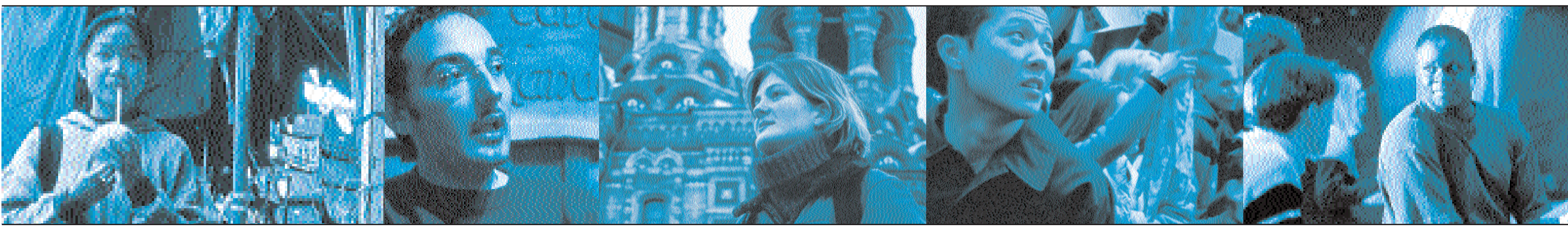
UBS

Financial Report 2000



Our Information Portfolio

This Financial Report 2000 contains our audited financial statements for the year 2000 and accompanying detailed analysis. It is available in English and German (SAP-80531-0101). It is supplemented by the following documents:

Annual Review 2000
Our Annual Review provides brief descriptions of our business groups and a summary review of the year 2000. It is available in English, German, French, Italian and Spanish (SAP-80530-0101).

Handbook 2000/2001
Our Handbook contains detailed descriptions of our business groups and other in-depth information about UBS, including risk management and control, asset and liability management, corporate governance and our financial disclosure principals. It is available in English and German (SAP-80532-0101).
Environmental reporting: The Handbook also contains information on UBS and the environment.

Quarterly Reports
UBS provides detailed quarterly financial reporting and analysis, including comment on the progress of its businesses and key strategic initiatives.

Our Commitment 1999/2000
The Report "Our Commitment 1999/2000" illustrates how we create value for our clients, employees, shareholders and the community and how we meet our responsibility to all our stakeholder groups. It is available in English, German and French (SAP-81011-0001).

Each of these reports is available on the internet at: www.ubs.com/investor-relations.

Alternatively, printed copies of these reports can be ordered, quoting the SAP number and language preference, from: UBS AG, Information Center, CA50-XMB, P.O. Box, CH-8098 Zurich, Switzerland.

"Excellence"

As sponsor of the UBS Verbier Festival Youth Orchestra, we provide support and encouragement for talented young musicians from all over the world as they rise to the top of their profession. Our Annual Review 2000 carries portraits of some of these young musicians, who are also shown on the front cover of this document.

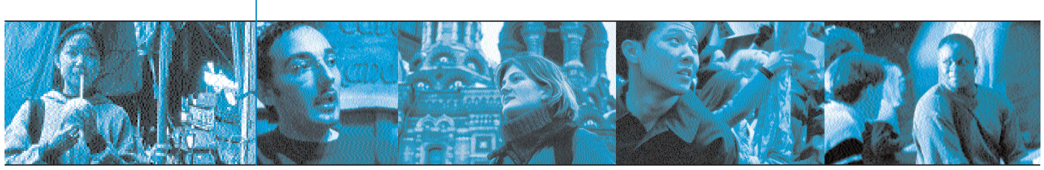


Table of Contents

Introduction

The UBS Financial Report 2000, published for the first time in this format, forms an essential part of UBS's reporting portfolio. It includes the audited consolidated financial statements of UBS Group for 2000 and 1999, prepared according to International Accounting Standards and reconciled to U.S. GAAP, and the audited financial statements of the UBS Parent Bank for 2000, prepared according to Swiss Banking Law requirements. It contains the discussion and analysis of the results of UBS Group required for the US Securities and Exchange Commission's Form 20-F.

The UBS Financial Report 2000 is complemented by another new publication, the UBS Handbook 2000/2001, which describes the Group's strategy and organization, the businesses it operates, the way it manages risk and its arrangements for corporate governance.

In addition, UBS publishes Quarterly Financial Reports, analyzing its performance during each quarter of the year, and an Annual Review, which provides a brief summary of the Group and its financial performance in 2000.

We hope that you will find the information in these documents useful and informative. We believe that UBS is among the leaders in corporate disclosure, but we would be very interested to hear your views on how we might improve the content and presentation of our information portfolio.

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Information for Readers

The discussion and analysis in the Group Financial Review and Review of Business Group Performance should be read in conjunction with the UBS Group's consolidated financial statements and the related notes, which are shown in pages 58 to 142 of this document.

Parent Bank

Pages 147 to 154 contain the financial statements for the UBS AG Parent Bank – the Swiss company, including branches worldwide, which owns all the UBS Group companies, directly or indirectly. Except in those pages, or where otherwise explicitly stated, all references to "UBS" refer to the UBS Group and not to the Parent Bank.

Accounting standards

The UBS Group's consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS). As a US listed company, UBS provides a description in Note 41 to its consolidated financial statements of the significant differences which would arise were our accounts to be presented under U.S. GAAP, and a specific reconciliation of the two methods of calculating shareholders' equity and net profit.

Unless otherwise stated, all of UBS Group's financial information presented in this document is presented on a consolidated basis under IAS.

The Parent Bank's financial statements have been prepared in accordance with Swiss Banking Law requirements.

All references to 2000, 1999 and 1998 refer to the UBS Group and the Parent Bank's fiscal years ended 31 December 2000, 1999 and 1998, respectively. The financial statements for the UBS Group and the Parent Bank for each of these periods have been audited by Ernst & Young Ltd., as described in the Reports of the Independent Auditors on pages 143 and 155.

Accounting changes and restatements

For comparative purposes, UBS Group's 1999 and 1998 figures have been restated to conform to the 2000 presentation, reflecting certain changes in accounting standards and methods of presentation, 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 and dividend revenues from net trading income to net interest income; and
– the removal of the credit to net interest income and matching debit to net trading income for the cost of funding trading positions.

Note 1 of UBS's consolidated financial statements includes a complete explanation of these and other accounting changes.

PaineWebber

Except where otherwise stated, all 2000 figures for UBS Group throughout this report, include the impact of the merger with Paine Webber Group, Inc., which was completed on 3 November 2000. Under purchase accounting rules, the results reflect PaineWebber's income and expenses for two months only, from 3 November 2000 until year end.

Restructuring provision

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 merger was effected, UBS began integrating the operations of the two banks. This process included streamlining operations, eliminating duplicate information technology infrastructure, and consolidating banking premises. At the time of the merger, UBS established a restructuring provision of CHF 7 billion to cover its expected costs associated with the integration process.

An additional pre-tax restructuring charge of CHF 300 million in respect of the merger, repre-

Restructuring Provision Used

					For the year ended		
CHF million	Personnel	IT	Premises	Other	**31.12.00**	31.12.99	31.12.98
UBS Switzerland	176	32	4	16	**228**	916	821
UBS Asset Management	7	0	0	0	**7**	15	22
UBS Warburg	0	0	0	0	**0**	348	2,423
Corporate Center	5	31	395	33	**464**	565	761
Group total	188	63	399	49	**699**	1,844	4,027

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	**699**
Total used through 31.12.2000	**6,570**
Restructuring provision remaining at 31.12.2000	**730**

senting about 4% of the original CHF 7 billion provision, was recognized in December 1999. The majority of the additional 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 merger and, at 31 December 2000, had used approximately CHF 6.6 billion of the CHF 7.3 billion restructuring provision. UBS expects to have utilized the entire provision by the end of 2001.

Significant financial events

UBS analyses its performance on a reported basis determined in accordance with International Accounting Standards, and on a normalized basis which excludes from the reported amounts certain items UBS calls *significant financial events*.

Figures adjusted for significant financial events are used to illustrate the underlying operational performance of the business, insulated from the impact of one off gains or losses outside the normal run of business. In particular, UBS's financial targets have been set in terms of adjusted results, excluding significant financial events. A policy approved by the Group Executive Board defines which items may be classified as significant financial events.

The use of numbers which have been adjusted for significant financial events is restricted to UBS's business unit reporting and to the discussion and analysis of the Group's results and the accompanying illustrative tables. All segmental reporting includes tables showing both reported figures and adjusted ones, if applicable.

All adjusted figures are clearly identified as such, and the pre-tax amount of each individual significant financial event is clearly disclosed, as is the net tax benefit or loss associated with all the significant financial events in each period.

UBS introduced the concept of significant financial events for the first time in its 1999 Reporting, and did not define significant financial events for 1998. The comparison of results for 1999 against 1998 therefore considers only unadjusted figures.

Significant financial events during 1999 and 2000 are shown in the table opposite and described in more detail below.

- During 2000, UBS recorded restructuring charges and provisions of CHF 290 million pre-tax relating to the integration of PaineWebber into UBS.
- 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 the disposal of Julius Baer registered shares; CHF 200 million on the sale of its international Global Trade Finance business; and CHF 38 million from its residual holding in Long Term Capital Management.
- In fourth quarter 1999, UBS recognized a one-time credit of CHF 456 million in connection with excess pension fund employer pre-payments.

Significant Financial Events

CHF million	For the year ended 31.12.00	31.12.99
Operating income as reported	**36,402**	28,425[1]
Julius Baer registered shares divestment		(110)
International Global Trade Finance divestment		(200)
Swiss Life / Rentenanstalt divestment		(1,490)
LTCM gain		(38)
Adjusted operating income	**36,402**	26,587
Operating expenses as reported	**26,203**	20,532
US Global Settlement Fund provision	**(150)**	(154)
Pension Fund accounting credit		456
UBS / SBC Restructuring provision		(300)
PaineWebber integration costs	**(290)**	
Adjusted operating expenses	**25,763**	20,534
Adjusted operating profit before tax and minority interests	**10,639**	6,053
Tax expense	**2,320**	1,686
Tax effect of significant financial events	**100**	(352)
Adjusted tax expense	**2,420**	1,334
Minority interests	**(87)**	(54)
Adjusted net profit	**8,132**	4,665

[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: Summary of Significant Accounting Policies).

- In fourth quarter 1999, UBS recognized an additional pre-tax restructuring charge of CHF 300 million in respect of the 1998 merger between Union Bank of Switzerland and Swiss Bank Corporation.
- During 1998, UBS established a provision of CHF 842 million in connection with the US Global Settlement of World War II related claims. UBS recognized additional pre-tax provisions relating to this claim of CHF 154 million in 1999 and CHF 150 million in 2000.

Risk factors

As a global financial services firm, UBS's businesses are affected by the external environment in the markets in which UBS 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, global economic and political conditions can impact UBS's results 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 activity 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 managers, retail and commercial banks, private banking firms, investment banking firms, brokerage firms and other investment services firms. In addition, the trend toward consolidation in the global financial services industry is creating competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power.

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 US dollar, may have an effect on the earnings that it reports. UBS's approach to managing this risk is explained in the Currency Management section of the discussion of Asset and Liability Management in the UBS Handbook 2000/2001.

In addition, changes in financial market structures can affect UBS's earnings. For example, the establishment of the euro during 1999 affected 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. UBS's interest income is affected by changes in interest rates, although the precise mechanisms are complicated. Interest rate movements can also affect UBS's fixed income trading portfolio and the investment performance of its asset management businesses. For further discussion of the effect of interest rate changes on UBS's business see the Interest Rate Risk Management section of the discussion of Asset and Liability Management in the UBS Handbook 2000/2001.

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.

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.

For a discussion of UBS's risk management and control procedures see the Risk Management and Control section of the UBS Handbook 2000/2001.

UBS Group Financial Highlights

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Income statement key figures				
Operating income	**36,402**	28,425	22,247	28
Operating expenses	**26,203**	20,532	18,376	28
Operating profit before tax	**10,199**	7,893	3,871	29
Net profit	**7,792**	6,153	2,972	27
Cost / income ratio (%)[2]	**72.2**	69.9	79.2	
Cost / income ratio before goodwill (%)[2, 3]	**70.4**	68.7	77.7	
Per share data (CHF)				
Basic earnings per share[4, 7]	**19.33**	15.20	7.33	27
Basic earnings per share before goodwill[3, 4, 7]	**20.99**	16.04	8.18	31
Diluted earnings per share[4, 7]	**19.04**	15.07	7.20	26
Diluted earnings per share before goodwill[3, 4, 7]	**20.67**	15.90	8.03	30
Return on shareholders' equity (%)				
Return on shareholders' equity[5]	**21.5**	22.4	10.7	
Return on shareholders' equity before goodwill[3, 5]	**23.4**	23.6	12.0	

CHF million, except where indicated As of	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Balance sheet key figures				
Total assets	**1,087,552**	896,556	861,282	21
Shareholders' equity	**44,833**	30,608	28,794	46
Market capitalization	**112,666**	92,642	90,720	22
BIS capital ratios				
Tier 1 (%)	**11.7**	10.6	9.3	
Total BIS (%)	**15.7**	14.5	13.2	
Risk-weighted assets	**273,290**	273,107	303,719	0
Total assets under management (CHF billion)	**2,469**	1,744	1,573	42
Headcount (full time equivalents)[6]	**71,076**	49,058	48,011	45
Long-term ratings				
Fitch, London	**AAA**	AAA	AAA	
Moody's, New York	**Aa1**	Aa1	Aa1	
Standard & Poor's, New York	**AA+**	AA+	AA+	

Earnings adjusted for significant financial events[8]

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	% change from 31.12.99
Operating income	**36,402**	26,587	37
Operating expenses	**25,763**	20,534	25
Operating profit before tax	**10,639**	6,053	76
Net profit	**8,132**	4,665	74
Cost / income ratio before goodwill (%)[2, 3]	**69.2**	73.3	
Basic earnings per share before goodwill (CHF)[3, 4, 7]	**21.83**	12.37	76
Diluted earnings per share before goodwill (CHF)[3, 4, 7]	**21.50**	12.26	75
Return on shareholders' equity before goodwill (%)[3, 5]	**24.3**	18.2	

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [2] Operating expenses / operating income before credit loss recovery / (expense). [3] The amortization of goodwill and other intangible assets is excluded from the calculation. [4] For EPS calculation, see Note 10 to the Financial Statements. [5] Net profit / average shareholders' equity excluding dividends. [6] The Group headcount does not include the Klinik Hirslanden AG headcount of 1,839 and 1,853 for 31 December 2000 and 31 December 1999, respectively. [7] 1999 and 1998 share figures are restated for the two-for-one share split, effective 8 May 2000. [8] Details of Significant Financial Events can be found on pages 4 and 5.

Except where otherwise stated, all 31 December 2000 figures throughout this report include the impact of the acquisition of PaineWebber, which occurred on 3 November 2000.

Group Financial Review

Group Performance

Introduction

UBS is a global integrated investment services firm and the leading bank in Switzerland. We are the world's leading provider of private banking services and one of the largest asset managers globally. In the investment banking and securities businesses we are among the select bracket of major global houses. In Switzerland we are the clear market leader in corporate and retail banking. As an integrated group, not merely a holding company, we create added value for clients by drawing on the combined resources and expertise of all our businesses.

UBS operates through three Business Groups and its Corporate Center. 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, until January 2001, consisted of two business units: Institutional Asset Management and Investment Funds / GAM; and,
– UBS Warburg, which, until January 2001, was composed of five business units: Corporate & Institutional Clients, UBS Capital, US Private Clients, International Private Clients and e-services.

Within each Business Group, business units share senior management, infrastructure and other resources.

A full description of UBS and its Business Groups can be found in the UBS Handbook 2000/2001.

The financial impact on UBS of the PaineWebber merger

Restructuring costs

UBS has incurred a total of CHF 746 million (USD 431 million) of restructuring costs and other one-off merger-related costs as a result of the PaineWebber merger.

In accordance with IAS purchase accounting rules, CHF 456 million of these costs have been accounted for as a pre-acquisition liability of PaineWebber and were therefore added to the goodwill amount for the transaction.

The remaining expenses, of CHF 290 million, were charged in fourth quarter 2000, and treated as a significant financial event. CHF 152 million was charged in UBS Warburg's e-services business unit, representing the costs of closure of telephone call centers and the write-down of capitalized software no longer required in light of changes in the strategy due to the PaineWebber acquisition. CHF 106 million was charged in the Corporate and Institutional Clients business unit, principally covering severance and other personnel costs. The remaining CHF 32 million was charged in Corporate Center.

Goodwill

The amount of goodwill and intangible assets resulting from the merger was USD 10.0 billion, or CHF 17.5 billion.

Within this total USD 2.7 billion relates to identified intangible assets, including the value of PaineWebber's brand and infrastructure.

The goodwill and intangible assets will be amortized over 20 years. Amortization costs amounted to CHF 138 million in the fourth quarter 2000.

Retention payments

As part of the merger, UBS agreed to make retention payments to PaineWebber financial advisors, senior executives, and other staff, subject to these employees' continued employment and other restrictions. The value of these payments is expected to amount to a total of USD 875 million (CHF 1,541 million), the vast majority of which will be paid in the form of UBS shares. The payments will vest over periods of up to four years from the merger. USD 76 million (CHF 128 million) was charged in fourth quarter 2000, and approximately USD 280 million (approximately CHF 458 million at year end 2000 exchange rates) is expected to be charged in 2001.

Cash consideration

The cash portion of the merger consideration was USD 6.0 billion, or CHF 10.6 billion. UBS took advantage of the focus on the company in US markets as a result of the PaineWebber transaction to make its inaugural US public offering, issuing USD 1.5 billion of 8.622% Trust Preferred Securities on 10 October 2000.

Issue of shares to finance the PaineWebber merger

At an 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 to issue additional shares as required during the three months following completion of the merger, up to the 38 million shares limit.

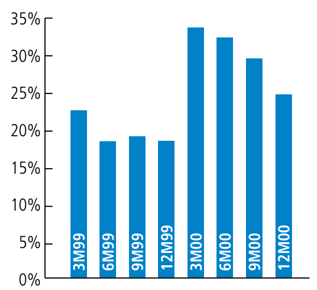
As announced at the completion of the merger, 40.6 million shares were delivered to PaineWebber shareholders as part of the merger consideration. UBS chose to fund this amount by issuing 12 million new ordinary shares, re-issuing 7 million shares held in Treasury and borrowing the remaining 21.6 million ordinary shares that were required.

On 6 November 2000, following completion of the merger, UBS launched a new treasury share buy-back program in Switzerland, designed principally to repurchase shares to cover the borrowings. When the program was completed on 2 March 2000, a total of 30 million shares had been repurchased at an average price of CHF 266. By 31 December 2000, 14.2 million shares had been purchased through this program, and 13.8 million of them had been delivered to cover the borrowed shares, leaving 7.8 million borrowed shares still outstanding. UBS completed the repurchase of sufficient shares to cover all the borrowed shares on 24 January 2001, having paid an average price of CHF 262 per share.

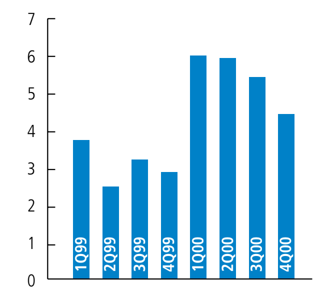
With no requirement to issue further shares in connection with the PaineWebber merger, the green shoe option lapsed. UBS has met its commitment to minimize the dilution of earnings and voting power, by keeping the final number of new UBS shares issued as small as possible. The weighted average number of shares in the fourth quarter was 5% higher than if the PaineWebber transaction had not occurred.

The Annual General Meeting on 26 April 2001 will be asked to give formal approval for the elimination of the remaining 26 million shares of authorized capital which were not required for the transaction. It will also be asked to reduce the conditional capital created to cover future exercise of options held by PaineWebber staff from 16.3 million to the 5.6 million required to cover the remaining outstanding options.

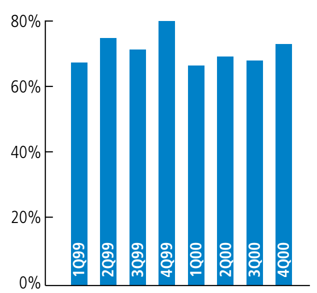
RoE[1] annualized



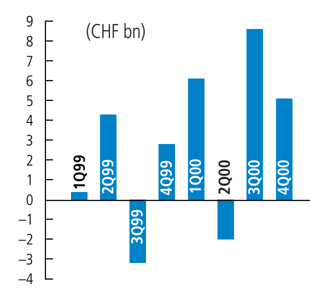
Basic EPS[2,3] (CHF)



Cost/Income Ratio[2]



Net New Money, Private Client Units[4]



[1] Annualized, before goodwill amortization and adjusted for significant financial events.
[2] Before goodwill amortization and adjusted for significant financial events.
[3] 1999 figures are restated for the two-for-one share split, effective 8 May 2000.
[4] Includes Private Banking, International Private Clients and US Private Clients.

UBS Group Performance against Targets

For the year ended	31.12.00	31.12.99[1]
RoE (%)		
as reported	21.5	22.4
before goodwill and adjusted for significant financial events[2]	24.3	18.2
Basic EPS (CHF)		
as reported[3]	19.33	15.20
before goodwill and adjusted for significant financial events[2, 3]	21.83	12.37
Cost / income ratio (%)		
as reported	72.2	69.9
before goodwill and adjusted for significant financial events[2]	69.2	73.3

Assets under Management

CHF billion	31.12.00	31.12.99	Net new money[4] 2000	Net new money[4] 1999
UBS Group	2,469	1,744		
UBS Switzerland				
Private and Corporate Clients	440	439	0	
Private Banking	681	671	(1)	1
UBS Asset Management				
Institutional Asset Management[5]	496	574	(67)	(50)
Investment Funds / GAM	219	225	4	1
UBS Warburg				
US Private Clients[6]	794		8	
International Private Clients	33	36	10	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: Summary of Significant Accounting Policies). [2] The amortization of goodwill and other intangible assets is excluded from the calculation. [3] 1999 share figures are restated for the two-for-one share split, effective 8 May 2000. [4] Excludes interest and dividend income. [5] Includes non-institutional assets also reported in the Investment Funds / GAM business unit. [6] Client Assets were CHF 890 billion at 3 November 2000.

Group results 2000

Group targets

UBS focuses on four key performance targets, designed to drive us to deliver continually improving returns to our shareholders.

- UBS seeks to achieve a sustainable, after-tax return on equity of 15–20%, across periods of varying market conditions.
- UBS aims to increase shareholder value through double-digit average annual earnings per share (EPS) growth, across periods of varying market conditions.
- Through cost reduction and earnings enhancement initiatives, UBS aims to reduce the Group's cost/income ratio to a level that compares positively with best-in-class competitors.
- UBS aims to achieve a clear growth trend in net new money in its private client businesses.

The first three targets are all measured pre-goodwill amortization, and adjusted for significant financial events.

Adjusted for significant financial events, our pre-goodwill return on equity for the year 2000 was 24.3%, clearly above our target range of 15–20%. Pre-goodwill earnings per share, again on an adjusted basis, were CHF 21.83 in 2000, representing an increase of 76% over 1999, well in excess of our target of double-digit growth over the cycle. Continued focus on cost control has brought the pre-goodwill cost/income ratio, adjusted for significant financial events, down to 69.2% in 2000, from 73.3% in 1999.

Net new money in the private client businesses (Private Banking, US Private Clients and International Private Clients) was CHF 18 billion for the year, compared to CHF 4 billion in 1999, and including CHF 8 billion of net new money in PaineWebber in only two months. PaineWebber's net new money growth since completion of the merger demonstrates the strength of its franchise and the momentum that it brings to UBS's asset gathering performance.

Net profit

Full year net profit was CHF 7,792 million, up 27% from the CHF 6,153 million reported in 1999. When adjusted for significant financial events, net profit for 2000 was CHF 8,132 million, up 74% from the CHF 4,665 million achieved in 1999. These results reflect the very strong and consistent performance recorded by the Group in every quarter of 2000.

Operating income and expense includes income and expense of the former PaineWebber businesses from 3 November 2000, the date of the completion of the merger with PaineWebber.

Operating income

Total operating income increased 28% from 1999, to CHF 36,402 million, from CHF 28,425 million. Adjusted for significant financial events, total operating income increased 37%, to CHF 36,402 million, from CHF 26,587 million in 1999. This strong performance relative to 1999, was driven by excellent trading results, improved credit conditions in the Swiss market, much higher fee and commission income, and a successful year for the Group's investment banking business.

The principal significant financial events affecting the income comparison were from the one-off sales of businesses and investments in 1999, including pre-tax gains of CHF 1,490 million on the sale of UBS's 25% stake in Swiss Life/Rentenanstalt and CHF 110 million on the disposal of Julius Baer registered shares, recorded in Net gains from disposal of associates and subsidiaries, and CHF 200 million on the sale of UBS's international Global Trade Finance business, which was recorded in Other income. In addition UBS recognized a CHF 38 million gain in 1999 from its residual holdings in Long Term Capital Management, L.P., which was also recorded in Other income.

Net interest income before credit loss increased by CHF 2,221 million, or 38%, from CHF 5,909 million in 1999 to CHF 8,130 million in 2000. This was principally the result of much stronger

Net Interest Income

CHF million For the year ended	**31.12.00**	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Interest income				
Interest earned on loans and advances to banks	**5,615**	6,105	7,687	(8)
Interest earned on loans and advances to customers	**14,692**	12,077	14,111	22
Interest from finance leasing	**36**	49	60	(27)
Interest earned on securities borrowed and reverse repurchase agreements	**19,088**	11,422	10,380	67
Interest and dividend income from financial investments	**202**	160	372	26
Interest and dividend income from trading portfolio	**11,842**	5,598	3,901	112
Other	**270**	193	931	40
Total	**51,745**	35,604	37,442	45
Interest expense				
Interest on amounts due to banks	**6,155**	5,515	8,205	12
Interest on amounts due to customers	**9,505**	8,330	9,890	14
Interest on securities lent and repurchase agreements	**14,915**	8,446	7,543	77
Interest and dividend expense from trading portfolio	**5,309**	2,070	1,741	156
Interest on medium and long term debt	**7,731**	5,334	5,045	45
Total	**43,615**	29,695	32,424	47
Net interest income	**8,130**	5,909	5,018	38

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies).

Net Fee and Commission Income

CHF million For the year ended	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Credit-related fees and commissions	**310**	372	559	(17)
Security trading and investment activity fees				
Underwriting fees [1]	**1,434**	905	1,122	58
Corporate finance fees [1]	**1,772**	1,298	1,016	37
Brokerage fees	**5,792**	3,934	3,670	47
Investment fund fees	**2,821**	1,915	1,778	47
Fiduciary fees	**351**	317	349	11
Custodian fees	**1,439**	1,583	1,386	(9)
Portfolio and other management and advisory fees [1]	**3,677**	2,612	2,891	41
Other	**50**	57	110	(12)
Total	**17,336**	12,621	12,322	37
Commission income from other services	**802**	765	776	5
Total fee and commission income	**18,448**	13,758	13,657	34
Fee and commission expense				
Brokerage fees paid	**1,084**	795	704	36
Other	**661**	356	327	86
Total	**1,745**	1,151	1,031	52
Net fee and commission income	**16,703**	12,607	12,626	32

[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 previous periods have been restated accordingly.

trading-related performance, as a result of buoyant markets, and the return of the balance sheet to more normal proportions after the contraction implemented as part of the Group's precautions against potential Year 2000 related problems.

Net interest income from loans and advances to banks and amounts due to banks fell from CHF 590 million in 1999 to a net expense of CHF 540 million in 2000 due to increased average liabilities as UBS used its unsecured funding power to take advantage of opportunities for investments in low risk assets such as collateralized lending. Net interst income from collateralized lending – repos, reverse repos, securities borrowing and lending – increased 40%, or CHF 1,197 million to CHF 4,173 million in 2000.

Interest paid on medium and long term debt (including commercial paper) increased 45% or CHF 2,397 million from CHF 5,334 million in 1999 to CHF 7,731 million in 2000 as interest rates rose and UBS's funding requirements increased, due to balance sheet growth in more active markets. UBS also changed the mix of its debt to include a higher proportion of short-term financing.

Credit loss expense. As a result of the significant recovery of the Swiss economy in 2000 and especially its effect on the real estate and construction markets, UBS was able to write back CHF 695 million of credit loss provisions in UBS Switzerland in 2000. These write-backs were offset by additional provisions for the UBS Warburg portfolio of CHF 565 million, leading to an overall net credit recovery of CHF 130 million for 2000, compared to an expense of CHF 956 million in 1999.

Net fee and commission income increased by CHF 4,096 million, or 32%, from CHF 12,607 million in 1999 to CHF 16,703 million in 2000. This was principally the result of high levels of brokerage fees, due to increased client activity in strong markets, especially in the first quarter of 2000, and the addition of PaineWebber. In addition, two other new businesses, Global Asset Management (GAM), acquired at the end of 1999, and O'Connor, created in June 2000, contributed to the increase, as did the strong performance of UBS's investment banking business during 2000.

Credit-related fees and commissions decreased CHF 62 million in 2000 mainly as a result of the sale of UBS's international Global Trade Finance business in 1999.

Underwriting fees increased by 58% over 1999 with strong results in both fixed income and equity underwriting, despite UBS's relatively limited involvement in the Technology, Media and Telecoms (TMT) sector, which led to lower equity league table rankings in 2000 than in 1999. Corporate Finance fees grew 37%, or CHF 474 million, from CHF 1,298 million in 1999 to CHF 1,772 million in 2000, reflecting good results in Europe and a strong performance in Mergers and Acquisitions, where our league table rankings improved compared to 1999.

Net brokerage fees were 50% higher in 2000 than in 1999 as a result of high levels of client activity in the exuberant markets of the early part of the year, and the inclusion of two months of results from PaineWebber. The increase of 47% in Investment fund fees from 1999 to 2000 resulted from higher average volumes in 2000 and a shift in the product mix, with a higher proportion of assets under management invested in higher margin equity funds. In addition, Investment fund fees in 2000 benefited from the inclusion of GAM and PaineWebber's contribution in the last two months. Custodian fees and portfolio and other management and advisory fees increased by a total of CHF 921 million, or 22%, from 1999, due to higher asset-related fees in 2000 and the inclusion of PaineWebber and the new O'Connor business.

Net trading income increased CHF 2,234 million, or 29%, to CHF 9,953 million for 2000, compared to CHF 7,719 million for 1999, driven by strong growth in equity trading income as a result of increased global market activity, especially in the first quarter of 2000, and the increasing strength of UBS Warburg's secondary client franchise.

Net trading income from foreign exchange increased CHF 179 million, or 16%, from 1999 to 2000 despite difficult trading conditions at the start of the year, with lower levels of market activity and narrowing margins on derivative products, compared to 1999.

This income statement line does not fully capture the revenues of UBS Group's foreign exchange business, which is amongst the largest in the world. The revenues generated by all business areas of the UBS Group from sales and trading of foreign exchange, precious metals, and banknotes products in 2000 were CHF 1,519 million as compared to CHF 1,155 million in 1999.

Net trading income from fixed income decreased CHF 1,691 million, or 65%, from CHF 2,603 million in 1999 to CHF 912 million in 2000. Fixed income net trading income does not reflect the full picture of trading-related income in the Fixed Income business, which also includes a considerable contribution from coupon income, which is managed as an integral part of the trading portfolio and is reported as part of net interest income. 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 of the portfolio. In 2000, while fixed income trading income fell, net coupon income, which is reported in net interest income, rose from CHF 2,918 million to CHF 5,545 million.

Net trading income from equities increased CHF 3,746 million, or 93%, from 1999 to 2000. Positive markets led to an exceptionally good first quarter of 2000, with record client volumes. Performance in subsequent quarters of 2000 fell slightly in more varied market conditions, but was still well ahead of the same periods in 1999.

Net gains from disposal of associates and subsidiaries fell 95% from CHF 1,821 million to CHF 83 million. 1999 included gains from the sales of our holdings in SwissLife/Rentenanstalt and Julius Baer registered shares.

Net Trading Income

CHF million				% change from
For the year ended	**31.12.00**	31.12.99[1]	31.12.98[1]	31.12.99
Foreign exchange	**1,287**	1,108	1,992	16
Fixed income	**912**	2,603	162	(65)
Equities	**7,754**	4,008	1,159	93
Net trading income	**9,953**	7,719	3,313	29

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies).

Other income increased CHF 78 million, or 6%, from CHF 1,325 million in 1999 to CHF 1,403 million in 2000, with income from investments in associates lower, following sales in 1999, more than offset by higher income from the sale of private equity investments and a reduction of losses on property sales.

Operating expenses

Total operating expenses increased 28% from CHF 20,532 million to CHF 26,203 million in 2000. Adjusted for significant financial events, total operating expenses increased 25% to CHF 25,763 million from CHF 20,534 million in 1999. The increase was principally due to increased personnel expenses, reflecting higher performance-related pay driven by UBS's excellent results in 2000, the inclusion of PaineWebber and the cost of retention payments for PaineWebber staff.

The principal significant financial events affecting the comparison of operating expenses are the CHF 150 million additional provision for the US Global Settlement of World War II related claims, recorded in 2000 in General and administrative expenses, and CHF 290 million of costs from the integration of PaineWebber, also recorded in 2000. Of this CHF 290 million, CHF 118 million were charged to Personnel expenses and amortization, CHF 93 million to General and administrative expenses and CHF 79 million to Depreciation.

The various significant financial events affecting expenses in 1999, described on pages 4 and 5, resulted in an increase in expense of CHF 2 million, made up of a CHF 456 million increase to personnel expenses and a decrease of CHF 454 million in General and administrative expenses.

Personnel expenses increased CHF 4,586 million, or 36%, from CHF 12,577 million in 1999 to CHF 17,163 million in 2000. This increase was driven by increased bonus compensation, in line with the Group's excellent results, and CHF 1,083 million resulting from the inclusion of PaineWebber. Approximately 48% of the annual total represented bonus and other variable compensation.

As part of the merger, UBS agreed to make retention payments to PaineWebber financial advisors, senior executives and other staff, subject to these employees' continued employment and other restrictions. These payments are expected to amount to a total of USD 875 million (CHF 1,541 million), the vast majority of which will be paid in the form of UBS shares. The payments will vest over periods of up to four years from the merger. USD 76 million (CHF 128 million) was charged in fourth quarter 2000, and approximately USD 280 million (CHF 458 million at year-end 2000 rates) is expected to be charged in 2001. Because they are a regular and continuing cost of the business, these payments are not treated as significant financial events.

UBS's *headcount* grew 45% over the year from 31 December 1999, to 71,076. The vast majority of this change was due to the inclusion of 23,000 PaineWebber staff.

Headcount [1]

(Full-time equivalents)	31.12.00	31.12.99	Change in %
UBS Switzerland	**28,785**	31,354	(8)
Private and Corporate Clients	**21,100**	24,098	(12)
Private Banking	**7,685**	7,256	6
UBS Asset Management	**2,860**	2,576	11
Institutional Asset Management	**1,728**	1,653	5
Investment Funds / GAM	**1,132**	923	23
UBS Warburg	**38,445**	14,266	169
Corporate and Institutional Clients	**15,262**	12,694	20
UBS Capital	**129**	116	11
US Private Clients	**21,490**		
e-services	**410**	70	486
International Private Clients	**1,154**	1,386	(17)
Corporate Center	**986**	862	14
Group total	**71,076**	49,058	45

[1] The Group headcount does not include the Klinik Hirslanden AG headcount of 1,839 as of 31 December 2000 and 1,853 as of 31 December 1999.

General and administrative expenses increased CHF 667 million, or 11%, from CHF 6,098 million in 1999 to CHF 6,765 million in 2000.

General and administrative expenses in 2000 included a final provision of CHF 150 million related to the US Global Settlement of World War II related claims, and CHF 93 million of PaineWebber integration costs, which were both treated as significant financial events. General and administrative expenses in 1999 included a provision of CHF 154 million related to the US global settlement of World War II related claims, and CHF 300 million of additional provisions in respect of the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation.

Adjusting for these effects, General and administrative costs rose 16%, reflecting the incremental costs from the inclusion of PaineWebber offset by the success of UBS's continued efforts to control non-revenue driven costs.

Depreciation and amortization expenses increased CHF 418 million, or 23%, from CHF 1,857 million in 1999 to CHF 2,275 million in 2000, mainly due to the PaineWebber merger.

Tax expense increased CHF 634 million, or 38%, from CHF 1,686 million in 1999 to CHF 2,320 million in 2000, principally due to increased operating profit. The effective tax rate of 22.8% in 2000 is slightly higher than the 21.4% effective tax rate in 1999, reflecting increased income in higher taxation jurisdictions.

UBS Group's performance without the impact of PaineWebber

There are limitations to our ability to track the effect of the PaineWebber merger on the Group's performance. Principally this is because of the full integration of PaineWebber's capital markets business into the Corporate and Institutional Clients unit. This was carried out very soon after the merger was completed on 3 November 2000, with staff and revenues completely integrated into the existing UBS Warburg structure. It is therefore not possible to identify clearly the specific impact of the capital markets business on results. However, the remaining PaineWebber businesses are reported as a separate business unit: US Private Clients. It is possible therefore to distinguish their contribution to Group profits. If additional adjustments are made for

- goodwill amortization,
- funding costs,
- the share issuance, borrowing and subsequent repurchase,
- restructuring costs, and
- retention payments,

it is possible to make an approximate estimate of the underlying performance of UBS for 2000.

Although this analysis should not be relied on as a definitive indication of the performance of the continuing UBS businesses during the year, it demonstrates the very positive underlying performance of the Group in 2000.

Dividend and distribution by par value reduction

In October 2000, UBS paid a dividend of CHF 4.50 per share in respect of the first three quarters of 2000, as part of the arrangements for the merger with PaineWebber. The Board of Directors recommended a distribution in respect of the fourth quarter of 2000 of CHF 1.60 per share, in the form of a par value reduction. This brings the total distribution for the year to CHF 6.10 per share, compared to the dividend of CHF 5.50 per share for 1999.

Earnings Adjusted for Significant Financial Events and the Estimated Impact of the PaineWebber Merger

CHF million, except where indicated For the year ended	**31.12.00**	31.12.99	% change from 31.12.99
Operating income	**35,309**	26,587	33
Operating expenses	**24,319**	20,534	18
Operating profit before tax	**10,990**	6,053	82
Net profit	**8,403**	4,665	80
Cost / income ratio before goodwill (%)	**67.6**	73.3	
Basic earnings per share before goodwill (CHF)	**22.44**	12.37	81
Diluted earnings per share before goodwill (CHF)	**22.16**	12.26	81
Return on shareholders' equity before goodwill (%)	**27.5**	18.2	

Until this year, the minimum par value allowed under law for a Swiss share was CHF 10. The share split that UBS implemented in May last year brought the par value of its share down to this level, removing any further opportunity to split the share.

Under new regulations, which are currently passing through the Swiss legislative process and are expected to become effective on 1 May 2001, the minimum par value is expected to be reduced to CHF 0.01. UBS intends to utilize this change to lower the market price per share to a level more in line with that of its global peer group, and to make a payment to its shareholders in the form of a reduction in the nominal value of its shares.

If shareholder approval is granted, and the legislation becomes effective, the distribution of CHF 1.60 per share, in respect of the fourth quarter 2000, will be paid in the form of a par value reduction. This is treated in Switzerland as a return of capital to shareholders, not as income, and is therefore tax efficient for shareholders who pay tax in Switzerland. Treatment in other jurisdictions will vary, although under US tax regulations the distribution will be treated as income. However, the par value reduction does still have advantages for shareholders outside Switzerland, as no Swiss withholding tax is payable. Each shareholder should consult with a tax advisor for applicable tax implications of this distribution.

The distribution will reduce the par value of the share to CHF 8.40. UBS then intends to split its share 3 for 1, resulting in a new par value of 2.80 per share.

Because of the legal and regulatory processes involved, the distribution is expected to take place on 18 July 2001, for holders of record on 13 July 2001. The shares are expected to start trading at the new par value on 16 July 2001.

Balance sheet

Total assets increased CHF 191 billion, or 21%, from CHF 897 billion at 31 December 1999 to CHF 1,088 billion at 31 December 2000, including CHF 99 billion as a result of the merger with PaineWebber. The remainder of the increase was principally a result of the unwinding of precautionary measures taken at the end of 1999 in preparation for the millennium, and the currency impact of the weakness of the Swiss franc. The increase in cash collateral on securities borrowed, reverse repurchase agreements and trading portfolio assets was partially offset by decreases in cash and balances with central banks and money market paper, as liquidity levels were adjusted following Y2K, and a reduction in positive replacement values due to netting, thanks to improved systems and new reporting practices. Goodwill and intangible assets increased CHF 16 billion, due to goodwill and intangible assets resulting from the PaineWebber merger.

Total liabilities increased 20%, from CHF 866 billion at 31 December 1999, to CHF 1,040 billion at 31 December 2000, reflecting the unwinding of millennium related precautions. The increase in amounts due under repurchase agreements, cash collateral on securities lent and trading portfolio liabilities and an increase in money market paper issued, was offset in part by a decrease in negative replacement values, again principally due to netting.

UBS's long-term debt portfolio decreased from CHF 56.3 billion at 31 December 1999 to CHF 54.8 billion at 31 December 2000. During this year CHF 14.9 billion of long-term securities were issued while CHF 24.6 billion matured. UBS believes the maturity profile of the long-term debt portfolio is well balanced with a slight bias towards shorter-term maturities to match the maturity profile of UBS's assets.

Shareholders' equity increased CHF 14 billion, or 46%, from 31 December 1999 to 31 December 2000, reflecting the increase in capital required for the PaineWebber merger, increased retained earnings and the reduced holding of treasury shares.

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 without adversely affecting UBS's ability to conduct its ongoing businesses, in order to meet short-term funding needs. Collateralized receivables include reverse repurchase agreements and cash collateral on securities borrowed, 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, including the proportion of liquid assets, may vary significantly from period to period due to changing client needs, economic and market conditions and trading strategies.

Consolidated cash flows

In the twelve-month period to December 2000, cash equivalents decreased by CHF 8,907 million, principally as a result of investment activities, which generated negative cash flow of CHF 19,135 million. This was mainly due to CHF 10,722 million of cash required for the PaineWebber merger and the purchase of CHF 8,770 million of financial investments.

The positive cash flow of CHF 11,697 million from operating activities principally resulted from net profit of CHF 7,792 million, a net increase in amounts due to customers and amounts due from customers of CHF 12,381 million, CHF 11,553 million from an increase in the size of the trading portfolio and a net cash inflow of CHF 10,236 million from other assets and liabilities and accrued income and expenses. These were partially offset by a net cash outflow of CHF 30,292 million for repurchase and reverse repurchase agreements and cash collateral on securities borrowed and lent.

Financing activities generated net cash outflow of CHF 1,581 million. CHF 10,125 million from the issuance of money market paper. CHF 14,884 million from long-term debt and CHF 2,594 million from the issuance of trust perferred securities was offset by CHF 24,640 million for repayment of long-term debt and CHF 3,928 million for dividend payments.

Group results 1999

UBS's current performance targets were first implemented at the beginning of 2000. Performance against targets is not therefore discussed in relation to 1999.

Operating income

Net interest income before credit loss expense increased by CHF 891 million, or 18%, 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 derived 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 recorded 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%.

Credit-related fees and commissions decreased in 1999 in line with reduced emerging market exposures and the sale of UBS's international Global Trade Finance operations. Underwriting and corporate finance fees increased 3% relative to exceptionally strong performance in 1998. Brokerage fees were higher in 1999 than in 1998 mainly due to strong volumes in the UK, US and Asia. A CHF 137 million increase in investment fund fees was attributable to higher volumes and pricing adjustments from the integration of the two pre-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.

Net trading income from foreign exchange decreased CHF 884 million, or 44%, 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 CHF 162 million in 1998 to CHF 2,603 million in 1999. During 1998, net trading income from fixed income was negatively impacted by the pre-tax CHF 793 million write-down of UBS's trading position in Long Term Capital Management, L.P. 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 or 246% from 1998, to CHF 4,008 million in 1999. During 1998, net trading income was negatively impacted by pre-tax CHF 762 million in losses from the Global Equities Derivatives business area. In 1999, net trading income benefited from very strong customer volumes in equity products globally.

Other income, including net gains from disposal of associates and subsidiaries, increased CHF 905 million, or 40%, from CHF 2,241 million in 1998 to CHF 3,146 million in 1999. Total net gains on disposal of associates and subsidiaries 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 lower income from investments in associates as a result of the divestments as well as lower income from other properties. The CHF 367 million portion of the Long Term Capital Management write-down negatively impacted other income in 1998.

Operating expenses

Personnel expenses increased CHF 2,761 million, or 28%, 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 Long Term Capital Management and the Global Equity Derivatives portfolio. Adjusting the prior year for the CHF 1,007 million, personnel expenses in 1999 increased by 16%, which was primarily attributable to higher performance-related compensation based on the good investment banking result in 1999. Personnel expense in 1999 was reduced by the recognition of CHF 456 million in pre-paid employer pension contributions.

General and administrative expenses decreased CHF 637 million, or 9%, from CHF 6,735 million in 1998 to CHF 6,098 million in 1999. General and administrative expenses in 1998 include the provision of CHF 842 million for the US Global Settlement of World War II related claims. In 1999, the following were included:

– the additional restructuring provision of CHF 300 million;
– an additional provision of CHF 154 million for the US Global Settlement of World War II 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% year-on-year, reflecting stringent cost reduction programs.

Depreciation and amortization increased CHF 32 million, or 2%, from CHF 1,825 million in 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 87%, 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 effective rate in 1998, primarily due to the utilization of tax loss carry forwards.

Outlook for 2001

The year 2000 was an outstanding one for UBS, and a good one overall for the markets. Moving into 2001, the prospects for markets and for the international credit environment are particularly difficult to predict. The recent upswing in the economic cycle in Switzerland may, however, afford UBS some protection.

We believe that our credit business is well positioned, thanks to our avoidance of balance sheet-led earnings growth, although we do not expect to see the net credit loss write-backs we experienced this year. UBS Asset Management is cautiously optimistic about prospects for growth as its core price/value investment style demonstrates its strengths in less bullish markets, and UBS Warburg has already demonstrated the quality and sustainability of its earnings in the less positive conditions of the second half of 2000.

The biggest opportunity for UBS in 2001 lies in realizing the full transforming value of the PaineWebber merger, not only in the US, but through leveraging the marketing and client skills, product innovation and energy of our new partners to build the best wealth management firm in the world.

Review of Business Group Performance

Principles

Management accounting principles

The following discussion reviews the 1999 and 2000 results by Business Group and business unit.

UBS's management reporting system and policies determine the revenues and expenses directly attributable to each business unit. Internal charges and transfer pricing adjustments are reflected in the performance of each business unit.

Inter-business unit revenues and expenses include transfers between business units and between geographical locations. Revenue sharing agreements are used to allocate external customer revenues to Business Groups on a reasonable basis. Transactions between Business Groups are conducted at arms length. Inter-business unit 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.

Interest revenues are apportioned to business units based on the opportunity costs of funding their activities. Accordingly, all assets and liabilities are refinanced with the Group Treasury based on market rates. Revenues relating to balance sheet products are calculated on a fully-funded basis. As a result, business units are additionally credited with the risk-free return on the average equity used.

Commissions are credited to the business unit with the corresponding customer relationship.

Regulatory equity is allocated to business units based on the average regulatory capital requirement during the period. Only utilized equity is taken into account, and a buffer of 10% is added. The remaining equity, mainly covering real estate, and any unallocated equity, remains in Corporate Center.

Assets under management are defined as third-party on- and off-balance sheet assets for which the Group has investment responsibility. This includes both discretionary assets, where the Group has a mandate to invest and manage the assets, as well as assets where the Group advises clients on their investment decisions. Where two business units share responsibility for management of funds (such as UBS investment funds held within private client portfolios), the assets under management are included in both business segments. Wholesale custody-only assets are excluded.

During 2001, UBS expects to introduce a new way of defining and measuring the client assets it has responsibility for, replacing assets under management with a new concept, distinguishing those assets held with UBS *for investment purposes*.

Net new money is defined as the net inflow or outflow of assets under management during a period, excluding interest and dividend income and the effects of market or currency movements.

Headcount includes trainees and staff in management development programs, but not contractors.

Credit loss expense

Credit loss expense represents the charges to the profit and loss account relating to amounts due to UBS from loans and advances or other off-balance sheet products, including OTC derivatives, that have had to be written-down because they are impaired or uncollectable.

UBS determines the amounts of Credit loss expense in its financial accounts and in the business unit reporting on different bases. In the Group financial accounts, UBS reports its results according to International Accounting Standards (IAS) definitions. Under these rules, Credit loss expense is the total of net new allowances and direct write-offs less recoveries. Losses are recognized and charged to the financial accounts in the period when they arise. In contrast, in its segment and business unit reporting, UBS applies a different approach to the measurement of credit risk which reflects the average annual cost that UBS anticipates will arise from transactions that become impaired. In order to manage exposure to credit risk more effectively, UBS prices transactions with a view to earning – over time – sufficient income to compensate for the losses that are expected to be caused by value adjustments for impaired assets. The basis for measuring these inherent risks in the credit portfolios is the concept of "Expected Loss" (see the Credit Risk section of the UBS Handbook 2000/2001). UBS therefore quantifies the Credit loss expense at business unit level based on the Expected Loss rather than the actual loss reported in its financial accounts.

As each business unit is ultimately responsible for its credit decisions, the difference between the actual credit losses and the annual expected credit loss calculated for managment reporting purposes will be charged or credited back to the business units over a three-year period, so that the risks and rewards of credit decisions are fully reflected in their results.

Credit Loss

	Expected credit loss			IAS Actual credit expense		
CHF million	**31.12.00**	31.12.99	31.12.98	**31.12.00**	31.12.99	31.12.98
UBS Switzerland	**784**	1,071	1,186	**(695)**	965	445
UBS Asset Management	**0**	0	0	**0**	0	0
UBS Warburg	**247**	333	510	**565**	0	506
Corporate Center				**0**	(9)	0
Total	**1,031**	1,404	1,696	**(130)**	956	951
Balancing item in Corporate Center	**(1,161)**	(448)	(745)			

UBS reconciles the difference between the Credit loss expense in its financial accounts and the Expected Loss shown in business unit reporting with a balancing item in the Corporate Center. UBS also shows the allocation of actual Credit loss expense to the business units in the footnotes to Note 3a of the financial statements.

Key performance indicators

UBS reports carefully chosen key performance indicators for each of its business units. These do not carry explicit targets, but are intended as indicators of the business units' success in creating value for shareholders. They include both financial metrics, such as the cost/income ratio, and non-financial metrics, such as Assets under management.

The key performance indicators are used for internal performance measurement as well as external reporting. This ensures that management have a clear responsibility to lead their businesses towards achieving success in the Group's key value drivers and reduces any risk of managing to purely internal performance measures.

Business Group tax rates

The Business Groups of UBS do not represent separate legal entities. Business Group results are prepared through the application of UBS's management accounting policies to the results of the entities through which they operate.

Indicative business unit tax rates are calculated on an annual basis based on the results and statutory tax rates of the previous financial year. These rates are approximate calculations, based upon the application to the year's adjusted earnings of statutory tax rates for the locations in which the Business Groups operated. These tax rates therefore give guidance on the tax cost to each Business Group of doing business during 2000 and on a standalone basis, without the benefit of tax losses brought forward from earlier years:

UBS Switzerland	**21%**
Private and Corporate Clients	21%
Private Banking	22%
UBS Asset Management	**22%**
Institutional Asset Management	23%
Investment Funds/GAM	22%
UBS Warburg	**22%**
Corporate and Institutional Clients	23%
UBS Capital	26%
US Private Clients	37%
International Private Clients	32%
e-services	30%

These tax rates are not necessarily indicative of future tax rates for the businesses or UBS Group as a whole.

UBS Switzerland

Business Group Reporting

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Income	**14,182**	12,761	13,958	11
Credit loss expense[2]	**(784)**	(1,071)	(1,186)	(27)
Total operating income	**13,398**	11,690	12,772	15
Personnel expenses	**4,759**	4,691	4,448	1
General and administrative expenses	**2,394**	2,308	2,226	4
Depreciation	**508**	460	771	10
Amortization of goodwill and other intangible assets	**62**	23	4	170
Total operating expenses	**7,723**	7,482	7,449	3
Business Group performance before tax	**5,675**	4,208	5,323	35
Additional information				
Assets under management (CHF billion)	**1,121**	1,110	1,013	1
Cost / income ratio (%)[3]	**54**	59	53	
Cost / income ratio before goodwill (%)[3, 4]	**54**	58	53	

As of	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Regulatory equity used (avg)	**10,500**	10,059	9,519	4
Headcount (full time equivalents)	**28,785**	31,354	30,589	(8)

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [2] In management accounts, statistically derived adjusted expected loss rather than net IAS credit loss (expense) / recovery is reported in the business units (see Note 3a). [3] Operating expenses / operating income before credit loss expense. [4] The amortization of goodwill and other intangible assets is excluded from this calculation.

Components of Operating Income

Private and Corporate Clients derives its operating income principally from
- net interest income from its loan portfolio and customer deposits;
- fees for investment management services; and
- transaction fees.

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

Private Banking derives its operating income from
- fees for financial planning and wealth management services;
- fees for investment management 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.

Private and Corporate Clients

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Individual clients	**5,026**	4,553	4,785	10
Corporate clients	**1,975**	1,855	1,728	6
Risk transformation and capital management	**307**	330	0	(7)
Operations	**205**	313	448	(35)
Other	**(70)**	142	64	
Income	**7,443**	7,193	7,025	3
Credit loss expense[2]	**(759)**	(1,050)	(1,170)	(28)
Total operating income	**6,684**	6,143	5,855	9
Personnel expenses	**3,187**	3,363	3,238	(5)
General and administrative expenses	**1,058**	1,123	1,025	(6)
Depreciation	**419**	384	680	9
Amortization of goodwill and other intangible assets	**27**	2	4	
Total operating expenses	**4,691**	4,872	4,947	(4)
Business unit performance before tax	**1,993**	1,271	908	57
KPI's				
Assets under management (CHF billion)[3]	**440**	439	434	0
Net new money (CHF billion)	**0.4**			
Cost / income ratio (%)[4]	**63**	68	70	
Cost / income ratio before goodwill (%)[4, 5]	**63**	68	70	
Non-performing loans / Gross loans outstanding (%)	**5.0**	6.6		

Additional information As of	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Regulatory equity used (avg)	**8,550**	8,550	8,250	0
Headcount (full time equivalents)	**21,100**	24,098	24,043	(12)

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [2] In management accounts, statistically derived adjusted expected loss rather than net IAS credit loss (expense) / recovery is reported in the business units (see Note 3a). [3] Bank transaction accounts are included. [4] Operating expenses / operating income before credit loss expense. [5] The amortization of goodwill and other intangible assets is excluded from this calculation.

2000

There were no significant financial events that affected this business unit in 1999 or 2000.

Key performance indicators

Assets under management increased slightly by CHF 1 billion from CHF 439 billion in 1999 to CHF 440 billion during 2000, including net new money of CHF 0.4 billion. Market performance was slightly positive over the year, offsetting transfers of CHF 5 billion to other business units.

The pre-goodwill cost / income ratio in 2000, at 63%, improved significantly from 68% in 1999. This was principally due to lower operating expenses resulting from continuing strict cost control, as the benefits of the 1998 merger between Union Bank of Switzerland and Swiss Bank Corporation continued to be realized.

The quality of the Private and Corporate Clients' loan portfolio improved considerably during the year, resulting in a non-performing loans / total loans ratio of 5.0% at 31 December 2000, compared to 6.6% at the end of 1999. This improvement was due in part to the unexpected strengthening of the Swiss economy, and also to Private and Corporate Clients' efforts to further enhance the risk/return profile of its loan portfolio through selective origination, secondary market transactions, the disposal of subsidiaries, and the continued work-out of the recovery portfolio, which decreased from CHF 21 billion to CHF 15 billion during the year.

Although UBS Switzerland's non-performing loans ratio is somewhat higher than some comparable banks particularly in the US, 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 to write off non-performing loans much sooner, reducing the amount of such loans and corresponding provisions recorded at any given date.

Results

Record pre-tax profit for the year, at CHF 1,993 million, was an increase of CHF 722 million, or 57%, over 1999, clearly demonstrating the substantial benefits of the merger between UBS and SBC for the combined domestic banking franchise.

Operating income

Private and Corporate Clients' operating income in 2000 was CHF 6,684 million, CHF 541 million, or 9%, higher than in 1999. This improved performance primarily reflected higher fee income, particularly in the first half of the year, and reduced expected loss as the quality of the loan portfolio improved.

Both of Private and Corporate Clients' two main operating business areas recorded increases in their operating income in 2000 as compared to 1999.

– *Individual Clients:* Operating income in 2000 was CHF 5,026 million, an increase of CHF 473 million, or 10%, from CHF 4,553 million in 1999. This was primarily due to increases in brokerage and investment fund fees resulting from increased investment activity, and minor gains on sales of subsidiaries and participations.
– *Corporate Clients:* Operating income in 2000 was CHF 1,975 million, an increase of CHF 120 million, or 6%, from CHF 1,855 million in 1999, primarily due to higher interest income resulting from improved margins as well as increased fee and commission income.

On the other hand, the two support areas saw their incomes reduce.

– *Risk Transformation and Capital Management:* Income was CHF 307 million in 2000. This was a decrease of CHF 23 million, or 7%, from the CHF 330 million recorded in 1999, primarily as a result of the reduced average size of the recovery loan portfolio, managed by this unit.
– *Operations:* Revenues in 2000 were CHF 205 million, a decrease of CHF 108 million, or 35%, from CHF 313 million in 1999. Operations revenues were affected by lower interest revenues as a result of reduced correspondent bank overdraft balances, partially offset by small one-off revenues from the revaluation of minority holdings in other companies.

Operating expenses

Full year operating expenses in 2000 were CHF 4,691 million, down 4%, or CHF 181 million, from 1999. This was primarily due to falling personnel costs as headcount was reduced.

Personnel expense fell by CHF 176 million, or 5%, from CHF 3,363 million in 1999 to

Operating Income Before Credit Loss Expense by Business Area

CHF million For the year ended	31.12.00	31.12.99	31.12.98
Individual Clients	**5,026**	4,553	4,785
Corporate Clients	**1,975**	1,855	1,728
Risk transformation and Capital Management	**307**	330	
Operations	**205**	313	448
Other	**(70)**	142	64
Total	**7,443**	7,193	7,025

CHF 3,187 million in 2000. Increased performance-related compensation, reflecting the good results, was more than offset by a substantial reduction in headcount during the year.

General and administrative expenses fell 6% over the year, despite our continued investments in online services, reflecting continued cost control efforts.

Depreciation expense increased by CHF 35 million, or 9%, to CHF 419 million, primarily due to the implementation of IAS 38, relating to the capitalization of software costs.

Amortization of goodwill and other intangible assets increased CHF 25 million, from CHF 2 million in 1999 to CHF 27 million in 2000. This increase was primarily due to the acquisition of a credit card portfolio during second quarter 2000.

Headcount

Private and Corporate Clients' headcount declined by almost 3,000 in 2000 from 24,098 at the end of 1999 to 21,100 at 31 December 2000. This reduction includes 948 staff transferred with Systor, which became an independent company at the start of 2000, 413 staff of Solothurner Bank, which was sold during 2000, and the transfer of 148 financial planning and wealth management staff to Private Banking. The remaining reduction of 1,489 staff demonstrates UBS's continued success in realizing UBS/SBC merger-related synergies.

1999

Operating income

Operating income before credit loss expense increased CHF 168 million, or 2%, 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.

Private and Corporate Clients' expected loss decreased CHF 120 million, or 10%, 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 expected loss primarily resulting from the transfer of the remainder of the Swiss Global Trade Finance business from UBS Warburg during 1999.

Operating expenses

Personnel, general and administrative expenses increased CHF 223 million, or 5%, 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 Global 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 44%, from CHF 684 million in 1998 to CHF 386 million in 1999, primarily due to reduced assets employed subsequent to the 1998 merger.

Private Banking

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Income	6,739	5,568	6,933	21
Credit loss expense[2]	(25)	(21)	(16)	19
Total operating income	6,714	5,547	6,917	21
Personnel expenses	1,572	1,328	1,210	18
General and administrative expenses	1,336	1,185	1,201	13
Depreciation	89	76	91	17
Amortization of goodwill and other intangible assets	35	21	0	67
Total operating expenses	3,032	2,610	2,502	16
Business unit performance before tax	3,682	2,937	4,415	25
KPI's				
Assets under management (CHF billion)	681	671	579	1
Net new money (CHF billion)[3]	(0.7)	0.7		
Gross AuM margin (bps)	98	90		9
Cost / income ratio (%)[4]	45	47	36	
Cost / income ratio before goodwill (%)[4, 5]	44	46	36	

Additional information As of	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Regulatory equity used (avg)	1,950	1,509	1,269	29
Headcount (full time equivalents)	7,685	7,256	6,546	6

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [2] In management accounts, statistically derived adjusted expected loss rather than net IAS credit loss (expense) / recovery is reported in the business units (see Note 3a). [3] Excludes dividend and interest income. [4] Operating expenses / operating income before credit loss expense. [5] The amortization of goodwill and other intangible assets is excluded from this calculation.

2000

There were no significant financial events that affected this business unit in 1999 or 2000.

Key performance indicators

Assets under management increased slightly by CHF 10 billion, or 1%, from CHF 671 billion to CHF 681 billion during 2000, primarily reflecting market performance and currency effects. Net new money during the year was disappointing, with net outflows of CHF 0.7 billion.

Gross margin for the year, at 98 basis points, partly reflects the very strong performance in the exceptional markets of the first quarter. The more recent rates of 95 basis points in second and fourth quarters, and 94 basis points in third quarter, represent a solid improvement over the average of 90 basis points recorded in 1999, as we introduce more value-added products to our client base.

The pre-goodwill cost / income ratio of 44% improved slightly from 46% in 1999, principally due to significantly higher revenues.

Results

Net profit before tax for the year increased significantly, by CHF 745 million, or 25%, to CHF 3,682 million, from CHF 2,937 million in 1999. This reflects strong markets in the early part of 2000, and the margin-enhancing benefits of introducing more added-value products during the year.

Operating income

The increase in gross margin to 98 basis points resulted in operating income of CHF 6,714 million, which was 21%, or CHF 1,167 million, higher than in 1999. Revenue quality has also improved with asset-based fees growing faster over the year than transaction-based fees.

Operating expenses

Full year operating expenses were CHF 3,032 million, CHF 422 million or 16% higher than in 1999.

Personnel expenses increased CHF 244 million, or 18%, partly due to increased hiring in client-focused areas, the transfer of financial planning and wealth management staff from the Private and Corporate Clients unit, as well as higher performance-related compensation.

General and administrative expenses increased CHF 151 million, or 13%, primarily due to recruitment and training expenses, volume-driven transaction processing costs, as well as project-related technology costs.

Depreciation expense increased by CHF 13 million, or 17%, due to increased investments in both software and the refurbishment of premises.

Headcount

Headcount at year end 2000 was 7,685, representing an increase of 429 during the year. This was mainly the result of the transfer of 148 financial planning and wealth management staff from the Private and Corporate Clients business unit and the completion in first quarter 2000 of previous initiatives to strengthen product capabilities.

It is Private Banking's policy to shift the balance of its staff towards client-facing roles, reducing the number of support staff. During the year there were net increases of 302 staff in client-focused market areas and 127 in product areas, such as financial planning, Active Advisory, and portfolio management.

1999

Operating income

Operating income decreased CHF 1,370 million, or 20%, from CHF 6,917 million in 1998 to CHF 5,547 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 Banca della Svizzera Italiana (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.

Notwithstanding the decrease in operating income, assets under management increased during 1999 by CHF 92 billion, or 16%. Strong markets, especially in Europe, in the United States, and in the technology sector, as well as the stronger US 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 inter-business unit 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

Operating expenses, adjusted for CHF 125 million in divestiture-related operating expenses, increased 4%, 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%, from CHF 2,411 million in 1998 to CHF 2,513 million 1999. Personnel costs increased 10%, 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 to CHF 21 million in 1999. Depreciation decreased CHF 15 million, or 16%, from CHF 91 million in 1998 to CHF 76 million in 1999.

UBS Asset Management

Business Group Reporting

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Income	**1,953**	1,369	1,358	43
Credit loss expense	**0**	0	0	
Total operating income	**1,953**	1,369	1,358	43
Personnel expenses	**880**	516	515	71
General and administrative expenses	**439**	271	228	62
Depreciation	**49**	32	35	53
Amortization of goodwill and other intangible assets	**263**	113	78	133
Total operating expenses	**1,631**	932	856	75
Business Group performance before tax	**322**	437	502	(26)
Additional information				
Assets under management (CHF billion)	**522**	598	532	(13)
Cost / income ratio (%)[2]	**84**	68	63	
Cost / income ratio before goodwill (%)[2, 3]	**70**	60	57	

As of	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Regulatory equity used (avg)	**1,250**	162	102	672
Headcount (full time equivalents)	**2,860**	2,576	1,863	11

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [2] Operating expenses / operating income before credit loss expense. [3] The amortization of goodwill and other intangible assets is excluded from this calculation.

Components of Revenue

UBS Asset Management generates most of its revenue from the asset management services it provides to institutional clients, and from the distribution of investment funds. Fees charged to institutional clients and on investment funds are based on the market value of assets under management. As a result, UBS Asset Management's revenues are affected by changes in market levels as well as flows of client funds.

Institutional Asset Management

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Institutional	**1,103**	906	968	22
Non-institutional	**198**	193	195	3
Income	**1,301**	1,099	1,163	18
Credit loss expense	**0**	0	0	
Total operating income	**1,301**	1,099	1,163	18
Personnel expenses	**631**	458	465	38
General and administrative expenses	**243**	178	154	37
Depreciation	**27**	25	29	8
Amortization of goodwill and other intangible assets	**173**	113	78	53
Total operating expenses	**1,074**	774	726	39
Business unit performance before tax	**227**	325	437	(30)
KPI's				
Assets under management (CHF billion)	**496**	574	531	(14)
Net new money (CHF billion)[2]	**(66.6)**	(50.1)		
Gross AuM margin (bps)[3]	**33**	25		32
Cost / income ratio (%)[4]	**83**	70	62	
Cost / income ratio before goodwill (%)[4, 5]	**69**	60	56	

Additional information As of	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Regulatory equity used (avg)	**500**	160	100	213
Headcount (full time equivalents)	**1,728**	1,653	1,497	5

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [2] Excludes dividend and interest income. [3] Revenues divided by average assets under management, for the institutional portion of the business only. [4] Operating expenses / operating income before credit loss expense. [5] The amortization of goodwill and other intangible assets is excluded from this calculation.

2000

There were no significant financial events that affected this business unit in 1999 or 2000.

Key performance indicators

Assets under management decreased 14%, or CHF 78 billion, from CHF 574 billion at 31 December 1999 to CHF 496 billion at 31 December 2000, with the majority of the decline due to client losses in the institutional business, particularly in the earlier part of the year.

Net new money for the year saw a net outflow of CHF 66.6 billion. Net new money outflows moderated as the year progressed, as losses of equity mandates continued to decline. Client losses continued to be concentrated primarily within US and to a lesser degree UK mandates, reflecting past investment performance issues.

The gross margin in 2000 was 33 basis points, an increase of 8 basis points over 1999. This rise reflects the contributions from two new higher margin businesses: O'Connor, created in June 2000, and UBS Realty Investors (formerly Allegis), purchased in December 1999.

The cost/income ratio before goodwill increased to 69% in 2000 from 60% in 1999, principally as a result of the inclusion of O'Connor and UBS Realty Investors (which generate higher gross margins than the rest of the business, but at higher cost), spending on strategic initiatives to expand global reach, and lower asset-based revenues towards the end of the year.

Investment performance in 2000

The return of global equity markets towards fundamental values was the predominant development during 2000. This trend accelerated during the fourth quarter as the US economy began to slow, and many companies within the Technology, Media and Telecommunications (TMT) sector posted disappointing earnings. Within this challenging environment, strategic positions benefiting from the decline in the TMT sector, the associated drop in equity markets, the under-performance of the very largest capitalization equities, and the year-end turnaround in the euro, helped Institutional Asset Management deliver the best relative annual investment performance in its history.

US equity strategies outperformed benchmarks by wide margins. Global, international and UK equity strategies were also significantly positive. Phillips & Drew was ranked the top-performing pension fund manager in Britain for the year 2000 by Combined Actuarial Performance Services (CAPS), the leading UK performance measurement consultancy. Phillips & Drew's flagship Managed Exempt fund (equities mixed with property) outperformed the average fund manager by more than 10% for the full year. Phillips & Drew's strong performance in 2000 also benefited their balanced fund's three and five year records, moving its ranking up from fourth quartile at the end of 1999 to second quartile at the end of 2000.

Results

The full year pre-tax profit of CHF 227 million was 30% lower than 1999. Despite asset losses in the core institutional business, income increased as a result of the launch of the O'Connor business and the acquisition of Allegis; but this was more than offset by higher performance-related personnel expenses, goodwill amortization relating to Allegis and increased general and administrative expenses.

Operating income

Operating income increased CHF 202 million, or 18%, from CHF 1,099 million in 1999 to CHF 1,301 million in 2000. Despite the decrease in assets under management, operating income increased as a result of the acquisition of Allegis and the creation of the new O'Connor alternative asset management business, partially offset by lost revenue from client losses.

Operating expenses

Full year expenses increased by CHF 300 million, to CHF 1,074 million. Personnel expenses increased 38%, or CHF 173 million, from CHF 458 million in 1999 to CHF 631 million in 2000 and General and administrative expenses increased 37%, or CHF 65 million, over 1999 to CHF 243 million in 2000. Both categories of expense increased as a result of the acquisition of Allegis, the addition of the new O'Connor business and currency movements.

Depreciation and amortization expense increased CHF 62 million, or 45%, from CHF 138 million in 1999 to CHF 200 million in 2000, including CHF 46 million from the acquisition of Allegis.

Headcount

Headcount increased 5% from 1,653 at 31 December 1999 to 1,728 at 31 December 2000, primarily as a result of the creation of the new O'Connor business in June 2000.

1999

Operating income

Operating income decreased CHF 64 million, or 6%, from CHF 1,163 million in 1998 to CHF 1,099 million in 1999. Assets under management increased 8%, or CHF 43 billion, to CHF 574 billion at 31 December 1999 from CHF 531 at 31 December 1998, with increases in both institutional and non-institutional categories year-on-year. Despite the 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

906 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. Average non-institutional assets increased by 16% during 1999; however, non-institutional revenues declined slightly to CHF 193 million as a result of new interbusiness unit fee arrangements with UBS Private Banking.

Operating expenses

Personnel, general and administrative expenses increased CHF 17 million, or 3%, 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 16% from CHF 154 million in 1998 to CHF 178 million in 1999 as a result of revisions in cost-sharing arrangements between Institutional Asset Management and other business units 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

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Income	**652**	270	195	141
Credit loss expense	**0**	0	0	
Total operating income	**652**	270	195	141
Personnel expenses	**249**	58	50	329
General and administrative expenses	**196**	93	74	111
Depreciation	**22**	7	6	214
Amortization of goodwill and other intangible assets	**90**	0	0	
Total operating expenses	**557**	158	130	253
Business unit performance before tax	**95**	112	65	(15)
KPI's				
Assets under management (CHF billion)	**219**	225	176	(3)
Net new money (CHF billion)[2]	**4.4**	1.3		
Gross AuM margin (bps)[3]	**38**	24		58
Cost / income ratio (%)[4]	**85**	59	67	
Cost / income ratio before goodwill (%)[4, 5]	**72**	59	67	

Additional information As of	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Regulatory equity used (avg)	**750**	2	2	
Headcount (full time equivalents)	**1,132**	923	366	23

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [2] Excludes dividend and interest income. [3] All non-institutional revenues, including those booked in Institutional Asset Management, divided by average assets under management. [4] Operating expenses / operating income before credit loss expense. [5] The amortization of goodwill and other intangible assets is excluded from this calculation.

2000

There were no significant financial events that affected this business unit in 1999 or 2000.

Key performance indicators

Assets under management decreased 3% from CHF 225 billion at 31 December 1999 to CHF 219 billion at year end 2000, largely a result of currency and market movements, partly offset by net new money of CHF 4.4 billion.

The cost/income ratio before goodwill increased from 59% to 72% mainly as a result of the inclusion of Global Asset Management (GAM), but also reflecting spending on new business initiatives, chiefly targeted at marketing investment funds outside UBS's own client base.

The gross margin for the year, at 38 basis points, is significantly higher than the 24 basis points recorded in 1999, principally due to the contribution from GAM.

Results

Net profit for 2000 fell 15%, or CHF 17 million, to CHF 95 million in 2000, reflecting the additional costs of spending on new business initiatives, chiefly targeted at marketing investment funds outside UBS.

Operating income

Operating income increased CHF 382 million, or 141%, from CHF 270 million in 1999 to CHF 652 million in 2000, primarily as a result of the GAM acquisition.

Operating expenses

Personnel expenses increased 329%, or CHF 191 million, from CHF 58 million in 1999 to CHF 249 million in 2000 due to the acquisition of GAM, and increased headcount for growth initiatives in the Investment Funds area. General and administrative expenses increased 111%, from CHF 93 million in 1999 to CHF 196 million in 2000, as a result of the acquisition of GAM and marketing and distribution initiatives in the Investment Funds area.

Depreciation and amortization expense increased CHF 105 million, from CHF 7 million in 1999 to CHF 112 million in 2000, reflecting goodwill amortization following the acquisition of GAM.

Headcount

Headcount increased 23% from 923 at 31 December 1999 to 1,132 at 31 December 2000, primarily a result of an increase of staff to support distribution initiatives in the Investment Funds area.

1999

Operating income

Operating income increased CHF 75 million, or 38%, 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 significantly impact income or expenses in 1999.

Assets under management increased 28%, or CHF 49 billion, to CHF 225 billion at 31 December 1999 from CHF 176 billion at 31 December 1998. 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.

Operating expenses

Personnel, general and administrative expenses increased CHF 27 million, or 22%, 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 26% 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 17%, 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

Business Group Reporting

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Income	**19,779**[4]	13,241	7,691	49
Credit loss expense[2]	**(247)**	(333)	(510)	(26)
Total operating income	**19,532**	12,908	7,181	51
Personnel expenses	**11,002**	7,278	4,641	51
General and administrative expenses	**3,501**	2,680	2,625	31
Depreciation	**731**	659	549	11
Amortization of goodwill and other intangible assets	**298**[4]	154	173	94
Total operating expenses	**15,532**	10,771	7,988	44
Business Group performance before tax	**4,000**	2,137	(807)	87
Additional information				
Assets under management (CHF billion)[6]	**827**	36	27	
Cost / income ratio (%)[7]	**79**	81	104	
Cost / income ratio before goodwill (%)[7, 8]	**77**	80	102	

As of	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Regulatory equity used (avg)	**24,900**	10,679	13,779	133
Headcount (full time equivalents)	**38,445**	14,266	14,638	169

Business Group Reporting Adjusted for Significant Financial Events

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Income	**19,779**[4]	13,041[5]	7,691	52
Credit loss expense[2]	**(247)**	(333)	(510)	(26)
Total operating income	**19,532**	12,708	7,181	54
Personnel expenses	**10,916**[3]	7,278	4,641	50
General and administrative expenses	**3,408**[3]	2,680	2,625	27
Depreciation	**652**[3]	659	549	(1)
Amortization of goodwill and other intangible assets	**298**[4]	154	173	94
Total operating expenses	**15,274**	10,771	7,988	42
Business Group performance before tax	**4,258**	1,937	(807)	120
Additional information				
Cost / income ratio (%)[7]	**77**	83	104	
Cost / income ratio before goodwill (%)[7, 8]	**76**	81	102	

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [2] In management accounts, statistically derived adjusted expected loss rather than net IAS credit loss (expense) / recovery is reported in the business units (see Note 3a). [3] The year ended 31 December 2000 Personnel, General and administrative expenses and Depreciation were adjusted for the significant financial events in respect of the PaineWebber integration costs by CHF 86 million, CHF 93 million and CHF 79 million, respectively. [4] Goodwill funding costs of CHF 132 million and amortization of goodwill and other intangible assets of CHF 138 million in respect of the PaineWebber acquisition are included in UBS Warburg results but are not reflected in any of the individual business units. [5] Year ended 31 December 1999 has been adjusted for the Significant Financial Event of CHF 200 million for the sale of the international Global Trade Finance business. [6] US Private Clients' Client Assets at 3 November 2000 were CHF 890 billion. [7] Operating expenses / operating income before credit loss expense. [8] The amortization of goodwill and other intangible assets is excluded from this calculation.

Goodwill costs

UBS Warburg's Business Group operating expenses include CHF 138 million amortization of goodwill and intangible assets and CHF 132 million of goodwill funding costs relating to the merger with PaineWebber which are recorded at the Business Group level, but are not allocated to the individual business units.

In particular, the results of the US Private Clients business unit, which includes the former PaineWebber private client businesses, do not reflect goodwill amortization or funding costs relating to the merger.

Components of Operating Income

The *Corporate and Institutional Clients* unit generates operating income from
- commissions on agency transactions and spreads or markups on principal transactions;
- fees from debt and equity capital markets transactions, leveraged finance, and the structuring of derivatives and complex transactions;
- mergers and acquisitions and other 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' 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 have had and may in the future have a significant impact on results of operations from year to year.

UBS Capital's primary source of operating income is capital gains from the disposal 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 disposals that take place during the year.

The private clients business units, *US Private Clients* and *International Private Clients*, principally derive their operating income from
- fees for financial planning and wealth management services;
- fees for discretionary services; and
- transaction-related fees.

These fees are based on the market value of assets under management and the level of transaction-related activity. As a result, 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.

Corporate and Institutional Clients

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Corporate Finance	**2,701**	2,054	1,665	31
Equities	**10,429**	5,724	3,253	82
Fixed income	**2,969**	2,464	(267)	20
Treasury products	**1,653**	1,805	2,351	(8)
Non-core business	**281**	482[2]	(96)	(42)
Income	**18,033**	12,529[2]	6,906	44
Credit loss expense[3]	**(243)**	(330)	(500)	(26)
Total operating income	**17,790**	12,199	6,406	46
Personnel expenses	**9,284**[4, 5]	6,861	4,333	35
General and administrative expenses	**2,779**[4]	2,429	2,483	14
Depreciation	**555**[4]	629	535	(12)
Amortization of goodwill and other intangible assets	**149**	134	157	11
Total operating expenses	**12,767**	10,053	7,508	27
Business unit performance before tax	**5,023**	2,146	(1,102)	134

KPI's			
Compensation / income (%)	**51**	55	63
Cost / income ratio (%)[6]	**71**	80	109
Cost / income ratio before goodwill (%)[6, 7]	**70**	79	106
Non-performing loans / Gross loans outstanding (%)	**3.4**	2.2	1.5
Average VaR (10-day 99%)	**242**	213	295[8]

League table rankings[9] For the year ended	31.12.00	31.12.99
Global Mergers and Acquisitions completed[10]		
Rank	**6**	6
Market share	**16.7**	20.3
International Equity New Issues[11]		
Rank	**7**	11
Market share	**5.1**	3.8
International Bonds[11]		
Rank	**5**	5
Market share	**7.9**	8.0
Eurobonds[11]		
Rank	**1**	1
Market share	**8.8**	8.7

Additional information As of	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Regulatory equity used (avg)	**10,000**	10,050	13,300	0
Headcount (full time equivalents)	**15,262**	12,694	13,794	20

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [2] Year ended 31 December 1999 income was adjusted for the Significant Financial Event of CHF 200 million related to the sale of the international Global Trade Finance business. [3] In management accounts, statistically derived adjusted expected loss rather than net IAS credit loss (expense) / recovery is reported in the business units (see Note 3a). [4] The year ended 31 December 2000 Personnel, General and administrative expenses and Depreciation were adjusted for the Significant Financial Events in respect of the PaineWebber integration by CHF 86 million, CHF 13 million and CHF 7 million, respectively. [5] The year ended 31 December 2000 Personnel expenses include CHF 11 million of the CHF 128 million retention payments in respect of the PaineWebber acquisition. [6] Operating expenses / operating income before credit loss expense. [7] The amortization of goodwill and other intangible assets is excluded from this calculation. [8] VaR average for 1998 is from the date of the UBS / SBC merger, 26 June 1998, until 31 December 1998. [9] The league table rankings reflect recent industry consolidation. [10] Source: Thomson Financial Securities data. [11] Source: Capital Data Bondware.

2000

The results for Corporate and Institutional Clients include the costs and revenues for November and December 2000 of the former PaineWebber capital markets businesses, which were integrated into this business unit from the completion of the merger on 3 November 2000.

PaineWebber integration costs were treated as a significant financial event, and are not shown in the table. The amounts involved were: personnel expenses CHF 86 million, general and administrative expenses CHF 13 million and depreciation CHF 7 million.

In addition, a CHF 200 million gain on the sale of UBS's international Global Trade Finance business in 1999 was treated as a significant financial event and is not reflected in the operating income shown in the table.

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%, from 79% in the previous year, representing the result of significant cost management efforts on both personnel and non-personnel expenses.

Corporate and Institutional Clients' ratio of personnel cost to income fell to 51% in 2000, from 55% last year. UBS Warburg continues to invest in top quality professionals to help expand its capabilities and client reach and 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 decreased to 19% in 2000, from 25% in 1999. Improvements in overall cost management were offset by increased expenditure on technology and professional fees and the incremental costs of the PaineWebber capital markets business.

The value of Corporate and Institutional Clients' non-performing loans rose CHF 933 million, or 59%, from CHF 1,586 million at 31 December 1999 to CHF 2,519 million at 31 December 2000, reflecting the weaker credit environment in the US. At the same time, the gross loans outstanding rose from CHF 72,717 million at 31 December 1999 to CHF 74,253 million at 31 December 2000. As a result, the ratio of non-performing loans to total loans increased to 3.4% at the end of 2000 from 2.2% at the end of 1999. UBS Warburg does not believe that extensive lending is critical to the expansion of its client franchise and does not intend to engage in balance sheet led earnings growth.

Market risk utilization, as measured by average Value at Risk, continued to remain well within the limit of CHF 450 million, although increasing from an average of CHF 213 million in 1999 to an average of CHF 242 million in 2000, reflecting the exceptional trading opportunities in the early part of 2000.

Results

UBS Warburg's Corporate and Institutional Clients business unit delivered record financial results in 2000, with each quarter performing significantly above the levels in the comparable quarter of 1999. Pre-tax profit of CHF 5,023 million was more than double the CHF 2,146 million achieved in 1999, itself a good year.

Operating income

Corporate and Institutional Clients generated revenues of CHF 18,033 million in 2000, an increase of 44% over 1999.

Equities revenues during 2000 were CHF 10,429 million, or 82% higher than 1999's revenues of CHF 5,724 million reflecting the strength of UBS Warburg's global client franchise and increased market share in significantly stronger secondary markets, and strong market-making and trading revenues. UBS Warburg's secondary equity sales business continues to be ranked as one of the global leaders, and the leading non-US equities house.

Fixed Income experienced an exceptionally strong 2000, driven by strong markets, significant principal finance activity and a strong government bond and derivatives business, contributing to overall revenues for the year 2000 of CHF 2,969 million, an improvement of 20%, or CHF 505 million over 1999's revenues of CHF 2,464 million.

Operating Income Before Credit Loss Expense by Business Area

	For the year ended		
CHF million	**31.12.00**	31.12.99	31.12.98
Equities	**10,429**	5,724	3,253
Fixed income	**2,969**	2,464	(267)
Corporate finance	**2,701**	2,054	1,665
Treasury products	**1,653**	1,805	2,351
Non-core business	**281**	482	(96)
Total	**18,033**	12,529	6,906

Despite commoditization of products and the continuing pressure on margins across its businesses, the *Treasury Products* business area recorded a slight increase in underlying revenues, reflecting the recovery of euro trading as the currency strengthened, and a growing client franchise. The business area also increased market share through extensive use of e-channels to extend client reach. Revenues for 1999 included revenues relating to exchange-traded derivatives and alternative asset management, which were transferred to the Equities business area in 2000. Full year performance reflected this transfer, with revenues of CHF 1,653 million in 2000, down 8% on the previous year.

Market conditions for mergers and acquisitions, advisory work and primary underwriting continued to be strong, driving *Corporate Finance's* excellent performance. UBS Warburg's corporate client franchise continued to develop, with strong performance in critical sectors in 2000, particularly Telecommunications and Consumer Goods. Productivity per head also increased in comparison to prior years. Overall, 2000 was a year of very strong growth in this area for UBS Warburg, with revenues of CHF 2,701 million, 31% ahead of 1999.

The Corporate Finance business area within Corporate and Institutional Clients provides both advisory services and financing services. Financing services include both equity and fixed-income offerings undertaken in cooperation with the Equities and Fixed income business areas. Accordingly, a portion of operating income associated with these services is allocated to those areas.

Non-core revenues in 2000, which include income from the work-out of the Global Equity Derivatives portfolio and the non-core loan portfolio (described below) fell 42% compared to 1999, to CHF 281 million.

Operating expenses

Corporate and Institutional Clients continues to carefully manage its cost base, with the pre-goodwill cost/income ratio remaining well below 1999 levels at 70%. Personnel expenses increased 35% from 1999, to CHF 9,284 million, reflecting increased headcount and growth in performance-related compensation in line with the excellent results. Personnel expenses include CHF 11 million of retention payments made to former PaineWebber staff.

General and administrative expenses increased 14% compared to 1999, as a result of increased expenditure on technology outsourcing, professional fees and the incremental costs of the PaineWebber capital markets business.

Overall costs grew at a significantly slower rate than revenues, delivering continued strong pre-tax profit growth.

Headcount

Corporate and Institutional Clients headcount rose 20% during the year, to 15,262, mainly due to business growth in the Corporate Finance and Equities areas, including the impact of the integration of 1,628 staff from the PaineWebber capital markets businesses.

1999

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%, 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.

Operating income

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 482 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 793 million in the business unit's Long Term Capital Management trading position.

Operating income from Corporate Finance increased CHF 389 million, or 23%, from CHF 1,665 million in 1998 to CHF 2,054 million in 1999. Strong performance in mergers and acquisitions in 1999, resulting in higher advisory fees, and contributions from UBS's Equity and Debt Capital Management Groups were the primary drivers of the increase.

Operating income from Treasury Products decreased CHF 546 million, or 23%, 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 businesses identified above increased CHF 578 million, from CHF (96) million in 1998 to CHF 482 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 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%, from CHF 500 million in 1998 to CHF 330 million in 1999. This reflected a decrease in Expected 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. The section entitled "UBS Switzerland – Private and Corporate Clients" includes 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.

Operating expenses

Personnel, general and administrative expenses increased CHF 2,474 million, or 36%, 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%, to CHF 6,861 in 1999, due primarily to performance-related compensation tied directly to the strong business unit results for the year. In addition, in 1998, CHF 1,007 million of accrued payments to personnel was charged against the restructuring reserve relating to the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation. The shortfall in profits in 1998 was aggravated by losses associated with Long Term Capital Management and the Global Equity Derivatives portfolio. After adjusting 1998 for the amount charged to the restructuring reserve, personnel expenses in 1999 increased 28% 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%, 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

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Income	**368**	315	585	17
Credit loss expense	**0**	0	0	
Total operating income	**368**	315	585	17
Personnel expenses	**142**	105	121	35
General and administrative expenses	**49**	46	35	7
Depreciation	**2**	2	0	0
Amortization of goodwill and other intangible assets	**2**	5	1	(60)
Total operating expenses	**195**	158	157	23
Business unit performance before tax	**173**	157	428	10

KPI's

Value creation (CHF billion)	**0.6**	0.6	0.8	

As of	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Portfolio book value (CHF billion)	**5.5**	3.0	1.8	83

Additional information

Regulatory equity used (avg)	**600**	340	250	76
Headcount (full time equivalents)	**129**	116	122	11

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies).

2000

There were no significant financial events that affected this business unit in 1999 or 2000.

Key performance indicators

The book value of UBS Capital's private equity investments has grown from CHF 3.0 billion at the end of 1999 to CHF 5.5 billion at 31 December 2000. New investments of CHF 2.1 billion were made during the full year, including new shareholdings across a diverse range of sectors. In addition, CHF 0.8 billion of investments made by PaineWebber were added to UBS Capital's private equity portfolio in December 2000. The portfolio value was reduced by certain write-downs in investments in second and fourth quarters 2000.

UBS Capital accounts for its private equity investments at cost less permanent impairments, showing only realized gains or losses in the profit and loss statement. The portfolio review and valuation at 31 December 2000 resulted in an approximate current fair value of CHF 6.9 billion, compared to CHF 4.2 billion at 31 December 1999. This equates to unrealized gains of approximately CHF 1.3 billion, compared to CHF 1.2 billion at year-end 1999. The value creation during the year 2000, including realized gains since 1 January 2000, and the increase in the portfolio's unrealized gains, is approximately CHF 0.6 billion.

Results

In 2000, net profit was CHF 173 million, up CHF 16 million or 10% from CHF 157 million in 1999.

Operating income

Operating income increased 17% to CHF 368 million in 2000, from CHF 315 million in 1999. This reflects the realized gains from sales of investments in the year, partially offset by write-downs of the value of several under-performing companies in different sectors of the portfolio.

Operating expenses

Personnel, general and administrative expenses were CHF 191 million in 2000, an increase from the previous year of CHF 40 million, or 26%, driven mainly by bonus expenses. Bonuses are accrued when an investment is successfully exited, so personnel expenses move in line with divestments.

1999

Operating income

Operating income decreased CHF 270 million, or 46%, 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.

Operating expenses

Personnel, general and administrative expenses decreased slightly by CHF 5 million, or 3%, from CHF 156 million in 1998 to CHF 151 million 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 Corporate and Institutional Clients 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% from CHF 121 million in 1998 to CHF 105 million in 1999. General and administrative expenses increased CHF 11 million, or 31%, 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.

US Private Clients

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.00[1]
Income	1,225
Credit loss expense	0
Total operating income	**1,225**
Personnel expenses[2]	955
General and administrative expenses	258
Depreciation	30
Amortization of goodwill and other intangible assets	1
Total operating expenses	**1,244**
Business unit performance before tax	**(19)**

KPI's	
Client assets (CHF billion)[3]	794
Net new money (CHF billion)[4]	8.3
Gross AuM margin (bps)	86
Cost / income ratio (%)[5]	102
Cost / income ratio before goodwill (%)[5, 6]	101
Cost / income ratio before goodwill and retention payments (%)[5, 6]	92
Recurring fees[7]	430
Financial advisors (full time equivalents)	8,871

Additional information As of	31.12.00
Regulatory equity used (avg)	2,450
Headcount (full time equivalents)	21,490

[1] The US Private Clients results cover the period from the date of acquisition of PaineWebber, 3 November 2000. [2] Includes CHF 117 million of the CHF 128 million retention payments in respect of the PaineWebber acquisition. [3] Corresponds to UBS's current definition of Assets under management. Client assets at 3 November 2000 were CHF 890 billion. [4] Excludes interest and dividend income. [5] Operating expenses / operating income before credit loss expense. [6] The amortization of goodwill and other intangible assets is excluded from this calculation. [7] Asset based and advisory revenues including fees from mutual funds, wrap fee products, insurance products and institutional asset management products.

The merger between UBS and PaineWebber was completed on 3 November 2000 and was accounted for using purchase accounting. Accordingly, the results shown for US Private Clients are for the period from that date until 31 December 2000. Results for prior periods are not shown.

The business unit represents the former PaineWebber businesses, excluding the PaineWebber capital markets business transferred to the Corporate and Institutional Clients business unit. Although the US businesses of the former UBS Warburg Private Clients business unit were integrated into PaineWebber's management structure soon after completion of the merger, their results are still included in the International Private Clients unit for 2000.

2000

There were no significant financial events that affected this business unit in 2000.

Key performance indicators

At the end of the fourth quarter 2000, US Private Clients had CHF 794 billion of client assets. This represents a fall of CHF 96 billion from the level at completion of the merger on 3 November 2000, reflecting the decline in equity markets, particularly in the US, and the effect of the fall of the US dollar against the Swiss franc.

PaineWebber's asset gathering continues successfully, with net new money flows averaging

CHF 202.3 million (USD 119.0 million) per day in November and December 2000, comparing very favorably to the average rate for the third quarter of CHF 172.5 million (USD 103.3 million) per day, despite the effects of the holiday season.

Results

US Private Clients recorded a net loss for November and December 2000 of CHF 19 million. Adjusting for the effect of retention payments of CHF 117 million, this represents a pre-tax operating profit of CHF 98 million for the two months.

PaineWebber's strong asset gathering performance during November and December was in contrast to the seasonal slow down in transactional business, compounded this year by the delay in the results of the US Presidential election, which had a negative effect on client confidence and investment activity. As a result, net profit per month was about 39% lower than the rate in PaineWebber's individual client segment in third quarter 2000, after adjusting for the benefit of PaineWebber's invested equity. (Within UBS's management accounts, the net benefit of invested equity is reflected in Corporate Center.)

Operating income

Total revenues for November and December were CHF 1,225 million, including approximately CHF 430 million of recurring fee revenue. This represents an overall decline of 2% from the run-rate recorded in PaineWebber's individual client business in the third quarter, reflecting the effects of the seasonal slow-down.

Operating expenses

Total expenses for November and December were CHF 1,244 million. Personnel expenses were CHF 955 million, including CHF 117 million of retention payments for PaineWebber staff. Excluding these payments, overall expenses rose slightly from prior levels, reflecting investments in the development of wrap fee products and the new Corporate Employee Financial Services business.

Headcount

Total headcount at 31 December 2000 was 21,490, including 8,871 financial advisors, up from 8,688 financial advisors at 30 September 2000.

International Private Clients

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Income	**286**	197	200	45
Credit loss expense[2]	**(4)**	(3)	(10)	33
Total operating income	**282**	194	190	45
Personnel expenses	**385**	294	187	31
General and administrative expenses	**188**	187	107	1
Depreciation	**30**	25	14	20
Amortization of goodwill and other intangible assets	**7**	15	15	(53)
Total operating expenses	**610**	521	323	17
Business unit performance before tax	**(328)**	(327)	(133)	0
KPI's				
Assets under management (CHF billion)	**33**	36	27	(8)
Net new money (CHF billion)[3]	**10.4**	3.6		
Gross AuM margin (bps)	**75**	67		12

Additional information As of	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Regulatory equity used (avg)	**350**	289	229	21
Headcount (full time equivalents)	**1,154**	1,386	722	(17)

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [2] In management accounts, statistically derived adjusted expected loss rather than net IAS credit loss (expense) / recovery is reported in the business units (see Note 3a). [3] Excludes interest and dividend income.

2000

There were no significant financial events that affected this business unit in 1999 or 2000.

Key performance indicators

Assets under management decreased from CHF 36 billion at the end of 1999 to CHF 33 billion at 31 December 2000, reflecting poor performance in world equity markets during the year, particularly in the technology sector.

Net new money of CHF 10.4 billion and the increase in the gross margin from 67 bps in 1999 to 75 bps in 2000 reflect the successful efforts to build International Private Clients client franchise.

Results

Operating income

Operating income increased CHF 88 million, or 45%, from CHF 194 million in 1999 to CHF 282 million in 2000. Revenues have increased as average assets under management have grown, a wider range of products and services has been offered to clients and new staff and offices have built their client franchises. International Private Clients' businesses are generally in a relatively early stage of development and its client relationships will continue to build towards their full revenue potential.

Operating expenses

Operating expenses increased 17%, or CHF 89 million, from CHF 521 million in 1999 to CHF 610 million in 2000, mainly due to the expansion of offices early in 2000. This total included restructuring costs of CHF 93 million related to integration of the International Private Clients businesses into UBS Warburg in February 2000.

Excluding this restructuring charge, expenses fell 1% compared to 1999.

Headcount

Headcount fell from 1,386 to 1,154, as a result of the restructuring undertaken in 2000, matching staffing levels more exactly to market opportunities.

1999

Operating income

Results for the year ended 31 December 1998 were driven by a business that consisted primarily of the private banking operations of Schroder Munchmeyer 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

Operating expenses increased 61%, or CHF 198 million, to CHF 521 million in 1999 from CHF 323 million in 1998, 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

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.00	31.12.99	% change from 31.12.99
Income	(1)	0	
Credit loss expense	0	0	
Total operating income	(1)	0	
Personnel expenses	150	18	733
General and administrative expenses	134[1]	18	644
Depreciation	35[1]	3	
Amortization of goodwill and other intangible assets	1	0	
Total operating expenses	320	39	721
Business unit performance before tax	(321)	(39)	(723)

Additional information As of	31.12.00	31.12.99	% change from 31.12.99
Headcount (full time equivalents)	410	70	486

[1] The year ended 31 December 2000 General and administrative expenses and Depreciation were adjusted for Significant Financial Events in respect of the PaineWebber integration by CHF 80 million and CHF 72 million, respectively.

2000

UBS Group established the e-services project in the third quarter of 1999. Following the merger with PaineWebber, the e-services strategy was reassessed and focus shifted to more upscale clients than those originally targeted.

The multi-currency and multi-entity core banking systems developed by the e-services initiative will be integrated into the core of UBS's new wealth management strategy in Europe.

Those parts of the infrastructure that were relevant to the mass affluent market, such as telephone call-centers, have been closed and the investment in them has been written off. This has resulted in a charge of CHF 80 million to General and administrative expenses. In addition, capitalized software costs relating to parts of the systems which will not now be used have been written off, resulting in a CHF 72 million charge to depreciation. These two amounts form part of the PaineWebber integration costs, treated as a significant financial event, and as a result these costs do not appear in the adjusted business unit results above.

Operating expenses

Operating expenses were CHF 320 million in 2000, mainly related to infrastructure-related investments in core technologies. Personnel expenses were CHF 150 million in 2000 and CHF 18 million in 1999. General and administrative expenses were CHF 134 million in 2000 and CHF 18 million in 1999.

These increases were primarily the result of the establishment of operations infrastructure, the installation and testing of systems platforms, and the testing of marketing concepts.

As explained above, the restructuring costs associated with the end of the e-services initiative were treated as a significant financial event and are therefore not included in these figures.

Corporate Center

Business Group Reporting

CHF million, except where indicated For the year ended	31.12.00	31.12.99[2]	31.12.98[2]	% change from 31.12.99
Income	358	2,010	191	(82)
Credit loss recovery[3]	1,161	448	745	159
Total operating income	1,519	2,458	936	(38)
Personnel expenses	522	92	212	467
General and administrative expenses	431	839	1,656	(49)
Depreciation	320	366	128	(13)
Amortization of goodwill and other intangible assets	44	50	87	(12)
Total operating expenses	1,317	1,347	2,083	(2)
Business Group performance before tax	202	1,111	(1,147)	(82)

Additional information As of	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Regulatory equity used (avg)	8,450	7,850	6,350	8
Headcount (full time equivalents)	986	862	921	14

Business Group Reporting Adjusted for Significant Financial Events[1]

CHF million, except where indicated For the year ended	31.12.00	31.12.99[2]	31.12.98[2]	% change from 31.12.99
Income	358	372	191	(4)
Credit loss recovery[3]	1,161	448	745	159
Total operating income	1,519	820	936	85
Personnel expenses	490	548	212	(11)
General and administrative expenses	281	385	1,656	(27)
Depreciation	320	366	128	(13)
Amortization of goodwill and other intangible assets	44	50	87	(12)
Total operating expenses	1,135	1,349	2,083	(16)
Business Group performance before tax	384	(529)	(1,147)	

[1] Figures have been adjusted for the significant financial events. Year ended 31 December 1999 income has been adjusted for the CHF 38 million income from the Long Term Capital Management (LTCM) fund, CHF 1,490 million for the sale of our 25% stake in Swiss Life / Rentenanstalt and CHF 110 million for the sale of Julius Baer registered shares. Year ended 31 December 2000 Personnel expenses were adjusted for the PaineWebber integration costs of CHF 32 million. Year ended 31 December 2000 General and administrative expenses have been adjusted for the net additional CHF 150 million provision relating to the US Global Settlement. Year ended 31 December 1999 Personnel expenses have been adjusted for CHF 456 million for the Pension Fund Accounting Credit. Year ended 31 December 1999 General and administrative expenses have been adjusted for CHF 300 million for the UBS/SBC Restructuring Provision and CHF 154 million for the increase in the provision for the US Global Settlement. [2] The 1999 and 1998 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: Summary of Significant Accounting Policies). [3] In management accounts, statistically derived adjusted expected loss rather than net IAS credit loss (expense) / recovery is reported in the business units (see Note 3a).

2000

Significant financial events booked in Corporate Center in 1999 and 2000 were:

- Personnel expenses of CHF 32 million relating to the integration of PaineWebber into UBS in 2000.
- Operating income of CHF 1,490 million from the sale of UBS's 25% stake in Swiss Life/Rentenanstalt, CHF 110 million from the sale of Julius Baer registered shares, and CHF 38 million from UBS's residual holding in Long Term Capital Management L.P., all in 1999.
- A credit to Personnel expenses in 1999 of CHF 456 million in connection with excess pension fund employer pre-payments.
- Costs of CHF 154 million in 1999 and CHF 150 million in 2000 in General and administrative expenses in connection with the US Global Settlement of World War II related claims.
- Costs of CHF 300 million in General and administrative expenses in respect of an additional restructuring charge relating to the 1998 merger between UBS and SBC.

Results

Operating income

Adjusted for significant financial events, operating income before credit loss expense decreased CHF 14 million, or 4%, from CHF 372 million in 1999 to CHF 358 million in 2000. 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 activities.

Credit loss expense in Corporate Center reconciles the difference between management accounting and financial accounting, that is between the adjusted statistically calculated expected losses charged to the business units and the actual credit loss expense recognized in the Group financial accounts. The Swiss economy has been strong in 2000, leading to credit loss expenses below the statistically calculated expected level, and to a net write back of credit loss provisions of CHF 695 million, resulting in a credit of CHF 130 million at the Group level. Corporate Center's credit loss expense of CHF 1,161 million reflects the balancing item between this amount and the CHF 1,031 million Expected Loss charged to the business units.

Operating expenses

Operating expenses decreased from CHF 1,349 million to CHF 1,135 million.

Headcount

Headcount in Corporate Center increased 124 during the year, reflecting the addition of staff from PaineWebber, and expansion in our Corporate Language Services subsidiary.

1999

Operating income

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 UBS's 25% interest in 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 consolidation of Klinik Hirslanden AG for the first time in 1999.
- The negative impact on 1998 operating income due to the loss of CHF 367 million from Long Term Capital Management.

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

Operating expenses

Personnel, general and administrative expenses decreased CHF 937 million, or 50%, from CHF

1,868 million in 1998 to CHF 931 million in 1999.

Personnel costs decreased 57% 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 consolidation of Klinik Hirslanden AG for the first time in 1999.

General and administrative expenses decreased CHF 817 million, or 49%, to CHF 839 million in 1999 from CHF 1,656 million in 1998, primarily as a result of a charge of CHF 842 million for the US global settlement of World War II-related claims 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 World War II-related claims in the United States.
– An additional pre-tax restructuring charge of CHF 300 million in respect of the 1998 merger.
– Expenses of Klinik Hirslanden AG as a result of the consolidation of this entity for the first time 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%, 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.

UBS Group Financial Statements

Financial Statements Table of Contents

Financial Statements

UBS Group Income Statement

CHF million, except where indicated For the year ended	Note	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Operating income					
Interest income	4	51,745	35,604	37,442	45
Interest expense	4	(43,615)	(29,695)	(32,424)	47
Net interest income		8,130	5,909	5,018	38
Credit loss recovery / (expense)		130	(956)	(951)	
Net interest income after credit loss recovery / (expense)		8,260	4,953	4,067	67
Net fee and commission income	5	16,703	12,607	12,626	32
Net trading income	6	9,953	7,719	3,313	29
Net gains from disposal of associates and subsidiaries	7	83	1,821	1,119	(95)
Other income	8	1,403	1,325	1,122	6
Total operating income		36,402	28,425	22,247	28
Operating expenses					
Personnel	9	17,163	12,577	9,816	36
General and administrative	9	6,765	6,098	6,735	11
Depreciation and amortization	9	2,275	1,857	1,825	23
Total operating expenses		26,203	20,532	18,376	28
Operating profit before tax and minority interests		10,199	7,893	3,871	29
Tax expense	24	2,320	1,686	904	38
Net profit before minority interests		7,879	6,207	2,967	27
Minority interests	25	(87)	(54)	5	61
Net profit		7,792	6,153	2,972	27
Basic earnings per share (CHF)[3]	10	19.33	15.20	7.33	27
Basic earnings per share before goodwill (CHF)[2, 3]	10	20.99	16.04	8.18	31
Diluted earnings per share (CHF)[3]	10	19.04	15.07	7.20	26
Diluted earnings per share before goodwill (CHF)[2, 3]	10	20.67	15.90	8.03	30

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [2] The amortization of goodwill and other intangible assets is excluded from this calculation. [3] 1999 and 1998 share figures are restated for the two-for-one share split, effective 8 May 2000.

UBS Group Balance Sheet

CHF million	Note	31.12.00	31.12.99[1]	% change from 31.12.99
Assets				
Cash and balances with central banks		**2,979**	5,073	(41)
Money market paper	11	**66,454**	69,717	(5)
Due from banks	12	**29,147**	29,907	(3)
Cash collateral on securities borrowed	13	**177,857**	113,162	57
Reverse repurchase agreements	13	**193,801**	132,391	46
Trading portfolio assets	14	**253,296**	211,932	20
Positive replacement values	26	**57,875**	62,957	(8)
Loans, net of allowance for credit losses	12	**244,842**	234,858	4
Financial investments	15	**16,405**	7,039	133
Accrued income and prepaid expenses		**7,062**	5,167	37
Investments in associates	16	**880**	1,102	(20)
Property and equipment	17	**8,910**	8,701	2
Goodwill and other intangible assets	18	**19,537**	3,543	451
Other assets	19	**8,507**	11,007	(23)
Total assets		**1,087,552**	896,556	21
Total subordinated assets		***475***	*600*	*(21)*
Liabilities				
Money market paper issued		**74,780**	64,655	16
Due to banks	20	**82,240**	76,365	8
Cash collateral on securities lent	13	**23,418**	12,832	82
Repurchase agreements	13	**295,513**	196,914	50
Trading portfolio liabilities	14	**82,632**	54,638	51
Negative replacement values	26	**75,923**	95,786	(21)
Due to customers	20	**310,679**	279,960	11
Accrued expenses and deferred income		**21,038**	12,040	75
Long-term debt	21	**54,855**	56,332	(3)
Other liabilities	22, 23, 24	**18,756**	15,992	17
Total liabilities		**1,039,834**	865,514	20
Minority interests	25	2,885	434	565
Shareholders' equity				
Share capital		**4,444**	4,309	3
Share premium account		**20,885**	14,437	45
Foreign currency translation		**(687)**	(442)	(55)
Retained earnings		**24,191**	20,327	19
Treasury shares		**(4,000)**	(8,023)	(50)
Total shareholders' equity		**44,833**	30,608	46
Total liabilities, minority interests and shareholders' equity		**1,087,552**	896,556	21
Total subordinated liabilities		***14,508***	*14,801*	*(2)*

[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: Summary of Significant Accounting Policies).

UBS Group Statement of Changes in Equity

CHF million For the year ended	31.12.00	31.12.99[1]	31.12.98[1]
Issued and paid up share capital			
Balance at the beginning of the year	4,309	4,300	4,296
Issue of share capital	135	9	4
Balance at the end of the year[2]	**4,444**	**4,309**	**4,300**
Share premium			
Balance at the beginning of the year	13,929	13,740	13,260
Change in accounting policy	508	(123)	1,406
Balance at the beginning of the year (restated)	14,437	13,617	14,666
Premium on shares issued and warrants exercised[3]	139	45	111
Net premium / (discount) on treasury share and own equity derivative activity[3]	(391)	775	(1,160)
Share premium increase due to PaineWebber acquisition	4,198		
Borrow of own shares to be delivered[4]	5,895		
Settlement of own shares to be delivered	(3,393)		
Balance at the end of the year	**20,885**	**14,437**	**13,617**
Foreign currency translation			
Balance at the beginning of the year	(442)	(456)	(111)
Movements during the year	(245)	14	(345)
Balance at the end of the year	**(687)**	**(442)**	**(456)**
Retained earnings			
Balance at the beginning of the year	20,501	16,293	15,464
Change in accounting policy	(174)	(69)	0
Balance at the beginning of the year (restated)	20,327	16,224	15,464
Net profit for the year	7,792	6,153	2,972
Dividends paid[5, 6]	(3,928)	(2,050)	(2,212)
Balance at the end of the year	**24,191**	**20,327**	**16,224**
Treasury shares, at cost			
Balance at the beginning of the year	(3,462)	(1,482)	(1,982)
Change in accounting policy	(4,561)	(3,409)	(2,345)
Balance at the beginning of the year (restated)	(8,023)	(4,891)	(4,327)
Acquisitions	(16,330)	(6,595)	(3,860)
Disposals	20,353	3,463	3,296
Balance at the end of the year[7]	**(4,000)**	**(8,023)**	**(4,891)**
Total shareholders' equity	**44,833**	**30,608**	**28,794**

Reconciliation of shares issued

	Number of shares			% change from
As of	31.12.00	31.12.99	31.12.98	31.12.99
Balance at the beginning of the year	430,893,162	429,952,612	428,724,700	0
Issue of share capital	804,502	940,550	1,227,912	(14)
Issue of share capital due to PaineWebber[8]	12,682,065			
Total ordinary shares issued, at the end of the year	444,379,729	430,893,162	429,952,612	3

In addition to treasury shares, a maximum of 42,571,341 shares (1,057,908 at 31 December 1999 and 1,998,458 at 31 December 1998) can be issued without further approval of the shareholders. The amount of shares consists of 26,000,000 authorized shares contingently issuable by the Board of Directors in reference to the PaineWebber share exchange until February 2001 at the latest. The option to issue authorized shares expired unused. Additionally 16,571,341 shares out of conditional capital had been set aside by the Extraordinary General Meeting on 7 September 2000. Those shares are issuable against the exercise of options from former PaineWebber employee option plans. The Board of Directors will propose to the shareholders at the Annual General Meeting on 26 April 2001 a reduction of the issuable amount to 5,643,205 shares which is the number of shares required to settle the outstanding PaineWebber employee options at year end.

1 The 1999 and 1998 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: Summary of Significant Accounting Policies).
2 Comprising 444,379,729 ordinary shares as of 31 December 2000, 430,893,162 ordinary shares as of 31 December 1999 and 429,952,612 ordinary shares as of 31 December 1998, 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 In January 2001, all remaining shares borrowed to complete the acquisition of PaineWebber were settled resulting in a net CHF 103 million decrease in share premium.
5 Includes interim dividend paid in respect of the period from 1 January 2000 to 30 September 2000 of CHF 1,764 million.
6 The Board of Directors is proposing to repay CHF 1.60 of the par value of each CHF 10.00 share, instead of distributing a final dividend in respect of the period from 1 October 2000 to 31 December 2000.
7 Comprising 18,421,783 ordinary shares as of 31 December 2000, 36,873,714 ordinary shares as of 31 December 1999 and 24,456,698 ordinary shares as of 31 December 1998.
8 Includes shares issued for employee option plans.

UBS Group Statement of Cash Flows

CHF million For the year ended	**31.12.00**	31.12.99[1]	31.12.98[1]
Cash flow from / (used in) operating activities			
Net profit	**7,792**	6,153	2,972
Adjustments to reconcile to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation and amortization	**2,275**	1,857	1,825
Provision for credit losses	**(130)**	956	951
Income from associates	**(58)**	(211)	(377)
Deferred tax expense	**544**	479	491
Net gain from investing activities	**(730)**	(2,282)	(1,803)
Net increase / (decrease) in operating assets:			
Net due from / to banks	**(915)**	(5,298)	(65,172)
Reverse repurchase agreements, cash collateral on securities borrowed	**(81,054)**	(12,656)	66,031
Trading portfolio including net replacement values	**11,553**	(49,956)	45,089
Loans due to / from customers	**12,381**	17,222	(5,626)
Accrued income, prepaid expenses and other assets	**6,923**	2,545	2,107
Net increase / (decrease) in operating liabilities:			
Repurchase agreements, cash collateral on securities lent	**50,762**	52,958	(49,145)
Accrued expenses and other liabilities	**3,313**	(7,366)	1,686
Income taxes paid	**(959)**	(1,063)	(733)
Net cash flow from / (used in) operating activities	**11,697**	3,338	(1,704)
Cash flow (used in) / from investing activities			
Investments in subsidiaries and associates	**(9,729)**	(1,720)	(1,563)
Disposal of subsidiaries and associates	**669**	3,782	1,858
Purchase of property and equipment	**(1,640)**	(2,820)	(1,813)
Disposal of property and equipment	**335**	1,880	1,134
Net (investment) / divestment in financial investments	**(8,770)**	356	6,134
Net cash flow (used in) / from investing activities	**(19,135)**	1,478	5,750
Cash flow (used in) / from financing activities			
Money market paper issued	**10,125**	13,128	(4,073)
Net movements in treasury shares and treasury share contract activity	**(647)**	(2,312)	(2,552)
Capital issuance	**15**	9	4
Dividends paid	**(3,928)**	(2,050)	(2,212)
Issuance of long-term debt	**14,884**	12,661	5,566
Repayment of long-term debt	**(24,640)**	(7,112)	(9,068)
Issuance of minority interests	**2,683**		
Repayment of minority interests	**(73)**	(689)	0
Net cash flow (used in) / from financing activities	**(1,581)**	13,635	(12,335)
Effects of exchange rate differences	**112**	148	(386)
Net increase / (decrease) in cash equivalents	**(8,907)**	18,599	(8,675)
Cash and cash equivalents, beginning of the year	**102,277**	83,678	92,353
Cash and cash equivalents, end of the year	**93,370**	102,277	83,678
Cash and cash equivalents comprise:			
Cash and balances with central banks	**2,979**	5,073	3,267
Money market paper	**66,454**	69,717	18,390
Due from banks maturing in less than three months	**23,937**	27,487	62,021
Total	**93,370**	102,277	83,678

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies).

Additional Information on the Cash Flow Statement

Cash and cash equivalents increased by CHF 1,311 million as a result of acquisitions and disposals of subsidiaries in 2000 (see Note 38).

The principal assets and liabilities of PaineWebber upon consolidation are made up as follows:

CHF billion	03.11.00
Loans, net of allowances for credit losses	20
Trading portfolio assets	42
Cash collateral on securities borrowed / reverse repurchase agreements	45
Cash collateral on securities lent / repurchase agreements	58
Due to customers	26
Long-term debt	9

For more information relating to the PaineWebber acquisition please see Note 2: Acquisition of Paine Webber Group, Inc.

Notes to the Financial Statements

Note 1 Summary of Significant Accounting Policies

a) Basis of accounting

UBS AG and subsidiaries (the "Group") provides a broad range of financial services such as advisory services, 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.

The consolidated financial statements are stated in Swiss francs (CHF), 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 certain 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. Subsidiaries where control is temporary because they 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.

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

c) 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.

d) Foreign currency translation

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

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

e) Business and geographical segments

The Group is organized on a worldwide basis into three major Business Groups and the Corporate Center. This organizational structure is 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 in line with charges to unaffiliated customers for similar services.

f) 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.

g) 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 investments 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. The Group offsets reverse repurchase agreements and repurchase agreements with the same counterparty for transactions covered by legally enforceable master netting agreements when net or simultaneous settlement is intended.

h) Trading portfolio

The trading portfolio consists of debt and equity securities as well as of precious metals. The trading portfolio is carried at fair value and marked to market daily. 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.

i) Loans and allowance for credit losses

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

Interest income on performing loans, including amortization of premiums and discounts, is recognized on an accrual basis.

Loans are stated at their principal amount net of any allowance for credit losses. The allowance and provisions for credit losses provides for probable losses in the credit portfolio, including loans and lending-related commitments. Such commitments include letters of credit, guarantees and commitments to extend credit.

The carrying amounts of impaired loans are reduced to their estimated realizable value through allowances. Increases or decreases in allowances are charged or credited, respectively, to the income statement. 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. Recoveries are credited to the allowances for credit losses.

A loan is considered impaired when it becomes probable that the bank will not be able to collect all amounts due according to the contractual terms. The reason for impairment includes both counterparty-specific and country-specific elements. The evaluation is based on the following principles:

Counterparty-specific: 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 are established based on this assessment, and exclude exposures addressed in counterparty-specific allowances.

All impaired loans are periodically reviewed and analyzed and the allowance for credit losses is reassessed on a loan-by-loan basis at least annually and if necessary adjusted for further impairments identified. If there are indications that there are significant probable losses in the portfolio that have not been specifically identified, allowances would also be provided for on a portfolio basis.

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.

j) Financial investments

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

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

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

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

k) 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 temporary significant influence because they are acquired and held with a view to their subsequent disposal, are included in Financial investments (see private equity above).

Investments in companies in which the Group does not hold a significant influence are recorded at cost less value adjustments for other than temporary declines in value.

l) Property and equipment

Property and equipment includes bank occupied properties, investment properties, software, IT and communication and other machines and 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 its estimated useful life as follows:

Properties	Not exceeding 50 years
IT, software and communication	Not exceeding 3 years
Other machines and equipment	Not exceeding 5 years

m) Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entity at the date of acquisition.

Other intangible assets are comprised of separately identifiable intangible items arising from acquisitions and certain purchased trademarks and similar items.

Goodwill and other intangible assets are recognized as assets and are amortized using the straight-line basis over their estimated useful economic life, not exceeding 20 years. At each balance sheet date, goodwill and other intangible assets are reviewed for indications of impairment. If such indications exist an analysis is performed to assess 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. Software development costs are capitalized when they meet certain criteria relating to identifiability and future economic benefits can be reasonably estimated. Internally developed software is classified in Property and equipment in the balance sheet.

n) 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 of income tax losses available for carry-forward are recognized as an asset when it is probable that future taxable profit will be available against which those losses can be utilized.

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

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

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

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

o) Treasury shares

UBS AG shares held by the Group are classified in the Shareholders' equity as Treasury shares and accounted for at weighted average cost. The difference between the proceeds from sales of treasury shares and their cost (net of tax) is classified as Share premium.

Contracts that require physical settlement or net share settlement are classified as Shareholders' equity and reported as Share premium. The difference between the proceeds from the settlement of the contract and its cost (net of tax) are reported as Share premium.

p) 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 benefits. Group contributions to defined contribution plans are expensed when employees have rendered services in exchange for such contributions, generally in the year of contribution.

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 used by the actuary are set out in Note 34.

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 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.

q) 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.

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.

The Group offsets positive and negative replacement values with the same counterparty for transactions covered by legally enforceable master netting agreements.

r) Comparability

Certain amounts have been reclassified from previous years to conform to the 2000 presentation.

The prior year financial statements reflect the requirements of the following revised or new International Accounting Standards or changes in accounting policies which the Group implemented in 2000:

IAS 10 (revised)	Events after the balance sheet date
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets
Interpretation SIC 12	Consolidation – special purpose entities
Interpretation SIC 16	Share capital – reacquired own equity instruments (treasury shares)
Interpretation SIC 24	Earnings per share – financial instruments and other contracts that may be settled in shares
Offsetting of amounts related to certain contracts	
Interest and dividend income on trading assets	

The implementation of the above standards or accounting policies had no material impact for the Group except for the following:

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.

Capitalized costs relating to internally developed software amounted to CHF 248 million as of 31 December 2000 and are reported within Note 17 Property and equipment as IT, software and communication, and operating expenses were reduced accordingly.

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 reduced by CHF 196 million for the year ended 31 December 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 31 December 1998.

Offsetting of amounts related to certain contracts
In order to improve comparability with its competitors, the Group has decided to offset positive and negative replacement values and reverse repurchase agreements and repurchase agreements with the same counterparty 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 and expense 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 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 17,281 million for the year ended 31 December 1999. Interest expense was increased by CHF 17,728 million for the year ended 31 December 1999. In addition, Net trading income was increased by CHF 447 million for the year ended 31 December 1999.

In addition to the above, other changes have been made to prior years to conform to current presentation.

s) Recent accounting standards not yet adopted

IAS 12	Revised, income taxes
IAS 39	Recognition and measurement of financial instruments
IAS 40	Investment property

The implementation of the above standards will have no material impact for the Group except for the following:

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. The Group will disclose its financial assets either as loans originated by the bank and not held for trading, financial assets held for trading, investments held to maturity or financial assets available for sale.

Loans originated by the bank are initially measured at cost, which is the fair value of the consideration given to originate the loan, including any transaction costs. Loans will subsequently be measured at amortized cost minus any write-down for impairment or uncollectibility.

Financial assets held for trading are valued at fair value and changes in the fair value are recognized in trading income.

Held-to-maturity investments are recognized at cost and interest is accrued using the effective interest method. Held-to-maturity investments are subject to review for impairment.

Financial assets available for sale are recognized at fair value on the balance sheet. Changes in fair value are booked to equity and disclosed in the statement of changes in equity until the financial asset is sold, collected or otherwise disposed of, or until the financial asset is determined to be impaired, at which time the cumulative profit or loss previously recognized in equity should be included in net profit or loss for the period.

In a qualifying hedge of exposures to changes in fair value, the change in fair value of the hedging instrument is recognized as an adjustment to its carrying amount and in net profit and loss. The change in fair value of the hedged item attributable to the hedged risks adjusts the carrying value of the hedged item and is also recognized in net profit or loss.

In a qualifying cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognized as an adjustment to its carrying amount and in equity. The ineffective portion of the gain or loss on the hedging transaction also adjusts the hedging instrument's carrying amount, but is reported in net profit or loss. If the forecasted transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument is recognized in net profit or loss.

A qualifying hedge of a net investment in a foreign entity is accounted for similar to a cash flow hedge. The gain or loss on the hedging instrument relating to the effective portion of the hedge is classified in the same manner as the foreign currency translation gain or loss.

The adoption of IAS 39 is expected to have a material impact on certain financial assets and liabilities including long-term debt. An opening adjustment to Other comprehensive income will also be required, representing unrealized gains and losses on financial assets recorded as available for sale and derivatives designated as cash flow hedges.

IAS 40 Investment property

In April 2000, the IASC issued IAS 40 Investment property, which is required to be adopted for the Group's financial statements as of 1 January 2001. The Standard prescribes the accounting treatment and disclosure requirements for investment property. Investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. As of 1 January 2001 investment properties amounted to CHF 1,280 million.

Note 2 Acquisition of Paine Webber Group, Inc.

On 3 November 2000, UBS completed its acquisition of 100% of the outstanding common stock of the Paine Webber Group, Inc., a full-service broker-dealer and one of the largest securities and commodities firms in the United States servicing both individual and institutional clients. The transaction was accounted for using the purchase method of accounting, making PaineWebber a wholly owned subsidiary of UBS. Results of operations of PaineWebber are included in the consolidated results beginning on the date of acquisition. Under International Accounting Standards, the valuation of shares and options issued is measured as of the date the acquisition was completed, 3 November 2000. Purchase consideration of CHF 22.0 billion (USD 12.5 billion) consists of the following:

	CHF million	USD million
Value of shares issued (40,580,570 shares issued)	10,246	5,817
Value of options issued (options on 6,325,270 shares issued)	992	563
Cash consideration	10,607	6,021
Direct costs of the acquisition	115	65
Total purchase price	21,960	12,466
Fair value of net assets acquired	(5,630)	(3,196)
Total intangible assets[1]	16,330	9,270
Intangible assets other than goodwill	(4,695)	(2,665)
Goodwill arising from acquisition	11,635	6,605
Purchased goodwill	1,202	682
Total goodwill at 3 November 2000	12,837	7,287
Effect of translation adjustments	(898)	
Amortization from 3 November 2000	(103)	(61)
Balance of goodwill at 31 December 2000	11,836	7,226

[1] Excluding purchased goodwill.

The resulting goodwill and intangible assets will be amortized using the straight-line method over their estimated useful lives of 20 years.

In addition, UBS has entered into employee retention agreements that provide for payments to key PaineWebber employees which are subject to the employee's continued employment and other restrictions. The estimated cost to the Group for the agreements is approximately CHF 1.5 billion (USD 875 million) over a four-year period.

Note 3a Segment Reporting by Business Group

UBS is organized into three Business Groups: UBS Switzerland, UBS Warburg and UBS Asset Management, and our Corporate Center.

UBS Switzerland

UBS Switzerland encompasses two business units, Private Banking and Private and Corporate Clients.

The Private Banking business unit offers comprehensive wealth management services for private clients globally, who bank in Switzerland and other financial centers worldwide.

Within Switzerland, the Private and Corporate Clients business unit provides a complete set of banking and securities services for individual and corporate clients, focused foremost on customer service excellence, profitability and growth via multichannel distribution.

The two business units share technological and physical infrastructure, and have joint departments supporting major functions such as e-commerce, financial planning and wealth management, and investment policy and strategy.

UBS Asset Management

UBS Asset Management is organized into two business units, Institutional Asset Management and Investment Funds / GAM.

Institutional Asset Management offers a diverse range of institutional investment management capabilities, in every major asset class, from the traditional to the alternative.

Investment Funds provides retail investment fund products, marketed principally through UBS Switzerland. Investment management for these funds is generally undertaken by Institutional Asset Management, with the Investment Funds unit concentrating on product development and distribution.

Global Asset Management (GAM), acquired in late 1999, is a diversified asset management group, offering a wide range of investment styles. Dedicated to giving its clients access to the world's best investment talent, GAM's funds are managed by its own staff and by about 80 carefully selected external managers. GAM products are marketed both independently and through Private Banking.

UBS Warburg

UBS Warburg is a client-driven securities, investment banking and wealth management firm. It is made up of five business units.

The Corporate and Institutional Clients business unit is one of the leading global investment banking and securities firms. For both its own corporate and institutional clients and the other parts of the UBS Group, UBS Warburg provides product innovation, top-quality research and advice, and complete access to the world's capital markets.

UBS Capital is the private equity business unit of UBS Warburg, investing UBS and third-party funds primarily in unlisted companies.

US Private Clients, operating under the brand of UBS PaineWebber, provides a full range of wealth management services.

The International Private Clients business unit provides private banking products and services for high net worth clients outside the US and Switzerland who bank in their country of residence. During 2001 the European part of this business will become part of UBS Switzerland's Private Banking business unit and the Asia-Pacific part will be merged with US Private Clients.

The e-services business unit was created in fourth quarter 1999. During 2000, e-services progressed successfully towards its goal of creating a new business providing wealth management for affluent European clients, through internet, call centers and investment centers. Following the merger with PaineWebber, UBS's European wealth management strategy has evolved. As a result, key components of the e-services business unit's infrastructure will become part of Private Banking's new European wealth management strategy and e-services will no longer be reported separately.

Corporate Center

The Corporate Center encompasses Group level functions which cannot be devolved to the operating divisions, and ensures that the Business Groups operate as a coherent and effective whole with a common set of values and principles. Corporate Center's remit covers areas such as risk management, financial reporting, marketing and communications, funding, capital and balance sheet management and management of foreign currency earnings.

Note 3a Segment Reporting by Business Group (continued)

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. 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 year ended 31 December 2000

CHF million	UBS Switzerland	UBS Asset Management	UBS Warburg	Corporate Center	UBS Group
Income	14,182	1,953	19,779	358	36,272
Credit loss recovery / (expense)[1]	(784)	0	(247)	1,161	130
Total operating income	13,398	1,953	19,532	1,519	36,402
Personnel expenses	4,759	880	11,002	522	17,163
General and administrative expenses	2,394	439	3,501	431	6,765
Depreciation	508	49	731	320	1,608
Amortization of goodwill and other intangible assets	62	263	298	44	667
Total operating expenses	7,723	1,631	15,532	1,317	26,203
Business Group performance before tax	**5,675**	**322**	**4,000**	**202**	**10,199**
Tax expense					2,320
Net profit before minority interests					**7,879**
Minority interests					(87)
Net profit					**7,792**
Other information as of 31 December 2000[2]					
Total assets	281,780	6,727	870,608	(71,563)	1,087,552
Total liabilities	272,134	5,513	846,451	(81,379)	1,042,719

[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 130 million for the year ended 31 December 2000 is as follows: UBS Switzerland CHF 695 million, UBS Warburg CHF (565) million. [2] The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

Note 3a Segment Reporting by Business Group (continued)

For the year ended 31 December 1999[1]

CHF million	UBS Switzerland	UBS Asset Management	UBS Warburg	Corporate Center	UBS Group
Income	12,761	1,369	13,241	2,010	29,381
Credit loss recovery / (expense)[2]	(1,071)	0	(333)	448	(956)
Total operating income	11,690	1,369	12,908	2,458	28,425
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	23	113	154	50	340
Total operating expenses	7,482	932	10,771	1,347	20,532
Business Group performance before tax	**4,208**	**437**	**2,137**	**1,111**	**7,893**
Tax expense					1,686
Net profit before minority interests					**6,207**
Minority interests					(54)
Net profit					**6,153**
Other information as of 31 December 1999[3]					
Total assets	254,577	10,451	719,568	(88,040)	896,556
Total liabilities	270,137	4,614	693,633	(102,436)	865,948

[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: Summary of Significant Accounting Policies). [2] 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 recovery / (expense) for financial reporting purposes of CHF (956) million for the year ended 31 December 1999 is as follows: UBS Switzerland CHF (965) million, Corporate Center CHF 9 million. [3] The funding surplus / requirement is reflected in each Business Group and adjusted in Corporate Center.

For the year ended 31 December 1998[1]

CHF million	UBS Switzerland	UBS Asset Management	UBS Warburg	Corporate Center	UBS Group
Income	13,958	1,358	7,691	191	23,198
Credit loss recovery / (expense)[2]	(1,186)	0	(510)	745	(951)
Total operating income	12,772	1,358	7,181	936	22,247
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	7,449	856	7,988	2,083	18,376
Business Group performance before tax	**5,323**	**502**	**(807)**	**(1,147)**	**3,871**
Tax expense					904
Net profit before minority interests					**2,967**
Minority interests					5
Net profit					**2,972**

[1] The 1998 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: Summary of Significant Accounting Policies). [2] 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 recovery / (expense) for financial reporting purposes of CHF (951) million for the year ended 31 December 1998 is as follows: UBS Switzerland CHF (445) million and UBS Warburg CHF (506) million.

Note 3b Segment Reporting by Geographic Location

The geographic 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 Group, as shown in Note 3a to these financial statements, is a more meaningful representation of the way in which the Group is managed.

For the year ended 31 December 2000

	Total operating income		Total assets		Capital investment	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	15,836	44	211,851	19	1,135	43
Rest of Europe	10,907	30	305,342	28	311	12
Americas	6,976	19	474,617	44	1,169	44
Asia / Pacific	2,626	7	87,831	8	36	1
Africa / Middle East	57	0	7,911	1	8	0
Total	**36,402**	**100**	**1,087,552**	**100**	**2,659**	**100**

For the year ended 31 December 1999[1]

	Total operating income		Total assets		Capital investment	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	14,976	52	207,702	23	1,990	70
Rest of Europe	7,626	27	303,365	34	356	13
Americas	3,861	14	281,974	31	386	14
Asia / Pacific	1,945	7	96,469	11	87	3
Africa / Middle East	17	0	7,046	1	1	0
Total	**28,425**	**100**	**896,556**	**100**	**2,820**	**100**

For the year ended 31 December 1998[1]

	Total operating income	
	CHF million	Share %
Switzerland	16,757	75
Rest of Europe	1,655	8
Americas	2,548	11
Asia / Pacific	1,251	6
Africa / Middle East	36	0
Total	**22,247**	**100**

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies).

Income Statement

Note 4 Net Interest Income

CHF million For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Interest income				
Interest earned on loans and advances to banks	**5,615**	6,105	7,687	(8)
Interest earned on loans and advances to customers	**14,692**	12,077	14,111	22
Interest from finance leasing	**36**	49	60	(27)
Interest earned on securities borrowed and reverse repurchase agreements	**19,088**	11,422	10,380	67
Interest and dividend income from financial investments	**202**	160	372	26
Interest and dividend income from trading portfolio	**11,842**	5,598	3,901	112
Other	**270**	193	931	40
Total	**51,745**	35,604	37,442	45
Interest expense				
Interest on amounts due to banks	**6,155**	5,515	8,205	12
Interest on amounts due to customers	**9,505**	8,330	9,890	14
Interest on securities lent and repurchase agreements	**14,915**	8,446	7,543	77
Interest and dividend expense from trading portfolio	**5,309**	2,070	1,741	156
Interest on medium and long-term debt	**7,731**	5,334	5,045	45
Total	**43,615**	29,695	32,424	47
Net interest income	**8,130**	5,909	5,018	38

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies).

Note 5 Net Fee and Commission Income

CHF million For the year ended	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Credit-related fees and commissions	**310**	372	559	(17)
Security trading and investment activity fees				
Underwriting fees[1]	**1,434**	905	1,122	58
Corporate finance fees[1]	**1,772**	1,298	1,016	37
Brokerage fees	**5,792**	3,934	3,670	47
Investment fund fees	**2,821**	1,915	1,778	47
Fiduciary fees	**351**	317	349	11
Custodian fees	**1,439**	1,583	1,386	(9)
Portfolio and other management and advisory fees[1]	**3,677**	2,612	2,891	41
Other	**50**	57	110	(12)
Total	**17,336**	12,621	12,322	37
Commission income from other services	**802**	765	776	5
Total fee and commission income	**18,448**	13,758	13,657	34
Fee and commission expense				
Brokerage fees paid	**1,084**	795	704	36
Other	**661**	356	327	86
Total	**1,745**	1,151	1,031	52
Net fee and commission income	**16,703**	12,607	12,626	32

[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 previous periods have been restated accordingly.

Note 6 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 instruments of 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 globally in equity securities and equity derivatives such as swaps, options, futures, and forward contracts.

CHF million For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Foreign exchange	1,287	1,108	1,992	16
Fixed income	912	2,603	162	(65)
Equities	7,754	4,008	1,159	93
Net trading income	**9,953**	7,719	3,313	29

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies).

Note 7 Net Gains from Disposal of Associates and Subsidiaries

CHF million For the year ended	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Net gains from disposal of consolidated subsidiaries	57	8	1,149	613
Net gains/(losses) from disposal of investments in associates	26	1,813	(30)	(99)
Net gains from disposal of associates and subsidiaries	**83**	1,821	1,119	(95)

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

Note 8 Other Income

CHF million For the year ended	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Investments in financial assets (debt and equity)				
Net gain from disposal of private equity investments	**919**	374	587	146
Net gain from disposal of other financial assets	**162**	180	398	(10)
Impairment charges in private equity investments and other financial assets	**(507)**	(102)	(556)	397
Total	**574**	452	429	27
Investments in property				
Net gain from disposal of properties held for resale	**85**	78	33	9
Net loss from revaluation of properties held for resale	**(108)**	(49)	(106)	120
Net income from other properties	**96**	(20)	328	
Total	**73**	9	255	711
Equity income from investments in associates	**58**	211	377	(73)
Other	**698**	653	61	7
Total other income	**1,403**	1,325	1,122	6

Note 9 Operating Expenses

CHF million For the year ended	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Personnel expenses				
Salaries and bonuses	**13,523**	9,872	7,082	37
Contractors	**725**	886	535	(18)
Insurance and social contributions	**959**	717	542	34
Contribution to retirement benefit plans	**475**	8	614	
Employee share plans	**97**	151	201	(36)
Other personnel expenses	**1,384**	943	842	47
Total	**17,163**	12,577	9,816	36
General and administrative expenses				
Occupancy	**979**	847	822	16
Rent and maintenance of machines and equipment	**520**	410	390	27
Telecommunications and postage	**914**	756	820	21
Administration	**750**	784	759	(4)
Marketing and public relations	**480**	335	262	43
Travel and entertainment	**656**	552	537	19
Professional fees	**660**	526	532	25
IT and other outsourcing	**1,246**	1,289	1,260	(3)
Other	**560**	599	1,353	(7)
Total	**6,765**	6,098	6,735	11
Depreciation and amortization				
Property, equipment and software	**1,608**	1,517	1,483	6
Goodwill and other intangible assets	**667**	340	342	96
Total	**2,275**	1,857	1,825	23
Total operating expenses	**26,203**	20,532	18,376	28

Note 10 Earnings per Share

For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	% change from 31.12.99
Basic earnings per share calculation				
Net profit for the period (CHF million)	7,792	6,153	2,972	27
Net profit for the period before goodwill amortization (CHF million)[2]	8,459	6,493	3,314	30
Weighted average shares outstanding:				
Registered ordinary shares	433,486,003	430,497,026	429,710,128	1
Own shares to be delivered	2,058,212			
Treasury shares	(32,514,906)	(25,754,544)[3]	(24,487,833)[3]	26
Weighted average shares for basic earnings per share	403,029,309	404,742,482	405,222,295	0
Basic earnings per share (CHF)	19.33	15.20	7.33	27
Basic earnings per share before goodwill amortization (CHF)[2]	20.99	16.04	8.18	31
Diluted earnings per share calculation				
Net profit for the period (CHF million)	7,778[5]	6,153	2,972	26
Net profit for the period before goodwill amortization (CHF million)[2]	8,445[5]	6,493	3,314	30
Weighted average shares for basic earnings per share	403,029,309	404,742,482	405,222,295	0
Potential dilutive ordinary shares resulting from outstanding options, warrants and convertible debt securities[6]	5,496,591	3,632,670[4]	7,658,746[4]	51
Weighted average shares for diluted earnings per share	408,525,900	408,375,152	412,881,041	0
Diluted earnings per share (CHF)	19.04	15.07	7.20	26
Diluted earnings per share before goodwill amortization (CHF)[2]	20.67	15.90	8.03	30

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [2] The amortization of goodwill and other intangible assets is excluded from this calculation. [3] Treasury shares have increased by 11,371,720 and by 18,372,661 for the periods ended 31 December 1999 and 31 December 1998, due to a change in accounting policy (see Note 1: Summary of Significant Accounting Policies). [4] Share amount has been adjusted by 1,414,114 and by 5,371,922 representing other potentially dilutive instruments for the periods ended 31 December 1999 and 31 December 1998, due to a change in accounting policy (see Note 1: Summary of Significant Accounting Policies). [5] Net profit has been adjusted for the dilutive impact of own equity derivative activity in accordance with International Accounting Standards. [6] Total equivalent shares outstanding on options that were not dilutive for the respective periods but could potentially dilute earnings per share in the future were 9,174,760, 24,045,261 and 11,367,184 for the years ended 31 December 2000, 31 December 1999 and 31 December 1998, respectively.

1999 and 1998 share figures are restated for the two-for-one share split, effective 8 May 2000.

Balance Sheet: Assets

Note 11 Money Market Paper

CHF million	31.12.00	31.12.99
Government treasury notes and bills	22,551	32,724
Money market placements	43,477	36,540
Other bills and cheques	426	453
Total money market paper	**66,454**	69,717
thereof eligible for discount at central banks	*60,689*	*64,671*

Note 12a Due from Banks and Loans to Customers

The composition of Due from banks, the Loan portfolio and the Allowance for credit losses by type of exposure at the end of the year was as follows:

CHF million	31.12.00	31.12.99
Banks	30,064	30,785
Allowance for credit losses	(917)	(878)
Net due from banks	29,147	29,907
Loans to customers		
Mortgages	120,554	127,987
Other loans	133,898	119,242
Subtotal	254,452	247,229
Allowance for credit losses	(9,610)	(12,371)
Net loans to customers	244,842	234,858
Net due from banks and loans to customers	**273,989**	264,765
thereof subordinated	*393*	*86*

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:

CHF million	31.12.00	31.12.99
Switzerland	164,645	183,944
Rest of Europe	46,882	44,796
Americas	52,939	31,285
Asia / Pacific	16,504	13,451
Africa / Middle East	3,546	4,538
Subtotal	284,516	278,014
Allowance for credit losses	(10,527)	(13,249)
Net due from banks and loans to customers	**273,989**	264,765

The composition of Due from banks and Loans to customers by type of collateral at the end of the year was as follows:

CHF million	31.12.00	31.12.99
Secured by real estate	122,898	130,835
Collateralized by securities	37,714	19,061
Guarantees and other collateral	28,373	28,725
Unsecured	95,531	99,393
Subtotal	284,516	278,014
Allowance for credit losses	(10,527)	(13,249)
Net due from banks and loans to customers	**273,989**	264,765

Note 12b Allowance and Provision for Credit Losses

The allowance and provision for credit losses developed as follows:

CHF million	Specific allowance	Country risk allowance and provision	Total 31.12.00	Total 31.12.99
Balance at the beginning of the year	12,022	1,376	13,398	14,978
Write-offs	(2,963)	(32)	(2,995)	(3,275)
Recoveries	150	13	163	65
Increase / (decrease) in credit loss allowance and provision	(49)	(81)	(130)	956
Net foreign exchange and other adjustments	129	16	145	674
Balance at the end of the year	9,289	1,292	10,581	13,398

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

CHF million	31.12.00	31.12.99
As a reduction of Due from banks	917	878
As a reduction of Loans to customers	9,610	12,371
Subtotal	10,527	13,249
Included in other liabilities related to commitments and contingent liabilities	54	149
Total allowance and provision for credit losses	10,581	13,398

Note 12c Impaired Loans

UBS classifies a loan as impaired when there is a probability of incurring a partial or full loss. A provision is then made with respect to the loan in question.

The impaired loans were as follows:

CHF million	31.12.00	31.12.99
Impaired loans [1, 2]	18,494	22,456
Amount of allowance for credit losses related to impaired loans	9,685	12,471
Average impaired loans [3]	20,804	24,467

[1] All impaired loans have a specific allowance for credit losses. [2] Interest income on impaired loans is immaterial. [3] Average balances were calculated from quarterly data.

Note 12d Non-Performing Loans

When principal, interest or commission are overdue by 90 days, loans are classified as non-performing, the recognition of interest or commission income ceases and a charge is recognized against income for the unpaid interest or commission receivable. Allowances are provided for non-performing loans to reflect their net estimated recoverable amount. Unrecognized interest related to such loans totalled CHF 182 million for the year ended 31 December 2000 and CHF 409 million for the year ended 31 December 1999.

The non-performing loans were as follows:

CHF million	31.12.00	31.12.99
Non-performing loans	10,452	13,073
Amount of allowance for credit losses related to non-performing loans	6,850	8,661
Average non-performing loans [1]	11,884	14,615

[1] Average balances were calculated from quarterly data.

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

CHF million	31.12.00	31.12.99
Non-performing loans at the beginning of the year	13,073	16,113
Net reductions	(290)	(638)
Write-offs and disposals	(2,331)	(2,402)
Non-performing loans at the end of the year	**10,452**	13,073

The non-performing loans by type of exposure were as follows:

CHF million	31.12.00	31.12.99
Banks	172	499
Loans to customers		
Mortgages	4,586	7,105
Other	5,694	5,469
Total loans to customers	10,280	12,574
Total non-performing loans	**10,452**	13,073

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

CHF million	31.12.00	31.12.99
Switzerland	7,588	11,435
Rest of Europe	342	223
Americas	1,865	697
Asia / Pacific	307	373
Africa / Middle East	350	345
Total non-performing loans	**10,452**	13,073

Note 13 Securities Borrowing, Securities Lending, Repurchase, Reverse Repurchase and Other Collateralized Transactions

The Group enters into collateralized reverse repurchase and repurchase agreements and securities borrowing and securities lending transactions that may result in credit exposure in the event the counterparty to the transaction is unable to fulfill its contractual obligations. The Group minimizes credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group when deemed necessary.

The following table presents cash collateral received and paid under securities lending, repurchase agreements, securities borrowing and reverse repurchase agreements.

CHF million	Securities borrowed 31.12.00	Securities lent 31.12.00	Securities borrowed 31.12.99	Securities lent 31.12.99
Cash collateral by counterparties				
Banks	159,619	18,291	99,810	8,926
Customers	18,238	5,127	13,352	3,906
Total cash collateral on securities borrowed and lent	177,857	23,418	113,162	12,832

CHF million	Reverse repurchase agreements 31.12.00	Repurchase agreements 31.12.00	Reverse repurchase agreements 31.12.99[1]	Repurchase agreements 31.12.99[1]
Agreements by counterparties				
Banks	144,505	175,421	93,104	125,054
Customers	49,296	120,092	39,287	71,860
Total repurchase and reverse repurchase agreements	193,801	295,513	132,391	196,914

[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: Summary of Significant Accounting Policies).

Under reverse repurchase, securities borrowing, and other collateralized arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. At 31 December 2000, the Group held CHF 478 billion of securities on such terms, CHF 407 billion of which have been either pledged or otherwise transferred to others in connection with its financing activities or to satisfy its commitments under short sale transactions.

Note 14 Trading Portfolio

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

CHF million	31.12.00	31.12.99[1]
Trading portfolio assets		
Debt instruments		
Swiss government and government agencies	1,104	7,391
US Treasury and government agencies	19,769	21,816
Other government	33,222	65,804
Corporate listed instruments	64,514	13,420
Other unlisted instruments	26,583	8,322
Total	145,192	116,753
Equity instruments		
Listed instruments	102,571	87,089
Unlisted instruments	2,320	2,963
Total	104,891	90,052
Precious metals	3,213	5,127
Total trading portfolio assets	253,296	211,932
Trading portfolio liabilities		
Debt instruments		
Swiss government and government agencies	439	0
US Treasury and government agencies	13,645	24,535
Other government	5,070	11,917
Corporate listed instruments	31,905	6,502
Other unlisted instruments	192	9
Total	51,251	42,963
Listed equity instruments	31,381	11,675
Total trading portfolio liabilities	82,632	54,638

[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: Summary of Significant Accounting Policies).

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 26 provides a description of the various classes of derivatives together with the related volumes used in the Group's trading activities, whereas Note 13 provides further details about cash collateral on securities borrowed and lent and repurchase and reverse repurchase agreements.

Included in total trading portfolio assets above are CHF 59 billion of securities pledged to others under terms which permit the counterparty to sell or repledge and CHF 12 billion of securities pledged to others under terms which do not permit the counterparty to resell or repledge.

Note 15 Financial Investments

CHF million	31.12.00	31.12.99
Debt instruments		
Listed	1,403	1,357
Unlisted	4,803	609
Total	6,206	1,966
Equity investments		
Listed	1,119	356
Unlisted	1,438	557
Total	2,557	913
Private equity investments	6,658	3,001
Properties held for resale	984	1,159
Total financial investments	16,405	7,039
thereof eligible for discount at central banks	*381*	*563*

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

CHF million	Book value 31.12.00	Fair value 31.12.00	Book value 31.12.99	Fair value 31.12.99
Valued at amortized cost				
Debt instruments	5,851	5,853	677	687
Valued at the lower of cost or market value				
Debt instruments	355	367	1,289	1,314
Equity instruments	2,557	3,031	913	939
Properties held for resale	984	1,150	1,159	1,194
Total	3,896	4,548	3,361	3,447
Valued at cost less adjustments for impairments				
Private equity investments	6,658	7,940	3,001	4,146
Total financial investments	16,405	18,341	7,039	8,280

Note 16 Investments in Associates

CHF million	Carrying amount at 31.12.99	Additions	Disposal[1]	Income	Write-offs	Change in equity	Carrying amount at 31.12.00
Total investments in associates	1,102	65	(287)	62	(4)	(58)	880

[1] The figure of CHF 287 million for disposals for the year ended 31 December 2000 primarily consists of disposal of a stake in National Versicherung AG.

Note 17 Property and Equipment

CHF million	Bank occupied properties	Investment properties	IT, software and communication	Other machines and equipment	**31.12.00**	31.12.99
Historical cost						
Balance at the beginning of the year	9,085	2,006	3,321	2,798	**17,210**	18,505
Additions	233	138	1,032	237	**1,640**	1,813
Additions from acquired companies	0	0	201	818	**1,019**	755
Disposals	(224)	(176)	(279)	(90)	**(769)**	(4,333)
Reclassifications [1]	(287)	(145)	0	0	**(432)**	0
Foreign currency translation	0	7	(18)	(26)	**(37)**	470
Balance at the end of the year	8,807	1,830	4,257	3,737	**18,631**	17,210
Accumulated depreciation						
Balance at the beginning of the year	3,625	539	2,416	1,929	**8,509**	8,619
Depreciation [2]	395	119	952	419	**1,885**	2,105
Disposals	(84)	(31)	(268)	(70)	**(453)**	(2,500)
Reclassifications [1]	(97)	(79)	0	0	**(176)**	0
Foreign currency translation	1	2	(26)	(21)	**(44)**	285
Balance at the end of the year	3,840	550	3,074	2,257	**9,721**	8,509
Net book value at the end of the year [3]	4,967	1,280	1,183	1,480	**8,910**	8,701

[1] Properties held for sale of CHF 256 million (CHF 432 million acquisition costs and CHF 176 million accumulated depreciation) have been reclassified to Note 15 Financial Investments. [2] Depreciation of CHF 1,885 million includes CHF 277 million that was charged against the restructuring provision. [3] Fire insurance value of property and equipment is CHF 14,570 million (1999: CHF 15,004 million).

Note 18 Goodwill and other Intangible Assets

CHF million	**Goodwill**	**Other intangible assets**	**31.12.00**	31.12.99
Historical cost				
Balance at the beginning of the year	**4,229**	**305**	**4,534**	3,000
Additions	**12,939**	**4,902**	**17,841**	1,467
Write-offs	**(16)**	**0**	**(16)**	(192)
Reclassifications	**(41)**	**41**	**0**	(88)
Foreign currency translation	**(839)**	**(354)**	**(1,193)**	347
Balance at the end of the year	**16,272**	**4,894**	**21,166**	4,534
Accumulated amortization				
Balance at the beginning of the year	**951**	**40**	**991**	790
Amortization	**533**	**134**	**667**	340
Write-offs	**(16)**	**0**	**(16)**	(183)
Reclassifications	**(16)**	**16**	**0**	(2)
Foreign currency translation	**(7)**	**(6)**	**(13)**	46
Balance at the end of the year	**1,445**	**184**	**1,629**	991
Net book value at the end of the year	**14,827**	**4,710**	**19,537**	3,543

Note 19 Other Assets

CHF million	Note	**31.12.00**	31.12.99
Deferred tax assets	24	**2,208**	742
Settlement and clearing accounts		**3,153**	4,911
VAT and other tax receivables		**419**	702
Prepaid pension costs		**405**	456
Other receivables		**2,322**	4,196
Total other assets		**8,507**	11,007

Balance Sheet: Liabilities

Note 20 Due to Banks and Customers

CHF million	**31.12.00**	31.12.99
Due to banks	**82,240**	76,365
Due to customers in savings and investment accounts	**68,213**	78,640
Amounts due to customers on demand and time	**242,466**	201,320
Total due to customers	**310,679**	279,960
Total due to banks and customers	**392,919**	356,325

Note 21 Long-Term Debt

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 21.5% including structured note issues. 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 2000 and 31 December 1999, the Group had CHF 13,018 million and CHF 13,106 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 2000 and 31 December 1999, the Group had CHF 40,428 million and CHF 41,093 million, respectively, in unsubordinated debt.

The Group issues convertible obligations that can be exchanged for common stock of UBS AG and notes with warrants attached on UBS AG shares. Furthermore, the Group issues notes exchangeable into common stock or preferred stock of other companies, or repaid based on the performance of an index or group of securities. At 31 December 2000 and 31 December 1999, the Group had CHF 1,409 million and CHF 2,133 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 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.

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 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.

CHF million	**31.12.00**	31.12.99
Total bond issues	**48,179**	48,305
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	**1,305**	2,055
Medium-term notes	**5,371**	5,972
Total long-term debt	**54,855**	56,332

Note 21 Long-Term Debt (continued)

Contractual maturity date

	UBS AG (parent)		Subsidiaries		
CHF million	Fixed rate	Floating rate	Fixed rate	Floating rate	Total 31.12.00
2001	13,021	251	2,033	373	**15,678**
2002	7,645	153	2,407	889	**11,094**
2003	4,232	135	1,275	19	**5,661**
2004	1,327	8	1,261	1,836	**4,432**
2005	3,463	81	664	249	**4,457**
2006–2010	5,888	107	1,923	1,173	**9,091**
Thereafter	3,150	55	1,214	23	**4,442**
Total	**38,726**	**790**	**10,777**	**4,562**	**54,855**

Publicly placed bond issues of UBS AG (parent company) outstanding at 31.12.2000

Year of issue	Interest rate in %	Remarks	Maturity	Premature redemption possible	Currency	Amount in millions
1999	10.250		12.01.2001		EUR	160 [1]
1996	3.000		07.02.2001		USD	100
1999	10.000		12.02.2001		CHF	375 [2]
1999	12.250		15.02.2001		GBP	20 [3]
1999	14.100		27.02.2001		SEK	193 [4]
1999	12.000		29.03.2001		GBP	10 [5]
1999	11.000		30.03.2001		USD	10 [6]
1996	3.625		10.04.2001		CHF	400
1991	5.000		15.04.2001		CHF	60
1998	7.500		11.05.2001		CHF	60 [7]
1998	7.500		11.05.2001		CHF	801 [7]
1998	7.000		18.05.2001		CHF	738 [8]
1999	12.500		06.06.2001		GBP	10 [9]
1999	5.250		14.06.2001		CHF	410 [10]
1999	10.750		15.06.2001		EUR	50 [11]
2000	17.750		05.07.2001		EUR	100 [12]
1999	11.000		06.07.2001		EUR	40 [13]
1998	7.500		10.07.2001		CHF	372 [10]
1998	7.500		10.07.2001		CHF	40 [10]
2000	21.500		12.07.2001		EUR	45 [14]
1993	5.125		15.07.2001		CHF	30
1997	1.750		25.07.2001		USD	96 [15]
2000	17.000		30.07.2001		EUR	80 [16]
1998	8.000		03.08.2001		CHF	920 [17]
2000	15.500		06.08.2001		EUR	60 [18]
2000	14.250		10.08.2001		USD	25 [19]
1998	8.000		17.08.2001		CHF	50 [20]
1998	8.000		17.08.2001		CHF	450 [20]
2000	15.500		24.08.2001		EUR	145 [21]
2000	17.500		24.08.2001		EUR	95 [22]
2000	15.750		03.09.2001		EUR	105 [23]
1991	7.000	subordinated	04.09.2001		CHF	250
2000	15.000		06.09.2001		USD	45 [24]
1994	5.375		07.09.2001		CHF	200
2000	17.000		10.09.2001		EUR	10 [25]
2000	16.500		25.09.2001		EUR	15 [26]
2000	16.250		04.10.2001		EUR	15 [27]
1999	8.500		05.10.2001		CHF	120 [28]
2000	14.500		11.10.2001		EUR	135 [29]
2000	8.750		11.10.2001		CHF	50 [10]
2000	15.000		19.10.2001		USD	20 [30]

Footnotes
1 GOAL on Royal Dutch shares
2 GOAL on Swisscom shares
3 GOAL on Lloyds TSB shares
4 Convertible into Omvand Konvertible Svensk Basportfolj
5 GOAL on British Telecom shares
6 GOAL on S&P Index
7 GOAL on Credit Suisse shares
8 GOAL on Novartis shares
9 GOAL on BP Amoco shares
10 GOAL on Roche GS
11 GOAL on SAP shares
12 GOAL on Philips shares
13 GOAL on Bank Austria shares
14 GOAL on Sonera shares
15 Convertible into Nikkei 225 Index
16 GOAL on Sony ADR's
17 GOAL on UBS AG shares
18 GOAL on Telefonica shares
19 GOAL on Cisco shares
20 GOAL on Zurich Fin. Services shares
21 GOAL on Nokia shares
22 GOAL on Vivendi shares
23 GOAL on Ericsson shares
24 GOAL on Lucent shares
25 GOAL on Kyocera shares
26 GOAL on Telecom Italia Mobile shares
27 GOAL on ICI shares
28 GOAL on ABB shares
29 GOAL on Siemens shares
30 GOAL on Telmex shares
31 GOAL on Deutsche Telekom shares
32 GOAL on Intel shares
33 GOAL on Texas Instruments shares
34 GOAL on Nortel shares
35 GOAL on Granada Group shares
36 GOAL on IBM shares
37 GOAL on Nasdaq 100 Index
38 GOAL on Banco Bilbao shares
39 GOAL on Carrefour shares
40 GOAL on Bayer shares
41 GOAL on Motorola shares
42 GOAL on Glaxo shares
43 GOAL on Swiss Re shares
44 Convertible into European Insurance Shares Basket
45 GOAL on Daimler Chrysler shares
46 Convertible into FTSE Index
47 Indexed to UBS Currency Portfolio
48 Convertible into UBS Dutch Corporate Basket
49 Convertible into Sony shares
50 Convertible into UBS Oil Basket
51 Convertible into UBS Global Equity Arbitrage
52 Convertible into SMI Index
53 Convertible into NTT shares
54 Convertible into Blue Chip Basket
55 Convertible into Nasdaq 100 Index
56 Convertible into STOXX 50 Index
57 PEP on Internet Perf. Basket
58 Convertible into AT&T shares
59 PIP on Worldbasket

PIP Protected Index Participation
PEP Protected Equity Participation
GOAL Geld- oder Aktien-Lieferung (cash or share delivery)

Note 21 Long-Term Debt (continued)

Publicly placed bond issues of UBS AG (parent company) outstanding at 31.12.2000

Year of issue	Interest rate in %	Remarks	Maturity	Premature redemption possible	Currency	Amount in millions
2000	16.500		29.10.2001		EUR	75 [31]
2000	16.000		02.11.2001		USD	40 [32]
2000	11.750		09.11.2001		CHF	110 [7]
2000	18.750		19.11.2001		USD	30 [33]
2000	20.250		27.11.2001		USD	20 [34]
1999	11.625		06.12.2001		GBP	10 [35]
2000	16.500		21.12.2001		USD	20 [36]
2000	14.250		28.12.2001		USD	10 [37]
2000	12.250		11.01.2002		EUR	30 [38]
2000	13.250		18.01.2002		EUR	20 [39]
2000	12.500		18.01.2002		EUR	20 [40]
2000	0.100		28.01.2002		JPY	10,000 [15]
1992	7.000	subordinated	06.02.2002		CHF	200
2000	9.000		14.03.2002		CHF	256 [28]
1998	5.750		18.03.2002		USD	250
2000	10.000		10.04.2002		CHF	100 [17]
1996	4.000		18.04.2002		CHF	200
2000	18.500		28.05.2002		USD	75 [41]
1999	11.000		06.06.2002		GBP	15 [42]
1990	7.500	subordinated	07.06.2002		CHF	300
2000	18.250		27.06.2002		USD	50 [32]
2000	6.500		28.06.2002		CHF	50 [43]
1992	7.500	subordinated	10.07.2002		CHF	200
1997	6.500		18.07.2002		USD	300
1997	1.000		07.08.2002		DEM	19 [44]
2000	8.375		07.08.2002		EUR	45 [45]
1996	2.000		23.08.2002		CHF	301
2000	9.000		02.10.2002		CHF	220 [17]
1992	7.000	subordinated	16.10.2002		CHF	200
1996	6.750		18.10.2002		USD	250
1995	4.375		07.11.2002		CHF	250
1996	3.250		20.12.2002		CHF	350
2000	8.000		11.02.2003		USD	15
1991	7.500	subordinated	15.02.2003	15.02.2001	CHF	300
1998	1.000		25.02.2003		EUR	60 [46]
1993	4.875	subordinated	03.03.2003		CHF	200
1997	1.500		14.03.2003		DEM	80 [47]
1998	1.000		20.03.2003		NLG	125 [48]
1993	4.000	subordinated	31.03.2003		CHF	200
1993	3.500	subordinated	31.03.2003		CHF	200
1999	1.000		05.05.2003		USD	80 [49]
1998	1.625		14.05.2003		USD	100 [50]
1991	7.000	subordinated	16.05.2003	16.05.2001	CHF	200
1995	5.250	subordinated	20.06.2003		CHF	200
2000	0.000		14.07.2003		USD	10 [51]
2000	0.000		14.07.2003		USD	10 [51]
2000	5.200		28.08.2003		CHF	26
1996	1.500		20.11.2003		CHF	27 [52]
2000	1.850		25.11.2003		CHF	13
1993	3.000		26.11.2003		CHF	200
1994	6.250	subordinated	06.01.2004		USD	300
1992	7.250	subordinated	10.01.2004	10.01.2002	CHF	150
2000	0.500		10.02.2004		USD	75 [53]
2000	1.000		07.06.2004		USD	25 [54]
1991	4.250	subordinated	25.06.2004		CHF	300
1999	3.500		01.07.2004		EUR	250
1997	7.375	subordinated	26.11.2004		GBP	250

Footnotes

1 GOAL on Royal Dutch shares
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4 Convertible into Omvand Konvertible Svensk Basportfolj
5 GOAL on British Telecom shares
6 GOAL on S&P Index
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8 GOAL on Novartis shares
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10 GOAL on Roche GS
11 GOAL on SAP shares
12 GOAL on Philips shares
13 GOAL on Bank Austria shares
14 GOAL on Sonera shares
15 Convertible into Nikkei 225 Index
16 GOAL on Sony ADR's
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20 GOAL on Zurich Fin. Services shares
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26 GOAL on Telecom Italia Mobile shares
27 GOAL on ICI shares
28 GOAL on ABB shares
29 GOAL on Siemens shares
30 GOAL on Telmex shares
31 GOAL on Deutsche Telekom shares
32 GOAL on Intel shares
33 GOAL on Texas Instruments shares
34 GOAL on Nortel shares
35 GOAL on Granada Group shares
36 GOAL on IBM shares
37 GOAL on Nasdaq 100 Index
38 GOAL on Banco Bilbao shares
39 GOAL on Carrefour shares
40 GOAL on Bayer shares
41 GOAL on Motorola shares
42 GOAL on Glaxo shares
43 GOAL on Swiss Re shares
44 Convertible into European Insurance Shares Basket
45 GOAL on Daimler Chrysler shares
46 Convertible into FTSE Index
47 Indexed to UBS Currency Portfolio
48 Convertible into UBS Dutch Corporate Basket
49 Convertible into Sony shares
50 Convertible into UBS Oil Basket
51 Convertible into UBS Global Equity Arbitrage
52 Convertible into SMI Index
53 Convertible into NTT shares
54 Convertible into Blue Chip Basket
55 Convertible into Nasdaq 100 Index
56 Convertible into STOXX 50 Index
57 PEP on Internet Perf. Basket
58 Convertible into AT&T shares
59 PIP on Worldbasket

PIP Protected Index Participation
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GOAL Geld- oder Aktien-Lieferung (cash or share delivery)

Note 21 Long-Term Debt (continued)

Publicly placed bond issues of UBS AG (parent company) outstanding at 31.12.2000

Year of issue	Interest rate in %	Remarks	Maturity	Premature redemption possible	Currency	Amount in millions
1993	4.750	subordinated	08.01.2005	08.01.2003	CHF	200
1995	4.000	subordinated	07.02.2005		CHF	150
1995	5.500		10.02.2005		CHF	150
2000	1.000		18.02.2005		USD	30 [55]
2000	1.000		21.03.2005		EUR	50 [56]
1995	5.625	subordinated	13.04.2005		CHF	150
2000	0.000		31.05.2005		JPY	5,000 [15]
1995	8.750	subordinated	20.06.2005		GBP	250
2000	0.000		14.07.2005		USD	10 [51]
1995	6.750	subordinated	15.07.2005		USD	200
1995	5.250	subordinated	18.07.2005		CHF	200
1995	5.000	subordinated	24.08.2005		CHF	250
2000	7.300		06.09.2005		HKD	200
1995	4.500		21.11.2005		CHF	300
1999	0.000		08.12.2005		USD	50 [57]
1999	3.500		26.01.2006		EUR	650
1996	4.250	subordinated	06.02.2006		CHF	250
1996	4.000		14.02.2006		CHF	200
1999	2.500		29.03.2006		CHF	250
1999	1.500		12.07.2006		USD	100 [58]
1996	7.250	subordinated	17.07.2006		USD	500
1996	7.250	subordinated	01.09.2006		USD	150
1995	5.000	subordinated	07.11.2006		CHF	250
1996	6.250	subordinated	06.12.2006		DEM	500
1997	8.000	subordinated	08.01.2007		GBP	450
1997	5.750	subordinated	12.03.2007		DEM	350
1998	3.500		27.08.2008		CHF	300
1997	5.875	subordinated	18.08.2009		FRF	2,000
1986	5.000	subordinated	10.02.2011	10.02.2001	CHF	250
1995	7.375	subordinated	15.07.2015		USD	150
1995	7.000	subordinated	15.10.2015		USD	300
1997	7.375	subordinated	15.06.2017		USD	300
1990	0.000		31.03.2020		CHF	59
1995	7.500	subordinated	15.07.2025		USD	350
1995	8.750	subordinated	18.12.2025		GBP	150
1996	7.750	subordinated	01.09.2026		USD	300

Footnotes
1 GOAL on Royal Dutch shares
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6 GOAL on S&P Index
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29 GOAL on Siemens shares
30 GOAL on Telmex shares
31 GOAL on Deutsche Telekom shares
32 GOAL on Intel shares
33 GOAL on Texas Instruments shares
34 GOAL on Nortel shares
35 GOAL on Granada Group shares
36 GOAL on IBM shares
37 GOAL on Nasdaq 100 Index
38 GOAL on Banco Bilbao shares
39 GOAL on Carrefour shares
40 GOAL on Bayer shares
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42 GOAL on Glaxo shares
43 GOAL on Swiss Re shares
44 Convertible into European Insurance Shares Basket
45 GOAL on Daimler Chrysler shares
46 Convertible into FTSE Index
47 Indexed to UBS Currency Portfolio
48 Convertible into UBS Dutch Corporate Basket
49 Convertible into Sony shares
50 Convertible into UBS Oil Basket
51 Convertible into UBS Global Equity Arbitrage
52 Convertible into SMI Index
53 Convertible into NTT shares
54 Convertible into Blue Chip Basket
55 Convertible into Nasdaq 100 Index
56 Convertible into STOXX 50 Index
57 PEP on Internet Perf. Basket
58 Convertible into AT&T shares
59 PIP on Worldbasket

PIP Protected Index Participation
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Note 21 Long-Term Debt (continued)

Publicly placed bond issues of UBS subsidiaries outstanding at 31.12.2000

Year of issue	Interest rate in %	Remarks	Maturity	Premature redemption possible	Currency	Amount in millions
UBS Americas Inc. (former PaineWebber)						
1999	7.460		11.01.2001		USD	15
1999	5.830		25.01.2001		USD	20
2000	6.924		26.01.2001		USD	50
2000	6.820		05.04.2001		USD	30
1999	7.060		16.05.2001		USD	8
2000	7.500		17.05.2001		USD	49
1998	6.185		21.05.2001		USD	25
1999	5.810		08.06.2001		USD	10
2000	7.540		18.06.2001		USD	49
1999	7.060		20.06.2001		USD	8
1998	6.870		26.06.2001		USD	7
1997	6.585		23.07.2001		USD	25
1997	6.520		26.09.2001		USD	22
1997	6.440		28.09.2001		USD	22
1999	7.090		19.11.2001		USD	12
1997	6.580		14.12.2001		USD	10
1991	9.250		17.12.2001		USD	154
2000	6.910		19.02.2002		USD	20
1997	6.990		18.03.2002		USD	10
1999	6.015		28.03.2002		USD	20
1999	6.020		22.04.2002		USD	45
1995	8.250		01.05.2002		USD	128
2000	7.590		02.05.2002		USD	25
1999	7.060		14.05.2002		USD	25
1999	7.030		20.05.2002		USD	12
2000	1.010		01.07.2002		JPY	900
2000	7.358		15.07.2002		USD	101
1992	8.390	subordinated	24.07.2002		USD	6
1997	7.035		14.08.2002		USD	25
1997	7.010		27.08.2002		USD	15
1992	7.750		02.09.2002		USD	178
1997	7.010		19.09.2002		USD	25
1997	6.650		15.10.2002		USD	25
1999	7.210		30.10.2002		USD	10
1999	7.259		18.11.2002		USD	40
1999	7.160		18.12.2002		USD	11
1998	7.140		03.02.2003		USD	12
1998	6.250		04.02.2003		USD	25
2000	7.020		14.02.2003		USD	12
1993	7.875		17.02.2003		USD	103
1998	7.110		13.03.2003		USD	10
2000	1.270		13.03.2003		JPY	900
1998	6.320		18.03.2003		USD	45
1998	6.331		20.05.2003		USD	25
1998	6.980		23.06.2003		USD	10
1993	6.785		01.07.2003		USD	30
1999	1.340		01.07.2003		JPY	900
1993	7.130	subordinated	02.07.2003		USD	7
2000	7.250		23.07.2003		USD	7
1994	6.900	subordinated	15.08.2003		USD	10
1994	6.930	subordinated	15.08.2003		USD	28
1996	7.300		15.10.2003		USD	20
1998	6.450		01.12.2003		USD	340
1998	8.010		01.12.2003		USD	26
1994	6.730		20.01.2004		USD	21
2000	6.730		26.01.2004		USD	20

Footnotes
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52 Convertible into SMI Index
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Note 21 Long-Term Debt (continued)

Publicly placed bond issues of UBS subsidiaries outstanding at 31.12.2000

Year of issue	Interest rate in %	Remarks	Maturity	Premature redemption possible	Currency	Amount in millions
UBS Americas Inc. (former PaineWebber) (continued)						
1999	7.580		28.01.2004		USD	10
1997	6.900	subordinated	09.02.2004		USD	15
1994	6.680		10.02.2004		USD	21
1999	7.510		10.02.2004		USD	13
1999	7.015		10.02.2004		USD	14
2000	7.660		12.02.2004		USD	11
1999	7.360		11.05.2004		USD	46
1999	6.375		17.05.2004		USD	534
1999	7.280		27.05.2004		USD	12
1997	7.060		18.08.2004		USD	25
1996	7.550		04.10.2004		USD	25
1997	6.790		04.10.2004		USD	14
1999	7.260		13.10.2004		USD	31
1996	7.490		15.10.2004		USD	12
1997	7.010		25.10.2004		USD	20
2000	7.410		27.01.2005		USD	26
2000	7.410		11.02.2005		USD	12
1995	8.875		15.03.2005		USD	125
1999	7.380		15.03.2005		USD	57
1998	6.520		06.04.2005		USD	31
2000	7.678		15.07.2005		USD	26
1993	6.500		01.11.2005		USD	208
1999	7.460		14.11.2005		USD	32
1996	6.750		01.02.2006		USD	102
1999	7.330		01.05.2006		USD	10
1999	7.330		01.05.2006		USD	11
1997	7.220		20.02.2007		USD	10
1997	7.110		22.10.2007		USD	26
1998	6.720		01.04.2008		USD	36
1998	6.730		03.04.2008		USD	44
1998	6.550		15.04.2008		USD	257
1998	6.520		21.04.2008		USD	10
1998	7.180		31.07.2008		USD	10
1996	7.625		15.10.2008		USD	157
1999	6.640		05.02.2009		USD	27
1999	7.625		01.12.2009		USD	290
1998	6.650		13.04.2010		USD	26
1998	6.640		14.04.2010		USD	31
1999	6.760		16.05.2011		USD	11
1997	7.740		30.01.2012		USD	21
1994	7.625		17.02.2014		USD	212
1997	8.060		17.01.2017		USD	28
1997	7.930		06.02.2017		USD	11
1997	7.810		13.02.2017		USD	17
1997	7.910		17.03.2017		USD	22
1997	7.990		09.06.2017		USD	11
1997	7.605		17.07.2017		USD	21
1997	7.633		11.09.2017		USD	11
1997	7.390		16.10.2017		USD	27
1998	7.310		07.05.2018		USD	14
1996	8.300	subordinated	12.01.2036	12.03.2001	USD	198
1997	8.080	subordinated	03.01.2037	03.01.2002	USD	203

Footnotes
1 GOAL on Royal Dutch shares
2 GOAL on Swisscom shares
3 GOAL on Lloyds TSB shares
4 Convertible into Omvand Konvertible Svensk Basportfolj
5 GOAL on British Telecom shares
6 GOAL on S&P Index
7 GOAL on Credit Suisse shares
8 GOAL on Novartis shares
9 GOAL on BP Amoco shares
10 GOAL on Roche GS
11 GOAL on SAP shares
12 GOAL on Philips shares
13 GOAL on Bank Austria shares
14 GOAL on Sonera shares
15 Convertible into Nikkei 225 Index
16 GOAL on Sony ADR's
17 GOAL on UBS AG shares
18 GOAL on Telefonica shares
19 GOAL on Cisco shares
20 GOAL on Zurich Fin. Services shares
21 GOAL on Nokia shares
22 GOAL on Vivendi shares
23 GOAL on Ericsson shares
24 GOAL on Lucent shares
25 GOAL on Kyocera shares
26 GOAL on Telecom Italia Mobile shares
27 GOAL on ICI shares
28 GOAL on ABB shares
29 GOAL on Siemens shares
30 GOAL on Telmex shares
31 GOAL on Deutsche Telekom shares
32 GOAL on Intel shares
33 GOAL on Texas Instruments shares
34 GOAL on Nortel shares
35 GOAL on Granada Group shares
36 GOAL on IBM shares
37 GOAL on Nasdaq 100 Index
38 GOAL on Banco Bilbao shares
39 GOAL on Carrefour shares
40 GOAL on Bayer shares
41 GOAL on Motorola shares
42 GOAL on Glaxo shares
43 GOAL on Swiss Re shares
44 Convertible into European Insurance Shares Basket
45 GOAL on Daimler Chrysler shares
46 Convertible into FTSE Index
47 Indexed to UBS Currency Portfolio
48 Convertible into UBS Dutch Corporate Basket
49 Convertible into Sony shares
50 Convertible into UBS Oil Basket
51 Convertible into UBS Global Equity Arbitrage
52 Convertible into SMI Index
53 Convertible into NTT shares
54 Convertible into Blue Chip Basket
55 Convertible into Nasdaq 100 Index
56 Convertible into STOXX 50 Index
57 PEP on Internet Perf. Basket
58 Convertible into AT&T shares
59 PIP on Worldbasket

PIP Protected Index Participation
PEP Protected Equity Participation
GOAL Geld- oder Aktien-Lieferung (cash or share delivery)

Note 21 Long-Term Debt (continued)

Publicly placed bond issues of UBS subsidiaries outstanding at 31.12.2000

Year of issue	Interest rate in %	Remarks	Maturity	Premature redemption possible	Currency	Amount in millions
UBS Finance (Curaçao) N.V.						
1996	2.500		30.10.2001		DEM	100
1996	2.500		30.10.2001		DEM	150
1997	2.500		30.10.2001		DEM	100
1990	9.125		08.02.2002		USD	225
1992	FRN		13.11.2002		USD	250
1997	0.000		29.01.2027		LIT	226'955
1998	0.000		03.03.2028	03.03.2003	DEM	136
UBS Australia Ltd.						
1997	3.250		02.10.2001		USD	101
1999	5.000		25.02.2002		AUD	104
1999	5.000		25.02.2004		AUD	104
S.G.W. Finance plc.						
1991	13.250		30.03.2001		AUD	60
S.G. Warburg Group plc.						
1994	9.000	subordinated	perpetual		GBP	12
UBS Finance (Cayman Islands) Ltd.						
1991	0.000		28.02.2001		STG	200
2000	0.000		10.02.2005		USD	22 [59]

Footnotes
1 GOAL on Royal Dutch shares
2 GOAL on Swisscom shares
3 GOAL on Lloyds TSB shares
4 Convertible into Omvand Konvertible Svensk Basportfolj
5 GOAL on British Telecom shares
6 GOAL on S&P Index
7 GOAL on Credit Suisse shares
8 GOAL on Novartis shares
9 GOAL on BP Amoco shares
10 GOAL on Roche GS
11 GOAL on SAP shares
12 GOAL on Philips shares
13 GOAL on Bank Austria shares
14 GOAL on Sonera shares
15 Convertible into Nikkei 225 Index
16 GOAL on Sony ADR's
17 GOAL on UBS AG shares
18 GOAL on Telefonica shares
19 GOAL on Cisco shares
20 GOAL on Zurich Fin. Services shares
21 GOAL on Nokia shares
22 GOAL on Vivendi shares
23 GOAL on Ericsson shares
24 GOAL on Lucent shares
25 GOAL on Kyocera shares
26 GOAL on Telecom Italia Mobile shares
27 GOAL on ICI shares
28 GOAL on ABB shares
29 GOAL on Siemens shares
30 GOAL on Telmex shares
31 GOAL on Deutsche Telekom shares
32 GOAL on Intel shares
33 GOAL on Texas Instruments shares
34 GOAL on Nortel shares
35 GOAL on Granada Group shares
36 GOAL on IBM shares
37 GOAL on Nasdaq 100 Index
38 GOAL on Banco Bilbao shares
39 GOAL on Carrefour shares
40 GOAL on Bayer shares
41 GOAL on Motorola shares
42 GOAL on Glaxo shares
43 GOAL on Swiss Re shares
44 Convertible into European Insurance Shares Basket
45 GOAL on Daimler Chrysler shares
46 Convertible into FTSE Index
47 Indexed to UBS Currency Portfolio
48 Convertible into UBS Dutch Corporate Basket
49 Convertible into Sony shares
50 Convertible into UBS Oil Basket
51 Convertible into UBS Global Equity Arbitrage
52 Convertible into SMI Index
53 Convertible into NTT shares
54 Convertible into Blue Chip Basket
55 Convertible into Nasdaq 100 Index
56 Convertible into STOXX 50 Index
57 PEP on Internet Perf. Basket
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PIP Protected Index Participation
PEP Protected Equity Participation
GOAL Geld- oder Aktien-Lieferung (cash or share delivery)

Note 22 Other Liabilities

CHF million	Note	**31.12.00**	31.12.99
Provisions, including restructuring provision	23	**3,024**	3,611
Provisions for commitments and contingent liabilities		**54**	149
Current tax liabilities		**2,423**	1,747
Deferred tax liabilities	24	**1,565**	994
VAT and other tax payables		**1,071**	888
Settlement and clearing accounts		**4,906**	4,789
Other payables		**5,713**	3,814
Total other liabilities		**18,756**	15,992

Note 23 Provisions, including Restructuring Provision

Business risk provisions

Business risk provisions consist mainly of provisions for operational risks and reserves for litigation.

CHF million	**31.12.00**	31.12.99
Balance at the beginning of the year	**2,182**	4,121
New provisions charged to income	**746**	539
Provisions applied	**(1,316)**	(705)
Recoveries and adjustments	**682**	(1,773) [1]
Balance at the end of the year	**2,294**	2,182

[1] Includes reclassification of valuation adjustments of CHF 2,384 million to related trading assets and liabilities.

UBS / SBC merger restructuring provision

At the announcement of the UBS/SBC merger in December 1997, it was communicated that the merged firm's operations in various locations would be combined, resulting in vacant properties, reductions in personnel, elimination of redundancies in the information technology platforms, exit costs and other costs. As a result, a restructuring provision of CHF 7,300 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) was established, to be used over a period of four years. At 31 December 2000, the Group had utilized CHF 6,570 million of the provisions.

The restructuring provision included approximately 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 or equipment which management had committed to dispose of and CHF 1,150 million for other costs classified as Personal expenses, General and administrative expense or Other income.

The employee terminations affected all functional levels and all operating Business Groups. CHF 2,000 million of the provision related to employee termination benefits reflects the costs of eliminating approximately 7,800 positions, after considering attrition and redeployment within the Company. CHF 1,000 million of the provision related to payments to maintain stability in the workforce during the integration period. As of 31 December 2000, approximately 6,200 employees had been made redundant or retired early and the remaining personnel restructuring provision balance was CHF 410 million.

Note 23 Provisions, including Restructuring Provision (continued)

CHF million	**31.12.00**	31.12.99
Balance at the beginning of the year	**1,429**	2,973
Addition	**0**	300
Applied[1]		
Personnel	**(188)**	(378)
IT	**(63)**	(642)
Premises	**(399)**	(673)
Other	**(49)**	(151)
Total utilized during the year	**(699)**	(1,844)
Balance at the end of the year	**730**	1,429
Total provisions, including restructuring provision	**3,024**	3,611

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

Cumulative utilization, since establishment of UBS / SBC merger restructuring provision through 31 December 2000

CHF million	Personnel	IT	Premises	Other	**Total**
UBS Switzerland	476	1,086	184	220	**1,966**
UBS Asset Management	32	9		3	**44**
UBS Warburg	1,983	373	1	413	**2,770**
Corporate Center	99	34	1,154	503	**1,790**
Group total	**2,590**	**1,502**	**1,339**	**1,139**	**6,570**
Total provision					**7,300**
Future utilization					**730**

Note 24 Income Taxes

CHF million For the year ended	31.12.00	31.12.99	31.12.98
Federal and cantonal			
Current payable	1,325	849	213
Deferred	233	511	463
Foreign			
Current payable	451	359	200
Deferred	311	(33)	28
Total income tax expense	2,320	1,686	904

The Group made net tax payments, including domestic federal, cantonal and foreign taxes, of CHF 959 million, CHF 1,063 million and CHF 733 million for the full years of 2000, 1999 and 1998, respectively.

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

CHF million For the year ended	31.12.00	31.12.99	31.12.98
Operating profit before tax	10,199	7,893	3,871
Domestic	7,079	6,957	10,287
Foreign	3,120	936	(6,416)
Income taxes at Swiss statutory rate of 25%	2,550	1,973	968
Increase / (decrease) resulting from:			
Applicable tax rates differing from Swiss statutory rate	(336)	55	88
Tax losses not recognized	164	39	1,436
Previously unrecorded tax losses now recognized	(655)	(215)	(142)
Lower taxed income	(401)	(278)	(1,849)
Non-deductible goodwill amortization	159	98	117
Other non-deductible expenses	432	34	55
Adjustments related to prior years	245	(112)	7
Change in deferred tax valuation allowance	162	92	224
Income tax expense	2,320	1,686	904

As of 31 December 2000 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.

Note 24 Income Taxes (continued)

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

CHF million	**31.12.00**	31.12.99
Deferred tax assets		
Compensation and benefits	**1,705**	316
Restructuring provision	**160**	316
Allowance for credit losses	**148**	138
Net operating loss carry forwards	**1,690**	2,194
Others	**1,069**	237
Total	**4,772**	3,201
Valuation allowance	**(2,564)**	(2,459)
Net deferred tax assets	**2,208**	742
Deferred tax liabilities		
Property and equipment	**457**	342
Investment in associates	**86**	153
Other provisions	**133**	142
Unrealized gains on investment securities	**306**	93
Others	**583**	264
Total	**1,565**	994

The change in the balance of the net deferred tax assets does not equal the deferred tax expense. This is due to the effect of foreign currency rate changes on tax assets and liabilities denominated in currencies other than CHF and also due to the integration of PaineWebber.

Certain foreign branches and subsidiaries of the Group have deferred tax assets related to net operating loss carry forwards and other items. Because recognition of these assets is uncertain, the Group has established valuation allowances of CHF 2,564 million and CHF 2,459 million at 31 December 2000 and 31 December 1999, respectively.

Net operating loss carry forwards totalling CHF 6,520 million at 31 December 2000 are available to reduce future taxable income of certain branches and subsidiaries.

The carry forwards have lives as follows:	**31.12.00**
One year	**5**
2 to 4 years	**170**
More than 4 years	**6,345**
Total	**6,520**

Note 25 Minority Interests

CHF million	**31.12.00**	31.12.99
Balance at the beginning of the year	**434**	990
Issuances and increases [1]	**2,596**	17
Decreases and dividend payments	**(73)**	(689)
Foreign currency translation	**(159)**	62
Minority interest in profit	**87**	54
Balance at the end of the year	**2,885**	434

[1] Thereof issuance of Trust Preferred securities USD 1,500 million (CHF 2,594 million at issuance) in connection with the PaineWebber acquisition.

Note 26 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 favourable 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 and 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 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 the fixed rate instrument into a variable rate instrument.

When the Group purchases foreign currency denominated assets, issues foreign currency denominated debt or has foreign net investments, it subjects itself to changes in value as exchange rates move. These fluctuations are managed by entering into currency swaps and forwards.

Type of derivatives

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

Swaps: Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.

Interest rate swap contracts generally represent the contractual exchange of fixed and floating rate payments of a single currency, based on a notional amount and an interest reference rate.

Cross currency interest rate swaps generally involve the exchange of payments which are based on the interest reference rates available at the inception of the contract on two different currency principal balances that are exchanged. The principal balances are re-exchanged at an agreed upon rate at a specified future date.

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.

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.

Notional amounts and replacement values

The following table 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 (OTC instruments).

Positive replacement value represents the cost to the Group of replacing all transactions with a

Note 26 Derivative Instruments (continued)

receivable amount if all the Group's counterparties were to default. This measure is the industry standard for the calculation of current credit exposure. 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 after netting are included in the balance sheet separately.

Note 26 Derivative Instruments (continued)

As at 31 December 2000	Term to maturity										Total notional amount
	Within 3 months		3–12 months		1–5 years		Over 5 years		Total	Total	
CHF million	PRV[1]	NRV[2]	PRV	NRV	PRV	NRV	PRV	NRV	PRV	NRV	CHF bn
Interest rate contracts											
Over the counter (OTC) contracts											
Forward contracts	517	791	167	360	284	256			**968**	**1,407**	1,066.3
Swaps	1,879	4,231	5,398	1,785	16,846	9,246	28,248	20,993	**52,371**	**36,255**	3,033.2
Options	542	541	865	2,969	1,512	6,862	701	4,541	**3,620**	**14,913**	864.6
Exchange-traded contracts[3]											
Futures											454.6
Options	0	6		10					**0**	**16**	24.1
Total	**2,938**	**5,569**	**6,430**	**5,124**	**18,642**	**16,364**	**28,949**	**25,534**	**56,959**	**52,591**	**5,442.8**
Foreign exchange contracts											
Over the counter (OTC) contracts											
Forward contracts	22,652	20,140	8,098	9,410	939	1,084	35	27	**31,724**	**30,661**	1,250.3
Interest and currency swaps	2,563	1,621	2,921	2,507	8,715	7,031	3,019	2,098	**17,218**	**13,257**	345.9
Options	2,958	2,726	2,896	3,031	821	438	28	35	**6,703**	**6,230**	786.8
Exchange-traded contracts[3]											
Futures											1.0
Options	4	1	21	4					**25**	**5**	1.2
Total	**28,177**	**24,488**	**13,936**	**14,952**	**10,475**	**8,553**	**3,082**	**2,160**	**55,670**	**50,153**	**2,385.2**
Precious metals contracts											
Over the counter (OTC) contracts											
Forward contracts	176	187	211	181	369	394	2	17	**758**	**779**	15.3
Options	128	80	206	201	934	936	85	119	**1,353**	**1,336**	75.2
Exchange-traded contracts[3]											
Futures											0.7
Options	1	2	6	12					**7**	**14**	1.3
Total	**305**	**269**	**423**	**394**	**1,303**	**1,330**	**87**	**136**	**2,118**	**2,129**	**92.5**
Equity / Index contracts											
Over the counter (OTC) contracts											
Forward contracts	1,417	3,186	1,170	2,271	2,424	3,019	1,715	2,948	**6,726**	**11,424**	32.2
Options	1,751	3,867	6,977	12,358	4,752	17,985	311	2,648	**13,791**	**36,858**	283.8
Exchange-traded contracts[3]											
Futures											15.3
Options	1,771	1,647	819	1,051	400	446	2	3	**2,992**	**3,147**	45.2
Total	**4,939**	**8,700**	**8,966**	**15,680**	**7,576**	**21,450**	**2,028**	**5,599**	**23,509**	**51,429**	**376.5**
Commodity contracts											
Over the counter (OTC) contracts											
Forward contracts		1				1			**0**	**2**	0.0
Options		1	1		3	3			**4**	**4**	0.0
Total		**2**	**1**		**3**	**4**			**4**	**6**	**0.0**
Total derivative instruments	**36,359**	**39,028**	**29,756**	**36,150**	**37,999**	**47,701**	**34,146**	**33,429**	**138,260**	**156,308**	
Replacement value netting									**80,385**	**80,385**	
Replacement values after netting									**57,875**	**75,923**	

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

Note 26 Derivative Instruments (continued)

As at 31 December 1999[1]	Term to maturity										Total notional amount
	Within 3 months		3–12 months		1–5 years		Over 5 years		**Total**	**Total**	
CHF million	PRV[2]	NRV[3]	PRV	NRV	PRV	NRV	PRV	NRV	**PRV**	**NRV**	CHF bn
Interest rate contracts											
Over the counter (OTC) contracts											
Forward contracts	34	55	68	19	6	1			**108**	**75**	554.0
Swaps	5,248	2,100	3,125	2,871	22,565	24,168	35,557	30,301	**66,495**	**59,440**	2,650.9
Options	108	27	47	742	268	12	4	2,018	**427**	**2,799**	1,877.0
Exchange-traded contracts[4]											
Futures											774.1
Options											54.4
Total	**5,390**	**2,182**	**3,240**	**3,632**	**22,839**	**24,181**	**35,561**	**32,319**	**67,030**	**62,314**	**5,910.4**
Foreign exchange contracts											
Over the counter (OTC) contracts											
Forward contracts	9,657	14,264	3,628	7,008	411	851	13	37	**13,709**	**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[4]											
Futures	0	1							**0**	**1**	3.5
Options	0	1	4	1					**4**	**2**	3.7
Total	**13,623**	**17,494**	**9,602**	**11,973**	**9,823**	**7,338**	**2,610**	**1,565**	**35,658**	**38,370**	**2,150.1**
Precious metals contracts											
Over the counter (OTC) contracts											
Forward contracts	1,092	1,047	44	62	70	60	0	0	**1,206**	**1,169**	30.0
Options	277	215	594	466	1,168	1,059	117	130	**2,156**	**1,870**	82.9
Exchange-traded contracts[4]											
Futures											0.8
Options		5	5	8		10			**5**	**23**	4.9
Total	**1,369**	**1,267**	**643**	**536**	**1,238**	**1,129**	**117**	**130**	**3,367**	**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	1,840	1,611	3,814	10,021	9,766	27,182	350	2,985	**15,770**	**41,799**	264.7
Exchange-traded contracts[4]											
Futures	74	46							**74**	**46**	25.1
Options	1,395	304	1,744	4,047	72	63			**3,211**	**4,414**	79.8
Total	**3,835**	**3,682**	**6,706**	**16,112**	**10,341**	**32,570**	**2,112**	**5,772**	**22,994**	**58,136**	**519.0**
Commodity contracts											
Over the counter (OTC) contracts											
Forward contracts	29	25							**29**	**25**	0.2
Options	15	15							**15**	**15**	0.1
Total	**44**	**40**							**44**	**40**	**0.2**
Total derivative instruments	**24,261**	**24,665**	**20,191**	**32,253**	**44,241**	**65,218**	**40,400**	**39,786**	**129,093**	**161,922**	
Replacement value netting									**66,136**	**66,136**	
Replacement values after netting									**62,957**	**95,786**	

[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: Summary of Significant Accounting Policies). [2] PRV: Positive replacement value. [3] NRV: Negative replacement value. [4] Exchange-traded products include proprietary trades only.

Note 26 Derivative Instruments (continued)

The Group uses derivative instruments for trading and non-trading purposes as explained in the previous paragraphs. All derivatives instruments held or issued for trading or used to hedge another financial instrument carried at fair value are accounted for 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. They are disclosed under "non-trading" in the table below. Gains and losses on terminations of non-trading interest rate swaps are deferred and amortized to Net interest income over the remaining original maturity of the contract. All other derivatives used in asset/liability management are accounted for on a fair value basis of accounting due to the short term nature of these derivatives.

The following table presents the fair value, average fair value and notional amounts for each class of derivative financial instrument, before netting, for the years ended 31 December 2000 and 31 December 1999 distinguished between held or issued for trading purposes and held or issued for non-trading purposes. Average balances for the years ended 31 December 2000 and 31 December 1999 are calculated from quarterly data.

	31 December 2000					31 December 1999[1]				
CHF million	**total PRV**	**average PRV**	**total NRV**	**average NRV**	**total notional CHF bn**	total PRV	average PRV	total NRV	average NRV	total notional CHF bn
Trading										
Interest Rate contracts	**52,626**	**55,447**	**49,202**	**54,803**	**5,244**	62,082	75,923	58,107	75,129	5,775
Foreign Exchange contracts	**55,299**	**42,820**	**49,314**	**37,138**	**2,374**	34,632	35,843	37,479	37,075	2,137
Precious Metal contracts	**2,118**	**2,809**	**2,129**	**2,659**	**92**	3,367	4,630	3,062	4,501	119
Equity/Index contracts	**23,509**	**22,224**	**51,429**	**46,591**	**377**	22,994	18,366	58,136	42,984	519
Commodity contracts	**4**	**18**	**6**	**18**	**0**	44	383	40	213	0
Total	**133,556**	**123,318**	**152,080**	**141,209**		123,119	135,145	156,824	159,902	
Non-Trading										
Interest Rate contracts	**4,333**	**3,997**	**3,389**	**3,400**	**199**	4,948	5,014	4,207	4,212	135
Foreign Exchange contracts	**371**	**364**	**839**	**1,057**	**11**	1,026	669	891	622	13
Precious Metal contracts	**0**	**0**	**0**	**0**	**0**	0	0	0	0	0
Equity/Index contracts	**0**	**0**	**0**	**0**	**0**	0	0	0	0	0
Commodity contracts	**0**	**0**	**0**	**0**	**0**	0	0	0	0	0
Total	**4,704**	**4,361**	**4,228**	**4,457**		5,974	5,683	5,098	4,834	
Total Trading and Non-Trading										
Interest Rate contracts	**56,959**	**59,444**	**52,591**	**58,203**	**5,443**	67,030	80,937	62,314	79,341	5,910
Foreign Exchange contracts	**55,670**	**43,184**	**50,153**	**38,195**	**2,385**	35,658	36,512	38,370	37,697	2,150
Precious Metal contracts	**2,118**	**2,809**	**2,129**	**2,659**	**92**	3,367	4,630	3,062	4,501	119
Equity/Index contracts	**23,509**	**22,224**	**51,429**	**46,591**	**377**	22,994	18,366	58,136	42,984	519
Commodity contracts	**4**	**18**	**6**	**18**	**0**	44	383	40	213	0
Total	**138,260**	**127,679**	**156,308**	**145,666**		129,093	140,828	161,922	164,736	

[1] The 1999 figures have been restated to reflect retroactive changes in presentation.

Off-Balance Sheet and other Information

Note 27 Pledged Assets

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

CHF million	**Carrying amount 31.12.00**	**Related liability 31.12.00**	Carrying amount 31.12.99	Related liability 31.12.99
Money market paper	**28,395**	**5**	35,578	707
Mortgage loans	**1,639**	**1,121**	2,536	1,736
Securities [1]	**87,871**	**62,611**	23,837	585
Property and equipment	**137**	**66**	170	91
Other	**1**	**0**	2,110	0
Total pledged assets	**118,043**	**63,803**	64,231	3,119

[1] For the year ended 31 December 2000 includes securities pledged in respect of securities lending and repurchase agreements.

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

Note 28 Fiduciary Transactions

Fiduciary placement 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.

CHF million	**31.12.00**	31.12.99
Placements with third parties	**69,300**	60,221
Fiduciary credits and other fiduciary financial transactions	**1,234**	1,438
Total fiduciary transactions	**70,534**	61,659

Note 29 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 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.

CHF million	**31.12.00**	31.12.99
Contingent liabilities		
Credit guarantees and similar instruments [1]	**18,651**	18,822
Sub-participations	**(5,669)**	(3,665)
Total	**12,982**	15,157
Performance guarantees and similiar instruments [2]	**6,337**	6,782
Sub-participations	**(62)**	(42)
Total	**6,275**	6,740
Irrevocable commitments under documentary credits	**2,798**	2,704
Gross contingent liabilities	**27,786**	28,308
Sub-participations	**(5,731)**	(3,707)
Net contingent liabilities	**22,055**	24,601
Irrevocable commitments		
Undrawn irrevocable credit facilities	**53,510**	65,693
Sub-participations	**(788)**	(1,836)
Total	**52,722**	63,857
Liabilities for calls on shares and other equities	**133**	57
Gross irrevocable commitments	**53,643**	65,750
Sub-participations	**(788)**	(1,836)
Net irrevocable commitments	**52,855**	63,914
Gross commitments and contingent liabilities	**81,429**	94,058
Sub-participations	**(6,519)**	(5,543)
Net commitments and contingent liabilities	**74,910**	88,515

[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.

CHF million	Mortgage collateral	Other collateral	Unsecured	**Total**
Overview of collateral				
Gross contingent liabilities	154	12,703	14,929	**27,786**
Gross irrevocable commitments	1,124	7,455	44,931	**53,510**
Liabilities for calls on shares and other equities	0	0	133	**133**
Total 31.12.2000	**1,278**	**20,158**	**59,993**	**81,429**
Total 31.12.1999	577	20,130	73,351	**94,058**

Note 30 Operating Lease Commitments

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

CHF million	**31.12.00**
Operating leases due	
2001	**686**
2002	**652**
2003	**634**
2004	**580**
2005	**503**
2006 and thereafter	**3,958**
Total commitments for minimum payments under operating leases	**7,013**

Operating expenses include CHF 816 million and CHF 742 million in respect of operating lease rentals for the year ended 31 December 2000 and 31 December 1999, respectively.

Note 31 Litigation

In the United States, several class actions, in relation to the business activities of Swiss Companies during World War II, have been brought against the bank (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 was 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. As a result of contributions by Swiss industrial companies to the settlement, UBS' share was reduced by CHF 50 million. A number of persons have elected to opt out of the settlement and not to participate in the class action. Based on our estimates of forthcoming contributions, we provided USD 610 million in 1998, an additional USD 95 million in 1999 and USD 123 million in 2000. Several payments have been made approximating the reserved amount. The settlement agreement was approved by the competent judge on 26 July 2000, and on 22 November 2000 the distribution plan was approved. Appeals against these decisions are still pending, but we do not believe they should have a financial impact on the Group.

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

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.

Note 32 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 (VaR) model used by the Group to manage its overall market risk, of which interest rate risk is a part.

The following table sets out the extent to which the Group was exposed to interest rate risk at 31 December 2000. The table shows 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.

Note 32 Financial Instruments Risk Position (continued)
a) Interest Rate Risk (continued)

Interest rate sensitivity position

CHF thousand per basis point		Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
		Interest sensitivity by time bands as of 31.12.2000					
CHF	Trading	41	(471)	854	63	(478)	**9**
	Non-trading	(39)	49	(49)	(6,802)	(3,018)	**(9,859)**
USD	Trading	(493)	2,007	293	(2,293)	380	**(106)**
	Non-trading	13	58	11	(342)	(183)	**(443)**
EUR	Trading	(82)	(152)	114	1,190	(1,801)	**(731)**
	Non-trading	0	9	1	82	177	**269**
GBP	Trading	(227)	152	145	(229)	521	**362**
	Non-trading	0	0	(36)	270	585	**819**
JPY	Trading	293	(1,532)	1,088	62	(450)	**(539)**
	Non-trading	0	0	0	(1)	(4)	**(5)**
Others	Trading	(2)	(41)	124	(50)	(44)	**(13)**
	Non-trading	0	0	0	0	0	**0**

CHF thousand per basis point		Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
		Interest sensitivity by time bands as of 31.12.1999					
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**

Trading

The major part of 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 managed within the Value at Risk model. Interest rate sensitivity arising from trading activities is quite sizeable in USD, EUR, GBP and JPY as these are still the predominantly traded currencies in the global interest rate markets. It should be noted that it is management's view that an interest sensitivity analysis at a particular point in time has limited relevance with respect to trading positions, which can vary significantly on a daily basis.

Note 32 Financial Instruments Risk Position (continued)
a) Interest Rate Risk (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 notes issues which are intentionally unhedged since they are regarded as constituting a part of the Group's equity for asset and liability management purposes as well as funding transactions related to the acquisition of PaineWebber. At 31 December 2000, the Group's equity was invested in a portfolio of fixed rate CHF deposits with an average duration of 2.5 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 (9.9) 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 represents the loss which UBS would suffer if a counterparty or issuer failed to perform its contractual obligations in all forms. It is inherent in traditional banking products – loans, commitments to lend, and contracts to support counterparties' obligations to third parties such as letters of credit – and in foreign exchange and derivatives contracts, such as swaps and options ("traded products"). Positions in tradeable assets such as bonds and equities, including both direct holdings and synthetic positions through derivatives, also carry credit risk.

This risk is managed primarily based on reviews of the financial status of each specific counterparty, which are rated on a 14 point rating scale, based on probability of default. Credit risk is higher 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 honor 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 2000, due from banks and loans to customers amounted to CHF 285 billion. 57.9% of the gross loans were with clients domiciled in Switzerland. Please refer to Note 12 for a breakdown by region.

The issuer default risk of securities positions reported at fair value in the trading portfolio assets amounted to CHF 253 billion as of 31 December 2000. Please refer to Note 14 for a further breakdown by type of issuer.

Note 32 Financial Instruments Risk Position (continued)
b) Credit Risk (continued)

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

Credit commitments and contingent liabilities

Of the CHF 81 billion in credit commitment and contingent liabilities as at 31 December 2000, 15% related to clients domiciled in Switzerland, 30% Europe (excluding Switzerland) and 45% North America.

Derivatives

Credit risk represents the current replacement value of all outstanding derivative contracts with an unrealized gain by taking into consideration legally enforceable master netting agreements. Positive replacement values amounted to CHF 58 billion as at 31 December 2000. Based on the location of the ultimate counterparty, 6% of this credit risk amount related to Switzerland, 45% to Europe (excluding Switzerland) and 32% to North America. 42% of the positive replacement values are with other banks.

(b)(iii) Credit risk mitigation techniques

Credit risk associated with derivative instruments is mitigated by the use of master netting agreements. A further method of reducing credit exposure arising from derivative 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 2000 is to mitigate credit risk on derivative instruments by approximately CHF 80 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 against established limits on a continual basis and is subject to a standard exception reporting process.

Note 32 Financial Instruments Risk Position (continued)

c) Currency Risk

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

Breakdown of assets and liabilities by currencies

	31.12.00				31.12.99			
CHF billion	**CHF**	**USD**	**EUR**	**Other**	CHF	USD	EUR	Other
Assets								
Cash and balances with central banks	**1.9**	**0.2**	**0.5**	**0.4**	3.4	0.2	0.5	1.0
Money market paper	**0.5**	**51.5**	**11.1**	**3.4**	1.5	38.6	0.7	28.9
Due from banks	**5.8**	**10.4**	**8.0**	**4.9**	7.5	7.7	5.3	9.4
Cash collateral on securities borrowed	**0.5**	**169.2**	**2.4**	**5.8**	0.1	106.4	1.1	5.6
Reverse repurchase agreements	**5.3**	**83.7**	**37.4**	**67.4**	2.0	42.5	37.8	50.1
Trading portfolio assets	**16.0**	**134.5**	**27.3**	**75.5**	29.4	77.1	26.9	78.5
Positive replacement values	**11.7**	**6.9**	**0.6**	**38.7**	7.7	5.2	0.5	49.6
Loans, net of allowance for credit losses	**154.2**	**52.3**	**7.1**	**31.2**	166.4	35.0	5.3	28.2
Financial investments	**7.1**	**6.4**	**0.7**	**2.2**	2.5	2.9	0.7	0.9
Accrued income and prepaid expenses	**1.6**	**4.4**	**0.2**	**0.9**	1.7	1.8	0.5	1.2
Investments in associates	**0.7**	**0.0**	**0.1**	**0.1**	0.9	0.1	0.0	0.1
Property and equipment	**6.9**	**1.4**	**0.0**	**0.6**	7.4	0.5	0.1	0.7
Goodwill and other intangible assets	**0.3**	**19.1**	**0.0**	**0.1**	1.2	2.2	0.0	0.1
Other assets	**2.2**	**3.3**	**0.6**	**2.4**	3.1	1.9	2.5	3.5
Total assets	**214.7**	**543.3**	**96.0**	**233.6**	234.8	322.1	81.9	257.8
Liabilities								
Money market paper issued	**0.2**	**67.2**	**0.5**	**6.8**	1.0	55.7	0.3	7.7
Due to banks	**6.5**	**46.5**	**10.6**	**18.6**	8.1	36.3	14.5	17.5
Cash collateral on securities	**0.1**	**12.6**	**5.0**	**5.7**	0.1	6.5	1.0	5.2
Repurchase agreements	**10.0**	**194.6**	**16.1**	**74.9**	16.5	91.3	27.8	61.3
Trading portfolio liabilities	**2.0**	**52.4**	**11.4**	**16.8**	0.0	38.2	5.4	11.0
Negative replacement values	**8.6**	**6.3**	**2.0**	**59.0**	12.8	7.0	2.0	74.0
Due to customers	**118.8**	**129.7**	**29.9**	**32.4**	127.5	93.8	23.7	35.0
Accrued expenses and deferred income	**3.0**	**11.8**	**1.7**	**4.5**	3.1	4.8	0.5	3.6
Long-term debt	**18.1**	**23.5**	**3.9**	**9.4**	23.7	17.6	3.1	11.9
Other liabilities	**9.9**	**3.6**	**2.5**	**2.8**	8.5	3.2	0.7	3.7
Minority interests	**0.2**	**2.5**	**0.1**	**0.1**	0.3	0.0	0.0	0.1
Shareholders' equity	**44.8**	**0.0**	**0.0**	**0.0**	30.6	0.0	0.0	0.0
Total liabilities, minority interests and shareholders' equity	**222.2**	**550.7**	**83.7**	**231.0**	232.2	354.4	79.0	231.0

Note 32 Financial Instruments Risk Position (continued)

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	3.0						3.0
Money market paper	0.0	0.0	42.4	24.0	0.0	0.0	66.4
Due from banks	12.0	1.5	12.0	2.3	1.1	0.3	29.2
Cash collateral on securities borrowed	0.0	0.5	177.0	0.0	0.4	0.0	177.9
Reverse repurchase agreements	0.0	0.0	164.6	21.1	0.3	7.9	193.9
Trading portfolio assets	253.3	0.0	0.0	0.0	0.0	0.0	253.3
Positive replacement values	57.9	0.0	0.0	0.0	0.0	0.0	57.9
Loans, net of allowance for credit losses	0.0	36.8	106.2	37.5	56.7	7.6	244.8
Financial investments	10.1	0.0	0.1	2.4	2.3	1.5	16.4
Accrued income and prepaid expenses	7.0	0.0	0.0	0.0	0.0	0.0	7.0
Investments in associates	0.0	0.0	0.0	0.0	0.0	0.9	0.9
Property and equipment	0.0	0.0	0.0	0.0	0.0	8.9	8.9
Goodwill and other intangible assets	0.0	0.0	0.0	0.0	0.0	19.5	19.5
Other assets	8.5	0.0	0.0	0.0	0.0	0.0	8.5
Total 31.12.00	**351.8**	**38.8**	**502.3**	**87.3**	**60.8**	**46.6**	**1,087.6**
Total 31.12.99	309.5	53.4	395.2	44.8	72.7	21.0	896.6
Liabilities							
Money market paper issued	0.0	0.0	48.7	26.1	0.0	0.0	74.8
Due to banks	8.6	4.7	59.3	3.7	5.5	0.4	82.2
Cash collateral on securities lent	0.0	0.1	23.3	0.0	0.0	0.0	23.4
Repurchase agreements	0.0	0.0	251.3	32.7	0.4	11.1	295.5
Trading portfolio liabilities	82.6	0.0	0.0	0.0	0.0	0.0	82.6
Negative replacement values	75.9	0.0	0.0	0.0	0.0	0.0	75.9
Due to customers	76.2	72.3	150.1	10.0	1.7	0.4	310.7
Accrued expenses and deferred income	21.0	0.0	0.0	0.0	0.0	0.0	21.0
Long-term debt	0.0	0.1	3.8	11.8	25.7	13.5	54.9
Other liabilities	18.8	0.0	0.0	0.0	0.0	0.0	18.8
Total 31.12.00	**283.1**	**77.2**	**536.5**	**84.3**	**33.3**	**25.4**	**1,039.8**
Total 31.12.99	247.1	83.6	416.2	72.6	30.0	16.0	865.5

[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.)

Note 32 Financial Instruments Risk Position (continued)

e) Capital Adequacy

Risk-weighted assets (BIS)

CHF million	**Balance sheet / notional amount 31.12.00**	**Risk-weighted amount 31.12.00**	Balance sheet / notional amount 31.12.99	Risk-weighted amount 31.12.99
Balance sheet assets				
Due from banks and other collateralized lendings	**333,270**	**7,409**	229,737	9,486
Net positions on securities [1]	**83,739**	**10,979**	77,858	5,806
Positive replacement values	**57,875**	**18,763**	62,957	18,175
Loans, net of allowances for credit losses and other collateralized lendings	**312,376**	**162,539**	292,902	159,835
Accrued income and prepaid expenses	**7,062**	**4,653**	5,167	3,164
Property and equipment [2]	**13,620**	**14,604** [2]	8,701	9,860 [2]
Other assets	**8,507**	**4,581**	11,007	7,686
Off-balance sheet and other positions				
Contingent liabilities	**27,786**	**12,548**	28,308	14,459
Irrevocable commitments	**53,643**	**12,599**	65,693	17,787
Forward and swap contracts [3]	**5,743,239**	**10,933**	4,881,483	13,213
Purchased options [3]	**380,411**	**2,922**	406,208	2,823
Market risk positions [4]		**10,760**		10,813
Total risk-weighted assets		**273,290**		273,107

[1] Excluding positions in the trading book, included in market risk positions. [2] Including for the year 2000, intangible assets of CHF 4,710 million. The risk-weighted amount includes CHF 984 million (1999: CHF 1,159 million) foreclosed properties and properties held for disposal, which are recorded in the balance sheet under financial investments. [3] The risk-weighted amount corresponds to the security margin (add-on) of the contracts. [4] Value at Risk according to the internal model multiplied by a factor of 12.5 to create the risk-weighted amount of the market risk positions in the trading book.

BIS capital ratios

	Capital CHF million 31.12.00	**Ratio % 31.12.00**	Capital CHF million 31.12.99	Ratio % 31.12.99
Tier 1 [1]	**31,892**	**11.7**	28,952	10.6
Tier 2	**10,968**		10,730	
Total BIS	**42,860**	**15.7**	39,682	14.5

[1] The Tier 1 capital includes USD 1,500 million (CHF 2,456 million) Trust Preferred securities issued in connection with the PaineWebber acquisition.

Among other measures UBS monitors the adequacy of its capital using ratios established by the Bank for International Settlements (BIS). The BIS ratio is required to be at least 8%. The Group has complied with 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.

Note 32 Financial Instruments Risk Position (continued)
e) Capital adequacy (continued)

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 Swiss 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 in July 1999.

Tier 1 capital consists of permanent shareholders' equity, trust preferred securities and retained earnings less goodwill and investments in unconsolidated subsidiaries. Tier 2 capital includes the Group's subordinated long-term debt.

Note 33 Fair Value of Financial Instruments

The following table presents the fair value of on- and off-balance sheet financial instruments based on certain 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;

Note 33 Fair Value of Financial Instruments (continued)

(b) the fair value of liquid assets and other assets maturing within 12 months is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
(c) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;
(d) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts;
(e) the fair value of fixed rate loans and mortgages is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognized separately by deducting the amount of the allowance for credit losses from both book and fair values.

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

CHF billion	**Carrying value 31.12.00**	**Fair value 31.12.00**	**Unrealized gain/(loss) 31.12.00**	Carrying value 31.12.99	Fair value 31.12.99	Unrealized gain/(loss) 31.12.99
Assets						
Cash and balances with central banks	**3.0**	**3.0**	**0.0**	5.0	5.0	0.0
Money market paper	**66.5**	**66.5**	**0.0**	69.7	69.7	0.0
Due from banks	**29.1**	**29.1**	**0.0**	30.0	30.0	0.0
Cash collateral on securities borrowed	**177.9**	**177.9**	**0.0**	113.2	113.2	0.0
Reverse repurchase agreements	**193.8**	**193.8**	**0.0**	132.4	132.4	0.0
Trading portfolio assets	**253.3**	**253.3**	**0.0**	211.9	211.9	0.0
Positive replacement values	**57.9**	**57.9**	**0.0**	62.9	62.9	0.0
Loans, net of allowance for credit losses	**245.1**	**244.9**	**(0.2)**	235.1	235.3	0.2
Financial investments	**15.4**	**17.2**	**1.8**	5.9	7.1	1.2
Liabilities						
Money market paper issued	**74.8**	**74.8**	**0.0**	64.7	64.7	0.0
Due to banks	**82.8**	**82.8**	**0.0**	76.9	76.9	0.0
Cash collateral on securities lent	**23.4**	**23.4**	**0.0**	12.8	12.8	0.0
Repurchase agreements	**295.5**	**295.5**	**0.0**	196.9	196.9	0.0
Trading portfolio liabilities	**82.6**	**82.6**	**0.0**	54.6	54.6	0.0
Negative replacement values	**75.9**	**75.9**	**0.0**	95.8	95.8	0.0
Due to customers	**311.2**	**311.2**	**0.0**	280.1	280.1	0.0
Long-term debt	**55.7**	**56.6**	**(0.9)**	56.4	57.6	(1.2)
Fair value effect on income of hedging derivatives recorded on the accrual basis			**(0.5)**			0.5
Net difference between carrying value and fair value			**0.2**			0.7

Note 33 Fair Value of Financial Instruments (continued)

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

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

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

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

During 2000, the interest rate level of leading economies continued to increase. The 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 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 rate 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. If the calculation took into account the fair value differences based on the economic maturity of the non-maturity liabilities, such as savings and deposits, in an environment of rising interest rates, they would generate fair value gains which may offset most of the fair value loss reported for fixed term transactions and for hedging derivative transactions.

Note 34 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 US and Germany. Independent actuarial valuations are performed for the plans in these locations.

Swiss pension plans until 30 June 1999

The pension funds of the Group were set up as trusts, domiciled in Basel and Zurich. All domestic employees were covered. The pension funds were defined benefit plans. The pension plan benefits exceeded the minimum benefits required under Swiss law.

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

The pension plan formula was based on years of contributions and final covered salary. The benefits covered included 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 an increase of vested plan benefits for the beneficiaries of such plans due to the allocation of the excess of the fair value of plan assets over the benefit obligation. This had the effect of increasing the Defined benefit obligation 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 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 benefit requirements under Swiss law. Contributions to the pension plan are paid for by employees and the Group. The employee contributions are calculated as a percentage of insured annual salary and are deducted monthly. The percentages deducted from salary for 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 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.

In 1999, the Group recognized a prepaid pension asset of CHF 456 million representing excess employer contributions. In 2000, CHF 100 million of this asset was used to satisfy the benefit obligation.

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 US 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.

Note 34 Retirement Benefit Plans and other Employee Benefits (continued)

CHF million	**31.12.00**	31.12.99	31.12.98
Swiss pension plans			
Defined benefit obligation at the beginning of the year	**(17,011)**	(14,944)	(14,431)
Service cost	**(545)**	(464)	(535)
Interest cost	**(666)**	(636)	(726)
Plan amendments	**0**	(3,517)	(119)
Special termination benefits	**(211)**	1,000	0
Actuarial gain (loss)	**0**	571	(6)
Benefits paid	**721**	979	873
Defined benefit obligation at the end of the year	**(17,712)**	(17,011)	(14,944)
Fair value of plan assets at the beginning of the year	**18,565**	17,885	17,224
Actual return on plan assets	**535**	2,136	856
Employer contributions	**490**	515	493
Plan participant contributions	**205**	180	185
Benefits paid	**(721)**	(979)	(873)
Special termination benefits	**0**	(1,172)	0
Fair value of plan assets at the end of the year	**19,074**	18,565	17,885
Plan assets in excess of benefit obligation	**1,362**	1,554	2,941
Unrecognized net actuarial gains	**(331)**	(724)	(385)
Unrecognized assets	**(675)**	(374)	(2,556)
Prepaid pension cost	**356**	456	0
Additional details to fair value of plan assets			
Own financial instruments and securities lent to UBS included in plan assets	**4,643**	6,785	2,761
Any assets used by UBS included in plan assets	**179**	187	176

Retirement benefits expense			
Current service cost	**545**	464	535
Interest cost	**666**	636	726
Expected return on plan assets	**(928)**	(883)	(856)
Adjustment to limit prepaid pension cost	**301**	(150)	148
Amortization of unrecognized prior service costs	**211**	172	6
Employee contributions	**(204)**	(180)	(185)
Actuarially determined net periodic pension cost	**591**	59	374
Actual return on plan assets (%)	**2.9**	11.9	6.7
Principal actuarial assumptions used (%)			
Discount rate	**4.0**	4.0	5.0
Expected rate of return on plan assets	**5.0**	5.0	5.0
Expected rate of salary increase	**2.5**	2.5	4.5
Rate of pension increase	**1.5**	1.5	2.0

Note 34 Retirement Benefit Plans and other Employee Benefits (continued)

CHF million	**31.12.00**	31.12.99	31.12.98
Pension plans abroad			
Defined benefit obligation at the beginning of the year	**(2,444)**	(2,009)	(1,950)
Service cost	**(165)**	(118)	(116)
Interest cost	**(162)**	(123)	(140)
Plan amendments	**0**	(2)	(7)
Special termination benefits	**(3)**	0	40
Actuarial gain / (loss)	**(99)**	2	32
Benefits paid	**84**	133	60
Acquisition of PaineWebber	**(740)**	0	0
Currency adjustment	**123**	(269)	5
Other	**0**	(58)	67
Defined benefit obligation at the end of the year	**(3,406)**	(2,444)	(2,009)
Fair value of plan assets at the beginning of the year	**2,880**	2,173	2,188
Actual return on plan assets	**0**	352	267
Employer contributions	**13**	22	43
Plan participant contributions	**23**	15	9
Benefits paid	**(84)**	(133)	(60)
Acquisition of PaineWebber	**676**	0	0
Currency adjustment	**(130)**	333	0
Other	**0**	118	(274)
Fair value of plan assets at the end of the year	**3,378**	2,880	2,173
Plan assets in excess of benefit obligation	**(28)**	436	164
Unrecognized net actuarial gains	**(81)**	(474)	(63)
Unrecognized transition amount	**1**	1	2
Unrecognized past service cost	**2**	2	0
Unrecognized assets	**(47)**	(28)	(60)
(Unfunded accrued) / prepaid pension cost	**(153)**	(63)	43
Movement of net (liability) or asset			
(Unfunded accrued) / prepaid pension cost at the beginning of the year	**(63)**	43	36
Net periodic pension cost	**(55)**	(123)	(33)
Employer contributions	**13**	22	43
Acquisition of PaineWebber	**(63)**	0	0
Currency adjustment	**15**	(5)	(3)
(Unfunded accrued) / prepaid pension cost at the end of the year	**(153)**	(63)	43
Retirement benefits expense			
Current service cost	**165**	118	116
Interest cost	**162**	123	140
Expected return on plan assets	**(243)**	(195)	(191)
Amortization of net transition liability	**0**	0	2
Adjustment to limit prepaid pension cost	**0**	21	2
Immediate recognition of transition assets under IAS 8	**0**	0	(23)
Amortization of unrecognized prior service costs	**3**	77	7
Amortization of unrecognized net (gain) / losses	**(9)**	(6)	(3)
Effect of any curtailment or settlement	**0**	0	(8)
Employee contributions	**(23)**	(15)	(9)
Actuarially determined net periodic pension cost	**55**	123	33
Actual return on plan assets (%)	**(0.9)**	15.3	5.2

Principal actuarial assumptions used (weighted average %)			
Discount rate	**6.3**	6.0	7.3
Expected rates of return on plan assets	**8.1**	8.1	8.6
Expected rate of salary increase	**4.4**	4.6	6.8
Rate of pension increase	**1.6**	2.2	3.3

Note 34 Retirement Benefit Plans and other Employee Benefits (continued)

Postretirement medical and life plans
In the US and the UK the Group offers retiree medical benefits that contribute to the health care coverage of employees and beneficiaries after retirement. In addition to retiree medical benefits, the Group in the US also provides retiree life insurance benefits.

The benefit obligation in excess of plan assets for those plans amounts to CHF 111 million as of 31 December 2000 (1999 CHF 113 million, 1998 CHF 93 million) and the total unfunded accrued postretirement liabilities to CHF 108 million as of 31 December 2000 (1999 CHF 83 million, 1998 CHF 62 million). The actuarially determined net postretirement cost amounts to CHF 22 million as of 31 December 2000 (1999 CHF 17 million, 1998 CHF 17 million).

Postretirement medical and life plans

CHF million	**31.12.00**	31.12.99	31.12.98
Postretirement benefit obligation at the beginning of the year	**(117)**	(96)	(103)
Service cost	**(6)**	(2)	(7)
Interest cost	**(8)**	(6)	(8)
Plan amendments	**(7)**	0	(5)
Actuarial gain / (loss)	**27**	0	(9)
Benefits paid	**5**	4	4
Acquisition of PaineWebber	**(9)**	0	0
Currency adjustment	**0**	(16)	5
Other	**0**	(1)	27
Postretirement benefit obligation at the end of the year	**(115)**	**(117)**	**(96)**

CHF million	**31.12.00**	31.12.99	31.12.98
Fair value of plan assets at the beginning of the year	**4**	3	3
Actual return on plan assets	**0**	1	1
Company contributions	**4**	4	3
Benefits paid	**(4)**	(4)	(4)
Fair value of plan assets at the end of the year	**4**	4	3

The assumed health care cost trend used in determining the benefit expense for 2000 is 5.33%. 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 the assumed health care cost trend rates would change the US postretirement benefit obligation and the service and interest cost components of the net periodic postretirement benefit costs as follows:

CHF million	**1% increase**	1% decrease
Effect on total service and interest cost	**2.4**	(1.7)
Effect on the postretirement benefit obligation	**11.0**	(8.3)

Note 35 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.

Under the Equity Ownership Plan, selected personnel are awarded a portion of their performance-related compensation in UBS AG shares or warrants, which are restricted for a specified number of years. Under the Long Term Incentive Plan, key employees are granted long-term stock options to purchase UBS AG shares at a price not less than the fair market value of the shares on the date the option is granted. Participation in both plans is mandatory. Long-term stock options are blocked for three or five years, during which they cannot be exercised. One option gives the right to purchase one registered UBS AG share at the option's strike price. UBS AG has additional plans under which new recruits and members of senior management may be granted UBS AG shares, options and warrants.

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

The Group has adopted the equity-based compensation plans of PaineWebber for its eligible employees. The PaineWebber Equity Plus Program allows eligible employees to purchase UBS AG shares at a price equal to fair market value on the purchase date and receive stock options to purchase UBS AG shares based upon the number of shares purchased under the Program. The non-qualified 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. PaineWebber has additional plans under which new recruits, senior management and other key employees may receive option grants. Options granted under the plans of PaineWebber are denominated in US dollars.

In addition, UBS has entered into employee retention agreements that provide for the payment to key PaineWebber employees which are subject to the employees' continued employment and other restrictions. The awards are primarily in the form of UBS stock and option grants. The estimated cost to the Group for the agreements is approximately CHF 1.5 billion (USD 875 million) over a four-year period.

Generally, the Group's policy is to recognize expense as of the date of grant for equity participation instruments (stocks, 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 (excess of the UBS AG share price over the instrument's strike price, if any) of the instrument at such date. The accrued expense for the years ended 31 December 2000, 1999 and 1998 was CHF 1,749 million, CHF 1,684 million and CHF 996 million, respectively. The accruals include awards earned currently but issued in the following year.

Note 35 Equity Participation Plans (continued)

Options on UBS AG shares

	Number of options 31.12.00	Weighted-average exercise price (in CHF) 31.12.00	Number of options 31.12.99	Weighted-average exercise price (in CHF) 31.12.99	Number of options 31.12.98	Weighted-average exercise price (in CHF) 31.12.98
Outstanding, at the beginning of the year	**10,138,462**	**197**	7,202,786	177	1,899,924	186
Options due to acquisition of PaineWebber	**6,325,270**[1]	**102**	0	0	0	0
Granted during the year	**7,082,682**[2]	**215**	3,439,142	237	5,811,778	182
Exercised during the year	**(1,796,769)**	**150**	(71,766)	179	(22,970)	178
Forfeited during the year	**(646,811)**	**193**	(431,700)	190	(485,946)	268
Outstanding, at the end of the year	**21,102,834**	**175**	10,138,462	197	7,202,786	177
Exercisable, at the end of the year	**6,103,613**	**101**	650,640	186	0	0

[1] UBS AG issued options in exchange for vested options of PaineWebber, which have been included in the purchase price for PaineWebber at fair value (see Note 2: Acquisition of Paine Webber Group, Inc.). [2] Includes options granted to key employees of PaineWebber, vesting over a 3-year period, subject to the employee's continued employment and other restrictions.

Some of the options in the table above have exercise prices denominated in US dollars, which have been converted to Swiss francs for inclusion in the table.

The following table summarizes information about stock options outstanding at 31 December 2000:

	Options outstanding			Options exercisable	
Range of exercise prices per share	Number of options outstanding	Weighted-average exercise price	Weighted-average remaining contractual life	Number of options exercisable	Weighted-average exercise price
CHF		***CHF***	***years***		***CHF***
170.00–225.00	9,755,040	186.81	4.1	460,408	184.24
225.01–270.00	3,436,805	237.80	4.1	–	–
170.00–270.00	**13,191,845**	**200.09**	**4.1**	**460,408**	**184.24**
USD		***USD***	***years***		***USD***
14.65–25.00	1,129,643	21.84	3.2	1,129,643	21.84
25.01–50.00	1,236,743	32.11	3.9	1,236,743	32.11
50.01–75.00	1,194,960	70.40	4.3	1,194,960	70.40
75.01–100.00	1,880,768	80.50	6.4	1,880,768	80.50
100.01–125.00	–	–	–	–	–
125.01–143.07	2,468,875	141.01	6.8	201,091	142.96
14.65–143.07	**7,910,989**	**81.92**	**5.4**	**5,643,205**	**58.24**

During 1998, options that had been issued to Swiss Bank Corporation employees were revised to reflect the $1^1/_{13}$ SBC to UBS AG share conversion rate of the merger. Also, during 1998, because of a significant drop in the UBS AG share price in the third quarter, employees were given the opportunity to convert options received earlier in the year with a strike price of CHF 270 to a reduced number ($^2/_3$) of options with a strike price of CHF 170.

Had the Group determined compensation cost for its stock-based compensation plans based on fair value at the award grant dates, the net income and earnings per share for 2000, 1999 and 1998 would approximate the amounts in the following table.

Note 35 Equity Participation Plans (continued)

CHF million, except per share data		31.12.00	31.12.99	31.12.98
Net income	As reported	**7,792**	6,153	2,972
	Pro forma	**7,614**	6,027	2,893
Basic EPS	As reported	**19.33**	15.20	7.33
	Pro forma	**18.89**	14.89	7.14
Diluted EPS	As reported	**19.04**	15.07	7.20
	Pro forma	**18.61**	14.76	7.01

The pro forma amounts in the table above reflect the vesting periods of all options granted. The effects of 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 2000, 1999 and 1998 was CHF 48, 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 model, with the following assumptions:

	31.12.2000	31.12.1999	31.12.1998
Expected volatility	**30%**	33%	40%
Risk free interest rate (CHF)	**3.27%**	2.07%	2.56%
Risk free interest rate (USD)	**5.66%**	–	–
Expected dividend rate	**2.44%**	1.44%	1.64%
Expected life	**4 years**	6 years	6 years

Stock bonus and stock purchase plans

The following table shows the shares awarded and the weighted-average fair value per share for the Group's equity-based compensation plans. The fair values for the stock purchase awards reflect the purchase price paid. The stock bonus awards for 2000 include approximately 6,622,000 shares granted under the retention agreements with key employees of PaineWebber and the bonus awards for 1999, in addition to the 1998 plan-year awards, include 1,405,000 shares issued in exchange for previously issued non-share awards and for special bonuses. The stock purchase awards for 1999 include 666,000 shares issued for the 1999 plan-year.

Stock bonus plans	31.12.2000	31.12.1999	31.12.1998
Shares awarded	**12,780,000**	3,469,000	2,524,000
Weighted-average fair market value per share (in CHF)	**228**	220	210

Stock purchase plans	31.12.2000	31.12.1999	31.12.1998
Shares awarded	**322,000**	1,802,000	1,338,000
Weighted-average fair market value per share (in CHF)	**104**	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 $1^{1}/_{13}$ Swiss Bank Corporation to UBS AG share conversion rate of the merger.

Note 36 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 as well as certain persons performing similar functions.

Total remuneration of related parties recognized in the income statement amounted to CHF 272.3 million in 2000 and CHF 193.1 million in 1999, including accrued pension benefits of approximately CHF 30.0 million in 2000 and CHF 21.2 million in 1999.

The number of long-term stock options outstanding from equity plans was 1,564,486 at 31 December 2000 and 274,616 at 31 December 1999. This scheme is further explained in Note 35 Equity Participation Plans.

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.

The total amounts of shares and warrants held by members of the Board of Directors, Group Executive Board and Group Managing Board were 2,527,728 and 69,504,577 as of 31 December 2000 and 2,456,092 and 11,424,514 as of 31 December 1999.

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

CHF million	**2000**	1999
Mortgages at the beginning of the year	**28**	27
Additions	**9**	6
Reductions	**(1)**	(5)
Mortgages at the end of the year	**36**	28

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

Loans and advances to significant associated companies were as follows:

CHF million	**2000**	1999
Loans and advances at the beginning of the year	**62**	165
Additions	**0**	42
Reductions	**(62)**	(145)
Loans and advances at the end of the year	**0**	62

Note 38 provides a list of significant associates.

Note 37 Post-Balance Sheet Events

There have been no material post-balance sheet events which would require disclosure or adjustment to the December 2000 financial statements.

Long-term debt, excluding medium-term notes, has decreased by CHF 582 million since the balance sheet date to 5 March 2001.

On 14 February 2001, the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be submitted to the Annual General Meeting of Shareholders to be held on 26 April 2001 for approval.

Note 38 Significant Subsidiaries and Associates

The legal entity group structure of UBS is designed to support the Group's businesses within an efficient legal, tax, regulatory and funding framework. Neither the Business Groups of UBS (namely UBS Warburg, UBS Switzerland and UBS Asset Management) nor Corporate Center are replicated in their own individual legal entities but rather they generally operate out of the parent bank, UBS AG, through its Swiss and foreign branches.

The goal of the focus on the parent bank is to capitalize on the synergies offered by the use of a single legal platform, enable the flexible use of capital in an efficient manner and to provide a structure where the activities of the Business Groups may be carried on without the need to set up separate subsidiaries beforehand.

Where, usually due to local legal, tax or regulatory rules or due to additional legal entities joining the UBS Group via acquisition, it is either not possible or not efficient to operate out of the parent bank then local subsidiary companies host the appropriate businesses. The significant operating subsidiary companies in the Group are listed below:

Significant subsidiaries

Company	Registered office	Business Group		Share capital in millions	Equity interest accumulated in %
Armand von Ernst & Cie AG	Bern	CH[1]	CHF	5.0	100.0
Aventic AG	Zurich	CH	CHF	30.0	100.0
Bank Ehinger & Cie AG	Basel	CH	CHF	6.0	100.0
BDL Banco di Lugano	Lugano	CH	CHF	50.0	100.0
Brinson Partners Inc	Chicago	AM[2]	USD	1.9[5]	100.0
Brunswick UBS Warburg Limited	George Town	WA[3]	USD	25.0[5]	50.0
Cantrade Privatbank AG	Zurich	CH	CHF	10.0	100.0
Cantrade Private Bank Switzerland (CI) Limited	St. Helier	CH	GBP	0.7	100.0
Correspondent Services Corporation	Delaware	WA	USD	26.8[5]	100.0
Crédit Industriel SA	Zurich	CH	CHF	10.0	100.0
EIBA "Eidgenössische Bank" Beteiligungs- und Finanzgesellschaft	Zurich	WA	CHF	14.0	100.0
Factors AG	Zurich	CH	CHF	5.0	100.0
Ferrier Lullin & Cie SA	Geneva	CH	CHF	30.0	100.0
Fondvest AG	Zurich	AM	CHF	4.3	100.0
Global Asset Management Limited	Hamilton	AM	USD	2.0	100.0
HYPOSWISS, Schweizerische Hypotheken- und Handelsbank	Zurich	CH	CHF	26.0	100.0
IL Immobilien-Leasing AG	Opfikon	CH	CHF	5.0	100.0
Klinik Hirslanden AG	Zurich	CC[4]	CHF	22.5	91.2
Mitchell Hutchins Asset Management Inc[6]	Delaware	WA	USD	35.1[5]	100.0
NYRE Holding Corporation	Delaware	WA	USD	30.3[5]	100.0
PaineWebber Capital Inc	Delaware	WA	USD	25.5[5]	100.0
PaineWebber Incorporated	Delaware	WA	USD	1,625.6[5]	100.0
PaineWebber Incorporated of Puerto Rico	Puerto Rico	WA	USD	24.2[5]	100.0
PaineWebber Life Insurance Company	California	WA	USD	29.3[5]	100.0
PT UBS Warburg Indonesia	Jakarta	WA	IDR	11,000.0	85.0
PW Trust Company	New Jersey	WA	USD	4.4[5]	99.6
Schröder Münchmeyer Hengst AG	Hamburg	WA	DEM	100.0	100.0
SG Warburg & Co International BV	Amsterdam	WA	GBP	40.5	100.0
SG Warburg Securities SA	Geneva	WA	CHF	14.5	100.0
Thesaurus Continentale Effekten-Gesellschaft Zürich	Zurich	CH	CHF	30.0	100.0
UBS (Bahamas) Ltd	Nassau	CH	USD	4.0	100.0
UBS (Cayman Islands) Ltd	George Town	CH	USD	5.6	100.0
UBS (France) SA	Paris	WA	EUR	10.0	100.0
UBS (Italia) SpA	Milan	WA	ITL	43,000.0	100.0
UBS (Luxembourg) SA	Luxembourg	CH	CHF	150.0	100.0
UBS (Monaco) SA	Monte Carlo	CH	EUR	9.2	100.0
UBS (Panama) SA	Panama	CH	USD	6.0	100.0
UBS (Sydney) Limited	Sydney	CH	AUD	12.7	100.0

Footnotes
1 CH: UBS Switzerland
2 AM: UBS Asset Management
3 WA: UBS Warburg
4 CC: Corporate Center
5 Share Capital and Share Premium
6 Joined UBS Asset Management on 20 February 2001 and was renamed Brinson Advisors Inc

Note 38 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Registered office	Business Group		Share capital in millions	Equity interest accumul-ated in %
UBS (Trust and Banking) Limited	Tokyo	WA	JPY	10,500.0	100.0
UBS (USA) Inc	New York	WA	USD	315.0	100.0
UBS Americas Inc	Stamford	WA	USD	3,562.9[5]	100.0
UBS Asset Management (Australia) Ltd	Sydney	AM	AUD	8.0	100.0
UBS Asset Management (France) SA	Paris	AM	EUR	0.8	100.0
UBS Asset Management (Japan) Ltd	Tokyo	AM	JPY	2,200.0	100.0
UBS Asset Management (New York) Inc	New York	AM	USD	72.7[5]	100.0
UBS Asset Management (Singapore) Ltd	Singapore	AM	SGD	4.0	100.0
UBS Asset Management (Taiwan) Ltd	Taipei	AM	TWD	340.0	82.0
UBS Asset Management Holding Limited	London	AM	GBP	8.0[5]	100.0
UBS Australia Holdings Ltd	Sydney	WA	AUD	11.7	100.0
UBS Australia Limited	Sydney	WA	AUD	15.0	100.0
UBS Bank (Canada)	Toronto	CH	CAD	20.7	100.0
UBS Beteiligungs-GmbH & Co KG	Frankfurt	WA	EUR	398.8	100.0
UBS Capital AG	Zurich	WA	CHF	0.5	100.0
UBS Capital Asia Pacific Limited	George Town	WA	USD	5.0	100.0
UBS Capital BV	The Hague	WA	EUR	104.1[5]	100.0
UBS Capital GmbH	Munich	WA	EUR	–	100.0
UBS Capital II LLC	Delaware	WA	USD	2.6[5]	100.0
UBS Capital LLC	New York	WA	USD	18.5[5]	100.0
UBS Capital Partners Limited	London	WA	GBP	6.7	100.0
UBS Capital SpA	Milan	WA	ITL	50,000.0	100.0
UBS Card Center AG	Glattbrugg	CH	CHF	40.0	100.0
UBS España SA	Madrid	WA	EUR	55.3	100.0
UBS Finance (Cayman Islands) Limited	George Town	CC	USD	0.5	100.0
UBS Finance (Curação) NV	Willemstad	CC	USD	0.1	100.0
UBS Finance (Delaware) LLC	Delaware	WA	USD	37.3[5]	100.0
UBS Finanzholding AG	Zurich	CC	CHF	10.0	100.0
UBS Fund Holding (Luxembourg) SA	Luxembourg	AM	CHF	42.0	100.0
UBS Fund Holding (Switzerland) AG	Basel	AM	CHF	18.0	100.0
UBS Fund Management (Switzerland) AG	Basel	AM	CHF	1.0	100.0
UBS Fund Services (Luxembourg) SA	Luxembourg	AM	CHF	2.5	100.0
UBS Futures & Options Limited	London	WA	GBP	2.0	100.0
UBS Global Trust Corporation	St. John	CH	CAD	0.1	100.0
UBS Immoleasing AG	Zurich	CH	CHF	3.0	100.0
UBS Inc	New York	WA	USD	375.3[5]	100.0
UBS International Holdings BV	Amsterdam	CC	CHF	5.5	100.0
UBS Invest Kapitalanlagegesellschaft mbH	Frankfurt	AM	DEM	15.0	100.0
UBS Investment Management Pte Ltd	Singapore	WA	SGD	0.5	90.0
UBS Lease Finance LLC	Delaware	WA	USD	16.7	100.0
UBS Leasing AG	Brugg	CH	CHF	10.0	100.0
UBS Life AG	Zurich	CH	CHF	25.0	100.0
UBS Limited	London	WA	GBP	10.0	100.0
UBS O'Connor Limited	London	AM	GBP	8.8	100.0
UBS Overseas Holding BV	Amsterdam	WA	EUR	18.1	100.0
UBS Preferred Funding Company LLC I	Delaware	WA	USD	–	100.0
UBS Securities Limited	London	WA	GBP	10.0	100.0
UBS Services Limited	London	WA	GBP	–	100.0
UBS Trust (Canada)	Toronto	CH	CAD	12.5	100.0
UBS Trustees (Singapore) Ltd	Singapore	CH	SGD	0.8	100.0
UBS UK Holding Limited	London	WA	GBP	5.0	100.0
UBS UK Limited	London	WA	GBP	609.0	100.0
UBS Warburg Asia Limited	Hong Kong	WA	HKD	20.0	100.0
UBS Warburg (France) SA	Paris	WA	EUR	22.9	100.0
UBS Warburg (Italia) SIM SpA	Milan	WA	EUR	1.9	100.0
UBS Warburg (Japan) Limited	George Town	WA	JPY	30,000.0	50.0
UBS Warburg (Malaysia) Sdn Bhd	Kuala Lumpur	WA	MYR	0.5	70.0

Footnotes
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4 CC: Corporate Center
5 Share Capital and Share Premium
6 Joined UBS Asset Management on 20 February 2001 and was renamed Brinson Advisors Inc

Note 38 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Registered office	Business Group		Share capital in millions	Equity interest accumulated in %
UBS Warburg (Nederland) BV	Amsterdam	WA	EUR	10.9	100.0
UBS Warburg AG	Frankfurt	WA	EUR	155.7	100.0
UBS Warburg Australia Corporation Pty Limited	Sydney	WA	AUD	50.4[5]	100.0
UBS Warburg Australia Limited	Sydney	WA	AUD	571.5[5]	100.0
UBS Warburg Derivatives Limited	Hong Kong	WA	HKD	20.0	100.0
UBS Warburg Futures Inc	Delaware	WA	USD	2.0	100.0
UBS Warburg Hong Kong Limited	Hong Kong	WA	HKD	30.0	100.0
UBS Warburg International Ltd	London	WA	GBP	18.0	100.0
UBS Warburg LLC	Delaware	WA	USD	450.1	100.0
UBS Warburg Ltd	London	WA	GBP	17.5	100.0
UBS Warburg Pte Limited	Singapore	WA	SGD	3.0	100.0
UBS Warburg Real Estate Securities Inc	Delaware	WA	USD	0.4[5]	100.0
UBS Warburg Securities (España) SV SA	Madrid	WA	EUR	13.4	100.0
UBS Warburg Securities (South Africa) (Pty) Limited	Sandton	WA	ZAR	22.1	100.0
UBS Warburg Securities Co Ltd	Bangkok	WA	THB	400.0	100.0
UBS Warburg Securities India Private Limited	Mumbai	WA	INR	237.8	75.0
UBS Warburg Securities Ltd	London	WA	GBP	140.0	100.0
UBS Warburg Securities Philippines Inc	Makati City	WA	PHP	120.0	100.0

Footnotes
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Significant associates

Company	Equity interest in %	Share capital in millions
FSG Swiss Financial Services Group AG, Zurich	33.0	CHF 26
Giubergia UBS Warburg SIM SpA, Milan	50.0	EUR 15
Motor Columbus AG, Baden	35.6	CHF 253
Telekurs Holding AG, Zurich	33.3	CHF 45
Volbroker.com Limited, London	20.6	GBP 16

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

Consolidated companies: changes in 2000

Significant new companies

Correspondent Services Corporation, Delaware
Fondvest AG, Zurich
Mitchell Hutchins Asset Management Inc, Delaware[6]
PaineWebber Capital Inc, Delaware
PaineWebber Incorporated of Puerto Rico, Puerto Rico
PaineWebber Incorporated, Delaware
PaineWebber Life Insurance Company, California
PW Trust Company, New Jersey
UBS Americas Inc, Stamford
UBS Asset Management (Taiwan) Ltd, Taipei (formerly Fortune Securities Investment & Trust Co Ltd)
UBS Global Trust Corporation, St. John
UBS Life AG, Zurich
UBS Preferred Funding Company LLC I, Delaware
UBS Trustees (Singapore) Ltd, Singapore
UBS Warburg Real Estate Securities Inc, Delaware

Note 38 Significant Subsidiaries and Associates (continued)

Deconsolidated companies

Significant deconsolidated companies

	Reason for deconsolidation
IMPRIS AG, Zurich	Sold
Solothurner Bank, Solothurn	Sold

Note 39 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 At		Average rate Year-to-date		
	31.12.00	31.12.99	**31.12.00**	31.12.99	31.12.98
1 USD	**1.64**	1.59	**1.69**	1.50	1.45
1 EUR	**1.52**	1.61	**1.56**	1.60	
1 GBP	**2.44**	2.58	**2.57**	2.43	2.41
100 JPY	**1.43**	1.56	**1.57**	1.33	1.11
100 DEM		82.07		81.88	82.38

Note 40 Swiss Banking Law Requirements

The significant differences between International Accounting Standards (IAS), which are the principles followed by the Group, and the accounting requirements 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. Up to 31 December 1999, the Swiss requirement was 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.

For the year ended 31 December 2000 the Swiss regulators accepted the same treatment as for IAS and therefore there is no difference in the balance sheet.

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 would be carried in the balance sheet (trading portfolio assets, financial investments or other liabilities) 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 items 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.

Note 40 Swiss Banking Law Requirements (continued)

CHF million	**31.12.00**	31.12.99[1]
Differences in the balance sheet		
Securities borrowing and lending		
Assets		
Trading portfolio / Money market paper		47,401
Due from banks / customers		273,093
Liabilities		
Due to banks / customers		375,080
Trading portfolio liabilities		(54,586)
Treasury shares		
Assets		
Trading portfolio		4,561
Financial investments	**4,007**	3,136
Liabilities		
Other liabilities	**2,516**	0
Differences in the income statement		
Treasury shares	**201**	(182)
Reclassification of extraordinary income and expense		
Other income, including income from associates	**(211)**	(1,726)
Differences in the shareholders' equity		
Share premium	**(2,509)**	
Treasury shares[1]	**4,000**	8,023

[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: Summary of Significant Accounting Policies).

Note 41 Reconciliation of International Accounting Standards to United States Generally Accepted Accounting Principles

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

The consolidated financial statements of the Group have been prepared in accordance with 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 relevant significant accounting and valuation differences between IAS and U.S. GAAP.

a. Purchase accounting (merger of Union Bank of Switzerland and Swiss Bank Corporation)

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 accounted for under the purchase method with Union Bank of Switzerland being considered the 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 for any 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 2000 and 1999, goodwill was reduced by CHF 211 million and CHF 118 million respectively, due to recognition of deferred tax assets of Swiss Bank Corporation which had previously been subject to valuation reserves.

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 two years to 20 years.

b. Harmonization of accounting policies

The business combination noted above was accounted for under the pooling of interests method under IAS. Under the pooling interest 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 combination noted above is being accounted for under the purchase method and the impact of the accounting changes was recorded in 1998.

Harmonization of accounting policies

The income statement effect of this conforming adjustment was as follows:

CHF million For the year ended	31.12.99	31.12.98
Depreciation policies	(20)	(338)
Credit risk adjustments on derivatives	0	(193)
Policies for other real estate	0	(140)
Retirement benefit and equity participation plans	0	(47)
Settlement-risk adjustments on derivatives	0	(33)
Total	**(20)**	**(751)**

There was no income statement effect after year 1999.

c. Restructuring provision

Under IAS, restructuring provisions are recognized when a legal or constructive obligation has been incurred. In 1997, the Group recognized a CHF 7,000 million restructuring provision to cover personnel, IT, premises and other costs associated with combining and restructuring the merged Group. A further CHF 300 million provision was recognized in 1999, reflecting the impact of increased precision in the estimation of certain leased and owned property costs.

Under U.S. GAAP, the criteria for establishing restructuring provisions were more stringent than under IAS prior to 2000. 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 that amount was recorded as a liability of the acquired business. The remaining CHF 816 million of estimated costs were charged to restructuring expense during 1998. The reserve is expected to be substantially utilized by 2001.

The U.S. GAAP restructuring provision was adjusted in 1999 (increase of CHF 600 million) and 2000 (increase of CHF 130 million) as shown in the table below.

During 2000, the IAS requirements for restructuring provisions were changed such that they became substantially identical to the U.S. GAAP requirements. As of 31 December 2000, the remaining IAS provision was higher than the remaining U.S. GAAP provision by approximately CHF 114 million. This amount represents an accrual permitted under IAS for lease costs on properties to be vacated. Under U.S. GAAP, such costs may not be recognized until the premises are actually vacated.

Restructuring provision

The usage of the U.S. GAAP restructuring provision was as follows:

CHF million	**Balance 31.12.00**	**Revision 2000**	Usage 2000	Balance 31.12.99	Revision 1999	Usage 1999	Balance 31.12.98	Usage 1998	Provision 1998
Personnel	**422**	**(71)**	(188)	681	553	(254)	382	(374)	756
Premises	**143**	**194**	(291)	240	179	(244)	305	(27)	332
IT	**31**	**67**	(63)	27	7	(5)	25	(68)	93
Other	**20**	**(60)**	(49)	129	(139)	(45)	313	(81)	394
Total	**616**	**130**	(591)	1,077	600	(548)	1,025	(550)	1,575

Additionally, for purposes of the U.S. GAAP reconciliation, CHF 138 million, CHF 150 million and CHF 273 million of restructuring costs were expensed as incurred in 2000, 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 does not 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. 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 ("LOCOM"). The Group accounts for long-term financial investments at cost, less any permanent impairments.

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, marketable equity securities are adjusted from LOCOM to fair value and classified as available for sale investments. Held to maturity investments that do not meet U.S. GAAP criteria are also reclassified to the available for sale category. Unrealized gains or unrealized losses relating to these investments are recorded as a component of Shareholders' equity.

f. 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.

Generally, under U.S. GAAP, pension expense 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 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 by CHF 3,525 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 accounting 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 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.

g. Other employee benefits

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

Under 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.

h. 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 (Accounting Principles Board "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 recognizes 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 pursuant to APB No. 25, 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 2000, 1999 and 1998, is CHF 85 million, CHF 41 million and CHF 1 million, respectively. In addition, certain of the Group's equity participation plans provide for deferral and diversification 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 net effect on income of recording these assets and liabilities is a debit to expense of CHF 82 million, CHF 8 million and nil for the years ended 31 December 2000, 1999 and 1998, respectively.

i. Software capitalization

Under IAS, effective 1 January 2000, certain costs associated with the acquisitions 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 two years once it is ready for its intended use. From 1 January 2000, the only remaining reconciliation item is the amortization of software capitalized in 1999 for U.S. GAAP purposes.

j. Trading in own shares and derivatives on own shares

As of 1 January 2000, upon adoption of the Standing Interpretations Committee's ("SIC") interpretation 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 in 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, Summary of Significant Accounting Policies).

k. 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 instrument embedded in other contracts, and for hedging activities. Under International Accounting Standards, the Group is not required to comply with all the criteria necessary to obtain hedge accounting under U.S. GAAP. Accordingly, for future U.S. GAAP reconciliation, derivative instruments held or issued for non-trading purposes that do not meet U.S. GAAP hedging criteria under SFAS No. 133 will be carried at fair value with changes in fair value recognized as adjustments to trading income. The specific impact on earnings and financial position as a result of SFAS No. 133 is not possible to quantify as the Group will be complying with hedge accounting criteria necessary to obtain hedge accounting for certain activity, but not all.

Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

In 1996 the FASB issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities". That statement provided standards for distinguishing transfers of financial assets that are sales from those that are financing transactions. In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities – a replacement of SFAS No. 125". SFAS No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain new disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. Generally, the new provisions of this standard are to be applied prospectively and become effective 31 March 2001. However, certain recognition and classification requirements for collateral and disclosures for collateral and securitization transactions have been adopted by the Group as of 31 December 2000. Adoption of the remaining provisions of this revised accounting standard is not expected to have a material impact on the Group.

Note 41.2 Reconciliation of IAS Shareholders' equity and Net profit/loss to U.S. GAAP

	Shareholders' equity			Net profit/(loss)		
CHF million	**31.12.00**	31.12.99	31.12.98	**31.12.00**	31.12.99	31.12.98
Amounts determined in accordance with IAS	**44,833**	30,608	28,794	**7,792**	6,153	2,972
Adjustments in respect of						
a. SBC purchase accounting:						
Goodwill	**17,835**	19,765	21,612	**(1,719)**	(1,729)	(864)
Other purchase accounting adjustments	**(808)**	(858)	(895)	**50**	37	(2,415)
b. Harmonization of accounting policies	**0**	0	20	**0**	(20)	(751)
c. Restructuring provision	**112**	350	1948	**(238)**	(1,598)	(3,982)
d. Derivative instruments held or issued for non-trading purposes	**(857)**	507	1,052	**(1,353)**	(545)	(405)
e. Financial investments	**379**	52	108	**28**	36	23
f. Retirement benefit plans	**1,898**	1,839	1,858	**59**	(19)	88
g. Other employee benefits	**(16)**	(24)	(26)	**8**	2	(20)
h. Equity participation plans	**(311)**	(113)	(40)	**(167)**	(47)	(1)
i. Software capitalization	**229**	389	0	**(160)**	389	0
Tax adjustments	**(334)**	(682)	330	**137**	178	1,690
Total adjustments	**18,127**	**21,225**	**25,967**	**(3,355)**	**(3,316)**	**(6,637)**
Amounts determined in accordance with U.S. GAAP	**62,960**	**51,833**	**54,761**	**4,437**	**2,837**	**(3,665)**

Note 41.3 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 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 computations of basic and diluted EPS for the years ended 31 December 2000, 31 December 1999 and 31 December 1998 are presented in the following table. The adjustment in 1998 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.

For the year ended	31.12.00	31.12.99	31.12.98	% change from 31.12.99
Net profit / (loss) available for Basic earnings per share (CHF million)				
IAS	7,792	6,153	2,972	27
U.S. GAAP	4,437	2,837	(3,665)	56
Basic weighted average shares outstanding				
IAS	403,029,309	404,742,482	405,222,295	0
U.S. GAAP	403,029,309	404,742,482	414,609,886	0
Basic earnings / (loss) per share (CHF)				
IAS	19.33	15.20	7.33	27
U.S. GAAP	11.01	7.01	(8.84)	57
Net profit / (loss) available for Diluted earnings per share (CHF million)				
IAS	7,778	6,153	2,972	26
U.S. GAAP	4,423	2,837	(3,665)	56
Diluted weighted average shares outstanding				
IAS	408,525,900	408,375,152	412,881,041	0
U.S. GAAP	408,525,900	408,375,152	414,609,886[1]	0
Diluted earnings / (loss) per share (CHF)				
IAS	19.04	15.07	7.20	26
U.S. GAAP	10.83	6.95	(8.84)[1]	56

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:

Weighted average shares outstanding	31.12.00	31.12.99	31.12.98
Basic weighted-average ordinary shares (IAS)	403,029,309	404,742,482	405,222,295
add: Treasury shares adjustments	0	0	9,387,591
Basic weighted-average ordinary shares (U.S. GAAP)	403,029,309	404,742,482	414,609,886

[1] No potential ordinary shares may be included in the computation of any diluted per-share amount when a loss from continuing operations exists.

Note 41.4 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 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.

2. Settlement date vs. trade date accounting

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

Under 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 ac-

SBC's summarized Income statement for the period 1 January 1998 to 29 June 1998

CHF million	
Operating income	
Interest income	8,205
Less: Interest expense	6,630
Net interest income	1,575
Less: Credit loss expense	164
Total	1,411
Net fee and commission income	3,701
Net trading income	2,135
Income from disposal of associates and subsidiaries	1,035
Other income	364
Total	8,646
Operating expenses	
Personnel	3,128
General and administrative	1,842
Depreciation and amortization	511
Total	5,481
Operating profit before taxes and minority interests	3,165
Tax expense	552
Profit	2,613
Less: Minority interests	(1)
Net profit	2,614

counting has resulted in receivables and payables to broker-dealers and clearing organizations recorded in Other assets and Other liabilities.

3. Securities lending, Securities borrowing, Repurchase, Reverse repurchase and Other collateralized transactions

Under IAS, the Group's repurchase agreements and securities lending are accounted for as collateralized borrowings. Reverse repurchase agreements and securities borrowing 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, these 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. U.S. GAAP (SFAS No. 125) required recognition of securities collateral controlled, and an offsetting obligation to return such securities collateral on certain financing transactions, when specific control conditions existed. Pursuant to the guidance in SFAS No. 140, Accounting for Transfers of Servicing of Financial Assets and Extinguishment of Liabilities (a replacement of SFAS No. 125) issued in 2000, the Group has restated its 1999 U.S. GAAP Balance sheet to derecognize securities collateral received that are no longer required to be recognized.

Additionally, SFAS No. 140 requires segregation of the balance, as of 31 December 2000, of the Group's Trading portfolio assets which it has pledged under agreements permitting the transferee to repledge or resell such collateral. For presentation purposes, such reclassifications are reflected in the U.S. GAAP Balance Sheet in Trading portfolio assets, pledged.

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. Equity participation plans

Certain of the Group's equity participation plans provide for deferral and diversification of the awards. The shares and other diversified 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 1,298 million and CHF 655 million, liabilities by CHF 1,377 million and CHF 717 million, and decrease shareholders' equity by CHF 69 million and CHF 62 million (for UBS AG shares held by the trusts which are treated as treasury shares) at 31 December 2000 and 31 December 1999, respectively.

6. 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, Summary of Significant Accounting Policies). 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.

Note 41.5 Consolidated Income Statement

The following is a Consolidated Income Statement of the Group, for the years ended 31 December 2000, 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.

For the year ended		31.12.00		31.12.99[1]		31.12.98[1]	
CHF million	Reference	U.S. GAAP	IAS	U.S. GAAP	IAS	U.S. GAAP	IAS
Operating income							
Interest income	a, d, 1	51,565	51,745	35,404	35,604	29,136	37,442
Less: Interest expense	a, 1	(43,584)	(43,615)	(29,660)	(29,695)	(25,773)	(32,424)
Net interest income		7,981	8,130	5,744	5,909	3,363	5,018
Less: Credit loss expense	1	130	130	(956)	(956)	(787)	(951)
Total		8,111	8,260	4,788	4,953	2,576	4,067
Net fee and commission income	1	16,703	16,703	12,607	12,607	8,925	12,626
Net trading income	b, d, 1	8,597	9,953	7,174	7,719	455	3,313
Net gains from disposal of associates and subsidiaries	1	83	83	1,821	1,821	84	1,119
Other income	b, e, 1	1,431	1,403	1,361	1,325	641	1,122
Total		34,925	36,402	27,751	28,425	12,681	22,247
Operating expenses							
Personnel	b, c, f, g, h, 1	17,262	17,163	12,483	12,577	7,938	9,816
General and administrative	a, c, i, 1	6,813	6,765	6,664	6,098	6,259	6,735
Depreciation and amortization	a, b, i, 1	3,952	2,275	3,454	1,857	2,403	1,825
Restructuring costs	c	191	0	750	0	1,089	0
Total		28,218	26,203	23,351	20,532	17,689	18,376
Operating profit/(loss) before tax and minority interests		**6,707**	**10,199**	**4,400**	**7,893**	**(5,008)**	**3,871**
Tax expense/(benefit)	1	2,183	2,320	1,509	1,686	(1,339)	904
Net profit/(loss) before minority interests		**4,524**	**7,879**	**2,891**	**6,207**	**(3,669)**	**2,967**
Minority interests	1	(87)	(87)	(54)	(54)	4	5
Net profit/(loss)		**4,437**	**7,792**	**2,837**	**6,153**	**(3,665)**	**2,972**

[1] Certain IAS and U.S. GAAP 1999 and 1998 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, Summary of Significant Accounting Policies).

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

Note 41.6 Consolidated Balance Sheet

The following is a Consolidated Balance Sheet of the Group, as of 31 December 2000 and 31 December 1999 restated to reflect the impact of valuation and income recognition principles and presentation differences between IAS and U.S. GAAP.

		31.12.00		31.12.99 [1]	
CHF million	Reference	**U.S. GAAP**	**IAS**	U.S. GAAP	IAS
Assets					
Cash and balances with central banks		**2,979**	**2,979**	5,073	5,073
Money market paper		**66,454**	**66,454**	69,717	69,717
Due from banks	a, 3	**29,182**	**29,147**	29,954	29,907
Cash collateral on securities borrowed		**177,857**	**177,857**	113,162	113,162
Reverse repurchase agreements		**193,801**	**193,801**	132,391	132,391
Trading portfolio assets	b, 2,3	**197,048**	**253,296**	184,085	211,932
Trading portfolio assets, pledged	3	**59,448**			
Positive replacement values	2	**57,775**	**57,875**	62,294	62,957
Loans, net of allowance for credit losses	a, 3	**245,214**	**244,842**	235,401	234,858
Financial investments	b, e, 4	**7,807**	**16,405**	2,378	7,039
Accrued income and prepaid expenses		**7,062**	**7,062**	5,167	5,167
Investments in associates		**880**	**880**	1,102	1,102
Property and equipment	a, b, i	**9,692**	**8,910**	9,655	8,701
Intangible assets and goodwill	a	**35,726**	**19,537**	21,428	3,543
Private equity investments	4	**6,658**	**0**	3,001	0
Other assets	b, d, f, g, h, 2, 4, 5	**26,971**	**8,507**	18,717	11,007
Total assets		**1,124,554**	**1,087,552**	**893,525**	**896,556**
Liabilities					
Money market paper issued	a	**74,780**	**74,780**	64,655	64,655
Due to banks	3	**82,240**	**82,240**	76,363	76,365
Cash collateral on securities lent	3	**23,418**	**23,418**	12,832	12,832
Repurchase agreements	3	**295,513**	**295,513**	173,840	196,914
Trading portfolio liabilities	2, 3	**87,832**	**82,632**	52,658	54,638
Negative replacement values	2	**75,423**	**75,923**	95,004	95,786
Due to customers	a, 3	**310,686**	**310,679**	279,971	279,960
Accrued expenses and deferred income		**21,038**	**21,038**	12,040	12,040
Long-term debt	a	**54,970**	**54,855**	56,049	56,332
Other liabilities	a, b, c, d, e, h, 2, 3	**32,809**	**18,756**	17,846	15,992
Total liabilities		**1,058,709**	**1,039,834**	841,258	865,514
Minority interests		**2,885**	**2,885**	434	434
Total shareholders' equity		**62,960**	**44,833**	51,833	30,608
Total liabilities, minority interests and shareholders' equity		**1,124,554**	**1,087,552**	**893,525**	**896,556**

[1] Certain IAS and U.S. GAAP 1999 and 1998 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, Summary of Significant Accounting Policies).

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

Note 41.7 Comprehensive income

Comprehensive income is defined as the change in Shareholders' equity excluding transactions with shareholders. Comprehensive income has two major components: Net profit, as reported in the income statement, and Other comprehensive income. Other comprehensive income includes such items as foreign currency translation and unrealized gains in available-for-sale securities. The components and accumulated other comprehensive income amounts for the years ended 31 December 2000, 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	
Reclassification adjustment for gains realized in net profit, net of CHF 76 million tax		(229)	(229)	(307)
Comprehensive loss				(3,972)
Balance, 31 December 1998	**(456)**	**85**	**(371)**	
Net profit				**2 837**
Other comprehensive income:				
Foreign currency translation	14		14	
Unrealized gains, arising during the year, net of CHF 18 million tax		74	74	
Reclassification adjustment for gains realized in net profit, net of CHF 40 million tax		(143)	(143)	(55)
Comprehensive income				2,782
Balance, 31 December 1999	**(442)**	**16**	**(426)**	
Net profit				**4,437**
Other comprehensive income:				
Foreign currency translation	(245)		(245)	
Unrealized gains, arising during the year, net of CHF 152 million tax		456	456	
Reclassification adjustment for gains realized in net profit, net of CHF 40 million tax		(121)	(121)	90
Comprehensive income				4,527
Balance, 31 December 2000	**(687)**	**351**	**(336)**	

Note 42 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.

Note 42.1 Business combinations

On 29 June 1998, Union Bank of Switzerland and Swiss Bank Corporation consummated a merger of the banks, resulting in the formation of UBS AG. 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 $1^{1}/_{13}$ 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 for under the pooling of interests method and, accordingly, the information included in the financial statements presents the combined results of Union Bank of Switzerland and Swiss Bank Corporation as if the merger had been in effect for all periods presented.

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

CHF million	Union Bank of Switzerland	Swiss Bank Corporation
Total operating income	5,702	8,646
Net profit	739	2,614

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

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

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

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

Note 42.2 Financial investments

See Note 15 for information on financial investments. The following table summarizes the Group's financial investments as of 31 December 2000 and 31 December 1999:

CHF million	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
31 December 2000				
Equity securities [1]	1,147	447	6	1,588
Debt securities issued by the Swiss national government and agencies	34	2	0	36
Debt securities issued by Swiss local governments	46	1	1	46
Debt securities issued by the U.S.Treasury and agencies	0	0	0	0
Debt securities issued by foreign governments and official institutions	4,852	7	3	4,856
Corporate debt securities	1,139	5	1	1,143
Mortgage-backed securities	47	0	0	47
Other debt securities	88	4	0	92
Total	**7,353**	**466**	**11**	**7,808**
31 December 1999				
Equity securities [1]	388	3	14	377
Debt securities issued by the Swiss national government and agencies	78	3	0	81
Debt securities issued by Swiss local governments	81	3	1	83
Debt securities issued by the U.S. Treasury and agencies	410	0	0	410
Debt securities issued by foreign governments and official institutions	321	6	1	326
Corporate debt securities	851	24	6	869
Mortgage-backed securities	109	1	1	109
Other debt securities	120	3	0	123
Total	**2,358**	**43**	**23**	**2,378**

[1] The LOCOM value of the equity securities as reported in Note 15 is adjusted to cost basis for the purpose of fair value calculation.

The following table presents an analysis of the contractual maturities of the investments in debt securities as of 31 December 2000:

	Within 1 year		1–5 years		5–10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
Swiss national government and agencies	2	6.90	16	5.13	16	6.45	0	
Swiss local governments	1	6.11	27	5.19	18	4.43	0	
U.S. Treasury and agencies	0		0		0		0	
Foreign governments and official institutions	2,451	1.62	1,236	1.80	1,165	0.85	0	
Corporate debt securities	16	5.20	917	6.02	206	2.21	0	
Mortgage-backed securities	20	6.02	5	6.54	22	14.46	0	
Other debt securities	21	6.57	56	4.33	11	3.68	0	
Total amortized cost	2,511		2,257		1,438		0	
Total market value	**2,514**		**2,272**		**1,434**		**0**	

Proceeds from sales and maturities of investment securities available for sale during the year ended 31 December 2000 and the year ended 31 December 1999 were CHF 325 million and CHF 1,482 million, respectively. Gross gains of CHF 162 million and gross losses of CHF 1 million were realized in 2000 on those sales, and gross gains of CHF 180 million and gross losses of CHF 3 million were realized in 1999.

Selected Financial Data

CHF million, except where indicated For the year ended	31.12.00	31.12.99[1]	31.12.98[1]	31.12.97
Income statement key figures				
Interest income	51,745	35,604	37,442	23,669
Interest expense	43,615	29,695	32,424	16,733
Net interest income	8,130	5,909	5,018	6,936
Credit loss recovery / (expense)	130	(956)	(951)	(1,278)
Net interest income after credit loss expense	8,260	4,953	4,067	5,658
Net fee and commission income	16,703	12,607	12,626	12,234
Net trading income	9,953	7,719	3,313	5,491
Other income	1,486	3,146	2,241	1,497
Operating income	36,402	28,425	22,247	24,880
Operating expenses	26,203	20,532	18,376	18,636
Operating profit before tax	10,199	7,893	3,871	6,244
Restructuring costs	0	0	0	7,000
Tax expense (benefit)	2,320	1,686	904	(105)
Minority interests	(87)	(54)	5	(16)
Net profit	7,792	6,153	2,972	(667)
Cost / income ratio (%)[2]	72.2	69.9	79.2	71.2
Cost / income ratio before goodwill amortization (%)[2, 3]	70.4	68.7	77.7	70.7
Per share data (CHF)				
Basic earnings per share[4, 7]	19.33	15.20	7.33	(1.59)
Basic earnings per share before goodwill[3, 4, 7]	20.99	16.04	8.18	
Diluted earnings per share[4, 7]	19.04	15.07	7.20	(1.59)
Diluted earnings per share before goodwill[3, 4, 7]	20.67	15.90	8.03	
Dividend payout ratio (%)	31.56	36.18	68.21	

As of	31.12.00	31.12.99[1]	31.12.98[1]	31.12.97
Balance sheet key figures				
Total assets	1,087,552	896,556	861,282	1,086,414
Shareholders' equity	44,833	30,608	28,794	30,927
Market capitalization	112,666	92,642	90,720	
Outstanding shares (weighted average)[7]				
Registered ordinary shares	433,486,003	430,497,026	429,710,128	426,994,240
Own shares to be delivered	2,058,212			
Treasury shares	(32,514,906)	(25,754,544)	(24,487,833)	(7,724,236)
Shares for basic earnings per share	403,029,309	404,742,482	405,222,295	419,270,004
BIS capital ratios				
Tier 1 (%)	11.7	10.6	9.3	8.3
Total BIS (%)	15.7	14.5	13.2	12.6
Risk-weighted assets	273,290	273,107	303,719	345,904
Total assets under management (CHF billion)	2,469	1,744	1,573	
Headcount (full time equivalents)[6]	71,076	49,058	48,011	
Long-term ratings				
Fitch, London	AAA	AAA	AAA	
Moody's, New York	Aa1	Aa1	Aa1	
Standard & Poor's, New York	AA+	AA+	AA+	

[1] The 1999 and 1998 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: Summary of Significant Accounting Policies). [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 10 to the Financial Statements. [5] Net profit / average shareholders' equity excluding dividends. [6] The Group headcount does not include the Klinik Hirslanden AG headcount of 1,839 and 1,853 for 31 December 2000 and 31 December 1999, respectively. [7] 1999, 1998 and 1997 share figures are restated for the two-for-one share split, effective 8 May 2000.

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Report of the Group Auditors

to the General Meeting of

UBS AG, ZURICH AND BASEL

Mr. Chairman,
Ladies and Gentlemen,

As auditors of the Group, we have audited the Group financial statements (income statement, balance sheet, statement of changes in equity, statement of cash flows and notes) of UBS AG for the year ended 31 December 2000.

These Group financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these Group financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America as well as those promulgated by the profession in Switzerland, which require that an audit be planned and performed to obtain reasonable assurance about whether the Group financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the Group financial statements. We have also assessed the accounting principles used, significant estimates made and the overall Group financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Group financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Accounting Standards (IAS) and comply with the Swiss law.

We recommend that the Group financial statements submitted to you be approved.

Basel, 5 March 2001

Ernst & Young Ltd

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

Enclosures

Offices in Aarau, Ascona, Basel, Berne, Bienne, Chur, Fribourg, Geneva, Kreuzlingen, La Chaux-de-Fonds, Lausanne, Lucerne, Lugano, Neuchâtel, Sion, St. Gallen, Zug, Zurich. Member of the Swiss Chamber of Auditors

UBS AG
(Parent Bank)

UBS AG (Parent Bank) Table of Contents

Parent Bank Review

Income statement

UBS AG net profit increased CHF 1,118 million from CHF 6,788 million in 1999 to CHF 7,906 million in 2000.

Income from investments in associates decreased to CHF 896 million in 2000, from CHF 1,669 million in 1999, mainly due to lower dividends received.

Sundry operating expenses were CHF 614 million, up from CHF 21 million in 1999. This was mainly due to a net write-down of financial investments.

Allowances, provisions and losses were CHF 345 million in 2000, down from CHF 1,815 million in 1999, mainly due to the release of previously established provisions as credit quality improved as a result of the strong performance of the Swiss economy in 2000.

Extraordinary income contains CHF 496 million from the sale of former subsidiaries, down from CHF 2,100 million in 1999, and CHF 15 million from the sale of tangible fixed assets, down from CHF 417 million in 1999. It also contains CHF 139 million from the release of provisions.

Extraordinary expenses consist mainly of losses of CHF 20 million from the sale of tangible fixed assets, compared to losses of CHF 254 million in 1999. There were no losses from the disposal of investments in associated companies in 2000, compared to losses of CHF 157 million in 1999.

Balance sheet

Total assets declined by CHF 164 billion to CHF 935 billion at 31 December 2000. This decline is principally due to changes in the accounting treatment of the securities lending and borrowing business, bringing it closer into line with the treatment in UBS Group's Financial Statements.

Financial Statements

Income Statement

CHF million For the year ended	31.12.00	31.12.99	% change from 31.12.99
Interest and discount income [1]	40,375	24,172	67
Interest and dividend income from financial assets	93	41	127
Interest expense [1]	(32,161)	(18,148)	77
Net interest income	8,307	6,065	37
Credit-related fees and commissions	292	361	(19)
Fee and commission income from securities and investment business	9,574	7,758	23
Other fee and commission income	492	534	(8)
Fee and commission expense	(1,229)	(763)	61
Net fee and commission income	9,129	7,890	16
Net trading income [1]	7,378	5,593	32
Net income from disposal of financial assets	785	440	78
Income from investments in associated companies	896	1,669	(46)
Income from real estate holdings	41	30	37
Sundry income from ordinary activities	380	894	(57)
Sundry ordinary expenses	(614)	(21)	
Other income from ordinary activities	1,488	3,012	(51)
Operating income	26,302	22,560	17
Personnel expenses	10,292	9,178	12
General and administrative expenses	5,405	5,154	5
Operating expenses	15,697	14,332	10
Operating profit	10,605	8,228	29
Depreciation and write-offs on fixed assets	1,623	423	284
Allowances, provisions and losses	345	1,815	(81)
Profit before extraordinary items and taxes	8,637	5,990	44
Extraordinary income	650	2,518	(74)
Extraordinary expenses	20	411	(95)
Tax expense / (benefit)	1,361	1,309	4
Profit for the period	7,906	6,788	16

[1] The figures for 2000 are not comparable to 1999. See Notes to the Financial Statements for further details.

Balance Sheet

CHF million	**31.12.00**	31.12.99	% change from 31.12.99
Assets			
Liquid assets	**2,242**	3,975	(44)
Money market paper	**61,152**	62,154	(2)
Due from banks	**243,911**	356,858	(32)
Due from customers	**175,255**	195,464	(10)
Mortgage loans	**117,830**	123,151	(4)
Trading balances in securities and precious metals	**155,342**	196,782	(21)
Financial assets	**12,133**	5,067	139
Investments in associated companies	**10,587**	6,727	57
Tangible fixed assets	**5,949**	5,709	4
Accrued income and prepaid expenses	**3,239**	3,555	(9)
Positive replacement values	**141,516**	131,730	7
Other assets	**6,242**	7,923	(21)
Total assets	**935,398**	1,099,095	(15)
Total subordinated assets	***805***	*939*	*(14)*
Total amounts receivable from Group companies	***187,724***	*197,211*	*(5)*
Liabilities			
Money market paper issued	**36,340**	47,931	(24)
Due to banks	**228,928**	352,775	(35)
Due to customers on savings and deposit accounts	**68,069**	76,414	(11)
Other amounts due to customers	**263,459**	341,509	(23)
Medium-term note issues	**5,408**	5,918	(9)
Bond issues and loans from central mortgage institutions	**42,731**	44,254	(3)
Accruals and deferred income	**11,230**	8,746	28
Negative replacement values	**155,059**	159,713	(3)
Other liabilities	**73,585**	7,835	839
Value adjustments and provisions	**7,817**	18,554	(58)
Share capital	**4,444**	4,309	3
General statutory reserve	**18,047**	14,528	24
Reserve for own shares	**4,007**	3,462	16
Other reserves	**8,361**	6,356	32
Profit brought forward	**7**	3	133
Profit for the period	**7,906**	6,788	16
Total liabilities	**935,398**	1,099,095	(15)
Total subordinated liabilities	***15,302***	*13,362*	*15*
Total liabilities to Group companies	***142,263***	*160,055*	*(11)*

Statement of Appropriation of Retained Earnings

CHF million

The Board of Directors proposes to the Annual General Meeting the following appropriation:	
Profit for the financial year 2000 as per the Parent Bank's Income Statement	7,906
Retained earnings from prior years	7
Release of other reserves	1,764
Available for appropriation	9,677
Appropriation to General statutory reserve	165
Distributed partial dividend (1.1.00–30.9.00)	1,764
Appropriation to other reserve	7,748
Total appropriation	9,677

The Extraordinary General Meeting on 7 September 2000 accepted a proposal to pay a partial dividend of CHF 4.50 gross per CHF 10.00 share in respect of the first three quarters of the reporting year. This payment, after deduction of 35% Swiss withholding tax, was made on 5 October 2000, to all UBS shareholders on record on 2 October 2000.

The Board of Directors proposes to repay CHF 1.60 of the par value of each CHF 10.00 share, instead of distributing a final dividend for the remaining months of the reporting year: October, November and December. This repayment would reduce the share capital by CHF 682 million and reduce the par amount per share to CHF 8.40. This proposal would be approved on the explicit condition that the revised article 622 paragraph 4 of the Swiss Code of Obligations comes into force. If the proposal is approved and the condition met, the repayment of CHF 1.60 of the par value would be made on 18 July 2001 to those shareholders who hold UBS shares on 13 July 2001, through their depository banks.

Notes to the Financial Statements

Accounting and Valuation Principles

The Parent Bank's accounting and valuation policies are in compliance with Swiss federal banking law. The accounting and valuation policies are principally the same as outlined for the Group in Note 1 to the Group Financial Statements. Major differences between the Swiss federal banking law requirements and International Accounting Standards are described in Note 40 to the Group Financial Statements.

In addition, the following principles are applied for the Parent Bank:

Treasury shares

Treasury shares is the term used to describe a company's holdings in 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 recognised 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 federal banking requirements, treasury shares are carried in the balance sheet as trading balances, financial assets or other liabilities with gains and losses on the sale, issuance or cancellation, unrealised losses on treasury shares, and unrealised gains on treasury shares included in trading balances and other liabilities reflected in the income statement.

Securities borrowing and lending

At 31 December 1999, securities received or delivered were recognised in the balance sheet together with any collateral in respect of those securities for which control was transferred. At 31 December 2000, securities borrowed and lent that are collateralized by cash are included in the balance sheet at amounts equal to the collateral advanced or received. Non-cash collateral is not reflected in the balance sheet.

Investments in associated companies

Investments in associated companies are equity interests which are held on a long-term basis for the purpose of the Parent Bank's business activities. They are carried at a value no higher than their cost price.

Property and equipment

Bank buildings and other real estate are carried at cost less depreciation at a rate which takes account of the economic and business situation and which is permissible for tax purposes. Depreciation of computer and telecommunication equipment, as well as other equipment, fixtures and fittings is recognised on a straight-line basis over the estimated useful lives of the related assets. The useful lives of Property and Equipment are summarised in Note 1 to the Group Financial Statements.

Interest and dividend income on trading assets

In 1999, interest and dividend income and expense on trading assets and liabilities were included in Net trading income. In order to improve comparability with the main competitors, interest and dividend income and expense on trading assets and liabilities are now included in Interest income and interest expense respectively.

Extraordinary Income and Expenses

Certain items of income and expense appear as extraordinary within the Parent Bank Financial Statements, whereas in the Group Financial Statements they are considered to be operating income or expenses and appear within the appropriate income or expense category. These are separately identified below.

Taxation

Deferred Tax Assets, except those relating to Restructuring Provisions, and Deferred Tax Liabilities, except for a few immaterial exceptions, are not recognised in the Parent Bank Financial Statements as it is not required by Swiss federal banking law to do so.

Additional Income Statement Information

Net Trading Income

CHF million For the year ended	31.12.00	31.12.99
Foreign exchange and bank notes	1,151	717
Bonds and other interest rate instruments	88	1,816
Equities	6,117	3,089
Precious metals and commodities	22	(29)
Total	7,378	5,593

Extraordinary Income and Expenses

Extraordinary income contains CHF 496 million (1999: CHF 2,100 million) from the sale of subsidiaries, CHF 15 million (1999: CHF 417 million) from the sale of tangible fixed assets and CHF 139 million from the release of provisions no longer operationally necessary.

Extraordinary expenses consist mainly of losses of CHF 20 million (1999: CHF 254 million) from the sale of tangible fixed assets. There were no losses from the disposal of investments in associated companies in 2000 (1999: CHF 157 million).

Additional Balance Sheet Information

Value Adjustments and Provisions

CHF million	Balance at 31.12.99	Provisions applied in accordance with their specified purpose	Recoveries, doubtful interest, currency translation differences	New provisions charged to income	Provisions released and credited to income	**Balance at 31.12.00**
Default risks (credit and country risk)	12,929	(2,890)	489	0	(139)	**10,389**
Other business risks [1]	3,267	(1,211)	404	473	0	**2,933**
Capital and income taxes	1,153	(421)	(8)	1,330	0	**2,054**
Other provisions	2,380	(659)	(344)	196	0	**1,573**
Total allowance for general credit losses and other provisions	**19,729**	**(5,181)**	**541**	**1,999**	**(139)**	**16,949**
Allowances deducted from assets	1,175					**9,132**
Total provisions as per balance sheet	**18,554**					**7,817**

[1] Provisions for litigation, settlement and other business risks.

Statement of Shareholders' Equity

CHF million	**31.12.00**	31.12.99	Change	%
Shareholders' equity				
Share capital at the beginning of the year	**4,309**	4,300	9	0
General statutory reserve	**14,528**	14,295	233	2
Reserves for own shares	**3,462**	490	2,972	607
Other reserves	**6,356**	10,806	(4,450)	(41)
Retained earnings	**6,791**	653	6,138	940
Total shareholders' equity at the beginning of the period (before distribution of profit)	**35,446**	30,544	4,902	16
Capital increase	**135**	9	126	
Increase in General statutory reserve	**215**	190	25	13
Premium	**3,304**	45	3,259	
Other allocations [1]	**(1,979)**	(38)	(1,941)	
Prior-year dividend	**(2,255)**	(2,092)	(163)	8
Profit for the period	**7,906**	6,788	1,118	16
Total shareholders' equity at the end of the year (before distribution of profit)	**42,772**	35,446	7,326	21
of which:				
Share capital	**4,444**	4,309	135	3
General statutory reserve	**18,047**	14,528	3,519	24
Reserves for own shares	**4,007**	3,462	545	16
Other reserves	**8,361**	6,356	2,005	32
Retained earnings	**7,913**	6,791	1,122	17

[1] Includes distributed partial dividend (1.1.–30.9.2000).

Share Capital

	Par value		Ranking for dividends	
	No. of shares	**Capital in CHF**	No. of shares	**Capital in CHF**
Issued and paid up	444,379,729	**4,443,797,290**	444,379,729	**4,443,797,290**
Conditional share capital	16,571,341	**165,713,410**		

Off-Balance Sheet and other Information

Assets Pledged or Assigned as Security for own Obligations, Assets Subject to Reservation of Title

	31.12.00		31.12.99		Change in %	
CHF million	Book value	Effective liability	Book value	Effective liability	Book value	Effective liability
Money market paper	28,355	0	35,475	702	(20)	
Mortgage loans	1,565	1,066	1,869	1,325	(16)	(20)
Securities	40,649	24,721	3,722	188	992	
Total	70,569	25,787	41,066	2,215	72	

Assets are pledged as collateral for securities borrowing and repo transactions, for collateralized credit lines with central banks, loans from mortgage institutions and security deposits relating to stock exchange membership.

Fiduciary Transactions

CHF million	31.12.00	31.12.99	Change	%
Deposits				
with other banks	50,274	47,802	2,472	5
with Group banks	682	759	(77)	(10)
Loans and other financial transactions	403	415	(12)	(3)
Total	51,359	48,976	2,383	5

Due to UBS Pension Plans, Loans to Corporate Bodies / Related Parties

CHF million	31.12.00	31.12.99	Change	%
Due to UBS pension plans (including securities borrowed) and UBS securities held by pension plans	4,644	6,785	(2,141)	(32)
Loans to directors, senior executives and auditing bodies [1]		61	(61)	(100)

[1] Loans to directors, senior executives and auditing bodies are loans to members of the Board of Directors, the Group Executive Board, the Group Managing Board and the Group's official auditors under Swiss company law. This also includes loans to companies which are controlled by these natural or legal persons.

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Report of the statutory auditors

to the General Meeting of

UBS AG, ZURICH AND BASEL

Mr. Chairman,
Ladies and Gentlemen,

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes) of UBS AG for the year ended 31 December 2000.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with the Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Basel, 5 March 2001

Ernst & Young Ltd

Roger K. Perkin
Chartered Accountant
in charge of the audit

Peter Heckendorn
lic. oec.
in charge of the audit

Enclosures

Offices in Aarau, Ascona, Basel, Berne, Bienne, Chur, Fribourg, Geneva, Kreuzlingen, La Chaux-de-Fonds, Lausanne, Lucerne, Lugano, Neuchâtel, Sion, St. Gallen, Zug, Zurich. Member of the Swiss Chamber of Auditors

Information for Shareholders

UBS Registered Shares (Par Value CHF 10), ISIN Number CH0010740741, CUSIP Number H8920G155

Ticker symbols

Stock exchange listings	Bloomberg	Reuters	Telekurs
SWX (Swiss exchange)	UBSN SW	UBSZn.S	UBSN, 004
NYSE (New York Stock Exchange)	UBS US	UBS.N	UBS, 65
Tokyo	8657 JP	UBS.T	N16631, 106

Financial calendar

Annual General Meeting	Thursday, 26 April 2001
Publication of first quarter 2001 results	Tuesday, 15 May 2001
Publication of second quarter 2001 results	Tuesday, 14 August 2001
Publication of third quarter 2001 results	Tuesday, 13 November 2001

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Cautionary statement regarding forward-looking statements

This communication contains statements that constitute "forward-looking statements", including, without limitation, statements relating to the implementation of strategic initiatives, including the implementation of the new European wealth management strategy and the implementation of a new business model for UBS Capital, and other statements relating to our future business development and economic performance.

While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

These factors include, but are not limited to, (1) general market, macro-economic, governmental and regulatory trends, (2) movements in local and international securities markets, currency exchange rates and interest rates, (3) competitive pressures, (4) technological developments, (5) changes in the financial position or credit-worthiness of our customers, obligors and counterparties, (6) legislative developments and (7) other key factors that we have indicated could adversely affect our business and financial performance which are contained in our past and future filings and reports, including those with the SEC.

More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC. UBS is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

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