

OFFERING CIRCULAR

Union Bank of Switzerland Finance N.V.

Italian Lire 2,500,000,000,000
Zero Coupon Notes due 2027

unconditionally and irrevocably guaranteed by

Union Bank of Switzerland

Italian Lire 1,500,000,000,000: Issue Price: 12.55 per cent.

Italian Lire 1,000,000,000,000: Issue Price: 12.20 per cent.

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes will initially be represented by a temporary global Note (the "Temporary Global Note") which will be deposited with a common depositary for Cedel Bank, société anonyme ("Cedel Bank") and Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") on or about 29th January, 1997 and will be exchangeable for interests in a permanent global Note (the "Permanent Global Note" and, together with the Temporary Global Note, the "Global Notes") on or after 9th March, 1997 upon certification of non-U.S. beneficial ownership.

Credito Italiano

ARCA SIM S.p.A.

Banca del Gottardo

Banca Monte dei Paschi di Siena S.p.A.

CARIPLO S.p.A.

Istituto Bancario San Paolo di Torino S.p.A.

J.P. Morgan Securities Ltd.

UBS Limited

Banca Commerciale Italiana

Banca di Roma
Gruppo Cassa di Risparmio di Roma

Banca Nazionale del Lavoro

Deutsche Morgan Grenfell

IMI Bank (Lux) S.A.



Union Bank of Switzerland Finance N.V. (the “Company”) confirms that the statements contained herein relating to the Company and the Notes, and Union Bank of Switzerland (“UBS”) confirms that the statements contained herein relating to the Company, UBS, the other subsidiaries and affiliated companies of UBS (the “Group” or the “UBS Group”) and the Notes, are in every material respect true and accurate and not misleading and that to the best of the knowledge and belief of the Company and UBS there are no other facts in relation thereto the omission of which makes any statement herein misleading in any material respect and that all reasonable enquiries have been made to ascertain such facts and to verify the accuracy of such statements.

No dealer, salesman or any other person has been authorised to give any information or to make any representation not contained in this Offering Circular, and, if given or made, any such information or representation must not be relied upon as having been authorised by the Company, UBS or the Managers (as defined in “Purchase and Sale” below). Neither the delivery of this Offering Circular nor any sale of any of the Notes shall under any circumstances create any implication that there has not been any change in the affairs of the Company, UBS or the Group since the date hereof.

The distribution of this Offering Circular and the offering and sales of the Notes are subject to certain restrictions in relation to the United States of America, the United Kingdom, the Republic of Italy and the Netherlands Antilles. Persons who are in possession of this Offering Circular are required by the Company and the Managers to inform themselves of and observe all such restrictions of the relevant legal jurisdictions governing the distribution of the Offering Circular and the offering and sales of the Notes (see “Selling Restrictions” below).

This Offering Circular does not constitute an invitation to subscribe or to purchase any of the Notes. This document may not be passed on to any person in the United Kingdom unless that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the document may otherwise lawfully be issued or passed on.

In connection with this issue, Credito Italiano S.p.A. may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

In this Offering Circular, all references to “Italian Lire” and “ITL” are to the lawful currency of the Republic of Italy and all references to “CHF” are to Swiss francs.

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TERMS AND CONDITIONS OF THE NOTES

The following, subject to completion and amendment, are the terms and conditions of the Notes substantially in the form in which they will be endorsed on the Global Notes:

The Zero Coupon Notes due 2027 (the "Notes") of Union Bank of Switzerland Finance N.V. (the "Company") are limited to ITL 2,500,000,000,000 in aggregate principal amount and have the benefit of an Agency Agreement dated 29th January, 1997 (the "Agency Agreement") between the Company, Union Bank of Switzerland ("UBS") acting through its London Branch as principal paying agent (the "Principal Paying Agent") and Banque Internationale à Luxembourg S.A. as paying agent (together with the Principal Paying Agent, the "Paying Agents"). Certain statements under this heading are summaries of, and subject to, the detailed provisions of the Agency Agreement copies of which are available for inspection at the offices referred to in Condition 5 below. The holders of the Notes (the "Noteholders") are deemed to have notice of the provisions of the Agency Agreement all of which are binding on them.

1. Form, Denomination and Transfer

The Notes are issued in bearer form in the denominations of ITL 5,000,000, ITL 50,000,000 and ITL 500,000,000 and title thereto shall pass by delivery.

2. Status

The Notes are direct, unconditional, unsubordinated and (subject to the provisions referred to in Condition 4 below) unsecured obligations of the Company and rank *pari passu* among themselves and with all other outstanding unsecured and unsubordinated obligations of the Company.

3. Guarantee

UBS guarantees the payment of the principal amount and/or any other amounts payable under the Notes in accordance with the terms of the guarantee enfaced thereon (the "Guarantee").

4. Negative Pledge of the Company

So long as any of the Notes remain outstanding but not later than the time when payment in full of all amounts in respect of all outstanding Notes has been duly provided for, the Company will procure that no loan or other indebtedness now or hereafter existing of the Company and no guarantee of any such loan or other such indebtedness will be secured upon any of the present or future assets or revenues of the Company or of any other person or will have the benefit of any guarantee (other than an unsecured guarantee of UBS), unless it shall, simultaneously with or prior to the creation of such security interest or guarantee, take any and all action necessary to procure that all amounts payable under the Notes are secured or have the benefit of the guarantee equally and rateably with such other security or guarantee. Any reference to an obligation being guaranteed shall include a reference to any indemnity being given in respect thereof.

5. Payments

The Notes may be presented for payment in Italian Lire only, subject to any laws or regulations applicable thereto with respect to payment, currency of payment or otherwise, at the principal office in London of the Principal Paying Agent, the principal office in Luxembourg of Banque Internationale à Luxembourg S.A. or any substitute or additional paying agents appointed by the Company. Payments will be made by Italian Lire cheque drawn on a bank in Milan or by transfer to an Italian Lire account maintained by the payee with a bank in Milan. If any day for payment of any amount in respect of any Note is not a day on which banks are open for business and carrying out transactions in Italian Lire in the place where it is presented for payment and in Milan, transfer instructions or cheques shall not be given in respect thereof until the next following day on which banks are open for business and carrying out transactions in Italian Lire in such place and Milan and the holder shall not be entitled to any interest or other sums in respect of such postponed payment.

The Company will, so long as any Notes are outstanding, at all times maintain a paying agent in two European cities, one of which, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that stock exchange so require, shall be Luxembourg. Notice of any termination or appointment and of any changes in the specified offices of the Principal Paying Agent or the Paying Agents will be given to the Noteholders in accordance with Condition 12.

6. Taxation

All payments by the Company or UBS under the Notes will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Netherlands Antilles or Switzerland or any authority thereof or therein having power to

tax, unless the withholding or deduction of such taxes or duties is required by law. In that event, the Company or, as the case may be, UBS will pay such additional amounts as may be necessary in order that the net amounts received by the holders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note (1) to a Noteholder who is liable to such taxes or duties in respect of such Note by reason of his having some connection with the Netherlands Antilles or Switzerland other than the mere holding of such Note, or (2) presented for payment more than 30 days after the Relevant Date (as defined in Condition 7 below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day.

Any reference in these Terms and Conditions to any amount payable in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under the undertakings in this provision.

7. Prescription

Notes will become void unless presented for payment within a period of ten years from the Relevant Date. As used herein the "Relevant Date" means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount of the moneys payable has not been received by the Principal Paying Agent on or prior to such date, the date on which, the full amount of such moneys having been received, notice to that effect shall have been duly published in accordance with Condition 12 below.

8. Redemption and Purchase

(a) The Company will redeem the Notes, unless previously redeemed, at their principal amount on 29th January, 2027.

(b) The Notes may also be redeemed at the option of the Company in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice in accordance with Condition 12 below (which notice shall be irrevocable), at their Early Redemption Amount (as defined in Condition 8(c)), if (1) the Company or UBS, as the case may be, has or will become obliged to pay additional amounts as provided or referred to in Condition 6 above as a result of any change in, or amendment to, the laws or regulations of the Netherlands Antilles or Switzerland or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 22nd January, 1997 and (2) such obligation cannot be avoided by the Company or UBS, as the case may be, taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company or UBS, as the case may be, would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Company shall deliver to the Principal Paying Agent a certificate stating that the Company is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Company so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Company or UBS, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment.

(c) The redemption amount payable upon redemption of the Notes redeemed pursuant to Condition 8(b) or Condition 9 (the "Early Redemption Amount") shall be an amount equal to the aggregate of 12.55 per cent. of ITL 2,500,000,000,000 and accrued amortisation of the difference between 12.55 per cent. and 100 per cent. of ITL 2,500,000,000,000 calculated annually on a constant yield basis (at an annual rate of 7.163 per cent.) from, and including, 29th January, 1997 to, but excluding, the due date for redemption, on the basis of a 360 day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the actual number of days elapsed in that month.

(d) The Company and UBS are at liberty to purchase Notes from time to time, which may or may not be cancelled.

9. Events of Default

If any of the following events shall have occurred, any Noteholder may, during the continuance of such event, give notice to the Company and UBS that such Note is, and such Note shall accordingly become, immediately due and payable at its Early Redemption Amount:

(a) there is a default for more than 30 days in the payment of any amounts due in respect of the Notes; or

(b) there is a default in the performance by the Company of any other obligation under the Notes which is incapable of remedy or which, being a default capable of remedy, continues for 60 days after written notice of such default has been given by any Noteholder to the Company and UBS; or

(c) the Company becomes bound to repay prematurely any loan to, or other obligation for borrowed money of, the Company by reason of a default by any person in respect of the same or fails to make any payment of principal, premium or interest in respect thereof, or any payment under a guarantee in respect of any loan or other obligation for borrowed money, on the due date for such payment (or within any grace period specified in the agreement or other instrument constituting such other loan, obligation or guarantee) or the security for any such other loan or obligation is enforced; or

(d) any order shall be made by any competent court or other authority or resolution passed by the Company for the dissolution or winding-up of the Company or for the appointment of a liquidator, receiver, administrator or manager of the Company or of all or a substantial part of its assets or anything analogous occurs, in any jurisdiction, to the Company; or

(e) the Company shall stop payment or shall be unable to, or shall admit to creditors generally inability to, pay its debts as they fall due, or shall be adjudicated or found bankrupt or insolvent, or shall enter into any composition or other arrangements with its creditors generally.

10. Substitution

The Company may procure that another corporation, being directly or indirectly a subsidiary of UBS, is substituted for the Company as the debtor under the Notes by assigning all its rights and obligations under the Notes to such other corporation (the “New Company”). Each Noteholder will be deemed to consent to such substitution and assignment and, upon the New Company assuming all the rights and obligations of the Company under the Notes as fully and effectively as though it had been the original issuer of the Notes, the Company shall be released from all liabilities under the Notes and the Notes shall thereafter be deemed to be modified so that references to the Company are construed as references to the New Company and references to the Netherlands Antilles are construed as references to the country or countries in which the New Company is incorporated or resident. Notice shall be given in accordance with Condition 12 below by the Company to the Noteholders as soon as possible and in any event not later than 14 days after the date of such substitution.

11. Replacement of Notes

If a Note is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Principal Paying Agent on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company may require. Mutilated or defaced Notes must be surrendered before new ones will be issued.

12. Notices

All notices required under the Notes will be given by publication in one daily newspaper in each of Zurich, London and so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require in Luxembourg. It is expected that such notices will be published in Zurich in the *Neue Zürcher Zeitung*, in London in the *Financial Times* and in Luxembourg in the *Luxemburger Wort*.

13. Interest on Overdue Amounts

There will be no periodic payments of interest on the Notes. However, any amount overdue on any Notes will bear interest at the prevailing overnight rate of interest for similar funds as calculated by the Principal Paying Agent (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Notes up to that day are received by or on behalf of the relevant Noteholders or (ii) the day seven days after the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Noteholders under these Conditions). If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed in that month.

14. Further Issues

The Company may from time to time without the consent of the Noteholders create and issue further Notes, having terms and conditions the same as those of the Notes, which may be consolidated and form a single series with the outstanding Notes.

15. Governing Law

The Notes are governed by and will be construed in accordance with English law. The Company irrevocably agrees for the exclusive benefit of the Noteholders that the Courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes and that accordingly any suit, action or proceedings (together referred to as "Proceedings") arising out of or in connection therewith may be brought in such Courts.

The Company irrevocably waives any objection which it may have to the laying of the venue of any Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a judgment in any Proceedings brought in the Courts of England shall be conclusive and binding upon the Company and may be enforced in the Courts of any other jurisdiction. Nothing contained in this Condition shall limit any right to take Proceedings against the Company in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

The Company irrevocably appoints Union Bank of Switzerland, London Branch, (or such other person or company in London, England as the Company may appoint) as its agent for service of process in England in respect of any Proceedings.

USE OF PROCEEDS

The net proceeds of the issue, which are estimated to amount to approximately ITL 285,250,000,000 will be employed for the funding of the international business of the Company and the UBS Group outside Switzerland.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Global Notes will contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes (the "Conditions") set out in this document. The following is a summary of certain of those provisions:

1. Exchange

The Temporary Global Note will be exchangeable for interests in the Permanent Global Note on or after 9th March, 1997 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note. The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only if (i) the Permanent Global Note is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, (ii) if one of the events of default set out in Condition 9 occurs, or (iii) if the Company were to suffer a material disadvantage in respect of the Notes as a result of a change of the laws or regulations of the Netherlands Antilles which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two Managing Directors of the Company is delivered to the Principal Paying Agent for display to the Noteholders. Thereupon (in the case of (i) and (ii) above) the holder may give notice to the Principal Paying Agent, and (in the case of (iii) above) the Company may give notice to the Principal Paying Agent and the Noteholders, of its intention to exchange the Permanent Global Note for Notes in definitive form and definitive Notes will be issued as soon as reasonably practicable after such notice has been given, provided that the first such notice given to the Principal Paying Agent shall give rise to the issue of Notes in definitive form in exchange for the total amount of Notes represented by the Permanent Global Note.

In exchange for the Permanent Global Note, the Company will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed Notes in definitive form, security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Part I of Schedule 2 to the Agency Agreement.

2. Payment

All payments in respect of Notes represented by a Global Note will be made to or to the order of the bearer thereof against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Global Note to or to the order of the Principal Paying Agent or any other Paying Agent. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes.

3. Notices

So long as the Notes are represented by a Global Note and the Global Note is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions except that, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices shall also be published in a newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

4. Accountholders

For so long as any Notes are represented by a Global Note and such Global Note is held on behalf of one or more clearing systems, each person who is for the time being shown in the records of a clearing system as the holder of a particular principal amount of Notes (each an "Accountholder") (in which regard any certificate or other document issued by a clearing system as to the principal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of Notes for all purposes other than with respect to the payment of principal on such Notes, the right to which shall be vested, as against the Company and the Guarantor, solely in the bearer of the Global Note in accordance with and subject to its terms. Each Accountholder must look solely to its relevant clearing system for its share of each payment made to the bearer of the Global Note.

GUARANTEE OF UBS

The following is the text of the Guarantee which, subject to completion and amendment, will be endorsed on the Global Notes.

Union Bank of Switzerland ("UBS") as joint and several guarantor according to Article 496 of the Swiss Federal Code of Obligations hereby declares unconditionally and irrevocably to guarantee to the Noteholders the due and punctual payment, in accordance with the terms and conditions of the Notes (the "Conditions"), of the principal amount and/or any other amounts payable under the Notes, up to a maximum amount of ITL 2,500,000,000,000 (two thousand five hundred billion Italian Lire) upon the following terms:

- (1) in the event of any failure by Union Bank of Switzerland Finance N.V. or any corporation substituted pursuant to Condition 10 (herein called the "Company") punctually to pay the principal amount and/or any other amounts payable under the Notes, or in the event that the Company's insolvency is evident, UBS as joint and several guarantor will pay to the Noteholders the amounts due by the Company;
- (2) UBS confirms with respect to each Note and the indebtedness evidenced thereby, that it does not have and will not assert as a defence to any claim under this Guarantee any right to require any proceedings first against the Company or any lack of diligence, presentment to the Company or any paying agent, demand for payment from the Company or any paying agent or filing of claims with any court in the event of merger, insolvency or bankruptcy of the Company, protest, notice or any other demand whatsoever (other than a demand for payment of this Guarantee) and covenants that this Guarantee will not be discharged except by complete performance of the obligations contained in each Note;
- (3) this Guarantee constitutes a direct, unsubordinated and unsecured obligation of UBS ranking *pari passu* with all other outstanding unsecured and unsubordinated obligations of UBS;
- (4) UBS agrees that it will comply with and be bound by those provisions contained in Condition 6 which relate to it;
- (5) this Guarantee will remain in force until:
 - (i) the expiry of one year from 29th January, 2027; or
 - (ii) in the event that the Company exercises its option to redeem the Notes in accordance with Condition 8(b), the expiry of one year from the date of such earlier redemption.

This Guarantee will expire automatically at the end of the relevant period without further notice if the Noteholders do not institute legal proceedings within four weeks thereafter against UBS;
- (6) this Guarantee is governed by and shall be construed in accordance with Swiss law; and
- (7) the place of jurisdiction for all disputes arising from this Guarantee shall be Zurich 1.

Dated as of 29th January, 1997.

UNION BANK OF SWITZERLAND FINANCE N.V.

The Company, an indirectly wholly-owned subsidiary of UBS, was incorporated in Curaçao in the Netherlands Antilles, on 1st November, 1982 for an unlimited duration. The registered and principal office of the Company is located at Pietermaai 15, Willemstad, Curaçao, Netherlands Antilles.

The principal purpose of the Company is to provide funds for the general corporate purposes of the Company, the international branch network of UBS and the subsidiaries of UBS outside Switzerland.

Capitalisation

The following table shows the audited capitalisation of the Company as at 31st December, 1995 (adjusted to reflect issues made by the Company since that date)⁽¹⁾:

	<i>31st December, 1995</i>
	<i>U.S.\$</i>
Share capital and reserves	
Share capital ⁽²⁾	100,000
Legal reserve	1,000,000
Retained earnings	4,521,168
Total shareholders' equity	<u>5,621,168</u>
Long-term debt	
9 $\frac{1}{8}$ % Notes due February 2002	225,000,000
Floating Rate Notes due November 2002	250,000,000
9 $\frac{1}{4}$ % Italian Lire Bonds due August 2000 ⁽³⁾	157,232,705
Floating Rate Notes due February 1996	150,000,000
7% Notes due December 1996	250,000,000
8% Notes due January 1997	250,000,000
8.32% Notes due February 2000 ⁽⁴⁾	300,000,000
6 $\frac{1}{2}$ % Deutsche Mark Bonds due May 2000 ⁽⁵⁾	173,913,043
2.50% Exchangeable Bonds due March 2001	38,000,000
2.50% Exchangeable Bonds due April 2001	125,000,000
6% Notes due December 1999	300,000,000
2.50% Deutsche Mark Bonds due October 2001	173,913,043
Zero Coupon Notes due January 2027 (now being issued)	1,572,327,050
Total long-term debt	<u>3,965,385,841</u>
Total capitalisation	<u><u>3,971,007,009</u></u>

Since 31st December, 1995 there has been no material adverse change in the capitalisation of the Company.

Notes:

- (1) There is no requirement for the Company to prepare interim financial statements and no such statements are published by the Company.
- (2) The authorised, issued and paid-up capital of the Company is U.S.\$100,000, divided into 100 registered shares of U.S.\$1,000 each.
- (3) Translated at the rate of Italian Lire 100 = U.S.\$0.062893082.
- (4) Redeemed early on 16th February, 1996.
- (5) Translated at the rate of U.S.\$1 = DM1.4375.

Board of Directors

The Managing Directors of the Company are M. Cabiallavetta, President of the Group Executive Board of UBS, P. Faes, Chairman of the Board of Management of Union Bank of Switzerland (Germany) AG, D. Robins, Executive Vice President Europe and ABN Trustcompany (Curaçao) N.V., Curaçao.

Auditors

Price Waterhouse, Kaya W.F.G. (Jombi), Mensing #18, Curaçao, Netherlands Antilles, have been appointed as auditors of the Company. The financial year of the Company is the calendar year.

REPORT OF THE AUDITORS OF THE COMPANY

To the Shareholder of
Union Bank of Switzerland Finance N.V.
Curaçao

As auditors of your Company, we have audited the books of account and the financial statements – consisting of the balance sheet, the statement of income and the notes to the financial statements – presented by the Board of Directors for the years ended 31st December, 1995 and 1994, in accordance with the provisions of the Swiss Code of Obligations. Our audit was conducted in accordance with accepted auditing standards promulgated by the profession in Switzerland. We confirm that we comply with the legal requirements concerning professional qualification and independence.

The Company is a wholly owned subsidiary of Union Bank of Switzerland, a company incorporated in Switzerland, and has elected to prepare financial statements in accordance with Swiss law insofar as it pertains to principles of valuation and presentation.

Based on our audit we conclude that the books of account, the financial statements and the proposed appropriation of the retained earnings are in accordance with the Swiss law and the by-laws of the Company.

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

Price Waterhouse LLP
Curaçao, 2nd February, 1996

FINANCIAL STATEMENTS OF THE COMPANY
BALANCE SHEET AS OF 31st DECEMBER, 1994 AND 1995

	1994	1995
	<i>U.S. Dollar</i>	
Assets		
Current assets		
Due from banks at demand	27,302	60,719
Due from banks at fixed dates	9,100,000	406,135,105
Other assets	34,988,887	90,588,066
(of which accruals U.S.\$90,588,066; 1994: U.S.\$34,988,887)		
Total current assets	44,116,189	496,783,890
Fixed assets		
Due from banks at fixed dates	1,032,232,705	1,356,145,749
Total assets	1,076,348,894	1,852,929,639
Assets include receivables from shareholder and group companies. . .	1,041,360,007	1,762,341,573
Liabilities and shareholders' equity		
Current liabilities		
Bond issues	0	400,000,000
Other liabilities	36,190,564	91,162,723
(of which accruals U.S.\$91,162,723; 1994: U.S.\$36,190,564)		
Total current liabilities	36,190,564	491,162,723
Non-current liabilities		
Bond issues	1,032,232,705	1,356,145,748
Total liabilities	1,068,423,269	1,847,308,471
Shareholders' equity		
Share capital	100,000	100,000
General legal reserves	1,000,000	1,000,000
Unappropriated retained earnings	6,825,625	4,521,168
Total shareholders' equity	7,925,625	5,621,168
Total liabilities and shareholders' equity	1,076,348,894	1,852,929,639

STATEMENT OF INCOME FOR THE YEARS ENDED
31st DECEMBER, 1994 AND 1995

	<i>1994</i>	<i>1995</i>
	<i>U.S. Dollar</i>	
Income		
Interest.	66,387,913	123,225,869
Other.	788	350
Total income.	<u>66,388,701</u>	<u>123,226,219</u>
Expenses		
Interest.	63,691,936	119,140,404
Commissions.	67,347	13,524
Business and office expenses.	105,830	128,970
Total expenses.	<u>63,865,113</u>	<u>119,282,898</u>
Net income before taxes.	2,523,588	3,943,321
Taxes.	<u>147,000</u>	<u>247,778</u>
Net income for the year.	2,376,588	3,695,543
Unappropriated retained earnings at the beginning of the year.	34,449,037	6,825,625
Appropriation of retained earnings resolved by general meeting		
Dividend.	(30,000,000)	(6,000,000)
Unappropriated retained earnings at the end of the year.	<u>6,825,625</u>	<u>4,521,168</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED
31st DECEMBER, 1994 and 1995**

1. Outstanding Bond Issues

1995

<i>Issued</i>	<i>Maturing</i>	<i>Interest Rate</i>	<i>Special Remarks</i>	<i>Amount</i>
1990	08.02.2002	9.125%		U.S.\$ 225,000,000
1992	13.11.2002	6 months LIBOR minus 0.25%	Cap at 8.25%, Floor at 5%	U.S.\$ 250,000,000 Lit 250,000,000,000
1993	23.08.2000	9.25%		
1994	22.02.1996	3 months LIBOR plus 1%	Cap at 3.25% Floor at 4.5%	U.S.\$ 150,000,000 U.S.\$ 250,000,000 U.S.\$ 250,000,000 U.S.\$ 300,000,000 DEM 250,000,000
1994	12.12.1996	7%		
1995	24.01.1997	8%		
1995	16.02.2000	8.32%		
1995	02.05.2000	6.5%		

Total equivalent to U.S.\$ 1,756,145,748

All Bonds are guaranteed by Union Bank of Switzerland, Zurich.

1994

<i>Issued</i>	<i>Maturing</i>	<i>Interest Rate</i>	<i>Special Remarks</i>	<i>Amount</i>
1990	08.02.2002	9.125%		U.S.\$ 225,000,000
1992	13.11.2002	6 months LIBOR minus 0.25%	Cap at 8.25%, Floor at 5%	U.S.\$ 250,000,000 Lit 250,000,000,000
1993	23.08.2000	9.25%		
1994	22.02.1996	3 months LIBOR plus 1%	Cap at 3.25%, Floor at 4.5%	U.S.\$ 150,000,000 U.S.\$ 250,000,000
1994	12.12.1996	7%		

Total equivalent to U.S.\$ 1,032,232,705

All Bonds are guaranteed by Union Bank of Switzerland, Zurich.

2. Off-balance sheet transactions

1995

Interest Rate Swaps (Notional principal amounts)	U.S.\$ 1,431,145,747
Interest Rate and Currency Exchange Swaps – Maturing after one year	U.S.\$ 157,232,704
Rate Floor Agreements, bought (Notional principal amounts)	U.S.\$ 250,000,000
Rate Cap Agreements, sold (Notional principal amounts)	U.S.\$ 250,000,000
All agreements have been entered into for hedging purposes.	

1994

Interest Rate Swaps (Notional principal amounts)	U.S.\$ 550,000,000
Interest Rate and Currency Exchange Swaps – Maturing after one year	U.S.\$ 157,232,704
Rate Floor Agreements, bought (Notional principal amounts)	U.S.\$ 250,000,000
Rate Cap Agreements, sold (Notional principal amounts)	U.S.\$ 250,000,000
All agreements have been entered into for hedging purposes.	

**PROPOSAL OF THE BOARD OF DIRECTORS FOR APPROPRIATION OF RETAINED EARNINGS
AT 31st DECEMBER, 1995**

Dividend	U.S.\$ 4,000,000
To be carried forward	U.S.\$ 521,168
Unappropriated retained earnings	U.S.\$ 4,521,168

UNION BANK OF SWITZERLAND

Introduction

Union Bank of Switzerland is incorporated as a company limited by shares and was first registered in the Canton of Zurich on 28th October, 1912 for an unlimited duration. Its registered head office is located at Bahnhofstrasse 45, Zurich.

The object of UBS is the operation of a universal bank. Its scope of activity comprises all kinds of domestic and foreign banking, financing, advisory and commercial business. UBS may establish banks, investment companies and other enterprises and assume responsibility for the management of the said enterprises. It is authorised to acquire, mortgage and sell land, real estate property and building rights in Switzerland and abroad.

UBS is the largest Swiss bank in terms of equity capital base, net income and the market value of its shares. The stated goal of UBS is to reinforce its position in Switzerland as the country's strongest bank and to be one of the major players in the global financial services market by the end of the century. To achieve this, the focus of its strategy is on three core businesses: corporate and institutional finance, trading and sales and risk management, and investment advisory and institutional asset management services. Over the medium term the contribution of these three businesses to overall group earnings should be in balanced proportions.

As at 31st December, 1995, total assets of UBS amounted to CHF 287.5 billion and the total share capital and reserves to CHF 17.3 billion. Consolidated assets on the same date were CHF 386.8 billion while consolidated capital and reserves amounted to CHF 23.0 billion. At the end of 1995, the UBS Group had 29,071 full-time employees and was represented by 324 offices in Switzerland and 69 branches, subsidiary companies and representative offices outside Switzerland.

History

UBS was created in 1912 through the merger of two regional commercial banks, the Bank of Winterthur and the Toggenburger Bank which were formed in 1862 and 1863, respectively.

Having confined its activities initially to the eastern and north-eastern regions of Switzerland, UBS broadened its base during the 1920s, geographically by acquiring other banking institutions and establishing branch offices throughout the country, operatively by expanding the range of its activities towards a full service bank and by increasing the focus on international business. In 1945, UBS took over the "Banque Fédérale" and established itself among the major Swiss banks. This acquisition introduced a further phase of expansion of UBS's banking and related activities including domestic and foreign lending and deposit business, mortgage and consumer credit, dealing in foreign exchange and precious metals, underwriting and trading in securities, corporate finance and the provision of investment services and trust administration. By 1962 total assets had reached CHF 7 billion making UBS first among Swiss banks.

In 1946, UBS took its first step overseas and opened a representative office in New York. In 1967, it established the first branch abroad in London. Since 1985, the international position of UBS has gained major standing through the establishment of subsidiaries and the acquisition of financial companies in the major industrialised countries and financial centres world-wide.

Business

UBS operates as a universal bank in Switzerland, providing both retail and wholesale banking services to private customers, businesses, banks and the public sector. The subsidiary banks of the Group (as defined below) are active in asset management and in certain segments of lending business. Outside Switzerland, the Group's branches and subsidiaries focus on wholesale banking in the areas of corporate and institutional finance, trading and risk management as well as private and institutional asset management.

Corporate and Institutional Finance

UBS is engaged both domestically and internationally in a wide range of lending operations and deposit business with corporate as well as individual customers and in the public sector. In the domestic market, construction and mortgage loans are an important aspect of its lending activities. It also offers short-term operating loans, the discounting of commercial bills, overdraft facilities and medium-term and long-term loans as well as various types of current, savings and deposit accounts. Through specialised affiliates it provides consumer loans and services in leasing and factoring. Internationally, commercial loans are complemented by export credits, trade, commodity and project financing, documentary credits and bank guarantee instruments. UBS's loan portfolio is broadly diversified by sector and borrowers and in geographic terms in order to limit its risk exposure. At the end of 1995, OECD countries and industrial countries and financial centres outside the OECD together accounted for 94 per cent. of cross-border commitments.

As an investment bank, UBS offers its private, public sector and corporate clients a wide range of financial and advisory services. It has by tradition been deeply involved in the securities industry both domestically and internationally and maintains a prominent position in all significant securities and capital markets. In the Swiss capital market UBS participates as one of the leading houses in the management and underwriting of new issues of shares, bonds and notes and provides financial advisory services for both domestic and foreign issuers. UBS investment banking activities abroad are centred in London, New York, Tokyo, Singapore, Frankfurt and Paris. UBS Limited is responsible for all management and underwriting as well as sales and trading activities in the Euromarkets. UBS's worldwide corporate finance activities include advisory services in mergers and acquisitions, privatisation projects and restructuring programmes as well as merchant banking operations.

Trading and Sales, Risk Management

UBS conducts securities sales and trading for its customers on the Swiss market directly as a member of all the Swiss stock exchanges and in foreign markets through its subsidiaries who are members of most of the major stock exchanges outside Switzerland.

As an active market maker, UBS traditionally commands a prominent position world-wide in foreign exchange operations as well as in bank notes and precious metal trading. This is supplemented by international money market operations which involve the investment of short term funds both for its own account and in a fiduciary capacity on behalf of customers.

UBS's broad spectrum of financial derivatives linked to interest rates, currencies, equities and commodities is continuously adjusted to customers' growing needs for risk management support and for selective use in financing transactions and in portfolio management. UBS has direct access to the most important options and financial futures exchanges and is an active market maker in swaps, forward rate agreements, interest-rate, equity and currency options and futures.

Investment Advisory and Asset Management Services

UBS provides to private and institutional investors a broad range of services in the investment counselling and portfolio management sector, including pension fund services and advisory services in connection with matters of inheritance, taxation and the formation of companies and foundations. UBS's strength in private banking operations and institutional asset management activities, which are concentrated in Zurich, London, New York, Luxembourg and Tokyo, is based on expertise, research capabilities, global presence, an attractive product range and services tailored to individual customer requirements. UBS's position as one of the leading investment advisers and managers of client portfolios is backed up by its activities in the fields of securities trading and sales, trading in derivatives, securities administration, collateral lending, securities lending and borrowing and fund management. UBS has played a significant role in the development of investment funds in Switzerland and maintains its leading position by managing investment funds with total assets as at 31st December, 1995 of CHF 49.4 billion.

Recent Developments

The Extraordinary General Meeting of Shareholders on 22nd November, 1994 approved the proposal of the Board of Directors to create a single class of bearer shares with a par value of CHF 10.

Due to legal actions taken by shareholders the new capital structure cannot be implemented at present (all as more fully described in the 1995 Annual Report and various press releases). The legal actions are not material in the context of the issue of the Notes.

On 26th November, 1996, the Bank announced that it will make a one time special provision for credit risks in the amount of CHF 3 billion to be charged against 1996 earnings. The provision will cover the additional requirements as a result of further deterioration in the quality of Swiss domestic loans already identified as at risk. Although the negative impact of the provision on 1996 earnings will be partially offset by a release of CHF 711 million in reserves for general banking risks established in earlier accounting periods and lower tax expenses, it will turn the Group result for 1996 into a loss. As a result it is expected that the Group's consolidated shareholders' equity will approximate CHF 21.5 billion at 31st December, 1996 (CHF 23 billion at 31st December, 1995).

After the announcements made on 26th November, 1996, Moody's Investors Service, Inc. confirmed the Bank's long-term senior debt rating of Aaa. IBCA Limited also confirmed the Bank's long-term senior debt rating of AAA, but downgraded the individual rating from A to A/B. Standard & Poor's Rating Services first decided to put the Bank's rating on its "credit watch" and on 16th January, 1997 downgraded the Bank's long-term senior debt rating to AA+.

Management and Auditors

Board of Directors

Elected by the General Meeting of Shareholders for terms of four years, the members of the Board of Directors are responsible for the overall administration, supervision and control of UBS and the subsidiaries and affiliated companies of UBS (the “Group” or the “UBS Group”). The Board of Directors establishes Group strategy and organisational structure, deliberates on proposals to be submitted to the General Meeting and issues the regulations necessary for conducting Group business and determining discretionary powers. It appoints the President and members of the Enlarged Group Executive Board as well as the Chief Internal Auditor. The Board decides on the annual budgets for the Group and UBS and on the purchase and sale of strategic participations. The Chairman and one of the Vice Chairmen perform their duties on a full-time basis, whereas the second Vice Chairman and the remaining Board members do so in a part-time capacity.

Robert Holzach Künsnacht; Honorary Chairman

Nikolaus Senn Herrliberg; Honorary Chairman

Members

Robert Studer* Schönenberg; Chairman

Hans Heckmann* Schlieren; Vice Chairman

Markus Kündig* Zug; Vice Chairman, Publisher

Marc Carl Cappis Herisau; Chairman of the Board and Managing Director of Huber + Suhner Ltd., Herisau AR/Pfäffikon ZH

Fritz Fahrni
Islikon; President of the Corporate Executive Management of Sulzer
Ltd., Winterthur

Kurt Erich Feller Wollerau; Managing Director and Chief Executive Officer of Rieter Holding Ltd., Winterthur

Charles Robert Firmenich
Genthod; Vice Chairman of the Board of Firmenich (International)
SA, Geneva

Hannes Goetz* Rüsçlikon; Chairman of the Board of Swissair, Zurich Airport

Hans Konrad Jucker Künsnacht; Chairman of the Board of Alusuisse-Lonza Holding Ltd.,
Zürich

Reto Mengiardi Chur; Attorney and Notary Public

Rolf Arthur Meyer* Basle; Chief Financial Officer and Member of the Executive Committee of Ciba-Geigy Ltd., Basle

Anne-Lise Monnier-Blailé Gland; Pharmacist and Chairwoman of the Board of Ofac, Geneva

Andreas Reinhart* Winterthur; Chairman of the Board of Volkart Brothers Holding Ltd., Winterthur

Maria Reinshagen Zurich; Vice President of Christie's (International) Ltd., Switzerland

René Kurt Ruepp Pfaffhausen; Chairman of the Board and Chief Executive Officer of Forbo Holding SA, Eglisau

Alfred Niklaus Schindler* Hergiswil; Chairman of the Board of Schindler Holding AG,
Hergiswil

Johann-Niklaus
Schneider-Ammann

Langenthal; Chairman of the Board and Managing Director of the
Ammann Group, Langenthal

Manfred Zobl Rüşchlikon; Chairman of the Corporate Executive Board of Swiss
Life/Rentenanstalt, Zurich

* Member of the Board of Directors' Committee

Group Executive Board

The Group Executive Board is the most senior UBS executive body and is responsible for the management and earnings of the Group. It is also in charge of implementing the group strategy approved by the Board of Directors.

The Group Executive Board consists of the President, the Heads of the Divisions and the Chief Executive Officer for Region Switzerland. UBS Division Heads are responsible group-wide for the products and business results of their respective divisions.

Mathis Cabiallavetta	President of the Group Executive Board
Werner Bonadurer	Executive Vice President
Arthur Decurtins	Executive Vice President
Felix Fischer	Executive Vice President
Ulrich Grete	Executive Vice President
Stephan Haeringer	Executive Vice President
Karl Janjóri	Executive Vice President
Pierre de Weck	Executive Vice President

Auditors

The Auditors under Company Law for UBS and the Group and Auditors prescribed by Banking Law are ATAG Ernst & Young Ltd., Zurich.

CAPITALISATION

The following table shows the non-consolidated capitalisation of UBS as at 31st December, 1995:

	<i>31st December, 1995</i>
	<i>(Swiss francs millions)</i>
Share capital and reserves	
Share capital	2,575
General statutory reserve	7,950
Reserve for own shares	1,551
Other reserves	5,224
Profit to be carried forward	7
Total capital and reserves	<u>17,307</u>
Medium and long-term debt⁽¹⁾	
Medium-term notes	9,805
Bond issues and loans from central mortgage institutions	8,791
Total medium and long-term debt	<u>18,596</u>
Total capitalisation	<u><u>35,903</u></u>

Except as disclosed in this Offering Circular, since 31st December, 1995 there has been no material adverse change in the capitalisation of UBS.

- (1) The figures do not include the following note issues: ITL 6 billion Zero Coupon A Notes due 2001, ITL 5 billion Zero Coupon B Notes due 2004 and ITL 4 billion Zero Coupon Index Linked Notes due 2004, all issued on 31st January, 1996; SFR 250 million 4.25 per cent. Subordinated Notes due 2006, issued on 6th February, 1996; ITL 4 billion Zero Coupon Index Linked Notes due 2004, issued on 15th February, 1996; ITL 12 billion Zero Coupon C Notes due 2001, ITL 10 billion Zero Coupon D Notes due 2004 and ITL 8 billion Zero Coupon Index Linked Notes due 2004, all issued on 28th February, 1996; ITL 6 billion Zero Coupon Index Linked Notes due 2004, ITL 5 billion Zero Coupon Notes due 2001 and ITL 4 billion Zero Coupon Notes due 2004, all issued on 15th March, 1996; ITL 10 billion Zero Coupon Index Linked Notes due 2004, ITL 12 billion Zero Coupon Notes due 2001 and ITL 11 billion Zero Coupon Notes due 2004, all issued on 29th March, 1996; SFR 400 million 3.625 per cent. Notes due 2001, issued on 10th April, 1996; ITL 5 billion Zero Coupon Index Linked Notes due 2004, ITL 5 billion Zero Coupon Notes due 2001 and ITL 5 billion Zero Coupon Notes due 2004, all issued on 30th April, 1996; ITL 5 billion Zero Coupon Index Linked Notes due 2001, issued on 30th May, 1996; ITL 5 billion Zero Coupon Index Linked Notes due 2004, ITL 5 billion Zero Coupon Notes due 2001 and ITL 5 billion Zero Coupon Notes due 2004, all issued on 31st May, 1996; ITL 5 billion Zero Coupon Index Linked Notes due 2004, ITL 5 billion Zero Coupon Notes due 2001 and ITL 5 billion Zero Coupon Notes due 2004, all issued on 28th June, 1996; U.S.\$500 million 7.25 per cent. Subordinated Notes due 2006, issued on 15th July, 1996; SFR 400 million 3.125 per cent. Notes due 1999, issued on 22nd July, 1996; SFR 200 million 2.5 per cent. Notes due 2000, issued on 20th December, 1996; £250 million 8 per cent. Subordinated Notes due 2007, issued on 8th January, 1997 and £200 million 8 per cent. Subordinated Notes due 2007, to be issued on or about 30th January, 1997.

CONSOLIDATED FINANCIAL STATEMENTS OF UBS

CONSOLIDATED BALANCE SHEETS AS AT 31st DECEMBER, 1994 AND 1995

	1994	1995
	<i>(in millions of Swiss francs)</i>	
Assets		
Liquid assets	1,766	1,420
Money market paper	16,000	17,953
Due from banks	56,366	91,286
Due from customers ⁽¹⁾	95,987	83,782
Mortgage loans	66,633	68,506
Trading balances in securities and precious metals	53,345	58,397
Financial investments	11,950	11,517
Unconsolidated investments in associated companies	1,231	1,377
Tangible fixed assets	7,112	7,475
Intangible assets	37	18
Prepayments and accrued income	3,184	3,396
Other assets	30,740	41,657
Total	344,351⁽²⁾	386,784
<i>Total subordinated assets</i>	<i>826</i>	<i>1,056</i>
<i>Total amounts receivable from unconsolidated associated companies</i>	<i>125</i>	<i>702</i>
Liabilities		
Money market paper issued ⁽¹⁾	13,239	13,053
Due to banks	88,560	118,219
Due to customers on savings and deposit accounts	35,703	41,084
Other amounts due to customers ⁽²⁾	118,544	110,756
Medium-term note issues	11,409	10,825
Bond issues and loans from central mortgage institutions	9,828	11,234
Accruals and deferred income	3,692	3,674
Other liabilities	30,707	44,938
Value adjustments and provisions	9,024	8,420
Reserves for general banking risks	754	711
Share capital	2,575	2,575
Share premium account	8,372	8,808
Consolidated reserves	10,210	10,713
Minority interests in equity	112	91
Group profit	1,622	1,683
<i>of which minority interests</i>	<i>9</i>	<i>10</i>
Total	344,351⁽³⁾	386,784
<i>Total subordinated liabilities</i>	<i>4,351</i>	<i>5,577</i>
<i>Total liabilities to unconsolidated associated companies</i>	<i>1,181</i>	<i>1,278</i>

(1) Includes Auction Market Preferred Stocks (AMPS) for a total amount of CHF 460 million.

(2) Balances due to brokers are reported under Due to banks in 1995.

(3) The figure for total assets differs from that published in the 1994 annual report (CHF 326,374 million). The difference of CHF 17,977 million is due to the fact that the replacement value of futures and forward contracts is also reported gross under Other liabilities in compliance with new Swiss accounting regulations.

**CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31st DECEMBER, 1994 AND 1995**

	1994	1995
	<i>(in millions of Swiss francs)</i>	
Interest and discount income	13,682	14,637
Interest and dividend income from financial investments	500	557
Less: interest expense	10,468	11,746
Net interest income	3,714	3,448
Credit-related fees and commissions	471	453
Fee and commission income from securities and investment business	3,349	3,350
Other fee and commission income	354	388
Less: fee and commission expense	129	194
Net fee and commission income	4,045	3,997
Net income from trading operations	1,116	1,727
Net income from disposal of financial investments	(47)	89
Income from investments in associated companies	255	227
Net income from real estate holdings	29	34
Sundry income from ordinary activities	74	187
Other income from ordinary activities	311	537
Subtotal	9,186	9,709
Premiums from insurance operations	55	222
Operating income	9,241	9,931
Personnel expense	3,871	4,164
General administrative expense	1,702	1,773
Subtotal	5,573	5,937
Expenses relating to insurance operations	54	214
Operating expense	5,627	6,151
Operating profit	3,614	3,780
Depreciation write-offs on fixed assets	692	720
Value adjustments, provisions and losses	868	1,166
Profit before extraordinary items and taxes	2,054	1,894
Extraordinary income	80	131
Extraordinary expenses	15	11
Taxes	497	331
Group profit	1,622	1,683
<i>of which minority interests</i>	9	10

**CONSOLIDATED OFF-BALANCE SHEET OPERATIONS AS AT
31st DECEMBER, 1994 AND 1995**

	<u>1994</u>	<u>1995</u>
	<i>(in millions of Swiss francs)</i>	
Contingent liabilities	29,298	32,057
Irrevocable commitments	30,025	45,425
Uncalled liabilities to pay in capital or additional capital on shares	76	129
Derivative instruments		
contract volume	2,250,544	2,049,182
positive gross replacement value	26,653	40,997
negative gross replacement value	26,066	38,792
Fiduciary operations	47,074	46,967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Set out on pages 22 to 26 are the Notes to the Financial Statements taken directly from the annual report of UBS for the accounting period ended 31st December, 1995.

Business Activities

Union Bank of Switzerland operates as a universal bank in Switzerland, providing both retail and wholesale banking services to private customers, businesses, banks and the public sector. The Group's subsidiary banks are active in asset management and in certain segments of lending business. Outside Switzerland, the Group's branches and subsidiaries focus on wholesale banking in the areas of corporate and institutional finance, trading and risk management as well as private and institutional asset management.

Consolidation Principles

The consolidated financial statements are prepared in accordance with the accounting regulations contained in the Swiss ordinance governing banks and savings banks of 1st February, 1995, the directives of the Swiss Federal Banking Commission and the accounting norms of the European Union (4th and 7th EU directives and the EU bank accounts directive). They are based on the annual accounts of the group companies prepared in accordance with uniform valuation policies which were unchanged from the preceding year and present a true and fair view of the net assets, financial position and income of the UBS Group. The new accounting regulations result in a change in the format of the income statement, balance sheet and the notes to the financial statements. The 1994 figures have been restated to conform to the new regulations.

The parent company of Union Bank of Switzerland comprises the head office and all UBS branches and representative offices in and outside Switzerland. The UBS Group consists of the parent company together with all its legally independent investee companies as per the list of consolidated companies.

Consolidation Method

The equity of subsidiaries is consolidated as of the date of the company's acquisition (purchase method). For subsidiaries acquired prior to 1989 the date of acquisition is taken to be 1st January, 1989. Any differences between the net asset value of such subsidiaries, as determined on a uniform basis, and their book value are recognised in the reserves under Retained earnings.

The assets and liabilities of subsidiaries acquired after 1st January, 1989 are revalued for the purpose of equity consolidation. Any difference between the acquisition price and the net asset value of the acquired company after such revaluation is shown in the balance sheet under Intangible assets.

Consolidated Subsidiaries

In addition to the parent company's accounts, the consolidated financial statements contain, on a fully consolidated basis, the annual accounts of all group companies active in the financial services sector (banks, finance, insurance and real estate companies) in which Union Bank of Switzerland directly or indirectly holds an interest of more than 50 per cent., or over which it has management control.

By this method, 100 per cent. of assets and liabilities as well as expenses and income are included. Intra-group receivables and payables as well as expenses and income are set off against each other. Realised intra-group profits resulting from internal group sales of fixed assets are also eliminated. The interests of minority shareholders in the net assets and net profit of subsidiaries are shown under liabilities in the consolidated balance sheet as Minority interests in equity and in the income statement under Minority interests in profit.

Unconsolidated Subsidiaries and Associated Companies

The following investments are not consolidated:

- minority interests in companies active in the financial services sector;
- majority interests in companies active in the financial services sector which are of no material significance to the Group;
- interests in companies not active in the financial services sector.

These unconsolidated investments in subsidiaries and associated companies are included in the consolidated financial statements either at cost or on an equity accounting basis.

All investments of 20-50 per cent., investments of over 50 per cent. in companies not active in the financial services sector, as well as investments of over 50 per cent., but of no material significance to the Group, in companies active in the financial services sector are included in the consolidated financial statements at the Group's share of the net asset value and net profit of the companies concerned (equity method).

Equity interests of less than 20 per cent. are included in the UBS Group's financial statements at their acquisition cost less any provision for diminution in value consistent with standard accounting practice (cost method).

Consolidation Period

The consolidated accounts are prepared for the calendar year. Interim accounts are prepared to 31st December for subsidiaries whose financial year is not co-terminous with the calendar year.

Deviations from EU Directives

The financial statements deviate from EU directives in the following points:

- The format of the balance sheet and income statement complies with the accounting regulations for Swiss banks and therefore deviates from that prescribed in the EU directive on bank accounts. The consolidated financial statements contain all information of material importance, however.
- Income is broken down by location into domestic and foreign, but not by individual geographic regions.
- Details of the remuneration of directors, senior executives and auditing bodies are not disclosed.
- The difference between the cost and market value of trading securities is not shown.

The consolidation, accounting and valuation principles state which options were chosen from those available under EU law.

The new accounting regulations for Swiss banks are essentially equivalent to those contained in EU law in all material aspects.

Accounting and Valuation Principles

Recording of Transactions

All transactions effected up to and including the balance sheet date are recorded and valued in conformity with accepted principles. The income statement contains the income earned on all deals transacted. As a general rule, transactions effected are treated as off-balance-sheet items until their value date (i.e. the date on which settlement actually occurs) and entered in the balance sheet then. Spot and new issue deals in securities in Switzerland are an exception to this rule, being included in the balance sheet on the date they are transacted.

Foreign Exchange, Banknotes, Precious Metals and Commodities

In the individual accounts of group companies income and expenses denominated in foreign currencies are translated at current exchange rates. Holdings of banknotes, foreign exchange, precious metals and commodities are translated at year-end using the last spot rate. Resulting currency translation gains and losses are taken to income.

Group company balance sheets prepared in foreign currencies are translated at year-end exchange rates. Income statements are translated at the average exchange rate for the year. Differences resulting from the use of different exchange rates are recognised in Retained earnings under Shareholders' equity.

Main foreign exchange rates:

	<i>31st December, 1994</i>	<i>31st December, 1995</i>
USD	1.31	1.15
GBP	2.05	1.7825
DEM	84.50	80.00
JPY	1.3170	1.1175

Liquid Assets, Money Market Paper, due from Banks and Customers, Mortgage Loans, Liabilities

Assets and liabilities are stated in the balance sheet at their nominal value. The unearned discount income on money market paper is accrued over the term of such instruments. Interest due but not paid is contained in the relevant balance sheet positions. Securities lending receivables are carried at the market price of the security lent. The position Due from customers includes finance lease receivables which are accounted for on a cash value basis. The amortisation component contained in the leasing fee is deducted directly from the leased asset, while the interest rate component is credited to income.

Receivables are assessed individually on the basis of the borrower's credit standing and the value of the security provided, using uniform criteria and measures. Where an increased risk is identified, a provision is immediately raised against the asset and credited to Value adjustments and provisions, the size of the provision being based on the above assessment. Principal and interest which is overdue by 90 days or more is classified as "non-performing". The interest outstanding on these loans is excluded from interest income and a provision raised against the entire amount; the principal of the loan is value adjusted in the manner described above.

In the case of lendings to borrowers in countries where there is an increased risk of difficulties in servicing external debt an additional assessment of the political and economic situation is made. The provisions for country risks established as a result of this assessment are at least on the scale prescribed by the Swiss banking supervisory authorities.

Repo and Reverse Repo Transactions, Securities Lending and Borrowing

Amounts received or remitted in connection with repo and reverse repo transactions are taken to the balance sheet, while securities balances remain unchanged.

In the case of securities borrowing and lending the securities are borrowed or lent at market value and recorded in the balance sheet.

Trading Balances in Securities and Precious Metals

Equities, interest-bearing securities and precious metals which were not acquired for the purpose of longer-term investment are included under trading securities. These also include ex-issue balances from underwriting activities as well as securities acquired in merchant banking operations.

Trading securities are valued at their market price on the balance sheet date. Securities in which there is not a regular market are carried at cost less any provision for diminution in value consistent with standard accounting practice. Any adjustments for differences between the year-end value and the value on the transaction date are taken to Net income from trading operations. Net income from merchant banking operations is included in Underwriting and corporate finance fees in the table Fee and Commission Income from Securities and Investment Business. Interest and dividend income from trading balances is credited to trading income. Funding costs are charged to trading income and credited to interest and discount income.

Financial Investments

Financial investments are investments in interest-bearing instruments as well as equity interests not held for trading purposes and similar instruments which are not used for the Group's business operations on a long-term basis e.g. equity interests acquired as a result of financial restructurings. UBS shares which are not held for trading purposes are included in financial investments. Fixed-income instruments are generally held until final maturity.

The investments are valued at cost. With fixed-income investments the difference between the nominal value and the cost price is distributed over the residual maturity and recognised in Interest and dividend income from financial investments. Necessary provisions for any diminution in the value consistent with standard accounting practice are included in Value adjustments, provisions and losses.

Unconsolidated Investments in Associated Companies

Unconsolidated investments in associated companies contain equity interests in companies not active in the financial services sector as well as interests of over 50 per cent. in companies active in the financial services sector but not of material significance for the Group.

The net asset value of these companies is determined on the basis of the previous year's accounts prepared to 31st December, or, in the case of companies whose financial year is not co-terminous with the calendar year, the last annual accounts available.

Tangible Fixed Assets

Tangible fixed assets contain bank buildings, other real estate, computer and telecommunications equipment as well as other equipment, fixtures and fittings. There are no leases which require to be included in the balance sheet. Tangible fixed assets are valued at cost less depreciation consistent with standard accounting practice.

Buildings are depreciated on a straight-line basis over a period of 66 years, investments in fixtures and fittings over 10 years. No depreciation is generally charged on undeveloped land. The useful life of computer, telecommunications and other equipment is assumed to be 5 years. Smaller investment outlays are charged directly to general administrative expense.

Intangible Assets

Intangibles such as organisation costs, research and development costs, concessions, patents, licences and similar items are charged directly to income.

The goodwill item contained in Intangible assets results from the consolidation of majority shareholdings acquired in the period from 1991 onwards. Goodwill is written off over a period of five years.

Value Adjustments and Provisions

In accordance with prudent accounting practice, specific value adjustments and provisions are made for all risks existing on the balance sheet date. Recoveries of amounts written off in prior periods are credited to this position.

Provisions for default risks cover existing risks associated with loans, contingent liabilities including irrevocable commitments and litigation risks connected to lending exposures as well as country risks. The provisions for capital, income and deferred taxes contain all taxes on income and capital owed now or in the future as well as deferred tax liabilities resulting from valuation differences between the financial statements prepared in accordance with national laws and the financial statements used for consolidation. Pensions claims are generally covered by staff pension funds which are independent of the Group.

Reserves for General Banking Risks

As things stand today the reserves for general banking risks are considered to be sufficient to cover any unexpected losses on banking exposures and are part of the Group's equity. The allocations to these reserves are based on an assessment of current market risks, counterparty risks, country risks and operational risks.

Contingent Liabilities, Irrevocable Commitments, Uncalled Liabilities to pay in Capital or Additional Capital on Shares, Fiduciary Operations

Transactions resulting from the above activities are stated at their nominal value.

Insurance Operations

Life insurance business comprises the activities of UBS Life/UBS Swiss Life. Premium income is reflected in the income statement under Premiums from insurance operations. The Insurance underwriting provisions charged to income under Expenses relating to insurance operations are contained in the balance sheet position Value adjustments and provisions.

Derivative Instruments

Derivative instruments include equity, stock index, foreign exchange, commodity and interest rate options, futures and swaps, forward rate agreements as well as forward contracts in foreign exchange, securities and commodities. The business policy underlying the conduct of the Group's trading activities in derivatives complies with the recommendations of the Group of Thirty.

Derivative instruments are marked to market. Interest on capital employed is charged to the income of the various trading segments and credited to interest income. Investments and/or strategic positions are valued according to the cost method. Hedging transactions are subject to the same valuation principles and the same treatment in the income statement as the underlying transactions.

Derivatives for which no market price is available are valued on the basis of uniform valuation models and any gain therefrom is adjusted for potential future diminution in value as well as for administration and funding costs.

The gross replacement value of derivative contracts reflects the market value of all unsettled trades at year-end. The positive gross replacement value of derivatives is the sum of the Group's claims against third parties. The negative gross replacement value is the sum of the Group's liabilities under derivative contracts with third parties.

Net replacement value is obtained by netting the positive and negative replacement values of contracts with the same counterparty on the basis of master netting agreements. The positive net replacement value is contained in Other assets, the negative replacement value in Other liabilities.

Risk Management and the Accounting Treatment of Market Risk

Risk management: The Group has uniform policies in place for managing risk group-wide, with the individual divisions setting the policy for those risks which affect their businesses. The value adjustments and provisions judged to be required on the basis of the Group's current evaluation of risks are charged to income. In addition to this, the future risk potential for the Group is estimated for each type of risk: counterparty, country, market and operational risk.

Market risk: Market risk is managed across the Group by the Trading and Sales, Risk Management Division using a system of limits as well as value at risk measures. The management of the limits assigned to individual group units and the reporting of risks is carried out on a decentralised basis using uniform measurement techniques.

REPORT OF THE GROUP AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 1995

Mr Chairman,
Ladies and Gentlemen,

We have audited the group financial statements consisting of the income statement, balance sheet, cash flow statement and notes of the Union Bank of Switzerland presented by the Board of Directors for the year ended 31st December, 1995, in accordance with the provisions of the law. Our audit was conducted in accordance with auditing standards promulgated by the profession and with the International Standards on Auditing issued by the International Federation of Accountants (IFAC). We confirm that we meet the legal requirements concerning professional qualification and independence.

In our opinion, the group financial statements give a true and fair view of the financial position, the results of operations and the changes in financial position, in accordance with the consolidation and accounting principles laid down in the Directives of the European Union and taking into consideration the deviations described in the notes.

Based on our examination, we conclude that the group financial statements are in accordance with the requirements of the Swiss company and banking law and the principles of consolidation and valuation described in the notes. The group situation report is consistent with the group financial statements.

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

Zurich, 22nd February, 1996

ATAG Ernst & Young Ltd.

E. Kägi

Certified Accountant
in charge of the audit

A. Roth

Certified Accountant

UNCONSOLIDATED FINANCIAL STATEMENTS OF UBS

UNCONSOLIDATED BALANCE SHEETS AS AT 31st DECEMBER, 1994 AND 1995

	1994	1995
	<i>(in millions of Swiss francs)</i>	
Assets		
Liquid assets.....	1,533	1,311
Money market paper.....	15,141	16,948
Due from banks.....	25,209	64,547
Due from customers ⁽¹⁾	88,337	65,585
Mortgage loans.....	63,162	67,003
Trading balances in securities and precious metals.....	18,115	16,399
Financial investments.....	7,594	9,070
Investments in associated companies.....	3,027	2,669
Tangible fixed assets.....	2,781	3,114
Prepayments and accrued income.....	2,061	2,068
Other assets.....	24,296	38,821
Total.....	251,256⁽²⁾	287,535
<i>Total subordinated assets.....</i>	<i>208</i>	<i>142</i>
<i>Total amounts receivable from group companies.....</i>	<i>29,098</i>	<i>43,844</i>

(1) Balances due from brokers are reported under Due from banks in 1995.

(2) The figure for total assets differs from that published in the 1994 annual report (CHF 235,662 million). The difference of CHF 15,594 million is due to the fact that the replacement value of futures and forward contracts is also reported gross under Other assets in compliance with new Swiss accounting regulations.

Liabilities

Money market paper issued.....	8,366	6,728
Due to banks.....	64,616	76,098
Due to customers on savings and deposit accounts.....	33,817	39,939
Other amounts due to customers ⁽¹⁾	75,048	78,213
Medium-term note issues.....	9,911	9,805
Note issues and loans from central mortgage institutions.....	7,497	8,791
Accruals and deferred income.....	1,864	2,226
Other liabilities.....	24,220	39,882
Value adjustments and provisions.....	7,639	7,014
Reserves for general banking risks.....	754	711
Share capital.....	2,575	2,575
General statutory reserve.....	7,535	7,880
Reserve for own shares.....	1,348	1,551
Other reserves.....	4,837	4,974
Profit brought forward.....	8	7
Profit for the year.....	1,221	1,141
Total.....	251,256⁽²⁾	287,535
<i>Total subordinated liabilities.....</i>	<i>4,320</i>	<i>5,025</i>
<i>Total liabilities to group companies.....</i>	<i>10,860</i>	<i>15,397</i>

(1) Balances due to brokers are reported under Due to banks in 1995.

(2) The figure for total assets differs from that published in the 1994 annual report (CHF 235,662 million). The difference of CHF 15,594 billion is due to the fact that the replacement value of futures and forward contracts is also reported gross under Other liabilities in compliance with new Swiss accounting regulations.

**UNCONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31st DECEMBER, 1994 AND 1995**

	1994	1995
	<i>(in millions of Swiss francs)</i>	
Interest and discount income	9,980	10,520
Interest and dividend income from financial investments	382	419
Less: interest expense	7,312	8,027
Net interest income	3,050	2,912
Credit-related fees and commissions	446	423
Fees and commission income from securities and investment business	2,133	2,118
Other fee and commission income	299	312
Less: fee and commission expense	87	99
Net fee and commission income	2,791	2,754
Net income from trading operations	887	1,292
Net income from disposal of financial investments	(49)	83
Income from investments in associated companies	186	265
Net income from real estate holdings	14	12
Sundry income from ordinary activities	37	182
Other income from ordinary activities	188	542
Operating income	6,916	7,500
Personnel expense	2,560	2,801
General administrative expense	1,330	1,471
Operating expense	3,890	4,272
Operating profit	3,026	3,228
Depreciation, write-offs on fixed assets	803	915
Value adjustments, provisions and losses	748	1,070
Profit before extraordinary items and taxes	1,475	1,243
Extraordinary income	19	117
Extraordinary expenses	2	10
Taxes	271	209
Profit for the year	1,221	1,141

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

Set out below are the Notes to the Unconsolidated Financial Statements taken directly from the annual report of UBS for the accounting period ended 31st December, 1995.

Accounting and Valuation Principles

The parent company's accounting and valuation policies are largely identical with those of the Group, but are based on the principle of accounting prudence. The following deviations from the accounting policies used for the consolidated accounts should therefore be noted:

Investments in Associated Companies

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

Tangible Fixed Assets

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. Computer and telecommunications equipment, as well as other equipment, fixtures and fittings are written off on purchase.

Value Adjustments and Provisions

Provisions for taxes cover all those capital and income taxes payable under individual national laws at the balance sheet date. The provisions included in the balance sheet under Value adjustments and provisions contain undisclosed reserves which are not reported separately under Shareholders' equity.

Derivative Instruments and Risk Management

The same policies apply to the use of derivatives, to risk management and the treatment of market risks as are in force for the Group.

**REPORT OF THE AUDITORS ON THE UNCONSOLIDATED FINANCIAL
STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 1995**

Mr. Chairman,
Ladies and Gentlemen,

As auditors of your company, we have examined the books of account and the financial statements consisting of the income statement, balance sheet and notes to the financial statements presented by the Board of Directors for the year ended 31st December, 1995, in accordance with the provisions of the law. Our audit was conducted in accordance with auditing standards promulgated by the profession. We confirm that we meet the legal requirements concerning professional qualification and independence.

Based on our examination, we conclude that the books of account and the financial statements as well as the proposed appropriation of the disposable profit comply with the law and the articles of incorporation.

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

Zurich, 22nd February, 1996

ATAG Ernst & Young Ltd.

E. Kägi

Certified Accountant
in charge of the audit

H. Stamm

Certified Accountant

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF UBS
CONSOLIDATED BALANCE SHEET OF THE UBS GROUP AS AT 30th JUNE, 1996

	<i>31st December, 1995</i>	<i>30th June, 1996</i>
	<i>(in millions of Swiss francs)</i>	
Assets		
Liquid assets	1,420	1,559
Money market paper	17,953	15,058
Due from banks	91,286	107,670
Due from customers	83,782	98,486
Mortgage loans	68,506	69,544
Trading balances in securities and precious metals	58,397	65,056
Financial investments	11,517	9,939
Unconsolidated investments in associated companies	1,377	1,322
Tangible fixed assets	7,475	7,525
Intangible assets	18	17
Prepayments and accrued income	3,396	3,072
Other assets	41,657	36,793
Total	<u>386,784</u>	<u>416,041</u>
 Liabilities		
Money market paper issued	13,053	15,591
Due to banks	118,219	131,051
Due to customers on savings and deposit accounts	41,084	43,243
Other amounts due to customers	110,756	128,608
Medium-term note issues	10,825	9,879
Bond issues and loans from central mortgage institutions	11,234	11,644
Accruals and deferred income	3,674	3,513
Other liabilities	44,938	38,993
Value adjustments and provisions	8,420	8,756
Reserves for general banking risks	711	711
Share capital	2,575	2,575
Share premium account	8,808	7,684
Consolidated reserves	10,713	12,651
Minority interests in equity	91	33
Group profit	1,683	1,109
<i>of which: minority interests</i>	10	2
Total	<u>386,784</u>	<u>416,041</u>

CONSOLIDATED INCOME STATEMENT OF THE UBS GROUP
AS AT 30th JUNE, 1996

	30th June, 1995	30th June, 1996
	<i>(in millions of Swiss francs)</i>	
Interest and discount income	7,485	7,389
Interest and dividend income from financial investments	262	243
Less: interest expense	6,130	5,788
Net interest income	1,617	1,844
Credit-related fees and commissions	209	248
Fee and commission income from securities and investment business	1,573	2,108
Other fee and commission income	193	189
Less: fee and commission expense	85	137
Net fee and commission income	1,890	2,408
Net income from trading operations	864	1,299
Net income from disposal of financial investments	26	218
Income from investments in associated companies	101	52
Net income from real estate holdings	19	15
Sundry income from ordinary activities	66	(22)
Other income from ordinary activities	212	263
Operating income	4,583	5,814
Personnel expense	2,018	2,355
General administrative expense	787	834
Operating expense	2,805	3,189
Operating profit	1,778	2,625
Depreciation, write-offs on fixed assets	363	387
Value adjustments, provisions and losses	458	804
Profit before extraordinary items and taxes	957	1,434
Extraordinary income	6	7
Extraordinary expenses	3	1
Taxes	124	331
Group profit	836	1,109
<i>of which: minority interests</i>	4	2

TAXATION

Purchasers of Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase.

Potential purchasers who are in any doubt about their tax position on purchase, ownership or transfer of any Notes should consult their own tax advisers.

Netherlands Antilles

The Company has been advised that under existing Netherlands Antilles law (i) any payments under the Notes to any Noteholder, who is not a resident of the Netherlands Antilles and who during the taxable year has not engaged in trade or business through a permanent establishment within the Netherlands Antilles, will not be subject to Netherlands Antilles income taxes, (ii) any holder of Notes will not be subject to Netherlands Antilles income tax on any gain realised during that year on sale or redemption of any Notes and (iii) any Notes held by an individual who is not domiciled in the Netherlands Antilles at the time of his or her death would not be subject to inheritance taxes of the Netherlands Antilles. However, if and to the extent that security by way of mortgage upon real estate situated in the Netherlands Antilles is accorded to the Notes, a non-resident Noteholder may be liable to Netherlands Antilles personal or corporate income tax.

Switzerland

Tax on Principal

Under present Swiss law repayment of principal of the Notes by the Company or UBS are not subject to Swiss withholding tax (Swiss Anticipatory Tax), and payments to a holder of a Note who is a non-resident of Switzerland and who during the taxable year has not engaged in trade or business through a permanent establishment within Switzerland, will not be subject to any Swiss Federal, Cantonal or Municipal income tax.

Gains on Sale or Redemption

Under present Swiss law a Noteholder who is a non-resident of Switzerland and who during the taxable year has not engaged in trade or business through a permanent establishment within Switzerland will not be subject to any Swiss Federal, Cantonal or Municipal income or other tax on gains realised during the year on the sale or redemption of a Note.

Stamp, issue and other taxes

There is no tax liability in Switzerland in connection with the issue and redemption of the Notes. However, Notes sold through a bank or other securities dealer resident in Switzerland or Liechtenstein are subject to Turnover Tax.

PURCHASE AND SALE

Credito Italiano S.p.A., UBS Limited, ARCA SIM S.p.A., Banca Commerciale Italiana, Banca del Gottardo, Banca di Roma, Banca Monte dei Paschi di Siena S.p.A., Banca Nazionale del Lavoro S.p.A., Deutsche Bank AG London, Istituto Bancario San Paolo di Torino S.p.A., IMI Bank (Lux) S.A. and J.P. Morgan Securities Ltd. (the “Tranche 1 Managers”) and CARIPLO—Cassa di Risparmio delle Provincie Lombarde S.p.A. (together with the Tranche 1 Managers, the “Tranche 2 Managers”) have entered into a Purchase Agreement dated 22nd January, 1997 (the “Purchase Agreement”) with the Company and UBS under which (i) the Tranche 1 Managers have jointly and severally agreed to purchase Italian Lire 1,500,000,000,000 principal amount of the Notes (the “Tranche 1 Notes”) at a purchase price of 11.65 per cent. of such principal amount (the “Purchase Price” relating to the Tranche 1 Notes), being the issue price relating to the Tranche 1 Notes of 12.55 per cent. of their principal amount less the selling concession relating to the Tranche 1 Notes of 0.90 per cent. of their principal amount and (ii) the Tranche 2 Managers have jointly and severally agreed to purchase the remaining Italian Lire 1,000,000,000,000 principal amount of the Notes (the “Tranche 2 Notes”) at a purchase price of 11.30 per cent. of such principal amount (the “Purchase Price” relating to the Tranche 2 Notes), being the issue price relating to the Tranche 2 Notes of 12.20 per cent. of their principal amount less the selling concession relating to the Tranche 2 Notes of 0.90 per cent. of their principal amount. The Company has agreed to pay (i) to the Tranche 1 Managers a combined management and underwriting commission of 0.10 per cent. of the principal amount of the Tranche 1 Notes and (ii) to the Tranche 2 Managers a combined management and underwriting commission of 0.10 per cent. of the principal amount of the Tranche 2 Notes. In addition, the Company has agreed to pay the Managers an amount in lieu of reimbursement of their expenses.

SELLING RESTRICTIONS

United States

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them in the U.S. Internal Revenue Code and regulations thereunder.

Each Manager has agreed that except as permitted by the Purchase Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

The Notes have not been offered or sold and, prior to the expiry of the period of six months from the Closing Date, may not be offered or sold, to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995.

All applicable provisions of the Financial Services Act 1986 must be complied with in relation to the Notes in, from or otherwise involving the United Kingdom.

Any document received by any person in connection with the issue of the Notes may only be passed on in the United Kingdom to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

Netherlands Antilles

The Notes may not be offered or sold, directly or indirectly, to (a) any Netherlands Antilles person or (b) to others for re-offering or re-sale to any Netherlands Antilles person. "Netherlands Antilles person" means any resident of the Netherlands Antilles (including any corporation or other entity organised under the laws thereof) who does not have a specific licence to purchase such Notes or was non-resident status under Netherlands Antilles foreign exchange control regulations.

Republic of Italy

Each Manager has represented and agreed that no action has been or will be taken which would allow an offering of the Notes to the public in the Republic of Italy. Accordingly the Notes may not be offered, sold or delivered and neither the Offering Circular nor any other offering material relating to the Notes may be distributed or made available in the Republic of Italy unless (i) such activities are carried out by a securities intermediary appropriately authorised to conduct such activities in the Republic of Italy and are directed only towards "Professional Investors" (as defined in Consob Resolution No. 6430 of 26th August, 1992, as amended ("Resolution 6430")) and (ii) the applicable requirements for notices to Consob under Article 4 of Resolution 6430 and to the Bank of Italy under Article 129 of Legislative Decree No. 385 of 1st September, 1993, as amended, and the Bank of Italy's instructions issued thereunder are fully complied with. Individual sales of the Notes to any person in the Republic of Italy may only be made in accordance with Italian securities, tax and other applicable laws and regulations.

General

Each Manager has agreed and represented that it will comply with all applicable laws and regulations in each jurisdiction in which it purchases, offers or sells Notes, or has in its possession or distributes this Offering Circular, in all cases at its own expense.

Without prejudice to the foregoing provisions, neither the Company nor any other person shall have the responsibility for, and each Manager will obtain any consent, approval or permission required by it for, the purchase, offer or sale by it, of Notes and will comply with the laws and regulations in force in any jurisdiction to which it is subject or in which it makes any purchase, offer or sale.

Purchasers of the Notes may be required to pay stamp duties or other charges in accordance with the laws and practices of the country where the purchase takes place.

GENERAL INFORMATION

Listing

A notice relating to the issue (*Notice Légale*) as well as the Articles of Association of the Company and the By-Laws of UBS will be lodged with the Chief Registrar of the District Court of Luxembourg (*Greffier en chef du Tribunal d'Arrondissement de et à Luxembourg*) where such documents may be examined and copies obtained.

Clearing Systems

The Notes have been accepted for clearance through Cedel Bank and Euroclear. The ISIN is XS0071948540 and the Common Code is 7194854.

Authorisation

The issue of the Notes was authorised by a resolution of the Board of Directors of the Company passed on 4th December, 1996. The Guarantee was authorised by the Group Executive Board of UBS on 12th December, 1996.

Documents

Copies of the Agency Agreement will, so long as any Notes are outstanding, be available for inspection during usual business hours at the specified offices of UBS and any paying agent.

A copy of the Articles of Association of the Company and the By-Laws of UBS will be available for inspection so long as any Notes are outstanding, at the specified office of the Paying Agent in Luxembourg.

The Annual Report and the published semi-annual interim financial statements of UBS and the Annual Report of the Company will be available at the specified office of the Paying Agent in Luxembourg, so long as any Notes are outstanding. The Company is not required to, and therefore does not, publish interim financial statements.

Exchange Control

The Central Bank of the Netherlands Antilles has granted to the Company a general licence, under which the Company is exempt from Netherlands Antilles foreign exchange control.

Material Adverse Change

Except as disclosed in this Offering Circular, there has been no material adverse change in the financial position of the Company or in the financial position of UBS and the subsidiary and affiliated companies of UBS since 31st December, 1995.

Litigation

Neither the Company nor UBS nor any of UBS's subsidiary or affiliated companies is involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes nor so far as the Company and UBS are aware is any such litigation or arbitration involving any of them pending or threatened.

REGISTERED OFFICE OF THE COMPANY

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Willemstad
Curaçao
Netherlands Antilles

REGISTERED OFFICE OF UBS

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8021 Zürich
Switzerland

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Union Bank of Switzerland
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London EC2M 2RH

PAYING AGENT

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L-1470 Luxembourg

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To the Managers:

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One New Change
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LISTING AGENT

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