UBS

Financial Services Group

Letter to Shareholders First-Quarter 2000 Report

25 May 2000

Dear Shareholders

We are pleased to report that in the first quarter 2000, UBS achieved a record net profit after tax of CHF 2,216 million. This represents an increase of 50% over the first quarter of 1999 once the effect of divestments is stripped out, or a 41% increase on a reported basis.

Adjusted for divestments and pre-goodwill, the Group's annualized Return on Equity increased to 33.2%, from 22.2% in the first quarter of 1999. On the same basis, and adjusted for the recent share split, basic Earnings per Share increased to CHF 6.04 from CHF 3.75 and the cost/income ratio fell sharply to 66.5% from 79.9% in the fourth quarter of 1999, to a level slightly below the 67.4% recorded in the first quarter of 1999. Assets under management increased by CHF 23 billion during the quarter, with gains in Private Banking offset by a decrease in institutional assets.

This is an outstanding result for the Group as a whole and reflects strong performance across our major business groups.

Business group highlights

UBS Warburg confirmed its place as one of the fastest growing investment banking and securities firm, achieving exceptional growth with record earnings, up 86% on the previous year and more than five times fourth quarter 1999 earnings.

The Private Banking business unit of UBS Switzerland also posted a record quarter, showing excellent earnings growth, up 63% on the fourth quarter of 1999, demonstrating the continued profitability and growth potential of this core business.

The 36% rise in earnings at Private and Corporate Clients since the fourth quarter of 1999 is backed by a continuing positive outlook for both operating income and costs.

Although UBS Asset Management is a smaller part of the Group, the decline in its assets under management is a concern. Following the combination of Brinson Partners and Phillips & Drew, the priority is to stabilize these two excellent franchises before beginning their return towards market growth rates.

Business regrouping

During the quarter, we introduced a new business structure, regrouping our wealth management businesses with the aim of unlocking their potential to generate superior growth, and giving us the agility to respond rapidly to changing client demands.

In particular, we are opening our investment architecture to include third-party products and abandoning rigid approaches to client segmentation. The regrouped UBS provides a first class platform for our e-commerce-driven attack on the future.

e-commerce

e-commerce and new technologies lie at the core of our vision of UBS's development, allowing us to deliver knowledge effortlessly from the whole of UBS to any client. e-commerce is not simply a chance to reduce costs, but an opportunity to build sustainable revenues: extending our reach to new clients, perfecting our customers' experience and hence increasing their take-up of our products and services.

Our e-commerce vision is rooted in the belief that this profound transformation is as much cultural as technological. We are convinced that the new tools enhance rather than replace the people side of our business, bringing within reach our vision of an interactive "community of success".

We have already built one of Europe's leading e-commerce platforms. Indeed, the pace of our e-commerce rollouts has accelerated rapidly since the start of the year, with particularly successful launches of industry leading business-to-business (B2B) connectivity through "Investment Banking On-Line" (IBOL) at UBS Warburg and market-leading WAP access services at UBS Switzerland. Our aim in developing e-commerce offerings is to be first mover when it makes sense, but always to be "best mover", delivering first-class products and services through new channels.

We are committed to remaining at the forefront of e-commerce, with plans to invest over CHF 2 billion between now and 2002. UBS Warburg will invest CHF 310 million this year in e-services, its new multi-channel initiative targeted at affluent individuals in Europe. UBS Switzerland will invest CHF 90–100 million per year for the next few years to extend its already impressive e-banking initiatives, while investment in B2B at UBS Warburg will reach around 4% of revenues.

NYSE listing

We listed our shares on the New York Stock Exchange on 16 May 2000. The listing took the form of Global Registered Shares, creating one global share, traded in Zurich, New York and Tokyo.

As the first Swiss company to list a global share in New York, UBS has contributed to a significant enhancement in clearing and settlement infrastructure, notably the creation of a link between the US and Swiss securities depositories to facilitate cross-border settlement.

This global share symbolizes our belief in UBS as a truly global firm.

Introduction of quarterly analysis to our reporting

We believe that openness and transparency are essential principles in financial reporting.

This quarter we have produced our Financial Report in a new format designed to give greater transparency and allow investors to gain a deeper understanding of our financial performance. We have provided an analysis of the change in key metrics from the previous quarter to this quarter, as well as comparing it to the same quarter in the previous year. Previously we reported figures cumulatively through the year.

Key performance indicators have been produced for the Group and for each business unit, based on the framework that we announced in March 2000. In addition, the 1999 figures have been restated to reflect the regrouping and allow meaningful like-for-like comparisons.

Outlook

We have produced a very positive start to the year 2000 and are confident that a strong performance relative to 1999 can be maintained in the coming months, assuming consistent market conditions. In the recent past we have been frank about our disappointments. The broad success of UBS this quarter is very welcome, but we will never be complacent and will focus without compromise on delivering further growth for our shareholders.

Sincerely

UBS AG

Alex Krauer
Chairman of the Board of Directors

Marcel Ospel
Group Chief Executive Officer

Comments on first-quarter results and achievements

Group targets

We focus on four key performance targets, designed to ensure that we deliver continually improving returns to our shareholders. Progress against these targets has been very good this quarter. Our annualized Return on Equity before goodwill of 33.2% is well in excess of our target range of 15–20%. Pre-goodwill Earnings per Share, adjusted for divestments, grew 61%, and 52% as reported, thereby comfortably meeting our target of double-digit growth. The cost/income ratio is slightly below that of the first quarter 1999, but considerably reduced from the fourth quarter 1999. Net new money in the private banking units (onshore and offshore) was up from CHF 3 billion in the fourth quarter of 1999 to CHF 6 billion, more than for the whole of 1999, but still with plenty of room for further improvement.

Review of business group activities

UBS Switzerland, the business group formed as part of the February 2000 regrouping, is made up of the former Private and Corporate Clients division and all offshore and Swiss high net worth clients businesses of the former Private Banking division. The business group reports net profit before tax of CHF 1587 million, up 54% from the fourth quarter and 45% from the first quarter 1999. Assets under management stood at CHF 1141 billion, up 3% since year-end.

Private and Corporate Clients has had an excellent first quarter. Net profit before tax of CHF 492 million was up 36% from fourth quarter. Operating income increased 10% to reach CHF 1,690 million, mainly as a result of excellent brokerage revenues. Operating expenses increased only moderately to CHF 1,198 million. Personnel expenses decreased by 1% compared to the fourth quarter of 1999 with the decline due to headcount reduction partially offset by higher performance-related compensation payments.

Private Banking produced record pre-tax profits of CHF 1,095 million, an increase of 63% over the fourth quarter and 42% over the first quarter of 1999. Asset growth in the fourth quarter 1999 and favourable market conditions were the main drivers for the increase of operating income of 28% compared to fourth quarter and 36% compared to first quarter 1999. Total expenses declined 3% compared with the fourth quarter of 1999. Personnel expense grew by 16% over fourth quarter and 24% over first quarter 1999, reflecting business-driven headcount growth and increases in performance-related compensation as a result of the strong profitability.

UBS Asset Management combines the former Institutional Asset Management division with UBS Investment Funds transferred from UBS Private Banking, as well as the newly acquired Global Asset Management (GAM). The business group reports pre-tax profits of CHF 109 million, up 36% from the first quarter 1999, but down 18% from the fourth quarter.

Business unit performance of *Institutional Asset Management* declined 16% versus the prior quarter to CHF 79 million, but was up 20% on the same quarter in 1999. Pre-goodwill earnings only declined by 2% versus the prior quarter. Both operating income and operating expenses increased primarily due to the acquisition of Allegis.

The business unit *Investment Funds/GAM* reports a 23% drop in pre-tax profit versus the fourth quarter 1999, whereas pre-goodwill earnings increased 33%. The strong increase in total operating income and expenses primarily reflects the acquisition of GAM at the end of 1999.

UBS Warburg is now composed of four business units, which together report pre-tax profits of CHF 1,319 million.

Corporate and Institutional Clients, the former securities and investment banking division, delivered excellent results. Profit before tax of CHF 1,445 million was up 100% from the first quarter 1999, and is more than four times higher than the fourth quarter of 1999. Revenues before credit loss expenses of CHF 5,049 million compare to CHF 3,322 million in the same period last year, an increase of 52%. Earnings were especially strong in the Equities and Fixed Income businesses, resulting from strong performance and positive market conditions. Operating expenses of the business unit increased 40% compared to the same period in 1999. Personnel costs amounted to CHF 2,761 million, with an increase of 49% over first quarter 1999, due to higher performance-related compensation. Non-personnel costs increased 15%, mainly due to increased investment in technology and e-commerce.

UBS Capital, the private equity unit, generated a pre-tax profit of CHF 114 million, compared to CHF 18 million in the fourth quarter 1999, reflecting higher divestment activities. The book value of UBS Capital's portfolio was CHF 3.4 billion at the end of the first quarter 2000, compared with CHF 3.0 billion at year-end 1999.

The *Private Clients* business unit within UBS Warburg focuses on onshore private banking in selected markets. With the exception of Germany and Australia it is in a relatively early stage of development. Client relationships have therefore not yet delivered their full revenue potential. Although revenues were up 26% from fourth quarter 1999, the business unit produced a net loss before tax of CHF 177 million.

The *e-services* business unit is not yet operational and therefore did not generate revenues. Total personnel expenses amounted to CHF 37 million, non-personnel expenses to CHF 26 million, primarily due to a substantial investment in the infrastructure and product offering.

Development in important Group income and expense items

Net interest income before credit loss expenses increased 52% to CHF 2,089 million compared to the first quarter of 1999. As a result of the increase in trading volumes, interest and dividend income increased by 75% and net income from repo and securities lending more than doubled. *Credit loss expenses* are significantly lower than in first quarter 1999. The aggregate number of CHF 125 million compares with CHF 310 million in first quarter 1999. This reduction is mainly due to a positive development of the macro-economic environment. In the fourth quarter 1999 only CHF 46 million had to be charged to the income statement, after an amount of CHF 130 million was appropriately charged against previously established provisions.

Net fee and commission income increased 38% to CHF 4,079 million compared to the first quarter of 1999. Strong volumes in Switzerland, UK, US and Asia led to a marked increase of CHF 629 million in net brokerage fees. The increase in investment fund fees of CHF 256 million is attributable to higher volumes and to the acquisition of GAM. Portfolio and other management and advisory fees increased CHF 214 million.

Net trading income was CHF 2,978 million, while it stood at CHF 2,333 million in first quarter 1999 with particularly strong growth in Equities.

Personnel expenses increased 37% from first quarter 1999, mainly due to performance-related compensation in line with good results.

General and administrative expenses increased 25% compared to first quarter 1999, due in part to adverse foreign exchange effects and increases in IT and other outsourcing expenses. Excluding the impact of significant financial events and the one-time impact of the consolidation of Klinik Hirslanden AG general and administrative expenses fell 19% versus fourth quarter 1999.

The *overall tax rate of the Group* for the first quarter was 22.9%.

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