



UBS

Financial Services Group

Letter to Shareholders First Quarter 2001

15 May 2001

Dear Shareholders,

In first quarter 2001, UBS achieved a net profit after tax of CHF 1,579 million, a decrease of 29% from first quarter 2000, and 3% compared to fourth quarter 2000, once adjusted for the one-off gains and restructuring costs in that quarter. The non-cash effects of the PaineWebber merger are a significant factor: excluding the jump in goodwill amortization, net profit would have declined 19%.

Despite the difficult US economic situation, weakening equity markets and the industry-wide slowdown in investment banking activity, our principal business units performed encouragingly this quarter, with resilient income and well-controlled costs. However, deteriorating asset quality has led to write-downs of investments in our private equity portfolio, resulting in a loss of CHF 282 million in UBS Capital. We expect UBS Capital to show a profit over the remainder of the year.

Adjusted for significant financial events and pre-goodwill, the Group's annualized Return on Equity was 17.6%, below the level of the exceptional first quarter of 2000, but within our target range of 15–20%. On the same basis, Basic Earnings per Share decreased 26% to CHF 4.49 from CHF 6.04. Again adjusted for significant financial events, the pre-goodwill cost/income ratio rose to 73.9% from 66.5% in first quarter 2000, and 73% in fourth quarter 2000, reflecting the influence on the Group of the relatively high cost/income ratio typical of UBS PaineWebber's business.

Net new money for the Group was more than CHF 21 billion, by far the best quarterly result since the UBS/SBC merger, and inflows were positive across all our private client businesses. UBS Asset Management's net inflow of CHF 7.4 billion was also encouraging, reflecting its recently improved relative investment performance.

Business Group highlights

UBS Switzerland had a very strong performance this quarter. Private Banking's results increased 14% from the previous quarter, while Private and Corporate Clients recorded

its best ever quarterly results. Costs in both Private and Corporate Clients and Private Banking were lower than any quarter last year, reflecting the continued positive impact of the UBS/SBC merger and our strategic projects portfolio.

UBS Asset Management continued its return to successful relative investment performance. Brinson Partners and Phillips and Drew's flagship funds performed very well over the year to 31 March, with Phillips and Drew's balanced fund outperforming its peer group median by 15%, and Brinson Partners' US Large/Intermediate Composite outperforming its benchmark by 32%. The improvement in relative investment performance was reflected in net new money of CHF 7.4 billion, the first net quarterly inflow for UBS Asset Management since 1998.

UBS Warburg's Corporate and Institutional Clients business reported very strong results, up 40% from fourth quarter 2000, and down only 8% from the record results achieved in the exceptional markets of first quarter last year. Market volatility led to a good trading performance, with particularly strong revenues in Fixed Income and Foreign Exchange. Cost control continues to be a focus, and the cost/income ratio has been kept to the same level as first quarter 2000, reflecting the flexibility of our cost base.

UBS Warburg's Private Clients business unit, centered on UBS PaineWebber, was relatively unaffected by the continued downturn in US equity markets, with revenues running in line with fourth quarter.

Strategic initiatives

Looking back twelve months, there are two areas where we had significant challenges, and can now report progress. First, relative investment performance at UBS Asset Management has improved substantially, leading to encouraging trends in net new money. Second, UBS Warburg's Corporate Finance business has expanded its capabilities and is showing much improved performance, with involvement in four of the seven largest merger and acquisition deals in the first quarter. The acquisition of PaineWebber has given us an outstanding hiring platform in the US which has allowed us to bring in some of the best talent on Wall Street.

Our main emphasis remains on taking advantage of the opportunities we have as the world's largest private bank. No other institution is more focused on the wealth management business than us, and nobody else has the advantages of our strong brands, our client franchise, our range of products, our breadth of expertise and our global reach.

Implementation of our new European Wealth Management strategy is well under way. Integrated management structures are in place for each region, the build up of client advisors is on track, and the projects to upgrade products, training, marketing and technology for the new businesses are on target.

With the integration of PaineWebber into UBS now complete, we are continuing to work together to realize the benefits of our new partnership.

One of the most significant developments this quarter was the introduction of the new UBS PaineWebber brand. We had not planned to change the PaineWebber brand so soon after the merger, but it was made possible by the

extremely positive reception for the merger from PaineWebber staff and the smooth progress of integration. The decision to implement the new brand was supported by requests from UBS PaineWebber financial advisors, who wanted a way to emphasize to their clients the advantages in scope, scale and access to global resources brought by UBS PaineWebber's new place in the UBS Group.

Outlook

We have produced a generally encouraging start to the year, against a background of deteriorating markets. Prospects for global economies continue to be uncertain, with conflicting indicators in the US in particular, although conditions in Switzerland continue to be healthy. At Group level, we do not see the potential for 2001 to outperform 2000, although we believe that our businesses are showing themselves to be more and more competitive and are well positioned to respond positively to improving market conditions.

UBS AG



Marcel Ospel
Chairman



Luqman Arnold
President

First-quarter results

UBS Switzerland

UBS Switzerland put in a very strong performance this quarter, with net profit before tax of CHF 1,320 million, up 11% since fourth quarter 2000, and only 8% down from first quarter last year, when exceptional market activity led to very high transaction-related fees. Net new money was positive in both business units.

Private and Corporate Clients recorded its best ever quarter, with net profit of CHF 540 million. Revenues were down slightly from fourth quarter, but costs were lower than in any quarter last year, reflecting the continued impact of projects aimed at realizing cost reductions and efficiency gains.

Private Banking's profits remain healthy, up 14% compared to fourth quarter 2000 and slightly above the average level for 2000, despite the less active financial markets this quarter. Invested assets fell from CHF 691 billion at year end to CHF 690 billion at the end of first quarter, reflecting overall market performance. Net new money strengthened slightly to CHF 3.9 billion, from CHF 0.2 billion in fourth quarter.

UBS Asset Management

Asset Management's pre-tax profit increased significantly to CHF 52 million, from CHF 36 million in fourth quarter 2000. Thanks to its recent successful investment performance relative to competitors, the Business Group attracted net new money of CHF 7.4 billion, the first overall net inflow since 1998.

UBS Warburg

UBS Warburg's Corporate and Institutional Clients business reported very strong results, with net profit before tax of

CHF 1,325 million, up 40% from fourth quarter 2000, and down only 8% from the record results achieved in the exceptional markets of first quarter last year. Market volatility led to strong trading performance, with particularly good returns in fixed income.

At UBS Capital, deteriorating asset quality has led to substantial write-downs of investments in the private equity portfolio, resulting in a loss of CHF 282 million. We do not expect similar levels of write-downs in coming quarters. The book value of UBS Capital's private equity investments has grown from CHF 5.5 billion at 31 December 2000 to CHF 5.7 billion at 31 March 2001.

UBS Warburg's Private Clients business unit, which now includes UBS PaineWebber and the non-European parts of the former International Private Clients business unit, was relatively unaffected by the continued downturn in US equity markets, with daily revenues in line with the fourth quarter. Net new money for first quarter 2001 was CHF 6.8 billion, compared to CHF 4.9 billion in fourth quarter 2000.

Significant financial events

There were no significant financial events in first quarter 2001 or first quarter 2000. Fourth quarter 2000 saw two significant financial events. UBS's previously established liability for the US Global Settlement regarding World War II related claims was offset by CHF 50 million pre-tax, as a result of contributions from Swiss industrial companies. UBS recorded a CHF 290 million pre-tax restructuring charge relating to the integration of PaineWebber into UBS.

Group results are presented without adjustment for significant financial events, with a separate table showing adjusted figures. Business Group and Business Unit results are always presented adjusted for significant financial events.

Annual General Meeting

The Annual General Meeting, held on 26 April 2001 gave its approval to the proposed senior management changes. Alex Krauer has retired. Marcel Ospel and Luqman Arnold have taken over in their new functions as Chairman of the Board of Directors, and President of the Group Executive Board, respectively.

Sir Peter Davis, CEO of J. Sainsbury plc.; Johannes Antonie de Gier, former Chairman and CEO of Warburg Dillon Read; and Lawrence Allen Weinbach, Chairman and CEO of Unisys Corporation have all been appointed to the Board of Directors, reflecting for the first time at Board level UBS's international culture and global reach.

Par value repayment

The Annual General Meeting also approved a par value repayment to shareholders instead of payment of a final dividend for the last quarter of 2000.

CHF 1.60 per share will be distributed on 18 July 2001, without deduction of Swiss federal withholding taxes, to shareholders of record on 13 July 2001.

For shareholders registered in Switzerland who specified that they wish to have their dividend paid into a bank, the par value repayment will be transferred to this bank in their name. Shareholders who hold their share certificates themselves will be sent repayment certificates by mail. These can be presented for payment, free of charge, at any UBS branch in Switzerland.

Owners of shares not listed in the Swiss register of shareholders will have the par value repayment credited to them via their custodian bank or via the US Share Registrar.

Combined with the dividend of CHF 4.50 paid in October 2000 in respect of the first three quarters of 2000, this payment will bring the total distribution in respect of the year 2000 to CHF 6.10.

Share split

The Annual General Meeting also approved a 3-for-1 split of the UBS share, to take place at the same time as the par value reduction.

Trading in the new shares with a par value of CHF 2.80 (after par value repayment and split) will commence on 16 July 2001.

Extended first quarter report

At UBS, we aim to present our financial information in the most user-friendly way possible supporting our commitment to greater ease of access to our financial reporting products. As part of this commitment, we have reduced the length of the results commentary in this document, in comparison to previous quarters.

A much longer quarterly financial report, giving full commentary on the first quarter's results is prepared in English for investors and analysts. It is available from: UBS AG, RM0W-ISU, P.O. Box, CH-8098 Zurich.

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/investor-relations.

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 integration of PaineWebber into UBS, 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) our ability to carry out the integration of PaineWebber into UBS within the scheduled timeframe and to achieve the anticipated resulting benefits of the merger, and (7) other key factors that we have indicated could adversely affect our business and financial performance which are contained in our past and future filings and reports, including those with the SEC.

More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS or PaineWebber 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

Financial Services Group

UBS Group Financial Highlights

<i>CHF million, except where indicated</i>	Quarter ended			% change from	
	31.3.01	31.12.00	31.3.00	4Q00	1Q00
Income statement key figures					
Operating income	10,067	9,300	9,357	8	8
Operating expenses	7,872	7,364	6,449	7	22
Operating profit before tax	2,195	1,936	2,908	13	(25)
Net profit	1,579	1,449	2,216	9	(29)
Cost / income ratio (%) ¹	77.2	78.4	68.0		
Cost / income ratio before goodwill (%) ^{1,2}	73.9	75.6	66.5		
Per share data (CHF)					
Basic earnings per share	3.72	3.39	5.66	10	(34)
Basic earnings per share before goodwill ²	4.49	4.02	6.04	12	(26)
Diluted earnings per share	3.31	3.34	5.61	(1)	(41)
Diluted earnings per share before goodwill ²	4.06	3.95	5.98	3	(32)
<i>For the period</i>					
	3M01	12M00	3M00		
Return on shareholders' equity (%)					
Return on shareholders' equity ³	14.5	21.5	31.1		
Return on shareholders' equity before goodwill ^{2,3}	17.6	23.4	33.2		

<i>CHF million, except where indicated</i>	As of	31.3.01	31.12.00	31.3.00	% change from	
					4Q00	1Q00
Balance sheet key figures						
Total assets		1,216,852	1,087,552	980,916	12	24
Shareholders' equity		43,380	44,833	29,322	(3)	48
Market capitalization		106,078	112,666	92,316	(6)	15
BIS capital ratios						
Tier 1 (%)		10.2	11.7	11.0	(13)	(7)
Total BIS (%)		14.0	15.7	14.5	(11)	(3)
Risk-weighted assets		286,885	273,290	277,841	5	3
Invested assets (CHF billion)		2,438	2,452	1,766	(1)	38
Headcount (full time equivalents)⁴		71,080	71,076	48,157	0	48
Long-term ratings						
Fitch, London		AAA	AAA	AAA		
Moody's, New York		Aa1	Aa1	Aa1		
Standard & Poor's, New York		AA+	AA+	AA+		

Earnings Adjusted for Significant Financial Events⁵

<i>CHF million, except where indicated</i>	Quarter ended			% change from	
	31.3.01	31.12.00	31.3.00	4Q00	1Q00
Operating income	10,067	9,300	9,357	8	8
Operating expenses	7,872	7,124	6,449	10	22
Operating profit before tax	2,195	2,176	2,908	1	(25)
Net profit	1,579	1,634	2,216	(3)	(29)
Cost / income ratio before goodwill (%) ^{1,2}	73.9	73.0	66.5		
Basic earnings per share before goodwill (CHF) ²	4.49	4.45	6.04	1	(26)
Diluted earnings per share before goodwill (CHF) ²	4.06	4.38	5.98	(7)	(32)
<i>For the period</i>					
	3M01	12M00	3M00		
Return on shareholders' equity before goodwill (%) ^{2,3}	17.6	24.3	33.2		

¹ Operating expenses/operating income before credit loss expense. ² The amortization of goodwill and other intangible assets is excluded from the calculation. ³ Annualized Net profit / average shareholders' equity excluding dividends. ⁴ The Group headcount does not include the Klinik Hirslanden AG headcount of 2,062, 1,839 and 1,853 for 31 March 2001, 31 December 2000 and 31 March 2000, respectively. ⁵ Details of significant financial events can be found in the Group Review.

Fourth quarter 2000 figures include the impact of the acquisition of PaineWebber, which occurred on 3 November 2000. 31 March 2000 figures do not include PaineWebber.

UBS Group Income Statement

<i>CHF million, except per share data</i>	Quarter ended			% change from	
	31.3.01	31.12.00	31.3.00	4Q00	1Q00
Operating income					
Interest income	14,565	15,186	11,397	(4)	28
Interest expense	(12,607)	(13,213)	(9,308)	(5)	35
Net interest income	1,958	1,973	2,089	(1)	(6)
Credit loss expense	(136)	(95)	(125)	43	9
Net interest income after credit loss expense	1,822	1,878	1,964	(3)	(7)
Net fee and commission income	5,089	5,003	4,079	2	25
Net trading income	3,060	1,916	2,978	60	3
Other income	96	503	336	(81)	(71)
Total operating income	10,067	9,300	9,357	8	8
Operating expenses					
Personnel	5,273	4,424	4,522	19	17
General and administrative	1,877	2,088	1,431	(10)	31
Depreciation and amortization	722	852	496	(15)	46
Total operating expenses	7,872	7,364	6,449	7	22
Operating profit before tax and minority interests	2,195	1,936	2,908	13	(25)
Tax expense	548	442	666	24	(18)
Net profit before minority interests	1,647	1,494	2,242	10	(27)
Minority interests	(68)	(45)	(26)	51	162
Net profit	1,579	1,449	2,216	9	(29)

Reporting by Business Group¹

<i>CHF million</i>	UBS Switzerland		UBS Asset Management		UBS Warburg		Corporate Center		UBS Group	
	31.3.01	31.3.00	31.3.01	31.3.00	31.3.01	31.3.00	31.3.01	31.3.00	31.3.01	31.3.00
For the 3-month period ended										
Income	3,494	3,793	519	482	6,038	5,224	152	(17)	10,203	9,482
Credit loss expense ²	(185)	(232)	0	0	(39)	(75)	88	182	(136)	(125)
Total operating income	3,309	3,561	519	482	5,999	5,149	240	165	10,067	9,357
Personnel expenses	1,221	1,347	252	202	3,721	2,839	79	134	5,273	4,522
General and administrative expenses	625	602	139	96	1,092	680	21	53	1,877	1,431
Depreciation	133	134	11	10	170	131	80	73	394	348
Amortization of goodwill and other intangible assets	10	36	65	65	248	35	5	12	328	148
Total operating expenses	1,989	2,119	467	373	5,231	3,685	185	272	7,872	6,449
Business unit performance before tax	1,320	1,442	52	109	768	1,464	55	(107)	2,195	2,908
Significant financial events									0	0
Tax expense									548	666
Net profit before minority interests									1,647	2,242
Minority interests									(68)	(26)
Net profit									1,579	2,216

¹ All periods have 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 136 million for the three-month period ended 31 March 2001 (CHF 125 million for the three-month period ended 31 March 2000) is as follows: UBS Switzerland CHF 14 million (CHF 16 million), UBS Warburg CHF 122 million (CHF 109 million).