UBS

Letter to Shareholders
Nine-month Report 1999

23 November 1999

Dear Shareholders,

For the nine-month 1999 period, we are pleased to report that UBS Group net profit after tax reached CHF 5,179 million, representing diluted earnings per share of CHF 24.73. Warburg Dillon Read performed strongly for the third consecutive quarter, and Private and Corporate Clients also produced good results. During the nine-month period, assets under management increased six percent in Private Banking and two percent for the Group as a whole. Assets under management will also be positively influenced by the announced acquisition of Global Asset Management and the continued transfer of the international private banking business of Bank of America.

Divisional highlights

During the third quarter, progress was made across the UBS Group in realizing its strategic goals. In the Private Banking Division, UBS announced the acquisition of Global Asset Management, a leading global asset management group focused on private clients' portfolios and mutual funds. Global Asset Management's range of mutual funds and its multi-manager system, in which it selects the top 90 out of 6,000 third-party fund providers, will enhance Private Banking's range of investment styles. The division will leverage Global Asset Management's expertise in creating innovative asset management products as well as its state-of-the-art technology skills.

At Warburg Dillon Read, the Equities business area continued to perform extremely well across all markets. The Fixed Income business area has also exceeded expectations, with particular strengths in swaps and options, and investment grade debt businesses. Corporate client advisory business and primary equities transactions picked up significantly in the third quarter and have resulted in improvements to league table positions. In particular, Warburg Dillon Read was selected to act as the sole advisor to Sprint in their proposed USD 129 billion merger with MCI WorldCom.

In September, Private and Corporate Clients announced significant functionality enhancements in its electronic banking capabilities, including the Tradepac range of services geared towards active trading customers not requiring advisory services. Other enhancements in electronic banking include lower prices, on-line access to six stock exchanges worldwide and real-time quotes in Switzerland, as well as UBS Quicken, the UBS-tailored software resulting from an exclusive agreement with Intuit, the leading personal financial management software firm. This move will allow UBS to continue to lead the Swiss electronic banking market with market share in excess of its share of the non-electronic banking market.

UBS Brinson announced an agreement to acquire Allegis Realty Investors LLC, one of the largest independent real estate investment management firms in the US. This acquisition gives the division increased capabilities in this important asset class.

One of UBS Capital's significant divestments in the third quarter was the sale of Gardaland SpA, a leading European theme park located in Italy. During UBS Capital's investment period, Gardaland's sales and earnings before interest and tax grew by approximately 50% and 65%, respectively.

UBS Group financial highlights

Significant financial events which occurred in both the nine-month 1998 and nine-month 1999 periods make a clear discussion of comparable year-to-date results difficult. Total operating income increased 31% to CHF 21.8 billion, while total operating expenses increased 14% to CHF 14.9 billion, period on period.

The increase in total operating income is attributable to, on the one hand, higher gains on divestments during the current period than during the previous period, as UBS continues to focus on its core businesses. On the other hand, revenues during the previous period were negatively impacted by market turmoil, especially in emerging markets, as well as revenue losses from investments in Long Term Capital Management and the Global Equity Derivatives portfolio. While net commission income was negatively impacted by divestments and reduced client activity associated with lower volumes in the Swiss market, net trading income continued to develop positively throughout the period.

Non-personnel expenses are significantly below those of the previous nine-month period reflecting stringent cost reduction programs throughout the Group. Performance-related compensation increased period on period primarily due to the associated improvement in revenues. However, in 1998 additional personnel payments were charged against the restructuring reserve as part of our efforts to protect the investment banking franchise in the face of merger-related shortfalls in profits.

Year 2000

By 30 September 1999, UBS reached 100% completion in upgrading its critical IT systems, infrastructure and embedded systems to address the Year 2000 issue. As of this date, all these systems were fully tested and were operating in a Year 2000-remediated environment. UBS is also actively developing a comprehensive range of preparations which will apply during the rollover period at the end of the year to ensure that the operating environment is closely monitored and that any Year 2000-related issues are addressed quickly and effectively. Importantly, UBS has committed a considerable amount of resources to the rigorous development of a comprehensive range of contingency plans in the event of potential external Year 2000 problems in the financial sector, as well as in infrastructure more generally.

Outlook

UBS is committed to its business model as a global, integrated investment services firm and the leading bank in Switzerland. We believe that the current mix of businesses is essential to the success of this model.

We would like to thank our clients, staff and investors for their support during the past two years since the merger announcement. In light of the Year 2000 issue, we may see a slowdown in many of the markets in which we are active in the fourth quarter. However, unless exceptional circumstances arise, the strength of the nine-month result gives us confidence in the full-year 1999 result.

Sincerely

UBS AG

Alex Krauer
Chairman of the Board of Directors

Marcel Ospel
President and Group CEO

Review of business activities within the divisions

During the first nine months of 1999, pre-tax profit in the *Private Banking Division* came to CHF 2,023 million. Comparing this figure with the CHF 3,857 million earned in the first nine months of 1998 is not particularly instructive, given that the nine-month 1998 result included the gains from the divestment of Banca della Svizzera Italiana (CHF 1,058 million) as well as a related operating profit of approximately CHF 140 million. Part of this decline is also due to lower levels of client transaction activity and the considerable investments needed to establish onshore private banking franchises outside Switzerland. Results are in line with expectations, however. Assets under management increased by 6% over nine months, but were down 2.6% to CHF 642 billion since mid-year. However, the division recorded pleasing growth in the number of new clients it has attracted. The integration of Bank of America's international operations in Europe and Asia has so far resulted in the transfer to UBS of assets worth CHF 3.7 billion. Since the beginning of the year, investment funds have posted an increase of 6.3 % to CHF 186 billion. UBS is far and away the largest provider of investment fund products in Europe.

Despite less favourable conditions on the markets, *Warburg Dillon Read* (investment banking) continued to perform strongly in the third quarter. Although pre-tax profits were up CHF 3,307 million on nine-month 1998 figures at CHF 2,077 million, no direct comparisons can be made with last year's figures given the extraordinary market conditions and significant financial events mentioned previously. What is clear, however, is that results for this year are well ahead of expectations. The Equities and Fixed Income business areas posted particularly strong results. Corporate finance revenues were in line with expectations. These good results naturally have a significant impact on performance-related compensation. In addition, the charge of approximately one billion Swiss francs to the restructuring reserve in the third quarter of last year make personnel costs for the current period under review appear even higher. Base salary costs were down by 15% due to the reduction in staff.

Private and Corporate Clients continued to turn in a good performance. At CHF 841 million, pre-tax profit was up 14% on nine-month 1998 figures. While operating income after credit loss expenses rose by 6%, rigorous cost controls kept the increase in operating expense to a mere 4%. Results were impacted positively by the steady growth in affluent client business. The restructuring of the branch network in Switzerland progressed according to plan. By the end of September, some 135 of the 150 redundant branches had been closed. Assets under management declined by 2% to CHF 427 billion in the first nine months. A strong increase of CHF 12 billion, or 3%, in private client assets contrasted with a marked drop in other banks' transaction accounts.

Key figures

Annualized return on equity:
19.5% (11.1% for the first nine months of 1998)

Cost/income ratio:
65.9% (77%)

Assets under management:
CHF 1,607 billion (up 2.2% versus 31 December 1998)

Headcount:
48,623 (48,011 31 December 1998)

Shareholders' equity:
CHF 33,298 million
(CHF 32,395 million 31 December 1998)

Treasury stock:
8,625,214 (4% of shares issued)

In the third quarter of this year, *UBS Brinson*, our institutional asset management division, was again faced with challenging market conditions for active asset managers, particularly value-based managers. At CHF 236 million, pre-tax profits for the first nine months of 1999 were down 20% on the comparable prior-year period. Results were impacted not only by client attrition attributable to the merger and investment performance but also by increases in goodwill amortizations relating to the former joint venture with the Japanese Long Term Credit Bank. Within the Phillips & Drew business area major investment strategies earned above-benchmark results after a protracted period of difficulties. At CHF 538 billion, there has been a slight increase of 1.3% in assets managed by UBS Brinson since the beginning of the year, despite the decline registered in the third quarter.

The private equity division *UBS Capital* posted a pre-tax profit of CHF 138 million in the first nine months of this year, against CHF 405 million for the corresponding period in 1998. Given that UBS Capital is currently in an expansion phase, more investments and less disposals were made during the period. This is reflected in the aggregate value of the division's portfolio, which has grown by CHF 600 million to CHF 2.4 billion since the beginning of the year. At mid-year, the portfolio contained non-realized gains in the region of CHF 1.1 billion, versus CHF 900 million at the end of 1998.

Developments in important income and expense items

At CHF 4,837 million, *net interest income* before credit loss expenses was 2% lower than in the first nine months of 1998. On the one hand, the more consistent implementation of risk-adjusted pricing in Swiss lending business resulted in higher interest margins. In contrast, the divestment of various businesses coupled with the continued scaling back of the international loan portfolio produced a lower level of income versus a year back. Return on invested equity was also lower. At CHF 910 million, credit loss expense charged to income was almost double that in the prior-year period. In 1998, a significant portion of credit loss expense was appropriately charged to provisions established previously and thus did not impact earnings.

The decline of 5% to CHF 9,250 million in *net fee and commission income* is attributable to the divestment of various businesses, weaker client demand and a decline in emerging market business.

At CHF 6,013 million, *net trading income* recorded a staggering increase against the exceptionally poor result of CHF 598 million in the first nine months of 1998, which was marked by a whole series of special factors. In particular, the strong nine-month figures recorded this year and generated largely by Warburg Dillon Read are due primarily to the excellent results achieved in equities and fixed-income business. A significant portion of revenues has come from client-driven business, with proprietary transactions accounting for a smaller share.

Personnel expense was up 38% on the year-earlier period to CHF 9,923 million. Much of this substantial increase can be attributed to the fact that, in the third quarter of last year, CHF 1,007 million in personnel costs was charged to the restructuring reserve. At the end of 1997, UBS foresaw the possibility of a shortfall in profit in its investment banking as a result of the merger. In order to protect its investment banking franchise UBS realized it would probably need to make payments to personnel in excess of amounts determined by normal compensation methodologies. Such a situation did in fact arise in the third quarter of last year following the sharp drop in profits that was exacerbated by LTCM-related losses and losses on the global derivatives portfolio. If this special factor is stripped out of the figures, the increase in personnel costs compared to nine-month 1998 figures comes to 21%. This is directly attributable to higher nine-month performance-related compensation based on the good investment banking result in 1999.

General and administrative expenses decreased 19% to CHF 3,724 million, due to a large extent to last year's provision of CHF 570 million for the settlement in the United States in connection with the role of the Swiss banks during the Second World War, but also reflecting stringent cost reduction programs throughout the Group.

In the first nine months of 1999, the *Group's overall tax rate* was 23.6%.

A detailed report is available in English on the Internet (www.ubs.com). It can also be obtained in printed form from: UBS AG, RM0W-ISU, P.O. Box, CH-8098 Zurich.

UBS Group Income Statement

CHF million For the nine-month period ended	**30.9.1999**	30.9.1998	Change	%
Operating income				
Interest income	**12,939**	18,046	(5,107)	(28)
Less: Interest expense	**8,102**	13,092	(4,990)	(38)
Net interest income	**4,837**	4,954	(117)	(2)
Less: Credit loss expense	**910**	464	446	96
Total	**3,927**	4,490	(563)	(13)
Net fee and commission income	**9,250**	9,702	(452)	(5)
Net trading income	**6,013**	598	5,415	906
Other income, including income from associates	**2,573**	1,829	744	41
Total	**21,763**	16,619	5,144	31
Operating expenses				
Personnel	**9,923**	7,205	2,718	38
General and administrative	**3,724**	4,606	(882)	(19)
Depreciation and amortization	**1,290**	1,343	(53)	(4)
Total	**14,937**	13,154	1,783	14
Operating profit before tax	**6,826**	3,465	3,361	97
Tax expense	**1,612**	907	705	78
Group profit	**5,214**	2,558	2,656	104
Less: Minority interests	**35**	(42)	77	(183)
Net profit	**5,179**	2,600	2,579	99
Basic earnings per share (CHF)	**24.86**	12.26	12.60	103
Diluted earnings per share (CHF)	**24.73**	12.20	12.53	103

Segment Reporting by Business Division

For the nine-month period ended 30 September 1999

CHF million	Private Banking	Warburg Dillon Read	Private & Corp. Clients	UBS Brinson	UBS Capital	Corporate Center	Group total
Operating income	4,425	10,081	5,447	811	254	1,655	22,673
Less: Credit loss expense [1]	12	238	836	0	0	(176)	910
Total	4,413	9,843	4,611	811	254	1,831	21,763
Personnel, general and administrative expenses	2,271	7,182	3,364	472	112	246	13,647
Depreciation and amortization	119	584	406	103	4	74	1,290
Total	2,390	7,766	3,770	575	116	320	14,937
Segment performance before tax	**2,023**	**2,077**	**841**	**236**	**138**	**1,511**	**6,826**
Tax expense							1,612
Group profit							**5,214**
Less: Minority interests							35
Net profit							**5,179**

[1] In order to show the relevant divisional performance over time, adjusted expected loss figures rather than the net credit loss expense are reported for all business divisions. The statistically derived adjusted expected losses reflect the inherent counterparty and country risks in the respective portfolios. The difference between the statistically derived adjusted expected loss figures to the financially booked net credit loss expenses at Group level is reported in the Corporate Center. The divisional breakdown of the net credit loss expense of CHF 910 million as of 30 September 1999 is as follows: Private Banking CHF 13 million, Warburg Dillon Read CHF (15) million, Private & Corporate Clients CHF 913 million, Corporate Center CHF (1) million.

UBS Group Balance Sheet

CHF million	**30.9.1999**	31.12.1998	Change	%
Assets				
Cash and balances with central banks	**2,746**	3,267	(521)	(16)
Money market paper	**63,606**	18,390	45,216	246
Due from banks	**35,526**	68,495	(32,969)	(48)
Cash collateral on securities borrowed	**88,648**	91,695	(3,047)	(3)
Reverse repurchase agreements	**147,510**	141,285	6,225	4
Trading portfolio	**162,059**	162,588	(529)	(0)
Positive replacement values	**121,619**	169,936	(48,317)	(28)
Loans, net of allowance for credit losses	**240,135**	247,926	(7,791)	(3)
Financial investments	**6,283**	6,914	(631)	(9)
Accrued income and prepaid expenses	**6,809**	6,627	182	3
Investments in associates	**1,082**	2,805	(1,723)	(61)
Property and equipment	**10,093**	9,886	207	2
Intangible assets and goodwill	**2,227**	2,210	17	1
Other assets	**11,781**	12,092	(311)	(3)
Total assets	**900,124**	944,116	(43,992)	(5)
Total subordinated assets	***601***	*496*	*105*	*21*
Liabilities				
Money market paper issued	**67,417**	51,527	15,890	31
Due to banks	**81,624**	85,716	(4,092)	(5)
Cash collateral on securities lent	**13,029**	19,171	(6,142)	(32)
Repurchase agreements	**147,532**	137,617	9,915	7
Trading portfolio liabilities	**43,126**	47,033	(3,907)	(8)
Negative replacement values	**147,112**	205,080	(57,968)	(28)
Due to customers	**275,964**	274,850	1,114	0
Accrued expenses and deferred income	**12,075**	11,232	843	8
Long term debt	**55,524**	50,783	4,741	9
Other liabilities	**23,053**	27,722	(4,669)	(17)
Total liabilities	**866,456**	910,731	(44,275)	(5)
Minority interests	**370**	990	(620)	(63)
Shareholders' equity				
Share capital	**4,306**	4,300	6	0
Share premium account	**13,873**	13,740	133	1
Foreign currency translation	**(458)**	(456)	(2)	0
Retained earnings	**19,380**	16,293	3,087	19
Treasury shares	**(3,803)**	(1,482)	(2,321)	157
Total shareholders' equity	**33,298**	32,395	903	3
Total liabilities, minority interests and shareholders' equity	**900,124**	944,116	(43,992)	(5)
Total subordinated liabilities	***14,329***	*13,652*	*677*	*5*