



UBS

Financial Services Group

Letter to Shareholders

Third Quarter 2000 Report

28 November 2000

Dear Shareholders

On 23 October 2000, PaineWebber shareholders overwhelmingly approved the merger between PaineWebber and UBS. This followed the near unanimous approval by UBS shareholders on 7 September 2000 of the capital increase for use in the merger. We were extremely pleased that such a substantial majority of PaineWebber and UBS shareholders endorsed the merger, giving their vote of confidence in our plans to create a pre-eminent global investment services firm. The merger was formally completed on 3 November 2000.

PaineWebber's leading position with affluent clients in the US and its success in using technology to support client relationships provide exciting growth opportunities for UBS.

PaineWebber's management, products and services are world class and will help UBS to build a top-tier global private client business. PaineWebber complements the existing US strengths and client base of UBS Warburg's institutional business, adding particular skills in US equity research and specialized fixed income products. It also provides UBS Warburg with a completely new distribution channel to US investors, giving it access to a uniquely balanced network of private and institutional investors worldwide. UBS Warburg, meanwhile, will provide truly global investment banking content for PaineWebber to supply to an increasingly demanding private client base, and give PaineWebber the backing of a very strong balance sheet and an excellent credit rating.

The integration of PaineWebber and UBS Warburg is proceeding well, with full business integration of the capital markets activities due to be completed in early December 2000, and the integration of the UBS Warburg Private Clients business into PaineWebber's management structure already almost complete.

The reception of the merger by PaineWebber staff has been overwhelmingly positive with no increase in staff turnover in the period around the merger and the vast majority of PaineWebber option holders now established as UBS options holders.

We look forward to PaineWebber's continuing success as a growth firm in a growth industry.

Third quarter results

We reported preliminary third quarter results on 26 October, in order to provide additional transparency for investors before the closing of the PaineWebber merger. You will therefore already know that UBS has produced another very successful result this quarter, with a net profit after tax of CHF 2,075 million. This represents continuing strong growth of 73% over third quarter 1999, once the effect of one-off gains is stripped out. In the first three quarters of this year we have already made 39% more adjusted net profit after tax than we did in the whole of 1999, namely CHF 6,498 million.

The development of assets under management during the quarter was encouraging, with improvement in net new money across all Business Groups and positive investment performance.

Adjusted for divestments and one-off provisions, and before goodwill amortization, the Group's annualized return on equity for the first nine months of this year increased to 29.1%, from 18.8% in the same period of 1999. Adjusted basic earnings per share for third quarter 2000 increased 70% to CHF 5.46 from CHF 3.22 in third quarter 1999. The adjusted pre-goodwill cost/income ratio of 68.0% is significantly below the 71.4% recorded in the same quarter last year, and a slight improvement over the second quarter this year.

Senior management succession plans

On 11 October, we announced plans for changes in the senior management of UBS which will take effect after the Annual General Meeting in April next year. Details are in the note which you will find on the next page.

At the Annual General Meeting in April you will also be asked to approve the election of three other new members of the Board of Directors. The British, Dutch and American candidates will help accurately reflect at Board level UBS's international culture and global reach. The three candidates are: 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.

Outlook

We are pleased to have been able to report strong results so far this year and to have maintained this performance through the recent more mixed market conditions. The fourth quarter is normally the quietest part of the year in most of our businesses, and we expect this year to be no exception. In addition, we expect a one-off impact from PaineWebber integration and restructuring costs. Nevertheless, we are con-

fident that we can complete 2000 in robust form and that we are excellently positioned for further success in 2001.

The history of our bank has been one of forging new partnerships and learning from the cultures and skills of new colleagues. As an organization we are naturally excited about change and the PaineWebber merger makes next year one of our most eagerly anticipated.

Sincerely

UBS AG



Alex Krauer
Chairman of the Board of Directors



Marcel Ospel
Group Chief Executive Officer

A personal note from the Chairman

As you might be aware, I have decided to step down from my function as Chairman of the Board of Directors after the Annual General Meeting in April 2001.

I consider this to be the right moment. We have successfully completed the merger between Union Bank of Switzerland and Swiss Bank Corporation. The business groups and their respective responsibilities have been redesigned.

We recently completed the merger of PaineWebber into our Group. UBS is in good financial health.

The Board of Directors will submit the election of Marcel Ospel, currently Group Chief Executive Officer, for your approval at the AGM of 26 April 2001, and will then appoint him as Chairman. Luqman Arnold, currently Group Chief Financial Officer, has been elected to become the new President of the Group Executive Board, adding this new role to his responsibility for the Group's finance and risk functions.

A new top-management team is ready, and I am relaxed and confident about handing over full responsibility to the younger generation. Please join me and the Board of Directors in wishing Marcel Ospel and Luqman Arnold success and luck in their new functions.

Alex Krauer

Comments on third-quarter results

Significant financial events

There were no significant financial events in third quarter 2000. Second quarter 2000 included an additional and final provision of CHF 200 million before tax in respect of the US Global Settlement regarding World War II related claims. Third quarter 1999 included a gain of CHF 26 million before tax relating to our residual holding in Long Term Capital Management.

Review of business group activities

UBS Switzerland reports net profit before tax of CHF 1,351 million, slightly less than in second quarter, but up 33% from the third quarter 1999. Assets under management increased 2% to CHF 1,147 billion. Year-to-date profit before tax increased 37% over the previous year's period.

Private and Corporate Clients' third quarter performance decreased 12% to CHF 464 million compared to an excellent second quarter 2000, but increased by 61% compared to third quarter 1999. Operating income of CHF 1,609 million was 5% lower than the second quarter. This was the result of lower net interest income, which fell slightly due to higher refinancing costs and certain one-off revenues recorded in second quarter 2000. Expected credit loss expense decreased again thanks to continued improvements in asset quality, mainly due to an improving economy. Continued focus on cost control led to total operating expenses of CHF 1,145 million, 3% down from the second quarter. Personnel expenses fell as a result of the reduction of headcount by 503, of which, however, some 150 were transferred to Financial Planning and Wealth Management in the Private Banking division.

Private Banking's third quarter pre-tax profit of CHF 887 million, almost unchanged from the second quarter and up 22% from third quarter 1999, reflects a further quarter's strong earnings performance. Operating expenses were 2% lower than second quarter 2000. General and Administrative expenses fell 14%, due to lower processing costs. Personnel expenses were up 10%, largely as a result of the above-mentioned transfer of headcount from the Private and Corporate Clients division and a slight increase in client-facing staff. Client adviser turnover remains consistent with pre-merger levels.

UBS Asset Management reports pre-tax profits on business group level of CHF 84 million, 10% down versus prior quarter, and 36% less compared to the third quarter

1999. Assets under management increased by 1% to CHF 555 billion. Compared to the first nine months of 1999, pre-tax profit year-to-date is 6% lower.

Institutional Asset Management's pre-tax profit fell 2% from second quarter 2000, to CHF 58 million. Operating income grew 3% compared to the previous quarter, to CHF 336 million. Institutional income increased from CHF 274 million in the second quarter to CHF 285 million due to good results at the new O'Connor business, offset by lower performance fees and reduced asset-based fees reflecting the impact of negative net new money flows earlier this year. Personnel costs increased CHF 6 million from the previous quarter to CHF 168 million, mainly as a result of the inclusion of a full quarter of the new O'Connor business. General and Administrative expenses increased CHF 5 million to CHF 60 million, principally as a result of the new O'Connor business.

Investment Funds/GAM business unit reports a decrease of 24% in its profit before tax to CHF 26 million. While operating expenses remained unchanged from the previous quarter, lower performance fees led to a slight decrease in operating income to CHF 157 million, 5% down compared to second quarter 2000.

UBS Warburg again reports excellent results. Business group profit before tax of CHF 1,136 million for the third quarter 2000 compares with CHF 543 million for the third quarter 1999 and CHF 1,213 million during the second quarter 2000. Year-to-date profit before tax is 117% higher than over the same period of last year.

Corporate and Institutional Clients again produced strong profit growth with pre-tax profit of CHF 1,210 million, up 116% over third quarter 1999. Operating income of CHF 4,266 million generated in the third quarter 2000 is 45% higher than in the third quarter 1999. Equities revenues were somewhat lower than in second quarter, reflecting almost exactly the reduction in market volumes during the period. The equity franchise performed extremely well over the usually quieter summer months. Fixed Income continued to deliver strong results, ahead of expectations. Market conditions for Mergers and Acquisitions, advisory work and primary underwriting were again strong, driving Corporate Finance's good performance. The recent expansion of high yield bonds and leveraged finance business has not resulted in any significant holdings of unsyndicated bond or loan positions. In addition, as we have only recently begun to build the franchise in the telecommunications, media and technology sector, the impact on our business from the recent swings in valuations in this sector was not significant.

Personnel expenses in Corporate and Institutional Clients increased 37% from the same quarter last year to CHF 2,193 million, reflecting increased performance-related compensation. General and Administrative expenses of CHF 689 million are up 16% compared to third quarter 1999 as a result of increased expenditure on technology.

UBS Capital reports a pre-tax profit of CHF 46 million compared to a loss in the previous quarter, which was due to significant write-downs on the value of some under-performing investments in the portfolio. In the private equity business, income is mainly driven by the timing of divestments and can therefore vary from period to period.

Private Clients, the business unit responsible for onshore private clients outside Switzerland, recorded losses of CHF 47 million in the third quarter 2000, less than in every quarter before. While revenues increased by 13% compared to the second quarter, expenses are 11% lower, mainly as a result of reduced headcount. The Private Clients business will be integrated, together with the business unit e-services, with PaineWebber's existing businesses targeting core affluent investors. *e-services* recorded net losses of CHF 73 million because the business is not yet operational. The combined PaineWebber and UBS Warburg private clients business will offer a unique opportunity to address the onshore high net worth and affluent private client market primarily in Europe, but also in Asia and the Pacific realm.

Development in principal Group income and expense items

Net interest income before credit loss expense increased 30% over third quarter 1999 to CHF 1,831 million. Higher interest rates increased the cost of medium and long-term debt, but also helped to increase net income from lending

to clients and banks. Trading-related net interest income was up 24% over third quarter 1999.

Net fee and commission income was CHF 3,865 million in third quarter 2000, an increase of 26% over third quarter 1999. Brokerage fees reflected higher levels of client activity in UBS Switzerland and busier markets, rising 36% from the same period last year. Underwriting fees were up 65% thanks to another strong performance in equity underwriting. Corporate finance fees also increased 71%, with strong results worldwide. Portfolio and other management and advisory fees were up nearly 50% from the same quarter last year, chiefly due to O'Connor and the acquisition of GAM in the fourth quarter 1999. The 34% increase in Investment fund fees since third quarter 1999 reflects the addition of GAM, increased fund assets and a greater proportion of client money invested in higher margin equity funds.

Net trading income was CHF 2,368 million in third quarter 2000, 13% up on the same quarter last year, as a result of increased global market activity and the strong client-driven performance of UBS Warburg.

Personnel expenses were down 11% from last quarter, in line with slower revenues, but 24% higher than in third quarter 1999. *General and Administrative expenses* increased only 8% over third quarter 1999, mainly due to currency movements and the consolidation of Klinik Hirslanden. The increase in goodwill amortization is due to the acquisitions of Allegis and GAM.

The *overall tax rate* of the Group for the third quarter was 23%.

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, RMOW-ISU, P.O. Box, CH-8098 Zurich.

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. 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.