

Letter to Shareholders Third Quarter 2001

13 November 2001

Dear Shareholders,

We were profoundly shocked and saddened by the terrorist attacks in the United States on 11 September 2001 and by the scale of the personal tragedy involved. Our thoughts and deepest sympathies are with the injured and with all of the families, friends and colleagues of the victims. In particular, we honor the memory of the five UBS employees who lost their lives. As a financial sign of solidarity, UBS has contributed USD 5 million to support the relief efforts. Many individual staff have also made additional contributions to our humanitarian relief fund, or taken part in volunteer work following the attacks.

UBS was fortunate to suffer no direct damage to property or systems. We were therefore able to make space available in our buildings to some of the displaced firms, and to contribute actively to the work which allowed US stock markets to open again so soon after the disaster. We are proud of the successful efforts of our crisis management teams worldwide, and particularly in the US.

Short-term risks were carefully controlled. As one of the best capitalized and most liquid financial institutions in the world, UBS suffered no funding problems, and was in a position to provide liquidity to clients and other major financial institutions on a selected basis. The events of 11 September and their aftermath have, however, had some negative consequences for our revenues. The closure of US equity markets for four days led directly to lost transaction revenues, particularly in UBS PaineWebber. Asset prices have not completely recovered from the declines following the attacks, and this will feed through into lower asset based revenues in asset management and private client businesses next quarter. More generally, the effect of the unstable geopolitical environment on consumer and investor confidence, and hence on the performance of key world economies, has been to increase volatility and uncertainty in the world's financial markets. These challenging conditions, although by no means insurmountable, may continue to have a negative impact on the global financial services industry and, as a result, on UBS.

UBS has responded to the terrorist attacks in the US with heightened scrutiny of client lists and with other targeted internal measures. Our immediate objective has been to re-check accounts and transactions to ensure that UBS has no direct or indirect relationships with persons or companies responsible for the attacks on America or for other terrorism-related activities. UBS remains committed to Switzerland's money laundering regulations, which are among the most stringent in the world, and to active cooperation with law enforcement organizations in the fight against terrorism.

Swissair

The effect of the terrorist attacks and their aftermath on the travel industry precipitated the financial crisis that led SAir Group, the parent company of Swissair, to seek protection from its creditors in early October. With a network of businesses across the globe, UBS has good reason to value frequent and convenient international connections with Switzerland. At the same time, as corporate Switzerland's biggest advisor and lender and as manager of much of Switzerland's private wealth, UBS has a clear concern to mitigate the effects of SAir Group's problems on the Swiss economy. This is why we are pleased that efforts to build a new Swiss airline have progressed, and why we have underwritten our concern with a significant financial commitment – despite the obvious risks.

Through its role in the separation of Crossair from the rest of the SAir Group, UBS was actively involved in the initial stages of the rescue plan, and has since worked closely to support the further efforts of the government and the management of the new airline. Swissair's collapse is unique in Swiss commercial history, both in terms of the suddenness and the scale of the potential redundancies and damage to local and national economies. It therefore required a unique response, with social and economic concerns ranking alongside purely commercial motives.

Third quarter results

UBS recorded a net profit after tax of CHF 903 million in the quarter. Market conditions throughout third quarter

were challenging, with slowing economies worldwide and continuing weakness in securities markets. Pre-goodwill, profit was 29% lower than last quarter and 44% less than achieved in the more favorable markets of third quarter 2000. In particular, the same period last year benefited from significant credit loss recoveries which are unlikely to be repeated. At the same time, conditions for equity trading, which was so successful in 2000, were weak. Against this background, our client businesses remain solid and well positioned for an improvement in economic conditions, with strong market share and comparatively stable revenues.

Pre-goodwill, the Group's annualized return on equity for the year to date was 15.1%, within our target range of 15–20% across periods of varying market conditions. On the same basis, basic earnings per share decreased 47% to CHF 0.97 from CHF 1.82 in third quarter 2000. Despite costs standing at their lowest level this year, the pre-goodwill cost/income ratio rose to 79.9% from 68.0% in third quarter 2000, reflecting disrupted transaction revenues, the influence of the relatively high cost/income ratio typical of UBS PaineWebber's business, and the effect of poor equity trading conditions.

The ability of our asset gathering businesses to generate continued net new money demonstrates the strength of our client relationships and the value investors place on quality advice. Net new money for the quarter was CHF 34.9 billion, with positive inflows in all our businesses, bringing the total inflow for the year to CHF 80.3 billion. Total invested assets at the end of September were CHF 2.28 trillion, a decline of 11% over the quarter, due to sharp declines in markets worldwide and the 10% fall in the value of the US dollar against the Swiss franc.

Business Group highlights

The Private and Corporate Clients business unit produced a near record result, with profit before tax up 2% on the previous quarter, and up 16% on the same quarter last year. Consistently strong performance at Private and Corporate Clients over the past 18 months reflects the improvement in credit quality which has resulted from the implementation of risk adjusted pricing, and a dedicated focus on managing costs. Costs in Private and Corporate Clients are now at their lowest level since the merger of Union Bank of Switzerland and Swiss Bank Corporation.

Progress on UBS Private Banking's European wealth management initiative continued, with the launch in France and Germany of pilot versions of PACE and ACCESS, two new flagship open architecture investment management products. Asset gathering accelerated, with CHF 2.0 billion

of net new money in our five target countries, up from CHF 1.1 billion in second quarter. Overall, Private Banking's net new money of CHF 6.6 billion was encouraging and brings the total inflow this year to CHF 19.0 billion.

UBS Asset Management has continued the recovery demonstrated in the first half of the year, with net new money of CHF 12.3 billion bringing the total for the year to CHF 25.7 billion.

Despite resilience in fixed income revenues and a strong quarter in foreign exchange, UBS Warburg's Corporate and Institutional Clients business unit reported a 27% reduction in pre-tax profit compared to third quarter 2000, driven by tough conditions in equity markets and the very limited amount of corporate finance and capital markets activity.

However, UBS Warburg has recorded a substantial gain in market share of corporate finance fee pool this year, moving from 6th place in Europe a year ago to 1st place across the first nine months of 2001, and from 15th place in the US to 9th this year. This improved position demonstrates the momentum that our business has gained this year, and puts us in a strong position to take advantage of any increase in activity levels.

UBS PaineWebber suffered this quarter from the normal summer slowdown in revenues, and the effect of the closure of US markets for four days after the terrorist attacks. Despite the very difficult environment in the US, especially in September, Private Clients received net new money of CHF 11.4 billion, an increase of 31% on second quarter, demonstrating the value that our clients place on high quality investment advice in turbulent times.

Outlook

In the short term, deteriorating economic conditions, and the direct effect these have on investor sentiment, market activity and valuations, will continue to influence UBS's performance. Avoidance of balance sheet led growth has left our credit businesses in good condition and we do not expect significant increases in credit loss expenses this year. Fourth quarter is normally the quietest part of the year in many of our businesses, and we expect this effect to be magnified this year. The difficult environment for private equity will also continue to negatively affect results.

Despite downbeat trading conditions, this year has seen us successfully expand our market share in our core businesses. While maintaining a cautious approach to overall cost management, we have continued to make carefully focused investments in corporate finance and in the domestic European private banking business, building the foundations of future growth. Longer-term trends of equitization

and wealth growth play to our strengths as a bulge bracket investment bank, a top institutional and investment fund manager and the world's leading private client business. We will therefore focus on adjusting compensation expense down in line with the challenging environment, rather than instituting widespread staff reductions.

While short-term conditions and lack of visibility continue to provide a challenge to all our businesses, our commitment to a focused strategy and the depth and quality of talent we are devoting to our key businesses, give us confidence that we are well placed to capitalize on improvements in the market environment.

13 November 2001

UBS AG



Marcel Ospel
Chairman



Luqman Arnold
President

Third quarter results

UBS Switzerland

UBS Switzerland's **Private and Corporate Clients** business unit produced another very strong result, with profit before tax up 2% from the previous quarter at CHF 538 million and 16% higher than the same quarter last year. Operating income fell 6%, reflecting various one-off revenues during the second quarter and continued weakness in transaction levels. Although we have yet to experience any widespread deterioration in credit quality in Switzerland, lending margins continued to experience competitive pressure. Costs, at CHF 1,073 million, are now at their lowest level since the merger of Union Bank of Switzerland and Swiss Bank Corporation. Reflecting widespread market declines, invested assets fell CHF 25 billion during the quarter to total 308 billion on 30 September 2001.

The **Private Banking** business unit's profit before tax was CHF 603 million in the third quarter, down 17% from the second quarter, as a result of lower transaction levels and increased investment in our European wealth management initiative, which continued to make good progress. In the third quarter, another 65 client advisors joined, bringing the total hired this year to 157 with another 60 committed joiners. Asset gathering performance in our five European target countries also accelerated,

with CHF 2.0 billion in net new money inflows, up from CHF 1.1 billion in second quarter. Private Banking's total net new money of CHF 6.6 billion was again encouraging, and brings the total inflow this year to 19.0 billion. Asset-based income put in a resilient performance, declining just 1% because of the decrease in average invested assets.

UBS Asset Management

UBS Asset Management has continued the recovery demonstrated in the first half of the year, with net new money inflows of CHF 12.3 billion, bringing the total for the year to CHF 25.7 billion. In our mutual funds business, net new money inflows were CHF 10.4 billion, up noticeably from the CHF 0.8 billion inflow in the second quarter. A strong performance from GAM and UBS Investment Funds complemented significant inflows in fixed income mandates in the Americas. In institutional asset management, net new money for the quarter was CHF 1.9 billion.

UBS Asset Management's pre-tax profit decreased slightly to CHF 55 million in third quarter 2001 from CHF 57 million in second quarter, as market declines resulted in lower performance fees and lower asset based fees.

UBS Warburg

UBS Warburg's **Corporate and Institutional Clients** business unit reported a 27% year-on-year reduction in pre-tax prof-

it to CHF 878 million because of tough conditions in equity markets and the very limited amount of corporate finance and capital markets activity. Fixed income revenues were resilient, however, and the foreign exchange business had a strong quarter.

We continue to manage costs tightly, with lower performance related compensation driving personnel expenses down 8% year-on-year to CHF 2,021 million, despite an 18% increase in headcount, mainly as a result of the PaineWebber acquisition and our continued strategic investment in the corporate finance business. The cost management program pushed general and administrative expenses down by CHF 55 million in the period because of savings in legal and consulting fees, advertising and lower expenditures on information technology equipment.

We have been careful and conservative in hiring at Corporate and Institutional Clients over the last few years, and as a result we believe we have no significant over-capacity in the medium term. We regularly review investment in headcount in line with new assessments of revenue potential, but we do not foresee a need for drastic cutbacks at this time.

In August, we said that we did not expect significant additional losses at UBS Capital this year. Since second quarter,

the level of write-downs in the portfolio has fallen noticeably, but further economic weakening, exacerbated by the effect of the attacks in the US, has led to a lack of corporate activity and volatile market conditions which together have severely limited opportunities for divestment or flotation of companies in the portfolio.

UBS Capital recorded a pre-tax loss of CHF 112 million in third quarter 2001, compared to a loss of CHF 351 million last quarter, and a profit of 46 million in third quarter 2000.

The **Private Clients** business unit (UBS PaineWebber) suffered this quarter from the normal summer slowdown in revenues, and the effect of the closure of US markets for four days after the terrorist attacks in the US. Pre-tax profit was down 92% from the previous quarter at CHF 8 million. Despite the very difficult environment in the US, especially in September, we saw net new money inflows of CHF 11.4 billion, an increase of 31% on second quarter, demonstrating the value that clients place on high quality investment advice in turbulent times.

Significant financial events

There were no significant financial events in third quarter 2001, second quarter 2001 or third quarter 2000.

More detailed financial reporting

A much longer quarterly financial report giving full commentary on the third quarter's results is prepared for investors and analysts. It is available in English from: UBS AG, Economic Information Center, GHDE CA50-AUL, P.O. Box, CH-8098 Zurich, Switzerland.

There is also an interactive version of this detailed report which is available on the internet and includes extra features such as pop-up graphs and downloadable tables. You can find this interactive version on the Investor Relations homepage at www.ubs.com/investors.

Cautionary statement regarding forward-looking statements

This communication contains statements that constitute "forward-looking statements", including, without limitation, statements relating to the implementation of strategic initiatives, including the implementation of the new European wealth management strategy, expansion of our corporate finance presence in the US and worldwide, and other statements relating to our future business development and economic performance.

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

These factors include, but are not limited to, (1) general market, macro-economic, governmental and regulatory trends, (2) movements in local and international securities markets, currency exchange rates and interest rates, (3) competitive pressures, (4) technological developments, (5) changes in the financial position or credit-worthiness of our customers, obligors and counterparties, (6) legislative developments, (7) the impact of the terrorist attacks on the World Trade Center and other sites in the United States on 11 September 2001 and subsequent related developments and (8) other key factors that we have indicated could adversely affect our business and financial performance which are contained in our past and future filings and reports, including those with the SEC.

More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS's Annual Report on Form 20-F for the year ended 31 December 2000. UBS is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

UBS Group Financial Highlights

CHF million, except where indicated	Quarter ended			% change from		Year-to-date	
	30.9.01	30.6.01	30.9.00	2Q01	3Q00	30.9.01	30.9.00
Income statement key figures							
Operating income	8,704	9,881	8,545	(12)	2	28,652	27,102
Operating expenses	7,418	8,024	5,842	(8)	27	23,314	18,839
Operating profit before tax	1,286	1,857	2,703	(31)	(52)	5,338	8,263
Net profit	903	1,385	2,075	(35)	(56)	3,867	6,343
Cost / income ratio (%) ¹	83.6	80.6	69.5			80.3	70.1
Cost / income ratio before goodwill (%) ^{1,2}	79.9	77.2	68.0			76.9	68.6
Per share data (CHF)							
Basic earnings per share ³	0.72	1.10	1.72	(35)	(58)	3.05	5.35
Basic earnings per share before goodwill ^{2,3}	0.97	1.37	1.82	(29)	(47)	3.83	5.69
Diluted earnings per share ³	0.65	1.06	1.70	(39)	(62)	2.82	5.29
Diluted earnings per share before goodwill ^{2,3}	0.90	1.33	1.80	(32)	(50)	3.59	5.63
Return on shareholders' equity (%)							
Return on shareholders' equity ⁴						12.0	26.9
Return on shareholders' equity before goodwill ^{2,4}						15.1	28.6

CHF million, except where indicated As at	30.9.01	30.6.01	31.12.00	% change from	
				30.6.01	31.12.00
Balance sheet key figures					
Total assets	1,135,599	1,232,492	1,087,552	(8)	4
Shareholders' equity	43,857	44,193	44,833	(1)	(2)
Market capitalization					
	95,521	109,095	112,666	(12)	(15)
BIS capital ratios					
Tier 1 (%) ⁵	11.8	10.6	11.7	11	1
Total BIS (%)	15.5	14.2	15.7	9	(1)
Risk-weighted assets	257,249	292,347	273,290	(12)	(6)
Invested assets (CHF billion)					
	2,280	2,559	2,452	(11)	(7)
Headcount (full time equivalents)⁶					
	70,902	70,946	71,076	0	0
Long-term ratings					
Fitch, London	AAA	AAA	AAA		
Moody's, New York	Aa2	Aa2	Aa1		
Standard & Poor's, New York	AA+	AA+	AA+		

Earnings adjusted for significant financial events and before goodwill^{2,7}

CHF million, except where indicated	Quarter ended			% change from		Year-to-date	
	30.9.01	30.6.01	30.9.00	2Q01	3Q00	30.9.01	30.9.00
Operating income	8,704	9,881	8,545	(12)	2	28,652	27,102
Operating expenses ²	7,094	7,683	5,716	(8)	24	22,321	18,238
Operating profit before tax ²	1,610	2,198	2,829	(27)	(43)	6,331	8,864
Net profit ²	1,227	1,726	2,201	(29)	(44)	4,860	6,899
Cost / income ratio (%) ^{1,2}	79.9	77.2	68.0			76.9	67.9
Basic earnings per share (CHF) ^{2,3}	0.97	1.37	1.82	(29)	(47)	3.83	5.82
Diluted earnings per share (CHF) ^{2,3}	0.90	1.33	1.80	(32)	(50)	3.59	5.76
Return on shareholders' equity (%) ^{2,4}						15.1	29.1

¹ Operating expenses / operating income before credit loss expense. ² Excludes the amortization of goodwill and other intangible assets. ³ For EPS calculation, see Note 9 to the Financial Statements. ⁴ Annualized Net profit / average shareholders' equity excluding dividends. ⁵ Includes hybrid tier 1 capital, please refer to the BIS capital and ratios table in the Group Review. ⁶ The Group headcount does not include the Klinik Hirslanden AG headcount of 2,150, 2,080 and 1,839 for 30 September 2001, 30 June 2001 and 31 December 2000, respectively. ⁷ Details of significant financial events can be found in the Group Review.

All share and earnings per share figures have been adjusted for the 3 for 1 share split which took place on 16 July 2001.

UBS Group Income Statement

CHF million, except per share data	Quarter ended			% change from		Year-to-date	
	30.9.01	30.6.01	30.9.00	2Q01	3Q00	30.9.01	30.9.00
Operating income							
Interest income	13,606	13,780	12,480	(1)	9	41,951	36,559
Interest expense	(11,876)	(12,048)	(10,649)	(1)	12	(36,531)	(30,402)
Net interest income	1,730	1,732	1,831	0	(6)	5,420	6,157
Credit loss expense / recovery	(171)	(76)	142	125		(383)	225
Net interest income after credit loss expense / recovery	1,559	1,656	1,973	(6)	(21)	5,037	6,382
Net fee and commission income	4,783	5,375	3,865	(11)	24	15,247	11,700
Net trading income	2,160	2,658	2,368	(19)	(9)	7,878	8,037
Other income	202	192	339	5	(40)	490	983
Total operating income	8,704	9,881	8,545	(12)	2	28,652	27,102
Operating expenses							
Personnel expenses	4,852	5,299	3,863	(8)	26	15,424	12,739
General and administrative expenses	1,846	1,974	1,503	(6)	23	5,697	4,677
Depreciation of property and equipment	396	410	350	(3)	13	1,200	1,022
Amortization of goodwill and other intangible assets	324	341	126	(5)	157	993	401
Total operating expenses	7,418	8,024	5,842	(8)	27	23,314	18,839
Operating profit before tax and minority interests	1,286	1,857	2,703	(31)	(52)	5,338	8,263
Tax expense	296	384	621	(23)	(52)	1,228	1,878
Net profit before minority interests	990	1,473	2,082	(33)	(52)	4,110	6,385
Minority interests	(87)	(88)	(7)	(1)		(243)	(42)
Net profit	903	1,385	2,075	(35)	(56)	3,867	6,343
Basic earnings per share (CHF) ¹	0.72	1.10	1.72	(35)	(58)	3.05	5.35
Basic earnings per share before goodwill (CHF) ^{1,2}	0.97	1.37	1.82	(29)	(47)	3.83	5.69
Diluted earnings per share (CHF) ¹	0.65	1.06	1.70	(39)	(62)	2.82	5.29
Diluted earnings per share before goodwill (CHF) ^{1,2}	0.90	1.33	1.80	(32)	(50)	3.59	5.63

¹ All share and earnings per share figures have been adjusted for the 3 for 1 share split which took place on 16 July 2001. ² Excludes the amortization of goodwill and other intangible assets.

Reporting by Business Group¹

CHF million For the quarter ended	UBS Switzerland		UBS Asset Management		UBS Warburg		Corporate Center		UBS Group	
	30.9.01	30.9.00	30.9.01	30.9.00	30.9.01	30.9.00	30.9.01	30.9.00	30.9.01	30.9.00
Income	3,255	3,456	521	493	5,018	4,413	81	41	8,875	8,403
Credit loss expense / recovery ²	(135)	(183)	0	0	(15)	(49)	(21)	374	(171)	142
Total operating income	3,120	3,273	521	493	5,003	4,364	60	415	8,704	8,545
Personnel expenses	1,191	1,283	267	225	3,271	2,256	123	99	4,852	3,863
General and administrative expenses	617	588	125	105	983	714	121	96	1,846	1,503
Depreciation	161	124	9	12	126	136	100	78	396	350
Amortization of goodwill and other intangible assets	10	11	65	67	242	38	7	10	324	126
Total operating expenses	1,979	2,006	466	409	4,622	3,144	351	283	7,418	5,842
Business unit performance before tax and significant financial events	1,141	1,267	55	84	381	1,220	(291)	132	1,286	2,703
Significant financial events									0	0
Tax expense									296	621
Net profit before minority interests									990	2,082
Minority interests									(87)	(7)
Net profit									903	2,075

¹ Third quarter 2000 has been restated to reflect the current business structure of the Group. ² In management accounts, statistically derived adjusted expected credit loss rather than the IAS actual net credit loss expense is reported for each Business Group. The breakdown by Business Group of the net credit loss expense for financial reporting purposes of CHF 171 million for the quarter ended 30 September 2001 (CHF 142 million recovery for the quarter ended 30 September 2000) is as follows: UBS Switzerland CHF 6 million recovery (CHF 306 million recovery), UBS Warburg CHF 177 million expense (CHF 164 million expense).