments	411	150
Net income from disposal of other financial assets	84	30
Net losses from revaluation of financial assets	<u>(218)</u>	<u>(20)</u>
Total	<u>277</u>	<u>160</u>
Investments in property		
Net income from disposal of properties held for resale	37	36
Net losses from revaluation of properties held for resale	(66)	(9)
Net income from other properties	<u>28</u>	<u>33</u>
Total	<u>(1)</u>	<u>60</u>
Equity income from investments in associates	<u>59</u>	<u>102</u>
Other	<u>286</u>	<u>240</u>
Total other income	<u>621</u>	<u>562</u>

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 8 Operating Expenses

<u>For the six-month period ended</u>	<u>30.6.00</u>	<u>30.6.99</u>
CHF million		
Personnel expenses		
Salaries and bonuses	7,270	5,372(1)
Contractors	335	386
Insurance and social contributions	490	372(1)
Contributions to retirement benefit plans	238	242
Employee share plans	41	109
Other personnel expenses	<u>502</u>	<u>338</u>
Total	<u>8,876</u>	<u>6,819</u>
General and administrative expenses		
Occupancy	474	400
Rent and maintenance of machines and equipment	256	123
Telecommunications and postage	412	371
Administration	358	337
Marketing and public relations	209	107
Travel and entertainment	292	247
Professional fees	278	297
IT and other outsourcing	564	399
Other	<u>331</u>	<u>107</u>
Total	<u>3,174</u>	<u>2,388</u>
Depreciation and amortization		
Property, equipment and software	672	693
Goodwill and other intangible assets	<u>275</u>	<u>171</u>
Total	<u>947</u>	<u>864</u>
Total operating expenses	<u>12,997</u>	<u>10,071</u>

(1) Bonus related social contribution costs of CHF 125 million for the six months ended 30 June 1999 have been reclassified from Salaries and bonuses to Insurance and social contributions.

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 9 Earnings per Share

<u>For the six-month period ended</u>	<u>30.6.00</u>	<u>30.6.99(1)</u>
Basic earnings per share calculation		
Net profit for the period (CHF million)	4,268	3,859
Net profit for the period before goodwill amortization (CHF million)(2)	4,543	4,030
Weighted average shares outstanding:		
Registered ordinary shares	431,147,206	430,232,988
Treasury shares	<u>(39,936,372)</u>	<u>(18,746,327)</u> (3)
Weighted average shares for basic earnings per share	<u>391,210,834</u>	<u>411,486,661</u>
Basic earnings per share (CHF)	10.91	9.38
Basic earnings per share before goodwill amortization (CHF)(2)	<u>11.61</u>	<u>9.79</u>
Diluted earnings per share calculation		
Net profit for the period (CHF million)	4,268	3,859
Net profit for the period before goodwill amortization (CHF million)(2)	4,543	4,030
Weighted average shares for basic earnings per share	391,210,834	411,486,661
Potential dilutive ordinary shares resulting from outstanding options, warrants and convertible debt securities	<u>4,201,494</u>	<u>3,673,968</u> (4)
Weighted average shares for diluted earnings per share	<u>395,412,328</u>	<u>415,160,629</u>
Diluted earnings per share (CHF)	10.79	9.30
Diluted earnings per share before goodwill amortization (CHF)(2)	<u>11.49</u>	<u>9.71</u>

(1) The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable IAS and changes in presentation (see Note 1: Basis of Accounting).

(2) The amortization of goodwill and other purchased intangible assets is excluded from this calculation.

(3) Treasury shares have increased by 6,679,451 for the six-month period ended 30 June 1999, due to a change in accounting policy (see Note 1: Basis of Accounting).

(4) Share amount has been adjusted by 1,247,968, representing other potential dilutive instruments for the six-month period ended 30 June 1999, due to a change in accounting policy (see Note 1: Basis of Accounting).

The 1999 share figures are restated for the two-for-one stock split, approved at the shareholder meeting of 18 April 2000.

UBS GROUP
 NOTES TO THE FINANCIAL STATEMENTS — (Continued)
 (Unaudited)

Note 10 Differences Between International Accounting Standards and United States Generally Accepted Accounting Principles

The consolidated financial statements of the Group have been prepared in accordance with IAS. The principles of IAS differ in certain respects from U.S. GAAP. A summary of the significant accounting valuation and presentation differences between IAS and U.S. GAAP can be found at Notes 42.1 and 42.4 of the 31 December 1999 financial statements. The following is provided to supplement those discussions for the six month period ended 30 June 2000.

10.1 Valuation, income recognition and presentation differences between International Accounting Standards and United States Generally Accepted Accounting Principles

10.1.1 Goodwill

For the six month period ended 30 June 2000, goodwill was reduced by CHF 178 million due to the recognition of deferred tax assets of Swiss Bank Corporation which had previously been subject to valuation reserves.

10.1.2 Restructuring provision

For the six-month period ended 30 June 2000, a CHF 130 million additional restructuring expense was recognized for U.S. GAAP. The usage of the U.S. GAAP restructuring provision was as follows:

CHF million	Balance 1.1.00	Jan-June 2000 Usage	Jan-June 2000 Revision	Balance 30.6.00
Personnel	681	57	70	694
Premises	240	98	45	187
IT	27	3	0	24
Other	<u>129</u>	<u>6</u>	<u>15</u>	<u>138</u>
Total	<u>1,077</u>	<u>164</u>	<u>130</u>	<u>1,043</u>

10.1.3 Software capitalization

Under IAS, effective 1 January 2000, certain costs associated with the acquisition or development of internal use software are required to be capitalized. Once the software is ready for its intended use, the costs capitalized are amortized to the Income statement over estimated lives. Under U.S. GAAP, the same principle applies, however this standard was effective 1 January 1999. For purposes of the U.S. GAAP reconciliation, the costs associated with the acquisition or development of internal use software that met the U.S. GAAP software capitalization criteria in 1999 have been reversed from Operating expenses and amortized over a life of 2 years. From 1 January 2000, the only remaining reconciliation item is the amortization of software capitalized in 1999 for U.S. GAAP purposes.

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

10.2 Reconciliation of IAS Shareholders' equity and Net profit to U.S. GAAP

	30.06.00	
	Shareholders' Equity	Net Profit Six-Month Period Ended
CHF million		
Amounts determined in accordance with IAS	<u>31,876</u>	<u>4,268</u>
Adjustments in respect of:		
a. SBC purchase accounting:		
Goodwill	18,728	(860)
Other purchase accounting adjustments	(833)	25
c. Restructuring provision	193	(157)
d. Derivative instruments held or issued for non-trading purposes	(763)	(1,270)
f. Financial investments	190	25
g. Pension liabilities and pension costs	1,886	47
h. Postretirement benefits	(20)	4
i. Equity participation plans	(187)	(44)
j. Software capitalization	309	(80)
Tax adjustments	<u>(433)</u>	<u>71</u>
Total adjustments	<u>19,070</u>	<u>(2,239)</u>
Amounts determined in accordance with U.S. GAAP:	<u>50,946</u>	<u>2,029</u>
Other comprehensive income		34
Comprehensive income		<u>2,063</u>

Note: References above refer to the discussions in Note 42.1 of the restated 31 December 1999 financial statements.

UBS GROUP

NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

10.3 Earnings per share

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

The computation of basic and diluted EPS for the six-month period ended 30 June 2000 is presented in the following table:

<u>For the six-month period ended</u>	<u>30.6.00</u>
Net profit available for ordinary shares (CHF million):	
IAS	4,268
U.S. GAAP	2,029
Weighted average shares outstanding:	391,210,834
Diluted weighted average shares outstanding:	395,412,328
Basic earnings per share (CHF):	
IAS	10.91
U.S. GAAP	5.19
Diluted earnings per share (CHF):	
IAS	10.79
U.S. GAAP	5.13

10.4 Consolidated Income Statement

The following is a Consolidated Income Statement of the Group, for the six month period ended 30 June 2000, restated to reflect the impact of valuation and income recognition differences and presentation differences between IAS and U.S. GAAP.

<u>For the six-month period ended</u>	<u>30.6.00</u>	
<u>CHF million</u>	<u>U.S. GAAP</u>	<u>IAS</u>
Operating income		
Interest income	23,988	24,079
Less: interest expense	<u>19,738</u>	<u>19,753</u>
Net interest income	4 250	4,326
Credit loss recovery	<u>83</u>	<u>83</u>
Total	4,333	4,409
Net fee and commission income	7,835	7,835
Net trading income	4,399	5,669
Other income, including income from associates	<u>669</u>	<u>644</u>
Total	<u>17,236</u>	<u>18,557</u>

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

<u>For the six-month period ended</u>		<u>30.6.00</u>	
<u>CHF million</u>		<u>U.S. GAAP</u>	<u>IAS</u>
Operating expenses			
Personnel	g,h,i	8,869	8,876
General and administrative	c	3,201	3,174
Depreciation and amortization	a,j	1,786	947
Restructuring costs	c	<u>130</u>	<u>0</u>
Total		<u>13,986</u>	<u>12,997</u>
Operating profit before tax and minority interests		<u>3,250</u>	<u>5,560</u>
Tax expense		1,186	1,257
Net profit before minority interests		<u>2,064</u>	<u>4,303</u>
Less: Minority interests		<u>35</u>	<u>35</u>
Net profit		<u>2,029</u>	<u>4,268</u>
Other comprehensive income		34	
Comprehensive income		<u>2,063</u>	

Note: References above refer to the discussions in Note 42.1 and Note 42.4 of the restated 31 December 1999 financial statements. These references indicate which IAS to U.S. GAAP adjustments affect an individual financial statement caption.

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

10.5 Condensed Consolidated Balance Sheet

The following is a Condensed Consolidated Balance Sheet of the Group, as of 30 June 2000, restated to reflect the impact of valuation and income recognition principles and presentation differences between IAS and U.S. GAAP.

	30.06.00	
	U.S. GAAP	IAS
CHF million		
Assets		
Cash and balances with central banks	3,457	3,457
Money market paper	61,504	61,504
Due from banks	3,a 44,627	25,761
Cash collateral on securities borrowed	146,199	146,199
Reverse repurchase agreements	164,866	164,866
Trading portfolio	2,3 205,342	215,649
Positive replacement values	2 57,378	57,758
Loans, net of allowance for credit losses	3,a 241,802	233,015
Financial investments	f,4 3,624	9,504
Accrued income and prepaid expenses	5,817	5,817
Investments in associates	818	818
Property and equipment	a,j 9,094	8,216
Intangible assets and goodwill	a 20,510	3,545
Private equity investments	4 3,881	0
Other assets	d,g,h,i,2,3,4 21,342	10,198
Total assets	<u>990,261</u>	<u>946,307</u>
Liabilities		
Money market paper issued	85,409	85,409
Due to banks	3 93,276	75,172
Cash collateral on securities lent	15,334	15,334
Repurchase agreements	3 214,862	230,565
Trading portfolio liabilities	60,279	60,279
Negative replacement values	2 77,548	77,926
Due to customers	3,a 298,434	279,915
Accrued expenses and deferred income	14,492	14,492
Long-term debt	a 53,120	52,990
Other liabilities	a,c,d,f,i,2,6 26,162	21,950
Total liabilities	<u>938,916</u>	<u>914,032</u>
Minority interests	399	399
Total shareholders' equity	<u>50,946</u>	<u>31,876</u>
Total liabilities, minority interests and shareholders' equity	<u>990,261</u>	<u>946,307</u>

Note: References above refer to the discussions in Note 42.1 and Note 42.4 of the restated 31 December 1999 financial statements. These references indicate which IAS to U.S. GAAP adjustments affect an individual financial statement caption.

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 11 Additional Disclosures required under U.S. GAAP

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

11.1 IAS Restructuring Provision Usage

<u>CHF million</u>	<u>Personnel</u>	<u>IT</u>	<u>Premises</u>	<u>Other</u>	<u>Six-month period ended 30.6.00</u>
UBS Switzerland	53	19	1	20	93
Private and Corporate Clients	53	14	1	20	88
Private Banking	0	5	0	0	5
UBS Asset Management	1	0	0	0	1
UBS Warburg	0	0	0	0	0
Corporate Center	<u>3</u>	<u>0</u>	<u>91</u>	<u>3</u>	<u>97</u>
Group total	<u>57</u>	<u>19</u>	<u>92</u>	<u>23</u>	<u>191</u>
					<u>30.6.00</u>
Restructuring provision as of 31.12.1997					7,000
Additional provision in 1999					300
Used in 1998					(4,027)
Used in 1999					(1,844)
Used in 2000					<u>(191)</u>
Total used through 30.06.2000					<u>6,062</u>
Restructuring provision remaining					<u>1,238</u>

11.2 Segment Reporting

UBS is organized into three business groups: UBS Switzerland, UBS Warburg and UBS Asset Management, and our Corporate Center.

UBS Switzerland encompasses Private Banking and Private and Corporate Clients.

Private Banking offers a broad portfolio of financial products and services to offshore and Swiss high net worth clients who bank in Switzerland or other offshore centers, and to the financial intermediaries advising them. The business unit's products and services are aimed at encompassing the complete life cycle of the client, including succession planning and the generational change. Private Banking provides a number of asset-based, transaction-based and other services. Asset-based services include custodial services, deposit accounts, loans and fiduciary services while transaction-based services include trading and brokerage and investment fund services. The division also provides financial planning and consulting and offers financial planning instruments to clients. These services include establishing proprietary trusts and foundations, the execution of wills, corporate and tax structuring and tax efficient investments.

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

UBS GROUP
NOTES TO THE FINANCIAL STATEMENTS — (Continued)
(Unaudited)

UBS Warburg is made up of four business units; Corporate and Institutional Clients, UBS Capital, Private Clients and e-services.

Corporate and Institutional Clients is one of the leading global investment banks and is headquartered in London. It provides wholesale financial and investment products and services globally to a diversified client base, which includes institutional investors (including institutional asset managers and broker-dealers), corporations, sovereign governments and supranational organizations. Corporate and Institutional Clients also manages cash and collateral trading on behalf of the Group and executes the vast majority of the Group's retail securities, derivatives and foreign currency exchange transactions.

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

Private Clients provides onshore private banking services for high net worth individuals in key markets world-wide, providing a similar range of services to Private Banking, but specializing in combining traditional private banking services with investment banking innovation. For example, Private Clients offers innovative products allowing clients to release value from own-company shareholdings or options.

e-services is a new business, currently working towards a client launch in Germany in the Autumn of 2000. e-services will provide personalized investment and advisory services at competitive fees for affluent clients in Europe, delivered via a multi-channel structure which integrates internet, call centers and investment centers. e-services will deliver a distinctive set of services, including advanced financial planning and asset allocation, and investment products such as UBS and third-party funds, securities and pension products.

UBS Asset Management is made up of two business units: Institutional Asset Management and Investment Funds/GAM.

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

Investment Funds/GAM is the mutual funds business of UBS. Investment Funds is one of the leading mutual funds providers in Europe and the seventh largest in the world. GAM is a diversified asset management group with assets composed primarily of private client accounts, institutional and mutual funds. Global Asset Management operates under its established brand name within UBS Asset Management and employs its own distinctive investment style. UBS Asset Management will increasingly leverage Global Asset Management's range of mutual funds and its multi-manager selection process, in which it selects the top 90 out of about 6,000 third-party fund providers, to enhance the range of its investment styles and products.

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

Paine Webber Group Inc.
Consolidated Year-End Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,	1999	1998	1997
(In thousands of dollars except per share amounts)			
Revenues			
Commissions	\$1,948,959	\$1,641,283	\$1,496,791
Principal transactions	1,110,080	868,807	1,055,648
Asset management	911,099	713,570	542,755
Investment banking	558,224	530,972	460,001
Interest	3,123,440	3,352,708	2,963,124
Other	170,951	142,242	138,633
Total revenues	7,822,753	7,249,582	6,656,952
Interest expense	2,532,578	2,844,468	2,544,550
Net revenues	5,290,175	4,405,114	4,112,402
Non-interest expenses			
Compensation and benefits	3,049,568	2,601,364	2,420,296
Office and equipment	352,712	301,845	275,532
Communications	168,071	154,272	153,285
Business development	122,678	103,287	82,099
Brokerage, clearing and exchange fees	95,211	97,430	86,808
Professional services	136,758	123,265	129,066
Other	330,375	308,644	292,209
Total non-interest expenses	4,255,373	3,690,107	3,439,295
Income before taxes and minority interest	1,034,802	715,007	673,107
Provision for income taxes	373,959	249,208	228,626
Income before minority interest	660,843	465,799	444,481
Minority interest	32,244	32,244	29,032
Net income	\$ 628,599	\$ 433,555	\$ 415,449
Dividends and amortization of discount on preferred stock	22,802	23,647	29,513
Unamortized discount charged to equity on redemption of preferred stock	59,883	—	—
Net income applicable to common shares	\$ 545,914	\$ 409,908	\$ 385,936
Earnings per common share (1)			
Basic	\$ 3.77	\$ 2.91	\$ 2.84
Diluted	\$ 3.56	\$ 2.72	\$ 2.56

(1) The 1999 amounts reflect the effect of the unamortized discount of \$59,883 charged to stockholders' equity resulting from the redemption of preferred stock on December 16, 1999.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31,	<u>1999</u>	<u>1998</u>
(In thousands of dollars except share and per share amounts)		
Assets		
Cash and cash equivalents	\$ 176,401	\$ 228,359
Cash and securities segregated and on deposit for federal and other regulations	823,059	631,272
Financial instruments owned	21,144,830	20,021,351
Securities received as collateral	1,079,976	1,189,331
Securities purchased under agreements to resell	15,923,948	14,217,062
Securities borrowed	10,526,638	8,717,476
Receivables:		
Clients, net of allowance for doubtful accounts of \$30,039 and \$20,496 in 1999 and 1998, respectively	8,918,069	6,667,055
Brokers and dealers	701,497	634,825
Dividends and interest	376,380	306,998
Fees and other	291,991	267,741
Office equipment and leasehold improvements, net of accumulated depreciation and amortization of \$527,718 and \$431,460 in 1999 and 1998, respectively	579,819	434,895
Other assets	1,069,768	859,556
	<u>\$61,612,376</u>	<u>\$54,175,921</u>
Liabilities and stockholders' equity		
Short-term borrowings	\$ 1,884,250	\$ 1,417,783
Financial instruments sold, not yet purchased	7,099,208	5,177,099
Securities sold under agreements to repurchase	25,740,196	23,948,872
Securities loaned	5,661,200	4,969,638
Obligation to return securities received as collateral	1,079,976	1,189,331
Payables:		
Clients	7,742,759	6,691,316
Brokers and dealers	295,262	533,621
Dividends and interest	410,196	294,431
Other liabilities and accrued expenses	1,779,984	1,642,682
Accrued compensation and benefits	1,384,512	1,032,838
Long-term borrowings	5,223,826	4,255,802
	<u>58,301,369</u>	<u>51,153,413</u>
Commitments and contingencies		
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts holding solely Company Guaranteed Related Subordinated Debt	393,750	393,750
Redeemable Preferred Stock	—	189,815
Stockholders' equity:		
Common stock, \$1 par value, 400,000,000 shares authorized; issued 193,145,152 shares and 191,047,151 shares in 1999 and 1998, respectively	193,145	191,047
Additional paid-in capital	1,672,085	1,525,938
Retained earnings	2,171,080	1,689,386
Treasury stock, at cost; 47,557,064 shares and 45,527,707 shares in 1999 and 1998, respectively	(1,113,736)	(962,792)
Accumulated other comprehensive income	(5,317)	(4,636)
	<u>2,917,257</u>	<u>2,438,943</u>
	<u>\$61,612,376</u>	<u>\$54,175,921</u>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands of dollars, except share and per share amounts)

	6% Cumulative Convertible Redeemable Preferred Stock	Common Stock	Additional Paid-in Capital
Balance at December 31, 1996	<u>\$ 100,000</u>	<u>\$162,537</u>	<u>\$ 792,215</u>
Net income			
Foreign currency translation			
Total comprehensive income, year ended December 31, 1997			
Dividends declared:			
Common stock, \$.41 per share			
Redeemable Preferred Stock, \$9.00 per share			
Convertible Preferred Stock, \$6.00 per share			
Employee stock transactions		3,528	14,164
Restricted stock awards		(857)	83,599
Conversion of Convertible Preferred Stock	(100,000)		(69,443)
Conversion of debentures			(14,633)
Tax benefit relating to employee compensation programs ..			58,738
Other			(1,811)
Repurchases of common stock:			
Kidder-related repurchase		23,250	542,500
Other			
Balance at December 31, 1997	<u>—</u>	<u>\$188,458</u>	<u>\$1,405,329</u>
Net income			
Foreign currency translation			
Total comprehensive income, year ended December 31, 1998			
Dividends declared:			
Common stock, \$.44 per share			
Redeemable Preferred Stock, \$9.00 per share			
Employee stock transactions		2,954	27,999
Restricted stock awards		(368)	31,800
Conversion of debentures			(15,757)
Tax benefit relating to employee compensation programs ..			70,425
Other		3	6,142
Repurchases of common stock			
Balance at December 31, 1998	<u>—</u>	<u>\$191,047</u>	<u>\$1,525,938</u>
Net income			
Foreign currency translation			
Total comprehensive income, year ended December 31, 1999			
Dividends declared:			
Common stock, \$.44 per share			
Redeemable Preferred Stock, \$9.00 per share			
Employee stock transactions		2,330	49,937
Restricted stock awards		(235)	50,051
Tax benefit relating to employee compensation programs ..			45,699
Unamortized discount on redemption of preferred stock ...			
Other		3	460
Repurchases of common stock			
Balance at December 31, 1999	<u>—</u>	<u>\$193,145</u>	<u>\$1,672,085</u>

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands of dollars, except share and per share amounts) — (Continued)

	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Common Stock	Number of Shares Treasury Stock
Balance at December 31, 1996	<u>\$1,009,448</u>	<u>\$ (331,907)</u>	<u>\$(1,868)</u>	<u>\$1,730,425</u>	<u>162,537,267</u>	<u>(23,049,351)</u>
Net income.....	415,449			415,449		
Foreign currency translation.....			(3,622)	(3,622)		
Total comprehensive income, year ended December 31, 1997.....				<u>411,827</u>		
Dividends declared:						
Common stock, \$.41 per share.....	(54,418)			(54,418)		
Redeemable Preferred Stock, \$9.00 per share.....	(22,500)			(22,500)		
Convertible Preferred Stock, \$6.00 per share.....	(6,000)			(6,000)		
Employee stock transactions.....				17,692	3,528,030	
Restricted stock awards.....		5,061		87,803	(857,214)	271,716
Conversion of Convertible Preferred Stock.....		169,443		—		8,273,600
Conversion of debentures.....		34,721		20,088		2,224,209
Tax benefit relating to employee compensation programs.....				58,738		
Other.....	(1,013)	(400)		(3,224)		(312,485)
Repurchases of common stock:						
Kidder-related repurchase.....		(784,750)		(219,000)	23,250,000	(32,250,000)
Other.....		(90,468)		(90,468)		(3,715,477)
Balance at December 31, 1997	<u>\$1,340,966</u>	<u>\$ (998,300)</u>	<u>\$(5,490)</u>	<u>\$1,930,963</u>	<u>188,458,083</u>	<u>(48,557,788)</u>
Net income.....	433,555			433,555		
Foreign currency translation.....			854	854		
Total comprehensive income, year ended December 31, 1998.....				<u>434,409</u>		
Dividends declared:						
Common stock, \$.44 per share.....	(61,488)			(61,488)		
Redeemable Preferred Stock, \$9.00 per share.....	(22,500)			(22,500)		
Employee stock transactions.....				30,953	2,953,503	
Restricted stock awards.....		57,534		88,966	(367,921)	2,725,525
Conversion of debentures.....		30,061		14,304		1,454,707
Tax benefit relating to employee compensation programs.....				70,425		
Other.....	(1,147)	15,526		20,524	3,486	982,919
Repurchases of common stock.....		(67,613)		(67,613)		(2,133,070)
Balance at December 31, 1998	<u>\$1,689,386</u>	<u>\$ (962,792)</u>	<u>\$(4,636)</u>	<u>\$2,438,943</u>	<u>191,047,151</u>	<u>(45,527,707)</u>

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands of dollars, except share and per share amounts) — (Continued)

	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Common Stock	Number of Shares Treasury Stock
Net income.....	628,599			628,599		
Foreign currency translation			(681)	(681)		
Total comprehensive income, year ended December 31, 1999				627,918		
Dividends declared:						
Common stock, \$.44 per share	(64,220)			(64,220)		
Redeemable Preferred Stock, \$9.00 per share	(21,562)			(21,562)		
Employee stock transactions		32,775		85,042	2,329,596	1,484,938
Restricted stock awards		86,546		136,362	(235,081)	3,733,981
Tax benefit relating to employee compensation programs				45,699		
Unamortized discount on redemption of preferred stock	(59,883)			(59,883)		
Other	(1,240)	346		(431)	3,486	15,751
Repurchases of common stock		(270,611)		(270,611)		(7,264,027)
Balance at December 31, 1999.....	\$2,171,080	\$(1,113,736)	\$(5,317)	\$2,917,257	193,145,152	(47,557,064)

CONSOLIDATED STATEMENTS OF CASH FLOWS

<u>Years Ended December 31,</u> (In thousands of dollars)	<u>1999</u>	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:			
Net income	\$ 628,599	\$ 433,555	\$ 415,449
Adjustments to reconcile net income to cash used for operating activities:			
Noncash items included in net income:			
Depreciation and amortization	99,723	74,296	68,700
Deferred income taxes	(74,097)	(43,118)	(119,934)
Amortization of deferred charges	59,138	84,932	105,911
Stock-based compensation	136,362	88,966	87,803
(Increase) decrease in operating receivables:			
Clients	(2,260,557)	(999,221)	(1,343,942)
Brokers and dealers	(66,672)	(139,970)	(221,118)
Dividends and interest	(69,382)	30,411	13,387
Fees and other	(24,250)	135,834	(267,030)
Increase (decrease) in operating payables:			
Clients	1,051,443	1,638,800	169,172
Brokers and dealers	(238,359)	265,571	62,613
Dividends and interest	115,765	(48,960)	58,050
Other	523,330	408,672	393,127
(Increase) decrease in:			
Cash and securities on deposit	(191,787)	(62,134)	(69,377)
Financial instruments owned	(1,091,755)	(3,041,221)	456,731
Securities purchased under agreements to resell	(1,706,886)	7,345,677	(815,908)
Securities borrowed	(1,809,162)	855,711	(2,192,813)
Other assets	(196,808)	16,726	(165,625)
Increase (decrease) in:			
Financial instruments sold, not yet purchased	1,922,109	(1,925,045)	480,253
Securities sold under agreements to repurchase	1,791,324	(5,680,030)	831,626
Securities loaned	691,562	235,677	1,274,101
Cash used for operating activities	<u>(710,360)</u>	<u>(324,871)</u>	<u>(778,824)</u>
Cash flows from investing activities:			
Payments for:			
Office equipment and leasehold improvements	(252,186)	(181,417)	(90,947)
Cash used for investing activities	<u>(252,186)</u>	<u>(181,417)</u>	<u>(90,947)</u>
Cash flows from financing activities:			
Net proceeds from (payments on):			
Short-term borrowings	466,467	(248,433)	328,570
Proceeds from:			
Long-term borrowings	1,414,997	1,148,860	822,011
Employee stock transactions	85,042	45,257	72,820
Issuances of Preferred Trust Securities	—	—	198,750
Payments for:			
Long-term borrowings	(449,525)	(293,223)	(207,863)
Repurchases of common stock	(270,611)	(67,613)	(411,668)
Preferred stock transactions	(250,000)	—	—
Dividends	(85,782)	(83,988)	(82,918)
Cash provided by financing activities	<u>910,588</u>	<u>500,860</u>	<u>719,702</u>
Decrease in cash and cash equivalents	(51,958)	(5,428)	(150,069)
Cash and cash equivalents, beginning of year	228,359	233,787	383,856
Cash and cash equivalents, end of year	<u>\$ 176,401</u>	<u>\$ 228,359</u>	<u>\$ 233,787</u>

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars except share and per share amounts)

Note 1 Summary of Significant Accounting Policies

Organization and Basis of Presentation

Paine Webber Group Inc. (“PWG”) is a holding company which, together with its operating subsidiaries (collectively, the “Company”), forms one of the largest full-service securities firms in the industry. The Company is engaged in one principal line of business, that of serving the investment and capital needs of individual and institutional clients.

The consolidated financial statements include the accounts of PWG and its wholly owned subsidiaries, including its principal subsidiary PaineWebber Incorporated (“PWI”). All material intercompany balances and transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform to current year presentations. The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States which require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Financial Instruments Owned and Sold, Not Yet Purchased

Financial instruments used in the Company’s trading activities, including derivative contracts held or issued for trading purposes, are recorded on a trade date basis at fair value or amounts approximating fair value. Fair value is generally based upon quoted market prices. If quoted market prices are not available, or if liquidating the Company’s position is reasonably expected to impact market prices, fair value is determined based upon other relevant factors, including dealer price quotations, price activity of similar instruments and pricing models. Pricing models consider the time value and volatility factors underlying the financial instruments and other economic measurements.

Related revenues and expenses are recorded in the accounts on a trade date basis. Unrealized gains and losses from marking-to-market trading instruments daily are included in principal transactions revenues. Realized gains and losses on trading instruments and any related interest amounts are included in principal transactions revenues and interest revenues and expenses, respectively.

Equity and debt securities purchased in connection with the Company’s principal investing activities, as well as investments in partnerships and other entities that invest in financial instruments, in which there are no available market quotations or may be otherwise restricted, are reported at cost or estimated net realizable value. Realized and unrealized gains and losses are included in principal transactions revenues.

Derivative Financial Instruments

A derivative instrument is typically defined as a contractual agreement whose value is “derived” from an underlying asset, rate or index and includes products such as forwards, futures, swaps or option contracts and other financial instruments with similar characteristics. A derivative financial instrument also includes firm or standby commitments for the purchase of securities. The derivative definition does not include cash instruments whose values are derived from changes in the value of some asset or index, such as mortgage-backed securities and structured notes. Derivative contracts used by the Company generally represent future commitments to exchange interest payment streams based on the gross contract or notional amount or to purchase or sell financial instruments at specified terms and future dates.

In connection with the Company’s market risk management and trading activities, the Company may enter into a derivative contract to manage the risk arising from other financial instruments or to take a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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position based upon expected future market conditions. The Company also takes positions to facilitate client transactions.

A large portion of the Company's derivative financial instruments are "to be announced" mortgage securities requiring forward settlement. As a principal in the mortgage-backed securities business, the Company has outstanding forward purchase and sale agreements committing the Company to receive or deliver mortgage-backed securities. These forward contracts are generally short-term with maturity or settlement dates ranging from 30 to 90 days.

Derivative instruments held or issued for trading purposes are marked-to-market daily with the resulting unrealized gains and losses recorded on the Consolidated Statement of Financial Condition in financial instruments owned or financial instruments sold, not yet purchased, and the related profit or loss reflected in principal transactions revenues on the Consolidated Statement of Income. The fair value of an exchange-traded derivative, such as futures and certain option contracts, is determined by quoted market prices while the fair value of derivatives negotiated in over-the-counter markets are valued based upon dealer price quotations or pricing models which consider time value and the volatility of the underlying instruments, as well as other economic factors.

The Company also enters into interest rate swaps to modify the interest rate characteristics of its outstanding fixed rate debt. These agreements generally involve the exchange between the Company and its counterparties of amounts based on a fixed interest rate for amounts based on a variable interest rate over the life of the agreement without the exchange of the notional amount upon which the payments are based. The Company accounts for interest rate swap agreements used for hedging purposes on the accrual method. The difference to be paid or received on the swap agreements is accrued as an adjustment to interest expense as incurred. The related receivable from or payable to counterparties is reflected as an asset or liability, accordingly. The fair values of the swap agreements are not recognized in the financial statements. Any gains and losses on early terminations of swap agreements are deferred as an adjustment to the carrying amount of the debt and amortized as an adjustment to interest expense over the remaining term of the original contract life of the hedged item. In the event of the early extinguishment of debt, any unrealized gain or loss from the related swap would be recognized in income coincident with the extinguishment.

Collateralized Securities Transactions

Securities purchased under agreements to resell ("resale agreements") and securities sold under agreements to repurchase ("repurchase agreements"), principally government and agency securities are, for accounting purposes, treated as financing transactions and are recorded at their contractual amounts, plus accrued interest. It is Company policy to obtain possession or control of securities, which have a fair value in excess of the original principal amount loaned, in order to collateralize resale agreements. The Company is required to provide securities to counterparties in order to collateralize repurchase agreements. The Company monitors the fair value of the securities purchased and sold under these agreements daily versus the related receivable or payable balances. Should the fair value of the securities purchased decline or the fair value of the securities sold increase, additional collateral is requested or excess collateral is returned when deemed appropriate to maintain contractual margin protection. When specific conditions are met, including the existence of a legally enforceable master netting agreement, balances related to resale agreements and repurchase agreements are netted by counterparty on the Consolidated Statements of Financial Condition.

Resale agreements and repurchase agreements for which the resale/repurchase date corresponds to the maturity date of the underlying securities are accounted for as purchases and sales, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received in connection with the transaction. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. With respect to securities loaned, the Company receives collateral. The initial collateral advanced or received approximates or is greater than, the fair value of the securities borrowed or loaned. The Company monitors the fair value of the securities borrowed and loaned on a daily basis and requests additional collateral or returns excess collateral, as appropriate.

Depreciation and Amortization

The Company depreciates office equipment using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the remaining term of the lease.

The excess cost of acquired companies over the fair value of the net assets acquired is recorded as goodwill and is amortized on a straight-line basis over periods not exceeding 35 years.

Income Taxes

The Company files a consolidated federal income tax return and uses the asset and liability method in providing for income tax expense. Under this method, deferred taxes are provided based upon the net tax effects of temporary differences between the book and tax bases of assets and liabilities.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at year-end rates of exchange, and revenues and expenses are translated at average rates of exchange during the year. Gains and losses resulting from translation adjustments are accumulated as a separate component of comprehensive income within stockholders' equity. Gains or losses resulting from foreign currency transactions are included in net income.

Stock-Based Compensation

The Company grants stock options to certain employees and non-employee directors with an exercise price equal to the fair market value of the stock at the date of grant. The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and, accordingly, recognizes no compensation expense related to such grants.

Statement of Cash Flows

For purposes of the Consolidated Statements of Cash Flows, cash equivalents are defined as highly liquid investments not held for resale, with a maturity of three months or less when purchased. Total interest payments for the years ended December 31, 1999, 1998 and 1997 were \$2,416,813, \$2,893,428 and \$2,486,500, respectively.

Fair Value of Financial Instruments

Substantially all of the Company's financial instruments are carried at fair value or amounts approximating fair value. Assets, including cash and cash equivalents, cash and securities segregated for regulatory purposes, trading assets, resale agreements, securities borrowed, and certain receivables, are carried at fair value or contracted amounts which approximate fair value. Similarly, liabilities, including short-term borrowings, trading liabilities, repurchase agreements, securities loaned, obliga-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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tions to return securities received as collateral and certain payables, are carried at fair value or contracted amounts approximating fair value. Fair values of the Company's long-term borrowings and interest rate swaps used to hedge the Company's long-term borrowings are discussed in Note 4.

Accounting Changes and Developments

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes revised accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity measure all derivative instruments at fair value and recognize such instruments as either assets or liabilities in the consolidated statements of financial condition. The accounting for changes in the fair value of a derivative instrument will depend on the intended use of the derivative as either a fair value hedge, a cash flow hedge or a foreign currency hedge. The effect of the changes in fair value of the derivatives and, in certain cases, the hedged items are to be reflected in either the consolidated statements of income or as a component of other comprehensive income, based upon the resulting designation. As issued, SFAS No. 133 was effective for fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 137 defers the effective date of SFAS No. 133 for one year to fiscal years beginning after June 15, 2000. The Company has not yet determined the impact of this statement on the Company's Consolidated Financial Statements, taken as a whole.

Note 2 Financial Instruments Owned and Sold, Not Yet Purchased

At December 31, 1999 and 1998, financial instruments owned and financial instruments sold, not yet purchased, consisted of the following:

	1999	1998
Financial instruments owned		
U.S. government and agencies	\$ 5,864,331	\$ 4,858,189
Mortgages and mortgage-backed	9,012,415	8,861,944
Corporate debt	1,875,361	2,466,322
Commercial paper and other short-term debt	1,744,036	1,534,913
Equities and other	2,030,986	1,799,804
State and municipals	617,701	500,179
	\$21,144,830	\$20,021,351
Financial instruments sold, not yet purchased		
U.S. government and agencies	\$ 5,804,259	\$ 4,031,254
Mortgages and mortgage-backed	123,049	79,521
Corporate debt	785,890	837,099
Equities	348,485	215,991
State and municipals	37,525	13,234
	\$ 7,099,208	\$ 5,177,099

Note 3 Short-Term Borrowings

The Company meets its short-term financing needs principally by obtaining bank loans on either a secured or unsecured basis; by issuing commercial paper and medium-term notes; by entering into

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands of dollars except share and per share amounts)

agreements to repurchase, whereby securities are sold with a commitment to repurchase at a future date; and through securities lending activity.

Short-term borrowings at December 31, 1999 and 1998 consisted of the following:

	<u>1999</u>	<u>1998</u>
Commercial paper	\$ 763,909	\$ 457,973
Bank loans	708,841	714,810
Medium-Term Notes	<u>411,500</u>	<u>245,000</u>
	<u>\$1,884,250</u>	<u>\$1,417,783</u>

The interest rate on commercial paper fluctuates throughout the year. The weighted-average interest rates on commercial paper borrowings outstanding at December 31, 1999 and 1998 were 6.30 percent and 5.74 percent, respectively, and during 1999 and 1998 were 5.33 percent and 5.67 percent, respectively.

Bank loans generally bear interest at rates based on either the federal funds rate or the London Interbank Offered Rate (“LIBOR”). The weighted-average interest rates on bank loans outstanding at December 31, 1999 and 1998 were 5.53 percent and 5.57 percent, respectively, and during 1999 and 1998 were 5.88 percent and 5.72 percent, respectively.

The Company has a Multiple Currency Medium-Term Note Program under the terms of which the Company may offer for sale medium-term senior and subordinated notes (collectively, the “Medium-Term Notes”) due from nine months to thirty years from date of issuance. The Medium-Term Notes may be either fixed or variable with respect to interest rates. At December 31, 1999, the Company had outstanding \$276,500 and \$135,000 of variable rate and fixed rate Medium-Term Notes, respectively, with maturities of less than one year from the date of issuance. At December 31, 1998, the Company had \$245,000 of variable rate Medium-Term Notes with maturities of less than one year from the date of issuance. The weighted-average interest rates on these Medium-Term Notes outstanding at December 31, 1999 and 1998 were 6.26 percent and 5.46 percent, respectively, and during 1999 and 1998 were 5.43 percent and 5.78 percent, respectively.

The Company has a \$1,200,000 committed unsecured senior revolving credit facility with a group of banks which expires in September 2000, with provisions for renewal through 2001. In addition, certain of the Company’s subsidiaries have entered into a committed secured revolving credit facility which extends through August 2000. At December 31, 1999, this credit facility provided an aggregate of up to \$1,000,000. Interest on borrowings under the terms of the revolving credit facilities is computed, at the option of the Company, at a rate based on LIBOR, a base rate or the federal funds rate. The Company pays a fee on the commitments. At December 31, 1999, there were no outstanding borrowings under these credit facilities.

Note 4 Long-Term Borrowings

Long-term borrowings at December 31, 1999 and 1998 consisted of the following:

	<u>1999</u>	<u>1998</u>
Fixed Rate Notes due 2000 — 2014	\$2,757,851	\$1,961,340
Fixed Rate Subordinated Notes due 2002	174,765	174,677
Medium-Term Senior Notes	2,143,010	1,936,835
Medium-Term Subordinated Notes	<u>148,200</u>	<u>182,950</u>
	<u>\$5,223,826</u>	<u>\$4,255,802</u>

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The Company issued \$525,000 of 6.38 percent senior notes due 2004 and \$275,000 of 7.63 percent senior notes due 2009 on May 18, 1999 and December 1, 1999, respectively.

Interest rates on the fixed rate notes and the fixed rate subordinated notes outstanding at December 31, 1999 ranged from 6.38 percent to 9.25 percent. The weighted-average interest rates on these notes outstanding at December 31, 1999 and 1998 were 7.20 percent and 7.35 percent, respectively. Interest on the notes is payable semi-annually.

At December 31, 1999 and 1998, the Company had outstanding \$1,422,210 and \$1,267,135 of fixed rate Medium-Term Notes and \$869,000 and \$852,650 of variable rate Medium-Term Notes, respectively. The Medium-Term Notes outstanding at December 31, 1999 and 1998 had weighted-average interest rates of 6.76 percent and 6.48 percent, respectively.

At December 31, 1999, the total long-term borrowings of the Company had an average maturity of 4.96 years. The aggregate amount of principal repayment requirements on long-term borrowings for each of the five years subsequent to December 31, 1999, and the total amount due thereafter, was as follows:

2000	\$ 875,373
2001	357,500
2002	602,465
2003	706,837
2004	850,434
Thereafter	<u>1,831,217</u>
	\$5,223,826

The Company has entered into interest rate swap agreements which effectively convert substantially all of its fixed rate debt into floating rate debt. The floating interest rates are based on LIBOR and generally adjust semi-annually. The effective weighted-average interest rates on the long-term borrowings, after giving effect to the interest rate swap agreements, were 6.94 percent and 6.42 percent at December 31, 1999 and 1998, respectively. The interest rate swap agreements entered into have had the effect of reducing net interest expense on the Company's long-term borrowings by \$22,593, \$15,606 and \$10,966 for the years ended December 31, 1999, 1998 and 1997, respectively. The notional amounts and maturities of the interest rate swap agreements outstanding at December 31, 1999 were as follows:

2000	\$ 747,000
2001	284,000
2002	279,500
2003	645,500
2004	690,200
Thereafter	<u>1,559,810</u>
	\$4,206,010

At December 31, 1999 and 1998, the fair values of long-term borrowings were \$5,140,331 and \$4,325,014, respectively, as compared to the carrying amounts of \$5,223,826 and \$4,255,802, respectively. The estimated fair value of long-term borrowings was based upon quoted market prices for the same or similar issues and pricing models. The fair values of the interest rate swaps were \$127,097 payable and \$113,226 receivable at December 31, 1999 and 1998, respectively. The fair value of interest rate swaps used to hedge the Company's long-term borrowings was based upon the amounts the Company would receive or pay to terminate the agreements, taking into account current

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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interest rates. The carrying amounts of the interest rate swap agreements included in the Company's Consolidated Statements of Financial Condition at December 31, 1999 and 1998 were net receivables of \$12,075 and \$8,827, respectively. See Notes 1 and 8 for a further discussion of interest rate swap agreements used for hedging purposes.

Note 5 Preferred Stock

Preferred Stock Issued by Paine Webber Group Inc.

The Company is authorized to issue up to 20,000,000 shares of preferred stock, in one or more series.

Redeemable Preferred Stock — In connection with the acquisition of certain net assets and specific businesses of Kidder, Peabody Group Inc. ("Kidder") in December 1994, the Company issued 2,500,000 shares of 20-year 9 percent Cumulative Redeemable Preferred Stock, Series C (the "Redeemable Preferred Stock"), with a stated value and liquidation preference of \$100.00 per share. The Redeemable Preferred Stock was recorded at its fair value of \$185,000 at the date of issuance, which was increased periodically by charges to retained earnings, using the interest method, so that the carrying amount would have equaled the redemption amount of \$250,000 at the mandatory redemption date on December 15, 2014. The Redeemable Preferred Stock was redeemable at any time, in whole or in part, on or after December 16, 1999 at the option of the Company at a price of \$100.00 per share, plus accrued and unpaid dividends.

At the earliest redemption date of December 16, 1999, the Company redeemed the Redeemable Preferred Stock which resulted in a charge to stockholders' equity equal to the difference between the carrying value and par value (unamortized discount) of \$59,883. Dividends on the Redeemable Preferred Stock were cumulative and payable in quarterly installments. Holders of the Redeemable Preferred Stock had no voting rights, except in the event of certain dividend payment defaults.

Preferred Stock Issued by Subsidiary Trusts

Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts holding solely Company Guaranteed Related Subordinated Debt — In December 1996, PWG Capital Trust I, a business trust formed under Delaware law and a wholly owned subsidiary of the Company, issued \$195,000 (7,800,000 shares) of 8.30 percent Preferred Trust Securities to the public at \$25.00 per security and \$6,031 (241,238 securities) of 8.30 percent Common Trust Securities to the Company at \$25.00 per security. In March 1997, PWG Capital Trust II, a business trust formed under Delaware law and a wholly owned subsidiary of the Company, issued \$198,750 (7,950,000 securities) of 8.08 percent Preferred Trust Securities to the public at \$25.00 per security and \$6,147 (245,877 securities) of 8.08 percent Common Trust Securities to the Company at \$25.00 per security. The 8.30 percent Preferred Trust Securities and the 8.08 percent Preferred Trust Securities (collectively, the "Preferred Trust Securities") have a stated liquidation amount of \$25.00 per share.

PWG Capital Trust I and PWG Capital Trust II (collectively, the "Trusts") exist for the sole purpose of issuing the Preferred Trust Securities and common securities and investing the proceeds in an equivalent amount of junior subordinated debentures of the Company. The sole assets of PWG Capital Trust I at December 31, 1999 were \$201,031 of 8.30 percent Junior Subordinated Debentures due December 1, 2036 issued by the Company. The sole assets of PWG Capital Trust II at December 31, 1999 were \$204,897 of 8.08 percent Junior Subordinated Debentures due March 1, 2037 issued by the Company. The 8.30 percent Junior Subordinated Debentures and the 8.08 percent Junior Subordinated Debentures (collectively, the "Junior Subordinated Debentures") held by the Trusts are redeemable by the Company, in whole or in part, on or after December 1, 2001 and March 1, 2002, respectively. If the Company redeems Junior Subordinated Debentures, the Trust must redeem Preferred Trust

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Securities and common securities having an aggregate liquidation amount equal to the aggregate principal amount of Junior Subordinated Debentures.

The Company guarantees payment to the holders of the Preferred Trust Securities, on a subordinated basis, to the extent the Company has made principal and interest payments on the Junior Subordinated Debentures. This guarantee, together with the Company's obligations under the Junior Subordinated Debentures, provides a full and unconditional guarantee on a subordinated basis of amounts due on the Preferred Trust Securities. Dividends on the Preferred Trust Securities are cumulative, payable monthly in arrears, and are deferrable at the Company's option for periods not to exceed sixty consecutive months. The Company generally cannot pay dividends on its preferred and common stocks during such deferments. Dividends on the Preferred Trust Securities have been classified as minority interest in the Company's Consolidated Statements of Income.

Note 6 Common Stock

In accordance with the repurchase programs, the Company had available to repurchase at December 31, 1999 a maximum of 18,681,999 shares of its common stock. Subsequent to December 31, 1999, the Company's Board of Directors increased the number of shares of common stock authorized for repurchase by 18,000,000.

Note 7 Capital Requirements

PWI, a registered broker-dealer, is subject to the Securities and Exchange Commission ("SEC") Uniform Net Capital Rule and New York Stock Exchange ("NYSE") Growth and Business Reduction capital requirements. Under the method of computing capital requirements adopted by PWI, minimum net capital shall not be less than 2 percent of combined aggregate debit items arising from client transactions, plus excess margin collected on securities purchased under agreements to resell, as defined. A reduction of business is required if net capital is less than 4 percent of such aggregate debit items. Business may not be expanded if net capital is less than 5 percent of such aggregate debit items. As of December 31, 1999, PWI's net capital of \$892,165 was 7.5 percent of December 29, 1999 aggregate debit items and its net capital in excess of the minimum required was \$649,034.

Advances, dividend payments and other equity distributions by PWI and other regulated subsidiaries are restricted by the regulations of the SEC, NYSE, and international securities and banking agencies, as well as by covenants in various loan agreements. At December 31, 1999, the equity of PWG's subsidiaries totaled approximately \$2,900,000. Of this amount, approximately \$453,000 was not available for payment of cash dividends and advances to PWG.

Under the terms of certain credit agreements, PWG is subject to dividend payment restrictions and minimum net worth and net capital requirements. At December 31, 1999, these restrictions did not affect PWG's ability to pay dividends to its shareholders.

Note 8 Financial Instruments with Off-Balance-Sheet Risk

Held or Issued for Trading Purposes

Set forth below are the gross contract or notional amounts of the Company's outstanding off-balance-sheet derivative and other financial instruments held or issued for trading purposes. These amounts are not reflected in the Consolidated Statements of Financial Condition and are indicative only of the volume of activity at December 31, 1999 and 1998. They do not represent amounts subject to market risks, and in many cases, limit the Company's overall exposure to market losses by hedging other on- and off-balance-sheet transactions.

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<u>Notional or Contract Amount at</u>	<u>December 31, 1999</u>		<u>December 31, 1998</u>	
	<u>Purchases</u>	<u>Sales</u>	<u>Purchases</u>	<u>Sales</u>
Mortgage-backed forward contracts and options written and purchased	\$14,417,186	\$17,540,786	\$30,296,601	\$35,558,370
Foreign currency forward contracts, futures contracts, and options written and purchased	1,380,925	1,373,981	2,709,421	2,628,824
Equity securities contracts including stock index futures, forwards, and options written and purchased . . .	144,034	239,682	156,519	332,248
Other fixed income securities contracts including futures, forwards, and options written and purchased	3,557,193	5,538,887	3,890,619	4,336,300
Interest rate swaps and caps	1,688,762	419,989	1,292,620	282,546

Set forth below are the fair values of derivative financial instruments held or issued for trading purposes as of December 31, 1999 and 1998. The fair value amounts are netted by counterparty when specific conditions are met.

<u>Fair Value at</u>	<u>December 31, 1999</u>		<u>December 31, 1998</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Mortgage-backed forward contracts and options written and purchased	\$159,228	\$114,838	\$85,995	\$76,315
Foreign currency forward contracts, futures contracts, and options written and purchased	20,274	20,158	31,622	31,726
Equity securities contracts including stock index futures, forwards, and options written and purchased	152,024	48,835	26,806	46,606
Other fixed income securities contracts including futures, forwards, and options written and purchased	29,584	20,177	12,183	55,015
Interest rate swaps and caps	31,569	11,087	34,749	8,096

Set forth below are the average fair values of derivative financial instruments held or issued for trading purposes during the years ended December 31, 1999 and 1998. The average fair value is based on the average of the month-end balances during the year.

<u>Average Fair Value for the Years Ended</u>	<u>December 31, 1999</u>		<u>December 31, 1998</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Mortgage-backed forward contracts and options written and purchased	\$171,113	\$163,954	\$158,215	\$146,522
Foreign currency forward contracts, futures contracts, and options written and purchased	22,549	22,377	46,222	45,895
Equity securities contracts including stock index futures, forwards, and options written and purchased	63,624	40,321	20,836	42,995
Other fixed income securities contracts including futures, forwards, and options written and purchased	11,932	49,800	16,547	41,786
Interest rate swaps and caps	18,593	6,754	13,423	40,760

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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The Company also sells securities, at predetermined prices, which have not yet been purchased. The Company is exposed to market risk since to satisfy the obligation, the Company must acquire the securities at market prices, which may exceed the values reflected on the Consolidated Statements of Financial Condition.

The off-balance-sheet derivative trading transactions are generally short-term. At December 31, 1999, substantially all of the off-balance-sheet trading-related derivative and other financial instruments had remaining maturities of less than one year.

The Company's risk of loss in the event of counterparty default is limited to the current fair value or replacement cost on contracts in which the Company has recorded an unrealized gain. These amounts are reflected as assets on the Company's Consolidated Statements of Financial Condition and amounted to \$392,679 and \$191,355 at December 31, 1999 and 1998, respectively. Options written do not expose the Company to credit risk since they do not obligate the counterparty to perform. Transactions in futures contracts are conducted through regulated exchanges which have margin requirements, and are settled in cash on a daily basis, thereby minimizing credit risk. See Note 1 for a further discussion of derivative financial instruments.

The following table summarizes the Company's principal transactions revenues by business activity for the years ended December 31, 1999 and 1998. Principal transactions revenues include realized and unrealized gains and losses on trading positions and principal investing activities, including hedges. In assessing the profitability of its trading activities, the Company views net interest and principal transactions revenues in the aggregate.

<u>Years Ended December 31,</u>	<u>1999</u>	<u>1998</u>
Taxable fixed income (includes futures, forwards, options contracts and other securities)	\$ 501,819	\$451,668
Equities (includes stock index futures, forwards and options contracts)	446,168	279,720
Municipals (includes futures and options contracts)	<u>162,093</u>	<u>137,419</u>
	<u>\$1,110,080</u>	<u>\$868,807</u>

Held or Issued for Purposes other than Trading

The Company enters into interest rate swap agreements to manage the interest rate characteristics of its assets and liabilities. As of December 31, 1999 and 1998, the Company had outstanding interest rate swap agreements with commercial banks with notional amounts of \$4,206,010 and \$3,096,985, respectively. These agreements effectively converted substantially all of the Company's fixed rate debt at December 31, 1999 into floating rate debt. The Company had no deferred gains or losses related to terminated swap agreements on the Company's long-term borrowings at December 31, 1999 and 1998. The Company is subject to market risk as interest rates fluctuate. The interest rate swaps contain credit risk to the extent the Company is in a receivable or gain position and the counterparty defaults. However, the counterparties to the agreements generally are large financial institutions, and the Company has not experienced defaults in the past, and management does not anticipate any counterparty defaults in the foreseeable future. See Notes 1 and 4 for further discussion of interest rate swap agreements used for hedging purposes.

Note 9 Risk Management

Transactions involving derivative and non-derivative financial instruments involve varying degrees of both market and credit risk. The Company monitors its exposure to market and credit risk on a daily

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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basis and through a variety of financial, security position and credit exposure reporting and control procedures.

Market Risk

Market risk is the potential change in value of the financial instrument caused by unfavorable changes in interest rates, equity prices and foreign currency exchange rates. The Company has a variety of methods to monitor its market risk profile. The senior management of each business group is responsible for reviewing trading positions, exposures, profits and losses, and trading strategies. The Company also has an independent risk management group which reviews the Company's risk profile and aids in setting and monitoring risk management policies of the Company, including monitoring adherence to the established limits, performing market risk modeling, and reviewing trading positions and hedging strategies. The Asset/Liability Management Committee, comprised of senior corporate and business group managers, is responsible for establishing trading position and exposure limits.

Market risk modeling is based on estimating loss exposure through sensitivity testing. These results are compared to established limits, and exceptions are subject to review and approval by senior management. Other market risk control procedures include monitoring inventory agings, reviewing traders' marks, and holding regular meetings between the senior management of the business groups and the risk management group.

Credit Risk in Proprietary Transactions

Counterparties to the Company's proprietary trading, hedging, financing and arbitrage activities are primarily financial institutions, including banks, brokers and dealers, investment funds, and insurance companies. Credit losses could arise should counterparties fail to perform and the value of any collateral proves inadequate. The Company manages credit risk by monitoring net exposure to individual counterparties on a daily basis, monitoring credit limits and requiring additional collateral where appropriate.

Derivative credit exposures are calculated, aggregated and compared to established limits by the credit department. Credit reserve requirements are determined by senior management in conjunction with the Company's continuous credit monitoring procedures. Historically, reserve requirements arising from instruments with off-balance-sheet risk have not been material.

Receivables and payables with brokers and dealers, agreements to resell and repurchase securities, and securities borrowed and loaned are generally collateralized by cash, government and agency securities, and letters of credit. The market value of the initial collateral received approximates or is greater than the contract value. Additional collateral is requested when considered necessary. The Company may pledge clients' margined securities as collateral in support of securities loaned and bank loans, as well as to satisfy margin requirements at clearing organizations. The amounts loaned or pledged are limited to the extent permitted by applicable margin regulations. Should the counterparty fail to return the clients' securities, the Company may be required to replace them at prevailing market prices. At December 31, 1999, the market value of client securities loaned to other brokers approximated the amounts due or collateral obtained.

Credit Risk in Client Activities

Client transactions are entered on either a cash or margin basis. In a margin transaction, the Company extends credit to a client for the purchase of securities, using the securities purchased and/or other securities in the client's account as collateral for amounts loaned. Receivables from customers are substantially collateralized by customer securities. Amounts loaned are limited by margin regulations of

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the Federal Reserve Board and other regulatory authorities and are subject to the Company's credit review and daily monitoring procedures. Market declines could, however, reduce the value of any collateral below the principal amount loaned, plus accrued interest, before the collateral can be sold.

Client transactions include positions in commodities and financial futures, trading liabilities, and written options. The risk to the Company's clients in these transactions can be substantial, principally due to price volatility which can reduce the clients' ability to meet their obligations. Margin deposit requirements pertaining to commodity futures and exchange-traded options transactions are generally lower than those for exchange-traded securities. To the extent clients are unable to meet their commitments to the Company and margin deposits are insufficient to cover outstanding liabilities, the Company may take market action and credit losses could be realized.

Client trades are recorded on a settlement date basis. Should either the client or broker fail to perform, the Company may be required to complete the transaction at prevailing market prices. Trades pending at December 31, 1999 were settled without material adverse effect on the Company's consolidated financial statements, taken as a whole.

Concentrations of Credit Risk

Concentrations of credit risk that arise from financial instruments (whether on-or off-balance-sheet) exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet obligations to be similarly affected by economic, industry or geographic factors. As a major securities firm, the Company engages in underwriting and other financing activities with a broad range of clients, including other financial institutions, municipalities, governments, financing companies, and commercial real estate investors and operators. These activities could result in concentrations of credit risk with a particular counterparty, or group of counterparties operating in a particular geographic area or engaged in business in a particular industry. The Company seeks to control its credit risk and the potential for risk concentration through a variety of reporting and control procedures described above.

The Company's most significant industry concentration, which arises within its normal course of business activities, is financial institutions including banks, brokers and dealers, investment funds, and insurance companies.

Note 10 Commitments and Contingencies

Leases

The Company leases office space and equipment under noncancelable operating lease agreements which expire at various dates through 2015. As of December 31, 1999, the aggregate minimum future rental payments required by operating leases with initial or remaining lease terms exceeding one year were as follows:

2000	\$ 166,168
2001	155,240
2002	146,857
2003	142,583
2004	136,963
Thereafter	897,467
	<u>\$1,645,278</u>

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Rentals are subject to periodic escalation charges and do not include amounts payable for insurance, taxes and maintenance. In addition, minimum payments have not been reduced by future minimum sublease rental income of \$7,859.

For the years ended December 31, 1999, 1998 and 1997, rent expense under operating leases was \$183,967, \$168,417 and \$160,973, respectively.

Other Commitments and Contingencies

At December 31, 1999 and 1998, the Company was contingently liable under unsecured letters of credit totaling \$139,156 and \$159,647, respectively, which approximated fair value. At December 31, 1999, certain of the Company's subsidiaries were contingently liable as issuer of approximately \$45,000 of notes payable to managing general partners of various limited partnerships pursuant to certain partnership agreements. In addition, as part of the 1995 limited partnership settlements, the Company has agreed, under certain circumstances, to provide to class members additional consideration including assignment of fees the Company is entitled to receive from certain partnerships. In the opinion of management, these contingencies will not have a material adverse effect on the Company's consolidated financial statements, taken as a whole.

In meeting the financing needs of certain of its clients, the Company may also issue standby letters of credit which are fully collateralized by customer margin securities. At December 31, 1999, the Company had outstanding \$101,400 of such standby letters of credit. At December 31, 1999 and 1998, securities with a fair value of \$2,536,073 and \$2,008,145, respectively, had been loaned or pledged as collateral for securities borrowed of approximately equal fair value.

In the normal course of business, the Company enters into when-issued transactions, underwriting and other commitments. Also, at December 31, 1999, the Company had commitments of \$858,122, consisting of secured credit lines to real estate operators, mortgage and asset-backed originators, and other commitments to investment partnerships. Settlement of these transactions at December 31, 1999 would not have had a material impact on the Company's consolidated financial statements, taken as a whole.

The Company has been named as a defendant in numerous legal actions in the ordinary course of business. While the outcome of such matters cannot be predicted with certainty, in the opinion of management of the Company, after consultation with various counsel handling such matters, these actions will be resolved with no material adverse effect on the Company's consolidated financial statements, taken as a whole.

Note 11 Employee Incentive Awards

The Company's various Stock Option and Award Plans (the "Plans") provide for the granting to officers and other key employees nonqualified stock options, restricted stock awards, stock appreciation rights, restricted stock units, stock purchase rights, performance units and other stock based awards. At December 31, 1999 and 1998, there were 10,597,664 and 9,502,661 shares, respectively, available for future stock option, common stock and restricted stock awards under these plans. The Company had no stock appreciation rights, performance units or stock purchase rights outstanding at December 31, 1999.

Nonqualified Stock Options

Officers and other key employees are granted nonqualified stock options to purchase shares of common stock at a price not less than the fair market value of the stock on the date the option is granted. Options for the Company's common stock have also been granted to limited partnerships, in

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which key employees of the Company are limited partners, and to non-employee directors. Options are exercisable in ratable installments or otherwise, generally over a period of one to five years from the date of grant. The rights generally expire within seven to ten years after the date of grant.

Beginning in January 1999, the Company established the Equity Plus Program which allows eligible employees to purchase shares of the Company's common stock at a price equal to fair market value on the purchase date and receive stock options based upon the number of shares purchased under the Program. The maximum number of shares an employee can purchase is 1,000 per year. The nonqualified stock options have a price equal to the fair market value of the stock on the date the option is granted. Shares purchased under the Equity Plus Program are restricted from resale for two years from the time of purchase, and the options that are granted under the Equity Plus Program have a three year vesting requirement and expire seven years after the date of grant. The number of common shares authorized for purchase by eligible employees is 3,000,000 per annum. During 1999, employees of the Company purchased 1,484,983 shares under the Equity Plus Program and received 3,005,209 options.

The activity during the years ended December 31, 1997, 1998 and 1999 is set forth below. In January 2000, eligible participants were granted nonqualified stock options for 1,822,500 shares which are not included in the table below.

	Number of shares	Exercise price per share	Weighted-average exercise price
Options outstanding at December 31, 1996 (6,351,551 exercisable)	26,330,606	\$ 4.37 – 17.71	\$11.80
Granted	7,726,325	18.50 – 34.22	27.58
Exercised	(4,964,542)	4.37 – 14.08	10.60
Terminated	<u>(928,594)</u>	<u>4.37 – 22.50</u>	<u>13.89</u>
Options outstanding at December 31, 1997 (6,062,722 exercisable)	28,163,795	\$ 4.43 – 34.22	\$16.27
Granted	5,865,220	30.69 – 42.63	36.19
Exercised	(2,953,503)	4.43 – 34.22	10.48
Terminated	<u>(826,541)</u>	<u>4.93 – 34.22</u>	<u>22.06</u>
Options outstanding at December 31, 1998 (8,712,066 exercisable)	30,248,971	\$ 4.93 – 42.63	\$20.54
Granted	3,594,777	35.78 – 48.03	39.70
Exercised	(2,329,596)	4.93 – 36.78	11.43
Terminated	<u>(861,589)</u>	<u>6.69 – 46.66</u>	<u>27.30</u>
Options outstanding at December 31, 1999 (13,072,821 exercisable)	<u>30,652,563</u>	<u>\$ 5.00 – 48.03</u>	<u>\$23.29</u>

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The following table summarizes information about stock options outstanding at December 31, 1999:

Range of exercise prices per share	Number of shares outstanding	Options Outstanding		Options Exercisable	
		Weighted-average exercise price	Weighted-average remaining contractual life (years)	Number of shares exercisable	Weighted-average exercise price
\$ 5.00 – 13.00	7,228,012	\$10.76	4.2	7,228,012	\$10.76
13.01 – 21.00	9,795,481	15.15	4.7	5,832,343	14.54
21.01 – 29.00	789,750	22.47	4.3	—	—
29.01 – 37.00	7,481,268	34.68	5.2	11,346	34.41
37.01 – 48.03	5,358,052	39.28	6.2	1,120	44.89
\$ 5.00 – 48.03	30,652,563	\$23.29	5.0	13,072,821	\$12.47

The Company accounts for stock option grants in accordance with APB Opinion No. 25. Accordingly, no compensation cost has been recognized for its stock option grants. Pro forma information regarding net income and earnings per share is required under SFAS No. 123 and has been determined as if the Company had accounted for all post 1994 stock option grants based on the fair value method. The pro forma information presented below is not representative of the effect stock options will have on pro forma net income or earnings per share for future years.

The fair value of each option grant was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for 1999, 1998 and 1997, respectively: dividend yields of 1.1 percent, 1.2 percent and 1.7 percent; expected lives of 4.0 years, 3.8 years, and 3.8 years; risk-free interest rates of 5.5 percent, 5.0 percent and 6.2 percent; and expected volatility of 38 percent, 35 percent and 33 percent. The weighted-average fair values of options granted during 1999, 1998 and 1997 were \$13.64, \$11.15 and \$8.52, respectively.

For purposes of the pro forma information, the fair values of the 1999, 1998 and 1997 stock option grants are amortized over the vesting period. The pro forma information for the years ended 1999, 1998 and 1997 was as follows:

<u>Years Ended December 31,</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net income			
As reported	\$628,599	\$433,555	\$415,449
Pro forma	\$592,684	\$406,967	\$397,131
Earnings per common share			
Basic			
As reported	\$ 3.77(1)	\$ 2.91	\$ 2.84
Pro forma	\$ 3.52(1)	\$ 2.72	\$ 2.70
Diluted			
As reported	\$ 3.56(1)	\$ 2.72	\$ 2.56
Pro forma	\$ 3.33(1)	\$ 2.55	\$ 2.44

(1) Reflects the effect of the unamortized discount of \$59,883 charged to stockholders' equity resulting from the redemption of preferred stock on December 16, 1999.

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Restricted Stock Awards

Restricted stock awards are granted to key employees, whereby shares of the Company's common stock are awarded in the name of the employee, who has all rights of a stockholder, subject to certain sale and transfer restrictions. The awards generally contain restrictions on sales and transfers ranging from one to three years. The restricted stock awards are subject to forfeiture if the employee terminates prior to the prescribed restriction period.

During the years ended December 31, 1999, 1998 and 1997, the Company awarded 3,498,900, 2,357,604 and 2,174,502 shares, respectively, of restricted stock, net of forfeitures. Restricted stock awards are expensed in the service year to which the grant relates at the value of the stock on grant date. The charge to compensation expense, net of forfeitures, amounted to \$136,362, \$88,966 and \$87,803 in the years ended December 31, 1999, 1998 and 1997, respectively.

Other Deferred Compensation Awards

Eligible employees in the Company's Private Client Group participate in the PaineWebber PartnerPlus Plan (the "PartnerPlus Plan"), a nonqualified deferred compensation plan. Under the PartnerPlus Plan, the Company makes annual contributions and the employee may elect to make voluntary pre-tax contributions, subject to a maximum percent of the Company contribution. The Company and employee contributions earn tax-deferred interest for ten years. Company contributions made beginning January 1, 1999 and the interest thereon generally vest 20 percent per year beginning the sixth year from the date of contribution, through year ten. Company contributions made prior to January 1, 1999, vest after four years, and the related interest vests after ten years from the date of contribution. Voluntary contributions vest immediately and the interest thereon vests on the same terms as interest on Company contributions. The Company expenses these costs over the service period.

Note 12 Employee Benefit Plans

Defined Benefit Pension Plan

In 1998, the Company adopted SFAS No. 132 "Employers' Disclosure about Pension and Other Postretirement Benefits" which revised and standardized disclosure requirements. Prior year disclosures have been restated to comply with SFAS No. 132.

The Company has a non-contributory defined benefit pension plan (the "Plan"), which provides benefits to eligible employees. As of December 31, 1998, the Company amended its Plan to freeze future accruals except as related to employees meeting certain age and years of service eligibility requirements. Pension expense for the years ended 1999, 1998 and 1997 for the Plan included the following components:

<u>Years Ended December 31,</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Service cost	\$ 15,900	\$ 23,729	\$19,373
Interest cost	27,860	27,016	23,576
Expected return on Plan assets	(35,394)	(37,085)	(28,991)
Amortization of transition asset	(840)	(840)	(840)
Amortization of prior service cost	—	1,742	2,037
Recognized actuarial loss	<u>2,748</u>	<u>6,289</u>	<u>5,783</u>
Net periodic pension cost	<u>\$ 10,274</u>	<u>\$ 20,851</u>	<u>\$20,938</u>

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The following table provides a reconciliation of the Plan's benefit obligation and fair value of Plan assets, as well as a summarization of the Plan's funded status and prepaid pension asset which is included in other assets on the Company's Consolidated Statements of Financial Condition at December 31, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$406,458	\$394,583
Service cost	15,900	23,729
Interest cost	27,860	27,016
Actuarial gain	(49,113)	(3,731)
Effect of curtailment	—	(18,003)
Benefits paid	<u>(20,597)</u>	<u>(17,136)</u>
Benefit obligation at end of year	<u>380,508</u>	<u>406,458</u>
Change in Plan Assets:		
Fair value of Plan assets at beginning of year	424,874	399,010
Actual return on assets	25,453	33,000
Employer contribution	—	10,000
Benefits paid	<u>(20,597)</u>	<u>(17,136)</u>
Fair value of Plan assets at end of year	<u>429,730</u>	<u>424,874</u>
Funded status	49,222	18,416
Unrecognized transition asset	(2,005)	(2,845)
Unrecognized net loss	<u>21,212</u>	<u>63,132</u>
Prepaid pension asset at year-end	<u>\$ 68,429</u>	<u>\$ 78,703</u>

The benefit obligation for the Plan was determined using an assumed discount rate of 8.0 percent for 1999 and 7.0 percent for 1998, and an assumed rate of compensation increase of 4 percent for 1999 and 5 percent for 1998. The weighted-average assumed rate of return on Plan assets was 8.5 percent for 1999 and 9.5 percent for 1998 and 1997. The Company's funding policy is to contribute to the Plan amounts that can be deducted for federal income tax purposes. Plan assets consist primarily of equity securities and U.S. government and agency obligations.

Defined Contribution Pension Plan

Effective January 1, 1999, the Company established the PaineWebber 401(k) Plus Plan (the "Plus Plan") which was developed for eligible employees of the Company to modify the PaineWebber Savings Investment Plan and replace the benefits that employees would have accrued under the frozen defined benefit pension plan. The Plus Plan is a defined contribution pension plan that includes two retirement benefit features: an employee savings investment plan (401(k)) and an annual retirement contribution that the Company will make to the Plus Plan on the employee's behalf. Employee contributions vest immediately while Company contributions are subject to certain vesting provisions.

Under the new Plus Plan, a portion of the employee's 401(k) contributions are matched by the Company on a graduated scale based on the Company's pre-tax earnings. The provision for Company contributions for amounts contributed or to be contributed in cash and/or stock of the Company to the 401(k) and invested in the PaineWebber Common Stock Fund amounted to approximately \$22,900, \$14,100 and \$13,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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The annual retirement contribution feature provides a Company contribution equal to a percentage based on the employee's eligible compensation and the employee's number of years of service with the Company. The provision for the Company's annual retirement contribution to be contributed in cash for the year ended December 31, 1999 is \$24,300.

Other Benefit Plans

The Company also provides certain life insurance and healthcare benefits to employees. The costs of such benefits for the years ended December 31, 1999, 1998 and 1997 were \$72,500, \$57,600 and \$55,400, respectively.

Note 13 Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. For financial reporting purposes, net deferred tax assets are included in other assets in the Consolidated Statements of Financial Condition. Deferred tax assets are reflected without reduction for a valuation allowance. Significant components of the Company's deferred tax assets and liabilities as of December 31, 1999, 1998 and 1997 were as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Deferred tax assets			
Employee benefits	\$395,326	\$276,367	\$229,449
Accelerated income and deferred deductions	117,978	92,724	91,263
Acquired tax benefits	730	25,472	46,000
Other	<u>29,509</u>	<u>20,554</u>	<u>23,627</u>
Total deferred tax assets	<u>543,543</u>	<u>415,117</u>	<u>390,339</u>
Deferred tax liabilities			
Tax over book depreciation	8,947	6,792	16,450
Accelerated deductions and deferred income	70,076	41,414	36,753
Safe harbor leases	3,198	4,385	5,282
Valuation of trading assets and investments	70,412	45,662	57,781
Other	<u>3,203</u>	<u>3,254</u>	<u>3,581</u>
Total deferred tax liabilities	<u>155,836</u>	<u>101,507</u>	<u>119,847</u>
Net deferred tax asset	<u>\$387,707</u>	<u>\$313,610</u>	<u>\$270,492</u>

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The significant components of the provision for income taxes for the years ended December 31, 1999, 1998 and 1997 were as follows:

<u>Years Ended December 31,</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Current			
Federal	\$360,596	\$262,733	\$235,349
State	45,970	14,501	56,476
Foreign	<u>41,490</u>	<u>15,092</u>	<u>10,735</u>
Total current	<u>448,056</u>	<u>292,326</u>	<u>302,560</u>
Deferred			
Federal	(67,871)	(59,732)	(56,373)
State	(7,298)	14,562	(17,348)
Foreign	<u>1,072</u>	<u>2,052</u>	<u>(213)</u>
Total deferred	<u>(74,097)</u>	<u>(43,118)</u>	<u>(73,934)</u>
	<u>\$373,959</u>	<u>\$249,208</u>	<u>\$228,626</u>

The reconciliation of income taxes, computed at the statutory federal rate, to the provision for income taxes recorded for the years ended December 31, 1999, 1998 and 1997, was as follows:

<u>Years Ended December 31,</u>	<u>1999</u>		<u>1998</u>		<u>1997</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Tax at statutory federal rate	\$362,181	35.0	\$250,252	35.0	\$235,587	35.0
State and local income taxes, net of federal tax benefit	25,137	2.4	18,891	2.6	25,433	3.8
Foreign rate differential ...	(3,709)	(0.4)	902	0.1	(1,926)	(0.3)
Nontaxable dividends and interest	(6,657)	(0.6)	(6,264)	(0.8)	(6,936)	(1.0)
Non deductible expenses ...	6,757	0.7	3,261	0.5	3,251	0.5
Minority interest	(11,285)	(1.1)	(11,285)	(1.6)	(10,161)	(1.5)
Other, net	<u>1,535</u>	<u>0.1</u>	<u>(6,549)</u>	<u>(0.9)</u>	<u>(16,622)</u>	<u>(2.5)</u>
	<u>\$373,959</u>	<u>36.1</u>	<u>\$249,208</u>	<u>34.9</u>	<u>\$228,626</u>	<u>34.0</u>

Income taxes paid for the years ended December 31, 1999, 1998 and 1997 were \$379,194, \$236,597 and \$278,553, respectively.

Undistributed earnings of the Company's foreign subsidiaries are considered to be permanently reinvested and, accordingly, no provision for U.S. income taxes is required on such earnings. As of December 31, 1999, such earnings were estimated to be \$293,000. The estimated U.S. income taxes that would be payable upon the repatriation of such earnings were not material.

Note 14 Earnings Per Common Share

Earnings per common share are computed in accordance with SFAS No. 128, "Earnings Per Share." Basic earnings per share excludes the dilutive effects of options and convertible securities and is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects all potentially dilutive securities.

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Set forth below is the reconciliation of net income applicable to common shares and weighted-average common and common equivalent shares of the basic and diluted earnings per share computations:

<u>Years Ended December 31,</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Numerator			
Net income	\$ 628,599	\$ 433,555	\$ 415,449
Preferred stock dividends	(22,802)	(23,647)	(29,513)
Unamortized discount charged to equity on redemption of preferred stock	<u>(59,883)</u>	<u>—</u>	<u>—</u>
Net income applicable to common shares for basic earnings per share	<u>545,914</u>	<u>409,908</u>	<u>385,936</u>
Effect of dilutive securities:			
Preferred stock dividends	—	—	6,000
Interest savings on convertible debentures	<u>—</u>	<u>279</u>	<u>1,030</u>
	<u>—</u>	<u>279</u>	<u>7,030</u>
Net income applicable to common shares for diluted earnings per share	<u>\$ 545,914</u>	<u>\$ 410,187</u>	<u>\$ 392,966</u>
Denominator			
Weighted-average common shares for basic earnings per share	144,931,042	140,863,761	135,943,063
Weighted-average effect of dilutive securities:			
Employee stock options and awards . .	8,283,402	8,870,423	7,759,013
Convertible debentures	—	877,241	1,984,328
6% Convertible Preferred Stock	<u>—</u>	<u>—</u>	<u>7,661,580(1)</u>
Dilutive potential common shares	8,283,402	9,747,664	17,404,921
Weighted-average common and common equivalent shares for diluted earnings per share	<u>153,214,444</u>	<u>150,611,425</u>	<u>153,347,984</u>
Earnings per common share			
Basic	\$ 3.77(2)	\$ 2.91	\$ 2.84
Diluted	<u>\$ 3.56(2)</u>	<u>\$ 2.72</u>	<u>\$ 2.56</u>

(1) The 6% Convertible Preferred Stock was converted into 8,273,600 common shares on December 4, 1997.

(2) Reflects the effect of the unamortized discount of \$59,883 charged to stockholders' equity resulting from the redemption of preferred stock on December 16, 1999.

Note 15 Segment Reporting Data

In 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company offers a wide variety of products and services, primarily those of a full service broker-dealer to a domestic market, through its two operating segments: Individual and Institutional. The Individual segment offers brokerage services and products (such as the purchase and sale of securities, insurance annuity contracts, mutual funds, wrap fee products, and margin and

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securities lending), asset management and other investment advisory and portfolio management products and services, and execution and clearing services for transactions originated by individual investors. The Institutional segment principally includes capital markets products and services (such as the placing of securities and other financial instruments for—and the execution of trades on behalf of—institutional clients, investment banking services such as the underwriting of debt and equity securities, and mergers and acquisitions advisory services).

Segment revenues and expenses in the table below consist of those that are directly attributable, combined with segment amounts based on Company allocation methodologies (for example, allocating a portion of investment banking revenues to the Individual segment; relative utilization of the Company's square footage for certain cost allocations).

	1999			1998			1997		
	Individual	Institutional	Total	Individual	Institutional	Total	Individual	Institutional	Total
Total revenues	\$ 4,676,467	\$ 3,146,286	\$ 7,822,753	\$ 3,978,301	\$ 3,271,281	\$ 7,249,582	\$ 3,556,246	\$ 3,100,706	\$ 6,656,952
Net interest revenues . .	368,853	222,009	590,862	314,078	194,162	508,240	274,762	143,812	418,574
Net revenues	4,014,049	1,276,126	5,290,175	3,373,456	1,031,658	4,405,114	3,082,359	1,030,043	4,112,402
Depreciation and amortization	78,868	20,855	99,723	49,639	24,657	74,296	37,637	31,063	68,700
Income before taxes and minority interest	641,870	392,932	1,034,802	494,666	220,341	715,007	443,376	229,731	673,107
Total assets	21,828,324	39,784,052	61,612,376	18,330,427	35,845,494	54,175,921	14,736,069	42,328,964	57,065,033
Expenditures for long- lived assets	145,531	106,655	252,186	89,460	91,957	181,417	45,950	44,997	90,947

The following presents information about the Company's operations by geographic area:

	1999			1998			1997		
	United States	Non-U.S.(1)	Total	United States	Non-U.S.(1)	Total	United States	Non-U.S.(1)	Total
Total revenues	\$ 7,531,898	\$ 290,855	\$ 7,822,753	\$ 7,001,967	\$ 247,615	\$ 7,249,582	\$ 6,461,976	\$ 194,976	\$ 6,656,952
Net revenues	5,022,697	267,478	5,290,175	4,239,413	165,701	4,405,114	3,965,289	147,113	4,112,402
Income before taxes and minority interest	907,253	127,549	1,034,802	677,646	37,361	715,007	647,268	25,839	673,107
Total assets	53,921,208	7,691,168	61,612,376	44,691,427	9,484,494	54,175,921	46,610,462	10,454,571	57,065,033

(1) Predominantly the United Kingdom.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders of Paine Webber Group Inc.

We have audited the accompanying consolidated statements of financial condition of Paine Webber Group Inc. as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Paine Webber Group Inc. at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

New York, New York

January 31, 2000

FINANCIAL HIGHLIGHTS

Years ended December 31, (In thousands of dollars except per share amounts)	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995(2)</u>
Operating results					
Total revenues	\$ 7,822,753	\$ 7,249,582	\$ 6,656,952	\$ 5,705,966	\$ 5,320,090
Net revenues (including net interest)	\$ 5,290,175	\$ 4,405,114	\$ 4,112,402	\$ 3,735,212	\$ 3,350,279
Income before taxes and minority interest	\$ 1,034,802	\$ 715,007	\$ 673,107	\$ 560,033	\$ 102,677
Net income	<u>\$ 628,599</u>	<u>\$ 433,555</u>	<u>\$ 415,449</u>	<u>\$ 364,350</u>	<u>\$ 80,750</u>
Per common share(1)					
Basic earnings	\$ 3.77(3)	\$ 2.91	\$ 2.84	\$ 2.55	\$ 0.37
Diluted earnings	\$ 3.56(3)	\$ 2.72	\$ 2.56	\$ 2.24	\$ 0.35
Dividends declared	\$ 0.44	\$ 0.44	\$ 0.41	\$ 0.32	\$ 0.32
Book value	<u>\$ 20.04</u>	<u>\$ 16.76</u>	<u>\$ 13.80</u>	<u>\$ 12.19</u>	<u>\$ 10.41</u>
Financial condition					
Total assets	\$61,612,376	\$54,175,921	\$57,065,033	\$52,513,500	\$45,671,294
Long-term borrowings and preferred securities	\$ 5,617,576	\$ 4,839,367	\$ 3,980,379	\$ 3,164,349	\$ 2,622,797
Stockholders' equity	\$ 2,917,257	\$ 2,438,943	\$ 1,930,963	\$ 1,730,425	\$ 1,552,288
Total capitalization	<u>\$ 8,534,833</u>	<u>\$ 7,278,310</u>	<u>\$ 5,911,342</u>	<u>\$ 4,894,774</u>	<u>\$ 4,175,085</u>

(1) All per share data reflect a three-for-two common stock split in November 1997.

(2) The 1995 results include after-tax charges of \$146 million (\$230 million before income taxes) related to the resolution of the issues arising from the Company's sale of public proprietary limited partnerships.

(3) Reflects the effect of the unamortized discount of \$59.9 million charged to stockholders' equity resulting from the redemption of preferred stock on December 16, 1999.

COMMON STOCK AND QUARTERLY INFORMATION

Common Stock Dividend History

During 1999, Paine Webber Group Inc. continued its policy of paying quarterly common stock dividends. Dividends declared during the last twelve quarters were as follows:

<u>Calendar Quarter</u>	<u>4th</u>	<u>3rd</u>	<u>2nd</u>	<u>1st</u>
1999	\$.11	\$.11	\$.11	\$.11
199811	.11	.11	.11
199711	.10	.10	.10

On February 3, 2000, Paine Webber Group Inc. declared a 2000 first quarter dividend of \$.12 per share, an increase of 9 percent over the fourth quarter of 1999. However, there is no assurance that dividends will continue to be paid in the future, since they are dependent upon income, financial condition and other factors, including the restrictions described in Note 7 in the Notes to Consolidated Financial Statements.

Market for Common Stock

The common stock of Paine Webber Group Inc. is listed on the New York Stock Exchange (“NYSE”) and the Pacific Stock Exchange. The following table summarizes the high and low sales prices per share of the common stock as reported on the Composite Tape for the periods indicated:

	<u>High</u>	<u>Low</u>
Calendar 1999		
4th Quarter	\$44.00	\$31.75
3rd Quarter	46.38	34.00
2nd Quarter	49.75	38.00
1st Quarter	42.06	32.63
Calendar 1998		
4th Quarter	\$44.50	\$20.38
3rd Quarter	53.38	29.25
2nd Quarter	49.44	39.44
1st Quarter	43.13	28.69

On February 11, 2000 the last reported sale price per share of Paine Webber Group, Inc. common stock on the NYSE was \$37.56. The approximate number of holders of record of Paine Webber Group Inc. common stock as of the close of business on February 11, 2000 was 6,077.

Quarterly Financial Information (Unaudited)

<u>(In thousands of dollars except per share amounts)</u>	<u>Total Revenues</u>	<u>Net Revenues</u>	<u>Income before taxes and minority interest</u>	<u>Net Income</u>	<u>Earnings per common share Basic/Diluted</u>
Calendar 1999					
4th Quarter	\$2,068,273	\$1,390,210	\$274,131	\$166,294	\$.71/.67(1)
3rd Quarter	1,860,192	1,237,167	225,985	138,202	.91/.86
2nd Quarter	1,970,978	1,347,907	269,667	163,504	1.08/1.02
1st Quarter	1,923,310	1,314,891	265,019	160,599	1.06/1.01
Calendar 1998					
4th Quarter	\$1,735,041	\$1,096,493	\$166,214	\$100,427	\$.66/.63
3rd Quarter	1,809,148	1,031,476	138,599	82,892	.54/.51
2nd Quarter	1,900,283	1,162,168	211,999	129,501	.88/.82
1st Quarter	1,805,110	1,114,977	198,195	120,735	.82/.77

(1) Reflects the effect of unamortized discount of \$59,883 charged to stockholders' equity resulting from the redemption of preferred stock on December 16, 1999.

The sum of the quarterly earnings per share amounts does not equal the annual amount reported, as per share amounts are computed independently for each quarter and the full year based on respective weighted-average common and common equivalent shares outstanding during each period.

FIVE-YEAR FINANCIAL SUMMARY
(In thousands of dollars except share and per share amounts)

Years Ended December 31,	1999		1998		1997		1996		1995(1)	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Revenues										
Commissions										
Listed securities and options	\$ 1,115,508	21.1	\$ 992,816	22.5	\$ 884,341	21.5	\$ 821,499	22.0	\$ 816,517	24.4
Mutual funds and insurance	545,125	10.3	438,598	10.0	415,855	10.1	380,982	10.2	302,654	9.0
Over-the-counter securities and other	288,326	5.5	209,869	4.8	196,595	4.8	178,994	4.8	153,595	4.6
	<u>1,948,959</u>	<u>36.9</u>	<u>1,641,283</u>	<u>37.3</u>	<u>1,496,791</u>	<u>36.4</u>	<u>1,381,475</u>	<u>37.0</u>	<u>1,272,766</u>	<u>38.0</u>
Principal transactions										
Taxable fixed income	501,819	9.5	451,668	10.3	514,976	12.5	500,391	13.4	396,787	11.8
Equities	446,168	8.4	279,720	6.3	408,969	9.9	379,446	10.2	377,650	11.3
Municipals	162,093	3.1	137,419	3.1	131,703	3.2	143,778	3.8	139,764	4.2
	<u>1,110,080</u>	<u>21.0</u>	<u>868,807</u>	<u>19.7</u>	<u>1,055,648</u>	<u>25.6</u>	<u>1,023,615</u>	<u>27.4</u>	<u>914,201</u>	<u>27.3</u>
Asset management	<u>911,099</u>	<u>17.2</u>	<u>713,570</u>	<u>16.2</u>	<u>542,755</u>	<u>13.2</u>	<u>453,267</u>	<u>12.1</u>	<u>399,540</u>	<u>11.9</u>
Investment banking										
Underwriting fees, management fees and selling concessions:										
Corporate securities	248,407	4.7	265,721	6.0	249,777	6.1	226,063	6.1	207,499	6.2
Municipal obligations	89,098	1.7	117,978	2.7	76,964	1.9	53,914	1.4	43,578	1.3
Private placement and other fees	220,719	4.2	147,273	3.3	133,260	3.2	111,187	3.0	75,700	2.2
	<u>558,224</u>	<u>10.6</u>	<u>530,972</u>	<u>12.0</u>	<u>460,001</u>	<u>11.2</u>	<u>391,164</u>	<u>10.5</u>	<u>326,777</u>	<u>9.7</u>
Other	<u>170,951</u>	<u>3.2</u>	<u>142,242</u>	<u>3.2</u>	<u>138,633</u>	<u>3.4</u>	<u>146,708</u>	<u>3.9</u>	<u>150,056</u>	<u>4.5</u>
Interest	<u>3,123,440</u>	<u>59.0</u>	<u>3,352,708</u>	<u>76.1</u>	<u>2,963,124</u>	<u>72.1</u>	<u>2,309,737</u>	<u>61.9</u>	<u>2,256,750</u>	<u>67.4</u>
Total revenues	<u>7,822,753</u>	<u>147.9</u>	<u>7,249,582</u>	<u>164.5</u>	<u>6,656,952</u>	<u>161.9</u>	<u>5,705,966</u>	<u>152.8</u>	<u>5,320,090</u>	<u>158.8</u>
Interest expense	<u>2,532,578</u>	<u>(47.9)</u>	<u>2,844,468</u>	<u>(64.5)</u>	<u>2,544,550</u>	<u>(61.9)</u>	<u>1,970,754</u>	<u>(52.8)</u>	<u>1,969,811</u>	<u>(58.8)</u>
Net revenues	<u>\$ 5,290,175</u>	<u>100.0</u>	<u>\$ 4,405,114</u>	<u>100.0</u>	<u>\$ 4,112,402</u>	<u>100.0</u>	<u>\$ 3,735,212</u>	<u>100.0</u>	<u>\$ 3,350,279</u>	<u>100.0</u>
Non-interest expenses										
Compensation and benefits	\$ 3,049,568	57.6	\$ 2,601,364	59.1	\$ 2,420,296	58.9	\$ 2,219,129	59.4	\$ 2,004,585	59.8
Office and equipment	352,712	6.7	301,845	6.9	275,532	6.7	267,006	7.1	266,291	7.9
Communications	168,071	3.2	154,272	3.5	153,285	3.7	153,301	4.1	149,047	4.5
Business development	122,678	2.3	103,287	2.3	82,099	2.0	75,981	2.0	90,752	2.7
Brokerage, clearing and exchange fees	95,211	1.8	97,430	2.2	86,808	2.1	87,839	2.4	93,657	2.8
Professional services	136,758	2.6	123,265	2.8	129,066	3.1	108,123	2.9	101,911	3.0
Other	330,375	6.2	308,644	7.0	292,209	7.1	263,800	7.1	541,359	16.2
Total non-interest expenses	<u>4,255,373</u>	<u>80.4</u>	<u>3,690,107</u>	<u>83.8</u>	<u>3,439,295</u>	<u>83.6</u>	<u>3,175,179</u>	<u>85.0</u>	<u>3,247,602</u>	<u>96.9</u>
Income before taxes and minority interest	<u>1,034,802</u>	<u>19.6</u>	<u>715,007</u>	<u>16.2</u>	<u>673,107</u>	<u>16.4</u>	<u>560,033</u>	<u>15.0</u>	<u>102,677</u>	<u>3.1</u>
Provision for income taxes	373,959	7.1	249,208	5.7	228,626	5.6	194,649	5.2	21,927	0.7
Income before minority interest ..	660,843	12.5	465,799	10.5	444,481	10.8	365,384	9.8	80,750	2.4
Minority interest	32,244	0.6	32,244	0.7	29,032	0.7	1,034	0.0	—	0.0
Net income	<u>\$ 628,599</u>	<u>11.9</u>	<u>\$ 433,555</u>	<u>9.8</u>	<u>\$ 415,449</u>	<u>10.1</u>	<u>\$ 364,350</u>	<u>9.8</u>	<u>\$ 80,750</u>	<u>2.4</u>
Earnings per common share(2)										
Basic	\$ 3.77(3)		\$ 2.91		\$ 2.84		\$ 2.55		\$ 0.37	
Diluted	\$ 3.56(3)		\$ 2.72		\$ 2.56		\$ 2.24		\$ 0.35	
Weighted-average common shares(2)										
Basic	144,931,042		140,863,761		135,943,063		131,547,207		138,045,626	
Diluted	<u>153,214,444</u>		<u>150,611,425</u>		<u>153,347,984</u>		<u>153,829,662</u>		<u>152,268,070</u>	
Dividends declared per share										
Common stock(2)	\$.44		\$.44		\$.41		\$.32		\$.32	
Preferred stock:										
Redeemable Preferred Stock ...	\$ 9.00		\$ 9.00		\$ 9.00		\$ 9.00		\$ 9.00	
Convertible Preferred Stock ...	\$ —		\$ —		\$ 6.00		\$ 6.00		\$ 6.00	

(1) The 1995 results include after-tax charges of \$146 million (\$230 million before income taxes) related to the resolution of the issues arising from the Company's sale of public proprietary limited partnerships.

(2) All share and per share data reflect a three-for-two common stock split in November 1997.

(3) Reflects the effect of the unamortized discount of \$59.9 million charged to stockholders' equity resulting from the redemption of preferred stock on December 16, 1999.

Paine Webber Group Inc.
Unaudited Condensed Consolidated Financial Statements
First Quarter 2000
March 31, 2000

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

PAINE WEBBER GROUP INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands of dollars except share and per share amounts)

	Three Months Ended March 31,	
	2000	1999
Revenues		
Commissions	\$ 676,172	\$ 478,873
Principal transactions	309,289	314,208
Asset management	278,288	206,051
Investment banking	122,180	125,953
Interest	981,547	757,160
Other	37,645	41,065
Total revenues	2,405,121	1,923,310
Interest expense	808,016	608,419
Net revenues	1,597,105	1,314,891
Non-interest expenses		
Compensation and benefits	949,786	768,714
Office and equipment	96,592	81,452
Communications	44,123	42,203
Business development	38,901	23,867
Brokerage, clearing & exchange fees	27,303	24,390
Professional services	49,426	30,452
Other	100,755	78,794
Total non-interest expenses	1,306,886	1,049,872
Income before taxes and minority interest	290,219	265,019
Provision for income taxes	105,809	96,359
Income before minority interest	184,410	168,660
Minority interest	8,061	8,061
Net income	\$ 176,349	\$ 160,599
Net income applicable to common shares	\$ 176,349	\$ 154,650
Earnings per common share:		
Basic	\$ 1.22	\$ 1.06
Diluted	\$ 1.16	\$ 1.01
Weighted-average common shares:		
Basic	145,019,159	145,598,619
Diluted	152,336,445	153,728,711
Dividends declared per common share	\$ 0.12	\$ 0.11

See notes to condensed consolidated financial statements.

PAINÉ WEBBER GROUP INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(In thousands of dollars except share and per share amounts)

	<u>March 31,</u> <u>2000</u>	<u>December 31,</u> <u>1999</u>
Assets		
Cash and cash equivalents	\$ 286,899	\$ 176,401
Cash and securities segregated and on deposit for federal and other regulations	849,756	823,059
Financial instruments owned	22,467,838	21,144,830
Securities received as collateral	809,168	1,079,976
Securities purchased under agreements to resell	15,873,737	15,923,948
Securities borrowed	10,129,834	10,526,638
Receivables, net of allowance for doubtful accounts of \$27,413 and \$30,039 at March 31, 2000 and December 31, 1999, respectively ...	11,363,652	10,287,937
Office equipment and leasehold improvements, net of accumulated depreciation and amortization of \$561,375 and \$527,718 at March 31, 2000 and December 31, 1999, respectively	628,310	579,819
Other assets	<u>1,105,729</u>	<u>1,069,768</u>
	<u>\$63,514,923</u>	<u>\$61,612,376</u>
Liabilities and stockholders' equity		
Short-term borrowings	\$ 1,855,495	\$ 1,884,250
Financial instruments sold, not yet purchased	5,732,661	7,099,208
Securities sold under agreements to repurchase	27,762,648	25,740,196
Securities loaned	7,605,308	5,661,200
Obligation to return securities received as collateral	809,168	1,079,976
Payables	8,239,030	8,448,217
Other liabilities and accrued expenses	2,961,542	3,164,496
Long-term borrowings	<u>5,114,910</u>	<u>5,223,826</u>
	<u>60,080,762</u>	<u>58,301,369</u>
Commitments and contingencies		
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts holding solely Company Guaranteed Related Subordinated Debt	393,750	393,750
Stockholders' Equity:		
Common stock, \$1 par value, 400,000,000 shares authorized, issued 194,530,404 shares and 193,145,152 shares at March 31, 2000 and December 31, 1999, respectively	194,530	193,145
Additional paid-in capital	1,722,842	1,672,085
Retained earnings	2,329,992	2,171,080
Treasury stock, at cost; 49,393,807 shares and 47,557,064 shares at March 31, 2000 and December 31, 1999, respectively	(1,200,754)	(1,113,736)
Accumulated other comprehensive income	<u>(6,199)</u>	<u>(5,317)</u>
	<u>3,040,411</u>	<u>2,917,257</u>
	<u>\$63,514,923</u>	<u>\$61,612,376</u>

See notes to condensed consolidated financial statements.

PAINE WEBBER GROUP INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands of dollars)

	Three Months Ended March 31,	
	2000	1999
Cash flows from operating activities:		
Net income	\$ 176,349	\$ 160,599
Adjustments to reconcile net income to cash provided by (used for) operating activities:		
Noncash items included in net income:		
Depreciation and amortization	30,118	21,435
Deferred income taxes	31,841	11,198
Amortization of deferred charges	25,332	18,386
Stock-based compensation	(1,596)	5,790
(Increase) decrease in operating assets:		
Cash and securities on deposit	(26,697)	32,778
Financial instruments owned	(1,302,698)	(2,074,670)
Securities purchased under agreements to resell	50,211	(1,071,797)
Securities borrowed	396,804	(702,443)
Receivables	(1,073,089)	(379,327)
Other assets	(93,806)	(156,608)
Increase (decrease) in operating liabilities:		
Financial instruments sold, not yet purchased	(1,366,547)	1,013,811
Securities sold under agreements to repurchase	2,022,452	4,119,870
Securities loaned	1,944,108	545,931
Payables	(209,187)	(1,576,819)
Other	(198,042)	(211,215)
Cash provided by (used for) operating activities	405,553	(243,081)
Cash flows from investing activities:		
Payments for:		
Office equipment and leasehold improvements	(80,211)	(45,492)
Cash used for investing activities	(80,211)	(45,492)
Cash flows from financing activities:		
Net (payments for) proceeds from short-term borrowings	(28,755)	195,116
Proceeds from:		
Long-term borrowings	196,022	147,000
Employee stock transactions	54,447	37,576
Payments for:		
Long-term borrowings	(307,530)	(37,600)
Repurchases of common stock	(111,592)	(56,404)
Dividends	(17,436)	(22,067)
Cash (used for) provided by financing activities	(214,844)	263,621
Increase (decrease) in cash and cash equivalents	110,498	(24,952)
Cash and cash equivalents, beginning of period	176,401	228,359
Cash and cash equivalents, end of period	\$ 286,899	\$ 203,407

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(In thousands of dollars except share and per share amounts)

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements include the accounts of Paine Webber Group Inc. (“PWG”) and its wholly owned subsidiaries, including its principal subsidiary PaineWebber Incorporated (“PWI”) (collectively, the “Company”). All material intercompany balances and transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform to current year presentations. The December 31, 1999 Condensed Consolidated Statement of Financial Condition was derived from the audited consolidated financial statements of the Company. The financial information as of and for the periods ended March 31, 2000 and 1999 is unaudited. All normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation have been made.

Certain financial information that is normally in annual financial statements but is not required for interim reporting purposes has been condensed or omitted. The condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States which require management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 1999. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year.

Statement of Cash Flows

Total interest payments, which relate principally to agreements to repurchase, short-term borrowings, securities loaned and long-term borrowings, were \$865,029 and \$577,797 for the three months ended March 31, 2000 and 1999, respectively. Income taxes paid were \$86,657 and \$63,680 for the three months ended March 31, 2000 and 1999, respectively.

Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” which establishes revised accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity measure all derivative instruments at fair value and recognize such instruments as either assets or liabilities in the consolidated statements of financial condition. The accounting for changes in the fair value of a derivative instrument will depend on the intended use of the derivative as either a fair value hedge, a cash flow hedge or a foreign currency hedge. The effect of the changes in fair value of the derivatives and, in certain cases, the hedged items are to be reflected in either the consolidated statements of income or as a component of other comprehensive income, based upon the resulting designation. As issued, SFAS No. 133 was effective for fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS No. 137, “Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133.” SFAS No. 137 defers the effective date of SFAS No. 133 for one year to fiscal years beginning after June 15, 2000. The Company has not yet determined the impact of this statement on the Company’s Consolidated Financial Statements, taken as a whole.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 2: Financial Instruments Owned and Sold, Not Yet Purchased

At March 31, 2000 and December 31, 1999, financial instruments owned and financial instruments sold, not yet purchased consisted of the following:

	<u>March 31, 2000</u>	<u>December 31, 1999</u>
Financial instruments owned:		
U.S. government and agencies	\$ 6,685,430	\$ 5,864,331
Mortgages and mortgage-backed	9,087,219	9,012,415
Corporate debt	1,791,952	1,875,361
Commercial paper and other short-term debt	1,835,741	1,744,036
Equities and other	2,510,595	2,030,986
State and municipals	<u>556,901</u>	<u>617,701</u>
	<u>\$22,467,838</u>	<u>\$21,144,830</u>
Financial instruments sold, not yet purchased:		
U.S. government and agencies	\$ 3,998,570	\$ 5,804,259
Mortgages and mortgage-backed	100,908	123,049
Corporate debt	1,238,058	785,890
Equities	379,992	348,485
State and municipals	<u>15,133</u>	<u>37,525</u>
	<u>\$ 5,732,661</u>	<u>\$ 7,099,208</u>

Note 3: Long-Term Borrowings

Long-term borrowings at March 31, 2000 and December 31, 1999 consisted of the following:

	<u>March 31, 2000</u>	<u>December 31, 1999</u>
U.S. Dollar-Denominated:		
Fixed Rate Notes due 2000 — 2014	\$2,624,543	\$2,757,851
Fixed Rate Subordinated Notes due 2002	174,787	174,765
Medium-Term Senior Notes	2,142,990	2,143,010
Medium-Term Subordinated Notes	85,200	148,200
Non-U.S. Dollar-Denominated:		
Medium-Term Note due 2003	<u>87,390</u>	<u>—</u>
	<u>\$5,114,910</u>	<u>\$5,223,826</u>

At March 31, 2000, interest rates on the U.S. dollar-denominated fixed rate notes and fixed rate subordinated notes ranged from 6.25 percent to 9.25 percent and the weighted-average interest rate was 7.19 percent. Interest on the notes is payable semi-annually. The fixed rate notes and fixed rate subordinated notes outstanding at March 31, 2000 had an average maturity of 5.8 years.

At March 31, 2000, the Company had outstanding U.S. dollar-denominated fixed rate Medium-Term Notes of \$1,324,040 and variable rate Medium-Term Notes of \$904,150. The Medium-Term Notes outstanding at March 31, 2000 had an average maturity of 4.1 years and a weighted-average interest rate of 6.73 percent.

At March 31, 2000, the interest rate on the Non-U.S. dollar-denominated Medium-Term note was 1.27 percent.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At March 31, 2000 and December 31, 1999, the fair values of long-term borrowings were \$4,975,067 and \$5,140,331, respectively, as compared to the carrying amounts of \$5,114,910 and \$5,223,826, respectively. The estimated fair value of long-term borrowings is based upon quoted market prices for the same or similar issues and pricing models. However, for substantially all of its fixed rate debt, the Company enters into interest rate swap agreements to convert its fixed rate payments into floating rate payments.

The net fair values of the interest rate swaps were \$142,099 and \$127,097 payable at March 31, 2000 and December 31, 1999, respectively. The fair value of interest rate swaps used to hedge the Company's fixed rate debt is based upon the amounts the Company would receive or pay to terminate the agreements, taking into account current interest rates.

The carrying amounts of the interest rate swap agreements included in the Company's Condensed Consolidated Statements of Financial Condition at March 31, 2000 and December 31, 1999 were net receivables of \$12,956 and \$12,075, respectively. See Note 5 for further discussion of interest rate swap agreements used for hedging purposes.

Note 4: Capital Requirements

PWI, a registered broker-dealer, is subject to the Securities and Exchange Commission Uniform Net Capital Rule and New York Stock Exchange Growth and Business Reduction capital requirements. Under the method of computing capital requirements adopted by PWI, minimum net capital shall not be less than 2 percent of combined aggregate debit items arising from client transactions, plus excess margin collected on securities purchased under agreements to resell, as defined. A reduction of business is required if net capital is less than 4 percent of such aggregate debit items. Business may not be expanded if net capital is less than 5 percent of such aggregate debit items. As of March 31, 2000, PWI's net capital of \$1,177,824 was 9.5 percent of aggregate debit items and its net capital in excess of the minimum required was \$919,943.

Note 5: Financial Instruments with Off-Balance-Sheet Risk

Held or Issued for Trading Purposes

Set forth below are the gross contract or notional amounts of the Company's outstanding off-balance-sheet derivative and other financial instruments held or issued for trading purposes. These amounts are not reflected in the Condensed Consolidated Statements of Financial Condition and are indicative only of the volume of activity at March 31, 2000 and December 31, 1999. They do not represent amounts subject to market risks, and in many cases, limit the Company's overall exposure to market losses by hedging other on- and off-balance-sheet transactions.

	Notional or Contract Amount			
	March 31, 2000		December 31, 1999	
	Purchases	Sales	Purchases	Sales
Mortgage-backed forward contracts and options written and purchased	\$15,768,316	\$20,472,150	\$14,417,186	\$17,540,786
Foreign currency forward contracts, futures contracts, and options written and purchased	1,799,585	1,800,063	1,380,925	1,373,981
Equity securities contracts including stock index futures, forwards, and options written and purchased	201,171	470,999	144,034	239,682
Other fixed income securities contracts including futures, forwards, and options written and purchased	6,987,108	5,358,536	3,557,193	5,538,887
Interest rate swaps and caps	1,464,080	2,434,080	1,688,762	419,989

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Set forth below are the fair values of derivative financial instruments held or issued for trading purposes as of March 31, 2000 and December 31, 1999. The fair value amounts are netted by counterparty when specific conditions are met.

	Fair Value at March 31, 2000		Fair Value at December 31, 1999	
	Assets	Liabilities	Assets	Liabilities
Mortgage-backed forward contracts and options written and purchased	\$ 78,782	\$86,714	\$159,228	\$114,838
Foreign currency forward contracts, futures contracts, and options written and purchased	19,365	19,163	20,274	20,158
Equity securities contracts including stock index futures, forwards, and options written and purchased	132,908	58,919	152,024	48,835
Other fixed income securities contracts including futures, forwards, and options written and purchased	28,566	13,008	29,584	20,177
Interest rate swaps and caps	15,624	23,704	31,569	11,087

Set forth below are the average fair values of derivative financial instruments held or issued for trading purposes for the three months ended March 31, 2000 and the twelve months ended December 31, 1999. The average fair value is based on the average of the month-end balances during the periods indicated.

	Average Fair Value Three Months Ended March 31, 2000		Average Fair Value Twelve Months Ended December 31, 1999	
	Assets	Liabilities	Assets	Liabilities
Mortgage-backed forward contracts and options written and purchased	\$ 93,071	\$89,451	\$171,113	\$163,954
Foreign currency forward contracts, futures contracts, and options written and purchased	33,468	30,338	22,549	22,377
Equity securities contracts including stock index futures, forwards, and options written and purchased	136,105	51,531	63,624	40,321
Other fixed income securities contracts including futures, forwards, and options written and purchased	27,772	13,164	11,932	49,800
Interest rate swaps and caps	26,662	18,052	18,593	6,754

The Company also sells securities, at predetermined prices, which have not yet been purchased. The Company is exposed to market risk since to satisfy the obligation, the Company must acquire the securities at market prices, which may exceed the values reflected on the Condensed Consolidated Statements of Financial Condition.

The off-balance-sheet derivative trading transactions are generally short-term. At March 31, 2000 substantially all of the off-balance-sheet trading-related derivative and other financial instruments had remaining maturities of less than one year.

The Company's risk of loss in the event of counterparty default is limited to the current fair value or the replacement cost on contracts in which the Company has recorded an unrealized gain. These amounts are reflected as assets on the Company's Condensed Consolidated Statements of Financial Condition and amounted to \$275,245 and \$392,679 at March 31, 2000 and December 31, 1999, respectively. Options written do not expose the Company to credit risk since they do not obligate the counterparty to perform. Transactions in futures contracts are conducted through regulated exchanges which have margin requirements, and are settled in cash on a daily basis, thereby minimizing credit risk.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the Company's principal transactions revenues by business activity for the three months ended March 31, 2000 and 1999. Principal transactions revenues include realized and unrealized gains and losses on trading positions and principal investing activities, including hedges. In assessing the profitability of its trading activities, the Company views net interest and principal transactions revenues in the aggregate.

	Principal Transactions Revenues	
	Three Months Ended March 31,	
	2000	1999
Taxable fixed income (includes futures, forwards, options contracts and other securities)	\$ 57,771	\$194,404
Equities (includes stock index futures, forwards and options contracts)	206,822	84,907
Municipals (includes futures and options contracts)	44,696	34,897
	<u>\$309,289</u>	<u>\$314,208</u>

Held or Issued for Purposes Other Than Trading

The Company enters into interest rate swap agreements to manage the interest rate characteristics of its assets and liabilities. As of March 31, 2000 and December 31, 1999, the Company had outstanding interest rate swap agreements with commercial banks with notional amounts of \$3,891,010 and \$4,206,010, respectively. These agreements effectively converted substantially all of the Company's fixed rate debt at March 31, 2000 into floating rate debt. The interest rate swap agreements entered into have had the effect of reducing net interest expense on the Company's fixed rate debt by \$282 and \$5,753 for the three months ended March 31, 2000 and 1999, respectively. The Company had no deferred gains or losses related to terminated swap agreements on the Company's long-term borrowings at March 31, 2000 and December 31, 1999. The Company is subject to market risk as interest rates fluctuate. The interest rate swaps contain credit risk to the extent the Company is in a receivable or gain position and the counterparty defaults. However, the counterparties to the agreements generally are large financial institutions, and the Company has not experienced defaults in the past, and management does not anticipate any counterparty defaults in the foreseeable future. See Note 3 for further discussion of interest rate swap agreements used for hedging purposes.

Note 6: Risk Management

Transactions involving derivative and non-derivative financial instruments involve varying degrees of both market and credit risk. The Company monitors its exposure to market and credit risk on a daily basis and through a variety of financial, security position and credit exposure reporting and control procedures.

Market Risk

Market risk is the potential change in value of the financial instrument caused by unfavorable changes in interest rates, equity prices, and foreign currency exchange rates. The Company has a variety of methods to monitor its market risk profile. The senior management of each business group is responsible for reviewing trading positions, exposures, profits and losses, and trading strategies. The Company also has an independent risk management group which reviews the Company's risk profile and aids in setting and monitoring risk management policies of the Company, including monitoring adherence to the established limits, performing market risk modeling, and reviewing trading positions and hedging strategies. The Asset/Liability Management Committee, comprised of senior corporate and business group managers, is responsible for establishing trading position and exposure limits.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Market risk modeling is based on estimating loss exposure through sensitivity testing. These results are compared to established limits, and exceptions are subject to review and approval by senior management. Other market risk control procedures include monitoring inventory agings, reviewing traders' marks and holding regular meetings between the senior management of the business groups and the risk management group.

Credit Risk in Proprietary Transactions

Counterparties to the Company's proprietary trading, hedging, financing and arbitrage activities are primarily financial institutions, including banks, brokers and dealers, investment funds and insurance companies. Credit losses could arise should counterparties fail to perform and the value of any collateral proves inadequate. The Company manages credit risk by monitoring net exposure to individual counterparties on a daily basis, monitoring credit limits and requiring additional collateral where appropriate.

Derivative credit exposures are calculated, aggregated and compared to established limits by the credit department. Credit reserve requirements are determined by senior management in conjunction with the Company's continuous credit monitoring procedures. Historically, reserve requirements arising from instruments with off-balance-sheet risk have not been material.

Receivables and payables with brokers and dealers, agreements to resell and repurchase securities, and securities borrowed and loaned are generally collateralized by cash, government and government-agency securities, and letters of credit. The market value of the initial collateral received approximates or is greater than the contract value. Additional collateral is requested when considered necessary. The Company may pledge clients' margined securities as collateral in support of securities loaned and bank loans, as well as to satisfy margin requirements at clearing organizations. The amounts loaned or pledged are limited to the extent permitted by applicable margin regulations. Should the counterparty fail to return the clients' securities, the Company may be required to replace them at prevailing market prices. At March 31, 2000, the market value of client securities loaned to other brokers approximated the amounts due or collateral obtained.

Credit Risk in Client Activities

Client transactions are entered on either a cash or margin basis. In a margin transaction, the Company extends credit to a client for the purchase of securities, using the securities purchased and/or other securities in the client's account as collateral for amounts loaned. Receivables from customers are substantially collateralized by customer securities. Amounts loaned are limited by margin regulations of the Federal Reserve Board and other regulatory authorities and are subject to the Company's credit review and daily monitoring procedures. Market declines could, however, reduce the value of any collateral below the principal amount loaned, plus accrued interest, before the collateral can be sold.

Client transactions include positions in commodities and financial futures, trading liabilities and written options. The risk to the Company's clients in these transactions can be substantial, principally due to price volatility which can reduce the clients' ability to meet their obligations. Margin deposit requirements pertaining to commodity futures and exchange-traded options transactions are generally lower than those for exchange-traded securities. To the extent clients are unable to meet their commitments to the Company and margin deposits are insufficient to cover outstanding liabilities, the Company may take market action and credit losses could be realized.

Client trades are recorded on a settlement date basis. Should either the client or broker fail to perform, the Company may be required to complete the transaction at prevailing market prices. Trades pending at March 31, 2000 were settled without material adverse effect on the Company's consolidated financial statements, taken as a whole.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Concentrations of Credit Risk

Concentrations of credit risk that arise from financial instruments (whether on- or off-balance-sheet) exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet obligations to be similarly affected by economic, industry or geographic factors. As a major securities firm, the Company engages in underwriting and other financing activities with a broad range of clients, including other financial institutions, municipalities, governments, financing companies, and commercial real estate investors and operators. These activities could result in concentrations of credit risk with a particular counterparty, or group of counterparties operating in a particular geographic area or engaged in business in a particular industry. The Company seeks to control its credit risk and the potential for risk concentration through a variety of reporting and control procedures described above.

The Company's most significant industry concentration, which arises within its normal course of business activities, is financial institutions including banks, brokers and dealers, investment funds, and insurance companies.

Note 7: Commitments and Contingencies

At March 31, 2000 and December 31, 1999, the Company was contingently liable under unsecured letters of credit totaling \$193,787 and \$139,156, respectively, which approximated fair value. At March 31, 2000 and December 31, 1999 certain of the Company's subsidiaries were contingently liable as issuer of approximately \$45,000 of notes payable to managing general partners of various limited partnerships pursuant to certain partnership agreements. In addition, as part of the 1995 limited partnership settlements, the Company has agreed, under certain circumstances, to provide to class members additional consideration including assignment of fees the Company is entitled to receive from certain partnerships. In the opinion of management, these contingencies will not have a material adverse effect on the Company's consolidated financial statements, taken as a whole.

In meeting the financing needs of certain of its clients, the Company may also issue standby letters of credit which are collateralized by customer margin securities. At March 31, 2000 and December 31, 1999, the Company had outstanding \$118,300 and \$101,400, respectively, of such standby letters of credit. At March 31, 2000 and December 31, 1999, securities with fair value of \$1,791,490 and \$2,536,073, respectively, had been loaned or pledged as collateral for securities borrowed of approximately equal fair value.

In the normal course of business, the Company enters into when-issued transactions, underwriting and other commitments. Also, at March 31, 2000 and December 31, 1999, the Company had commitments of \$1,070,416 and \$858,122, respectively, consisting of secured credit lines to real estate operators, mortgage and asset-backed originators, and commitments to investment partnerships, in certain of which key employees are limited partners. Settlement of these transactions at March 31, 2000 would not have had a material impact on the Company's consolidated financial statements, taken as a whole.

The Company has been named as defendant in numerous legal actions in the ordinary course of business. While the outcome of such matters cannot be predicted with certainty, in the opinion of management of the Company, after consultation with various counsel handling such matters, these actions will be resolved with no material adverse effect on the Company's consolidated financial statements, taken as a whole.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 8: Comprehensive Income

Comprehensive income is calculated in accordance with SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income combines net income and certain items that directly affect stockholders' equity, such as foreign currency translation adjustments. The components of comprehensive income for the three months ended March 31, 2000 and 1999 were as follows:

	Three Months Ended March 31,	
	2000	1999
Net income	\$176,349	\$160,599
Foreign currency translation adjustment	(882)	(1,512)
Total comprehensive income	<u>\$175,467</u>	<u>\$159,087</u>

Note 9: Earnings Per Common Share

Earnings per common share are computed in accordance with SFAS No. 128, "Earnings Per Share." Basic earnings per share excludes the dilutive effects of options and convertible securities and is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects all potentially dilutive securities.

Set forth below is the reconciliation of net income applicable to common shares and weighted-average common and common equivalent shares of the basic and diluted earnings per common share computations:

	Three Months Ended March 31,	
	2000	1999
Numerator:		
Net income	\$ 176,349	\$ 160,599
Preferred stock dividends	—	(5,949)
Net income applicable to common shares for basic earnings per share	<u>176,349</u>	<u>154,650</u>
Net income applicable to common shares for diluted earnings per share	<u>\$ 176,349</u>	<u>\$ 154,650</u>
Denominator:		
Weighted-average common shares for basic earnings per share	<u>145,019,159</u>	<u>145,598,619</u>
Weighted-average effect of dilutive employee stock options and awards	7,317,286(1)	8,130,092
Dilutive potential common shares	<u>7,317,286</u>	<u>8,130,092</u>
Weighted-average common and common equivalent shares for diluted earnings per share	<u>152,336,445</u>	<u>153,728,711</u>
Earnings per share:		
Basic	<u>\$ 1.22</u>	<u>\$ 1.06</u>
Diluted	<u>\$ 1.16</u>	<u>\$ 1.01</u>

(1) Included in the calculation of employee stock options and awards was the dilutive effect of 1,925,000 instruments related to convertible debentures.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 10: Segment Reporting Data

The Company offers a wide variety of products and services, primarily those of a full service domestic broker-dealer to a domestic market, through its two operating segments: Individual and Institutional. The Individual segment offers brokerage services and products (such as the purchase and sale of securities, insurance annuity contracts, mutual funds, wrap fee products, and margin and securities lending), asset management and other investment advisory and portfolio management products and services, and execution and clearing services for transactions originated by individual investors. The Institutional segment principally includes capital market products and services (such as the placing of securities and other financial instruments for—and the execution of trades on behalf of—institutional clients, investment banking services such as the underwriting of debt and equity securities, and mergers and acquisitions advisory services).

Segment revenues and expenses in the table below consist of those that are directly attributable to the segment under which they are reported, combined with segment amounts based on Company allocation methodologies (for example, allocating a portion of investment banking revenues to the Individual segment; relative utilization of the Company's square footage for certain cost allocations).

	Three months ended March 31, 2000			Three months ended March 31, 1999		
	Individual	Institutional	Total	Individual	Institutional	Total
Total revenues	\$1,470,751	\$934,370	\$2,405,121	\$1,104,409	\$818,901	\$1,923,310
Net revenues	1,251,278	345,827	1,597,105	955,113	359,778	1,314,891
Income before taxes and minority interest	199,194	91,025	290,219	155,483	109,536	265,019

Total assets for the Individual and Institutional segments were \$25,175,880 and \$38,339,043, respectively, at March 31, 2000 and \$21,828,324 and \$39,784,052, respectively at December 31, 1999.

Note 11: Subsequent Events

On April 27, 2000, PWG entered into an agreement and plan of merger (the "Merger Agreement") with J.C. Bradford & Co. L.L.C. ("J.C. Bradford"), a leading privately-held brokerage firm in the Southeast, pursuant to which a subsidiary of PWG will merge with and into J.C. Bradford. The all cash transaction, valued at \$620 million, is expected to close in the third quarter of this year.

At the May 4, 2000 Annual Meeting of Stockholders, the Company approved to amend the Restated Certificate of Incorporation of PWG to authorize the issuance of up to 150,000,000 shares of Non-Voting Common Stock, par value of \$1.00 per share.

Paine Webber Group Inc.
Unaudited Condensed Consolidated Financial Statements
Second Quarter 2000
June 30, 2000

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

PAINE WEBBER GROUP INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands of dollars except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Revenues				
Commissions	\$ 560,510	\$ 488,878	\$ 1,236,682	\$ 967,751
Principal transactions	181,428	279,846	490,717	594,054
Asset management	300,705	224,487	578,993	430,538
Investment banking	155,647	160,133	277,827	286,086
Interest	1,074,208	770,271	2,055,755	1,527,431
Other	43,928	47,363	81,573	88,428
Total revenues	2,316,426	1,970,978	4,721,547	3,894,288
Interest expense	905,254	623,071	1,713,270	1,231,490
Net revenues	1,411,172	1,347,907	3,008,277	2,662,798
Non-interest expenses				
Compensation and benefits	839,603	780,078	1,789,389	1,548,792
Office and equipment	99,695	89,330	196,287	170,782
Communications	46,807	42,645	90,930	84,848
Business development	41,776	28,534	80,677	52,401
Brokerage, clearing & exchange fees	20,300	23,487	47,603	47,877
Professional services	50,455	32,397	99,881	62,849
Other	100,466	81,769	201,221	160,563
Total non-interest expenses	1,199,102	1,078,240	2,505,988	2,128,112
Income before taxes and minority interest	212,070	269,667	502,289	534,686
Provision for income taxes	76,503	98,102	182,312	194,461
Income before minority interest	135,567	171,565	319,977	340,225
Minority interest	8,061	8,061	16,122	16,122
Net income	\$ 127,506	\$ 163,504	\$ 303,855	\$ 324,103
Net income applicable to common shares	\$ 127,506	\$ 157,555	\$ 303,855	\$ 312,205
Earnings per common share:				
Basic	\$ 0.87	\$ 1.08	\$ 2.09	\$ 2.14
Diluted	\$ 0.82	\$ 1.02	\$ 1.98	\$ 2.02
Weighted-average common shares:				
Basic	146,067,820	145,742,741	145,324,940	145,631,920
Diluted	154,576,404	154,960,397	153,233,875	154,305,795
Dividends declared per common share	\$ 0.12	\$ 0.11	\$ 0.24	\$ 0.22

Results for the quarter and six months ended June 30, 2000 include J.C. Bradford merger-related costs of \$30 million, \$18.8 million after taxes.

See notes to condensed consolidated financial statements.

PAINE WEBBER GROUP INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(In thousands of dollars except share and per share amounts)

	<u>June 30, 2000</u>	<u>December 31, 1999</u>
Assets		
Cash and cash equivalents	\$ 429,002	\$ 176,401
Cash and securities segregated and on deposit for federal and other regulations	719,651	823,059
Financial instruments owned	23,577,357	21,144,830
Securities received as collateral	907,299	1,079,976
Securities purchased under agreements to resell	15,313,111	15,923,948
Securities borrowed	10,517,232	10,526,638
Receivables, net of allowance for doubtful accounts of \$21,301 and \$30,039 at June 30, 2000 and December 31, 1999, respectively	12,215,893	10,287,937
Office equipment and leasehold improvements, net of accumulated depreciation and amortization of \$591,129 and \$527,718 at June 30, 2000 and December 31, 1999, respectively	747,931	579,819
Other assets	1,975,026	1,069,768
	<u>\$66,402,502</u>	<u>\$61,612,376</u>
Liabilities and stockholders' equity		
Short-term borrowings	\$ 2,255,603	\$ 1,884,250
Financial instruments sold, not yet purchased	4,275,325	7,099,208
Securities sold under agreements to repurchase	27,918,155	25,740,196
Securities loaned	7,249,077	5,661,200
Obligation to return securities received as collateral	907,299	1,079,976
Payables	11,882,125	8,448,217
Other liabilities and accrued expenses	3,121,054	3,164,496
Long-term borrowings	5,209,136	5,223,826
	<u>62,817,774</u>	<u>58,301,369</u>
Commitments and contingencies		
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts holding solely Company Guaranteed Related Subordinated Debt	393,750	393,750
Stockholders' Equity:		
Common stock, \$1 par value, 400,000,000 shares authorized, issued 195,719,680 shares and 193,145,152 shares at June 30, 2000 and December 31, 1999, respectively	195,720	193,145
Additional paid-in capital	1,755,825	1,672,085
Retained earnings	2,439,962	2,171,080
Treasury stock, at cost; 48,971,281 shares and 47,557,064 shares at June 30, 2000 and December 31, 1999, respectively	(1,191,934)	(1,113,736)
Accumulated other comprehensive income	(8,595)	(5,317)
	<u>3,190,978</u>	<u>2,917,257</u>
	<u>\$66,402,502</u>	<u>\$61,612,376</u>

See notes to condensed consolidated financial statements.

PAINÉ WEBBER GROUP INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands of dollars)

	Six Months Ended June 30,	
	2000	1999
Cash flows from operating activities:		
Net income	\$ 303,855	\$ 324,103
Adjustments to reconcile net income to cash provided by (used for) operating activities:		
Noncash items included in net income:		
Depreciation and amortization	63,815	49,206
Deferred income taxes	14,268	(10,317)
Amortization of deferred charges	53,729	51,736
Stock-based compensation	(3,126)	11,480
(Increase) decrease in operating assets:		
Cash and securities on deposit	103,685	(54,585)
Financial instruments owned	(2,156,799)	(2,200,354)
Securities purchased under agreements to resell	610,837	(306,902)
Securities borrowed	234,592	(197,510)
Receivables	(1,031,176)	(1,032,062)
Other assets	(306,671)	(243,111)
Increase (decrease) in operating liabilities:		
Financial instruments sold, not yet purchased	(2,823,883)	2,863,254
Securities sold under agreements to repurchase	2,177,959	1,697,395
Securities loaned	1,319,954	14,021
Payables	2,603,232	(1,204,663)
Other	(312,241)	73,936
Cash provided by (used for) operating activities	852,030	(164,373)
Cash flows from investing activities:		
Payments for:		
Net assets acquired in business acquisition	(621,667)	—
Office equipment and leasehold improvements	(196,740)	(110,289)
Cash used for investing activities	(818,407)	(110,289)
Cash flows from financing activities:		
Net proceeds from (payments on) short-term borrowings	337,151	(233,289)
Proceeds from:		
Long-term borrowings	346,762	875,985
Employee stock transactions	88,365	56,593
Payments for:		
Long-term borrowings	(403,560)	(190,180)
Repurchases of common stock	(114,767)	(121,080)
Dividends	(34,973)	(43,706)
Cash provided by financing activities	218,978	344,323
Increase in cash and cash equivalents	252,601	69,661
Cash and cash equivalents, beginning of period	176,401	228,359
Cash and cash equivalents, end of period	\$ 429,002	\$ 298,020

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(In thousands of dollars except share and per share amounts)

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements include the accounts of Paine Webber Group Inc. (“PWG”) and its wholly owned subsidiaries, including its principal subsidiary PaineWebber Incorporated (“PWI”) (collectively, the “Company”). All material intercompany balances and transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform to current year presentations. The December 31, 1999 Condensed Consolidated Statement of Financial Condition was derived from the audited consolidated financial statements of the Company. The financial information as of and for the periods ended June 30, 2000 and 1999 is unaudited. All normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation have been made.

Certain financial information that is normally in annual financial statements but is not required for interim reporting purposes has been condensed or omitted. The condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States which require management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 1999 and the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2000. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year.

Statement of Cash Flows

Total interest payments, which relate principally to agreements to repurchase, short-term borrowings, securities loaned and long-term borrowings, were \$1,763,452 and \$1,211,332 for the six months ended June 30, 2000 and 1999, respectively. Income taxes paid were \$202,888 and \$118,274 for the six months ended June 30, 2000 and 1999, respectively.

Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” which establishes revised accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity measure all derivative instruments at fair value and recognize such instruments as either assets or liabilities in the consolidated statements of financial condition. The accounting for changes in the fair value of a derivative instrument will depend on the intended use of the derivative as either a fair value hedge, a cash flow hedge or a foreign currency hedge. The effect of the changes in fair value of the derivatives and, in certain cases, the hedged items are to be reflected in either the consolidated statements of income or as a component of other comprehensive income, based upon the resulting designation. As issued, SFAS No. 133 was effective for fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS No. 137, “Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133.” SFAS No. 137 defers the effective date of SFAS No. 133 for one year to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued Statement No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment to FASB Statement No. 133”. The Company has not yet determined the impact of these statements on the Company’s Consolidated Financial Statements, taken as a whole.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 2: Subsequent Event

On July 12, 2000, PWG entered into an agreement and plan of merger with UBS AG (“UBS”) and a subsidiary of UBS, pursuant to which PWG will merge with and into that subsidiary. Under the terms of the agreement, PWG’s shareholders will have the right to elect to receive either \$73.50 in cash or 0.4954 of an ordinary share of UBS AG stock for each share of PWG’s common stock, \$1 par value (“common stock”) that they own. The percentage of PWG’s common stock that will be converted into the right to receive UBS AG stock is fixed at 50 percent. Adjustments to elections may therefore be necessary so that, in the aggregate, 50 percent of the shares of PWG’s common stock is converted into the right to receive UBS AG stock, and 50 percent is converted into the right to receive cash. The transaction, which is expected to be completed in the fourth quarter of 2000, has been approved by PWG’s Board of Directors and is subject to customary closing conditions, including certain regulatory approvals and the approval of PWG’s shareholders.

Note 3: Merger with J.C. Bradford

On June 9, 2000, the Company completed its merger with J.C. Bradford & Co. L.L.C. (“J.C. Bradford”), a leading privately-held brokerage firm in the Southeastern U.S., for approximately \$622,000 in cash. The merger was accounted for as a purchase and, accordingly, the excess of the purchase cost over the fair value of the net assets acquired of approximately \$185,000, resulted in the Company recording \$560,000 in goodwill, which is being amortized over 25 years on a straight-line basis. The consolidated financial statements of the Company include the results of J.C. Bradford from the closing date. As a result of the merger, the Company recorded after-tax costs of approximately \$18,800 (\$30,000 pre-tax) relating primarily to elimination of the Company’s duplicate facilities, severance and other costs.

Note 4: Financial Instruments Owned and Sold, Not Yet Purchased

At June 30, 2000 and December 31, 1999, financial instruments owned and financial instruments sold, not yet purchased consisted of the following:

	<u>June 30, 2000</u>	<u>December 31, 1999</u>
Financial instruments owned:		
U.S. government and agencies	\$ 6,859,578	\$ 5,864,331
Mortgages and mortgage-backed	9,585,261	9,012,415
Corporate debt	1,972,518	1,875,361
Commercial paper and other short-term debt	2,196,741	1,744,036
Equities and other	2,342,821	2,030,986
State and municipals	<u>620,438</u>	<u>617,701</u>
	<u>\$23,577,357</u>	<u>\$21,144,830</u>
Financial instruments sold, not yet purchased:		
U.S. government and agencies	\$ 2,907,693	\$ 5,804,259
Mortgages and mortgage-backed	144,194	123,049
Corporate debt	940,826	785,890
Equities	239,698	348,485
State and municipals	<u>42,914</u>	<u>37,525</u>
	<u>\$ 4,275,325</u>	<u>\$ 7,099,208</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 5: Long-Term Borrowings

Long-term borrowings at June 30, 2000 and December 31, 1999 consisted of the following:

	<u>June 30, 2000</u>	<u>December 31, 1999</u>
U.S. Dollar-Denominated:		
Fixed Rate Notes	\$2,608,917	\$2,757,851
Fixed Rate Subordinated Notes	198,809	174,765
Medium-Term Senior Notes	2,186,350	2,143,010
Medium-Term Subordinated Notes	85,200	148,200
Other	11,037	—
Non-U.S. Dollar-Denominated:		
Medium-Term Notes	<u>118,823</u>	<u>—</u>
	<u>\$5,209,136</u>	<u>\$5,223,826</u>

At June 30, 2000, interest rates on the U.S. dollar-denominated fixed rate notes and fixed rate subordinated notes ranged from 6.25 percent to 9.25 percent and the weighted-average interest rate was 7.19 percent. Interest on the notes is payable semi-annually. The fixed rate notes and fixed rate subordinated notes outstanding at June 30, 2000 had an average maturity of 5.6 years.

At June 30, 2000, the Company had outstanding U.S. dollar-denominated fixed rate Medium-Term Notes of \$1,292,100 and variable rate Medium-Term Notes of \$979,450. The Medium-Term Notes outstanding at June 30, 2000 had an average maturity of 3.9 years and a weighted-average interest rate of 6.36 percent.

At June 30, 2000, the Non-U.S. dollar-denominated Medium-Term Notes outstanding had a weighted-average interest rate of 1.18 percent and an average maturity of 2.4 years.

In 2000, the Company issued to certain employees, 6.25% Convertible Debentures (the “Debentures”) due 2007. The Debentures are convertible, at the option of the holders, into 1,931,250 shares of Convertible Preferred Stock, which are then convertible into 1,931,250 shares of common stock of the Company. The Debentures are convertible beginning on January 20, 2003.

At June 30, 2000 and December 31, 1999, the fair values of long-term borrowings were \$4,998,397 and \$5,140,331, respectively, as compared to the carrying amounts of \$5,209,136 and \$5,223,826, respectively. The estimated fair value of long-term borrowings is based upon quoted market prices for the same or similar issues and pricing models. However, for substantially all of its fixed rate debt, the Company enters into interest rate swap agreements to convert its fixed rate payments into floating rate payments.

The net fair values of the interest rate swaps were \$125,726 and \$127,097 payable at June 30, 2000 and December 31, 1999, respectively. The fair value of interest rate swaps used to hedge the Company’s long-term borrowings is based upon the amounts the Company would receive or pay to terminate the agreements, taking into account current interest rates.

The carrying amounts of the interest rate swap agreements included in the Company’s Condensed Consolidated Statements of Financial Condition at June 30, 2000 and December 31, 1999 were net receivables of \$6,233 and \$12,075, respectively. See Note 7 for further discussion of interest rate swap agreements used for hedging purposes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 6: Capital Requirements

PWI, a registered broker-dealer, is subject to the Securities and Exchange Commission Uniform Net Capital Rule and New York Stock Exchange Growth and Business Reduction capital requirements. Under the method of computing capital requirements adopted by PWI, minimum net capital shall not be less than 2 percent of combined aggregate debit items arising from client transactions, plus excess margin collected on securities purchased under agreements to resell, as defined. A reduction of business is required if net capital is less than 4 percent of such aggregate debit items. Business may not be expanded if net capital is less than 5 percent of such aggregate debit items. As of June 30, 2000, PWI's net capital of \$1,196,312 was 9.1 percent of aggregate debit items and its net capital in excess of the minimum required was \$921,545.

Effective June 9, 2000, the Company completed its merger with J.C. Bradford, a registered broker-dealer. As a registered broker-dealer, J.C. Bradford is subject to the Securities and Exchange Commission Uniform Net Capital Rule and New York Stock Exchange Growth and Business Reduction capital requirements, similar to PWI. As of June 30, 2000, J.C. Bradford's net capital of \$376,146 was 41.3 percent of aggregate debit items and its net capital in excess of the minimum required was \$357,940.

Note 7: Financial Instruments with Off-Balance-Sheet Risk

Held or Issued for Trading Purposes

Set forth below are the gross contract or notional amounts of the Company's outstanding off-balance-sheet derivative and other financial instruments held or issued for trading purposes. These amounts are not reflected in the Condensed Consolidated Statements of Financial Condition and are indicative only of the volume of activity at June 30, 2000 and December 31, 1999. They do not represent amounts subject to market risks, and in many cases, limit the Company's overall exposure to market losses by hedging other on- and off-balance-sheet transactions.

	Notional or Contract Amount			
	June 30, 2000		December 31, 1999	
	Purchases	Sales	Purchases	Sales
Mortgage-backed forward contracts and options written and purchased	\$14,862,935	\$20,758,712	\$14,417,186	\$17,540,786
Foreign currency forward contracts, futures contracts, and options written and purchased	2,047,008	2,014,695	1,380,925	1,373,981
Equity securities contracts including stock index futures, forwards, and options written and purchased . . .	202,385	359,693	144,034	239,682
Other fixed income securities contracts including futures, forwards, and options written and purchased	5,930,773	7,913,074	3,557,193	5,538,887
Interest rate swaps and caps	1,591,267	3,737,418	1,688,762	419,989

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Set forth below are the fair values of derivative financial instruments held or issued for trading purposes as of June 30, 2000 and December 31, 1999. The fair value amounts are netted by counterparty when specific conditions are met.

	Fair Value at June 30, 2000		Fair Value at December 31, 1999	
	Assets	Liabilities	Assets	Liabilities
Mortgage-backed forward contracts and options written and purchased	\$93,514	\$110,055	\$159,228	\$114,838
Foreign currency forward contracts, futures contracts, and options written and purchased . . .	21,160	20,211	20,274	20,158
Equity securities contracts including stock index futures, forwards, and options written and purchased	41,655	16,051	152,024	48,835
Other fixed income securities contracts including futures, forwards, and options written and purchased	12,327	6,436	29,584	20,177
Interest rate swaps and caps	21,000	41,489	31,569	11,087

Set forth below are the average fair values of derivative financial instruments held or issued for trading purposes for the three months ended June 30, 2000 and the twelve months ended December 31, 1999. The average fair value is based on the average of the month-end balances during the periods indicated.

	Average Fair Value June 30, 2000		Average Fair Value December 31, 1999	
	Assets	Liabilities	Assets	Liabilities
Mortgage-backed forward contracts and options written and purchased	\$121,674	\$112,297	\$171,113	\$163,954
Foreign currency forward contracts, futures contracts, and options written and purchased . .	31,807	31,218	22,549	22,377
Equity securities contracts including stock index futures, forwards, and options written and purchased	88,125	31,563	63,624	40,321
Other fixed income securities contracts including futures, forwards, and options written and purchased	16,163	6,017	11,932	49,800
Interest rate swaps and caps	29,344	26,051	18,593	6,754

The Company also sells securities, at predetermined prices, which have not yet been purchased. The Company is exposed to market risk since to satisfy the obligation, the Company must acquire the securities at market prices, which may exceed the values reflected on the Condensed Consolidated Statements of Financial Condition.

The off-balance-sheet derivative trading transactions are generally short-term. At June 30, 2000 substantially all of the off-balance-sheet trading-related derivative and other financial instruments had remaining maturities of less than one year.

The Company's risk of loss in the event of counterparty default is limited to the current fair value or the replacement cost on contracts in which the Company has recorded an unrealized gain. These amounts are reflected as assets on the Company's Condensed Consolidated Statements of Financial Condition and amounted to \$189,656 and \$392,679 at June 30, 2000 and December 31, 1999, respectively. Options written do not expose the Company to credit risk since they do not obligate the counterparty to perform. Transactions in futures contracts are conducted through regulated exchanges which have margin requirements, and are settled in cash on a daily basis, thereby minimizing credit risk.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the Company's principal transactions revenues by business activity for the three months and six months ended June 30, 2000 and 1999. Principal transactions revenues include realized and unrealized gains and losses on trading positions and principal investing activities, including hedges. In assessing the profitability of its trading activities, the Company views net interest and principal transactions revenues in the aggregate.

	Principal Transactions Revenues			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Taxable fixed income (includes futures, forwards, options contracts and other securities)	\$ 61,901	\$137,646	\$119,672	\$332,050
Equities (includes stock index futures, forwards and options contracts)	71,983	107,424	278,805	192,331
Municipals (includes futures and options contracts)	47,544	34,776	92,240	69,673
	<u>\$181,428</u>	<u>\$279,846</u>	<u>\$490,717</u>	<u>\$594,054</u>

Held or Issued for Purposes Other Than Trading

The Company enters into interest rate swap agreements to manage the interest rate characteristics of its assets and liabilities. As of June 30, 2000 and December 31, 1999, the Company had outstanding interest rate swap agreements with commercial banks with notional amounts of \$3,896,010 and \$4,206,010, respectively. These agreements effectively converted substantially all of the Company's fixed rate debt at June 30, 2000 into floating rate debt. The interest rate swap agreements entered into have had the effect of increasing net interest expense on the Company's fixed rate debt by \$2,359 for the six months ended June 30, 2000, and decreasing net interest expense by \$13,791 for the six months ended June 30, 1999. The Company had no deferred gains or losses related to terminated swap agreements on the Company's long-term borrowings at June 30, 2000 and December 31, 1999. The Company is subject to market risk as interest rates fluctuate. The interest rate swaps contain credit risk to the extent the Company is in a receivable or gain position and the counterparty defaults. However, the counterparties to the agreements generally are large financial institutions, and the Company has not experienced defaults in the past, and management does not anticipate any counterparty defaults in the foreseeable future. See Note 5 for further discussion of interest rate swap agreements used for hedging purposes.

Note 8: Risk Management

Transactions involving derivative and non-derivative financial instruments involve varying degrees of both market and credit risk. The Company monitors its exposure to market and credit risk on a daily basis and through a variety of financial, security position and credit exposure reporting and control procedures.

Market Risk

Market risk is the potential change in value of the financial instrument caused by unfavorable changes in interest rates, equity prices, and foreign currency exchange rates. The Company has a variety of methods to monitor its market risk profile. The senior management of each business group is responsible for reviewing trading positions, exposures, profits and losses, and trading strategies. The Company also has an independent risk management group which reviews the Company's risk profile and aids in setting and monitoring risk management policies of the Company, including monitoring adherence to the established limits, performing market risk modeling, and reviewing trading positions

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and hedging strategies. The Asset/Liability Management Committee, comprised of senior corporate and business group managers, is responsible for establishing trading position and exposure limits.

Market risk modeling is based on estimating loss exposure through sensitivity testing. These results are compared to established limits, and exceptions are subject to review and approval by senior management. Other market risk control procedures include monitoring inventory agings, reviewing traders' marks and holding regular meetings between the senior management of the business groups and the risk management group.

Credit Risk in Proprietary Transactions

Counterparties to the Company's proprietary trading, hedging, financing and arbitrage activities are primarily financial institutions, including banks, brokers and dealers, investment funds and insurance companies. Credit losses could arise should counterparties fail to perform and the value of any collateral proves inadequate. The Company manages credit risk by monitoring net exposure to individual counterparties on a daily basis, monitoring credit limits and requiring additional collateral where appropriate.

Derivative credit exposures are calculated, aggregated and compared to established limits by the credit department. Credit reserve requirements are determined by senior management in conjunction with the Company's continuous credit monitoring procedures. Historically, reserve requirements arising from instruments with off-balance-sheet risk have not been material.

Receivables and payables with brokers and dealers, agreements to resell and repurchase securities, and securities borrowed and loaned are generally collateralized by cash, government and government-agency securities, and letters of credit. The market value of the initial collateral received approximates or is greater than the contract value. Additional collateral is requested when considered necessary. The Company may pledge clients' margined securities as collateral in support of securities loaned and bank loans, as well as to satisfy margin requirements at clearing organizations. The amounts loaned or pledged are limited to the extent permitted by applicable margin regulations. Should the counterparty fail to return the clients' securities, the Company may be required to replace them at prevailing market prices. At June 30, 2000, the market value of client securities loaned to other brokers approximated the amounts due or collateral obtained.

Credit Risk in Client Activities

Client transactions are entered on either a cash or margin basis. In a margin transaction, the Company extends credit to a client for the purchase of securities, using the securities purchased and/or other securities in the client's account as collateral for amounts loaned. Receivables from customers are substantially collateralized by customer securities. Amounts loaned are limited by margin regulations of the Federal Reserve Board and other regulatory authorities and are subject to the Company's credit review and daily monitoring procedures. Market declines could, however, reduce the value of any collateral below the principal amount loaned, plus accrued interest, before the collateral can be sold.

Client transactions include positions in commodities and financial futures, trading liabilities and written options. The risk to the Company's clients in these transactions can be substantial, principally due to price volatility which can reduce the clients' ability to meet their obligations. Margin deposit requirements pertaining to commodity futures and exchange-traded options transactions are generally lower than those for exchange-traded securities. To the extent clients are unable to meet their commitments to the Company and margin deposits are insufficient to cover outstanding liabilities, the Company may take market action and credit losses could be realized.

Client trades are recorded on a settlement date basis. Should either the client or broker fail to perform, the Company may be required to complete the transaction at prevailing market prices. Trades pending

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

at June 30, 2000 were settled without material adverse effect on the Company's consolidated financial statements, taken as a whole.

Concentrations of Credit Risk

Concentrations of credit risk that arise from financial instruments (whether on-or off-balance-sheet) exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet obligations to be similarly affected by economic, industry or geographic factors. As a major securities firm, the Company engages in underwriting and other financing activities with a broad range of clients, including other financial institutions, municipalities, governments, financing companies, and commercial real estate investors and operators. These activities could result in concentrations of credit risk with a particular counterparty, or group of counterparties operating in a particular geographic area or engaged in business in a particular industry. The Company seeks to control its credit risk and the potential for risk concentration through a variety of reporting and control procedures described above.

The Company's most significant industry concentration, which arises within its normal course of business activities, is financial institutions including banks, brokers and dealers, investment funds, and insurance companies.

Note 9: Commitments and Contingencies

At June 30, 2000 and December 31, 1999, the Company was contingently liable under unsecured letters of credit totaling \$204,868 and \$139,156, respectively, which approximated fair value. At June 30, 2000 and December 31, 1999 certain of the Company's subsidiaries were contingently liable as issuer of approximately \$45,000 of notes payable to managing general partners of various limited partnerships pursuant to certain partnership agreements. In addition, as part of the 1995 limited partnership settlements, the Company has agreed, under certain circumstances, to provide to class members additional consideration including assignment of fees the Company is entitled to receive from certain partnerships. In the opinion of management, these contingencies will not have a material adverse effect on the Company's consolidated financial statements, taken as a whole.

In meeting the financing needs of certain of its clients, the Company may also issue standby letters of credit which are collateralized by customer margin securities. At June 30, 2000 and December 31, 1999, the Company had outstanding \$142,503 and \$101,400, respectively, of such standby letters of credit. At June 30, 2000 and December 31, 1999, securities with fair value of \$3,414,277 and \$2,536,073, respectively, had been loaned or pledged as collateral for securities borrowed of approximately equal fair value.

In the normal course of business, the Company enters into when-issued transactions, underwriting and other commitments. Also, at June 30, 2000 and December 31, 1999, the Company had commitments of \$1,411,297 and \$858,122, respectively, consisting of secured credit lines to real estate operators, mortgage and asset-backed originators, and commitments to investment partnerships, in certain of which key employees are limited partners. Settlement of these transactions at June 30, 2000 would not have had a material impact on the Company's consolidated financial statements, taken as a whole.

The Company has been named as defendant in numerous legal actions in the ordinary course of business. While the outcome of such matters cannot be predicted with certainty, in the opinion of management of the Company, after consultation with various counsel handling such matters, these actions will be resolved with no material adverse effect on the Company's consolidated financial statements, taken as a whole.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 10: Comprehensive Income

Comprehensive income is calculated in accordance with SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income combines net income and certain items that directly affect stockholders' equity, such as foreign currency translation adjustments. The components of comprehensive income for the three months and six months ended June 30, 2000 and 1999 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Net income	\$127,506	\$163,504	\$303,855	\$324,103
Foreign currency translation adjustment	<u>(2,396)</u>	<u>(1,419)</u>	<u>(3,278)</u>	<u>(2,931)</u>
Total comprehensive income	<u>\$125,110</u>	<u>\$162,085</u>	<u>\$300,577</u>	<u>\$321,172</u>

Note 11: Earnings Per Common Share

Earnings per common share are computed in accordance with SFAS No. 128, "Earnings Per Share." Basic earnings per share excludes the dilutive effects of options and convertible securities and is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects all potentially dilutive securities.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Set forth below is the reconciliation of net income applicable to common shares and weighted-average common and common equivalent shares of the basic and diluted earnings per common share computations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Numerator:				
Net income	\$ 127,506	\$ 163,504	\$ 303,855	\$ 324,103
Preferred stock dividends	—	(5,949)	—	(11,898)
Net income applicable to common shares for basic earnings per share	<u>127,506</u>	<u>157,555</u>	<u>303,855</u>	<u>312,205</u>
Net income applicable to common shares for diluted earnings per share	<u>\$ 127,506</u>	<u>\$ 157,555</u>	<u>\$ 303,855</u>	<u>\$ 312,205</u>
Denominator:				
Weighted-average common shares for basic earnings per share	146,067,820	145,742,741	145,324,940	145,631,920
Weighted-average effect of dilutive employee stock options and awards	<u>8,508,584(1)</u>	<u>9,217,656</u>	<u>7,908,935(1)</u>	<u>8,673,875</u>
Dilutive potential common shares	<u>8,508,584</u>	<u>9,217,656</u>	<u>7,908,935</u>	<u>8,673,875</u>
Weighted-average common and common equivalent shares for diluted earnings per share	<u>154,576,404</u>	<u>154,960,397</u>	<u>153,233,875</u>	<u>154,305,795</u>
Earnings per share:				
Basic	<u>\$ 0.87</u>	<u>\$ 1.08</u>	<u>\$ 2.09</u>	<u>\$ 2.14</u>
Diluted	<u>\$ 0.82</u>	<u>\$ 1.02</u>	<u>\$ 1.98</u>	<u>\$ 2.02</u>

(1) Included in the calculation of employee stock options and awards was the dilutive effective of 1,931,250 instruments related to convertible debentures.

Note 12: Segment Reporting Data

The Company offers a wide variety of products and services, primarily those of a full service domestic broker-dealer to a domestic market, through its two operating segments: Individual and Institutional. The Individual segment offers brokerage services and products (such as the purchase and sale of securities, insurance annuity contracts, mutual funds, wrap fee products, and margin and securities lending), asset management and other investment advisory and portfolio management products and services, and execution and clearing services for transactions originated by individual investors. The Institutional segment principally includes capital market products and services (such as the placing of securities and other financial instruments for—and the execution of trades on behalf of—institutional clients, investment banking services such as the underwriting of debt and equity securities, and mergers and acquisitions advisory services).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Segment revenues and expenses in the table below consist of those that are directly attributable to the segment under which they are reported, combined with segment amounts based on Company allocation methodologies (for example, allocating a portion of investment banking revenues to the Individual segment; relative utilization of the Company's square footage for certain cost allocations).

	Three Months Ended June 30, 2000		
	Individual	Institutional	Total
Total revenues	\$1,422,061	\$894,365	\$2,316,426
Net revenues	1,142,750	268,422	1,411,172
Income before taxes and minority interest	199,050	13,020	212,070
	Three Months Ended June 30, 1999		
	Individual	Institutional	Total
Total revenues	\$1,135,946	\$835,032	\$1,970,978
Net revenues	980,018	367,889	1,347,907
Income before taxes and minority interest	152,980	116,687	269,667
	Six months ended June 30, 2000		
	Individual	Institutional	Total
Total revenues	\$2,892,812	\$1,828,735	\$4,721,547
Net revenues	2,394,028	614,249	3,008,277
Income before taxes and minority interest	398,244	104,045	502,289
	Six months ended June 30, 1999		
	Individual	Institutional	Total
Total revenues	\$2,240,355	\$1,653,933	\$3,894,288
Net revenues	1,935,131	727,667	2,662,798
Income before taxes and minority interest	304,873	229,813	534,686

Total assets for the Individual and Institutional segments were \$26,786,776 and \$39,615,726, respectively, at June 30, 2000 and \$21,828,324 and \$39,784,052, respectively at December 31, 1999.

Paine Webber Group Inc.
Unaudited Condensed Consolidated Financial Statements
Third Quarter 2000
September 30, 2000

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

PAINÉ WEBBER GROUP INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands of dollars except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Revenues				
Commissions	\$ 528,948	\$ 451,341	\$ 1,765,630	\$ 1,419,092
Principal transactions	287,931	235,914	778,648	829,968
Asset management	314,083	235,712	893,076	666,250
Investment banking	107,502	134,235	385,329	420,321
Interest	1,167,415	762,205	3,223,170	2,289,636
Other	39,367	40,785	120,940	129,213
Total revenues	2,445,246	1,860,192	7,166,793	5,754,480
Interest expense	1,002,567	623,025	2,715,837	1,854,515
Net revenues	1,442,679	1,237,167	4,450,956	3,899,965
Non-interest expenses				
Compensation and benefits	875,012	711,783	2,664,401	2,260,575
Office and equipment	111,933	89,159	308,220	259,941
Communications	49,408	42,331	140,338	127,179
Business development	34,172	30,861	114,849	83,262
Brokerage, clearing & exchange fees ..	16,203	23,391	63,806	71,268
Professional services	42,215	33,469	142,096	96,318
Other	93,536	80,188	294,757	240,751
Total non-interest expenses	1,222,479	1,011,182	3,728,467	3,139,294
Income before taxes and minority interest	220,200	225,985	722,489	760,671
Provision for income taxes	76,370	79,722	258,682	274,183
Income before minority interest	143,830	146,263	463,807	486,488
Minority interest	8,061	8,061	24,183	24,183
Net income	<u>\$ 135,769</u>	<u>\$ 138,202</u>	<u>\$ 439,624</u>	<u>\$ 462,305</u>
Net income applicable to common shares	<u>\$ 135,769</u>	<u>\$ 132,253</u>	<u>\$ 439,624</u>	<u>\$ 444,458</u>
Earnings per common share:				
Basic	\$ 0.92	\$ 0.91	\$ 3.01	\$ 3.05
Diluted	\$ 0.85	\$ 0.86	\$ 2.83	\$ 2.88
Weighted-average common shares:				
Basic	148,019,200	145,633,697	146,143,267	145,583,134
Diluted	159,911,113	153,857,503	155,100,328	154,106,985
Dividends declared per common share	\$ 0.12	\$ 0.11	\$ 0.36	\$ 0.33

See notes to condensed consolidated financial statements.

PAINÉ WEBBER GROUP INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands of dollars except share and per share amounts)

	September 30, 2000	December 31, 1999
Assets		
Cash and cash equivalents	\$ 214,593	\$ 176,401
Cash and securities segregated and on deposit for federal and other regulations	1,426,661	823,059
Financial instruments owned	23,793,940	21,144,830
Securities received as collateral	894,448	1,079,976
Securities purchased under agreements to resell	15,678,483	15,923,948
Securities borrowed	10,260,714	10,526,638
Receivables, net of allowance for doubtful accounts of \$18,903 and \$30,039 at September 30, 2000 and December 31, 1999, respectively	12,367,901	10,287,937
Office equipment and leasehold improvements, net of accumulated depreciation and amortization of \$622,888 and \$527,718 at September 30, 2000 and December 31, 1999, respectively	823,326	579,819
Other assets	1,988,201	1,069,768
	<u>\$67,448,267</u>	<u>\$61,612,376</u>
Liabilities and Stockholders' Equity		
Short-term borrowings	\$ 1,810,822	\$ 1,884,250
Financial instruments sold, not yet purchased	3,467,766	7,099,208
Securities sold under agreements to repurchase	29,377,087	25,740,196
Securities loaned	6,419,531	5,661,200
Obligation to return securities received as collateral	894,448	1,079,976
Payables	13,514,944	8,448,217
Other liabilities and accrued expenses	3,233,534	3,164,496
Long-term borrowings	4,943,484	5,223,826
	<u>63,661,616</u>	<u>58,301,369</u>
Commitments and contingencies		
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts holding solely Company Guaranteed Related Subordinated Debt	393,750	393,750
Stockholders' Equity:		
Common stock, \$1 par value, 400,000,000 shares authorized, issued 197,727,238 shares and 193,145,152 shares at September 30, 2000 and December 31, 1999, respectively	197,727	193,145
Additional paid-in capital	1,833,623	1,672,085
Retained earnings	2,557,928	2,171,080
Treasury stock, at cost; 48,752,322 shares and 47,557,064 shares at September 30, 2000 and December 31, 1999, respectively	(1,186,605)	(1,113,736)
Accumulated other comprehensive income	(9,772)	(5,317)
	<u>3,392,901</u>	<u>2,917,257</u>
	<u>\$67,448,267</u>	<u>\$61,612,376</u>

See notes to condensed consolidated financial statements.

PAINÉ WEBBER GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)

	Nine Months Ended September 30,	
	2000	1999
Cash Flows From Operating Activities:		
Net income	\$ 439,624	\$ 462,305
Adjustments to reconcile net income to cash provided by (used for) operating activities:		
Noncash items included in net income:		
Depreciation and amortization.....	105,370	73,035
Deferred income taxes.....	2,138	(45,757)
Amortization of deferred charges	99,584	81,708
Stock-based compensation	(5,116)	12,680
(Increase) decrease in operating assets:		
Cash and securities on deposit.....	(603,325)	(87,157)
Financial instruments owned	(2,366,989)	(1,582,711)
Securities purchased under agreements to resell	245,465	1,405,018
Securities borrowed	491,110	(651,622)
Receivables	(1,180,787)	(1,548,063)
Other assets	(360,248)	(282,626)
Increase (decrease) in operating liabilities:		
Financial instruments sold, not yet purchased.....	(3,631,443)	445,507
Securities sold under agreements to repurchase	3,636,891	2,227,316
Securities loaned	490,408	199,468
Payables	4,236,051	(1,249,085)
Other	(168,013)	134,438
Cash provided by (used for) operating activities	<u>1,430,720</u>	<u>(405,546)</u>
Cash Flows From Investing Activities:		
Payments for:		
Net assets acquired in business acquisition	(621,667)	—
Office equipment and leasehold improvements	(306,217)	(179,731)
Cash used for investing activities	<u>(927,884)</u>	<u>(179,731)</u>
Cash Flows From Financing Activities:		
Net proceeds from (payments on) short-term borrowings	(107,630)	10,483
Proceeds from:		
Long-term borrowings.....	471,761	1,010,984
Employee stock transactions.....	130,917	72,410
Payments for:		
Long-term borrowings.....	(792,150)	(300,575)
Repurchases of common stock.....	(114,767)	(151,446)
Dividends.....	(52,775)	(65,373)
Cash (used for) provided by financing activities	<u>(464,644)</u>	<u>576,483</u>
Increase (decrease) in cash and cash equivalents	38,192	(8,794)
Cash and cash equivalents, beginning of period	<u>176,401</u>	<u>228,359</u>
Cash and cash equivalents, end of period	<u>\$ 214,593</u>	<u>\$ 219,565</u>

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars except share and per share amounts)

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements include the accounts of Paine Webber Group Inc. (“PWG”) and its wholly owned subsidiaries, including its principal subsidiary PaineWebber Incorporated (“PWI”) (collectively, the “Company”). All material intercompany balances and transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform to current year presentations. The December 31, 1999 Condensed Consolidated Statement of Financial Condition was derived from the audited consolidated financial statements of the Company. The financial information as of and for the periods ended September 30, 2000 and 1999 is unaudited. All normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation have been made.

Certain financial information that is normally in annual financial statements but is not required for interim reporting purposes has been condensed or omitted. The condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States which require management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 1999 and the Company’s Quarterly Reports on Form 10-Q for the quarters ended June 30, and March 31, 2000. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year.

Statement of Cash Flows

Total interest payments, which relate principally to agreements to repurchase, short-term borrowings, securities loaned and long-term borrowings, were \$2,782,961 and \$1,834,039 for the nine months ended September 30, 2000 and 1999, respectively. Income taxes paid were \$232,558 and \$268,289 for the nine months ended September 30, 2000 and 1999, respectively.

Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” which establishes revised accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity measure all derivative instruments at fair value and recognize such instruments as either assets or liabilities in the consolidated statements of financial condition. The accounting for changes in the fair value of a derivative instrument will depend on the intended use of the derivative as either a fair value hedge, a cash flow hedge or a foreign currency hedge. The effect of the changes in fair value of the derivatives and, in certain cases, the hedged items are to be reflected in either the consolidated statements of income or as a component of other comprehensive income, based upon the resulting designation. As issued, SFAS No. 133 was effective for fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS No. 137, “Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133.” SFAS No. 137 defers the effective date of SFAS No. 133 for one year to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued Statement No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment to FASB Statement No. 133”. The Company expects that the adoption of these statements will not have a material effect on the Company’s Consolidated Financial Statements, taken as a whole.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In September 2000, the FASB issued SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” which replaces SFAS No. 125, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”. SFAS No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but carries over most of the provisions of SFAS No. 125. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 and is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Company has not yet determined the impact of this statement on the Company’s Consolidated Financial Statements, taken as a whole.

Note 2: Recent Events

On October 23, 2000, the stockholders of PWG adopted the Agreement and Plan of Merger (the “Merger Agreement”), dated as of July 12, 2000, by and among PWG, UBS AG (“UBS”) and a subsidiary of UBS, pursuant to which PWG will merge with and into that subsidiary. Under the terms of the agreement, PWG’s stockholders will have the right to elect to receive either \$73.50 in cash or 0.4954 of an ordinary share of UBS AG stock for each share of PWG’s common stock, \$1 par value (“common stock”) that they own. The percentage of PWG’s common stock that will be converted into the right to receive UBS AG stock is fixed at 50 percent. Adjustments to elections may therefore be necessary so that, in the aggregate, 50 percent of the shares of PWG’s common stock is converted into the right to receive UBS AG stock, and 50 percent is converted into the right to receive cash. The transaction, which is expected to be completed in November of 2000, is subject to customary closing conditions, including certain regulatory approvals.

Note 3: Merger with J.C. Bradford

On June 9, 2000, the Company completed its merger with J.C. Bradford & Co. L.L.C. (“J.C. Bradford”), a leading privately-held brokerage firm in the Southeastern U.S., for approximately \$622,000 in cash. The merger was accounted for as a purchase and, accordingly, the excess of the purchase cost over the fair value of the net assets acquired of approximately \$185,000, resulted in the Company recording \$560,000 in goodwill, which is being amortized over 25 years on a straight-line basis. The consolidated financial statements of the Company include the results of J.C. Bradford from the closing date. As a result of the merger, in the second quarter of 2000, the Company recorded after-tax costs of approximately \$18,800 (\$30,000 pre-tax) relating primarily to the elimination of the Company’s duplicate facilities, severance and other costs.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 4: Financial Instruments Owned and Sold, Not Yet Purchased

At September 30, 2000 and December 31, 1999, financial instruments owned and financial instruments sold, not yet purchased consisted of the following:

	September 30, 2000	December 31, 1999
Financial instruments owned:		
U.S. government and agencies	\$ 7,724,521	\$ 5,864,331
Mortgages and mortgage-backed	10,426,454	9,012,415
Corporate debt	671,925	1,875,361
Commercial paper and other short-term debt	1,890,638	1,744,036
Equities and other	2,363,490	2,030,986
State and municipals	716,912	617,701
	<u>\$23,793,940</u>	<u>\$21,144,830</u>
Financial instruments sold, not yet purchased:		
U.S. government and agencies	\$ 2,768,820	\$ 5,804,259
Mortgages and mortgage-backed	145,255	123,049
Corporate debt	283,084	785,890
Equities	257,343	348,485
State and municipals	13,264	37,525
	<u>\$ 3,467,766</u>	<u>\$ 7,099,208</u>

Note 5: Long-Term Borrowings

Long-term borrowings at September 30, 2000 and December 31, 1999 consisted of the following:

	September 30, 2000	December 31, 1999
U.S. Dollar-Denominated:		
Fixed Rate Notes	\$2,607,009	\$2,757,851
Fixed Rate Subordinated Notes	174,831	174,765
Medium-Term Senior Notes	1,950,850	2,143,010
Medium-Term Subordinated Notes	84,200	148,200
Other	10,044	—
Non-U.S. Dollar-Denominated:		
Medium-Term Notes	116,550	—
	<u>\$4,943,484</u>	<u>\$5,223,826</u>

At September 30, 2000, interest rates on the U.S. dollar-denominated fixed rate notes and fixed rate subordinated notes ranged from 6.25 percent to 9.25 percent and the weighted-average interest rate was 7.19 percent. Interest on the notes is payable semi-annually. The fixed rate notes and fixed rate subordinated notes outstanding at September 30, 2000 had an average maturity of 5.3 years.

At September 30, 2000, the Company had outstanding U.S. dollar-denominated fixed rate Medium-Term Notes of \$1,071,100 and variable rate Medium-Term Notes of \$963,950. The Medium-Term Notes outstanding at September 30, 2000 had an average maturity of 4.2 years and a weighted-average interest rate of 5.97 percent.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At September 30, 2000, the Non-U.S. dollar-denominated Medium-Term Notes outstanding had a weighted-average interest rate of 1.18 percent and an average maturity of 2.16 years.

In 2000, the Company issued to certain employees, 6.25% Convertible Debentures due 2007 (the “Debentures”). The Debentures were initially convertible, at the option of the holders beginning on January 20, 2003, into 1,931,250 shares of Convertible Preferred Stock, which were then convertible into 1,931,250 shares of common stock of the Company.

As a result of the Company entering into the Merger Agreement, the Debentures became convertible effective upon the adoption by the stockholders of the Company of the Merger Agreement, which occurred on October 23, 2000. Pursuant to their terms, on October 16, 2000, the Company called for redemption on October 23, 2000 all of the outstanding Debentures. All outstanding Debentures were converted into common stock.

At September 30, 2000 and December 31, 1999, the fair values of long-term borrowings were \$4,924,528 and \$5,140,331, respectively, as compared to the carrying amounts of \$4,943,484 and \$5,223,826, respectively. The estimated fair value of long-term borrowings is based upon quoted market prices for the same or similar issues and pricing models. However, for substantially all of its fixed rate debt, the Company enters into interest rate swap agreements to convert its fixed rate payments into floating rate payments.

The net fair values of the interest rate swaps were \$61,739 and \$127,097 payable at September 30, 2000 and December 31, 1999, respectively. The fair value of interest rate swaps used to hedge the Company’s long-term borrowings is based upon the amounts the Company would receive or pay to terminate the agreements, taking into account current interest rates.

The carrying amounts of the interest rate swap agreements included in the Company’s Condensed Consolidated Statements of Financial Condition at September 30, 2000 and December 31, 1999 were net receivables of \$4,780 and \$12,075, respectively. See Note 7 for further discussion of interest rate swap agreements used for hedging purposes.

Note 6: Capital Requirements

PWI, a registered broker-dealer, is subject to the Securities and Exchange Commission Uniform Net Capital Rule and New York Stock Exchange Growth and Business Reduction capital requirements. Under the method of computing capital requirements adopted by PWI, minimum net capital shall not be less than 2 percent of combined aggregate debit items arising from client transactions, plus excess margin collected on securities purchased under agreements to resell, as defined. A reduction of business is required if net capital is less than 4 percent of such aggregate debit items. Business may not be expanded if net capital is less than 5 percent of such aggregate debit items. As of September 30, 2000, PWI’s net capital of \$1,608,364 was 10.1 percent of aggregate debit items and its net capital in excess of the minimum required was \$1,281,410.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 7: Financial Instruments with Off-Balance-Sheet Risk

Held or Issued for Trading Purposes

Set forth below are the gross contract or notional amounts of the Company's outstanding off-balance-sheet derivative and other financial instruments held or issued for trading purposes. These amounts are not reflected in the Condensed Consolidated Statements of Financial Condition and are indicative only of the volume of activity at September 30, 2000 and December 31, 1999. They do not represent amounts subject to market risks, and in many cases, limit the Company's overall exposure to market losses by hedging other on- and off-balance-sheet transactions.

	Notional or Contract Amount			
	September 30, 2000		December 31, 1999	
	Purchases	Sales	Purchases	Sales
Mortgage-backed forward contracts and options written and purchased	\$18,963,831	\$26,909,451	\$14,417,186	\$17,540,786
Foreign currency forward contracts, futures contracts, and options written and purchased	2,119,724	2,133,310	1,380,925	1,373,981
Equity securities contracts including stock index futures, forwards, and options written and purchased	184,066	271,879	144,034	239,682
Other fixed income securities contracts including futures, forwards, and options written and purchased	1,742,936	4,252,001	3,557,193	5,538,887
Interest rate swaps and caps	1,850,008	3,643,008	1,688,762	419,989

Set forth below are the fair values of derivative financial instruments held or issued for trading purposes as of September 30, 2000 and December 31, 1999. The fair value amounts are netted by counterparty when specific conditions are met.

	Fair Value at September 30, 2000		Fair Value at December 31, 1999	
	Assets	Liabilities	Assets	Liabilities
	Mortgage-backed forward contracts and options written and purchased	\$88,571	\$105,027	\$159,228
Foreign currency forward contracts, futures contracts, and options written and purchased	20,304	17,001	20,274	20,158
Equity securities contracts including stock index futures, forwards, and options written and purchased	16,074	16,246	152,024	48,835
Other fixed income securities contracts including futures, forwards, and options written and purchased	2,100	378	29,584	20,177
Interest rate swaps and caps	20,022	46,841	31,569	11,087

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Set forth below are the average fair values of derivative financial instruments held or issued for trading purposes for the three months ended September 30, 2000 and the twelve months ended December 31, 1999. The average fair value is based on the average of the month-end balances during the periods indicated.

	Average Fair Value September 30, 2000		Average Fair Value December 31, 1999	
	Assets	Liabilities	Assets	Liabilities
Mortgage-backed forward contracts and options written and purchased	\$65,054	\$69,284	\$171,113	\$163,954
Foreign currency forward contracts, futures contracts, and options written and purchased	25,445	25,016	22,549	22,377
Equity securities contracts including stock index futures, forwards, and options written and purchased	60,256	19,098	63,624	40,321
Other fixed income securities contracts including futures, forwards, and options written and purchased	3,686	23	11,932	49,800
Interest rate swaps and caps	19,871	43,877	18,593	6,754

The Company also sells securities, at predetermined prices, which have not yet been purchased. The Company is exposed to market risk since to satisfy the obligation, the Company must acquire the securities at market prices, which may exceed the values reflected on the Condensed Consolidated Statements of Financial Condition.

The off-balance-sheet derivative trading transactions are generally short-term. At September 30, 2000 substantially all of the off-balance-sheet trading-related derivative and other financial instruments had remaining maturities of less than one year.

The Company's risk of loss in the event of counterparty default is limited to the current fair value or the replacement cost on contracts in which the Company has recorded an unrealized gain. These amounts are reflected as assets on the Company's Condensed Consolidated Statements of Financial Condition and amounted to \$147,071 and \$392,679 at September 30, 2000 and December 31, 1999, respectively. Options written do not expose the Company to credit risk since they do not obligate the counterparty to perform. Transactions in futures contracts are conducted through regulated exchanges which have margin requirements, and are settled in cash on a daily basis, thereby minimizing credit risk.

The following table summarizes the Company's principal transactions revenues by business activity for the three months and nine months ended September 30, 2000 and 1999. Principal transactions revenues include realized and unrealized gains and losses on trading positions and principal investing activities, including hedges. In assessing the profitability of its trading activities, the Company views net interest and principal transactions revenues in the aggregate.

	Principal Transactions Revenues			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Taxable fixed income (includes futures, forwards, options contracts and other securities)	\$ 64,685	\$ 72,228	\$184,357	\$404,278
Equities (includes stock index futures, forwards and options contracts)	179,232	119,968	458,037	312,299
Municipals (includes futures and options contracts)	44,014	43,718	136,254	113,391
	<u>\$287,931</u>	<u>\$235,914</u>	<u>\$778,648</u>	<u>\$829,968</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Held or Issued for Purposes Other Than Trading

The Company enters into interest rate swap agreements to manage the interest rate characteristics of its assets and liabilities. As of September 30, 2000 and December 31, 1999, the Company had outstanding interest rate swap agreements with commercial banks with notional amounts of \$3,706,010 and \$4,206,010, respectively. These agreements effectively converted substantially all of the Company's fixed rate debt at September 30, 2000 into floating rate debt. The interest rate swap agreements entered into have had the effect of increasing net interest expense on the Company's fixed rate debt by \$7,737 for the nine months ended September 30, 2000, and decreasing net interest expense by \$20,370 for the nine months ended September 30, 1999. The Company had no deferred gains or losses related to terminated swap agreements on the Company's long-term borrowings at September 30, 2000 and December 31, 1999. The Company is subject to market risk as interest rates fluctuate. The interest rate swaps contain credit risk to the extent the Company is in a receivable or gain position and the counterparty defaults. However, the counterparties to the agreements generally are large financial institutions, and the Company has not experienced defaults in the past, and management does not anticipate any counterparty defaults in the foreseeable future. See Note 5 for further discussion of interest rate swap agreements used for hedging purposes.

Note 8: Risk Management

Transactions involving derivative and non-derivative financial instruments involve varying degrees of both market and credit risk. The Company monitors its exposure to market and credit risk on a daily basis and through a variety of financial, security position and credit exposure reporting and control procedures.

Market Risk

Market risk is the potential change in value of the financial instrument caused by unfavorable changes in interest rates, equity prices, and foreign currency exchange rates. The Company has a variety of methods to monitor its market risk profile. The senior management of each business group is responsible for reviewing trading positions, exposures, profits and losses, and trading strategies. The Company also has an independent risk management group which reviews the Company's risk profile and aids in setting and monitoring risk management policies of the Company, including monitoring adherence to the established limits, performing market risk modeling, and reviewing trading positions and hedging strategies. The Asset/Liability Management Committee, comprised of senior corporate and business group managers, is responsible for establishing trading position and exposure limits.

Market risk modeling is based on estimating loss exposure through sensitivity testing. These results are compared to established limits, and exceptions are subject to review and approval by senior management. Other market risk control procedures include monitoring inventory agings, reviewing traders' marks and holding regular meetings between the senior management of the business groups and the risk management group.

Credit Risk in Proprietary Transactions

Counterparties to the Company's proprietary trading, hedging, financing and arbitrage activities are primarily financial institutions, including banks, brokers and dealers, investment funds and insurance companies. Credit losses could arise should counterparties fail to perform and the value of any collateral proves inadequate. The Company manages credit risk by monitoring net exposure to individual counterparties on a daily basis, monitoring credit limits and requiring additional collateral where appropriate.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Derivative credit exposures are calculated, aggregated and compared to established limits by the credit department. Credit reserve requirements are determined by senior management in conjunction with the Company's continuous credit monitoring procedures. Historically, reserve requirements arising from instruments with off-balance-sheet risk have not been material.

Receivables and payables with brokers and dealers, agreements to resell and repurchase securities, and securities borrowed and loaned are generally collateralized by cash, government and government-agency securities, and letters of credit. The market value of the initial collateral received approximates or is greater than the contract value. Additional collateral is requested when considered necessary. The Company may pledge clients' margined securities as collateral in support of securities loaned and bank loans, as well as to satisfy margin requirements at clearing organizations. The amounts loaned or pledged are limited to the extent permitted by applicable margin regulations. Should the counterparty fail to return the clients' securities, the Company may be required to replace them at prevailing market prices. At September 30, 2000, the market value of client securities loaned to other brokers approximated the amounts due or collateral obtained.

Credit Risk in Client Activities

Client transactions are entered on either a cash or margin basis. In a margin transaction, the Company extends credit to a client for the purchase of securities, using the securities purchased and/or other securities in the client's account as collateral for amounts loaned. Receivables from customers are substantially collateralized by customer securities. Amounts loaned are limited by margin regulations of the Federal Reserve Board and other regulatory authorities and are subject to the Company's credit review and daily monitoring procedures. Market declines could, however, reduce the value of any collateral below the principal amount loaned, plus accrued interest, before the collateral can be sold.

Client transactions include positions in commodities and financial futures, trading liabilities and written options. The risk to the Company's clients in these transactions can be substantial, principally due to price volatility which can reduce the clients' ability to meet their obligations. Margin deposit requirements pertaining to commodity futures and exchange-traded options transactions are generally lower than those for exchange-traded securities. To the extent clients are unable to meet their commitments to the Company and margin deposits are insufficient to cover outstanding liabilities, the Company may take market action and credit losses could be realized.

Client trades are recorded on a settlement date basis. Should either the client or broker fail to perform, the Company may be required to complete the transaction at prevailing market prices. Trades pending at September 30, 2000 were settled without material adverse effect on the Company's consolidated financial statements, taken as a whole.

Concentrations of Credit Risk

Concentrations of credit risk that arise from financial instruments (whether on-or off-balance-sheet) exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet obligations to be similarly affected by economic, industry or geographic factors. As a major securities firm, the Company engages in underwriting and other financing activities with a broad range of clients, including other financial institutions, municipalities, governments, financing companies, and commercial real estate investors and operators. These activities could result in concentrations of credit risk with a particular counterparty, or group of counterparties operating in a particular geographic area or engaged in business in a particular industry. The Company seeks to control its credit risk and the potential for risk concentration through a variety of reporting and control procedures described above.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company's most significant industry concentration, which arises within its normal course of business activities, is financial institutions including banks, brokers and dealers, investment funds, and insurance companies.

Note 9: Commitments and Contingencies

At September 30, 2000 and December 31, 1999, the Company was contingently liable under unsecured letters of credit totaling \$298,498 and \$139,156, respectively, which approximated fair value. At September 30, 2000 and December 31, 1999 certain of the Company's subsidiaries were contingently liable as issuer of approximately \$45,000 of notes payable to managing general partners of various limited partnerships pursuant to certain partnership agreements. In addition, as part of the 1995 limited partnership settlements, the Company has agreed, under certain circumstances, to provide to class members additional consideration including assignment of fees the Company is entitled to receive from certain partnerships. In the opinion of management, these contingencies will not have a material adverse effect on the Company's consolidated financial statements, taken as a whole.

In meeting the financing needs of certain of its clients, the Company may also issue standby letters of credit which are collateralized by customer margin securities. At September 30, 2000 and December 31, 1999, the Company had outstanding \$182,712 and \$101,400, respectively, of such standby letters of credit. At September 30, 2000 and December 31, 1999, securities with fair value of \$2,416,428 and \$2,536,073, respectively, had been loaned or pledged as collateral for securities borrowed of approximately equal fair value.

In the normal course of business, the Company enters into when-issued transactions, underwriting and other commitments. Also, at September 30, 2000 and December 31, 1999, the Company had commitments of \$1,176,781 and \$858,122, respectively, consisting of secured credit lines to real estate operators, mortgage and asset-backed originators, and commitments to investment partnerships, in certain of which key employees are limited partners. Settlement of these transactions at September 30, 2000 would not have had a material impact on the Company's consolidated financial statements, taken as a whole.

The Company has been named as defendant in numerous legal actions in the ordinary course of business. While the outcome of such matters cannot be predicted with certainty, in the opinion of management of the Company, after consultation with various counsel handling such matters, these actions will be resolved with no material adverse effect on the Company's consolidated financial statements, taken as a whole.

Note 10: Comprehensive Income

Comprehensive income is calculated in accordance with SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income combines net income and certain items that directly affect stockholders' equity, such as foreign currency translation adjustments. The components of comprehensive income for the three months and nine months ended September 30, 2000 and 1999 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Net income	\$135,769	\$138,202	\$439,624	\$462,305
Foreign currency translation adjustment ..	<u>(1,177)</u>	<u>2,046</u>	<u>(4,455)</u>	<u>(885)</u>
Total comprehensive income	<u>\$134,592</u>	<u>\$140,248</u>	<u>\$435,169</u>	<u>\$461,420</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 11: Earnings Per Common Share

Earnings per common share are computed in accordance with SFAS No. 128, “Earnings Per Share.” Basic earnings per share excludes the dilutive effects of options and convertible securities and is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects all potentially dilutive securities.

Set forth below is the reconciliation of net income applicable to common shares and weighted-average common and common equivalent shares of the basic and diluted earnings per common share computations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Numerator:				
Net income	\$ 135,769	\$ 138,202	\$ 439,624	\$ 462,305
Preferred stock dividends	—	(5,949)	—	(17,847)
Net income applicable to common shares for basic earnings per share	<u>135,769</u>	<u>132,253</u>	<u>439,624</u>	<u>444,458</u>
Net income applicable to common shares for diluted earnings per share	<u>\$ 135,769</u>	<u>\$ 132,253</u>	<u>\$ 439,624</u>	<u>\$ 444,458</u>
Denominator:				
Weighted-average common shares for basic earnings per share	148,019,200	145,633,697	146,143,267	145,583,134
Weighted-average effect of dilutive employee stock options and awards . . .	<u>11,891,913</u>	<u>8,223,806</u>	<u>8,957,061</u>	<u>8,523,851</u>
Weighted-average common and common equivalent shares for diluted earnings per share	<u>159,911,113</u>	<u>153,857,503</u>	<u>155,100,328</u>	<u>154,106,985</u>
Earnings Per Share:				
Basic	<u>\$ 0.92</u>	<u>\$ 0.91</u>	<u>\$ 3.01</u>	<u>\$ 3.05</u>
Diluted	<u>\$ 0.85</u>	<u>\$ 0.86</u>	<u>\$ 2.83</u>	<u>\$ 2.88</u>

Pursuant to the terms and conditions of the Company’s various Stock Option and Award Plans which provide for the granting to officers and other key employees nonqualified stock options, restricted stock awards, restricted stock units and other stock based awards (the “Awards”), effective October 23, 2000, the date the shareholders of the Company approved the Merger Agreement, the Awards that were previously unvested or restricted became fully vested and no longer subject to restrictions on sales and transfers.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 12: Segment Reporting Data

The Company offers a wide variety of products and services, primarily those of a full service domestic broker-dealer to a domestic market, through its two operating segments: Individual and Institutional. The Individual segment offers brokerage services and products (such as the purchase and sale of securities, insurance annuity contracts, mutual funds, wrap fee products, and margin and securities lending), asset management and other investment advisory and portfolio management products and services, and execution and clearing services for transactions originated by individual investors. The Institutional segment principally includes capital market products and services (such as the placing of securities and other financial instruments for — and the execution of trades on behalf of — institutional clients, investment banking services such as the underwriting of debt and equity securities, and mergers and acquisitions advisory services).

Segment revenues and expenses in the table below consist of those that are directly attributable to the segment under which they are reported, combined with segment amounts based on Company allocation methodologies (for example, allocating a portion of investment banking revenues to the Individual segment; relative utilization of the Company's square footage for certain cost allocations).

	Three Months Ended September 30, 2000			Three Months Ended September 30, 1999		
	Individual	Institutional	Total	Individual	Institutional	Total
Total revenues	\$1,556,834	\$ 888,412	\$2,445,246	\$1,167,330	\$ 692,862	\$1,860,192
Net revenues	1,204,463	238,216	1,442,679	1,010,919	226,248	1,237,167
Income before taxes and minority interest	171,842	48,358	220,200	186,513	39,472	225,985
	Nine Months Ended September 30, 2000			Nine Months Ended September 30, 1999		
	Individual	Institutional	Total	Individual	Institutional	Total
Total revenues	\$4,449,646	\$2,717,147	\$7,166,793	\$3,407,685	\$2,346,795	\$5,754,480
Net revenues	3,598,490	852,466	4,450,956	2,946,050	953,915	3,899,965
Income before taxes and minority interest	570,086	152,403	722,489	491,386	269,285	760,671

Total assets for the Individual and Institutional segments were \$30,141,208 and \$37,307,059, respectively, at September 30, 2000 and \$21,828,324 and \$39,784,052, respectively at December 31, 1999.



UBS

Financial Services Group

Third Quarter 2000 Report.

UBS Group Financial Highlights

<i>CHF million, except where indicated</i>	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Income statement key figures							
Operating income	8,545	9,200	6,534	(7)	31	27,102	21,636
Operating expenses	5,842	6,548	4,921	(11)	19	18,839	14,992
Operating profit before tax	2,703	2,652	1,613	2	68	8,263	6,644
Net profit	2,075	2,052	1,225	1	69	6,343	5,084
Cost / income ratio (%) ²	69.5	72.8	72.3			70.1	66.5
Cost / income ratio before goodwill amortization (%) ^{2,3}	68.0	71.4	71.1			68.6	65.4
Per share data (CHF)							
Basic earnings per share ^{4,7}	5.15	5.24	3.07	(2)	68	16.05	12.48
Basic earnings per share before goodwill ^{3,4,7}	5.46	5.57	3.27	(2)	67	17.07	13.10
Diluted earnings per share ^{4,7}	5.09	5.19	3.05	(2)	67	15.88	12.38
Diluted earnings per share before goodwill ^{3,4,7}	5.40	5.51	3.26	(2)	66	16.88	13.00
Return on shareholders' equity (%)							
Return on shareholders' equity ⁵						26.9	23.0
Return on shareholders' equity before goodwill ^{3,5}						28.6	24.2

<i>As of</i>	30.9.00	30.6.00	31.12.99 ¹	% change from	
				30.6.00	31.12.99
Balance sheet key figures					
Total assets	1,010,233	946,307	898,888	7	12
Shareholders' equity	36,928	31,876	30,608	16	21
Market capitalization	95,053	98,797	92,642		
BIS capital ratios					
Tier 1 (%)	11.7	12.1	10.6		
Total BIS (%)	15.4	15.9	14.5		
Risk-weighted assets	276,837	264,706	273,107		
Total assets under management (CHF billion)					
	1,746	1,711	1,744	2	0
Headcount (full time equivalents)⁶					
	48,099	47,744	49,058	1	(2)
Long-term ratings					
Moody's, New York	Aa1	Aa1	Aa1		
Fitch/IBCA, London	AAA	AAA	AAA		
Standard & Poor's, New York	AA+	AA+	AA+		

Earnings adjusted for significant financial events

<i>CHF million</i>	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Operating income	8,545	9,200	6,508	(7)	31	27,102	19,810
Operating expenses	5,842	6,348	4,921	(8)	19	18,639	14,992
Operating profit before tax	2,703	2,852	1,587	(5)	70	8,463	4,818
Net profit	2,075	2,207	1,202	(6)	73	6,498	3,606
Cost / income ratio before goodwill (%) ^{2,3}	68.0	69.2	71.4			67.9	71.1
Basic earnings per share before goodwill (CHF) ^{3,4,7}	5.46	5.97	3.22	(9)	70	17.46	9.47
Diluted earnings per share before goodwill (CHF) ^{3,4,7}	5.40	5.90	3.20	(8)	69	17.27	9.40
Return on shareholders' equity before goodwill (%) ^{3,5}						29.1	18.8

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² Operating expenses / operating income before credit loss expense.

³ The amortization of goodwill and other purchased intangible assets are excluded from the calculation. ⁴ For EPS calculation, see Note 8 to the Financial Statements. ⁵ Annualized net profit / average shareholders' equity excluding dividends. ⁶ The Group headcount does not include the Klinik Hirslanden AG headcount of 1,859, 1,885 and 1,853 for 30 September 2000, 30 June 2000 and 31 December 1999, respectively.

⁷ 1999 share figures are restated for the two-for-one share split, effective 8 May 2000.

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Shareholders' Letter

Dear Shareholders,

On 23 October 2000, PaineWebber shareholders overwhelmingly approved the merger between PaineWebber and UBS. This followed the near unanimous approval by UBS shareholders on 7 September 2000 of the capital increase for use in the merger. We were extremely pleased that such a substantial majority of PaineWebber and UBS shareholders endorsed the merger, giving their vote of confidence in our plans to create a pre-eminent global investment services firm. The merger was formally completed on 3 November 2000.

PaineWebber's leading position with affluent clients in the US and its success in using technology to support client relationships provide exciting growth opportunities for UBS.

PaineWebber's management, products and services are world class and will help UBS to build a top-tier global private client business. PaineWebber complements the existing US strengths and client base of UBS Warburg's institutional business, adding particular skills in US equity research and specialized fixed income products. It also provides UBS Warburg with a completely new distribution channel to US investors, giving it access to a uniquely balanced network of private and institutional investors worldwide. UBS Warburg, meanwhile, will provide truly global investment banking content for PaineWebber to supply to an increasingly demanding private client base, and give PaineWebber the backing of a very strong balance sheet and an excellent credit rating.

The integration of PaineWebber and UBS Warburg is proceeding well, with full business integration of the capital markets activities due to be completed in early December 2000, and the integration of the UBS Warburg Private Clients business into PaineWebber's management structure already almost complete.

The reception of the merger by PaineWebber staff has been overwhelmingly positive with no increase in staff turnover in the period around the merger and the vast majority of PaineWebber option holders now established as UBS options holders.

We look forward to PaineWebber's continuing success as a growth firm in a growth industry.

Third quarter results

We reported preliminary third quarter results on 26 October, in order to provide additional trans-

parency for investors before the closing of the PaineWebber merger. You will therefore already know that UBS has produced another very successful result this quarter, with a net profit after tax of CHF 2,075 million. This represents continuing strong growth of 73% over third quarter 1999, once the effect of one-off gains is stripped out. In the first three quarters of this year we have already made 39% more adjusted net profit after tax than we did in the whole of 1999.

The development of assets under management during the quarter was encouraging, with improvement in net new money across all Business Groups and positive investment performance.

Adjusted for divestments and one-off provisions, and before goodwill amortization, the Group's annualized return on equity for the first nine months of this year increased to 29.1%, from 18.8% in the same period of 1999. Adjusted basic earnings per share for third quarter 2000 increased 70% to CHF 5.46 from CHF 3.22 in third quarter 1999. The adjusted pre-goodwill cost/income ratio of 68.0% is significantly below the 71.4% recorded in the same quarter last year, and a slight improvement over the second quarter this year.

Business Group highlights

UBS Warburg's Corporate and Institutional Clients business unit continued a very good year, reporting profits before tax more than double those achieved in the same quarter last year. The strength of our secondary markets franchise and relatively small exposure to the telecoms, media and technology sectors ensured that whilst earnings fell somewhat from second quarter 2000 in line with market conditions, the effect was less than for the investment banking and securities industry in general.

The continued enhancement of our clients' experience of UBS through e-banking, combined with successful cost reduction through our Strategic Projects Portfolio contributed to another very good result for the Private and Corporate Clients business unit, only slightly behind the last two record quarters.

Private Banking continued its improved performance with earnings increasing very slightly from second quarter 2000, but up 22% from a year ago. Net new money was slightly positive, reflecting continued focus on this key growth driver.

A personal note from the Chairman

As you might be aware, I have decided to step down from my function as Chairman of the Board of Directors after the Annual General Meeting in April 2001.

I consider this to be the right moment. We have successfully completed the merger between Union Bank of Switzerland and Swiss Bank Corporation. The business groups and their respective responsibilities have been redesigned. We recently completed the merger of PaineWebber into our Group. UBS is in good financial health.

The Board of Directors will submit the election of Marcel Ospel, currently Group Chief Executive Officer, for your approval at the AGM of 26 April 2001, and will then appoint him as Chairman. Luqman Arnold, currently Group Chief Financial Officer, has been elected to become the new President of the Group Executive Board, adding this new role to his responsibility for the Group's finance and risk functions.

A new top-management team is ready, and I am relaxed and confident about handing over full responsibility to the younger generation. Please join me and the Board of Directors in wishing Marcel Ospel and Luqman Arnold success and luck in their new functions.

Alex Krauer

Senior management succession plans

On 11 October, we announced plans for changes in the senior management of UBS which will take effect after the Annual General Meeting in April next year. Details are in the note which you will find opposite.

At the Annual General Meeting in April you will also be asked to approve the election of three other new members of the Board of Directors. The British, Dutch and American candidates will help accurately reflect at Board level UBS's international culture and global reach. The three candidates are: Sir Peter Davis, CEO of J. Sainsbury plc; Johannes Antonie de Gier, former Chairman and CEO of Warburg Dillon Read; and Lawrence Allen Weinbach, Chairman and CEO of Unisys Corporation.

UBS AG



Alex Krauer
Chairman of the Board of Directors

Outlook

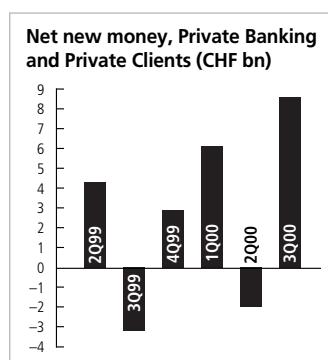
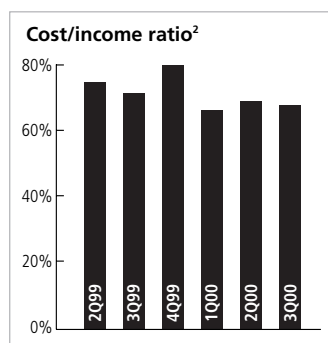
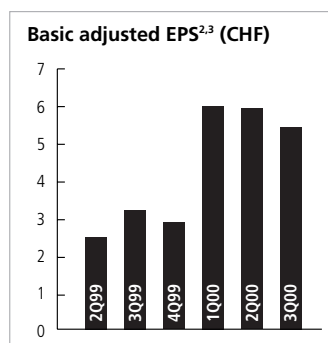
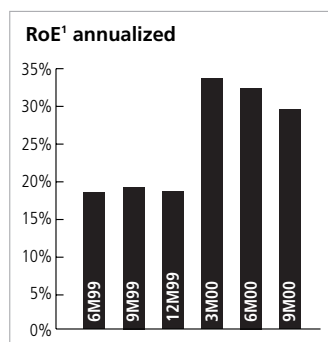
We are pleased to have been able to report strong results so far this year and to have maintained this performance through the recent more mixed market conditions. The fourth quarter is normally the quietest part of the year in most of our businesses, and we expect this year to be no exception. In addition, we expect a one-off impact from PaineWebber integration and restructuring costs. Nevertheless, we are confident that we can complete 2000 in robust form and that we are excellently positioned for further success in 2001.

The history of our bank has been one of forging new partnerships and learning from the cultures and skills of new colleagues. As an organization we are naturally excited about change and the PaineWebber merger makes next year one of our most eagerly anticipated.



Marcel Ospel
Group Chief Executive Officer

Group Review



¹ Annualized, before goodwill amortization and adjusted for significant financial events.

² Before goodwill amortization and adjusted for significant financial events.

³ 1999 share figures are restated for the two-for-one share split, effective 8 May 2000.

UBS Group performance against targets

For the period	9M2000	6M2000	9M1999 ¹
RoE (% annualized)			
as reported	26.9	29.5	23.0
before goodwill amortization and adjusted for significant financial events ^{3,4}	29.1	31.9	18.8
For the quarter ended	30.9.00	30.6.00	30.9.99 ¹
Basic EPS (CHF)²			
as reported	5.15	5.24	3.07
before goodwill amortization and adjusted for significant financial events ^{3,4}	5.46	5.97	3.22
Cost / income ratio (%)			
as reported	69.5	72.8	72.3
before goodwill amortization and adjusted for significant financial events ^{3,4}	68.0	69.2	71.4

Assets under management

CHF billion	30.9.00	30.6.00	% change	Net new money ⁵ 3Q00
UBS Group	1,746	1,711	2	
UBS Switzerland				
Private and Corporate Clients	440	439	0	1
Private Banking	707	683	4	1
UBS Asset Management				
Institutional Asset Management ⁶	528	525	1	(9)
Investment Funds / GAM	227	225	1	0
UBS Warburg				
Private Clients	44	37	19	8

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² 1999 share figures are restated for the two-for-one share split, effective 8 May 2000. ³ The amortization of goodwill and other purchased intangible assets are excluded from the calculation. ⁴ Significant financial events are excluded from the calculation. ⁵ Excludes interest and dividend income. ⁶ Includes non-institutional assets also reported in the Investment Funds / GAM business unit.

Group Targets

UBS focuses on four key performance targets, designed to ensure that we deliver continually improving returns to our shareholders. Our performance against these targets has continued to be very good this quarter. Adjusted for significant financial events, our annualized pre-goodwill return on equity for the first nine months of 2000 is 29.1%, once again well above our target range of 15–20%. Pre-goodwill earnings per share grew 70% over third quarter 1999, adjusted for one-off gains, clearly beating our double-digit growth target. The cost/income ratio is also well below that of third quarter 1999 and slightly lower than second quarter 2000. Net new money in both the private banking units was positive this quarter, although the volatility in the quarter-on-quarter net new money trend in the Private Clients business unit reflects its relatively early stage of business development.

Significant Financial Events

There were no significant financial events in third quarter 2000. Second quarter 2000 included an additional and final provision of CHF 200 million before tax in respect of the US Global Settlement regarding World War II related claims. Third quarter 1999 included a capital gain of CHF 26 million before tax relating to our residual holding in Long Term Capital Management.

Results Summary

Excellent third quarter results, with net profit after taxes and minority interests of CHF 2,075 million, demonstrate continued strong profitability. Group net profit after tax and minority interests has now been above CHF 2 billion for a third straight quarter and is up 73% compared to third quarter 1999, on an adjusted basis.

Significant financial events

CHF million	Quarter ended			Year-to-date	
	30.9.00	30.6.00	30.9.99	30.9.00	30.9.99
Operating income as reported	8,545	9,200	6,534	27,102	21,636
Julius Baer registered shares divestment					110
International Global Trade Finance divestment					200
Swiss Life/Rentenanstalt divestment					1,490
LTCM gain			26		26
Adjusted operating income	8,545	9,200	6,508	27,102	19,810
Operating expenses as reported	5,842	6,548	4,921	18,839	14,992
US Global Settlement provision		200		200	
Adjusted operating expenses	5,842	6,348	4,921	18,639	14,992
Adjusted operating profit before tax and minority interests	2,703	2,852	1,587	8,463	4,818
Tax expense	621	591	374	1,878	1,525
Tax effect of significant financial events		45	(3)	45	(348)
Minority interests	(7)	(9)	(14)	(42)	(35)
Adjusted net profit	2,075	2,207	1,202	6,498	3,606

Year-to-date adjusted net profit after tax of CHF 6,498 million represents an increase of 80% over the first nine months of 1999, and already exceeds the adjusted 1999 full-year results by 39%.

Net interest income before credit loss expense increased 30% over third quarter 1999 to CHF 1,831 million. Higher interest rates increased the cost of medium and long term debt, but also helped to increase net income from lending to clients and banks. Trading-related net interest income was up 24% over third quarter 1999.

Net fee and commission income was CHF 3,865 million in third quarter 2000, an increase of 26% over third quarter 1999. Brokerage fees reflected higher levels of client activity in UBS Switzerland and busier markets, rising 36% from the same period last year. Underwriting fees were up 65% thanks to another strong performance in equity underwriting, and Corporate finance fees also increased 71%, with strong results worldwide. Portfolio and other management and advisory fees increased CHF 81 million compared to second quarter 2000, chiefly as a result of the performance of the new O'Connor business, and were up nearly 50% from the same quarter last year, due to O'Connor and the acquisition of GAM in fourth quarter 1999. The 34% increase in Investment fund fees since third quarter 1999 reflects the addition of GAM, increased fund assets and a greater proportion of client money invested in higher margin equity funds.

Net trading income was CHF 2,368 million in third quarter 2000, 13% up on the same quarter last year, as a result of increased global market ac-

tivity and the strong client-driven performance of UBS Warburg. Equity trading revenues are well ahead of this time last year, but when combined with dividend income fell in comparison to second quarter 2000, reflecting the usual seasonal reduction in market activity and trading opportunities experienced during the summer holiday season.

The increase of CHF 100 million in Other income compared to third quarter 1999, is primarily due to the inclusion of income from Klinik Hirslanden, which was not consolidated in the income statement at that time.

Total operating expenses increased 19% over third quarter last year to CHF 5,842 million. This is largely due to increased performance-related compensation as revenues continue to exceed levels in 1999. Personnel expenses were down 11% from last quarter, in line with slower revenues, but were 24% higher than in third quarter 1999.

General and administrative expenses increased only 8% over third quarter 1999, to CHF 1,503 million, mainly due to currency movements and the impact of the consolidation of Klinik Hirslanden. The underlying figure was roughly static relative to third quarter last year, reflecting our continued efforts to control non-revenue driven costs.

Depreciation and amortization increased 12% to CHF 476 million compared to third quarter 1999, with increases in goodwill amortization due to the acquisitions of Allegis and GAM.

UBS Group incurred a tax expense of CHF 621 million for third quarter 2000, an effective tax rate of 23%.

Restructuring provision used

CHF million	Personnel	IT	Premises	Other	Quarter ended	
					30.9.00	30.6.00
UBS Switzerland	38	7	0	0	45	54
Private and Corporate Clients	37	5	0	0	42	52
Private Banking	1	2	0	0	3	2
UBS Asset Management	5	0	0	0	5	1
UBS Warburg	0	0	0	0	0	0
Corporate Center	2	0	29	0	31	18
Group total	45	7	29	0	81	73
Initial restructuring provision in 1997					7,000	
Additional provision in 1999					300	
Used in 1998					4,027	
Used in 1999					1,844	
Used in 2000					272	
Total used through 30.9.2000					6,143	
Restructuring provision remaining at 30.9.2000					1,157	

UBS / SBC merger restructuring provision

Of the CHF 7,300 million restructuring provision relating to the 1998 merger between Union Bank of Switzerland and Swiss Bank Corporation, CHF 81 million was used in third quarter 2000, leaving CHF 1,157 million still to be used. As in the second quarter, the main use of the provision this quarter related to severance costs in Private and Corporate Clients and vacancy-related premises costs in Corporate Center. UBS expects that the provision will be completely utilized by the end of 2001.

The sale of Solothurner Bank to Bâloise Insurance in August this year represents the completion of UBS's compliance with the sale of business conditions set by the Swiss Competition Commission as a result of the merger. The sale was completed on 19 October 2000, and will be reflected in fourth quarter results.

Credit risk

During third quarter 2000, UBS realized a write-back of credit loss expenses of CHF 142 million, compared to a write-back of CHF 208 million in the second quarter 2000. This is the result of a continued improvement in the quality of our Swiss loan portfolio and is in sharp contrast to the CHF 275 million of credit loss expenses recorded in third quarter 1999.

In accordance with the trend in the previous quarter, the unprecedentedly strong rebound of the Swiss economy, combined with UBS's disciplined credit underwriting standards, enabled additional recoveries of previously established

loan loss provisions in the Swiss portfolio, which by far exceeded new requirements. On the other hand, this positive scenario was partially offset by the need for additional loan loss provisions in UBS Warburg's portfolio, in line with trends in the international credit markets. The significant reduction in the international loan portfolio achieved during the past two years, coupled with the active use of credit derivatives and reluctance to engage in balance sheet-led earnings growth, positions UBS well for the less positive credit conditions expected outside Switzerland, notably in the US. In particular, in line with its commitment to risk diversification, UBS's loan exposure to the telecom sector is relatively small compared to many of our peers, representing less than 2% of gross loans outstanding at 30 September 2000. The vast majority of our telecom loan book is rated investment grade.

The further improvement in UBS's credit risk portfolio is also evident in the reduction of non-performing loans by CHF 956 million, or 8%, during the quarter. UBS's loan portfolio increased by CHF 11.4 billion over the quarter, to CHF 282.4 billion. The increase of CHF 17.5 billion in the UBS Warburg portfolio, principally as a result of zero risk-weighted money market and Group treasury positions held by UBS Warburg, was partially offset by a decrease of CHF 5.3 billion in UBS Switzerland, where the write-off and repayment of impaired positions exceeded new business. The reduction in non-performing loans combined with the increase in size of the overall portfolio means that the non-performing loans to total loans ratio fell to

Allowances and provisions for credit risk

CHF million As of	UBS Switzerland		UBS Asset Management		UBS Warburg		Corporate Center		UBS Group	
	30.9.00	30.6.00	30.9.00	30.6.00	30.9.00	30.6.00	30.9.00	30.6.00	30.9.00	30.6.00
Loans (gross)	195,000	200,252	463	411	86,654	69,200	253	1,115	282,370	270,978
Impaired loans ¹	15,209	16,658	–	–	4,377	4,310	44	43	19,630	21,011
Allowances for impaired loans	8,505	9,267	–	–	2,462	2,279	5	6	10,972	11,552
Non-performing loans	9,319	10,270	–	–	1,767	1,772	43	43	11,129	12,085
Allowances for non-performing loans	5,760	6,486	–	–	1,389	1,383	5	5	7,154	7,874
Total allowances for impaired and non-performing loans	8,505	9,267	–	–	2,462	2,279	5	6	10,972	11,552
Other allowances and provisions for credit and country risk	12	12	–	–	878	826	–	–	890	838
Total allowances and provisions	8,517	9,279	–	–	3,340	3,105	5	6	11,862	12,390
of which country allowances and provisions	–	–	–	–	1,356	1,317	–	–	1,356	1,317

Ratios										
Impaired loans as a % of gross loans	7.8	8.3	–	–	5.1	6.2	17.4	3.9	7.0	7.8
Non-performing loans as a % of gross loans	4.8	5.1	–	–	2.0	2.6	17.0	3.9	3.9	4.5
Allowances and provisions for credit loss as a % of gross loans	4.4	4.6	–	–	3.9	4.5	2.0	0.5	4.2	4.6
Allocated allowances as a % of impaired loans	55.9	55.6	–	–	56.2	52.9	11.4	14.0	55.9	55.0
Allocated allowances as a % of non-performing loans	61.8	63.2	–	–	78.6	78.0	11.6	11.6	64.3	65.2

¹ Includes non-performing loans.

UBS Warburg: Summary of 10-day 99% confidence Value at Risk

CHF million	3 months ending 29.9.00				3 months ending 30.6.00			
	Min.	Max.	Average	29.9.00	Min.	Max.	Average	30.6.00
Risk type								
Equities	179.9	238.4	204.0	192.7	183.2	245.9	214.0	189.6
Interest rates	113.8	165.0	137.2	122.3	127.0	173.8	147.7	133.7
Foreign exchange	7.6	75.4	26.0	19.7	8.7	97.5	32.2	9.5
Precious metals	2.8	19.7	8.3	15.8	4.3	15.3	9.4	12.1
Diversification effect	– ¹	– ¹	(137.2)	(125.5)	– ¹	– ¹	(150.3)	(113.6)
Total UBS Warburg	213.2	261.6	238.4	224.9	218.4	284.0	253.0	231.3

¹ As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

Value at Risk limits and utilization

CHF million	Limit	Utilization	
		29.9.00	30.6.00
UBS Warburg	450.0	224.9	231.3
UBS Switzerland	50.0	4.0	3.8
Corporate Center	350.0	79.4	62.8
Reserves	100.0		
Diversification effects	n/a	(79.0)	(69.2)
UBS Group	600.0	229.3	228.7

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

3.9%, compared to 4.5% at the end of the second quarter.

Although, UBS's non performing loans ratio is somewhat higher than comparable US banks, the comparison reflects different structural practices rather than underlying asset quality. In general, Swiss practice is to write-off loans entirely only on final settlement of bankruptcy proceedings, the sale of the underlying assets or a formal debt forgiveness. In contrast, US practice is generally to write off non-performing loans much sooner, reducing the amount of such loans and corresponding provisions recorded at any given date.

Market risk

Market risk is incurred primarily through UBS's trading activities, which are centered in the Corporate and Institutional Clients business unit of UBS Warburg. Market risk in UBS Warburg, as measured by the 10-day, 99% confidence level Value at Risk (VaR), has decreased slightly. VaR exposure closed the quarter at CHF 224.9 million, compared to CHF 231.3 million at the end of the second quarter. Average exposure over the period was CHF 238.4 million, which is slightly below the CHF 253.0 million average observed over the previous quarter.

Potential stress loss is measured against a set of standard forward-looking scenarios. Stress loss exposure, which is defined as the outcome of the worst of our stress scenarios, amounted to CHF 349 million at the end of the third quarter, slightly up from CHF 293 million at the end of the second quarter.

Market risk exposure at the Group level has remained nearly unchanged. At the end of the quarter the 10 day, 99% confidence VaR amounted to CHF 229.3 million.

Accounting changes and restatements

In Note 4 to the Financial Statements we have broken out Underwriting and Corporate Finance Fees for the first time this quarter, showing the two components separately. In addition, some corporate finance related fees previously reported in Portfolio and Other Management and Advisory Fees are now included in the new Corporate Finance Fees line. Previous periods have been restated accordingly.

In first quarter 2000 we introduced a number of changes in accounting treatment. For comparative purposes, 1999 figures were restated to reflect these changes, primarily:

- The removal from net trading income of profit on UBS Group shares held for trading purposes.
- The treatment of these shares as treasury shares, reducing both the number of shares and the shareholder's equity used in ratio calculations.
- The reclassification of trading-related interest revenues, from net trading income to net interest income.
- The removal of the credit to net interest income and matching debit to net trading income for the cost of funding trading positions.

Since the beginning of the year, we have capitalized costs relating to the in-house development of software, reducing operating expenses this quarter by CHF 58 million.

Capital Structure

Financing the PaineWebber transaction

At the completion of the merger, a total of 163.8 million PaineWebber shares were cancelled, in exchange for a total consideration of USD 11.8 billion (CHF 20.8 billion), based on the closing UBS share price on the SWX Swiss Exchange on 3 November 2000 of CHF 252.50 per share, and a CHF/USD exchange rate of 1.762.

Share consideration

At the Extraordinary General Meeting on 7 September 2000, UBS shareholders approved a resolution to create 38 million shares of authorized capital in connection with the PaineWebber merger. UBS shareholders also granted the Board of Directors a "green shoe option" giving them the flexibility to issue some of these shares at the time of the merger, and then issue additional shares as required during the three months following completion, up to the 38 million shares limit.

The share portion of the merger consideration was 41 million shares. In order to minimize the dilution effects for existing shareholders, UBS initially issued only 12 million new shares from authorized capital on the completion date, 3 November 2000. 7 million shares were re-issued

from Treasury and the remaining 22 million shares required were borrowed in the market.

Cash consideration and issue of Trust Preferred Securities

The cash portion of the merger consideration was USD 6.0 billion, or CHF 10.6 billion. The majority of this amount was financed from existing cash resources and credit lines. However, UBS also took advantage of the focus on the company in US markets to make its inaugural US public offering, issuing USD 1.5 billion of 8.622% Trust Preferred Securities on 10 October 2000.

The securities were priced at a spread of 278 basis points over the 5.75% August 2010 US Treasury securities. They have a perpetual maturity with a step-up and call on 1 October 2010, and will qualify as Tier 1 capital for UBS under Swiss regulations. The securities are rated aa2 by Moody's and AA- by Standard and Poors, making them the highest rated in their sector. Approximately 87% of the issue was placed in the US and 13% internationally. Thanks to the strong demand for the securities, the issue was increased from the initially announced target of USD 1.25 billion, underlining the positive investor reception for the UBS name, credit and liquidity, and creating a new benchmark for the sector.

Overall economic cost of the transaction

Following the exercise of options by PaineWebber employees, 12.7 million PaineWebber options remained outstanding and have been converted into 6.3 million new UBS options, with an implied fair value of USD 0.54 billion (CHF 0.95 billion). As a result of the exercise of options since the announcement of the merger, PaineWebber has received cash proceeds of USD 0.55 billion (CHF 0.97 billion).

Based on the value of the consideration paid to PaineWebber shareholders and the implied fair value of the converted options, less the receipt of option exercise proceeds, the total economic cost of the transaction to UBS is estimated to amount to USD 11.8 billion (CHF 20.8 billion).

BIS ratio

As a result of these transactions, UBS's Tier 1 capital ratio, which was 12.1% at the end of June 2000 and 11.7% on 30 September 2000, is expected to be lower, but at least 8.5% at the end of December 2000.

Share buy-back program

On 6 November 2000, UBS announced a share buy-back program, running until June 2001. Unlike the second trading line program earlier this year it will not result in the cancellation of the repurchased shares.

Treasury shares

At 30 September 2000, UBS held 25,069,074 shares or 5.8% of its outstanding capital in treasury shares, down from 40,269,350 shares or 9.3% of its outstanding capital at 30 June 2000. This total included 18,421,783 shares which were purchased earlier this year in the second trading line buy-back program. These shares are held pending their cancellation after the Annual General Meeting in April 2001.

UBS Warburg acts as a market maker in both UBS shares and derivatives. It has therefore historically held a significant number of UBS shares as a hedge for derivatives issued to retail and institutional investors, but has recently changed its trading approach for these positions, reducing its direct shareholding of UBS shares. This change accounts for the significant drop in treasury share holdings this quarter.

UBS shares and market capitalization

	Number of shares as of			% change from	
	30.9.00	30.6.00	31.12.99	30.6.00	31.12.99
Total ordinary shares outstanding	431,697,629	431,696,624	430,893,162	0	0
less second trading line treasury shares	18,421,783	18,321,783	0	1	
Net shares outstanding	413,275,846	413,374,841	430,893,162	(0)	(4)
Market capitalization (CHF million)	95,053	98,797	92,642	(4)	3
Second trading line treasury shares	18,421,783	18,321,783	0	1	
Other treasury shares ¹	6,647,291	21,947,567	36,873,714	(70)	(82)
Total number of treasury shares	25,069,074	40,269,350	36,873,714	(38)	(32)

¹ Includes own shares held for trading purposes.

Financial Impact of the PaineWebber Merger

Restructuring costs

UBS currently expects that the restructuring and other one-off costs it will incur as a result of the PaineWebber merger will be in the region of the USD 400 million (CHF 700 million) predicted in the original merger announcement, although the analysis necessary to determine the final amount involved has not been finalized. This analysis includes investigating additional opportunities for premises consolidation in New York.

In accordance with IAS purchase accounting rules, a portion of these costs will be accounted for as a liability of PaineWebber and will therefore be added to the goodwill amount for the transaction. The remaining costs currently foreseen will be charged to income, by way of a one-off charge in the fourth quarter 2000, and will be treated in our reporting as a Significant Financial Event.

In addition to this one-off restructuring charge, reported fourth quarter 2000 results for UBS Warburg will be significantly impacted by the initial retention payments payable to PaineWebber staff, as well as goodwill amortization and funding costs.

Goodwill

The goodwill amount for the merger is expected to be significantly higher than that shown in the Form F-4 registration statement submitted to the US Securities and Exchange Commission in connection with the merger. Although the analysis required to calculate the goodwill amount has not been finalized, several assumptions and data inputs have changed since the pro forma financial statements in the Form F-4 were prepared in August 2000. The more significant changes include:

- Using the actual UBS stock price at the time of completion;
- Reflecting the actual number of employee stock options ultimately exercised;
- Revaluation of outstanding PaineWebber debt as a result of UBS's announced intention to provide a guarantee;
- A final identification of all acquisition related liabilities;
- Fair value adjustments for PaineWebber assets and liabilities in accordance with purchase accounting rules.

Developments in Financial Disclosure at UBS

Fourth quarter report

In order to continue our focus on reporting and analyzing the quarterly performance of UBS's businesses, and to ensure that market sensitive data about UBS's results can be released as early as possible, we will issue a fourth quarter report on 22 February 2001. This report will be similar in style and level of disclosure to this one, although slightly abbreviated in recognition of the forthcoming Annual Report, which will be issued on 15 March 2001, as originally planned.

Accelerated timetable for quarterly reporting

With effect from first quarter 2001, UBS will release its quarterly results approximately six weeks after quarter end, rather than the current eight weeks. Quarterly reports will be issued on 15 May 2001 for the first quarter, 14 August 2001 for the second quarter and 13 November 2001 for the third quarter.

Fourth quarter reporting of PaineWebber results

In our fourth quarter report and Annual Report, we will continue to report results for the existing UBS Warburg business units. We will also report an additional business unit, comprising results for the previous PaineWebber businesses for the period from 3 November 2000, with the excep-

tion of the capital markets activities which will be fully integrated within the Corporate and Institutional Clients business unit.

The business unit reporting structure for subsequent quarters will be announced in the fourth quarter report.

Client Assets Reporting

There is currently no consistently defined client assets measure in use across the asset gathering industry, nor is there generally accepted reporting practice applicable to client assets. There is also no standard level of transparency, with UBS one of the few firms to disclose both net new money flows and total client assets development on a quarterly basis.

This lack of consistency and transparency hinders comparison between companies by analysts and investors. In practice, disclosed metrics vary widely across the industry, with the term Assets under Management ("AuM") being particularly ambiguous.

UBS has therefore reviewed its own definition for reporting these assets and has suggested that its ideas could form the starting point for a broader standards-setting exercise across the industry. Further details of the proposal can be found on our Investor Relations website at <http://www.ubs.com/investor-relations>.

UBS itself intends to phase in the new definitions with effect from first quarter 2001, after consultation with analysts, investors, and our investment services peers.

UBS Switzerland

Business Group reporting

CHF million, except where indicated	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Income	3,411	3,526	3,255	(3)	5	10,685	9,582
Credit loss expense	(183)	(191)	(286)	4	36	(606)	(846)
Total operating income	3,228	3,335	2,969	(3)	9	10,079	8,736
Personnel expenses	1,218	1,218	1,156	0	5	3,634	3,539
General and administrative expenses	537	591	699	(9)	(23)	1,700	1,687
Depreciation	114	105	86	9	33	344	315
Amortization of goodwill and other intangible assets	8	10	9	(20)	(11)	52	18
Total operating expenses	1,877	1,924	1,950	(2)	(4)	5,730	5,559
Business Group performance before tax	1,351	1,411	1,019	(4)	33	4,349	3,177

Additional information

	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99	2Q00	3Q99	30.9.00	30.9.99
Assets under management (CHF billion) ²	1,147	1,122	1,042	2	10		
Cost / income ratio (%) ³	55	55	60			54	58
Cost / income ratio before goodwill amortization (%) ^{3,4}	55	54	60			53	58

As of	30.9.00	30.6.00	31.12.99	% change from	
				30.6.00	31.12.99
Regulatory equity used (avg)	10,500	10,750	10,059	(2)	4
Headcount (full time equivalents)	29,421	29,717	31,354	(1)	(6)

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² As of quarter end. ³ Before credit loss expense. ⁴ The amortization of goodwill and other purchased intangible assets is excluded from this calculation.

Cooperation across UBS Switzerland

Since the creation of UBS Switzerland earlier this year, a number of initiatives have been launched to ensure that the benefits of cooperation within the new Business Group are realized, such as the e-Channels and Products area which was set up to coordinate electronic banking initiatives. These cross-group initiatives have expanded this quarter with the launch of the Investment Center and the consolidation of all Financial Planning and Wealth Management services within a single unit. This quarter has also seen the introduction to Private Banking of the Strategic Project Portfolio concept, already proven in the Private and Corporate Clients unit.

e-Channels and Products

Best online broker in Switzerland

Our ongoing e-banking successes were again rewarded by BlueSky Ratings, an independent

provider of online broker ratings, who ranked UBS as the best online broker in Switzerland at the end of September.

wap

On 21 September 2000, after a highly successful two-month pilot phase, UBS launched e-banking wap for all e-banking clients, making it one of the first banks in the world to offer stock-market transactions via wap mobile phones.

UBS e-banking wap provides access to UBS e-banking, UBS Quotes and other personalized functions based on pre-defined client profiles. UBS e-banking wap clients can check on their cash account and securities account balances; place, monitor and cancel stock-market orders; and carry out account transfers and foreign-exchange transactions. Like all other UBS e-banking tools, e-banking wap services are multi-language and multi-currency. e-banking wap is another successful combination of UBS's leading e-banking technology and its powerful strategic alliances with technology and content providers

meeting clients' growing demand for convenience and independence.

e-banking highlights for the period include:

- UBS e-banking contracts increased to 534,000 by the end of September, from 506,000 in June;
- 20% of all payment orders are now transacted via e-banking;
- 12% of all UBS Switzerland stock exchange transactions this quarter were routed through e-banking, up from 11% in the second quarter;

- During the quarter, the number of accounts with UBS Tradepac, our discount share trading package targeted at active traders, increased by 11.5%;

- UBS Quotes received an average of more than 22 million page views per month;

- UBS Quotes on wap received an average of more than 9,000 page views per day.

Despite the growth of online banking, we have not experienced a significant level of cannibalization of our traditional revenues and, based on continuous monitoring, we estimate that in excess of 80% of e-banking transactions represent additional revenue.

Private and Corporate Clients

Business unit reporting

CHF million, except where indicated	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Income	1,784	1,888	1,848	(6)	(3)	5,587	5,447
Credit loss expense	(175)	(187)	(282)	6	38	(587)	(836)
Total operating income	1,609	1,701	1,566	(5)	3	5,000	4,611
Personnel expenses	807	843	827	(4)	(2)	2,454	2,550
General and administrative expenses	241	246	381	(2)	(37)	748	882
Depreciation	97	85	68	14	43	289	267
Amortization of goodwill and other intangible assets	0	1	1	(100)	(100)	27	2
Total operating expenses	1,145	1,175	1,277	(3)	(10)	3,518	3,701
Business unit performance before tax	464	526	289	(12)	61	1,482	910

KPI's

Assets under management (CHF billion) ^{2,3}	440	439	427	0	3		
Cost / income ratio (%) ⁴	64	62	69			63	68
Cost / income ratio before goodwill amortization (%) ^{4,5}	64	62	69			62	68
Non-performing loans/Gross loans outstanding (%)	5.6	6.0	6.9				

Additional information

As of	30.9.00	30.6.00	31.12.99	% change from	
				30.6.00	31.12.99
Regulatory equity used (avg)	8,600	8,850	8,550	(3)	1
Headcount (full time equivalents)	21,767	22,270	24,098	(2)	(10)

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² As of quarter end. ³ Bank transaction accounts are included. ⁴ Before credit loss expense. ⁵ The amortization of goodwill and other purchased intangible assets is excluded from this calculation.

Key Performance Indicators

The continued strengthening of the Swiss economy and successful recovery efforts, have favorably impacted the quality of the loan portfolio, leading to a further reduction in the non-performing loans to total loans ratio to 5.6% at 30 September 2000, down from 6.0% at the end of second quarter.

Assets under management increased by CHF 1 billion from CHF 439 billion to CHF 440 billion during the third quarter, with net new money of CHF 1 billion.

Compared to second quarter 2000, the cost/income ratio deteriorated marginally from 62% to 64% as revenues fell slightly. Continued strong cost control has brought the cost/income ratio down from 69% a year ago.

Initiatives and Achievements

e-commerce

UBS and Paynet implemented a new electronic billing presentment and payment system at the end of the third quarter, making UBS the first Swiss bank to provide a fully integrated business to business electronic payment solution.

The service allows bills to be sent electronically from supplier to customer, reviewed online by the customer, and paid online from the customer's bank account to the supplier's. This integrated electronic process provides real-time enquiry capabilities, shorter processing times, automated remittance, and enhanced customer relationship management possibilities, leading to smoother service for both supplier and customer.

UBS plans to expand the service early next year to cover business to consumer billing.

Life insurance company

In September, UBS announced the creation of its own life insurance company, which it plans to launch in early 2001. The new company will provide a range of products, but will have a strong focus on fund-linked life insurance. Some of its risk products will be supplied by its new partner Providentia, a Swiss life insurance company belonging to the Mobiliar Group, but will still be sold under the UBS name.

UBS will continue to distribute products of other companies in addition to its own range, working as it has done up to now with a select group of insurance companies, through an open sales architecture. Through this initiative, UBS is strengthening its life insurance business content, concentrating on providing insurance products that cater to capital accumulation and retirement saving needs.

Strategic Project Portfolio

The Strategic Project Portfolio is a series of carefully designed and controlled projects, whose aim is to enhance revenues and control costs, by improving processes, products, distribution and pricing and by delivering cost savings resulting from the merger between Union Bank of Switzerland and Swiss Bank Corporation.

For the past two years, one of the most important cost control measures has been the removal of overlap and redundancy from the combined branch network. During the third quarter, a further five branches were closed, bringing the post-merger reduction to 205 branches, or 37% of the network. At the same time, traditional automated teller machines are being replaced by more sophisticated multi-functional BancomatPlus and Multimat machines which allow clients to perform core banking transactions at their convenience, 24 hours a day. 189 BancomatPlus and 212 Multimat terminals have now been installed at strategic sites throughout Switzerland.

Private and Corporate Clients was recently honored with the 2000 SAS Enterprise Computing Award for its Advanced Marketing System initiative which has seen the implementation of sophisticated analytical software to personalize and manage client relationships. This use of data mining technologies provides effective identification of targeted cross-selling opportunities and enables UBS to cater more precisely to the infor-

mation, product and service needs of our customers, positively influencing revenues.

Optimization of IT processes during third quarter, including centralization of IT operating sites and process standardization, has also realized substantial savings from lower headcount and infrastructure costs.

Loan portfolio

The Private and Corporate Clients loan portfolio reduced by CHF 4 billion to CHF 165 billion at the end of the third quarter, mainly due to transfers of clients to UBS Warburg. During the quarter, the recovery portfolio decreased to CHF 17 billion from CHF 18 billion as a result of continued workout initiatives.

Client service initiatives

At the end of the third quarter, Private and Corporate Clients launched the UBS Moneyline Mortgage, a new LIBOR-based mortgage product developed in cooperation with UBS Warburg. Moneyline Mortgage allows clients to take advantage of money market rates, which are typically lower than standard mortgage rates, and uses interest rate derivatives to give clients the option to limit their interest rate risk. By offering this type of mortgage at much lower minimum mortgage amounts than its competitors, UBS is making LIBOR-based real estate financing available to all client segments in Switzerland for the first time, extending an opportunity previously reserved for corporate clients and high net worth individuals. Based on initial indications, Moneyline Mortgage is proving highly popular.

Sale of Solothurner Bank

On 22 August 2000, UBS Switzerland announced the sale of Solothurner Bank, a 100% owned subsidiary, to Bâloise Insurance, in compliance with a condition set out by the Swiss Competition Commission at the time of the merger between Union Bank of Switzerland and Swiss Bank Corporation.

In 1999, Solothurner Bank achieved a pre-tax profit of CHF 28.7 million and had around 400 staff.

The transaction was completed on 19 October 2000 after having received approval from the Swiss supervisory and regulatory authorities. Any impact on results will be reflected in the fourth quarter.

Results

Performance decreased by CHF 62 million, or 12%, to CHF 464 million from CHF 526 million during the second quarter and increased by CHF 175 million, or 61%, compared to third quarter 1999. This good result is slightly lower than the last two record quarters, but higher than any quarter in 1999.

Operating income

Private and Corporate Clients operating income of CHF 1,609 million was CHF 92 million, or 5%, lower than the second quarter. This was the result of lower net interest income, which fell slightly due to higher refinancing costs, and certain one-off revenues recorded in second quarter 2000. Expected credit loss expense decreased again thanks to continued improvements in asset quality due to an improving economy and the further implementation of risk-adjusted pricing.

Operating expenses

Our continued focus on cost control led to total operating expenses of CHF 1,145 million, CHF 30 million, or 3%, lower than the second quarter. Personnel and general and administrative expenses both fell as a result of the reducing headcount and other cost reduction initiatives during the quarter.

Headcount

Private and Corporate Clients headcount declined by 503 to 21,767 at the end of the third quarter. This reduction reflects the transfer of 148 Financial Planning and Wealth Management staff to Private Banking, the ongoing implementation of our Strategic Project Portfolio and the continued realization of merger benefits.

Outlook

The continued strong performance of our business, with both robust revenues and declining costs, makes us confident of very good full-year results compared to 1999.

Private Banking

Business unit reporting

CHF million, except where indicated	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Income	1,627	1,638	1,407	(1)	16	5,098	4,135
Credit loss expense	(8)	(4)	(4)	(100)	(100)	(19)	(10)
Total operating income	1,619	1,634	1,403	(1)	15	5,079	4,125
Personnel expenses	411	375	329	10	25	1,180	989
General and administrative expenses	296	345	318	(14)	(7)	952	805
Depreciation	17	20	18	(15)	(6)	55	48
Amortization of goodwill and other intangible assets	8	9	8	(11)	0	25	16
Total operating expenses	732	749	673	(2)	9	2,212	1,858
Business unit performance before tax	887	885	730	0	22	2,867	2,267

KPI's

Assets under management (CHF billion) ²	707	683	615	4	15		
Net new money (CHF billion) ³	0.5	(2.8)	(3.0)			(0.2)	(0.2)
Gross AuM margin (bps)	94	95	90	(1)	4	99	91
Cost / income ratio (%) ⁴	45	46	48			43	45
Cost / income ratio before goodwill amortization (%) ^{4,5}	44	45	47			43	45

Additional information

As of	30.9.00	30.6.00	31.12.99	% change from	
				30.6.00	31.12.99
Regulatory equity used (avg)	1,900	1,900	1,509	0	26
Headcount (full time equivalents)	7,654	7,447	7,256	3	5

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² As of quarter end. ³ Excludes interest and dividend income. ⁴ Before credit loss expense. ⁵ The amortization of goodwill and other purchased intangible assets is excluded from this calculation.

Key Performance Indicators

Assets under management increased by CHF 24 billion during third quarter 2000 from CHF 683 billion to CHF 707 billion, primarily due to positive investment performance. Net new money of CHF 0.5 billion for the quarter represented encouraging progress compared to last quarter, achieved against a background of more subdued inflows industry-wide.

The gross margin declined very slightly from 95 bps to 94 bps during third quarter 2000, but was still well ahead of the 90 bps average for 1999. UBS Private Banking continues to expand the range and client penetration of its added-value services.

The pre-goodwill cost/income ratio fell a little to 44%, with a matching small decline in both costs and income.

Initiatives and Achievements

Investment Center

The UBS Switzerland Investment Center formally commenced operations on 1 October 2000.

The Center is responsible for developing coherent and high quality investment strategies for the core investment products and services offered by both the Private Banking and Private and Corporate Clients business units. These strategies guide the investment process through which the two business units manage private wealth and advise their clients on their global investment decisions.

The strategies and advice developed by the Investment Center are "buy-side" oriented. The Center conducts secondary research by drawing on sources inside UBS and from complementary external providers, and transforms this into investment strategies and advice specifically suited

to private clients. The Investment Center also controls the tactical asset allocation for the active advisory products, the UBS Strategy Funds and for discretionary managed portfolios.

This new investment process will continue and enhance UBS's tradition of providing top quality customized investment advice.

New products and services

In September 2000, UBS Private Banking launched GAM funds and GAM discretionary portfolio management for clients of UBS Switzerland. GAM's mission is to provide its clients access to the best investment talent, both in-house and external, bringing together some of the world's top fund managers. Different active investment styles such as "long only" and "equity hedge" are offered through an extensive range of funds, based in all major markets. GAM mutual funds are well-renowned, and have received many awards for outstanding performance over the last 15 years.

UBS Private Banking will further develop its open funds architecture during fourth quarter 2000. This initiative will make available a pre-screened selection of best-in-class funds from UBS, GAM and third-parties through multiple access channels.

During the third quarter, Private Banking also launched a new trustee operation based in Singapore. UBS Trustees (Singapore) Ltd, will provide access to a full range of global trustee services for private clients in the Asian time zone, working within Singapore's sophisticated legal and regulatory framework. This underlines Private Banking's continuing commitment to the Asian region and to the use of Singapore as a booking center.

The number of client mandates relating to our new Active Portfolio Advisory (APA) and Active Portfolio Supervision (APS) services continues to grow at a significant rate. APS provides clients with investment recommendations whenever their portfolio breaches specified parameters, while APA additionally gives direct access to a dedicated investment specialist and tailor made strategies. Both services are available for an additional fee, or clients can pay an all-in fee, based on asset volume, asset allocation and expected activity levels. The success of these products is a

key contributor to the increasing level of recurring asset based fees earned by Private Banking.

Results

Pre-tax profit during the third quarter of CHF 887 million reflects a further quarter's strong earnings performance, up CHF 2 million from second quarter 2000.

Operating income

Private Banking's operating income of CHF 1,619 million was stable, dipping just CHF 15 million, or 1%, since the second quarter.

Operating expenses

Total operating expenses of CHF 732 million were CHF 17 million, or 2% lower than second quarter 2000. Personnel expenses increased by CHF 36 million, or 10% compared to second quarter 2000 largely due to the transfer of Financial Planning and Wealth Management activities from Private and Corporate Clients. However, general and administrative expenses fell CHF 49 million due to lower processing costs.

Headcount

Private Banking headcount reached 7,654 at the end of the third quarter, 207 up from the end of second quarter 2000. This was mainly due to the transfer of 148 Financial Planning and Wealth Management staff from the Private and Corporate Clients business unit, and a slight increase in client-facing staff. Private Banking continues to shift headcount from support areas to client-facing roles. Client adviser turnover remains consistent with pre-merger levels.

Outlook

Whilst the fourth quarter of the year is often the quietest, Private Banking expects to continue to outpace its 1999 performance. Dedicated focus on client service, coupled with the steps being taken to strengthen our investment advisory capabilities and the benefits of cooperation across UBS Switzerland provide a firm foundation for continued success.

UBS Asset Management

Business Group reporting

<i>CHF million, except where indicated</i>	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Income	493	490	369	1	34	1,465	1,013
Credit loss expense	0	0	0			0	0
Total operating income	493	490	369	1	34	1,465	1,013
Personnel expenses	225	219	125	3	80	646	406
General and administrative expenses	105	100	73	5	44	301	198
Depreciation	12	12	13	0	(8)	34	22
Amortization of goodwill and other intangible assets	67	66	26	2	158	198	83
Total operating expenses	409	397	237	3	73	1,179	709
Business Group performance before tax	84	93	132	(10)	(36)	286	304

Additional information

	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99	2Q00	3Q99	30.9.00	30.9.99
Assets under management (CHF billion) ²	555	552	538	1	3		
Cost / income ratio (%) ³	83	81	64			80	70
Cost / income ratio before goodwill amortization (%) ^{3,4}	69	68	57			67	62

As of	30.9.00	30.6.00	31.12.99	% change from	
				30.6.00	31.12.99
Regulatory equity used (avg)	1,250	1,250	162	0	672
Headcount (full time equivalents)	2,811	2,750	2,576	2	9

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² As of quarter end. ³ Before credit loss expense. ⁴ The amortization of goodwill and other purchased intangible assets is excluded from this calculation.

Institutional Asset Management

Business unit reporting

CHF million, except where indicated	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Income	336	325	272	3	24	974	814
Credit loss expense	0	0	0		0	0	0
Total operating income	336	325	272	3	24	974	814
Personnel expenses	168	162	109	4	54	467	361
General and administrative expenses	60	55	42	9	43	163	121
Depreciation	7	6	12	17	(42)	19	18
Amortization of goodwill and other intangible assets	43	43	26	0	65	129	83
Total operating expenses	278	266	189	5	47	778	583
Business unit performance before tax	58	59	83	(2)	(30)	196	231
Assets under management (CHF billion) ²	528	525	538	1	(2)		
Net new money (CHF billion)	(9.1)	(20.2)	(10.9)	55	17	(61.7)	(33.3)
Gross AuM margin (bps) ³	35	32	24	9	46	32	24
Cost / income ratio (%) ⁴	83	82	69			80	72
Cost / income ratio before goodwill amortization (%) ^{4,5}	70	69	60			67	61
Additional information				% change from			
As of	30.9.00	30.6.00	31.12.99	30.6.00	31.12.99		
Regulatory equity used (avg)	500	500	160	0	213		
Headcount (full time equivalents)	1,725	1,712	1,653	1	4		

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² As of quarter end. ³ Revenues divided by average assets under management, for the institutional portion of the business only. ⁴ Before credit loss expense. ⁵ The amortization of goodwill and other purchased intangible assets is excluded from this calculation.

Key Performance Indicators

During the third quarter, total assets under management increased slightly from CHF 525 billion to CHF 528 billion, largely as a result of currency movements. Institutional assets increased very slightly to CHF 326 billion at 30 September 2000, with net new money losses offset by currency related gains.

Net outflows moderated further, with net new money losses reducing from CHF 20 billion in the second quarter to CHF 9 billion during the third quarter. Client losses continued to be concentrated within US equity-related and UK balanced mandates reflecting past investment performance issues.

The gross AuM margin increased to 35 bps during the third quarter, from 32 bps the previous quarter reflecting the continued good performance of the O'Connor business unit, established in June 2000. The cost/income ratio before

goodwill increased slightly to 70% compared to the 69% recorded in second quarter 2000.

Initiatives and Achievements

Expansion in Hong Kong

Over the next few months, the Hong Kong office will expand with the establishment of an Equities Investment Team covering Greater China. This new team will allow Institutional Asset Management to provide better access to the Hong Kong domestic equity market for institutional and mutual fund clients. The expansion will also help Institutional Asset Management to develop institutional and mutual fund business in Taiwan and mainland China.

PaineWebber distribution channel

An open funds distribution architecture is a core element of PaineWebber's strategy. On 9 August

2000, PaineWebber awarded Institutional Asset Management a mandate to act as the sub-advisor for the PaineWebber Management High Yield Plus Fund. Management of these funds was transferred to UBS on 1 October 2000.

The merger with PaineWebber will provide additional opportunities both to compete for management of PaineWebber funds and to distribute UBS funds.

Adams Street Partners

The formation of Adams Street Partners, a new entity composed of UBS Asset Management's existing Private Equity Investment Team, will facilitate growth in the increasingly competitive private equity marketplace. Its creation was driven by new US regulations under the Gramm-Leach-Bliley Act which limit ownership positions in various investments. Effective 1 January 2001, Adams Street Partners will be controlled by the existing UBS Asset Management private equity management team with UBS Asset Management as the only other shareholder, holding 24.9%. Adams Street Partners will provide UBS Asset Management with more flexibility and operational efficiency in structuring investment vehicles while continuing to provide existing and new clients with access to its very popular private equity investment vehicles.

Investment capabilities and performance

Major markets made modest advances at the start of the quarter but then retreated partially as concerns about inflation, a number of profit warnings and other signs of economic deceleration turned sentiment negative. Sectoral movements within equity markets did not show the marked divergence between old and new economy sectors seen in previous quarters. However, within the "old economy" there was a clear split between winners and losers from rising oil prices. Bond markets undulated but did not move significantly in either direction. Inflationary pressure from high oil prices was balanced by signs of slower growth in some Western economies.

Institutional Asset Management's third quarter and year-to-date portfolio returns compare favorably to most relevant benchmarks. Solid per-

formances this quarter by the US Equity and US and Global Balanced Portfolios particularly enhanced year-to-date returns, contributing to the favorable benchmark comparison.

Results

Institutional Asset Management's pre-tax profit fell 2% from second quarter 2000, to CHF 58 million.

Operating income

Operating income grew 3% compared to the previous quarter, to CHF 336 million. Institutional income increased from CHF 274 million in second quarter 2000, to CHF 285 million due to good results at the new O'Connor business, offset by lower performance fees and reduced asset-based fees reflecting the impact of negative net new money flows earlier this year on assets under management. Non-institutional operating income was unchanged from the previous quarter, at CHF 51 million.

Operating expenses

Personnel costs increased CHF 6 million from the previous quarter to CHF 168 million, mainly as a result of the inclusion of a full quarter of the new O'Connor business. General and administrative expenses increased CHF 5 million to CHF 60 million in the third quarter, principally as the result of the new O'Connor business.

Headcount

Headcount was almost unchanged, increasing by 13 over the quarter to 1,725.

Outlook

While moderate client losses may continue over the next few quarters, the overall trend remains encouraging. New business development appears promising as strategic initiatives progress, performance relative to benchmarks improves and our pipeline of new business prospects grows. However, results will continue to be impacted by the effect of previous client losses which impact revenue with a slight time-lagged effect.

Investment Funds/GAM

Business unit reporting

<i>CHF million, except where indicated</i>	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Income	157	165	97	(5)	62	491	199
Credit loss expense	0	0	0			0	0
Total operating income	157	165	97	(5)	62	491	199
Personnel expenses	57	57	16	0	256	179	45
General and administrative expenses	45	45	31	0	45	138	77
Depreciation	5	6	1	(17)	400	15	4
Amortization of goodwill and other intangible assets	24	23	0	4		69	0
Total operating expenses	131	131	48	0	173	401	126
Business unit performance before tax	26	34	49	(24)	(47)	90	73
KPI's							
Assets under management (CHF billion) ²	227	225	186	1	22		
Net new money (CHF billion)	0.2	0.8	(0.8)	(75)	125	1.6	2.6
Gross AuM margin (bps) ³	37	38	31	(3)	19	38	25
Cost / income ratio (%) ⁴	83	79	49			82	63
Cost / income ratio before goodwill amortization (%) ^{4,5}	68	65	49			68	63

Additional information

As of	30.9.00	30.6.00	31.12.99	% change from	
				30.6.00	31.12.99
Regulatory equity used (avg)	750	750	2	0	–
Headcount (full time equivalents)	1,086	1,038	923	5	18

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² As of quarter end. ³ All non-institutional revenues, including those booked in Institutional Asset Management, divided by average assets under management. ⁴ Before credit loss expense. ⁵ The amortization of goodwill and other purchased intangible assets is excluded from this calculation.

Key Performance Indicators

Assets under management increased slightly from CHF 225 billion to CHF 227 billion due to investment performance. Net new money of CHF 0.2 million reflected contraction in lower margin fixed income and money market funds, largely shifted into higher margin equity fund products.

The cost/income ratio before goodwill increased from 65% during the second quarter to 68% in third quarter 2000 reflecting lower revenues from performance fees. The gross margin was 37 bps, a slight decline from second quarter.

Initiatives and Achievements

New distribution channel – funds@ubs

On 13 November 2000, Investment Funds and Lufthansa announced the launch of a joint marketing effort to provide Lufthansa Miles and More clients with access to UBS Investment Funds. A new website dedicated to Lufthansa clients will

provide, investment education, advice on investment strategies and online decision support tools, and will allow automated online fund purchases.

This is the first such tie-up to be announced as a result of UBS's intermediary strategy, funds@ubs, which is designed to boost third-party distribution of our funds, by providing a turn-key solution for distribution partners, including technical, administrative and operational support. Over the coming months UBS expects to announce similar cooperation agreements with other non-traditional intermediaries, using the same strategy and technical platform.

Screened open architecture for clients of UBS Switzerland

During the third quarter, UBS continued to develop investment solutions that combine UBS, GAM and third-party funds. This initiative reflects UBS's commitment to providing an attractive range of high quality investment funds, through multiple access channels, on a pre-screened basis. In early De-

ember a screened selection of the products of several external mutual fund groups will be made available to clients alongside funds from UBS and GAM. Further fund groups will be added over the coming months, with the eventual aim of providing funds from a panel of over 20 different providers.

Acquisition of Fondvest

UBS Asset Management is to acquire Fondvest AG, a specialist independent funds advisory and distribution firm. Fondvest offers clients such as banks, insurance companies and asset managers access to a comprehensive range of funds from Swiss and foreign providers. The acquisition will extend and enhance UBS's open fund architecture, and provide opportunities to leverage Fondvest's renowned expertise in this area.

UBS Investment Funds product innovation

Much investment advice concentrates on finding ways for investors to diversify their risks through investments in funds rather than holdings in a small number of individual stocks. Two of UBS Investment Funds' latest products offer a middle way between these extremes – they help investors to focus on particular sectors where they think opportunities for growth exist, without having to pick specific stocks. The UBS (Lux) Focused Fund – Top Luxury and the UBS (Lux) Focused Fund – Top Leisure were both launched during third quarter. These two equity funds are the first products under the new “Focused” label and they differ from existing UBS funds in that each focuses on shares in only 16 to 25 promising companies in its particular sector, chosen for their excellent growth potential. The funds are designed to appeal to experienced investors with a strong risk appetite and a longer-term investment horizon.

Japanese Real Estate Investment Trusts Joint Venture

In September 2000, UBS Asset Management and Mitsubishi Corporation announced the launch in 2001 of a joint venture investment advisory firm which will manage Real Estate Investment Trusts (REITs) in Japan. The joint venture plans to establish REITs with an emphasis on commercial properties, such as shopping malls, and to distribute them to both institutional and retail clients. UBS Asset Management will provide expertise in REIT management as well as distribution access to Japanese pension funds, while Mitsubishi will

contribute its extensive experience in Japanese real estate and access to its distribution network.

Acquisition of Taiwan-based mutual fund provider

UBS Asset Management has acquired a majority holding in Taiwan-based mutual fund provider, Fortune Securities Investment & Trust Company. The acquisition gives UBS Asset Management the ability to produce and distribute domestically-regulated mutual funds for Taiwanese investors and provides a platform to establish a solid domestic presence in a key market while raising its profile further throughout the region. Fortune's ability to attract new clients should benefit considerably from the good reputation enjoyed by UBS in Taiwan.

Investment capabilities and performance

Investment Funds performance during the third quarter was slightly positive and in line with major indices. GAM's performance was also positive as most funds continued to exceed benchmark indices during the quarter.

Results

Operating income

Lower performance fees led to a slight decrease in operating income to CHF 157 million during third quarter compared to CHF 165 million the previous quarter.

Operating expenses

Operating expenses were unchanged from the previous quarter, reflecting continued careful cost control.

Headcount

Headcount rose 48 or 5% to 1,086 at the end of September 2000, from 1,038 at the end of June, primarily due to continued investment in the third party distribution and open architecture initiatives.

Outlook

Although the competitive environment is intense, the business outlook remains favorable for Investment Funds and GAM. The expansion of distribution channels within Investment Funds is expected to be a strong driver of future revenue growth, although the cost of investments in multi-channel distribution initiatives will continue to impact profits in the coming months.

UBS Warburg

Business Group reporting

CHF million, except where indicated	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ^{1,3}
Income	4,458	4,926	3,179	(10)	40	14,653	10,158
Credit loss expense	(49)	(40)	(69)	(23)	29	(164)	(240)
Total operating income	4,409	4,886	3,110	(10)	42	14,489	9,918
Personnel expenses	2,321	2,761	1,713	(16)	35	8,070	5,786
General and administrative expenses	765	727	662	5	16	2,202	1,837
Depreciation	146	145	156	1	(6)	431	488
Amortization of goodwill and other intangible assets	41	40	36	3	14	118	118
Total operating expenses	3,273	3,673	2,567	(11)	28	10,821	8,229
Business Group performance before tax	1,136	1,213	543	(6)	109	3,668	1,689

Additional information

	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99	2Q00	3Q99	30.9.00	30.9.99 ^{1,3}
Assets under management (CHF billion) ²	44	37	27	19	63		
Cost / income ratio (%) ⁴	73	75	81			74	81
Cost / income ratio before goodwill amortization (%) ^{4,5}	72	74	80			73	80

As of	30.9.00	30.6.00	31.12.99	% change from	
				30.6.00	31.12.99
Regulatory equity used (avg)	10,690	10,690	10,679	0	0
Headcount (full time equivalents)	14,946	14,346	14,266	4	5

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² As of quarter end. ³ 1999 income adjusted for the CHF 200 million significant financial event relating to the sale of the international Global Trade Finance business. ⁴ Before credit loss expense. ⁵ The amortization of goodwill and other purchased intangible assets is excluded from this calculation.

Corporate and Institutional Clients

Business unit reporting

CHF million, except where indicated	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ^{1,2}
Income	4,314	4,860	2,999	(11)	44	14,223	9,765
Credit loss expense	(48)	(39)	(67)	(23)	28	(161)	(238)
Total operating income	4,266	4,821	2,932	(12)	45	14,062	9,527
Personnel expenses	2,193	2,601	1,596	(16)	37	7,555	5,494
General and administrative expenses	689	631	594	9	16	1,928	1,668
Depreciation	135	132	150	2	(10)	394	472
Amortization of goodwill and other intangible assets	39	37	31	5	26	110	102
Total operating expenses	3,056	3,401	2,371	(10)	29	9,987	7,736
Business unit performance before tax	1,210	1,420	561	(15)	116	4,075	1,791

KPI's

Compensation / income (%) ³	51	54	53			53	56
Cost / income ratio (%) ³	71	70	79			70	79
Cost / income ratio before goodwill amortization (%) ^{3,4}	70	69	78			69	78
Non-performing loans/Gross loans outstanding (%)	2.1	2.7 ⁵	1.8				
Average VaR (10-day 99%)	238	253	197				

League table rankings

	Year-to-date	
	30.9.00	30.6.00
Global Mergers and Acquisitions completed ⁶		
Rank	5	6
Market share (%)	18.2	20.3
International Equity New Issues ⁷		
Rank	9	11
Market share (%)	3.7	3.8
International Bonds ⁷		
Rank	5	5
Market share (%)	8.1	8
Eurobonds ⁷		
Rank	1	1
Market share (%)	9.3	8.7

Additional information

As of	30.9.00	30.6.00	31.12.99	% change from	
				30.6.00	31.12.99
Regulatory equity used (avg)	9,850	9,850	10,050	0	(2)
Headcount (full time equivalents)	13,268	12,730	12,694	4	5

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² 1999 income adjusted for the CHF 200 million significant financial event relating to the sale of the international Global Trade Finance business. ³ Before credit loss expense. ⁴ The amortization of goodwill and other purchased intangible assets is excluded from this calculation. ⁵ Incorrectly reported as 2.0 in second quarter report. ⁶ Source: Thomson Financial Securities data. ⁷ Source: Capital Data Bondware.

Key Performance Indicators

UBS Warburg measures its expense base primarily in terms of percentage of revenues, looking at both personnel costs and non-personnel costs on this basis.

Continued strong revenue performance and active cost management led to a pre-goodwill cost/income ratio of 70%, up less than 1% on the previous quarter and a significant improvement over the 78% recorded in third quarter 1999. UBS Warburg's ratio of personnel cost to income fell to 51% in third quarter 2000, two percentage points lower than the same period last year. UBS Warburg continues to invest in top quality professionals to help expand its capabilities and client reach and therefore aims to compensate its employees at similar levels to its global competitors.

Changes in non-personnel costs are less directly related to changes in income than personnel costs. As a percentage of income, non-personnel costs increased to 20% this quarter, from 16% in second quarter, although this is well below the third quarter 1999 level of 26%. The growth in non-personnel costs in third quarter 2000 was driven by continued investment in technology.

Market risk utilization, as measured by average Value at Risk, continued to remain well within the limit of CHF 450 million, decreasing from CHF 253 million in second quarter to CHF 238 million in the third quarter.

Corporate and Institutional Clients continues to manage its loan book closely. Total loans increased by CHF 16.6 billion from the end of second quarter 2000, reaching CHF 80.9 billion at 30 September 2000, an increase of 26%. This increase related almost solely to zero risk-weighted money market operations and group treasury positions held by UBS Warburg. The absolute value of non-performing loans fell slightly, bringing the ratio of non-performing loans to total loans down from 2.7% to 2.1%.

Corporate and Institutional Clients will continue to use the balance sheet selectively for higher margin, value-added corporate business to support our clients.

League Table Rankings

Mergers and Acquisitions

UBS Warburg's ranking in Completed Global Mergers and Acquisitions has improved during the

quarter, to fifth year-to-date from sixth at half year, with market share of 18.2%. In Announced Global Mergers and Acquisitions, UBS Warburg remained in sixth place with a market share of 11.9%.

Mergers and Acquisitions market growth has been largest in Europe this year, where UBS Warburg was ranked third in completed transactions with a market share of 35.3%. During third quarter 2000, UBS Warburg was involved as advisor in several significant global transactions, including:

- Advising the Italian internet service provider and portal company Tiscali on its recommended USD 5.4 billion offer for its Dutch rival, World Online - the largest new economy Mergers and Acquisitions deal in Europe to date.
- Advising Foster's Brewing Group on its AUD 2.6 billion purchase of California-based Beringer Wine Estates Holdings Inc. In this transaction UBS Warburg was awarded both the advisory work and the financing: underwriting an AUD 500m issue of ordinary shares and a USD 400m convertible bond issue to finance the acquisition.

Fixed Income Underwriting

UBS Warburg's ranking in the international bond markets remains good, with year to date positions of first in Eurobonds and fifth in International Bonds matching our performance at half year, with slightly increased market shares of 9.3% and 8.1% respectively. In its franchise markets, UBS Warburg has improved from fifth place at half year to third place year-to-date with a market share of 8.6%. "Franchise Markets" excludes specific segments in which UBS Warburg has chosen not to compete actively.

In addition to the Eurobond market, where UBS Warburg is the leading player, the firm has substantially improved its performance in the Global Bonds sector (bonds registered for sale both in the US and internationally), including transactions for an increasing number of American issuers. During third quarter 2000, financings were arranged for several leading US firms including IBM, Federal Home Loan Bank, Household Finance Corporation and Monumental Life Insurance Company.

The recent investment in European Leveraged Finance and US High Yield is also beginning to deliver results in terms of deal flow, revenues and league table and research rankings, with UBS

Warburg recording the biggest jump in rankings of any firm in the All America Fixed Income Research Team 2000 – ranked 8th, as compared with 20th in 1999.

Equity Underwriting

UBS Warburg continued to improve its performance in the international primary equity markets, with its ranking in International Equity New Issues increasing from 11th at half year to 9th year-to-date, with a market share of 3.7%. Our ranking in Europe remained at 8th year-to-date with a market share of 5.1%.

The relative weakness in these rankings compared to last year's performance is due to the large number of Technology, Media and Telecoms ("TMT") deals this year and UBS Warburg's relatively limited involvement in this sector. Several strategic initiatives designed to improve our long-term position have been implemented in recent months, including expansion of our capabilities in the global TMT sector, increased corporate coverage in Germany and France and enhanced product capabilities in block trades and convertibles. PaineWebber will significantly enhance the scope and scale of UBS Warburg's retail and institutional distribution capabilities in the US market for foreign and domestic issuers.

Equity research

UBS Warburg is one of the top equity research firms globally, according to Institutional Investor rankings. PaineWebber will help to cement this position, by improving the breadth of our equity research coverage in the US. UBS Warburg now has over 100 publishing analysts in the US, similar to the levels of the leading US-based firms. PaineWebber's research team provides a significant boost to our coverage strength in several key sectors, including Consumer Goods, Energy, Healthcare and Technology. Through PaineWebber, UBS Warburg has also gained Institutional Investor's top-ranked portfolio strategy analyst, who will fill a coverage gap and help to raise UBS Warburg's public profile.

e-commerce

UBS Warburg continues to enhance its e-commerce offerings as a core element of its content and execution services for institutional and corporate clients.

Approximately USD 12 billion of primary debt was raised through DebtWeb in third quarter 2000, which brings the year-to-date total to approximately USD 54 billion.

UBS Warburg marketed approximately USD 17 billion of new equity issues on DealKey during the third quarter, leveraging the enhanced capabilities introduced on the site in July 2000. The new features streamline the communication process between salespeople, traders and syndicate members, provide the salesforce with online tools to manage their client orders, and facilitate the pre-marketing and bookbuilding processes.

Client usage of ResearchWeb, UBS Warburg's leading edge site for research distribution, and IBOL, our portal for corporate and institutional clients, continues to grow, with 58% more users at 30 September 2000 than at the end of June 2000.

Institutional clients can now access UBS Warburg's equity research via electronic hand-held devices. This pioneering mobile distribution service is available on Palm OS, Windows CE and Pocket PC, and makes use of technology from mobile internet firm AvantGo. The solution satisfies the growing demand within the investment community for on the move access to broker research, and can be used in real-time via a wireless connection, or offline through synchronization with a personal computer.

UBS Warburg is one of seven of the world's largest investment banks who have joined together to create a new internet portal, TheMarkets.com. Expected to launch in December, TheMarkets.com will provide real-time access for institutional investors to proprietary equity information from each of the consortium members, including equity research, new issue information, news and market data. It will also offer direct access to participants' individual web offerings.

Results

UBS Warburg's Corporate and Institutional Clients business unit produced strong profit growth again this quarter, with pre-tax profit of CHF 1,210 million, up 116% over third quarter 1999. The consistent strong performance in each quarter this year means that pre-tax profits year-to-date have increased 128% from the same period in 1999, to CHF 4,075 million.

Operating income

Corporate and Institutional Clients generated revenues of CHF 4,314 million in third quarter 2000, an increase of 44% over third quarter 1999.

Equities revenues during third quarter 2000 were somewhat lower than in second quarter, reflecting almost exactly the reduction in market volumes during the period. The equity franchise continued to perform extremely well over the usually quieter summer months, with strong performances in European Equities, especially in the UK, and Japanese Equities. Revenues were approximately 40% higher than for the same quarter last year, largely driven by secondary client activity, although primary equities revenues also recorded their best ever quarterly performance. UBS Warburg's secondary equity sales franchise is now ranked as one of the global leaders, and the leading non-US equities house.

In Fixed Income, UBS Warburg's Governments, Derivatives, Investment Grade & Emerging Markets businesses continued to deliver strong results, ahead of expectations. The Principal Finance group continues to expand and is delivering excellent results.

In the Treasury Products business area, revenues continued to be slow in the third quarter, as in the first half of this year, although significant cost savings have been made as a result of re-engineering front-to-back processes.

Market conditions for Mergers and Acquisitions, advisory work and primary underwriting continued to be strong, driving Corporate Finance's good performance.

The recent expansion of Corporate and Institutional Clients high yield bonds and leveraged finance business has not resulted in any significant holdings of unsyndicated bond or loan positions, or material mark-downs. The business has been developed as "distribution-led", with secondary market positions carefully controlled, and, as

with all UBS Warburg businesses, there are vigorous risk management policies in place. In addition, UBS Warburg has only recently begun to build its franchise in the Telecommunications, Media and Technology sector, and as such, is not significantly impacted by the recent swings in valuations and shifts in levels of client activity.

Operating expenses

Corporate and Institutional Clients continues to carefully manage its cost base, with the cost/income ratio remaining well below 1999 levels, at 71%. Personnel expenses increased 37% from the same quarter last year, to CHF 2,193 million, reflecting increased performance-related compensation. General and administrative expenses increased 16% compared to third quarter 1999, as a result of increased expenditure on technology. Overall costs are growing at a slower rate than revenues, delivering continued strong pre-tax profit growth.

Headcount

Corporate and Institutional Clients headcount rose 4% during the quarter, to 13,268, mainly due to increases in Corporate Finance and Equities.

Outlook

Client and market activity are important drivers of this business unit's performance. However, the solid institutional franchise in both equities and fixed income, combined with an expanding corporate client franchise have provided the firm with much improved sustainability and quality of earnings. Ongoing volatility in financial markets has not significantly impacted performance to date, although the current market environment remains challenging and the fourth quarter is traditionally the quietest of the year.

UBS Capital

Business unit reporting

<i>CHF million, except where indicated</i>	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Income	79	4	134	–	(41)	230	254
Credit loss expense	0	0	0			0	0
Total operating income	79	4	134	–	(41)	230	254
Personnel expenses	23	33	37	(30)	(38)	76	78
General and administrative expenses	10	12	14	(17)	(29)	33	33
Depreciation	0	1	0	(100)		2	0
Amortization of goodwill and other intangible assets	0	1	1	(100)	(100)	2	4
Total operating expenses	33	47	52	(30)	(37)	113	115
Business unit performance before tax	46	(43)	82	207	(44)	117	139

KPI's	As of	30.9.00	30.6.00	31.12.99	% change from	
					30.6.00	31.12.99
Book value (CHF billion)		4.5	3.8	3.0	18	50
Value creation (CHF billion) ²		n/a	0.4	0.6		

Additional information

Regulatory equity used (avg)	500	500	340	0	47
Headcount (full time equivalents)	117	113	116	4	1

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² Value creation is reported semi-annually, at the end of June and December.

Key Performance Indicators

The book value of UBS Capital's investments has grown from CHF 3.8 billion at the end of June 2000 to CHF 4.5 billion at the end of September 2000. It has made approximately CHF 1.5 billion of new investments and add-ons this year, significantly above the amounts in the equivalent period in 1999.

UBS Capital accounts for its private equity investments at the lower of cost or market value, showing only realized gains. As a full valuation of the portfolio is produced only every six months, value creation and unrealized gains will next be reported with UBS's fourth quarter results.

Initiatives and Achievements

In July 2000, UBS Capital established a private equity operation in Japan. This group will focus primarily on the rapidly evolving market in Japan for management buy-outs, leveraged buy-outs

(“LBOs”) and other restructuring opportunities. It will also assist the Technology, Media and Telecoms group in pursuing early stage investment opportunities in those important sectors.

During the third quarter, new investments of CHF 0.7 billion were made, including shareholdings in:

- The printed circuit board business of Singapore-listed Wong's Circuits (Holdings) Limited. The acquisition is the largest financial sponsor-backed LBO to be launched in the Hong Kong market.
- Katwijk Farma BV, a Dutch manufacturer of generic drugs. The company is a well established group, and represents one of Holland's leading generic and OTC drug manufacturers with a significant drug wholesale business.
- Demantra Ltd – an Israeli software development company specializing in providing internet-enabled demand management solutions which provide clients with an online, real time planning and decision-making environment.

Results

Operating income decreased 41% to CHF 79 million, from CHF 134 million in third quarter 1999. UBS Capital's income is mainly driven by the timing of divestments and can therefore vary from period to period. During second quarter 2000, the business group recorded very low income due to write-downs of the value of some under-performing investments in the portfolio.

Personnel, general and administrative expense was CHF 33 million this quarter, a decrease from the previous quarter of CHF 12 million, or 27%, mainly driven by bonus expenses. Bonuses are accrued when an investment is successfully exited, so personnel expenses move in line with divestments.

UBS Capital is gradually increasing its annual investment rate. UBS Capital has a target portfolio book value of approximately CHF 5 billion from its own investments and CHF 5 billion from third party funds.

Outlook

UBS Capital is currently preparing for the establishment of two new funds – an EUR 2 billion European fund which is due to launch in first quarter next year and a USD 1 billion Asian fund which is due to launch in third quarter 2001. These funds will help meet demand for access to private equity investments from UBS's private clients, giving them an opportunity to diversify from more traditional investments.

Private Clients

Business unit reporting

CHF million, except where indicated	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Income	70	62	46	13	52	205	139
Credit loss expense	(1)	(1)	(2)	0	50	(3)	(2)
Total operating income	69	61	44	13	57	202	137
Personnel expenses	73	80	76	(9)	(4)	323	210
General and administrative expenses	35	45	53	(22)	(34)	150	135
Depreciation	7	3	6	133	17	17	16
Amortization of goodwill and other intangible assets	1	2	4	(50)	(75)	5	12
Total operating expenses	116	130	139	(11)	(17)	495	373
Business unit performance before tax	(47)	(69)	(95)	32	51	(293)	(236)
KPI's							
Assets under management (CHF billion) ²	44	37	27	19	63		
Net new money (CHF billion) ³	8.1	0.8	(0.2)	913	-	12.9	1.7
Gross AuM margin (bps)	69	64	65	8	6	69	67

Additional information

As of	30.9.00	30.6.00	31.12.99	% change from	
				30.6.00	31.12.99
Regulatory equity used (avg)	340	340	289	0	18
Headcount (full time equivalents)	1,177	1,277	1,386	(8)	(15)

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² As of quarter end. ³ Excludes interest and dividend income.

Key Performance Indicators

Assets under management increased from CHF 37 billion at the end of the second quarter to CHF 44 billion at 30 September 2000. Performance was slightly negative, in line with market movements, but was more than offset by net new money of CHF 8 billion. The sharp changes in the quarter-on-quarter net new money trend in UBS Warburg Private Clients reflect the relatively early stage of this unit's business development. UBS Warburg Private Clients does not expect to repeat this exceptional performance in the fourth quarter.

Gross margin increased to 69 bps from 64 bps in second quarter as the positive effects of the recent restructuring began to show through.

Initiatives and Achievements

Considerable progress was made during the quarter on preparing for the integration with PaineWeb-

ber. New management structures have been agreed and new business plans are being developed.

At the same time UBS Warburg Private Clients has continued to restructure and refocus the existing onshore private client business. This restructuring, including a headcount reduction of about 250 since its announcement at the end of March, is now largely completed. Considerable cost savings have been realized, producing a firm foundation for the integration with PaineWebber, with total expenses down 26% from CHF 156 million, the underlying level in first quarter before the restructuring.

Results

Revenues in the third quarter increased by 13% to CHF 70 million, compared to CHF 62 million in the second quarter, driven by higher average assets and the positive effects of the completed restructuring in terms of management focus and staff motivation. Expenses fell CHF 14 million to

CHF 116 million, reflecting completion of the restructuring, with headcount falling by another 100 during the third quarter.

Outlook

UBS Warburg's Private Clients unit will be combined with PaineWebber's existing businesses targeting core affluent investors. The US portion of UBS Warburg's Private Clients business will be

added to the existing PaineWebber US private clients business.

The European and Asia-Pacific Private Clients businesses will be combined with the e-services project, under a single management and integrated business model. UBS Warburg will leverage the management, technology and experience of PaineWebber to establish a truly advisor-centric business model, focused on core affluent and high net worth clients, building on the existing client base, content and resources.

e-services

Business unit reporting

<i>CHF million, except where indicated</i>	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99	2Q00	3Q99	30.9.00	30.9.99
Income	(5)	0	0			(5)	0
Credit loss expense	0	0	0			0	0
Total operating income	(5)	0	0			(5)	0
Personnel expenses	32	47	4	(32)	700	116	4
General and administrative expenses	31	39	1	(21)	–	91	1
Depreciation	4	9	0	(56)		18	0
Amortization of goodwill and other intangible assets	1	0	0			1	0
Total operating expenses	68	95	5	(28)	–	226	5
Business unit performance before tax	(73)	(95)	(5)	23	–	(231)	(5)

Additional information

As of	30.9.00	30.6.00	31.12.99	% change from	
				30.6.00	31.12.99
Regulatory equity used (avg)	0	0	0		
Headcount (full time equivalents)	384	226	70	70	449

Initiatives and Achievements

During third quarter 2000, UBS Warburg's e-services project has delivered its pre-launch objectives in a timely and very satisfactory manner. A UK banking licence was received from the Financial Services Authority, with a passport to all European Union countries, two state-of-the-art data centers in London are functioning in the production environment and the real time e-services platform (multi-currency, multi-entity, multi-lingual) has been built and successfully tested.

Results

Following the decision to integrate the business with the Private Clients unit and realign its strategic focus, e-services' expansion plans were put on hold, reducing Personnel expenses to CHF 32 million in the third quarter, compared with CHF 47 million in the previous quarter, and General and administrative expenses from CHF 39 million in second quarter to CHF 31 million in third quarter.

Outlook

UBS Warburg intends to leverage PaineWebber's success and know-how to develop further its global private client business model, as many of the same dynamics that have fueled investment growth in the US begin to impact the wealth markets in Europe.

PaineWebber provides UBS Warburg with a unique opportunity to address the onshore high net worth and affluent private client market in Europe, extending PaineWebber's adviser-centric business model to new markets. e-services and the existing non-US business of UBS Warburg Private Clients will form the core of this new venture, with the focus on premium clients rather than the mass affluent market originally targeted by e-services.

Concentration on face-to-face relationships and supplementary online services means that providing investment advice and selling financial products via telephone call centers is no longer central to the distribution strategy. Call centers will therefore not be developed as previously planned, which will lead to significant headcount reductions.

e-services' technology will be re-deployed to support this effort, helping to provide seamless integration of online capabilities with the financial adviser/client relationship.

The multi-currency and multi-entity transaction processing back-end systems developed for e-services will be integrated with front-end technology based on PaineWebber's industry-leading online systems. The result will be a pan-European processing platform with front-end systems tailored to each country's specific needs.

As a result of this opportunity to refocus, the e-services pilot launch planned for late autumn in Germany will not now take place.

Corporate Center

Business Group reporting

CHF million, except where indicated	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Income	41	50	(20) ²	(18)	—	74	(33) ²
Credit loss recovery	374	439	80	(15)	368	995	176
Total operating income	415	489	60	(15)	383	1,069	143
Personnel expenses	99	156	110	(37)	(10)	389	192
General and administrative expenses	96	125 ³	(43)	(23)	—	274	57
Depreciation	78	62	90	26	(13)	213	213
Amortization of goodwill and other intangible assets	10	11	10	(9)	0	33	33
Total operating expenses	283	354	167	(20)	69	909	495
Business Group performance before tax	132	135	(107)	(2)	—	160	(352)

Additional information

As of	30.9.00	30.6.00	31.12.99	% change from	
				30.6.00	31.12.99
Regulatory equity used (avg)	9,750	9,950	7,850	(2)	24
Headcount (full time equivalents)	921	931	862	(1)	7

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² Third quarter 1999 income has been adjusted for a CHF 26 million gain from our residual holding in Long Term Capital Management (LTCM). Year-to-date 1999 income has additionally been adjusted for the CHF 1,490 million sale of our 25% stake in Swiss Life / Rentenanstalt and the CHF 110 million gain on the sale of Julius Baer registered shares. ³ General and administrative expenses in the second quarter 2000 have been adjusted for the additional CHF 200 million provision relating to the US Global Settlement.

Results Discussion

Adjusted for significant financial events, Corporate Center recorded a pre-tax profit of CHF 132 million for third quarter 2000, versus a pre-tax loss of CHF 107 million for third quarter 1999 and a pre-tax profit of CHF 135 million during second quarter 2000.

The credit loss recovery booked in Corporate Center represents the difference between the adjusted expected losses charged to the business units and the actual credit loss recovery recognized in the Group financial accounts. This quar-

ter the continued strength of the Swiss economy has allowed UBS to make a further write back of credit loss provisions of CHF 142 million. This continued better than expected credit loss performance resulted in a credit loss recovery in Corporate Center of CHF 374 million.

The results of UBS's 91.2% holding in Klinik Hirslanden AG were fully consolidated for the first time in fourth quarter 1999. This has led to an increase in operating income and expenses compared to third quarter 1999, when there was no equivalent contribution in Corporate Center.

Financial Statements

UBS Group Income Statement

CHF million, except per share data	Note	Quarter ended			% change from		Year-to-date	
		30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Operating income								
Interest income	3	12,480	12,682	9,353	(2)	33	36,559	25,646
Interest expense	3	(10,649)	(10,445)	(7,940)	(2)	(34)	(30,402)	(21,480)
Net interest income		1,831	2,237	1,413	(18)	30	6,157	4,166
Credit loss recovery / expense		142	208	(275)	–	–	225	(910)
Net interest income after credit loss recovery / expense		1,973	2,445	1,138	(19)	73	6,382	3,256
Net fee and commission income	4	3,865	3,756	3,066	3	26	11,700	9,250
Net trading income	5	2,368	2,691	2,097	(12)	13	8,037	6,557
Net gains from disposal of associates and subsidiaries		0	21	(6)	–	–	23	1,772
Other income	6	339	287	239	18	42	960	801
Total operating income		8,545	9,200	6,534	(7)	31	27,102	21,636
Operating expenses								
Personnel	7	3,863	4,354	3,104	(11)	24	12,739	9,923
General and administrative	7	1,503	1,743	1,391	(14)	8	4,677	3,779
Depreciation and amortization	7	476	451	426	6	12	1,423	1,290
Total operating expenses		5,842	6,548	4,921	(11)	19	18,839	14,992
Operating profit before tax and minority interests								
		2,703	2,652	1,613	2	68	8,263	6,644
Tax expense		621	591	374	5	66	1,878	1,525
Net profit before minority interests		2,082	2,061	1,239	1	68	6,385	5,119
Minority interests		(7)	(9)	(14)	22	50	(42)	(35)
Net profit		2,075	2,052	1,225	1	69	6,343	5,084
Basic earnings per share (CHF) ³	8	5.15	5.24	3.07	(2)	68	16.05	12.48
Basic earnings per share before goodwill (CHF) ^{2, 3}	8	5.46	5.57	3.27	(2)	67	17.07	13.10
Diluted earnings per share (CHF) ³	8	5.09	5.19	3.05	(2)	67	15.88	12.38
Diluted earnings per share before goodwill (CHF) ^{2, 3}	8	5.40	5.51	3.26	(2)	66	16.88	13.00

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² The amortization of goodwill and other purchased intangible assets is excluded from this calculation. ³ 1999 share figures are restated for the two-for-one share split, effective 8 May 2000.

UBS Group Balance Sheet

<i>CHF million</i>	30.9.00	30.6.00	31.12.99 ¹	% change from	
				30.6.00	31.12.99
Assets					
Cash and balances with central banks	2,417	3,457	5,073	(30)	(52)
Money market paper	71,978	61,504	69,717	17	3
Due from banks	25,914	25,761	29,907	1	(13)
Cash collateral on securities borrowed	152,551	146,199	113,162	4	35
Reverse repurchase agreements	174,562	164,866	132,474	6	32
Trading portfolio assets	223,486	215,649	212,440	4	5
Positive replacement values	76,344	57,758	64,698	32	18
Loans, net of allowance for credit losses	244,754	233,015	234,858	5	4
Financial investments	10,051	9,504	7,039	6	43
Accrued income and prepaid expenses	7,024	5,817	5,167	21	36
Investments in associates	862	818	1,102	5	(22)
Property and equipment	8,283	8,216	8,701	1	(5)
Intangible assets and goodwill	3,701	3,545	3,543	4	4
Other assets	8,306	10,198	11,007	(19)	(25)
Total assets	1,010,233	946,307	898,888	7	12
<i>Total subordinated assets</i>	648	330	600	96	8
Liabilities					
Money market paper issued	65,527	85,409	64,655	(23)	1
Due to banks	96,417	75,172	76,365	28	26
Cash collateral on securities lent	15,894	15,334	12,832	4	24
Repurchase agreements	261,580	230,565	196,914	13	33
Trading portfolio liabilities	60,694	60,279	54,586	1	11
Negative replacement values	92,796	77,926	95,786	19	(3)
Due to customers	291,627	279,915	279,960	4	4
Accrued expenses and deferred income	17,267	14,492	12,040	19	43
Long-term debt	50,558	52,990	56,332	(5)	(10)
Other liabilities	20,528	21,950	18,376	(6)	12
Total liabilities	972,888	914,032	867,846	6	12
Minority interests	417	399	434	5	(4)
Shareholders' equity					
Share capital	4,317	4,317	4,309	0	0
Share premium account	14,127	14,554	14,437	(3)	(2)
Foreign currency translation	(710)	(557)	(442)	(27)	(61)
Retained earnings	24,505	22,431	20,327	9	21
Treasury shares	(5,311)	(8,869)	(8,023)	40	34
Total shareholders' equity	36,928	31,876	30,608	16	21
Total liabilities, minority interests and shareholders' equity	1,010,233	946,307	898,888	7	12
<i>Total subordinated liabilities</i>	14,393	14,089	14,801	2	(3)

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting).

UBS Group Statement of Changes in Equity

CHF million

For the nine-month period ended	30.9.00	30.9.99 ¹
Issued and paid up share capital		
Balance at the beginning of the period	4,309	4,300
Issue of share capital	8	6
Balance at the end of the period²	4,317	4,306
Share premium		
Balance at the beginning of the period (as per prior Annual Report)	13,929	13,740
Change in accounting policy	508	(123)
Balance at the beginning of the period (restated)	14,437	13,617
Premium on shares issued and warrants exercised ³	74	9
Net premium / (discount) on treasury share and own equity derivative activity ³	(384)	481
Balance at the end of the period	14,127	14,107
Foreign currency translation		
Balance at the beginning of the period	(442)	(456)
Movements during the period	(268)	(2)
Balance at the end of the period	(710)	(458)
Retained earnings		
Balance at the beginning of the period (as per prior Annual Report)	20,501	16,293
Change in accounting policy	(174)	(69)
Balance at the beginning of the period (restated)	20,327	16,224
Net profit for the period	6,343	5,084
Dividends paid	(2,165)	(2,050)
Balance at the end of the period	24,505	19,258
Treasury shares, at cost		
Balance at the beginning of the period (as per prior Annual Report)	(3,462)	(1,482)
Change in accounting policy	(4,561)	(3,409)
Balance at the beginning of the period (restated)	(8,023)	(4,891)
Acquisitions	(11,161)	(5,665)
Disposals	13,873	2,904
Balance at the end of the period⁴	(5,311)	(7,652)
Total shareholders' equity	36,928	29,561

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² Comprising 431,697,629 ordinary shares as of 30 September 2000 and 430,578,786 ordinary shares as of 30 September 1999, at CHF 10 each, fully paid. ³ In prior periods, a portion of income on own equity derivative contract activity was included in Premium/(discount) on treasury shares issued and treasury share contract activity. This amount is now included in Net premium/(discount) on treasury share and own equity derivative activity for all periods. ⁴ Comprising 25,069,074 ordinary shares as of 30 September 2000 and 35,449,010 ordinary shares as of 30 September 1999.

In addition to treasury shares a maximum amount of 46,253,441 unissued shares were available to be issued without further approval of the shareholders. This amount of shares consisted of 38 million authorized shares, for use in the share exchange for the PaineWebber merger, and 17,253,441 shares of conditional capital of which 17 million were available to be used for PaineWebber employee option plans. However, these two categories of shares are interrelated. Therefore the number of shares finally issued will be less than the 55 million aggregate of the possible authorized and conditional capital increases. Using the maximum of one category would automatically lead to a reduction of the other category. This means that the maximum number of shares issued under the authorized and conditional capital in relation to the PaineWebber merger could not exceed 46 million shares.

UBS Group Statement of Cash Flows

CHF million

For the nine-month period ended	30.9.00	30.9.99 ¹
Cash flow from / (used in) operating activities		
Net profit	6,343	5,084
Adjustments to reconcile to cash flow from / (used in) operating activities		
Non cash items included in net profit and other adjustments:		
Depreciation and amortization	1,423	1,290
Provision for credit losses	(225)	910
Income from associates	(70)	(125)
Deferred tax expense	238	279
Net gain from investing activities	(472)	(2,196)
Net increase / (decrease) in operating assets:		
Net due from / to banks	19,940	(1,611)
Reverse repurchase agreements, cash collateral on securities borrowed	(81,477)	(3,178)
Trading portfolio including net replacement values	(19,574)	(12,893)
Loans due to / from customers	1,996	7,995
Accrued income, prepaid expenses and other assets	844	129
Net increase / (decrease) in operating liabilities:		
Repurchase agreements, cash collateral on securities lent	67,728	3,773
Accrued expenses and other liabilities	7,988	(3,028)
Income taxes paid	(840)	(722)
Net cash flow from / (used in) operating activities	3,842	(4,293)
Cash flow from / (used in) investing activities		
Investments in subsidiaries and associates	(603)	(308)
Disposal of subsidiaries and associates	377	3,659
Purchase of property and equipment	(741)	(1,969)
Disposal of property and equipment	190	420
Net (investment) / divestment in financial investments	(2,623)	1,004
Net cash flow from / (used in) investing activities	(3,400)	2,806
Cash flow from financing activities		
Money market paper issued	872	15,890
Net movements in treasury shares and treasury share contract activity	2,402	(2,271)
Capital issuance	8	6
Dividends paid	(2,165)	(2,050)
Issuance of long-term debt	10,376	8,141
Repayment of long-term debt	(16,150)	(3,400)
Repayment of minority interests	(20)	(689)
Net cash flow from financing activities	(4,677)	15,627
Effects of exchange rate differences	(266)	67
Net increase / (decrease) in cash equivalents	(4,501)	14,207
Cash and cash equivalents, beginning of period	102,277	83,678
Cash and cash equivalents, end of period	97,776	97,885
Cash and cash equivalents comprise:		
Cash and balances with central banks	2,417	2,746
Money market paper	71,978	63,606
Due from banks maturing in less than three months	23,381	31,533
Total	97,776	97,885

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting).

Notes to the Financial Statements

Note 1 Basis of Accounting

The UBS AG consolidated financial statements are prepared in accordance with International Accounting Standards (“IAS”). These interim financial statements are presented in accordance with IAS 34 “Interim Financial Statements”.

In the first half of 2000, the Group reorganized its business divisions. The segment reporting for the first nine months of 2000, as well as the comparative segment reporting for the first nine months of 1999, reflect the new Group structure.

At the Annual General Meeting of shareholders held on 18 April 2000, a two-for-one stock split was approved to be effective 8 May 2000. Accordingly, share and per share information have been adjusted to retroactively reflect the stock split.

In preparing the consolidated interim financial statements, the same accounting policies and methods of computation are followed as in the consolidated financial statements at 31 December 1999 and for the year then ended, with the exception of the following changes in accounting policies:

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

In July 1998, the International Accounting Standard Committee (“IASC”) issued IAS 37, Provisions, Contingent Liabilities and Contingent Assets, which has been adopted for the Group’s financial statements as of 1 January 2000. The Standard provides recognition and measurement requirements for provisions. IAS 37 also provides accounting and disclosure requirements for contingent liabilities and contingent assets.

IAS 38 Intangible Assets

In July 1998, the IASC issued IAS 38 Intangible Assets, which the Group adopted prospectively as of 1 January 2000. The standard requires the capitalization and amortization of certain intangible assets, if it is probable that the future economic benefits that are attributable to the assets will flow to the enterprise and the cost can be measured reliably.

IAS 10 (revised), Events after the Balance Sheet Date

In May 1999, the IASC issued IAS 10 (revised), Events after the Balance Sheet Date, which has been adopted for the Group’s financial state-

ments as of 1 January 2000. IAS 10 (revised) establishes requirements for the recognition and disclosure of events after the balance sheet date. The adoption of IAS 10 (revised) had no impact on any comparative financial information.

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

In May 1999, the IASC issued Interpretation SIC 16, Share Capital – Reacquired Own Equity Instruments (Treasury Shares), which the Group adopted as of 1 January 2000. The interpretation provides guidance for the recognition, presentation and disclosure of treasury shares. SIC 16 applies to own shares and derivatives on own shares held for trading and non-trading purposes. SIC 16 requires own shares and derivatives on own shares to be presented as treasury shares and deducted from shareholders’ equity. Gains and losses relating to the sale of own shares are recognized as a change in shareholders’ equity.

As a result of the adoption of Interpretation SIC 16, financial information has been retroactively restated. Net trading income was increased by CHF 11 million for the quarter ended 30 September 1999 and was decreased by CHF 127 million for the nine-month period ended 30 September 1999. Shareholders’ equity and total assets were reduced by CHF 4,227 million as of 31 December 1999 and CHF 3,601 million as of December 1998.

Offsetting of Amounts Related to Certain Contracts

In order to improve comparability with its main competitors, the Group has offset positive and negative replacement values and reverse repurchase agreements and repurchase agreements with the same counter-party for transactions covered by legally enforceable master netting agreements. This change became effective as of 1 January 2000 and all prior periods represented have been restated. Positive and negative replacement values have been reduced by CHF 66,136 million for the year ended 31 December 1999. Reverse repurchase and repurchase agreements have been reduced by CHF 12,322 million for the year ended 31 December 1999.

Interest and Dividend Income on Trading Assets
In prior periods, interest and dividend income and expense on trading assets and liabilities were

included in Net trading income. In order to improve comparability with its main competitors, the Group has included interest and dividend income and expense on trading assets and liabilities in Interest income and interest expense respectively. This change in presentation became effective 1 January 2000. The comparative financial information for 1999 has been restated to comply with this change.

Interest income was increased by CHF 4,563 million and CHF 12,707 million for the quarter ended 30 September 1999 and the nine-month period ended 30 September 1999 respectively. Interest expense was increased by CHF 4,622

million and CHF 13,378 million for the quarter ended 30 September 1999 and the nine-month period ended 30 September 1999 respectively. In addition, net trading income was increased by CHF 59 million and CHF 671 million for the quarter ended 30 September 1999 and nine-month period ended 30 September 1999 respectively.

Tax expense

In prior periods, capital taxes were included in Tax expense. Capital taxes have been reclassified from Tax expense to General and administrative expenses for all prior periods presented.

Note 2 Reporting by Business Group

The Business Group results have been presented on a management reporting basis. Consequently, internal charges and transfer pricing adjustments have been reflected in the performance of each business. The basis of the reporting reflects the management of the business within the Group. Total revenue includes income, which is directly attributable to a Business Group whether from sales to external customers or from transactions with other segments. Revenue sharing agreements are used to allocate external customer revenues to a Business Group on a reasonable basis. Transactions between Business Groups are conducted at arms length.

For the nine-month period ended 30 September 2000

<i>CHF million</i>	UBS Switzerland	UBS Asset Management	UBS Warburg	Corporate Center	UBS Group
Revenues	10,685	1,465	14,653	74	26,877
Credit loss recovery ¹	(606)	0	(164)	995	225
Total operating income	10,079	1,465	14,489	1,069	27,102
Personnel expenses	3,634	646	8,070	389	12,739
General and administrative expenses	1,700	301	2,202	474	4,677
Depreciation	344	34	431	213	1,022
Amortization of goodwill and other intangible assets	52	198	118	33	401
Total operating expenses	5,730	1,179	10,821	1,109	18,839
Business Group performance before tax	4,349	286	3,668	(40)	8,263
Tax expense					1,878
Net profit before minority interests					6,385
Minority interests					(42)
Net profit					6,343

¹ In order to show the relevant Business Group performance over time, adjusted expected loss figures rather than the net credit expense / recovery are reported for all Business Groups. 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 and the net IAS credit loss expenses recorded at Group level for financial reporting purposes is reported in the Corporate Center. The divisional breakdown of the net credit recovery / (expense) for financial reporting purposes of CHF 225 million for the nine-month period ended 30 September 2000 is as follows: UBS Switzerland CHF 543 million, UBS Warburg CHF (318) million.

For the nine-month period ended 30 September 1999²

<i>CHF million</i>	UBS Switzerland	UBS Asset Management	UBS Warburg	Corporate Center	UBS Group
Revenues	9,582	1,013	10,358	1,593	22,546
Credit loss expense ¹	(846)	0	(240)	176	(910)
Total operating income	8,736	1,013	10,118	1,769	21,636
Personnel expenses	3,539	406	5,786	192	9,923
General and administrative expenses	1,687	198	1,837	57	3,779
Depreciation	315	22	488	213	1,038
Amortization of goodwill and other intangible assets	18	83	118	33	252
Total operating expenses	5,559	709	8,229	495	14,992
Business Group performance before tax	3,177	304	1,889	1,274	6,644
Tax expense					1,525
Net profit before minority interests					5,119
Minority interests					(35)
Net profit					5,084

¹ In order to show the relevant Business Group performance over time, adjusted expected loss figures rather than the net credit loss expense are reported for all Business Groups. 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 and the net credit loss expenses recorded at Group level 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 910 million for the nine-month period ended 30 September 1999 is as follows: UBS Switzerland CHF 907 million, UBS Warburg CHF 4 million, Corporate Center CHF (1) million. ² The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting).

Note 3 Net Interest Income

<i>CHF million</i>	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Interest income							
Interest earned on loans and advances to banks	1,507	987	1,692	53	(11)	3,586	4,159
Interest earned on loans and advances to customers	3,913	3,790	3,053	3	28	11,066	8,692
Interest from finance leasing	11	8	13	38	(15)	30	36
Interest earned on securities borrowed and reverse repurchase agreements	4,396	4,929	2,984	(11)	47	13,415	8,376
Interest and dividend income from financial investments	39	60	42	(35)	(7)	139	108
Interest and dividend income from trading portfolio	2,554	2,813	1,514	(9)	69	8,130	4,136
Other	60	95	55	(37)	9	193	139
Total	12,480	12,682	9,353	(2)	33	36,559	25,646
Interest expense							
Interest on amounts due to banks	1,415	1,130	1,781	25	(21)	3,645	3,476
Interest on amounts due to customers	2,692	2,269	2,109	19	28	7,145	6,169
Interest on securities lent and repurchase agreements	3,533	3,638	2,158	(3)	64	10,240	6,376
Interest and dividend expense from trading portfolio	1,136	1,435	507	(21)	124	3,860	1,585
Interest on medium and long-term debt	1,873	1,973	1,385	(5)	35	5,512	3,874
Total	10,649	10,445	7,940	2	34	30,402	21,480
Net interest income	1,831	2,237	1,413	(18)	30	6,157	4,166

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting).

Note 4 Net Fee and Commission Income

CHF million	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99	2Q00	3Q99	30.9.00	30.9.99
Credit-related fees and commissions	69	65	85	6	(19)	214	300
Security trading and investment activity fees							
Underwriting fees ¹	364	371	220	(2)	65	954	598
Corporate finance fees ¹	403	444	236	(9)	71	1,164	859
Brokerage fees	1,261	1,257	928	0	36	4,240	2,810
Investment fund fees	641	658	480	(3)	34	2,001	1,405
Fiduciary fees	86	86	81	0	6	261	243
Custodian fees	349	373	490	(6)	(29)	1,075	1,278
Portfolio and other management and advisory fees ¹	890	809	594	10	50	2,521	1,895
Other	15	4	22	275	(32)	44	75
Total	4,009	4,002	3,051	0	31	12,260	9,163
Commission income from other services	176	188	208	(6)	(15)	567	575
Total fee and commission income	4,254	4,255	3,344	0	27	13,041	10,038
Fee and commission expense							
Brokerage fees paid	244	266	208	(8)	17	826	567
Other	145	233	70	(38)	107	515	221
Total	389	499	278	(22)	40	1,341	788
Net fee and commission income	3,865	3,756	3,066	3	26	11,700	9,250

¹ In prior periods, corporate finance related advisory fees were included in Portfolio and other management and advisory fees. These fees are now reported in the new disclosure line Corporate finance fees together with merger and acquisition fees which were previously reported in Underwriting and corporate finance fees. All prior periods have been restated accordingly.

Note 5 Net Trading Income

CHF million	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Foreign exchange ²	255	397	174	(36)	47	935	892
Fixed income	101	440	725	(77)	(86)	744	2,028
Equities	2,012	1,854	1,198	9	68	6,358	3,637
Net trading income	2,368	2,691	2,097	(12)	13	8,037	6,557
Trading related net interest ³	2,281	2,669	1,833	(15)	24	7,445	4,551
Combined total	4,649	5,360	3,930	(13)	18	15,482	11,108

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² Includes other trading income such as banknotes, precious metals and commodities. ³ Includes Net interest and dividend income from trading portfolio and Net interest income on securities borrowed and lent and repurchase and reverse repurchase agreements, which are included in Net interest income (Note 3).

Note 6 Other Income

CHF million	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99	2Q00	3Q99	30.9.00	30.9.99
Investments in financial assets (debt and equity)							
Net income from disposal of private equity investments	161	214	143	(25)	13	572	293
Net income from disposal of other financial assets	13	77	60	(83)	(78)	97	90
Net loss from revaluation of financial assets	(33)	(198)	(27)	83	(22)	(251)	(47)
Total	141	93	176	52	(20)	418	336
Investments in property							
Net income from disposal of properties held for resale	7	14	20	(50)	(65)	44	56
Net loss from revaluation of properties held for resale	(7)	(60)	(10)	88	30	(73)	(19)
Net income from other properties	32	21	18	52	78	60	51
Total	32	(25)	28	228	14	31	88
Equity income from investments in associates	11	48	23	(77)	(52)	70	125
Other	155	171	12	(9)	-	441	252
Total other income	339	287	239	18	42	960	801

Note 7 Operating Expenses

CHF million	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99	2Q00	3Q99	30.9.00	30.9.99
Personnel expenses							
Salaries and bonuses	3,025	3,553	2,300	(15)	32	10,295	7,672
Contractors	184	166	223	11	(17)	519	609
Insurance and social contributions	217	225	190	(4)	14	707	562
Contribution to retirement benefit plans	125	118	95	6	32	363	337
Employee share plans	24	21	22	14	9	65	131
Other personnel expenses	288	271	274	6	5	790	612
Total	3,863	4,354	3,104	(11)	24	12,739	9,923
General and administrative expenses							
Occupancy	211	243	199	(13)	6	685	599
Rent and maintenance of machines and equipment	100	136	93	(26)	8	356	216
Telecommunications and postage	214	218	177	(2)	21	626	548
Administration	165	175	139	(6)	19	523	476
Marketing and public relations	106	138	85	(23)	25	315	192
Travel and entertainment	144	155	132	(7)	9	436	379
Professional fees	141	155	34	(9)	315	419	331
IT and other outsourcing	293	258	506	14	(42)	857	905
Other	129	265	26	(51)	396	460	133
Total	1,503	1,743	1,391	(14)	8	4,677	3,779
Depreciation and amortization							
Property, equipment and software	350	324	345	8	1	1,022	1,038
Goodwill and other intangible assets	126	127	81	(1)	56	401	252
Total	476	451	426	6	12	1,423	1,290
Total operating expenses	5,842	6,548	4,921	(11)	19	18,839	14,992

Note 8 Earnings per Share

CHF million	Quarter ended			% change from		Year-to-date	
	30.9.00	30.6.00	30.9.99 ¹	2Q00	3Q99	30.9.00	30.9.99 ¹
Basic earnings per share calculation							
Net profit for the period (CHF million)	2,075	2,052	1,225	1	69	6,343	5,084
Net profit for the period before goodwill amortization (CHF million) ²	2,201	2,179	1,306	1	69	6,744	5,336
Weighted average shares outstanding:							
Registered ordinary shares	431,697,293	431,328,220	430,578,326	0	0	431,330,568	430,434,800
Treasury shares	(28,873,507)	(40,080,525)	(31,738,941)	28	9	(36,248,750)	(23,077,197) ³
Weighted average shares for basic earnings per share	402,823,786	391,247,695	398,839,385	3	1	395,081,818	407,357,603
Basic earnings per share (CHF)	5.15	5.24	3.07	(2)	68	16.05	12.48
Basic earnings per share before goodwill amortization (CHF)²	5.46	5.57	3.27	(2)	67	17.07	13.10
Diluted earnings per share calculation							
Net profit for the period (CHF million)	2,075	2,052	1,225	1	69	6,343	5,084
Net profit for the period before goodwill amortization (CHF million) ²	2,201	2,179	1,306	1	69	6,744	5,336
Weighted average shares for basic earnings per share	402,823,786	391,247,695	398,839,385	3	1	395,081,818	407,357,603
Potential dilutive ordinary shares resulting from outstanding options, warrants and convertible debt securities	4,613,913	4,405,372	2,174,302	5	112	4,338,966	3,184,624 ⁴
Weighted average shares for diluted earnings per share	407,437,699	395,653,067	401,013,687	3	2	399,420,784	410,542,227
Diluted earnings per share (CHF)	5.09	5.19	3.05	(2)	67	15.88	12.38
Diluted earnings per share before goodwill amortization (CHF)²	5.40	5.51	3.26	(2)	66	16.88	13.00

¹ The 1999 figures have been restated to reflect retroactive changes in accounting policy arising from newly applicable International Accounting Standards and changes in presentation (see Note 1: Basis of Accounting). ² The amortization of goodwill and other purchased intangible assets is excluded from this calculation. ³ Treasury shares have increased by 9,290,451 for the period ended 30 September 1999, due to a change in accounting policy (see Note 1: Basis of Accounting). ⁴ Share amount has been adjusted by 907,360 representing other potentially dilutive instruments for the period ended 30 September 1999, due to a change in accounting policy (see Note 1: Basis of Accounting).

1999 share figures are restated for the two-for-one share split, effective 8 May 2000.

Note 9 Significant Currency Translation Rates

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

	Spot rate			Average rate		
	As of	As of		Year-to-date		
	30.9.00	30.6.00	31.12.99	30.9.00	30.6.00	30.9.99
1 USD	1.73	1.63	1.59	1.67	1.66	1.48
1 EUR	1.52	1.56	1.61	1.57	1.59	1.60
1 GBP	2.53	2.48	2.58	2.58	2.61	2.40
100 JPY	1.60	1.55	1.56	1.57	1.56	1.28

Note 10 Post Balance Sheet Date Events

On 3 November 2000, the previously announced merger with PaineWebber Group Inc. was completed for a total consideration of CHF 20.8 billion.



UBS

Explanatory Note

The following substitute pages relate to the prospectus covering the preferred trust securities. These pages will replace the corresponding pages of the first prospectus contained in this registration statement.



**\$195,000,000 of 8.30% Preferred Trust Securities
PWG Capital Trust I**

**\$198,750,000 of 8.08% Preferred Trust Securities
PWG Capital Trust II**

fully and unconditionally guaranteed, to the extent described in this prospectus, by

**UBS Americas Inc.
UBS AG**

This prospectus relates to outstanding preferred trust securities that were issued in 1996 and 1997 by two trusts, PWG Capital Trust I and PWG Capital Trust II. The preferred trust securities issued by PWG Capital Trust I are the 8.30% Preferred Trust Securities. The preferred trust securities issued by PWG Capital Trust II are the 8.08% Preferred Trust Securities. Each series of preferred trust securities represents preferred undivided beneficial interests in the assets of its issuer. Each trust exists for the sole purpose of issuing its preferred trust securities and the related common trust securities, and investing the proceeds of those securities in junior subordinated debentures of Paine Webber Group Inc. Paine Webber Group Inc. provided a full and unconditional guarantee, to the extent described in this prospectus, of the obligations of each trust under its preferred trust securities.

Both series of preferred trust securities are listed on the New York Stock Exchange. The 8.30% Preferred Trust Securities of PWG Capital Trust I are listed under the symbol "PWJ PrA." The 8.08% Preferred Trust Securities of PWG Capital Trust II are listed under the symbol "PWJ PrB."

Both of the trusts were subsidiaries of Paine Webber Group Inc. On 3 November 2000, Paine Webber Group Inc. merged with UBS Americas Inc., and UBS Americas survived that merger. As a result, the two trusts are now subsidiaries of UBS Americas. In addition, UBS Americas became the guarantor of the preferred trust securities.

UBS Americas is a wholly owned subsidiary of UBS AG. Following the merger of UBS Americas and Paine Webber Group, UBS AG issued its guarantee of the payment obligations of UBS Americas under the agreements that make up UBS Americas' guarantee of the preferred trust securities. Under this guarantee, UBS AG has fully and unconditionally guaranteed these obligations of UBS Americas. However, the obligations of UBS AG under its guarantee are subordinated as well, as described in this prospectus.

See "Risk Factors" beginning on page 8 for a discussion of some of the risks that should be considered before purchasing preferred trust securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The securities are not deposit liabilities of UBS AG and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency of the United States, Switzerland or any other jurisdiction.

This prospectus is to be used by UBS AG, UBS Warburg LLC, PaineWebber Incorporated and other affiliates of UBS AG in connection with offers and sales of the securities when UBS and those affiliates engage in market-making transactions. These transactions may be executed at negotiated prices that are related to market prices at the time of purchase or sale, or at other prices. UBS AG and its affiliates may act as principal or agent in these transactions. No new securities are offered.

UBS Warburg LLC

PaineWebber Incorporated

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Prospectus Summary

The following summary does not contain all the information that may be important to you. You should read the entire prospectus before making an investment decision.

UBS AG

UBS AG is a global, integrated investment services firm and the leading bank in Switzerland. UBS's business is managed through three main business groups and its Corporate Center. The business groups are: UBS Switzerland, UBS Warburg and UBS Asset Management. UBS's clients include international corporations, small- and medium-sized businesses in Switzerland, governments and other public bodies, financial institutions, market participants and individuals. UBS AG's ordinary shares are listed on the New York Stock Exchange under the symbol "UBS.N," on the Zurich Stock Exchange under the symbol "USBZn.S" and on the Tokyo Stock Exchange under the symbol "UBS.T."

On 3 November 2000, UBS acquired Paine Webber Group Inc., one of the largest full-service securities and commodities firms in the United States. UBS purchased all outstanding shares of PaineWebber stock for a combination of cash and stock representing a total purchase price of \$11.8 billion (based on the UBS share price on 3 November 2000).

The principal executive offices of UBS AG are located at Bahnhofstrasse 45, Zurich, Switzerland and Aeschenvorstadt 1, Basel, Switzerland. Its telephone numbers are 011-41-1-234-11-11 and 011-41-61-288-20-20.

UBS Americas

UBS Americas Inc. is the successor by merger to Paine Webber Group Inc. Paine Webber Group Inc. was the holding company for the PaineWebber group of companies. UBS Americas is a direct, wholly owned subsidiary of UBS AG.

The Trusts

Each trust is a business trust formed under the Delaware Business Trust Act under a declaration of trust among the trustees of that trust and UBS Americas. Each trust's primary governing document is its declaration of trust, which was completely amended and restated on the date its preferred trust securities were initially issued. The amended and restated declaration of trust of each trust is called the trust's "declaration." Each declaration is qualified under the Trust Indenture Act of 1939. The rights of the Holders of the trust securities, including economic rights, rights to information and voting rights, are as set forth in the applicable declaration, the Business Trust Act and the Trust Indenture Act. UBS Americas holds all the issued and outstanding common trust securities of each trust.

Each trust exists solely for the purpose of:

- issuing its trust securities for cash,
- investing the proceeds in an equivalent amount of junior subordinated debentures, and
- engaging in such other activities as are necessary, convenient or incidental to these activities.

The Offering

The Securities 7,000,000 8.30% Preferred Trust Securities of PWG Capital Trust I.

7,000,000 8.08% Preferred Trust Securities of PWG Capital Trust II.

The terms of each series of preferred trust securities correspond to the terms of the junior subordinated debentures held by the relevant trust. Each trust’s ability to make distributions and other payments on its preferred trust securities is solely dependent upon UBS Americas’ making payments on the junior subordinated debentures held by the trust as and when required.

Liquidation Amount The liquidation amount of the 8.30% Preferred Trust Securities of PWG Capital Trust I is \$25 per security.

The liquidation amount of the 8.08% Preferred Trust Securities of PWG Capital Trust II is \$25 per security.

Offering Price Negotiated prices that are related to market prices at the time of purchase or sale, or at other prices.

Distributions Holders of the 8.30% Preferred Trust Securities of PWG Capital Trust I will be entitled to receive cumulative cash distributions at an annual rate of 8.30% of the stated liquidation amount of \$25 per preferred trust security. These distributions are payable monthly, in arrears, on the first day of each month.

Holders of the 8.08% Preferred Trust Securities of PWG Capital Trust II will be entitled to receive cumulative cash distributions at an annual rate of 8.08% of the stated liquidation amount of \$25 per preferred trust security. These distributions are payable monthly, in arrears, on the first day of each month.

Extension Periods..... UBS Americas has the right to defer payments of interest on either series of the junior subordinated debentures for a period of not more than five years. No interest will be due and payable on the junior subordinated debentures during an extension period and, as a result, distributions on the trust securities will also be deferred.

At the end of the extension period, UBS Americas will be required to pay all accrued interest on the affected series of junior subordinated debentures, together with interest on that accrued interest at the rate applicable to those junior subordinated debentures to the extent permitted by applicable law, compounded monthly.

UBS Americas has the right to select an extension period as many times as it wishes during the life of the junior subordinated debentures. There could be multiple extension periods of varying lengths throughout the term of either series of junior subordinated debentures.

Ranking	See “Risk Factors—Option to Extend Interest Payment Period,” “—Tax Impact of Extension,” “Description of Securities—Description of the Junior Subordinated Debentures—General” and “—Description of the Junior Subordinated Debentures—Option to Extend Interest Payment Period.”
Redemption	<p>The preferred trust securities and the common trust securities of each trust rank equally with each other and have equivalent terms. However,</p> <ul style="list-style-type: none"> • If an event of default (as defined below) under the declaration of trust of the issuing trust occurs and continues, the Holders of the preferred trust securities of that trust will have a priority over the Holders of the common trust securities of that trust with respect to payments on those preferred trust securities. • Holders of the common securities of each trust have the exclusive right (subject to the terms of the trust’s declaration of trust) to appoint, replace or remove trustees for the issuing trust and to increase or decrease the number of trustees. <p>The preferred trust securities of each trust will be redeemed when the junior subordinated debentures of that trust mature or are redeemed.</p> <p>The junior subordinated debentures held by PWG Capital Trust I will mature on 1 December 2036. UBS Americas may redeem the junior subordinated debentures held by PWG Capital Trust I, either as a whole or in part, at any time after 30 November 2001.</p> <p>The junior subordinated debentures held by PWG Capital Trust II will mature on 1 March 2037. UBS Americas may redeem the junior subordinated debentures held by PWG Capital Trust II, either as a whole or in part, at any time after 28 February 2002.</p> <p>In addition, UBS Americas can redeem the junior subordinated debentures of either trust at any time if a “Tax Event,” as described below, occurs.</p> <p>If UBS Americas redeems any junior subordinated debentures, the trust that holds those junior subordinated debentures must redeem a corresponding amount of its trust securities. The redemption price will be equal to the liquidation amount of the trust security plus any accrued and unpaid distributions to the date fixed for redemption. See “Description of Securities—Description of the Preferred Trust Securities—Redemption of Trust Securities.”</p>
Distribution of Junior Subordinated Debentures	If a trust is dissolved, the junior subordinated debentures held by that trust will be distributed to the holders of that trust’s trust securities, <i>pro rata</i> . UBS Americas Inc. will have

the right to liquidate each trust if there is a “Special Event,” as described below, as a result of a change in law or a change in legal interpretation.

However, if the Special Event is a Tax Event, UBS Americas may have the right to redeem the junior subordinated debentures, which would result in the redemption of the trust securities as described above.

If the junior subordinated debentures are distributed to the Holders of the preferred trust securities, UBS Americas will use its best efforts to have the junior subordinated debentures listed on the New York Stock Exchange, or on whatever exchange that then lists the preferred trust securities. See “Description of Securities—Description of the Preferred Trust Securities—Special Event Redemption or Distribution” and “—Description of the Junior Subordinated Debentures.”

The UBS Americas Guarantee

UBS Americas has guaranteed the payment of distributions by each trust out of the moneys held by the property trustee of that trust, as well as payments upon liquidation of the trust and on redemption of the preferred trust securities. We call these guarantees by UBS Americas the “preferred trust securities guarantees.”

The preferred trust securities guarantees cover payments of distributions and other payments on the preferred trust securities only to the extent that the issuing trust has funds available for the payment. As a result, UBS Americas Inc. will only be required to make payments under the preferred trust securities guarantees if it has already made interest, principal or other payments to the issuing trust on the junior subordinated debentures held by that trust.

The preferred trust securities guarantees, when taken together with UBS Americas’ obligations under the junior subordinated debentures, the indenture relating to the junior subordinated debentures and each trust’s declaration of trust, provide a full and unconditional guarantee of the amounts due on the preferred trust securities. However, the obligations of UBS Americas under the junior subordinated debentures are subordinate to all of UBS Americas’ Senior Indebtedness. Similarly, the obligations of UBS Americas under the preferred trust securities guarantee are subordinate to all other indebtedness, liabilities and obligations of UBS Americas and any guarantees or other contingent obligations of UBS Americas, including the junior subordinated debentures. Because UBS Americas is a holding company, its obligations under the junior subordinated debentures and the preferred trust securities guarantee are also effectively subordinated to all existing and future liabilities, including trade payables, of UBS Americas’ subsidiaries, except to the extent that UBS Americas is a creditor of the subsidiaries and its claims are recognized.

The UBS AG Guarantee UBS AG has issued its full and unconditional guarantee of the obligations of UBS Americas under the junior subordinated debentures, the preferred trust securities guarantees, and the obligations of UBS Americas under the declarations of trust. However, UBS AG’s obligations under this guarantee are subordinate to all other indebtedness, liabilities and obligations of UBS AG and any guarantees or other contingent obligations of UBS AG.

Market for the Preferred Trust Securities Both series of preferred trust securities are listed on the New York Stock Exchange. The 8.30% Preferred Trust Securities of PWG Capital Trust I are listed under the symbol “PWJ PrA.” The 8.08% Preferred Trust Securities of PWG Capital Trust II are listed under the symbol “PWJ PrB.”

UBS Warburg LLC and PaineWebber Incorporated currently make a market in the preferred trust securities. However, they are not required to, and they can stop doing so at any time without notice. As a result, there is no assurance as to the liquidity of any market for the preferred trust securities.

Use of Proceeds All of the sales of preferred trust securities under this prospectus will be market-making transactions—that is, transactions in which UBS AG, UBS Warburg LLC, PaineWebber Incorporated, or one of UBS AG’s other affiliates, resells securities that the seller, or one of its affiliates, has previously bought from another party. Neither UBS Americas nor the issuing trust will receive any proceeds from these resales of the preferred trust securities. In general, we expect that the entity that resells any particular preferred trust securities will retain the proceeds of their market-making resales and will not pay the proceeds to UBS Americas, the issuing trust or, if the resales are not made by UBS AG, to UBS AG.

Plan of Distribution This prospectus relates to market-making transactions in the preferred trust securities by UBS AG and its affiliates. The affiliates that may engage in these transactions include, but are not limited to, UBS AG itself, UBS Warburg LLC and PaineWebber Incorporated. These transactions may be executed at negotiated prices that are related to market prices at the time of purchase or sale, or at other prices. UBS AG and its affiliates may act as principal or agent in these transactions. No new securities are offered.

Risk Factors

As used in this prospectus, “trust securities” means the common trust securities and the preferred trust securities of the relevant PWG Capital Trust. “The trust” refers to the relevant PWG Capital Trust.

If you are considering purchasing preferred trust securities, you should carefully review the information contained in this prospectus. You should pay special attention to the following matters:

UBS Americas’ Obligations under the preferred trust securities guarantees and junior subordinated debentures, and UBS AG’s obligations under its guarantee, are deeply subordinated

UBS Americas’ obligations under the junior subordinated debentures are unsecured obligations and are subordinate to all Senior Indebtedness of UBS Americas. “Senior Indebtedness” generally consists of any indebtedness, liabilities or obligations of UBS Americas, contingent or otherwise, other than the preferred trust securities guarantee and any other guarantees. Similarly, UBS Americas’ obligations under the preferred trust securities guarantees are also unsecured and are subordinate to all other indebtedness, liabilities and obligations of UBS Americas and any guarantees, endorsements or other contingent obligations of UBS Americas in respect of any indebtedness, liabilities or obligations, including the junior subordinated debentures and any other series of junior subordinated debentures, except those made *pari passu* or subordinate by their terms. Because UBS Americas is a holding company, the junior subordinated debentures and UBS Americas’ obligations under the preferred trust securities guarantee are also effectively subordinated to all existing and future liabilities, including trade payables, of UBS Americas’ subsidiaries, except to the extent that UBS Americas is a creditor of the subsidiaries and its claims are recognized.

UBS AG’s obligations under its guarantee are also subordinate to all of UBS AG’s other indebtedness, liabilities and obligations and any guarantees or other contingent obligations of UBS AG.

There are no terms in the preferred trust securities that limit UBS Americas’ or UBS AG’s ability to incur additional indebtedness, including indebtedness that ranks senior to or equally with the junior subordinated debentures and the guarantees of UBS Americas and UBS AG, or the ability of their subsidiaries to incur additional indebtedness. As of 30 November 2000, the amount of senior liabilities of UBS AG to which the Holders of the trust preferred securities would be subordinated under the UBS guarantee would be approximately CHF 590 billion. The Holders would also be structurally subordinated to all liabilities of UBS AG’s subsidiaries.

Dependence on UBS Americas

The trust’s ability to make distributions and other payments on the preferred trust securities is solely dependent upon UBS Americas making interest and other payments on the junior subordinated debentures deposited in the trust as trust assets as and when required, or UBS AG doing so on its behalf under the relevant UBS AG guarantee. If UBS Americas does not make distributions or other payments on the junior subordinated debentures for any reason, including as a result of UBS Americas’ election to defer the payment of interest on the junior subordinate debentures by extending the interest payment period for the junior subordinated debentures, the trust will not make payments on the trust securities. In such an event, Holders of the preferred trust securities cannot rely on the relevant preferred trust securities guarantee, since distributions and other payments on the preferred trust securities are subject to the preferred trust securities guarantee only to the extent that UBS Americas (or UBS AG under the relevant UBS AG guarantee) has made a payment to the property trustee on the junior subordinated debentures deposited in the trust as trust assets. Instead, Holders of preferred trust securities would rely on the enforcement (i) by the property trustee of its rights as registered Holder of

Risk Factors

the junior subordinated debentures against UBS Americas under the terms of the indenture (or UBS AG under the relevant UBS AG guarantee) or (ii) by such Holder of preferred trust securities of its right against UBS Americas to directly enforce payments of principal and interest on certain junior subordinated debentures (or UBS AG under the relevant UBS AG guarantee). However, if the trust's failure to make distributions on the preferred trust securities is a consequence of UBS Americas' exercise of its right to extend the interest payment period for the junior subordinated debentures, neither the property trustee nor any Holder of preferred trust securities has any right to enforce the payment of distributions on the preferred trust securities until an event of default under the declaration occurs. UBS Americas' obligations under the preferred trust securities guarantees are subordinate to all other indebtedness, liabilities and obligations of UBS Americas and any guarantee or other contingent obligations of UBS Americas, including the junior subordinated debentures, except those made *pari passu* or subordinate by their terms to the preferred trust securities guarantee relating to the junior subordinated debentures. The declaration of each trust provides that each Holder of preferred trust securities of that trust, by accepting the security, agrees to the provisions of the related preferred trust securities guarantee, including its subordination provision, and of the indenture relating to the junior subordinated debentures.

Each declaration provides that UBS Americas will pay for all debts and obligations (other than with respect to the trust securities) and all costs and expenses of the relevant trust, including any taxes and all costs and expenses, to which the trust may become subject, except for United States withholding taxes. UBS AG has guaranteed UBS Americas' obligation to make these payments. We cannot assure you that UBS Americas or UBS AG will have sufficient resources to enable it to pay such debts, obligations, costs and expenses on behalf of the trust.

If an event of default occurs and is continuing with respect to a trust, then the Holders of the trust's preferred trust securities would rely on the property trustee to enforce its rights as a Holder of the junior subordinated debentures against UBS Americas. In addition, the Holders of a majority in liquidation amount of the preferred trust securities have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the property trustee or to direct the exercise of any trust or power conferred upon the property trustee under the declaration, including the right to direct the property trustee to exercise the remedies available to it as a Holder of the junior subordinated debentures. If the property trustee fails to enforce its rights under the junior subordinated debentures, any Holder of preferred trust securities may, to the extent permitted by applicable law, after a period of 30 days has elapsed from such Holder's written request, directly institute a legal proceeding against UBS Americas to enforce the property trustee's rights under the junior subordinated debentures without first instituting any legal proceeding against the property trustee or any other person or entity. If an event of default occurs and is continuing and the event is attributable to the failure of UBS Americas to pay interest or principal on the junior subordinated debentures on the date such interest or principal is otherwise payable (or in the case of redemption, on the redemption date), then a Holder of preferred trust securities may also directly institute a proceeding for enforcement of payment to such Holder of the principal of or interest on junior subordinated debentures having a principal amount equal to the aggregate liquidation amount of the preferred trust securities held by such Holder on or after the respective due date specified in the junior subordinated debentures without first (i) directing the property trustee to enforce the terms of the junior subordinated debentures or (ii) instituting a legal proceeding against UBS Americas to enforce the property trustee's rights under the junior subordinated debentures. In connection with such direct action, UBS Americas will be subrogated to the rights of such Holder of preferred trust securities under the declaration to the extent of any payment made by UBS Americas to such Holder of preferred trust securities in such direct action. The Holders of preferred trust securities cannot exercise directly any other remedy available to the Holders of the junior subordinated debentures unless the property trustee first fails to do so.

Option to Extend Interest Payment Period

So long as UBS Americas is not in default in the payment of interest on the junior subordinated debentures, UBS Americas can defer payments of interest on the junior subordinated debentures by extending the interest payment period on the junior subordinated debentures. No extension may exceed five years. During the extension period, no interest is due and payable. If this occurs, monthly distributions on the preferred trust securities will not be made by the trust during the extension period, but distributions would continue to accrue with interest at the relevant rate of interest per annum, compounded monthly. If UBS Americas exercises the right to extend an interest payment period, UBS Americas generally may not declare or pay dividends on, or redeem, purchase, acquire or make a distribution or liquidation payment with respect to any of its common stock or preferred stock or make any payments on guarantee with respect thereto during the extension period. However, the foregoing restrictions do not apply to (i) dividends, redemptions, purchases, acquisitions, distributions or payments made by UBS Americas by way of issuance of shares of its capital stock, (ii) payments of accrued dividends by UBS Americas upon the redemption, exchange or conversion of any preferred stock of UBS Americas, or (iii) cash payments made by UBS Americas in lieu of delivering fractional shares upon the redemption, exchange or conversion of any preferred stock of UBS Americas. See “Description of Securities—Description of the Junior Subordinated Debentures—Option to Extend Interest Payment Period” for a description of certain related terms of the outstanding preferred stock of UBS Americas.

UBS Americas may further extend an extension period before the end of extension period, so long as the total of all extension periods does not exceed five years. Upon the termination of any extension period and the payment of all amounts then due, UBS Americas may commence a new extension period, subject to the above requirements. UBS Americas may also prepay at any time all or any portion of the interest accrued during an extension period. Consequently, there could be multiple extension periods of varying lengths throughout the term of the junior subordinated debentures. See “Description of Securities—Description of the Preferred Trust Securities—Distributions” and “Description of Securities—Description of the Junior Subordinated Debentures—Option to Extend Interest Payment Period.”

Tax Impact of Extension

If an extension period occurs, the junior subordinated debentures would be considered to have original issue discount for U.S. Federal income tax purposes at all times after the beginning of the first extension period, including after the termination of the extension period. During such times, each Holder, whether on the cash or accrual method of accounting, would be required to include its *pro rata* share of original issue discount into income as it accrues, even though no cash would be distributed during the extension period. Even before the beginning of the first extension period, while UBS Americas will take the position that original issue discount does not arise, it is possible that all income on the junior subordinated debentures would be accounted for as original issue discount, and stated interest would not separately be reported as taxable income. UBS Americas has no current intention of exercising its option to defer payments of interest. See “Taxation—Interest and Original Issue Discount.”

Special Event Redemption or Distribution

If a Tax Event or Investment Company Event (each as defined under “Description of Securities—Description of the Preferred Trust Securities—Special Event Redemption or Distribution” below) occurs and is continuing, the trust will be dissolved, unless the junior subordinated debentures are redeemed instead. As a result, junior subordinated debentures having an aggregate principal amount equal to the aggregate stated liquidation amount of the preferred trust securities and the common trust securities

Risk Factors

would be distributed *pro rata* to the Holders of the preferred trust securities and the common trust securities in liquidation of the trust. This process is described in “Description of Securities—Description of the Preferred Trust Securities—Liquidation Distribution Upon Dissolution.”

There can be no assurance as to the market prices for preferred trust securities or the junior subordinated debentures that may be distributed in exchange for preferred trust securities if a dissolution and liquidation of the trust occurs. Accordingly, the preferred trust securities that you may purchase, or the junior subordinated debentures that you may receive on dissolution and liquidation of the trust, may trade at a discount to the price that you paid to purchase the preferred trust securities. Because Holders of preferred trust securities may receive junior subordinated debentures upon the occurrence of a Special Event, if you are considering purchasing preferred trust securities you are also making an investment decision with regard to the junior subordinated debentures and should review carefully all the information regarding the junior subordinated debentures contained below. See “Description of Securities—Description of the Preferred Trust Securities—Special Event Redemption or Distribution” and “Description of Securities—Description of the Junior Subordinated Debentures—General.”

Under current United States Federal income tax law, a distribution of the junior subordinated debentures upon a Tax Event under certain circumstances may be a taxable event to Holders of the preferred trust securities. See “Taxation—Distribution of Junior Subordinated Debentures to Holders of Preferred Trust Securities.” An Investment Company Event would not be a taxable event to Holding of the preferred trust securities under current United States Federal income tax law.

Limited Voting Rights

Holders of preferred trust securities have limited voting rights, but are not able to appoint, remove or replace, or to increase or decrease the number of, trustees. These rights are held exclusively by the Holder of the common trust securities.

Listing of Preferred Trust Securities

The preferred trust securities are listed on the NYSE. However, there can be no assurance that an active market for the preferred trust securities will be sustained in the future on the NYSE. Although UBS Warburg LLC and PaineWebber Incorporated have indicated to UBS Americas and the trusts that they intend to make a market in the preferred trust securities as permitted by applicable laws and regulations, they are not obligated to do so and may discontinue any such market-making at any time without notice. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the preferred trust securities.

Trading Prices

The preferred trust securities may trade at a price that does not fully reflect the value of accrued but unpaid interest with respect to the underlying junior subordinated debentures. If you dispose of your preferred trust securities between record dates for payments of distributions, you will be required to include accrued but unpaid interest on the junior subordinated debentures through the date of disposition in income as ordinary income, and to add such amount to your adjusted tax basis in your *pro rata* share of the underlying junior subordinated debentures deemed disposed of. Accordingly, you will recognize a capital loss to the extent the selling price (which may not fully reflect the value of accrued but unpaid interest) is less than your adjusted tax basis (which will include accrued but unpaid interest). Subject to certain limited exceptions, capital losses cannot be applied to offset ordinary income for United States Federal income tax purposes. See “Taxation—Interest and Original Issue Discount” and “—Disposition of the Preferred Trust Securities.”

Potential Market Volatility During Extension Period

As described above, UBS Americas has the right to extend an interest payment period on the junior subordinated debentures from time to time for a period not exceeding five years. If UBS Americas extends an interest payment period, or if UBS Americas further extends an extension period or prepays interest accrued during an extension period as described above, the market price of the preferred trust securities is likely to be affected. In addition, as a result of such rights, the market price of the preferred trust securities (which represent an undivided interest in junior subordinated debentures) may be more volatile than other securities that do not have such rights. If you dispose of your preferred trust securities during an extension period, you may not receive the same return on your investment as a Holder that continues to hold its preferred trust securities. See “Description of Securities—Description of the Junior Subordinated Debentures—Option to Extend Interest Payment Period.”

Use of Proceeds

All of the sales of preferred trust securities under this prospectus will be market-making transactions—that is, transactions in which UBS AG, UBS Warburg LLC, PaineWebber Incorporated, or one of UBS AG’s other affiliates, resells securities that the seller, or one of its affiliates, has previously bought from another party. Neither UBS Americas nor the issuing trust will receive any proceeds from these resales of the preferred trust securities. In general, we expect that the entity that resells any particular preferred trust securities will retain the proceeds of its market-making resales and will not pay the proceeds to UBS Americas, the issuing trust or, if the resales are not made by UBS AG, to UBS AG.

Capitalization of UBS

The following table sets forth the consolidated capitalization of UBS in accordance with International Accounting Standards and translated into U.S. dollars, at the rate of CHF 1 = \$0.5532, the exchange rate as of 31 October 2000.

	As of 31 October 2000	
	CHF	U.S.\$
	(in millions)	
Debt		
Money market paper issued	66,811	36,960
Due to banks	103,370	57,184
Cash collateral on securities lent	21,416	11,847
Due to customers	298,839	165,318
Long-term debt	<u>50,670</u>	<u>28,031</u>
Total Debt	541,106	299,340
Minority Interest	3,134	1,734
Shareholders' Equity	<u>35,325</u>	<u>19,542</u>
Total Capitalization	<u>579,565</u>	<u>320,616</u>

None of the indebtedness listed above is secured.

PWG Capital Trust I and PWG Capital Trust II

Structure and Purpose of the Trusts

Each trust is a business trust formed under the Delaware Business Trust Act under a declaration of trust among the trustees of that trust and UBS Americas. PWG Capital Trust I was formed on 7 October 1996 when a certificate of trust was filed with the Secretary of State of the State of Delaware; PWG Capital Trust II was formed on 14 March 1997 in the same manner. Each trust's declaration of trust was completely amended and restated on the date its preferred trust securities were initially issued. The amended and restated declaration of trust of each trust is called the trust's "declaration," and each trust's declaration is filed as an exhibit to the registration statement of which this prospectus is a part. Each declaration is qualified under the Trust Indenture Act of 1939. The rights of the holders of the trust securities, including economic rights, rights to information and voting rights, are as set forth in the applicable declaration, the Business Trust Act and the Trust Indenture Act.

UBS Americas holds all the issued and outstanding common trust securities of each trust. The common trust securities of each trust are equal to at least 3% of the total capital of the trust.

Each trust exists solely for the purpose of:

- issuing its preferred trust securities and common trust securities for cash,
- investing the proceeds in an equivalent amount of junior subordinated debentures, and
- engaging in such other activities as are necessary, convenient or incidental to these activities.

Neither declaration permits the relevant trust to incur any indebtedness or to make any investment other than in the junior subordinated debentures. In each declaration, UBS Americas has agreed to pay for all debts and obligations (other than obligations with respect to the trust securities) and all costs and expenses of the trust, including the fees and expenses of the trustees and any taxes and all costs and expenses, to which the trust may become subject, except for withholding taxes.

Powers and Duties of Trustees

The number of trustees of each trust is currently five. Three of these trustees are individuals who are employees or officers of UBS Americas. The fourth trustee is The Chase Manhattan Bank, which is unaffiliated with UBS Americas and which will serve as the property trustee and act as the indenture trustee for purposes of the Trust Indenture Act. The fifth trustee is Chase Manhattan Bank Delaware, an affiliate of The Chase Manhattan Bank that has its principal place of business in the State of Delaware (referred to in this prospectus as "the Delaware trustee"). Under each declaration, the property trustee holds legal title to the junior subordinated debentures purchased by the trust for the benefit of the Holders of the trust securities of the trust. The property trustee has the power to exercise all rights, powers and privileges under the indenture with respect to the junior subordinated debentures. This is described in detail under "Description of Securities—Description of the Junior Subordinated Debentures." In addition, the property trustee maintains exclusive control of a segregated non-interest-bearing bank account to hold all payments in respect of the junior subordinated debentures purchased by a trust for the benefit of the Holders of trust securities. The property trustee makes distributions to the Holders of the trust securities of a trust out of funds from the property account of trust.

UBS Americas, as the direct or indirect owner of all the common trust securities of each trust, has the exclusive right to appoint, remove or replace trustees and to increase or decrease the number of

trustees, subject to certain limited conditions. Each trust has a term of forty years, but may terminate earlier as provided in the declaration of the trust.

The duties and obligations of the trustees of a trust are governed by the declaration of the trust. Among other things, each declaration provides that the trust will not, and the trustees of the trust must cause the trust not to, engage in any activity other than in connection with the purposes of the trust or as required or authorized by the declaration. In particular, each trust may not, and the trustees of each trust must cause the trust not to,

- Invest any proceeds received by the trust from holding the junior subordinated debentures purchased by the trust. Instead, the trust must promptly distribute all the proceeds to the Holders of its trust securities under the terms of the declaration of the trust and of the trust securities.
- Acquire any assets other than as expressly provided in the declaration.
- Possess trust property for other than a trust purpose.
- Make any loans, other than loans represented by the junior subordinated debentures.
- Possess any power or otherwise act in such a way as to vary the assets of the trust or the terms of its trust securities in any way whatsoever.
- Issue any securities or other evidences of beneficial ownership of, or beneficial interests in, the trust other than its trust securities.
- Incur any indebtedness for borrowed money.
- Direct the time, method and place of exercising any trust or power conferred upon the indenture trustee (as defined under “—Description of the Junior Subordinated Debentures”) with respect to the junior subordinated debentures deposited in the trust.
- Waive any past default that is waivable under the applicable indenture.
- Exercise any right to rescind or annul any declaration that the principal of all of the junior subordinated debentures deposited in the trust as trust assets is due and payable.
- Consent to any amendment, modification or termination of the indenture or the junior subordinated debentures where such consent is required, unless the property trustee has received an unqualified opinion of nationally recognized independent tax counsel recognized as expert in such matters to the effect that such action will not cause the trust to be classified for United States Federal income tax purposes as an association taxable as a corporation or a partnership and that the trust will continue to be classified as a grantor trust for United States Federal income tax purposes.

Books and Records

The books and records of each trust are maintained at the principal office of the trust and are open for inspection by a Holder of preferred trust securities of the trust or the Holder’s representative for any purpose reasonably related to the Holder’s interest in the trust during normal business hours. Each Holder of preferred trust securities is furnished annually with unaudited financial statements of the applicable trust as soon as available after the end of the trust’s fiscal year.

Voting

Except as provided under the Business Trust Act, the applicable declaration and the Trust Indenture Act, Holders of preferred trust securities have no voting rights.

The Property Trustee

Each declaration authorizes the property trustee, for the benefit of the Holders of the trust securities of a trust, to exercise all rights under the indenture with respect to the junior subordinated debentures held by the trust. This includes its rights to enforce UBS Americas' obligations under the junior subordinated debentures if an event of default under the indenture occurs. The property trustee is also authorized to enforce the rights of Holders of preferred trust securities of the trust under the related preferred trust securities guarantee. If any trust's failure to make distributions on the preferred trust securities of the trust is a consequence of UBS Americas' exercise of any right under the terms of the junior subordinated debentures deposited in the trust as trust assets to extend the interest payment period for the junior subordinated debentures, the property trustee has no right to enforce the payment of distributions on the preferred trust securities until an event of default under the declaration occurs.

Holders of at least a majority in liquidation amount of the preferred trust securities of a trust have the right to direct the property trustee for the trust with respect to certain matters under the declaration for the trust and the related preferred trust securities guarantee. If the property trustee fails to enforce its rights under the indenture or fails to enforce the applicable preferred trust securities guarantee, a Holder of preferred trust securities of the trust may institute a legal proceeding against UBS Americas to enforce such rights or the preferred trust securities guarantee, as the case may be, as described under "Description of Securities—Description of the Preferred Trust Securities" and "—Description of the Preferred Trust Securities Guarantees—Status of the Preferred Trust Securities Guarantees."

Debts and Obligations

In each declaration, UBS Americas has agreed to pay for all debts and obligations (other than with respect to the trust securities of the applicable trust) and all costs and expenses of the applicable trust, including the fees and expenses of its trustees and any taxes and all costs and expenses with respect thereto, to which the trust may become subject, except for United States withholding taxes. These obligations of UBS Americas are for the benefit of, and can be enforced by, any person to whom any such debts, obligations, costs, expenses and taxes are owed, whether or not the creditor has received notice of UBS Americas' undertaking. Any such creditor may enforce these obligations of UBS Americas directly against UBS Americas. UBS Americas has irrevocably waived any right or remedy to require that any such creditor take any action against any trust or any other person before proceeding against UBS Americas. UBS Americas has agreed in each declaration to execute such additional agreements as may be necessary or desirable in order to give full effect to the foregoing.

The business address of each trust is c/o UBS Americas Inc., 677 Washington Boulevard, Stamford, CT 06901, telephone number (203) 719-3000.

Description of Securities

Please note that in this section entitled “Description of Securities,” references to UBS Americas refer only to UBS Americas Inc. and not to its consolidated subsidiaries. Similarly, references to UBS refer only to UBS AG and not to its consolidated subsidiaries. Also, in this section, references to Holders mean those who own securities registered in their own names on the books that we or the trustee maintain for this purpose, and not those who own beneficial interests in securities registered in street name or in securities issued in book-entry form through one or more depositaries. Owners of beneficial interests in the securities should read the subsection entitled “—Description of the Preferred Trust Securities—Book-Entry Only Issuance, The Depositary Trust Company.”

This Section Is Only a Summary

The indenture, declaration and associated documents, including your preferred trust security, contain the full legal text governing the matters described in this section. The preferred trust securities guarantee, indenture and junior subordinated debentures are governed by New York law. The declaration and the preferred trust securities are governed by Delaware law. A copy of the indenture and the declaration have been filed with the SEC as part of our registration statement. See “Where You Can Find More Information” below for information on how to obtain a copy.

This section summarizes the most important terms of the indenture, declaration, guarantees and your security. It does not, however, describe every aspect of the indenture, declaration, guarantees or your security. For example, in this section, we use terms that have been given special meaning in the indenture, declaration or guarantees, but we describe the meaning of only the more important of those terms.

Description of the Preferred Trust Securities

The preferred trust securities and the common trust securities of each trust rank *pari passu* with each other and have equivalent terms. However:

- if an event of default under the declaration of a trust occurs and is continuing, the Holders of preferred trust securities of the trust have a priority over Holders of the common trust securities of the trust with respect to payments in respect of distributions and payments upon liquidation, redemption and maturity, and
- Holders of common trust securities have the exclusive right (subject to the terms of the declaration) to appoint, remove or replace the trustees and to increase or decrease the number of trustees.

Neither trust can issue securities or other evidences of beneficial ownership of, or beneficial interests in, the trust other than the trust's preferred trust securities and its common trust securities. The trusts also may not incur any indebtedness for borrowed money. In addition, neither trust may make any investment other than in the junior subordinated debentures. The property trustee of each trust has legal title to, and holds, the junior subordinated debentures as trust assets for the benefit of the Holders of the preferred trust securities and the common trust securities of the trust.

UBS Americas guarantees the payment of distributions out of moneys held by the property trustee and payments on redemption of the preferred trust securities or liquidation of the trust on a subordinated basis. The extent of this guarantee is described below under “—Description of the Preferred Trust Securities Guarantees.” The Chase Manhattan Bank, as guarantee trustee, holds the preferred trust securities guarantee for the benefit of the preferred trust securities Holders. The preferred trust securities guarantee is a full and unconditional guarantee from the time the preferred trust securities are issued, but the preferred trust securities guarantee covers distributions and other payments on the preferred trust securities only if and to the extent that UBS Americas has made a payment to the property trustee of interest or principal on the junior subordinated debentures deposited in the trust as trust assets.

Distributions

Under each declaration, the property trustee must make distributions on the preferred trust securities on the dates payable to the extent that the property trustee has cash in the property account to permit the payment. The funds available for distribution to the preferred trust securities Holders are limited to payments received by the property trustee in respect of the junior subordinated debentures. If UBS Americas does not make interest payments on the junior subordinated debentures held by a trust, and UBS AG does not make the payment under the relevant UBS AG guarantee, the property trustee will not make distributions on the preferred trust securities of the trust. Under the declaration, if and to the extent UBS Americas does make interest payments on the junior subordinated debentures, the property trustee is obligated to make distributions on the trust securities of the trust on a *pro rata* basis (as defined below).

Distributions on the preferred trust securities are fixed at a yearly rate of a certain percentage of the stated liquidation amount of \$25 per preferred security. The distribution rate for the 8.30% Preferred Trust Securities of PWG Capital Trust I is 8.30%; the rate for the 8.08% Preferred Trust Securities of PWG Capital Trust II is 8.08%. Distributions in arrears for more than one month will bear interest at the same yearly rate (to the extent permitted by law), compounded monthly. The term “distributions,” as used in this prospectus, includes any interest payable on deferred distributions unless otherwise stated. The amount of distributions payable for any period is computed on the basis of a 360-day year of twelve 30-day months, and for any period shorter than a 30-day period on the basis of the actual

Description of the Preferred Trust Securities

number of days elapsed. Distributions on the preferred trust securities are cumulative, accrue from the original date of issuance and, except as otherwise described below, are payable monthly in arrears on the first day of each month, but only if, and to the extent that, interest payments are made in respect of junior subordinated debentures held by the property trustee.

So long as UBS Americas is not in default in the payment of interest on the junior subordinated debentures, UBS Americas has the right under the indenture to defer payments of interest on the junior subordinated debentures by extending the interest payment period on the junior subordinated debentures for a period not exceeding five years. If UBS Americas elects to do this, the trust would defer monthly distributions on the preferred trust securities (though the distributions would continue to accrue with interest at the relevant rate per annum, compounded monthly) during any extension period. If UBS Americas exercises the right to extend an interest payment period, UBS Americas may not declare or pay dividends on, or redeem, purchase, acquire or make a distribution or liquidation payment with respect to, any of its common stock or preferred stock during the extension period or make any guarantee payments with respect thereto. However, the foregoing restrictions do not apply to

- dividends, redemptions, purchases, acquisitions, distributions or payments made by UBS Americas by way of issuance of shares of its capital stock,
- payments of accrued dividends by UBS Americas upon the redemption, exchange or conversion of any preferred stock of UBS Americas in accordance with the terms of the preferred stock, or
- cash payments made by UBS Americas in lieu of delivering fractional shares upon the redemption, exchange or conversion of any preferred stock of UBS Americas in accordance with the terms of the preferred stock.

Before the termination of any extension period, UBS Americas may further extend the extension period. The extension period together with all such previous and further extensions may not exceed five years and may not extend beyond the maturity of the junior subordinated debentures. Upon the termination of any extension period and the payment of all amounts then due, UBS Americas may commence a new extension period, subject to the above requirements. UBS Americas may also prepay at any time all or any portion of the interest accrued during an extension period. Consequently, there could be multiple extension periods of varying lengths throughout the term of the junior subordinated debentures, each not to exceed five years or to cause any extension beyond the maturity of the junior subordinated debentures. See “Risk Factors—Option to Extend Interest Payment Period—Tax Impact of Extension;” “Description of Securities—Description of the Junior Subordinated Debentures—Interest” and “—Option to Extend Interest Payment Period.” Subject to prepayments as described above, accrued distributions will be payable to the Holders of preferred trust securities as they appear on the books and records of the trust on the first record date after the end of the extension period.

The property trustee makes distributions on the preferred trust securities to the Holders as they appear on the books and records of the trust on the relevant record dates, as long as the preferred trust securities remain in book-entry only form. The relevant record dates are one business day (as defined below) prior to the relevant distribution payment date. Distributions payable on any preferred trust securities that are not punctually paid on any distribution payment date because UBS Americas failed to make the corresponding interest payment on the junior subordinated debentures cease to be payable to the person in whose name such preferred trust security is registered on the relevant record date. The defaulted distribution will instead be payable to the person in whose name such preferred trust security is registered on the special record date established by the regular trustees. The record date will correspond to the special record date or other specified date determined in accordance with the indenture. However, distributions will not be considered payable on any distribution payment date

Description of the Preferred Trust Securities

falling within an extension period unless UBS Americas has elected to make a full or partial payment of interest accrued on the junior subordinated debentures on such distribution payment date. Distributions on the preferred trust securities will be paid through the property trustee who will hold amounts received in respect of the junior subordinated debentures in the property account for the benefit of the Holders of the preferred trust securities and the common trust securities.

Each payment will be made as described under “—Book-Entry Only Issuance; The Depository Trust Company” below. If the preferred trust securities do not continue to remain in book-entry only form, the relevant record date will be the fifteenth day of the month immediately preceding the month in which the relevant payment date occurs. The declaration provides that the payment dates or record dates for the preferred trust securities are the same as the payment dates and record dates for the junior subordinated debentures. All distributions paid with respect to the trust securities will be paid on a *pro rata* basis to the Holders entitled to receive payment. If any date on which distributions are to be made on the preferred trust securities is not a business day, then payment of the distribution to be made on such date will be made on the next succeeding day that is a business day (and without any interest or other payment in respect of the delay) except that, if such business day is in the next succeeding calendar year, such payment will be made on the immediately preceding business day, in each case with the same force and effect as if made on such date. As used in this prospectus, “business day” means any day other than Saturday, Sunday or any other day on which banking institutions in New York City are authorized or required by law to close.

The term “*pro rata* basis” means *pro rata* to each Holder of trust securities of a trust according to the aggregate liquidation amount of the trust securities of the trust held by the relevant Holder in relation to the aggregate liquidation amount of all trust securities of the trust outstanding unless, in relation to a payment, an event of default under the declaration has occurred and is continuing. In that case, any funds available to make such payment will be paid first to each Holder of the preferred trust securities of the trust *pro rata* according to the aggregate liquidation amount of the preferred trust securities held by the relevant Holder in relation to the aggregate liquidation amount of all the preferred trust securities of the trust outstanding, and only after satisfaction of all amounts owed to the Holders of such preferred trust securities, to each Holder of common trust securities of the trust *pro rata* according to the aggregate liquidation amount of such common trust securities held by the relevant Holder in relation to the aggregate liquidation amount of all common trust securities of the trust outstanding.

Registrar, Transfer Agent and Paying Agent

If the preferred trust securities do not remain in book-entry only form, the following provisions will apply:

At the principal corporate trust office of the property trustee in The City of New York: (1) payment of distributions and payments on redemption of the preferred trust securities will be payable, (2) the transfer of the preferred trust securities will be registrable and (3) preferred trust securities will be exchangeable for preferred trust securities of other denominations of a like aggregate liquidation amount. Payment of distributions may be made at the option of the regular trustees on behalf of the trust by check mailed to the address of the persons entitled to the payment. Payment on redemption of any preferred trust security will be made only upon surrender of the preferred trust security to the property trustee.

The Chase Manhattan Bank or one of its affiliates will act as registrar and transfer agent for the preferred trust securities. The Chase Manhattan Bank will also act as paying agent and, with the consent of the regular trustees, may designate additional paying agents. The Chase Manhattan Bank’s address is 270 Park Avenue, New York, NY 10017.

Description of the Preferred Trust Securities

Registration of transfers of preferred trust securities will be made without charge by or on behalf of the trust, but the Holder is responsible for paying (with the giving of an indemnity as the trust or UBS Americas may require) any tax or other governmental charges that may be imposed in relation to it.

The trust will not be required to register or cause to be registered the transfer of preferred trust securities after the preferred trust securities have been called for redemption.

Special Event Redemption or Distribution

If certain events occur and are continuing, the trust will, unless the junior subordinated debentures are redeemed in the limited circumstances described below, be dissolved with the result that, after creditors of the trust are paid, junior subordinated debentures with an aggregate principal amount equal to the aggregate stated liquidation amount of the preferred trust securities and the common trust securities would be distributed on a *pro rata* basis to the Holders of the preferred trust securities and the common trust securities in liquidation of the Holders' interests in the trust, within 90 days following the occurrence of such an event. There are two types of events that will cause such a dissolution. The first is a Tax Event. The second is an Investment Company Event. Both are described below.

If a Tax Event occurs, before the trust can be dissolved and distributed, the regular trustees must obtain an opinion of nationally recognized independent tax counsel experienced in such matters to the effect that the Holders of the preferred trust securities will not recognize any gain or loss for United States Federal income tax purposes as a result of such dissolution and distribution of junior subordinated debentures. The opinion may rely on any then applicable published revenue rulings of the Internal Revenue Service. Additionally, if at the time there is available to UBS Americas or the regular trustees, on behalf of the trust, the opportunity to eliminate, within a 90-day period, the Tax Event by taking some ministerial action, such as filing a form or making an election, or pursuing some other similar reasonable measure, which has no adverse effect on the trust or UBS Americas or the Holders of the preferred trust securities, UBS Americas or the regular trustees, on behalf of the trust, will pursue such measure in lieu of dissolution.

Furthermore, if in the case of the occurrence of a Tax Event,

- the regular trustees have received an opinion of nationally recognized independent tax counsel experienced in such matters that, as a result of the Tax Event, there is more than an insubstantial risk that UBS Americas would be precluded from deducting the interest on the junior subordinated debentures for United States Federal income tax purposes even if the junior subordinated debentures were distributed to the Holders of trust securities in liquidation of the Holders' interests in the trust as described above or
- the regular trustees shall have been informed by such tax counsel that such an opinion cannot be delivered to the trust,

then UBS Americas will have the right at any time, upon not less than 30 nor more than 60 days' notice, to redeem the junior subordinated debentures in whole or in part for cash within 90 days following the occurrence of the Tax Event. The redemption of the junior subordinated debentures would give rise to a redemption of a corresponding portion of the relevant trust's preferred trust securities and common trust securities, as described below under "—Redemption of Trust Securities." However, if at the time there is available to UBS Americas or the regular trustees, on behalf of the trust, the opportunity to eliminate, within such 90-day period, the Tax Event by taking some ministerial action, such as filing a form or making an election, or pursuing some other similar reasonable measure, which has no adverse effect on the trust, UBS Americas or the Holders of the preferred trust securities, UBS Americas or the regular trustees, on behalf of the trust, will pursue that

Description of the Preferred Trust Securities

measure in lieu of redemption. UBS Americas has no right to redeem the junior subordinated debentures while the regular trustees, on behalf of the trust, are pursuing any such ministerial action.

“Tax Event” means that the regular trustees have obtained an opinion of nationally recognized independent tax counsel experienced in such matters to the effect that on or after the date of this prospectus as a result of

- any amendment to, or change in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority of or in the United States,
- any amendment to, or change (including any announced prospective change) in, an interpretation or application of any such laws or regulations by any legislative body, court, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination),
- any interpretation or pronouncement that provides for a position with respect to such laws or regulations that differs from the position generally accepted up to that time or
- any action taken by any governmental agency or regulatory authority,

which amendment or change is enacted, promulgated, issued or effective or which interpretation or pronouncement is issued or announced or which action is taken, in each case on or after the date of this prospectus, there is more than an insubstantial risk that (i) the trust is, or will be within 90 days of the date thereof, subject to United States Federal income tax with respect to income accrued or received on the junior subordinated debentures, (ii) the trust is, or will be within 90 days of the date thereof, subject to more than a *de minimis* amount of other taxes, duties or other governmental charges or (iii) interest payable by UBS Americas to the trust on the junior subordinated debentures is not, or within 90 days of the date thereof will not be, deductible by UBS Americas for United States Federal income tax purposes.

“Investment Company Event” means that the regular trustees have received an opinion of nationally recognized independent counsel experienced in practice under the Investment Company Act of 1940 that, as a result of the occurrence of a change in law or regulation or a change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority, there is more than an insubstantial risk that the trust is or will be considered an “investment company” which is required to be registered under the Investment Company Act, which change in Investment Company Act law becomes effective on or after the date of this prospectus.

Redemption of Trust Securities

When the junior subordinated debentures are repaid, whether at maturity, upon redemption or otherwise, including as a result of a Special Event, the proceeds will be promptly applied to redeem preferred trust securities and common trust securities having an aggregate liquidation amount equal to the junior subordinated debentures repaid, upon not less than 30 nor more than 60 days’ notice, at the redemption price. The common trust securities will be redeemed on a *pro rata* basis with the preferred trust securities, unless an event of default under the declaration has occurred and is continuing. In that case, the preferred trust securities will have a priority over the common trust securities with respect to payment of the redemption price. Subject to the foregoing, if fewer than all outstanding preferred trust securities and common trust securities are to be redeemed, the preferred trust securities and common trust securities will be redeemed on a *pro rata* basis. If fewer than all outstanding preferred trust securities are to be redeemed, preferred trust securities registered in the name of and held by DTC or its nominee will be redeemed as described under “—Book-Entry Only Issuance; The Depository Trust Company” below.

Redemption Procedures

The trust may not redeem fewer than all the outstanding preferred trust securities unless all accrued and unpaid distributions have been paid on all preferred trust securities for all monthly distribution periods terminating on or prior to the date of redemption.

If the trust gives a notice of redemption of preferred trust securities (which notice is irrevocable) then, by 12:00 noon, New York City time, on the redemption date and provided that UBS Americas has paid to the property trustee a sufficient amount of cash in connection with the related redemption or maturity of the junior subordinated debentures, the trust will irrevocably deposit with DTC funds sufficient to pay the applicable redemption price and will give DTC irrevocable instructions and authority to pay the redemption price to the Holders of the preferred trust securities. See “—Book-Entry Only Issuance; The Depository Trust Company” below. If notice of redemption is given and funds are deposited as required, then, immediately prior to the close of business on the redemption date, (1) distributions will cease to accrue on the preferred trust securities called for redemption, (2) such preferred trust securities will no longer be deemed to be outstanding and (3) all rights of Holders of such preferred trust securities so called for redemption will cease except the right of the Holders of such preferred trust securities to receive the redemption price, but without interest on such redemption price. Neither the trustees nor the trust will be required to register or cause to be registered the transfer of any preferred trust securities that have been so called for redemption. If any date fixed for redemption of preferred trust securities is not a business day, then payment of the redemption price payable on such date will be made on the next succeeding day that is a business day (and without any interest or other payment in respect of any such delay) except that, if such business day falls in the next calendar year, such payment will be made on the immediately preceding business day, in each case with the same force and effect as if made on such date fixed for redemption. If UBS Americas fails to repay junior subordinated debentures on maturity or on the date fixed for redemption or if payment of the redemption price in respect of preferred trust securities is improperly withheld or refused and not paid by the property trustee or by UBS Americas under the preferred trust securities guarantee described under “—Description of the Preferred Trust Securities Guarantees,” distributions on the preferred trust securities will continue to accrue from the original redemption date of the preferred trust securities to the date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the redemption price.

If fewer than all the outstanding preferred trust securities are to be redeemed, the preferred trust securities will be redeemed *pro rata* as described below under “—Book-Entry Only Issuance; The Depository Trust Company.”

If a partial redemption of the preferred trust securities would result in the delisting of the preferred trust securities by any national securities exchange or other organization on which the preferred trust securities are then listed, UBS Americas under the indenture will only redeem junior subordinated debentures in whole and, as a result, the trust may only redeem the preferred trust securities in whole.

Subject to the foregoing and applicable law (including, without limitation, United States Federal securities laws), UBS Americas or any of its subsidiaries may at any time and from time to time purchase outstanding preferred trust securities by tender, in the open market or by private agreement.

Liquidation Distribution Upon Dissolution

If there is a voluntary or involuntary dissolution, winding up or termination of the trust, including as a result of a Special Event, the Holders of the preferred trust securities and the common trust securities will be entitled to receive either (i) a payment equal to their interests in the trust, or (ii) junior subordinated debentures in an amount equal to their interest in the trust securities.

Description of the Preferred Trust Securities

Upon the dissolution of the trust, the following events will occur:

- the preferred trust securities and the common trust securities will no longer be deemed to be outstanding,
- DTC or its nominee, as the Holder of the preferred trust securities, will receive a registered global certificate or certificates representing the junior subordinated debentures to be delivered upon such distribution, and
- any certificates representing preferred trust securities not held by DTC or its nominee will be deemed to represent junior subordinated debentures having an aggregate principal amount equal to the aggregate stated liquidation amount of, and accrued and unpaid interest equal to accrued and unpaid distributions on, transfer or preferred trust securities, until such certificates are presented to UBS Americas or its agent for transfer or reissuance.

If, upon any such dissolution, the liquidation distribution can be paid only in part because the trust has insufficient assets available to pay in full the aggregate liquidation distribution, then the amounts payable directly by the trust on the preferred trust securities and the common trust securities will be paid on a *pro rata* basis unless an event of default under the declaration has occurred and is continuing. In that case, the preferred trust securities will have a priority over the common trust securities with respect to payment of the liquidation distribution.

Under the declaration, the trust will terminate: (i) on the fortieth anniversary of the issuance of its preferred trust securities, (ii) when all the trust securities have been called for redemption and the amounts necessary for redemption have been paid to the Holders of trust securities in accordance with the terms of the trust securities; or (iii) when all the junior subordinated debentures have been distributed to the Holders of trust securities in exchange for all the trust securities in accordance with the terms of the trust securities.

We cannot provide assurances as to the market price for the junior subordinated debentures which may be distributed in exchange for preferred trust securities if a dissolution and liquidation of the trust were to occur. Accordingly, the junior subordinated debentures which a Holder of preferred trust securities may subsequently receive upon the dissolution of the trust may trade at a discount to the price of the preferred trust securities exchanged. If junior subordinated debentures are distributed to the Holders of preferred trust securities upon the dissolution of the trust, UBS Americas will use its best efforts to list the junior subordinated debentures on the NYSE or on such other exchange on which the preferred trust securities are then listed.

Book-Entry Only Issuance; The Depository Trust Company

All of the preferred trust securities were issued in the form of one or more global securities that were deposited with, or on behalf of, The Depository Trust Company. Each global security was issued in registered form.

Each global security is registered in the name of DTC or its nominee. When a global security was issued, DTC credited, on its book-entry registration and transfer system, the number of preferred trust securities represented by the preferred security global certificate to the accounts of institutions that have accounts with DTC or its nominee (“participants”). Ownership of beneficial interests in a global security are limited to participants or persons that may hold interests through participants in DTC. Ownership of a beneficial interest in a global security is shown on, and ownership can only be transferred through, records maintained by DTC or its nominee (with respect to participants’ interests) for such global security or by participants or persons that hold through participants. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in

Description of the Preferred Trust Securities

definitive form. Such limits and such laws may impair the ability to transfer beneficial interests in a global security.

So long as DTC, or its nominee, is the owner of a global security, DTC or the relevant nominee, as the case may be, will be considered the sole owner or Holder of the global securities represented by the global security for all purposes under the indenture governing the global securities. Except as described below, owners of beneficial interests in a global security will not be entitled to have global securities of the series represented by the global security registered in their names, will not receive or be entitled to receive physical delivery of global securities of the relevant series in definitive form and will not be considered the owners or Holders of the global securities under the applicable indenture. Accordingly, each person owning a beneficial interests in a global security must rely on the procedures of DTC and, if such person is not a participant, on the procedures of the participant and, if applicable, the indirect participant, through which such person owns its interests, to exercise any rights of a Holder under such indenture.

Payment of liquidation amount of and any distributions on global securities registered in the name of or held by DTC or its nominee will be made to DTC or its nominee, as the case may be, as the Holder of the global security representing such global securities. None of UBS Americas, the trustee for the relevant global securities, any paying agent, any authenticating agent or the security registrar for the relevant global securities will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a global security representing such global securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

UBS Americas expects that DTC, upon receipt of any payment of liquidation amount of or any distributions on a definitive global security representing such global securities, will credit immediately participants' accounts with payments in amounts proportionate to their respective holdings in principal amount of beneficial interests in such global security as shown on the records of DTC. UBS Americas also expects that payments by participants to owners of beneficial interests in the relevant global security held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name." These payments will be the responsibility of the participants.

Unless and until it is exchanged in whole for global securities in definitive form, a global security may not be transferred except as a whole by DTC for such global security to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor of DTC or a nominee of such successor. If a depository for global securities of any series is at any time unwilling or unable to continue as depository and a successor depository is not appointed by UBS Americas within ninety days, UBS Americas will issue global securities of such series in like tenor and terms in definitive registered form in exchange for the global security or global securities representing all relevant global securities. Further, an owner of a beneficial interests in a global security representing global securities of a series may, on terms acceptable to UBS Americas and DTC for that global security, receive global securities of that series in definitive registered form. In addition, UBS Americas may at any time and in its sole discretion determine not to have any global securities of a series represented by global securities and, in such event, will issue global securities of that series in like tenor and terms in definitive registered form in exchange for the global security or global securities representing all such global securities. In any such instance, an owner of a beneficial interests in a global security will be entitled to physical delivery in definitive form of global securities of the series represented by the global security equal in aggregate principal amount to such beneficial interests and to have such global securities registered in the name of the owner of such beneficial interests.

Description of the Preferred Trust Securities

Redemption notices must be sent to Cede & Co. If less than all the preferred trust securities are being redeemed, DTC will reduce *pro rata* (with adjustments to eliminate fractional preferred trust securities) the amount of interests of each direct participant in the preferred trust securities to be redeemed.

Although voting with respect to the preferred trust securities is limited, in those instances in which a vote is required, neither DTC nor Cede & Co. itself will consent to vote with respect to the preferred trust securities. Under its usual procedures, DTC would mail an omnibus proxy to the trust as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the preferred trust securities are credited on the record date (identified in a listing attached to the omnibus proxy).

DTC has advised UBS Americas and the agents as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to DTC's system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

No Merger, Consolidation or Sale of Assets of the Trust

The trust may not merge or consolidate with or into, or be replaced by, or sell, transfer or lease all or substantially all its properties and assets to, any corporation or other entity or, except as expressly permitted hereby, sell or transfer any junior subordinated debentures to any corporation or other entity.

Declaration Events of Default

An event of default under the indenture will also be an event of default under the declaration with respect to the trust securities. However, common trust securities Holders will be deemed to have waived any such event of default with respect to the common trust securities until all events of default with respect to the preferred trust securities have been cured or waived. Until all events of default with respect to the preferred trust securities have been cured or waived, the property trustee will be deemed to be acting solely on behalf of the preferred trust securities Holders, and only the Holders of the preferred trust securities will have the right to direct the property trustee with respect to certain matters under the declaration and consequently under the indenture. If any event of default with respect to the preferred trust securities is waived by the Holders of the preferred trust securities as provided in the declaration, the Holders of common trust securities under the declaration have agreed that such waiver also constitutes a waiver of the event of default with respect to the common trust securities for all purposes under the declaration without any further act, vote or consent of the Holders of the common trust securities.

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When an event of default occurs, the property trustee as the Holder of all the junior subordinated debentures will have the right under the indenture to declare the principal of, and interest on, the junior subordinated debentures to be immediately due and payable. In addition, the property trustee will have the power to exercise all rights, powers and privileges under the indenture. If the property trustee fails to enforce its rights under the declaration (including, without limitation, its rights, powers and privileges as a Holder of the junior subordinated debentures under the indenture), any Holder of preferred trust securities may, to the extent permitted by applicable law, after a period of 30 days has elapsed from such Holder's written request to the property trustee to enforce such rights, institute a legal proceeding against UBS Americas to enforce the property trustee's rights under the declaration, without first instituting a legal proceeding against the property trustee or any other person.

Notwithstanding the foregoing, if an event of default has occurred and is continuing and such event is attributable to the failure of UBS Americas to pay interest or principal on the junior subordinated debentures on the date such interest or principal is otherwise payable (or in the case of redemption, the redemption date), then a Holder of preferred trust securities may directly institute suit against UBS Americas for enforcement of payment to such Holder of the principal of or interest on junior subordinated debentures having a principal amount equal to the aggregate liquidation amount of the preferred trust securities held by such Holder on or after the respective due date specified in the junior subordinated debentures. The Holders of preferred trust securities will not be able to exercise directly against UBS Americas any other remedy available to the Holders of the junior subordinated debentures unless the property trustee first fails to do so. See “— Description of the Junior Subordinated Debentures.”

Voting Rights

Except as provided below, under “—Modification and Amendment of the Declaration” and “—Description of the Preferred Trust Securities Guarantees—Amendments and Assignment” and as otherwise required by the Business Trust Act, the Trust Indenture Act or the declaration, the Holders of the preferred trust securities have no voting rights.

Subject to the requirements of the last sentence of this paragraph, the Holders of a majority in aggregate liquidation amount of the preferred trust securities have the right (i) on behalf of all Holders of preferred trust securities, to waive any past default that is waivable under the declaration and (ii) to direct the time, method and place of conducting any proceeding for any remedy available to the property trustee, or exercising any trust or power conferred upon the property trustee under the declaration, including the right to direct the property trustee, as the Holder of the junior subordinated debentures, to (A) direct the time, method and place of conducting any proceeding for any remedy available to the indenture trustee, or executing any trust or power conferred on the indenture trustee with respect to the junior subordinated debentures, (B) waive any past default that is waivable under Section 6.06 of the indenture, or (C) exercise any right to rescind or annul a declaration that the principal of all the junior subordinated debentures shall be due and payable. However, where the taking of any action under the indenture would require the consent or vote of (a) Holders of junior subordinated debentures representing a specified percentage greater than a majority in principal amount of the junior subordinated debentures or (b) each Holder of junior subordinated debentures affected thereby, no such consent or vote will be given by the property trustee without the prior consent or vote of, in the case of clause (a) above, Holders of preferred trust securities representing such specified percentage of the aggregate liquidation amount of the preferred trust securities or, in the case of clause (b) above, each Holder of preferred trust securities affected thereby. The property trustee will not revoke any action previously authorized or approved by a vote of the Holders of preferred trust securities. The property trustee will notify all Holders of record of preferred trust securities of any notice of default received from the indenture trustee with respect to the junior subordinated debentures. Other than with respect to directing the time, method and place of conducting any

Description of the Preferred Trust Securities

proceeding for any remedy available to the property trustee or the indenture trustee as set forth above, the property trustee will be under no obligation to take any of the foregoing actions at the direction of the Holders of the preferred trust securities unless the property trustee has obtained an opinion of nationally recognized independent tax counsel recognized as expert in such matters to the effect that the trust will not be classified for United States Federal income tax purposes as an association taxable as a corporation or a partnership on account of such action and will be treated as a grantor trust for United States Federal income tax purposes following such action.

A waiver of an event of default under the indenture by the property trustee at the direction of Holders of the preferred trust securities constitutes a waiver of the corresponding event of default under the declaration in respect of the trust securities.

If the consent of the property trustee as the Holder of the junior subordinated debentures is required under the indenture with respect to any amendment, modification or termination of the indenture or the junior subordinated debentures, the property trustee shall request the direction of the Holders of the trust securities with respect to such amendment, modification or termination and will vote with respect to such amendment, modification or termination as directed by a majority in liquidation amount of the trust securities voting together as a single class. However, where any such amendment, modification or termination under the indenture would require the consent or vote of (1) Holders of junior subordinated debentures representing a specified percentage greater than a majority in principal amount of the junior subordinated debentures or (2) each Holder of junior subordinated debentures affected thereby, the property trustee may only give such consent or vote, in the case of clause (1), at the direction of the Holders of trust securities representing such specified percentage of the aggregate liquidation amount of the trust securities or, in the case of clause (2), as directed by each Holder of trust securities affected thereby. In addition, the property trustee will be under no obligation to take any such action in accordance with the directions of the Holders of the trust securities unless the property trustee has obtained an opinion of nationally recognized independent tax counsel recognized as expert in such matters to the effect that the trust will not be classified for United States Federal income tax purposes as an association taxable as a corporation or a partnership on account of such action and will be treated as a grantor trust for United States Federal income tax purposes following such action.

Any required approval or direction of Holders of preferred trust securities may be given at a separate meeting of Holders of preferred trust securities convened for that purpose, at a meeting of all the Holders of trust securities or under written consent. The regular trustees will cause a notice of any meeting at which Holders of preferred trust securities are entitled to vote, or of any matter upon which action by written consent of such Holders is to be taken, to be mailed to each Holder of record of preferred trust securities. Each notice will include a statement setting forth (i) the date of the relevant meeting or the date by which the action is to be taken; (ii) a description of any resolution proposed for adoption at the meeting on which the Holders are entitled to vote or of such matter upon which written consent is sought; and (iii) instructions for the delivery of proxies or consents.

No vote or consent of the Holders of preferred trust securities will be required for the trust to redeem and cancel preferred trust securities or distribute junior subordinated debentures in accordance with the declaration.

Notwithstanding that Holders of preferred trust securities are entitled to vote or consent under any of the circumstances described above, any of the preferred trust securities at such time that are owned by UBS Americas or by any entity directly or indirectly controlling or controlled by or under direct or indirect common control with UBS Americas will not be entitled to vote or consent and will, for purposes of such vote or consent, be treated as if they were not outstanding.

Description of the Preferred Trust Securities

The procedures by which persons owning preferred trust securities registered in the name of and held by DTC or its nominee may exercise their voting rights are described under “— Book-Entry Only Issuance; The Depository Trust Company” below.

Holder of the preferred trust securities have no rights to increase or decrease the number of trustees or to appoint, remove or replace a trustee. These rights are vested exclusively in the Holders of the common trust securities.

Modification and Amendment of the Declaration

The declaration may be modified and amended with the approval of a majority of the regular trustees, provided that, if any proposed modification or amendment provides for, or the regular trustees otherwise propose to effect, (a) any action that would adversely affect the powers, preferences or special rights of the trust securities, whether by way of amendment to the declaration or otherwise, or (b) the dissolution, winding-up or termination of the trust other than under the terms of the declaration, then the Holders of the outstanding trust securities as a class will be entitled to vote on such amendment or proposal and such amendment or proposal will not be effective except with the approval of at least 66 $\frac{2}{3}$ % in liquidation amount of the trust securities. If any amendment or proposal referred to above would adversely affect only the preferred trust securities or the common trust securities, then only the affected class will be entitled to vote on that amendment or proposal and the amendment or proposal will not be effective except with the approval of 66 $\frac{2}{3}$ % in liquidation amount of the relevant class of trust securities. Notwithstanding the foregoing,

- no amendment or modification may be made to the declaration unless the regular trustees have obtained (a) either a ruling from the Internal Revenue Service or a written unqualified opinion of nationally recognized independent tax counsel experienced in such matters to the effect that the amendment will not cause the trust to be classified for United States Federal income tax purposes as an association taxable as a corporation or a partnership and to the effect that the trust will continue to be treated as a grantor trust for purposes of United States Federal income taxation and (b) a written unqualified opinion of nationally recognized independent counsel experienced in such matters to the effect that the amendment will not cause the trust to be an “investment company” which is required to be registered under the Investment Company Act;
- certain specified provisions of the declaration may not be amended without the consent of all the Holders of the trust securities;
- no amendment which adversely affects the rights, powers and privileges of the property trustee or the Delaware trustee may be made without the consent of the property trustee or the Delaware trustee, as the case may be;
- Article IV of the declaration relating to the obligation of UBS Americas to purchase the common trust securities and to pay certain obligations and expenses of the trust as described under “PWG Capital Trust I and PWG Capital Trust II” in this prospectus may not be amended without the consent of UBS Americas; and
- the rights of Holders of common trust securities under Article V of the declaration to increase or decrease the number of, and to appoint, replace or remove, trustees may not be amended without the consent of each Holder of common trust securities.

The declaration further provides that it may be amended without the consent of the Holders of the trust securities to

- cure any ambiguity;

Description of the Preferred Trust Securities

- correct or supplement any provision in the declaration that may be defective or inconsistent with any other provision of the declaration;
- to add to the covenants, restrictions or obligations of UBS Americas; and
- to conform to changes in, or a change in interpretation or application of, certain Investment Company Act requirements by the SEC, as long as the amendment does not adversely affect the rights, preferences or privileges of the Holders.

Information Concerning the Property Trustee

The property trustee, prior to an event of default, undertakes to perform only such duties as are specifically set forth in the declaration and, during an event of default, exercises and uses the same degree of care and skill as a prudent individual would exercise or use under the circumstances in the conduct of his or her own affairs. Subject to such provision, the property trustee is under no obligation to exercise any of the powers vested in it by the declaration at the request of any Holder of preferred trust securities, unless offered reasonable indemnity by the Holder against the costs, expenses and liabilities which it might incur. The property trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties if the property trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The property trustee is a depository for funds and performs other services for, and transacts other banking business with, UBS Americas in the normal course of business.

Governing Law

The declaration and the preferred trust securities will be governed by, and construed in accordance with, the laws of the State of Delaware.

Miscellaneous

The regular trustees are authorized and directed to take such action as they deem reasonable in order that the trust will not be deemed to be an “investment company” required to be registered under the Investment Company Act or that the trust will not be classified for United States Federal income tax purposes as an association taxable as a corporation or a partnership and will be treated as a grantor trust for United States Federal income tax purposes. In this connection, the regular trustees are authorized to take any action, not inconsistent with applicable law, the certificate of trust of the trust or the declaration, that the regular trustees determine in their discretion to be reasonable and necessary or desirable for such purposes, as long as such action does not adversely affect the interests of Holders of the trust securities.

UBS Americas and the regular trustees on behalf of the trust are required to provide to the property trustee annually a certificate as to whether or not UBS Americas and the trust, respectively, is in compliance with all the conditions and covenants under the declaration.

Description of the Junior Subordinated Debentures

There are two series of junior subordinated debentures. Both series were issued under an indenture between UBS Americas and The Chase Manhattan Bank, as indenture trustee, dated as of 9 December 1996, as amended by a supplemental indenture dated as of 9 December 1996 (regarding the 8.30% Junior Subordinated Debentures due 2036), and a supplemental indenture dated as of 14 March 1997 (regarding the 8.08% Junior Subordinated Debentures due 2037), and as further amended by a supplemental indenture dated as of 3 November 2000 (regarding the merger of PaineWebber and UBS Americas and a supplemental indenture dated as of 22 December 2000). The following table sets forth the important terms of the debentures.

Title	Maturity Date	Interest Payment Dates	Record Dates	Redeemable by UBS Americas on or after:
8.30% Junior Subordinated Debentures due 2036	1 December 2036	Monthly on the first day of each month	Close of business the day before the interest payment date	1 December 2001
8.08% Junior Subordinated Debentures due 2037	1 March 2037	Monthly on the first day of each month	Close of business the day before the interest payment date	1 March 2002

The following description summarizes the material terms of the indenture, and is qualified by reference to the indenture and the Trust Indenture Act. Whenever particular provisions or defined terms in the indenture are referred to in this prospectus, those provisions or defined terms are incorporated by reference.

General

The junior subordinated debentures are unsecured, subordinated obligations of UBS Americas. Each series is limited in aggregate principal amount to an amount equal to the sum of (i) the stated liquidation amount of the preferred trust securities issued by the relevant trust and (ii) the proceeds received by the relevant trust upon issuance of the common trust securities held by UBS Americas. The indenture does not limit the amount of additional indebtedness UBS Americas or any of its subsidiaries may incur. Since UBS Americas is a holding company, UBS Americas' rights and the rights of its creditors, including the Holders of junior subordinated debentures, to participate in the assets of any subsidiary upon the latter's liquidation or recapitalization will be subject to the prior claims of the subsidiary's creditors, except to the extent that UBS Americas may itself be a creditor with recognized claims against the subsidiary.

The entire principal amount of each series of junior subordinated debentures will become due and payable, together with any accrued and unpaid interest thereon, on the maturity date listed for that series in the table above. The junior subordinated debentures are not subject to any sinking fund.

If junior subordinated debentures are distributed to Holders of preferred trust securities upon dissolution of the trust, such junior subordinated debentures will initially be issued as a global security. Payments on junior subordinated debentures issued as a global security will be made to DTC, a successor depositary or, in the event that no depositary is used, to a paying agent for the junior subordinated debentures. Under certain limited circumstances, junior subordinated debentures may be issued in certificated form in exchange for a global security. See "—Book-Entry and Settlement" below.

Description of the Junior Subordinated Debentures

If junior subordinated debentures are issued in certificated form, such junior subordinated debentures will be in denominations of \$25 and integral multiples of \$25 and may be transferred or exchanged at the offices described below. If junior subordinated debentures are issued in certificated form, payments of principal and interest will be payable, the transfer of the junior subordinated debentures will be registrable and junior subordinated debentures will be exchangeable for junior subordinated debentures of other denominations of a like aggregate principal amount of the same series at the corporate trust office of the indenture trustee in The City of New York. Payment of interest may be made at the option of UBS Americas by check mailed to the address of the persons entitled to the payments. The payment of principal with respect to any junior subordinated debenture will be made only upon surrender of the junior subordinated debenture to the indenture trustee.

The junior subordinated debentures of each series bear interest at the rate specified in the above table. Interest is payable on each series monthly in arrears on the first day of each month to the person in whose name such junior subordinated debenture is registered, subject to certain exceptions, at the close of business on the business day next preceding such interest payment date. If (i) the preferred trust securities do not remain in book-entry only form or (ii) following distribution of the junior subordinated debentures to Holders of trust securities upon dissolution of the trust as described under “—Description of the Preferred Trust Securities,” the junior subordinated debentures do not remain in book-entry only form, the relevant record date will be the fifteenth day of the month immediately preceding the month in which the relevant interest payment date occurs. Interest payable on any junior subordinated debenture that is not punctually paid or duly provided for on any interest payment date will cease to be payable to the person in whose name such junior subordinated debenture is registered on the relevant record date. Defaulted interest will instead be payable to the person in whose name the junior subordinated debenture is registered on the special record date or other specified date determined in accordance with the indenture. However, that interest will not be considered payable by UBS Americas on any interest payment date falling within an extension period unless UBS Americas has elected to make a full or partial payment of interest accrued on the junior subordinated debentures on such interest payment date.

The amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months and for any period shorter than a 30-day period for which interest is computed, the amount of interest payable will be computed on the basis of the actual number of days elapsed. If any date on which interest is payable on the junior subordinated debentures is not a business day, then payment of the interest payable on such date will be made on the next succeeding day that is a business day (and without any interest or other payment in respect of any such delay), except that, if such business day is in the next succeeding calendar year, such payment will be made on the immediately preceding business day, in each case with the same force and effect as if made on such date.

The junior subordinated debentures mature on the maturity date listed in the table above.

If the junior subordinated debentures are distributed to the Holders of preferred trust securities upon dissolution of the trust, UBS Americas will use its best efforts to list the junior subordinated debentures on the NYSE or on such other exchange on which the preferred trust securities are then listed.

Optional Redemption

Except as provided below, the junior subordinated debentures may not be redeemed prior to the date listed in the table above. UBS Americas has the right to redeem the junior subordinated debentures, in whole or in part, from time to time, on or after the relevant date, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 100% of the principal amount to be redeemed,

Description of the Junior Subordinated Debentures

plus any accrued and unpaid interest to the redemption date, including interest accrued during an extension period. UBS Americas will also have the right to redeem the junior subordinated debentures at any time upon the occurrence of a Tax Event if certain conditions are met as described under “—Description of the Preferred Trust Securities—Special Event Redemption or Distribution.”

If UBS Americas gives a notice of redemption in respect of junior subordinated debentures (which notice will be irrevocable) then, by 12:00 noon, New York City time, on the redemption date, UBS Americas will deposit irrevocably with the indenture trustee funds sufficient to pay the applicable redemption price and will give irrevocable instructions and authority to pay such redemption price to the Holders of the junior subordinated debentures. If notice of redemption has been given and funds deposited as required, then, upon the date of such deposit, interest will cease to accrue on the junior subordinated debentures called for redemption, such junior subordinated debentures will no longer be deemed to be outstanding and all rights of Holders of such junior subordinated debentures so called for redemption will cease, except the right of the Holders of such junior subordinated debentures to receive the applicable redemption price, but without interest on such redemption price. If any date fixed for redemption of junior subordinated debentures is not a business day, then payment of the redemption price payable on such date will be made on the next succeeding day that is a business day (and without any interest or other payment in respect of any such delay) except that, if such business day falls in the next calendar year, such payment will be made on the immediately preceding business day, in each case with the same force and effect as if made on such date fixed for redemption. If the redemption price in respect of junior subordinated debentures is not paid by UBS Americas, interest on such junior subordinated debentures will continue to accrue, from the original redemption date to the date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the applicable redemption price. If fewer than all the junior subordinated debentures are to be redeemed, the junior subordinated debentures to be redeemed shall be selected by lot or *pro rata* or in some other equitable manner determined by the indenture trustee.

UBS Americas will not be required to (i) issue, register the transfer of or exchange any junior subordinated debentures during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of all or less than all of the junior subordinated debentures and ending at the close of business on the day of such mailing and (ii) register the transfer of or exchange any junior subordinated debentures so selected for redemption, in whole or in part, except the unredeemed portion of any junior subordinated debentures being redeemed in part.

Option to Extend Interest Payment Period

So long as UBS Americas is not in default in the payment of interest on the junior subordinated debentures, UBS Americas has the right to extend the interest payment period from time to time for a period not exceeding five years. UBS Americas has no current intention of exercising its right to extend an interest payment period. No interest shall be due and payable during an extension period, except at the end of the extension period. During any extension period, UBS Americas may not declare or pay any dividends on, or redeem, purchase, acquire or make a distribution or liquidation payment with respect to, any of its common stock or preferred stock or make any guarantee payments with respect to any such stock. However, these restrictions do not apply to

- dividends, redemptions, purchases, acquisitions, distributions or payments made by UBS Americas by way of issuance of shares of its capital stock,
- payments of accrued dividends by UBS Americas upon the redemption, exchange or conversion of any preferred stock of UBS Americas as may be in accordance with the terms of such preferred stock, or

Description of the Junior Subordinated Debentures

- cash payments made by UBS Americas in lieu of delivering fractional shares upon the redemption, exchange or conversion of any preferred stock of UBS Americas in accordance with the terms of such preferred stock.

UBS Americas' outstanding preferred stock consists of \$100 million stated value of 6% Cumulative Convertible Redeemable Preferred Stock, Series A (the "Convertible Preferred Stock") and \$250 million stated value of 9% Cumulative Redeemable Preferred Stock, Series C (the "Redeemable Preferred Stock"). The Convertible Preferred Stock is redeemable at any time, in whole or in part, at the option of UBS Americas at redemption prices declining to \$100 per share, plus accrued and unpaid dividends, by 16 December 2004 and is subject to mandatory redemption on 15 December 2014. The Convertible Preferred Stock is convertible, at the option of the Holder, into shares of common stock, at any time, in whole or in part, at a conversion price of \$18.13 per share of common stock, subject to adjustment. The Redeemable Preferred Stock is redeemable, at the option of UBS Americas, at any time after 15 December 1999, in whole or in part, at a price of \$100 per share, together with accrued but unpaid dividends. The Redeemable Preferred Stock is subject to mandatory redemption on 15 December 2014.

Prior to the termination of any such extension period, UBS Americas may further extend the interest payment period. The extension period together with all previous and further extensions thereof may not exceed five years and may not extend beyond the maturity of the junior subordinated debentures. On the first interest payment date occurring at or after the end of each extension period, UBS Americas will pay to the Holders of junior subordinated debentures of record on the record date for such interest payment date (regardless of who the Holders of record may have been on other dates during the extension period) all accrued and unpaid interest on the junior subordinated debentures, together with interest at the rate specified for the junior subordinated debentures to the extent permitted by applicable law, compounded monthly. Upon the termination of any extension period and the payment of all amounts then due, UBS Americas may commence a new extension period, subject to the above requirements. UBS Americas may also prepay at any time all or any portion of the interest accrued during an extension period. Consequently, there could be multiple extension periods of varying lengths throughout the term of the junior subordinated debentures, each not to exceed five years or to cause any extension beyond maturity of the junior subordinated debentures. The failure by UBS Americas to make interest payments during an extension period would not constitute a default or an event of default under the indenture or UBS Americas' currently outstanding indebtedness.

If the property trustee is the sole Holder of the junior subordinated debentures, UBS Americas will give the property trustee notice of its selection of an extension period one business day before the earlier of (i) the next succeeding date on which the distributions on the preferred trust securities are payable or (ii) the date the trust is required to give notice to the NYSE (if the preferred trust securities are then listed on it) or other applicable self-regulatory organization or to Holders of the preferred trust securities of the record date or payment date for such distribution. The trust will give notice of UBS Americas' selection of an extension period to the Holders of the preferred trust securities.

If junior subordinated debentures have been distributed to Holders of trust securities, UBS Americas will give the Holders of the junior subordinated debentures notice of its selection of an extension period ten business days before the earlier of (i) the next succeeding interest payment date or (ii) the date UBS Americas is required to give notice to the NYSE (if the junior subordinated debentures are then listed on it) or other applicable self-regulatory organization or to Holders of the junior subordinated debentures of the record or payment date for such related interest payment.

Description of the Junior Subordinated Debentures

Compounded Interest

Payments of compounded interest on the junior subordinated debentures held by the trust will make funds available to pay any interest on distributions in arrears in respect of the preferred trust securities under the terms thereof.

Subordination

The junior subordinated debentures are subordinate and junior in right of payment to all Senior Indebtedness of UBS Americas. No payment by UBS Americas on account of principal of or premium, if any, or any interest on the junior subordinated debentures may be made if any default or event of default with respect to any Senior Indebtedness has occurred and is continuing and written notice of the default or event of default has been given to the indenture trustee by UBS Americas or to UBS Americas and the indenture trustee by the Holders of at least 10% in principal amount of any kind or category of any Senior Indebtedness (or a representative or trustee on their behalf). Upon any acceleration of the principal due on the junior subordinated debentures or any payment or distribution of assets of UBS Americas to creditors upon any dissolution, winding up, liquidation or reorganization, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all principal of and premium, if any, and interest due or to become due on all Senior Indebtedness must be paid in full before the Holders of junior subordinated debentures will be entitled to receive or retain any payment (other than shares of stock or subordinated indebtedness provided by a plan of reorganization or adjustment which does not alter the rights of Holders of Senior Indebtedness). Subject to the payment in full of all Senior Indebtedness, the Holders of the junior subordinated debentures are subrogated to the rights of the Holders of Senior Indebtedness to receive payments or distributions of assets of UBS Americas applicable to Senior Indebtedness until the junior subordinated debentures are paid in full. By reason of such subordination, in the event of insolvency, creditors of UBS Americas who are Holders of Senior Indebtedness, as well as general creditors of UBS Americas, may recover more, ratably, than the Holders of the junior subordinated debentures.

Senior Indebtedness is defined as:

- the principal of, premium, if any, and accrued and unpaid interest on (a) indebtedness of UBS Americas for money borrowed, whether outstanding on the date of execution of the subordinated indenture or later created, incurred or assumed, (b) guarantees by UBS Americas of indebtedness for money borrowed by any other person, whether outstanding on the date of execution of the subordinated indenture or later created, incurred or assumed, (c) indebtedness evidenced by notes, debentures, bonds or other instruments of indebtedness for the payment of which UBS Americas is responsible or liable, by guarantees or otherwise, whether outstanding on the date of execution of the subordinated indenture or later created, incurred or assumed, and (d) obligations of UBS Americas under any agreement to lease, or any lease of, any real or personal property, whether outstanding on the date of execution of the subordinated indenture or later created, incurred or assumed,
- any other indebtedness, liability or obligation, contingent or otherwise, of UBS Americas and any guarantee, endorsement or other contingent obligation of UBS Americas in respect of any indebtedness, liability or obligation, whether outstanding on the date of execution of the subordinated indenture or later created, incurred or assumed, and
- modifications, renewals, extensions and refundings of any such indebtedness, liabilities, obligations or guarantees, unless, in the instrument creating or evidencing the same or under which the same is outstanding, it is provided that such indebtedness, liabilities, obligations or guarantees, or such

Description of the Junior Subordinated Debentures

modification, renewal, extension or refunding thereof, are not superior in right of payment to the subordinated debentures.

However, Senior Indebtedness does not include any obligation of UBS Americas to any subsidiary. The junior subordinated debentures of any series are not superior in right of payment to the securities of any series issued under the indenture dated as of 15 March 1988, between UBS Americas (as successor by merger to PaineWebber) and Chase Manhattan Bank USA, National Association (formerly known as Chemical Bank (Delaware)), as amended or supplemented from time to time, or any securities ranking *pari passu* in right of payment with any such securities, all of which constitute Senior Indebtedness. Notwithstanding anything to the contrary in the indenture or the junior subordinated debentures, Senior Indebtedness does not include any indebtedness of UBS Americas which, by its terms or the terms of the instrument creating or evidencing it, is subordinate in right of payment to, or *pari passu* with, the junior subordinated debentures. The indenture does not contain any limitation on the amount of Senior Indebtedness that UBS Americas can incur.

UBS Americas rights and the rights of its creditors (including Holders of Senior Indebtedness and junior subordinated debentures) to participate in any distribution of assets of any subsidiary of UBS Americas upon its liquidation or reorganization or otherwise is necessarily subject to the prior claims of creditors of the subsidiary, except to the extent that claims of UBS Americas itself as a creditor of the subsidiary may be recognized. Also, dividend payments and advances to UBS Americas by PaineWebber are restricted by the provisions of the net capital rules of the SEC and the New York Stock Exchange and covenants in various loan agreements. The operations of UBS Americas are conducted through its subsidiaries and, therefore, UBS Americas is dependent upon the earnings and cash flow of its subsidiaries to meet its obligations, including obligations under the Senior Indebtedness and junior subordinated debentures. The Senior Indebtedness and junior subordinated debentures are effectively subordinated to all indebtedness of UBS Americas' subsidiaries.

Certain Covenants of UBS Americas Applicable to the Junior Subordinated Debentures

UBS Americas has covenanted in the indenture that, so long as the preferred trust securities of either trust remain outstanding, UBS Americas will not declare or pay any dividends on, or redeem, purchase, acquire or make a distribution or liquidation payment with respect to, any of its common stock or preferred stock or make any guarantee payments with respect thereto if at such time (i) UBS Americas is in default with respect to its guarantee payments or other payment obligations under the related preferred trust securities guarantee or (ii) there has occurred and is continuing any event of default under the indenture with respect to such junior subordinated debentures. However, the foregoing restrictions will not apply to:

- dividends, redemptions, purchases, acquisitions, distributions or payments made by UBS Americas by way of issuance of shares of its capital stock,
- payments of accrued dividends by UBS Americas upon the redemption, exchange or conversion of any preferred stock of UBS Americas as may be outstanding from time to time in accordance with the terms of such preferred stock or
- cash payments made by UBS Americas in lieu of delivering fractional shares upon the redemption, exchange or conversion of any preferred stock of UBS Americas as may be outstanding from time to time in accordance with the terms of such preferred stock.

In addition, for so long as the preferred trust securities of either trust remain outstanding, UBS Americas has agreed:

- to remain the sole direct or indirect owner of all the outstanding common trust securities issued by the trust and not to cause or permit such common trust securities to be transferred except to the

Description of the Junior Subordinated Debentures

extent permitted by the declaration of the trust; provided that any permitted successor of UBS Americas under the indenture may succeed to UBS Americas's ownership of such common trust securities,

- to comply fully with all its obligations and agreements under such declaration and
- not to take any action which would cause the trust to cease to be treated as a grantor trust for United States Federal income tax purposes, except in connection with a distribution of junior subordinated debentures.

Book-Entry and Settlement

If any junior subordinated debentures are distributed to preferred trust securities Holders as described above under “—Description of the Preferred Trust Securities,” the junior subordinated debentures will be issued in the form of one or more global securities. Each global security would be registered in the name of the depository or its nominee. The terms and conditions of the arrangements with respect to these global securities will depend on the procedures of the depository at the relevant time, but are currently expected to be substantially similar to those described above under “—Description of Preferred Trust Securities—Book-Entry Only Issuance; The Depository Trust Company.”

Except as provided below, owners of beneficial interests in a global security will not be entitled to receive physical delivery of junior subordinated debentures in definitive form and will not be considered the Holders of the junior subordinated debentures for any purpose under the indenture. Also, no global security representing junior subordinated debentures will be exchangeable except for another global security of like denomination and tenor to be registered in the name of the depository or its nominee or of a successor depository or nominee. Accordingly, each beneficial owner must rely on the procedures of the depository or if the beneficial owner is not a participant, on the procedures of the participant through which the beneficial owner owns its interest to exercise any rights of a Holder under the indenture. If junior subordinated debentures are distributed to Holders of preferred trust securities, DTC will act as securities depository for the junior subordinated debentures.

Modification of the Indenture

The indenture provides that UBS Americas and the indenture trustee may, without the consent of any Holders of junior subordinated debentures, enter into supplemental indentures for the purposes, among other things, of adding to UBS Americas' covenants, adding additional events of default, establishing the form or terms of any series of junior subordinated debentures, or provided such action does not adversely affect the interests of the Holders of any series of junior subordinated debentures in any material respect, curing ambiguities or inconsistencies in such indenture or making other provisions.

The indenture contains provisions permitting UBS Americas and the indenture trustee, with the consent of the Holders of at least a majority in principal amount of the outstanding junior subordinated debentures of each series affected by the action, to modify the indenture or any supplemental indenture affecting the rights of the Holders of such junior subordinated debentures. However, no modification may, without the consent of the Holder of each outstanding junior subordinated debenture affected by the action, (i) extend the fixed maturity of any junior subordinated debentures of any series, reduce the principal amount thereof, reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each junior subordinated debenture affected by the action, or (ii) reduce the percentage of junior subordinated debentures, the Holders of which are required to consent to any such modification, without the consent of the Holders of each junior subordinated debenture then outstanding and affected by the action.

Description of the Junior Subordinated Debentures

Indenture Events of Default

The indenture provides that any one or more of the following described events, which has occurred and is continuing, constitutes an “event of default under the indenture” with respect to a series of junior subordinated debentures:

- (a) failure for 30 days to pay interest on the junior subordinated debentures of a series when due, provided that a valid extension of the interest payment period by UBS Americas will not constitute a default in the payment of interest for this purpose;
- (b) failure to pay principal of or premium, if any, on the junior subordinated debentures of a series when due whether at maturity, upon redemption, by declaration or otherwise, or to make any sinking fund or analogous payment with respect to junior subordinated debentures of that series;
- (c) failure to observe or perform any other covenant contained in the indenture with respect to a series for 90 days after written notice to UBS Americas from the indenture trustee or the Holders of at least 25% in principal amount of the outstanding junior subordinated debentures of that series; or
- (d) certain events in bankruptcy, insolvency or reorganization of UBS Americas.

In each case, unless the principal of all the junior subordinated debentures of such series has already become due and payable, either the indenture trustee or the Holders of not less than 25% in aggregate principal amount of the junior subordinated debentures of such series then outstanding, by notice in writing to UBS Americas (and to the indenture trustee if given by such Holders), may declare the principal of all the junior subordinated debentures of such series to be due and payable immediately.

The Holders of a majority in aggregate outstanding principal amount of the junior subordinated debentures of the applicable series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the indenture trustee. The indenture trustee or the Holders of not less than 25% in aggregate outstanding principal amount of the junior subordinated debentures of that series may declare the principal due and payable immediately upon an event of default under the indenture with respect to that series. However, the Holders of a majority in aggregate outstanding principal amount of junior subordinated debentures of that series may annul such declaration and waive the default if the default has been cured and a sum sufficient to pay all matured installments or interest and principal otherwise than by acceleration and any premium has been deposited with the indenture trustee.

The Holders of a majority in aggregate outstanding principal amount of the junior subordinated debentures of a series may, on behalf of the Holders of all the junior subordinated debentures of that series, waive any past default, except a default in the payment of principal, premium, if any, or interest on junior subordinated debentures of that series (unless such default has been cured and a sum sufficient to pay all matured installments of interest and principal otherwise than by acceleration and any premium has been deposited with the indenture trustee) or a call for redemption of junior subordinated debentures of that series. UBS Americas is required to file annually with the indenture trustee a certificate as to whether or not UBS Americas is in compliance with all the conditions and covenants under the indenture.

If a series of junior subordinated debentures is issued to a trust in connection with the issuance of trust securities of the trust, then, under the applicable declaration, an event of default under the indenture with respect to that series of junior subordinated debentures will constitute an event of default under the declaration.

Description of the Junior Subordinated Debentures

Consolidation, Merger and Sale

Each indenture provides that UBS Americas, without the consent of any Holders of the junior subordinated debentures, may consolidate with or merge into any other corporation or transfer or lease its assets substantially as an entirety to any person or may acquire or lease the assets of any person substantially as an entirety or may permit any corporation to merge into UBS Americas so long as:

- The successor is a corporation organized under the laws of any domestic jurisdiction.
- The successor corporation, if other than UBS Americas, assumes UBS Americas' obligations under such indenture and all the debentures issued under it.
- Immediately after giving effect to the transaction, no event of default and no event that, after notice or lapse of time, or both, would become an event of default, has occurred and is continuing.
- Certain other conditions are also met.

Defeasance and Discharge

Under the terms of the indenture, UBS Americas will be discharged from any and all obligations in respect of the junior subordinated debentures of a series (except in each case for certain obligations to register the transfer or exchange of such junior subordinated debentures, replace stolen, lost or mutilated junior subordinated debentures of such series, maintain paying agencies and hold moneys for payment in trust) if:

- UBS Americas irrevocably deposits with the indenture trustee cash or U.S. government obligations, as trust funds, in an amount certified to be sufficient to pay at maturity (or upon redemption) the principal of, premium, if any, and interest on all outstanding junior subordinated debentures of that series;
- such deposit will not result in a breach or violation of, or constitute a default under, any agreement or instrument to which UBS Americas is a party or by which it is bound;
- UBS Americas delivers to the indenture trustee an opinion of counsel to the effect that the Holders of the junior subordinated debentures of that series will not recognize income, gain or loss for United States Federal income tax purposes as a result of such defeasance and that such defeasance will not otherwise alter Holders' United States Federal income tax treatment of principal, premium and interest payments on the junior subordinated debentures of that series (such opinion must be based on a ruling of the Internal Revenue Service or a change in United States Federal income tax law occurring after the date of the indenture, since such a result would not occur under current tax law);
- UBS Americas delivers to the indenture trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent provided for relating to the defeasance contemplated by such provision have been complied with; and
- no event or condition shall exist that, under the subordination provisions applicable to the junior subordinated debentures of such series, would prevent UBS Americas from making payments of principal of, premium, if any, and interest on the junior subordinated debentures of that series at the date of the irrevocable deposit referred to above.

Information Concerning the Indenture Trustee

The indenture trustee, prior to an event of default under the indenture, undertakes to perform only such duties as are specifically set forth in the indenture and, during an event of default under the

Description of the Junior Subordinated Debentures

indenture, shall exercise and use the same degree of care and skill as a prudent individual would exercise or use under the circumstances in the conduct of his or her own affairs. Subject to such provision, the indenture trustee is under no obligation to exercise any of the powers vested in it by the indenture at the request of any Holder of junior subordinated debentures, unless offered reasonable indemnity by the Holder against the costs, expenses and liabilities that might be incurred thereby. The indenture trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties if the indenture trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The indenture trustee, The Chase Manhattan Bank, is a depository for funds and performs other services for, and transacts other banking business with, UBS Americas in the normal course of business.

Governing Law

The indenture and the junior subordinated debentures will be governed by, and construed in accordance with, the laws of the State of New York.

Miscellaneous

UBS Americas has the right at all times to assign any of its rights or obligations under the indenture to a direct or indirect wholly owned subsidiary of UBS Americas. In the event of any such assignment, UBS Americas remains jointly and severally liable for all such obligations. The indenture will be binding upon and inure to the benefit of the parties to the indenture and their respective successors and assigns. The indenture provides that it may not otherwise be assigned by the parties to the indenture other than by UBS Americas to a successor or purchaser under a consolidation, merger or sale permitted by the indenture.

Description of the Preferred Trust Securities Guarantees

Set forth below is a summary of information concerning the preferred trust securities guarantees that have been executed and delivered by UBS Americas for the benefit of the Holders of the preferred trust securities of each trust. Each preferred trust security guarantee is separately qualified under the Trust Indenture Act and is held by The Chase Manhattan Bank (acting as the guarantee trustee) for the benefit of Holders of the preferred trust securities of the applicable trust. The terms of each preferred trust securities guarantee are those set forth in the preferred trust securities guarantee and those made part of the preferred trust securities guarantee by the Trust Indenture Act. This description summarizes the most important terms of the preferred trust securities guarantee and is qualified by reference to the form of preferred trust securities guarantee, which is filed as an exhibit to the registration statement of which this prospectus forms a part, and the Trust Indenture Act.

General

Under each preferred trust securities guarantee, UBS Americas has irrevocably and unconditionally agreed, to the extent described below, to pay in full to the Holders of the preferred trust securities issued by the applicable trust, the guarantee payments, to the extent not paid by such the trust, regardless of any defense, right of set-off or counterclaim that the trust may have or assert. The following distributions and other payments with respect to preferred trust securities issued by a trust to the extent not made or paid by the trust will be subject to the preferred trust securities guarantee (without duplication):

- any accrued and unpaid distributions on the preferred trust securities, but only if and to the extent that in each case UBS Americas has made a payment to the property trustee of interest on the junior subordinated debentures deposited in the trust as trust assets,
- the redemption price, including all accrued and unpaid distributions to the date of redemption, with respect to any preferred trust securities called for redemption by the trust, but only if and to the extent that in each case UBS Americas has made a payment to the property trustee of interest or principal on the junior subordinated debentures, and
- upon a voluntary or involuntary dissolution, winding-up or termination of the trust (other than in connection with the distribution of junior subordinated debentures to the Holders of preferred trust securities or the redemption of all relevant preferred trust securities upon the maturity or redemption of such junior subordinated debentures) the lesser of (a) the aggregate of the liquidation amount and all accrued and unpaid distributions on the preferred trust securities to the date of payment, to the extent the trust has funds available for the payment, and (b) the amount of assets of the trust remaining available for distribution to Holders of such preferred trust securities upon liquidation of the trust. UBS Americas' obligation to make a guarantee payment may be satisfied by direct payment of the required amounts by UBS Americas to the preferred trust securities Holders or by causing the trust to pay such amounts to such Holders.

The preferred trust securities guarantee is a full and unconditional guarantee from the time of issuance of the applicable preferred trust securities, but the preferred trust securities guarantee covers distributions and other payments on such preferred trust securities only if and to the extent that UBS Americas has made a payment to the property trustee of interest or principal on the junior subordinated debentures deposited in the trust as trust assets. If UBS Americas does not make interest or principal payments on the junior subordinated debentures held by the trust, and UBS AG does not pay those amounts under the UBS AG guarantees, the property trustee will not make distributions on the preferred trust securities of the trust and the trust will not have funds available to make those distributions.

Description of the Preferred Trust Securities Guarantees

UBS Americas' obligations under the declaration for each trust, the preferred trust securities guarantee issued with respect to preferred trust securities issued by the trust, the junior subordinated debentures purchased by the trust and the indenture in the aggregate provide a full and unconditional guarantee on a subordinated basis by UBS Americas of payments due on the preferred trust securities issued by the trust.

Certain Covenants of UBS Americas

In each preferred trust securities guarantee, UBS Americas has covenanted that, so long as any preferred trust securities issued by the trust remain outstanding, UBS Americas will not declare or pay any dividends on, or redeem, purchase, acquire or make a distribution or liquidation payment with respect to, any of its common stock or preferred stock or make any guarantee payment with respect to its stock, if at such time

- UBS Americas is in default with respect to its guarantee payments or other payment obligations under the preferred trust securities guarantee,
- there has occurred any declaration event of default under the related declaration or
- UBS Americas has given notice of its election to defer payments of interest on the related junior subordinated debentures by extending the interest payment period as provided in the terms of the junior subordinated debentures and the period, or any extension, is continuing. However, the foregoing restrictions will not apply to
 - dividends, redemptions, purchases, acquisitions, distributions or payments made by UBS Americas by way of issuance of shares of its capital stock,
 - payments of accrued dividends by UBS Americas upon the redemption, exchange or conversion of any preferred stock of UBS Americas in accordance with the terms of the preferred stock, or
 - cash payments made by UBS Americas in lieu of delivering fractional shares upon the redemption, exchange or conversion of any preferred stock of UBS Americas in accordance with the terms of the preferred stock.

In addition, so long as any preferred trust securities of a trust remain outstanding, UBS Americas has agreed (i) to remain the sole direct or indirect owner of all the outstanding common trust securities issued by the trust and not to cause or permit such common trust securities to be transferred except to the extent permitted by the declaration of the trust, provided that any permitted successor of UBS Americas under the indenture may succeed to UBS Americas' ownership of the common trust securities, and (ii) to use reasonable efforts to cause the trust to continue to be treated as a grantor trust for United States Federal income tax purposes, except in connection with a distribution of junior subordinated debentures.

Amendments and Assignment

Except with respect to any changes that do not adversely affect the rights of Holders of the applicable preferred trust securities (in which case no consent will be required), each preferred trust securities guarantee may be amended only with the prior approval of the Holders at least 66⅔% in liquidation amount of the outstanding preferred trust securities issued by the trust. The manner of obtaining this approval is described above under “—Description of the Preferred Trust Securities—Voting Rights.” All guarantees and agreements contained in a preferred trust securities guarantee will bind the successors, assignees, receivers, trustees and representatives of UBS Americas and will inure to the benefit of the Holders of the preferred trust securities of the trust then outstanding. Except in connection with a consolidation, merger, conveyance, transfer or lease of assets involving UBS Americas that is permitted

Description of the Preferred Trust Securities Guarantees

under the indenture, UBS Americas may not assign its obligations under any preferred trust securities guarantee.

Termination of the Preferred Trust Securities Guarantees

Each preferred trust securities guarantee will terminate and be of no further force and effect as to the preferred trust securities issued by the trust upon full payment of the redemption price of all preferred trust securities of the trust, or upon distribution of the junior subordinated debentures to the Holders of the preferred trust securities of the trust in exchange for all the preferred trust securities issued by the trust, or upon full payment of the amounts payable upon liquidation of the trust. Notwithstanding the foregoing, each preferred trust securities guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any Holder of preferred trust securities issued by the trust must restore payment of any sums paid under such preferred trust securities or such preferred trust securities guarantee.

Status of the Preferred Trust Securities Guarantees

UBS Americas' obligations under each preferred trust securities guarantee to make the guarantee payments will constitute an unsecured obligation of UBS Americas and will rank

- subordinate and junior in right of payment to all other indebtedness, liabilities and obligations of UBS Americas and any guarantees, endorsements or other contingent obligations of UBS Americas in respect of these indebtedness, liabilities or obligations, including the junior subordinated debentures, except those made *pari passu* or subordinate by their terms, and
- senior to all capital stock now or hereafter issued by UBS Americas and to any guarantee now or hereafter entered into by UBS Americas in respect of any of its capital stock.

UBS Americas' obligations under each preferred trust securities guarantee will rank *pari passu* with each other preferred trust securities guarantee.

Because UBS Americas is a holding company, UBS Americas' obligations under each preferred trust securities guarantee are also effectively subordinated to all existing and future liabilities, including trade payables, of UBS Americas' subsidiaries, except to the extent that UBS Americas is a creditor of the subsidiaries recognized as such. Each declaration provides that each Holder of preferred trust securities issued by the trust, by acceptance of the preferred trust securities, agrees to the subordination provisions and other terms of the related preferred trust securities guarantee.

Each preferred trust securities guarantee will constitute a guarantee of payment and not of collection (that is, the guaranteed party may institute a legal proceeding directly against UBS Americas to enforce its rights under the preferred trust securities guarantee without first instituting a legal proceeding against any other person or entity). Each preferred trust securities guarantee will be deposited with the guarantee trustee, to be held for the benefit of the Holders of the preferred trust securities issued by the trust. The guarantee trustee will enforce such preferred trust securities guarantee on behalf of the Holders of the preferred trust securities. The Holders of at least a majority in aggregate liquidation amount of the preferred trust securities issued by the trust have the right to direct the time, method and place of conducting any proceeding for any remedy available in respect of the related preferred trust securities guarantee, including giving directions to the guarantee trustee. If the guarantee trustee fails to enforce a preferred trust securities guarantee as above provided, any Holder of preferred trust securities issued by the trust may institute a legal proceeding directly against UBS Americas to enforce its rights under the preferred trust securities guarantee, without first instituting a legal proceeding against the trust, or any other person or entity. Notwithstanding the foregoing, if UBS Americas has failed to make a guarantee payment, a Holder of preferred trust securities may directly institute a

Description of the Preferred Trust Securities Guarantees

proceeding against UBS Americas for enforcement of the Holder's right to receive payment under the preferred trust securities guarantee. UBS Americas has waived any right or remedy to require that any action be brought first against a trust or any other person or entity before proceeding directly against UBS Americas.

Miscellaneous

UBS Americas is required to provide annually to the guarantee trustee a statement as to the performance by UBS Americas of certain of its obligations under each preferred trust securities guarantee and as to any default in such performance. UBS Americas is required to file annually with the guarantee trustee an officer's certificate as to UBS Americas' compliance with all conditions to be complied with by it under each preferred trust securities guarantee.

The guarantee trustee, prior to the occurrence of a default, undertakes to perform only such duties as are specifically set forth in the applicable preferred trust securities guarantee and, after default with respect to a preferred trust securities guarantee, will exercise the same degree of care as a prudent individual would exercise under the circumstances in the conduct of his or her own affairs. Subject to such provision, the guarantee trustee is under no obligation to exercise any of the powers vested in it by a preferred trust securities guarantee at the request of any Holder of preferred trust securities unless it is offered reasonable security and indemnity against the costs, expenses and liabilities that might be incurred thereby.

Governing Law

The preferred trust securities guarantee will be governed by, and construed in accordance with, the laws of the State of New York.

Description of the UBS AG Guarantee

UBS AG has unconditionally and irrevocably guaranteed the following:

- (i) the junior subordinated debentures of UBS Americas Inc. described in this prospectus,
- (ii) the Guarantee Agreement of PWG Capital Trust I dated as of 9 December 1996, between UBS Americas and The Chase Manhattan Bank, a New York banking corporation, as guarantee trustee,
- (iii) the Amended and Restated Declaration of Trust of PWG Capital Trust I dated and effective as of 9 December 1996 by the trustees named therein, UBS Americas and the holders from time to time of undivided beneficial interests in the assets of PWG Capital Trust I issued pursuant to the PWG I Declaration of Trust,
- (iv) the Guarantee Agreement of PWG Capital Trust II dated as of 14 March 1997 between UBS Americas and The Chase Manhattan Bank, a New York banking corporation, as guarantee trustee, and
- (v) the Amended and Restated Declaration of Trust of PWG Capital Trust II, dated and effective as of 14 March 1997, by the trustees named therein, UBS Americas and the holders from time to time of undivided beneficial interests in the assets of PWG Capital Trust II issued under the Declaration of Trust, including the payment of the principal of and premium, if any, and interest on the outstanding junior subordinated debentures (including any additional interest or other amounts payable in accordance with the terms of the outstanding junior subordinated debentures) together with any other amount as UBS Americas owes under each of the Junior Subordinated Indenture, the Preferred Securities Guarantees and the Declarations of Trust, when they become due and payable, whether at maturity, upon acceleration, redemption or otherwise in accordance with the terms of the outstanding junior subordinated debentures, the Preferred Securities Guarantees and the Declarations, respectively.

If UBS Americas fails to make any timely payment under the junior subordinated debentures, either of the Preferred Securities Guarantees or either of the Declarations of Trust, legal proceedings may be instituted directly against UBS without first proceeding against UBS Americas.

UBS has agreed that the junior subordinated debentures guarantee is an absolute, present and continuing guarantee of payment and not of collectability and that its obligations hereunder shall be unconditional, irrespective of:

- the validity, legality or enforceability of the junior subordinated debentures, the Junior Subordinated Indenture, the Preferred Securities Guarantee or either of the Declarations,
- the absence of any action to enforce the junior subordinated debentures or to collect from UBS Americas,
- any waiver or consent by the Holder of the junior subordinated debentures with respect to the provisions of the junior subordinated debentures, and
- the recovery of any judgment against UBS Americas or any action to enforce the same or any other circumstance that might otherwise result in a legal or equitable discharge or defense of a guarantor.

The junior subordinated debentures guarantee is a direct, unconditional and unsecured obligation of UBS. UBS's obligations under the guarantee are subordinated in right of payment to the prior payment

Description of the UBS AG Guarantee

in full of UBS's deposit liabilities and all other liabilities of UBS (including all deposit liabilities and other liabilities of the head office and all offices of UBS wherever located), except

- (i) any liabilities that by their terms rank *pari passu* with or are subordinated to the obligations of UBS under this guarantee;
- (ii) any liabilities that by their terms rank *pari passu* with or are subordinated to liabilities which by their terms rank *pari passu* with or are subordinated to the obligations of UBS under this guarantee; and
- (iii) any existing junior subordinated obligations.

UBS's obligations under this guarantee are senior to any existing junior subordinated obligations and any liabilities that by their terms are subordinated to the obligations of UBS under this guarantee. Payments under this guarantee (other than payments upon a winding-up or dissolution, by bankruptcy or otherwise, in Switzerland of UBS) are conditional upon UBS not being in default in the payment of any liabilities that rank senior to the obligations of UBS under the guarantee and being solvent at the time of payment. As of 30 November 2000, the amount of senior liabilities of UBS AG to which the Holders of the preferred trust securities would be subordinated under the UBS guarantee would be approximately CHF 590 billion. The Holders would also be structurally subordinated to all liabilities of UBS AG's subsidiaries.

For purposes of this guarantee, the term "existing junior subordinated obligations" means the obligations of UBS under (x) the Amended and Restated Limited Liability Company Agreement of UBS Preferred Funding Company LLC I dated as of 3 October 2000, (y) the Subordinated Guarantee Agreement dated as of 3 October 2000 by UBS, Wilmington Trust Company, as trustee, and Wilmington Trust Company, as trustee, for the benefit of holders from time to time of Company Preferred Securities (as defined therein) of UBS Preferred Funding Company LLC I, and (z) the 8.622% Perpetual Subordinated Notes issued by UBS.

This guarantee is intended to constitute a full and unconditional guarantee of the obligations of UBS Americas under the outstanding junior subordinated debentures, the Junior Subordinated Indenture, the Preferred Securities Guarantee and the Declarations, that together constitute the full and unconditional guarantee of UBS Americas of each of the 8.30% Preferred Trust Securities (Liquidation Amount \$25 per Preferred Security) issued by PWG Capital Trust I and the 8.08% Preferred Trust Securities (Liquidation Amount \$25 per Preferred Security) issued by PWG Capital Trust II.

Taxation

In the opinion of Cravath, Swaine & Moore, special tax counsel to UBS AG (“Tax Counsel”), the following are the material United States Federal income tax consequences of the ownership and disposition of preferred trust securities. Unless otherwise stated, this summary deals only with preferred trust securities held as capital assets by Holders who acquire the preferred trust securities upon original issuance (“Initial Holders”). It does not deal with special classes of Holders, such as dealers in securities or currencies, life insurance companies, persons holding preferred trust securities as part of a straddle or as part of a hedging or conversion transaction, or persons whose functional currency is not the United States dollar. This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations thereunder and administrative and judicial interpretations thereof as of the date hereof, all of which are subject to change (possibly on a retroactive basis).

INVESTORS ARE ADVISED TO CONSULT THEIR TAX ADVISORS AS TO THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF PREFERRED TRUST SECURITIES IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES, AS WELL AS THE EFFECT OF ANY STATE, LOCAL OR OTHER TAX LAWS.

Classification of the Trust

In the opinion of Tax Counsel, under current law and assuming full compliance with the terms of the declaration, the trust will be classified for United States Federal income tax purposes as a grantor trust and not as an association taxable as a corporation. Accordingly, each Holder of preferred trust securities (a “SecurityHolder”) will be considered the owner of a *pro rata* portion of the junior subordinated debentures held by the trust. Accordingly, each SecurityHolder will be required to include in gross income the *pro rata* share of income accrued on the junior subordinated debentures.

Classification of the Junior Subordinated Debentures

In the opinion of Tax Counsel, under current law and assuming full compliance with the indenture, the junior subordinated debentures will be classified for United States Federal income tax purposes as indebtedness of UBS Americas.

Interest and Original Issue Discount

If an extension period occurs, the junior subordinated debentures would be considered to have original issue discount at all times after the beginning of the first extension period, including after the termination of the extension period. In addition, UBS Americas’ option to defer the payment of interest on the junior subordinated debentures during an extension period might cause the junior subordinated debentures to be considered initially to be issued with original issue discount. UBS Americas believes, and will take the position that this latter result will not arise because of an exception in the Treasury Regulations that applies when there is only a “remote” likelihood that an extension period will occur. Assuming that the likelihood of an extension period is in fact remote, Tax Counsel believes that this position is correct although there is no authority directly on point and the Internal Revenue Service could take a contrary position.

If the original issue discount rules apply to the junior subordinated debentures (either following the occurrence of an extension period or initially), each SecurityHolder, whether on the cash or accrual method of accounting, will be required to accrue its *pro rata* share of original issue discount into income in accordance with a constant yield method based on the compounding of interest. As a result, income will be required to be reported by SecurityHolders before the receipt of cash attributable to such income, and, in particular, income will be reported during an extension period even though no

cash distributions are being made. If the original issue discount rules apply for a period during which cash distributions are currently being made, the sum of the daily accruals of income for a monthly period for a SecurityHolder that purchased the preferred trust securities for their liquidation value will equal the cash distribution received by the SecurityHolder for such month, assuming no disposition prior to the record date for such distribution.

If the original issue discount rules apply, actual distributions of stated interest will not separately be reported as income. In that case, a SecurityHolder's tax basis for the junior subordinated debentures will be increased by original issue discount accrued into income, and decreased by cash distributions of interest. If the original issue discount rules do not apply, stated interest will be includible in a SecurityHolder's gross income as ordinary interest income in accordance with such Holder's regular method of tax accounting.

Whether or not the original issue discount rules apply, no portion of the amounts received on the preferred trust securities will be eligible for the corporate dividends received deduction.

Distribution of Junior Subordinated Debentures to Holders of Preferred Trust Securities

Under current law, a distribution by the trust of the junior subordinated debentures as described under the caption "Description of the Preferred Trust Securities—Special Event Redemption or Distribution" will be nontaxable and will result in the SecurityHolder receiving directly such SecurityHolder's *pro rata* share of the junior subordinated debentures previously held indirectly through the trust, with a holding period and tax basis equal to the holding period and adjusted tax basis such SecurityHolder was considered to have had in such SecurityHolder's *pro rata* share of the underlying junior subordinated debentures immediately prior to such distribution. If, however, the Special Event giving rise to the distribution is a Tax Event which results in the trust being treated as an association taxable as a corporation, the distribution would constitute a taxable event to SecurityHolders.

Market Discount and Bond Premium

SecurityHolders other than Initial Holders may be considered to have acquired their *pro rata* interest in the junior subordinated debentures with market discount, acquisition premium or amortizable bond premium. Such Holders are advised to consult their tax advisors as to the income tax consequences of the acquisition, ownership and disposition of the preferred trust securities.

Disposition of the Preferred Trust Securities

Upon a sale, exchange or other disposition of the preferred trust securities (including a distribution of cash in redemption of a SecurityHolder's preferred trust securities upon redemption or repayment of the underlying junior subordinated debentures, but excluding the distribution of junior subordinated debentures), a SecurityHolder will be considered to have disposed of all or part of such SecurityHolder's *pro rata* share of the junior subordinated debentures, and will recognize gain or loss equal to the difference between the amount realized (other than amounts attributable to accrued but unpaid interest that is not treated as original issue discount) and the SecurityHolder's adjusted tax basis in such SecurityHolder's *pro rata* share of the underlying junior subordinated debentures deemed disposed of. A SecurityHolder's adjusted tax basis in the preferred trust securities generally will be its initial purchase price increased by original issue discount previously includible in such SecurityHolder's gross income to the date of disposition and decreased by payments (other than payments of stated interest that are not treated as original issue discount) received on the preferred trust securities. Gain or loss will be capital gain or loss (except to the extent of any accrued interest or market discount not previously included in income). See "Market Discount and Bond Premium"

above. Such gain or loss will be long-term capital gain or loss if the preferred trust securities have been held for more than one year.

United States Alien Holders

For purposes of this discussion, a “United States Alien Holder” is any individual, corporation, partnership, estate or trust that is, as to the United States, a non-resident alien individual or a foreign corporation, partnership, estate or trust.

Under present United States Federal income tax law:

- (i) payments by the trust or any of its paying agents to any Holder of a preferred trust security who or which is a United States Alien Holder will not be subject to United States Federal income or withholding tax, provided that (a) the beneficial owner of the preferred trust security does not actually or constructively own 10% or more of the total combined voting power of all classes of stock of UBS Americas entitled to vote; (b) the beneficial owner of the preferred trust security is not a controlled foreign corporation that is related to UBS Americas through stock ownership; (c) either (A) the beneficial owner of the preferred trust security certifies to the trust or its agent, under penalties of perjury, that it is not a United States Holder and provides its name and address or (B) a securities clearing organization, bank or other financial institution that holds customers’ securities in the ordinary course of its trade or business (a “Financial Institution”) and holds the preferred trust security certifies to the trust or its agent under penalties of perjury that such statement has been received from the beneficial owner by it or by a Financial Institution between it and the beneficial owner and furnishes the trust or its agent with a copy thereof and (d) such payments are not effectively connected with the conduct by the United States Alien Holder of a trade or business in the United States; and
- (ii) A United States Alien Holder of a preferred trust security will not be subject to United States Federal income or withholding tax on any gain realized upon the sale or other disposition of a preferred trust security unless (i) the United States Alien Holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition, and certain other conditions apply, or (ii) the gain is effectively connected with the conduct by the United States Alien Holder of a trade or business in the United States.

If you receive a payment after 31 December 2000, recently finalized Treasury regulations will apply. Under these final withholding regulations, after 31 December 2000, you may use an alternative method to satisfy the certification requirement described above. Additionally, if you are a partner in a foreign partnership, after 31 December 2000, you, in addition to the foreign partnership, must provide the certification described above and the partnership must provide certain information. The Internal Revenue Service will apply a look-through rule in the case of tiered partnerships.

Information Reporting to Holders

The trust will report the interest paid or the original issue discount that accrued during the year with respect to the junior subordinated debentures, and any gross proceeds received by the trust from the retirement or redemption of the junior subordinated debentures, annually to the Holders of record of the preferred trust securities and the Internal Revenue Service. The trust currently intends to deliver such reports to Holders of record prior to January 31 following each calendar year.

Backup Withholding

Payments made on, and proceeds from the sale of, preferred trust securities may be subject to a “backup” withholding tax of 31% unless the SecurityHolder complies with certain identification requirements. Any withheld amounts will generally be allowed as a credit against the SecurityHolder’s United States Federal income tax, provided the required information is timely filed with the Internal Revenue Service.

Tax Considerations Under The Laws of Switzerland

The tax information set forth below is based on the opinion of Ernst & Young AG, dated 21 December 2000, and has been approved by them for its accuracy. In this section, we summarize the principal tax consequences under the laws of Switzerland of owning debt securities fully and unconditionally guaranteed by UBS AG, Switzerland.

Under the scope of Swiss withholding tax legislation, debt securities issued by an entity domiciled outside of Switzerland (the issuer) are not subject to the Swiss withholding tax of 35% on any interest payments on those securities. If the issuer is a permanent establishment outside of Switzerland or a subsidiary that is not a resident of Switzerland, and that entity is vested with a guarantee by the parent company that is a resident of Switzerland, Swiss withholding tax does not apply if the proceeds of such securities are not used in Switzerland. If the proceeds from the sale of debt instruments by these issuers are not used in Switzerland, both (1) interest payments by the issuer and (2) any guarantee payment or comparable payment by the Swiss parent company in connection with such debt securities are free from Swiss withholding tax.

The guarantees relate to debt securities, which were issued by Paine Webber Inc. before the merger with UBS Americas Inc. UBS AG and UBS Americas Inc. will ensure that the proceeds from the sale of these debt securities are not used in Switzerland. Consequently, current and future interest payments on the debt securities should not be subject to Swiss withholding tax.

Neither the present Swiss withholding tax law nor the current practice of the Federal Tax Administration of Switzerland indicate that a guarantee payment related to interest could be re-characterized as an interest payment itself, which would be subject to withholding tax. For this reason, we believe that a possible guarantee payment will not be subject to Swiss withholding tax, irrespective of whether it is made for the principal, interest or other amounts payable in accordance with the terms of the debt securities.

ERISA Matters

A fiduciary of a pension, profit-sharing or other employee benefit plan subject to the Employment Retirement Income Security Act of 1974, as amended (“ERISA”), should consider the fiduciary standards of ERISA in the context of the plan’s particular circumstances before authorizing an investment in the preferred trust securities. Among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan.

Section 406 of ERISA and Section 4975 of the Code prohibit an employee benefit plan, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Code, from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to the plan. A violation of these “prohibited transaction” rules may result in excise tax or other liabilities under ERISA and Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption. Therefore, a fiduciary of an employee benefit plan should also consider whether an investment in the preferred trust securities might constitute or give rise to a prohibited transaction under ERISA and the Internal Revenue Code. Employee benefit plans which are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and foreign plans (as described in Section 4(b)(4) of ERISA) generally are not subject to the requirements of ERISA or Section 4975 of the Code.

UBS AG, UBS Americas and certain of their affiliates (including companies in the Paine Webber Group) could be parties in interest or disqualified persons with respect to an employee benefit plan. This could be the case, for example, if one of these companies is a service provider to the plan. Prohibited transactions within the meaning of ERISA or the Code could arise if preferred trust securities are acquired by or with the assets of an employee benefit plan as to which UBS AG, UBS Americas or an affiliate is a party in interest or disqualified person. Special caution should be exercised in that event, before preferred trust securities are purchased by the plan. In particular, the fiduciary of the plan should consider whether exemptive relief is available under an applicable administrative exemption. The Department of Labor has issued five prohibited transaction class exemptions that could apply to exempt the purchase, sale and holding of preferred trust securities from the prohibited transaction provisions of ERISA and the Code. Those class exemptions are Prohibited Transaction Exemption 96-23 (for transactions determined by in-house asset managers), Prohibited Transaction Exemption 95-60 (for certain transactions involving insurance company general accounts), Prohibited Transaction Exemption 91-38 (for certain transactions involving bank investment funds), Prohibited Transaction Exemption 90-1 (for certain transactions involving insurance company separate accounts), and Prohibited Transaction Exemption 84-14 (for certain transactions determined by independent qualified asset managers).

A purchaser or holder of preferred trust securities or any interest therein will be deemed to have represented by its purchase and holding thereof that it either (a) is not an employee benefit plan and is not purchasing such securities on behalf of or with “plan assets” of any employee benefit plan or (b) is eligible for the exemptive relief available under Prohibited Transaction Exemption 96-23, 95-60, 91-38, 90-1 or 84-14 with respect to such purchase and holding.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering the purchase of preferred trust securities on behalf of or with “plan assets” of any employee benefit plan consult with their counsel regarding the consequences under ERISA and the Code of the acquisition of preferred trust securities and the availability of exemptive relief under Prohibited Transaction Exemption 96-23, 95-60, 91-38, 90-1 or 84-14.

Plan of Distribution

This prospectus is to be used by USB AG, UBS Warburg LLC, PaineWebber Incorporated and other affiliates of UBS AG in connection with offers and sales related to market-making transactions in the debentures by and through UBS AG, UBS Warburg LLC, PaineWebber Incorporated and such other affiliates at negotiated prices that are related to prevailing market prices at the time of sale, or at other prices. UBS AG, UBS Warburg LLC, PaineWebber Incorporated and such other affiliates may act as principal or agent in these transactions. No new securities are offered. These market-making transactions will settle in accordance with customary market practices, or as otherwise agreed by the parties. None of the affiliates will receive any compensation from UBS Americas or UBS AG for engaging in those transactions.

Both series of preferred trust securities are listed on the New York Stock Exchange. The 8.30% Preferred Trust Securities of PWG Capital Trust I are listed under the symbol "PWJ PrA." The 8.08% Preferred Trust Securities of PWG Capital Trust II are listed under the symbol "PWJ PrB."

UBS Warburg LLC and PaineWebber Incorporated currently make a market in the preferred trust securities. However, they are not required to, and they can stop doing so at any time without notice. As a result, there is no assurance as to the liquidity of any market for the preferred trust securities.

Validity of the Securities

The validity of the preferred trust securities guarantee and the junior subordinated debentures was passed on, at the time of their initial issuance, by Cravath, Swaine and Moore, New York, New York. The validity of the preferred trust securities was passed on, at the time of their initial issuance, by Richards, Layton & Finger, Wilmington, Delaware. Both at that time and at the date of this prospectus, Cravath, Swaine & Moore and Richards, Layton & Finger acted and act from time to time as legal counsel to UBS Americas and its affiliates on various matters.

The validity of UBS AG's guarantee was passed upon for UBS by Sullivan & Cromwell, New York, New York in reliance upon the opinion of internal counsel for UBS AG as to certain matters under Swiss law. Sullivan & Cromwell has in the past represented and continues to represent UBS on a regular basis and in a variety of matters.

Experts

The consolidated financial statements of UBS AG at 31 December 1999 and 1998 and for each of the three years in the period ended 31 December 1999 appearing in this prospectus have been audited by Ernst & Young Ltd., independent auditors, as set forth in their report thereon appearing elsewhere in this prospectus, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing. The consolidated financial statements of Paine Webber Group Inc. at 31 December 1999 and 1998 and for each of the three years in the period ended 31 December 1999 appearing in this prospectus have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere in this prospectus, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

Limitation on Enforcement of U.S. Laws Against UBS, Its Management and Others

UBS is a Swiss bank. Many of its directors and executive officers, including some of the persons who signed the registration statement of which this prospectus is a part, and certain experts named in this prospectus, are resident outside the United States, and all or a substantial portion of UBS's assets and the assets of such persons are located outside the United States. As a result, it may be difficult for you to serve legal process on UBS or its management or have any of them appear in a U.S. court. We have been advised by UBS internal counsel that there is doubt as to enforceability in Switzerland, in original actions or in actions for enforcement of judgment of U.S. courts, of liabilities based solely on the federal securities laws of the United States.

Where You Can Find More Information

UBS files periodic reports and other information with the Securities and Exchange Commission. You may read and copy any document that UBS files with the SEC at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its public reference room. You may also inspect UBS's SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We have filed an amendment on Form F-1 to PaineWebber's registration statements on Form S-3 under the Securities Act with the SEC covering the debt securities and UBS's guarantees. For further information on the debt securities, the guarantees, the PWG Trusts, UBS Americas and UBS, you should review our registration statement and its exhibits. This prospectus summarizes material provisions of the contracts and other documents that we refer you to. Since this prospectus may not contain all the information that you may find important, you should review the full text of these documents. We have included copies of these documents as exhibits to our registration statement.

Presentation of Financial Information

UBS's financial statements have been prepared in accordance with International Accounting Standards and are denominated in Swiss francs, or "CHF," the legal tender of Switzerland. For convenience, 31 December 1999 CHF amounts have been translated into United States dollars, or "\$," at the rate of CHF 1=\$0.6277, which was the noon buying rate on 31 December 1999, and 30 June 2000 CHF amounts have been translated into United States dollars at the rate of CHF 1=\$0.6129, which was the noon buying rate on 30 June 2000. This translation should not be construed as a representation that the Swiss franc amounts actually denote such United States dollar amounts or have been, could have been or could be, converted into United States dollars at the rate indicated.

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

Year Ended 31 December	High	Low	Average Rate(1) (\$ per 1 CHF)	At Period End
1995	0.8951	0.7616	0.8466	0.8666
1996	0.8641	0.7399	0.8090	0.7468
1997	0.7446	0.6510	0.6890	0.6845
1998	0.7731	0.6485	0.6894	0.7281
1999	0.7361	0.6244	0.6605	0.6277
2000 (through 30 September)	0.6441	0.5596	0.5941	0.5792

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

Presentation of Financial Information

Month	High	Low
June 2000	0.6181	0.5925
July 2000	0.6165	0.5959
August 2000	0.5967	0.5739
September 2000	0.5804	0.5596
October 2000	0.5773	0.5479
November 2000	0.5759	0.5529

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INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following are the estimated expenses, other than any underwriting discounts and commission and expenses reimbursed by the Registrants, to be incurred in connection with the issuance and distribution of the securities registered under this Registration Statement:

Securities and Exchange Commission registration fees.....	\$	0
Printing and engraving expenses		250,000.00
Legal fees and expenses		75,000.00
Accountants' fees and expenses		50,000.00
Trustee and Transfer Agent fees and expenses.....		85,000.00
TOTAL.....		<u>\$400,000.00</u>

Item 14. Indemnification of Directors and Officers

UBS AG

Under Swiss law, directors and senior officers acting in violation of their statutory duties — whether dealing with *bona fide* third parties or performing any other acts on behalf of the corporation — may become liable to the corporation, its shareholders and (in bankruptcy) its creditors for damages. The directors' liability is joint and several but only to the extent the damage is attributable to each director based on willful or negligent violation of duty. If the board of directors lawfully delegated the power to carry out day-to-day management to a different corporate body, e.g., the executive board, the board of directors is not vicariously liable for the acts of the members of the executive board. Instead, the directors can be held liable for their failure to properly select, instruct or supervise the executive board members. If directors and officers enter into a transaction on behalf of the corporation with *bona fide* third parties in violation of their statutory duties, the transaction is nevertheless valid as long as it is not excluded by the corporation's business purpose.

Under Swiss law, a corporation may indemnify a director or officer of the corporation against losses and expenses (unless arising from his gross negligence or willful misconduct), including attorney's fees, judgments, fines and settlement amounts actually and reasonably incurred in a civil or criminal action, suit or proceeding by reason of having been the representative of or serving at the request of the corporation.

Because UBS AG is a Swiss company headquartered in Switzerland, many of the directors and officers of UBS AG are residents of Switzerland and not the U.S. As a result, U.S. investors may find it difficult in a lawsuit based on the civil liability provisions of the U.S. federal securities laws to:

- effect service within the U.S. upon UBS AG and the directors and officers of UBS AG located outside the U.S.,
- enforce in U.S. courts or outside the U.S. judgments obtained against those persons in U.S. courts,
- enforce in U.S. courts judgments obtained against those persons in courts in jurisdictions outside the U.S., and

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- enforce against those persons in Switzerland, whether in original actions or in actions for the enforcement of judgments of U.S. courts, civil liabilities based solely upon the U.S. federal securities laws.

Neither the UBS articles of association nor Swiss statutory law contain provisions regarding the indemnification of directors and officers.

According to general principles of Swiss employment law, an employer may, under certain circumstances, be required to indemnify an employee against losses and expenses incurred by him in the execution of his duties under the employment agreement, unless the losses and expenses arise from the employee's gross negligence or willful misconduct.

UBS maintains directors' and officers' insurance for its directors and officers.

UBS Americas Inc.

Under the authority conferred by Section 102 of the Delaware General Corporation Law (the DGCL), Article Nine of UBS Americas' Amended Certificate of Incorporation eliminates the personal liability of UBS Americas' directors to UBS Americas or its stockholders for monetary damages for breach of fiduciary duty. Directors remain liable for (i) any breach of the duty of loyalty to UBS Americas or its stockholders, (ii) any act or omission not in good faith or which involves intentional misconduct or a knowing violation of law, (iii) any violation of Section 174 of the DGCL, which proscribes the payment of dividends and stock purchases or redemptions under certain circumstances, and (iv) any transaction from which directors derive an improper personal benefit.

Article Nine further provides that any future amendment, modification or repeal of its terms will not adversely affect any rights of directors that exist at the time of the amendment, modification or repeal with respect to acts or omissions occurring prior to such amendment, modification or repeal. Article Nine also incorporates any future amendments to Delaware law which further eliminate or limit the liability of directors.

PWG Capital Trust I and II

The Amended and Restated Declaration of Trust for each of PWG Capital Trust I and PWG Capital Trust II (each a "PWG Trust") provides that no Trustee, any of its Affiliates, or any officer, director, shareholder, member, partner, employee, representative, or agent of any Trustee, or any employee or agent of any PWG Trust or any of its Affiliates (each an "Indemnified Person"), shall be liable, responsible or accountable in damages or otherwise to (i) any PWG Trust or any officer, director, shareholder, partner, member, representative, employee or agent of any PWG Trust or its Affiliates, (ii) any officer, director, shareholder, employee, representative or agent of UBS Americas (as successor by merger to) or any of its Affiliates, or (iii) any holder of Preferred Securities (each a "Covered Person"), for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Indemnified Person in good faith on behalf of any of PWG Trust and in a manner such Indemnified Person reasonably believed to be within the scope of the authority conferred on such Indemnified Person by such Declaration or by law, except that an Indemnified Person shall be liable for any such loss, damage or claim incurred by reason of such Indemnified Person's gross negligence or willful misconduct with respect to such acts or omissions.

The Amended and Restated Declaration of Trust for each PWG Trust also provides that to the full extent permitted by law, UBS Americas Inc. shall indemnify and hold harmless each Indemnified Person from and against any loss, damage or claim incurred by such Indemnified Person by reason of any act or omission performed or omitted by such Indemnified Person in good faith on behalf of any PWG Trust and in a manner such Indemnified Person reasonably believed to be within the scope of

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authority conferred on such Indemnified Person by such Declaration, except that no Indemnified Person shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Indemnified Person by reason of gross negligence (or, in the case of the Property Trustee, negligence) or willful misconduct with respect to such acts or omissions.

The Amended and Restated Declaration of Trust for each PWG Trust also provides that to the full extent permitted by law, that expenses (including legal fees) incurred by an Indemnified Person in defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by UBS Americas Inc. prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by UBS Americas Inc. of an undertaking by or on behalf of the Indemnified Person to repay such amount if it shall be determined that the Indemnified Person is not entitled to be indemnified as authorized in such Declaration.

Item 15. Recent Sales of Unregistered Securities by UBS AG

In the three years preceding the filing of this Registration Statement, UBS AG has sold the following securities that were not registered under the Securities Act. UBS Warburg LLC or another affiliate thereof was the principal underwriter for each of the following issuances and, except as otherwise described below, the securities were offered to, and purchased by, institutional investors. The following issuances were not subject to the registration requirements of the Securities Act of 1933 because the securities were offered and sold either outside the United States in a manner not requiring registration under the Securities Act or within the United States in reliance upon the exemption provided by Section 4(2) of the Securities Act of 1933 and/or Regulation D thereunder.

1998

February, 1998: XEU 110,000,000 1.00% convertible debt on FTSE Index.

March, 1998: USD 250,000,000 5.75% debt.

March-December, 1998: convertible debt and reverse convertible debt that combines a bond and a put option on a stock or stock index issued under the “cash or share delivery” (“Geld-Oder-Aktien-Lieferung” or “GOAL”) plan through 14 separate GOALS, offered on various dates, at various interest rates, with maturities at the time of initial issuance ranging from 2 to 10 years, and denominated in CHF, DEM, USD, ITL and NLG. The aggregate amount issued over this period was CHF 3,357,000,000, USD 275,000,000, DEM 300,000,000, ITL 350,000,000,000 and NLG 275,000,000. One of the issuances was offered to, and purchased by, retail clients and institutional investors, the other 13 issuances were offered to, and purchased by, only institutional investors.

July-December, 1998: 20,614 ordinary shares of UBS AG in accordance with the management stock plan (*management aktien programm*).

July-December, 1998: 1,729 ordinary shares of UBS AG pursuant to exercise of 17,290 outstanding options (with 5,434,600 options remaining unexercised) in accordance with the management stock option plan (*optionen wahl dividende*).

1999

January-December, 1999: convertible debt and reverse convertible debt that combines a bond and a put option on a stock or stock index issued under the GOAL plan through 26 separate GOALS, offered on various dates, at various interest rates, with maturities at the time of initial issuance ranging from 1 to 7 years, and denominated in CHF, EUR, USD and GBP. The aggregate amount issued over this period was CHF 1,210,000,000, EUR 492,000,000, USD 451,000,000 and GBP 95,000,000.

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January-December, 1999: convertible and ordinary debt issued by the Jersey branch of UBS AG under a medium term note program (the “European MTN Program”) through 9 separate issuances, offered on various dates, at various interest rates, with maturities at the time of initial issuance ranging from 1 to 7 years, and denominated in EUR, USD, JPY, SEK and CHF. The aggregate amount issued over this period was EUR 900,000,000, USD 150,000,000, JPY 25,388,000,000, SEK 233,000,000 and CHF 250,000,000. Three of the issuances were offered to, and purchase by, retail clients and institutional investors, the other 6 issuances were offered to, and purchased by, only institutional investors.

July, 1999: USD 100,000,000 1.50% convertible into AT&T shares issued by the Stamford branch of UBS AG under a medium term note program.

January-December, 1999: 329,139 ordinary shares of UBS AG in accordance with the management stock plan (*management aktien programm*).

January-December, 1999: 141,136 ordinary shares of UBS AG pursuant to exercise of 1,411,360 outstanding options (with 4,023,240 options remaining unexercised) in accordance with the management stock option plan (*optionen wahldividende*).

2000

January-June, 2000: convertible debt and reverse convertible debt that combines a bond and a put option on a stock or stock index issued under the GOAL plan issued through 19 separate GOALs, offered on various dates, at various interest rates with maturities at the time of initial issuance ranging from 1 to 5 years, and denominated in CHF, EUR and USD. The aggregate amount issued over this period was CHF 340,000,000, EUR 430,000,000 and USD 75,000,000.

January-June, 1999: convertible and ordinary debt issued by the Jersey branch of UBS AG under the European MTN Program through 12 separate issuances, offered on various dates, at various interest rates with maturities at the time of initial issuance ranging from 2 years to 5 years and 41 days, and denominated in CHF, EUR, USD and JPY. The aggregate amount issued over this period was CHF 13,000,000, EUR 57,000,000, USD 177,000,000 and JPY 15,000,000,000.

January-May, 2000: 101,826 ordinary shares of UBS AG (on a pre-split basis, in respect of the 2 for 1 stock split in May, 2000) pursuant to exercise of 1,018,216 outstanding options (with 3,004,980 options remaining unexercised) in accordance with the management stock option plan (*optionen wahldividende*).

May-July, 2000: 600,026 ordinary shares of UBS AG (on a post-split basis, in respect of the 2 for 1 stock split in May, 2000) pursuant to exercise of 3,000,130 outstanding options (with 4,850 options remaining unexercised) in accordance with the management stock option plan (*optionen wahldividende*).

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Item 16. Exhibits and Financial Statement Schedules

Exhibit Number	Description
3.1	Articles of Association of UBS AG
3.2	By-laws of UBS AG
3.3a	Certificate of Incorporation of UBS Americas Inc. (formerly known as Neptune Merger Subsidiary Inc.)
3.3b	Certificate of Amendment of Certificate of Incorporation of UBS Americas Inc. (formerly known as Neptune Merger Subsidiary Inc.)
3.3c	Certificate of Merger of Paine Webber Group Inc. with and into UBS Americas Inc.
3.4	By-laws of UBS Americas Inc. (formerly known as Neptune Merger Subsidiary Inc.)
4.1a	Indenture, dated as of 15 March 1988, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and The Chase Manhattan Bank (formerly known as Chemical Bank), as Trustee
4.1b	Supplemental indenture, dated as of 22 September 1989, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and The Chase Manhattan Bank (formerly known as Chemical Bank), as Trustee*
4.1c	Supplemental indenture, dated as of 22 March 1991, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and The Chase Manhattan Bank (formerly known as Chemical Bank), as Trustee*
4.1d	Supplemental indenture, dated as of 3 November 2000, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and The Chase Manhattan Bank (formerly known as Chemical Bank), as Trustee†
4.1e	Form of Supplemental Indenture, dated as of 22 December 2000, among UBS Americas Inc., UBS AG and The Chase Manhattan Bank
4.2a	Indenture, dated as of 15 March 1988, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and Chase Manhattan Bank USA, National Association (formerly known as Chemical Bank (Delaware)), as Trustee
4.2b	Supplemental indenture, dated as of 22 September 1989, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and Chase Manhattan Bank USA, National Association (formerly known as Chemical Bank (Delaware)), as Trustee*
4.2c	Supplemental indenture, dated as of 22 November 1991, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and Chase Manhattan Bank USA, National Association (formerly known as Chemical Bank (Delaware)), as Trustee*
4.2d	Supplemental indenture, dated as of 30 November 1993, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and Chase Manhattan Bank USA, National Association (formerly known as Chemical Bank (Delaware)), as Trustee*
4.2e	Supplemental indenture, dated as of 3 November 2000, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and Chase Manhattan Bank USA, National Association, as Trustee†
4.2f	Form of Supplemental Indenture, dated as of 22 December 2000, among UBS Americas Inc., UBS AG and Chase Manhattan Bank USA, National Association
4.3a	Indenture, dated as of 9 December 1996, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and The Chase Manhattan Bank, as Trustee

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Exhibit Number	Description
4.3b	Supplemental indenture dated as of 9 December 1996, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and The Chase Manhattan Bank, as Trustee
4.3c	Supplemental indenture, dated as of 14 March 1997, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and The Chase Manhattan Bank, as Trustee
4.3d	Supplemental Indenture, dated as of 3 November 2000, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and The Chase Manhattan Bank, as Trustee†
4.3e	Form of Supplemental Indenture, dated as of 22 December 2000, among UBS Americas Inc., UBS AG and The Chase Manhattan Bank
4.4a	Form of Debt Securities (Medium-Term Senior Note, Series C, Fixed Rate)
4.4b	Form of Debt Securities (Medium-Term Subordinated Note, Series D, Fixed Rate)
4.4c	Form of Debt Securities (Medium-Term Senior Note, Series C, Floating Rate)
4.4d	Form of Debt Securities (Medium-Term Subordinated Note, Series D, Floating Rate)
4.5	Declaration of Trust of PWG Capital Trust I**
4.6	Certificate of Trust of PWG Capital Trust I**
4.7	Declaration of Trust of PWG Capital Trust II**
4.8	Certificate of Trust of PWG Capital Trust II**
4.9	Amended and Restated Declaration of Trust for PWG Capital Trust I
4.10	Amended and Restated Declaration of Trust for PWG Capital Trust II
4.11a	Certificate Evidencing PWG Capital Trust I 8.30% Preferred Trust Securities (liquidation amount \$25 per Preferred Security)
4.11b	Certificate Evidencing PWG Capital Trust II 8.08% Preferred Trust Securities (liquidation amount \$25 per Preferred Security)
4.12a	Certificate Evidencing PWG Capital Trust I 8.30% Common Trust Securities (liquidation amount \$25 per Common Security)
4.12b	Certificate Evidencing PWG Capital Trust II 8.08% Common Trust Securities (liquidation amount \$25 per Common Security)
4.13	Form of Guarantee, dated as of 22 December 2000, by UBS AG of the obligations of UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) under the Declaration of Trust of PWG Capital Trust I, dated as of 9 December 1996
4.14	Form of Guarantee dated as of 22 December 2000, by UBS AG of the obligations of UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) under the Declaration of Trust of PWG Capital Trust II, dated as of 14 March 1997
4.15	8.30% Junior Subordinated Debenture due 2036
4.16	8.08% Junior Subordinated Debenture due 2037
4.17	Guarantee Agreement of PWG Capital Trust I, dated as of 9 December 1996, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and The Chase Manhattan Bank, as Guarantee Trustee
4.18	Form of Amendment, dated as of 22 December 2000, to Guarantee Agreement of PWG Capital Trust I

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Exhibit Number	Description
4.19	Guarantee Agreement of PWG Capital Trust II, dated as of 14 March 1997, between UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.) and The Chase Manhattan Bank, as Guarantee Trustee
4.20	Form of Amendment, dated as of 22 December 2000, to Guarantee Agreement of PWG Capital Trust II
4.21	8 ⁷ / ₈ % Notes Due 2005††
4.22	8 ¹ / ₄ % Notes Due 2002††
4.23	6 ³ / ₄ % Notes Due 2006††
4.24	6 ¹ / ₂ % Notes Due 2005†††
4.25	7 ⁵ / ₈ % Notes Due 2014†††
4.26	7 ³ / ₄ % Subordinated Notes Due 2002†††
4.27	9 ¹ / ₄ % Notes Due 2001
4.28	7 ⁷ / ₈ % Notes Due 2003
4.29	7 ⁵ / ₈ % Notes Due 2008
4.30	6.55% Notes Due 2008
4.31	6.45% Notes Due 2003
4.32	6 ³ / ₈ % Notes Due 2004
4.33	7 ⁵ / ₈ % Notes Due 2009
5.1	Opinion of Sullivan & Cromwell as to the validity of the guarantees of UBS AG (New York law)
5.2	Opinion of Cravath, Swaine & Moore as to the validity of the junior subordinated debentures and preferred trust securities guarantees* * * * *
5.3	Opinion of UBS AG internal counsel as to the validity of the guarantees of UBS AG (Swiss law)
5.4	Opinions of Theodore Levine as to the validity of the debt securities***
5.5	Opinion of Richards, Layton & Finger as to the validity of the preferred trust securities* * * * *
8.1	Opinion of Sullivan & Cromwell as to certain United States tax matters
8.2	Opinion of Cravath, Swaine & Moore as to certain United States tax matters
8.3	Opinion of Ernst & Young AG as to certain Swiss tax matters
10.1	Agreement and Plan of Merger, dated as of July 12, 2000, by and among Paine Webber Group Inc., UBS AG and Neptune Merger Subsidiary, Inc.*
12	Statement regarding ratio of fixed charges to earnings
21	Subsidiaries of UBS AG
23.1	Consent of Sullivan & Cromwell (included in Exhibit 5.1)
23.2	Consent of Cravath, Swaine & Moore
23.3	Consent of UBS AG internal counsel (included in Exhibit 5.3)
23.4	Consent of Sullivan & Cromwell (included in Exhibit 8.1)
23.5	Consent of Ernst & Young Ltd. as independent auditors of UBS AG
23.6	Consent of Cravath, Swaine & Moore (included in Exhibit 8.2)
23.7	Consent of Ernst & Young Ltd. relating to the opinion in Exhibit 8.3

Part II

Exhibit Number	Description
23.8	Consent of Ernst & Young LLP as independent auditors of UBS Americas Inc. (as successor by merger to Paine Webber Group Inc.)
23.9	Consent of Theodore Levine
23.10	Consent of Richards, Layton & Finger
24.1	Power of Attorney
25.1	Statement of Eligibility of Trustee under senior debt securities
25.2	Statement of Eligibility of Trustee under subordinated debt securities
25.3a	Statement of Eligibility of Trustee under 8.30% Junior Subordinated Debentures Due 2036
25.3b	Statement of Eligibility of Trustee under 8.08% Junior Subordinated Debentures Due 2037
25.3c	Statement of Eligibility of Trustee under 8.08% Trust Preferred Securities
25.3d	Statement of Eligibility of Trustee under 8.30% Trust Preferred Securities
25.3e	Statement of Eligibility of Trustee under Trust Preferred Securities Guarantee PWG Capital Trust I
25.3f	Statement of Eligibility of Trustee under Trust Preferred Securities Guarantee PWG Capital Trust II

* Incorporated by reference to exhibit to Pre-Effective Amendment No. 1 of Paine Webber Group Inc. on 18 October 1995.

† Incorporated by reference to exhibit to Form 8-K of UBS Americas Inc. on 21 November 2000.

†† Incorporated by reference to exhibit to Form 10-K of Paine Webber Group Inc. on 29 March 1996.

††† Incorporated by reference to exhibit to Form 10-K of Paine Webber Group Inc. on 30 March 1995.

*** Incorporated by reference to exhibit 5 to each of Paine Webber Group Inc.'s Registration Statement Nos. 333-6307, 333-17913, 333-58124, 333-47267, 333-29253, 333-7738 and 2-99979.

**** Incorporated by reference to exhibit 5 to Registration Statements Nos. 333-13831, 333-13831-01 to -04 and 333-67187, 333-67187-01 to -04.

***** Incorporated by reference to exhibit 5.1 to Registration Statement Nos. 333-13831, 333-13831-01 to -04.

Item 17. Undertakings

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Part II

UBS AG hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
 - (i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;
 - (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the “Calculation of Registration Fee” table in the effective registration statement; and
 - (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;
- (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof;
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;
- (4) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrants pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act will be deemed to be part of this registration statement as of the time it was declared effective; and
- (5) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus will be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time will be deemed to be the initial *bona fide* offering thereof.
- (6) To file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A. of Form 20-F at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Act need not be furnished, *provided*, that the registrant includes in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (6) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements.

Part II

Pursuant to the requirements of Section 6(a) of the Securities Act of 1933, the Authorized Representative has duly caused this Amendment to Registration Statement to be signed on its behalf by the undersigned, solely in its capacity as the duly authorized representative of UBS AG in the United States, in The City of New York, State of New York, on 22 December 2000.

By: /s/ ROBERT C. DINERSTEIN
Name: Robert C. Dinerstein
Title: Senior — Managing Director

Pursuant to the requirements of the Securities Act of 1933, UBS Americas Inc. certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on 22 December 2000.

UBS AMERICAS INC.

By: /s/ ROBERT B. MILLS
Name: Robert B. Mills
Title: Managing Director, Treasurer and
Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u> /s/ JOHN P. COSTAS </u> (John P. Costas)	President (principal executive officer)	December 22, 2000
<u> /s/ ROBERT B. MILLS </u> (Robert B. Mills)	Managing Director, Treasurer and Chief Financial Officer (principal financial and accounting officer)	December 22, 2000
<u> /s/ JOHN P. COSTAS </u> (John P. Costas)	Director	December 22, 2000
<u> /s/ MARKUS GRANZIOL </u> (Markus Granziol)	Director	December 22, 2000

