UBS

Financial Services Group

Letter to Shareholders
Second Quarter 2000 Report

22 August 2000

Dear Shareholders

We were delighted to announce to you on 12 July 2000 that UBS had entered into a definitive merger agreement with Paine Webber Group Inc. ("PaineWebber"). The merger will combine one of the top US private client firms with the world's largest private bank, to create the premier global institution serving private clients.

PaineWebber will become an integral part of the UBS Warburg business group, while retaining its powerful brand in the US. Delivering UBS Warburg's premium content and global reach to PaineWebber's 2.7 million affluent clients in the US, and uniting the two highly complementary institutional franchises will create a pre-eminent global investment services firm. UBS will be one of the few financial institutions with top-class private, institutional and corporate client franchises, across the world, served by a full range of content, products and services.

The transaction is due to be finalized in the fourth quarter of this year, subject to the required approvals. On that note, an Extraordinary General Meeting will be held on 7 September 2000 at which you will have the opportunity to approve the increase in share capital necessary for the financing of the transaction.

When we launched UBS's New York Stock Exchange listing in May 2000 we said that our primary objective was to make it easier to expand in the US, focusing on opportunities with strong cultural fit, powerful strategic logic and attractive financial returns. We believe that all these tests are met by this deal and that the merger is great news for the clients, employees and shareholders of both UBS and PaineWebber.

Second quarter results

We reported preliminary second quarter results when the PaineWebber merger was announced, so you will already know that this has been another highly successful quarter for UBS, with a net profit after tax of CHF 2,052 million. Once the effect of divestments and one-off provisions is stripped out, this represents outstanding growth of 138% over the second quarter of 1999 and together with our excellent first quarter, makes this the best half year UBS has ever recorded, 84% ahead of first half 1999.

This excellent result has been driven by another record quarter for the Private and Corporate Clients business unit, a write back of credit loss provisions thanks to the buoyant Swiss economy, and earnings at UBS Warburg's Corporate and Institutional Clients business unit almost equal to the exceptional first quarter.

Adjusted for divestments and one-off provisions and pre-goodwill amortization, the Group's annualized return on equity for the first six months of this year increased to 31.9%, from 18.1% in the first half of 1999, and basic earnings per share for the second quarter increased 139% to CHF 5.97 from CHF 2.50. The pre-goodwill cost/income ratio of 69.2% is well below the 74.8% recorded in second quarter 1999. The 3% decline in assets under management over this quarter was mainly driven by negative market trends and anticipated client losses in the institutional asset management business.

Outlook

We look forward to the completion of the PaineWebber transaction, and to the exciting opportunities that the combination with UBS Warburg will bring. In matching the first quarter's excellent performance, we have gone a long way to proving that even before our latest addition, UBS is in good health. If market conditions remain consistent, we expect to continue to deliver a strong performance relative to last year.

Sincerely

UBS AG

Alex Krauer
Chairman of the Board of Directors

Marcel Ospel
Group Chief Executive Officer

Extraordinary General Meeting of Shareholders
7 September 2000, 2.30 p.m., Hallenstadion, Zurich-Oerlikon

The invitation to the Extraordinary General Meeting with the Board of Directors' proposals (Creation of authorized and conditional capital for the financing of the PaineWebber acquisition, payment of a partial dividend) was sent to all registered shareholders. You may request to be sent an admission card or appoint a proxy to represent your votes at the EGM by 4 September.

Comments on second-quarter results

Significant financial events

There is one significant financial event which impacts our results in second quarter 2000: a final CHF 200 million provision in respect of the US Global Settlement regarding World War II related claims. In the light of the final terms and amendments to the settlement agreed by the US courts, we foresee a lesser likelihood of offsetting contributions from other Swiss companies. UBS is now fully provisioned against its two-thirds share of the USD 1.25 billion settlement.

In second quarter 1999 there were two significant financial events. Income from disposal of associates and subsidiaries included CHF 1,490 million of pre-tax gains in Corporate Center from the sale of our 25% stake in Swiss Life/Rentenanstalt. Other income included a gain in the Corporate and Institutional Clients business unit of CHF 200 million pre-tax from the sale of the international Global Trade Finance business. There were no significant financial events in first quarter 2000.

Review of business group activities

UBS Switzerland reports net profit before tax of CHF 1,411 million, down 11% from the exceptionally good first quarter, but up 33% from the second quarter 1999. Assets under management decreased slightly to CHF 1,122 billion during the second quarter, mainly due to performance effects, in line with market and foreign exchange movements.

Since its formation in April, the "e-Channels and Products" unit has moved rapidly to implement e-banking services and products across both the Private and Corporate Clients and Private Banking business units.

Private and Corporate Clients has again had an excellent quarter, with net profit before tax increasing by CHF 34 million or 7% to CHF 526 million. Operating income of CHF 1,701 million was CHF 11 million higher than first quarter and CHF 181 million ahead of the second quarter 1999. Brokerage income fell in comparison to the first quarter, reflecting a less active market environment, but improvements in asset quality helped offset this by reducing expected credit loss expense. Operating expenses of CHF 1,175 million were 2% lower than in the first quarter as a result of a continued focus on cost management. While general and administrative expenses and depreciation were clearly lower than in the first quarter, personnel expenses increased due to performance-related compensation, reflecting the excellent year-to-date result.

Private Banking's second quarter pre-tax profit of CHF 885 million was CHF 210 million, or 19%, less than the CHF 1,095 million achieved during the exceptionally good first quarter, but CHF 118 million, or 15%, higher than second quarter 1999. Operating income in this quarter was CHF 1,634 million, down 11% from the first quarter, as a result of lower brokerage fees than in the extremely active markets of the first quarter. Compared to second quarter 1999, income was up CHF 254 million, reflecting increased advisory and asset-based fees. Operating expenses of CHF 749 million were 2% higher than during first quarter 2000. Personnel expenses were 5% down, due to lower performance-related compensation. The increase in general and administrative expenses of 11% is primarily due to higher levels of marketing and IT-related expense.

UBS Asset Management reports pre-tax profits on business group level of CHF 93 million, 15% down versus prior quarter, but 1% up compared to the second quarter 1999. Assets under management fell 6%, primarily as a result of currency movements and net client losses in institutional asset management.

Business unit performance of *Institutional Asset Management* declined 25% versus the prior quarter and 28% compared to the second quarter 1999. Net profit before tax stood at CHF 59 million. Operating income grew quarter-on-quarter by CHF 12 million to CHF 325 million, due to the addition of the O'Connor business and strong performance fees, somewhat offset by lower asset-based fee volumes. Operating expenses rose by CHF 32 million as a result of higher personnel costs due to the addition of the O'Connor business, and currency movements.

Investment Funds/GAM business unit reports an increase in its profit before tax of 13% quarter-on-quarter, driven by lower expenses, and a strong rise compared to second quarter 1999, due to the acquisition of GAM. Operating income fell slightly, reflecting annual GAM performance fees included in the first quarter.

UBS Warburg reports a business group profit before tax of CHF 1,213 million for the second quarter, compared to CHF 438 million for the second quarter 1999 and CHF 1,319 million during the first quarter 2000.

Corporate and Institutional Clients again achieved excellent results, despite less favorable market conditions in the second quarter. While total operating income was down 3% over first quarter 2000, it was up 44% over second quarter 1999.

Equities produced its second highest ever quarterly result, driven largely by secondary market activity. Within the Fixed Income area, Derivatives and Principal Finance had a very strong quarter, while market conditions were tougher for other sectors. Corporate Finance had a significantly stronger second quarter, more than doubling its revenue since second quarter 1999. Personnel expenses at CHF 2,601 million increased 27% over second quarter 1999, due to higher performance-related compensation, but decreased 6% over first quarter 2000. Non-personnel expenses of CHF 800 million were unchanged from second quarter 1999, reflecting continued cost control effects.

UBS Capital's performance is negative in the second quarter, due to substantial write-downs of the value of two under-performing companies in the portfolio. Net loss before tax stands at CHF 43 million. The portfolio of UBS Capital is valued at CHF 5.2 billion as of 30 June 2000, equating to unrealized gains of approximately CHF 1.4 billion, compared to CHF 1.2 billion at year-end 1999.

Private Clients, the business unit responsible for onshore private clients outside Switzerland, recorded losses of CHF 69 million in the second quarter 2000, lower than at any time since first quarter 1999. While revenues fell 15% as a result of lower market activity, personnel costs were significantly down due to reductions in headcount and lower bonus accruals as a result of reduced revenues.

e-services is building toward a progressive launch starting in October/November. Personnel expenses amounted to CHF 47 million, with headcount increasing by 95 to 226, as the project approaches critical mass for launch. General and administrative expenses almost doubled, due to launch-related market testing of product offerings and branding.

Development in principal Group income and expense items

Net interest income before credit loss expense increased 62% compared to the second quarter of 1999 to CHF 2,237 million, mainly as a result of higher trading volumes, with income from the repo and securities lending businesses up 81%. *Credit loss expense* experienced a surprising turn-around, with a write-back of CHF 208 million, in contrast to credit loss expenses of CHF 125 million in first quarter 2000 and CHF 325 million in second quarter 1999. This positive result is mainly due to the continued improvement of the Swiss economy, where recoveries and write-backs of previously established provisions by far exceeded new provisioning requirements.

Net fee and commission income was CHF 3,756 million in second quarter 2000, representing growth of CHF 530 million, or 16%, over second quarter 1999. Net brokerage fees were 33% higher. Strong performance in M&A and an improvement in equity underwriting helped increase underwriting and corporate finance fees by CHF 179 million from second quarter 1999 to CHF 669 million. Investment fund fees rose CHF 179 million, or 37%, as a result of higher assets under management and the inclusion of fees from GAM. Portfolio management fees increased CHF 223 million to CHF 955 million.

Net trading income was CHF 2,691 million, up 27% against the second quarter 1999, driven by higher equity trading revenues, although these fell back somewhat from the exceptional level of the first quarter.

Personnel expenses at CHF 832 million were 24% higher than in second quarter 1999, mainly due to performance-related compensation in line with good results. Adjusted for significant financial events, *General and administrative expenses* increased CHF 299 million or 24%, mainly due to increased marketing expenses and adverse foreign exchange effects.

The *overall tax rate* of the Group for the second quarter was 22.3%.

The *share buy-back program* was concluded on 28 June 2000. 18,421,783 shares, representing 4.3% of our share capital, were purchased over a second trading line at an average price of CHF 217. The cancellation will take place after final approval by the AGM of 2001.

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.