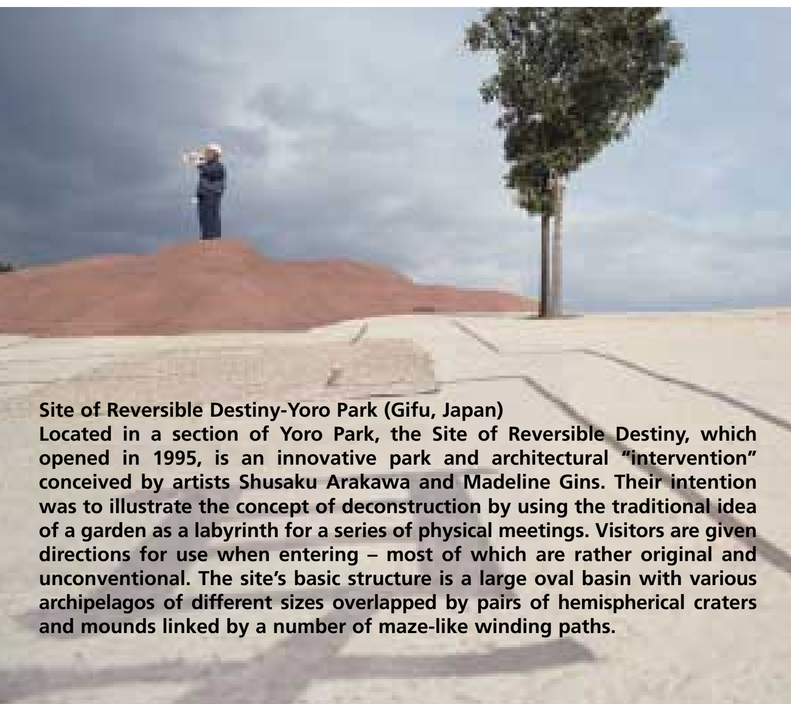
UBS

Handbook 2002/2003

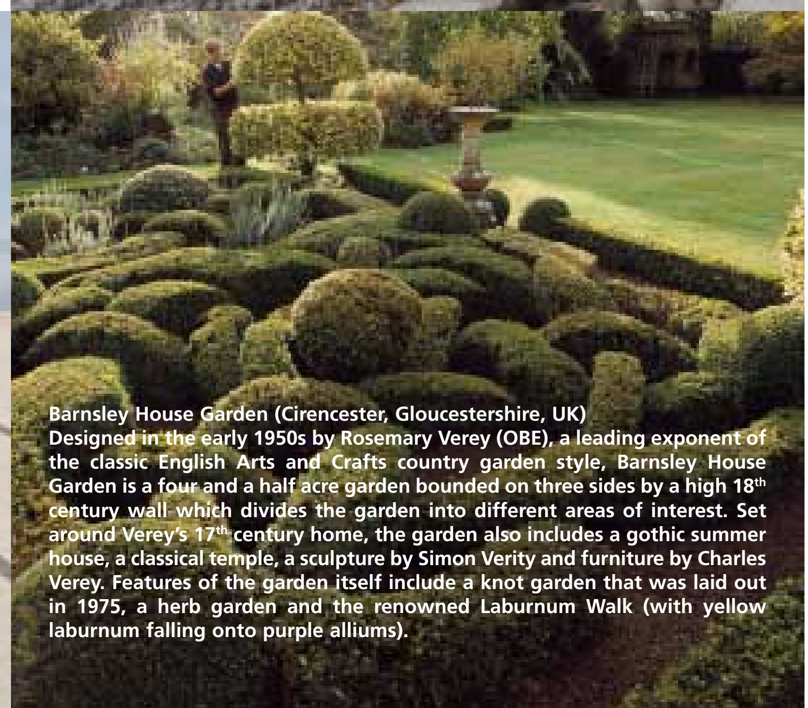
The Concept: Gardens

We have chosen a number of distinct gardens from around the world as the pictorial theme for our annual reporting products this year. Gardens are the product of imagination, expertise and careful attention to detail. Celebrated gardens evolve from inspired ideas that are developed with consistent and relentless dedication over years – and even generations.

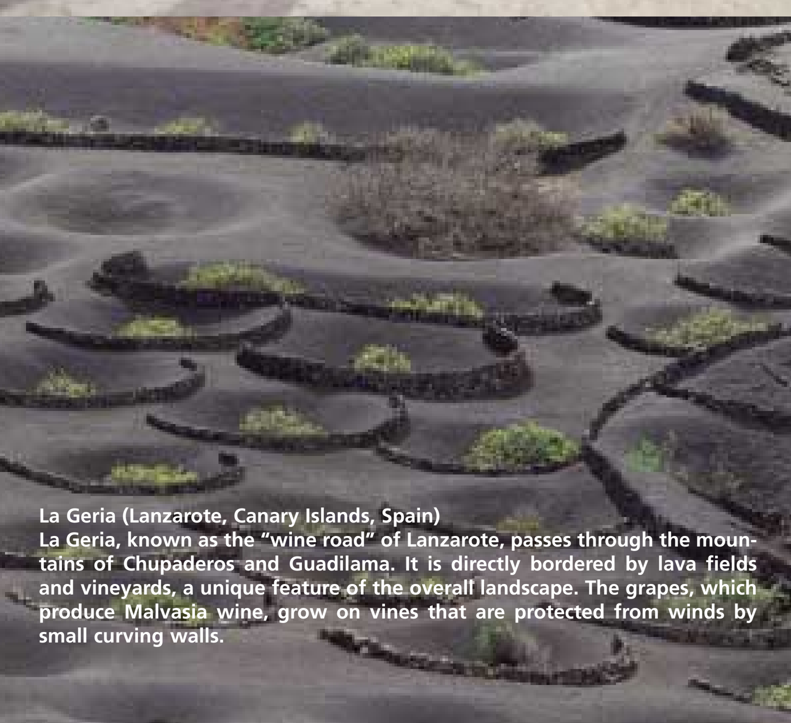
Tofuku-ji (Kyoto, Japan)
Laid out in 1939 by Mirei Shigemori, a famous garden builder, the gardens were arranged in four quarters around the Hojo, one of the main buildings in the Tofuku-ji Temple. Originally founded in 1235 and reconstructed in 1890, Tofuku-ji was the head temple of the Rinzai sect of Zen Buddhism. When he designed the garden, Shigemori's intention was to combine the simplicity of Zen during the Kamakura period with the abstract constructions of modern art.



Site of Reversible Destiny-Yoro Park (Gifu, Japan)
Located in a section of Yoro Park, the Site of Reversible Destiny, which opened in 1995, is an innovative park and architectural "intervention" conceived by artists Shusaku Arakawa and Madeline Gins. Their intention was to illustrate the concept of deconstruction by using the traditional idea of a garden as a labyrinth for a series of physical meetings. Visitors are given directions for use when entering – most of which are rather original and unconventional. The site's basic structure is a large oval basin with various archipelagos of different sizes overlapped by pairs of hemispherical craters and mounds linked by a number of maze-like winding paths.



Barnsley House Garden (Cirencester, Gloucestershire, UK)
Designed in the early 1950s by Rosemary Verey (OBE), a leading exponent of the classic English Arts and Crafts country garden style, Barnsley House Garden is a four and a half acre garden bounded on three sides by a high 18th century wall which divides the garden into different areas of interest. Set around Verey's 17th century home, the garden also includes a gothic summer house, a classical temple, a sculpture by Simon Verity and furniture by Charles Verey. Features of the garden itself include a knot garden that was laid out in 1975, a herb garden and the renowned Laburnum Walk (with yellow laburnum falling onto purple alliums).



La Geria (Lanzarote, Canary Islands, Spain)
La Geria, known as the "wine road" of Lanzarote, passes through the mountains of Chupaderos and Guadilama. It is directly bordered by lava fields and vineyards, a unique feature of the overall landscape. The grapes, which produce Malvasia wine, grow on vines that are protected from winds by small curving walls.

Royal Botanic Gardens (Peradeniya, Sri Lanka)
One of the four colonial botanic gardens of the British Empire, Peradeniya's history goes back to 1821. The basic idea behind the founding of the garden in the 19th century was to transfer the concept of an English landscape garden to a tropical environment. Despite that, one part of the garden was left to achieve a "tame jungle" effect, whereby branches are left uncut, and dead tree trunks left to lie.

Contents

Introduction

This is the third annual edition of the UBS Group Handbook.

The Handbook describes the UBS Group: its strategy, organization, and businesses. It outlines the principles by which the Group manages risk, and reports on developments in 2002 for the credit risk, market risk, and treasury management areas.

The Handbook extensively discusses the Group's corporate governance arrangements and its relationships with regulators and shareholders, along with detailed facts about the UBS share.

The Handbook should be read in conjunction with the other information published by UBS, described on page 5 and 6.

We hope that you will find the information in our reporting documents useful and informative. We believe that UBS is among the leaders in corporate disclosure, but we would be very interested to hear your views on how we might improve the content and presentation of our information portfolio.

Mark Branson
Chief Communication Officer
UBS AG

UBS Group Financial Highlights

CHF million, except where indicated For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Income statement key figures				
Operating income	34,121	37,114	36,402	(8)
Operating expenses	29,577	30,396	26,203	(3)
Operating profit before tax	4,544	6,718	10,199	(32)
Net profit	3,535	4,973	7,792	(29)
Cost/income ratio (%) [1]	86.2	80.8	72.2	
Cost/income ratio before goodwill (%) [1,2]	79.0	77.3	70.4	
Per share data (CHF)				
Basic earnings per share [3]	2.92	3.93	6.44	(26)
Basic earnings per share before goodwill [2, 3]	4.73	4.97	7.00	(5)
Diluted earnings per share [3]	2.87	3.78	6.35	(24)
Diluted earnings per share before goodwill [2, 3]	4.65	4.81	6.89	(3)
Return on shareholders' equity (%)				
Return on shareholders' equity [4]	8.9	11.7	21.5	
Return on shareholders' equity before goodwill [2, 4]	14.4	14.8	23.4	

CHF million, except where indicated As at	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Balance sheet key figures				
Total assets	1,181,118	1,253,297	1,087,552	(6)
Shareholders' equity	38,991	43,530	44,833	(10)
Market capitalization	79,448	105,475	112,666	(25)
BIS capital ratios				
Tier 1 (%) [5]	11.3	11.6	11.7	
Total BIS (%)	13.8	14.8	15.7	
Risk-weighted assets	238,790	253,735	273,290	(6)
Invested assets (CHF billion)	2,037	2,448	2,445	(17)
Headcount (full-time equivalents)	69,061	69,985 [6]	71,076 [6]	(1)
Long-term ratings [7]				
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 pre-goodwill [2, 8]

CHF million, except where indicated For the year ended	31.12.02	**31.12.01**	31.12.00	% change from 31.12.01
Operating income	33,894	**37,114**	36,402	(9)
Operating expenses	27,117	**29,073**	25,096	(7)
Operating profit before tax	6,777	**8,041**	11,306	(16)
Net profit	5,529	**6,296**	8,799	(12)
Cost/income ratio (%) [1]	79.5	**77.3**	69.2	
Basic earnings per share (CHF) [3]	4.57	**4.97**	7.28	(8)
Diluted earnings per share (CHF) [3]	4.50	**4.81**	7.17	(6)
Return on shareholders' equity (%) [4]	13.9	**14.8**	24.3	

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 8 to the Financial Statements.

4 Net profit/average shareholders' equity excluding dividends.

5 Includes hybrid Tier 1 capital, please refer to Note 29e in the Notes to the Financial Statements.

6 Klinik Hirslanden was sold on 5 December 2002. The Group headcount does not include the Klinik Hirslanden headcount of 2,450 and 1,839 for 31 December 2001 and 31 December 2000, respectively.

7 See the Capital strength section on pages 10 to 11.

8 Details of significant financial events can be found in the Group Financial Review section of the Financial Report 2002.

The segment results have been restated to reflect the new Business Group structure and associated management accounting changes implemented during 2002.

All results presented include PaineWebber from the date of acquisition, 3 November 2000.

The UBS Group

UBS is one of the world's leading financial firms, serving a discerning global client base. We combine financial strength with a global culture that embraces change. We are the world's leading provider of wealth management services and one of the largest asset managers globally. In the investment banking and securities businesses, we are among the select bracket of major global houses. In Switzerland, we are the clear market leader serving corporate and retail clients. As an integrated firm, we create added value for our clients by drawing on the combined resources and expertise of all our businesses.

Our first priority is always our clients' success and we put advice at the heart of our relationships with them. We aim to take the time to understand the unique needs and goals of each of our clients. Our priority is to provide premium quality services to our clients, giving them the best possible choice by supplementing best-in-class solutions we develop ourselves with a quality-screened selection of products from others.

With head offices in Zurich and Basel, and more than 69,000 employees, we operate in over 50 countries and from all major international financial centers. Our global physical presence is complemented by our strategy of offering clients products and services via a variety of different channels – from the traditional retail bank branch to sophisticated, interactive online tools, helping us to deliver our services more quickly, widely and cost-effectively than ever before.

Our Business Groups

All our Business Groups are in the top echelons of their sectors globally and are committed to vigorously growing their franchises.

UBS Wealth Management & Business Banking
UBS Wealth Management & Business Banking is the world's leading wealth management business and the leading corporate and retail bank in Switzerland. Almost 3,300 private banking client advisors, working from offices around the world, provide a comprehensive range of in-house and third party products and services customized for wealthy individuals. The Business Banking unit, holding roughly a quarter of the Swiss lending market, offers comprehensive banking and securities services for 3.5 million individuals and 180,000 corporate clients in Switzerland as well as 5,000 financial institutions worldwide.

UBS Global Asset Management
UBS Global Asset Management is a leading institutional asset manager and mutual fund provider, with invested assets of CHF 557 billion. It offers a broad range of asset management services and products for institutional clients and financial intermediaries across the world.

UBS Warburg
UBS Warburg is a global investment banking and securities firm. Consistently placing in the top tier of major industry rankings, it is a leading player in the global primary and secondary markets for equity and fixed income products. In investment banking, it provides first-class advice and execution capabilities to its client base worldwide. Sharply client-focused, it provides innovative products, top-quality research and comprehensive access to the world's capital markets for its corporate and institutional clients and for the rest of UBS.

UBS PaineWebber
UBS PaineWebber is the fourth largest private client business in the US, with a client base of over 2 million private investors – focused on the most affluent in the country. Its network of almost 9,000 financial advisors manage CHF 584 billion in invested assets and provide sophisticated wealth management services to their clients.

Corporate Center
The role of the Corporate Center is to ensure that the Business Groups operate as a coherent and effective whole, in alignment with UBS's overall corporate goals. The scope of Corporate Center's activities covers financial and capital management, risk management and control, branding, communication, legal advice and human resources management.

Sources of Information about UBS

This Handbook contains a detailed description of UBS, its strategy, its organization and its businesses. You can find out more about UBS from the sources shown below.

Publications

This Handbook is available in English and German. (SAP-R/3 80532-0301).

Annual Review 2002

Our Annual Review contains a short description of UBS, and a summary review of our performance in the year 2002. It is available in English, German, French, Italian and Spanish.
(SAP-R/3 80530-0301).

Financial Report 2002

Our Financial Report contains our audited Financial Statements for the year 2002 and related detailed analysis. It is available in English and German.
(SAP-R/3 80531-0301).

Quarterly reports

We provide detailed quarterly financial reporting and analysis, including comment on the progress of our businesses and key strategic initiatives. These quarterly reports are available in English.

How to order reports

Each of these reports is available on the internet at: www.ubs.com/investors, in the "Financials" section. Alternatively, printed copies can be ordered, quoting the SAP number and the language preference where applicable, from UBS AG, Information Center, CA50-XMB, P.O. Box, CH-8098 Zurich, Switzerland.

E-information tools for investors

Website

Our Investors and Analysts website at www.ubs.com/investors offers a wide range of information about UBS, including our financial reporting, media releases, UBS share price graphs and data, corporate calendar and dividend information and copies of recent presentations given by members of senior management to investors at external conferences.

Our internet-based information is available in English and German, with some sections in French and Italian.

Messenger service

On the Investors and Analysts website, you can register to receive news alerts about UBS via Short Messaging System (SMS) or e-mail. Messages are sent in either English or German and users are able to state their preferences for the theme of the alerts received.

Results presentations

Senior management present UBS's results every quarter. These presentations are broadcast live over the internet, and can be downloaded on demand. The most recent results webcasts can also be found in the "Financials" section of our Investors and Analysts website.

UBS and the environment

This Handbook contains a summary of UBS environmental policies as part of the Corporate Responsibility section. More detailed information is available at www.ubs.com/environment.

Form 20-F and other submissions to the US Securities and Exchange Commission

We file periodic reports and submit other information about UBS with the US Securities and Exchange Commission (SEC). Principal among these filings is the Form 20-F, our Annual Report filed pursuant to the US Securities Exchange Act of 1934.

Our Form 20-F filing is structured as a "wrap-around" document. Most sections of the filing are satisfied by referring to parts of this

Handbook or to parts of the Financial Report 2002. However, there is a small amount of additional information in the Form 20-F which is not presented elsewhere, and is particularly targeted at readers in the US. You are encouraged to refer to this additional disclosure.

You may read and copy any document that we file with the SEC on the SEC's website, www.sec.gov, or at the SEC's public reference room at 450 Fifth Street NW, Washington, DC, 20549. Please call the SEC at 1-800-SEC-0330 (in the US) or at +1 202 942 8088 (outside the US) for further information on the operation of its public reference room. You may also inspect our SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, NY 10005 and the American Stock Exchange LLC, 86 Trinity Place, New York, NY 10006. Much of this additional information may also be found on the UBS website at www.ubs.com/investors, and copies of documents filed with the SEC may be obtained from UBS's Investor Relations team, at the addresses shown on the following page.

Corporate information

The legal and commercial name of the company is UBS AG. The company was formed on 29 June 1998, when Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872) merged to form UBS.

UBS AG is incorporated and domiciled in Switzerland and operates under Swiss Company Law and Swiss Federal Banking Law as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors.

The addresses and telephone numbers of our two registered offices and principal places of business are:

Bahnhofstrasse 45, CH-8098 Zurich, Switzerland, telephone +41-1-234 11 11;

and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, telephone +41-61-288 20 20.

UBS AG shares are listed on the SWX Swiss Exchange and traded through the latter's majority-owned virt-x trading platform. UBS shares are also listed on the New York Stock Exchange and the Tokyo Stock Exchange.

Switchboards

For all general queries.

Zurich	+41 1 234 1111
London	+44 20 7568 0000
New York	+1 212 821 3000
Hong Kong	+852 2971 8888

UBS Investor Relations

Our Investor Relations team supports institutional, professional and retail investors from offices in Zurich and New York.

www.ubs.com/investors

Zurich

Hotline:	**+41 1 234 4100**	UBS AG
Christian Gruetter	+41 1 234 4360	Investor Relations G41B
Mark Hengel	+41 1 234 8439	P.O. Box
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Oliver Lee	+41 1 234 2733	
Fax	+41 1 234 3415	

New York

Hotline:	**+1 212 713 3641**	UBS Americas Inc.
Richard Feder	+1 212 713 6142	Investor Relations
Christopher McNamee	+1 212 713 3091	135 W. 50th Street, 9th Floor
Fax	+1 212 713 1381	New York, NY 10020, USA

sh-investorrelations@ubs.com

UBS Group Media Relations

Our Group Media Relations team supports global media and journalists from offices in Zurich, London, New York and Hong Kong.

www.ubs.com/media

Zurich	**+41 1 234 8500**	sh-gpr@ubs.com
London	**+44 20 7567 4714**	sh-mr-london@ubsw.com
New York	**+1 212 713 8391**	sh-mediarelations-ny@ubsw.com
Hong Kong	**+852 2971 8200**	sh-mediarelations-ap@ubs.com

UBS Shareholder Services

UBS Shareholder Services, a unit of the Company Secretary, is responsible for the registration of the Global Registered Shares. It is split into two parts – a Swiss register, which is maintained by UBS acting as Swiss transfer agent, and a US register, which is maintained by Mellon Investor Service as US transfer agent (see below).

Hotline	**+41 1 235 6202**	UBS AG
Fax	+41 1 235 3154	Shareholder Services – GUMV
		P.O. Box
		CH-8098 Zurich, Switzerland

sh-shareholder-service@ubs.com

US Transfer Agent

For all Global Registered Share related queries in the USA.

www.melloninvestor.com

calls from the US	+1 866 541 9689	c/o Mellon Investor Services
calls outside the US	+1 201 329 8451	Overpeck Centre
		85 Challenger Road
		Ridgefield Park, NJ 07660, USA

shrrelations@melloninvestor.com

UBS listed its Global Registered Shares on the New York Stock Exchange on 16 May 2000. Prior to that date UBS operated an ADR program. See the Frequently Asked Questions (FAQs) section at www.ubs.com/investors for further details about the UBS share.

The UBS Group

Strategy, Structure and History

Our vision of UBS is as one of the world's pre-eminent financial firms. We are the world's largest private bank, while in investment banking and securities trading we are among a select bracket of major global houses. In Switzerland, we are the clear market leader in corporate and retail banking. As an integrated group, we deliver the whole firm to our clients, giving them added value by drawing on the combined resources and expertise of all our businesses. Every client is a client of UBS, not of an individual business unit. Our first priority is always our clients' success.

Our vision

We are determined to be recognized as the best global financial services company. We will earn this recognition from clients, shareholders and professionals through our ability to anticipate, learn and shape our future, while always delivering the very best quality in all that we do. We share a common ambition to succeed. Throughout our development as a leading global financial services group, we have evolved a distinct culture of ambition, performance and learning that has enabled us to continually innovate and broaden our expertise. Through harnessing all of our resources, we develop smart solutions with and for our clients and partners, and enable them to make savvy financial decisions. Our ambitious, performance-driven working atmosphere is what attracts and retains the best talent for our company, and by growing our client and talent franchises, we add sustainable value for our shareholders.

Our strategic future

Our strategy remains one of growth. In the current economic environment, and after a decade of transformational mergers and acquisitions, we believe that the best way to expand our business is to grow it organically using the internal resources we already have at our disposal. We have the right people, an ideal platform, a sound capital base and the confidence that we can achieve our chosen objectives.

In the wealth management market, we believe there is a strong secular growth trend in private wealth and a tendency towards a further worldwide concentration of that wealth. We also believe that the investment banking market pos-

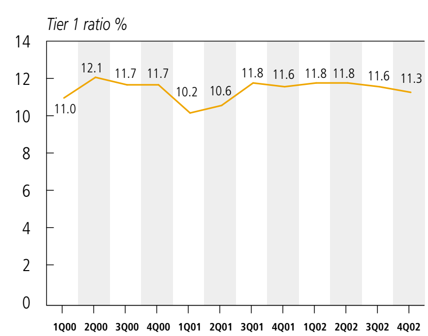
Capital strength

Our financial stability stems from the fact that we are one of the best capitalized banks in the world. We believe that this financial strength is a key part of our value proposition for both our clients and our investors.

In June 2002, Moody's reaffirmed UBS's Aa2 long-term credit rating and commented that "the ratings of UBS AG reflect the group's leadership position in a number of its core businesses as well as solid financial fundamentals – in particular, resilient revenue generation, improving cost efficiency, low risk appetite and strong core economic capitalization". At the same time, Moody's noted that "the sustained performance of UBS reflects the Group's strong franchise in each of its core businesses" resulting in broadly-diversified revenue sources.

In July 2002, Standard & Poor's reaffirmed its AA+ long-term debt rating for UBS, but revised the outlook to negative, "reflecting the fall in global equity markets, particularly since May". S&P commented that the AA+ rating reflects "UBS's strong market positions and franchises across a wide range of private banking and international securities activities, which support solid profitability, strong capitalization, and excellent liquidity".

UBS Group
BIS Tier 1 capital ratio



For further details see the Capital Management section on pages 86–87

sesses long-term growth opportunities and we will therefore continue to strongly expand in the key US market. An extensive presence in the US is critical to maintaining a strong global position as it accounts for half of the global investment banking fee pool.

However, a strategy of organic growth does not mean we will become inactive. We will continue to keep options open regarding acquisitions that round out or further balance our business portfolio.

Our product strategy is to deliver a comprehensive line of top-quality products and advice to individual, institutional and corporate clients. Choice is central to our client offering, with our in-house range of products enhanced by a quality-screened selection of third party products.

We are committed to attaining scale and scope in all our key businesses as this will enable us to deliver a full spectrum of services efficiently. In order to maintain operational efficiency, we ensure that our processes are streamlined and avoid duplication of activities. Our client philosophy is advice-led, with the quality and expertise of our relationship managers helping us to build long-term and mutually beneficial relationships with our clients.

We are committed to remaining at the forefront of technology, although we do not believe it should be pursued solely for its own sake. It is a tool that is an integral component of all our businesses. We use technology to extend our reach to clients and markets we could not previously have accessed, enhancing client service and experience.

We have a strong and well-managed capital structure and are dedicated to remaining one of the best capitalized financial services firms in the world. We will continue to manage our balance sheet prudently and are committed to the optimization of UBS's capital structure for the benefit of its shareholders.

Business and management structure

Integrated business model

One of the keys to our success is our integrated business model. We believe our clients should effortlessly be able to access all the services our firm can provide, where and when they are required, and regardless of what combinations of teams lie behind the necessary solutions. Our clients should not feel the boundaries inherent, and even necessary, in a large, global organization. Our integrated model means that teams from across Business Groups work together to pool different skills for the benefit of an individual client.

A clear example of how our integrated model works is illustrated by the services we provided

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In August 2002, Fitch reaffirmed its AAA long-term rating of UBS, while keeping the outlook negative, "because of the potential threat a sustained bear market over the next year would pose to earnings". At the same time Fitch commented that "UBS is exceptionally well-capitalized with a strong performance, particularly in comparison with its European peers but also on a global scale".

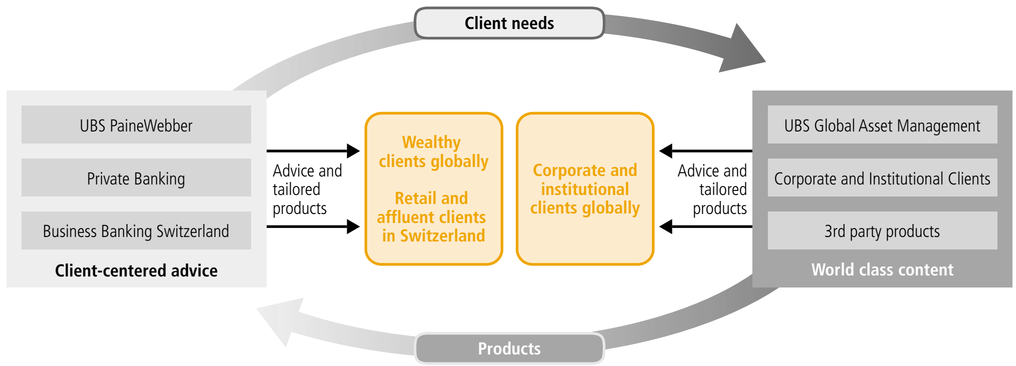
UBS's ratings remain among the best of any major globally active financial institution. Well-capitalized, with strong and balanced cash-flow generation, and a cautious risk profile, UBS is one of the soundest financial institutions worldwide.

UBS's long-term credit ratings are shown in the table below. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency, if in the rating agency's judgment, circumstances so warrant.

Long-term credit ratings

	As at		
	31.12.02	31.12.01	31.12.00
Fitch, London	**AAA**	AAA	AAA
Moody's, New York	**Aa2**	Aa2	Aa1
Standard & Poor's, New York	**AA+**	AA+	AA+

UBS Group
Integrated client-service model



last year to a renowned private equity firm which came to us wanting to raise new money. UBS Warburg's Financial Sponsors Group managed the day-to-day relationship with the client, while the Private Equity Funds Group, also part of UBS Warburg, raised institutional funds in Europe and Asia. At the same time, we successfully offered the investment opportunity to both UBS PaineWebber and UBS Private Banking's high-net worth clients.

It is our four Business Groups, each in the top echelon of their field, who put our integrated business model into action. Our wealth management businesses provide client-centered advice and tailored products to their clients. They, in turn, are supplied with a world class product and research offering from the UBS Warburg and UBS Global Asset Management Business Groups. At the same time, UBS Warburg and UBS Global Asset Management provide advice and tailored products to their own corporate and institutional clients while being kept abreast of changing client needs by the wealth management businesses. That in turn helps them develop innovative new products and services. Overall, the exchange benefits both sides – UBS's individual clients get access to sophisticated products and services; and UBS's wholesale Business Groups have access to first-class distribution opportunities. In the end, our integrated model ensures that, where UBS has a best-in-class offering, we capture the whole of the value chain. The partnership between our businesses ensures that the exchange of services, knowledge and capabilities across the Group gives us the ability to build a coherent infrastructure that does not duplicate activities unnecessarily.

Our integrated business model also helps us capture synergies between different components of our businesses, eliminating redundant infrastructure, services, management and control. An example of that is our centralized treasury process which ensures that cash flows within UBS are pooled and netted before being funded through one access point to the money markets. At the same time, embedding risk management deeply into all our businesses is one of our most important success factors. Risk identification, management and control are critical components of all our business processes and plans, and our integrated approach to risk control ensures that risks are consistently assessed and evaluated across the Group.

The value created by the integrated business model derives from the breadth and depth of UBS's expertise which is an immediate result of our diverse roots. Each of the entities that joined UBS in recent years brought strengths that have had a significant impact on our business. Unlike a holding company or a conglomerate, our approach to building a powerful Group by integrating these components has helped us to successfully develop a common set of values and aspirations. The latest step in our efforts to define the future as one firm is demonstrated by our decision to introduce UBS as a single brand for all our businesses. This will enable us to concentrate our capabilities on building a clear and distinct corporate identity, increasing the efficiency and effectiveness of our marketing efforts.

The Business Groups

UBS's Business Groups are managed together to optimize shareholder value – making the whole worth more than the sum of the parts. Each Business Group is led by a member of the Group Executive Board who is individually responsible for the performance of the Business Group.

UBS Wealth Management & Business Banking

UBS Wealth Management & Business Banking delivers comprehensive financial services to wealthy private individuals worldwide and is the leading bank for individual and corporate clients in Switzerland. It comprises the business units of UBS Private Banking and Business Banking Switzerland.

UBS Private Banking is the world's largest private bank, with more than 140 years of private banking experience, 164 offices worldwide and CHF 688 billion invested by clients. It provides a comprehensive range of products and services individually tailored to wealthy clients from Switzerland and abroad. Working around the world, our 3,291 highly trained client advisors combine strong personal client relationships with access to the resources of the whole UBS Group. Clients benefit from a complete range of wealth management services – from asset management to estate planning, and from corporate finance advice to art banking.

Business Banking is the leading bank in Switzerland with more than 3.5 million individual client accounts, and relationships with 180,000 enterprises across the country and 5,000 financial institutions from around the world.

Business Banking has 311 branches and 1,225 ATMs in Switzerland – the broadest distribution network of any Swiss bank. It is the leading lender to private clients in Switzerland, and the biggest player in both the credit card and private mortgage markets.

Clients have invested assets of over CHF 200 billion with Business Banking and its loan book total of CHF 139 billion on 31 December 2002 corresponded to the leading position in the Swiss mortgage and retail lending market.

UBS Global Asset Management

UBS Global Asset Management is a leading asset manager, distinguished by the diversity and global scope of its investment capabilities.

With its integrated global investment platform, it seeks to deliver superior investment performance to institutional investors and financial intermediaries. More than 440 investment professionals, located in all the major financial centers around the world, provide clients with access to a breadth and scope of investment capabilities that distinguishes it from its competitors.

The organization consists of three platforms. The first, the price/value investment philosophy is at the heart of our core investment management business. The second, the alternative and quantitative investments platform, encompasses several specialist businesses with distinctive brands, including O'Connor. The third, our real estate businesses – principally located in the US and the UK, with significant presence in Switzerland and Japan – have been combined into a separate and global real estate capability.

UBS Global Asset Management had total invested assets of CHF 557 billion on 31 December 2002, of which CHF 279 billion were from institutional investors and CHF 278 billion from private clients via the wholesale intermediary market.

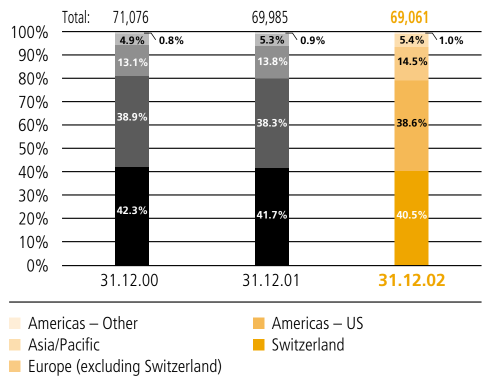
UBS Warburg

UBS Warburg is a leading investment banking and securities firm that provides a full spectrum of products to institutional and corporate clients, governments and financial intermediaries around the world. UBS Warburg consists of the Corporate and Institutional Clients and UBS Capital business units.

The Corporate and Institutional Clients business unit provides securities products and advisory services to a broad customer base worldwide. It is one of the top-ranked firms in the world for institutional clients, where its strength lies in global equity research and distribution, as well as in structuring and distributing fixed income cash and derivative products. The business is organized into three main areas, distinguished by the type of products and services offered as well as the inherent nature of their business risks. The business areas are:

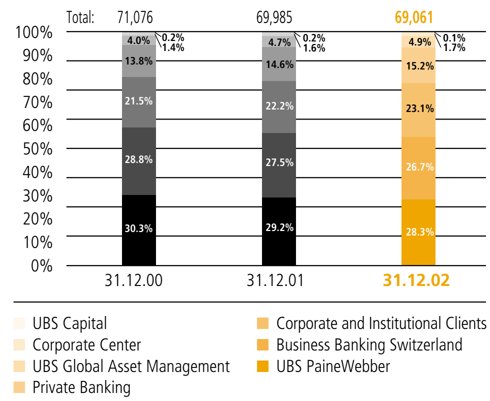
– Investment Banking
– Equities
– Fixed Income, Rates and Currencies

UBS Group
Headcount[1]: regional distribution



[1] Full time equivalents excluding contractors and Klinik Hirslanden (Klinik Hirslanden was sold on 5 December 2002).

UBS Group
Headcount[1]: business unit distribution



[1] Full time equivalents excluding contractors and Klinik Hirslanden (Klinik Hirslanden was sold on 5 December 2002).

In the investment banking business, UBS Warburg provides first-class advice and execution capabilities to a global corporate client base. In the equities business, it is a leader in both primary and secondary markets for equity, equity-linked (e.g. convertible bonds) and equity derivative products. In the fixed income and foreign exchange business, it is a top-tier global house, providing innovative products and original thinking to corporate and institutional clients in all major markets.

UBS Capital is UBS Warburg's private equity business unit, managing a portfolio that consists of investments in unlisted companies spread throughout Europe, the US and Asia. These investments are typically held for a period of approximately three to six years and made with a view to preparing them for sale to a trade or financial buyer, or, where appropriate, staging an initial public offering (IPO).

UBS PaineWebber

UBS PaineWebber is one of the top wealth managers in the US. It builds consultative relationships with affluent clients and provides them with a complete set of sophisticated wealth management services.

With approximately 2 million client relationships, it is one of the largest private client businesses in the US, offering a full set of services to the most affluent Americans. Its strength lies in the emphasis it puts on building and maintaining consultative relationships between high net worth clients and their financial advisors, who offer their clients a wide array of investment products and services.

The network of almost 9,000 highly trained financial advisors, working from 369 offices across the US, handled CHF 584 billion in assets invested by clients as of 31 December 2002. Providing tailored investment advice based on each client's individual specific needs, advisors focus on households with investable assets in excess of USD 500,000 – the largest and fastest growing pool of assets in the US.

Corporate Center

The role of the Corporate Center is to ensure that the Business Groups operate as a coherent and effective whole, in alignment with UBS's overall corporate goals. Corporate Center's activities cover financial and capital management, risk management and control as well as branding, communication, legal advice and human resources management.

Board structure

The management and oversight structure of UBS is based on two separate boards – the Board of Directors and the Group Executive Board.

The Board of Directors is the most senior body with ultimate responsibility for the strategy and the management of the company, and for the supervision of executive management. The Board of Directors also defines UBS's risk appetite and risk limit structure. A clear majori-

UBS Group
Reporting structure in 2002

ty of the members of the Board of Directors are non-executive and fully independent.

The Group Executive Board, on the other hand, assumes overall responsibility for the daily management of UBS, for the implementation of strategy and for business results. Together with the Chairman of the Board and the Vice-Chairmen, it is responsible for developing UBS's strategies.

The functions of Chairman of the Board of Directors and President of the Group Executive Board are conferred on two different people. No member of one board may be a member of the other. Our dual board structure establishes a system of checks and balances, ensuring the Board of Directors and executive management are institutionally independent of each other.

Industry trends

As 2003 progresses, the environment for the financial services industry as a whole continues to be a challenging one. Uncertainty over economic developments and rising geopolitical concerns are affecting investor sentiment and therefore transaction levels, and are holding back a significant recovery in corporate activity. Despite that, we believe UBS Warburg's extremely strong institutional client franchise and growing corporate client franchise will help it further grow its business in the future, with restructuring activity by corporations expected to provide new business opportunities. The global reach of our wealth management businesses and the quality of our financial advisors worldwide make us confident that we will be able to meet the varied aspirations of our clients in different markets. In the short-term, market levels will have a direct impact on asset-based fees while transaction revenues remain heavily linked to investor confidence. We still firmly believe, however, in the long-term potential of the global wealth management market as we continue to invest in building up our domestic presence in key European markets.

Long-term perspectives

Despite the market setbacks experienced over the last few years, we remain excellently positioned to benefit from the worldwide growth in wealth and the concentration of that wealth among the affluent, the two key long-term secular market trends influencing wealth management businesses worldwide.

Although the prolonged market declines seen last year and in 2001 have reduced the total global bankable and liquid assets of the core affluent market segment (those holding more than EUR 500,000 in such assets) by approximately 18% to EUR 23.5 trillion, the correction also served to accentuate the demand for skilled financial advice. Our experience over the past two years indicates that sophisticated and tailored solutions for high net worth individuals are even more in demand in difficult economic and financial environments.

Despite the current market conditions, the long-term trend towards wealth growth is confirmed by our internal research, which predicts that total bankable and liquid assets held by the core affluent segment will expand on average by 6% a year between 2002 and 2012 – driven, among other factors, by a heightened need to save for retirement as western societies age further. Regionally, Asia (excluding Japan) is seen growing this aggregate pool of assets 9% a year until 2012, while in Europe growth is forecast at 8%. Over the same timeframe, total assets of the core affluent segment are seen increasing 5% a year in the US and 4.5% in Japan.

The second trend, towards a further concentration of wealth, is also confirmed by our internal research, which indicates that the world's core affluent, an estimated 11 million households globally, will raise their current 50% share of total global financial wealth. The US is one example, where core affluent individuals are expected to hold 70% of all wealth by 2012, up from 64% in 2002.

The first trend, for further wealth growth, underpins the strategic rationale of our European wealth management initiative. Europe is expected to experience the second highest rate of wealth growth worldwide over the next ten years, and that is a key reason why we have built up a strong domestic presence in Germany, France, Italy, the UK and Spain in the last two years and continue to expand in those markets. Together, the five countries account for EUR 3.8 trillion or 80% of total Western European wealth, and 16% of the world total. The core affluent in what we call the EU-5 accounted for 35% of all private wealth in 2002, with that figure seen rising to 42% by 2012.

Turning to the investment banking and securities markets, we see continued strong client demand for corporate advice combined with a broad array of securities services. Despite the general slowdown experienced in investment banking and securities activity last year and the generally pessimistic investor sentiment, we see market opportunities in the merger and acquisition, restructuring and corporate advisory businesses. Overall levels of activity, however, will not return to the levels seen in 1999–2000 in the near future. The current environment still presents opportunities to firms with a global presence and in-depth experience in cross-border transactions. The expansion we are undertaking will take some time, although we are currently seeing the first signs of success in the US, where we achieved clear market share gains last year as our recent hires acquire new business and deal mandates.

In the institutional client business, where we have a strong position in equities, fixed income and foreign exchange, we expect the environment to remain competitive with an ongoing commoditization of wholesale products and shrinking margins. We expect overall volumes to grow further, so keeping the overall pool of commission income roughly stable. Institutions with scale and scope, global reach and advanced technology will benefit in the long-term despite the current market environment.

In asset management, we believe that the long-term outlook is a strong one. Despite continued equity market volatility, business will be driven by demographic pressures, which should bring further pension reform by governments worldwide. We will continue to take advantage of the trend towards open architecture, which will provide opportunities in giving us access to new distribution channels while also providing our clients with a wide array of alternative forms of investments such as hedge funds, which allow them to diversify their allocation of assets and investment styles.

In Switzerland, we will seek to maintain our leading position while continuing to increase the overall efficiency of our activities, although we do not believe the retail and corporate market will grow significantly in coming years.

Adoption of a single UBS brand

In November 2002 we announced a further evolution of our brand strategy and portfolio. On 9 June 2003, we will adopt the single UBS brand to represent all our businesses and will no longer market our services using the UBS Warburg or UBS PaineWebber brands. The move to a simpler branding accurately reflects our integrated business model and the "one firm" approach we deliver to clients.

Before the decision was taken to adopt a single brand, we undertook a thorough review of our brand strategy, focusing on brand values as much as brand structure. The review included market research in 14 countries involving thousands of existing and potential clients, including high net worth individuals, corporate and institutional clients, asset management clients, and Swiss individual clients. UBS client advisors and relationship managers were also part of the research. The results showed that all UBS's different client groups had similar expectations regarding the provision of their financial services and their relationship with UBS. Across the board, they expect their financial firm to relentlessly pursue their financial success and provide access to the resources of a global powerhouse, while giving proactive advice and a choice of solutions.

Branding structure, to be implemented during 2003

Overall Brand		UBS
Business	Old names	New logo with client segment descriptor
Wealth management (Swiss and International Clients)	UBS Private Banking	UBS Wealth Management
Wealth management in the US	UBS PaineWebber	UBS Wealth Management
Investment banking and securities	UBS Warburg	UBS Investment Bank
Institutional asset management and funds	UBS Global Asset Management	UBS Global Asset Management
Retail and corporate banking in Switzerland	UBS	UBS

The making of UBS

All of the firms which have come to make up today's UBS look back on a long and illustrious history. The two Swiss predecessor banks came into being in the 19th century, as did PaineWebber, while SG Warburg was founded in 1934. But it is in the past decade that UBS's current identity began to take concrete shape.

In the early 1990s, the two Swiss banks that are part of the current UBS, Swiss Bank Corporation (SBC) and Union Bank of Switzerland (UBS), were commercial banks operating mainly out of Switzerland. The two banks shared a similar vision: to become a world leader in wealth management and a global bulge bracket investment bank with a strong position in global asset management, while remaining an important main commercial and retail bank in Switzerland.

Union Bank of Switzerland, the largest and best-capitalized Swiss bank, opted to pursue a strategy of organic growth, or expansion by internal means. In contrast, SBC, then the third largest Swiss bank, decided to take another route by starting a joint venture with O'Connor, a leading US derivatives firm that was fully acquired by SBC in 1992. O'Connor was noted for its young, dynamic and innovative culture, its meritocracy and team-orientation. It brought SBC state-of-the-art risk management and derivatives technology.

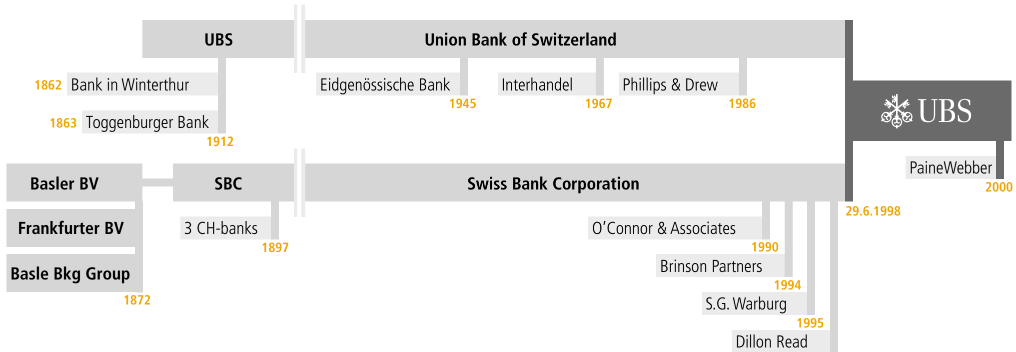
In 1994, SBC acquired Brinson Partners – one of the leading US-based institutional asset management firms. Both the O'Connor and Brinson deals represented fundamental steps in the development of the firm's products and processes.

The next major step followed in 1995, when SBC merged with SG Warburg, the British merchant bank. The deal helped to fill SBC's strategic gaps in corporate finance, brokerage and research, and most importantly, brought with it an institutional client franchise, which is still at the core of today's equities business.

The 1998 merger of Swiss Bank Corporation and Union Bank of Switzerland brought together these two leading Swiss financial institutions, creating the world leader in private banking and improving the new firm's chances of becoming a bulge-bracket investment bank, not to mention providing it with greater capital strength.

But there was still a major item left on the firm's broader strategic agenda. It needed to garner a significant presence in the key US market in order to be fully credible as a truly global player in investment banking and wealth management. That was achieved with the PaineWebber merger in 2000, whose integration has been a notable success. Because of that transaction and a decade of transformational change, UBS is now set for a strategy based primarily on organic growth – thanks to its complete and global set of businesses.

The history of UBS

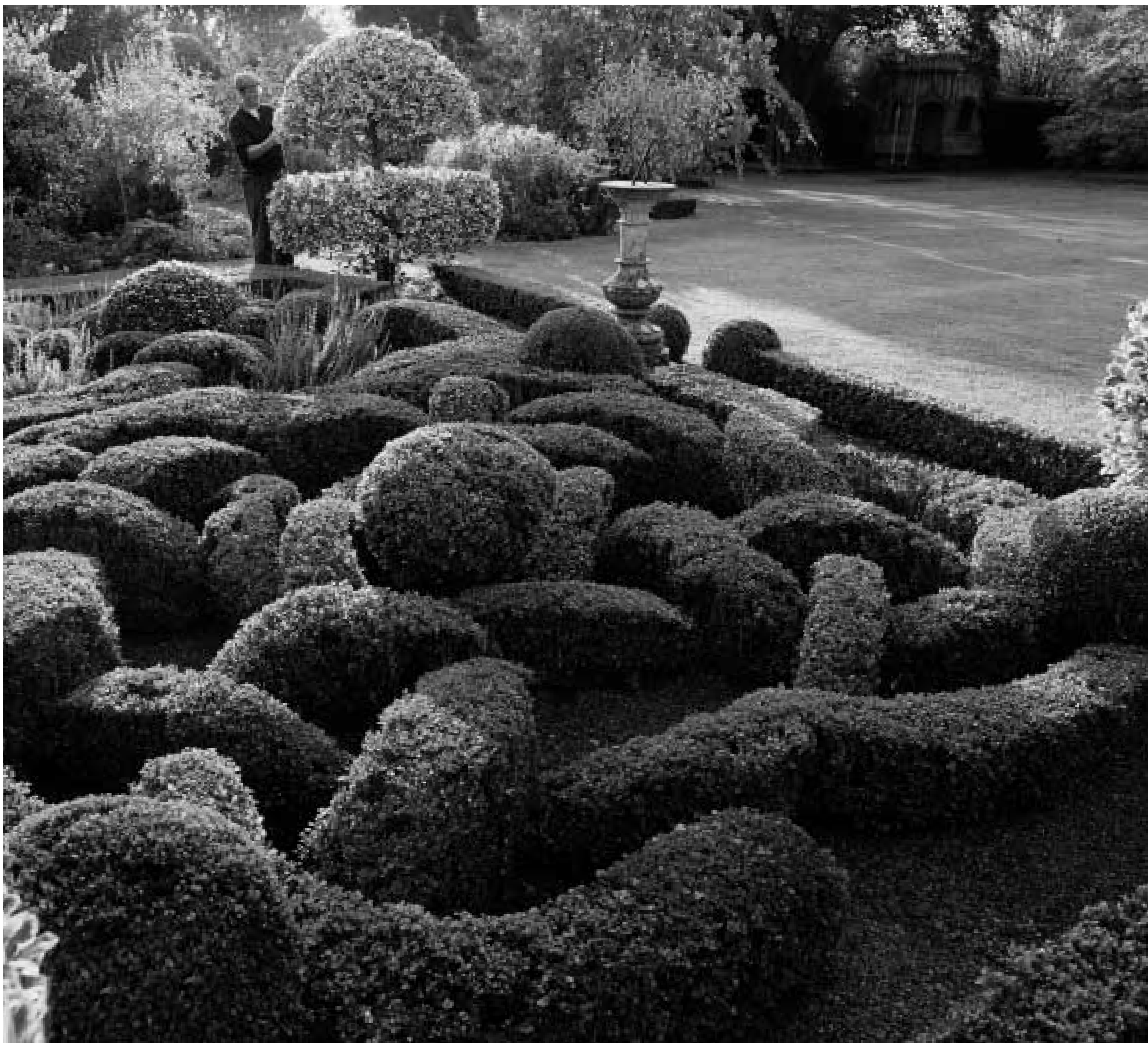


Key mergers and acquisitions.

Taking responsibility

Although the synergies and strategic benefits resulting from the 1998 merger between the former Union Bank of Switzerland and Swiss Bank Corporation are widely acknowledged, less is known of a comprehensive program in Switzerland that has softened the blow for many employees displaced by the integration. Called MIDSAM (a combined German acronym that roughly equates with "job reduction measures"), the program has effectively helped over 3,000 UBS employees affected by merger-related restructuring in the four years it was in place. Employees who lost their jobs as a result of the merger or the subsequent reorganization were given considerable support. Their periods of notice were doubled, while financial contributions were made to training programs and outplacement consulting. They were also closely assisted by dedicated teams of experts, specifically trained for the task, whose sole job was to find creative ways for employees to find a new and fulfilling occupation – or help them settle into early retirement. For UBS itself, with total program costs of around CHF 900 million, MIDSAM was by no means a low-cost option.

Although the MIDSAM program itself ended in December last year, there is a continued need for a policy and program in Switzerland that helps deal with the effects of possible restructurings and reorganizations. To that effect, a new program, called COACH, was introduced on 1 January 2003. Essentially, it is a full-time advisory team whose task is to place employees who lose their jobs as a result of restructuring – either externally or internally, or help them with early retirement, with many of its conditions similar to the MIDSAM program.



The Business Groups

UBS Wealth Management & Business Banking

Georges Gagnebin
Chairman UBS Wealth Management & Business Banking

Marcel Rohner
CEO UBS Wealth Management & Business Banking

UBS Wealth Management & Business Banking provides private banking services for wealthy clients around the world and is the leading bank for individual and corporate clients in Switzerland.

Business Group reporting adjusted for significant financial events[1]

CHF million, except where indicated	Private Banking		Business Banking Switzerland		UBS Wealth Management & Business Banking	
For the year ended	**31.12.02**	31.12.01	**31.12.02**	31.12.01	**31.12.02**	31.12.01
Income	**7,279**	7,696	**5,494**	5,792	**12,773**	13,488
Credit loss expense	**(28)**	(37)	**(286)**	(567)	**(314)**	(604)
Total operating income	**7,251**	7,659	**5,208**	5,225	**12,459**	12,884
Personnel expenses	**2,083**	1,947	**2,727**	2,878	**4,810**	4,825
General and administrative expenses	**2,158**	2,038	**159**	396	**2,317**	2,434
Depreciation	**125**	151	**355**	465	**480**	616
Amortization of goodwill and other intangible assets	**111**	109	**0**	0	**111**	109
Total operating expenses	**4,477**	4,245	**3,241**	3,739	**7,718**	7,984
Business Group performance before tax	**2,774**	3,414	**1,967**	1,486	**4,741**	4,900
Cost/income ratio before goodwill (%)	**60**	54	**59**	65	**60**	58
Net new money (CHF billion)	**16.6**	24.6	**3.7**	9.2		
Invested assets (CHF billion)	**688**	791	**205**	215		
Headcount (full-time equivalents)	**10,488**	10,249	**18,442**	19,220	**28,930**	29,469

[1] Details of significant financial events can be found in the Financial Report 2002.

Business

Our extensive global branch network delivers comprehensive financial services to wealthy private individuals around the world and to private and corporate clients in Switzerland. Our strategy puts clients at the center of all business activity, with our efforts sharply focused on providing them with the financial products and tools that meet their personal needs.

Organizational structure

On 1 July 2002, our new name and management came into effect, replacing the former UBS Switzerland designation. High-end affluent clients that were previously the responsibility of the former Private and Corporate Clients (PCC) unit became Private Banking clients, although their advisor relationships remained the same. Product development was consolidated into a single Products and Services area, and a new Market Strategy and Development area was created, which provides comprehensive marketing services for the whole Business Group. We report results for the following two business units:

– Private Banking, which comprises the full private banking business, and now includes the high-end affluent clients segment
– Business Banking Switzerland, consisting mainly of the individual and corporate client businesses of the former PCC business unit.

All logistics and service costs are allocated to these two business units.

Competitors

UBS Private Banking's major competitors comprise all private banks active globally such as the private banking operations of Credit Suisse Group, Deutsche Bank and Citigroup. We also compete with private banks that operate within their respective domestic markets.

Business Banking Switzerland's major competitors are banks active in the retail and corporate banking markets in Switzerland. This includes Credit Suisse Group, cantonal banks throughout the country, and other regional Swiss banks.

Private Banking

With more than 140 years of private banking experience, an extensive global network and CHF 688 billion in invested assets on 31 December 2002, UBS Private Banking is the world's largest private bank.

Business

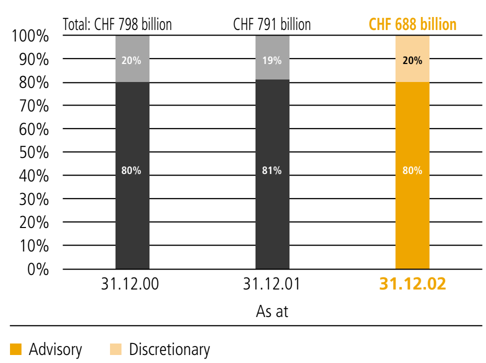
UBS Private Banking provides a comprehensive range of products and services individually tailored for wealthy clients around the world via its global branch network and an extensive channel of financial intermediaries.

With CHF 688 billion in invested assets on 31 December 2002, more than 140 years of private banking experience and an extensive branch network comprising 111 offices in Switzerland and 53 offices around the world, UBS Private Banking is the world's largest private bank.

Our 3,291 highly trained client advisors back up strong personal relationships with access to the resources of the whole UBS Group, providing a full range of wealth management services from asset management to estate planning and from corporate finance advice to art banking. Furthermore, our open product platform gives clients access to a wide array of pre-screened, top-quality products from third party providers that complement UBS's own line.

At the beginning of 2001, we launched the European wealth management initiative, a major growth initiative to expand our domestic private banking presence in the five key European markets of France, Germany, Italy, Spain and the UK. Since 2001, we have steadily opened offices and hired experienced client advisors in key locations within our five target markets.

Private Banking
Invested assets by mandate type



Organizational structure

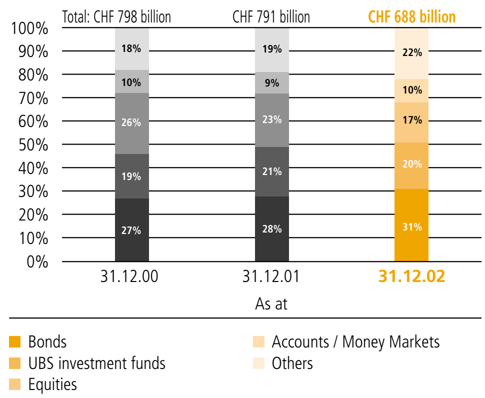
Our global product offering is carefully tailored to meet country-specific tax and legal regulations as well as the varied aspirations of clients in different markets. With this geographical focus in mind, our client advisors are organized into the two business areas of:

- Private Banking – Swiss Clients, covering clients domiciled in Switzerland, divided into eight geographical regions in Switzerland
- Private Banking – International Clients, serving clients domiciled outside of Switzerland, including the clients of the European wealth management initiative. It is organized into the seven regions of Italy, Western Europe, Germany and Benelux, UK/Northeastern and Southeastern Europe, the Middle East and Africa, Asia, and the Americas.

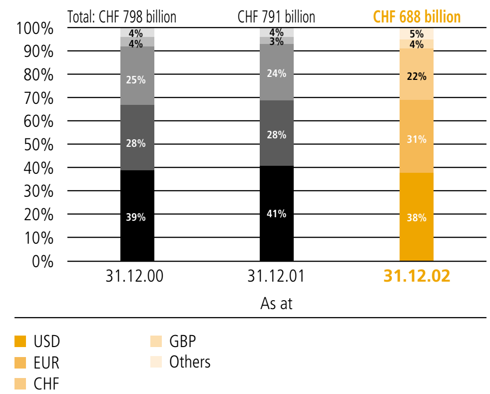
We have a number of global teams that have areas of specialized expertise and which concentrate on the requirements of particular client groups. In September 2002, we were the first European financial group to open a subsidiary in Bahrain. Called Noriba bank, it offers sharia-compliant products to institutions and high net worth individuals residing in the Arabian Gulf and around the world.

We also provide financial intermediaries, both inside and outside Switzerland, with our solutions, products and services, helping them to add substantial value to their client relationships.

Private Banking
Invested assets by asset class



Private Banking
Invested assets by currency



Growth platform for independent wealth management subsidiaries

During the first half of 2003, UBS will create a new holding company to incorporate GAM, its specialist asset management firm, as well as its five independent private banks – Cantrade (Zurich), Banco di Lugano (Lugano), Ferrier Lullin (Geneva), Bank Ehinger (Basel) and Armand von Ernst (Bern). With this common platform, all of our independent wealth management subsidiaries will be equipped and encouraged to grow faster, and deliver their full value creation potential. The new structure will ease the path to integration where it makes sense, targeting economies of scale not achievable by each organization on its own. It may allow a future role in the consolidation of the private banking industry.

The new company will be chaired by Hans De Gier, currently UBS Executive Vice-Chairman, who will as a result leave UBS's Chairman's Office. He will be joined on the board as Deputy Chairman by Georges Gagnebin, Chairman of UBS Wealth Management & Business Banking and Peter Kurer, UBS Group General Counsel. Hans De Gier will lead the strategic reorganization and integration efforts, supported by the six current Chief Executives of the subsidiaries, and will join the boards of all six firms.

The companies involved employ approximately 1,750 staff globally, and their clients have invested assets of approximately CHF 70 billion. The new company will not be integrated with UBS's wealth management operations, and will be part of the Corporate Center. This structure will be reflected in our financial reporting with effect from first quarter 2003. We will release restated figures for 2000, 2001 and 2002 reflecting these changes prior to the publication of first quarter results.

Clients

In order to achieve our business objectives and maintain our position as the wealth management provider of choice, it is imperative that we constantly work to fulfill our clients objectives, demands and needs around the world.

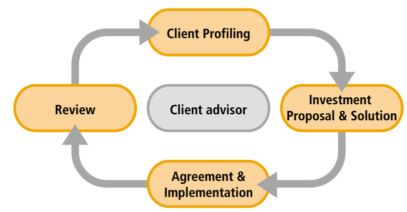
Four-step advisory process

A key part of fulfilling our clients' needs is our structured advisory process. The consistent delivery of a truly consultative advisory process combined with a comprehensive product-positioning framework is essential to putting Private Banking's value proposition into action. Highly skilled client advisors take time to understand client needs, taking into account all the different factors that might affect a client's investment goals and risk appetite. The client advisor then acts as a consultant, helping to build a personalized financial strategy that meets those requirements – one that provides best-in-class solutions supported by state-of-the-art technology. Thus, our commitment to open architecture forms a key part of the value proposition for our clients in this process. The selection of the most appropriate solution is based on an agreement between the client and the client advisor, a solid basis for a long-lasting relationship.

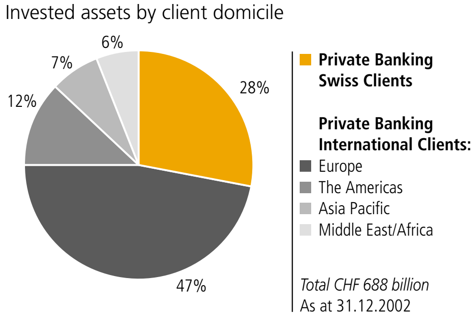
The whole process is rounded out by comprehensive monitoring and reporting of investment performance, as well as the regular communication between the client advisor and the client in which goals and strategies are constantly evaluated, and adjusted or revised as required.

Our extensive training programs ensure that client advisors become fully versed in all aspects of this structured, four-step advisory process, thereby giving them the tools to strengthen their client relationships.

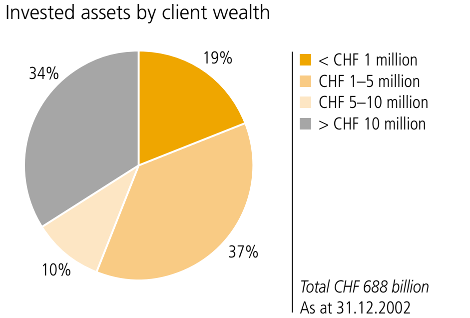
Private Banking
Four-step advisory process



Private Banking
Invested assets by client domicile



Private Banking
Invested assets by client wealth



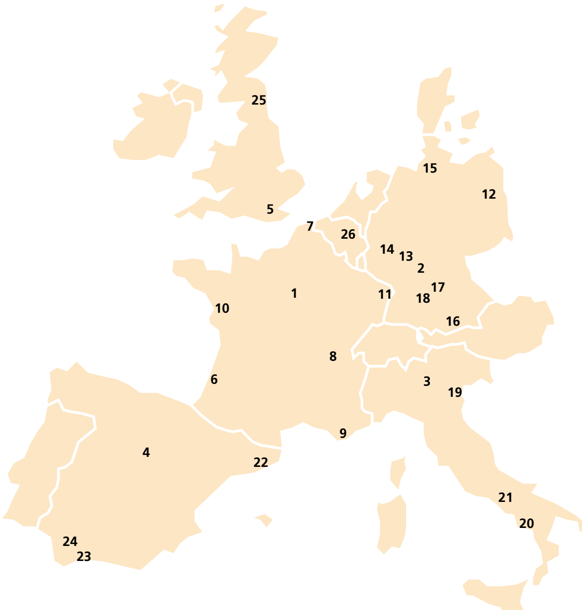
Financial intermediaries

We are a market leader in providing products and services to financial intermediaries. They include small to medium-sized banks, independent asset managers and financial consultants in Switzerland, France and Germany as well as in other locations around the world. Using intermediaries to offer our products and services allows us to further leverage the scale and scope of our private banking expertise, while giving them integrated, comprehensive solutions suited to their clients' needs.

European wealth management

The European wealth management initiative was launched in early 2001 and is aimed at wealthy clients in the five target countries of France, Germany, Italy, Spain and the UK. Together they comprise around 80% of the total European market for wealthy clients. The initiative combines our extensive private banking experience with the best of UBS PaineWebber's marketing and product skills, using both as powerful catalysts to build a significant domestic European presence.

Private Banking
European wealth management initiative:
Office locations



Main country offices
1 Paris
2 Frankfurt
3 Milan
4 Madrid
5 London

Branch offices
6 Bordeaux
7 Lille
8 Lyon
9 Marseille
10 Nantes
11 Strasbourg
12 Berlin
13 Bielefeld
14 Dusseldorf
15 Hamburg
16 Munich
17 Offenbach
18 Stuttgart
19 Bologna
20 Naples
21 Rome
22 Barcelona
23 Marbella
24 Seville
25 Edinburgh

Satellite Offices
26 Brussels

Strategy

In 2002, the European wealth management initiative proved itself on many fronts. Its growth potential was underlined by the continued hiring of new client advisors, who helped bring in net new money of CHF 7.6 billion. This inflow represents an annual growth rate of 48%. In the same timeframe, invested assets increased by 75% to CHF 28 billion on 31 December 2002. The impact of Italy's tax amnesty at the beginning of 2002 highlighted the initiative's defensive characteristics as almost half of the assets repatriated by our Italian clients were directed to our domestic Italian business.

Our current strategy for this initiative focuses on the three building blocks of "People", "Products" and "Platform". Only by deploying the best people, with the best products and superior technology to support them, will we build the client base we seek in our target countries.

Private Banking
European wealth management fundamentals

EWM is based on three building blocks:

People
- Establish growth culture
- Hire top-quality advisors

Products
- Build on open architecture
- Leverage UBS PaineWebber expertise

Platform
- Build pan European logistics
- Deliver product capabilities
- Establish branch network

People

Acquiring high quality client advisors with specialized knowledge of their domestic markets is a cornerstone of the European wealth management initiative. Since the initiative's start in early 2001, we have tripled the number of advisors in our five key European countries. In 2002, we employed an additional 181, raising the total to 551 client advisors on 31 December 2002. New hires benefit from a training initiative that helps every private banker learn about the current state-of-the-art in wealth management, complemented by product-specific training on the new generation of open architecture solutions. We regularly review the performance of our client advisors against pre-set, mutually agreed targets.

Products

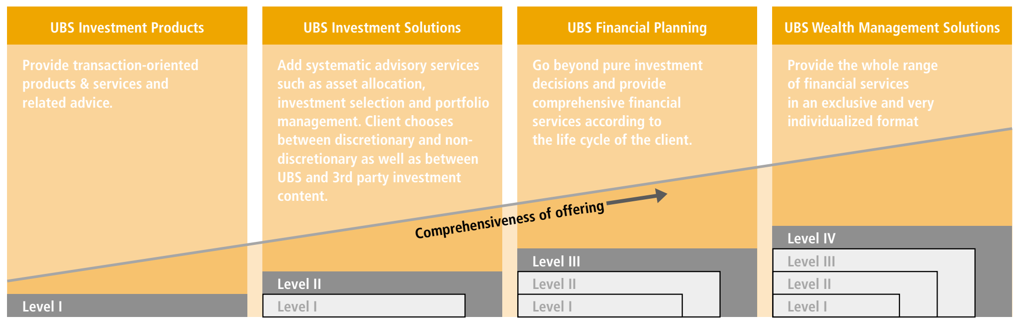
We offer our clients a full range of Private Banking's products based on our open architecture philosophy. We carefully tailor our investment solutions to the regulatory and tax environment of each specific country and, of course, to individual client needs.

Platform

We are continuing to expand our European branch network, extending our reach to new clients and improving our service to our existing clients. Potential locations in our five target countries are systematically screened according to a number of criteria including market potential, the market share required to break even, and the potential availability of professional client advisors. We have three different types of offices: main country offices, branch offices and satellite offices. The main country offices are located in a country's most important financial center and enjoy extensive infrastructure. Branch offices and satellite offices operate with a leaner set up. We currently have 25 offices, up from the 19 offices operating at the start of 2002. The new branch offices opened during 2002 are located in Bielefeld, Bordeaux, Lille, Nantes, Naples, and Strasbourg. In addition, although not directly part of the European wealth management initiative, a satellite office was opened in Brussels.

In order to ensure our flexibility and capability to swiftly introduce innovative new products, we are building a new IT infrastructure to sup-

Private Banking Product positioning framework



port the European wealth management initiative. It was successfully launched in France in 2002, and will be rolled out next in Germany and Italy, followed by the remaining target markets.

Market forecasts indicate that the client segment targeted by the initiative will grow significantly in coming years. We believe that our expertise, strategy and technology put us in an excellent position to significantly enhance our position in Europe, and help to establish ourselves as the wealth manager of choice in our five target countries.

Products and services

In order to maintain our credibility and reputation with clients, we have to offer them neutral advice that is not biased towards any particular set of products or services. Doing this successfully entails opening our product architecture to include products and services from third-party suppliers. At the same time, we have no intention of becoming a one-stop financial supermarket, and we therefore carefully choose and screen third party offers, only selecting those that meet the high quality standards our clients demand. Combining this careful product selection with our structured advisory process ensures that the solutions we propose to clients are the ones that best fit their needs and goals. Open architecture is key to offering high-quality solutions building on the trust inherent in any relationship between client and client advisor.

To have the greatest possible impact, our open architecture framework focuses on products or services that differ substantially in both scope and content between the different providers.

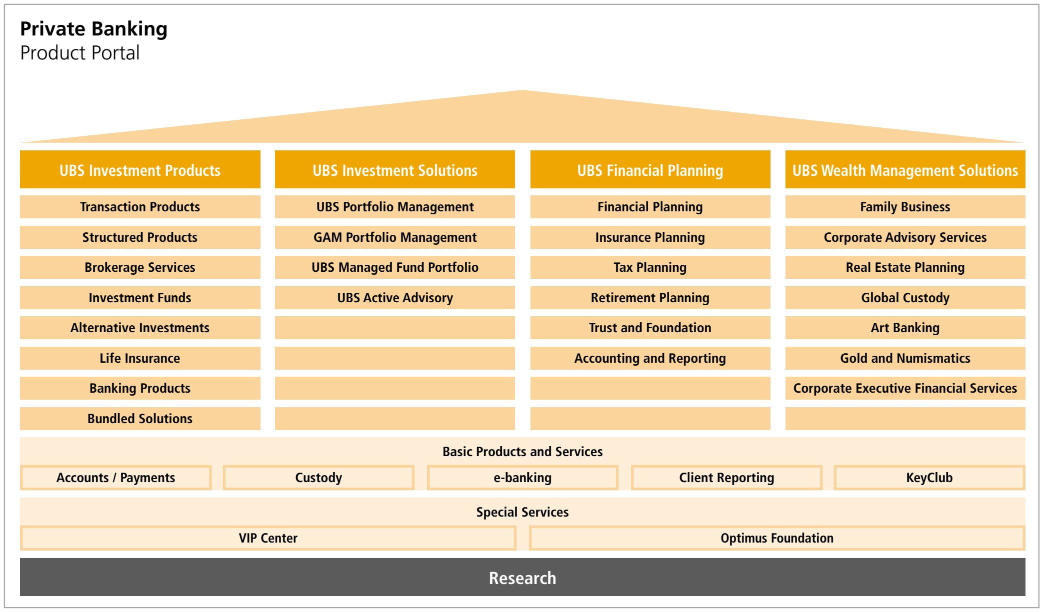
Product positioning framework

Depending on their financial situation and individual preferences, clients have varying requirements regarding the level of service they expect from their advisor.

On a first level, *UBS Investment Products* comprises advisory services primarily focused upon effective management of a standard suite of transaction-oriented products. *UBS Investment Solutions*, the second level, adds systematic advisory services such as asset allocation, investment selection and portfolio management. Clients choose investments based on a consultative advisory service or delegate all decision making to their client advisor. The third level, *UBS Financial Planning*, goes beyond pure investment decisions and offers comprehensive advice reflecting the client's needs and tax implications. At the top end of the range, *UBS Wealth Management Solutions* provides the whole range of financial services in an exclusive and very individualized format for ultra high net worth individuals, taking their entire asset base into account, including, for example, real estate and art objects.

Investment products

Our clients benefit from exemplary service and execution standards across a full range of products that stretches from equities to foreign exchange, from structured products to precious metals. In addition, our clients can access a wide range of alternative investments, from in-house hedge funds to third party private equity funds and fund of funds products. Increasingly, we are finding that clients taking advantage of our discretionary portfolio management services are including alternative investments into their overall asset allocation strategy.



Our UBS Life business, which was established in first quarter 2001, focuses on the sale of unit-linked products. They are sold alongside more traditional life insurance policies that we provide from third party sources. In 2002, 4,193 clients bought life insurance from UBS Life, ranking it among the top providers in the Swiss market for unit-linked insurance.

Investment solutions

We offer systematic advisory services such as investment selection and portfolio management. Our clients can choose between discretionary portfolio management and advisory management of assets, just as they can choose between UBS and third party investment management.

Clients that choose discretionary portfolio management delegate the management of their assets to a team of professional UBS portfolio managers according to an investment strategy agreed with their client advisor and which reflects their risk appetite. Discretionary portfolio management allows our clients to directly benefit from the investment policy of a leading financial institution with international resources. It gives them access to a large reservoir of knowledge and experience, and they are secure in the knowledge that portfolios and risks are continuously being monitored.

Many clients increasingly wish to be involved in the management of their own assets, with support from UBS's investment professionals. For them, Private Banking provides analysis and supervision of portfolios and their risk profiles, together with tailor-made proposals to support investment decisions. We offer different levels of structured advisory services, each based on an all-inclusive fee.

Financial planning

We provide professional financial planning services that help our clients achieve their personal and financial objectives while assisting them when they have to make key financial decisions at different stages of their lives. The financial planning advice we provide to our clients and their families covers all eventualities, from education funding and gifts to children through to business start-ups and inheritance planning. Specific advisory services we provide include strategic wealth management and lifestyle planning, retirement planning, inheritance and succession planning, real estate advice, asset protection, tax planning, insurance advice and the establishment of trusts, foundations and other corporate structures.

Wealth management solutions

Wealth management solutions comprise the whole range of financial services offered by Private Banking to ultra high net worth individuals in an exclusive and very individualized format.

The family office team helps wealthy families preserve and optimize their investments across generations, taking into account all economic, political, legal, and personal aspects.

Private Banking also provides independent corporate finance advice and services to business owners through a team of professional investment bankers at UBS Private Banking who can draw on the extensive resources of UBS Warburg.

Real estate is the world's largest asset class – about 50% of the world's wealth is held in real estate assets. UBS Private Banking offers comprehensive advisory services for real estate matters around the globe. It assists clients evaluating their real estate portfolios, offering support in complicated cross-border real estate transactions.

In addition, we offer a unique professional approach to art investment. Experienced art client service advisors collaborate with our clients to design an art collection, structure tailored art-related solutions or advise on buying and selling rare coins. We draw upon the resources of over 150 international service providers in the art-related business.

We also provide executives and corporations with a leading edge platform that manages stock and options plans, based on a similar UBS PaineWebber service.

Business Banking Switzerland

Business Banking Switzerland, UBS Wealth Management & Business Banking's retail and commercial banking unit, is the market leader in Switzerland and provides a complete set of banking and securities services for individual and corporate clients.

Business

UBS is the leading bank in Switzerland. At the end of 2002, the Business Banking Switzerland unit had around 3.5 million individual client accounts, and relationships with around 180,000 enterprises across Switzerland as well as 5,000 financial institutions worldwide. Clients have invested assets of CHF 205 billion with us. With a total loan book of CHF 139 billion on 31 December 2002, we have a leading position in the Swiss lending and retail mortgage market.

We aim to provide our clients with optimal levels of convenience and service by continuously expanding our comprehensive range of distribution channels. Together with our successful e-banking offering and customer service centers, our 1,225 ATMs and 311 branches across Switzerland provide a network that is more extensive than that of any domestic competitors.

At the end of 2002, Business Banking Switzerland employed 18,442 people throughout Switzerland. This represents a reduction of more than 6,000 employees since the merger in 1998 between the Union Bank of Switzerland and Swiss Bank Corporation. To a great extent, this was due to merger synergies, including a reduction in the number of retail branches by almost 250.

One of Business Banking Switzerland's key objectives is to increase profitability by continuously realizing cost savings and by improving revenues through a further implementation of our risk-adjusted pricing model. We strive to create additional value by providing integrated financial solutions for our clients' individual requirements.

Organizational structure

The Business Banking Switzerland unit comprises the Business Banking retail network, as well as the main activities of the three logistics business areas of Operations, Resources, and Information Technology.

Clients and products

Business Banking Switzerland offers high-quality, standardized products to the retail market for individual and small company clients, as well as more complex products and advisory services for larger corporate and institutional clients and financial institutions.

Private clients

We serve around 3.5 million individual client accounts in Switzerland, offering them a wide range of product and services. Supported by a powerful electronic distribution channel, our branches, which are organized into eight regions, are key driving forces in serving our clients effectively.

Our range of products and services for private clients provides a comprehensive selection of current accounts, savings products, residential mortgages, pensions and life insurance.

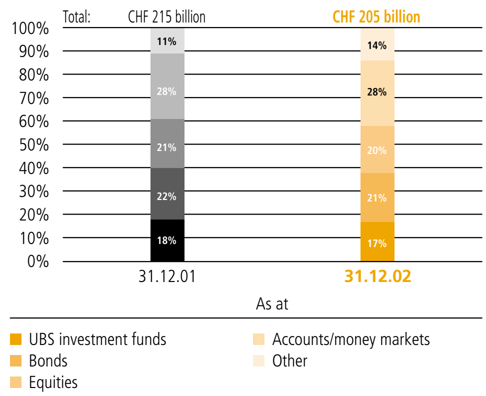
Business Banking Switzerland has a leading position in many Swiss markets. In the loan and savings markets for individuals it has a market share of 25%, while in the credit card business its market share is 31%.

Corporate clients

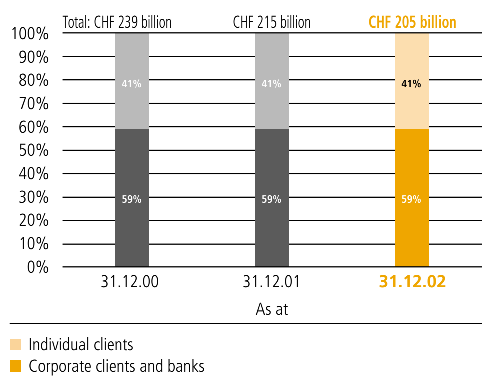
Business Banking Switzerland services 180,000 corporate clients, including institutional investors, public entities and foundations based in Switzerland.

Of the 180,000, around 160 are capital market companies, with operations that span a broad range of markets and geographical regions. These clients require our advanced financing and risk management skills and comprehensive access to the capital markets for funding needs.

Business Banking Switzerland
Invested assets by asset class



Business Banking Switzerland
Invested assets by client type



Around 7,500 of our clients are large companies that utilize our expertise in handling complex financial transactions. We provide a wide range of financial advice to them, from the selection and design of investment products to assisting with complex mergers and acquisitions or providing structured financing advice services, often working in close cooperation with specialists from elsewhere in the UBS Group.

The remaining some 170,000 corporate clients are small and medium-sized enterprises requiring local market expertise and access to our full range of products and services.

In 1998, we introduced a new lending business process that uses a risk-adjusted pricing model. It was designed to shift the focus away from lending volumes while putting more emphasis on transactions that create economic value by establishing an appropriate risk/return relationship. As a result of this process, the risk profile of our loan portfolio has gradually improved in the four years since its introduction, while the credit quality of counterparties has also improved. At the same time, risk-adjusted pricing benefits our clients by promoting transparent and open discussions between client and advisor. The advisor clearly communicates the basis for credit decisions, and possible areas of improvement can be identified, which, if successfully implemented, can then be reflected in lower loan pricing.

We also provide substantial business process support to our clients, ranging from transactional payments and securities services to facilitating cross-border transactions with trade finance products.

Our global custody services offer institutional investors the opportunity to consolidate multiple bank relationships into a single cost-efficient global custodial relationship. This simplifies their processing and administration arrangements and allows them to take advantage of our value-added services, such as flexible consolidated performance reporting, and powerful portfolio management tools.

Financial institutions

We also offer payments, securities, and custodial services to more than 5,000 financial institutions worldwide and play a leading role together with UBS Warburg in the firm's "Bank for Banks" initiative that focuses on offering state-of-the-art services to other banks. This allows us to optimize the utilization of our existing infrastructure and increase efficiency, while other banks who lack our scale can outsource activities and benefit from UBS's wide-ranging expertise.

Logistics areas

Business areas focusing on client needs can only fully exploit their potential if they are provided with a reliable and efficient infrastructure.

The logistics business areas (Operations, Resources and IT) provide products and services to UBS Wealth Management & Business Banking and to other UBS businesses. For example, interbank foreign exchange and options transactions from key UBS Warburg locations such as London, Stamford, Singapore, Hong Kong, and Tokyo are centrally processed in Switzerland.

Distribution

In recent years the needs of our private clients have changed. Although our physical branch network used to be the principal distribution platform, today clients want the flexibility of being able to access their accounts using the full range of modern communication technology. They want to contact their bank when it is convenient for them, and without restrictions imposed by regular business hours.

Because of that, UBS Wealth Management & Business Banking pursues an integrated, multi-channel strategy. We use technology to complement, rather than replace the traditional physical branch network. Standard transactions can be conveniently executed using one of the alternative electronic channels, enabling client advisors to focus on providing personalized advice to individuals, developing financial solutions to match each client's individual requirements. Technology is therefore critical to supporting our goal of building strong client relationships, with advice at the center.

For basic products and services, technology is used to ensure round the clock availability. Our customer service centers provide basic information and advice 24 hours a day. In 39 of our branches in Switzerland we have implemented a "two-zone concept" where standard transactions are executed via ATMs, while client advisors focus on value-added advice.

e-commerce

Our internet and other e-banking platforms are part of this integrated multi-channel strategy. As well as being a transaction tool, e-banking is an important method for distributing information about UBS's products and services. UBS's website provides a wide spectrum of information on specific UBS products. If questions arise, call centers are available to support the client or to arrange in-depth advice from specialists.

Security of the e-banking platform has become an important competitive factor for UBS Wealth Management & Business Banking. Because of that, over the course of last year, we introduced a new UBS Smartcard access system to replace our paper password lists. UBS Smartcard is based on a code that is saved on each individual UBS e-banking card and does not require any installation. The card's content is protected and cannot be copied or decoded. Its codes are only valid for a very short timespan – unlike the paper list.

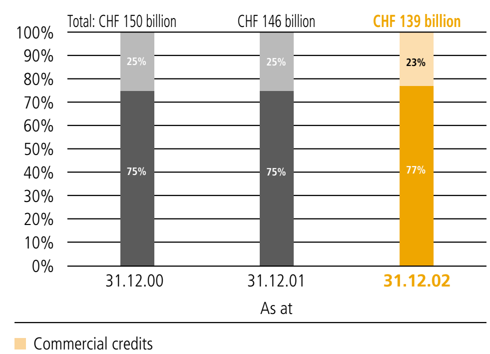
Our customers make extensive use of our e-banking channels. On 31 December 2002, almost 330,000 clients had active e-banking contracts. During 2002, 74% of payment orders were initiated via e-banking, and 12% of securities transactions were initiated via e-banking.

Loan portfolio

On 31 December 2002, Business Banking Switzerland's loan portfolio was CHF 139 billion. Mortgages represented CHF 107 billion, of which more than 80% were residential mortgages.

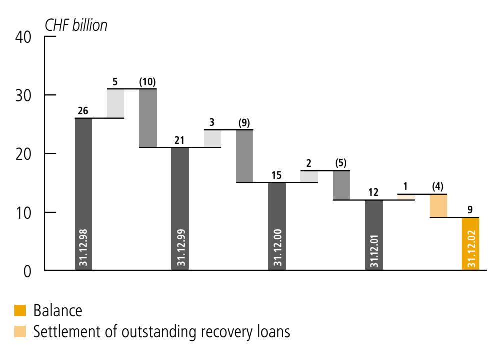
Continued discipline in implementing our risk-adjusted pricing model has resulted in a strengthened focus of origination efforts on higher quality exposures with an attractive risk/return relationship. Thanks to the introduction of this model, the risk profile of our portfolio continues to improve.

Business Banking Switzerland
Loan portfolio by loan category[1]



[1] Includes recovery portfolio.

Business Banking Switzerland
Development of UBS's recovery portfolio, 1999–2002



For details on the credit portfolio, please refer to the “Risk Analysis” section on pages 59 to 77.

Recovery portfolio

Because there will always be a certain percentage of clients unable to meet their financial obligations, we have dedicated teams of recovery specialists to help them, either by pursuing a possible economic recovery through restructuring, or alternatively, by achieving the best possible value through liquidation of available collateral in order to limit financial loss on the loan.

The recovery portfolio amounted to CHF 8.6 billion at 31 December 2002, of which CHF 7.8 billion was impaired and carried provisions of CHF 3.4 billion. The recovery portfolio has been cut by 67% over the last four years from CHF 26 billion at 31 December 1998 thanks to our successful recovery efforts. Over the same period, non-performing loans (those with payments outstanding for ninety days or longer) decreased from CHF 14.0 billion to CHF 5.0 billion, leading to a non-performing loans to gross loans ratio of 3.6%.

Strategic Solution Project (SSP)

The extensive consolidation in the financial industry over the last decade and the rise of new, interactive technologies such as the internet have substantially changed the demands and performance requirements for the IT infrastructures of major global financial service providers. Flexible platforms and online capabilities are now de rigueur, as are IT applications that give clients comprehensive real-time, online services and allow the bank and client advisors to get an integrated view of client data and transactions.

Recognizing the need to comprehensively overhaul our basic IT architecture, in 1999 we launched a large-scale project called the “Strategic Solution Program” for Switzerland. It will provide us with a wholly new IT platform and replace a number of current platforms, which have reached, despite continual updates and renewals, certain limits. The SSP is a basic platform that will hold all basic data and information necessary for UBS’s business in Switzerland, and from which business-critical applications can be built on top.

The main objectives of the new banking software platform are to increase business flexibility, improve online, interactive capabilities, lower operational risks, achieve shorter times to market for products and services, introduce front-line applications for all business processes, cut operational costs and create clearly-defined interfaces based on industry standards.

In 2003, the core system will be programmed and installed, after which all bank applications in Switzerland will be built on top of it. Users themselves will not notice a great difference on their computer screens as a conscious decision was taken at the outset to change as little to the graphic interface as possible during the first stage of the project.

As SSP progresses, certain applications will be bought from external providers; some will be taken from the old UBS platform and updated, while UBS’s internal business and IT specialists will develop others.

We also know that SSP works effectively. Some components of our information technology infrastructure started to be processed on the SSP platform last year. Moreover, to test stability and performance, we ran the basic system successfully in parallel with our old system when performing year-end processing.

UBS Global Asset Management

John A. Fraser
Chairman and CEO
UBS Global Asset Management

UBS Global Asset Management is a leading asset manager, providing investment management solutions to institutional clients as well as to private clients through financial intermediaries.

Business Group reporting

CHF million, except where indicated	UBS Global Asset Management	
For the year ended	31.12.02	31.12.01
Institutional fees	899	1,174
Wholesale Intermediary fees	1,054	1,044
Total operating income	1,953	2,218
Personnel expenses	946	1,038
General and administrative expenses	513	569
Depreciation	37	46
Amortization of goodwill and other intangible assets	270	286
Total operating expenses	1,766	1,939
Business Group performance before tax	187	279
Cost/income ratio before goodwill (%)	77	75
Net new money – Institutional (CHF billion)	(0.6)	6.2
Invested assets – Institutional (CHF billion)	279	328
Net new money – Wholesale Intermediary (CHF billion)	(1.8)	28.7
Invested assets – Wholesale Intermediary (CHF billion)	278	344
Headcount (full-time equivalents)	3,346	3,281

Business

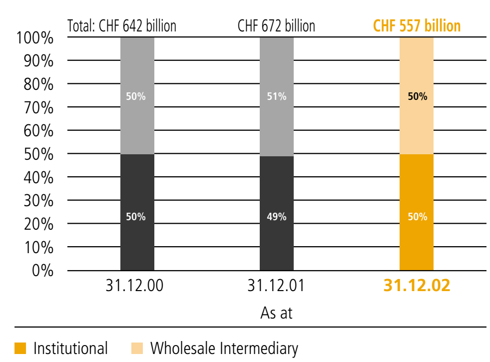
UBS Global Asset Management provides investment management services for institutional investors, and for financial intermediaries worldwide. Our purpose is to deliver superior results for clients through our integrated investment platform.

We are distinguished by our integrated global investment platform and the breadth, depth and scope of our investment capabilities that enable us to offer clients investment portfolios in nearly every major asset class.

Invested assets totaled CHF 557 billion on 31 December 2002, making us one of the largest global institutional asset managers, the second largest mutual fund manager in Europe, and by far the largest mutual fund manager in Switzerland.

Our organization consists of three platforms. Our price/value investment philosophy is at the heart of our core investment management business. We can demonstrate strength and depth of investment resources around the world and have the critical mass to attract and retain the best people. State-of-the-art risk management tools

UBS Global Asset Management
Invested assets by client type



and processes are central to our disciplined investment approach. Developed in-house, our Global Equity Risk System allows portfolio managers to call upon comprehensive risk analysis within seconds. In this way, portfolio managers can be sure that portfolios are managed in line with clients' individual risk/return objectives.

Our second alternative and quantitative investments platform encompasses several specialist businesses with distinctive brands, including O'Connor (hedge funds and other alternative investments), AIS (the Hong Kong-based fund of hedge funds business), DSI (global equity index managers) and ACM (the Zurich-based institutional hedge fund and private equity manager).

The third, the real estate business – principally located in the US and the UK, with significant presence in Switzerland and Japan – have been combined into a separate and global real estate capability.

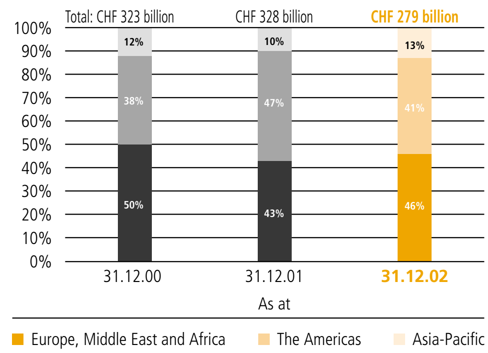
UBS Global Asset Management has devoted substantial resources to creating and maintaining its systems. We run a number of proprietary systems including models and tools for equity and fixed income research, valuation, risk monitoring and portfolio management. We have also invested in sophisticated, web-based communication tools to disseminate investment information internally. Through these communication links between our investment professionals worldwide, we create conditions for generating superior investment research and for sharing knowledge and ideas for the benefit of our clients.

Organizational structure

UBS Global Asset Management's main offices are in London, Chicago, New York, Tokyo and Zurich. With over 3,000 employees in more than 20 countries, UBS Global Asset Management is truly global.

UBS Global Asset Management was formed as a result of the merger of Union Bank of Switzerland and Swiss Bank Corporation in 1998. In July 2000, this culminated in the integration of the investment teams of the respective asset management businesses – UBS Asset Management, Brinson Partners (whose Chicago origins date back to the early 1970s) and Phillips & Drew (established in London in 1895). In April 2002, with the integration completed, the Business Group was re-branded as UBS Global Asset Management.

UBS Global Asset Management
Institutional invested assets by client location



GAM (specialist multi-manager, founded in 1983 and acquired by UBS in 1999), which was part of our Business Group, will be transferred to the Corporate Center as of first quarter 2003. For further details please refer to the "Private Banking" section on page 24).

Competitors

UBS Global Asset Management competes against other global asset managers such as Merrill Lynch Investment Managers, Deutsche Asset Management, Fidelity and AMVESCAP.

Clients

UBS Global Asset Management offers a range of investment capabilities designed for institutional investors and the wholesale intermediary marketplace around the globe.

UBS Global Asset Management
Global capabilities

We combine investment expertise and sophisticated risk and currency management with a clear commitment to providing client-centric solutions. Our capabilities include active investment in equity and fixed income, passive and exchange-traded funds, as well as alternative investment strategies using fund-of-funds and multi-manager funds, real estate and timber.

These investment management services are offered in the form of segregated, pooled and advisory mandates as well as through investment funds. We aim to deliver superior investment performance to clients through the management and allocation of their investments across and within all major asset classes.

We believe that client service means more than providing investment expertise and wide-ranging investment capabilities. UBS Global Asset Management also recommends relevant investment solutions based on its understanding of the needs of clients. Ongoing dialogue is critical. Beyond the consultative and reporting aspects of our client relationships, we communicate with clients utilizing a comprehensive range of publications and events to keep them up-to-date with research, investment views and business issues.

Institutional

We have a diverse institutional client base located throughout the world. Our clients include:

- corporate and public pension plans
- endowments and private foundations
- insurance companies
- sovereign governments and their central banks; and
- supranationals

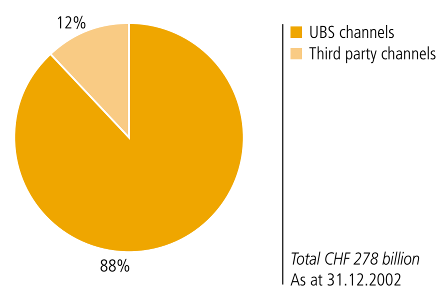
In consultant-driven markets, such as the US and UK, we rely on developing and maintaining strong relationships with the major consultants that advise institutions. We also dedicate resources to generating new business directly with large clients.

Wholesale Intermediary

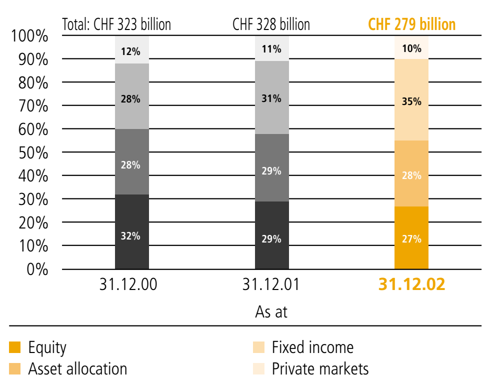
UBS Global Asset Management offers over 400 investment funds, exchange traded funds and other investment vehicles, across all asset types in diverse country, regional and industry sectors.

Distribution of our investment funds is principally through financial intermediaries. Our most significant distribution channels are UBS Wealth Management & Business Banking and UBS PaineWebber. We are continuing to evolve towards a distribution architecture in which an increasing proportion of funds will be sold through third party channels.

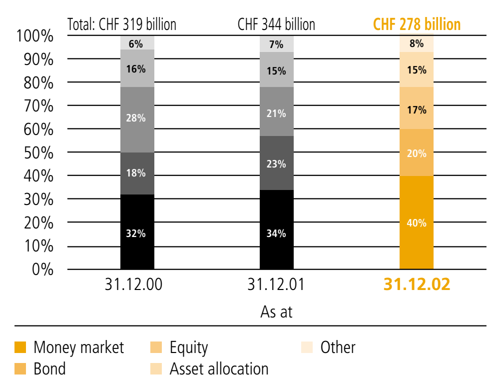
UBS Global Asset Management
Wholesale Intermediary invested assets by distribution channel



UBS Global Asset Management
Institutional invested assets by client mandate



UBS Global Asset Management
Wholesale Intermediary invested assets by fund type



Strategic opportunities

Industry trends and competitive positioning

Despite the recent equity market volatility the longer-term outlook for the asset management industry remains strong, primarily driven by demographic pressures and accompanying pension reform. However, asset management, like most of the financial services industry, is undergoing a period of reassessment and review. There is widespread recognition that costs will need to be reduced and that fee levels cannot be sustained.

Open architecture distribution appears to be increasingly commonplace in the US while it is making inroads into the European and Asia Pacific regions. This continues to present both opportunities and challenges for asset managers; opportunities to gain access to new and formerly closed distribution channels and challenges in maintaining penetration rates within proprietary ones.

Recent volatility within the equity markets has encouraged many investors to seek alternative forms of investment that diversify their investment styles. This has led to the increased popularity of hedge funds and private equity investments driven by higher potential returns and lower correlation with stock market indices. Furthermore, in the short-term, an increased allocation to fixed income and money market instruments has been witnessed. Only asset managers possessing global, multi-specialist offerings are able to service such changing needs in a flexible manner.

We believe we are strongly positioned to take advantage of this changing market as we have the reach and necessary scale to succeed in an increasingly global industry, and we have a multi-specialist offering of diverse investment capabilities matched by very few companies.

The more clearly focused structure we have implemented, now more clearly delineates between our price/value investment capabilities, alternative and quantitative investments platform and our global real estate capabilities. Distribution of all these capabilities to both institutional and wholesale clients will continue to rely heavily upon our strong regional business structure. In this way, we will endeavor to provide clients with the best solutions to their needs.

Investment performance

In all capabilities, there have been strong investment performance trends in recent years. In the core investment management platform, this was particularly evident in 2002 – portfolios were well positioned early in the year for the disappointment faced by investors in capital markets flowing from both poor economic and earnings growth. Balanced portfolios benefited from equity underweightings in the first half of the year and overweightings thereafter. Across the various asset classes, individual security selection proved as strong as in recent years, especially in the global equity mandate. Peformance in active currency mandates was also strong. In the other capabilities, performance was affected by the challenging market conditions. Several of the capabilities performed well while others faced particular difficulties in the middle part of the year. Performance towards the end of the year was stronger across the board.

UBS Warburg

John P. Costas
Chairman and CEO
UBS Warburg

UBS Warburg is one of the leading investment banking and securities firms, providing a full spectrum of services to institutional and corporate clients, governments and financial intermediaries around the world.

Business Group reporting

CHF million, except where indicated	Corporate and Institutional Clients		UBS Capital		UBS Warburg	
For the year ended	**31.12.02**	31.12.01	**31.12.02**	31.12.01	**31.12.02**	31.12.01
Income	**14,100**	15,587	**(1,602)**	(872)	**12,498**	14,715
Credit loss expense	**(128)**	(112)			**(128)**	(112)
Total operating income	**13,972**	15,475	**(1,602)**	(872)	**12,370**	14,603
Personnel expenses	**7,784**	8,258	**94**	96	**7,878**	8,354
General and administrative expenses	**2,314**	2,586	**64**	64	**2,378**	2,650
Depreciation	**381**	454	**1**	2	**382**	456
Amortization of goodwill and other intangible assets	**364**	402	**0**	0	**364**	402
Total operating expenses	**10,843**	11,700	**159**	162	**11,002**	11,862
Business Group performance before tax	**3,129**	3,775	**(1,761)**	(1,034)	**1,368**	2,741
Cost/income ratio before goodwill (%)	**74**	72			**85**	78
Net new money (CHF billion)					**0.5**	0.1
Invested assets (CHF billion)					**3**	1
Headcount (full-time equivalents)	**15,964**	15,562	**73**	128	**16,037**	15,690

Business

UBS Warburg operates globally as a client-driven investment banking and securities firm. Our salespeople, research analysts and investment bankers provide products and services to the world's key institutional investors, intermediaries, banks, insurance companies, corporations, sovereign governments and supranational organizations.

For both its own corporate and institutional clients and the individual clients of other parts of the UBS Group, UBS Warburg provides product innovation, research and advice, and comprehensive access to the world's capital markets.

Organizational structure

Since 1 January 2002, UBS Warburg has been organized into two business units:

– the Corporate and Institutional Clients business unit, which is one of the leading global investment banking and securities firms, providing products and advice to institutional and corporate clients
– UBS Capital, which is responsible for managing our private equity investments in a diverse global range of private companies

Our former private clients business centered around UBS PaineWebber, became a separate and independent Business Group effective 1 January 2002. Results shown in the Business Group reporting table have therefore been restated to reflect this.

Competitors

As a global investment banking and securities firm, we compete against other global players like Merrill Lynch, Goldman Sachs, Morgan Stanley and Credit Suisse Group.

Corporate and Institutional Clients

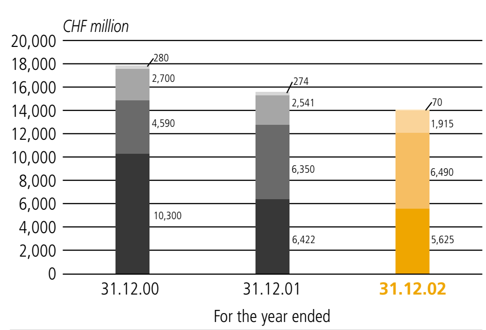
Our global reach gives our clients unique access to financial markets around the world backed up by a complete array of services and products.

Business

The Corporate and Institutional Clients (CIC) business unit provides wholesale products and advisory services to a diverse client base worldwide. It has a significant corporate client financing and advisory business, with particular strengths in advising on cross-border mergers and acquisitions and the capital raising requirements of our global corporate and governmental client base. Although historically we have been among the leaders in European corporate finance, we are also now the fastest growing investment bank in the US, according to Freeman & Co's "All Industries" data.

We are also an important partner for institutional clients, with strengths in equities research and distribution as well as in originating, structuring and distributing fixed income cash and derivatives products. We have risk management skills across all product areas, covering cash and derivative products. We leverage these skills to provide a broad array of risk management products for our institutional and corporate clients.

Corporate and Institutional Clients
Operating income by business area[1]



Equities
Fixed Income, Rates and Currencies
Investment Banking
Non-core business

[1] Before credit loss expense.

We also manage cash and collateral trading and interest rate risks on behalf of the UBS Group while executing the vast majority of securities, derivatives and foreign exchange transactions for UBS's retail clients.

Due to the nature of our business, our revenues vary seasonally from quarter to quarter. Historically, the first half of the year tends to be stronger than the second half.

CIC, headquartered in London, employs almost 16,000 people in 31 countries around the world.

Organizational structure

We organize our business into three distinct areas:
– Equities
– Investment Banking
– Fixed Income, Rates and Currencies

They are distinguished by the type of products and services offered and the nature of the business risks they raise. All businesses are run on a global basis.

Legal structure

UBS Warburg operates through branches and subsidiaries of UBS AG. Securities activities in the US are conducted through UBS Warburg LLC, a registered broker-dealer.

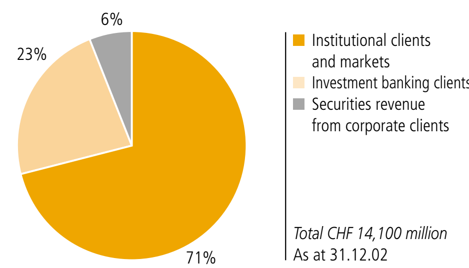
Products and services

Equities

UBS Warburg's equity business is a leading player in the global primary and secondary markets for equity, equity-linked and equity derivative products. We sell, trade, finance and clear cash equity and equity-linked products. We also structure, originate and distribute new equity and equity-linked issues. Additionally, we provide research on companies, industry sectors, geographic markets and macro-economic trends.

Corporate and Institutional Clients: income by client type

	For the year ended		
% of total	**31.12.02**	31.12.01	31.12.00
Investment banking clients	**23**	23	23
Securities revenue from corporate clients	**6**	6	5
Institutional clients and markets	**71**	71	72
Total	**100**	100	100



We are members of over 87 different stock exchanges in 31 countries and have a local presence in 40 offices around the world, with a team of 900 salespeople giving our clients access to the global equity markets. In the US, our equities business is among the top investment banks in terms of trading volume, and for market share of client commissions (according to an industry survey). We remain an important provider of non-US primary and secondary equities into the US market.

In Europe, we continue to defend our leading position while in the Asia-Pacific region, we have built a substantial equities franchise. Also, we have maintained longstanding and first-ranked positions in Australia in the research, primary and secondary categories, according to leading market surveys. In Japan, we are one of the main foreign players in the domestic market.

During 2002, UBS Warburg received the following awards, among others, from industry publications and surveys:

– "Equity House of the Year" from *The Banker* (second year running)
– "No. 1 Global Product Sales" from *Institutional Investor*
– "Equity Derivatives House of the Year" from *International Financing Review*

The technology platform has been incorporated into the day-to-day management of each business area, allowing us to adapt, expand and improve our business processes and client services.

Our Equity Capital Markets team lead manages many of the world's largest and most complex pricing transactions, demonstrating the cross-border nature of our relationships and the strength of our distribution network, with a significant global position in distributing block trades, rights offerings, IPOs, and hybrid and convertible issues to both institutional and private clients.

The global Equity Finance business focuses on hedge funds, with substantial market positions in equity swaps, stock borrowing and lending, and integrated international prime brokerage services.

Our equity research team supplies independent assessments of the prospects of approximately 3,400 companies across diverse sectors worldwide, representing about 90% of world market capitalization, as well as economic, strategy, and derivative research. Our equity research principles are very strict in maintaining effective confidential information barriers between investment banking and research and in following appropriate and clear procedures for any crossing of those barriers in connection with investment banking transactions.

Investment Banking

In the investment banking business, UBS Warburg provides advice and execution capabilities to a global client base. This advice encompasses mergers and acquisitions, strategic reviews and corporate restructuring solutions. In conjunction with other business areas of UBS Warburg, and other Business Groups of UBS, the investment banking business also arranges execution of new debt and equity issues on a global basis.

In 2002, against a challenging economic background, we assisted our clients in a range of successful M&A transactions and capital market issues. Some of the more notable deals of 2002 included:

– Carnival's USD 7.5 billion acquisition of P&O Princess
– Univision Communications USD 3.5 billion all-stock acquisition of Hispanic Broadcasting Corporation – a landmark strategic deal to combine the leading US Spanish language television and radio companies

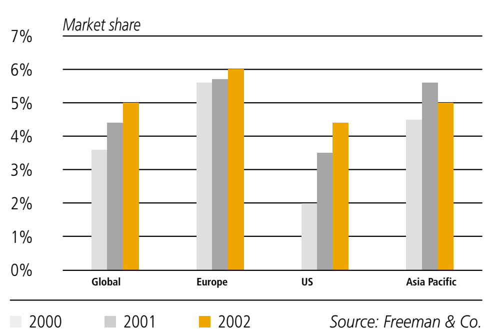
- Network Rail's GBP 9 billion acquisition of Railtrack Plc, which was supported by GBP 21 billion of standby loans
- the USD 24 billion restructuring of NTL – one of the largest corporate restructuring transactions in history for the leading UK broadband cable operator
- Bank of China (Hong Kong) restructuring and USD 2.7 billion IPO, the first from a state-owned financial institution in the People's Republic of China.

We have more than 2,100 investment banking professionals worldwide.

One of our strategic goals is the expansion of our global corporate client franchise. We continue to invest in completing the buildup of our US franchise, which we started to do in late 2000, by hiring highly qualified bankers. Despite these investments, we do not expect immediate results. Gaining new investment banking business involves long lead times, but we are pleased with the progress made in 2002. The combination of our expanded investment banking and equities footprint in the US gives us greater access to key corporate executives which has allowed us to become involved in some of the largest and most complex deals in 2002. We achieved the highest US market share growth of any investment bank in 2002.

We have a longer term goal of achieving market share, on a global basis, in excess of 5%. We believe that the results achieved this year globally, with a market share of 5% compared to 4.4% a year earlier, against a background of very challenging conditions for corporates, clearly show the strength and momentum of our investment banking franchise.

UBS Warburg
Fee pool market share, investment banking products



Fixed Income, Rates and Currencies

UBS Warburg is also a substantial fixed income and foreign exchange house, providing products and original thinking to corporate and institutional clients in all major markets. With over 2,100 professionals employed around the world, we offer our clients a genuinely seamless global service. Our business includes:
- government and corporate bonds
- foreign exchange
- interest rates derivatives
- vanilla and structured credit derivatives
- mortgage and asset-backed securities
- principal finance
- cash and collateral trading
- structured products

Our approach to specific products and markets varies. Where potential for sufficient risk-adjusted returns exist, we seek market share leadership in high-volume, liquid markets, using our client flow, capital and economies of scale to generate returns. As an example of that, we have, according to Euromoney, the leading 23.8% market share in the online foreign exchange trading market.

However, there are certain fixed income markets where scale can only be gained at the expense of returns. In these cases, we focus on earning higher margins in specialized products.

In 2002, we maintained our presence in the international and US debt capital markets through our ability to execute across a range of currencies and products and our placing capabilities in global institutional and retail markets. We have not pursued volume and have not chased mandates through large-scale lending, nor have we issued in large volume where mandates are awarded on price.

Furthermore, while there are no definitive surveys or measures of market share in the highly fragmented fixed income and foreign exchange markets, we continue to win awards for the depth of our client coverage and technical expertise.

Awards we won last year include the 2002 FX House of the Year from *The Banker,* and second rank in *Thomson Financial's* Extel Survey for Fixed Income Strategy, Fixed Income Derivatives, and European Government Bonds.

Loan portfolio

UBS took a strategic decision in 1998 to reduce the size of its international loan portfolio, limiting exposures to those which directly support core client relationships. UBS continues to avoid engaging in substantial balance-sheet-led earnings growth, with the result that the size of its international loan portfolio has fallen considerably from the level recorded in 1998. Despite this, we continue to support our core clients in their financing needs. Risk/return considerations are the paramount drivers in determining balance sheet usage. We occasionally provide bridge financing to our core clients for the purposes of completing significant deals. Thanks to this more risk-averse approach, we were not significantly exposed to the heavily publicized corporate failures of 2001 and 2002.

Corporate and Institutional Clients' loan portfolio was CHF 62 billion at 31 December 2002. The "Risk analysis" section on pages 59 to 77 contains an in-depth review of UBS's credit portfolio and business, including a discussion of impaired and non-performing loans.

E-commerce capabilities

Our e-commerce capabilities are based around our client online portal. This site gives our clients direct access to prices, research, trade ideas and analytical tools through applications such as ResearchWeb – our equity research site, DealKey, an internet facility for managing equity and equity-linked new issues, and CreditDelta, our credit portfolio management product.

Strategic opportunities

We believe that markets will continue to be difficult until at least the second half of 2003, which will have a short-term negative impact, particularly on our equities and investment banking businesses. Nonetheless, we are confident that as recent new investment banking hires build their productivity, and as the momentum we have built in the European and US markets pays dividends, we will continue to gain market share in 2003.

In investment banking, we have focused on specific sectors where there is a substantial current fee pool, as well as sectors where we believe there are significant opportunities in the future. Our hiring efforts have been mainly centered on the development of industry-leading franchises in several key areas, including Consumer Products, Energy and Power, Healthcare, Wireless, Media and Industrials. We also intend to build on our existing franchise in the Financial Institutions sector.

Building our franchise in this way will not result in overnight success. Despite this, we have already achieved clear results with our market share in the Americas rising from 2.0% in first quarter 2001 to 3.5% at the end of 2001 and 4.4% by the end of 2002 (according to "Freeman & Co.").

We aim to build a secondary market franchise in the US that is similar in depth and breadth to our leading European and Asia Pacific businesses. As a result of the boost to our franchise from the integration of UBS PaineWebber, we now rank strongly in equity research and have more than doubled our US secondary equity market share, although we remain some way behind the market share we enjoy in Europe.

UBS Capital

UBS Capital is the Group's private equity business. It now focuses on managing its existing portfolio to maximize value.

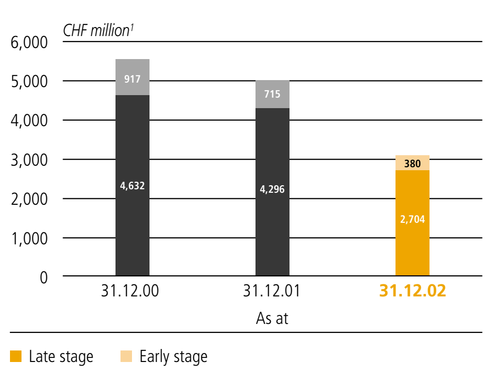
Business

UBS Capital invested in unlisted companies with a view to preparing them for sale to a trade or financial buyers, and, where appropriate, staging an Initial Public Offering (IPO). A review in late 2001 and early 2002, carefully considered the strategic future of UBS Capital in light of the generally negative market environment, the overall changes occurring in the private equity industry and our assessment of the long-term opportunities inherent in the business. After the review, and in light of UBS's focus on advisory services, we decided that UBS Capital should focus on managing down its existing portfolio, capitalizing on exit opportunities where they arise and minimizing the level of new direct investments.

Organizational structure

UBS Capital is structured along regional lines and is fully integrated within the UBS Warburg Business Group. Its portfolio in Asia and Europe mostly comprises balance sheet investments. UBS Capital in the US is focused on both balance sheet investments and the UBS Capital Americas fund. Around 30% of UBS Capital's portfolio is invested in third party funds which are overseen by a dedicated portfolio management team.

UBS Capital
Investment portfolio by investment stage



[1] All amounts are investment, defined as cost less disposals and permanent impairments.

Investment portfolio

UBS Capital had a total investment portfolio of CHF 3.1 billion on 31 December 2002, measured by the historic cost of investments less divestments and permanent impairments. The fair value of the portfolio at the same date was CHF 3.8 billion.

On 31 December 2002, approximately 52% of the investment portfolio was three years old or less. Generally, investments are sold between the third and the sixth year after the initial investment.

In line with the bank's aim of reducing exposure to private equity, UBS Capital gradually reduced undrawn commitments to CHF 2.1 billion on 31 December 2002 from CHF 3.0 billion a year earlier, while obtaining the best possible returns for UBS shareholders and for existing UBS Capital funds.

Investment process

UBS Capital's portfolio primarily comprises late stage investments that are spread throughout Europe, the US and Asia and are typically held for three to six years. UBS Capital's exit strategies include direct sales to strategic buyers, initial public offerings, leveraged recapitalizations and sales to other financial sponsors.

Strategic opportunities

Conditions in the international capital markets, and in the global economy more generally, are expected to remain harsh for some time. UBS Capital's strategy is to manage existing assets in order to reduce balance sheet risk. The investment teams managing UBS Capital's assets will endeavor to obtain the best possible returns for UBS and for investors in its private equity funds.

UBS Capital investment portfolio

Aging (based on date of initial investment)

	As at		
CHF million [1]	31.12.02	31.12.01	31.12.00
pre-1994	54	85	65
1994	97	190	253
1995	112	214	272
1996	63	202	166
1997	134	207	520
1998	373	722	842
1999	636	1,123	1,490
2000	1,119	1,781	1,941
2001	438	487	
2002	58		
Total	3,084	5,011	5,549

[1] All amounts are Investment, defined as cost less disposals and impairments.

UBS Capital investment portfolio

Geographic region (by headquarters of investee)

	As at		
CHF million [1]	31.12.02	31.12.01	31.12.00
North America	1,302	2,134	2,356
Europe	1,238	2,018	2,333
Latin America	189	339	382
Asia Pacific	355	520	478
Total	3,084	5,011	5,549

[1] All amounts are Investment, defined as cost less disposals and impairments.

UBS Capital investment portfolio

Industry sector (based on industry classification codes)

	As at					
CHF million [1]	31.12.02	% of Portfolio	31.12.01	% of Portfolio	31.12.00	% of Portfolio
Consumer related	517	17	773	15	1,023	18
Transportation	85	3	522	10	640	12
Communications	240	8	414	8	380	7
Computer related	342	11	833	17	819	15
Energy	83	3	152	3	190	3
Other electronics related	174	6	247	5	247	4
Other manufacturing	286	9	94	2	106	2
Chemicals and materials	8	0	54	1	106	2
Industrial products and services	746	24	1,360	27	1,361	25
Others	603	19	562	12	677	12
Total	3,084	100	5,011	100	5,549	100

[1] All amounts are Investment, defined as cost less disposals and permanent impairments.

UBS PaineWebber

Joseph J. Grano, Jr.
Chairman and CEO, UBS PaineWebber

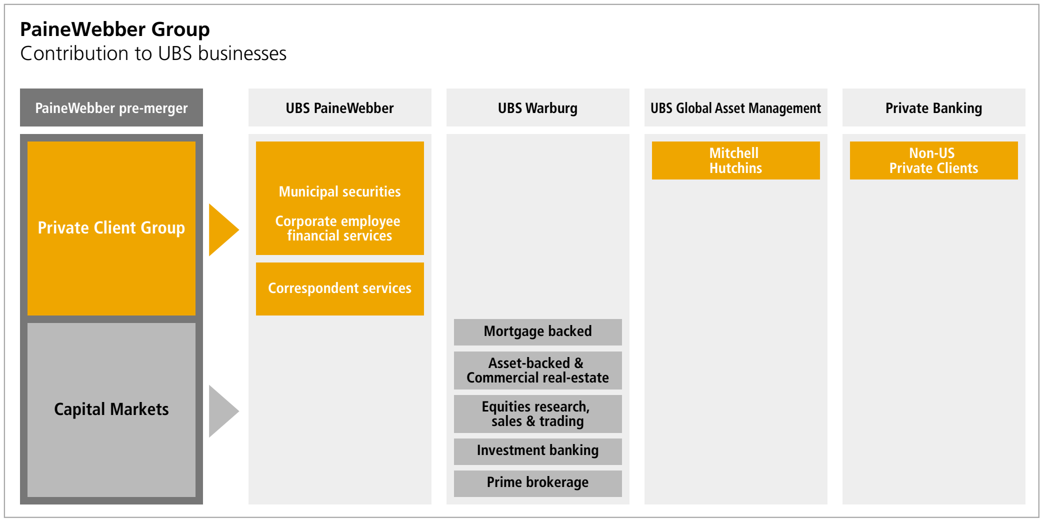
Mark B. Sutton
President and Chief Operating Officer
UBS PaineWebber

UBS PaineWebber, one of the top wealth managers in the US, provides a complete set of sophisticated wealth management services through consultative relationships with affluent and high net worth clients.

Business Group reporting adjusted for significant financial events[1]

CHF million, except where indicated	UBS PaineWebber	
For the year ended	**31.12.02**	31.12.01
Income	**5,561**	6,391
Credit loss expense	**(13)**	(18)
Total operating income	**5,548**	6,373
Personnel expenses	**4,245**	5,019
General and administrative expenses	**1,263**	1,441
Depreciation	**149**	124
Amortization of goodwill and other intangible assets	**457**	502
Total operating expenses	**6,114**	7,086
Business Group performance before tax	**(566)**	(713)
Business Group performance before tax and acquisition costs[2]	**632**	693
Cost/income ratio before goodwill (%)	**102**	103
Cost/income ratio before acquisition costs (%)[2]	**89**	90
Net new money (CHF billion)	**18.5**	33.2
Interest and dividend income (CHF billion)	**17.9**	21.5
Invested assets (CHF billion)	**584**	769
Headcount (full-time equivalents)	**19,563**	20,413

[1] Details of significant financial events can be found in the Financial Report 2002. [2] Acquisition costs include goodwill and intangible asset amortization and related funding, net of risk-free return on the corresponding equity allocated, and retention payments.



Business

UBS PaineWebber, with CHF 584 billion in invested assets and 2 million private client relationships, focuses on providing wealth management services to the core affluent (clients with more than USD 500,000 in investable assets) and to high net worth individuals (upwards of USD 5 million in investable assets). We have a network of almost 9,000 financial advisors in 365 branch office locations. Our strength lies in the emphasis we put on building and maintaining consultative relationships with our clients.

Organizational structure

When PaineWebber merged in November 2000 with UBS, its US private clients business became a business unit of UBS Warburg. PaineWebber's Capital Markets Group was integrated into the Corporate and Institutional Clients business unit of UBS Warburg; the asset management unit (formerly called Mitchell Hutchins) moved into UBS Global Asset Management and most of the non-US private client business became part of UBS Private Banking.

On 1 January 2002, UBS PaineWebber became a separate Business Group within UBS. Our business comprises the US Private Client Group, which offers a full range of wealth management products and services to affluent investors in the United States.

Legal Structure

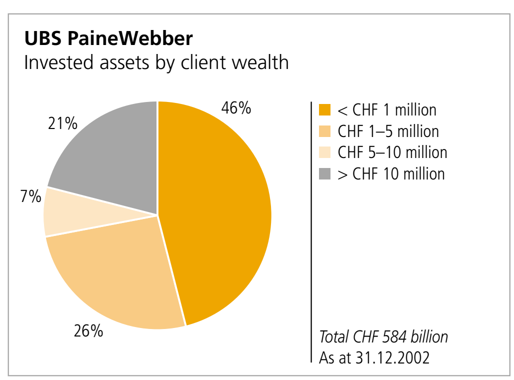
UBS PaineWebber operates through direct and indirect subsidiaries of UBS. Securities activities in the US are conducted through four registered broker-dealers.

Competitors

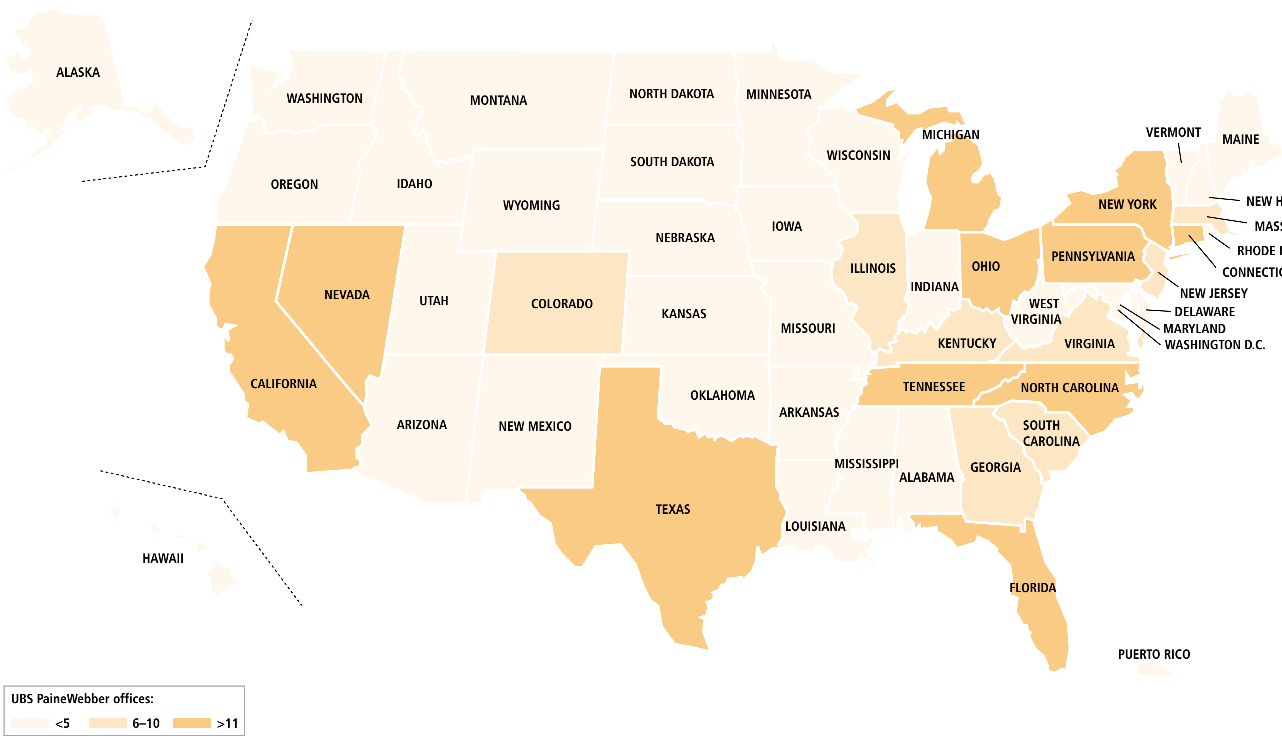
UBS PaineWebber competes against other wealth management firms in the US, including Citigroup's Smith Barney business, Morgan Stanley and Merrill Lynch.

Clients and strategy

Our business strategy is based on gathering new assets, which we achieve by focusing on meeting the investment needs of core affluent and high net worth clients in the US. During 2002, we attracted CHF 18.5 billion in net new money excluding interest and dividends, and, according to a leading industry survey, our share of the US private clients market grew to 13.8% from 12.8% in 2001.



UBS PaineWebber
Georaphical presence



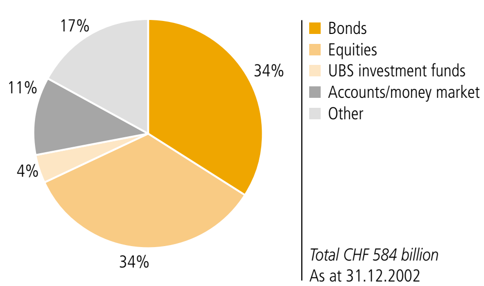
Our asset-gathering strategy also emphasizes the importance of generating recurring fees from advice and products. Fee-based relationships provide UBS PaineWebber with a source of regular, low volatility revenues.

Another component of our asset-gathering strategy is the work of the Corporate Employee Financial Services group, which provides stock option financing and other services to many of the largest US corporations. This corporate relationship, in turn, helps create relationships with core affluent and high net worth corporate executives.

At the heart of the relationship between the client and the financial advisor is our consultative process, in which each financial advisor profiles and creates an investment plan for his or her client based on the client's individual needs and goals. Centered around an asset allocation strategy and considering the client's risk tolerance, the plan is designed to help the client accumulate, preserve and transfer wealth. After the plan is in place, there are regular portfolio reviews that help ensure it remains on track to meet the client's long-term goals.

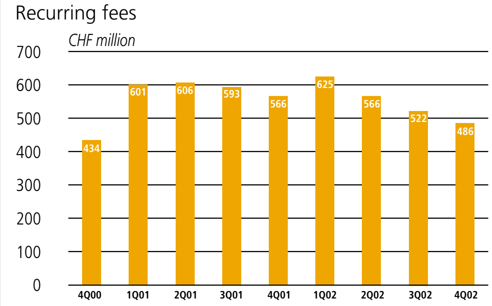
We continually commit considerable resources to develop and expand the capabilities

UBS PaineWebber
Invested assets by asset class

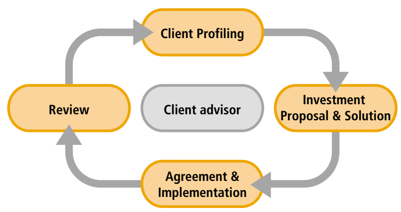


Total CHF 584 billion
As at 31.12.2002

UBS PaineWebber
Recurring fees



UBS PaineWebber
The structured advisory process



of our financial advisors. All new financial advisors undergo a training program designed to provide them with the necessary financial planning, analysis, client relationship management, and legal and compliance expertise. This is a continuous process and does not end when the financial advisor enters a branch office. In our experience, our training programs are a key factor in both developing long-term, mutually beneficial relationships with our clients as well as in retaining our financial advisors.

Our dedication to and emphasis on training is one of the reasons why our financial advisors are among the most productive in the industry. A leading industry survey made in fourth quarter 2002 put our revenue per financial advisor at 16.5% above the industry average at the end of 2002. By comparison, in second quarter 2000 (when we announced the merger with UBS), our productivity stood 4% above the average.

Products and services

We offer clients wealth management services that meet individual investment needs. We have an open architecture product platform that gives our clients investment products from both UBS and third party providers – where and when appropriate. This ensures that financial advisors and clients have a comprehensive source of investment solutions at their disposal. Our wealth management services include financial planning and wealth management consulting, transaction-based services such as securities brokerage, asset-based and advisory services such as discretionary and non-discretionary portfolio management, money market accounts and fiduciary products, and lending products, including collaterized loans and mortgages

Investment products

We offer core affluent and high net worth clients a number of products designed to help enhance the equity portion of their investment portfolios. For example, in 2002, in order to meet client needs for innovative types of products, we launched two equity-linked investments: the Enhanced Appreciation Security, linked to 20 blue chip stocks, and a Principal Protected Note, linked to the S&P 500 Index.

Our clients can choose from an array of fixed income securities, including government, mortgage-backed, corporate and municipal bonds, as well as preferred stock. As one of the leading US underwriters of municipal bonds, an investment class particularly attractive to many core affluent and high net worth investors, we offer clients access to new issue offerings and the secondary market. Our Municipal Securities Group is a complete origination, structuring and distribution team. It assists municipalities and agencies in addressing their funding needs by accessing the debt markets, and distributing securities through the UBS PaineWebber network. For 2002, the Group was ranked second in senior negotiated volume.

We offer a broad range of fee-based money management programs that utilize the expertise of professional money managers, both within UBS and through third parties.

Indicative of the scope of investment products for our clients, we have selling arrangements with over 140 mutual fund companies, many of which are leaders in the industry.

In response to investor interest in such products as hedge funds and fund of funds, we offer the capability to create, structure and manage a broad array of alternative investments for qualified high net worth individuals and institutions.

In 2002, we broadened the scope of our financial relationship with clients by entering the lending business in the US, and introducing a number of securities-based borrowing solutions for a variety of investor and business needs. Early in the year, we rolled out the Premier Fixed and Variable Credit Lines. These are revolving lines of credit that offer competitive interest rates and are secured by the client's investment portfolio.

In addition to collaterized lending, the creation of UBS PaineWebber Mortgage LLC in first quarter 2002, in partnership with Wells Fargo Home Mortgages, enables our financial advisors to offer a full array of mortgage products that helps meet our clients' home financing needs.

For corporations and corporate executives

Providing appropriate financial solutions also extends to the relationships that we enjoy with our corporate clients.

UBS PaineWebber's Corporate Employee Financial Services business has been providing stock option financing services to large corporations and their executives since the mid-1990s.

Technology for clients and financial advisors

For financial advisors, 2002 saw the introduction of a number of tools to leverage the asset-gathering technology available on ConsultWorks, the firm's web-based workstation. Chief among these was the UBS PaineWebber *Advisor,*[sm] which can help lead financial advisors step-by-step through our consultative process with both clients and prospects. In 2003, we will introduce Consultworks2 that will give our financial advisors the ability to conduct comprehensive profiling and asset allocation, and offer investment recommendations.

Industry trends

In 2003, we plan to remain focused on further increasing our market share of US household financial assets and capitalizing on the enhanced capabilities and balance sheet strength that the merger with UBS has brought.

A key to achieving further growth will be a continued commitment to recruiting top financial advisors and providing them with the resources they need to sustain increased productivity. We ended 2002 with 8,857 financial advisors, and are focused on growing that number.

The union with UBS has enabled us to expand our product offerings in such areas as global asset management, lending products, alternative investments and risk management. We are committed to pursuing financial success in 2003 and beyond by providing US clients with access to the resources of a global powerhouse.

Corporate Center

Corporate Center's aim is to ensure that all our businesses act as coherently and effectively as possible.

Business Group reporting adjusted for significant financial events[1]

CHF million, except where indicated	Corporate Center	
For the year ended	31.12.02	31.12.01
Income	1,315	800
Credit loss recovery	249	236
Total operating income	1,564	1,036
Personnel expenses	645	592
General and administrative expenses	601	537
Depreciation	473	372
Amortization of goodwill and other intangible assets	24	24
Total operating expenses	1,743	1,525
Business Group performance before tax	(179)	(489)
Headcount (full-time equivalents)	1,185	1,132

[1] Details of significant financial events can be found in the Financial Report 2002.

Aims and objectives

Our commitment to a strong, integrated business model means that our portfolio of complementary businesses are managed together to optimize shareholder value, making the whole worth more than the sum of its parts.

Our Business Groups are accountable for their results and enjoy considerable autonomy in pursuing their business objectives – hence the need for a strong Corporate Center. Its mission is to maximize sustainable shareholder value by coordinating the activities of the Business Groups to ensure that they operate as a coherent and effective whole with a common set of values and principles.

In performing its role, Corporate Center avoids ownership of processes wherever possible, but instead establishes standards and principles, thereby minimizing its own staffing levels.

Key functions

Chief Risk Officer/Chief Credit Officer

The Chief Risk Officer and Chief Credit Officer functions pool together a number of vital Group risk functions. They are responsible for safeguarding our long-term financial stability by aiding the Group in maintaining an appropriate balance between risk and rewards.

The Group Chief Credit Officer is responsible for formulating credit risk policies, for determining methodologies to measure credit risk, and for setting and monitoring credit, settlement and country risk limits.

The Group Chief Risk Officer is responsible for the policies, methodologies and limits for all other risk categories, and for aggregating and assessing the total risk exposure of the Group.

A more detailed discussion of our risk management and control principles can be found in the "Risk Management and Control" section of this Handbook.

Group Treasurer

The Group Treasury area optimizes our financial management, providing cost efficient equity and wholesale debt funding and co-ordinating regulatory capital and balance sheet requirements.

The Group Treasury area is also responsible for the efficient management of the UBS share. It is charged with preserving our excellent funding capacity, issuing cost-efficient funding in the form of notes and bonds in the name of UBS and ensuring that we fully comply with all payment obligations at all times. It also manages UBS's holdings of its own shares.

Further details on our Treasury activities can be found in the "Group Treasury" section of this Handbook.

Group Controller

The Group Controller function produces accurate and objective regulatory, financial and management accounts and reports. It provides significant decision support information to the Board of Directors and executive management and is a key liaison to both our internal and external auditors. It is responsible for devising and implementing integrated and consistent financial control and accounting processes throughout UBS. Another important responsibility is the coordination of the Group's planning and budgeting process as well as the control of Group tax issues, ensuring compliance with all local tax requirements. The Group Controller function also ensures a central treatment of UBS's real estate activities and controls their impact on Group results as well as on its capital and tax position.

Group Human Resources

Group Human Resources' mission is to make UBS a global employer of choice, able to attract, develop, motivate and retain top talent by establishing standards, principles and procedures for performance evaluation, compensation and benefits, graduate and professional recruitment, training and development.

Chief Communication Officer

The Chief Communication Officer area of the Corporate Center has an integrated structure that comprises the firm's central branding, communications and public policy functions. Overall, the area is responsible for the effective communication of UBS's strategy, values and results to employees, clients, investors, media, rating agencies and the public, and for building the UBS brand worldwide.

Group Legal Services

Group Legal Services provides business-related legal services in matters that affect the firm as a whole, while monitoring and reporting on legal risk, litigation and legal implications of major transactions at the corporate level.

Group Legal Services has both an advisory and a risk control function. It provides close-to-business legal advice to business, oversees litigation, ensures enforceability of UBS's legal undertakings and opines on legal issues with the aim of minimizing legal and liability risk.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Capital and Risk Management

Risk Management and Control

Risk is an integral part of all our activities. Excellence in risk management and control is a key success factor and requires everyone's commitment within our organization.

Risk management and control principles

UBS's approach to risk management and control is set out in the firm's Risk Management and Control Principles, which lay the foundations on which we build our risk culture and risk process.

Business Management Accountability. The management of each business throughout UBS is responsible for the risks it assumes and for the continuous and active management of all risk exposures, so that risk and return are balanced.

Independent Controls. An independent control process is implemented when required by the nature of the inherent risks and the incentive structure of the business processes. The control functions are responsible for providing an independent and objective check on risk-taking activities to safeguard the integrity of the entire risk management and control process.

Risk Disclosure. Comprehensive, transparent and objective risk reporting and disclosure to senior management and to shareholders is the cornerstone of the risk control process.

Earnings Protection. Operating limits are set to quantify risk appetite and allocated among business lines to control normal periodic adverse results, in an attempt to limit such losses relative to the potential profit of each business. The Group's risk capacity is expressed through stress loss limits with the aim of protecting UBS from unacceptable damage to our annual earnings capacity, our dividend paying ability and, ultimately, our reputation and ongoing business viability.

Reputation Protection. Failure to manage and control any of the risks incurred in the course of our business could result in damage to UBS's reputation. For this reason:

– we continue to develop potential stress loss measures for credit and market risk
– we avoid taking extreme positions in tax, regulatory and accounting sensitive transactions
– we aspire to the highest standards in protecting the confidentiality and integrity of our client information
– we aim to maintain the highest ethical standards in all our businesses.

Every employee, but in particular those involved in risk decisions, must make UBS's reputation an overriding concern. Responsibility for the risk of damage to our reputation cannot be delegated or syndicated.

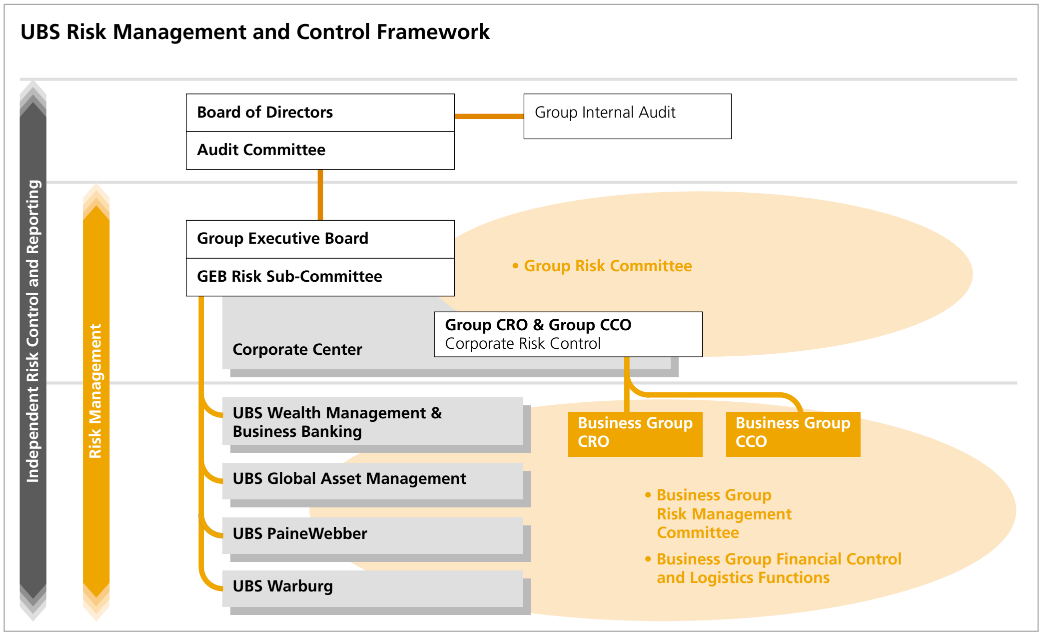
An integrated approach to risk management and control

Risk management and control are an integral part of our commitment to providing consistent, high-quality returns for our shareholders. We believe that delivery of superior shareholder returns depends on achieving the appropriate balance between risk and return, both in day-to-day business and in the strategic management of the balance sheet and capital. We recognize that risk is integral to UBS's business, but our approach to risk management and control seeks to limit the scope for adverse variations in earnings and, in particular, to protect UBS from the risk of severe loss as a result of unlikely, but plausible, stress events arising from any of the material risks we face.

UBS has an integrated Corporate Center responsible for finance, strategic planning, risk control, and balance sheet and capital management. Excellence in risk management is, however, most fundamentally based upon a business management team that makes risk identification, management and control critical components of its processes and plans.

Key responsibilities

The *Board of Directors* is responsible for the firm's fundamental approach to risk (the Risk



Management and Control Principles), and for the determination of our risk capacity and risk appetite.

The *Chairman's Office* is responsible for the annual review of the Group's principal risk limits.

The *Group Executive Board (GEB)* is responsible for implementing the Risk Management and Control Principles, for approving core risk policies, for allocating risk limits to the Business Groups, and for managing the risk profile of the Group as a whole. The GEB is the Risk Council of the Group.

The *GEB Risk Sub-Committee* (established in 2002) prepares the decisions of the GEB in the risk area and monitors the implementation of such decisions via the risk reporting process.

The *Group Chief Credit Officer (CCO)* is responsible for formulating credit risk policies, for determining methodologies to measure credit risks, and for setting and monitoring credit, settlement and country risk limits.

The *Group Chief Risk Officer (CRO)* is responsible for the policies, methodologies and limits for other inherent risk categories (see "The risks we take" section on page 56), and for aggregating and assessing the total risk exposure of the Group.

The *Business Group CEOs* are responsible for all risk exposures within their Business Groups and must take corrective action where necessary, given the aggregate risk profile of the portfolio or the risks of specific positions.

The *Business Group Risk Control Functions*, headed by Chief Risk and Chief Credit Officers (CROs and CCOs), are empowered to enforce the Risk Management and Control Principles and are responsible for the implementation of independent control processes within their Business Groups.

The *Group Risk Committee* reviews and evaluates the key risk issues being presented to the senior committees of the Group, the state of the current portfolio, emerging risk and revenue trends, and concentrations and vulnerabilities. It is chaired by the Group CRO.

Business Group Risk Committees monitor the risks taken by the Business Groups. They are chaired by the Business Group CEOs and include heads of business areas and delegates of the Group CRO and CCO.

The risk control process

There are five critical elements in our independent risk control process:

– *risk identification,* particularly in new businesses and in complex or unusual transactions, but also in response to external events and in the continuous monitoring of the portfolio
– *risk measurement* of quantifiable risks, using approved methodologies and models which have been independently validated

- *risk policies,* consistent with evolving business requirements and international best practice
- comprehensive *risk reporting* to management at all levels against the approved risk control framework and, where applicable, limits
- *risk control,* to enforce compliance with the Risk Management and Control Principles, and with policies, limits and regulatory requirements.

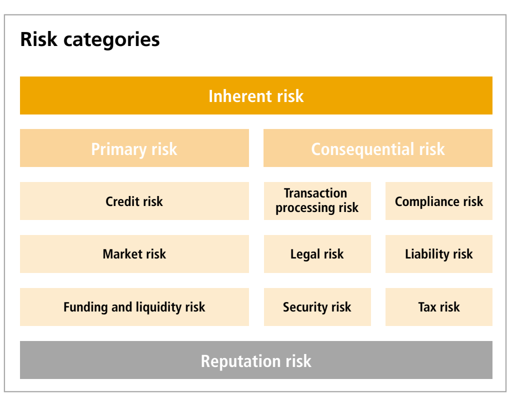
There are coordinated processes covering all inherent risk categories which are applied before commencement of any new business or significant change in business, and before the execution of any transaction which is complex or unusual in its structure or motivation, to ensure that all these critical elements are addressed, including the assurance that transactions can be booked in a way that will permit appropriate ongoing risk monitoring, reporting and control.

The risk control process also extends beyond the independent risk control functions to Financial Control and the Logistics Areas, notably Operations, which are critical to establishing an effective control environment.

Group Internal Audit provides an independent view to the Board of Directors, via the Chairman's Office, of the effectiveness of the Risk Management and Control Principles and their enforcement, and of the effectiveness of the independent control units.

The risks we take

Business risks are the risks associated with a chosen business strategy, including business cycles, industry cycles, and technological change. They are the sole responsibility of the relevant business, and are not subject to an independent control process. They are, however, factored into the firm's planning and budgeting process.



Inherent risks are the risks inherent in our business activities which are subject to independent risk control. A distinction is made between primary and consequential risks.

Primary risks are the exposures deliberately entered into for business reasons and which are actively traded and managed:

- *credit risk* is the risk of loss resulting from client, counterparty or issuer default and arises on credit exposure in all forms, including settlement risk
- *market risk* is exposure to observable market variables such as interest rates, exchange rates and equity markets
- *liquidity and funding risk* is the risk that the Group is unable to fund assets or meet obligations at a reasonable price or, in extreme situations, at any price. These risks are discussed in the "Group Treasury" section on pages 78 to 87.

Consequential risks (also known as operational risks) are exposures that are not actively taken, but which are incurred as a consequence of business undertaken:

- *transaction processing risk* arises from errors, failures or shortcomings at any point in the transaction process, from deal execution and capture to final settlement
- *compliance risk* is the risk of financial loss due to regulatory fines or penalties, restriction or suspension of business, or costs of mandatory corrective action. Such risks may be incurred by not adhering to applicable laws, rules and regulations, local or international best practice (including ethical standards), or UBS's own internal standards
- *legal risk* is the risk of financial loss resulting from the non-enforceability of UBS's actual or anticipated rights arising under a contract or other arrangement or under case or statute law
- *liability risk* is the risk that we, or someone acting on our behalf, fail to fulfill the obligations, responsibilities or duties imposed by law or assumed under a contract and that claims are therefore made against us
- *security risk* is the risk of loss of confidentiality, integrity or availability of our information or other assets
- *tax risk* is the risk of additional tax arising from technically incorrect positions taken on tax matters, or failure to comply with tax

withholding or reporting requirements on behalf of clients or employees; and the risk of claims by clients or counterparties as a result of UBS involvement in tax sensitive products or transactions.

A failure adequately to identify, manage or control any of these risks, including business risks, may result not only in financial loss but also in loss of reputation, and repeated or widespread failure compounds the impact. Reputation risk is not directly quantifiable and cannot be managed and controlled independently of other risks.

How we measure risk

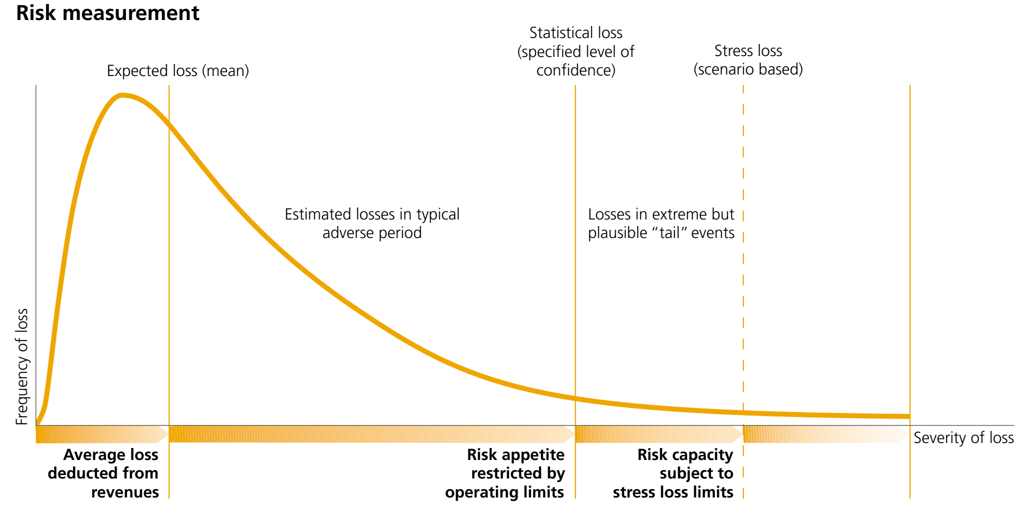
For risks which are quantifiable, in principle we measure the potential loss at three levels – expected loss, statistical loss and stress loss.

Expected loss is the loss that is expected to arise on average in connection with an activity. It is an inherent cost of such activity, and should be budgeted and deducted from revenues directly. The use of the expected loss concept for credit risk is discussed in the "Expected loss" section on page 60. In the context of market risk, expected loss is reflected in valuation adjustments which are routinely made in mark-to-market books to reflect market liquidity or model risk. We are continuing to develop the expected loss framework for consequential risks, including preparation for regulatory capital requirements under the New Basel Capital Accord ("Basel II").

Statistical loss (also known as "unexpected loss") is an estimate of the amount by which actual loss can exceed expected loss over a specified time horizon, measured to a specified level of confidence (probability). A statistical loss measure in the form of Value at Risk (VaR) has been used to measure market risk in UBS for a number of years, and is both the basis of a key internal market risk limit structure and the measure used to determine our market risk regulatory capital requirement. We also have a credit portfolio statistical loss measure reflecting exposure concentrations and default correlations. We continue to work towards robust measures of statistical loss for other risk categories, although it can be complex to apply statistical techniques to risks for which data is sparse, where the loss distribution is typically asymmetrical, irregular and discontinuous, and where the time it would take to manage down, close out or hedge positions is uncertain.

Stress loss is the loss that could arise from extreme, but plausible, stress events. The Board of Directors establishes stress loss limits to avoid unacceptable damage to our earnings, our dividend paying ability and, ultimately, our reputation and ongoing business viability. The identification of stress events and scenarios to which we are vulnerable and an assessment of their potential impact is therefore a key component of the risk control process. Formal stress loss measures and limits are most extensively implemented for our trading activities, for certain credit portfo-

Risk measurement



lios and for country risk, but we use a variety of scenarios and techniques, which we continue to refine, in order to identify other areas of risk concentration and potential vulnerability to stress events.

Stress situations can arise from many sources, and the essential complements to quantitative assessments are, on the one hand, a tried and tested process which can be invoked immediately in response to any crisis and, on the other, well prepared business continuity management processes and plans, both of which we continue to develop, test and refine.

The measurement of risk is clearly important, but quantification does not always tell the whole story, and not all risks are quantifiable. We therefore pay equal attention to "soft" risks and avoid the temptation to ignore risks that cannot be properly quantified.

Risk reporting

Senior management at both Business Group and Group level are regularly provided with risk reports, both quantitative, where available, and qualitative. We have continued to enhance the coverage of the reports, particularly for consequential risk categories, with particular focus on risks which pose a reputational as well as financial threat.

Risk Analysis

Credit risk

Credit risk represents the loss which UBS would suffer if a client or counterparty failed to meet its contractual obligations. It is inherent in traditional banking products – loans, commitments to lend and other contingent liabilities, such as letters of credit – and in “traded products” – forward contracts, derivative contracts such as swaps and options, repo transactions and securities borrowing and lending relationships. Positions in “tradable assets” such as bonds and equities, including both direct holdings and synthetic positions through derivatives, also carry credit risk, but where they are held for trading and are marked to market they fall under the market risk limits and controls described under “Market risk” on page 71 below. For completeness, they are included, where applicable, in the credit risk exposures reported in “Composition of credit exposures” on pages 63 to 68 below.

Credit risk management and control at UBS is governed by a Group Credit Policy Framework, and by detailed credit policies and procedures developed for the Group and within the Business Groups.

To ensure a consistent and unified approach with appropriate checks and balances, all Business Groups where material credit risk is taken have independent credit risk control (CRC) functions. They are headed by chief credit officers (CCOs) reporting to the Group CCO and to Business Group senior management. Disciplined processes are in place, within the Business Groups and centrally, to ensure prompt identification, accurate assessment, proper approval and consistent monitoring of credit risk. Senior business management, the GEB and the Chairman’s Office are provided with regular, standardized reports of aggregate Business Group credit risk exposure by the CRC organization as part of a comprehensive risk reporting framework.

The approval and monitoring of new counterparties, and of new transactions giving rise to credit risk, plays a central part in the risk control process. Credit approval authority is exercised within the independent CRC functions by authorized credit officers. The notional amount of their authority is dependent on the quality of the counterparty and any security, and on the experience and seniority of the credit officer.

The CRC functions continuously monitor the credit quality of counterparties and our exposure to them, and the credit risk profile of the Business Group portfolios. CRC has authority over counterparty rating, credit risk assessment and approval, and the establishment of allowances and provisions.

Credit risk of counterparties and groups

We restrict our credit exposure to both individual counterparties and counterparty groups by credit limits. The size of limit depends on our assessment of their financial strength, particularly their sustainable free cash flow to service obligations, and on the economic environment, industry position and qualitative factors such as management strength.

In UBS Warburg, where it is most relevant, we differentiate between “take and hold” exposure and “temporary” exposure – exposure accepted with the intention of syndicating, selling or hedging it within a short period. The business is given more authority for temporary exposures but, in return, the exposures are subject to portfolio stress limits as explained under “Statistical and stress loss” on page 61.

Exposure against limits is measured for banking products as the face value amount of the loan or commitment. For most traded products we determine the future exposure profile by modeling the potential evolution of the value of the portfolio of trades with each counterparty over its life (potential credit exposure), taking into account legally enforceable close out netting agreements where applicable (see Note 23 to the UBS Group Financial Statements). Credit limits for individual counterparties are applied to the “maximum likely exposure” derived from this analysis, a 95% confidence statistical measure of the exposure in each counterparty portfolio.

This way of measuring exposure is broadly consistent with accounting and regulatory rules – but it does not provide a fully comparable measure of risk across different products and tenors. UBS Warburg has therefore developed, primarily as a management tool at this stage, a measure of "standalone credit Value at Risk" which translates all exposures into a benchmark loan equivalent, against which maximum counterparty concentration guidelines are set for each rating. Whenever a guideline is, or could be, exceeded as a result of new transactions or a rating downgrade, exposure reduction is triggered. This may be achieved through syndication, sale or hedging. For further detail of our hedging program see page 65.

Portfolio measures of credit risk

In the Financial Statements, we report credit loss expense according to International Financial Reporting Standards (IFRS). Under these rules, losses are recognized and charged to the Financial Statements in the period when they arise (see "Provisioning policies" on page 62, and Notes 1 and 9 to the UBS Group Financial Statements). By contrast, in our segment and business unit reporting, we reflect the fact that credit risk exists in every credit engagement, and that credit loss expenses must be expected as an inherent cost of doing business.

Expected loss

The occurrence of actual credit losses is erratic in both timing and amount and those that arise usually relate to transactions entered into in previous accounting periods. In order to make the business accountable for any credit losses they suffer and to give them the incentive to align their credit decisions and risk-adjusted pricing with the medium-term risk profile of their credit transactions, we use the concept of "expected loss".

For UBS, expected loss is a statistically based measure intended to reflect the annual costs that will arise, on average, over time, from positions that become impaired. It is derived from the probability that a given counterparty will default, our current and likely future exposure to that counterparty and the likely severity of the loss should default occur.

UBS internal rating scale and mapping to external ratings

UBS Rating	Description	Moody's Investor Services equivalent	Standard and Poor's equivalent
0 and 1	Investment	Aaa	AAA
2	grade	Aa1 to Aa3	AA+ to AA–
3		A1 to A3	A+ to A–
4		Baa1 to Baa2	BBB+ to BBB
5		Baa3	BBB–
6	Sub-investment	Ba1	BB+
7	grade	Ba2	BB
8		Ba3	BB–
9		B1	B+
10		B2	B
11		B3	B–
12		Caa to C	CCC to C
13	Impaired and	D	D
14	defaulted	D	D

The *default probabilities* of individual counterparties are assessed by means of rating tools tailored to the various categories of counterparty. For the major part of the business within UBS Wealth Management & Business Banking, we use a statistical approach or "score card" to form groups of clients with similar propensity to default. UBS Warburg, with its less homogeneous client base, uses an approach under which credit officers assess the credit standing of counterparties based on guidelines and an analytical format or "template", designed to ensure consistency of ratings across the Business Group. In all cases, the analysis is founded on an assessment of both financial ratios and qualitative factors. The result of this counterparty specific analysis is expressed as a rating.

Clients are segmented into 15 rating classes, two being reserved for assets that are already impaired or defaulted. The UBS rating scale, which is shown in the table above, is not only an ordinal ranking of our counterparties; we have assigned to each rating class a fixed probability of default, and thus clients migrate between rating classes as our assessment of their probability of default changes. As shown in the table above, we map the ratings of the major rating agencies to our rating classes based on the long-term average default observations for each external grade. Observed defaults per rating category vary year-on-year, and especially over an economic cycle, and this mapping does not, therefore, imply that UBS expects this number of defaults in any given period.

We determine *exposure at default* based on the expected outstanding at the time of default, for example for traded products the expected exposure profile, derived from the same model as for credit limit utilization (see "Credit risk of counterparties and groups" on page 59).

Loss severity or *loss given default* is assessed based on a set of assumptions, taking into account the seniority of the claim, and collateral or other credit mitigation where available.

Expected loss, at both transaction and counterparty level, is the product of the probability of default, the exposure at default and the loss given default.

The concept of expected loss and its components form the basis for various business applications within UBS: individual credit policies refer to counterparty rating classes to determine, for example, the maximum tenor allowed for OTC derivative transactions; the rating concept is used to define credit authorities granted to individual credit officers across the Group; and expected loss is used in valuing the OTC derivative books to account for the credit risk assumed in these trades. UBS's internal measurement framework is consistent with the concepts of Basel II under which future minimum regulatory capital requirements for credit risk will be determined.

For further details of how we use expected loss in our segment reporting, please see the "Credit loss expense"" section on page 39 and 40 of the Financial Report 2002 and Note 2a to the UBS Group Financial Statements.

Statistical and stress loss

Our credit portfolio is heterogeneous, varying significantly in terms of client type, geographical diversity and the size of exposures. For the assessment of both statistical loss and stress loss, it is therefore analyzed initially in sub-portfolios with more homogeneous characteristics.

We aggregate statistical loss across portfolios using our own proprietary "credit Value at Risk" methodology. This provides an indication of the level of risk in the portfolio and the way it changes over time.

Modeling extreme credit losses is complex because they are driven much less by systematic factors than is generally the case for market risk. We apply scenarios which allow us to assess the impact of variations in bankruptcy/default rates and asset values, taking into account risk concentrations in each portfolio, and we report results to senior management. In UBS Warburg, we apply limits to stress exposure. For "temporary" exposures we use a scenario for the measurement of stress loss that combines market (credit spread) shocks and increased default rates. For "take and hold" exposures we apply only increased default rates, but taking account of portfolio concentrations. We also measure and report industry and geographical contributions to stress loss results.

Settlement risk

UBS is exposed to settlement risk as a consequence of its international transactional businesses. Settlement risk arises in transactions involving the exchange of values when we must honor our obligation to deliver cash or securities without first being able to determine that we have received the counter-value. This risk is particularly significant in foreign exchange and precious metals transactions, and we limit and monitor the risk on a continuous basis against settlement limits for each counterparty based on our assessment of their credit standing. Settlement risk reduction is a high priority and we continue to work to achieve shorter settlement cycles from payment release to reconciliation, and to reduce exposure by establishing risk reduction arrangements with counterparties, such as payment netting and covered settlements.

UBS participates in payment and securities clearing houses, and was a founder member of the Continuous Linked Settlement (CLS) system, an industry initiative which established a global clearing house, CLS Bank, to settle foreign exchange transactions on a delivery versus payment basis. CLS went live in mid-October 2002 and has substantially reduced both settlement and systemic risks faced by UBS and other major foreign exchange trading banks. We expect more reductions as further banks join the system indirectly through settlement members, and as the range of currencies cleared by CLS is increased.

Country risk

The CRC function at the Corporate Center assigns ratings to all countries to which we have exposure. Like the counterparty ratings, the sovereign ratings express the probability of the occurrence of a country risk event that would lead to an impairment of UBS's exposures. The default probabilities and the mapping to the ratings of the major rating agencies are the same as for counterparty credit risks (see table on page 60), the three lowest ratings being designated "distressed".

For all countries rated 3 and below, we closely monitor exposure within country ceilings approved by the Chairman's Office. The country risk ceiling is a primary limit for all transactions with counterparties in these countries, and extension of credit may be denied on the basis of a country risk ceiling, even if there are adequate counterparty limits available.

Counterparty default resulting from multiple insolvencies (systemic risk) or general prevention of payments by authorities (transfer risk) is the most significant long-term effect of a country crisis, but in our internal measurement and control of country risk we also consider the probable financial impact of market disruption arising prior to, during and following a country crisis, in the form of severe falls in the country's markets and asset prices, longer-term devaluation of the currency and potential immobilization of currency balances.

We measure exposures against country ceilings in two ways. We use the traditional "nominal" measure based on exposures from banking products and traded products, including our own intra-Group cross-border positions, and exposure to issuers of tradable assets such as bonds and equities. This is the basis of regulatory and financial reporting, including the data provided on pages 68 and 69. We also measure the risk in terms of potential loss, including potential loss from market movements, reflecting the fact that the risk profiles of exposures can vary significantly depending on the type of product, any collateral, and the degree to which they have been hedged against market shocks. The potential loss based measure is the primary internal risk management and control tool.

We measure the potential financial impact of severe emerging markets crises by stress testing – identifying countries that may be subject to a potential crisis event and determining potential loss under conservative assumptions of recovery rates for individual products. The potential loss under this stress loss measure is subject to a limit approved by the Board of Directors.

We define emerging market countries as countries which have yet to reach a mature stage of economic, financial, institutional, political and social development or where there is significant potential for economic or political instability. All emerging market countries are subject to country ceilings. The country data provided on pages 68 and 69 covers only emerging market countries and not all countries which are subject to ceilings.

Provisioning policies

UBS classifies a claim as impaired if the book value of the claim exceeds the present value of the cash flows actually expected in future periods – interest payments, scheduled principal repayments, or other payments due (for example on derivatives transactions), and including liquidation of collateral where available. Within this category, we further classify loans as non-performing where payment of interest, principal or fees is overdue by more than 90 days. Non-performance is not the determinant of impairment, although it may, in some circumstances, be the first evidence of impairment.

We have established policies to ensure that the carrying values of impaired claims are determined on a consistent and fair basis, especially for those impaired claims for which no market estimate or benchmark for the likely recovery value is available. Future cash flows considered recoverable are discounted to present value in accordance with the principles of IAS 39. A provision is then made for the probable loss on the claim in question and charged to the income statement as credit loss expense.

Each case is assessed on its merits, and the work-out strategy and estimation of cash flows considered recoverable are independently approved by the CRC function. The recovery value of mortgage loans is determined by capitalizing an economically sustainable rental yield, adjusted for the discount generally observed in forced liquidations, and related costs if the strategy is based on a foreclosure. For commercial exposures, enterprise value is determined from an assessment of expected cash flows from future operations if recovery is likely to be successful, or of the liquidation value of the assets if bankruptcy proceedings are to be initiated against the borrower.

Allowances and provisions for credit losses also include a component for country risk. We establish country-specific scenarios, which are kept under review and updated as necessary, to evaluate the extent to which the value of our banking and traded product exposure are affected by country risk incidents or country-specific systemic risks. The appropriate provisions are then determined by evaluating the type of credit exposure in the portfolio for each country and the loss severities that have been attributed to each exposure type. Furthermore, we have specific allowances against exposures in countries that are subject to a moratorium or have been rescheduled. The amount of such allowances is determined case by case from an assessment of the amounts that we deem to be irrecoverable.

In general, Swiss practice is to write off loans only on final settlement of bankruptcy proceedings, sale of the underlying assets, or formal debt forgiveness. By contrast, US practice is generally to write off non-performing loans, in whole or in part, much sooner, thereby reducing the amount of such loans and corresponding provisions recorded. A consequence of applying the Swiss approach is that, for UBS, recoveries of amounts written off in prior accounting periods tend to be small, and the level of outstanding impaired loans and non-performing loans as a percentage of gross loans will tend to be higher than for our US peers.

Composition of credit exposures

Credit is an integral part of many of our business activities.

The two main contributors to credit exposure are UBS Wealth Management & Business Banking and UBS Warburg. To a lesser extent, credit activities are also important to UBS PaineWebber.

The credit exposure of UBS Wealth Management & Business Banking is mainly comprised of traditional loans to private individuals and corporations. Loans to private individuals are typically secured by either residential real estate or portfolios of marketable securities. Loans to corporations may, depending on our assessment of the credit capacity and quality of the borrower, be extended on an unsecured basis, but often benefit from collateral in the form of real estate or other assets.

In UBS Warburg, credit exposure arises both from traditional banking products and from our trading activities, including swaps, options, forward contracts, repo transactions and securities lending and borrowing relationships (traded products). Exposure to lower rated counterparties is generally collateralized or otherwise supported.

The table on this page provides an overview of the aggregate credit exposure of the UBS

Total exposure

CHF million	UBS Wealth Management & Business Banking			UBS Warburg			UBS PaineWebber			Other[1]			UBS Group		
As at	**31.12.02**	31.12.01	31.12.00	**31.12.02**	31.12.01	31.12.00	**31.12.02**	31.12.01	31.12.00	**31.12.02**	31.12.01	31.12.00	**31.12.02**	31.12.01	31.12.00
Loans utilization (gross)	**174,032**	181,854	185,271	**61,718**	61,229	73,810	**12,857**	18,246	24,649	**763**	655	786	**249,370**	261,984	284,516
Contigent claims	**11,752**	13,303	10,613	**4,407**	11,640	17,173	**430**	542		**5**	2		**16,594**	25,487	27,786
Unutilized committed lines	**1,984**	2,520	3,574	**36,439**	47,355	49,936	**811**	715		**72**	18		**39,306**	50,608	53,510
Total banking products	**187,768**	197,677	199,458	**102,564**	120,224	140,919	**14,098**	19,503	24,649	**840**	675	786	**305,270**	338,079	365,812
Unsecured OTC products	**1,682**	1,961	883	**55,002**	64,416	61,340							**56,684**	66,377	62,223
Other derivatives (secured exchange-traded)	**712**	2,317	1,638	**10,850**	12,150	8,994							**11,562**	14,467	10,632
Securities lending	**917**	45	2,193	**11,962**	14,575	12,159							**12,879**	14,620	14,352
Repo	**14**	67	650	**21,744**	18,948	22,183							**21,758**	19,015	22,833
Total traded products[2]	**3,325**	4,390	5,364	**99,558**	110,089	104,676							**102,883**	114,479	110,040
Total credit exposure, gross	**191,093**	202,067	204,822	**202,122**	230,313	245,595	**14,098**	19,503	24,649	**840**	675	786	**408,153**	452,558	475,852
Total credit exposure, net of allowances	**187,369**	196,557	197,042	**200,620**	227,949	242,873	**14,069**	19,469	24,629	**840**	670	781	**402,898**	444,645	465,325
Total tradable assets[3]	**164**	2,908	2,626	**183,977**	241,357	219,070				**613**	121	136	**184,754**	244,386	221,832

[1] Includes UBS Global Asset Management and Corporate Center. [2] Traded products exposure is based on internal measurement methodology. [3] Tradable assets valuation: trading positions – net long, maximum default exposure; private equity – lower of cost or market; financial investments – fair value.

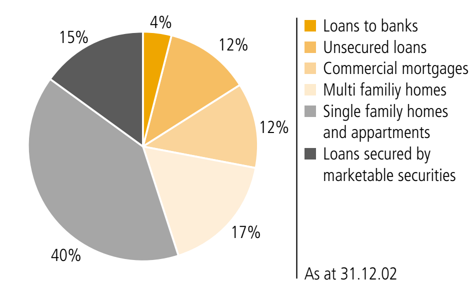
Group in nominal terms. For internal risk management and risk control purposes, we also measure credit risk in terms of statistical and stress loss, taking into account the size of the credit exposures, plus the quality of the counterparty, collateral and diversification effects, as explained on page 61.

UBS Wealth Management & Business Banking

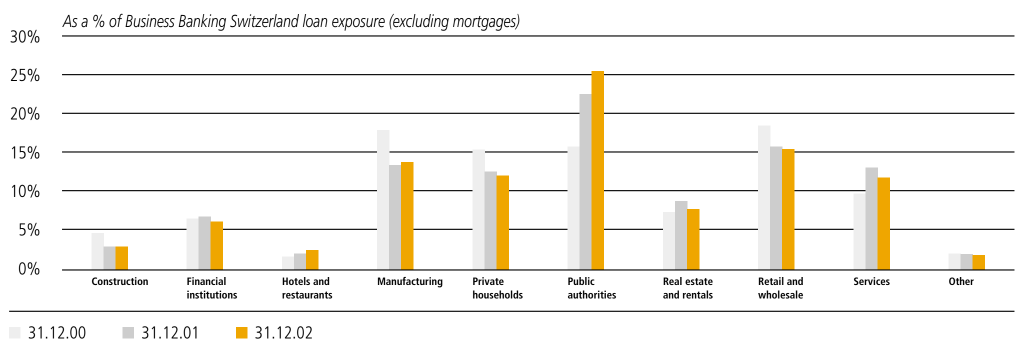
UBS Wealth Management & Business Banking's gross loans to customers at 31 December 2002 amounted to CHF 174 billion, of which 69% or CHF 120 billion were secured by real estate. The pie chart to the right shows that exposure to the real estate sector is well diversified with 40% of loans being secured on single-family homes and apartments, which, historically, have exhibited a low risk profile. The 17% of exposure on residential multi-family homes consists of rented apartment buildings. Loans and other credit engagements with individual clients, excluding mortgages, are predominantly extended against the pledge of marketable securities where UBS applies conservative standards to determine the advance value of the collateral.

Unsecured loans consist predominantly of exposures to corporate clients. They are fairly widely spread across rating categories and industry sectors, which reflects UBS's position as a market leading lender to this segment of

UBS Wealth Management & Business Banking
Composition of loan book



Business Banking Switzerland
Gross loans (excluding mortgages) by industry sector



Business Banking Switzerland
Gross loans (excluding mortgages) by counterparty rating

UBS Wealth Management & Business Banking: distribution of gross loans across counterparty rating and loss given default (LGD) buckets

CHF million	Gross Exposure	Loss given default buckets 0–25%	26–50%	51–75%	76–100%	Weighted Average LGD (%)
0	1,183	512	576	95	0	36
1	476	388	48	39	1	31
2	2,963	1,721	860	341	41	32
3	35,555	18,017	8,579	3,771	5,188	33
4	5,743	1,936	1,738	2,024	45	40
5	81,954	75,014	4,184	1,775	981	27
6	8,596	1,955	3,691	2,753	197	42
7	10,953	3,055	4,825	1,654	1,419	43
8	10,235	2,017	5,938	1,461	819	39
9	5,987	1,257	3,494	843	393	40
10	1,206	218	694	212	82	42
11	341	53	208	54	26	41
12	467	166	134	118	49	43
Total	165,659	106,309	34,969	15,140	9,241	33
Investment grade	127,874	97,588	15,985	8,045	6,256	
Sub-investment grade	37,785	8,721	18,984	7,095	2,985	
Impaired and defaulted	8,373					
Total gross loans	174,032					

predominantly small to medium sized enterprises in Switzerland. During 2002, our high credit underwriting standards and the continued relative strength of the Swiss economy have contributed to improved credit quality within the portfolio, with individual and sector concentrations having been further reduced.

The table above depicts credit exposure across counterparty ratings and loss given default (LGD) buckets. LGD represents our expectation of the extent of loss on a transaction should default occur, and is expressed as percentage loss per unit of exposure. LGD typically differs by type of counterparty and claim, seniority and available collateral. The table shows a concentration in the rating grade 5 and 25% LGD buckets, reflecting the dominant residential mortgage business with a standard LGD rate of 25%.

UBS Warburg

A substantial majority of UBS Warburg counterparty exposures fall into the investment grade category (internal counterparty rating grades 0 to 5), both for banking products gross (66%) and for traded products (94%). The UBS Warburg counterparties are primarily sovereigns, financial institutions, multinational corporate clients and investment funds. In the last few years, UBS Warburg has engaged in a substantial credit risk hedging program through which we have effectively reduced our banking products exposure by CHF 25.3 billion. This was achieved mainly by transferring the underlying risk to high grade market counterparties using credit default swaps. The table on the following page provides a view of the net banking products exposure, reflecting the effect of these credit risk hedging activities. In order to better illustrate the effects of credit hedging and other risk mitigation, we have expanded the 2002 columns in the rating distribution graph on page 67 to show exposures before and after risk mitigation. Additionally, in the matrix on the following page, we show the distribution of UBS Warburg's net banking products exposure across rating grades and LGD buckets. In UBS Warburg's portfolio, the standard LGD on senior secured claims is 40% and on senior unsecured claims 50%, which explains the concentration in the 26–50% bucket in the matrix on page 66. The significant exposure in the sub-investment grade 0–25% bucket is mainly comprised of collateralized short-term bridge loans for US residential real estate portfolios awaiting securitization.

Exposure distribution across counterparty ratings shown elsewhere in this section refers only to the gross exposure and probability of

UBS Warburg: credit hedging, banking products

	As at 31.12.2002			
CHF million	Gross Exposure[1]	Credit Hedges[2]	Other Risk Mitigants[3]	Net Exposure
Investment grade	47,020	21,463	913	26,272
Sub-investment grade	29,256	3,770	613	25,551
Impaired and defaulted	1,981	99	1,229	818
Total banking products exposure	78,257	25,332	2,755	52,641

[1] Banking products exposure excludes money market deposits of CHF 13.3 billion. [2] Credit Hedges includes single name credit default swaps (CDS) and credit linked notes (CLN) programs at notional amounts. [3] Other Risk Mitigants include cash collateral and unfunded risk participations. The impaired and defaulted category also includes counterparty specific allowances of CHF 995 million.

Note: Columns cannot be totaled as net exposure is set to zero in case of over-hedging or over-provisioning.

UBS Warburg: distribution of net take and hold banking products exposure[1] across counterparty rating and loss given default (LGD) buckets

		Loss given default buckets				
CHF million	Net Credit Exposure[2]	0–25%	26–50%	51–75%	76–100%	Weighted Average LGD (%)
Not rated	26		25		1	47
0 and 1	2,245		2,243		2	50
2	5,006	349	4,650	3	4	52
3	8,398	4,315	4,069		14	39
4	4,661	347	4,232		82	50
5	2,594	367	2,218	9		47
6	2,840	1,537	1,272	7	24	32
7	5,558	4,315	1,243			23
8	8,599	7,854	734	11		9
9	5,051	3,969	1,041	1	40	16
10	551	67	482	2		45
11	312		312			42
12	802	132	628	9	33	39
Total non-impaired	46,643	23,252	23,149	42	200	38
Investment grade	22,930	5,378	17,437	12	103	
Sub-investment grade	23,713	17,874	5,712	30	97	
Impaired and defaulted	797					
Total take and hold	47,440					

[1] Net take and hold banking products exposure does not include money markets deposits of CHF 13.3 billion, and excludes temporary (underwriting) commitments. [2] Net credit exposure: gross credit exposure minus credit hedges minus other risk mitigants.

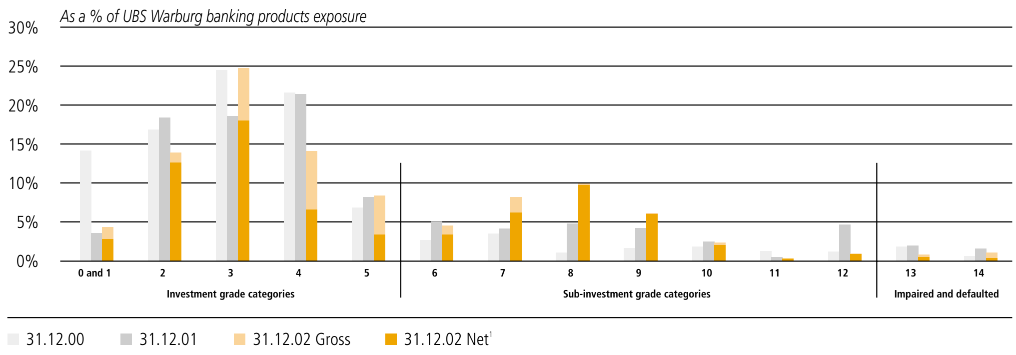
default, without reference to the likely severity of loss or loss mitigation from collateral or credit hedges.

Continuing the trend observed in 2001, the year under review saw both a number of high profile investment grade defaults and record levels of speculative-grade defaults both in the US and in Europe. Our disciplined credit underwriting and distribution standards and our focus on asset quality, have allowed UBS Warburg to avoid most of these defaults. To have experienced a net recovery of loan losses in very challenging markets has confirmed our strategy and reaffirmed our firm-wide risk culture. UBS Warburg is well positioned for, but not immune to, any continued turbulence in the international credit markets.

UBS Warburg's banking products portfolio continues to be widely diversified across industry sectors. At 31 December 2002, the largest exposure (36%) was to the finance sector. While the reported 7% exposure to the transport, storage and communication sector includes CHF 3.6 billion of gross exposure to the telecommunication industry, the vast majority of this amount relates to incumbent investment grade operators and substantial portions of these exposures are credit-hedged.

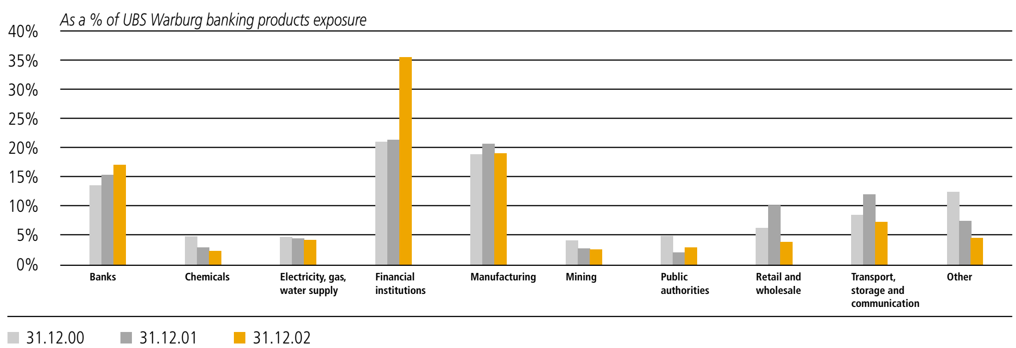
A significant proportion of UBS Warburg's credit risk arises from its trading and risk man-

UBS Warburg
Banking products exposure by counterparty rating

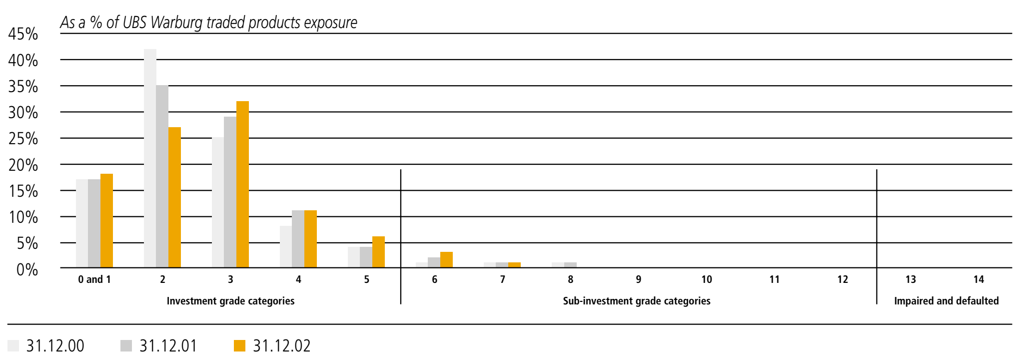


[1] Banking products exposure net of cash collateral, credit hedges and allowances/provisions.

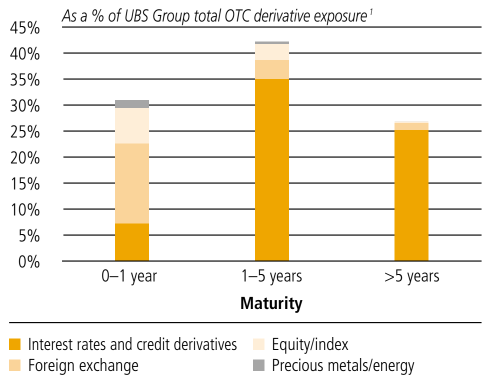
UBS Warburg
Banking products exposure by industry sector



UBS Warburg
Gross traded products exposure by counterparty rating

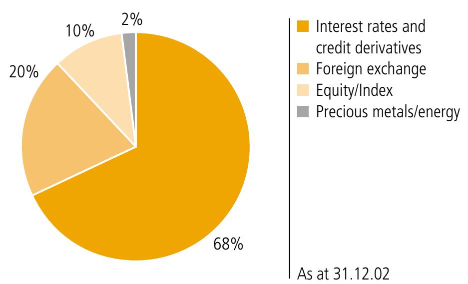


UBS Group
OTC derivative exposure by product type and maturity



[1] Positive replacement values (before netting).

UBS Group
OTC derivative exposure[1] by product type



[1] Positive replacement values (before netting).

agement activities. Providing risk management solutions to our customers, including the use of derivative products, is a core business of UBS Warburg. Here, transactions with counterparties of lower quality are generally conducted on a secured basis or for short tenors only. In line with general market trends, UBS Warburg has also entered into bilateral collateral agreements with other major banks to mitigate the potential concentrations of exposure arising from industry consolidation and the continuing increase in volumes of OTC derivatives traded.

The graphs above show UBS Group's OTC derivative exposure by product type and maturity at 31 December 2002, while the graph on page 67 shows details of all UBS Warburg traded products exposure by counterparty rating at 31 December 2002. Further details of derivative instruments are provided in Note 23 to the UBS Group Financial Statements.

UBS PaineWebber

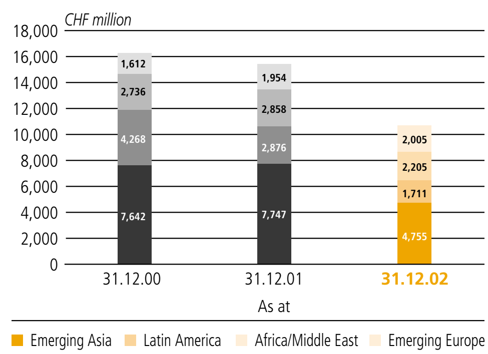
Consistent with UBS PaineWebber's business focus on regulated, collateralized lending to high net worth individuals, credit risk in its portfolio is comparatively low. The loan portfolio as at 31 December 2002 amounted to CHF 12.9 billion, spread over some 95,000 individual positions, widely dispersed across the US.

Country risk

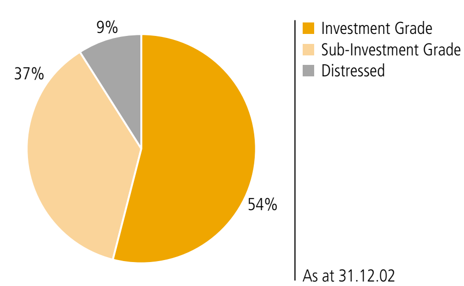
Our cross-border country risk exposure to emerging markets has further reduced to CHF 10.7 billion, down from CHF 15.4 billion at 31 December 2001. Of this amount, CHF 5.8 billion or 54% is to investment grade countries. Our on-shore exposure to emerging markets is immaterial.

The table and graphs below analyze the cross-border emerging market country exposures by country rating category, by major geographical area and by product type at 31 December 2002 compared to 31 December 2001 and 31 December 2000.

Emerging market exposure by major geographical area



Emerging market exposure by country rating category



Emerging market exposure by major geographical area and product type

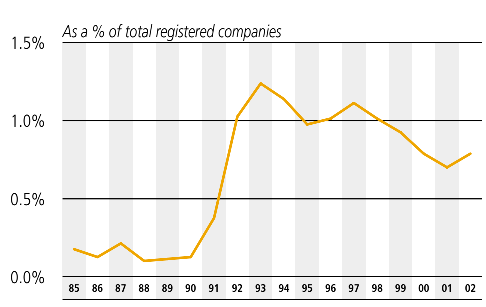
CHF million	Total			Banking products			Traded products			Tradable assets		
As at	**31.12.02**	31.12.01	31.12.00	**31.12.02**	31.12.01	31.12.00	**31.12.02**	31.12.01	31.12.00	**31.12.02**	31.12.01	31.12.00
Emerging Europe	**2,005**	1,954	1,612	**390**	632	809	**532**	750	395	**1,083**	572	408
Emerging Asia	**4,755**	7,747	7,642	**2,189**	4,029	4,053	**1,179**	1,537	1,355	**1,387**	2,181	2,234
Latin America	**1,711**	2,876	4,268	**618**	1,122	2,352	**330**	863	1,025	**763**	891	891
Africa / Middle East	**2,205**	2,858	2,736	**979**	1,432	1,564	**818**	962	669	**408**	464	503
Total	**10,676**	15,435	16,258	**4,176**	7,215	8,778	**2,859**	4,112	3,444	**3,641**	4,108	4,036

Credit loss expense

UBS Group's Financial Statements are prepared in accordance with IFRS, under which credit loss expense charged to the Financial Statements in any period is the sum of net allowances and direct writeoffs minus recoveries arising in that period, i.e. the credit losses actually incurred. To better reflect the characteristics of credit risks in our activities, we measure and present our Business Group results in terms of expected loss, rather than actual IFRS loss, and provide a reconciliation between the two – see the section "Expected loss" on pages 60 to 61 and pages 39 to 40 of our Financial Report 2002 for further details. The following discussion covers the actual credit loss expense recorded under IFRS.

Throughout 2002, the global credit environment continued the downward trend observed in 2001. Concerns regarding the sustainability of the global economic recovery have increased. Combined with increasing geopolitical tensions, the outlook for corporate profits has weakened. Financial market development during the year was characterized by heightened investor risk aversion, with pronounced tiering by credit quality, resulting in higher-risk corporate and sovereign borrowers facing increasingly difficult financing conditions.

Swiss corporate bankruptcy rates (1985–2002)



Source: Creditform

Against this background, and in stark contrast to the very challenging credit environment, UBS Warburg achieved a strong credit performance with net credit loss recoveries of CHF 35 million, compared to credit loss expense of CHF 360 million in 2001 and CHF 562 million in 2000. This excellent performance was the result of minimal exposures to new defaults plus the recovery of country provisions for emerging markets exposures which were repaid or sold during 2002.

As illustrated in the graph on this page, corporate bankruptcies in Switzerland have reversed a five-year falling trend and climbed by 10.8% during the year. In our case, this negative development did not come as a surprise and has largely been compensated by the measures we have undertaken to improve the asset quality of our domestic credit portfolio. The gradual slowdown of the Swiss economy and our success in substantially reducing our impaired portfolio have, however, resulted in a lower level of recoveries compared to previous years. This largely explains the increase of our credit loss expense to CHF 241 million, compared to CHF 123 million in 2001.

Group credit loss expense in 2002 amounted to CHF 206 million, compared to CHF 498 million in 2001 and to a net recovery of CHF 130 million in 2000. The exceptional result in 2000 was helped by favorable economic conditions in Switzerland which, for UBS Wealth Management & Business Banking, resulted in substantial write back of credit loss provisions taken in earlier periods.

IFRS credit loss expense

CHF million	UBS Wealth Management & Business Banking			UBS Warburg			UBS PaineWebber			Other[1]			UBS Group		
For the year ended	31.12.02	31.12.01	31.12.00	31.12.02	31.12.01	31.12.00	31.12.02	31.12.01	31.12.00	31.12.02	31.12.01	31.12.00	31.12.02	31.12.01	31.12.00
Total banking products exposure at year end	187,768	197,677	199,458	102,564	120,224	140,919	14,098	19,503	24,649	840	675	786	305,270	338,079	365,812
IFRS actual credit loss expense/(recovery)	241	123	(695)	(35)	360	562	15	15	3	(15)	0	0	206	498	(130)
– as a proportion of total banking products exposure (bps)	13	6	(35)	(3)	30	40	11	8	1	(179)	0	0	7	15	(4)
Expected loss charged to Business Groups[2]	314	604	785	128	112	243	13	18	3	0	0	0	455	734	1,031
– as a proportion of total banking products exposure (bps)	17	31	39	12	9	17	9	9	1	0	0	0	15	22	28

[1] Includes UBS Global Asset Management and Corporate Center. [2] For an explanation of the credit loss charge used in our Business Group reporting, please see the "Expected loss" section on page 60 and 61 and pages 39 and 40 of the Financial Report 2002.

Impaired loans, allowances and provisions

UBS classifies a claim as impaired when the book value of the claim exceeds the present value of the cash flows actually expected in future periods. Allowances and provisions for credit loss are established in line with IAS 39 and according to our provisioning policies which are explained on page 62. We are confident that our policies and processes ensure a consistent and fair basis for determining prudent levels of allowances and provisions.

As shown in the table below, allowances and provisions for credit losses decreased by 31.6%, from CHF 8,218 million at 31 December 2001

Allowances and provisions for credit loss

CHF million	UBS Wealth Management & Business Banking		
As at	31.12.02	31.12.01	31.12.00
Loans to banks (gross)	6,449	7,938	9,150
Loans to customers (gross)	167,583	173,916	176,121
Gross loans	174,032	181,854	185,271
Non-performing loans	5,033	7,004	8,342
Other impaired loans	3,340	4,306	5,978
Total impaired loans	8,373	11,310	14,320
Allowances for non-performing loans	2,750	4,248	5,141
Allowances for other impaired loans	832	1,143	2,579
Total allowances for impaired loans	3,582	5,391	7,720
Other allowances and provisions[2]	452	243	83
Total allowances and provisions	4,034	5,634	7,803
of which country allowances and provisions	*515*	*507*	*498*
Ratios			
Impaired loans as a % of gross loans	4.8	6.2	7.7
Non-performing loans as a % of gross loans	2.9	3.9	4.5
Allowances and provisions for credit loss as a % of gross loans	2.3	3.1	4.2
Allocated allowances as a % of impaired loans	42.8	47.7	53.9
Allocated allowances as a % of non-performing loans	54.6	60.7	61.6

[1] Includes UBS Global Asset Management and Corporate Center. UBS Global Asset Management had no impaired or non-performing loans at 31.12.02, 31.12.01 and 31.12.00.

[2] Includes country allowances and provisions and provisions for off-balance-sheet liabilities.

to CHF 5,621 million at 31 December 2002. Note 9b to the UBS Group Financial Statements provides further details of the changes in allowances and provisions during the year.

Allowances and provisions for emerging market-related exposures stood at CHF 736 million at 31 December 2002, compared to CHF 1,006 million at 31 December 2001 and CHF 1,292 million at 31 December 2000. The reduction is mainly a consequence of our policy of reducing the overall size of our emerging market exposures.

Impaired loans have decreased to CHF 10,365 million at 31 December 2002 from CHF 14,629 million at 31 December 2001 and from CHF 18,494 million at 31 December 2000. Over the same period, non-performing loans (a sub-set of impaired loans) have also decreased, to CHF 6,029 million from CHF 8,639 million at 31 December 2001 and CHF 10,452 million at 31 December 2000.

The ratio of impaired loans to total loans has improved over the past three years to 4.2% at 31 December 2002 from 5.6% at 31 December 2001 and 6.5% at 31 December 2000, while the non-performing loans to total loans ratio improved to 2.4% at 31 December 2002 from 3.3% at 31 December 2001 and 3.7% at 31 December 2000. These positive results were due, in part, to the reduction of our exposure to international credit risk, which produced fewer new impaired and non-performing loans than in previous years, and in part to continuing efforts to conclude proceedings and reach settlement on existing non-performing loans.

Market risk

Market risk is the risk of loss arising from movements in observable market variables such as interest rates, exchange rates and equity markets. In addition to these and other general market risk factors, the risk of price movements specific to individual issuers of securities is considered market risk.

Market risk is incurred in UBS primarily through trading activities which are centered in UBS Warburg's Corporate and Institutional Clients business unit. It arises primarily from market making, client facilitation and propri-

UBS Warburg			UBS PaineWebber			Other[1]			UBS Group		
31.12.02	31.12.01	31.12.00	31.12.02	31.12.01	31.12.00	31.12.02	31.12.01	31.12.00	31.12.02	31.12.01	31.12.00
24,495	17,702	18,310	1,327	2,151	2,061	640	470	543	32,911	28,261	30,064
37,223	43,527	55,500	11,530	16,095	22,588	123	185	243	216,459	233,723	254,452
61,718	61,229	73,810	12,857	18,246	24,649	763	655	786	249,370	261,984	284,516
967	1,609	2,068	29	17	16	0	9	26	6,029	8,639	10,452
996	1,667	2,064	0	17	0	0	0	0	4,336	5,990	8,042
1,963	3,276	4,132	29	34	16	0	9	26	10,365	14,629	18,494
706	1,104	1,167	29	17	16	0	5	5	3,485	5,374	6,329
575	760	777	0	17	0	0	0	0	1,407	1,920	3,356
1,281	1,864	1,944	29	34	16	0	5	5	4,892	7,294	9,685
264	681	813	13	0	0	0	0	0	729	924	896
1,545	2,545	2,757	42	34	16	0	5	5	5,621	8,218	10,581
221	*499*	*794*	*0*	*0*	*0*	*0*	*0*	*0*	*736*	*1,006*	*1,292*
3.2	5.4	5.6	0.2	0.2	0.1	0.0	1.4	3.3	4.2	5.6	6.5
1.6	2.6	2.8	0.2	0.1	0.1	0.0	1.4	3.3	2.4	3.3	3.7
2.5	4.2	3.7	0.3	0.2	0.1	0.0	0.8	0.6	2.3	3.1	3.7
65.3	56.9	47.0	100.0	100.0	100.0	0.0	55.6	19.2	47.2	49.9	52.4
73.0	68.6	56.4	100.0	100.0	100.0	0.0	55.6	19.2	57.8	62.2	60.6

etary positions in equities, fixed income and interest rate products, foreign exchange and, to a lesser extent, precious metals and energy. Activity is mainly in OECD markets, with some business in emerging markets.

Group Treasury assumes market risk through the transfer of long-term interest rate risk from other Business Groups, and through the Group's structural foreign exchange positions. These are non-trading positions and are discussed in the "Group Treasury" section on pages 78 to 87.

Further market risks arise, but to a much lesser extent, in other businesses, again, primarily from the facilitation of customer business, but also in the form of interest rate risk in the banking books of the private banks (UBS's independently branded, but wholly owned private banking subsidiaries).

Market risk measures are applied to all foreign exchange, precious metals and energy exposures of the Group, to all the trading books of UBS Warburg, to interest rate risk in the Group Treasury book and the private banks, and to any other material market risk arising.

Risk measurement

The expected, statistical and stress loss framework is applied to market risk as follows:

- *expected loss* is reflected in the valuation adjustments made to the portfolio. These cover price uncertainties resulting from a lack of market liquidity or the absence of a reliable market price for an instrument or position, and model risk in more complex models
- *statistical loss* is measured using a Value at Risk (VaR) methodology. VaR expresses the potential loss on the current portfolio assuming a specified time horizon before positions can be adjusted (holding period), and measured to a specified level of confidence. UBS measures VaR on both a one day and a ten day holding period, in both cases to a 99% confidence level. Estimates are based on historical simulation, assessing the impact of historical market movements on today's portfolio, based on five years of historical data. 1-day VaR exposure expresses the maximum daily mark to market loss that UBS is likely to incur on the current portfolio under normal market conditions with a larger loss being statistically likely only once in a hundred business days
- *stress loss* is assessed against a set of forward looking scenarios, approved by the Board of Directors, using stress moves in market variables which are regularly reviewed and approved by the Group CRO. Stress events modeled in our standard scenarios include crises in equity, corporate bond and emerging markets, and severe currency and interest rate movements. They are kept under constant review and fine tuned as necessary to reflect changing market and economic conditions. We also monitor our positions against more specific scenarios that target individual sectors or are based on current concerns.

All VaR models, while forward-looking, are based on past events and are dependent upon the quality of available market data. The quality of the VaR model is therefore continuously monitored by backtesting. In backtesting we compare the actual revenues arising from the previous day's closing positions ("backtesting revenue", which excludes non-trading revenues such as commissions and fees and revenues from intraday trading) with the 1-day VaR calculated for the previous day on these same positions. If the revenue, whether positive or negative, exceeds the 1-day VaR, a "backtesting exception" is considered to have occurred. When VaR is measured at a 99% confidence level, a backtesting exception is expected, on average, one day in a hundred. A higher rate of occurrence may indicate that the VaR model (the combination of the inputs and the calculations) is not fully capturing all risks. UBS conducts backtesting daily at a number of organizational levels, down to individual trading portfolios in UBS Warburg, and investigates all backtesting exceptions to establish their cause and any necessary remedial action. Backtesting is also a regulatory requirement, and negative backtesting exceptions (where revenue is negative and greater than the previous 1-day VaR) must be reported to the regulators.

The Board of Directors has set a limit on statistical loss for market risk at the Group level in terms of 10-day VaR. This limit is allocated by the GEB among the Business Groups, the largest allocation being to UBS Warburg. Within the Business Groups, the limit is allocated to lower organizational levels as necessary. The internal 10-day VaR measure is also the basis of UBS's market risk regulatory capital requirement.

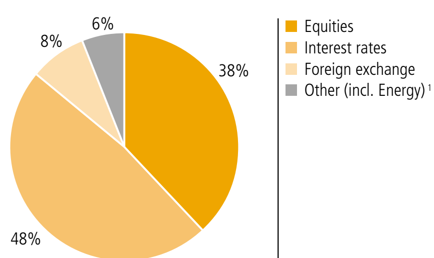
The Board of Directors has also set a stress loss limit on market risk for UBS Warburg.

The market risk VaR and stress loss limits are the principal controls on UBS's exposure to day-to-day movements in market prices, but complementary controls are also applied to prevent undue concentrations, including limits on exposure to individual market risk variables, such as individual interest or exchange rates, and limits on positions in the securities of individual issuers. These controls are set at levels which reflect variations in price volatility and market depth and liquidity.

Market risk developments

Throughout the year UBS Warburg has maintained its previous strategy of concentrating risk taking in liquid markets and instruments, and strictly controlling incremental risk in illiquid markets, including private equity. We continue to apply strict risk/return standards in both our proprietary and client facing activities.

UBS Warburg Corporate and Institutional Clients
Average 10-day 99% confidence VaR by product type



[1] Includes energy risk from UBS Warburg Energy and precious metals risk.

In 2002, we have seen periods of exceptional volatility, in conjunction with extraordinary falls in securities prices in the bond and equity markets, especially in the telecommunications and energy sectors. These falls occurred in response to profit warnings, and revelations of accounting irregularities and corporate misgovernance, particularly in the second and third quarters of 2002.

Against this background, we reviewed and adjusted our risk profile in the middle of the year and have routinely hedged tail risk, thereby avoiding much of the market fallout. Opportunities have arisen and have been taken, as can be seen from the occasional increases in VaR shown in the graph below.

We entered the energy markets on 11 February 2002 and market risk arising in the business is included in the table below from that date in the risk class "Other". Trading conditions have been difficult for most of the year and our energy risk remains small.

The table below shows average, minimum, maximum and year end market risk exposure for UBS Warburg, as measured by VaR on a ten day holding period and 99% confidence level.

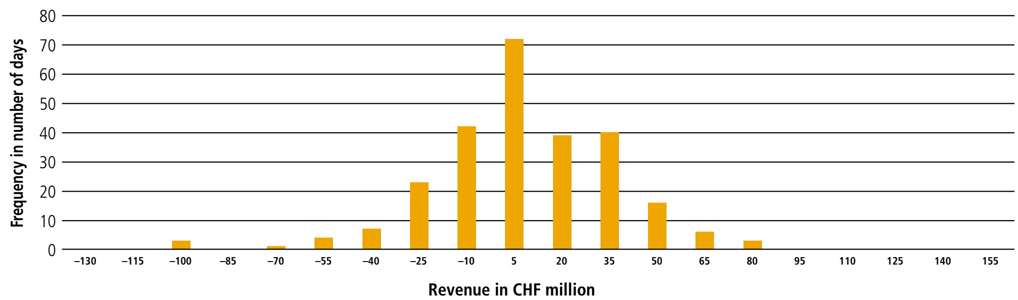
While average VaR for equities decreased from CHF 181 million to CHF 177 million, the average for interest rates increased from CHF 183 million to CHF 219 million. These changes reflect changing market conditions and, in particular, good trading opportunities in the bond markets which resulted in interest rates being the strongest risk driver at the end of 2002. Average VaR for UBS Warburg increased from CHF 252 million in 2001 to CHF 275 million in 2002, partly explained by the ongoing shift of risk taking from illiquid to liquid markets, but in gener-

UBS Warburg Corporate and Institutional Clients[1]: Value at Risk (10-day 99% confidence)

	Year ended 31.12.02				Year ended 31.12.01				Year ended 31.12.00			
CHF million	Min.	Max.	Average	31.12.02	Min.	Max.	Average	31.12.01	Min.	Max.	Average	31.12.00
Risk type												
Equities	123.3	293.0	177.2	178.3	123.9	454.9	181.1	157.0	144.7	245.9	199.4	146.5
Interest rates	161.8	303.4	219.2	280.9	127.6	299.8	182.7	226.2	113.8	182.4	148.1	122.4
Foreign exchange	6.2	100.0	35.0	9.6	9.3	90.7	28.5	25.8	7.8	98.0	32.7	31.5
Other (incl. energy)[2]	3.6	112.8	29.8	12.6	2.2	14.4	6.1	5.1	2.1	27.4	9.7	5.3
Diversification effect	[3]	[3]	(186.3)	(171.4)	[3]	[3]	(146.2)	(143.1)	[3]	[3]	(148.2)	(128.2)
Total	198.3	389.6	274.9	310.0	179.8	470.3	252.2	271.0	177.2	296.1	241.7	177.2

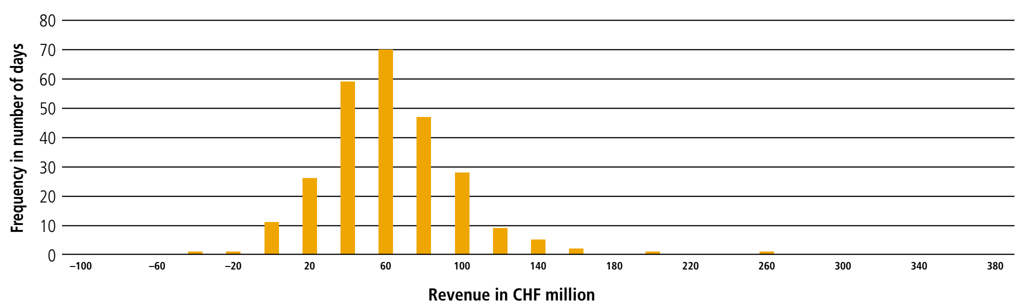
[1] Positions have been restated for 2001 and 2000 to exclude UBS PaineWebber exposures. UBS Warburg Energy exposures are included from start of trading on 11 February 2002. [2] Includes energy risk from UBS Warburg Energy and precious metals risk. [3] As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

UBS Warburg Corporate and Institutional Clients
Distribution of daily backtesting revenues, 2002[1]



[1] Excluding non-trading revenues, such as commissions and fees, and revenues from intraday trading.

UBS Warburg Corporate and Institutional Clients
Distribution of daily full revenues, 2002

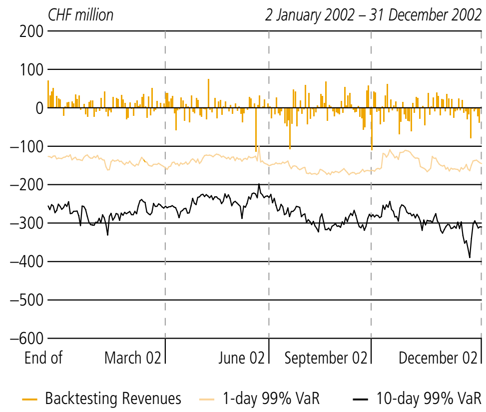


UBS Group: Value at Risk (10-day 99% confidence)

		Year ended 31.12.02				Year ended 31.12.01				Year ended 31.12.00			
CHF million	Limits	Min.	Max.	Average	31.12.02	Min.	Max.	Average	31.12.01	Min.	Max.	Average	31.12.00
Business Groups													
UBS Warburg – Corporate and Institutional Clients[1, 2]	450	198.3	389.6	274.9	310.0	179.8	470.3	252.2	271.0	177.2	296.1	241.7	177.2
UBS PaineWebber[3]	50	11.1	36.2	18.9	14.2	13.2	37.3	20.4	23.6	17.8	28.2	21.8	21.3
UBS Global Asset Management	30	7.0	13.1	9.4	8.6								
UBS Wealth Management & Business Banking[4]	50	4.1	8.9	5.4	4.1	3.7	5.3	4.8	4.8	3.3	4.8	4.1	3.7
Corporate Center[5]	150	30.1	63.7	39.8	62.1	31.3	63.5	37.4	40.9	29.9	149.4	69.4	45.3
Reserve	150												
Diversification effect				(68.3)	(86.6)			(49.0)	(35.7)			(89.0)	(58.0)
Total	600	211.3	373.9	280.1	312.4	191.9	482.5	265.8	304.6	189.0	321.9	248	189.6

[1] Includes UBSW Energy from start of trading on 11 February 2002. [2] Positions have been restated for 2001 and 2000 to exclude UBS PaineWebber exposures. [3] UBS PaineWebber included from legal merger date 3 November 2000. [4] Includes interest rate exposures in the banking books of the Private Banks. [5] Includes interest rate exposures in the banking book of Group Treasury.

UBS Warburg Corporate and Institutional Clients
Backtesting Revenue[1] and VaR



[1] Excluding non-trading revenues, such as commissions and fees, and revenues from intraday trading.

al, market risk exposures have stayed within the normal ranges.

Market risk positions in the other Business Groups and Corporate Center have only a marginal incremental impact on the total VaR at Group level as can be seen in the table on page 74.

UBS had no regulatory backtesting exceptions in 2002, as can be seen in the backtesting graph. Note that the revenues shown in this graph are "backtesting revenues" – they exclude non-trading revenues, such as commissions and fees, and revenues from intraday trading, which are not relevant in the context of backtesting. The 10-day VaR, which is the basis of the limits and exposures in the tables, is also shown for information.

In the first histogram on page 74 we show the distribution of these backtesting revenues while the second histogram shows daily revenues from all sources ("full revenues") in the Corporate and Institutional Clients business unit.

Further enhancements have been made to specific areas of the VaR model, but none of these changes has had a material impact on the reported risk.

Consequential risk

In June 2002, we appointed a Group Head of Consequential Risk, reporting to the Group CRO, whose mission is to ensure that the Group has formulated and implemented, and constantly reviews and refines, a consistent, coherent and comprehensive approach to the management and control of consequential risk throughout our business.

The process begins with the identification and assessment of risks to which we are, or could be, exposed, which range from every day events such as reconciliation problems to potentially severe events such as fraud. Operating standards are then established to control the risks, which means taking a conscious decision whether and how they are to be accepted, managed, mitigated, or avoided. We recognize, however, that we cannot eliminate them completely (because errors and accidents will always happen) and that it may not be cost effective to do so even where it is theoretically possible – we adopt a risk based approach.

Compliance with controls must be monitored continuously and their effectiveness assessed. To assist in this process, we can identify and track certain indicators, such as the number of unreconciled items on nostro and custody accounts and the time they have been outstanding, which can potentially provide early warning of increasing risk or non-compliance with standards.

Appropriate contingency/crisis and business continuity plans are developed to cover extreme events affecting a limited area (e.g. one IT system or server) or a significant part of the business (e.g. all operations in one location). Consideration of stress scenarios is a component of this process.

We identify consequential risk "events" – actual failures of processes, people or systems – including external events, whether or not they directly impact UBS, for example a fraud committed at another institution. An event such as a virus attack or a customer complaint does not always lead to direct or indirect financial loss but may indicate that standards are not complied with or are ineffective

We maintain a database of financial losses and their underlying causes. It is, however, important to understand that financial losses from a single event can arise in several ways (for example a writedown of assets, a claim against UBS, a regulatory fine, and indirect loss through business disruption); and that the level of risk at any time is not directly correlated to actual financial losses or their frequency of occurrence, which are, at best, only indicative. An analysis of the causes of consequential risk events is therefore also important, to ensure that our standards are complied with, that they are effective, and that remedial action is taken where necessary.

The primary objective of consequential risk management and control is to ensure a continuous process of qualitative improvement. As such, we rely primarily on a qualitative framework supported by appropriate quantitative techniques.

Consequential risk developments

Know Your Customer and Anti-money laundering controls

Since the events of 11 September 2001, financial institutions and their regulators have made strengthening of and compliance with Know Your Customer and Anti-Money Laundering laws and regulations a key priority. UBS was already committed to the adoption of appropriate internal standards, and these had been incorporated in many aspects of our operations. We have been an active member and key supporter of the major industry bodies whose aim is to eliminate the proceeds of crime from the financial system. Our significant contribution to the workings of the Wolfsberg Group of Banks is but one example.

We continue to make substantial investments in personnel and technologies to help ensure that we have at our disposal the latest techniques and information to identify suspicious activities and criminals engaged in money laundering. We are currently implementing a monitoring system to identify potentially suspicious transactions in our private banking and retail broker dealer operations. We also continue to develop our own internal customer vetting databases.

Adherence to the standards set by the our regulators and supra-national bodies such as the Financial Action Task Force (FATF) remains one of the Group's major objectives, and we will continue to refine and enhance the processes we apply to customer acceptance and transaction monitoring in line with our assessment of the risks, industry practice, regulatory requirements and technical developments.

IT security

Like most other financial institutions, we rely on IT infrastructure to support our business processes. Moreover, as a major global market participant and a market leader in the provision of internet based and other "e" services to our clients, we need both strong IT security and adequate business continuity arrangements to protect a range of interest groups, including our clients and customers, other market participants and our shareholders, and to meet our legal and regulatory obligations.

We have senior Information Security Risk Control officers in all Business Groups and have established a regular global forum for IT and Risk Control to assess the risk environment and determine appropriate actions to mitigate these risks. We continue to enhance our IT security risk policies, standards and practices to ensure that we meet industry best practice. Senior management including the Group Executive Board are provided with regular reports on material risk areas.

Fraud prevention

We strive for operational excellence in serving our clients. To this end, effective controls, using state-of-the-art technology, are important tools in maintaining and steadily improving our high quality level. In this context, we have a systematic process not only to identify and prevent operational errors, but also to monitor unusual patterns which might indicate fraudulent activities.

We recognize and focus on the risk inherent in our business and will continue to enhance prevention and detection measures where justified by the risks and costs to our clients and our shareholders. During 2002 we have strengthened system access controls and access monitoring and have implemented search engines to detect and prevent fraudulent activity.

New Basel capital accord ("Basel II")

Since the first draft of the New Basel capital accord ("Basel II") was published in 1999, there has been continuous dialogue and discussion between regulators and the industry, various drafts have been published, and quantitative studies have been conducted. A final consultative paper is due in May 2003, after which further material changes are not expected. Full implementation is scheduled for 1 January 2007 after a one year parallel run.

Basel II consists of three mutually reinforcing pillars:

– *Pillar 1* sets capital requirements for credit risk, market risk and operational risk. Existing rules for market risk capital are substantially unchanged. The rules for credit risk capital will be more risk-sensitive than at present and banks will be permitted to use some of their own internal risk assessments to determine regulatory capital. The regulatory capital charge for operational risk (consequential risk) is new
– *Pillar 2* involves regulatory assessment of models, controls, standards and processes in the organization – a qualitative assessment to complement the quantitative assessment under Pillar 1. This process already exists for market risk but will be more extensive under Basel II
– *Pillar 3* requires enhanced disclosure by banks.

In 2002, we launched a project to implement Basel II in UBS. The overall goals of Basel II are clearly compatible with our own ambition and past strategic decision to be among the leading institutions in risk management and control and, particularly in the areas of portfolio credit risk measurement, sophisticated internal models are indispensable.

Since the final details of Basel II are not yet known, the initial focus of the work has been on areas that clearly benefit our own internal measurement, management and control tools. For credit, this has meant ensuring the completeness and accuracy of loss history data (observed defaults, migrations and loss severity); reviewing rating processes, tools and methodologies; and completing all relevant documentation.

There will be considerable flexibility for banks to develop different approaches to the modeling and qualitative aspects of operational risk. We have continued to gather loss and other event-related data, focusing on data quality and consistency of detail and definition. Banks will have to support their quantitative approaches with a strong qualitative framework and, as outlined in the "Consequential risk" section above, we are developing group-wide qualitative standards. While it is clear that improving the qualitative framework should beneficially impact loss experience, there is no simple formula. Once the final details of Basel II are clear, we will further accelerate our quantitative work.

Pillar 3 will require banks to disclose a range of information about the risks they take, the way they assess risks and their regulatory capital position, beyond the present financial reporting guidelines. The intention is to subject banks to "market discipline" – the markets would reinforce regulatory supervision by requiring higher or lower costs of capital based on the individual bank's level of risk and quality of risk management and control.

UBS is a supporter and exponent of transparency in banks' financial statements, and of disclosure as a means to promote market discipline. We thus support the aims of Pillar 3 – indeed, we would encourage similar developments by other financial services regulators.

Discussions are continuing on the final detail of Pillar 3 and UBS is working with the industry and regulators to try to ensure an appropriate balance between, on the one hand, the benefits of enhanced disclosure and, on the other, the negative impact of excessive detail which may confuse rather than assist the reader. We also continue to encourage regulators and accounting standard setters to work together to harmonize disclosure requirements.

We expect that, as risk management and control practices evolve, banks' disclosure standards will also change, and we are committed to remaining at the forefront of meaningful disclosure.

Group Treasury

The processes and transactions for which Group Treasury is responsible relate to our corporate legal structure, regulatory capital, balance sheet, funding and liquidity, non-trading currency and interest rate risk and financial investments, including:

- efficient governance of the firm's interest rate risk process with the aim of optimizing risk capture and management, netting potential and organizational cost
- management of Group Treasury's own interest rate risk position, which arises from its balance sheet management activities, which are non-trading
- providing a framework for sustainable and cost-efficient funding of the firm's balance sheet, using a well-diversified portfolio of funding sources and preserving a balanced liability structure
- management of UBS's long-term debt portfolio
- providing a framework for optimal liquidity management in order to generate cash when required without compromising the Group's ability to take advantage of market opportunities
- efficient management of the currency-diversified equity investment portfolio, and of the Group's non-trading foreign exchange exposure, to shield regulatory capital ratios and expected future cash flows from fluctuations in exchange rates against the Swiss franc
- efficient management of the capital base, taking into account financial ratios and regulatory capital requirements with a view to maintaining strategic flexibility, sound capitalization and strong ratings
- efficient management of UBS's own shares
- adherence to an adequate, lean and transparent corporate legal structure to underpin the Group's commitment to meeting international standards for corporate governance
- efficient management of specific strategic investment holdings.

Interest rate risk management

Interest rate risk is inherent in many of our businesses. It arises from a variety of factors, including differences in timing between contractual maturity or re-pricing of assets, liabilities and derivative instruments, which impact net interest income in the event of changes in market interest rates. In the case of variable rate assets and liabilities, UBS is also exposed to basis risk, which is the difference in re-pricing characteristics of floating rate indices, such as the savings rate and market rates, and which can result in changes to net income and the valuation of our assets and liabilities. In addition, certain products have embedded options that affect their pricing and effective maturity.

Most non-trading interest rate risks are captured at the point of business origination and then transferred, through a transfer pricing mechanism, to one of the centralized risk management units, predominantly either Group Treasury or UBS Warburg's Cash and Collateral Trading unit (CCT).

This process allows us to exploit Group-wide netting potential in the management of interest rate risk. The only notable exceptions to this rule are the five independent private banking subsidiaries which manage their own interest rate risk separately; however the amount of interest rate risk involved is not material to the financial condition or results of the Group as a whole.

For internal risk management and control, the Group's standard market risk measure, Value at Risk (VaR), is applied to all Group Treasury positions, although Group Treasury's book is not subject to market risk regulatory capital requirements. Group Treasury's interest rate risk is the predominant element of the Corporate Center VaR shown in the table on page 74 in the "Market risk" section. We apply additional risk measures appropriate to a "Bank Book" to the interest rate positions managed by Group Treasury. These are explained below in the "Interest rate risk in the Group Treasury Bank Book" section.

Internal hedging process

In applying our internal hedging process, a distinction is made between transactions with fixed maturities and those without contractual maturity dates or directly market-linked rates (such as retail products).

Transactions with fixed maturities are transferred by individual back-to-back transactions to Group Treasury in the case of long-term Swiss franc transactions, and to CCT in the case of short-term Swiss franc and all non-Swiss franc transactions.

Client current and savings accounts and many other products of UBS Wealth Management & Business Banking have no contractual maturity date or directly market-linked rate, and can be thought of as containing embedded pre-payment/withdrawal and re-pricing options. Their interest rate risk cannot be transferred by simple back-to-back transactions and they are therefore transferred on a pooled basis. This entails the establishment of a "replication" portfolio – a portfolio of revolving transactions between the originating business unit and Group Treasury at market rates designed to approximate the average cash flow and re-pricing behavior of the pooled client transactions. The structure and parameters of the replication portfolios are set in accordance with long-term observations of market and client behavior and are reviewed periodically. The current extraordinarily low interest rate environment, especially in Swiss franc rates, led, at the end of 2002, to some temporary adjustments of the replication portfolios for variable rate liabilities.

As a result of this process, the originating business units are immunized as far as possible against market interest rate movements, but retain the product margin, while Group Treasury acquires market interest rate based positions which can be managed within its approved limits and mandate.

A significant amount of interest rate risk also arises from non-business related balance sheet items, such as the financing of our real estate and equity investments in associated companies, and the investment of our own equity. These are all strategic decisions, which implicitly create interest rate exposures. These non-business items are also transferred to Group Treasury through replicating portfolios which, in this case, are designed to approximate the investment or funding profile mandated by the GEB.

All replicating portfolios are updated monthly by replacing maturing tranches with new tranches, taking into account changes in the underlying portfolios over the period. Although the choice of monthly rollovers for each replicating portfolio helps to minimize the volume of transactions required at any one time, new aggregate tranches are, nevertheless, of such a size that they cannot be laid off to the market instantly. There are, furthermore, long term fixed rate refinancing requirements arising mainly from the commercial lending activities of UBS Wealth Management & Business Banking, which occur throughout the month. Group Treasury therefore actively manages the timing of its hedging, which leads to intra-month interest rate risk exposure that can fluctuate significantly during the course of each month.

All risk transferred to CCT is managed by CCT within its risk limits, according to its risk view and appetite (see also "Market risk" section on pages 71 to 75). To the extent that Group Treasury needs to hedge its positions, it also deals with UBS Warburg units, which are the sole interface to the external markets for both cash and derivative transactions.

Interest rate risk in the Group Treasury Bank Book

The GEB has approved risk management policies, risk limits and a control framework for Group Treasury's Bank Book interest rate risk management process.

The internal control framework includes an allocation of the Group VaR limit (which also covers Group Treasury's foreign exchange risk). Group Treasury's VaR exposure is included in the table on page 74.

Three key interest rate risk measures are also used within Group Treasury:

- *Interest rate sensitivity* expresses the impact of a one basis point (0.01%) parallel rise in interest rates on the fair value (net present value) of all our interest rate risk positions
- *Economic value sensitivity* measures the potential change in fair value of Group Treasury's interest rate positions resulting from a large instantaneous shock to interest rates
- *Net interest income at risk* is defined as the potential change in our net interest income resulting from adverse movements in interest rates over the next twelve months. Various changes in the level of interest rates are applied. Usually the worst case is captured by using instantaneous shock scenarios. All of the scenarios are compared with a scenario where current market rates and client behavior are held constant for the next twelve months. The methodology is designed to highlight the effects of market changes in interest rates on Group Treasury's balance sheet positions – it ignores future changes in the asset and liability mix and it is not, therefore, a predictor of future net interest income.

The interest rate sensitivity measure is a simple unit measure of sensitivity, which does not, in itself, provide an indication of potential loss. The economic value sensitivity and net interest income at risk methodologies provide different, but complementary, views of potential loss from interest rate risk. The economic value sensitivity measure provides both a longer-term view and a view of the whole book, since it takes into account the present value of all future cash flows generated from the existing balance sheet positions. The net interest income at risk measure, by contrast, considers only the re-pricing effect from positions maturing over the next twelve months, and thus provides a shorter-term view but one which more closely reflects financial reporting.

In all three measures, for internal purposes we assess the exposure both including and excluding the replication portfolio representing the Group's equity. When this portfolio is excluded, the exposure under all three measures increases, since the exposures on assets in which the equity is invested are no longer netted against the benchmark for equity investment.

In order to reflect the significant increase in business activities in foreign currencies, the GEB decided in 2002 to diversify the equity investment strategy from a pure Swiss franc investment portfolio into portfolios of different currencies. Our equity is currently invested in portfolios of longer term fixed-rate assets in Swiss francs, US dollars and euros, in line with the strategic investment targets set by the GEB. At 31 December 2002 the Swiss franc portfolio had an average duration of 3.3 years and an interest rate sensitivity of CHF 11.93 million per basis point. For the US dollar portfolio, the duration was 5.1 years and its sensitivity CHF 1.81 million per basis point and for the euro portfolio the duration was 3.3 years and its sensitivity CHF 0.47 million per basis point.

The interest rate sensitivity of these investments is directly related to the chosen investment duration. It should be recognized that, although investing in significantly shorter maturities would lead to a reduction in the apparent interest rate sensitivity and economic value sensitivity of our Bank Book positions, it would lead to higher net interest income at risk (when measured excluding the equity itself) and to higher volatility in the Group's actual interest earnings.

The table on page 81 shows the interest rate sensitivity of our overall interest rate risk positions as at 31 December 2002. The first total is the sensitivity including the equity replicating portfolio, while the final total, which is significantly larger, excludes this portfolio.

The table on page 81 shows the change in risk under the economic value sensitivity and net interest income at risk measures between 31 December 2000 and 31 December 2002.

The net interest income at risk figure shown is the worst case among various interest rate scenarios that have been analyzed, and results from an assumed downward interest rate shock (parallel shift) of 200 basis points. At 31 December 2002, the difference in the projected outcome in this scenario from that projected in a constant market rate scenario represented a reduction of CHF 151 million in the year's total net interest income, compared with a reduction of CHF 313 million on 31 December 2001.

The economic value sensitivity measure shows the effect of a 100 basis point adverse interest rate shock. At 31 December 2002, a 100 basis point upward shock of Swiss franc rates

Interest rate sensitivity of the bank book

As at 31.12.02 *CHF thousand per basis point increase*	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
CHF	16	(126)	97	(63)	(114)	(190)
USD	27	(80)	(66)	56	936	873
EUR	8	(3)	44	191	1	241
GBP	0	0	(37)	89	581	632
JPY	0	0	0	20	(24)	(4)
Others	0	0	0	(1)	(3)	(4)
Total [1]	**50**	**(208)**	**38**	**292**	**1,378**	**1,549**
of which equity replicating portfolio (CHF)	62	24	439	6,393	5,011	11,929
of which equity replicating portfolio (USD)	3	0	11	629	1,164	1,807
of which equity replicating portfolio (EUR)	1	1	16	267	189	474
Total equity replicating portfolio	**66**	**25**	**466**	**7,289**	**6,364**	**14,210**
Bank book without equity replicating portfolio (total)	(16)	(233)	(428)	(6,997)	(4,987)	(12,661)

[1] Total risk position includes adjustments of the replication portfolios for variable-rate products.

Change in risk under the two methodologies

	As at		
CHF million	**31.12.02**	31.12.01	31.12.00
Net interest income at risk	**(151)**	(313)	(247)
Economic value sensitivity	**(1,246)**	(1,319)	(908)

would lead to a CHF 1,246 million decline in fair value, compared with an exposure of CHF 1,319 million to the same scenario on 31 December 2001.

Liquidity and funding management

The liquidity management process is undertaken jointly by Group Treasury and CCT. Group Treasury's function is to establish a comprehensive management framework, including policies and risk limits, while CCT undertakes operational cash and collateral management transactions within the established parameters. This centralized cash and collateral management structure permits tight control on both our global cash position and our stock of highly liquid and rediscountable securities.

The GEB has approved a policy establishing the core principles for liquidity management and has defined an appropriate contingency plan. A first set of principles relates to the establishment of liquidity risk limits (for example, a net overnight funding limit). The risk limits are set by the GEB and monitored by Group Treasury. The Group's liquidity exposure is assessed by the Group Treasury Committee (GTC), which is chaired by the Group Treasurer and meets on a monthly basis. A second set of principles concentrates on liquidity crisis management, for which a detailed Group Liquidity Contingency Plan has been developed. This has been incorporated into UBS's Global Crisis Management Concept, which covers all types of crisis events, including a liquidity crisis, and applies to all Business Groups and subsidiaries of the UBS Group. Regional committees monitor the markets in which UBS operates for potential threats and regularly report their findings to Group Treasury. In the event of a liquidity crisis, regional crisis task forces implement contingency plans under the direction of senior management.

Benefits of centralization

Being a globally integrated financial services firm, UBS's range of business activities naturally generates asset and liability portfolios which are highly diversified with respect to market, product and currency. This reduces UBS's exposure to individual funding sources, and also provides a broad range of investment opportunities, which in turn reduces liquidity risk. The centralized approach to liquidity management adopted at UBS allows these advantages to be exploited. Group Treasury is, furthermore, instrumental in executing an integrated collateral management process on a Group-wide basis to ensure that the large pool of high-quality collateral gathered across the Group is made available for repurchase and securities lending transactions through which CCT creates additional revenues for both UBS and our clients, and also generates substantial funding on a secured basis. This additional liquidity cushion could be crucial in crisis situations.

Funding sources and approach

With a broad diversification of funding sources (by market, product and currency), we maintain a well-balanced portfolio of liabilities which generates a stable flow of financing and provides protection in the event of market disruptions. This, together with our centralized funding management, enables us to pursue a funding strategy which seeks to ensure that business activities are funded at the lowest possible cost.

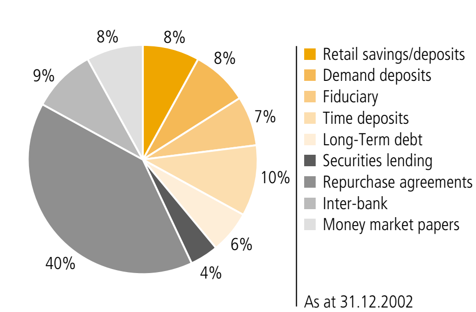
In this context, UBS's strong domestic retail business is a very valuable, cost efficient and reliable source of funding. Through the establishment of short, medium and long-term funding programs in Europe, the US and Asia, we can both provide specialized investments to our customers and efficiently raise funds globally, minimizing our dependence on any particular source. This integrated approach to funding allows us to exploit our ability to create tailor-made structured products for both private and institutional investors across the globe. The creation and marketing of such cost-effective structured debt issuance is achieved through close co-operation across various business areas. The embedded risks are managed by UBS Warburg, while Group Treasury determines the effective funding levels at which the underlying debt components are issued.

We plan our medium- and long-term funding activities by assessing the overall funding profile of the balance sheet, taking due account of the effective maturity of our asset base and the amount of maturing debt that will have to be replaced. We also factor in our ability to continue to fund our ongoing business activities through periods of difficult market conditions

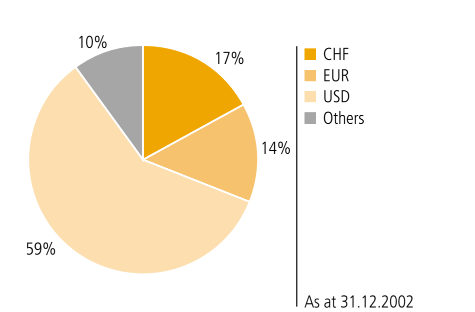
We make frequent use of asset-securitization structures, in particular in connection with the sale of corporate loans and retail mortgages. These do not, however, constitute a material portion of UBS's funding activities and our liquidity status would not be significantly affected if capital markets were to become inaccessible for such securitization transactions. UBS has no long-term commitments to continue to purchase the types of assets being securitized.

The charts below show a breakdown by product type and by currency of our secured and unsecured funding as at 31 December 2002. UBS has a strong secured funding base that reduces our exposure to periods of stressed market conditions where the ability to raise unsecured funding could be temporarily restricted. Of our total funding, 44% was raised on a secured basis and 56% unsecured. The unsecured funding base is well diversified, with 16% of funding stemming from savings and demand deposits, 7% from fiduciary deposits and only 8% from money market papers and 9% from short-term interbank borrowing. Most of our funding was originated in US dollars, with major portions also being raised in Swiss francs and in euro, roughly mirroring the currency breakdown of our assets. Around 10% of our funding was denominated in

UBS funding by product type



UBS funding by currency



other currencies (primarily sterling and Japanese yen). UBS does not rely on buying committed credit facilities from third party banks, but instead we base our contingent funding sources on our ability to raise secured funding through the use of high-quality collateral.

In the course of 2002, UBS's long-term debt remained stable, decreasing slightly from CHF 57.2 billion at 31 December 2001 to CHF 56.6 billion at 31 December 2002, despite the 6% contraction of the Group balance sheet over the same period. The maturity profile of our long-term debt portfolio is well balanced. See Note 18 to the UBS Group Financial Statements for further information concerning long-term debt.

Liquidity management approach

Our approach to liquidity management is to ensure, as far as possible, that we will always have sufficient liquidity to meet liabilities when due, without compromising our ability to respond quickly to strategic market opportunities. Our centralized approach to liquidity management encompasses both branches and subsidiaries and seeks to ensure that the liquidity position is more than adequate to cover short-term liabilities at all times. UBS's liquidity management is based on an integrated framework that incorporates an assessment of all expected cash flows within the firm and the availability of high-grade collateral which could be used to secure additional funding if required. The liquidity position is assessed and managed under a variety of potential scenarios, giving due consideration to stress factors. The range of scenarios analyzed encompasses both normal market conditions and stressed conditions, including both UBS specific and general market crises. For each scenario considered, the short-term liquidity position arising out of non-trading activities is determined by identifying the gap between liabilities running off and maturing assets to be repaid. This analysis is augmented by ascertaining the value of trading book assets which could be liquidated as compared to the liabilities which would have to be repaid. In assessing this gap, we take into account both our ability to utilize collateral – both our own and collateral borrowed from customers – to raise funds, which may enhance our liquidity, and the possibility that our customers may seek to draw down unutilized capacity under credit lines we extend them, which may place further demands on liquidity. We also take into account the fact that, while under normal market conditions it can be safely assumed that most maturing assets would be repaid, trading assets successfully liquidated and maturing liabilities replaced by creating new liabilities, this will not necessarily be the case under stressed conditions.

The starting point for these stress analyses is the breakdown by contractual maturity of our assets and liabilities. This is displayed as at 31 December 2002 in Note 29 to the UBS Group Financial Statements, which shows the profile of UBS's overall cash-flow ladder under a business as usual scenario. Various stress scenarios are then simulated by adjusting this assumed cash-flow ladder according to each type of stress event. These scenarios range from a liquidity squeeze that remains confined to the capital and inter-bank markets (akin to the Asian crisis of 1997, the Russian crisis of 1998 and the crisis following 11 September 2001) to a full-blown general market crisis that affects all participants and spans all market sectors on a global basis. Particular emphasis is also placed on a bank-specific crisis, where UBS alone is affected. Again, this crisis is assumed to occur globally across all market sectors. In this way, varying degrees of severity are simulated and all of UBS's funding sources and investments are assumed to be put under stress. The range of effects evaluated includes:

- inability to roll over maturing unsecured debt (both long-term and short-term debt such as UBS's commercial paper programs)
- inability to raise new unsecured (short-term or long-term) debt
- increased collateral margins on the bank's secured funding sources
- a sudden, large outflow of retail deposits ("bank run")
- a large increase in drawdowns of unutilized committed credit lines
- an increase in haircuts applied to trading portfolio assets (for sale or pledging in repo transactions).

Furthermore, because it is probable that customers will also be affected by such a liquidity crisis and thus unable to meet their obligations, it is assumed that all core businesses, such as consumer loans and mortgages, and investments must continue to be financed, even if they fall due during the assumed crisis period.

UBS-specific crisis: liquidity gap and contingency funding

	As at			
CHF billion	**31.12.02**	**30.9.02**	30.6.02	31.3.02
Crisis liquidity gap	**(26)**	**(33)**	(10)	(12)
Secured contingency funding	**71**	**73**	72	89
Net position	**45**	**40**	62	77

Our exposure under these liquidity stress scenarios is analyzed on a monthly basis and any ensuing liquidity gap is assessed to ascertain the ability of the bank to bridge the gap by means of our large stock of committed, undrawn central bank facilities and through increased use of repurchase and similar transactions. The assumed crisis gap is monitored monthly by Group Treasury and action is taken if it exceeds a predefined trigger level.

The results of the liquidity stress scenario analyses are reported monthly to the Group CRO and quarterly to the GEB. The table above shows the development during 2002 of the cumulative 30-day liquidity gap that could arise during a UBS-specific crisis and the amount of contingency funding that could be raised to redress the potential imbalance. The secured funding capacity in the table relates exclusively to securities that are eligible for pledging at the major central banks and assumes application of crisis-level collateral margins. It does not take account of our additional stock of liquid securities that could be used to raise secured funding on the interbank market and it is assumed that none of the contingency funding would be raised on an unsecured basis.

The results shown above are regarded as constituting a worst-case scenario that comprises a simultaneous combination of severe impairments to UBS's overall liquidity situation across all markets, currencies and products. The scenario assumes, inter alia, that we would be unable to renew any of our unsecured debt, including our entire maturing Money Market Papers (outstanding volume CHF 73 billion as of 31 December 2002), as could occur if we were to suffer a severe downgrading of our credit ratings. It further encompasses potential liquidity outflows due to contingent liabilities, in particular those due to undrawn committed credit lines. Exposures to other contingent commitments, such as guarantees and letters of credit, are also included in this analysis, even though these are not as vulnerable since they are generally not unconditional but are, rather, linked to other (independent) conditions precedent being fulfilled. The scenario also assumes that the crisis would engulf UBS's source of retail deposits, thereby leading to massive withdrawals from current accounts, savings accounts and deposits. Furthermore, access to the client collateral pool is assumed to be limited as a result of securities lending agreements being cancelled during such a crisis.

Apart from regularly monitoring unutilized committed credit facilities, UBS also assesses latent liquidity risks that could materialize if we were to suffer a downgrading of our credit ratings. "Rating Trigger" clauses, especially in derivative contracts, create such risks as they could result in an immediate cash outflow due to the unwinding of derivative positions with a negative replacement value, or the need to deliver additional collateral. The contingent exposure arising directly from these rating triggers is judged not to be material, even if UBS were to be downgraded to sub-investment-grade level. This exposure is prudently managed on an ongoing basis by regularly repeating the exposure analysis and by ensuring that any significant rating trigger clauses are subject to appropriate explicit approvals.

While UBS engages in financial transactions that involve the utilization of non-consolidated special-purpose entities, our funding and liquidity capacity is not reliant upon these entities to any material extent. Additionally, should any or all of these financial channels become unusable, the impact on UBS's liquidity resources would be insignificant. All of UBS's major sources of liquidity are channeled through entities that are fully consolidated and are included in the scenario analyses described above.

Currency management

We report our results in Swiss francs, the currency of the country in which we are incorporated. Our corporate currency management activities are designed to protect the Group's BIS Tier 1 ratio and expected future foreign currency cash flows from adverse movements of the Swiss franc against the currencies of our assets, revenues and costs, while preserving the option to take advantage of market opportunities which may arise.

Translation (balance sheet) currency risk

We aim to maintain our flexibility in being able to divest foreign currency assets at any time without adverse currency impact by match-funding, i.e. a US dollar asset is funded in US dollars, an euro asset in euros, etc. This policy has, in the past, also been applied to equity investments in consolidated subsidiaries and branches, which were match-funded by debt, while our equity remained predominately invested in Swiss francs.

However, our non-Swiss activities have expanded significantly in the last five years, and the currencies of our balance sheet assets are now more diversified. A significant depreciation of the Swiss franc against these currencies would therefore result in a deterioration of our BIS Tier 1 ratio. We have therefore decided to adopt a new equity investment approach more in line with our business portfolio. In future, our equity will be diversified into Swiss francs, US dollars, euros and sterling in proportion to our risk-weighted assets in these four main currencies, by investing directly in the capital of subsidiaries and branches denominated in these currencies. The current match-funding (or structural hedging) of equity investments in consolidated subsidiaries and branches will be progressively terminated. This will create structural foreign currency exposures, the gains or losses on which will be recorded through equity and will therefore lead to fluctuations in the Group's capital base in line with the fluctuations in risk-weighted assets, thereby protecting the BIS Tier 1 capital ratio.

The financial transactions to achieve this structure were started in fourth quarter 2002. The first significant impact on our capital base can be expected in first quarter 2003 (depending on the size of currency moves against the Swiss franc). Further equity investments will follow in the course of 2003. We believe that complete BIS Tier 1 ratio protection will be achieved towards the end of 2003 when the target currency mix of invested equity should be in place.

Transaction (revenues/expenses) currency risk

Each month, final profits or losses are translated, for financial accounting purposes, into Swiss francs from the original transaction currencies at the prevailing rate at the end of the month. At the same time, we sell down these profits or losses into Swiss francs in order to reduce earnings volatility resulting from subsequent exchange rate movements. (Small gains or losses from timing differences between month-end and actual sell down are reported as income in Corporate Center.)

Furthermore Group Treasury proactively hedges, from time to time, significant currency exposures arising from expected future foreign currency earnings/costs (mainly US dollar, euro and sterling), in accordance with the instructions of the GEB. Economic hedging strategies employed include a cost-efficient option purchase program, providing a safety net against unfavorable currency fluctuations while preserving upside potential. The hedge program has a time horizon of up to twelve months and is not restricted to the current financial year. Although intended to hedge future cash flows, these transactions are considered open currency positions and included in VaR for internal and regulatory capital purposes (refer also to page 74 in the "Market risk" section).

Non-trading currency risk VaR

CHF million	**2002**	2001	2000
Minimum	**0.7**	0.9	11.6
Maximum	**14.2**	16.2	113.4
Average	**3.0**	3.6	33.7
End of period	**0.7**	1.0	12.7

Capital adequacy

CHF million, except ratios	As at 31.12.02	31.12.01	31.12.00
BIS Tier 1 capital	27,047	29,322	31,892
of which hybrid Tier 1 capital [1]	3,182	3,848	2,456
BIS total capital	33,009	37,471	42,860
BIS Tier 1 capital ratio (%)	11.3	11.6	11.7
BIS total capital ratio (%)	13.8	14.8	15.7
Balance sheet assets	205,401	214,481	223,528
Off balance sheet and other positions	18,122	25,935	39,002
Market risk positions	15,267	13,319	10,760
Total BIS risk-weighted assets	238,790	253,735	273,290

[1] Trust preferred securities.

Capital management

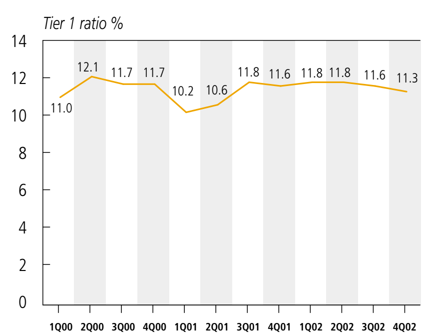
We are dedicated to remaining one of the best capitalized financial services firms in the world with sound capital ratios and strong debt ratings – both are key to our attractiveness to clients and investors. Our overall capital needs are continually reviewed to ensure that our capital base appropriately supports our current and planned business and regulatory capital requirements. The use of a variety of instruments, such as trust preferred securities, to meet overall capital levels, is designed to support our efforts to meet return on equity targets and enhance shareholder value.

Sound capitalization

The table above shows the key capital figures and ratios as of 31 December 2002, 31 December 2001 and 31 December 2000.

The ratios measure capital adequacy by comparing UBS's eligible capital with total risk-weighted assets, which include balance sheet assets, net positions in securities not held in the trading portfolio, off-balance sheet transactions converted into their credit equivalents at a weighted amount to reflect their relative risk and market risk positions based on VaR (see "Market risk" section, page 74 and Note 29d to the UBS Group Financial Statements).

UBS Group
BIS Tier 1 capital ratio



The calculation of capital requirements applicable to UBS under Swiss Federal Banking Commission (SFBC) regulations differs in certain respects from the calculation under the Basel Capital Accord ("BIS guidelines"). Most importantly:

– where BIS guidelines apply a maximum risk weight of 100%, the SFBC applies risk weights above 100% to certain asset classes (for example real estate, bank premises, other fixed assets, intangible assets excluding goodwill, equity securities and unconsolidated equity investments)
– where the BIS guidelines apply a 20% risk weight to obligations of OECD banks, the SFBC applies risk weights of 25% to 75%, depending on maturity, to such obligations

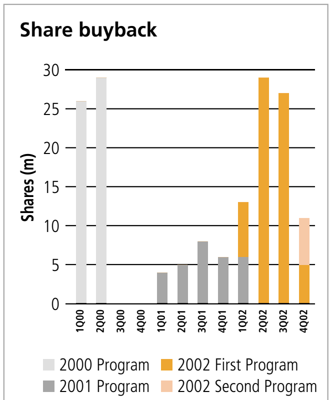
As a result of these differences, UBS's risk-weighted assets are higher, and our ratios of total capital and Tier 1 capital are lower when calculated under the SFBC regulations than under the BIS guidelines. Nevertheless, UBS and its predecessor banks have always had total capital and Tier 1 capital in excess of the minimum requirements of both the BIS and the SFBC since these regulations and guidelines were first implemented in 1988.

Capital management in 2002

In line with our shareholder focus, we were able to transfer a total of CHF 8.3 billion of free equity to our shareholders in 2002. The total amount is split between the par value capital repayment of CHF 2.4 billion in July 2002 and the total of the share repurchases for cancellation executed during 2002 of CHF 5.9 billion.

Share buyback and cancellation

Our careful balance sheet management and strong earnings continued to generate additional capital in 2002 despite a weaker operating environment. This enabled us, for the third consecutive year, to conduct share repurchase programs



Effect of second line trading program on basic earnings per share (EPS)

	For the year ended		
	31.12.02	31.12.01	31.12.00
Weighted average shares for basic EPS after treasury shares	1,208,586,678	1,266,038,193	1,209,087,927
Weighted average second trading line treasury shares	118,594,983	65,624,005	43,261,410
Basic EPS	2.92	3.93	6.44
Cumulative impact of treasury shares on basic EPS (CHF)	0.26	0.19	0.22
Cumulative impact of treasury shares on basic EPS (%)	8.9	4.9	3.5

which are intended to reduce the number of issued shares and enhance our earnings per share.

As in previous years, we bought the shares through a second trading line, which allows us to cancel the shares in the most tax efficient way. Under Swiss regulations, a company wishing to cancel shares must purchase them on the stock exchange under a special security code which clearly identifies the time and quantity of shares repurchased for this purpose.

In July 2002, following the approval of shareholders at the Annual General Meeting on 18 April 2002, we canceled a total of 28,818,690 shares bought back under our 2001 program. In 2002 we bought 67,700,000 shares in the maximum amount of CHF 5 billion between 5 March and 9 October 2002. A follow-up program for a maximum of CHF 3 billion was immediately launched. Under this program, which can run until 5 March 2003, a total of 6,335,080 shares for CHF 0.4 billion have been repurchased up to 31 December 2002. The shares purchased under these programs will be cancelled in July 2003 following the approval of the Annual General Meeting on 16 April 2003.

The number of shares bought back through the second trading line program is linked to the Group's ability to generate free equity while maintaining a strong BIS Tier 1 capital ratio. The table above shows the impact on basic earnings per share of the purchase of treasury shares through the second line trading program.

Dividends and par value reduction

In May 2001, a new regulation was introduced which lowered the minimum par value for Swiss shares to CHF 0.01. In 2002, as in 2001, we therefore reduced the par value of our share by CHF 2.00 per share, repaying that amount to shareholders.

This type of payment is treated under Swiss regulations as a return of capital, not as income. It is therefore tax efficient for shareholders who pay tax in Switzerland and is also beneficial to shareholders outside Switzerland, as it is not subject to Swiss withholding tax.

The par value reduction took place on 8 July 2002. Payment was made on 10 July to holders of record as of 5 July, bringing the par value of each UBS share down from CHF 2.80 to CHF 0.80.

Capital management plans for 2003

New second line buy back program

As we continue to generate strong cash flow, we intend to continue to repurchase shares for capital reduction purposes under a second line buyback program. The program is aimed at institutional investors, allowing tax efficient cancellation of shares.

The new program will start from 6 March 2003 and can run until 5 March 2004 with a maximum of CHF 5 billion worth of shares repurchasable under the program.

We will continue to publish the number of shares repurchased and the average price paid on a weekly basis on the internet at www.ubs.com/investors. The repurchased shares will be canceled following approval by the Annual General Meeting in April 2004.

Dividend

For 2002, we plan to pay a normal dividend to our shareholders after having made use of the possibility to make a tax efficient distribution in 2000 (for the fourth quarter only) and 2001 in the form of par value reductions.

The Board of Directors will recommend at the Annual General Meeting on 16 April 2003 that UBS should pay a dividend of CHF 2.00 per share for the 2002 financial year, on a par with last year's CHF 2.00 distribution.

If the dividend is approved, the ex-dividend date will be 17 April 2003, with payment on 23 April 2003 for shareholders of record on 16 April 2003.

Corporate Governance

Introduction and Principles

UBS is committed to meeting high standards of corporate governance. Our corporate and executive bodies are organized in line with the leading codes of best practice.

Corporate governance – the way that the leadership and management of the firm are organized and how they operate in practice – ultimately aims at leading UBS to success, protecting the interests of its shareholders and creating value for them and for all stakeholders. Good corporate governance seeks to balance "entrepreneurship", control and transparency, while supporting the firm's success by ensuring efficient decision-making processes.

UBS fully complies with the standards established in the "Swiss Code of Best Practice for Corporate Governance" and the "SWX Swiss Exchange Directive on Information relating to Corporate Governance", both effective since 1 July 2002. UBS also meets the overwhelming majority of the corporate governance standards applicable to companies listed on the New York Stock Exchange. The few exceptions are due to conflicts of law between Switzerland and the US. These exceptions are explained on pages 122–123. UBS complies with the applicable requirements of the US Sarbanes-Oxley Act, including the certification of UBS's Annual Report on Form 20-F by the principal executive officer of the company – the President of the Group Executive Board – and the principal financial officer – the Group Controller.

UBS operates under a strict dual Board structure, as mandated by Swiss banking law. The functions of Chairman of the Board of Directors (Chairman) and President of the Group Executive Board (President) are conferred on two different people, thus providing separation of powers. No member of one board may be a member of the other. This structure establishes checks and balances and creates an institutional independence of the Board of Directors from the day-to-day management of the firm, for which responsibility is conferred on the Group Executive Board.

SWX Swiss Exchange Reporting on Corporate Governance

The Handbook's "Corporate Governance" section contains the following information required by the SWX Swiss Exchange Directive on Information relating to Corporate Governance:
- group structure and shareholders
- capital structure
- Board of Directors
- Group Executive Board
- compensation, shareholdings and loans to corporate bodies
- shareholders' participation rights
- change of control and defense measures
- auditors
- information policy

In addition, this section describes the regulatory and supervisory environment of UBS in its principal locations of activity, explains the few exceptions where UBS's corporate governance standards differ from the listing standards of the New York Stock Exchange (NYSE), and contains a list of the members of the Group Managing Board of UBS, the next layer of management responsibility below the Group Executive Board.

Group Structure and Shareholders

Under Swiss company law, UBS AG is organized as an "Aktiengesellschaft (AG)", a corporation that has issued shares of common stock to investors. UBS AG is the parent company of the UBS Group.

UBS Group legal entity structure

The legal entity structure of UBS is designed to support the Group's businesses within an efficient legal, tax, regulatory and funding framework. Neither the Business Groups of UBS nor the Corporate Center operate through separate legal entities, but rather they generally operate out of the parent bank, UBS AG, through its branches worldwide.

The goal of this structure is to capitalize on the synergies offered by the use of a single legal platform and to enable the flexible and efficient use of capital.

Where it is either not possible or not efficient to operate out of the parent bank, usually due to local legal, tax or regulatory rules or due to additional legal entities joining the UBS Group through acquisition, then businesses operate through local subsidiary companies. The significant operating subsidiary companies of the Group are listed in Note 35 to the UBS Group Financial Statements.

Operational Group structure

The four Business Groups UBS Wealth Management & Business Banking (with its two business units Private Banking and Business Banking Switzerland), UBS Warburg (comprising the Corporate and Institutional Clients and UBS Capital business units), UBS PaineWebber and UBS Global Asset Management, together with the Corporate Center, form the operational structure of the Group. Group performance is reported according to this structure (see the Financial Report 2002, pages 35–74). A description of the various Business Groups, their strategy, structure, organization, products and services is contained in this Handbook on pages 21–51.

Listed and non-listed companies belonging to the Group

The following listed company is included in the Group's financial statements on an equity participation basis:

Motor Columbus AG, Baden (Switzerland), listed on the SWX Swiss Exchange, share capital CHF 253 million, capitalization as of 31 December 2002 CHF 1,224.5 million, UBS stake 35.6%, Valor No 212427/ISIN CH0002124276.

UBS Group comprises a great number of subsidiaries, none of which, however, are listed. For details of significant subsidiaries see Note 35 to the UBS Group Financial Statements.

Significant shareholders

Chase Nominee Ltd., London, acting in its capacity as a nominee for other investors, was registered with 7.68% of all shares issued as of 31 December 2002, compared to 6.94% at year-end 2001. According to UBS's Regulation on the Registration of Shares, voting rights of nominees are restricted to 5%. As in previous years, no other shareholder was registered with more than 5% of all shares issued. Ownership of UBS shares is widely spread. Details about the distribution of UBS shares, the number of shares registered and not registered, voting rights, as well as about the distribution by category of shareholders and by geography are published on pages 139–140 of this Handbook.

During the year 2002, UBS's holdings of its own shares twice surpassed the 5% threshold requiring disclosure under the Swiss Stock Exchange law, due to share repurchases for subsequent cancelation. This led to the following announcements:

- 17 June 2002. Announcement of a holding of 5.1% of the share capital in the form of shares and 1.3% through derivatives as per 13 June 2002. Simultaneous announcement that the holding would fall below the 5% threshold as per 5 July 2002 following the cancelation of shares repurchased under the 2001 program.
- 18 September 2002. Announcement of move beyond the 5% limit as per 13 September 2002.

At year-end, the position in own shares was 7.8% of the total share capital in the form of shares, and 1.7% through derivatives.

Cross shareholdings

UBS has no cross shareholdings in excess of a reciprocal 5% of capital or voting rights with any other company.

Capital Structure

UBS is committed to capital management that is driven by shareholder value considerations. At the same time, UBS is dedicated to remaining one of the best capitalized financial services firms in the world.

Capital

Ordinary share capital

As of 31 December 2002, UBS's ordinary share capital was CHF 1,005,038,142.40, divided into 1,256,297,678 registered shares with a par value of CHF 0.80 each. At the Annual General Meeting (AGM) of Shareholders on 18 April 2002, shareholders approved the cancelation of 28,818,690 shares repurchased under the 2001 share repurchase program, and they mandated the Board to continue with a repurchase program during 2002/2003 for a maximum amount of CHF 5 billion. On 27 September 2002, the Board of Directors approved an additional share buyback program with a maximum size of CHF 3 billion. At the AGM on 16 April 2003, shareholders will be asked to approve the cancelation of 75,970,080 shares repurchased under these two programs.

Conditional and authorized share capital

At year-end 2002, conditional share capital totaled CHF 7,672,734.40, corresponding to a maximum of 9,590,918 shares. The conditional capital was created in 2000 in connection with the acquisition of Paine Webber Group Inc. for the purpose of covering option rights granted by the PaineWebber Group to its employees. The subscription ratio, time limits and further details of these options were determined by PaineWebber before the merger and were assumed by UBS. Options under these plans are exercisable at any time between their vesting and the expiry date. Shareholders' pre-emptive rights are excluded. During 2002, 3,398,869 options were exercised, and 27,929 options expired.

UBS does not have any authorized capital outstanding.

Changes of capital

Shareholders' equity on 31 December 2002 amounted to CHF 38,991 million, down 10% from a year earlier. For all details on changes in shareholders equity over the last three years, please refer to pages 82–83 of the UBS Group Financial Statements.

Shares, Participation and Bonus certificates

UBS shares are issued as Global Registered Shares with a par value of CHF 0.80 each, with each carrying one vote. Voting rights may, however, only be exercised if the holder expressly declares having acquired these shares in his own name and for his own account. Global Registered Shares provide direct and equal ownership for all shareholders, irrespective of the country and stock exchange where they are traded. For details see the "Shareholders' participation rights" section on pages 109–110 of this Handbook.

As at 31 December 2002, 556,448,095 shares carried voting rights, 140,763,035 shares were entered in the share register without voting rights, and 559,086,548 shares were not registered. All 1,256,297,678 shares were fully paid up. There are no preferential rights for individual shareholders.

UBS has not issued any participation certificates or bonus certificates.

Limitation on transferability and nominee registration

UBS does not apply any restrictions or limitations on the transferability of its shares. Shares registered according to the provisions in the Articles of Association (express declaration of beneficial ownership) may be voted without any limit in scope.

UBS has issued special provisions for the registration of fiduciaries/nominees. Fiduciaries/nominees are entered in the share register with voting rights up to a total of 5% of all shares issued, if they agree to disclose, upon request from the firm, beneficial owners holding 0.3% or more of all UBS shares. An exception from the 5% rule exists for securities clearing organizations such as the Depository Trust Company (DTC) in New York and SegaInterSettle (SIS) in Switzerland.

Convertible bonds and options

UBS has currently no convertible debt on UBS shares outstanding. Options on UBS shares accounted for the total of 88,164,227 employee options on which all details are reported in Note 32e to the UBS Group Financial Statements. For a total of 9,590,918 of those options exercise will be satisfied through the creation of newly issued shares (conditional capital). Share capital would therefore be increased by a maximum of CHF 7,672,734.40. For the other employee options the exercise would be satisfied by the delivery of already issued treasury shares.

UBS Warburg, acting as liquidity provider to the equity futures market and as a market maker in UBS shares and derivatives, has also issued derivatives linked to UBS stock. These instruments are classified as cash-settled derivatives and are held for trading purposes only.

Board of Directors

The Board of Directors is the most senior body with ultimate responsibility for the strategy and the management of the company and for the supervision of its executive management. The shareholders elect each member of the Board, which appoints the Chairman, the Vice Chairmen and the various Board Committees.

Organizational principles and personnel changes

The Board, and in particular its Chairman, takes responsibility for the mid- and long-term strategic direction of the Group, for appointments and dismissals at top management levels, for mid-term succession planning and for compensation principles. It defines the firm's risk parameter and risk limit structure. A large majority of the Board members are non-executive and independent. The Chairman and at least one Vice Chairman have executive roles in line with Swiss Banking laws, and assume supervisory and leadership responsibilities. The Chairman also assumes a leadership role in corporate responsibility issues, public and political affairs and developing corporate culture.

As at 31 December 2002, the Board consisted of nine directors (see list below). At its Annual General Meeting (AGM) on 18 April 2002, UBS's shareholders elected Ernesto Bertarelli (born 1965), CEO of Serono International SA, Geneva to the Board. Markus Kündig, Vice Chairman since 1998, reached retirement age and therefore stepped down at that time.

Members of the Board of Directors

The table below provides information about the Board of Directors as at 31 December 2002.

Name and business address	Positions held in UBS	Year of initial appointment	Current term of office runs until
Marcel Ospel UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Chairman	2001	2005
Alberto Togni UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Executive Vice Chairman	1998	2005
Johannes A. de Gier UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Executive Vice Chairman	2001	2003[1]
Peter Böckli Böckli Bodmer & Partners, St. Jakobs-Strasse 41, P.O. Box 2348, CH-4002 Basel	Non-executive Vice Chairman Chairman of the Nominating Committee	1998	2003[1]
Ernesto Bertarelli Serono International SA, Chemin des Mines 15bis, CH-121Y1 Geneva 20	Member of the Compensation Committee	2002	2006
Sir Peter Davis J Sainsbury plc, 33 Holborn, London EC 1N 2HT	Member of the Audit Committee Member of the Nominating Committee	2001	2004
Rolf A. Meyer Heiniweidstrasse 18, CH-8806 Bäch	Chairman of the Compensation Committee Member of the Audit Committee	1998	2003[1]
Hans Peter Ming Sika AG, Wiesenstrasse 7, CH-8008 Zurich	Member of the Compensation Committee Member of the Nominating Committee	1998	2004
Lawrence A. Weinbach Unisys Corporation, Unisys Way, Blue Bell, PA 19424	Chairman of the Audit Committee	2001	2005

[1] Proposed for reelection at the AGM 2003.

Marcel Ospel was elected to the Board at the AGM in April 2001 and thereafter appointed as Chairman. Prior to this mandate, he served as Group Chief Executive Officer of UBS. He was the President and Group Chief Executive Officer of Swiss Bank Corporation (SBC) from 1996 to 1998. He was made CEO of SBC Warburg in 1995, having been a member of the Executive Board of SBC since 1990. From 1987 to 1990 he was in charge of Securities Trading and Sales at SBC. From 1984 to 1987 Mr. Ospel was a Managing Director with Merrill Lynch Capital Markets, and from 1980 to 1984 he worked at SBC International London and New York in the Capital Markets division. He began his career at Swiss Bank Corporation in the Central Planning and Marketing Division in 1977. Mr. Ospel graduated from the School of Economics and Business Administration (SEBA) in Basel. He was born on 8 February 1950 and is a Swiss citizen.

Alberto Togni, Vice Chairman, has been with UBS and SBC since 1959. From 1994 to 1997 he was Chief Risk Officer and a member of the Group Executive Committee of Swiss Bank Corporation. He previously held various functions in the Commercial division, becoming its head in 1993. In 1981 he was named member of the Executive Board. Prior to that, he assumed different management roles in Zurich, New York, Tokyo and as representative for the Middle East in Beirut, after professional training and various assignments with SBC in Lausanne, New York and Zurich. Mr. Togni graduated from the New York Institute of Finance. He was born on 30 October 1938 and is a Swiss citizen.

Johannes A. de Gier, Vice Chairman, was with UBS and SBC from 1980 until 1999. From 1998 to 1999 he was Chairman and CEO of Warburg Dillon Read and a member of the Group Executive Board of UBS. Prior to this, he served as Chairman of SBC Warburg and as Vice President of the Executive Committee of SBC. From 1991 to 1994 Mr. de Gier was responsible for Global Corporate Finance and from 1994 for the International Finance division. From 1988 to 1991 he was Chief Executive of SBC London. He first joined SBC International London in 1980 as an Executive Director, after having been with ABN Amsterdam's Trust Company in Curaçao, Amro Amsterdam's Capital Markets and International Finance division, and Corporate Finance of Orion Bank London. Mr. de Gier holds a law degree of the University of Amsterdam. He was born on 24 December 1944 and is a Dutch citizen.

Peter Böckli, non-executive Vice Chairman since 2002, has been a member of the Boards of Directors of UBS and its predecessor Swiss Bank Corporation since 1985. He has been a partner in the law office of Böckli Bodmer & Partners since 1981 and until March 2001 was a part-time professor of tax and business law at the University of Basel. From 1963 to 1981 he was an attorney-at-law in New York, Paris and Basel. Mr. Böckli graduated as doctor iuris at the University of Basel and as an attorney-at-law and is a non-resident member of the Association of the Bar of the City of New York. He was born on 7 May 1936 and is a Swiss citizen.

Ernesto Bertarelli, a member of the Board since 2002, has been the Chief Executive Officer of Serono International SA., Geneva, since 1996. Mr. Bertarelli started his career with Serono in 1985 and held several positions in sales and marketing. Prior to his appointment as CEO, he served for five years as Deputy CEO. Mr. Bertarelli holds a bachelor of science from the Babson College Boston and an MBA of the Harvard Business School. He was born on 22 September 1965 and is a Swiss citizen.

Sir Peter Davis, a member of the Board since 2001, has been Group Chief Executive Officer of J Sainsbury plc, London, since 2000. He was the Group Chief Executive of Prudential plc from 1995 to 2000 and Chief Executive and Chairman of Reed International and Chairman of Reed Elsevier (following the merger of Reed International with Elsevier) from 1986 to 1995. From 1976 to 1986, he had responsibility for all buying and marketing operations at J. Sainsbury plc. Prior to that he served as Marketing Director and Managing Director for Key Markets, part of Fitch Lovell Ltd., and as Marketing and Sales manager at General Foods Ltd., Banbury. Mr. Davis was educated at Shrewsbury School and graduated from the Chartered Institute of Marketing. He was born on 23 December 1941 and is a British citizen.

Rolf A. Meyer has been a member of the Boards of UBS and its predecessor Union Bank of Switzerland since 1992. He was Chairman and CEO of Ciba Specialty Chemicals Ltd. until November 2000. He was with Ciba-Geigy Group , which he first joined in 1973 as a financial analyst, and subsequently became Group Company

Controller in Johannesburg, South Africa, Head of Strategic Planning and Control in Basel, Head of Finance and Information Systems in Ardsley, N.Y., and later Chief Financial Officer of the Group. After the merger of Ciba-Geigy and Sandoz to create Novartis, he led the spin-off of Ciba Specialty Chemicals. He now holds various international board mandates. Mr. Meyer graduated in Political Science (Ph.D.) and holds a Master of Business Administration. He was born on 31 October 1943 and is a Swiss citizen.

Hans Peter Ming has been a member of the Boards of UBS and its predecessor Swiss Bank Corporation since 1994. He is the Chairman of the Board of Directors of Sika AG, Baar, Switzerland. He has been employed with Sika since he first joined in 1967, and assumed various management positions in this group in Germany and in Switzerland. He was named CEO in 1986 and delegate of the Board of Directors in 1987. In 1999 he was elected as Chairman. Mr. Ming graduated as doctor iuris from the University of Zurich. He was born on 12 October 1938 and is a Swiss citizen.

Lawrence A. Weinbach, a member of the Board since 2001, has been the Chairman, President and CEO of Unisys Corporation since 1997. From 1961 to 1997 he was with Arthur Andersen / Andersen Worldwide, as Managing Partner and Chief Executive of Andersen Worldwide from 1989 to 1997, Chief Operating Officer from 1987 to 1989, and Managing Partner of the New York office from 1983. He was elected to partnership at Arthur Andersen in 1970 and became Managing Partner of the Stamford, Connecticut, office in 1974 and Partner in charge of the accounting and audit practice in New York from 1980 to 1983. Mr. Weinbach is a Certified Public Accountant and holds a bachelor of science in Economics from the Wharton School of the University of Pennsylvania. He was born on 8 January 1940 and is a US citizen.

Executive responsibilities

Marcel Ospel, Alberto Togni and Johannes A. de Gier, the Chairman and the two executive Vice Chairmen of the Board, have entered into employment contracts with UBS AG in connection with their services on the Board. In line with Swiss Banking law they assume clearly defined management responsibilities, separate from ordinary day-to-day management.

Chairman Marcel Ospel assumes a leading role in mid- and long-term strategic planning, the selection and supervision of top-level management, mid-term succession planning, developing and shaping global compensation principles, and the definition of the Group's risk appetite and risk limit structure. He also actively supports major client and transaction initiatives.

Credit approval authorities have been delegated by the Board to Vice Chairman Alberto Togni, who brings his decisions to the Chairman's Office (Chairman and Vice Chairmen) for ratification.

Vice Chairman Johannes A. de Gier assumes an active role in supporting major client relationships and in developing the strategic direction of the Group. He is also the Chairman of GAM, a specialist asset management firm, part of the UBS Global Asset Management Business Group.

Non-executive Board members

The six non-executive members of the Board have never had any management responsibility at UBS or for one of its subsidiaries, neither have any of their close family members. Also, the non-executive directors and their close family members have not been employed by the Company's principal Auditors, Ernst & Young.

There are no employment or service contracts with any of the non-executive members of the Board. They receive fixed fees for their Board mandate and for the special functions they assume in the various Board Committees.

Important business connections of non-executive Board members with UBS

UBS as a global financial services provider and the major bank in Switzerland typically has business relationships with most large companies and therefore also with companies in which UBS Board members assume management or non-executive board responsibilities. None of the relationships with companies represented on the Board by their chairman or chief executive is of a magnitude to jeopardize the Board members' independent judgement, and no non-executive director has personal business relationships with UBS which might impact his independence.

All relationships with UBS directors and their affiliated companies are in the ordinary course of business and are on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons.

Other activities and functions of Board members

Mandates on Boards of important corporations, organizations and foundations

Members of the Board of Directors hold the following mandates:

Marcel Ospel is a member of the FED International Capital Markets Advisory Committee, New York, and holds mandates at the World Economic Forum, the Monetary Authority of Singapore and the International Monetary Conference. He is a member of the Board of the Basel Museum of Art and, until December 2002, was on the Board of the Zurich Opera. He is the Chairman of the "Optimus Foundation", a charitable foundation of UBS.

Alberto Togni is a director of Laboratories Thomson Multimedia Ltd., Zurich. He is the Chairman designate of the Board of the Helmut Horten Foundation, Villalta.

Johannes A. de Gier is a member of the Boards of SHV Holdings N.V., Utrecht, Holland, and of Groupe Lhoist, Saint-Jean-des-Bois, Belgium.

Peter Böckli is a member of the Board of Directors of Nestlé S.A., Vevey (Switzerland) and of its Audit Committee. He is the Vice Chairman of the Board of Manufacture des Montres Rolex S.A., Bienne (Switzerland). Until 16 December 2002 he also served as a member of the Board of Firmenich International S.A., Geneva.

Ernesto Bertarelli has been the Vice Chairman of the Board of Serono S.A., Coinsins (Switzerland) since 1991. He is the Chairman of Bertarelli & Cie., Chéserex (Switzerland) and holds various board mandates in professional organizations of the biotech and pharmaceutical industry.

Sir Peter Davis is a member of the Board of Directors of Shaw's Supermarkets Inc., Boston, USA, and of Sainsbury's Supermarkets Ltd., London. He is a member of the Board of the Royal Opera House, London.

Rolf A. Meyer is a member of the Board of DKSH AG (Diethelm Keller Siber Hegner), Zurich, and the Chairman of its Audit and Finance Committee. He is also a member of the Board of COS Computer Systems AG, Baden (Switzerland), the Chairman of its Audit Committee and a member of its Finance Committee.

Hans Peter Ming is the Chairman of Sika AG, Baar (Switzerland), and a member of the Board of Pestalozzi AG, Dietikon (Switzerland).

Lawrence A. Weinbach is the Chairman of Unisys Corporation, Blue Bell, PA, USA, and a member of the Board of Directors of Avon Products Inc., New York, where he is the chairman of the audit committee. He is a trustee and member of the audit committee of Carnegie Hall.

Permanent functions for important interest and pressure groups

Marcel Ospel is the Treasurer of "Economiesuisse", the Swiss Business Federation, Zurich.

Lawrence A. Weinbach is a member of the NYSE Listed Company Advisory Committee, of the National Security Telecommunications Advisory Committee, and a director of the Greater Philadelphia Chamber of Commerce.

Official functions and political mandates

Alberto Togni has been appointed by the Swiss Government to the Board of the Swiss National Bank.

Peter Böckli acts as expert advising the Federal Government on various legislative projects.

Hans Peter Ming is the President of the Advisory Commission of the Swiss Government on International Development and Cooperation.

Elections and term of office

The members of the Board of Directors are elected by the AGM for a term of office of four years. The initial term of each member is fixed in such a way as to assure that about one fourth of all the members have to be newly elected or reelected every year. The Board will propose to the 2003 AGM to reduce the term of office from four to three years.

A director shall normally not stand for reelection if he/she has reached the age of sixty-five when the mandate expires. The Board may propose to the AGM that a director be reelected despite having reached this age limit. No director shall, however, hold office beyond the age of seventy.

The year of first appointment to the Board and the expiry of the current mandate of each Board member are listed in the table on page 95.

Internal organization

After each Annual General Meeting of Shareholders, the Board elects its Chairman and one or more Vice Chairmen and appoints its Secretary. It meets as often as business requires, but at least six times per year. As a rule, the members of the Group Executive Board (GEB) participate in Board meetings in an advisory capacity, but the Board also holds regular meetings without the GEB.

The Board is organized as follows:

The Chairman operates a *Chairman's Office,* including the Vice Chairmen, which meets together with the President of the GEB to address fundamental issues for the Group, such as overall strategy, mid-term financial and business planning, mid-term succession plans, global compensation principles, and the risk profile of the Group. It may also hold meetings without the President of the GEB. The Chairman's Office assumes ultimate approval responsibility in the credit risk process. It also acts as the supervisory body for Group Internal Audit. The Chairman's Office is responsible for shaping the Corporate Governance of the firm and formulates appropriate principles, which it submits to the Nominating Committee for review and subsequent submission to the full Board. It also assumes responsibility for the long-term succession planning for the Chairman and Board members and reviews, upon proposal by the Chairman, GEB candidates for appointment or dismissal by the full Board. The members of the Chairman's Office, as of 31 December 2002, were Marcel Ospel, Chairman, Alberto Togni, Johannes A. de Gier and Peter Böckli, Vice Chairmen. Johannes A. de Gier stepped down as Vice Chairman in February 2003, following his appointment as chairman of the newly created holding company, in which UBS's independent private banks will be integrated. The Chairman's Office meets 8–12 times per year.

The Board appoints an *Audit Committee* from among its non-executive members. The Audit Committee assists the Board in monitoring the integrity of the financial statements of the firm, compliance with regard to legal and regulatory requirements, and the qualification, independence and performance of UBS's external auditors. All members have to be independent and financially literate, and at least one member must have accounting or financial management expertise. The Audit Committee does not itself perform audits, but supervises the work of the auditors. Its primary responsibility is thereby to monitor and review the organization and efficiency of internal control procedures and the financial reporting process. As of 31 December 2002, Lawrence A. Weinbach was the chairman and Sir Peter Davis and Rolf A. Meyer the additional members of the Committee. The Audit Committee meets 4–6 times per year.

The *Compensation Committee* has responsibility for reviewing the Group compensation policy for submission to the Board and for approving the design of the compensation system for the members of the GEB, the President of the GEB and the executive directors. It determines the individual compensation and bonus for the executive directors, the President and members of the GEB and submits proposals for the compensation of non-executive directors to the executive Board members. All members are independent from UBS. As of 31 December 2002, the Committee was chaired by Rolf A. Meyer, with Ernesto Bertarelli and Hans Peter Ming as its additional members. The Committee meets 3–5 times per year.

The *Nominating Committee* is composed of three non-executive Board members. It assumes responsibility for reviewing and proposing to the full Board candidates for Board membership and for supporting the Chairman's Office and the full Board in evaluating management and Board performance. It reviews the proposals of the Chairman's Office on Corporate Governance for submission to the full Board. As of 31 December 2002, Peter Böckli was the chairman and Sir Peter Davis and Hans Peter Ming the additional members of the Committee. The Nominating Committee meets 2–4 times per year.

The *Corporate Responsibility Committee* comprises members of the Board of Directors, the Group Executive Board and other senior executives. The Committee determines the company's policy with respect to corporate responsibility and sustainable development, supports awareness within UBS for adherence to international standards in these areas and advises the GEB and other bodies on corporate responsibility. As of 31 December 2002, the Committee was chaired by Marcel Ospel. Additional members were Johannes A. de Gier and Hans Peter Ming, representing the Board, Peter Wuffli, President of the GEB, Marcel Rohner, CEO UBS Wealth Management & Business Banking, Donald B. Marron, Chairman UBS Americas, and Ken Costa, Vice Chairman UBS Warburg.

The Charters of the Board and of all its Committees are available on www.ubs.com/about.

Areas of responsibility of Board of Directors and Group Executive Board

The ultimate responsibility for the strategy and the management of UBS lies with the Board of Directors. In line with Swiss banking law, the Board has delegated the responsibility for day-to-day management to the Group Executive Board. No-one may be a member of both bodies. The supervision and control of the executive management remains with the Board of Directors. All details as to authorities and responsibilities of the two bodies are governed by the Articles of Association, the Organization Regulations and their Appendices. Please refer to www.ubs.com/about.

Information and control instruments vis-à-vis the Group Executive Board

The Board of Directors is kept informed on the activities of the Group Executive Board in various ways. The Chairman of the Board or one of the executive Vice Chairmen participate in each meeting of the GEB in an advisory capacity, thus keeping the Chairman's Office apprised of all current developments. The minutes of the GEB are filed with the executive Board members and made available for inspection to the non-executive members. At Board meetings, the President of the GEB regularly updates the Board on important issues.

Directors may request any information necessary to fulfill their duties. Outside of meetings, any director may request information from members of the Group Executive Board concerning the Group's business development. Requests for information about individual business relationships or transactions must be addressed to the Chairman of the Board.

Group Internal Audit monitors compliance of business activities with legal and regulatory requirements and with all internal regulations, directives and guidelines. The internal audit organization, which is independent from management, reports its significant findings to the Chairman of the Board, the Chairman's Office and the Audit Committee.

The Group Executive Board submits a quarterly Risk Report to the Board for approval, which updates the Board on all categories of risk and contains a comprehensive assessment of the risk situation of the Group. For details on the organization of Risk Management and Control, please refer to pages 54–58 of this Handbook.

Group Executive Board

The Group Executive Board (GEB) has business management responsibility for UBS. The President and the members are appointed by the Board of Directors and are accountable to the Chairman and the Board for the firm's results.

Organizational principles and personnel changes

The GEB, and in particular its President, is responsible for the implementation and results of the firm's business strategies, for the alignment of the Business Groups to UBS's integrated business model and for the exploitation of synergies across the firm. The President also assumes responsibility for business and financial planning, financial reporting and the definition and supervision of risk control. Together with the Chairman's Office, the GEB assumes overall responsibility for the development of UBS's strategies.

As at 31 December 2002, the GEB consisted of ten members (see list below).

During the year under review, Markus Granziol, Chairman of UBS Warburg, decided to leave the Company at the end of August after a very successful career at UBS. The Board of Directors appointed the following new members to the GEB, effective 1 July 2002: John Fraser, Peter Kurer, Marcel Rohner, Clive Standish and Mark Sutton.

The Group Executive Board

The table below provides information on the members of the GEB as at 31 December 2002:

Name	Position held	Year of initial appointment to the GEB
Peter A. Wuffli	President	1998
Stephan Haeringer	Deputy President	1998
John P. Costas	Chairman and Chief Executive Officer UBS Warburg	2001
John A. Fraser	Chairman and Chief Executive Officer UBS Global Asset Management	2002
Georges Gagnebin	Chairman UBS Wealth Management & Business Banking	2000
Joseph J. Grano Jr.	Chairman and Chief Executive Officer UBS PaineWebber	2001
Peter Kurer	Group General Counsel	2002
Marcel Rohner	Chief Executive Officer UBS Wealth Management & Business Banking	2002
Clive Standish	Chairman and Chief Executive Officer Asia Pacific	2002
Mark B. Sutton	President and Chief Operating Officer UBS PaineWebber	2002

The business address of all members of the Group Executive Board is UBS AG, Bahnhofstrasse 45, CH-8098 Zurich, Switzerland.

Peter A. Wuffli was named President of the Group Executive Board on 18 December 2001. Previously he was Chairman and CEO of UBS Asset Management, and from 1998 to 1999 Group Chief Financial Officer of UBS. From 1994 to 1998, he was the Chief Financial Officer at Swiss Bank Corporation (SBC) and a member of SBC's Group Executive Committee. In 1984, he joined McKinsey & Co as management consultant where he became a partner in 1990. Mr. Wuffli graduated in economics and social sciences from the University of St. Gallen and holds a doctor's degree in international management. He was born on 26 October 1957 and is a Swiss citizen.

Stephan Haeringer is the Deputy President of the Group Executive Board, after having been CEO of UBS Switzerland and of its Private and Corporate Clients business unit until mid-2002. He has held several positions with UBS over the last three decades. From 1996 to 1998, he was Chief Executive Officer Region Switzerland of Union Bank of Switzerland. From 1991 to 1996, he served as Division Head Private Banking and Institutional Asset Management. In 1991, he was appointed member of the Group Executive Board, after having been an Executive Vice President since 1987. In 1988 he became Head of the Financial Division. During the years 1967 to 1988, Mr. Haeringer assumed various management roles within the areas of Investment Counseling, Specialized Investments, Portfolio Management, Securities Administration and Collateral Loans. Mr. Haeringer was born on 6 December 1946 and is a Swiss citizen.

John P. Costas is the Chairman & CEO of UBS Warburg. He was President and Chief Operating Officer of UBS Warburg from the beginning of 2001, after having been COO and Global Head Fixed Income. Mr. Costas joined Union Bank of Switzerland in 1996 as Head of Fixed Income. From 1981 to 1996 he was at Credit Suisse First Boston, his last position being co-head of Global Fixed Income. Mr. Costas graduated from the Tuck School at Dartmouth with an MBA in Finance and holds a BA in political science from the University of Delaware. He was born on 27 January 1957 and is a US citizen.

John A. Fraser was appointed as Chairman & CEO of UBS Global Asset Management in late 2001. Immediately prior to that, he was President and COO of UBS Asset Management and Head of Asia Pacific. He was head of the Australian business of the predecessor organization of UBS Asset Management from late 1994. He joined the then SBC Australia as Executive Director in 1993. Before joining UBS, Mr Fraser was Deputy Secretary (Economic) of the Australian Treasury. Mr. Fraser joined the Australian Treasury in 1973 and, during a 20 year career, held a number of appointments including two postings to Washington DC – first, at the International Monetary Fund and, second, as Minister (Economic) at the Australian Embassy. Mr. Fraser graduated from Monash University in Australia in 1972 with a first class B.Econ. (Hons.). He was born on 8 August 1951 and is an Australian citizen.

Georges Gagnebin is the Chairman of UBS Wealth Management & Business Banking, after having been the CEO of the Private Banking unit of UBS Switzerland from 2000 to mid-2002. Before holding this function, he was the Head of the International Clients Europe, Middle East & Africa business area in the Private Banking division. As of 1992 he was named member of the SBC Group Executive Board. In 1990 he became head of the Finance & Investment group of SBC in Lausanne, after having served as Head of Finance & Investment at SBC in Berne from 1982–1990. Between 1985 and 1987 he was assigned for training purposes to SBC in the USA. Mr. Gagnebin began his career in 1969 at SBC in Berne, after having been with the Cantonal Bank of Berne from 1966 to 1969. Mr. Gagnebin was born on 3 March 1946 and is a Swiss citizen.

Joseph J. Grano, Jr., Chairman and CEO of UBS PaineWebber, joined the UBS Group Executive Board on 1 January 2001 after the merger of PaineWebber with UBS. In 1994, he was named President of PaineWebber Inc. He joined PaineWebber in 1988 as President of Retail Sales and Marketing. Before working for PaineWebber, Mr. Grano was with Merrill Lynch for 16 years holding various senior management positions including director of National Sales for Merrill Lynch Consumer Markets. Prior to joining Merrill Lynch in 1972, Mr. Grano served for five years in the US Special Forces. He is an honorary doctor of laws and of Humane Letters. Mr. Grano was born on 7 March 1948 and is a US citizen.

Peter Kurer has been the Group General Counsel since 2001, when he joined UBS. Between 1991 and 2001 he was a partner at the Homburger law firm in Zurich. Between 1980 and 1990 he was with Baker & McKenzie in Zurich, first as associate, later as partner, after having been a law clerk at the District Court of Zurich. Mr. Kurer graduated as a doctor iuris from the University of Zurich and was admitted as attorney-at-law in Zurich. He holds an LL.M. from the University of Chicago. He was born on 28 June 1949 and is a Swiss citizen.

Marcel Rohner was appointed to CEO of UBS Wealth Management & Business Banking in 2002. Until then, he served as COO and Deputy CEO of the Private Banking unit of UBS Switzerland. In

1999 he was named Group Chief Risk Officer. In 1998 he became Head of Market Risk Control. Between 1993 and 1998, Mr. Rohner was with Swiss Bank Corporation's investment banking arm. In 1995 he was appointed Head of Market Risk Control Europe. Mr. Rohner graduated with a Ph.D in economics from the University of Zurich and was a teaching assistant at the Institute for Empirical Research in Economics at the University of Zurich from 1990 to 1992. He was born on 4 September 1964 and is a Swiss citizen.

Clive Standish is Chairman and CEO Asia Pacific. In 1998, he was named CEO Asia Pacific of Warburg Dillon Read. Between 1991 and 1998 Mr. Standish was with Swiss Bank Corporation (SBC). In 1997 he was appointed Deputy Chairman Asia Pacific of SBC Warburg Dillon Read. Between 1994 and 1997 he served as Managing Director and CEO of SBC Warburg Dillon Read Australia. In 1991 he was appointed Head of Capital Markets and Managing Director of SBC Dominguez Barry Limited. Between 1983 and 1991, Mr. Standish was Founding Executive Director at Dominguez Barry Samuel Montagu Limited, after having been a partner with Dominguez & Barry Partners from 1979 to 1983. Mr. Standish started his professional career in 1972 with NM Rothschild & Sons Limited in London. He was born on 17 March 1953 and is a British citizen.

Mark B. Sutton is President and Chief Operating Officer of UBS PaineWebber. He was with PaineWebber Inc. between 1995 and 2000. In 1998 he was named President of the Private Client Group. In 1995 he became Executive Vice President, after the acquisition of Kidder, Peabody & Co., where, between 1992 and 1994, he served as CEO of the Investment Services Division and CEO of the Brokerage Unit. Previously he was active at Mitchell Hutchins Asset Management, a subsidiary of PaineWebber. Between 1984 and 1987, he served as Division Manager at PaineWebber, Austin, Texas. Mr. Sutton first joined a predecessor company of PaineWebber, Rotan Mosle, as a financial advisor in 1980, after having assumed the same function with Merrill Lynch in Fayetteville, Arkansas from 1978 to 1980. He holds a bachelor of science in finance from the University of Arkansas, Fayetteville. Mr. Sutton was born on 19 October 1954 and is a US citizen.

Other activities and functions of GEB members

Mandates on Boards of important corporations, organizations and foundations

Members of the Group Executive Board hold the following mandates:

- Peter Wuffli is a Board member of the Institute of International Finance Inc., Washington DC. He is the Vice Chairman of the Board of IMD International Institute for Management Development in Lausanne (Switzerland) and a Vice President of the Swiss-American Chamber of Commerce in Zurich.
- Stephan Haeringer is a member of the Board of Directors of Robert Bosch Internationale Beteiligungen AG, Zurich, and a member of the Board Committee of the Zurich Chamber of Commerce.
- John Costas is a member of the New York City Partnership & Chamber of Commerce, Inc.
- John Fraser has been a member of the board of Australian Stock Exchange since 1997.
- Georges Gagnebin is a member of the Foundation Board of the International Center for Monetary and Banking Studies (ICMB), Geneva, and of the UBS Optimus Foundation.
- Joseph J. Grano is a member of the Board of Trustees of the Lenox Hill Hospital, New York, and of the Council for the US & Italy, Washington, DC.
- Peter Kurer was a member of the Board of Directors of Holcim Ltd., Zurich, until the end of financial year 2002.
- Marcel Rohner is a member of the Admission Board and the Committee of the Admission Board of the SWX Swiss Exchange, Zurich.

Permanent functions for important interest and pressure groups

Stephan Haeringer is the Vice Chairman of the Swiss Bankers Association, Basel.

Official functions and political mandates

Joseph J. Grano is the Chairman of the US President's Homeland Security Advisory Council.

Management contracts

UBS has not entered into any management contracts.

Compensation, Shareholdings and Loans

UBS seeks to attract, retain, motivate and develop highly qualified people for senior management positions, thereby ensuring the sustainable creation of shareholder value. UBS is prepared to provide its senior executives with superior compensation in return for superior performance.

Senior executive compensation principles and authorities

Components of compensation

Compensation for senior executives[1] and the Group Managing Board (GMB) consists of a base salary and a performance-based incentive component. This incentive component is determined on a discretionary basis considering the performance data described below, and generally represents a substantial portion of total compensation. A significant portion of the incentive component is paid in the form of restricted or deferred UBS shares.

Performance assessments consider both quantitative and qualitative factors, and include a balanced assessment of both current financial results and key performance indicators, which are longer-term value drivers crucial to the firm's ability to deliver future performance and growth. In conducting its assessments of executive performance, UBS reviews changes to its overall performance and the performance of its individual businesses over time, results achieved against specifically established performance targets, and results compared to competitor performance – to the extent that such data are available.

Compensation levels are strongly correlated with performance assessments and are highly variable from year to year. As such, should UBS Group and Business Group performance decline from the prior year, lag behind established performance targets and trail competitor trends, the compensation of senior executives and the GMB will clearly reflect this. The converse is also true.

An annual examination of competitor pay practices is conducted to ensure that our compensation policies and practices continue to support the objectives of attracting outstanding new executives, motivating and retaining valuable employees, and delivering sustained superior returns to shareholders.

Executive share ownership commitment

It is UBS's long-standing policy to strongly encourage significant levels of stock ownership among its senior executives and the members of the GMB, aligning the interests of management closely with those of shareholders. Share ownership is encouraged in the following ways:

- A significant portion of each senior executive's or GMB member's annual performance-based incentive compensation is delivered on a mandatory basis in the form of restricted or deferred UBS shares.
- Executives are also eligible for highly selective discretionary stock option awards, which vest over time, and are made separately from regular annual incentive awards. Stock options are used to reward exemplary performance as well as superior leadership skills and potential.
- Additional incentives are provided for senior executives and GMB members who voluntarily elect to take an even greater portion of their annual performance-based incentive compensation in the form of restricted or deferred UBS shares. Executives opting to take a greater than mandatory proportion of their annual incentive in restricted or deferred UBS shares receive additional stock options.
- Senior executives and GMB members are required to accumulate and then hold, a significant number of UBS shares.

Governance

The approval of senior executive compensation recommendations and the design of senior executive compensation systems (plan design, performance measures, pay/performance relationship) are subject to a rigorous process which ensures that decisions are taken at least at two organizational levels above the executive concerned. No-one has any approval authority for his/her own compensation. The following is a

[1] "Senior executives" includes, as defined by the SWX Swiss Echange Directive, the executive members of the Board of Directors and the members of the Group Executive Board (GEB).

description of the decision making process for different executive populations:

- Group Managing Board members: compensation recommendations are developed by the responsible member of the Group Executive Board. Recommendations are reviewed and approved by the President of the Group Executive Board. For GMB members in the Corporate Center, who report directly to the President, approval by the Chairman is required. The compensation system for the Group Managing Board is subject to the approval of the Chairman's Office.
- Group Executive Board members: Compensation recommendations are developed jointly by the President of the Group Executive Board and the Chairman of the Board. The Compensation Committee of the Board of Directors reviews and approves the design of the compensation system for the Group Executive Board and all resulting compensation recommendations.
- President of the Group Executive Board and Executive Vice Chairmen: Compensation recommendations are developed by the Chairman of the Board. The Compensation Committee of the Board of Directors reviews and approves the design of the compensation system for the President of the Group Executive Board and the Executive Vice Chairmen and all resulting compensation recommendations.
- Chairman of the Board: On behalf of the full Board of Directors, the Compensation Committee of the Board of Directors has authority to develop and approve the design of the compensation system for the Chairman of the Board and all resulting compensation recommendations.
- Non-executive members of the Board: Proposals for the remuneration of the non-executive directors are prepared by the Compensation Committee and submitted to the executive Board members for approval.

Employee share ownership commitment

Below the senior executive level, significant numbers of employees are required to take a portion of their annual performance-based compensation in the form of restricted or deferred UBS shares, employee stock options, or a combination of both. Additionally, they are provided with opportunities to own stock through various voluntary programs.

UBS believes that broader-based employee stock ownership will further enhance its ability to deliver superior shareholder returns by increasing the alignment between the interests of employees and shareholders. Broader employee share ownership will be achieved in the following ways:

- The best performing and highest potential employees are also eligible for highly selective discretionary stock option awards which vest over time. These awards are intended to provide the greatest degree of shareholder alignment among the emerging pool of future UBS leaders, senior managers and technical experts, and to enhance UBS's appeal in the competitive market for the best managerial, financial and technical talent.
- Employee incentive awards above a certain threshold are delivered, on a mandatory basis, in restricted or deferred UBS shares, or a combination of shares and employee stock options that vest over time. The threshold varies by business and labor market. Generally, employees are further encouraged to voluntarily elect to defer a portion of their incentives into UBS shares in exchange for additional stock options, or to diversify into an array of funds including those managed by UBS fund managers. UBS believes it is important to provide employees the opportunity and incentive to voluntarily invest into UBS shares, but where possible also to encourage employees to consider the same wealth management principles in diversifying their personal portfolios as they would apply to a client.
- All UBS employees (unless prohibited by local law) are eligible to participate in a program called Equity Plus which is a global adaptation of a program that was implemented at PaineWebber before its merger with UBS in November 2000. Equity Plus enables UBS employees in over 45 countries to voluntarily elect to purchase a limited number of UBS shares with after-tax funds either from their incentive awards or base salaries, and receive two UBS stock options for every share acquired and held for two years. The stock options vest after two years as well. The goal of this program is to motivate employees at all levels to become partners in UBS's success. Over the last two years since Equity Plus was launched as a global program, nearly a quarter of UBS employees have elected to participate.

Compensation for acting members of the Board of Directors (Board) and the Group Executive Board (GEB)

Executive members of the Board and members of the GEB

The total of all compensation for the financial year 2002 for the three executive members of the Board of Directors, the ten members of the Group Executive Board and the two former members of the GEB who left the Company in 2002 (Luqman Arnold on 31 January 2002, and Markus Granziol on 31 August 2002) was as follows:

Cash component (base salary, cash part of bonus)	CHF 89,499,015
Employer's contributions to retirement benefit plans	CHF 1,320,220
Benefits in kind, fringe benefits (at market value)	CHF 1,019,000

In Switzerland, senior executives participate in UBS's general pension plans, which are composed of a basic component operated on the defined benefit principle, a savings plan and a defined contribution plan. The cap compensation amount to be included in these plans is set at CHF 730,000 for all employees. This translates into a maximum annual pension of CHF 259,000 after retirement plus a one-off pay-out of accumulated capital from the savings plan in the maximum amount of CHF 217,052.

Benefits in kind and fringe benefits include car leasing and company car allowances, staff discount on banking products and services, health and welfare benefits and general expenses allowances. Definitions and amounts of benefits differ from country to country, according to local industry standards.

In addition to the cash payments and benefits in kind, this group of senior executives were granted 353,880 CHF-shares and 311,255 USD-shares (for details see paragraph below), with a fair value of CHF 41,006,156. In June 2002 this group of senior executives were granted 470,000 CHF long-term incentive (LTI) options and 380,000 USD LTI options (for details see paragraph below) for financial years 2001 and 2002. At fair value these options were worth CHF 14,268,501. No such award was made in 2001.

Non-executive members of the Board

Non-executive members of the Board may elect to receive their remuneration (base Board fee plus fees for chairs and memberships of Board Committees) either 50% in cash and 50% in restricted UBS shares or 100% restricted UBS shares. Shares are attributed with a price discount of 15% and are restricted for four years.

The six non-executive Board members, together with Markus Kündig, who stepped down at the AGM on 18 April 2002, were paid CHF 1,825,000 in cash for the financial year 2002.

They elected to receive 27,965 shares, which at fair value were worth CHF 1,705,865.

Additional severance payments

As a matter of policy, UBS does not pay any additional severance in addition to the salary and bonus entitlements of a leaving member of the Board or the GEB. Whether or not payments for such running entitlements are made in the form of final bonus or severance, they are included in the numbers reported above under compensation for acting members of the Board and the GEB.

Compensation for former members of the Board and GEB

Former members of the Board of Directors or the Group Executive Board were not paid any compensation during the year under review, neither in cash nor in kind.

Share grants for the year under review

Executive Board members and members of the GEB

The three executive Board members and the ten GEB members were granted 353,880 shares, valued at CHF 61 per share (average price of UBS shares at virt-x over the last ten trading days of January 2003), and 311,255 shares, valued at USD 45.10 per share (average price of UBS shares at the NYSE over the last ten trading days of January 2003). These shares are blocked for five years.

Related parties of these senior executives were not granted any shares.

Non-executive Board members

The six non-executive Board members were granted 27,965 shares, at a discounted value of CHF 51.85 per share. The shares are blocked for four years. Related parties are not granted any shares.

Share ownership

Executive Board members and members of the GEB
The three executive Board members and the ten members of the GEB, and parties closely linked to them, held 2,096,603 UBS shares at year-end 2002. No individual BoD or GEB member holds 1% or more of all shares issued.

Non-executive Board members
The six non-executive Board members and parties closely linked to them held 42,768 UBS shares as of 31 December 2002.

Options

Executive Board members and members of the GEB
The three executive Board members and the ten GEB members held the following options on UBS shares as of 31 December 2002:

Number of options	Year of grant	Vesting date	Expiry date	Subscription ratio	Strike price
122,657	1997	24/06/02	24/06/03	1:1	CHF 61.91
40,002	1998	01/07/01	30/06/04	1:1	CHF 56.67
12,277	1998	26/05/03	26/05/04	1:1	CHF 85.12
140,214	1998	26/05/03	26/08/04	1:1	CHF 85.12
48,006	1998	30/06/03	30/06/04	1:1	CHF 56.67
119,544	1999	26/02/02	26/02/05	1:1	CHF 79.00
546,000	2000	01/02/03	01/02/06	1:1	CHF 66.67
2,006,490	2001	20/02/04	20/02/09	1:1	CHF 100.00
290,828	2002	20/02/05	31/01/12	1:1	CHF 77.75
300,491	2002	20/02/05	31/07/12	1:1	CHF 77.75
235,000	2002	28/06/05	28/12/12	1:1	CHF 80.75
140,000	2002	28/06/07	28/06/12	1:1	CHF 80.75
95,000	2002	28/06/07	28/06/12	1:1	CHF 80.75
3,000	2001	29/02/04	29/02/08	1:1	USD 53.39
360,000	2001	24/01/04	24/01/08	1:1	USD 57.80
568,663	2002	31/01/05	01/01/12	1:1	USD 45.26
2,000	2002	29/02/04	29/02/12	1:1	USD 46.24
380,000	2002	28/06/05	28/06/12	1:1	USD 54.50

In addition, this group of senior executives held the following warrants as of 31 December 2002:

24,558,529	2000	20/03/03	01/04/04	16.67 : 1	CHF 75.00

Non-executive Board members
The non-executive Board members do not hold any options.

Additional honorariums and remuneration

No material additional honorariums and remuneration were paid to any of the Board or GEB members.

Loans granted to members of the Board and the GEB

Granting loans is part of the ordinary business of UBS, and members of the Board and the GEB have been granted loans, fixed advances and mortgages at the same terms and conditions as other employees, based on third-party conditions adjusted for reduced credit risk. Loans and advances to related parties are transacted on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons.

A thorough review of all outstanding loans to senior executives and Board members was performed in 2002 in order to ensure compliance with the new requirements of the US Sarbanes-Oxley Act, which limit or prohibit the extension of credit by UBS to certain of its executive officers. New loans and mortgages are now granted at general market conditions, with no preferential rates.

Loans granted to executive Board members and members of the GEB
As of 31 December 2002, collateral loans and fixed advances of CHF 14,425,000 were receivable from executive Board members and members of the GEB, and mortgages in the amount of CHF 13,264,000 had been granted to this group of senior executives and their close family members.

Loans granted to non-executive Board members
Loans and mortgages granted to non-executive Board members and companies related to them amounted to CHF 140.5 million.

Highest total compensation

Total compensation of the highest paid member of the Board of Directors, Chairman Marcel

Ospel, amounted to CHF 11,341,588 for financial year 2002, including 75,155 restricted UBS shares. In addition, 75,000 options were granted as part of the senior executive long-term incentive (LTI) award made in June 2002 for financial years 2001 and 2002. At fair value these options were worth CHF 1,222,500. No such award was made in 2001.

Additional information on equity-based compensation and retirement benefit plans

Note 32 to the UBS Group Financial Statements provides comprehensive information on the Group's various Equity Participation Plans for employees on various levels of the organization. It shows pro-forma results under the assumption of expensing options at fair value rather than charging their intrinsic value at grant date. The Financial Report 2002 also provides information on how business unit results would have been impacted if options granted to employees had been expensed (please refer to "Review of Business Group performance" on page 35).

Note 31 to the UBS Group Financial Statements describes the various retirement benefit plans established in Switzerland and in major foreign markets.

Shareholders' Participation Rights

UBS is committed to make it as easy as possible for shareholders to take part in its decision-making processes. All registered shareholders – nearly 220,000 – receive regular written information about the firm's activities and performance and are personally invited to shareholder meetings.

Relations with shareholders

UBS fully subscribes to the principle of equal treatment of all shareholders, ranging from large investment institutions to individual investors, and regularly informs them about the development of the company of which they are co-owners.

The Annual General Meetings offer shareholders the opportunity to raise any questions regarding the development of the company and the events of the year under review. The members of the Board of Directors and Group Executive Board as well as the internal and external auditors are present to answer these questions.

Voting rights, restrictions and representation

UBS is committed to making it as easy as possible for shareholders to take part in its decision-making processes and therefore places no restrictions on share ownership and voting rights. Only voting rights of nominee companies and trustees, who normally represent a great number of individual shareholders, are limited to a maximum of 5% of outstanding UBS shares in order to avoid the risk of unknown shareholders with large stakes being entered into the share register. Securities clearing organizations such as the Depository Trust Company (DTC) in New York and SegaInterSettle (SIS) in Switzerland are exempt from the 5% voting limit.

In order to have voting rights registered, shareholders must confirm they acquired UBS shares in their own name and for their own account.

All registered shareholders can participate in shareholder meetings. If they do not wish to attend in person, they can issue instructions to accept, reject or abstain on each individual item on the meeting agenda by either giving instructions to an Independent Proxy designated by UBS (as required under Swiss company law) or by appointing UBS, another bank or another registered shareholder of their choice, to vote on their behalf.

Statutory quorums

Shareholder resolutions, the election and re-election of Board members and the appointment of the Group and Statutory Auditors are decided at the General Meetings of Shareholders by an absolute majority of the votes cast, excluding blank and invalid ballots. Article 704 of the Swiss Code of Obligations (Company Law) requires that for certain specific issues a majority of two-thirds of the votes represented at the meeting vote in favor of the resolution. These issues include the introduction of voting shares, the introduction of restrictions on the transferability of registered shares, conditional and authorized capital increases, restrictions or exclusion of shareholders' pre-emptive rights.

UBS also requires a two-thirds majority of votes represented for any change to the provisions in the Articles of Association regarding the number of Board members as well as for any decision to remove one fourth or more of the members of the Board.

Votes and elections are normally conducted electronically to clearly ascertain the exact number of votes cast. Voting by a show of hands remains possible if a clear majority is predictable. Shareholders representing at least 3% of the votes represented may still request, however, that a vote or election take place electronically or by written ballot.

Convocation of General Meetings of Shareholders

The Annual General Meeting of Shareholders (AGM) normally takes place in April, but in any case within six months after the close of the financial year. A personal invitation including a detailed agenda and explanation of each motion is sent to every registered shareholder at least 20 days ahead of the scheduled meeting. The meeting agenda is also published in various Swiss and international newspapers.

Extraordinary General Meetings may be convened whenever the Board of Directors or the statutory auditors consider it necessary. Shareholders individually or jointly representing at least ten percent of the share capital may, at any time, ask in writing that an Extraordinary General Meeting be convened to deal with a specific issue put forward by them. Such a request may also be brought forward during the AGM.

Placing of items on the agenda

Shareholders individually or jointly representing shares with an aggregate par value of one million Swiss francs may submit proposals for matters to be placed on the agenda for consideration by the shareholders meeting. The Board of Directors will submit to the AGM in 2003 a proposal to facilitate the exercise of this shareholder right, which – as a result of the two par-value repayments in 2001 and 2002 – had become more difficult. The proposed limit of an aggregate par value of CHF 250,000 brings the threshold back to what it used to be before the par value repayments.

UBS publishes the deadline for submitting such proposals in various Swiss and international newspapers. The date of the deadline is normally shortly after the publication of the annual results. It is also set early enough to allow for the integration of the proposals into the official invitation to shareholders. Requests for items to be placed on the agenda must include the actual motions to be put forward, together with a short explanation, if necessary. The Board of Directors formulates an opinion on the proposals, which is published together with the motions.

Registrations in share register

The general rules for being entered with voting rights in the Swiss or US Share Register of UBS also apply before General Meetings of Shareholders (for details see pages 134 and 135). Registrations including the transfer of voting rights are processed for as long as technically possible.

Change of Control and Defensive Measures

UBS believes in market forces. It therefore refrains from restrictions which would hinder developments otherwise initiated or supported by the financial markets. There are no specific protections against hostile takeover in place.

Duty to make an offer

An investor who acquires $33\,^1/_3\,\%$ of all voting rights has to submit a take-over offer for all shares outstanding, according to the Swiss Stock Exchange Law. UBS has not elected to change or opt out of this rule.

Clauses on changes of control

The service agreements and employment contracts of the executive Board members, of the members of the Group Executive Board and of the Group Managing Board do not contain clauses on change of control. UBS does not offer "golden parachutes" to its senior executives. Employment contracts contain notice periods of 12 months for GEB members and 6 months for GMB members, during which they are entitled to running salary and bonuses.

The Compensation Committee of the Board may, however, accelerate the vesting of options and the lapse date for restricted shares in case of a change of control.

Auditors

Audit, with its various functions and authorities, plays an important role in Corporate Governance. While remaining independent, the External Auditors and Group Internal Audit closely coordinate their work, thereby ensuring the most effective performance of their responsibilities. The Chairman's Office, the Audit Committee and ultimately the Board of Directors supervise the functioning of the overall audit work.

External, independent Auditors

Ernst & Young Ltd., Basel, have been assigned the mandate to serve as global auditors for the UBS Group. They assume all auditing functions according to laws, regulatory requests, and the UBS Articles of Association (see also the paragraph about auditors responsibilities in the "Regulation and supervision section", on page 118). The Audit Committee of the Board has determined that Ernst & Young Ltd. meets all independence requirements established by the Securities and Exchange Commission (SEC). As part of its audit process, Ernst & Young Ltd. informs the Audit Committee of the measures it takes to ensure its and its employees' independence from UBS. The Audit Committee assesses this information on behalf of the Board and informs the Board accordingly.

At the Extraordinary General Meeting on 7 September 2000, UBS shareholders appointed Deloitte & Touche AG, Basel, as special auditors according to Article 31 paragraph 3 of the UBS Articles of Association for a three-year term of office. The special auditors provide audit opinions in connection with capital increases, independently from the Group auditors. Deloitte & Touche will be proposed to the AGM 2003 for re-election for another three-year term.

Duration of the mandate and term of office of the lead auditor

After the UBS-SBC merger, Ernst & Young Ltd., Basel were initially appointed as UBS's principal external auditor for the audit of the 1998 financial statements. Following a comprehensive evaluation process during 1999, they were proposed for re-election to the 2000 AGM. They were re-elected at the AGMs between 1999 and 2002, and will be proposed for re-election at the AGM 2003.

Roger K. Perkin, chartered accountant, and Peter Heckendorn, lic.oec., have been in charge of the UBS audit since the initial apointment.

Auditing fees

Fees paid to Ernst & Young for the financial year 2002 in respect of audit and regulatory reports required by law amounted to CHF 30,882,000.

Additional fees paid to auditors

Ernst & Young were paid CHF 8,897,000 for audit-related services provided (primarly accounting consultation on matters relating to the financial statements, attest services required by contract or requested by management, audits of retirement and compensation plans, and due diligence work on acquisitions) and CHF 10,521,000 was paid to Ernst & Young for tax advisory and compliance work in respect of the Bank's own affairs. Another CHF 3,287,625 was paid for other services provided during the year.

Rules recently issued by the US Securities and Exchange Commission (SEC) prohibit independent auditors from providing a number of specific services. Ernst & Young have not provided any prohibited services during the year.

Group Internal Audit

With around 240 professionals worldwide at 31 December 2002, Group Internal Audit provides an independent review of the effectiveness of the system of internal controls and compliance with key rules and regulations. It specifically verifies or assesses whether the internal controls are commensurate with the risks and are working effectively, whether activities within the firm are being conducted and recorded properly, correctly and fully, and whether the organization of operations, including information technology, is efficient and the information is reliable. All key issues raised by Group Internal Audit are communicated to the management responsible, to the President of the GEB and to the Chairman's Office via formal Audit Reports. The Chairman's Office and the Audit Committee of the Board are regularly informed of important findings.

To maximize its independence from management, the head of Group Internal Audit, Markus Ronner, reports directly to the Chairman of the Board. Group Internal Audit has unrestricted access to all accounts, books and records and must be provided with all information and data needed to fulfill its auditing duties. Group Internal Audit addresses its reports with major issues ultimately to the Chairman of the Board. The Chairman's Office may order special audits to be conducted, and the Group Executive Board, with the agreement of the Chairman, may instruct Group Internal Audit to conduct such audits.

Coordination and close cooperation with the external auditors enhance the efficiency of Group Internal Audit's work.

Supervisory and control instruments vis-à-vis the external auditors

The Audit Committee, on behalf of the Board of Directors, monitors the qualification, independence and performance of the Group Auditors and the lead partners. It prepares proposals for appointment or removal of the external auditors for submission to the full Board, which then submits the proposal to the AGM.

The Audit Committee reviews annually the written statements submitted by the external auditors as to their independence. It also reviews the engagement letter between UBS AG and the external auditors and the fees and terms of the planned audit work. Mandates to the Group auditors for audit-related work and permitted non-audit work are subject to pre-approval by the Audit Committee.

The external auditors also provide timely reports to the Audit Committee on critical accounting policies and practices used, on alternative treatments of financial information discussed with management, and other material written communication between external auditors and management.

The Audit Committee regularly meets with the lead partners of the external auditors, at least four times per year. It also regularly meets with the Head of Group Internal Audit.

At least once per year, the Chairman's Office discusses with the lead partners of Ernst & Young Ltd. the audit work performed, main findings and critical issues which arose during the audit.

The Audit Committee and the Chairman's Office report back to the Board of Directors about their contacts and discussions with the external auditors. Once per year, the lead partners take part in a Board meeting, normally to present the Long-form Report of the External Auditors, as required by the Swiss Federal Banking Commission (Bankengesetzlicher Revisionsbericht).

Information Policy: UBS Financial Disclosure Principles

UBS's financial disclosure policies aim to achieve a fair market value of the UBS share by communicating transparently, openly and consistently with investors and the financial markets at all times.

Main sources of information

UBS provides regular information to its shareholders and to the financial community. For details, see page 5 and 6 of this Handbook.

Financial results will be published as follows:

First Quarter	13 May 2003
Second Quarter	13 August 2003
Third Quarter	11 November 2003
Fourth Quarter	10 February 2004

The Annual General Meeting of Shareholders will take place as follows:

2003	16 April, Zurich
2004	15 April, Basel

UBS meets regularly with institutional investors throughout the year, holding results presentations, specialist investor seminars, road shows and one-to-one or group meetings across the world. Where possible, these events involve UBS senior management in addition to the UBS Investor Relations team. We have also made significant progress in developing the use of technology to further broaden access to our presentations through webcasting, audio links and cross-location video-conferencing for external audiences.

Each shareholder receives an illustrated "Annual Review" providing an overview of the firm and its activities during the year and the key financial information. Each quarter they are provided with an update on ongoing initiatives and quarterly financial performance. More detailed financial reports are produced each quarter and at year-end, which can be received on request.

To ensure fair access to information, we make UBS publications available to all shareholders at the same time and generally make key documents available in both English and German. Letters to shareholders and media releases about results are also translated into French and Italian. We directly post letters to shareholders and material information related to corporate events to all shareholders, while other information is distributed via press release and posted to UBS's website, at www.ubs.com/investors. Our website includes comprehensive information about UBS, including a complete set of our published reporting documents, on demand access to recent webcast presentations and copies of presentations that senior management have given at industry conferences.

Financial disclosure principles

Based on our discussions with analysts and investors, we believe that the market rewards companies that provide clear, consistent and informative disclosure about their business. Our aim therefore is to communicate UBS's strategy and results in such a way that investors can gain a full and accurate understanding of how the company works, what its growth prospects are and what risks there are that this growth will not be realized.

To continue to achieve these goals, we apply the following principles in our financial reporting and disclosure:

– *Transparency:* our disclosure is designed to enhance understanding of the economic drivers and detailed results of the business, in order to build trust and credibility.
– *Consistency:* we aim to ensure that our disclosure is consistent and comparable within each reporting period and between reporting periods.

– *Simplicity:* we try to disclose information in as simple a manner as possible consistent with allowing readers to gain the appropriate level of understanding of our businesses' performance.
– *Relevance:* we aim to avoid information overload by focusing our disclosure on what is relevant to UBS's stakeholders, or required by regulation or statute.
– *Best practice:* we strive to ensure that our disclosure is in line with industry norms, and if possible leads the way to improved standards.

We report UBS's results quarterly, including a breakdown of results by Business Groups and business units and extensive disclosures relating to credit and market risk. The extent of disclosure and the quality of analysis and comment we provide put UBS's reporting among the leaders in the banking sector, worldwide.

We also aim to take a prominent role in developing and enhancing industry standards for disclosure. UBS actively participates in committees and similar bodies helping to improve accounting standards and risk disclosure standards. In November 2000 we launched a proposal for a new definition of assets held for our clients. Following a positive reception for this initiative, we introduced the definitions into our reporting in our first quarter 2001 report.

Performance measures and targets

Group targets

UBS focuses on four key performance targets, designed to ensure that it delivers continually improving returns to its shareholders. We report UBS's performance against these targets each quarter:

– We seek to increase the value of UBS by achieving a sustainable, after-tax return on equity of 15–20%, across periods of varying market conditions.
– We aim to increase shareholder value through double-digit average annual percentage growth in basic earnings per share (EPS), across periods of varying market conditions.
– Through cost reduction and earnings enhancement initiatives we aim to reduce UBS's cost/income ratio, to a level that compares positively with best-in-class competitors.
– We aim to achieve a clear growth trend in net new money in our private client businesses.

The first three targets are all reported pre-goodwill amortization, and adjusted for significant financial events (see below).

Business Group key performance indicators

We also report carefully chosen key performance indicators for each of UBS's Business Groups and business units. These do not carry explicit targets, but are indicators of the business units' success in creating value for shareholders. They include financial metrics, such as the cost/income ratio, and non-financial metrics such as invested assets.

These key performance indicators are used for internal performance measurement and planning as well as external reporting. This ensures that management has a clear responsibility to lead their businesses towards achieving success in the externally reported value drivers and avoid the risk of managing to purely internal performance measures.

Financial reporting policies

Accounting principles

We prepare UBS Group's accounts according to International Financial Reporting Standards (IFRS), and provide additional information in our Financial Report to reconcile the Group accounts to US Generally Accepted Accounting Principals (US GAAP). A detailed explanation of the basis of UBS's accounting is given in Note 1 to the UBS Group Financial Statements, which are published in the UBS Financial Report 2002. An explanation of the critical accounting policies applied in the preparation of our Financial Statements is provided in a specific section in the UBS Financial Report 2002 on page 9.

Analysis of adjusted figures and results

We analyze our quarterly and annual financial performance on a reported basis determined in accordance with IFRS. Additionally, we provide analysis and comments on an adjusted basis which excludes from the reported amounts certain items we term significant financial events (SFEs). SFEs are non-recurring, event-specific items, with a material impact at Group level. They are UBS-specific and not industry-wide and not in the normal course of business.

Another adjustment we use in our results discussion is the exclusion of the amortization of goodwill and other acquired intangible assets. At

UBS, we believe that equity values are driven by future cash flows.

These adjustments reflect our internal analysis approach where SFE-adjusted figures before goodwill/intangibles amortization are used to assess past performance against peers and to estimate future growth potential. In particular, our financial targets have been set in terms of adjusted results, excluding significant financial events and goodwill/intangibles amortization, and all the analysis provided in our management accounting is based on operational SFE-adjusted performance. In our financial reporting, we clearly identify all adjusted figures as such, and allow the reader to reconcile them to reported figures. More detail on adjustments and the SFEs during 2000, 2001 and 2002 can be found in the UBS Financial Report 2002.

Restatement of results

As required under IFRS, we are committed to maintaining the transparency of UBS's reported results and to ensuring that analysts and investors can make meaningful comparisons with previous periods. If there is a major reorganization of our business units or if changes to accounting standards or interpretations lead to a material change in the Group's reported results, we restate UBS's results for previous periods to show how they would have been reported according to the new basis, and provide clear explanations of all changes.

US regulatory disclosure requirements

As a Swiss company listed on the New York Stock Exchange (NYSE), we comply with the disclosure requirements of the Securities and Exchange Commission (SEC) and the NYSE for foreign issuers. These include the requirement to make certain filings with the SEC. As a foreign issuer, some of the SEC's regulations and requirements which apply to domestic issuers are not applicable to UBS. We provide UBS's regular quarterly reports to the SEC under cover of Form 6-K, and file an annual report on Form 20-F. We also provide additional disclosure at half year to meet specific SEC requirements, which again is provided under cover of Form 6-K. In addition, important corporate announcements, including press releases, are provided under cover of Form 6-K as they occur. These reports, as well as materials sent to shareholders in connection with annual and special meetings, are all available on our website, at www.ubs.com/investors.

Within the 90-day period prior to the filing of this Annual Report, an evaluation was carried out under the supervision and with the participation of our management, including the President of the Group Executive Board and Group Controller, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a–14(c) under the US Securities Exchange Act of 1934). Based upon that evaluation, the President of the Group Executive Board and Group Controller concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Regulation and Supervision

We aim to monitor regulatory developments, to comply with all applicable provisions and to work closely and maintain good relations with the regulators in all jurisdictions where we have offices, branches and subsidiaries.

As a Swiss-registered company, UBS's main regulator is the Swiss Federal Banking Commission (SFBC), but we are also regulated worldwide by supervisory agencies in the countries in which we conduct business, most notably the US and the UK.

UBS's operations throughout the world are regulated and supervised by the relevant central banks and regulatory authorities in each of the jurisdictions in which we have offices, branches and subsidiaries. These authorities impose reserve and reporting requirements and controls on UBS, including those relating to capital adequacy, depositor protection and prudential supervision. In addition, a number of countries where UBS operates impose additional limitations on or affecting foreign-owned or controlled banks and financial institutions, including

- licensing requirements and restrictions of the opening of local offices, branches or subsidiaries and the types of banking and non-banking activities that may be conducted by those local offices, branches or subsidiaries;
- restrictions on the acquisition or level of ownership of local banks;
- restrictions on investment and other financial flows entering or leaving the country.

The supervisory and regulatory regimes of the countries where UBS operates will determine, to some degree, our ability to expand into new markets, the services and products that we will be able to offer in those markets and how we structure specific operations.

The following sections describe the regulation and supervision of UBS's business in Switzerland, our home market, and in the United States and the United Kingdom, our next two largest operations, which together employ a total of 49% of our staff.

Regulation and supervision in Switzerland

General

UBS is regulated in Switzerland under a system established by the Swiss Federal Law relating to Banks and Savings Banks of 8 November 1934, as amended, and the related Implementing Ordinance of 17 May 1972, as amended, which are together known as the Federal Banking Law. Under this law, banks in Switzerland are permitted to engage in a full range of financial services activities, including commercial banking, investment banking and fund management. Banking groups may also engage in insurance activities, but these must be undertaken through a separate subsidiary. The Federal Banking Law establishes a framework for supervision by the SFBC.

In our capacity as a securities broker, UBS is governed by the Swiss Federal Law on Stock Exchanges and Trading in Securities of 24 March 1995, as amended, under which the SFBC is appointed as prime regulator for these activities.

Regulatory policy

Swiss regulatory policies are formulated on three levels. The first two are the statutory levels of primary and secondary legislation issued by Parliament and the Swiss Federal Council. The SFBC has substantial influence on the drafting of these regulatory statutes. On more technical policy, the SFBC is empowered to issue so-called circulars, 21 of which are presently effective. The SFBC has issued a new Ordinance updating its rules on anti-money laundering, which will come into force in July 2003. In certain fields, the SFBC officially endorses self-regulatory guidelines issued by the banking industry (through the Swiss Bankers' Association), which thus become an integral part of banking regulation. Recent examples are:

- Guidelines concerning a Code of Conduct with regard to the Exercise of Due Diligence by Banks, 1998.
- Guidelines concerning the Treatment of Accounts, Custody Deposits and Safe Deposit Boxes Remaining Dormant at Swiss Banks, 2000.
- Guidelines concerning the Exercise of Asset Management Mandates, 2000.
- Guidelines on Internal Control, 2002.

Certain aspects of securities broking, such as the organization of trading, are subject to self-regulation through the SWX Swiss Exchange and the Swiss Bankers' Association, under the overall supervision of the SFBC.

Role of external auditors and direct supervision of large banking groups

The Swiss supervisory system relies on banks' external auditors, who are licensed and supervised by the SFBC, and carry out official duties, on behalf of, and subject to sanctions imposed by the SFBC. The responsibility of external auditors not only encompasses the audit of Financial Statements but also entails the review of banks' compliance with all prudential requirements.

In recent years, the SFBC has taken on more direct responsibility for supervision in two areas: capital requirements for market risk, for which there is a specialist team; and the supervision of the two large Swiss banking groups, including UBS, for which a dedicated department was created in 1998. Thus, the supervisory strategy now entails direct supervision in the form of regular meetings with bank management, supervisory visits, on-site reviews, direct reporting, both routine and ad hoc, and regular meetings with the host regulators of our overseas operations. Close cooperation, including regular trilateral meetings, has been established between the SFBC and UBS's US and UK regulators, and further links are being established by the SFBC with other relevant regulators.

Reporting requirements and capital requirements

UBS reports to the SFBC financial, capital, legal and risk information. The SFBC also reviews the bank's risk management and control policies and procedures in all areas of risk, including Know Your Customer rules and anti-money laundering practices. Reporting requirements also include ad-hoc and event-based information requests connected with direct supervision activity.

Switzerland applies the internationally accepted capital adequacy rules of the Basel Capital Accord but the SFBC implementation imposes a more differentiated and tighter regime than the internationally agreed rules, including a more stringent definition of capital (see Capital management on page 86).

Disclosures to the Swiss National Bank

Although the primary responsibility for supervision of banks under the Federal Banking Law lies with the SFBC, UBS also submits an annual statement of condition and detailed monthly interim balance sheets to the Swiss National Bank, which monitors compliance with liquidity rules. The Swiss National Bank can require UBS to supply further disclosures of financial condition and other information relevant to its regulatory oversight.

Regulation and supervision in the United States

Banking regulation

UBS's operations in the United States are subject to a variety of regulatory regimes. We maintain branches in California, Connecticut, Illinois and New York and an agency in Florida. UBS's California branches are located in Los Angeles and San Francisco and are federally licensed by the Office of the Comptroller of the Currency. Each of our other US banking offices is licensed by the state banking authority of the state in which it is located. We are in the process of converting our New York branches from state licenses to federal licenses. Each US banking office is subject to regulation and examination by its licensing authority. In addition, the Board of Governors of the Federal Reserve System exercises examination and regulatory authority over our state-licensed US banking offices. We also maintain state and federally chartered trust companies and other limited purpose banks, which are regulated by state regulators or the Office of the Comptroller of the Currency. None of UBS's US banking offices is currently insured by the Federal Deposit Insurance Corporation. The regulation of our US banking offices and subsidiaries imposes restrictions on the activities of those offices, as well as prudential restrictions, such as limits on extensions of credit to a single borrower, including UBS subsidiaries.

The licensing authority of each US banking office has the authority to take possession of the business and property of the office it licenses in certain circumstances. Such circumstances generally include violations of law, unsafe business practices and insolvency. So long as UBS maintains one or more federal branches, such as our California branches, the Office of the Comptroller of the Currency also has the authority to take possession of our US operations under similar circumstances, and this federal power may preempt the state insolvency regimes that would otherwise be applicable to our state-licensed offices. As a result, if the Office of the Comptroller of the Currency exercised its authority over our US banking offices pursuant to federal law in the event of a UBS insolvency, all of UBS's US assets would be applied first to satisfy creditors of our US banking offices as a group, and then made available for application pursuant to any Swiss insolvency proceeding.

In addition to the direct regulation of our US banking offices, operating US banking offices subjects UBS to regulation by the Board of Governors of the Federal Reserve System under various laws, including the International Banking Act of 1978, the Bank Holding Company Act of 1956 and the Gramm-Leach-Bliley Financial Modernization Act of 1999. On 10 April 2000, UBS AG was designated a "financial holding company" under the Gramm-Leach-Bliley Act.

US regulation of other US operations

In the United States, UBS Warburg LLC and UBS PaineWebber Inc., as well as UBS's other US registered broker-dealer entities, are subject to regulations that cover all aspects of the securities business, including:

– sales methods
– trade practices among broker-dealers
– use and safekeeping of customers' funds and securities
– capital structure
– record-keeping
– the financing of customers' purchases
– the conduct of directors, officers and employees.

These entities are regulated by a number of different government agencies and self-regulatory organizations, including the Securities and Exchange Commission and the National Association of Securities Dealers. Depending upon the specific nature of a broker-dealer's business, it may also be regulated by some or all of the New York Stock Exchange, the Municipal Securities Rulemaking Board, the US Department of the Treasury, the Commodities Futures Trading Commission, and other exchanges of which it may be a member. These regulators have available a variety of sanctions, including the authority to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of the broker-dealer or its directors, officers or employees.

UBS subsidiaries in the United States are also subject to regulation by applicable federal and state regulators of their activities in the investment advisory, mutual fund, trust company, mortgage lending and insurance businesses.

USA Patriot Act

On 26 October 2001, the US adopted the USA Patriot Act in response to the events of 11 September 2001. The Act requires US banks and foreign banks with US operations, including UBS, to take certain steps to help prevent, detect and prosecute international money laundering and the financing of terrorism. The required actions include terminating correspondent accounts with "shell banks" and obtaining information about the owners of foreign bank clients and the identity of the foreign bank's agent in the US.

The scope of the Act will be determined, to some degree, by the regulations that are adopted to implement its provisions. The US Secretary of the Treasury has published interim guidance and proposed regulations to implement some portions of the Act, and is expected to propose additional regulations to implement other sections. Although we cannot predict when and in what form these regulations will be adopted, we believe that the cost of compliance with the Act is not likely to be material to us, and that compliance with the statute will not have a material effect on our global operations.

Regulation and supervision in the United Kingdom

Since 1 December 2001, following the implementation of the Financial Services and Markets Act 2000, UBS's operations in the United

Kingdom have been regulated by the Financial Services Authority (FSA), as the United Kingdom's unified regulator. FSA assumed the responsibilities of UBS's previous UK regulators, the Securities and Futures Authority and the Investment Management Regulatory Organisation, with effect from this date. The Bank of England's responsibilities for regulation of banking activities were transferred to the FSA by the Bank of England Act 1998.

The FSA has established a risk-based approach to supervision and UBS is supervised by the Major Financial Groups section of the Deposit Takers and Markets Directorate. The FSA has a wide variety of supervisory tools available to it, including on-site inspections by supervisors (which may relate to a risk-based industry-wide theme or be firm-specific) and the ability to commission reports by skilled persons (who may be the firm's auditors or IT specialists, compliance consultants or lawyers). The FSA also has an extremely wide set of sanctions which it may impose under the new Act, similar to those available to US regulators.

Some of our subsidiaries and affiliates are also regulated by the London Stock Exchange and other United Kingdom securities and commodities exchanges of which UBS is a member, and all equities business can be subject to the requirements of the UK Panel on Takeovers and Mergers where relevant.

The investment services that are subject to oversight by UK regulators are regulated in accordance with European Union directives requiring, among other things, compliance with certain capital adequacy standards, customer protection requirements and conduct of business rules. These standards, requirements and rules are similarly implemented, under the same directives, throughout the European Union and are broadly comparable in scope and purpose to the regulatory capital and customer protection requirements imposed under applicable US law.

Compliance with NYSE Listing Standards on Corporate Governance

UBS aims to comply with all relevant standards on corporate governance. As a foreign company, listed at the New York Stock Exchange (NYSE), we have to explain differences between our corporate governance standards and the NYSE rules for US companies.

Introduction

On 15 August 2002, the NYSE filed with the SEC proposed rules that would effect substantial changes to the NYSE corporate governance listing standards. The proposed changes would tighten the definition of director independence, expand the responsibilities of the audit committee, mandate the establishment of a compensation committee and nominating committee both composed of only independent directors and require listed companies to have a code of ethics and corporate governance guidelines.

The proposed NYSE rule will not change the NYSE traditional approach permitting non US-issuers, such as UBS, to follow their home jurisdiction governance practice where it differs from the NYSE requirements. It is expected that the SEC will revise some of the proposed NYSE rules to harmonize them with competing or overlapping requirements under the Sarbanes-Oxley Act. The current proposed rules would require each non-US issuer to provide a brief and general summary of any significant differences between its home country corporate governance practices and the NYSE rules for US companies.

The proposed NYSE rules will not become effective unless and until they are approved by the SEC. Accordingly, our current corporate governance structure may be changed as required to comply with any new requirements established by the SEC.

Independence of directors

The NYSE rules will require that the Board of Directors of a listed company have a majority of independent directors. For a director to be considered independent, the Board of Directors must affirmatively determine that the director has no material relationship with the company, either directly or as a partner, shareholder or officer of a company that has a relationship with the listed company. Materiality is to be considered not just from the standpoint of the director but also from the standpoint of persons and organizations affiliated with the director.

The UBS Board of Directors has adopted the following criteria for defining its external directors' independence:

- The external director and his or her immediate family members have not been employed by UBS during the last five years.
- The external director and his or her immediate family members have not been employed by UBS's principal auditors, Ernst & Young Ltd. during the last five years.
- The external director is not and has not been employed by a company whose compensation committee includes a senior executive of UBS.
- The external director does not have – directly or indirectly – any material relationship with UBS, i.e.:
  - No shareholdings in excess of 3% of all outstanding shares.
  - No business relationships with UBS accounting for more than 5% of the total revenues either of the companies related to the director or of UBS.
  - No banking relationships with UBS that are not in the ordinary course of business and on substantially the same terms as those prevailing at the time for comparable transactions with other clients.
- UBS does not make any meaningful charitable contributions to organizations in which the external director is affiliated.
- The external director has not entered into consulting contracts with UBS.
- UBS does not pay its directors fees that exceed what is customary in the financial services industry.

– There were no interlocking directorships over the past five years between the companies related to the director and UBS.
– The external director does not hold any other Board mandates that would infringe on his independence.

The Board of Directors, after having carefully considered the information provided by its external members, has determined that Peter Böckli, Ernesto Bertarelli, Sir Peter Davis, Rolf A. Meyer, Hans Peter Ming and Lawrence A. Weinbach are independent in accordance with the criteria mentioned above.

It has also determined that Lawrence A. Weinbach, Sir Peter Davis and Rolf A. Meyer meet the more stringent independence requirements for Audit Committee members. They do not receive any consulting, advisory or other compensatory fees from UBS other than in their capacity as directors. They do not receive any compensatory fees indirectly paid to them as a partner, member or principal of an entity, which provides accounting, consulting, legal, investment banking, financial or other advisory services to UBS. And none of them serve on the audit committees of more than two other public companies.

UBS operates under a strict dual Board structure mandated by Swiss banking law. No member of the Group Executive Board may also be a member of the Board of Directors and vice versa. This structure ensures an institutional independence of the entire Board of Directors from the day-to-day management. Therefore all Board members are non-management directors, although the three executive members of the Chairman's Office are former members of the executive management and have entered into employment contracts with UBS in connection with their functions as Board members.

Board Committees

UBS has established an Audit, a Compensation and a Nominating Committee, all composed solely of independent directors, as required by the NYSE rules.

The chairman of the Audit Committee has an auditing background, and one of the members used to be the Chief Financial Officer of a large company. All the members are financially literate.

In addition to these three committees, the Chairman of the Board and the Vice Chairmen form a "Chairman's Office", which has clearly defined authorities and duties. It also has responsibility for oversight of the internal audit function (as defined in the Swiss Federal Banking Commission's Circular Letter on internal audit). For more details see the UBS Organization Regulations with its two Appendices and the Charter for the Chairman's Office (www.ubs.com/about).

Additional information on the Board Committee's mandates, responsibilities and authorities can be found on pages 99 and 100 of this Section. The charters for all the Board Committees are published on (www.ubs.com/about).

Differences from NYSE standards

The NYSE rules require:
– *expanded discussion on risk assessment and risk management between management and the Audit Committee*. UBS, as a global financial services firm, has a very sophisticated and complex system of risk management and control. Risk management and control is the clear responsibility of the business and not of the Board or of its Committees. The full Board has authority to define the firm's risk framework. It is responsible for monitoring the adherence to the defined risk limits and for reviewing whether the business and the control units run appropriate systems of management and control of risks. The Chairman's Office, with financial services specialists among its members, provides the bulk of the preparatory work for these full Board reviews. It also assumes approval authorities for the definition of specific credit risks and for clearly specified credits. For further details see Section "Risk Management and Control" of this Handbook.
– *supervision of internal audit by Audit Committee*. In accordance with the Swiss Federal Banking Commission's Circular Letter on Internal Audit, dated 14 December 1995, UBS gave the Chairman's Office responsibility and authority for supervising the internal audit function. The Chairman's Office reports back to the full Board on all important findings.

- *responsibility of the Nominating Committee for oversight of management and Board evaluation*. Management evaluation (performance of the President and the members of the Group Executive Board) is done by the Chairman's Office and reported to the full Board. All Board Committees perform a self-assessment of their activities and report back to the full Board. The Board has direct responsibility and authority to evaluate the Board's own performance, without preparation by a Board Committee.
- *proxy statement reports of the Audit and Compensation Committees*. Under Swiss Company Law, all reports addressed to shareholders must be provided and signed by the full Board. The Committees submit their reports to the Board.

Shareholder votes on equity-compensation plans

The proposed NYSE rules require that shareholders must vote on all equity-compensation plans and any material revisions to the terms of such plans (including for purposes of re-pricing existing options). UBS does not comply with this requirement.

Under Swiss Company Law, the approval of compensation plans is not an authority of the AGM, but of the Board of Directors. The reason for this different approach is the fact that the capital of a Swiss company is determined in the Articles of Association and, therefore, each increase of capital has to be submitted for shareholders' approval. If equity-based compensation plans result in a need for a capital increase, AGM approval is mandatory. If, however, shares for such plans are purchased in the market, shareholders do not have the authority to vote. We believe that the aim of the request for a shareholders' vote on equity-compensation plans – the protection of shareholders against undue dilution of their capital – is well taken care of under Swiss Company Law.

Corporate Governance Guidelines and Code of Business Conduct and Ethics

The proposed NYSE rules require each listed company to adopt and make publicly available Corporate Governance Guidelines and a Code of Business Conduct and Ethics. These documents must be adopted within six months of the SEC's approval of the NYSE's rules.

The UBS Board of Directors has already adopted Corporate Governance Guidelines, which are published on the UBS website at www.ubs.com/about.

The UBS Board of Directors has also adopted a Code of Business conduct and Ethics with an Addendum for principal executive, financial and accounting officers or controllers, as required by the Sarbanes-Oxley Act. The code is available on the UBS website at www.ubs.com/about.

Group Managing Board

The Group Managing Board (GMB) represents the next layer in the leadership of the Group below the Group Executive Board. Its members are drawn from the management teams of the Business Groups and the Corporate Center.

Role of the Group Managing Board

The GMB has a crucial role in implementing our integrated business model and in promoting the UBS culture and values throughout the Group and externally.

Members of the Group Managing Board as of 31 December 2002:

UBS Wealth Management & Business Banking

Michael Adjadj	Head of Private Banking Middle East & Africa
Arthur Decurtins	Head of Private Banking Germany & Benelux
Thomas Escher	Head of IT
Jürg Haller	Head of Products & Services
Eugen Haltiner	Head of Business Banking Switzerland
Marten Hoekstra	Head of Market Strategy & Development
Dieter Kiefer	Head of Private Banking Western Europe
Martin Liechti	Head of Private Banking Americas
Joe Rickenbacher	Chief Credit Officer
Alain Robert	Head of Private Banking Switzerland
Kathryn Shih	Head of Private Banking Asia Pacific
Jean Francis Sierro	Head of Resources
Richard Sipes	Head of Private Banking UK & Northern, Eastern and Southern Europe
Anton Stadelmann	Chief Financial Officer
Vittorio Volpi	Head of Private Banking Italy
Raoul Weil	Head of Private Banking International
Stephan Zimmermann	Head of Operations

UBS Warburg

Andy Amschwand	Global Co-Head of Interest Rates and Foreign Exchange
Jonathan Britton	Chief Financial Officer
Regina Dolan	Global Head of Strategic Planning and Business Development
Ian Drew	Chief Credit Officer
Tim Fredrickson	Global Co-Head of Interest Rates and Foreign Exchange
Robert Gillespie	Joint Global Head of Investment Banking
Alan C. Hodson	Global Head of Equities
Michael Hutchins	Global Head of Fixed Income and Interest Rates & Foreign Exchange
Huw Jenkins	Head of Equities for the Americas

UBS Warburg (continued)

Danny Schweizer	CEO Switzerland
Rory Tapner	Joint Global Head of Investment Banking
Mark Wallace	Chief Risk Officer
Robert Wolf	Joint Global Head of Fixed Income
New members as from 1 March 2003:	
Mike Bolin	Chief Administrative Officer
Gary Bullock	Head of Infrastructure Logistics
Ken Moelis	Head of Investment Banking in the Americas

UBS PaineWebber

Barry Buchsbaum	Director of the Branch Group
Bruce Bursey	Director of Investment Consulting Services
Luzius Cameron	Director of Strategic Planning and New Business Development
Tom Naratil	Director of Banking and Transactional Solutions
Robert Silver	President UBS PaineWebber Services
New member as from 1 March 2003:	
James D. Price	Director of Investment and Marketing Solutions

UBS Global Asset Management

Crispian Collins	Vice Chairman (until 31 March 2003)
Jeffrey J. Diermeier	Chief Investment Officer
Gabriel Herrera	Head of Europe, Middle East & Africa
Benjamin F. Lenhardt Jr.	Chairman Americas (until 31 March 2003)
Thomas Madsen	Global Head of Equities
Joe Scoby	CEO O'Connor
Brian Singer	Global Head of Asset Allocation
Brian Storms	CEO Americas
Paul Yates	Head of UK
New member as from 1 March 2003:	
Kai Sotorp	Head of Asia Pacific

Corporate Center

Mark Branson	Chief Communication Officer
Rolf Enderli	Group Treasurer
Thomas Hammer	Group Head of Human Resources (from 1 March 2003)
Hugo Schaub	Group Controller
Walter Stuerzinger	Group Chief Risk Officer
Marco Suter	Group Chief Credit Officer
Robert Zeltner	Group Head of Human Resources (until 28 February 2003)

Group Internal Audit

Markus Ronner	Head of Group Internal Audit

Corporate Responsibility

Corporate Responsibility

For us, corporate responsibility is integral to everything we do, meaning that we want to create value sustainably for all of our stakeholders.

UBS has made corporate responsibility an important part of its culture, identity, and business model. Our approach is to focus on corporate responsibility issues that provide clear benefits to all our stakeholders – clients, employees, shareholders and the community. As a leading global financial services firm, we want to provide our clients with value-added products and services, promote a corporate culture that adheres to the highest ethical standards, while generating superior but sustainable returns for our shareholders.

UBS created a Corporate Responsibility Committee in 2001. It determines UBS's corporate responsibility and sustainable development policies, supports increased awareness of the issue, monitors the company's adherence to international standards, and advises the Group Executive Board and the Board of Directors. The committee is chaired by Marcel Ospel, Chairman of the UBS Board of Directors. The other committee members are Hans de Gier, Vice Chairman of the Board, Hans Peter Ming, Member of the Board, Peter Wuffli, President of the Group Executive Board, Marcel Rohner, CEO UBS Wealth Management & Business Banking, Donald Marron, Chairman UBS Americas, and Ken Costa, Vice Chairman UBS Warburg.

UBS has also endorsed and signed several related international charters. In 1992, we were one of the first signatories to the United Nations Environment Program's Bank Declaration. Since its signing, the declaration has had an extensive influence in setting environmental guidelines and practices for financial institutions. We are also an active member of the World Business Council for Sustainable Development (WBCSD), a coalition of 150 international companies who have committed themselves to integrating sustainability principles into their core businesses.

For us, as a public company, the sustainable creation of value implies strong and effective corporate governance (see page 89 to 125). Furthermore, we are committed to protecting financial privacy, fighting money-laundering, being an equal opportunity employer, protecting the environment and contributing to the communities which we are a part of. Although laws may define minimum standards in many of these areas, simply meeting those minimum standards is not enough.

Creating long-term value for our shareholders

At UBS, the value-based management framework views management as the custodian of shareholder wealth. This framework sees the creation of long-term shareholder value as resting on four, mutually supporting pillars. First, we ensure that business decisions are analyzed in terms of the value that they create. Second, the realized value creation is measured and compared with targets. Third, we have incentive systems in place to align the interests of managers with those of shareholders, including tying a meaningful part of total compensation to individual performance targets as well as encouraging managers and staff to become shareholders. Moreover, internal value driver projections and valuations are benchmarked against external assessments, stock market expectations, and leading analyst forecasts.

Safeguarding our clients' right to financial privacy and fighting money laundering

Trust is critical for a global financial services provider. It requires a corporate culture that promotes behavior consistent with the highest ethical standards. To enhance the trust placed in us, it is vital that we protect our clients' legitimate right to financial privacy while preventing the abuse of our services by criminals or terrorists.

Because of the growing importance of advisory-based financial services and regulations regarding the exercise of due diligence, financial institutions are gathering more and more information from and about their clients. Unsurprisingly, public and private sector agents are showing a strong appetite for that data, and clients are increasingly worried about its misuse. Financial privacy, as with medical and other forms of personal privacy, are privileges enjoyed by citizens living in a modern, democratic society. At UBS, we firmly believe we should uphold and defend our clients' right to safeguard their private financial information from third party interests.

At the same time, the right to financial privacy should not, in any circumstances, be a channel by which criminals can misuse our services. Switzerland's "know your customer" and other regulations concerning the exercise of due diligence are among the most stringent in the world, and effectively prevent the abuse of banking services by criminals. Banks have to verify the identity of their contracting parties and establish the beneficial owners of assets and must notify the authorities whenever they either have knowledge or a founded suspicion that assets are of criminal origin, are under the control of a criminal organization or might be used for criminal purposes.

Based on these legal standards, we have established an effective internal framework to prevent the mishandling of our services by criminals. For instance, UBS Wealth Management & Business Banking has developed an IT-based tool known as the "Compliance Register". It assists client advisors when they are in the process of acquiring new clients as it holds information about Politically Exposed Persons (PEPs) and other exposed personalities. The tool helps client advisors ensure that if UBS establishes or maintains a business relationship with an individual determined to be a PEP, they do so only after having made a clear decision backed up by extensive knowledge of the client in question. This is achieved by undertaking as thorough a due diligence exercise as possible. Access to and control of the register has been structured to meet the requirements of all applicable laws and regulations – most importantly those regarding confidentiality and data protection. Client advisors in all UBS Wealth Management & Business Banking locations can make search queries with the tool. The Financial Intelligence Unit (FIU), a dedicated compliance team maintaining the register, is automatically notified if and when any queries match with names on its database.

We are also strongly committed to promoting stringent anti-money laundering standards for the financial industry as a whole. As an example of that, we were one of the driving forces behind the launch of the Wolfsberg Anti-Money Laundering Principles in 2000. The principles are designed to ensure that private banking services are only offered to clients with legitimate sources of wealth – with the same high standards applied globally. Following the terrorist attacks of September 11, 2001, the Wolfsberg Group, comprising major global financial institutions together with Transparency International, released a statement in which member banks committed themselves to efforts that support authorities in their fight against terrorism finance.

In 2002, UBS and the other members of the Wolfsberg Group worked to develop and issue a set of principles on the establishment and maintenance of correspondent banking relationships. The principles, designed to prevent criminal abuse of correspondent banking relationships, were issued in early November 2002 and were positively received by regulators worldwide. In the new principles, Wolfsberg adherents commit to refrain from offering any of their products and services to so-called "shell banks". Such entities are often based in less regulated jurisdictions, and frequently cited by regulators around the world as a cause for concern when attempting to tackle criminal abuse of the financial system.

Creating an equal opportunity environment for our employees

An important part of our success as a firm is the fact that our corporate culture blends the best influences of its diverse roots and encourages diversity. Our goal is to attract and retain the most talented and motivated individuals by offering them a rewarding and challenging environment. By encouraging individual success, we allow employees to develop their skills and progress within our organization. One of our competitive strengths is the ability to leverage the skills and knowledge of our staff across the 50 countries in which we operate. In order to fully take advantage of that, we have appointed a Global Head of Diversity for the Group. At the same time, we have established Business Group-specific regional and global diversity initiatives. In Switzerland, for example, comprehensive intercultural training is part of our management development program.

Internal women's networks are another example of our efforts to promote diversity throughout the firm and across hierarchies. At UBS they have been or are being created around the world. In Switzerland, the United States, the United Kingdom, and Asia Pacific, all-women's networks provide a forum for their members to support each other as they advance in their careers. For instance, in 2002 the UK chapter of All Bar None (UBS Warburg's women's network in the UK and the US) held a networking conference in 2002 called "Leadership in Practice" that attracted approximately 300 attendees.

Investing in our communities

The success of UBS depends not only on the skills and resources of our people and the relationships we have with our clients, but also on the health and prosperity of the communities of which we are part. We directly benefit from a stable political and social environment, modern infrastructure and a good education system. Furthermore, community programs create benefits for a company's reputation, and increase its appeal to its clients.

UBS supports communities by making direct cash donations to organizations, by employee volunteership and matching donations made by employees to selected charity funds. We have set up several community affairs programs which are organized at a regional level in order to remain responsive to local expectations. All community investments are clearly focused and concentrate on education, social and community development, as well as environmental protection. UBS encourages its employees to be actively involved in the community and to contribute time and skills to help the causes they care about. In the UK for example, we allow two working days a year for permanent employees to volunteer, subject to line manager approval.

In July 2002, UBS Warburg was presented with a Business in the Community Award for Excellence – the highest accolade in the UK for corporate community involvement – by HRH the Prince of Wales.

On another level, the UBS Optimus Foundation harnesses the expertise and the capabilities of UBS as a global financial services company by supporting clients when they express a desire to contribute to worthy causes. Since its launch over three years ago, the foundation has concentrated its investments in a select number of programs and organizations – all of which focus on people. The total number of projects is now twelve, divided into the categories of children and talents as well as medical research – running from one that aims to re-integrate Brazil's street children in society to another that finances a Swiss cancer research project.

Promoting environmental awareness

Environmental protection is one of the most pressing issues facing our world today. Consequently, it poses a challenge to companies, industries and sectors. At UBS, we remain committed to further integrating environmental considerations into all our business activities. To make this happen, our environmental policy focuses on taking advantage of environmental market opportunities, and considering environmental risks in our risk management processes, especially in lending and investment banking. In corporate services, we actively look for ways to reduce the direct environmental impact of our business activities.

Following increasing demand from clients, UBS Global Asset Management has developed expertise in incorporating environmental and social aspects into its investment research. Focusing on the concept of sustainability, UBS offers several socially responsible investment products to both private and institutional investors. The most important is the *"UBS (Lux) Equity Fund – Eco Performance"*, which was launched in 1997. This fund invests worldwide in stocks of exemplary sector leaders and forward-looking small and medium-sized companies with superior financial, environmental and social performance.

Adequate assessment of the risk involved in an investment banking transaction is crucial to its success. Although financial considerations dominate the assessment of the overall risk of any proposed transaction, environmental aspects can also be meaningful. Based on its Global Environmental Risk Policy, UBS Warburg has introduced processes that allow early identification of environmental risks in transactions. Initially, environmental factors are screened by the corresponding investment banking staff. If there are indications of heightened environmental risk, external specialists are called in to investigate them as part of the overall due diligence process. Also in the Swiss lending business, a careful review of financially relevant environmental aspects is an important part of UBS's credit risk analysis.

UBS's electricity consumption, the running of our heating systems, our paper consumption and business travel are the major factors that have a direct impact on the environment. The environmental management system helps us use our resources far more efficiently, cutting exhaust gas emissions and costs. As an example, last year in Switzerland, UBS completed a major project of replacing 18,000 printers and 1,400 photocopiers with 5,800 new, multifunctional machines, optimizing energy consumption. We believe the new energy-efficient machines will save 3.0–3.5 gigawatts a year, corresponding to approximately 1–2% of UBS's annual consumption of electricity in Switzerland. Also, during the installation process, we took the opportunity to encourage employees to cut their paper consumption by promoting wider use of recycled paper, and informing and training employees about double-sided printing capabilities and other ways to save paper.

In 2002, SGS International Certification Services AG awarded us a three-year ISO 14001 re-certification for our environmental management system, and which covers our banking business and corporate services worldwide.

Third party ratings

A number of different independent rating agencies that assess corporate responsibility programs across the world have rated UBS among the leaders in the field.

The Dow Jones Sustainability Group Indexes (DJSGI) have tracked, since 1999, the social, environmental and financial performance of companies in the Dow Jones Global Index that lead the field in terms of corporate responsibility. UBS has been part of the DJSGI since the index's inception and is the leader in the banking sector of the Dow Jones STOXX Sustainability indices, which track the performance of the top 20% of companies of the Dow Jones STOXX 600 index.

Also, UBS is included in the FTSE4Good Index, which measures global companies' performance in the areas of environmental sustainability, stakeholder relations and support for human rights.

UBS Share Information

The Global Registered Share

UBS ordinary shares are registered shares with a par value of CHF 0.80 per share, fully paid up and non-assessable. They are issued in the form of Global Registered Shares (GRS). A Global Registered Share is a security that provides direct and equal ownership for all shareholders. It can be traded and transferred across applicable borders without the need for conversion, with identical shares traded on different stock exchanges in different currencies. For example, the same share purchased on the New York Stock Exchange (NYSE) can be sold on virt-x, the pan-European stock exchange where Swiss-listed blue chip stocks are traded, or vice versa.

Alternatives to the GRS involve the creation of tailor-made securities for individual securities exchanges. Because of the trend towards global financial markets we believe that individual securities will be increasingly traded in multiple markets around the world. Another effect we anticipate is an increasing similarity between the regulatory structures of different markets, reducing the need to have individual securities in each market that comply with different local regulations. In these changing patterns, GRS, which allow for cross-market portability, are ideal to minimize costs to investors.

The UBS GRS is listed on the Swiss, New York and Tokyo stock exchanges. Although Swiss blue chip stocks (members of the SMI Swiss Market Index) are listed on the SWX Swiss Exchange, all trading takes place on virt-x. virt-x is majority-owned by the SWX Swiss Exchange. It provides an efficient and cost effective pan-European blue chip market. virt-x is a recognized investment exchange supervised by the Financial Services Authority in the United Kingdom. It is delivered on the modern scalable SWX trading platform.

The UBS ADR (American Depositary Receipt) program was terminated on 16 May 2000 on the listing of the GRS on the New York Stock Exchange (NYSE).

Registration

A single register exists for UBS ordinary shares, although it is split into two. There is a Swiss register, which is maintained by UBS acting as Swiss transfer agent, and a US register, which is maintained by Mellon Investor Services, as US transfer agent. A shareholder is entitled to hold shares registered in their name on either register and transfer shares from one register to the other upon giving proper instruction to the transfer agents.

Share liquidity and currency effects

For the foreseeable future, because of the greater volume of UBS shares traded on virt-x, trading on this exchange is expected to be the main factor determining share price movements. For UBS shares, liquidity on virt-x is expected to remain higher than that on NYSE. During 2002, daily trading volume in UBS shares on NYSE represented an average of 4.46% of the total daily trading volume in UBS shares.

During the hours in which both virt-x and NYSE are simultaneously open for trading (currently 15.30 to 17.30 CET), price differences are likely to be arbitraged away by professional market makers. The NYSE price will therefore typically be expected to depend on both the virt-x price and the prevailing USD/CHF exchange rate. When virt-x is closed for trading, traded volumes will typically be lower. However, the specialist firm making a market in UBS shares on the NYSE, Van der Moolen, is required to facilitate sufficient liquidity and an orderly market in the UBS share.

As a global financial services firm, UBS earns profits in many currencies. Since UBS prepares its accounts in Swiss franc terms, changes in currency exchange rates, particularly the CHF/USD and CHF/EUR cross-rates, may have an effect on reported earnings.

Dividends

UBS normally pays a regular annual dividend to shareholders registered as of the date of the Annual General Meeting (the record date). Payment is usually scheduled three business days thereafter.

The norm in the US is to declare dividends at least ten days in advance of the applicable record date and ex-dividend trading commences two days before the record date. To ensure that shareholders on the Swiss and US registers are similarly treated in connection with dividend payments, and to avoid disparities between the two markets, NYSE trading takes place with due bills for the two business day period preceding the dividend record date.

UBS pays dividends in CHF (Swiss francs). For UBS ordinary shares held in street name through The Depository Trust Company, any dividend will be converted into USD (US dollars). Holders of UBS ordinary shares registered on the US register will receive dividend payments in USD unless they provide notice to Mellon Investor Services, UBS's US transfer agent, that they wish to receive dividend payments in CHF.

UBS will fix the USD dividend amount on the basis of the DJ Interbank Foreign Exchange rate for sale of CHF against USD.

Holders of UBS shares who are US taxpayers are normally subject to 35% withholding tax on dividends they receive from UBS, although they can normally reclaim part of this, bringing their withholding tax rate down to 15%. Further disclosure relating to the taxation of US holders of UBS shares can be found in our Form 20-F, in section E of item 10.

Par value distribution July 2002

As outlined in the Capital management section on page 86, UBS reduced the par value of its shares through a distribution of CHF 2.00 on 8 July 2002. This was done instead of paying a dividend in respect of the year ended 31 December 2001.

This generally followed the principles described in the preceding section with respect to dividends. The record date for the distribution was set for the close of business on 5 July 2002. The CHF/USD exchange rate for the distribution was fixed on 8 July 2002, the day on which the par value reduction itself took place. The distribution was paid for value on 10 July 2002.

The par value distribution in July 2002 was not subject to the 35% withholding tax on dividends.

Dividend

For 2002, we plan to pay a normal dividend to our shareholders after having made use of the possibility to make a tax efficient distribution in 2000 (for the fourth quarter only) and 2001 in the form of par value reductions.

The Board of Directors will recommend at the Annual General Meeting on 16 April 2003 that UBS should pay a dividend of CHF 2.00 per share for the 2002 financial year, a level on par with last year's CHF 2.00 distribution.

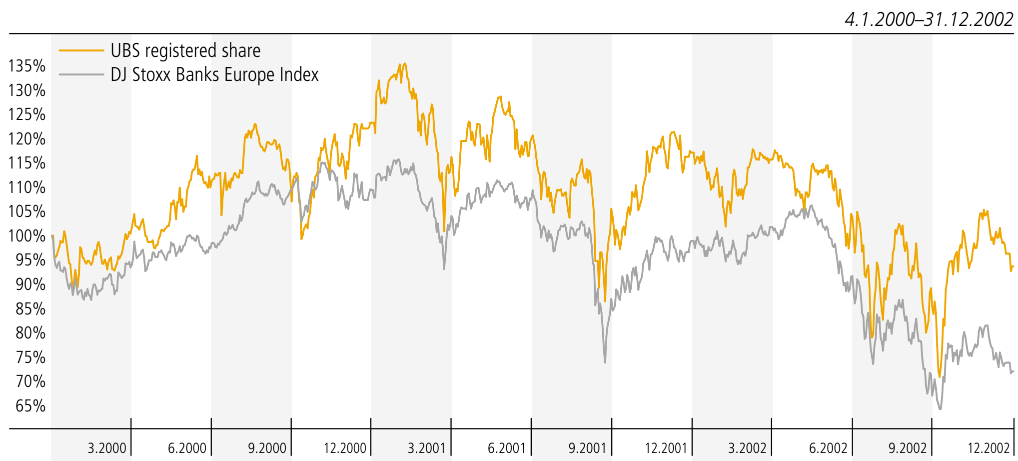
If the dividend is approved, the ex-dividend date will be 17 April 2003, with payment on 23 April 2003 for shareholders of record on 16 April 2003.

Ticker symbols

Trading exchange	Bloomberg	Reuters	Telekurs
virt-x	UBSN VX	UBSZn.VX	UBSN, 004
New York Stock Exchange	UBS US	UBS.N	UBS, 65
Tokyo Stock Exchange	8657 JP	UBS.T	N16631, 106

The UBS Share 2002

UBS Share Price Chart vs DJ Stoxx banks



UBS share price performance in 2002

2002 was a tough year for banking sector stocks and the global equity markets in general. Volatility was high with many geo-political and macro economic factors driving global share prices. The UBS share closed the year at CHF 67.20, down 19.8% over the 12 months. However, this was favorable compared to the Dow Jones Europe Stoxx Banks index, which fell 26.8%. Taking into account the par value repayment, the UBS share generated a total pre-tax return of negative 17.4% to investors for 2002.

European bank stocks had a steady start in the first quarter with little deviation from the 2001 year end levels. The UBS share, after an initial decline in January, gained nearly 7% during February and March. This rally saw UBS closing at CHF 84.30, its year high, on 8 March.

During the second quarter, the fear of further widespread corporate problems precipitated a slump in global equity markets. UBS and the major banking sector stocks were not immune from this and also dipped. Additionally, macro economic data indicated no sign of a sustained global recovery and investors became increasingly cautious in their outlook.

This negative sentiment drove down the Dow Jones Europe Stoxx Banks index by approximately 30% in the two months following the high levels recorded in May. The UBS share showed a high correlation to the index during this period, and followed the upturn that then continued into August. Overall, the UBS share declined 18% during the third quarter.

On 8 October the year low for the UBS share was recorded, closing at a price of CHF 51.05. However, a strong rebound occurred over the subsequent 8 days and the share gained almost CHF 17 (33%). Over the fourth quarter, the Dow Jones Stoxx Europe Banks index gained 7.3%, while the UBS share outperformed this, rising 9.6%. The figures were however dampened slightly by a weak trading environment in December. Retreating from its November high of CHF 75.45, the UBS share finished the year at CHF 67.20.

UBS share data

Registered shares in 1000 units	As at 31.12.02	31.12.01	31.12.00
Total shares outstanding	1,256,298	1,281,717	1,333,139
Total shares ranking for dividend	1,182,263	1,258,653	1,277,874
Treasury shares (average)	61,266	47,244	97,545
Treasury shares (year end)	97,181	41,255	55,265
Weighted average shares (for basic EPS calculations)	1,208,587	1,266,038	1,209,088
Weighted average shares (for diluted EPS calculations)	1,223,383	1,288,578	1,225,578

CHF	For the year ended 31.12.02	31.12.01	31.12.00
Earnings per share			
Basic EPS	2.92	3.93	6.44
Basic EPS before goodwill amortization [1]	4.73	4.97	7.00
Diluted EPS	2.87	3.78	6.35
Diluted EPS before goowill amortization [1]	4.65	4.81	6.89

CHF billion	As at 31.12.02	31.12.01	31.12.00
Market capitalization	79.4	105.5	112.7
% change year-on-year	(25)	(6)	

100 shares	For the year ended 31.12.02	31.12.01	31.12.00
Trading volumes [2]			
SWX total	1,049,364	1,000,402	1,211,446
SWX daily average	4,148	4,002	4,826
NYSE total	48,850	54,768	83,032
NYSE daily average	194	221	522

[1] Excludes the amortization of goodwill and other intangible assets. [2] The trading volumes have been adjusted for the two-for-one share split that became effective on 8 May 2000 and for the three-for-one share split effective 16 July 2001.

Stock exchange prices[1]

	SWX Swiss Exchange			New York Stock Exchange[2]		
	High (CHF)	Low (CHF)	Period end (CHF)	High (USD)	Low (USD)	Period end (USD)
2002	**84.30**	**51.05**	**67.20**	**51.99**	**34.54**	**48.12**
Fourth quarter 2002	**75.45**	**51.05**	**67.20**	**50.88**	**34.54**	**48.12**
December	75.30	66.50	67.20	50.54	47.56	48.12
November	75.45	66.95	74.75	50.88	45.72	50.18
October	70.35	51.05	70.35	47.26	34.54	47.26
Third quarter 2002	**75.15**	**56.80**	**61.30**	**49.94**	**37.86**	**41.00**
September	70.55	57.50	61.30	46.26	38.75	41.00
August	73.40	59.40	70.70	48.69	39.80	47.01
July	75.15	56.80	65.30	49.94	37.86	44.30
Second quarter 2002	**84.15**	**69.80**	**74.85**	**51.99**	**46.90**	**49.89**
June	81.95	69.80	74.85	51.99	46.90	49.89
May	82.20	75.00	81.95	51.98	46.95	51.90
April	84.15	77.55	78.10	50.30	47.63	48.49
First quarter 2002	**84.30**	**73.00**	**82.80**	**50.50**	**43.27**	**49.75**
March	84.30	79.20	82.80	50.50	46.69	49.75
February	81.30	73.00	78.85	47.70	43.27	46.44
January	83.95	77.30	77.50	50.42	45.50	45.45
2001	**96.83**	**62.10**	**83.80**	**58.49**	**40.12**	**50.00**
Fourth quarter 2001	86.85	69.70	83.80	52.83	43.23	50.00
Third quarter 2001	86.33	62.10	75.60	49.73	40.12	46.15
Second quarter 2001	92.00	77.50	85.83	51.47	44.87	47.02
First quarter 2001	96.83	72.33	83.17	58.49	43.02	47.68
2000	**88.17**	**63.58**	**88.17**	**54.10**	**40.18**	**54.10**
Fourth quarter 2000	88.17	71.17	88.17	54.10	40.18	54.10
Third quarter 2000	88.00	74.67	76.67	50.74	44.76	44.85
Second quarter 2000	83.33	69.83	79.67	50.66	42.99	48.67
First quarter 2000	72.83	63.58	72.83			
1999	**80.00**	**67.50**	**71.67**			
Fourth quarter 1999	79.92	67.50	71.67			
Third quarter 1999	82.25	67.50	70.50			
Second quarter 1999	88.00	73.67	77.33			
First quarter 1999	82.00	69.08	77.50			
1998[3]	**108.83**	**45.00**	**70.33**			

[1] The share prices and volumes have been adjusted for the two-for-one share split that became effective on 8 May 2000 and for the three-for-one share split effective 16 July 2001. [2] UBS was listed on 16 May 2000, therefore there are no NYSE figures for periods prior to May 2000. NYSE figures for second quarter are for 16 May 2000 to 30 June 2000 only, and NYSE figures for 2000 are for 16 May 2000 to 31 December 2000 only. [3] UBS was created by the merger of Union Bank of Switzerland and Swiss Bank Corporation, in June 1998. 1998 figures are therefore for the period 29 June 1998 to 31 December 1998 only.

UBS shares and market capitalization

Number of shares, except where indicated As at	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Total ordinary shares issued	**1,256,297,678**	1,281,717,499	1,333,139,187	(2)
Second trading line treasury shares				
2000 program			(55,265,349)	
2001 program		(23,064,356)		
2002 first program	**(67,700,000)**			
2002 second program	**(6,335,080)**			
Shares outstanding for market capitalization	**1,182,262,598**	1,258,653,143	1,277,873,838	(6)
Share price (CHF)	**67.20**	83.80	88.17	(20)
Market capitalization (CHF million)	**79,448**	105,475	112,666	(25)
Total treasury shares	***97,181,094***	*41,254,951*	*55,265,349*	*136*

Distribution of UBS Shares

As at 31.12.02	Shareholders registered		Shares registered	
Number of shares registered	Number	%	Number	% of shares issued
1–100	46,868	21.3	2,430,181	0.2
101–1,000	133,449	60.7	51,563,181	4.1
1,001–10,000	36,546	16.6	90,247,647	7.2
10,001–100,000	2,635	1.2	65,357,281	5.2
100,001–1,000,000	328	0.2	96,176,568	7.7
1,000,001–5,000,000	55	0.0	120,932,421	9.6
5,000,001–12,562,975 (1%)	10	0.0	75,122,855	6.0
1–2%	0	0.0	0	0.0
2–3%	0	0.0	0	0.0
3–4%	2	0.0	98,849,839	7.9
4–5%	0	0.0	0	0.0
Over 5%	1[1]	0.0	96,531,157	7.7
Total registered	219,894	100.0	697,211,130	55.6
Unregistered[2]			559,086,548	44.4
Total shares issued			**1,256,297,678[3]**	**100.0**

[1] As at 31.12.2002, Chase Nominees Ltd., London, was entered as a trustee/nominee holding 7.68% of all shares issued. [2] Shares not entered in the share register at 31 December 2002. [3] 140,763,036 shares registered do not carry voting rights.

Registered shareholders: type and distribution

	Shareholders		Shares	
As at 31.12.02	Number	%	Number	%
Individual shareholders	211,100	96.0	173,717,031	24.9
Legal entities	8,205	3.7	189,658,658	27.2
Nominees, fiduciaries	589	0.3	333,835,441	47.9
Total	**219,894**	**100.0**	**697,211,130**	**100**
Switzerland	203,739	92.7	349,906,904	50.2
Europe	11,283	5.1	225,581,696	32.3
North America	2,872	1.3	59,723,099	8.6
Other countries	2,000	0.9	61,999,431	8.9
Total	**219,894**	**100.0**	**697,211,130**	**100.0**

Cautionary statement regarding forward-looking statements

This communication contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to the implementation of strategic initiatives, such as the implementation of our European wealth management strategy, expansion of our corporate finance presence in the US and worldwide, the development of UBS Warburg's energy trading operations, 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 and developments in the markets in which they operate, (6) legislative developments, (7) management changes and changes to our business group structure in 2001, 2002 and 2003 and (8) other key factors that we have indicated could adversely affect our business and financial performance which are contained in other parts of this document and in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth elsewhere in this document and 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 2002. 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.

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