

ISO 14001 certification of our environmental management system is a first and important step towards achieving comprehensive Corporate Social Responsibility.

**The Environmental Report
1999/2000.**

(extract)

Foreword

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UBS is an integrated global financial services group and the leading bank in Switzerland. We constantly strive to be either the best or among the best in the lines of business in which we operate. We can only succeed if we anticipate long-term opportunities and risks. We are convinced that it is not only financial market trends and political developments that shape our business, but to an increasing extent environmental conditions and social expectations as well. This report describes how environmental aspects affect UBS's shareholder value in our different areas of activity.

A company such as UBS should be prepared to assume responsibility for its actions, not only because we have to set an example to others but also because we cannot expect to be successful over the long term unless we act in a responsible manner ourselves. Furthermore, talented professionals will not want to work for us unless they identify fully with our corporate culture – and it is only by employing top people that we can offer world-class services.

UBS takes its responsibility towards its clients, shareholders and employees seriously. We underpin our commitment to the environment with a professional environmental management system. For UBS it is self-evident that we should take as much care of natural resources as we do with the assets our clients entrust to us. A precondition for this is a forward-looking assessment of the ecological and social impact of our actions.

This is why we observe international environmental standards in all that we do – not only with respect to our own conduct but also in terms of our financing transactions. We view our ISO 14001 certification as the first important step towards comprehensive corporate social responsibility which we embody in our corporate culture.

Marcel Ospel, Group CEO

UBS 1999: facts and figures

Key figures for the UBS Group for the 1999 financial year (balance-sheet date 31 December 1999)

Operating income	CHF 28,621m
Operating expenses	CHF 20,452m
Operating profit before tax	CHF 8,169m
Net profit	CHF 6,300m
Return on shareholders' equity before goodwill	21.2%
Market capitalization	CHF 92,642m
Total assets	CHF 981,573m
Shareholders' equity	CHF 34,835m
BIS Tier 1 ratio (capital and reserves)	10.6%
Assets under management (CHF bn)	
Total assets under management	1,744
Headcount	
Total no. of employees	49,058
of which: in Switzerland	32,747
Long-term ratings	
Moody's, New York	Aa1
Fitch/IBCA, London	AAA
Standard & Poor's, New York	AA+
BankWatch, New York	AA

The impact of UBS's environmental commitment

This report shows how UBS's environmental commitment in the individual business areas affects its enterprise value. Shareholders invest in UBS because its strategy offers future cash flow potential. The total amount of future free cash flows has a significant impact on UBS's enterprise value and this in turn affects the share price. Cash flows themselves are influenced by various value drivers. This report highlights in particular the effect of the "environmental factor" on different

value drivers which play a key role in determining UBS's enterprise value.

Our environmental commitment and competence as well as the ISO 14001-certified environmental management system which we implement globally in our banking activities also affect the following value drivers: growth in revenues, incremental provisions, capital costs, operating margin and reputation.

Growth in revenues

Growth in revenues plays a decisive role in asset management: the larger the volume of assets under management, the greater the income from commissions. UBS's undisputed competence in the professional analysis of environmental and social factors constitutes an important element when competing for new revenues and is a strong argument for retaining existing portfolios. This know-how is increasingly valued by institutional investors, such as pension funds, in particular.

Incremental provisions

Incremental provisions must be made primarily for bad loans. This money is then no longer at the free disposal of UBS and its shareholders. It is our job to avoid such provisions by paying particular attention to the environmental risks involved in lending and investment banking as well as the economic ones. This will make more free funds available, which has a positive impact on the way investors view UBS.

Weighted average cost of capital (WACC) and discounting factor

The volume of the weighted average cost of capital, or WACC, is an indication of how financial market players judge the quality of future free cash flows. The more trust investors and analysts place in the size and

quality of a company's future free cash flows, the lower the WACC. Since investors and analysts discount future free cash flows using the WACC, this figure has a direct impact on a company's share price.

UBS's expertise in analyzing environmental risks helps to ensure future free cash flows and is therefore another positive factor for analysts and investors when determining the cost of capital and the discounting factor.

Operating margin

Investments in in-house ecology increase eco-efficiency. As well as improving environmental performance (fewer resources used, lower emission levels), the company can also reduce costs on an annual basis. This boosts the operating margin, which has a positive impact on the stock market valuation.

Reputation

The value of a company is due in no small part to its reputation – which is based on client and shareholder trust. This trust has a significant effect on growth in revenues and on weighted average capital costs.

The key factors in determining UBS's reputation – and thus its success – are its internationally recognized competence in the area of environmental management and its willingness to take its responsibility towards society and the environment seriously.

UBS 1999: environmental performance in figures

Banking

For the first time, UBS calculated comprehensive quantitative indicators for 1999, to help measure the performance of the environmental management system in banking. The indicators are a means of monitoring and improving the environmental management system.

The selection of environmental performance indicators (EPIs) published here is based on the draft version of the EPI-Finance 2000 standard. This paper is being jointly developed by eleven finance and insurance companies and is due to be published towards the end of 2000.

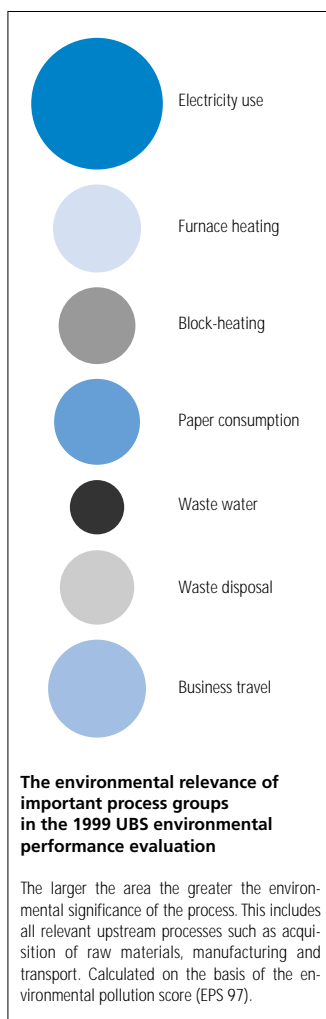
Group		Unit	Value
Employees	Empl. in specialized environmental units	Jobs (part-time jobs converted to 100%)	2.5
Asset management			
Employees	Empl. in specialized environmental units ¹	Jobs (part-time jobs converted to 100%)	7
Training	Training with environmental component	Number of trained employees	266
Audits	Environmental audits by specialized environmental units	Number of audits carried out	11
Assets under management	Assets under green management	CHF	627m
Investments in innovators	Unlisted companies with innovative products or services	Number of companies in which invested	1
	Investment volume	CHF	1.5m
Performance of environmental products	1999 performance	%	Eco perf. ² : 47.7 Eco JPN ³ : 10
	Relative 1999 performance versus relevant index	%	Eco perf. vs. MSCI: +1.7 Eco JPN vs. TOPIX: -0.1

¹ Including external partners ² Eco Perf. = UBS (Lux) Equity Fund – Eco Performance ³ Eco JPN = UBS (JPN) Equity Fund – Eco Japan

Group		Unit	Value
Employees	Empl. in specialized environmental units	Jobs (part-time jobs converted to 100%)	0.5
Training	Training with environmental component	Number of trained employees	341
	Training time	h (number of trained empl. x average training period)	516
Audits	Environmental audits by specialized environmental units	Number of audits carried out	9
	Auditing time	h (number of audits x average auditing time)	6.75

Key figures for investment banking products have not yet been established.

Group		Unit	Value
Employees	Employees in this business	Jobs (part-time jobs converted to 100%)	24,100
	Employees dealing with environmental aspects in the business process	Jobs (part-time jobs converted to 100%)	2,900
	Employees in specialized environmental units	Jobs (part-time jobs converted to 100%)	2.5
Training	Training with environmental component	Number of trained employees	939
	Training time	h (number of trained empl. x average training period)	700
	Scope of training	% (proportion of trained employees / employees in target group)	32
Audits	Environmental audits by specialized environmental units	Number of audits carried out	44
	Auditing time	h (number of audits x average auditing time)	33
	Scope of auditing	% (prop. of empl. audited, according to activity)	1.5
Credit check	Total loans with environmental relevance	CHF	165bn
	Total loans with preliminary env. assessment	CHF	89bn
	Proportion of loans with preliminary environmental assessment	% (loans with preliminary environmental assessment / loans with environmental relevance)	54
	Number of loans with detailed env. assessment	Number of loans	38



Operations

In addition to environmental performance indicators in banking, UBS also calculates environmental indicators for in-house operations. In contrast to data for the banking element, the 1999 data for operations cover only Swiss locations. Since two thirds of UBS employees work in Switzerland and the majority of the bank's premises are located within Switzerland, this solution is representative in terms of environmental performance. However, our goal is to extend the scope of the in-house indicators to include the entire Group over the next few years.

UBS in-house environmental performance evaluation 1999

Based on the amount of energy and materials used, UBS produces an in-house environmental performance evaluation each year. The results are incorporated into the various objectives set and measures to be taken. The aim is to work both efficiently and effectively – in other words, to focus on areas which have a significant impact on the bank's environmental performance.

Operations

		Unit	Value
Employees	Employees in specialized environmental units ¹	Jobs (part-time jobs converted to 100%)	18.6
Training	Training with environmental component	Number of trained employees	241
Audits	Environmental audits by specialized environmental units	Number of audits carried out	14
	Auditing time	h (number of audits x average auditing time)	42

¹Energy management and in-house ecology

In-house performance indicators according to VfU¹

Switzerland, all business groups, not including subsidiaries	Indicators	Trend	Data quality ²
Employees (according to VfU) ³	35,700 EMP	↗	good
Bank area	1,612,000 m ²	↘	good
Electricity consumption	6,900 kWh/EMP	↘	very good
Percentage computing centres	27 %	→	very good
Percentage solar energy	0.9 %	↗	very good
Heat consumption	109 kWh/m ²	↗	good
Percentage district heating	7 %	→	good
Water consumption	69 l/EMP/day	↘	medium
Paper consumption	263 kg/EMP	↗	very good
Recycled paper	8 %	→	very good
Chlorine-bleached paper	2 %	↘	very good
Chlorine-free paper	90 %	→	very good
Copier/printer paper	12,900 A4 sheets/EMP	↗	very good
Waste disposal	281 kg/EMP	→	medium
Refuse	32 %	→	medium
Paper	52 %	→	medium
Cardboard	5 %	→	medium
Recyclable materials (misc.)	10 %	→	medium
Special/hazardous waste	1 %	→	medium
Business travel	2,700 km/EMP	→	very good
Air km	72 %	→	very good
Rail km	19 %	→	good
Road km	9 %	→	medium
CO₂ emissions⁴			
European power mix (UCPTE 92)	4.6 t/EMP	↘	medium
Swiss power mix	1.8 t/EMP	↘	medium

¹ VfU stands for "Verein für Umweltmanagement in Banken, Sparkassen und Versicherungen e.V." (Association for Environmental Management in Banks, Savings Banks and Insurance Companies). The VfU has issued guidelines on environmental reporting by financial service providers. ² Data quality: specifies the estimated reliability of the aggregated data and roughly corresponds to the following standard ranges: 5% – very good, 15% – good, 30% – medium. ³ Employees according to VfU: number of UBS employees including external employees working within the bank. ⁴ Calculated without upstream processes with the European standard power mix UCPTE 92 and with a more realistic Swiss power mix.

The environmental factor in asset management

The management of client assets contributes substantially to UBS's success as a company. It generates commissions, advisory fees and brokerage fees. Institutional clients in particular are now demanding that investment decisions take into account environmental and social aspects as well as economic ones.

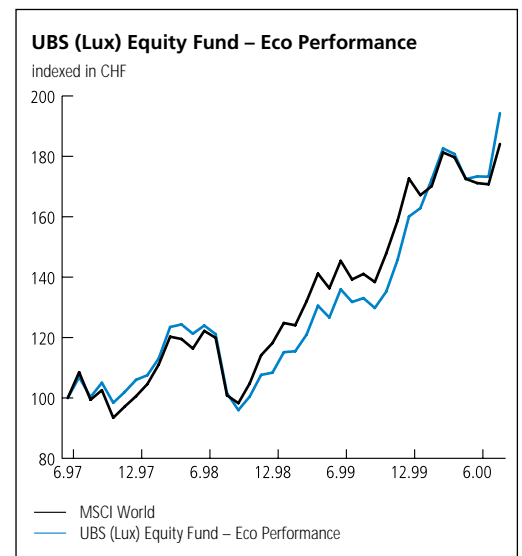
There are a number of decisive factors involved in acquiring new client assets, including the financial performance of products, the level of service offered and the company's reputation. The bank's expertise in incorporating environmental and social aspects into its company research is becoming more and more important – particularly for institutional investors such as pension funds. This research looks at how a company's strategies, processes and products impact its financial success and the environment, and what contribution these elements make to the company and its employees. The shares selected are shares in companies which demonstrate long-term success and which generate sustainable financial revenues. Specialist studies and stock indices show that there is a positive link between environmental, social and economic performance.

Focusing on the concept of sustainability, UBS has a new investment fund, UBS (Lux) Equity Fund – Eco Performance. This fund invests worldwide in stocks of exemplary sector leaders and forward-looking small and medium-sized companies. The selection criteria include strong environmental and social performance as well as a sound financial basis. This investment strategy and the fund's broad diversification has resulted in an excellent financial performance. Continuous growth in portfolio volumes is boosting the earnings power of UBS's asset management business.

Ecological funds have another important function for UBS: they ensure that the know-how needed for the sustainability analysis is strengthened within UBS itself and the product is continuously expanded and improved. The development and integration of an individual method of analyzing a company according to environmental and social aspects in asset management means that we can recognize environmental and social opportunities and risks early on in the overall investment strategy and subsequently exploit these, as well as meeting specific client needs.

Outlook

The challenge for asset management is to incorporate environmental considerations into day-to-day business to a greater extent. At the same time, we are striving to increase the volume of our environmental funds. In this respect, their performance is a good start. On the other hand, we need to expand the know-how of the "social analysis" in order to meet growing client demands for a comprehensive sustainability analysis.



Main business groups affected

- UBS Asset Management
- UBS Switzerland
- UBS Warburg

Main value drivers affected

- Growth in revenues
- Reputation

Highlights

- The performance of the "UBS (Lux) Equity Fund – Eco Performance": prices of units in these globally invested environmental funds rose by 47% in 1999, thus outperforming the MSCI World index (46%). This positive development has carried over into 2000. As of end-August, the price increase since January amounted to 21%, exceeding the MSCI World index by around 15%.
- The launch of the Japanese fund "UBS Nihon Kabushiki Eco Fundo": successfully launched on the market at the end of October 1999. The volume of fund assets at end-August 2000 was around JPY 8.7 billion – roughly equivalent to CHF 140 million.
- UBS is currently reviewing the launch of a product to invest worldwide in projects aimed at reducing greenhouse gas emissions.

Doctor Eco – a UBS success story in Japan

Thanks to its internationally recognized know-how in eco stock research, UBS scored a major success in the Japanese investment fund market.

«UBS Nihon Kabushiki Eco Fundo», or «Eco Hakase» (Doctor Eco) for short, is the name of UBS's eco fund in Japan. Between its launch in October 1999 and the end of August 2000, the fund gained 3.6%. Over the same period, the TOPIX, Japan's most important equity index, recorded a drop of 3.3%. The fund was launched as a result of market research carried out by Sumitomo Bank, a big Japanese financial institution. This research showed that there is considerable interest in eco funds. Since UBS, with its Eco Research Team, is a recognized expert in this field in Japan as well, it was commissioned to develop an investment fund of this type.

Eco Hakase has been designed exclusively for the Japanese market and only contains securities in Japanese companies. These securities are selected by UBS's financial analysts in Tokyo and its eco research specialists in Zurich. The environmental analysis of the Japanese companies is carried out in Japan itself by the Japan Research Institute. The criteria applied are basically the same as those used by the eco research specialists in Zurich. The securities incorporated into the fund are those TOPIX securities which come top of their sector in the eco-screening process.

Units in the fund are marketed primarily to private clients. Research carried out in Japan suggests that it is predominantly women who are interested in products of this type, as they account for over half of the investor base. With Eco Hakase, UBS has not only successfully launched a new fund in the tough Asian market. Just as importantly, it has taken a decisive step for the company's image in Japan.

Investing in a better climate

One of the biggest challenges facing the world today is the issue of our changing climate. In 1997, more than 150 countries signed the Kyoto Protocol, in which they undertook to bring down their greenhouse gas emissions to 5% less than 1990 levels by 2010.

As a business incentive for reducing greenhouse gas levels, the Kyoto Protocol proposes a

system whereby emission certificates can be issued. A company which emits greenhouse gases has two options: it can either reduce its emission levels and then sell the certificates, which it no longer requires, or it can continue to emit the same level of gases. In the latter scenario, the company would have to buy additional certificates, since the emission levels permitted per certificate will be reduced progressively. This will give rise to a sort of emissions trade and turn the certificates themselves into a form of security.

Following a thorough analysis of the business and ecological mechanisms of the Kyoto Protocol, UBS has put in place a basic structure for examining the possible launch of a globally diversified portfolio of projects aimed at reducing greenhouse gases. Investors will profit from the income generated by trading in emissions certificates. The predominant type of investor involved here will be institutional investors.

Eco learning

Eco funds are also important components of the sales training offered to UBS investment advisors.

For Eco Hakase, training was given to UBS staff in Research and Marketing in Japan. As part of this training, the various investor segments for the Eco Performance Portfolio were analyzed and prioritized. Investment advisors in several countries are now being systematically trained in the most important segments. In their day-to-day work they can use advisory tools and documents that have been geared specifically to ecological aspects. The impact of such training is two-fold: it makes investment advisors aware of a long-term, ecological approach, thereby allowing them to gain expertise that will become more important as time goes on, and it increases the likelihood that units in the fund will be sold in the investor segments to which they are suited.

The environmental factor in investment banking

UBS Warburg is one of the world's premier investment banks. It makes its money primarily from commissions and advisory fees. Crucial to its success is being able to assess opportunities and risks – including environmental risks – accurately.

In investment banking, the bank's role is that of agent between securities issuers and investors. In addition, it advises corporate, institutional and sovereign clients on acquisitions or disposals, raising capital or risk management.

Investment banking covers a wide variety of activities. For example, UBS Warburg prepares clients for initial public offerings and advises them on management buyouts or mergers and acquisitions. It also assists companies with the issuing of securities, runs trading operations and provides clients with research on listed companies.

While no two of these transactions are the same, they all have a common element that is crucial to their success, namely the bank's ability to identify opportunities and risks early on and to assess them correctly. Along with the financial aspects, environmental and social aspects are an important part of risk analysis. There are three risk groups in investment banking. Environmental aspects have a role to play in all three.

First, environmental risks could become credit risks for the bank – for example, if a client can no longer repay a loan as a result of environmental problems. Second, liability risks could be incurred. This would happen if the bank were to own a company or sit on the management board of a company which finds itself facing environmental liabilities. Lastly, environmental risks could damage the bank's reputation if it were to be involved in a controversial transaction.

Based on its Global Environmental Risk Policy, UBS Warburg introduced processes that allow the responsible person to identify at an early stage if there is environmental risk in relation to a transaction. In an initial phase, environmental factors are screened by investment banking staff. If there are signs of increased risk, environment specialists are called in to investigate these issues within the context of due diligence. These environmental assessments are carried out in accordance with international standards, such as those applied by the World Bank. The results are presented in such a way that they can be incorporated into the assessment process for the overall transaction.

Over the long term, the rigorous analysis of environmental aspects in investment banking also influences the corporate strategies of the clients involved. We can assume that this improves the environmental performance of these clients, thus reducing the impact on the environment.

If environmental or social risks are underestimated – for example, in connection with compliance with international standards in labour legislation – the success of individual transactions can be compromised. These “bad deals” could force the bank to make greater provisions and may erode outside confidence in UBS. Such a dent in its reputation would make it difficult for the bank to attract clients for new transactions and, in such a scenario, investors would probably factor a risk premium into their valuations of UBS, which in turn would lead to an increased discount factor.

Outlook

In future training programmes, environmental risks will no longer feature in a separate module, but will be integrated into general risk training.

Main business group affected

- UBS Warburg

Main value drivers affected

- Discounting factor
- Incremental provisions
- Reputation

Highlight

- UBS Warburg has issued Fuel Cell Baskets for investors looking to benefit from up-and-coming energy technologies. These equity baskets are made up of stocks in global leaders in fuel cell technology.

The right checks – the right price

The potential buyer of a company which manufactures packaging at several plants in Europe commissioned UBS Warburg to handle the acquisition. The most significant environmental risks in the production processes consisted of the painting and varnishing of metal parts and of the disposal of chemicals and solvents.

Pursuant to its Global Environmental Risk Policy, UBS Warburg identified the relevant environmental risks early on. Two of the conditions for the transaction being carried out were that the in-depth analysis of the environmental risks produce an acceptable result and that the liability risks be adequately insured.

A consultant was then appointed to carry out the environmental assessment of the locations in question. The results of this audit were incorporated into the financial valuation of the transaction. In addition, further assessments were conducted on emission levels within the company.

By taking into account all these aspects and combining them with specific warranties provided by the vendor on the basis of the problem areas identified, the transaction was able to go ahead successfully – at the right price.

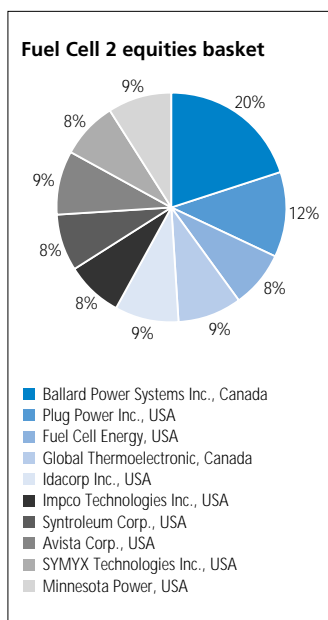
Careful analysis of environmental risks ensured that the buyer was able to acquire the production capacity at the right price. Not only did the bank benefit by having satisfied the transaction partners, it also gained new know-how in assessing environmental risks.

cell-powered models at the same price as petrol-fuelled models by 2004.

Fuel cells will also play an important role in decentralized, environmentally friendly energy supplies for buildings and industrial plants. In New York, 55 schools currently obtain the energy they require to run their computers from fuel cells.

The future looks bright for mini fuel cells, and we may well be seeing these taking over from accumulators in mobile phones, laptops, video cameras or cordless electric tools sometime soon.

On the basis of research carried out by UBS Warburg, the three main fuel cell industries – automobiles, stationary electricity generation and as a power source for portable equipment – could be enjoying a market volume of several billion Swiss francs within ten years.



Fuel Cell Baskets – investing in the energy of tomorrow

For investors looking to invest in up-and-coming energy technology, UBS Warburg has created Fuel Cell Baskets. These baskets are made up of shares in leading fuel cell companies worldwide.

So far, UBS Warburg has brought two Fuel Cell Baskets onto the market. Their terms (maturity in 2004) have been set in such a way as to benefit from the first commercial implementation of fuel-cell-powered products.

Fuel cells will play a key role in the energy of tomorrow. The automobile industry is aiming to develop non-polluting engines using fuel cells. Leading car manufacturers plan to offer fuel-

The environmental factor in credit business

An important success factor for UBS is the quality of its Swiss loan portfolio. In the 1999 financial year, this portfolio accounted for approximately 17% of UBS's total assets. The prerequisite for a healthy credit portfolio is professional risk analysis that takes account of all types of risk, including environmental risks.

Alongside traditional rating factors such as key financial data, sector or management quality, a careful review of financially relevant environmental aspects is an important part of UBS's credit risk analysis. This analysis is what allows UBS to set the correct rate of interest for the risks it takes on. A healthy portfolio generates earnings. Not only are bad loans detrimental to the bank's reputation, provisions have to be formed to cover them and they can result in UBS's discount factor being increased. By taking environmental factors into account in its loan decisions, UBS can use risks that have been accurately assessed to enhance its stock market value.

In assessing a loan application, the client advisor uses internal guidelines and up-to-date information to assess, among other things, environmental risks. When talking to the client, the advisor asks the questions that need to be asked and, if necessary, requests the client to provide further information on the environmental situation. This information is passed on to the loan assessor together with the client advisor's personal assessment.

The main environmental risks in connection with credit clients are: contaminated sites, air and water pollution, noise pollution, waste and products that have become obsolete and may impact the environment unnecessarily. Environmental risks have a negative effect on future earnings streams and property values.

The bank can take several courses of action if a client's credit-worthiness is comprised by environmental risks. It can refuse the credit transaction if the risks involved cannot be calculated or estimated, or if they are too substantial or if merely reviewing these risks would entail an excessive amount of work. It can demand a higher risk premium or additional collateral; it can reduce the term of the loan or repayment period. Or it can offer advisory services or act as agent.

Clients benefit from UBS's expertise in the field of environmental risk analysis. They gain additional insight into the risks and optimization potential involved and can implement specific measures aimed at improving environmental aspects. UBS also finances ecologically beneficial projects and supports start-up companies offering particularly eco-friendly products and services. A number of different means are available for this purpose, including venture capital from UBS Start-capital and structured credit financing.

Environmental risk analysis can reduce the environmental risks generated by a company's operations and can lead to emission levels being brought down and resources better exploited.

The benefits of incorporating the "environmental factor" in lending business are threefold: UBS has a healthy loan portfolio, the client is aware of the environmental risks and opportunities for his company and the environment itself benefits from the resulting improvements.

Outlook

The environmental performance indicators (EPIs), collated by the bank for the first time for 1999, are being refined and the results of this process will be integrated into the development of this instrument on a continual basis. In addition to improving actual environmental performance, this will allow banks to be compared directly.

Main business group affected

- UBS Switzerland

Main value drivers affected

- Discounting factor
- Incremental provisions
- Reputation

Highlights

- The assessment of environmental risks is integrated fully into the loan review process and the set of tools used.
- In the Individual Clients Business Group, the topic “environmental risks and opportunities in lending business” was built into the real estate financing seminar as a standard element. The main focus is on the financial impact of environmental risks, such as contaminated sites or noise pollution, on real estate.
- In the Private and Corporate Clients Division, a total of 44 in-depth environmental audits were carried out at the Zurich and Geneva offices. The purpose of these audits was to obtain information on the actual implementation and status of environmental management in lending business. The results were incorporated into the new catalogue of proposed measures based on ISO 14001.

The right price – thanks to the environmental assessment

A UBS client wants to buy a house for CHF 550,000 and has asked the bank for a mortgage. The credit analysis procedure reveals that the house is built on what was once an industrial site. Consequently, UBS draws the client’s attention to possible environmental risks. The client carries out further research and obtains certain documents, one of them being an extract from the cantonal register of contaminated sites. As a result of this documentation UBS sets the condition that an independent assessment be carried out in respect of any ground contamination, and assists the client on how to proceed with the analysis of the environmental risks involved. The assessment reveals that part of the ground is in fact contaminated, which subsequently reduces the value of the property by CHF 150,000. The result: the seller implements a site remediation process before the transaction is finalized and notifies the authorities to this effect in order for the respective entry to be removed from the contaminated site register.

The client, the bank and the environment have benefited from the credit analysis:

- The client has a cleaned-up property at the right price.
- The bank has assessed its credit risk accurately, which means it has collateral that really is worth the price being asked for it.
- The contaminated site has been cleaned up, removing a potential danger for ground water.

Early warning

During a credit review process for an industrial client, UBS brings up the matter of the company’s ecological situation following newspaper reports suggesting certain environmental risks. A meeting is set up between UBS’s financial and environmental specialists and the client. The client is represented at this meeting by the CFO, the environment officer and the plant manager. A structured checklist is used to go step-by-step through the financial dimension of relevant environmental risks in various scenarios. This analysis shows that although the environmental management system appears to be run with professionalism, there are certain weak spots that have not been

addressed. A summary report sets out the entire situation with the various financial consequences and details what action should be taken. The client’s reaction to the report is extremely positive: “We regard the report and the external assessment as a valuable complement to our existing environmental management system, since they incorporate financial and strategic aspects in various scenarios.”

The environmental factor in-house

The more efficiently and sparingly the bank uses its resources and hence reduces emission levels, the less it will have to pay in terms of costs. Energy management and in-house ecology enhance operating margins.

UBS impacts the environment primarily through its energy consumption, business travel, the running of its furnace heating systems and its paper consumption. Professional know-how and an efficient environmental management system allow the bank to use resources better and bring down costs.

Costs can be optimized in three different ways: The necessary level of environmental performance must be achieved in as effective and cost-efficient a manner as possible if regulatory requirements are to be complied with.

A certain level of performance can be achieved at lower cost simply by improving internal processes or implementing technical measures, such as the heating or airing of a building.

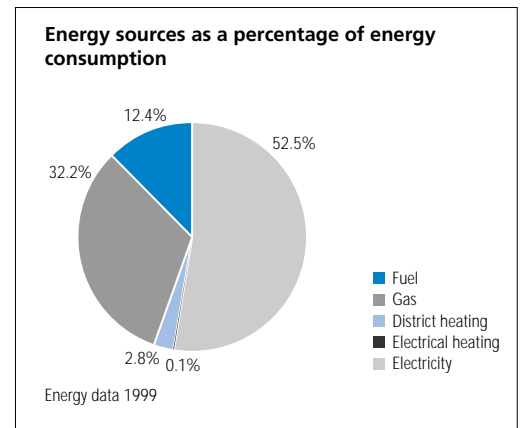
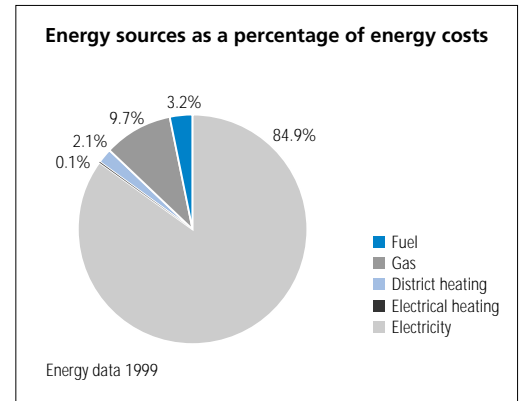
Lastly, UBS and the specialist companies it works with are steadily managing to reduce the bank's impact on the environment using intelligent engineering at the same cost. One area where successes of this type have been produced is in the bank's technical installations.

In-house ecological measures not only have a positive effect on the environment and on the bank's finances: the practical issues facing UBS's staff allow them to hone their skills in this area. This means new developments can be recognized early on and managed cost-efficiently.

Outlook

Key energy figures for each location are collated for the various regional units. Using a targeted approach, measures aimed at eradicating weak points are drawn up. The results of energy-efficiency optimization initiatives in selected buildings are published on the intranet.

Both innovative and proven measures for reducing environmental pollution levels are implemented on a continual basis and in accordance with defined in-house ecological parameters. For example, steps are taken to ensure that staff are kept motivated and aware of the issues at hand.



Main business groups affected

- UBS Switzerland
- UBS Asset Management
- UBS Warburg

Main value driver affected

- Operating margin

Highlights

- For ten years now, UBS has been producing a report on the energy and water consumption of the premises used by the bank in Switzerland (roughly 700 in total). The results of energy optimization programmes in selected buildings are published in the annual energy report and communicated to specific target groups, for example to caretaker training programmes.
- Environmental aspects are incorporated early on, i.e. at the evaluation stage for services such as cleaning or waste disposal services and for products such as paper or office materials.
- UBS audits its in-house operations each year. Fourteen such audits were carried out in 1999, with large, characteristic UBS buildings chosen for these audits. This means that 49 of UBS's biggest buildings in terms of numbers of employees and energy-relevant surface area have been audited between 1998 and 1999. The audits focused on compliance with environmental regulations, the use and storage of materials/chemicals, and strategies and recommendations concerning environmental accidents.

Bringing down costs – protecting the environment

Following the deregulation of the Swiss energy market, UBS conducted a survey that produced some very valuable data. The survey provided the bank with statistics on consumption (broken down into two categories: energy produced internally and energy provided by outside suppliers), the various tariffs charged at specific times of day and during each season, and the substantial price differences which exist between the different UBS locations.

This analysis showed that the deregulated market has brought UBS lower prices and improved services. However, there is a danger that these lower prices result in efficient energy consumption being perceived as less of a priority. A further danger is a possible decline in the proportion of energy taken from renewable sources. (This proportion has been high so far, at around 60%.) This would lead to a significant deterioration in UBS's environmental performance evaluation, even if consumption levels remained stable.

At the end of 1999, a decision was taken in favour of the supplier with the best price-performance ratio. In January 2000, this supplier assumed responsibility for all accounts with local utility companies. The advantages brought by this solution on the business side are lower energy prices, price models that are transparent and straightforward, and heavily streamlined payments processes. On the ecological side, two particularly significant advantages of this solution are, first, that the supplier makes data on the 50 biggest buildings available online to Energy Management, thereby allowing any unacceptable situations to be swiftly rectified and, second, the current proportion of 60% will be guaranteed for water energy from Swiss production for the first three years.

Tackling the root of the problem

If they are hooked up to a network, many office installations such as PCs, monitors, printers and other electronic devices use energy even if they are not actively used. As well as consuming energy needlessly, they generate heat, which in turn puts greater pressure on air-conditioning systems. These machines can also exacerbate system over-

loads at peak times, which can lead to outages on servers and other systems at the various UBS locations.

UBS's specialists have tackled this problem at its roots. For example, for LCD monitors, Energy Management drew up a specification for an energy-efficient, low-impact power supply. Following direct contact with various manufacturers, a screen satisfying the requirements of UBS's specialists is now being produced by a Korean manufacturer. This monitor costs less than CHF 25 more than a monitor with a conventional power supply. While a conventional power supply consumes between 4 and 7 watts in sleep mode or when switched off, a device incorporating the best technology can consume up to ten times less.

In future, before buying office equipment, UBS therefore aims to conduct a thorough analysis which, in addition to price, looks at operating costs and any additional investments in technical installations that may be necessary.

UBS – committed to sustainability

UBS environmental policy

The UBS Group Executive Board issued the following statement with regard to the UBS environmental policy on 15 July 1998:

“Environmental protection is one of the most pressing issues facing our world today. Consequently environmental issues are a challenge for all companies in all sectors. UBS regards sustainable development as a fundamental aspect of sound business management and was one of the first banks to sign the United Nations Environment Programme’s ‘Statement by Financial Institutions on the Environment and Sustainable Development’.

UBS is committed to continuing the integration of environmental aspects into business activities.

To make this happen, our environmental policy focuses on three action areas:

Banking, financial products and services

We seek to build shareholder value by taking advantage of environmental market opportunities. At the same time, we will incorporate due consideration of environmental risks into our risk management processes, especially in lending and investment banking.

Operations

We will actively seek ways of reducing the environmental impact to air, soil and water from our in-house operations. The main focus is the reduction of greenhouse gas emissions.

Management

We seek to ensure the efficient implementation of our environmental management system which includes sound objectives, programmes and monitoring. We ensure compliance with regulatory requirements and furthermore, we integrate environmental aspects in internal communication and training. We welcome open dialogue and communicate actively with all relevant stakeholders.

The implementation of this environmental policy is a process of continuous improvement which will take several years to complete. Although many goals have been achieved, there are still areas which need to be addressed. The content of this policy will be reviewed periodically by the management.”

UN Global Compact and the UNEP Bank Declaration – a global commitment

UBS has undertaken to comply with the UN Global Compact principles unveiled by UN General Secretary Kofi A. Annan at the 1999 World Economic Forum in Davos. These principles set out the framework in which a company can help ensure sustainable development worldwide. In addition to protecting the environment, the nine principles deal with aspects such as respecting human rights and rights at the workplace.

UBS does not just acknowledge these principles in theory, but takes concrete action to turn them into something real. This is a philosophy which has a long tradition in environmental management. In 1992, for example, UBS was one of the first signatories of the UNEP Bank Declaration and is helping shape further developments through its role on the Steering Committee for financial institutions. Internally, compliance with social standards is a day-to-day reality within human resources. We clearly see, however, that in the financial services industry the main focus of corporate social responsibility must be on client relationships. Financing transactions and managing assets for clients whose activities are seen as socially irresponsible can lead to financial and regulatory risks for the bank, and damage its reputation. In our banking activities, we will therefore focus more heavily on the social standards of our clients in future.



The UBS environmental management system: the ISO 14001 certificate

In May 1999, UBS was the first bank to obtain ISO 14001 certification for its worldwide environmental management system in banking. ISO 14001 is an international standard for environmental management systems. In-house operations in Switzerland were also certified. The certification was undertaken by an independent certification company, SGS International Certification Services AG.

UBS in the Dow Jones Sustainability Group Index (DJSGI)

The UBS share price is incorporated into the calculation of the Dow Jones Sustainability Group Index (DJSGI). The DJSGI comprises around 230 companies from various sectors that rank as leaders in their field in terms of social and environmental performance.

Number one in the Oekom Environmental Rating

The Munich-based rating agency Oekom Research surveyed the environmental performance of 26 big European banks. The survey looked at environmental management systems, products and services, and the quality of environmental data.

The report published in January 2000 showed that, of all 26 banks surveyed, UBS came top.

With regard to UBS's strengths and weaknesses, the report concluded that, among other things, the bank has all the important elements of a good environmental management system and also plays a role in various organizations dedicated to promoting environmental issues in the financial sector. In respect of the key environmental figures available, the report stated that it would be desirable if they were produced on a global basis in future and not just for Switzerland. It went on to say that, although UBS offers eco investment funds, the volumes involved are still fairly insignificant. According to the report, one of the biggest challenges facing the bank's future environmental strategy is strengthening communication and promotion measures for these products.

Notes

The following UBS reports provide information on the 1999 financial year:


- UBS Annual Review 1999.
A compact overview for the general public.
- Financial Report 1999.
A more detailed look at the Group's business. (www.ubs.com/investor-relations)
- Environmental Report 1999/2000.
In-depth information on how environmental management is affecting UBS's enterprise value.
This extract reproduced here is supplemented by further specific information available on the Internet (www.ubs.com/environment).

For information and to order copies of reports:

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Imprint

Published by: UBS AG, Environmental Risk Management Services
Production/design: UBS AG, Print & New Media
Published in English, German and French
Printed in Switzerland, October 2000
Copyright: UBS AG, Switzerland
SAP R/3 80763E-0001

 Printed on bleached without chlorine and made from 75% recycled material (post consumer waste), certified virgin pulp content 25%.

Validation by SGS International Certification Services AG

"We have verified the correctness of the statements in the 1999/2000 Environmental Report of UBS AG and, where necessary, have requested that proof be presented. We hereby confirm that the report has been prepared with the necessary care, that its contents are correct with regard to environmental performance, that it describes the essential aspects of the environmental management system at UBS AG and that it reflects the actual practices and procedures at UBS AG."

Elvira Bieri and Erhard Hug
Zurich, 30 September 2000



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