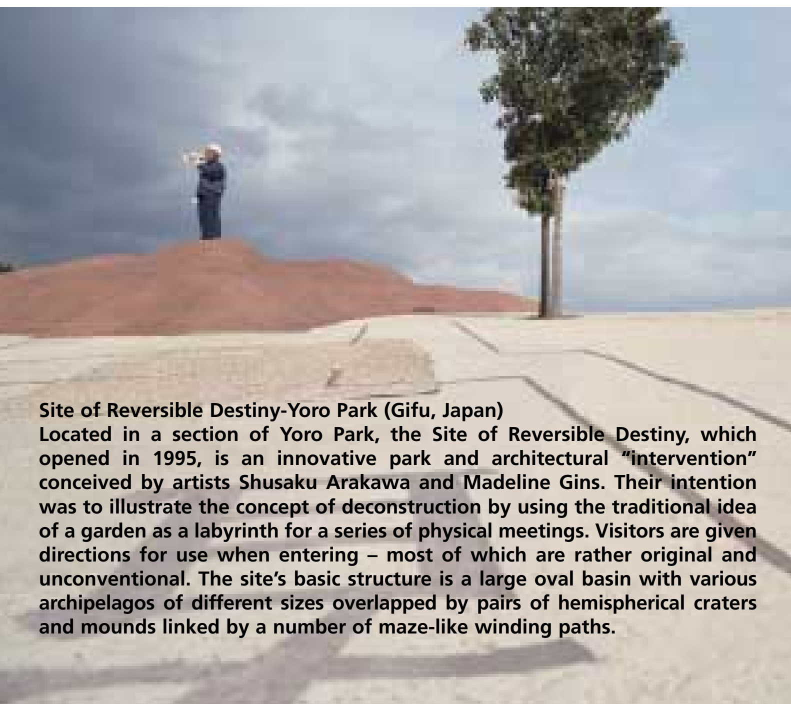
UBS

Financial Report 2002

The Concept: Gardens

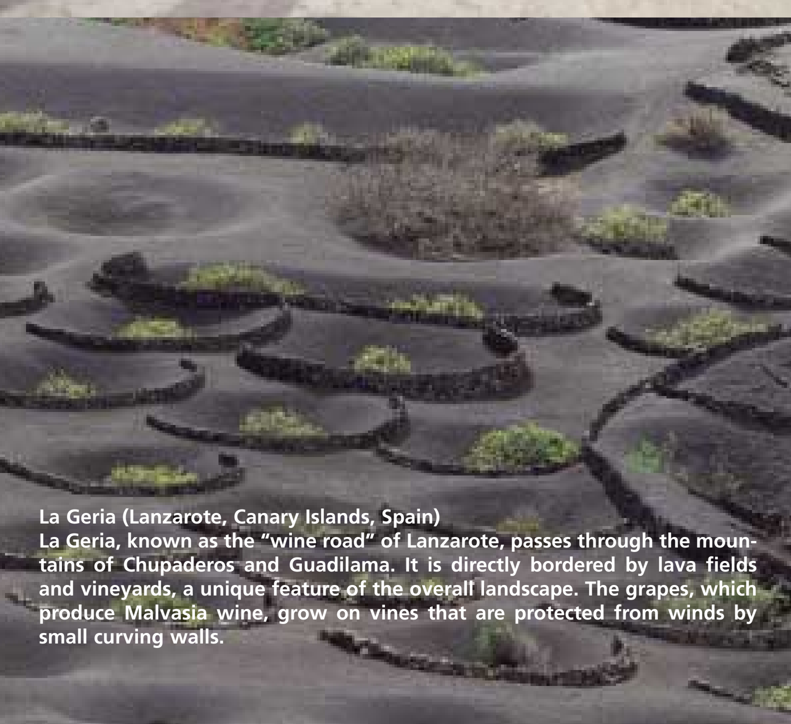
We have chosen a number of distinct gardens from around the world as the pictorial theme for our annual reporting products this year. Gardens are the product of imagination, expertise and careful attention to detail. Celebrated gardens evolve from inspired ideas that are developed with consistent and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

The Financial Report 2002 forms an essential part of our reporting portfolio. It includes the audited Financial Statements of the UBS Group for 2002 and 2001, prepared according to International Financial Reporting Standards (IFRS) and reconciled to the United States' Generally Accepted Accounting Principles (US GAAP), and the audited financial statements of UBS AG (the "Parent Bank") for 2002, prepared according to Swiss Banking Law requirements. It also contains a discussion and analysis of the financial and business performance of the UBS Group and its Business Groups, and additional disclosures required under Swiss and US regulations.

The Financial Report should be read in conjunction with the other information published by UBS, described on pages 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

[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 and 11 of the UBS Handbook 2002/2003.

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

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.

CHF million, except where indicated				% change from
For the year ended	**31.12.02**	31.12.01	31.12.00	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				% change from
As at	**31.12.02**	31.12.01	31.12.00	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				% change from
For the year ended	**31.12.02**	31.12.01	31.12.00	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	

UBS Group

UBS is one of the world's leading financial firms, serving a discerning global client base. As an organization, 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 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 Financial Report contains our audited Financial Statements for the year 2002 and the related detailed analysis. You can find out more about UBS from the sources shown below.

Publications

This Financial Report is available in English and German. (SAP-R/3 80531-0301).

Annual Review 2002

Our Annual Review contains a short description of UBS, what our vision and values are, as well as 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).

Handbook 2002/2003

Our Handbook 2002/2003 contains a detailed description of UBS, its strategy, organization and the businesses that make it up. It is available in English and German. (SAP-R/3 80532-0301).

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 topics 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 be found in the "Financials" section of our Investors and Analysts website.

UBS and the environment

The Handbook 2002/2003 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
Catherine Lybrook	+41 1 234 2281	CH-8098 Zurich, Switzerland
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.

Information for Readers

The discussion and analysis in the Group Financial Review and Review of Business Group Performance should be read in conjunction with the UBS Group Financial Statements and the related notes, which are shown in pages 77 to 177 of this document.

Parent Bank

Pages 179 to 190 contain the financial statements for the UBS AG Parent Bank – the Swiss company, including branches worldwide, which owns all the UBS Group companies, directly or indirectly. Except in those pages, or where otherwise explicitly stated, all references to "UBS" refer to the UBS Group and not to the Parent Bank.

Accounting standards

The UBS Group Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). As a US listed company, UBS Group provides a description in Note 39 to the UBS Group Financial Statements of the significant differences which would arise were our accounts to be presented under the United States Generally Accepted Accounting Principles (US GAAP), and a detailed reconciliation of IFRS shareholders' equity and net profit to US GAAP. Major differences between Swiss Federal Banking Law requirements and IFRS are described in Note 38 to the UBS Group Financial Statements.

Except where clearly identified otherwise, all of UBS Group's financial information presented in this document is presented on a consolidated basis under IFRS.

The Parent Bank's financial statements are prepared in order to meet Swiss regulatory requirements and in compliance with Swiss Federal Banking Law.

All references to 2002, 2001 and 2000 refer to the UBS Group and the Parent Bank's fiscal years ended 31 December 2002, 2001, and 2000, respectively. The Financial Statements for the UBS Group and the Parent Bank for each of these periods have been audited by Ernst & Young Ltd., as described in the Report of the Independent Auditors on page 177 and the Report of the Statutory Auditors on page 189.

Changes to accounting presentation

The segment reporting shown in Note 2 to UBS Group Financial Statements has been restated to reflect the reorganization of the Group in 2002. See the "Review of Business Group Performance" on page 35 for details of changes since the 2001 presentation.

PaineWebber merger

Except where otherwise stated, all 2000 figures for UBS Group throughout this report include the impact of the merger with Paine Webber Group, Inc., which was completed on 3 November 2000. Under purchase accounting rules, the results for 2000 reflect PaineWebber's income and expenses for two months only, from 3 November 2000 until 31 December 2000.

Restructuring provision

After the merger of Swiss Bank Corporation and Union Bank of Switzerland was completed on 29 June 1998, we began integrating the operations of the two predecessor banks. This process included streamlining operations, eliminating duplicate information technology infrastructure, and consolidating banking premises. We established a restructuring provision of CHF 7 billion to cover UBS's expected costs associated with the integration process. In December 1999, we recognized an additional pre-tax restructuring charge of CHF 300 million because of the merger.

We completed the integration and restructuring process relating to the merger as of 31 December 2001 and released the remaining CHF 21 million of the restructuring provision to the income statement.

Critical accounting policies

Basis of preparation and selection of policies

We prepare our Financial Statements in accordance with IFRS, and provide a reconciliation to generally accepted accounting principles in the United States (US GAAP). When feasible, we reduce the differences between our Financial Statements under the two standards by applying accounting policies that are in accordance with both sets of standards. This approach limits (but does not completely eliminate) the range of elective accounting treatments available to us, but there are still rules under both standards which require us to apply judgement and make estimates in preparing our Financial Statements. The more significant of these accounting treatments are discussed in this section, as a guide to understanding how their application affects our reported results and our disclosure. A broader description of the accounting policies we employ is shown in Note 1 to the UBS Group Financial Statements.

The existence of alternatives and the application of judgement mean that any selection of different alternatives or estimates would cause our reported results to differ. We believe that the choices we have made are appropriate, and that our Financial Statements therefore present our financial position and results fairly, in all material respects. The alternative outcomes discussed below are presented solely to assist the reader in understanding our Financial Statements, and are not intended to suggest that other alternatives or estimates would be more appropriate.

Many of the judgements which we make in applying accounting principles depend on an assumption, which we believe to be correct, that UBS maintains sufficient liquidity to hold positions or investments until a particular trading strategy matures – i.e. that we do not need to realize positions at unfavorable prices in order to fund immediate cash needs. Liquidity is discussed in more detail on pages 81 to 84 of the Handbook 2002/2003.

Recognition and measurement of financial instruments

On 1 January 2001, UBS Group adopted the accounting standard IAS 39: *recognition and measurement of financial instruments*. The principal effects of the standard on our accounts are outlined as follows.

Profit and loss impact

UBS's strategy is to attempt to minimize the profit and loss volatility that can be caused by unrealized gains and losses on recognized financial assets and liabilities carried at fair value. Upon implementation of IAS 39, UBS elected to record changes in fair value of financial assets classified as "available-for-sale" directly in shareholders' equity rather than in earnings.

Changes to shareholders' equity

With the implementation of IAS 39 we identified "Gains/losses not recognized in the income statement" as a separate section within shareholders' equity. Within this we show three subsections, "Foreign currency translation" (which was an existing line in shareholders' equity, reported in previous years) and two additional subsections introduced as a result of the adoption of IAS 39 on 1 January 2001, and which are "Unrealized gains/losses on available-for-sale investments", and "Changes in fair value of derivative instruments designated as cash flow hedges". Both subsections had opening balances:

- the opening balance of "Unrealized gains/losses on available-for-sale investments" was a net increase of CHF 1,577 million, net of taxes, on 1 January 2001 due to unrealized mark-to-market gains on financial investments classified as available for sale which were principally attributable to private equity investments, but which also included other financial investments held by the Group.
- the opening balance of "Changes in fair value of derivative instruments designated as cash flow hedges" was a net loss of CHF 380 million, net of taxes, on 1 January 2001 due to unrealized mark-to-market losses on derivatives designated as cash flow hedges. These losses were previously recorded in the balance sheet as part of "Deferred losses".

All movements within these categories are now recorded each year in the statement of changes in equity.

Financial instruments – fair value

Our *trading portfolio* assets and liabilities are recorded at fair value on the balance sheet, with changes in fair value recorded as trading income in the income statement. Key judgements affecting this accounting policy relate to how we determine fair value for such assets and liabilities.

For substantially all of our portfolios, fair values are based on quoted market prices for the specific instrument, comparisons with other highly similar financial instruments, or the use of models. Valuation models are used primarily to value credit derivatives and certain equity and fixed income derivatives. Where valuation models are used to compute fair values, or where they are used in our control functions for independent risk monitoring, they must be validated and periodically reviewed by qualified personnel independent of the area that created the model.

There are a variety of factors that are considered by our models, including time value and volatility factors, counterparty credit quality, activity in similar instruments in the market, administrative costs over the life of the transaction, and liquidity/market volume considerations, among others. Changes in assumptions about these factors could affect the reported fair value of financial instruments. However, because these factors can change with no correlation to each other, it is not possible to provide a meaningful estimate of how changes in any of these factors could affect reported fair value of the portfolio as a whole.

As a result of the potential variability in computed fair values, valuation adjustments are an integral part of the valuation process and are applied consistently from period to period. Establishing valuations inherently involves the use of judgement, and management also applies its judgement in establishing reserves against indicated valuations for aged positions, deteriorating economic conditions (including country-specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity, model risk itself, and other factors.

Despite the fact that a significant degree of judgement is required in order to establish fair values in some cases, management believes the fair values recorded in the balance sheet and the changes in fair values recorded in the income statement are reasonable, based on a number of controls and procedural safeguards we employ. Before models are used, they are certified by our independent control function, called Quantitative Risk Management. We then generally employ "back-testing" procedures to test model outputs with actual data and apply our models consistently from one period to the next, while also searching for comparative market prices for additional verification.

Hedge accounting. IAS 39 allows a company to apply hedge accounting if it fully complies with the specified hedge criteria. One of the goals of a hedging program is to reduce volatility of fair values by entering into a hedging transaction where changes in fair values of the hedging transaction offset changes in the fair values of the hedged item. Due to cost and other considerations, a transaction may not be hedged over its entire life, or a dynamic hedging strategy may be used whereby different transactions are designated as the hedging transaction at different times. However, if the hedged item is one that would normally not be recorded at fair value (for instance if it is held at cost less impairment), but the hedging instrument is of a sort that would normally be accounted for at fair value, there could be substantial differences in the profit and loss effect for the two items during specific accounting periods, although over the whole life of the instrument these would be expected to balance out. We believe that, in such cases, not applying hedge accounting could lead to misinterpretations of our results and financial position, since hedging transactions could have a material impact on reported net profit in a particular period.

In principle, we apply hedge accounting whenever we meet the criteria of IAS 39 so that our Financial Statements clearly reflect the economic hedge effect obtained from the use of these instruments. However, in connection with economically hedging selected credit risk exposures we have entered into credit default swaps (CDS) that include conditions that prevent their qualifying for hedge accounting under IAS 39. CDSs are derivative instruments carried on our balance sheet at fair value with changes in fair value recorded in net trading income. This may add volatility to our net trading income results, and the impact may be either positive or negative in a particular period. The use of CDSs coupled with not applying hedge accounting may also add volatility to net profit because changes in fair value of a CDS and any credit loss expense relating to the hedged exposure may well be recorded in different periods. Typically, the credit rating of a company that ultimately defaults on its obligations deteriorates gradually over a period of time. Such deterioration is reflected in a gradual increase in fair value of the related CDS, resulting in trading income gains being recorded. On the other hand, a credit loss expense is not recorded until the claim is deemed to be impaired, or if an undrawn commitment is expected to be drawn without prospect of full repayment. This timing mismatch between recognizing income from increases in the fair value of a CDS and recognizing expense for credit losses may introduce period-to-period volatility in net profit. In addition, the positive effect of CDSs on reducing credit losses is not reflected as a reduction in reported credit loss expense.

In 2002, UBS recorded mark-to-market gains of CHF 226 million on CDSs that hedge existing credit risk exposures without recording a corresponding credit loss expense. Had our CDSs qualified for hedge accounting, we could have deferred recognition of gains on the CDSs until the underlying claim became impaired. Unless we decide to settle CDSs prematurely, and thus realize the mark-to-market gains, for example because we believe that we will ultimately not incur a credit loss on the hedged exposure, these mark-to-market gains may be offset by losses in future periods. This may occur either because the fair value of the CDS will decrease or because a credit loss is incurred on the hedged exposure.

Applying hedge accounting means that changes in the fair values of designated hedging instruments affect reported net profit in a period *only to the extent that each hedge is ineffective*. Alternatively, if we were to choose not to apply hedge accounting, the entire change in fair value of the designated hedging instruments in each individual reporting period would be reported in net income for that period, regardless of the economic effectiveness of the hedge. For our fair value hedges, not applying hedge accounting would have resulted in a pre-tax gain of CHF 951 million in 2002 and a pre-tax gain of CHF 319 million in 2001. For our cash flow hedges, the respective amounts are a pre-tax gain of CHF 326 million for 2002 and a pre-tax loss of CHF 79 million for 2001. Please refer to Note 1(v) to the UBS Group Financial Statements for further information on hedge accounting.

Financial investments – available-for-sale

UBS has classified some of its financial assets, including investments not held for trading purposes, as available-for-sale. This classification is based on our determination that these assets are not held for the purpose of generating short-term trading gains, but rather for mid-to-long-term capital appreciation. If we had originally decided that these were trading assets, or if we were to reclassify these assets as trading assets, changes in fair value would then have to be reflected in income rather than shareholders' equity. The amount of unrealized gains or losses on the balance sheet date is disclosed in the statement of changes in equity in the UBS Group Financial Statements.

Companies held in our private equity portfolio are not consolidated in UBS's Financial Statements. This treatment has been determined after considering such matters as liquidity, exit strategies and degree and timing of our influence and control over these investments.

We classify our private equity investments as financial investments available-for-sale, and carry them on the balance sheet at fair value, with changes in fair value being recorded directly in equity. However, unrealized losses that are not expected to be recoverable within a reasonable time period are recorded in our income statement as impairment charges. Since quoted market prices are generally unavailable for these companies, fair value is determined by applying recognized valuation techniques, which require the use of assumptions and estimates. The valuation of our investments is derived by application of our valuation policy in a detailed quarterly investment by investment review involving the business and control functions. Our standard valuation method is to apply multiples of earnings that are observed for comparable companies. These multiples depend on a number of factors and may fluctuate over time. However the geographic, stage and sector diversity of the portfolio means that the valuations of these positions may not move uniformly based on the changing economic environment. Although judgement is involved, we believe that the estimates and assumptions made in determining the fair value of each investment are reasonable and supportable. Since there are no general estimates or assumptions underlying the determination of fair value, but instead fair value is determined on a case-by-case basis, it is not possible to provide any meaningful estimate of the impact on earnings of variations in assumptions and estimates.

In addition, the determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgemental by nature, so profit and loss could be affected by differences in this judgement. We generally consider investments as impaired if a significant decline in fair value below cost extends beyond the near term, unless it is readily apparent that an investment is impaired, in which case this would result in an immediate loss recognition.

Goodwill and other intangible assets

We regularly review assets that are not carried at fair value for possible impairment indications. If impairment indicators are identified, we make an assessment about whether the carrying value of such assets remains fully recoverable. When making this assessment, we compare the carrying value to the market value, if available, or the value in use. Value in use is determined by discounting expected future net cash flows generated by an asset or group of assets to present value. Determination of the value in use requires management to make assumptions and use estimates. We believe that the assumptions and estimates used are reasonable and supportable in the existing market environment, but different ones could be used which would lead to different results.

The single most significant amount of goodwill relates to the acquisition of PaineWebber. The valuation model used to determine the fair value of UBS PaineWebber is sensitive to changes in the assumptions about the discount rate, growth rate and expected cash flows (i.e. assumptions about the future performance of the business). Adverse changes in any of these factors could lead us to record a goodwill impairment charge.

In the fourth quarter of 2002, we took the decision to move all our businesses to the single UBS brand name. That decision necessitated the writeoff of the carrying value of the intangible asset related to the PaineWebber brand name, which resulted in a charge of CHF 953 million net of tax. Had we not made the decision to abandon the PaineWebber brand name, the writeoff would not have been made as it would not have been deemed impaired.

Allowances and provisions for credit losses

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 or guarantees), including liquidation of collateral where available. UBS has 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 IAS 39. A provision is then recorded 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 workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Control function. Although judgement is involved, we believe that the estimates and assumptions made in determining provisions and allowances on each individual impaired claim are reasonable and supportable. Since there are no general estimates or assumptions underlying the determination of allowances and provisions, but instead, as noted above, these allowances and provisions are determined on a case-by-case basis, it is not possible to provide any meaningful estimate of the impact on earnings of variations in assumptions and estimates.

Further details on this subject are given in Note 1(l) to the UBS Group Financial Statements and in the "Risk analysis" section of the Handbook 2002/2003, on pages 59 to 77.

Securitizations and Special Purpose Entities

UBS sponsors the formation of Special Purpose Entities (SPEs) primarily for the purpose of allowing clients to hold investments, for asset securitization transactions, and for buying or selling credit protection. In accordance with IFRS we do not consolidate SPEs that we do not control. As it can sometimes be difficult to determine whether we exercise control over an SPE, we have to make judgements about risks and rewards as well as our ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases the Group generally consolidates an SPE.

UBS has a comprehensive process for monitoring and controlling the creation and running of SPEs, designed to ensure that they are created only for purposes connected with our business, which includes the facilitation of client investment objectives, that any change of terms or status, such as the activation of a dormant SPE, is appropriate and that the SPEs and their assets and liabilities are properly recorded, if consolidated.

UBS manages the risk of consolidated SPEs in the same way as for any other subsidiary. Unconsolidated SPEs are treated like any other unaffiliated counterparty, under normal credit risk principles.

Principal types of SPE used by UBS

SPEs used to allow clients to hold investments are structures that allow one or more clients to invest in an asset or set of assets which are generally purchased by the SPE in the open market and not transferred from UBS. The risk or reward of the assets held by the SPE resides with the clients. Typically, UBS will receive service and commission fees for creation of the SPE, or because it acts as investment manager, custodian or in some other function.

These SPEs range from mutual funds to trusts investing in real estate, for example UBS Alternative Portfolio AG, which provides a vehicle for investors to invest in a diversified range of alternative investments through a single share. The majority of our SPEs fall into this category. SPEs created for client investment purposes are not consolidated.

SPEs used for securitization. SPEs for securitization are created when UBS has assets (for example a portfolio of loans) which it sells to an SPE. The SPE in turn sells interests in the assets as securities to investors. Consolidation of these SPEs depends on whether UBS retains the risks and rewards of the assets in the SPE.

We do not consolidate SPEs for securitization if UBS has no control over the assets and no longer retains any significant exposure (gain or loss) to the returns, including liquidation, on the assets sold to the SPE. This type of SPE is a bankruptcy-remote entity – if UBS were to go bankrupt, the holders of the securities would clearly be owners of the assets, while if the SPE were to go bankrupt, the securities holders would have no recourse to UBS.

In some cases UBS does retain exposure to some of the returns from the assets sold to the SPE – for example first loss on a loan portfolio. In these cases we consolidate the SPE and then derecognize the assets to the extent that we do not have exposure.

SPEs for credit protection are set up to allow UBS to sell the credit risk on portfolios, that may or may not be held by UBS, to investors. They are primarily to allow UBS to have a single counterparty (the SPE) which sells credit protection to UBS. The SPE in turn has investors who provide it with capital and participate in the risks and rewards of the credit events that it insures. SPEs used for credit protection are generally consolidated.

Equity compensation

Currently IFRS does not specifically address the recognition and measurement of equity-based compensation plans, including employee option plans. Extensive literature on accounting for options granted to employees exists under US GAAP, which permits a company to elect either the intrinsic value method or the fair value method. Under the intrinsic value method, if the exercise price of options granted is equal to or greater than the fair value of the underlying equity at grant date, no compensation expense need be recorded. Under the fair value method, an amount would be computed for such options and charged to compensation expense. For IFRS, UBS records as compensation expense only the intrinsic value at grant date, if any, of options granted to employees. Subsequent changes in value are not recognized.

Had we recognized the fair value of stock option grants as compensation expense, net income would have been lower by the following amounts: CHF 690 million in 2002, CHF 347 million in 2001, and CHF 158 million in 2000. Further information on UBS equity compensation plans is disclosed in Note 32 to the UBS Group Financial Statements. In November 2002, the International Accounting Standards Board issued ED2, "Share-based payments", which is expected to become effective in January 2004. ED2 in its current form would require a different recognition method of compensation expense for the fair value of stock options granted than that applied to determine the amounts disclosed above.

Deferred tax

Deferred tax assets arise from a variety of sources, the most significant being: a) tax losses that can be carried forward to be utilized against profits in future years; b) expenses recognized in the books but disallowed in the tax return until the associated cash flow occurs; and c) valuation changes of assets which need to be tax-effected for book purposes but are taxable only when the valuation change is realized.

UBS records a valuation allowance to reduce its deferred tax assets to the amount that it believes can be realized in its future tax returns. Our valuation allowance is based on the assessment of future taxable income and our tax planning strategies. At each balance sheet date, existing assessments are reviewed and, if necessary, revised to reflect changed circumstances. The magnitude of the valuation allowance is significantly influenced by our own forecast of future profit generation, which drives the extent to which we will be able to utilize the deferred tax assets. Were we to be more optimistic or pessimistic when forecasting future taxable profits we would record a lower or higher valuation allowance, which would have a direct impact on earnings. Additionally, changes in circumstances may result in either an increase or a reduction of the valuation allowance, and therefore net income, depending on an adverse or favorable change in the factors that impact the recognized deferred tax assets. See Note 21 to the UBS Group Financial Statements for further details.

Segment reporting

The policies used to prepare our segment reporting affect the split of our income and expenses between the different Business Groups. Although the application of rules different from the ones we currently use would lead to altered net profit results in the Business Groups, they would have no effect on the total Group profit number.

The most significant of these policies is the treatment of credit loss expense. If we had not applied the concept of expected loss in calculating the credit loss expense for each Business Group, Corporate Center would have incurred a significantly higher loss in all periods presented, UBS Warburg would have achieved a better result in 2002 but slightly lower profit in both 2001 and 2000, and UBS Wealth Management & Business Banking would have had a modestly better result in 2002 preceded by a significantly higher profit in both 2001 and 2000. The concept of expected credit loss is explained in more detail in the "Management accounting" section of this report on pages 36 to 41, which includes a table which reconciles the expected credit loss amount charged to the Business Groups with the actual IFRS credit loss.

Analysis of adjusted key figures and results

We analyze UBS's performance on a reported basis determined in accordance with IFRS. Additionally, we provide comments and analysis on an adjusted basis which excludes from the reported amounts certain items we term significant financial events (SFEs). An additional adjustment we use in our results discussion is the exclusion of the amortization of goodwill and other acquired intangible assets.

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 SFEs and goodwill/intangibles amortization, and all the analysis provided in our management accounting is based on operational SFE-adjusted performance.

Significant financial events

For performance analysis, in particular to compare our financial results with previous periods and with peers, we use figures adjusted for significant financial events (SFEs). This helps us to illustrate the underlying operational performance of our business, insulated from the impact of one-off gains or losses outside the normal run of business, and provides a better basis for our internal performance assessment and planning. A policy approved by the Group Executive Board defines which items may be classified as SFEs. In general an item that is treated as a SFE is:
- Non-recurring
- Event-specific
- Material at Group level
- UBS-specific, not industry-wide

and is not a consequence of the normal run of business.

Examples of items that we would treat as SFEs include the gain or loss on the sale of a significant subsidiary or associate, such as the sale in 2002 of Klinik Hirslanden and Hyposwiss, or the restructuring costs associated with a major integration, such as the merger with PaineWebber in 2000.

SFEs are not a recognized accounting concept under IFRS or US GAAP, and are therefore not reflected as such in the UBS Group Financial Statements. We clearly identify all adjusted figures as such, and clearly disclose both the pre-tax amount of each individual significant financial event, and the net tax benefit or loss associated with all the SFEs in each period, allowing the reader to reconcile adjusted figures to the reported ones. Where tables in the Business Group reporting show adjusted figures, we also include a table showing the reported figures.

SFEs during 2000 and 2002 are shown in the table below and described in more detail below.

There were no SFEs in 2001.

- In first quarter 2002, we realized a pre-tax gain of CHF 155 million from the sale of the private bank Hyposwiss.
- In fourth quarter 2002, we recorded a non-cash pre-tax writedown of CHF 1,234 million related to the PaineWebber brand, an intangible asset. It was recorded following our decision to move to a single UBS brand. This change in our brand strategy was announced in November 2002 and we will effectively introduce the single brand in June 2003.
- In fourth quarter 2002, we realized a pre-tax gain of CHF 72 million from the sale of Klinik Hirslanden, a private hospital group.
- During 2000, we recorded restructuring charges and provisions of CHF 290 million pre-tax relating to the integration of PaineWebber into UBS.
- In 2000 UBS recognized an additional pre-tax provision of CHF 150 million in connection with the US Global Settlement of World War II-related claims. Previously, we had established a provision of CHF 842 million (in 1998) and one of CHF 154 million (in 1999) relating to this claim.

Amortization of goodwill and other intangibles

In addition to IFRS figures, we discuss our Group result excluding the amortization of goodwill and other intangibles. The same adjustment is used also for our Group financial targets, including earnings per share. At UBS, we believe that equity values are driven by future cash flows. IFRS rules currently require that goodwill is amortized over its estimated useful life regardless of whether its economic value is maintained or even increased. Furthermore, goodwill is an asset that does not need to be replaced at the end of its life. Consequently, amortization charges do not represent cash outflows and are not an economic cost. Therefore we believe they are not relevant for assessing the value created for our shareholders.

In our financial reporting, we clearly identify all figures that exclude amortization charges for goodwill and other intangibles and refer to them as “pre-goodwill” figures. Reported figures including amortization charges are always disclosed and precede pre-goodwill disclosure.

Significant Financial Events

CHF million For the year ended	31.12.02	31.12.01	31.12.00
Operating income as reported	34,121	37,114	36,402
Gain on disposal of Hyposwiss	(155)		
Gain on disposal of Klinik Hirslanden	(72)		
Adjusted operating income	33,894	37,114	36,402
Operating expenses as reported	29,577	30,396	26,203
Writedown of PaineWebber brand name	(1,234)		
US Global Settlement Fund provision			(150)
PaineWebber integration costs			(290)
Adjusted operating expenses	28,343	30,396	25,763
Adjusted operating profit before tax and minority interests	5,551	6,718	10,639
Tax expense	678	1,401	2,320
Tax effect of significant financial events	239		100
Adjusted tax expense	917	1,401	2,420
Minority interests	(331)	(344)	(87)
Adjusted net profit	4,303	4,973	8,132
Adjusted net profit before goodwill	5,529	6,296	8,799

Risk factors

As a global financial services firm, UBS's businesses are affected by the external environment in the markets in which we operate. Different risk factors can impact our ability to effectively carry out our business strategies or can directly affect our earnings. Due to the factors described below and to other influences beyond our control, UBS's revenues and operating profit have been and are likely to continue to be subject to a measure of variability from period to period. Therefore UBS's revenues and operating profit for any particular period may not be indicative of sustainable results, may vary from year to year and may affect our ability to achieve UBS's strategic objectives.

Fluctuations in interest rates, equity prices, foreign currency rates and other market variables

A substantial part of our business consists of taking trading and investment positions in the debt, currency, equity, precious metal and energy markets and in private equity, real estate and other assets. The value of these assets can be adversely affected by fluctuations in financial markets. While we selectively utilize hedging techniques to mitigate these risks, these hedging techniques may not always be completely effective. More details on our risk management approach are provided in the "Market risk" section in the Handbook 2002/2003.

Because we prepare our accounts in Swiss francs, changes in currency exchange rates, particularly between the Swiss franc and the US dollar, may have an effect on the earnings that UBS reports (as revenues in US dollars represent the major part of our non-Swiss franc income). Our approach in managing this risk is explained in the "Currency management" section of the "Group Treasury" chapter in the Handbook 2002/2003.

In addition, changes in financial market structures can affect our earnings. For example, the euro's introduction in 1999 affected foreign exchange markets in Europe by reducing the extent of foreign exchange dealings among member countries and prompting a greater harmonization of financial products. Movements in interest rates can also affect our results as net interest income is affected by changes in interest rates. Interest rate movements can also affect our fixed income trading portfolio and the investment performance of our asset management businesses.

Furthermore, income in many of our businesses, such as investment banking, wealth and asset management, is often directly related to client activity levels. As a result, our income is also susceptible to the adverse effect of a sustained market downturn or significant deterioration of investor sentiment. Asset-based revenues generated in our wealth and asset management businesses depend on the levels of client assets which can be adversely affected by a deterioration of market valuations.

Market values and volumes may be affected by a broad range of issues beyond our control, such as geopolitical events, the possibility of war, terrorism, inflation and economic developments such as recession or depression globally or in particular regions.

Counterparty risks

The results of our credit-related activities (including loans, commitments to lend, other contingent liabilities such as letters of credit, derivative products such as swaps and options) would be adversely affected by any deterioration in the creditworthiness of our counterparties and the ability of clients to meet their obligations. The credit quality of our counterparties may be affected by various factors, such as an economic downturn, lack of liquidity, or unexpected political events, and as a result these events could cause us to incur greater losses.

In general, we aim to avoid risk concentrations in our credit portfolio. We believe that the incurred losses are adequately covered by our allowances and provisions. Additionally, we make active use of credit protection. A detailed discussion of credit risk and our approach to managing this risk can be found in the "Risk Analysis" section of the "Risk Management and Control" chapter in the Handbook 2002/2003. If our risk management and control measures prove inadequate or are not effective, then credit losses could have a material adverse effect on our income and the value of our assets.

Consequential risk

All our businesses are dependent on our ability to process a large number of complex transactions across many and diverse markets in different currencies and subject to many different legal and regulatory regimes. UBS's systems and processes are designed to ensure that the risks associated with our activities, including those arising from process error, failed execution, fraud, systems failure, failure of security and physical protection are appropriately controlled. However, if our system of internal controls is ineffective in identifying and remedying these risks, we will be exposed to operational failures that could result in losses. A detailed discussion of our approach in management and control of these risks can be found in the "Consequential risk" section of the "Risk Management and Control" chapter in the Handbook 2002/2003.

Competitive forces

We face intense competition in all aspects of our business. In our various lines of business, we compete, both domestically and internationally, with asset managers, retail and commercial banks, private banking firms, investment banking firms, brokerage firms and other investment services firms. We face intense competition not only from firms competing locally in particular lines of business, but also from global financial institutions that are comparable to us in size and breadth.

In addition, the trend towards consolidation in the global financial services industry is creating competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power. We expect these trends to continue and competition to increase in the future. Our competitive strength will depend on the ability of our businesses to adapt quickly to significant market and industry trends.

Other risks arising from our global presence

We operate in over 50 countries, and earn income and hold assets and liabilities in many different currencies and are subject to many different legal and regulatory regimes. Changes in local tax or legal regulations may affect our clients' ability or willingness to do business with us. Country, regional and political risks may increase market and credit risk. Political, economic and social deterioration in a country or region, including that arising from local market disruptions, currency crises, terrorism or the breakdown of monetary controls, may adversely affect the ability of clients or counterparties located in that region to obtain foreign exchange or credit and, therefore, to satisfy their obligations towards us. As a truly global financial services company, we are also exposed to economic instability in emerging markets. As discussed under the "Country risk" section of the "Risk Management and Control" chapter in the Handbook 2002/2003, we have in place a system of controls and procedures to mitigate this risk. However, if these controls fail to properly identify and appropriately respond to country risk, we may suffer large losses resulting in a negative impact on our results of operations and financial condition.

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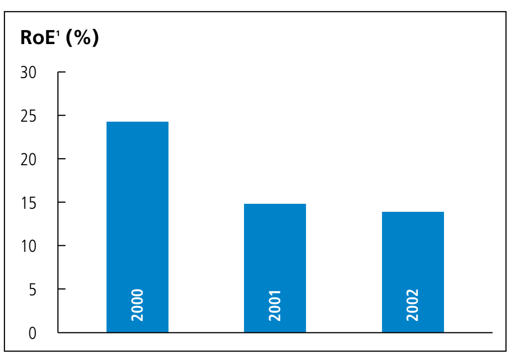
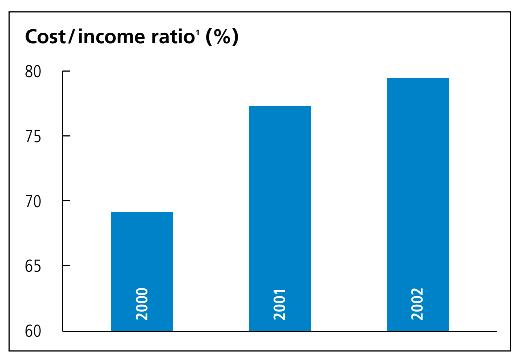
Group Financial Review

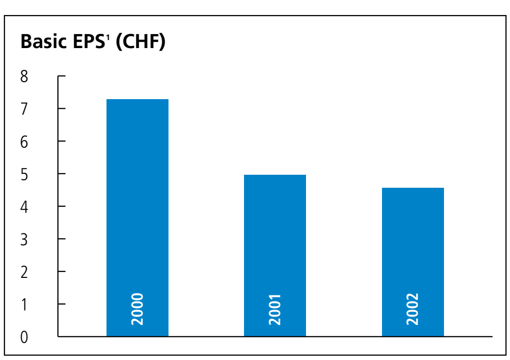
Group Results

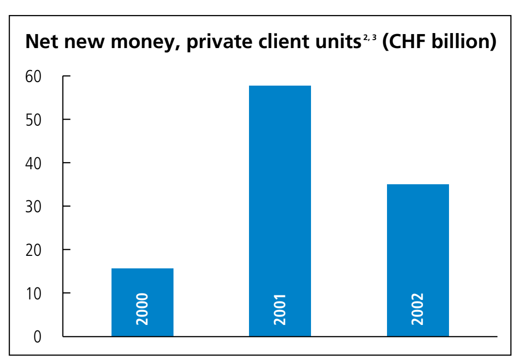
UBS Group Performance Against Targets

For the year ended	31.12.02	31.12.01	31.12.00
RoE (%)			
as reported	**8.9**	11.7	21.5
before goodwill and adjusted for significant financial events[1]	**13.9**	14.8	24.3
Basic EPS (CHF)			
as reported	**2.92**	3.93	6.44
before goodwill and adjusted for significant financial events[1]	**4.57**	4.97	7.28
Cost / income ratio (%)			
as reported	**86.2**	80.8	72.2
before goodwill and adjusted for significant financial events[1]	**79.5**	77.3	69.2
Net new money, private client units (CHF billion)[2, 3]			
Private Banking	**16.6**	24.6[4]	1.2[4]
UBS PaineWebber	**18.5**	33.2	14.5[5]
Total	**35.1**	57.8	15.7









1 Excludes the amortization of goodwill and other intangible assets and adjusted for significant financial events.

2 Private Banking and UBS PaineWebber.

3 Excludes interest and dividend income.

4 Calculated using the former definition of assets under management up to and including second quarter 2001.

5 Calculated using the former definition of assets under management in 2000.

Invested Assets and Net New Money

CHF billion	Invested assets			Net new money[1]		
	31.12.02	31.12.01	31.12.00	2002	2001	2000
UBS Group	**2,037**	2,448	2,445	**36.9**	102.0	(49.5)
UBS Wealth Management & Business Banking[2]						
Private Banking	**688**	791	798	**16.6**	24.6[3]	1.2[3]
Business Banking Switzerland	**205**	215	239	**3.7**	9.2[3]	2.7[3]
UBS Global Asset Management						
Institutional	**279**	328	323	**(0.6)**	6.2	(70.8)
Wholesale Intermediary	**278**	344	319	**(1.8)**	28.7	2.9
UBS Warburg	**3**	1	1	**0.5**	0.1	
UBS PaineWebber	**584**	769	765	**18.5**	33.2	14.5[4]

[1] Excludes interest and dividend income. [2] Calculated based on the new structure for UBS Wealth Management & Business Banking effective 1 July 2002. Prior-period figures have been restated accordingly. [3] Calculated using the former definition of assets under management up to and including second quarter 2001. [4] Calculated using the former definition of assets under management in 2000.

2002

UBS made significant progress in 2002. After the successful integration of PaineWebber in 2001, we continued to expand our investment banking capabilities, especially in the US, and to build up our European wealth management business. Our achievements should be viewed in the context of last year's environment, which was one of the most challenging seen in the financial industry during the post-war era. Extensive corrections in major global equity markets, depressed market levels, low corporate activity, and broadly subdued investor optimism reflected uncertainty about economic and political developments. However, our businesses were remarkably resilient and competitive in view of the general conditions they faced in 2002. Strict cost discipline and focus on growth across the firm helped us expand our market position in a period where many in the financial industry were forced to re-assess the basic assumptions about their business. Our clients made substantial new investments into our private client businesses, and we significantly improved our investment banking market share. Despite market developments, the relative operational performance in our core businesses remained strong and we benefited from our prudent attitude to risk and our tight management of costs.

Net profit

UBS's 2002 net profit was CHF 3,535 million, down 29% from CHF 4,973 million in 2001. This full-year profit was impacted by several items which we call significant financial events (SFEs): the non-cash after-tax writedown of the value of the PaineWebber brand, which reduced profit by 21%, and the impact of sales of subsidiaries, which added 6% to profit. Excluding these effects, and before goodwill amortization, net profit fell by 12% between 2001 and 2002.

Return on equity, also affected by the brand writedown, was 8.9% in 2002, down from 11.7% a year earlier. In the same timeframe, basic earnings per share were CHF 2.92, 26% lower than a year earlier while the cost/income ratio was 86.2%, an increase of 5.4 percentage points from 2001.

Group targets

We focus on four key performance targets, designed to ensure that UBS delivers continually improving returns to its shareholders.

- 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 of 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.

Net Interest and Trading Income

CHF million				% change from
For the year ended	**31.12.02**	31.12.01	31.12.00	31.12.01
Net interest income	**10,546**	8,041	8,130	31
Net trading income	**5,572**	8,802	9,953	(37)
Total net interest and trading income	**16,118**	16,843	18,083	(4)
Breakdown by business activity:				
Net income from interest margin products	**5,275**	5,694	5,430	(7)
Net income from trading activities	**10,605**	11,529	12,642	(8)
Net income from treasury activities	**1,667**	1,424	762	17
Other [1]	**(1,429)**	(1,804)	(751)	21
Total net interest and trading income	**16,118**	16,843	18,083	(4)

[1] Principally external funding costs of the Paine Webber Group, Inc. acquisition.

– We aim to achieve a clear growth trend in net new money in the private client businesses (Private Banking and UBS PaineWebber).

The first three targets are all measured pre-goodwill amortization, and adjusted for significant financial events.

Our performance against these targets in 2002 reflects the extremely difficult market conditions. Before goodwill and adjusted for significant financial events:

– Our return on equity for 2002 was 13.9%, down from 14.8% a year ago and slightly below our target range of 15–20%. The lower average level of equity, which was 6% lower because of our ongoing share buyback programs, partially offset the market-related decline in earnings of 12%.
– Basic earnings per share for 2002 were CHF 4.57, a decline of 8% from 2001. The 12% decline in profit was partially offset by the reduced average number of shares outstanding. Without the buyback programs, our earnings per share in 2002 would have been 9% lower.
– The cost/income ratio increased to 79.5% from 77.3%. Ongoing cost initiatives across all our businesses could not fully counteract the drop in revenues due to the declining market activity levels and subdued levels of transactional and corporate activity as well as ongoing private equity writedowns.

Net new money in the private client units (Private Banking and UBS PaineWebber) dropped from CHF 57.8 billion in 2001 to CHF 35.1 billion in 2002. The drop was mainly due to difficult market conditions, which were accentuated by the Italian tax amnesty.

Results

Operating income

Total operating income fell to CHF 34,121 million in 2002 from CHF 37,114 million in 2001. Adjusted for the divestment of Hyposwiss and Klinik Hirslanden, total operating income in 2002 was CHF 33,894 million, a drop of 9% from 2001. The decline was mainly due to the difficult market environment, less favorable trading conditions and a weakening of investor sentiment. Falling market levels affected asset-based revenues while our private equity business continued to record losses due to ongoing poor valuation and exit conditions.

Net interest income and net trading income. Net interest income of CHF 10,546 million in 2002 was 31% higher than in 2001. *Net trading income* declined 37% from CHF 8,802 million in 2001 to CHF 5,572 million in 2002.

In addition to income from interest margin-based activities (loans and deposits), net interest income includes income earned as a result of trading activities (for example, coupon and dividend income). This component is volatile from period to period, depending on the composition of the trading portfolio. In order to provide a better explanation of the movements in net interest income and net trading income, we analyze the total according to the business activities that give rise to the income, rather than by the type of income generated.

Net income from interest margin products was CHF 5,275 million in 2002, down 7% from CHF 5,694 million a year earlier, mostly reflecting lower interest margins on savings and cash

IFRS Actual Credit Loss Expense / (Recovery)

CHF million				% change from
For the year ended	**31.12.02**	31.12.01	31.12.00	31.12.01
UBS Wealth Management & Business Banking	**241**	123	(695)	96
UBS Warburg	**(35)**	360	562	
UBS PaineWebber	**15**	15	3	0
Corporate Center	**(15)**	0	0	
Total	**206**	498	(130)	(59)

accounts, as well as mortgages because of the extremely low interest rate environment. This was accentuated by the decline of the US dollar and euro, which caused the Swiss franc equivalent of US dollar interest rate revenues to drop.

Over the full year, *net income from trading activities* fell by 8% from CHF 11,529 million in 2001 to CHF 10,605 million in 2002. *Equities* revenues, at CHF 2,794 million in 2002, dropped from the year earlier, reflecting worsening market conditions and lower client activity, although we recorded better results in our US equity business, where we continue to gain market share. At CHF 6,041 million in 2002, *fixed income* trading revenues were lower than a year earlier, when they benefited from a buoyant trading environment due to the coordinated interest rate cuts by major central banks during the second half of 2001. This change in environment and lower revenues from our Investment Grade Credit and High Yield businesses were partially offset by better results in our Principal Finance and Emerging Market businesses. Additionally, the full-year trading result of our fixed income business profited from unrealized gains of CHF 226 million relating to credit default swaps (CDS) hedging existing credit exposures in the loan book. Our use of CDSs as hedging instruments for our loan book is only one part of our overall management approach to trading credit risk. The "Critical accounting policies" section on page 9 in this report and the "Capital and Risk Management" section of our Handbook 2002/2003 contain further information on how we use CDSs to hedge our credit exposure. Over the full year, our *foreign exchange* trading revenues, at CHF 1,500 million, increased slightly, due to increased volumes and spreads.

Net income from treasury activities was CHF 1,667 million in 2002, an increase of 17% over 2001, reflecting higher income from our invested equity, a drop in funding costs as well as higher unrealized gains on derivatives used to economically hedge interest rate risk related to structured notes issued.

Other net trading and interest income showed a loss of CHF 1,429 million compared to a loss of CHF 1,804 million in 2001. This drop was mainly due to lower goodwill funding costs, which reflected the weakening of the US dollar against the Swiss franc, lower funding costs for our private equity portfolio as well as the reclassification of some revenues previously reported as income from trading activities.

Credit loss expense. In 2002 credit loss expenses amounted to CHF 206 million, compared to CHF 498 million in 2001.

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 rising 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.

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.

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

Net Fee and Commission Income

CHF million For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Underwriting fees	2,134	2,158	1,434	(1)
Corporate finance fees	848	1,339	1,772	(37)
Brokerage fees	5,987	6,445	5,742	(7)
Investment fund fees	4,033	4,276	2,821	(6)
Fiduciary fees	300	355	351	(15)
Custodian fees	1,302	1,356	1,439	(4)
Portfolio and other management and advisory fees	4,065	4,650	3,666	(13)
Insurance-related and other fees	417	538	111	(22)
Total securities trading and investment activity fees	19,086	21,117	17,336	(10)
Credit-related fees and commissions	275	307	310	(10)
Commission income from other services	1,006	946	802	6
Total fee and commission income	20,367	22,370	18,448	(9)
Brokerage fees paid	1,349	1,281	1,084	5
Other	797	878	661	(9)
Total fee and commission expense	2,146	2,159	1,745	(1)
Net fee and commission income	18,221	20,211	16,703	(10)

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 in UBS Wealth Management & Business Banking 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.

For further details on our risk management approach, how we measure credit risk and the development of our credit risk exposures, please see the "Capital and Risk Management" chapter of our Handbook 2002/2003.

Net fee and commission income for full-year 2002 was CHF 18,221 million, a decline of 10% compared to a year earlier, due to a drop in most revenue categories.

Underwriting fees, at CHF 2,134 million, dropped only 1% from 2001, reflecting the strong revenues from our fixed income business, which increased by 67% compared to a year earlier. However, this was offset by a much lower result in our equity underwriting business due to the markedly lower market activity.

Corporate Finance fees fell by 37% to CHF 848 million, reflecting lower market activity and a significant drop in the global fee pool compared to 2001. Despite that, we were again able to improve our market position, increasing our full-year share of the market from 4.4 % in 2001 to 5.0% in 2002.

Net brokerage fees dropped by 10% to CHF 4,638 million in the period due to much lower client activity in 2002, reflecting the more difficult market environment. However, we increased our market share as overall market volumes decreased at a sharper rate.

Investment fund fees remained resilient and dropped just 6% to CHF 4,033 million. The drop was partially due to the lower asset base due to much lower markets, and because of falling sales-based commissions with investors reluctant to commit to new investments.

Custodian fees, at CHF 1,302 million in 2002, were down 4% from CHF 1,356 million, principally due to lower market values and, consequently, average asset levels.

The drop in portfolio and other management and advisory fees from CHF 4,650 million in 2001 to CHF 4,065 million reflects lower aver-

Headcount[1]

(full-time equivalents)	31.12.02	31.12.01	31.12.00	Change in % 31.12.01
UBS Wealth Management & Business Banking	**28,930**	29,469	30,272	(2)
Private Banking	**10,488**	10,249	9,835	2
Business Banking Switzerland	**18,442**	19,220	20,437	(4)
UBS Global Asset Management	**3,346**	3,281	2,860	2
UBS Warburg	**16,037**	15,690	15,391	2
Corporate and Institutional Clients	**15,964**	15,562	15,262	3
UBS Capital	**73**	128	129	(43)
UBS PaineWebber	**19,563**	20,413	21,567	(4)
Corporate Center	**1,185**	1,132	986	5
Group total	**69,061**	69,985	71,076	(1)
thereof: Switzerland	***27,972***	*29,163*	*30,095*	*(4)*

[1] 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.

age asset levels and third-party fees due to the difficult market environment.

At CHF 417 million in 2002, insurance-related and other fees decreased by 22% from a year earlier. This drop was mainly due to a decrease in insurance sales volumes in UBS PaineWebber mirroring the more difficult market environment.

Credit-related fees and commissions dropped by 10% from CHF 307 million to CHF 275 million reflecting lower revenues from guarantees as well as a drop in revenues from documentary credits.

Other income showed a loss of CHF 12 million compared to a gain of CHF 558 million a year earlier. Higher impairment charges for UBS Capital's private equity investments and other financial investments were only partially offset by gains from disposals of financial investments and of the Klinik Hirslanden and Hyposwiss subsidiaries.

Operating expenses

In full-year 2002, total operating expenses, at CHF 29,577 million, decreased by 3% from CHF 30,396 million in 2001 because of lower personnel expenses as well as falling general and administrative expenses, reflecting our ability to adjust our costs in line with revenue developments. The decline was accentuated by the fall of the US dollar, UK sterling and euro against the Swiss franc. This drop was partially offset by the CHF 1,234 million charge for the writedown of the PaineWebber brand. Without the writedown, the drop in total operating expenses would have been 7%.

Full-year *personnel expenses* dropped by 7% to CHF 18,524 million in 2002 due to much lower performance-related compensation expenses and lower salaries, and a reduction in headcount, especially in UBS PaineWebber and Business Banking Switzerland. The drop was further accentuated by lower recruitment, training and contractor costs across the firm, reflecting our continued cost control initiatives. Finally, the result was helped by a weaker US dollar against the Swiss franc.

Personnel expenses are managed on a full-year basis with final fixing of annual performance-related payments in the fourth quarter. Over the full year, approximately 42% of this year's personnel expenses were bonus or other variable compensation, down from 43% last year. Average variable compensation per head in 2002 was 8% lower than in 2001.

We did not build up any significant overcapacity during the peak of the last business cycle, and have therefore been able to reduce headcount gradually as economic conditions weakened – without resorting to drastic cuts. UBS Group headcount dropped by 924 from 69,985 to 69,061, as we streamlined processes and structures at the same time as we expanded our capabilities in areas with positive growth potential.

In full-year 2002, *general and administrative expenses*, at CHF 7,072 million, were down from CHF 7,631 million a year earlier. Strict cost control in all our businesses led to a drop in nearly all cost categories. The biggest declines were in telecommunication, IT, outsourcing and branding expenses. This was partially offset by higher legal and security provisions including a global settlement charge of CHF 111 million (USD 80 million) regarding equity research in the US.

At CHF 1,614 million in 2001, *depreciation* fell by 6% to CHF 1,521 million in 2002 mainly due to lower depreciation charges for machines and equipment.

Amortization of goodwill and other intangible assets increased from CHF 1,323 million in 2001 to CHF 2,460 million in 2002, due to the write-down of the PaineWebber brand name following our decision made in fourth quarter 2002 to move to a single brand.

Tax

We incurred a tax expense of CHF 678 million in 2002, down from CHF 1,401 million in 2001. This corresponds to an effective tax rate of 15% in 2002. Adjusted for significant financial events, our 2002 tax expense of CHF 917 million reflects an effective tax rate of 16.5%, well below 2001's rate of 21%. The decline is mainly driven by significantly lower progressive tax rates in Switzerland, the ability to benefit from tax loss carry-forwards in the US and UK and a higher proportion of earnings generated in lower tax jurisdictions.

PaineWebber merger-related costs

In 2002, UBS incurred amortization expenses of CHF 2,005 million on goodwill and intangible assets resulting from the acquisition of UBS PaineWebber, while funding costs amounted to CHF 988 million. The amortization includes a non-cash writedown of CHF 1,234 million for the PaineWebber brand name that had been held as an intangible asset on our balance sheet. The writedown was due to a strategic decision announced in November 2002, to move all our businesses to the single UBS brand in June 2003. After the writedown, the remaining PaineWebber-related intangible assets on our balance sheet amount to CHF 2,334 million. These intangibles continue to be carried net of tax.

As part of the merger, UBS agreed to make retention payments to PaineWebber financial advisors, senior executives and other staff, subject to these employees' continued employment and other restrictions. The payments vest over periods of up to four years from the merger in November 2000 and the vast majority of them are paid in the form of UBS shares. Because these payments are a regular and continuing cost of the business, they are not treated as significant financial events. Personnel expenses in 2002 include retention payments for key PaineWebber staff of USD 261 million (CHF 405 million).

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.

Balance sheet

Total assets were CHF 1,181 billion on 31 December 2002, down CHF 72 billion, or 6%, from CHF 1,253 billion on 31 December 2001. The balance sheet shrank because of the weakening of the US dollar and UK sterling against the Swiss franc, falling by 17% and 8% in the period respectively.

Cash and balances with central banks were CHF 4 billion on 31 December 2002, down from CHF 21 billion on 31 December 2001. Most of the decline was due to a drop in the deposits held with the Bank of Japan. The strong increase seen in 2001 in our cash and balance levels held with central banks was related to a change in the structure of our Japanese financial assets triggered by the negative short-term interest rates in that country. In 2002, however, the level of cash and cash balances returned to a normal level.

Assets due from banks increased to CHF 32 billion on 31 December 2002 from CHF 28 billion at 31 December 2001, reflecting higher time deposits.

Trading-related assets (cash collateral on securities borrowed, trading portfolio assets and reverse repurchase agreements), dropped by CHF 26 billion from 31 December 2001 to 31 December 2002. A significant part of this change reflects the weakening of the US dollar against the Swiss franc and lower volumes in trading portfolio assets due to the more difficult market environment. The drop was partially offset by an increase in reverse repurchase agreements, due to higher volumes in our mortgage-backed securities business in the US, which benefited from the low interest rate levels for home mortgages.

Loans, net of allowances for credit losses, declined from CHF 227 billion on 31 December 2001 to CHF 212 billion on 31 December 2002. Business Banking Switzerland as well as UBS Warburg's Corporate and Institutional Clients business unit continued to reduce their recovery portfolios. The drops were accentuated by the declining value of the US dollar against the Swiss franc.

Financial investments decreased from CHF 29 billion on 31 December 2001 to CHF 8 billion on 31 December 2002, reflecting a decrease in debt instruments of public authorities and money market papers, and reduced positions in private equity investments, mainly due to impairment losses.

On 31 December 2002, goodwill and other intangible assets were CHF 14 billion, CHF 5 billion lower than on 31 December 2001. The drop was mainly due to the writedown of the Paine Webber brand and the fall of the US dollar against the Swiss franc.

Total liabilities decreased 6%, from CHF 1,206 billion on 31 December 2001 to CHF 1,139 billion on 31 December 2002. Liabilities due to banks dropped 22% to CHF 83 billion, reflecting a decrease in funding required for related business activity. Amounts due to customers decreased by CHF 27 billion to CHF 307 billion, because of the devaluation of the US dollar and UK sterling against the Swiss franc. The drop was somewhat offset by an expansion of trading-related liabilities (cash collateral on securities lent, repurchase agreements and trading portfolio liabilities) which together increased by CHF 5 billion during 2002. Debt issued decreased CHF 27 billion to CHF 129 billion on 31 December 2002, largely due to decreased issuance of money market paper that reflected lower funding needs.

UBS's long-term debt portfolio remained unchanged at CHF 57 billion on 31 December 2002. During 2002, CHF 17 billion in long-term debt was issued while CHF 15 billion reached maturity or were redeemed early. The remaining change was due to foreign currency impacts, mainly the strengthening of the Swiss franc against the US dollar. We believe the maturity profile of our long-term debt portfolio is well balanced to match the maturity profile of our assets.

Shareholders' equity decreased CHF 5 billion, or 10%, from 31 December 2001 to 31 December 2002. The increase in retained earnings was more than offset by the effect of the par value reduction and the repurchase of own shares in 2002.

UBS maintains a significant percentage of liquid assets that can be converted into cash on relatively short notice in order to meet short-term funding needs without adversely affecting UBS's ability to conduct its ongoing businesses. These liquid assets include reverse repurchase agreements and cash collateral on securities borrowed, marketable corporate debt and equity securities and a portion of UBS's loans secured primarily with real estate. The value of UBS's collateralized receivables and trading portfolio will fluctuate depending on market conditions. The individual components of UBS's total assets, including the proportion of liquid assets, may vary significantly from period to period due to changing client needs, economic and market conditions and trading strategies.

Cash flows

In the twelve-month period to December 2002, cash equivalents decreased by CHF 33,915 million, principally as a result of financing activities, which generated negative cash flow of CHF 32,470 million. A cash outflow of CHF 26,206 million resulted from the repayment of money market paper, CHF 5,605 million from movements in treasury shares and derivative activity in own equity, with CHF 2,509 million resulting from a capital repayment by par value reduction. The issuance of long-term debt of CHF 17,132 million and repayments of CHF 14,911 million brought a net cash inflow of CHF 2,221 million.

Operating cash inflows (before changes in operating assets and liabilities and income taxes paid) amounted to CHF 8,192 million. Cash of CHF 10,021 million was used to fund the net increase in operating assets, while a net increase in operating liabilities generated cash inflows of CHF 37 million. Payments to tax authorities were CHF 572 million.

Investing activities generated cash inflow of CHF 1,381 million. Divestments of financial investments contributed CHF 2,153 million while the sale of Hyposwiss and Klinik Hirslanden brought in CHF 984 million, both partially offset the CHF 1,763 million of cash outflow for the purchase of property and equipment.

Outlook 2003

As 2003 begins, the environment continues to be a challenging one. Uncertainty over economic developments and market direction, and rising geopolitical concerns are affecting investor sentiment and therefore transaction levels, and are holding back a significant recovery in corporate activity. Therefore, we do not expect to see an immediate pick-up in our financial performance, as depressed asset levels, low levels of investor activity and possible deterioration of the credit environment weigh on our revenues. Any recovery in the latter part of this year remains simply unpredictable.

Because of this, we will continue to monitor our cost base carefully, investing selectively in our strategic priorities. Our prudent management of resources over the last several years leaves us excellently positioned for further competitive gains.

2001

Net profit

Our net profit for the year 2001 was CHF 4,973 million, 36% less than the CHF 7,792 million achieved in 2000, reflecting the much more difficult market environment in 2001.

The merger with PaineWebber resulted in much higher goodwill amortization expense in 2001 than in 2000. Pre-goodwill, net profit for the year was CHF 6,296 million, 26% lower than achieved in the much stronger markets of 2000 and 28% lower if adjusted for significant financial events.

Return on equity in 2001 was 11.7%, compared to 21.5% a year earlier. In 2001, basic earnings per share were CHF 3.93, against CHF 6.44 a year earlier. The cost/income ratio was 80.8% in 2001, up from 72.2% in 2000.

Group targets

Before goodwill and adjusted for significant financial events:

– Our return on equity for 2001 was 14.8%, only just below our target range of 15–20%. Although this is lower than the 24.3% that we achieved in 2000, it represented a solid performance when set in the context of the trading environment. Our return on equity in 2000 was boosted by extremely high returns in the exuberant markets of the first half-year, while 2001 saw much weaker economic and stock market performance combined with higher average equity resulting from the acquisition of PaineWebber in fourth quarter 2000.
– Basic earnings per share fell 32% to CHF 4.97 in 2001 from 2000. Despite the decline, 2001's result was still 21% higher than that achieved in 1999. The number of outstanding shares at the outset of 2001 was higher than during most of 2000 because of share issuance to fund the merger with PaineWebber. An ongoing share buyback program, however, caused the number of outstanding shares to fall to below their pre-merger level by 31 December 2001.
– The cost/income ratio rose from 69.2% to 77.3%, reflecting lower revenues, the poor performance of our private equity portfolio in 2001 and the influence of the relatively high cost/income ratio typical of UBS PaineWebber's business. Despite this rise, operating expenses remained under tight control, with decreases from 2000 levels in UBS Wealth Management's Business Banking Switzerland business unit and UBS Warburg's Corporate and Institutional Clients business unit, as well as a clear reduction throughout the year of costs at UBS PaineWebber.

Our disciplined approach to both compensation and non-personnel expenses allowed us to continue investing in the future growth of our key businesses. The percentage of revenue that we devoted to rewarding our staff remained almost unchanged since 2000 in our most important businesses, reflecting a substantial decrease in bonus payments.

Our asset-gathering activities have delivered very strong results in 2001, with inflows in the private client units (Private Banking and UBS

PaineWebber) of CHF 57.8 billion, compared to CHF 15.7 billion in 2000. Across the whole Group, we attracted a total of CHF 102.0 billion in net new money, as clients increasingly value the quality of our advice and the breadth and depth of our wealth management capabilities.

Results

Operating income

Operating income was 2% higher in 2001 than in 2000, at CHF 37,114 million, with the effect of much more difficult market conditions offset by the addition of UBS PaineWebber's businesses.

There were no significant financial events that affected operating income in either 2001 or 2000.

Net interest income was 1% lower than in 2000, at CHF 8,041 million, compared to CHF 8,130 million in 2000, and *net trading income* was 12% lower than in 2000 at CHF 8,802 million, compared to CHF 9,953 million in 2000.

Various factors can alter the mix between net interest income and net trading income between periods.

As well as income from interest margin based activities (for example loans and deposits), net interest income includes some income earned as a result of trading activities (such as coupon and dividend income). This component is volatile from period to period, depending on the composition of the trading portfolio.

Furthermore, the classification of income arising from positions and their offsetting economic hedging transactions may be different. In fourth quarter 2001, this effect was particularly pronounced, as a result of the significant fall in short-term USD interest rates which substantially reduced our borrowing costs, while improving net interest income for the quarter. Our overall interest rate exposures were limited by hedging transactions using derivative instruments. As the USD rates fell, these economic hedges generated mark-to-market losses recorded in fixed income net trading income, offsetting a portion of the gains in net interest income.

In order to provide a better explanation of the movements in net interest income and net trading income, we produce the disclosure shown on page 22 which sums net interest income and net trading income, and then analyzes the total according to the business activities which gave rise to the income, rather than by the type of income generated.

Net income from interest margin products increased 5% from CHF 5,430 million in 2000 to CHF 5,694 million in 2001, driven by the inclusion of UBS PaineWebber.

Net income from trading activities was CHF 11,529 million in 2001, 9% lower than the CHF 12,642 million achieved in 2000. Falling interest rates and increased volatility in debt markets in 2001 led to a very strong year for fixed income and foreign exchange trading, but equity trading revenues suffered from much lower market volumes, increased volatility and reduced arbitrage opportunities.

Net income from treasury activities was 87% higher than in 2000, at CHF 1,424 million, reflecting two main factors:

- increased income from our invested equity, as a result of the expansion of our capital base since the PaineWebber merger, and changes in the investment portfolio's maturity structure leading to an increase in average interest rates;
- improved currency management results due to introduction of a new economic hedging strategy and some one-off gains.

Other net trading and interest income principally reflects the costs of goodwill funding, with the CHF 1,053 million increase in cost from CHF 751 million in 2000 to CHF 1,804 million in 2001 mainly due to goodwill funding costs arising from the acquisition of PaineWebber.

Credit loss expense. In 2001 credit loss expenses amounted to CHF 498 million, compared to a net recovery of CHF 130 million in 2000.

The global credit environment declined rapidly throughout 2001, with overall default rates as high as during the last major global recession in 1991. The phenomenon of investment grade companies falling into restructuring and default within a very short period of time became very prominent in the United States during 2001, and subsequently spread to Europe. In this difficult and challenging environment we focused on ensuring that our counterparty ratings are rapidly adjusted to reflect the changing economic situation. At the same time, we increased the frequency of sector and geographic rating reviews.

In UBS Warburg, the ongoing strategy of actively hedging credit exposure kept new provisions to a relatively low level, resulting in an actual credit loss expense of CHF 360 million in 2001, compared to CHF 562 million in 2000.

Corporate bankruptcies in Switzerland reached their lowest level since the early 1990s, and we successfully improved the credit quality of our domestic portfolio in recent years. The level of recoveries of previously existing provisions, however, declined compared to the somewhat exceptional levels of 2000, reflecting less robust growth in the Swiss economy towards the end of 2001, following the global economic slowdown. As a result, the trend of net recoveries of loan loss provisions observed in the previous year was reversed and credit loss expenses increased accordingly during 2001, although remaining below the long-term trend. Credit loss expense in UBS Wealth Management & Business Banking in 2001 was CHF 123 million, compared to a net recovery of CHF 695 million in 2000.

Net fee and commission income was CHF 20,211 million in 2001, up 21% from 2000 and at a record level, reflecting the inclusion of UBS PaineWebber and the introduction of higher fees for investment funds. Without UBS PaineWebber, net fee and commission income would have dropped 7%, driven by much lower brokerage fees and a reduction in corporate finance fees, with increases in market share during the year achieved against a background of much reduced market activity.

Underwriting fees increased 50%, from CHF 1,434 million in 2000 to CHF 2,158 million in 2001. The majority of this increase was due to UBS PaineWebber, whose extensive retail network in the US provides a strong platform for distribution of both bonds and equities.

UBS PaineWebber has a significant US municipal securities business. It completed the largest deal in its history in fourth quarter 2001, raising USD 1.9 billion for the New Jersey Transit Trust Fund Authority, and helping to push it into first place in the league table rankings for fourth quarter 2001, and second place for the whole of 2001. The mortgage-backed securities business in the US also benefited from the combination of UBS's franchise and capital strength with existing PaineWebber expertise. UBS Warburg ranked first in US residential mortgage-backed securities in 2001, according to Thomson Financial Data.

Equity underwriting was depressed in 2001, as volatile and uncertain markets reduced issuance. However, UBS's league table rankings improved, from seventh in international equity new issues in 2000 to second in 2001, according to Dealogic EquitywarePlus. Even excluding the contribution from UBS PaineWebber, equity underwriting revenues increased by CHF 77 million, or 7%, from 2000.

Although our corporate finance league table rankings were disappointing, down from sixth in 2000 for completed global mergers and acquisitions, to eighth in 2001, we outperformed 2000 in terms of market share, with full-year analysis showing us with a 4.4% share of fees, compared to 3.6% in 2000. Despite this, Corporate Finance fees were down 24%, from CHF 1,772 million in 2000 to CHF 1,339 million in 2001, reflecting the much more difficult market environment this year.

Net brokerage fees rose 11% from CHF 4,658 million in 2000 to CHF 5,164 million in 2001, driven by the inclusion of UBS PaineWebber. Without the contribution from UBS PaineWebber, net brokerage fees would have fallen by about 17% compared to 2000, reflecting the much lower trading volumes experienced in almost all major markets worldwide in 2001.

Investment fund fees rose 52% from CHF 2,821 million in 2000 to CHF 4,276 million in 2001, driven by the inclusion of UBS PaineWebber. Excluding UBS PaineWebber, investment fund fees would have increased by CHF 268 million, mainly reflecting a change in the pricing structure for UBS Investment Funds, introduced in January 2001, which brought charges up to market levels.

Custodian fees, at CHF 1,356 million in 2001 were down 6% from 2000's level of CHF 1,439 million, principally reflecting lower average assets in Private Banking in Switzerland.

Portfolio and other management and advisory fees increased 27% from CHF 3,666 million in 2000 to CHF 4,650 million in 2001, due to the addition of UBS PaineWebber. Excluding UBS PaineWebber, there would have been a slight decline from 2000, as a full-year's contribution from the O'Connor business in UBS Asset Management (created in June 2000) was more than offset by the effect of lower average assets on managed account fees.

Insurance related and other fees increased substantially from CHF 111 million in 2000 to CHF 538 million in 2001, with almost all this increase due to UBS PaineWebber, where the biggest contribution came from the deferred annuities business.

Other income fell 62% from CHF 1,486 million in 2000 to CHF 558 million in 2001, reflecting the very difficult conditions in the private equity market in 2001, which led to minimal opportunities for divestment and much greater levels of writedowns than last year.

Operating expenses

In light of lower revenues in 2001, cost control was a key focus of all our management teams, as we maintained strong discipline on both personnel and non-personnel costs, particularly in the Corporate and Institutional Clients and Business Banking Switzerland business units, bringing their operating expenses to record low levels.

*Total operating expense*s increased 16% from CHF 26,203 million in 2000 to CHF 30,396 million in 2001, driven by the inclusion of UBS PaineWebber. Excluding significant financial events in 2000 and UBS PaineWebber, costs fell 7%, as performance-related compensation declined, and non-personnel costs were tightly managed.

The principal significant financial events affecting the comparison of operating expenses are the CHF 150 million additional provision for the US Global Settlement of World War II-related claims, recorded in 2000 in General and administrative expenses, and CHF 290 million of costs from the integration of PaineWebber, also recorded in 2000. Of this CHF 290 million, CHF 118 million was charged to Personnel expenses, CHF 93 million to General and administrative expenses and CHF 79 million to Depreciation.

Personnel expenses in 2001 reflect considerable reductions in bonus and performance-related compensation, with average variable compensation per head down 23%, ensuring that overall compensation ratios for 2001 were kept in line with 2000's ratio in our core businesses. However, the inclusion of CHF 5,178 million of UBS PaineWebber personnel expenses more than offset the reduction in performance-related pay, bringing the total to CHF 19,828 million, 16% up from 2000. Approximately 43% of personnel expenses were bonus or other variable compensation, down from 48% last year.

UBS Group *headcount* fell by 2% from 71,076 at 31 December 2000 to 69,985 at 31 December 2001, principally reflecting the effect of successful cost control efforts at UBS Wealth Management & Business Banking's Business Banking Switzerland business unit and UBS PaineWebber, although that was slightly offset by the effect of acquisitions in UBS Global Asset Management and further hiring for the European wealth management initiative.

General and administrative expenses increased by 13% from CHF 6,765 million in 2000 to CHF 7,631 million in 2001 reflecting a full-year's costs for UBS PaineWebber, which more than offset the absence of the one-off charges and provisions recorded in 2000.

General and administrative expenses in 2000 included a final provision of CHF 150 million related to the US Global Settlement of World War II-related claims, and CHF 93 million of PaineWebber integration costs, which were both treated as significant financial events. Excluding these provisions and the extra costs in 2001 due to the inclusion of UBS PaineWebber, general and administrative expenses would have been almost unchanged in 2001 compared to 2000.

Depreciation and amortization increased 29% from CHF 2,275 million in 2000 to CHF 2,937 million in 2001, driven primarily by the goodwill amortization resulting from the merger with PaineWebber.

Tax

UBS Group incurred a *tax expense* of CHF 1,401 million in 2001, down from CHF 2,320 million in 2000. This corresponds to an effective tax rate of 21% in 2001, compared to 23% in 2000. This relatively low rate results from significantly lower tax in Switzerland, reflecting the effect of lower profits triggering lower progressive tax rates, and a change in the geographical earnings mix of the Group.

PaineWebber merger-related costs

In 2001, UBS incurred amortization costs of CHF 846 million on goodwill and intangible assets resulting from the acquisition of UBS PaineWebber, while goodwill funding costs amounted to CHF 763 million.

As part of the merger, UBS agreed to make retention payments to PaineWebber financial advisors, senior executives and other staff, subject to these employees' continued employment and other restrictions. The payments vest over periods of up to four years from the merger and the vast majority of them will be paid in the form of UBS shares. Because these payments are a regular and continuing cost of the business, they are not treated as significant financial events. Personnel expenses in 2001 include retention payments for key PaineWebber staff of USD 284 million (CHF 482 million) for the full year.

Dividend

For 2001, we again made a tax-efficient distribution of capital to our shareholders rather than paying a dividend. On 10 July 2002, we made a distribution of CHF 2.00 to shareholders for the financial year 2001 which reduced the par value from CHF 2.80 to CHF 0.80. This is consistent with the total per share distribution to shareholders of CHF 2.03 in 2000.

Cash flows

In the twelve-month period to December 2001, cash equivalents increased by CHF 22,889 million, principally as a result of financing activities, which generated positive cash flow of CHF 18,103 million. CHF 24,226 million from the issuance of money market paper was offset by CHF 6,038 million for treasury shares and treasury share contract activity as well as CHF 683 million for capital repayments.

Operating activities generated positive cash flow of CHF 12,873 million. Of this amount, CHF 4,973 million resulted from net profit, CHF 27,306 million from a net increase in amounts due to and from banks, a net increase in amounts due to customers and loans of CHF 42,813 million and a net cash inflow of CHF 19,470 million from repurchase and reverse repurchase agreements and cash collateral on securities borrowed and lent. These were offset by CHF 78,456 million from an increase in the size of the trading portfolio.

Investing activities generated negative cash flow of CHF 7,783 million, CHF 5,770 million of which were from the purchase of financial investments and CHF 2,021 million from the purchase of property and equipment.

Review of Business Group Performance

Introduction

Reporting by Business Unit[1]

CHF million except where indicated	Private Banking		Business Banking Switzerland	
For the year ended	**31.12.02**	31.12.01	**31.12.02**	31.12.01
Income	**7,279**	7,696	**5,494**	5,792
Credit loss (expense)/recovery[2]	**(28)**	(37)	**(286)**	(567)
Total operating income	**7,251**	7,659	**5,208**	5,225
Personnel expenses	**2,083**	1,947	**2,727**	2,878
General and administrative expenses	**2,158**	2,038	**159**	396
Depreciation	**125**	151	**355**	465
Amortization of goodwill and other intangible assets	**111**	109	**0**	0
Total operating expenses	**4,477**	4,245	**3,241**	3,739
Business Group performance before tax	**2,774**	3,414	**1,967**	1,486
Business Group performance before tax and goodwill[3]	**2,885**	3,523	**1,967**	1,486
Additional information				
Cost/income ratio before goodwill (%)[3,4]	**60**	54	**59**	65
Net new money (CHF billion)[5]	**16.6**	24.6[6]	**3.7**	9.2[6]
Invested assets (CHF billion)	**688**	791	**205**	215
Fair value of employee stock options granted[7]	**58**		**38**	
Headcount (full-time equivalents)	**10,488**	10,249	**18,442**	19,220

1 All figures have been adjusted for significant financial events.
2 In management accounts, statistically derived actuarial expected loss adjusted by deferred releases rather than the net IFRS actual credit loss is reported for each business unit (see Note 2 to the Financial Statements).
3 Excludes the amortization of goodwill and other intangible assets.
4 Operating expenses/operating income before credit loss expense.
5 Excludes interest and dividend income.
6 Calculated using the former definition of assets under management up to and including second quarter 2001.
7 For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Management accounting

The discussion in this chapter reviews UBS's 2002, 2001 and 2000 results by Business Group and business unit.

Our management reporting systems and policies determine the revenues and expenses directly attributable to each business unit. Internal charges and transfer pricing adjustments are reflected in the performance of each business unit.

Inter-business unit revenues and expenses. Revenue sharing agreements are used to allocate external customer revenues to Business Groups on a reasonable basis. Transactions between Business Groups are conducted at arms length. Inter-business unit charges are recorded as a reduction to expenses in the business unit providing the service. Corporate Center expenses are allocated to the operating business units, to the extent that it is appropriate.

Net interest income is apportioned to business units based on the opportunity costs of funding their activities. Net interest income relating to balance sheet products is calculated on a fully funded basis. In a second step, business units are additionally credited with the risk-free return achieved on the average regulatory equity used.

Commissions are credited to the business unit with the corresponding customer relationship, with revenue sharing agreements for the allocation of customer revenues where several business units are involved in value creation.

Regulatory equity is allocated to business units based on their average regulatory capital requirement during the period. Only utilized equity is taken into account, although we add an additional financial buffer of 10% above the individually determined business unit regulatory capital requirement. The remaining equity, which mainly covers real estate, and any other unallocated equity, remains at the Corporate Center.

Headcount includes trainees and staff in management development programs, but not contractors.

UBS Global Asset Management		Corporate and Institutional Clients		UBS Capital		UBS PaineWebber		Corporate Center	
31.12.02	31.12.01	**31.12.02**	31.12.01	**31.12.02**	31.12.01	**31.12.02**	31.12.01	**31.12.02**	31.12.01
1,953	2,218	**14,100**	15,587	**(1,602)**	(872)	**5,561**	6,391	**1,315**	800
0	0	**(128)**	(112)	**0**	0	**(13)**	(18)	**249**	236
1,953	2,218	**13,972**	15,475	**(1,602)**	(872)	**5,548**	6,373	**1,564**	1,036
946	1,038	**7,784**	8,258	**94**	96	**4,245**	5,019	**645**	592
513	569	**2,314**	2,586	**64**	64	**1,263**	1,441	**601**	537
37	46	**381**	454	**1**	2	**149**	124	**473**	372
270	286	**364**	402	**0**	0	**457**	502	**24**	24
1,766	1,939	**10,843**	11,700	**159**	162	**6,114**	7,086	**1,743**	1,525
187	279	**3,129**	3,775	**(1,761)**	(1,034)	**(566)**	(713)	**(179)**	(489)
457	565	**3,493**	4,177	**(1,761)**	(1,034)	**(109)**	(211)	**(155)**	(465)
77	75	**74**	72			**102**	103		
(2.4)	34.9					**18.5**	33.2		
557	672					**584**	769		
44		**567**		**15**		**73**		**32**	
3,346	3,281	**15,964**	15,562	**73**	128	**19,563**	20,413	**1,185**	1,132

Changes to disclosure since 2001

Business unit structure

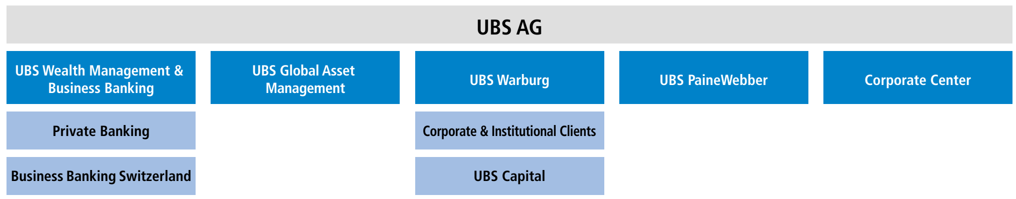
We implemented a new Business Group structure at the start of 2002, under which *UBS PaineWebber* became a separate Business Group. In the previous structure, UBS PaineWebber was reported as one of UBS Warburg's business units. Accordingly, goodwill and other intangible assets relating to the merger of UBS and PaineWebber were reported in the UBS Warburg Business Group and not reflected in the results of its individual business units. On the separation of UBS PaineWebber from UBS Warburg, the goodwill and intangible assets were assigned to the different Business Groups that have benefited from the merger with PaineWebber. That means that they have been assigned to the new UBS PaineWebber Business Group, to UBS Warburg's Corporate and Institutional Clients business unit and to a lesser extent to UBS Global Asset Management and to the Private Banking business unit. Associated amortization expense and net funding charges are now being charged to each business unit in proportion to the share of goodwill and intangible assets assigned.

At the same time, UBS transferred UBS PaineWebber's non-US client business to Private Banking. Finally, O'Connor, originally jointly launched by UBS Global Asset Management and UBS Warburg, became entirely part of UBS Global Asset Management.

Our reporting structure also reflects the revised business portfolio of the *UBS Wealth Management & Business Banking* Business Group, formerly UBS Switzerland. As of 1 July 2002, the business serving high-end affluent clients was transferred from the former Private and Corporate Clients (PCC) unit to Private Banking. The Business Group now comprises the following business units:

- Private Banking, which includes the full private banking business and the high-end affluent clients segment that were previously part of the PCC business unit.

UBS Group
Reporting structure in 2002



– Business Banking Switzerland, consisting of the individual and corporate clients businesses of the former PCC business unit.

New disclosure has been added for the private banking business, with separate income data and key performance indicators (KPIs) for the International Clients (clients domiciled outside of Switzerland) and Swiss Clients (clients domiciled in Switzerland) businesses.

While none of this restructuring had an impact on the Group, we have restated prior periods for all business units affected to reflect these changes.

During the first half of 2003, we will create a new holding company to incorporate GAM, our specialist asset management firm, as well as our five independent private banks – Cantrade (Zurich), Banco di Lugano (Lugano), Ferrer Lullin (Geneva), Bank Ehinger (Basel), and Armand von Ernst (Bern). The new company will be held at the Corporate Center, with the structure, effective from 1 January 2003, to be reflected in our financial reporting effective from the first quarter 2003 onwards. We will release figures for 2000, 2001, and 2002 reflecting these changes prior to the publication of first quarter 2003 results.

Other management accounting changes

In 2002 we implemented additional changes in our management accounting that required us to restate prior periods for the business units affected:

– We simplified our allocation of Corporate Center costs to the Business Groups. In the past certain central costs were allocated proportionally to UBS business units. Since 1 January 2002, these charges have been restricted to services that are provided directly under explicit Service Level Agreements.
– On 1 January 2002, we changed the way in which we calculate regulatory equity allocated to the business units, adjusting the leverage ratio (ratio of BIS Tier 1 capital excluding hybrid capital to BIS total capital) for non-goodwill items. This change in allocation also affects the interest earned on regulatory equity.
– On 1 January 2002, we reclassified certain client assets of the Business Banking Switzerland business unit as custody-only, which required a restatement of the business unit's invested assets.
– From 1 October 2002, recurring fees at UBS PaineWebber were redefined to include alternative investment fees, fees from UBS Global Asset Management and other advisory fees that were not formerly included in the definition. These changes align the UBS PaineWebber definition of recurring fees with the asset-based fee definition applied to the Private Banking business. We now uniformly characterize this type of revenue as "recurring fees" – both in Private Banking and UBS PaineWebber.

Additional disclosure in 2002

In our management accounting, the expense for equity-based compensation plans – including employee option plans – is recorded at the intrinsic value of the instruments at grant date. To enhance transparency, for every business unit and Business Group we now disclose the additional compensation expense we would have incurred in 2002 had we recognized the fair value of stock option grants. On a Group level, this additional expense would have been CHF 827 million in 2002 (CHF 690 million after-tax).

Further details on the accounting treatment of equity-based compensation can be found in the section "Critical accounting policies" on page 13 and in Note 32e to the UBS Group Financial Statements.

Seasonal characteristics

Our main businesses do not show significant seasonal patterns – except for UBS Warburg's Corporate and Institutional Clients business unit, where revenues are impacted by the seasonal characteristics of general financial market activity and deal flows in investment banking.

When discussing quarterly performance, we therefore compare UBS Warburg's results of the reported quarter with those achieved in the same period of the previous year. For all other Business Groups, results are compared with the previous quarter. Considering the impact of UBS Warburg's performance on Group results, we discuss quarterly performance at Group level by comparing it with the same quarter in the previous year.

Client / invested assets reporting

When reporting on client assets, we show two assets metrics: client assets and invested assets:

– *Client assets* represent all client assets managed by or deposited with UBS.
– *Invested assets* is a more restrictive term and includes all client assets managed by or deposited with UBS *for investment purposes only.*

Invested assets are our central measure and exclude all assets held for purely transactional purposes. It includes, for example, managed institutional assets, mutual funds, discretionary and advisory private client portfolios, and private client securities or brokerage accounts, but excludes wholesale custody-only assets, correspondent banking assets and transactional cash or current accounts. Non-bankable assets (e. g. art collections) and interbank deposits are excluded from both measures.

Net new money is defined as the sum of the acquisition of invested assets from new clients, the loss of invested assets due to client defection and inflows and outflows of invested assets from existing clients. Interest and dividend income as well as the effects of market or currency movements as well as acquisitions and divestments are excluded from net new money.

This definition was introduced in 2001. Because of that, invested assets on 31 December 2000 were restated according to the new definition.

Where products are created in one Business Group, but sold in another, they are counted in both the investment management unit and the distribution unit, and double counted in Group totals. For example, a mutual fund provided by UBS Global Asset Management but sold by Private Banking will be counted as invested assets in both business units, as they both provide an independent service to their respective client, add value and generate revenues. This approach is in line with our open architecture strategy and allows us to accurately reflect the actual performance of our individual businesses.

On a Group level, approximately CHF 290 billion in invested assets were double counted in 2002 out of total invested assets of CHF 2,037 billion (in 2001, approximately CHF 310 billion were double counted out of a total of CHF 2,448 billion in invested assets). The majority of assets that are double counted represent institutional funds managed by UBS Global Asset Management and distributed by UBS Wealth Management & Business Banking and UBS PaineWebber.

Credit loss expense

Credit loss expense represents the charges to the profit and loss account relating to amounts due to UBS from loans and advances, over-the-counter (OTC) derivatives and off-balance sheet products that are considered impaired or uncollectable (for more information, please refer to Note 11 to the UBS Group Financial Statements of this report).

We determine the amount of credit loss expense in UBS's financial accounts and in the business unit reporting on different bases. In the Group income statement, we report UBS's results according to IFRS. Under these standards, credit loss expense is the total of net new allowances and direct writeoffs less recoveries. These actual losses are recognized and charged to the income statement in the period when they arise.

By contrast, in our segment and business unit reporting, we apply an approach to the measurement of credit risk which reflects the average annual cost that management anticipates will arise from transactions existing today that may become impaired in the future. The basis for measuring these inherent risks in the credit portfolios is the concept of "expected loss" (further information on page 60 in the "Risk Analysis" section of the Handbook 2002/2003). Over the

Business Group Credit Loss Charge

CHF million For the year ended 31.12.02	UBS Wealth Management & Business Banking	UBS Warburg	UBS PaineWebber	Corporate Center	Total
Actuarial expected loss	569	126	13		708
Deferred releases	(255)	2	0		(253)
Credit loss expense charged to the Business Groups	**314**	**128**	**13**		**455**
IFRS actual credit loss expense	**241**	**(35)**	**15**	**(15)**	**206**
Balancing item charged as Credit loss expense in Corporate Center					(249)

longer term, the expected loss should equal the actual credit loss expense, although the latter is more erratic, in both timing and amount. Therefore, in business unit reporting, in addition to the expected loss, we also charge or refund the difference between actual credit loss expense and expected loss, amortized over a three-year period. With this deferred charging mechanism we not only make Business Groups ultimately accountable for any credit losses they suffer but also give them the incentive to align their credit decisions and risk-adjusted pricing with the medium-term risk profile of their credit transactions. The sum of this "deferral" and the expected loss makes up the Credit loss expense charged in our segment and business unit reporting.

We reconcile the difference between the credit loss expense in UBS's income statement (the actual loss) and the credit loss expense shown in business unit reporting (expected loss plus deferral), by recording a balancing item in Corporate Center. We also show the allocation of actual credit loss expense to the business units in the footnotes to Note 2a of the UBS Group Financial Statements.

Key performance indicators

On Group level, we focus on a consistent set of long-term financial targets defined across periods of varying market conditions and designed to ensure that UBS delivers continuously improving returns to shareholders (see pages 21 and 22 of this report). At the Business Group or business unit level, performance is measured with carefully chosen key performance indicators (KPIs). These do not carry explicit targets, but are indicators of the business units' success in creating value for shareholders. They reflect the key drivers of each unit's core business activities and include both financial metrics, such as the cost/income ratio, and non-financial metrics, such as invested assets or the number of client advisors.

KPIs are an important part of our business planning process. They are used identically for internal performance measurement and external reporting. This ensures that management have a clear responsibility to lead their businesses towards achieving success in the Group's key value drivers and avoids any risk of managing to purely internal performance measures.

Reconciliation of Business Group Credit Loss Charge to IFRS Actual Credit Loss Expense / (Recovery)

CHF million	Credit loss charge			IFRS actual credit loss expense		
For the year ended	31.12.02	31.12.01	31.12.00	31.12.02	31.12.01	31.12.00
UBS Wealth Management & Business Banking	314	604	785	241	123	(695)
UBS Warburg	128	112	243	(35)	360	562
UBS PaineWebber	13	18	3	15	15	3
Corporate Center	0	0	0	(15)	0	0
Total	455	734	1,031	206	498	(130)
Balancing item in Corporate Center	(249)	(236)	(1,161)			

Indicative Tax Rates

For the year ended 31 December 2002	Tax rate Pre-Goodwill
UBS Wealth Management & Business Banking	**19**
Private Banking	**18**
Business Banking Switzerland	**20**
UBS Global Asset Management	**22**
UBS Warburg	**38**
Corporate and Institutional Clients	**31**
UBS Capital	**3**
UBS PaineWebber	**37**

Business Group tax rates

Indicative Business Group and business unit tax rates are calculated on an annual basis based on the results and statutory tax rates of the financial year. These rates are approximate calculations, based upon the application to the year's adjusted earnings of statutory tax rates for the locations in which the Business Groups operated. These tax rates therefore give guidance on the tax cost to each Business Group of doing business during 2002 on a stand-alone basis, without the benefit of tax losses brought forward from earlier years.

The indicative tax rates are presented "pre-goodwill". They give an indication of what the tax rate would have been if goodwill were not charged for accounting purposes. It is the sum of the tax expense payable on net profit before tax and goodwill in each location, divided by the total net profit before tax and goodwill. However, the tax rates post-goodwill are higher than the pre-goodwill rates, because in some jurisdictions there are limitations on the tax deductibility of amortization costs.

Please note that these tax rates are not necessarily indicative of future tax rates for the businesses or UBS Group as a whole.

UBS Wealth Management & Business Banking

Georges Gagnebin
Chairman UBS Wealth Management & Business Banking

Marcel Rohner
CEO UBS Wealth Management & Business Banking

In 2002, Private Banking's pre-tax profit adjusted for SFEs was CHF 2,774 million, a 19% decline from 2001. Business Banking Switzerland's profit before tax was CHF 1,967 million, up 32% from the previous year. Private Banking continues to attract net new money with further strong inflows in our European wealth management initiative. In Business Banking Switzerland, operating expenses fell 13%, and were at their lowest level since 1999.

Business Group reporting

CHF million, except where indicated For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Income	**12,928**	13,488	14,355	(4)
Credit loss expense [1]	**(314)**	(604)	(785)	(48)
Total operating income	**12,614**	12,884	13,570	(2)
Personnel expenses	**4,810**	4,825	5,151	0
General and administrative expenses	**2,317**	2,434	2,478	(5)
Depreciation	**480**	616	633	(22)
Amortization of goodwill and other intangible assets	**111**	109	81	2
Total operating expenses	**7,718**	7,984	8,343	(3)
Business Group performance before tax	**4,896**	4,900	5,227	0
Business Group performance before tax and goodwill [2]	**5,007**	5,009	5,308	0
Additional information				
Regulatory equity allocated (average)	**8,800**	9,400	10,150	(6)
Cost/income ratio (%) [3]	**60**	59	58	
Cost/income ratio before goodwill (%) [2, 3]	**59**	58	58	
Fair value of employee stock options granted	**96** [4]			

Business Group reporting adjusted for Significant Financial Events

CHF million, except where indicated For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Income	**12,773** [5]	13,488	14,355	(5)
Credit loss expense [1]	**(314)**	(604)	(785)	(48)
Total operating income	**12,459**	12,884	13,570	(3)
Personnel expenses	**4,810**	4,825	5,151	0
General and administrative expenses	**2,317**	2,434	2,398 [6]	(5)
Depreciation	**480**	616	561 [6]	(22)
Amortization of goodwill and other intangible assets	**111**	109	81	2
Total operating expenses	**7,718**	7,984	8,191	(3)
Business Group performance before tax	**4,741**	4,900	5,379	(3)
Business Group performance before tax and goodwill [2]	**4,852**	5,009	5,460	(3)
Additional information				
Cost/income ratio (%) [3]	**60**	59	57	
Cost/income ratio before goodwill (%) [2, 3]	**60**	58	56	

1 In management accounts, statistically derived actuarial expected loss adjusted by deferred releases rather than the net IFRS actual credit loss is reported in the Business Groups (see Note 2 to the Financial Statements).

2 Excludes the amortization of goodwill and other intangible assets.

3 Operating expenses/operating income before credit loss expense.

4 For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

5 Excludes significant financial event: Income, CHF 155 million (Gain on disposal of Hyposwiss).

6 Excludes significant financial events: General and administrative expenses, CHF 80 million and Depreciation, CHF 72 million (PaineWebber integration costs).

Private Banking

Business unit reporting

CHF million, except where indicated For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Income	7,279[1]	7,696	8,402	(5)
Credit loss expense[3]	(28)	(37)	(35)	(24)
Total operating income	7,251	7,659	8,367	(5)
Personnel expenses	2,083	1,947	2,030	7
General and administrative expenses	2,158	2,038	2,019[2]	6
Depreciation	125	151	145[2]	(17)
Amortization of goodwill and other intangible assets	111	109	55	2
Total operating expenses	4,477	4,245	4,249	5
Business unit performance before tax	2,774	3,414	4,118	(19)
Business unit performance before tax and goodwill[4]	2,885	3,523	4,173	(18)
KPIs				
Invested assets (CHF billion)	688	791	798	(13)
Net new money (CHF billion)[5, 6]	16.6	24.6	1.2	
Gross margin on invested assets (bps)[7]	98	97	105	1
Cost/income ratio (%)[8]	62	55	51	
Cost/income ratio before goodwill (%)[4, 8]	60	54	50	
Cost/income ratio before goodwill and excluding the European wealth management initiative (%)[4, 8]	53	48		
Client advisors (full-time equivalents)	3,291	3,043		8
Private Banking – International Clients				
Income	5,229[1]	5,498	5,890	(5)
Invested assets (CHF billion)	493	555	550	(11)
Net new money (CHF billion)[5]	19.1	23.2	7.5	
Gross margin on invested assets (bps)[7]	100	99	107	1
European wealth management initiative (part of Private Banking – International Clients)				
Income	186	140		33
Invested assets (CHF billion)	28	16		75
Net new money (CHF billion)[5]	7.6	5.6		
Client advisors (full-time equivalents)	551	370		49
Private Banking – Swiss Clients				
Income	2,050	2,198	2,512	(7)
Invested assets (CHF billion)	195	236	248	(17)
Net new money (CHF billion)[5, 6]	(2.5)	1.4	(6.3)	
Gross margin on invested assets (bps)[7]	95	92	100	3

Additional information As at	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Client assets (CHF billion)	836	949		(12)
Regulatory equity allocated (average)	3,100	3,550	2,600	(13)
Fair value of employee stock options granted	58[9]			
Headcount (full-time equivalents)	10,488	10,249	9,835	2

1 Excludes significant financial event: Income, CHF 155 million (Gain on disposal of Hyposwiss).

2 Excludes significant financial events: General and administrative expenses, CHF 80 million and Depreciation, CHF 72 million (PaineWebber integration costs).

3 In management accounts, statistically derived actuarial expected loss adjusted by deferred releases rather than the net IFRS actual credit loss is reported in the Business Groups (see Note 2 to the Financial Statements).

4 Excludes the amortization of goodwill and other intangible assets.

5 Excludes interest and dividend income.

6 Calculated using the former definition of assets under management up to and including second quarter 2001.

7 Income/average invested assets.

8 Operating expenses/operating income before credit loss expense.

9 For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Components of Operating Income

Private Banking derives its operating income principally from:
– fees for financial planning and wealth management services;
– fees for investment management services; and
– transaction-related fees.

Private Banking's fees are based on the market value of invested assets and the level of transaction-related activity. As a result, Private Banking's operating income is affected by such factors as fluctuations in invested assets, changes in market conditions, investment performance and inflows and outflows of client funds.

Significant Financial Events

In 2002, we decided to streamline our private banking activities in the region of Zurich and therefore sold our Hyposwiss subsidiary to the Cantonal Bank of Saint Gall. The transaction involved the transfer of 132 employees and CHF 6.4 billion in invested assets and generated a pretax gain of CHF 155 million which we treated as a significant financial event in 2002. This gain does not appear in the 2002 adjusted business unit result above.

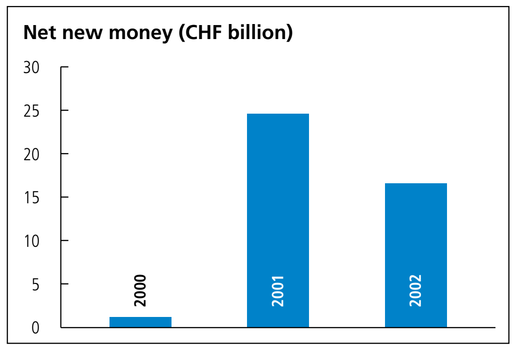
Following the merger with PaineWebber in 2000, our strategy for extending our wealth management services in Europe was re-assessed and focus shifted to more affluent clients than those originally targeted by the so-called "e-services" initiative. This change in strategy resulted in a charge of CHF 80 million to general and administrative expenses due to the closure of the infrastructure related to the initiative and a charge of CHF 72 million to depreciation due to the writeoff of the system used. Both amounts form part of the PaineWebber integration costs, which were treated as significant financial event in 2000, and as a result these costs do not appear in the adjusted business unit results above.

There were no significant financial events that affected this business unit in 2001. The results in the discussion below exclude significant financial events.

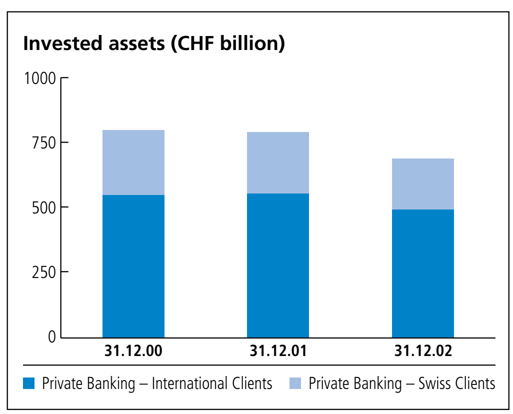
2002

Key performance indicators

For the full year, net new money inflows totaled CHF 16.6 billion, down from the 2001 result of CHF 24.6 billion. Excluding the net outflow of over CHF 8 billion related to the Italian tax amnesty, the net new money result was essentially unchanged. International clients invested net new money of CHF 19.1 billion in 2002, down by only CHF 4.1 billion from a year earlier despite the Italian tax amnesty. This excellent underlying result in these difficult markets was due to the continued success of our European wealth management initiative as well as significant inflows from clients in Asia and the Americas.

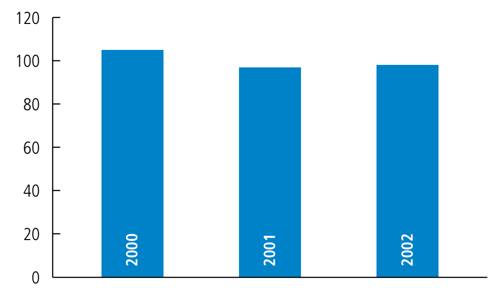


In the year to 31 December 2002, invested assets fell 13% to CHF 688 billion, mainly due to the steep drop in global equity markets as well as the 17% drop in the US dollar against the Swiss franc. Some 38% of Private Banking's invested assets are denominated in US dollars.

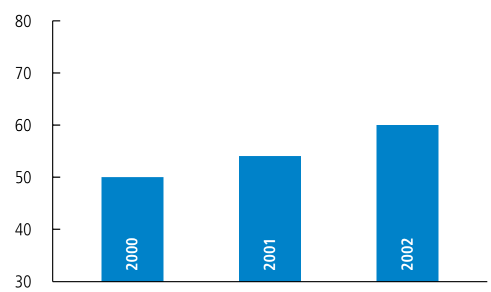


Gross margin on invested assets remained resilient and rose by 1 basis point to 98 basis points. Assets as well as revenues fell in 2002 from the already depressed 2001 levels. The split of the margin remained unchanged from 2001 with 72% of the margin stemming from recurring revenue and 28% from transactional fees.

Gross margin on invested assets (bps)



Pre-goodwill cost/income ratio (%)



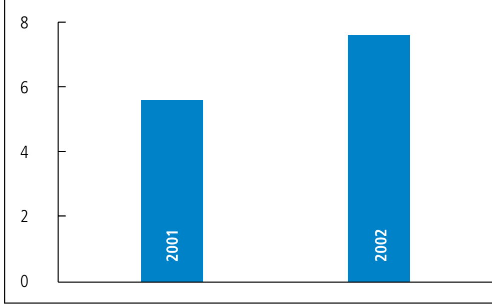
Over the full year, the pre-goodwill cost/income ratio increased from 54% in 2001 to 60% in 2002, reflecting the ongoing investment in our European wealth management initiative as well as the strong decline in asset-based revenues. Excluding the European wealth management initiative, our cost/income ratio increased from 48% in 2001 to 53% in 2002.

European wealth management

Early in 2001 we launched the European wealth management initiative, designed to expand our market share in the five countries of France, Germany, Italy, Spain and the UK, key markets that cover about 80% of Europe's investable assets. Our strategy is focused on wealthy clients, with services designed primarily for those with more than EUR 500,000 of investable assets, developed with a clear commitment to open architecture and the provision of a full range of "best-of-breed" investment products.

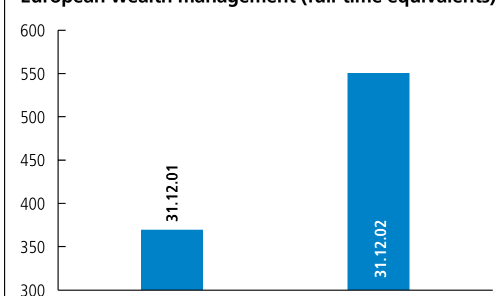
Progress so far has been promising with net new money inflows into our domestic European network for full-year 2002 totaling CHF 7.6 billion, up 36% from last year's intake of CHF 5.6 billion. The inflow in 2002 reflects an annual growth rate in net new money of 48%. For full-year 2002, income from our European wealth management initiative was CHF 186 million, 33% or CHF 46 million above the 2001 level, reflecting the success of our business expansion program.

Net new money
European wealth management (CHF billion)



We hired a total of 181 client advisors in 2002, bringing the total at 31 December 2002 to 551. We remain committed to growing our presence in our European target markets and will continue to invest in qualified advisory staff at a rate determined by the market environment and business opportunities.

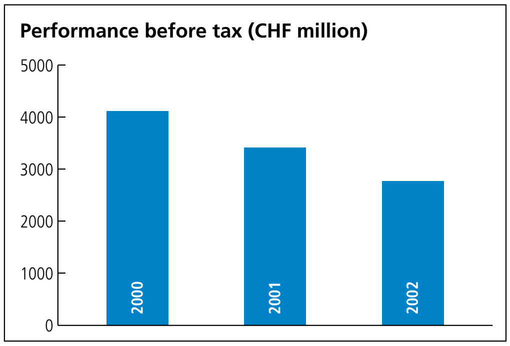
Client advisors
European wealth management (full-time equivalents)



Results

Private Banking's full-year 2002 pre-tax profit, at CHF 2,774 million, fell 19% from 2001 due to the steep decline in asset-based revenues which could not be fully compensated by cost reductions as we continue to invest in our European wealth management initiative.

Personnel as well as general and administrative expenses increased due to this strategic initiative.

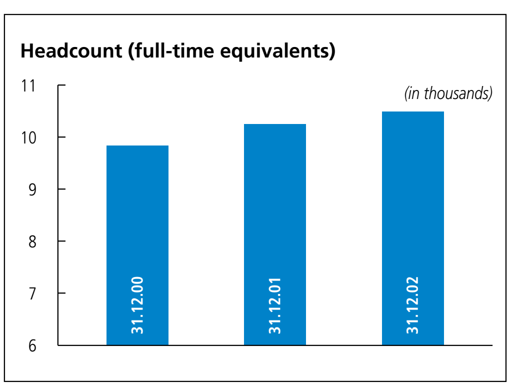


Operating income
Full-year operating income was CHF 7,251 million, down 5% from CHF 7,659 million in 2001. Both non-recurring transaction revenues and recurring asset-based revenues fell from 2001.

Operating expenses
At CHF 4,477 million, full-year operating expenses for 2002 rose 5% from 2001, reflecting investments in our European wealth management initiative.

Both personnel expenses, which rose 7% to CHF 2,083 million, as well as general and administrative expenses, up 6% at CHF 2,158 million, increased chiefly because of the investments in this initiative.

Full-year depreciation fell in 2002 by 17% to CHF 125 million because of lower charges for information technology equipment, which is increasingly being leased instead of bought, while goodwill amortization was CHF 111 million, up 2% from 2001.



Headcount
Headcount, at 10,488 on 31 December 2002, increased by 239, mainly due to the hiring of experienced client advisors for the buildup of European wealth management activities. Overall, the number of client advisors increased by 8% to 3,291 at the end of 2002 and represented 31% of all Private Banking's staff.

2001

Key performance indicators

Net new money inflows in 2001, at CHF 24.6 billion, were CHF 23.4 billion higher than in 2000, demonstrating our success in re-energizing our asset-gathering performance, as well as our determined focus on growing our wealth management franchise.

In the year to 31 December 2001, invested assets fell a modest 1% despite the poor performance of securities markets, reflecting strong net new money growth and a relatively conservative asset mix.

The gross margin fell from 105 basis points in 2000 to 97 basis points in 2001, clearly reflecting reduced transaction volumes, especially compared to the exuberant market environment in the early part of 2000.

The pre-goodwill cost/income ratio increased by four percentage points from 50% in 2000 to 54% in 2001, reflecting the costs of our investments in the European wealth management initiative, and weaker transaction volumes.

European wealth management
In 2001, our domestic European network had net new money inflows of CHF 5.6 billion, despite the relatively difficult market conditions. Opening new offices and hiring new staff is a key component of the initiative. Hiring plans progressed well in 2001, with the number of client advisors in our five target countries rising to 370 on 31 December 2001, an increase of 208 for the year. A further 40 newly hired advisors started on 1 January 2002, bringing our total hiring in 2001 to 248.

Results
Weaker markets than in 2000 and the costs of investing in the European wealth management initiative brought full-year pre-tax profits in

2001 down 17% from 2000 to CHF 3,414 million, despite a continued focus on controlling operating costs.

Operating income

Full-year operating income was CHF 7,659 million, down 8% from the record CHF 8,367 million in 2000. This was driven by falling transaction-based revenues, reflecting the much less active markets in 2001. Asset-based revenues fell only very slightly compared to 2000, despite lower average assets, reflecting our success in providing added value services to our clients.

Operating expenses

At CHF 4,245 million, operating expenses in 2001 were nearly unchanged from 2000. Personnel expenses fell by 4% to CHF 1,947 million in 2001, reflecting lower performance-related compensation despite a 4% increase in headcount during the year.

General and administrative expenses increased 1% from CHF 2,019 million in 2000 to CHF 2,038 million in 2001, principally reflecting the cost of investments in new product development, premises and systems in support of the European wealth management initiative.

Depreciation increased from CHF 145 million in 2000 to CHF 151 million in 2001, reflecting increased investment in IT and premises.

Headcount

At 31 December 2001, Private Banking employed 10,249 professionals, a 4% increase compared with year-end 2000, driven by recruitment of client advisors and support personnel for the European wealth management initiative. At 31 December 2001, client advisors represented around 30% of Private Banking's staff.

Business Banking Switzerland

Business unit reporting

CHF million, except where indicated				% change from
For the year ended	**31.12.02**	31.12.01	31.12.00	31.12.01
Private clients	**3,014**	3,185	3,520	(5)
Corporate clients	**2,148**	2,263	2,217	(5)
Other areas	**332**	344	216	(3)
Income	**5,494**	5,792	5,953	(5)
Credit loss expense[1]	**(286)**	(567)	(750)	(50)
Total operating income	**5,208**	5,225	5,203	0
Personnel expenses	**2,727**	2,878	3,121	(5)
General and administrative expenses	**159**	396	379	(60)
Depreciation	**355**	465	416	(24)
Amortization of goodwill and other intangible assets	**0**	0	26	
Total operating expenses	**3,241**	3,739	3,942	(13)
Business unit performance before tax	**1,967**	1,486	1,261	32
Business unit performance before tax and goodwill[2]	**1,967**	1,486	1,287	32
KPIs				
Invested assets (CHF billion)	**205**	215	239	(5)
Net new money (CHF billion)[3, 4]	**3.7**	9.2	2.7	
Cost/income ratio (%)[5]	**59**	65	66	
Cost/income ratio before goodwill (%)[2, 5]	**59**	65	66	
Non-performing loans/gross loans outstanding (%)	**3.6**	4.8	5.5	
Impaired loans/gross loans outstanding (%)	**6.0**	7.7	9.4	

Additional information				% change from
As at or for the year ended	**31.12.02**	31.12.01	31.12.00	31.12.01
Deferred releases included in credit loss expense[1]	**240**	115		109
Client assets (CHF billion)	**494**	544		(9)
Regulatory equity allocated (average)	**5,700**	5,850	7,550	(3)
Fair value of employee stock options granted	**38**[6]			
Headcount (full-time equivalents)	**18,442**	19,220	20,437	(4)

[1] In management accounts, statistically derived actuarial expected loss adjusted by deferred releases rather than the net IFRS actual credit loss is reported in the Business Groups (see Note 2 to the Financial Statements). Deferred releases represent amortization of historical differences between actual credit losses and actuarial expected loss (for more information, please refer to pages 39 and 40 of the UBS Financial Report 2002). [2] Excludes the amortization of goodwill and other intangible assets. [3] Excludes interest and dividend income. [4] Calculated using the former definition of assets under management up to and including second quarter 2001. [5] Operating expenses/operating income before credit loss expense. [6] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Components of Operating Income

Business Banking Switzerland derives its operating income principally from:
- net interest income from its loan portfolio and customer deposits;
- fees for investment management services;
- transaction fees.

As a result, Business Banking Switzerland's operating income is affected by movements in interest rates, fluctuations in invested assets, client activity levels, investment performance and changes in market conditions.

Significant financial events

There were no significant financial events that affected this business unit in 2002, 2001 or 2000.

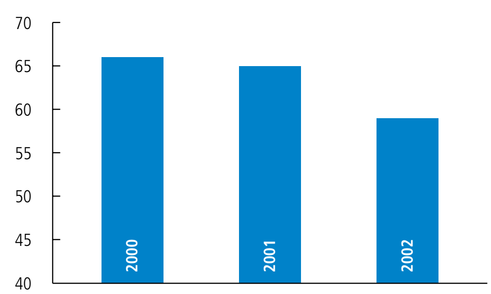
2002

Key performance indicators

Invested assets fell from CHF 215 billion in 2001 to CHF 205 billion in 2002 as negative market developments and the weakening of major currencies against the Swiss franc were only partially offset by positive net new money inflows. In 2002, Business Banking Switzerland attracted net new money of CHF 3.7 billion, down from CHF 9.2 billion in 2001. This drop was due to smaller inflows from large corporate client accounts – a business traditionally subject to volatile inflows and outflows.

For full-year 2002, the cost/income ratio was a record low 59%, 6 percentage points below the previous year's ratio of 65%, reflecting the drop in total operating expenses to the lowest level since 1999.

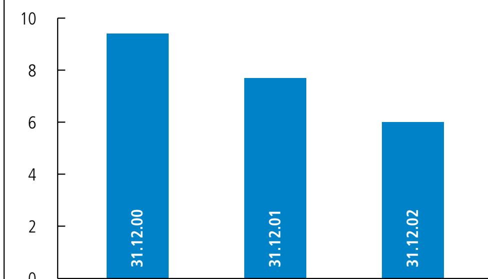
Pre-goodwill cost/income ratio (%)



Business Banking Switzerland's loan portfolio decreased to CHF 139 billion at 31 December 2002 from CHF 146 billion at 31 December 2001, driven by lower volumes in the corporate clients area and the further reduction in the recovery portfolio from CHF 12 billion at 31 December 2001 to CHF 8.6 billion at 31 December 2002. This positive development was also reflected in the key credit quality ratios: the non-performing loan ratio declined to 3.6% from 4.8%, while the ratio of impaired loans to gross loans saw a further improvement, falling to 6.0% from 7.7%.

Full-year interest income in 2002 was below the previous year mainly due to lower interest margins on savings and cash accounts as well as the fall in the US dollar, which caused the Swiss franc equivalent of US dollar interest rate revenues to drop.

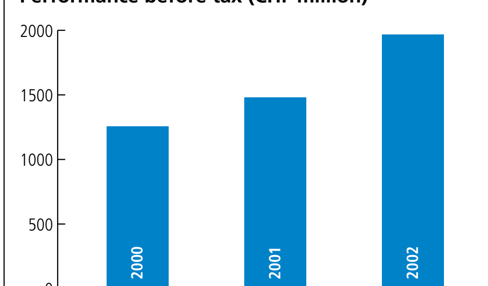
Impaired loans/gross loans (%)



Results

In 2002, full-year pre-tax profit was a record CHF 1,967 million, up 32% from 2001, achieved despite declining revenues in difficult market conditions, due to continued tight management of our cost base and lower credit loss expenses. Personnel expenses dropped due to lower performance-related compensation as well as a drop in headcount whereas general and administrative expenses reached their lowest level since 1999.

Performance before tax (CHF million)



Operating income

Full-year operating income was CHF 5,208 million, almost unchanged from 2001's level of CHF 5,225 million. Interest income fell because of continued pressure on margins of liability products. Trading and transactional income also declined, reflecting the difficult market environment, although these developments were mostly offset by lower credit loss expenses, which fell to CHF

286 million in 2002, down 50% from CHF 567 million in 2001. This drop reflects the continued success in improving the quality of our loan portfolio through the implementation of risk-adjusted pricing and the deferred benefit of the prior year's better than expected credit performance.

Income from *Private Clients* declined from CHF 3,185 million in 2001 to CHF 3,014 million in 2002, reflecting mainly a decline in interest income due to lower margins of liability products due to lower market rates. In addition, fee income decreased as a result of a lower asset base and weaker client activity.

Income from *Corporate Clients* declined 5% from CHF 2,263 million in 2001 to CHF 2,148 million in 2002 reflecting lower interest, fee and trading income due to the weak financial markets.

Income from *Other* areas dropped by 3% to CHF 332 million in 2002 from CHF 344 million in 2001 mainly due to a methodology change regarding the treatment of revenues from correspondent banking clients.

Operating expenses

Full-year 2002 operating expenses decreased 13% from CHF 3,739 million in 2001 to CHF 3,241 million and were at their lowest level since 1999.

Personnel expenses dropped 5% from CHF 2,878 million in 2001 to CHF 2,727 million in 2002, due to lower headcount.

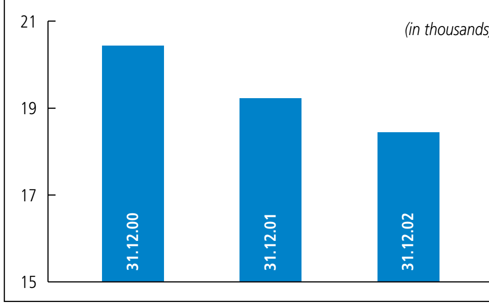
General and administrative expenses, at CHF 159 million, continued to drop and were 60% lower than the CHF 396 million recorded in 2001. This drop reflects our continuous efforts to control costs as well as higher usage of services, mainly IT, provided to other business units. Overall, the very low level of general and administrative expenses is explained by the integrated business model of UBS through which Business Banking Switzerland provides a significant number of services to other business units of the Group, mainly Private Banking. In accounting terms, the costs for these services are charged to the receiving unit as general and administrative expenses, offset by lower general and administrative expenses in the provider unit.

Depreciation for full-year 2002 dropped to CHF 355 million from CHF 465 million in 2001 as information technology equipment is increasingly being leased instead of bought.

Headcount

Business Banking Switzerland's headcount was 18,442 on 31 December 2002, a decline of 778 or 4% from 31 December 2001, as we continued to streamline processes and structures.

Headcount (full-time equivalents)



2001

Key performance indicators

In 2001, Business Banking Switzerland attracted net new money of CHF 9.2 billion, a clear improvement over 2000's CHF 2.7 billion, reflecting improved flows from both private clients and corporate clients, where flows can be larger and more volatile. Invested assets were CHF 215 billion as of 31 December 2001.

Business Banking Switzerland continued to focus successfully on stringent cost control measures reflected in a one percentage point decline in the full year's pre-goodwill cost/income ratio from 66% in 2000 to 65% in 2001. This resulted from reductions in headcount and in performance-related compensation expenses.

Business Banking Switzerland's loan portfolio decreased from CHF 150 billion at 31 December 2000 to CHF 146 billion at 31 December 2001, driven by reductions in the more volatile business with banks and the further reduction in the recovery portfolio from CHF 15 billion to CHF 12 billion.

The strength of the Swiss economy in the early part of 2001 and our continued successful recovery efforts were reflected in an improvement in key asset quality ratios since the end of 2000. The non-performing loans to total loans ratio decreased from 5.5% to 4.8% while the ratio of impaired loans to gross loans further improved from 9.4% to 7.7%.

Results

Business Banking Switzerland enjoyed a very strong year, despite the much more difficult market conditions, with profit before tax in 2001 up 18% compared to 2000, at CHF 1,486 million. The implementation of risk-adjusted pricing and the strength of the Swiss economy in 2000 and early 2001 led to a significant increase in credit quality, while operating expenses have remained under tight control, falling 5% compared to 2000.

Operating income

Operating income in 2001 was up CHF 22 million from 2000 at CHF 5,225 million, principally reflecting the reduction in credit loss expense partially offset by the effect of weaker markets in 2001 on fee and commission income.

Business Banking Switzerland has improved the quality of its loan portfolio considerably in recent years, principally through the introduction of risk-adjusted pricing, leading to a lower adjusted expected loss charge in 2001 compared to 2000. In 2001, we introduced a new process for calculating the adjusted expected loss charged to the Business Groups, under which the difference between the actual IFRS credit losses and the actuarial expected loss calculated for management reporting purposes is charged or credited back to the business units over a three-year period, so that the risks and rewards over the cycle are better reflected in their results. Since actual credit losses in Business Banking Switzerland have recently been lower than the adjusted expected loss charge, this deferral process has also resulted in a lower adjusted expected loss charge (see pages 39 and 40 for further details).

Together these effects led to a credit loss expense of CHF 567 million in 2001, down 24% from CHF 750 million in 2000.

Income from *Private Clients* declined from CHF 3,520 million in 2000 to CHF 3,185 million in 2001 due to lower fee income, reflecting lower market activity levels as well as lower interest income because of liability margin pressure.

Income from *Corporate Clients* increased by 2% from CHF 2,217 million in 2000 to CHF 2,263 million in 2001, reflecting higher income due to a change in the treatment of interest on impaired loans (previously recorded as a reduction in credit loss expense), which more than offset lower interest and fee income due to the weaker financial markets.

Income from *Other* areas increased by 59% from CHF 216 million in 2000 to CHF 344 million in 2001 reflecting higher disposal revenues (the sale of TicketCorner) and higher one-off revenues from minority holdings.

Operating expenses

Operating expenses remain under strict control, totaling CHF 3,739 million in 2001, CHF 203 million lower than in 2000.

General and administrative expenses in 2001, at CHF 396 million, were 4% higher than in 2000, principally reflecting higher liability risk provisions, partially offset by lower IT outsourcing costs and the continued effect of our efforts to control costs.

Personnel expenses declined by CHF 243 million compared to 2000, to CHF 2,878 million, reflecting a fall in headcount of 1,217 since the end of 2000, and lower performance-related pay. Over the full year, the compensation ratio in Business Banking Switzerland was 50%, down from 52% in 2000.

Depreciation increased 12% from 2000, to CHF 465 million, principally reflecting cancellation of previously capitalized software projects as a result of cost control measures. Goodwill amortization dropped from CHF 26 million in 2000 to zero in 2001, reflecting the writeoff of goodwill on a credit card portfolio in 2000.

Headcount

Business Banking Switzerland's headcount declined by a further 6% in 2001, from 20,437 on 31 December 2000 to 19,220 on 31 December 2001, as the cost control effects from the systematic implementation of the strategic projects portfolio and the benefits of the merger between Union Bank of Switzerland and Swiss Bank Corporation continued to be realized.

UBS Global Asset Management

John A. Fraser
Chairman and CEO
UBS Global Asset Management

Pre-tax profit in 2002 was CHF 187 million, down 33% from 2001. The declines in equity markets throughout 2002 resulted in lower invested asset levels and subsequently, lower asset-based revenues. This decrease was partially offset by ongoing initiatives to control costs.

Business Group reporting

CHF million, except where indicated For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Institutional fees	899	1,174	1,242	(23)
Wholesale Intermediary fees	1,054	1,044	836	1
Total operating income	1,953	2,218	2,078	(12)
Personnel expenses	946	1,038	941	(9)
General and administrative expenses	513	569	434	(10)
Depreciation	37	46	49	(20)
Amortization of goodwill and other intangible assets	270	286	267	(6)
Total operating expenses	1,766	1,939	1,691	(9)
Business Group performance before tax	187	279	387	(33)
Business Group performance before tax and goodwill [1]	457	565	654	(19)
KPIs				
Cost/income ratio (%) [2]	90	87	81	
Cost/income ratio before goodwill (%) [1, 2]	77	75	69	
Institutional				
Invested assets (CHF billion)	279[3]	328	323	(15)
Net new money (CHF billion) [4]	(0.6)	6.2	(70.8)[5]	
Gross margin on invested assets (bps) [6]	29	37	38	(22)
Wholesale Intermediary				
Invested assets (CHF billion)	278[3]	344	319	(19)
Net new money (CHF billion) [4]	(1.8)	28.7	2.9[5]	
Gross margin on invested assets (bps) [6]	34	32	36	6

Additional information As at	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Client assets (CHF billion)	557	672		(17)
Regulatory equity allocated (average)	1,750	1,850	1,550	(5)
Fair value of employee stock options granted	44[7]			
Headcount (full-time equivalents)	3,346	3,281	2,860	2

[1] Excludes the amortization of goodwill and other intangible assets. [2] Operating expenses/operating income. [3] In the second quarter 2002 invested assets of CHF 7.7 billion were transferred from Mutual Funds (now renamed Wholesale Intermediary). Prior years are shown according to the old classification. [4] Excludes interest and dividend income. [5] Calculated using the former definition of assets under management. [6] Income/average invested assets. [7] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Components of Operating Income

UBS Global Asset Management generates its revenue from the asset management services it provides to institutional and wholesale intermediary clients. Fees charged to institutional clients and wholesale intermediary clients are based on the market value of invested assets and on successful investment performance. As a result, UBS Global Asset Management's revenues are affected by changes in market and currency valuation levels as well as flows of client funds, and relative investment performance.

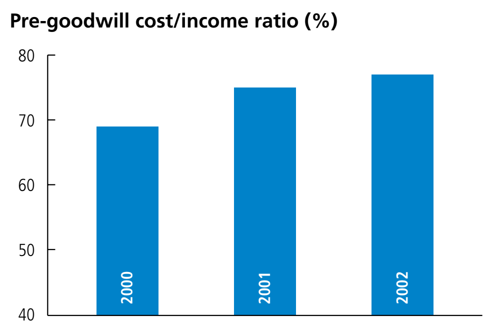
Significant financial events

There were no significant financial events that affected this Business Group in 2002, 2001 or 2000.

2002

Key performance indicators

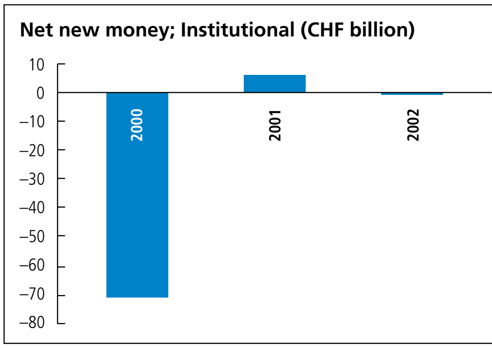
For 2002, the pre-goodwill cost/income ratio was 77%, up 2 percentage points from a year earlier. The increase was primarily due to lower invested asset values, which resulted in lower asset-based revenues. Those developments, however, were partially offset by lower operating expenses prompted by ongoing initiatives to control costs.



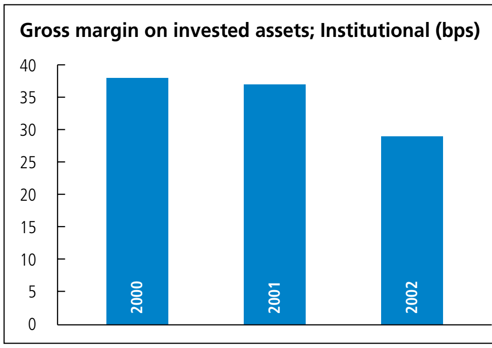
Institutional

Institutional invested assets, at CHF 279 billion on 31 December 2002, declined 15% from their level on 31 December 2001. The decrease in assets was due to the decline seen in financial markets during the year as well as the drop of the US dollar against the Swiss franc over the year.

For full-year 2002, the outflow of net new money was CHF 0.6 billion. This is a disappointing figure compared to the net new money inflow of CHF 6.2 billion recorded in 2001. Strong inflows into equity mandates were more than offset by outflows from alternative asset and fixed income mandates.



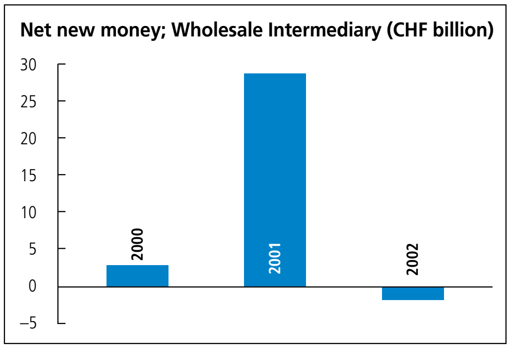
Full-year gross margin was 29 basis points, a decrease of 8 basis points from 2001 due to lower performance fees and a lower proportion of assets in alternative investments.



Wholesale Intermediary

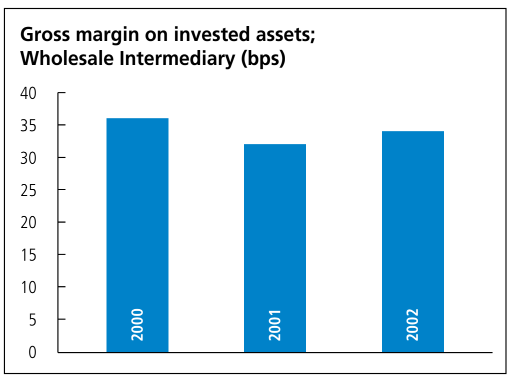
Invested assets stood at CHF 278 billion on 31 December 2002, down from CHF 344 billion on 31 December 2001. The decline was primarily the result of negative currency impacts and declining markets as well as slightly negative net new money.

For full-year 2002, the outflow of net new money was CHF 1.8 billion compared to an inflow of CHF 28.7 billion in 2001. The outflow was largely due to CHF 7.0 billion in money market funds, primarily in the Americas. Inflows of CHF 3.2 billion into equity and private market mandates globally in all business areas as well as an inflow of CHF 3.0 billion into alter-



native investments, primarily at GAM, largely offset the outflow.

The gross margin rose to 34 basis points in 2002 from 32 basis points in 2001 as a result of the asset mix improving towards higher margin asset classes.



Investment capabilities and performance

Global equity markets ended the year in significantly negative territory with the US market, as measured by the S&P 500, posting its first consecutive three-year decline since the Second World War. Markets outside the US have now fallen further from peak to trough than in their most significant previous contraction in the mid-1970s. Contributing to the erosion of equity values was the investor realization that any recovery would not be as robust as hoped, both with regard to economic fundamentals and earnings.

The majority of UBS Global Asset Management funds finished the year strongly, well above benchmark in the fourth quarter 2002. The Global Equity Composite led the way, beating *MSCI World Equity Free Index* benchmark returns for the year, 3- and 5-year periods by significant margins. The UK Balanced Equity portfolio continued to perform well against the *FTSE All-Share Index* for the same periods and our US Equity Composite surpassed the *Wilshire 5000* benchmark by more than 5 percentage points in 2002. It also remains ahead of the benchmark for 3-, and 5-year periods. Emerging equities also showed good results for the year and have also outperformed their benchmark, the *MSCI Emerging Equity Markets Free Index*, for each of the past 3- and 5-year periods as well.

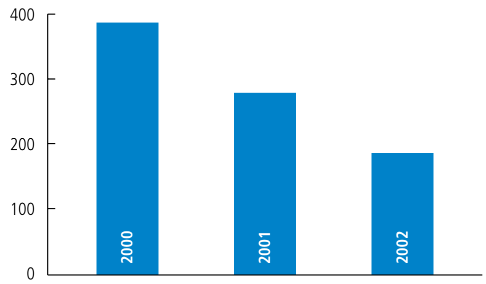
The deteriorating global economy and a flight to quality by equity investors provided the backdrop for a rally in the global sovereign bond market during the year. UBS Global Asset Management's Global Bond Composite exceeded the *Salomon WGBI* index for the year and the 3-year period as well, but trailed the index for 5-year annualized returns. The US Bond Composite also exceeded the *Lehman US Aggregate Index* for the 3-, and 5-year periods. Credit research has been strong, with the Global Aggregate Composite finishing well ahead of the *Lehman Global Aggregate* in 2002, but Emerging Markets Debt ended the year poorly, albeit preserving its 3- and 5-year outperformance against the *JP Morgan EMBI Global* index.

Balanced portfolios also fared well this past year, as exemplified by the Global Multi-Asset Fund, which outperformed the *Multiple Markets Index* by 4.6 percentage points. Security selection within the component asset classes and currency strategies favoring the euro at the expense of the US dollar were primarily responsible. In the 1-, 3-, and 5-year periods, returns continued to be significantly ahead of the benchmark.

Results

UBS Global Asset Management reported for full-year 2002 a pre-tax profit of CHF 187 million, a decrease of 33% from 2001's pre-tax profit of CHF 279 million. The declines in equity markets experienced throughout 2002 resulted in lower invested asset levels and subsequently, lower asset-based revenues. These developments were partially offset by ongoing initiatives to control costs. Over the year, personnel expenses decreased due to a decline in incentive compensation while general and administrative

Performance before tax (CHF million)



expenses fell due to lower IT and premises expenditures.

Operating income

In full-year 2002, operating income declined CHF 265 million, or 12%, to CHF 1,953 million, primarily due to the declines in financial markets during the year feeding through to asset-based revenues and the US dollar's weakening against the Swiss franc.

Institutional revenues fell to CHF 899 million in full-year 2002 from CHF 1,174 million a year earlier due to the US dollar's weakening against the Swiss franc, lower performance fees at O'Connor, and the effect of market declines on asset-based revenues.

For full-year 2002, Wholesale Intermediary revenues, at CHF 1,054 million, increased slightly from CHF 1,044 million a year earlier due to an increase in higher margin assets invested with GAM.

Operating expenses

For full-year 2002, operating expenses declined to CHF 1,766 million from CHF 1,939 million a year earlier, primarily due to cost saving initiatives.

Personnel expenses were CHF 946 million in 2002, CHF 92 million lower than in 2001, reflecting lower incentive-based compensation partially offset by higher severance expenses.

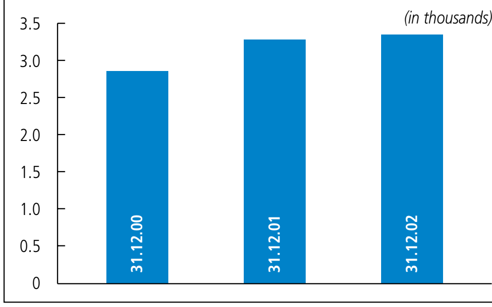
General and administrative expenses fell to CHF 513 million from CHF 569 million in the same period, reflecting a weaker US dollar, and lower project-related expenses.

Over the year, depreciation decreased from CHF 46 million to CHF 37 million as some assets became fully depreciated. Amortization declined CHF 16 million to CHF 270 million, reflecting the drop in the US dollar against the Swiss franc.

Headcount

Headcount, at 3,346 on 31 December 2002, was up from 3,281 on 31 December 2001. The increase of 2% primarily reflects additional headcount at GAM and a reclassification from contractors to employees at O'Connor.

Headcount (full-time equivalents)



2001

Key performance indicators

Invested assets increased 5% during the year from CHF 642 billion on 31 December 2000 to CHF 672 billion on 31 December 2001. Net new money was CHF 34.9 billion for the year, reflecting the recognition of strong relative investment performance and business development efforts. The pre-goodwill cost/income ratio rose from 69% in 2000 to 75% in 2001, principally reflecting the higher cost/income ratio of the Brinson Advisors (now rebranded UBS Global Asset Management) business transferred from UBS PaineWebber at the start of the year.

Institutional

Institutional invested assets increased from CHF 323 billion on 31 December 2000 to CHF 328 billion on 31 December 2001. This 2% increase was due to CHF 6.2 billion in net new money and a CHF 34 billion increase in invested assets from the acquisition of RT Capital (now rebranded UBS Global Asset Management) which more than offset negative market performance.

Net new money in 2001 was CHF 6.2 billion, a great improvement from the net outflows of CHF 70.8 billion in 2000, as clients start to recognize the success of our integrated global investment management platform, which delivered strong relative investment performance in both 2001 and 2000.

Full-year gross margin was 37 basis points, a decrease of 1 basis point from 2000, primarily due to lower performance fees in O'Connor and the addition of the lower margin Brinson Advisors business.

Wholesale Intermediary

Wholesale Intermediary's invested assets increased CHF 25 billion, from CHF 319 billion at 31 December 2000 to CHF 344 billion at 31 December 2001, driven by net new money. Market performance was limited to a negative impact on invested assets of less than 1%.

Net new money of CHF 28.7 billion in 2001, compared to CHF 2.9 billion in 2000, reflected much better asset-gathering performance in both Europe and the Americas, particularly in fixed income mandates.

The gross margin in 2001 decreased 4 basis points to 32 basis points due to the addition of Brinson Advisors, which has a high proportion of lower margin money market funds, partially offset by the introduction of a new pricing structure for UBS Investment Funds.

Results

Pre-tax profit of CHF 279 million in 2001 was 28% lower than 2000. Despite market declines and lower performance fees in the O'Connor business, income increased as a result of the new investment funds pricing structure introduced in 2001, the acquisition of RT Capital and the inclusion of Brinson Advisors. This was more than offset by higher personnel expenses and general and administrative expenses driven by spending on growth initiatives, the integration of Brinson Advisors and the acquisition of RT Capital in third quarter.

Operating income

Operating income increased CHF 140 million, or 7%, from 2000 to CHF 2,218 million in 2001, as a result of the inclusion of Brinson Advisors, the new pricing structure introduced this year for investment funds and the acquisition of RT Capital. These effects were partially offset by lower performance fees at O'Connor, our alternative investment business, and the effect on asset-based revenues of market declines in 2001 and institutional asset outflows in 2000 which led to lower average assets compared to 2000.

Institutional income fell 5% in 2001 compared to 2000, to CHF 1,174 million, while Wholesale Intermediary revenue increased 25% from 2000 to CHF 1,044 million in 2001.

Operating expenses

Operating expenses increased 15% to CHF 1,939 million in 2001, driven by the addition of Brinson Advisors and RT Capital.

General and administrative expenses increased 31% from CHF 434 million in 2000 to CHF 569 million in 2001, principally reflecting the addition of Brinson Advisors.

Personnel expenses increased 10% from CHF 941 million in 2000 to CHF 1,038 million in 2001, again mostly due to the addition of Brinson Advisors, which more than offset a considerable decline in performance-related compensation.

Depreciation decreased 6% from CHF 49 million in 2000 to CHF 46 million in 2001. Amortization of goodwill and other intangible assets increased 7% to CHF 286 million in 2001, reflecting the effect of the acquisition RT Capital.

Headcount

Headcount increased by 421 in 2001, from 2,860 at 31 December 2000 to 3,281 at 31 December 2001, mostly due to the integration of Brinson Advisors and RT Capital.

UBS Warburg

John P. Costas
Chairman and CEO
UBS Warburg

Corporate and Institutional Clients net profit before tax in 2002, at CHF 3,129 million, was 17% lower than in 2001. Market conditions remained challenging, although our Fixed Income, Rates and Currencies business held up well. UBS Capital recorded a pre-tax loss of CHF 1,761 million, with challenging market conditions and a slowdown in corporate activity leading to deteriorating valuations in all markets and industries.

Business Group reporting

CHF million, except where indicated				% change from
For the year ended	**31.12.02**	31.12.01	31.12.00	31.12.01
Income	**12,498**	14,715	18,240	(15)
Credit loss expense [1]	**(128)**	(112)	(243)	14
Total operating income	**12,370**	14,603	17,997	(15)
Personnel expenses	**7,878**	8,354	9,451	(6)
General and administrative expenses	**2,378**	2,650	2,755	(10)
Depreciation	**382**	456	564	(16)
Amortization of goodwill and other intangible assets	**364**	402	192	(9)
Total operating expenses	**11,002**	11,862	12,962	(7)
Business Group performance before tax	**1,368**	2,741	5,035	(50)
Business Group performance before tax and goodwill [2]	**1,732**	3,143	5,227	(45)
Additional information				
Cost/income ratio (%) [3]	**88**	81	71	
Cost/income ratio before goodwill (%) [2, 3]	**85**	78	70	
Net new money (CHF billion) [4]	**0.5**	0.1		
Invested assets (CHF billion)	**3**	1	1	200
Client assets (CHF billion)	**133**	109		22
Regulatory equity allocated (average)	**13,100**	14,300	10,800	(8)
Fair value of employee stock options granted	**582** [5]			

Business Group reporting adjusted for Significant Financial Events

CHF million, except where indicated				% change from
For the year ended	**31.12.02**	31.12.01	31.12.00	31.12.01
Income	**12,498**	14,715	18,240	(15)
Credit loss expense [1]	**(128)**	(112)	(243)	14
Total operating income	**12,370**	14,603	17,997	(15)
Personnel expenses	**7,878**	8,354	9,365 [6]	(6)
General and administrative expenses	**2,378**	2,650	2,742 [6]	(10)
Depreciation	**382**	456	557 [6]	(16)
Amortization of goodwill and other intangible assets	**364**	402	192	(9)
Total operating expenses	**11,002**	11,862	12,856	(7)
Business Group performance before tax	**1,368**	2,741	5,141	(50)
Business Group performance before tax and goodwill [2]	**1,732**	3,143	5,333	(45)
Additional information				
Cost/income ratio (%) [3]	**88**	81	70	
Cost/income ratio before goodwill (%) [2, 3]	**85**	78	69	

[1] In management accounts, statistically derived actuarial expected loss adjusted by deferred releases rather than the net IFRS actual credit loss is reported in the Business Groups (see Note 2 to the Financial Statements).

[2] Excludes the amortization of goodwill and other intangible assets.

[3] Operating expenses/operating income before credit loss expense.

[4] Excludes interest and dividend income.

[5] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

[6] Excludes significant financial events: Personnel expenses, CHF 86 million, General and administrative expenses, CHF 13 million and Depreciation, CHF 7 million (all PaineWebber integration costs).

Corporate and Institutional Clients

Business Unit reporting

CHF million, except where indicated For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Investment Banking [1]	**1,915**	2,541	2,700	(25)
Equities	**5,625**	6,422	10,300	(12)
Fixed Income, Rates and Currencies [2]	**6,490**	6,350	4,590	2
Non-core business	**70**	274	280	(74)
Income	**14,100**	15,587	17,870	(10)
Credit loss expense [3]	**(128)**	(112)	(243)	14
Total operating income	**13,972**	15,475	17,627	(10)
Personnel expenses [4]	**7,784**	8,258	9,223[5]	(6)
General and administrative expenses	**2,314**	2,586	2,695[5]	(11)
Depreciation	**381**	454	555[5]	(16)
Amortization of goodwill and other intangible assets	**364**	402	190	(9)
Total operating expenses	**10,843**	11,700	12,663	(7)
Business unit performance before tax	**3,129**	3,775	4,964	(17)
Business unit performance before tax and goodwill [6]	**3,493**	4,177	5,154	(16)
KPIs				
Compensation ratio (%) [7]	**55**	53	52	
Cost/income ratio (%) [8]	**77**	75	71	
Cost/income ratio before goodwill (%) [6, 8]	**74**	72	70	
Non-performing loans/gross loans outstanding (%)	**1.6**	2.6	2.8	
Impaired loans/gross loans outstanding (%)	**3.2**	5.4	5.6	
Average VaR (10-day 99%)	**275**	252	242	9

Additional information As at or for the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Deferred releases included in credit loss expense [3]	**(2)**	38	36	
Regulatory equity allocated (average)	**12,550**	13,600	10,250	(8)
Fair value of employee stock options granted	**567**[9]			
Headcount (full-time equivalents)	**15,964**	15,562	15,262	3

[1] Formerly Corporate Finance. [2] Formerly Fixed Income and Foreign Exchange. [3] In management accounts, statistically derived actuarial expected loss adjusted by deferred releases rather than the net IFRS actual credit loss is reported in the Business Groups (see Note 2 to the Financial Statements). Deferred releases represent amortization of historical differences between actual credit losses and actuarial expected loss (for more information, please refer to pages 39 and 40 of the UBS Financial Report 2002). [4] Includes retention payments in respect of the PaineWebber acquisition. 2002: CHF 54 million, 2001: CHF 46 million, 2000: CHF 11 million [5] Excludes significant financial events: Personnel expenses, CHF 86 million, General and administrative expenses, CHF 13 million and Depreciation, CHF 7 million (all PaineWebber integration costs). [6] Excludes the amortization of goodwill and other intangible assets. [7] Personnel expenses/operating income before credit loss expense. [8] Operating expenses/operating income before credit loss expense. [9] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Components of Operating Income

The Corporate and Institutional Clients unit generates operating income from:
- commissions on agency transactions and spreads or markups on principal transactions;
- fees from debt and equity capital markets transactions, leveraged finance, and the structuring of derivatives and complex transactions;
- mergers and acquisitions and other advisory fees;
- interest income on principal transactions and from the loan portfolio; and
- gains and losses on market making, proprietary, and arbitrage positions.

As a result, Corporate and Institutional Clients' operating income is affected by movements in market conditions, interest rate swings, the level of trading activity in primary and secondary markets and the extent of merger and acquisition activity. These and other factors have had, and may in the future have, a significant impact on results of operations from year to year.

Significant financial events

PaineWebber integration costs were treated as a significant financial event in 2000, and are not reflected in adjusted business unit results on the previous page. The amounts involved were personnel expenses of CHF 86 million, general and administrative expenses of CHF 13 million, and depreciation of CHF 7 million.

There were no significant financial events that affected this business unit in 2002 or 2001. The results in the discussion below exclude significant financial events.

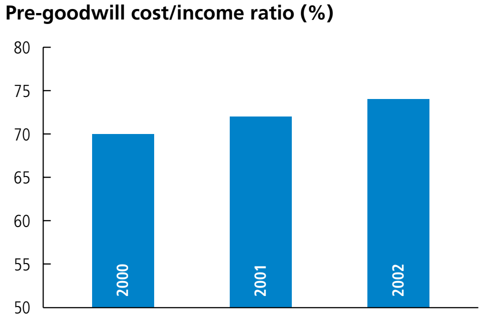
2002

Key performance indicators

Our performance in 2002 reflects the worldwide downturn in market conditions. However, as a result of our strong client franchise and continuing efforts to manage costs, results have proven relatively resilient.

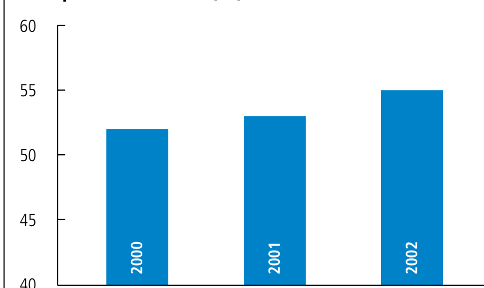
We continue to maintain a tight focus on cost management in light of the current operating environment. Over the full year, the pre-goodwill cost/income ratio increased slightly to 74% from 72% in 2001.

Pre-goodwill cost/income ratio (%)



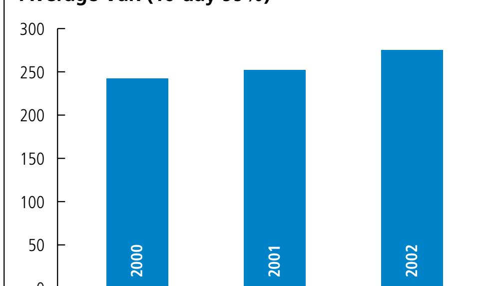
Our compensation ratio in 2002 was 55%, a slight increase on the 53% recorded in 2001, reflecting the relatively strong performance of many of our businesses compared to competitors and to market conditions.

Compensation ratio (%)



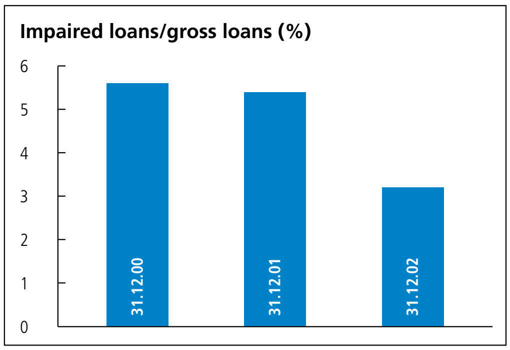
Average Value at Risk (VaR) for Corporate and Institutional Clients increased from CHF 252 million in 2001 to CHF 275 million in 2002, remaining within the normal ranges.

Average VaR (10-day 99%)



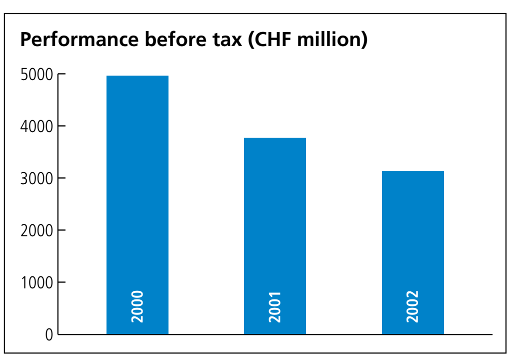
Total loans increased by 2% from CHF 61 billion on 31 December 2001 to CHF 62 billion on 31 December 2002, due to an increase in short-term money market deposits although this was partially offset by repayments from European multinationals, reflecting the continued reduction of our non-core commercial lending activities as well as the drop in the US dollar against the Swiss franc.

Continued successful recovery efforts led the ratio of impaired loans to total loans to fall from 5.4% on 31 December 2001 to 3.2% at the end of 2002. The non-performing loans to total loans ratio declined from 2.6% to 1.6% over the same period.



Results

UBS Warburg's Corporate and Institutional Clients business unit reported 2002 pre-tax profit of CHF 3,129 million, a decrease of 17% from 2001, reflecting difficult economic conditions, particularly for the investment banking and equities businesses. This was partially offset by the strong result of our fixed income, rates and currencies business. Over the full year, overall expenses dropped by 7% reflecting lower personnel expenses driven by a reduction in incentive compensation as well as the success of our continued cost containment initiatives.



Operating income

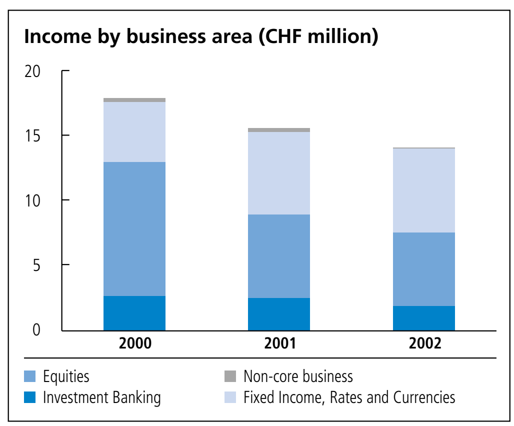
Full-year revenues of CHF 14,100 million were 10% lower than in 2001.

Investment Banking revenues for the full-year dropped by 25% from CHF 2,541 million to CHF 1,915 million in 2002, due to much lower corporate activity, which translated into a 22% drop in the global fee pool compared to 2001.

Equities revenues for the full-year were also lower than in 2001, down from CHF 6,422 million to CHF 5,625 million, reflecting falling indices worldwide and much lower market activity. Full-year primary revenues remained flat, because of market share gains in the US and in Asia, which compensated for the drop in overall market activity.

Over the full year *Fixed Income, Rates and Currencies* revenues increased 2% to CHF 6,490 million, primarily due to substantial growth in our Emerging Markets and Principal Finance businesses, offset by reductions in our Interest Rates and Foreign Exchange business lines. Revenues related to gains in credit default swaps economic hedging credit exposures in the loan book also positively impacted the result. Our foreign exchange business increased volumes and spreads compared to 2001.

Non-core revenues in 2002, at CHF 70 million, were 74% lower than in 2001 reflecting our continued reduction of our non-core lending portfolio.



Operating expenses

Total operating expenses dropped by 7% from 2001 to CHF 10,843 million in 2002. The underlying decline in 2002 is even more marked than these figures would suggest as the 2002 results include a provision of CHF 90 million (USD 65 million) for the US equity research settlement and a CHF 72 million charge for the restructuring of our Energy trading business. The significant underlying reduction of 9% from last year's expense levels reflects the continuing success of our cost containment initiatives accentuated by the drop of the US dollar against the Swiss franc.

In total, personnel expenses in 2002, at CHF 7,784 million, were CHF 474 million or 6% lower than 2001, mainly driven by a reduction in incentive compensation in line with lower revenues and the weaker US dollar.

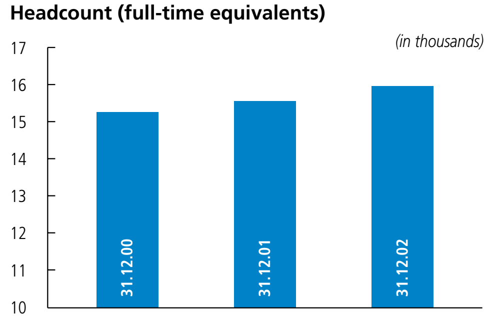
Full-year general and administrative expenses were CHF 2,314 million in 2002, down 11% from 2001's CHF 2,586 million, as cost saving programs implemented during the course of 2002 helped to lower IT and other costs, particularly travel, advertising costs and professional fees.

In full-year 2002, depreciation declined to CHF 381 million from CHF 454 million a year earlier, reflecting our cost control initiatives, which helped to lower charges for new computer workstations and other IT-related equipment. Amortization of goodwill and other intangibles fell 9% for the full-year, reflecting the fact that various assets became fully amortized in 2002.

Headcount

Headcount, at 15,964 on 31 December 2002, increased by 402 or 3% from 31 December 2001 reflecting the expansion in our fixed income, rates and currency area (which includes UBS Warburg Energy) as well as the transfer of the prime brokerage and Australian private clients businesses from UBS PaineWebber.

Headcount (full-time equivalents)



2001

Key performance indicators

Corporate and Institutional Clients measures its expense base primarily in terms of percentage of revenues, looking at both personnel costs and non-personnel costs on this basis.

The pre-goodwill cost/income ratio of 72% in 2001, was up slightly from 70% in 2000 as a result of the reduced revenues in difficult market conditions. The ratio of personnel costs to income was 53% in 2001, only a slight increase on the 52% recorded in 2000, comparing favorably with our peer group.

Average VaR for Corporate and Institutional Clients increased only slightly from CHF 242 million in 2000 to CHF 252 million in 2001. In general, market risk exposures stayed within the normal ranges. There was, however, a short-term but significant increase in VaR in December 2001 resulting from sizeable client-driven equity transactions. The need for a temporary increase in limits was anticipated and pre-approved by the Group Executive Board. The trades were successfully executed and the risk reduced to normal levels.

Total loans decreased by 18% from CHF 74 billion at 31 December 2000 to CHF 61 billion at 31 December 2001, due to a reduction in Japanese government exposures, and repayments from European multinationals, reflecting the continued reduction of our commercial lending risk profile.

Continued successful recovery efforts led the ratio of impaired loans to total loans to fall from 5.6% at 31 December 2000 to 5.4% at the end of 2001. The non-performing loans to total loans ratio declined from 2.8% to 2.6% over the same period.

Results

We recorded a strong performance in 2001, relative to the much weaker markets this year. Pre-tax profit in 2001 was CHF 3,775 million, a decline of 24% over 2000, our best year ever. Equities and Investment Banking both suffered from the economic downturn and the consequent weakness in their global markets, while the Fixed Income, Rates and Currencies business delivered record results, driven by interest rate reductions and increased volatility, and supported by the expansion of businesses acquired from PaineWebber. Investment Banking continued to outperform 2000 in terms of market share, with full-year analysis showing us with a 4.4% share of fees, compared to 3.6% in 2000.

Operating income

Operating income of CHF 15,475 million in 2001 was 12% lower than in 2000.

Investment Banking revenues were CHF 2,541 million in 2001, 6% lower than in 2000, as our improved share of fees in 2001 was more than offset by the general contraction experienced in corporate finance in 2001.

Equities revenues for 2001 were also lower than in 2000, down 38% from CHF 10,300 million to CHF 6,422 million in 2001. This decline principally reflects reduced trading revenues, driven by the lack of mergers and acquisitions activity and increased volatility, together with a cautious approach to risk in difficult market conditions. Commission revenues have been broadly consistent with levels in 2000, reflecting the breadth and depth of our client franchise.

Fixed Income, Rates and Currencies performed very strongly in 2001, with revenues up 38% from 2000, at CHF 6,350 million. This reflects the effect of interest rate reductions, which led to increased issuance and higher volatility, and the inclusion of businesses taken over from PaineWebber.

Non-core revenues in 2001 were 2% lower than in 2000, at CHF 274 million.

Operating expenses

Personnel expenses declined 10%, from CHF 9,223 million in 2000 to CHF 8,258 million in 2001, driven by reductions in incentive compensation in line with labor market conditions and full-year results.

General and administrative expenses in 2001 were 4% lower than in 2000, at CHF 2,586 million, reflecting the impact of cost control measures put in place during 2001. (Fourth quarter 2001 general and administrative expenses were 27% lower than in fourth quarter 2000.)

Depreciation fell 18% from 2000 to CHF 454 million in 2001, driven by reductions in IT expenditure as a result of cost control initiatives.

Amortization of goodwill and other intangibles increased by CHF 212 million to CHF 402 million in 2001 mainly driven by additional goodwill amortization due to the acquisition of PaineWebber.

Headcount

Headcount at 31 December 2001 remained little changed, at 15,562 compared to 15,262 at the end of 2000. We did not engage in widespread headcount reductions that might have had a long-term detrimental impact on our client franchises, but upgraded staff quality in selected areas.

UBS Capital

Business unit reporting

CHF million, except where indicated For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Total operating income	**(1,602)**	(872)	370	(84)
Personnel expenses	**94**	96	142	(2)
General and administrative expenses	**64**	64	47	0
Depreciation	**1**	2	2	(50)
Amortization of goodwill and other intangible assets	**0**	0	2	
Total operating expenses	**159**	162	193	(2)
Business unit performance before tax	**(1,761)**	(1,034)	177	(70)
Business unit performance before tax and goodwill [1]	**(1,761)**	(1,034)	179	(70)
KPIs				
Value creation (CHF billion)	**(1.4)**	(1.4)	0.6	0

As at	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Investment (CHF billion) [2]	**3.1**	5.0	5.5	(38)

Additional information As at	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Portfolio fair value (CHF billion)	**3.8**	5.6	6.9	(32)
Regulatory equity allocated (average)	**550**	700	550	(21)
Fair value of employee stock options granted	**15** [3]			
Headcount (full-time equivalents)	**73**	128	129	(43)

[1] Excludes the amortization of goodwill and other intangible assets. [2] Historic cost of investments made, less divestments and impairments. [3] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Components of Operating Income

UBS Capital's primary source of operating income is capital gains from the disposal or sale of its investments, which are recorded at the time of ultimate divestment. As a result, appreciation in fair market value is recognized as operating income only at the time of sale. The level of annual operating income from UBS Capital is directly affected by the level of investment disposals that take place during the year. Similarly, depreciation in fair market value is only recognized against operating income if an investment becomes permanently impaired and has to be written down. Writedowns of the value of its investments can negatively affect UBS Capital's operating income.

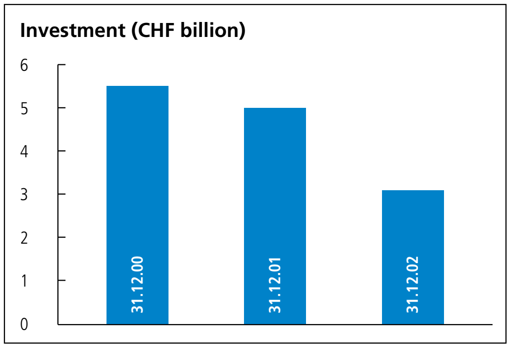
Significant financial events

There were no significant financial events that affected this business unit in 2002, 2001 or 2000.

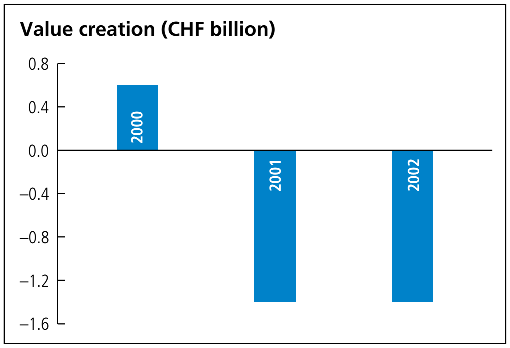
2002

Key performance indicators

The level of our private equity investments was CHF 3.1 billion on 31 December 2002, a decline of 38% from CHF 5.0 billion on 31 December 2001. This reduction reflects writedowns made on direct investments and third party funds, as well as successfully executed exits. In full-year 2002, writedowns included in operating income totaled CHF 1.7 billion, up from CHF 1.1 billion a year earlier.



The fair value of the portfolio on 31 December 2002 was CHF 3.8 billion, down from CHF 5.6 billion on 31 December 2001, reflecting divestments in the portfolio and value reductions for existing investments. The level of net unrealized gains was CHF 0.8 billion on 31 December 2002, up from CHF 0.6 billion on 31 December 2001.

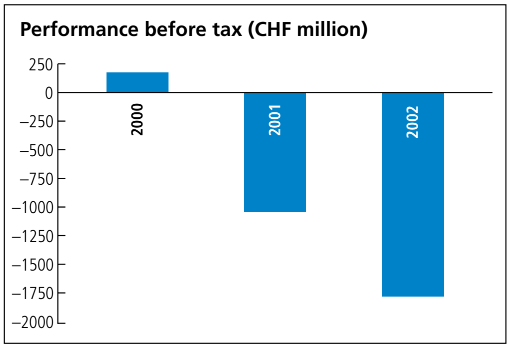


Results

Full-year results for UBS Capital reflect continued tough economic conditions, impacting private equity valuations across a range of sectors, a factor that was compounded by the prolonged downturn suffered by all major equity markets. The challenging economic environment has adversely affected many of the companies in the portfolio while the continued hostile climate for divestments has restricted capital gains from exit opportunities. Against this background, UBS Capital posted a pre-tax loss in 2002 of CHF 1,761 million, CHF 727 million worse than in 2001.

Total operating income for 2002 was negative CHF 1,602 million, compared to negative CHF 872 million in 2001. Challenging economic conditions have led to deteriorating valuations in all markets and industries. The level of writedowns in the portfolio has therefore been high and there have been few opportunities to make significant divestments in 2002.

Personnel expenses in 2002 were CHF 94 million, down from CHF 96 million in 2001. This reflects falling headcount and lower performance-related incentive payments. General and administrative expenses remained unchanged at CHF 64 million.



2001

Full-year results for UBS Capital reflect the very challenging market in 2001, with few opportunities for divestments, and writedowns of several investments as a result of the problems caused for some of our investment companies by the deteriorating economic conditions. The pre-tax loss for 2001 was CHF 1,034 million, compared to a pre-tax profit of CHF 177 million in 2000.

Key performance indicators

UBS Capital's private equity investments decreased to CHF 5.0 billion on 31 December 2001 from CHF 5.5 billion at the end of 2000, with the decline due to writedowns on the book value of investments, as well as a small number of divestments during the year, which more than offset drawdowns of previously committed investments and the low level of other new investments during the year.

The fair value of the portfolio at the end of December 2001 was CHF 5.6 billion, down 19% from CHF 6.9 billion on 31 December 2000. The fair value included net unrealized gains of CHF 0.6 billion. Value reduction during 2001 was CHF 1.4 billion, compared to value creation of CHF 0.6 billion in 2000.

Results

UBS Capital recorded an operating loss of CHF 872 million in 2001, compared to operating income of CHF 370 million in 2000. Challenging markets and the continued slowdown in corporate activity meant that there were few opportunities for significant divestments in 2001, while weak economic conditions led to deteriorating valuations across a range of industry sectors, resulting in a high level of writedowns of investments in the portfolio.

Personnel expenses were CHF 96 million in 2001, down from CHF 142 million in 2000, reflecting lower incentive compensation which is driven by realized gains on divestments.

General and administrative expenses were CHF 64 million, up from CHF 47 million in 2000, due principally to professional fees relating to our strategic review of the business.

UBS PaineWebber

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

Mark B. Sutton
President and Chief Operating Officer
UBS PaineWebber

UBS PaineWebber's pre-tax loss adjusted for SFEs in 2002 was CHF 566 million, with the depreciation of the US dollar against the Swiss franc weighing on results. Excluding acquisition costs, operating pre-tax profit was CHF 632 million compared to CHF 693 million a year earlier.

Business Group reporting[1]

CHF million, except where indicated For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Income	**5,561**	6,391	1,214	(13)
Credit loss expense[2]	**(13)**	(18)	(3)	(28)
Total operating income	**5,548**	6,373	1,211	(13)
Personnel expenses[3]	**4,245**	5,019	1,098	(15)
General and administrative expenses	**1,263**	1,441	344	(12)
Depreciation	**149**	124	42	20
Amortization of goodwill and other intangible assets	**1,691**	502	84	237
Total operating expenses	**7,348**	7,086	1,568	4
Business Group performance before tax	**(1,800)**	(713)	(357)	152
Business Group performance before tax and goodwill[4]	**(109)**	(211)	(273)	(48)
Business Group performance before tax and acquisition costs[12]	**632**	693	(72)	(9)
KPIs				
Invested assets (CHF billion)	**584**	769	765	(24)
Net new money (CHF billion)[5]	**18.5**	33.2	14.5[6]	
Interest and dividend income (CHF billion)[7]	**17.9**	21.5		(17)
Cost/ income ratio (%)[8]	**132**	111	129	
Cost/income ratio before goodwill (%)[4, 8]	**102**	103	122	
Recurring fees[9]	**2,199**	2,366	434	(7)
Financial advisors (full-time equivalents)	**8,857**	8,718	8,731	2

Additional information As at	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Client assets (CHF billion)	**650**	841		(23)
Regulatory equity allocated (average)	**7,450**	8,550	9,200	(13)
Fair value of employee stock options granted	**73**[10]			
Headcount (full-time equivalents)	**19,563**	20,413	21,567	(4)

Business Group reporting adjusted for Significant Financial Events

CHF million, except where indicated For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Income	**5,561**	6,391	1,214	(13)
Credit loss expense [2]	**(13)**	(18)	(3)	(28)
Total operating income	**5,548**	6,373	1,211	(13)
Personnel expenses [3]	**4,245**	5,019	1,098	(15)
General and administrative expenses	**1,263**	1,441	344	(12)
Depreciation	**149**	124	42	20
Amortization of goodwill and other intangible assets	**457** [11]	502	84	(9)
Total operating expenses	**6,114**	7,086	1,568	(14)
Business Group performance before tax	**(566)**	(713)	(357)	(21)
Business Group performance before tax and goodwill [4]	**(109)**	(211)	(273)	(48)
Business Group performance before tax and acquisition costs [12]	**632**	693	(72)	(9)
KPIs				
Gross margin on invested assets (bps) [13]	**82**	84	67	(2)
Gross margin on invested assets before acquisition costs (bps) [12, 13]	**88**	90	71	(2)
Cost/income ratio (%) [8]	**110**	111	129	
Cost/income ratio before goodwill (%) [4, 8]	**102**	103	122	
Cost/income ratio before acquisition costs (%) [8, 12]	**89**	90	105	

[1] Business Groups results include PaineWebber from the date of acquisition, 3 November 2000. [2] In management accounts, statistically derived actuarial expected loss adjusted by deferred releases rather than the net IFRS actual credit loss is reported in the Business Groups (see Note 2 to the Financial Statements). [3] Includes retention payments in respect of the PaineWebber acquisition. 2002: CHF 351 million, 2001: CHF 436 million, 2000: CHF 117 million. [4] Excludes the amortization of goodwill and other intangible assets. [5] Excludes the interest and dividend income noted below. [6] Calculated using the former definition of assets under management. [7] For purposes of comparison with US peers. [8] Operating expenses/operating income before credit loss expense. [9] Asset-based and advisory revenues including fees from mutual funds, wrap fee products and insurance products. Comparative amounts for 2001 and 2000 have been restated. [10] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements. [11] Excludes significant financial event: Writedown of PaineWebber brand of CHF 1,234 million. [12] Acquisition costs include goodwill and intangible asset amortization and related funding, net of risk-free return on the corresponding equity allocated, and retention payments. [13] Income/average invested assets.

Components of Operating Income

UBS PaineWebber principally derives its operating income from:
- fees for financial planning and wealth management services
- fees for discretionary management services and
- transaction-related fees.

These fees are based on the market value of invested assets and the level of transaction-related activity. As a result, operating income is affected by such factors as fluctuations in invested assets, change in market conditions, investment performance and inflows and outflows of client funds, and investor activity levels.

Significant financial events

The pre-tax non-cash writedown of CHF 1,234 million for the value of the PaineWebber brand that was held as an intangible asset on our balance sheet was treated as a significant financial event in 2002 and is therefore not reflected in the adjusted Business Group results on the previous page. The writedown followed a strategic decision announced in November 2002 to move all our businesses to the single UBS brand. The new brand structure will be implemented in June 2003.

There were no significant financial events that affected this Business Group in 2001 or 2000. The results in the discussion below exclude significant financial events.

PaineWebber

UBS PaineWebber became part of UBS following the merger between UBS and Paine Webber Group, Inc., which was completed on 3 November 2000. At the merger, it became a business unit of UBS Warburg. On 1 January 2002, UBS PaineWebber became a separate Business Group within UBS.

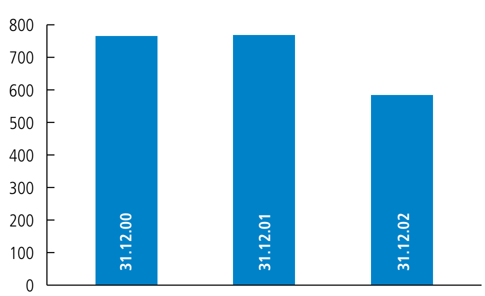
The merger was accounted for using purchase accounting, so the results shown for UBS PaineWebber for 2000 reflect the inclusion of the PaineWebber businesses only for the period from 3 November 2000 until 31 December 2000. Results for 2001 and 2002 reflect a full-year's contribution.

2002

Key performance indicators

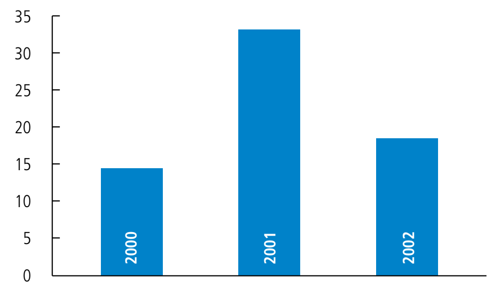
At the end of 2002, UBS PaineWebber had CHF 584 billion in invested assets, compared to CHF 769 billion on 31 December 2001. This decline of 24% was partly due to the effect of the US dollar's weakening against the Swiss franc. Excluding the impact of currency fluctuations, invested assets fell 8% during the year, mainly due to US equity market declines although that was partially offset by net new money inflows.

Invested assets (CHF billion)



Net new money in 2002 was CHF 18.5 billion, 44% below the CHF 33.2 billion result reported for 2001. The decline reflects weaker investor sentiment, as well as the closure of the Japanese domestic private client business, resulting in outflows of approximately CHF 1.6 billion.

Net new money (CHF billion) [1]

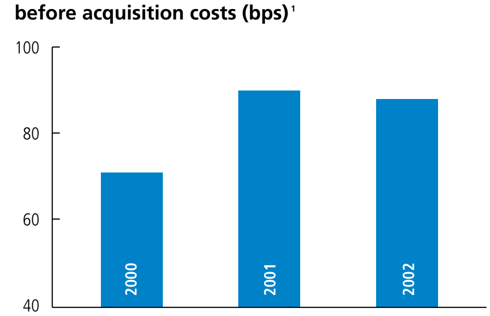


[1] Includes PaineWebber from the date of acquisition on 3 November 2000.

The gross margin on invested assets was 82 basis points for full-year 2002, down from 84 basis points in 2001. The gross margin on invested assets before acquisition costs (goodwill, net funding costs and retention payments) was 88 basis points, down from 90 basis points in 2001. Revenues declined more than invested assets due to lower customer activity levels. This was partially offset by higher revenues from our municipal securities business which had a record result in 2002.

The cost/income ratio before acquisition costs was 89% for full-year 2002, compared to 90% in 2001. The improvement in the cost/income ratio

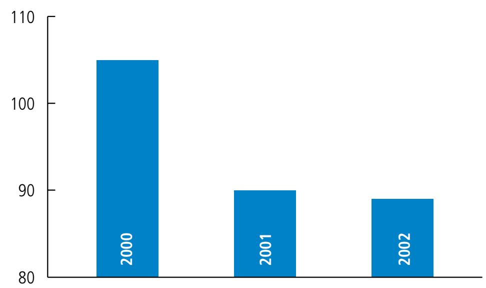
Gross margin on invested assets before acquisition costs (bps) [1]



[1] Includes PaineWebber from the date of acquisition on 3 November 2000.

is a direct result of cost management initiatives implemented in 2002, among them reductions in non-financial advisor headcount, professional fees, advertising and office-related costs.

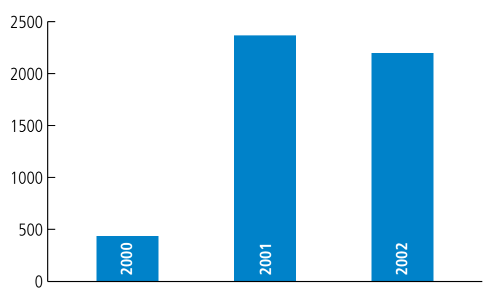
Cost/income ratio before acquisition costs (%)[1]



[1] Includes PaineWebber from the date of acquisition on 3 November 2000.

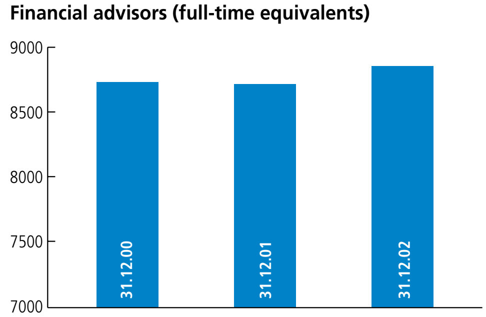
In 2002, recurring fees were CHF 2,199 million compared to CHF 2,366 million a year earlier because of the weakening of the US dollar against the Swiss franc. Excluding currency translation effects, recurring fees rose 2% in 2002 from a year earlier. The increase is due to higher account-based fees and higher recurring fees in the municipal securities business. These increases were offset by lower asset-based fees, which fell in line with the decline in asset levels.

Recurring fees (CHF million)[1]



[1] Includes PaineWebber from the date of acquisition on 3 November 2000.

Financial advisors (full-time equivalents)



We continue to invest in our distribution channels and advisory personnel. In 2002, the number of financial advisors rose by 139 from 8,718 to 8,857 with recruiting and retention success partially offset by higher attrition rates among less experienced and less productive financial advisors.

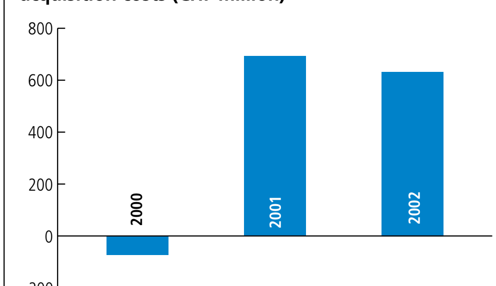
Results

In 2002, political, economic and financial uncertainty continued to adversely affect investor activity. The UBS Index of Investor Optimism dropped significantly during 2002, reached an all-time low in October and only slightly recovered by the end of the year. Daily average client transaction volumes were 10% lower than in 2001.

Because our business is almost entirely conducted in US dollars, comparisons of 2002 results to 2001 are affected by the depreciation of the US dollar versus the Swiss franc.

Over the full year, UBS PaineWebber reported a pre-tax loss of CHF 566 million in 2002 compared to a loss of CHF 713 million in 2001. Performance before tax and acquisition costs showed a profit of CHF 632 million in 2002 compared to CHF 693 million a year earlier. Excluding the effects of currency movements, 2002 performance before tax and acquisition costs was 3% higher than in 2001. Despite a decline in transactional revenues and lower asset-based revenues following further market drops, strict cost management discipline enabled us to improve our full-year operating performance. Excluding the USD 15 million (CHF 21 million) equity research settlement charge, full-year results in USD terms would have improved by 6% over 2001. On a US dollar basis, performance was the third best ever for our US private clients business behind 1999 and 2000.

Performance before tax and acquisition costs (CHF million)[1]



[1] Includes PaineWebber from the date of acquisition on 3 November 2000.

Operating income

For full-year 2002, total operating income was CHF 5,548 million, compared to CHF 6,373 million in 2001. Excluding the effects of currency translation, operating income declined approximately 5% from 2001. This decline in operating income is attributable to lower asset-based fees, a drop in levels of customer activity, lower margin lending, the transfer of prime brokerage business to UBS Warburg and the closure of the Japanese domestic private client business. These declines were partially offset by increased revenues in the municipal securities business, which had a record year.

Operating expenses

Total operating expenses fell 14% to CHF 6,114 million in 2002 from CHF 7,086 million in 2001. Excluding the effects of the weaker US dollar against the Swiss franc, operating expenses declined 5% from 2001, reflecting lower performance-driven compensation and lower retention expenses. In addition, cost management initiatives implemented during the course of 2002, the transfer of the prime brokerage business to UBS Warburg and the closure of the Japanese domestic private client businesses helped to reduce overall expenses.

Personnel expenses dropped 15% from CHF 5,019 million in 2001 to CHF 4,245 million in 2002. Excluding the effects of currency translation, personnel expenses were 7% lower than 2001, reflecting lower performance-driven compensation due to a decline in revenues, a fall in non-financial advisor headcount, the transfer of the prime brokerage business to UBS Warburg, the closure of the Japanese domestic private client business and lower retention expenses.

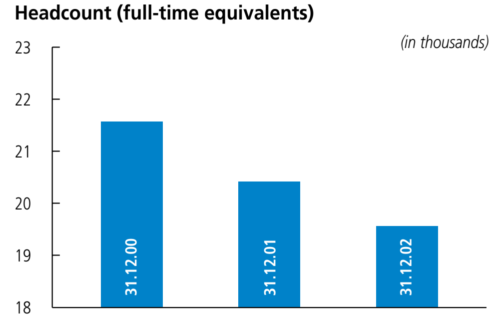
General and administrative expenses fell 12% from CHF 1,441 million in 2001 to CHF 1,263 million in 2002. Excluding the impact of the falling US dollar against the Swiss franc, general and administrative expenses dropped by 4% compared to 2001 due to the cost management initiatives implemented during the course of 2002, reducing our professional fees, advertising, travel and other office-related costs. In addition, general and administrative expenses were reduced by the transfer of prime brokerage business to UBS Warburg and the closure of the Japanese private client businesses. This was partially offset by the equity research settlement charge of CHF 21 million.

Depreciation increased CHF 25 million to CHF 149 million in 2002 from CHF 124 million in 2001. Excluding currency movements, the increase in depreciation of 32% was due to higher technology equipment charges. Goodwill and other intangible amortization dropped from CHF 502 million in 2001 to CHF 457 million in 2002 as a result of the weakening US dollar against the Swiss franc.

Headcount

UBS PaineWebber's headcount decreased 4% during the year to 19,563 reflecting our continued cost management initiatives. Non-financial advisor headcount was down by 989 or 8% compared to end of 2001. Further, we closed our Japanese domestic private client business and transferred the prime brokerage business to UBS Warburg. At the same time we expanded our financial advisor headcount by 139, reflecting our continued aim to extend the reach of our business.

Headcount (full-time equivalents)



2001

Comparisons of full-year 2001 results to full-year 2000 reflect the very different scale of this Business Group prior to the acquisition of PaineWebber in November 2000.

Key performance indicators

At the end of 2001, UBS PaineWebber had CHF 769 billion of invested assets, compared to CHF 765 billion at 31 December 2000, a change of 1%, with negative market performance during the year nearly offset by strong net new money flows.

Net new money for the year was CHF 33.2 billion, compared to CHF 14.5 billion in 2000, more than half of which was earned in the last quarter of 2000 after the integration of Paine-

Webber. UBS PaineWebber's ability to continue to generate high levels of net new money despite the uncertain markets in 2001 reflects the strength of its client franchise amongst high net worth individuals in the US.

Gross margin on invested assets before acquisition costs (retention payments and goodwill amortization) increased to 90 basis points, from 71 basis points in 2000, reflecting the addition of PaineWebber. Gross margin in the pre-existing business for the nine months to 30 September 2000, before the addition of PaineWebber was 36 basis points. The gross margin fell slightly during 2001, reflecting the effect of uncertain markets on transaction volumes.

The cost/income ratio before acquisition costs was 90% in 2001 compared to 105% in 2000. Until the addition of PaineWebber, the pre-existing business was loss making, reflecting the relatively early stage of its business development. Cost control has remained a strong focus during the year, with the cost/income ratio in fourth quarter 2001 the same as in fourth quarter 2000.

Recurring fees were CHF 2,366 million in 2001. This metric was not tracked prior to the integration of PaineWebber in November 2000. During 2001, recurring fees declined 6% to CHF 566 million in fourth quarter 2001 compared to CHF 601 million in first quarter 2001, due to the effects of market depreciation on client assets – recurring fees are priced based on the asset level at the end of the prior quarter.

At the end of December 2001, UBS PaineWebber had 8,718 financial advisors, a number virtually unchanged from the end of 2000. Although we continued to recruit and train new financial advisors in 2001, the difficult market conditions led to higher turnover amongst the least productive advisors.

Results

Pre-tax loss for 2001 was CHF 713 million. Excluding acquisition costs, UBS PaineWebber posted a profit of CHF 693 million, a strong result relative to our peers, achieved against a particularly poor market environment, with two successive years of market declines in the US for the first time since the late 1970s leading to much lower transaction volumes. In 2000, UBS PaineWebber incurred a loss of CHF 357 million – excluding acquisition costs the loss was CHF 72 million.

Operating income

Operating income for the year was CHF 6,373 million, compared to CHF 1,211 million in 2000. Revenues were resilient during 2001, declining just 12% from first quarter to fourth quarter, despite recession and market uncertainty in the US.

Operating expenses

Total operating expenses were CHF 7,086 million in 2001 compared to CHF 1,568 million in 2000.

UBS PaineWebber implemented a number of cost control initiatives in 2001, aimed at reducing discretionary expenditure and support costs, while protecting the business's ability to serve its clients to the highest standards.

Personnel expenses were CHF 5,019 million in 2001, compared to CHF 1,098 million in 2000, reflecting the completely different scale of the business. Expenses in 2001 included CHF 436 million of retention payments for key UBS PaineWebber staff, compared to CHF 117 million in 2000. Through 2001 personnel expenses reduced, from CHF 1,296 million in first quarter to CHF 1,200 million in fourth quarter, reflecting lower performance-related and variable compensation and a reduction of support headcount.

General and administrative expenses were CHF 1,441 million in 2001, compared to CHF 344 million in 2000. Cost control efforts drove expenses down during 2001, with fourth quarter general and administrative expenses 3% lower than in first quarter.

Depreciation expenses were CHF 124 million in 2001, compared to CHF 42 million in 2000, reflecting the addition of PaineWebber. Amortization of goodwill and other intangible assets increased from CHF 84 million to CHF 502 million, reflecting the amortization costs due to the PaineWebber acquisition.

Headcount

Headcount decreased 5% in 2001 from 21,567 at 31 December 2000 to 20,413 at 31 December 2001. We continued to monitor market conditions, but prudent cost control in previous years meant that we have not needed to make franchise-threatening cuts to our headcount. Financial advisor headcount is almost unchanged from 2000, but we continued to implement efficiency measures to help manage support headcount downwards.

Corporate Center

Business Group reporting

CHF million, except where indicated				% change from
For the year ended	**31.12.02**	31.12.01	31.12.00	31.12.01
Income	**1,387**	800	385	73
Credit loss recovery [1]	**249**	236	1,161	6
Total operating income	**1,636**	1,036	1,546	58
Personnel expenses	**645**	592	522	9
General and administrative expenses	**601**	537	754	12
Depreciation	**473**	372	320	27
Amortization of goodwill and other intangible assets	**24**	24	43	0
Total operating expenses	**1,743**	1,525	1,639	14
Business Group performance before tax	**(107)**	(489)	(93)	(78)
Business Group performance before tax and goodwill [2]	**(83)**	(465)	(50)	(82)

Additional information				% change from
As at	**31.12.02**	31.12.01	31.12.00	31.12.01
Regulatory equity allocated (average)	**9,400**	8,250	12,300	14
Fair value of employee stock options granted	**32**[3]			
Headcount (full-time equivalents)	**1,185**	1,132	986	5

Business Group reporting adjusted for Significant Financial Events

CHF million, except where indicated				% change from
For the year ended	**31.12.02**	31.12.01	31.12.00	31.12.01
Income	**1,315**[4]	800	385	64
Credit loss recovery [1]	**249**	236	1,161	6
Total operating income	**1,564**	1,036	1,546	51
Personnel expenses	**645**	592	490[5]	9
General and administrative expenses	**601**	537	604[5]	12
Depreciation	**473**	372	320	27
Amortization of goodwill and other intangible assets	**24**	24	43	0
Total operating expenses	**1,743**	1,525	1,457	14
Business Group performance before tax	**(179)**	(489)	89	(63)
Business Group performance before tax and goodwill [2]	**(155)**	(465)	132	(67)

[1] In order to show the relevant Business Group performance over time, adjusted expected loss figures rather than the net IFRS actual credit loss expenses are reported for all Business Groups. The difference between the adjusted expected loss figures and the net IFRS actual credit loss expenses recorded at Group level is reported in the Corporate Center (see Note 2 to the Financial Statements). [2] Excludes the amortization of goodwill and other intangible assets. [3] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements. [4] Excludes significant financial event: Income, CHF 72 million (Gain on disposal of Klinik Hirslanden). [5] Excludes significant financial events: Personnel expenses, CHF 32 million (PaineWebber integration costs); General and administrative expenses, CHF 150 million (Net additional provision relating to the US Global Settlement).

Significant financial events

There were no significant financial events in Corporate Center in 2001.

Significant financial events booked in Corporate Center in 2002 and 2000 were:

– Operating income of CHF 72 million from the sale of Klinik Hirslanden in 2002.
– Personnel expenses of CHF 32 million relating to the integration of PaineWebber into UBS in 2000.
– General and administrative costs of CHF 150 million in 2000 in connection with the US Global Settlement of World War II-related claims.

None of these events are reflected in the adjusted Business Group results in the table on the previous page. The results in the discussion below exclude significant financial events.

2002

Results

Corporate Center recorded a pre-tax loss of CHF 179 million in 2002, compared to the pre-tax loss of CHF 489 million in 2001.

Operating income

UBS Group recorded an actual credit loss of CHF 206 million in 2002 and CHF 498 million in 2001. The difference between adjusted expected losses charged to the business units and the actual credit loss expense recognized in the Group Financial Statements is booked as credit loss expense or recovery in the Corporate Center. In 2002, the actual loss was lower than the overall adjusted credit loss expense charged to the business units, resulting in a credit loss recovery in Corporate Center of CHF 249 million, compared to a credit loss recovery of CHF 236 million in 2001.

Full-year total operating income increased by 51% from CHF 1,036 million in 2001 to CHF 1,564 million in 2002. This was primarily due to higher interest income at Group Treasury, gains from the sale of financial investments and an unrealized gain on derivatives used to economically hedge interest rate risk related to structured notes issued. These developments, however, were partially offset by writedowns on financial investments.

Operating expenses

Total operating expenses were CHF 1,743 million in 2002, 14% higher than in 2001.

Over the full year, personnel expenses increased by 9% from CHF 592 million in 2001 to CHF 645 million in 2002, mainly reflecting higher expenses at Klinik Hirslanden, although that was partially offset by lower performance-related compensation.

General and administrative expenses for 2002, at CHF 601 million, were CHF 64 million higher than in 2001. This was mainly due to higher provisions for legal cases, advertising expenditures and higher expenses at Klinik Hirslanden.

At CHF 473 million in 2002, depreciation increased by 27% compared to a year earlier. This was mainly due to higher software depreciation which was previously capitalized as well as higher depreciation levels for Klinik Hirslanden.

Headcount

Headcount increased 5% during 2002 to 1,185 at 31 December 2002, reflecting hiring in Group Human Resources and Group Controller areas as well as transfers of staff from the Business Groups.

2001

Results

Corporate Center recorded a pre-tax loss of CHF 489 million in 2001, compared to a pre-tax profit of CHF 89 million in 2000, adjusted for significant financial events.

Operating income

The credit loss expense or recovery booked in Corporate Center represents the difference between the adjusted expected losses charged to the business units and the actual credit loss recognized in the Group income statement. UBS Group's credit loss expense increased to CHF 498 million in 2001, compared to a recovery of CHF 130 million in 2000. For both 2000 and 2001, actual credit loss was less than the charge to the business units, resulting in a credit loss recovery in Corporate Center of CHF 236 million in 2001, compared to a recovery of CHF 1,161 million in 2000.

Operating income decreased by CHF 510 million from 2000 to CHF 1,036 million in 2001, principally reflecting the swing in the credit loss results, offset by higher income from treasury activities.

Operating expenses

Total operating expenses were CHF 1,525 million in 2001, 5% higher than in 2000.

In 2001 personnel expenses were CHF 592 million, an increase of 21% compared to 2000, driven by severance payments and the full-year cost of senior management and other additional personnel added through the PaineWebber merger.

General and administrative expenses for 2001, at CHF 537 million, were CHF 67 million lower than in 2000. This was due to lower corporate real estate costs and lower professional fees connected to the US Global Settlement of World War II-related claims, offset by higher IT costs and one-off charges relating to the bankruptcy of SAir Group.

Headcount

Headcount increased 15% during 2001 to 1,132 at 31 December 2001, driven by the transfer of International Mobility Program participants to Corporate Center headcount and the transfer of human resources staff from UBS Warburg. The International Mobility Program provides outstanding young employees of UBS with opportunities for work experience overseas.

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UBS Group Income Statement

CHF million, except per share data For the year ended	Note	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Operating income					
Interest income	3	**39,963**	52,277	51,745	(24)
Interest expense	3	**(29,417)**	(44,236)	(43,615)	(33)
Net interest income		**10,546**	8,041	8,130	31
Credit loss (expense)/recovery		**(206)**	(498)	130	(59)
Net interest income after credit loss expense		**10,340**	7,543	8,260	37
Net fee and commission income	4	**18,221**	20,211	16,703	(10)
Net trading income	3	**5,572**	8,802	9,953	(37)
Other income	5	**(12)**	558	1,486	
Total operating income		**34,121**	37,114	36,402	(8)
Operating expenses					
Personnel expenses	6	**18,524**	19,828	17,163	(7)
General and administrative expenses	7	**7,072**	7,631	6,765	(7)
Depreciation of property and equipment	14	**1,521**	1,614	1,608	(6)
Amortization of goodwill and other intangible assets	15	**2,460**	1,323	667	86
Total operating expenses		**29,577**	30,396	26,203	(3)
Operating profit before tax and minority interests		**4,544**	6,718	10,199	(32)
Tax expense	21	**678**	1,401	2,320	(52)
Net profit before minority interests		**3,866**	5,317	7,879	(27)
Minority interests	22	**(331)**	(344)	(87)	(4)
Net profit		**3,535**	4,973	7,792	(29)
Basic earnings per share (CHF)	8	**2.92**	3.93	6.44	(26)
Basic earnings per share before goodwill (CHF)[1]	8	**4.73**	4.97	7.00	(5)
Diluted earnings per share (CHF)	8	**2.87**	3.78	6.35	(24)
Diluted earnings per share before goodwill (CHF)[1]	8	**4.65**	4.81	6.89	(3)

[1] Excludes the amortization of goodwill and other intangible assets.

UBS Group Balance Sheet

CHF million	Note	**31.12.02**	31.12.01	% change from 31.12.01
Assets				
Cash and balances with central banks		**4,271**	20,990	(80)
Due from banks	9	**32,468**	27,526	18
Cash collateral on securities borrowed	10	**139,052**	162,938	(15)
Reverse repurchase agreements	10	**294,086**	269,256	9
Trading portfolio assets	11	**371,436**	397,886	(7)
Positive replacement values	23	**82,092**	73,447	12
Loans	9	**211,647**	226,545	(7)
Financial investments	12	**8,391**	28,803	(71)
Accrued income and prepaid expenses		**6,453**	7,554	(15)
Investments in associates	13	**705**	697	1
Property and equipment	14	**7,869**	8,695	(9)
Goodwill and other intangible assets	15	**13,696**	19,085	(28)
Other assets	16, 21	**8,952**	9,875	(9)
Total assets		**1,181,118**	1,253,297	(6)
Total subordinated assets [1]		***3,652***	*2,732*	*34*
Liabilities				
Due to banks	17	**83,178**	106,531	(22)
Cash collateral on securities lent	10	**36,870**	30,317	22
Repurchase agreements	10	**366,858**	368,620	0
Trading portfolio liabilities	11	**106,453**	105,798	1
Negative replacement values	23	**81,282**	71,443	14
Due to customers	17	**306,876**	333,781	(8)
Accrued expenses and deferred income		**15,331**	17,289	(11)
Debt issued	18	**129,411**	156,218	(17)
Other liabilities	19, 20, 21	**12,339**	15,658	(21)
Total liabilities		**1,138,598**	1,205,655	(6)
Minority interests	22	**3,529**	4,112	(14)
Shareholders' equity				
Share capital		**1,005**	3,589	(72)
Share premium account		**12,638**	14,408	(12)
Net gains/(losses) not recognized in the income statement, net of tax		**(159)**	(193)	18
Retained earnings		**32,638**	29,103	12
Treasury shares		**(7,131)**	(3,377)	(111)
Total shareholders' equity		**38,991**	43,530	(10)
Total liabilities, minority interests and shareholders' equity		**1,181,118**	1,253,297	(6)
Total subordinated liabilities		***10,102***	*13,818*	*(27)*

[1] The subordinated assets for 2001 have been restated to include the subordinated traded assets of CHF 2,325 million.

UBS Group Statement of Changes in Equity

CHF million For the year ended	31.12.02	31.12.01	31.12.00
Issued and paid up share capital			
Balance at the beginning of the year	3,589	4,444	4,309
Issue of share capital	6	12	135
Capital repayment by par value reduction [1]	(2,509)	(683)	
Cancellation of second trading line treasury shares (2000 Program)		(184)	
Cancellation of second trading line treasury shares (2001 Program)	(81)		
Balance at the end of the year	1,005	3,589	4,444
Share premium			
Balance at the beginning of the year	14,408	20,885	14,437
Premium on shares issued and warrants exercised	157	80	139
Net premium/(discount) on treasury share and own equity derivative activity	282	(239)	(391)
Share premium increase due to PaineWebber acquisition			4,198
Borrow of own shares to be delivered			5,895
Settlement of own shares to be delivered		(2,502)	(3,393)
Cancellation of second trading line treasury shares (2000 Program)		(3,816)	
Cancellation of second trading line treasury shares (2001 Program)	(2,209)		
Balance at the end of the year	12,638	14,408	20,885
Net gains / (losses) not recognized in the income statement, net of taxes			
Foreign currency translation			
Balance at the beginning of the year	(769)	(687)	(442)
Movements during the year [2]	(80)	(82)	(245)
Subtotal – balance at the end of the year	(849)	(769)	(687)
Net unrealized gains / (losses) on available for sale investments, net of taxes			
Balance at the beginning of the year	1,035	0	
Change in accounting policy		1,577 [3]	
Net unrealized gains/(losses) on available for sale investments	(144)	(139)	
Impairment charges reclassified to the income statement	635	47	
Gains reclassified to the income statement	(600)	(461)	
Losses reclassified to the income statement	20	11	
Subtotal – balance at the end of the year	946	1,035	
Change in fair value of derivative instruments designated as cash flow hedges, net of taxes			
Balance at the beginning of the year	(459)	0	
Change in accounting policy		(380) [3]	
Net unrealized gains/(losses) on the revaluation of cash flow hedges	(11)	(316)	
Net (gains)/losses reclassified to the income statement	214	237	
Subtotal – balance at the end of the year	(256)	(459)	
Balance at the end of the year	(159)	(193)	(687)
Retained earnings			
Balance at the beginning of the year	29,103	24,191	20,327
Change in accounting policy		(61) [3]	
Balance at the beginning of the year (restated)	29,103	24,130	20,327
Net profit for the year	3,535	4,973	7,792
Dividends paid [1, 4]			(3,928)
Balance at the end of the year	32,638	29,103	24,191
Treasury shares, at cost			
Balance at the beginning of the year	(3,377)	(4,000)	(8,023)
Acquisitions	(8,313)	(13,506)	(16,330)
Disposals	2,269	10,129	20,353
Cancellation of second trading line treasury shares (2000 Program)		4,000	
Cancellation of second trading line treasury shares (2001 Program)	2,290		
Balance at the end of the year	(7,131)	(3,377)	(4,000)
Total shareholders' equity	38,991	43,530	44,833

1 On 16 July 2001, UBS made a distribution to shareholders of CHF 1.60 per share, paid in the form of a reduction in the par value of its shares, from CHF 10.00 to CHF 8.40. At the same time, UBS split its share 3 for 1, resulting in a new par value of CHF 2.80 per share. On 10 July 2002 UBS made a distribution of CHF 2.00 to shareholders which reduced the par value from CHF 2.80 to CHF 0.80.

2 Included are gains and losses from match-funding of net investments in foreign entities as follows: CHF 849 million net gain for 2002 and CHF 43 million net loss for 2001.

3 Opening adjustments to reflect the adoption of IAS 39 (see Note 1: Summary of Significant Accounting Policies).

4 Dividends declared per share were CHF 1.50 in 2000 and CHF 1.83 in 1999, both paid in the year 2000.

UBS Group Statement of Changes in Equity (continued)

Shares issued

	Number of shares			% change from
For the year ended	**31.12.02**	31.12.01	31.12.00	31.12.01
Balance at the beginning of the year	**1,281,717,499**	1,333,139,187	1,292,679,486	(4)
Issue of share capital	**3,398,869**	3,843,661	4,459,701	(12)
Issue of share capital due to PaineWebber acquisition			36,000,000	
Cancellation of second trading line treasury shares (2000 Program)		(55,265,349)		
Cancellation of second trading line treasury shares (2001 Program)	**(28,818,690)**			
Balance at the end of the year	**1,256,297,678**	1,281,717,499	1,333,139,187	(2)

Treasury shares

	Number of shares			% change from
For the year ended	**31.12.02**	31.12.01	31.12.00	31.12.01
Balance at the beginning of the year	**41,254,951**	55,265,349	110,621,142	(25)
Acquisitions	**110,710,741**	162,818,045	257,121,477 [1]	(32)
Disposals	**(25,965,908)**	(121,563,094)	(312,477,270) [1]	(79)
Cancellation of second trading line treasury shares (2000 Program)		(55,265,349)		
Cancellation of second trading line treasury shares (2001 Program)	**(28,818,690)**			
Balance at the end of the year	**97,181,094**	41,254,951	55,265,349	136

[1] Number of shares in 2000 has been adjusted.

During the year a total of 28,818,690 shares acquired under the second trading line buyback program 2001 were cancelled. At 31 December 2002, a maximum of 9,590,918 shares can be issued against the exercise of options from former PaineWebber employee option plans. These shares are shown as conditional share capital in the UBS AG (Parent Bank) disclosure. Out of the total number of 97,181,094 treasury shares, 74,035,080 shares (CHF 5,416 million) were acquired under the second trading line buyback program 2002 and are earmarked for cancellation. The Board of Directors will propose to the Annual General Meeting on 16 April 2003 to reduce the issued number of shares and the share capital by the number of shares purchased for cancellation. All issued shares are fully paid.

UBS Group Statement of Cash Flows

CHF million For the year ended	31.12.02	31.12.01	31.12.00
Cash flow from / (used in) operating activities			
Net profit	3,535	4,973	7,792
Adjustments to reconcile net profit to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation of property and equipment	1,521	1,614	1,608
Amortization of goodwill and other intangible assets	2,460	1,323	667
Credit loss expense / (recovery)	206	498	(130)
Equity in income of associates	(7)	(72)	(58)
Deferred tax expense / (benefit)	(509)	292	544
Net loss / (gain) from investing activities	986	513	(730)
Net (increase) / decrease in operating assets:			
Net due from / to banks	(22,382)	27,306	(915)
Reverse repurchase agreements and cash collateral on securities borrowed	(944)	(60,536)	(81,054)
Trading portfolio and net replacement values	21,967	(78,456)	11,553
Loans / due to customers	(11,537)	42,813	12,381
Accrued income, prepaid expenses and other assets	2,875	(424)	6,923
Net increase / (decrease) in operating liabilities:			
Repurchase agreements, cash collateral on securities lent	4,791	80,006	50,762
Accrued expenses and other liabilities	(4,754)	(5,235)	3,313
Income taxes paid	(572)	(1,742)	(959)
Net cash flow from / (used in) operating activities	(2,364)	12,873	11,697
Cash flow from / (used in) investing activities			
Investments in subsidiaries and associates	(60)	(467)	(9,729)
Disposal of subsidiaries and associates	984	95	669
Purchase of property and equipment	(1,763)	(2,021)	(1,640)
Disposal of property and equipment	67	380	335
Net (investment in) / divestment of financial investments	2,153	(5,770)	(8,770)
Net cash flow from / (used in) investing activities	1,381	(7,783)	(19,135)
Cash flow from / (used in) financing activities			
Net money market paper issued / (repaid)	(26,206)	24,226	10,125
Net movements in treasury shares and own equity derivative activity	(5,605)	(6,038)	(647)
Capital issuance	6	12	15
Capital repayment by par value reduction	(2,509)	(683)	
Dividends paid			(3,928)
Issuance of long-term debt	17,132	18,233	14,884
Repayment of long-term debt	(14,911)	(18,477)	(24,640)
Increase in minority interests	0	1,291	2,683
Dividend payments to / and purchase from minority interests	(377)	(461)	(73)
Net cash flow from / (used in) financing activities	(32,470)	18,103	(1,581)
Effects of exchange rate differences	(462)	(304)	112
Net increase / (decrease) in cash equivalents	(33,915)	22,889	(8,907)
Cash and cash equivalents, beginning of the year	116,259	93,370	102,277
Cash and cash equivalents, end of the year	82,344	116,259	93,370
Cash and cash equivalents comprise:			
Cash and balances with central banks	4,271	20,990	2,979
Money market paper [1]	46,183	69,938	66,454
Due from banks maturing in less than three months	31,890	25,331	23,937
Total	82,344	116,259	93,370

[1] Money market paper is included in the Balance sheet under Trading portfolio assets and Financial investments. CHF 10,475 million, CHF 29,895 million and CHF 28,395 million were pledged at 31 December 2002, 31 December 2001 and 31 December 2000, respectively.

UBS Group Statement of Cash Flows (continued)

Significant non-cash investing and financing activities

CHF million For the year ended	**31.12.02**	31.12.01	31.12.00
Paine Webber Group, Inc. acquisition			
Value of shares issued (121,741,710 shares issued)	**0**	0	10,246
Value of options issued (18,975,810 options issued)	**0**	0	992
Solothurner Bank SOBA, Solothurn, deconsolidation			
Investments in associates	**0**	0	1
Property and equipment	**0**	0	77
Debt issued	**0**	0	493
Hyposwiss, Zurich, deconsolidation			
Financial investments	**53**	0	0
Property and equipment	**18**	0	0
Debt issued	**63**	0	0
Hirslanden Holding AG, Zurich, deconsolidation			
Financial investments	**3**	0	0
Property and equipment	**718**	0	0
Goodwill and other intangible assets	**15**	0	0
Consolidation of special purpose entities			
Debt issued	**2,322**	0	0

Notes to the Financial Statements

Note 1 Summary of Significant Accounting Policies

a) Basis of accounting

UBS AG and subsidiaries ("UBS" or the "Group") provide a broad range of financial services including advisory services, underwriting, financing, market making, asset management, brokerage, and retail banking on a global level. The Group was formed on 29 June 1998 when Swiss Bank Corporation and Union Bank of Switzerland merged. The merger was accounted for using the uniting of interests method of accounting.

The consolidated financial statements of the Group (the "Financial Statements") are prepared in accordance with International Financial Reporting Standards ("IFRS") and stated in Swiss francs (CHF), the currency of the country in which UBS AG is incorporated. On 11 February 2003 the Board of Directors approved them for issue.

b) Use of estimates in the preparation of Financial Statements

In preparing the Financial Statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the Financial Statements.

c) Consolidation

The Financial Statements comprise those of the parent company (UBS AG), its subsidiaries and certain special purpose entities, presented as a single economic entity. The effects of intra-group transactions are eliminated in preparing the Financial Statements. Subsidiaries and special purpose entities which are directly or indirectly controlled by the Group are consolidated. Subsidiaries acquired are consolidated from the date control is transferred to the Group. Subsidiaries to be divested are consolidated up to the date of disposal. Temporarily controlled entities that are acquired and held with a view to their subsequent disposal, are recorded as Financial investments.

Assets held in an agency or fiduciary capacity are not assets of the Group and are not reported in the Financial Statements.

Equity and net income attributable to minority interests are shown separately in the Balance sheet and Income statement, respectively.

Investments in associates in which the Group has a significant influence are accounted for under the equity method of accounting. Significant influence is normally evidenced when UBS owns 20% or more of a company's voting rights. Investments in associates are initially recorded at cost and the carrying amount is increased or decreased to recognize the Group's share of the investee's profits or losses after the date of acquisition. Investments in associates for which significant influence is intended to be temporary because the investments are acquired and held exclusively with a view to their subsequent disposal, are recorded as Financial investments.

The Group sponsors the formation of companies, which may or may not be directly or indirectly owned subsidiaries, for the purpose of asset securitization transactions and structured debt issuance, and to accomplish certain narrow and well defined objectives. These companies may acquire assets directly or indirectly from UBS or its affiliates. Some of these companies are bankruptcy-remote entities whose assets are not available to satisfy the claims of creditors of the Group or any of its subsidiaries. Such companies are consolidated in the Group's Financial Statements when the substance of the relationship between the Group and the company indicates that the company is controlled by the Group. Certain transactions of consolidated entities meet the criteria for derecognition of financial assets. Derecognition of a financial asset takes place when the Group loses control of the contractual rights that comprise the financial asset. These transactions do not affect the consolidation status of an entity.

d) Foreign currency translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the income statement.

Exchange differences on non-monetary financial assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are either recognized in the income statement (applicable for example for equity securities held for trading), or within Shareholder's equity if non-monetary financial assets are classified as available-for-sale financial investments.

When preparing consolidated financial statements, assets and liabilities of foreign entities are translated at the exchange rates at the balance sheet date, while income and expense items are translated at weighted average rates for the period. Differences resulting from the use of closing and weighted average exchange rates and from revaluing a foreign entity's opening net asset balance at closing rate are recognized directly in Foreign currency translation within Shareholders' equity.

e) Business and geographical segments

The Group is organized on a worldwide basis into four Business Groups and the Corporate Center. This organizational structure is the basis upon which the Group reports its primary segment information.

Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Such transfers are accounted for at prices in line with charges to unaffiliated customers for similar services.

f) Cash and cash equivalents

Cash and cash equivalents consist of Cash and balances with central banks, balances included in Due from banks that mature in less than three months, and Money market paper included in Trading portfolio assets and Financial investments.

g) Fee income

Brokerage fees earned from executing securities transactions are recorded when the service has been provided. Portfolio and other management, advisory and other service fees are recognized based on the terms of the applicable service contracts. Asset management fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for fees earned for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Transaction-related fees earned from merger and acquisition and other advisory services, securities underwriting, fund raising, and from other investment banking and similar services that have a non-recurring character, are recognized at the time the service has been completed.

h) Securities borrowing and lending

Securities borrowed and securities lent are recorded at the amount of cash collateral advanced or received, plus accrued interest.

Securities borrowed and securities received as collateral under securities lending transactions are not recognized in the balance sheet unless control of the contractual rights that comprise these securities received is gained. Securities lent and securities provided as collateral under securities borrowing transactions are not derecognized from the balance sheet unless control of the contractual rights that comprise these securities transferred is relinquished. The Group monitors the market value of the securities borrowed and lent on a daily basis and provides or requests additional collateral in accordance with the underlying agreements.

Fees and interest received or paid are recorded as interest income or interest expense, on an accrual basis.

i) Repurchase and reverse repurchase transactions

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are generally treated as collateralized financing transactions and are carried at the amounts of cash advanced or received, plus accrued interest.

Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognized in the balance sheet or derecognized from the balance sheet, unless control of the contractual rights that comprise these securities is relinquished. The Group monitors the market value of the securities received or delivered on a daily basis, and provides or requests additional collateral in accordance with the underlying agreements.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense, over the life of each agreement.

The Group offsets reverse repurchase agreements and repurchase agreements with the same counterparty for transactions covered by legally enforceable master netting agreements when net or simultaneous settlement is intended.

j) Trading portfolio

Trading portfolio assets consist of money market paper, other debt instruments, including traded loans, equity instruments and precious metals which are owned by the Group ("long" positions). Obligations to deliver trading securities sold but not yet purchased are reported as Trading portfolio liabilities. Trading portfolio liabilities consist of money market paper, other debt instruments and equity instruments which the Group has sold to third parties but does not own ("short" positions).

The trading portfolio is carried at fair value, which includes valuation allowances for instruments for which liquid markets do not exist. Gains and losses realized on disposal or redemption and unrealized gains and losses from changes in the fair value of trading portfolio assets or liabilities are reported as Net trading income. Interest and dividend income and expense on trading portfolio assets or liabilities are included in Interest and dividend income or Interest and dividend expense, respectively.

The Group uses settlement date accounting when recording trading portfolio transactions. It recognizes from the date the transaction is entered into (trade date) in the income statement any unrealized profits and losses arising from revaluing that contract to fair value. Subsequent to the trade date, when the transaction is consummated (settlement date) a resulting financial asset or liability is recognized on the balance sheet at the fair value of the consideration given or received plus the change in fair value of the contract since the trade date. When the Group becomes party to a sales contract of a financial asset classified in its trading portfolio it derecognizes the asset on the day of its transfer.

The determination of fair values of trading portfolio assets or liabilities is based on quoted market prices in active markets or dealer price quotations, pricing models (using assumptions based on market and economic conditions), or management's estimates, as applicable.

k) Loans originated by the Group

Loans originated by the Group include loans where money is provided directly to the borrower, other than those that are originated with the intent to be sold immediately or in the short term, which are recorded as Trading portfolio assets. A participation in a loan from another lender is considered to be originated by the Group, provided it is funded on the date the loan is originated by the lender. Purchased loans are classified either as Financial investments available for sale, or as Trading portfolio assets, as appropriate.

Loans originated by the Group are recognized when cash is advanced to borrowers. They are initially recorded at cost, which is the fair value of the cash given to originate the loan, including any transaction costs, and are subsequently measured at amortized cost using the effective interest rate method.

Interest on loans originated by the Group is included in Interest earned on loans and advances and is recognized on an accrual basis. Fees and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and amortized to Interest earned on loans and advances over the life of the loan using the straight-line method which approximates the effective interest rate method. Fees received for commitments which are not expected to result in a loan are included in Credit-related fees and commissions over the commitment period. Loan syndication fees where UBS does not retain a portion of the syndicated loan are credited to commission income.

l) Allowance and provision for credit losses

An allowance for credit losses is established if there is objective evidence that the Group will be unable to collect all amounts due on a claim according to the original contractual terms or the equivalent value. A "claim" means a loan, a commitment such as a letter of credit, guarantee or commitment to extend credit, or a derivative or other credit product.

An allowance for credit loss is reported as a reduction of the carrying value of a claim on the balance sheet, whereas for an off-balance sheet item such as a commitment a provision for credit loss is reported in Other liabilities. Additions to the allowances and provisions for credit losses are made through credit loss expense.

Allowances and provisions for credit losses are evaluated at a counterparty-specific and/or country-specific level based on the following principles:

Counterparty-specific: A claim is considered impaired when management determines that it is probable that the Group will not be able to collect all amounts due according to the original contractual terms or the equivalent value.

Individual credit exposures are evaluated based upon the borrower's character, overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, where applicable, the realizable value of any collateral.

The estimated recoverable amount is the present value of expected future cash flows which may result from restructuring or liquidation. Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and its estimated recoverable amount.

If there are indications of significant probable losses in the portfolio that have not been specifically identified, allowances for credit losses would also be provided for on a portfolio basis.

Upon impairment the accrual of interest income based on the original terms of the claim is discontinued, but the increase of the present value of impaired claims due to the passage of time is reported as interest income.

An impaired loan is classified as non-performing when the contractual payments of principal and/or interest are in arrears for 90 days or more.

All impaired claims are reviewed and analyzed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates will result in a change in the allowance for credit losses and be charged or credited to credit loss expense.

An allowance for an impairment is reversed only when the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim agreement.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established allowances for credit losses or directly to credit loss expense and reduce the principal amount of a claim. Recoveries in part or in full of amounts previously written off are credited to credit loss expense.

Country-specific: Where, in management's opinion, it is probable that some claims may be affected by systemic crisis, transfer restrictions or non-enforceability, specific country allowances for probable losses are established. They are based on country-specific scenarios, taking into consideration the nature of the individual exposures, but excluding those amounts covered by counterparty-specific allowances.

m) Securitizations

The Group securitizes various consumer and commercial financial assets, which generally results in the sale of these assets to special-purpose vehicles which, in turn issue securities to investors. Financial assets are partially or wholly derecognized when the Group gives up control of the contractual rights that comprise the financial asset.

Interests in the securitized financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests ("retained interests"). Retained interests are primarily recorded in Trading portfolio assets and carried at fair value. The determination of fair values of retained interest is generally based on quoted market prices or to a lesser extent by determining the present value of expected future cash flows using pricing models that incorporate management's best estimates of critical assumptions which may include credit losses, discount rates, yield curves and other factors.

Gains or losses on securitization depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognized and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitization are recorded in Net trading income.

n) Financial investments

Financial investments are classified as available-for-sale and recorded on a settlement date basis. Management determines the appropriate classification of its investments at the time of the purchase. Financial investments consist of money market paper, other debt instruments and equity instruments, including private equity investments.

Available-for-sale financial investments may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or equity prices.

Available-for-sale financial investments are carried at fair value. Unrealized gains or losses on available-for-sale investments are reported in Shareholders' equity, net of applicable taxes, until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired.

The determination of fair values of available-for-sale financial investments is generally based on quoted market prices in active markets, dealer price quotations, discounted expected cash flows using market rates commensurate with the credit quality and maturity of the investment or based upon review of the investee's financial results, condition and prospects including comparisons to similar companies for which quoted market prices are available.

If an available-for-sale investment is determined to be impaired, the cumulative unrealized loss previously recognized in Shareholders' equity is included in net profit or loss for the period and reported in Other income. A financial investment is considered impaired if its cost exceeds the recoverable amount. For non-quoted equity investments, the recoverable amount is determined by applying recognized valuation techniques. The standard method applied is based on multiple of earnings observed in the market for comparable companies. For quoted financial investments, the recoverable amount is determined by reference to the market price. They are considered impaired if objective evidence indicates that the decline in market price has reached a level that recovery of the cost value cannot be reasonably expected within the foreseeable future.

On disposal of an available-for-sale investment, the accumulated unrealized gain or loss included in Shareholders' equity is transferred to net profit or loss for the period and reported in Other income. Gains and losses on disposal are determined using the average cost method.

Interest and dividend income on available-for-sale financial investments is included in Interest and dividend income from financial investments.

o) Property and equipment

Property and equipment includes bank-occupied properties, investment properties, software, IT and communication and other machines and equipment.

Bank-occupied property is defined as property held by the Group for use in the supply of services or for administrative purposes whereas investment property is defined as property held by the Group to earn rentals and/or for capital appreciation. If a property of the Group includes a portion that is bank-occupied and another portion that is held to earn rentals or for capital appreciation, the classification is based on whether or not these portions can be sold separately. If both portions of the property can be sold separately these portions are accounted for as bank-occupied property and investment property, respectively. If the portions cannot be sold separately, the whole property is classified as bank-occupied property unless the portion used by the bank is minor. The classification of property is reviewed on a regular basis to account for major changes in its usage.

Software development costs are capitalized when they meet certain criteria relating to identifiability, it is probable that future economic benefits will flow to the enterprise, and the cost can be measured reliably. Internally developed software meeting these criteria and purchased software are classified in Property and equipment on the balance sheet.

Property and equipment is carried at cost less accumulated depreciation and accumulated impairment losses. Property and equipment is periodically reviewed for impairment.

Property and equipment is depreciated on a straight-line basis over its estimated useful life as follows:

Properties, excluding land	Not exceeding 50 years
Other machines and equipment	Not exceeding 10 years
IT, software and communication	Not exceeding 3 years

Property formerly bank-occupied or leased to third parties under an operating lease, which the Group has decided to dispose of and foreclosed property are defined as Properties held for resale and disclosed in Other assets. They are carried at the lower of cost or recoverable value.

When the cost model is applied, IAS 40, Investment Property, requires the disclosure of the investment property's fair value (see Note 14) and how fair value is determined. UBS employs internal real estate experts who determine the fair value of investment property by applying recognized valuation techniques. In cases where prices of recent market transactions of comparable objects are available, fair value is determined by reference to these transactions.

p) Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entity at the date of acquisition.

Other intangible assets are comprised of separately identifiable intangible items arising from acquisitions and certain purchased trademarks and similar items.

Goodwill and other intangible assets are recognized as assets and are amortized using the straight-line basis over their estimated useful economic life, not exceeding 20 years. At each balance sheet date, goodwill and other intangible assets are reviewed for indications of impairment or changes in estimated future benefits. If such indications exist an analysis is performed to assess whether the carrying amount of goodwill or other intangible assets is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount.

q) Income taxes

Income tax payable on profits, based on the applicable tax laws in each jurisdiction, is recognized as an expense in the period in which profits arise. The tax effects of income tax losses available for carryforward are recognized as an asset when it is probable that future taxable profit will be available against which those losses can be utilized.

Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the Group balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognized for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting group and relate to the same tax authority and when the legal right to offset exists.

Current and deferred taxes are recognized as income tax benefit or expense except for (i) deferred taxes recognized or disposed of upon the acquisition or disposal of a subsidiary, and (ii) unrealized gains or losses on available for sale investments and changes in fair value of derivative instruments designated as cash flow hedges, which are recorded net of taxes in Gains or losses not recognized in the income statement within Shareholders' equity.

r) Debt issued

Debt issued is initially measured at cost, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is at amortized cost, using the effective interest rate method to amortize cost at inception to the redemption value over the life of the debt.

Combined debt instruments that are related to non-UBS AG equity instruments, foreign exchange, credit instruments or indices are considered structured instruments. The embedded derivative is separated from the host contract and accounted for as a stand-alone derivative if the criteria for separation are met. The host contract is subsequently measured at amortized cost.

Debt instruments with embedded derivatives that are related to UBS AG shares or to a derivative instrument that has UBS AG shares as underlying are separated into a liability and an equity component at issue date, if they will be physically settled. Initially, a portion of the net proceeds from issuing the combined debt instrument are allocated to the equity component based on its fair value and reported in Share premium account. The determination of fair values is generally based on quoted market prices or option pricing models. Subsequent changes in fair value of the separated equity component are not recognized. The remaining amount is allocated to the liability component and reported as Debt issued. The liability component is subsequently measured at amortized cost. However, if the combined instrument or the embedded derivative related to UBS AG shares is cash settled or the holder of the hybrid instrument has the right to require cash settlement, then the separated derivative is accounted for as a trading instrument with changes in fair value recorded in income.

It is the Group's policy to hedge the fixed interest rate risk on debt issues (except for certain subordinated long-term notes issues, see Note 30a) and apply fair value hedge accounting. The effect is such that when hedge accounting is applied to fixed rate debt instruments, the carrying value of debt issues is adjusted for changes in fair value related to the hedged exposure rather than carried at amortized cost. See v) Derivative instruments for further discussion.

Own bonds held as a result of market making activities or deliberate purchases in the market are treated as a redemption of debt. A gain or loss on redemption is recorded depending on whether the repurchase price of the bond was lower or higher than its carrying value in the books. A subsequent sale of own bonds in the market is treated as a re-issuance of debt.

Interest expense on debt instruments is included in Interest on debt issued.

s) Treasury shares

UBS AG shares held by the Group are classified in Shareholders' equity as Treasury shares and accounted for at weighted average cost. The difference between the proceeds from sales of treasury shares and their cost (net of tax, if any) is classified as Share premium.

Contracts that require physical settlement or net share settlement in UBS AG shares or provide the Group with a choice to physically settle are classified as Shareholders' equity and reported as Share premium. Upon settlement of such contracts the proceeds received less cost (net of tax, if any), are reported as Share premium.

Contracts on UBS AG shares that require net cash settlement or provide the counterparty with a choice of net cash settlement are classified as trading instruments, with the changes in fair value reported in the income statement.

t) Retirement benefits

The Group sponsors a number of retirement benefit plans for its employees worldwide. These plans include both defined benefit and defined contribution plans and various other retirement benefits such as post-employment medical benefits. Group contributions to defined contribution plans are expensed when employees have rendered services in exchange for such contributions, generally in the year of contribution.

The Group uses the projected unit credit actuarial method to determine the present value of its defined benefit plans and the related current service cost and, where applicable, past service cost.

The principal actuarial assumptions used by the actuary are set out in Note 32.

The Group recognizes a portion of its actuarial gains and losses as income or expenses if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

a) 10% of present value of the defined benefit obligation at that date (before deducting plan assets); and

b) 10% of the fair value of any plan assets at that date.

The unrecognized actuarial gains and losses exceeding the greater of the two values are recognized in the income statement over the expected average remaining working lives of the employees participating in the plans.

If an excess of the fair value of the plan assets over the present value of the defined benefit obligation cannot be recovered fully through refunds or reductions in future contributions, no gain is recognized solely as a result of deferral of an actuarial loss or past service cost in the current period or no loss is recognized solely as a result of deferral of an actuarial gain in the current period.

u) Equity participation plans

The Group provides various equity participation plans in the form of stock plans and stock option plans. UBS generally uses the intrinsic value method of accounting for such awards. Consequently, compensation expense is measured as the difference between the quoted market price of the stock at the grant date less the amount, if any, that the employee is required to pay, or by the excess of stock price over option strike price, if any. The Group's policy is to recognize compensation expense for equity awards at the date of grant.

v) Derivative instruments and hedging

All derivative instruments of the Group are carried at fair value on the balance sheet and are reported as Positive or Negative replacement values. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying. The Group offsets positive and negative replacement values with the same counterparty for transactions covered by legally enforceable master netting agreements, as explained in Note 23.

Where the Group enters into derivatives for trading purposes, realized and unrealized gains and losses are recognized in Net trading income.

The Group also uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The Group applies either fair value or cash flow hedge accounting when transactions meet the specified criteria to obtain hedge accounting treatment.

At the time a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including its risk management objectives and its strategy in undertaking the hedge transaction, which must be in accordance with the Group's risk management policies, together with the methods that will be used to assess the effectiveness of the hedging relationship. Accordingly, the Group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been "highly effective" in offsetting changes in the fair value or cash flows of the hedged items. A hedge is normally regarded as highly effective if, at inception and throughout its life, the Group can expect changes in the fair value or cash flows of the hedged item to be almost fully offset by the changes in the fair value or cash flows of the hedging instrument, and actual results are within a range of 80% to 125%. In the case of hedging a forecast transaction, the transaction must be highly probable and must present an exposure to variations in cash flows that could ultimately affect reported net profit or loss. The Group discontinues hedge accounting when it is determined that a derivative is not, or has ceased to be, highly effective as a hedge; when the derivative expires, or is sold, terminated, or exercised; when the hedged item matures or is sold or repaid; or when a forecast transaction is no longer deemed highly probable.

"Hedge ineffectiveness" represents the amount by which the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged item or the amount by which changes in the cash flow of the hedging derivative differ from changes (or expected changes) in the cash flow of the hedged item. Such gains and losses are recorded in current period earnings, as are gains and losses on components of a hedging derivative that are excluded from assessing hedge effectiveness.

For qualifying fair value hedges, the change in fair value of the hedging derivative is recognized in net profit and loss. Those changes in fair value of the hedged item which are attributable to the risks hedged with the derivative instrument are reflected in an adjustment to the carrying value of the hedged item, which is also recognized in net profit or loss. If the hedge relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the "unamortized fair value adjustment"), is, in the case of interest bearing instruments, amortized to net profit or loss over the remaining term of the original hedge, while for non-interest bearing instruments that amount is immediately recognized in earnings. If the hedged instrument is derecognized, e.g. is sold or repaid, the unamortized fair value adjustment is recognized immediately in net profit and loss.

A fair valuation gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognized initially in Shareholders' equity. When the cash flows that the derivative is hedging (including cash flows from transactions that were only forecast when the derivative hedge was effected) materialize, resulting in income or expense, then the associated gain or loss on the hedging derivative is simultaneously transferred from Shareholders' equity to the corresponding income or expense line item.

If a cash flow hedge for a forecast transaction is deemed to be no longer effective, or the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in Shareholders' equity remains in Shareholders' equity until the committed or forecast transaction occurs, at which point it is transferred from Shareholders' equity to net trading income.

Derivative instruments transacted as economic hedges but not qualifying for hedge accounting are treated in the same way as derivative instruments used for trading purposes, i. e. realized and unrealized gains and losses are recognized in Net trading income. In particular, the Group has entered into economic hedges of credit risk within the loan portfolio using credit default swaps to which it does not apply hedge accounting. In the event that the Group recognizes an impairment on a loan that is economically hedged in this way, the impairment is recognized in Credit loss expense whereas the gain on the credit default swap is recorded in Net trading income – see Note 23 for additional information.

A derivative may be embedded in a "host contract". Such combinations are known as hybrid instruments and arise predominantly from the issuance of certain structured debt instruments. If the host contract is not carried at fair value with changes in fair value reported in net profit or loss, the embedded derivative is separated from the host contract and accounted for as a standalone derivative instrument at fair value if, and only if: the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the embedded derivative actually meets the definition of a derivative.

w) Earnings per Share (EPS)

Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is computed using the same method as for basic EPS, but the determinants are adjusted to reflect the potential dilution that could occur if options, warrants, convertible debt securities or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

x) Comparability

Amended IAS 19, Employee Benefits

The Group adopted in 2002 the amended standard IAS 19 "Employee Benefits". The amendments introduce an asset ceiling provision that applies for defined benefit plans that have a surplus of plan assets over benefit obligations. The implementation of the amended standard had no material impact.

IFRIC Interpretations

Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) became effective during 2002 but had no impact on the Group's Financial Statements.

Segment Reporting

As at 1 January 2002, UBS PaineWebber was separated from UBS Warburg and became a stand-alone Business Group. Note 2 to these Group Financial Statements reflects the new Business Group structure. Comparative prior year amounts have been restated to conform to the current year presentation.

IAS 39, Recognition and Measurement of Financial Instruments

The Group adopted IAS 39 prospectively as at 1 January 2001. The Standard provides comprehensive guidance on accounting for financial instruments.

Upon adoption, the Group decided to record unrealized gains and losses arising from changes in the fair value of available-for-sale financial investments directly in Shareholders' equity until such investment is disposed of or until such investment is determined to be impaired.

As a result of the adoption of IAS 39, the following adjustments or changes in classification occurred:

Gains/losses not recognized in the income statement is a new component of Shareholders' equity as at 1 January 2001. It includes unrealized gains and losses on available for sale financial investments and on derivatives designated as cash flow hedges as well as Foreign currency translation. The opening adjustment as at 1 January 2001 to financial investments recorded as available for sale was a net unrealized gain of CHF 1,769 million (CHF 1,577 million net of taxes), and for derivatives designated as cash flow hedges an unrealized net loss of CHF 506 million (CHF 380 million net of taxes).

Available-for-sale financial investments were previously carried at the lower of cost or market value and private equity investments were carried at cost less write-downs for impairments in value. Reductions of the carrying amount of available-for-sale financial investments and private equity investments and reversals of such reductions as well as gains and losses on disposal are included in Other income. As at 1 January 2001 these financial investments are now classified as available-for-sale financial investments and carried at fair value. Changes in fair value are reported in Gains/losses not recognized in the income statement within Shareholders' equity until these investments are disposed of. At the time an available-for-sale financial investment is determined to be impaired, the cumulative unrealized loss previously recognized in Shareholders' equity is included in net profit or loss for the period.

The opening adjustment to Retained earnings, a net debit of CHF 61 million as at 1 January 2001, consisted of CHF 19 million reflecting the impact of adopting the new hedge accounting rules and CHF 42 million reflecting the impact of remeasuring assets to either amortized cost or fair value as required under IAS 39.

Properties held for resale include properties formerly bank-occupied or leased to third parties under an operating lease, which the Group has decided to dispose of, and foreclosed properties which the Group received in satisfaction of a secured loan and which it does not intend to occupy. As at 1 January 2001, Properties held for resale in the amount of CHF 984 million were reclassified from Financial investments to Other assets. Comparative amounts have been reclassified accordingly.

Note 2a Segment Reporting by Business Group

Based on our integrated business model, UBS is organized into the four Business Groups: UBS Wealth Management & Business Banking, UBS Global Asset Management, UBS Warburg and UBS PaineWebber, and our Corporate Center.

UBS Wealth Management & Business Banking

UBS Wealth Management & Business Banking comprises two business units.

Private Banking offers a comprehensive range of products and services individually tailored to affluent international and Swiss clients, operating from offices around the world.

Business Banking Switzerland provides individual and corporate clients in Switzerland with a complete portfolio of banking and securities services, focused on customer service excellence, profitability and growth, by using a multi-channel distribution.

The two business units share technological and physical infrastructure, and have joint departments supporting major functions such as e-commerce, financial planning and wealth management, investment policy and strategy.

UBS Global Asset Management

UBS Global Asset Management provides investment products and services to institutional investors and wholesale intermediaries around the globe. Clients include corporate and public pension plans, financial institutions and advisors, central banks as well as charities, foundations and individual investors.

UBS Warburg

UBS Warburg operates globally as a client-driven investment banking and securities firm with two business units.

Corporate and Institutional Clients provides innovative products, research, advice and complete access to the world's capital markets for intermediaries, governments, corporate and institutional clients and other parts of UBS.

UBS Capital is the private equity business unit of UBS Warburg, investing UBS and third party funds, primarily in unlisted companies.

UBS PaineWebber

UBS PaineWebber is a US financial services firm providing sophisticated wealth management services to affluent US clients through a highly trained financial advisor network.

Corporate Center

Corporate Center ensures that the Business Groups operate as a coherent and effective whole with a common set of values and principles in such areas as risk management, financial reporting, marketing and communications, funding, capital and balance sheet management and management of foreign exchange earnings.

Note 2a Segment Reporting by Business Group

The Business Group results are presented on a management reporting basis. Internal charges and transfer pricing adjustments are reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a Business Group on a reasonable basis. Transactions between Business Groups are conducted at arm's length. The segment reporting for all periods reflects the changes in the structure implemented during 2002. Prior year amounts have been restated to conform to current year presentation.

For the year ended 31 December 2002

CHF million	UBS Wealth Management & Business Banking	UBS Global Asset Management	UBS Warburg	UBS PaineWebber	Corporate Center	UBS Group
Income [1]	12,928	1,953	12,498	5,561	1,387	34,327
Credit loss expense [2]	(314)	0	(128)	(13)	249	(206)
Total operating income	12,614	1,953	12,370	5,548	1,636	34,121
Personnel expenses	4,810	946	7,878	4,245	645	18,524
General and administrative expenses	2,317	513	2,378	1,263	601	7,072
Depreciation	480	37	382	149	473	1,521
Amortization of goodwill and other intangible assets [3]	111	270	364	1,691	24	2,460
Total operating expenses	7,718	1,766	11,002	7,348	1,743	29,577
Business Group performance before tax	**4,896**	**187**	**1,368**	**(1,800)**	**(107)**	**4,544**
Tax expense						678
Net profit before minority interests						**3,866**
Minority interests						(331)
Net profit						**3,535**
Other information as at 31 December 2002 [4]						
Total assets	310,722	4,428	933,962	39,610	(107,604)	**1,181,118**
Total liabilities and minority interests	302,272	2,937	921,446	33,225	(117,753)	**1,142,127**
Capital expenditure	380	20	473	185	705	**1,763**

[1] Impairments on private equity and other financial investments for the year ended 31 December 2002 were as follows: UBS Wealth Management & Business Banking CHF 32 million; UBS Global Asset Management CHF 1 million; UBS Warburg CHF 1,703 million; Corporate Center CHF 208 million. [2] In order to show the relevant Business Group performance over time, adjusted expected loss figures rather than the IFRS actual net credit loss expense are reported for each Business Group. The adjusted expected loss is the statistically derived actuarial expected loss which reflects the inherent counterparty and country risks in the respective portfolios, plus the deferred releases representing the amortized historical differences between actual credit losses and actuarial expected loss. The difference between the adjusted expected loss figures and the IFRS actual net credit loss expense recorded at Group level for financial reporting purposes is reported in the Corporate Center. The Business Group breakdown of the net credit loss expense for financial reporting purposes of CHF 206 million for the year ended 31 December 2002 is as follows: UBS Wealth Management & Business Banking CHF 241 million expense, UBS Warburg CHF 35 million recovery, UBS PaineWebber CHF 15 million expense and Corporate Center CHF 15 million recovery. [3] For further information about goodwill and other intangible assets by Business Group, please see Note 15: Goodwill and Other Intangible Assets. [4] The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

For the year ended 31 December 2001

CHF million	UBS Wealth Management & Business Banking	UBS Global Asset Management	UBS Warburg	UBS PaineWebber	Corporate Center	UBS Group
Income[1]	13,488	2,218	14,715	6,391	800	37,612
Credit loss expense[2]	(604)	0	(112)	(18)	236	(498)
Total operating income	12,884	2,218	14,603	6,373	1,036	37,114
Personnel expenses	4,825	1,038	8,354	5,019	592	19,828
General and administrative expenses	2,434	569	2,650	1,441	537	7,631
Depreciation	616	46	456	124	372	1,614
Amortization of goodwill and other intangible assets	109	286	402	502	24	1,323
Total operating expenses	7,984	1,939	11,862	7,086	1,525	30,396
Business Group performance before tax	**4,900**	**279**	**2,741**	**(713)**	**(489)**	**6,718**
Tax expense						1,401
Net profit before minority interests						**5,317**
Minority interests						(344)
Net profit						**4,973**
Other information as at 31 December 2001[3]						
Total assets	313,800	6,335	1,005,397	39,747	(111,982)	**1,253,297**
Total liabilities and minority interests	304,988	4,367	992,272	31,556	(123,416)	**1,209,767**
Capital expenditure	540	37	337	296	811	**2,021**

[1] Impairments on private equity and other financial investments for the year ended 31 December 2001 were as follows: UBS Wealth Management & Business Banking CHF 109 million; UBS Global Asset Management CHF 3 million; UBS Warburg CHF 1,143 million; Corporate Center CHF 39 million. [2] In order to show the relevant Business Group performance over time, adjusted expected loss figures rather than the IFRS actual net credit loss expense are reported for each Business Group. The adjusted expected loss is the statistically derived actuarial expected loss which reflects the inherent counterparty and country risks in the respective portfolios, plus the deferred releases representing the amortized historical differences between actual credit losses and actuarial expected loss. The difference between the adjusted expected loss figures and the IFRS actual net credit loss expense recorded at Group level for financial reporting purposes is reported in the Corporate Center. The Business Group breakdown of the net credit loss expense for financial reporting purposes of CHF 498 million for the year ended 31 December 2001 is as follows: UBS Wealth Management & Business Banking CHF 123 million expense, UBS Warburg CHF 360 million expense and UBS PaineWebber CHF 15 million expense. [3] The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

For the year ended 31 December 2000

CHF million	UBS Wealth Management & Business Banking	UBS Global Asset Management	UBS Warburg	UBS PaineWebber	Corporate Center	UBS Group
Income[1]	14,355	2,078	18,240	1,214	385	36,272
Credit loss expense / recovery[2]	(785)	0	(243)	(3)	1,161	130
Total operating income	13,570	2,078	17,997	1,211	1,546	36,402
Personnel expenses	5,151	941	9,451	1,098	522	17,163
General and administrative expenses	2,478	434	2,755	344	754	6,765
Depreciation	633	49	564	42	320	1,608
Amortization of goodwill and other intangible assets	81	267	192	84	43	667
Total operating expenses	8,343	1,691	12,962	1,568	1,639	26,203
Business Group performance before tax	**5,227**	**387**	**5,035**	**(357)**	**(93)**	**10,199**
Tax expense						2,320
Net profit before minority interests						**7,879**
Minority interests						(87)
Net profit						**7,792**
Other information as at 31 December 2000[3]						
Total assets	281,984	7,558	817,264	50,691	(69,945)	**1,087,552**
Total liabilities and minority interests	272,173	5,787	803,159	41,826	(80,226)	**1,042,719**

[1] Impairments on private equity and other financial investments for the year ended 31 December 2000 were as follows: UBS Warburg CHF 442 million; Corporate Center CHF 65 million. [2] In order to show the relevant Business Group performance over time, adjusted expected loss figures rather than the IFRS actual net credit loss expense are reported for each Business Group. The adjusted expected loss is the statistically derived actuarial expected loss which reflects the inherent counterparty and country risks in the respective portfolios, plus the deferred releases representing the amortized historical differences between actual credit losses and actuarial expected loss. The difference between the adjusted expected loss figures and the IFRS actual net credit loss expense recorded at Group level for financial reporting purposes is reported in the Corporate Center. The Business Group breakdown of the net credit loss recovery for financial reporting purposes of CHF 130 million for the year ended 31 December 2000 is as follows: UBS Wealth Management & Business Banking CHF 695 million recovery, UBS Warburg CHF 562 million expense and UBS PaineWebber CHF 3 million expense. [3] The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

Note 2b Segment Reporting by Geographic Location

The geographic analysis of total assets is based on customer domicile whereas operating income and capital expenditure is based on the location of the office in which the transactions and assets are recorded. Because of the global nature of financial markets the Group's business is managed on an integrated basis worldwide, with a view to profitability by product line. The geographical analysis of operating income, total assets, and capital expenditure is provided in order to comply with IFRS, and does not reflect the way the Group is managed. Management believes that analysis by Business Group, as shown in Note 2a to these Financial Statements, is a more meaningful representation of the way in which the Group is managed.

For the year ended 31 December 2002

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	14,307	42	174,878	15	885	51
Rest of Europe	6,837	20	256,110	22	199	11
Americas	11,055	32	669,823	56	635	36
Asia / Pacific	1,909	6	78,270	7	44	2
Africa / Middle East	13	0	2,037	0	0	0
Total	**34,121**	**100**	**1,181,118**	**100**	**1,763**	**100**

For the year ended 31 December 2001

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	14,223	38	195,321	16	1,039	52
Rest of Europe	7,411	20	236,775	19	303	15
Americas	13,587	37	691,157	55	630	31
Asia / Pacific	1,859	5	126,725	10	48	2
Africa / Middle East	34	0	3,319	0	1	0
Total	**37,114**	**100**	**1,253,297**	**100**	**2,021**	**100**

For the year ended 31 December 2000

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	15,836	44	211,851	19	1,135	43
Rest of Europe	10,907	30	305,342	28	311	12
Americas	6,976	19	474,617	44	1,169	44
Asia / Pacific	2,626	7	87,831	8	36	1
Africa / Middle East	57	0	7,911	1	8	0
Total	**36,402**	**100**	**1,087,552**	**100**	**2,659**	**100**

Income Statement

Note 3 Net Interest and Trading Income

Net interest Income

CHF million For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Interest income				
Interest earned on loans and advances	**11,600**	16,955	20,413	(32)
Interest earned on securities borrowed and reverse repurchase agreements	**11,184**	18,337	19,088	(39)
Interest and dividend income from financial investments	**165**	453	402	(64)
Interest and dividend income from trading portfolio	**17,014**	16,532	11,842	3
Total	**39,963**	52,277	51,745	(24)
Interest expense				
Interest on amounts due to banks and customers	**6,383**	14,088	15,660	(55)
Interest on securities lent and repurchase agreements	**10,081**	14,517	14,915	(31)
Interest and dividend expense from trading portfolio	**8,366**	7,815	5,309	7
Interest on debt issued	**4,587**	7,816	7,731	(41)
Total	**29,417**	44,236	43,615	(33)
Net interest income	**10,546**	8,041	8,130	31

Net trading income

CHF million For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Equities	**2,638**	4,026	7,754	(34)
Fixed income [1]	**1,061**	2,731	912	(61)
Foreign exchange and other	**1,873**	2,045	1,287	(8)
Net trading income	**5,572**	8,802	9,953	(37)

[1] Includes commodities trading income.

Net interest and trading income

CHF million For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Net interest income	**10,546**	8,041	8,130	31
Net trading income	**5,572**	8,802	9,953	(37)
Total net interest and trading income	**16,118**	16,843	18,083	(4)
Breakdown by business activity:				
Net income from interest margin products	**5,275**	5,694	5,430	(7)
Net income from trading activities	**10,605**	11,529	12,642	(8)
Net income from treasury activities	**1,667**	1,424	762	17
Other [1]	**(1,429)**	(1,804)	(751)	21
Total net interest and trading income	**16,118**	16,843	18,083	(4)

[1] Principally external funding costs of the Paine Webber Group, Inc. acquisition.

Note 4 Net Fee and Commission Income

CHF million For the year ended	**31.12.02**	31.12.01	31.12.00	% change from 31.12.01
Underwriting fees	**2,134**	2,158	1,434	(1)
Corporate finance fees	**848**	1,339	1,772	(37)
Brokerage fees	**5,987**	6,445	5,742	(7)
Investment fund fees	**4,033**	4,276	2,821	(6)
Fiduciary fees	**300**	355	351	(15)
Custodian fees	**1,302**	1,356	1,439	(4)
Portfolio and other management and advisory fees	**4,065**	4,650	3,666	(13)
Insurance-related and other fees	**417**	538	111	(22)
Total securities trading and investment activity fees	**19,086**	21,117	17,336	(10)
Credit-related fees and commissions	**275**	307	310	(10)
Commission income from other services	**1,006**	946	802	6
Total fee and commission income	**20,367**	22,370	18,448	(9)
Brokerage fees paid	**1,349**	1,281	1,084	5
Other	**797**	878	661	(9)
Total fee and commission expense	**2,146**	2,159	1,745	(1)
Net fee and commission income	**18,221**	20,211	16,703	(10)

Note 5 Other Income

CHF million For the year ended	**31.12.02**	31.12.01	31.12.00	% change from 31.12.01
Gains/losses from disposal of associates and subsidiaries				
Net gain from disposal of:				
Consolidated subsidiaries	**228**	3	57	
Investments in associates	**0**	0	26	
Total	**228**	3	83	
Financial investments available for sale				
Net gain from disposal of:				
Private equity investments	**273**	454	919	(40)
Other financial investments	**457**	256	162	79
Impairment charges on private equity investments and other financial investments	**(1,944)**	(1,294)	(507)	(50)
Total	**(1,214)**	(584)	574	(108)
Net income from investments in property	**90**	68	96	32
Equity in income of associates	**7**	72	58	(90)
Other	**877**	999	675	(12)
Total other income	**(12)**	558	1,486	

Note 6 Personnel Expenses

CHF million For the year ended	**31.12.02**	31.12.01	31.12.00	% change from 31.12.01
Salaries and bonuses	**14,219**	15,238	13,523	(7)
Contractors	**579**	729	725	(21)
Insurance and social contributions	**939**	984	959	(5)
Retirement benefit expenses	**676**	603	475	12
Other personnel expenses	**2,111**	2,274	1,481	(7)
Total personnel expenses	**18,524**	19,828	17,163	(7)

Note 7 General and Administrative Expenses

CHF million For the year ended	**31.12.02**	31.12.01	31.12.00	% change from 31.12.01
Occupancy	**1,354**	1,314	979	3
Rent and maintenance of machines and equipment	**665**	632	520	5
Telecommunications and postage	**1,019**	1,213	914	(16)
Administration	**819**	906	750	(10)
Marketing and public relations	**453**	574	480	(21)
Travel and entertainment	**600**	700	656	(14)
Professional fees	**568**	667	660	(15)
IT and other outsourcing	**1,036**	1,224	1,246	(15)
Other	**558**	401	560	39
Total general and administrative expenses	**7,072**	7,631	6,765	(7)

Note 8 Earnings per Share (EPS) and Shares Outstanding

For the year ended	31.12.02	31.12.01	31.12.00	% change from 31.12.01
Basic Earnings (CHF million)				
Net profit	3,535	4,973	7,792	(29)
Amortization of goodwill and other intangible assets	2,179[2]	1,323	667	65
Net profit before goodwill amortization[1]	5,714	6,296	8,459	(9)
Diluted Earnings (CHF million)				
Net profit	3,535	4,973	7,792	(29)
Less: profit on own equity derivative contracts deemed dilutive	(20)	(99)	(14)	80
Net profit for diluted EPS	3,515	4,874	7,778	(28)
Amortization of goodwill and other intangible assets	2,179[2]	1,323	667	65
Net profit for diluted EPS before goodwill amortization[1]	5,694	6,197	8,445	(8)
Weighted average shares outstanding				
Weighted average shares outstanding	1,208,586,678	1,266,038,193	1,209,087,927	(5)
Potentially dilutive ordinary shares resulting from options and warrants outstanding[3]	14,796,264	22,539,745	16,489,773	(34)
Weighted average shares outstanding for diluted EPS	1,223,382,942	1,288,577,938	1,225,577,700	(5)
Earnings per share (CHF)				
Basic EPS	2.92	3.93	6.44	(26)
Basic EPS before goodwill amortization[1]	4.73	4.97	7.00	(5)
Diluted EPS	2.87	3.78	6.35	(24)
Diluted EPS before goodwill amortization[1]	4.65	4.81	6.89	(3)

[1] Excludes the amortization of goodwill and other intangible assets. [2] Includes an income tax benefit of CHF 281 million for the writedown of the PaineWebber brandname. [3] Total equivalent shares outstanding on options that were not dilutive for the respective periods but could potentially dilute earnings per share in the future were 75,385,368, 28,741,886 and 27,524,280 for the years ended 31 December 2002, 31 December 2001 and 31 December 2000, respectively.

Shares outstanding

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)
Own shares to be delivered			28,444,788	
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			
Other treasury shares	23,146,014	18,190,595	0	27
Total treasury shares	97,181,094	41,254,951	55,265,349	136
Shares outstanding	1,159,116,584	1,240,462,548	1,306,318,626	(7)

Balance Sheet: Assets

Note 9a Due from Banks and Loans

By type of exposure

CHF million	**31.12.02**	31.12.01
Banks	**32,911**	28,261
Allowance for credit losses	**(443)**	(735)
Net due from banks	**32,468**	27,526
Loans		
Mortgages	**127,869**	126,211
Other loans	**88,590**	107,512
Subtotal	**216,459**	233,723
Allowance for credit losses	**(4,812)**	(7,178)
Net loans	**211,647**	226,545
Net due from banks and loans	**244,115**	254,071
thereof subordinated	***115***	*249*

By geographical region (based on the location of the borrower)

CHF million	**31.12.02**	31.12.01
Switzerland	**151,604**	158,996
Rest of Europe	**38,131**	42,279
Americas	**48,412**	42,809
Asia/Pacific	**10,002**	15,986
Africa/Middle East	**1,221**	1,914
Subtotal	**249,370**	261,984
Allowance for credit losses	**(5,255)**	(7,913)
Net due from banks and loans	**244,115**	254,071

By type of collateral

CHF million	**31.12.02**	31.12.01
Secured by real estate	**129,525**	128,259
Collateralized by securities	**26,769**	30,635
Guarantees and other collateral	**12,398**	20,217
Unsecured	**80,678**	82,873
Subtotal	**249,370**	261,984
Allowance for credit losses	**(5,255)**	(7,913)
Net due from banks and loans	**244,115**	254,071

Note 9b Allowances and Provisions for Credit Losses

CHF million	Specific allowances and provisions	Country risk allowances and provisions	Total 31.12.02	Total 31.12.01
Balance at the beginning of the year	7,212	1,006	8,218	10,581
Write-offs	(2,508)	(28)	(2,536)	(3,008)
Recoveries	63	7	70	81
Increase / (decrease) in credit loss allowance and provision	365	(159)	206	498
Foreign currency translation and other adjustments	(247)	(90)	(337)	66
Balance at the end of the year	4,885	736	5,621	8,218

CHF million	31.12.02	31.12.01
As a reduction of Due from banks	443	735
As a reduction of Loans	4,812	7,178
Subtotal	5,255	7,913
Included in other liabilities related to commitments and contingent liabilities	366	305
Total allowances and provisions for credit losses	5,621	8,218

Note 9c Impaired Loans

CHF million	31.12.02	31.12.01
Impaired loans [1, 2]	10,365	14,629
Amount of allowance for credit losses related to impaired loans	4,892	7,294
Average impaired loans [3]	12,623	16,555

[1] All impaired loans have a specific allowance for credit losses. [2] Interest income on impaired loans was CHF 428 million for 2002 and CHF 504 million for 2001. [3] Average balances were calculated from quarterly data.

Note 9d Non-Performing Loans

An impaired loan is classified as non-performing when the contractual payments of principal and/or interest are in arrears for 90 days or more.

CHF million	31.12.02	31.12.01
Non-performing loans	6,029	8,639
Amount of allowance for credit losses related to non-performing loans	3,485	5,374
Average non-performing loans [1]	7,361	9,648

[1] Average balances are calculated from quarterly data.

CHF million	31.12.02	31.12.01
Non-performing loans at beginning of the year	8,639	10,452
Net additions / (reductions)	(509)	1,111
Write-offs and disposals	(2,101)	(2,924)
Non-performing loans at the end of the year	**6,029**	**8,639**

By type of exposure

CHF million	31.12.02	31.12.01
Banks	311	386
Loans		
Mortgages	1,972	2,659
Other	3,746	5,594
Total loans	5,718	8,253
Total non-performing loans	**6,029**	**8,639**

By geographical region (based on the location of the borrower)

CHF million	31.12.02	31.12.01
Switzerland	4,609	6,531
Rest of Europe	379	466
Americas	499	737
Asia / Pacific	300	653
Africa / Middle East	242	252
Total non-performing loans	**6,029**	**8,639**

Note 10 Securities Borrowing, Securities Lending, Repurchase and Reverse Repurchase Agreements

The Group enters into collateralized reverse repurchase and repurchase agreements and securities borrowing and securities lending transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The Group controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group when deemed necessary.

Balance sheet assets

CHF million	**Cash collateral on securities borrowed 31.12.02**	**Reverse Repurchase agreements 31.12.02**	Cash collateral on securities borrowed 31.12.01	Reverse Repurchase agreements 31.12.01
By counterparty:				
Banks	**122,764**	**201,269**	155,214	197,902
Customers	**16,288**	**92,817**	7,724	71,354
Total	**139,052**	**294,086**	162,938	269,256

Balance sheet liabilities

CHF million	**Cash collateral on securities lent 31.12.02**	**Repurchase agreements 31.12.02**	Cash collateral on securities lent 31.12.01	Repurchase agreements 31.12.01
By counterparty:				
Banks	**29,748**	**200,904**	27,640	213,942
Customers	**7,122**	**165,954**	2,677	154,678
Total	**36,870**	**366,858**	30,317	368,620

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms as at 31 December 2002 and 31 December 2001 were as follows:

CHF million	**31.12.02**	31.12.01
Securities received under reverse repurchase and / or securities borrowing arrangements which can be repledged or resold	**641,341**	592,903
thereof repledged / transferred to others in connection with financing activities or to satisfy commitments under short sale transactions	***530,188***	*474,963*

Note 11 Trading Portfolio

The Group trades money market paper, debt, equity, precious metals, foreign currency and derivatives to meet the financial needs of its customers and to generate revenue through its trading activities. Note 23 provides a description of the various classes of derivatives together with the related notional amounts, whereas Note 10 provides further details about cash collateral on securities borrowed and lent and repurchase and reverse repurchase agreements.

CHF million	31.12.02	31.12.01
Trading portfolio assets		
Money market paper	45,310	63,164
thereof pledged as collateral with central banks	*10,475*	*29,895*
Debt instruments		
Swiss government and government agencies	1,140	1,246
US Treasury and government agencies	71,884	95,203
Other government agencies	50,296	18,811
Corporate listed	73,268	108,114
Other unlisted	39,613	26,642
Total	236,201	250,016
thereof pledged as collateral	*132,221*	*153,464*
thereof can be repledged or resold by the counterparty	*92,460*	*101,517*
Equity instruments		
Listed	66,150	67,772
Unlisted	4,841	6,367
Total	70,991	74,139
thereof pledged as collateral	*18,614*	*21,264*
thereof can be repledged or resold by the counterparty	*17,905*	*19,939*
Traded loans	11,533	6,139
Precious metals	7,401	4,428
Total trading portfolio assets	371,436	397,886
Trading portfolio liabilities		
Debt instruments		
Swiss government and government agencies	1,807	565
US Treasury and government agencies	38,327	25,117
Other government agencies	19,722	12,187
Corporate listed	14,177	10,868
Other unlisted	8,296	30,793
Total	82,329	79,530
Equity instruments	24,124	26,268
Total trading portfolio liabilities	106,453	105,798

Note 12 Financial Investments (available for sale)

CHF million	31.12.02	31.12.01
Money market paper	873	6,774
Other debt instruments		
Listed	290	1,194
Unlisted	885	10,348
Total	1,175	11,542
Equity investments		
Listed	596	1,949
Unlisted	1,443	1,819
Total	2,039	3,768
Private equity investments	4,304	6,719
Total financial investments	8,391	28,803
thereof eligible for discount at central banks	*261*	*10,370*

The following tables show the unrealized gains and losses not recognized in the income statement for the years ended 2002 and 2001.

		Unrealized gains/losses not recognized in the income statement				
CHF million	Fair value	Gross gains	Gross losses	Net, before tax	Tax effect	Net, after tax
31 December 2002						
Money market paper	873	0	0	0	0	0
Debt securities issued by the Swiss national government and agencies	16	1	0	1	0	1
Debt securities issued by Swiss local governments	42	2	0	2	0	2
Debt securities issued by US Treasury and agencies	0	0	0	0	0	0
Debt securities issued by foreign governments and official institutions	81	1	0	1	0	1
Corporate debt securities	964	7	0	7	1	6
Mortgage-backed securities	23	1	0	1	0	1
Other debt securities	49	1	1	0	0	0
Equity securities	2,039	335	31	304	82	222
Private equity investments	4,304	966	223	743	30	713
Total	**8,391**	**1,314**	**255**	**1,059**	**113**	**946**

		Unrealized gains/losses not recognized in the income statement				
CHF million	Fair value	Gross gains	Gross losses	Net, before tax	Tax effect	Net, after tax
31 December 2001						
Money market paper	6,774	1	0	1	0	1
Debt securities issued by the Swiss national government and agencies	36	1	0	1	0	1
Debt securities issued by Swiss local governments	45	1	0	1	0	1
Debt securities issued by US Treasury and agencies	32	2	0	2	1	1
Debt securities issued by foreign governments and official institutions	10,089	31	1	30	11	19
Corporate debt securities	1,218	4	2	2	0	2
Mortgage-backed securities	5	0	0	0	0	0
Other debt securities	117	0	0	0	0	0
Equity securities	3,768	627	65	562	187	375
Private equity investments	6,719	1,189	539	650	15	635
Total	**28,803**	**1,856**	**607**	**1,249**	**214**	**1,035**

Note 12 Financial Investments (available for sale) (continued)

Contractual maturities of the investments in debt instruments[1]

	Within 1 year		1–5 years		5–10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2002								
Swiss national government and agencies	0	0.00	7	4.88	8	3.86	1	4.00
Swiss local governments	8	4.02	30	3.94	4	3.59	0	0.00
Foreign governments and official institutions	35	4.63	45	3.13	1	6.12	0	0.00
Corporate debt securities	675	2.23	249	2.64	19	3.41	21	8.02
Mortgage-backed securities	4	2.25	15	3.97	4	4.03	0	0.00
Other debt securities	1	4.77	48	2.65	0	0.00	0	0.00
Total fair value	**723**		**394**		**36**		**22**	

[1] Money market papers have contractual maturities of less than one year.

Proceeds from sales and maturities of investment securities available for sale, excluding private equity, were as follows:

CHF million	**31.12.02**	31.12.01
Proceeds	**1,820**	27,910
Gross realized gains	**479**	223
Gross realized losses	**(21)**	(28)

Note 13 Investments in Associates

CHF million	**31.12.02**	31.12.01
Carrying amount at the beginning of the year	**697**	880
Additions	**51**	11
Disposals	**(1)**	(216)[1]
Income	**24**	74
Write-offs	**(17)**	(2)
Dividend paid	**(44)**	(48)
Foreign currency translation	**(5)**	(2)
Carrying amount at the end of the year	**705**	697

[1] Includes a transfer of CHF 172 million to Financial Investments following a review of the level of influence by the bank over certain investees. The impact of this reclassification on net profit is immaterial.

Note 14 Property and Equipment

CHF million	Bank-occupied properties	Investment properties[1]	IT, software and communication	Other machines and equipment	31.12.02	31.12.01
Historical cost						
Balance at the beginning of the year	9,297	893	5,146	4,143	**19,479**	18,631
Additions	147	366	811	439	**1,763**	2,021
Disposals / write-offs[2]	(62)	(747)	(1,330)	(449)	**(2,588)**	(715)
Reclassifications	(34)	50	51	(53)	**14**	(482)
Foreign currency translation	(41)	(2)	(339)	(336)	**(718)**	24
Balance at the end of the year	9,307	560	4,339[4]	3,744	**17,950**	19,479
Accumulated depreciation						
Balance at the beginning of the year	4,039	239	3,932	2,574	**10,784**	9,721
Depreciation	224	28	926	343	**1,521**	1,654
Disposals / write-offs[2]	(34)	(100)	(1,316)	(336)	**(1,786)**	(403)
Reclassifications	(10)	44	(2)	3	**35**	(189)
Foreign currency translation	(9)	0	(300)	(164)	**(473)**	1
Balance at the end of the year	4,210	211	3,240	2,420	**10,081**	10,784
Net book value at the end of the year[3]	5,097	349	1,099	1,324	**7,869**	8,695

[1] The fair value of Investment properties was CHF 539 million at 31 December 2002 and CHF 990 million at 31 December 2001. [2] Includes write-offs of fully depreciated assets. [3] Fire insurance value of property and equipment is CHF 14,221 million (2001: CHF 15,531 million). [4] Includes accumulated costs for projects in progress of CHF 234 million at 31 December 2002 (CHF 351 million at 31 December 2001).

Note 15 Goodwill and Other Intangible Assets

	Goodwill	Other intangible assets					
CHF million	Total	Brand-name	Infra-structure	Customer lists and other	Total	31.12.02	31.12.01
Historical cost							
Balance at the beginning of the year	16,819	1,293	1,293	2,387	4,973	**21,792**	21,166
Additions and reallocations	9	281	0	0	281	**290**	456
Disposals and other reductions	(98)	0	0	(17)	(17)	**(115)**	0
Write-offs[1]	0	(1,350)	0	0	(1,350)	**(1,350)**	(247)
Foreign currency translation	(2,773)	(224)	(224)	(374)	(822)	**(3,595)**	417
Balance at the end of the year	13,957	0	1,069	1,996	3,065	**17,022**	21,792
Accumulated amortization							
Balance at the beginning of the year	2,241	76	76	314	466	**2,707**	1,629
Amortization	930	1,306	54	170	1,530	**2,460**	1,323
Disposals	(13)	0	0	(15)	(15)	**(28)**	0
Write-offs[1]	0	(1,350)	0	0	(1,350)	**(1,350)**	(247)
Foreign currency translation	(382)	(32)	(14)	(35)	(81)	**(463)**	2
Balance at the end of the year	2,776	0	116	434	550	**3,326**	2,707
Net book value at the end of the year	11,181	0	953	1,562	2,515	**13,696**	19,085

[1] Represents write-offs of fully amortized goodwill and other intangible assets.

Note 15 Goodwill and Other Intangible Assets (continued)

The following table presents the disclosure of goodwill and other intangible assets by Business Group for the year ended 31 December 2002.

CHF million	Balance at the beginning of the year	Additions and reallo-cations	Disposals and other reductions	Amortization	Foreign currency translation	Balance at the end of the year
Goodwill						
UBS Wealth Management & Business Banking	1,305	0	(8)	(81)	(213)	1,003
UBS Global Asset Management	2,926	0	(5)	(269)	(467)	2,185
UBS Warburg	4,950	0	(25)	(315)	(817)	3,793
UBS PaineWebber	5,390	0	(33)	(264)	(894)	4,199
Corporate Center	7	9	(14)	(1)	0	1
UBS Group	**14,578**	**9**	**(85)**	**(930)**	**(2,391)**	**11,181**
Other Intangible Assets						
UBS Wealth Management & Business Banking	65	0	(2)	(30)	0	33
UBS Global Asset Management	2	0	0	(1)	0	1
UBS Warburg	390	0	0	(49)	(63)	278
UBS PaineWebber	3,942	281	0	(1,427)	(662)	2,134
Corporate Center	108	0	0	(23)	(16)	69
UBS Group	**4,507**	**281**	**(2)**	**(1,530)**	**(741)**	**2,515**

Until 31 December 2001, goodwill and other intangible assets relating to the merger of UBS and PaineWebber were reported in the UBS Warburg Business Group. With the separation of UBS PaineWebber from UBS Warburg at 1 January 2002, goodwill and other intangible assets have been allocated to the Business Groups that have benefited from the merger with PaineWebber. For further information about disclosure by Business Group, including the amortization of goodwill and other intangible assets of previous years, please see Note 2a: Segment Reporting by Business Group.

The estimated, aggregated amortization expenses for Goodwill and Other intangible assets are as follows:

CHF million	Goodwill	Other intangible assets	Total
Estimated, aggregated amortization expenses for:			
2003	817	189	**1,006**
2004	769	170	**939**
2005	738	166	**904**
2006	702	153	**855**
2007	646	144	**790**
2008 and thereafter	7,509	1,693	**9,202**
Total	11,181	2,515	**13,696**

Note 16 Other Assets

CHF million	Note	**31.12.02**	31.12.01
Deferred tax assets	21	**2,800**	3,449
Settlement and clearing accounts		**1,449**	1,431
VAT and other tax receivables		**436**	452
Prepaid pension costs		**250**	567
Properties held for resale		**1,071**	844
Other receivables		**2,946**	3,132
Total other assets		**8,952**	9,875

Balance Sheet: Liabilities

Note 17 Due to Banks and Customers

CHF million	31.12.02	31.12.01
Due to banks	83,178	106,531
Due to customers in savings and investment accounts	76,884	67,782
Other amounts due to customers	229,992	265,999
Total due to customers	306,876	333,781
Total due to banks and customers	390,054	440,312

Note 18 Debt Issued

The Group issues both CHF and non-CHF denominated fixed and floating rate debt. Floating rate debt generally pays interest based on the three-month or six-month London Interbank Offered Rate (LIBOR).

Subordinated debt securities are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group. At 31 December 2002 and 31 December 2001, the Group had CHF 9,933 million and CHF 13,571 million, respectively, in subordinated debt. Subordinated debt usually pays interest annually and provides for single principal payments upon maturity. At 31 December 2002 and 31 December 2001, the Group had CHF 46,678 million and CHF 43,641 million, respectively, in unsubordinated debt (excluding money market paper).

The Group issues debt with returns linked to equity, interest rates, foreign exchange and credit instruments or indices. As described in Note 1r), derivatives embedded in these instruments are separated from the host debt contract and reported as stand-alone derivatives. The amount recorded within Debt Issued represents the host contract after the separation of the embedded derivative. At 31 December 2002 and 31 December 2001, the Group had CHF 1,389 million and CHF 1,397 million, respectively, in convertible and exchangeable debt on UBS shares and notes with warrants attached on UBS shares outstanding.

In addition the Group uses interest rate and foreign exchange derivatives to manage the risks inherent in certain debt issues. In the case of interest rate risk management, the Group applies hedge accounting as discussed in Note 1 – Summary of Significant Accounting Policies and Note 23 – Derivative Instruments. As a result of applying hedge accounting, the carrying value of debt issued is CHF 1,361 million higher reflecting changes in fair value due to interest rate movements.

Note 18 Debt Issued (continued)

CHF million	**31.12.02**	31.12.01
Money market paper issued	**72,800**	99,006
Bonds issued	**51,872**	51,061
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	**517**	934
Medium-term notes	**4,222**	5,217
Total debt issued	**129,411**	156,218

The following table shows the split between fixed and floating rate debt issues based on the contractual terms. However it should be noted that the Group uses interest rate swaps to hedge many of the fixed rate debt issues, which changes their re-pricing characteristics into those of floating rate debt.

Contractual maturity date

	UBS AG (Parent Bank)		**Subsidiaries**		
CHF million	**Fixed rate**	**Floating rate**	**Fixed rate**	**Floating rate**	**Total 31.12.02**
2003	24,010	244	52,095	70	**76,419**
2004	4,965	609	1,432	574	**7,580**
2005	4,998	726	907	382	**7,013**
2006	3,359	790	8,000	439	**12,588**
2007	3,166	1,564	1,105	70	**5,905**
2008–2010	1,714	1,048	2,476	1,949	**7,187**
Thereafter	2,726	6,672	269	3,052	**12,719**
Total	**44,938**	**11,653**	**66,284**	**6,536**	**129,411**

The table below shows the notional amount and stated interest rate on the Group's publicly placed bonds prior to the separation of any embedded derivatives or the application of hedge accounting, where applicable. As a result, the notional amount shown does not necessarily correspond to the carrying amount of the debt and the stated interest rate on the debt does not necessarily reflect the effective interest rate the Group is paying to service its debt after the separation of embedded derivatives and the application of hedge accounting, where applicable.

Publicly placed bond issues of UBS AG (Parent Bank) outstanding as at 31.12.2002 [1]

Year of issue	Interest rate in %	Remarks	Maturity	Early redemption option	Currency	Notional amounts in millions in local currency
2001	16.000	GOAL on Siemens	17.01.2003		EUR	55
2002	0.000	CLN Linked to GECC	18.02.2003		EUR	50
2001	8.000	GOAL on UBS	26.02.2003		CHF	220
2002	11.250	GOAL on Royal Dutch Petroleum	28.02.2003		EUR	95
1993	4.875	subordinated	03.03.2003		CHF	200
2001	8.750	GOAL on General Electric	07.03.2003		USD	125
2001	13.500	GOAL on Nokia Oyj	10.03.2003		EUR	45
2002	0.000	Linked to 30yr OAT	11.03.2003		GBP	50
2002	FRN	CLN Linked to GECC	14.03.2003		USD	100
1997	1.500	Indexed to UBS Currency Portfolio	14.03.2003		EUR	51
1998	FRN	Convertible into UBS Dutch Corporate Basket	20.03.2003		EUR	57
1993	3.500	subordinated	31.03.2003		CHF	200
1993	4.000	subordinated	31.03.2003		CHF	200

PIP Protected Index Participation
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GOAL Geld- oder Aktien-Lieferung (cash or share delivery)
BULS Bullish Underlying Linked Securities
GROI Guaranteed Return On Investment
FRN Floating Rate Note
CLN Credit Linked Note

Note 18 Debt Issued (continued)

Publicly placed bond issues of UBS AG (Parent Bank) outstanding as at 31.12.2002[1]

Year of issue	Interest rate in %	Remarks	Maturity	Early redemption option	Currency	Notional amounts in millions in local currency
2001	0.000	BULS on technology stock basket	10.04.2003		USD	78
2001	0.000	BULS on Celestica and others	28.04.2003		USD	40
2002	9.500	GOAL on UBS	22.05.2003		CHF	110
2001	10.250	GOAL on Deutsche Bank	30.05.2003		EUR	40
2002	9.500	GOAL on DJ Euro Stoxx 50 index	02.06.2003		EUR	50
2001	7.250	GOAL on Aventis	05.06.2003		EUR	75
2001	6.000	GOAL on Total SA	11.06.2003		EUR	45
2001	7.750	GOAL on E.ON AG	17.06.2003		EUR	40
1995	5.250	subordinated	20.06.2003		CHF	200
2001	8.250	GOAL on Pfizer	16.07.2003		USD	70
2002	9.500	GOAL on SUEZ SA (Suez)	04.09.2003		EUR	35
2002	13.000	GOAL on Royal Dutch Petroleum	06.10.2003		EUR	35
2002	FRN	CLN Linked to Allianz AG	24.10.2003		USD	150
1993	3.000		26.11.2003		CHF	200
2002	0.000	Linked to Basket of Common Stock	02.12.2003		USD	63
1994	6.250	subordinated	06.01.2004		USD	300
2002	7.750	GOAL on Novartis	28.01.2004		CHF	100
2002	5.125	GOAL on General Electric Company	30.01.2004		USD	75
2002	6.000	GOAL on Unilever NV	06.02.2004		EUR	40
2002	6.250	GOAL on Nestlé AG	14.05.2004		CHF	100
2001	0.000	Cliquet GROI on NASDAQ 100 Index	27.05.2004		USD	42
1991	4.250	subordinated	25.06.2004		CHF	300
1999	3.500		01.07.2004		EUR	250
2001	1.750	Exchangeable bonds on Yukos	31.08.2004		USD	310
1997	7.380	subordinated	26.11.2004		GBP	250
1995	4.000	subordinated	07.02.2005		CHF	150
1995	5.500	Convertible into Nasdaq 100 Index	10.02.2005		CHF	150
2002	0.000	Equity GROI	07.03.2005		AUD	233
2002	0.500	Convertible into STOXX 50 Index	21.03.2005		EUR	75
1995	5.625	subordinated	13.04.2005		CHF	150
2002	0.000	GROI on FTSE 100 Index	25.04.2005		GBP	46
2002	0.000	Principal Protected Note Linked to NASDAQ 100-Index	04.05.2005		USD	46
2002	0.000	Exchangeable Bonds on Yukos	19.06.2005		USD	120
1995	8.750	subordinated	20.06.2005		GBP	249
2002	0.000	GROI – Australian Growth Guaranteed Fund II	21.06.2005		AUD	67
1998	6.750	subordinated	15.07.2005		USD	200
1995	5.250	subordinated	18.07.2005		CHF	200
2002	0.000	Cliquet GROI – Units on SMI Index	25.07.2005		CHF	53
1995	5.000	subordinated	24.08.2005		CHF	250
2002	0.125	Exchangeable Bonds on Yukos	19.09.2005		USD	120
1995	4.500		21.11.2005		CHF	300
2002	0.250	Exchangeable Bonds on Yukos	19.12.2005		USD	160
1999	3.500	Straight Bond	26.01.2006		EUR	650
2001	1.000	Equity Exchangeables into Euro. Insurance Basket	01.02.2006	01.02.2004	EUR	100
1996	4.250	subordinated	06.02.2006		CHF	250
1996	4.000		14.02.2006		CHF	200
2000	2.500	Straight Bond	29.03.2006		CHF	250
1996	7.250	subordinated	17.07.2006		USD	500
2001	0.000	BULS on S&P 500	01.09.2006		USD	54

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CLN Credit Linked Note

Note 18 Debt Issued (continued)

Publicly placed bond issues of UBS AG (Parent Bank) outstanding as at 31.12.2002[1]

Year of issue	Interest rate in %	Remarks	Maturity	Early redemption option	Currency	Notional amounts in millions in local currency
1996	7.250	subordinated	01.09.2006		USD	150
2001	5.500	GOAL on UBS	02.10.2006		CHF	106
2001	0.000	Cliquet GROI-Units on Nasdaq 100-Index	19.10.2006		USD	39
2002	FRN	Callable Daily Range Accrual Note	07.11.2006	07.02.2003	USD	56
1995	5.000	subordinated	07.11.2006		CHF	250
2002	FRN	Callable Daily Range Accrual Note	13.11.2006	12.02.2003	USD	40
1996	6.250	subordinated	06.12.2006		EUR	254
2001	0.000	Zero-rate Note O'Connor Fund	29.12.2006		EUR	40
1997	8.000	subordinated	08.01.2007		GBP	242
1997	8.000	subordinated	08.01.2007		GBP	302
1997	5.750	subordinated	12.03.2007		EUR	204
2002	FRN	Step-Up Callable Daily Range Accrual Note	15.07.2007	15.01.2003	USD	67
2002	1.000	Exchangeable on DJ Euro Stoxx 50E	23.07.2007		EUR	50
2002	FRN	CLN	01.09.2007		USD	50
2002	0.500	Exchangeable Bond on the S&P 500 Index	05.09.2007		USD	40
2002	0.500	Exchangeable Bond on the DJ Euro STOXX 50	05.09.2007		EUR	35
2002	0.250	Exchangeable Bond on the SMI	05.09.2007		CHF	75
2002	FRN	Callable Daily Range Accrual Note	02.10.2007	02.01.2003	USD	61
2002	0.500	Exchangeable bond on Royal Dutch Petroleum	30.10.2007		EUR	100
2002	0.000	Principal Protected Notes Linked to the S&P 500 Index	07.11.2007		USD	52
2002	7.250	GOAL on Royal Dutch Petroleum	14.11.2007		EUR	150
2002	1.250	Linked to Nikkei 225 Index	28.11.2007		JPY	7,742
2002	5.000	Linked to Nikkei 225 Index	19.12.2007		JPY	5,537
1998	3.500		27.08.2008		CHF	300
1997	5.875	subordinated	18.08.2009		EUR	305
2002	FRN	Callable Daily Range Accrual Note	23.10.2012	23.01.2003	USD	64
1995	7.375	subordinated	15.07.2015		USD	150
1995	7.000	subordinated	15.10.2015		USD	300
1997	7.375	subordinated	15.06.2017		USD	300
1995	7.500	subordinated	15.07.2025		USD	350
1995	8.750	subordinated	18.12.2025		GBP	149
1996	7.750	subordinated	01.09.2026		USD	300

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Note 18 Debt Issued (continued)

Publicly placed bond issues of UBS subsidiaries outstanding as at 31.12.2002[1]

Year of issue	Interest rate in %	Remarks	Maturity	Early redemption option	Currency	Notional amounts in millions in local currency
Brooklands Euro Referenced Linked Notes 2001-1 Ltd						
2002	2.594		15.12.2012		EUR	100
2002	3.480		15.12.2012		EUR	75
2002	3.293		23.12.2012		EUR	75
2002	3.893		23.12.2012		EUR	35
2001	FRN		20.12.2013		EUR	50
2001	FRN		20.12.2013		EUR	50
Alpine Partners L.P.						
2000	FRN		08.10.2009	08.01.2003	USD	445
North Street						
2000	FRN		28.04.2011		USD	40
2002	FRN		28.04.2011		USD	100
2002	FRN		28.04.2011		USD	50
2000	20.000		28.04.2011		USD	43
2000	FRN		30.10.2011		USD	61
2000	18.000		30.10.2011		USD	43
2002	FRN		30.01.2016		USD	40
2002	20.000		30.01.2016		USD	49
2002	FRN		30.01.2016		USD	46
2002	5.160		30.01.2016		USD	61
2002	FRN		30.01.2016		USD	353
2002	FRN		20.08.2030	20.08.2003	USD	100
2001	FRN		30.04.2031		USD	60
2001	FRN		30.04.2031		USD	100
2001	FRN		30.07.2031		USD	100
2001	FRN		30.07.2031		USD	60
UBS Americas Inc. (former PaineWebber)						
1993	7.875		17.02.2003		USD	100
2000	1.270		13.03.2003		JPY	9,000
1998	6.320		18.03.2003		USD	45
1998	6.450		01.12.2003		USD	340
1999	FRN		11.05.2004		USD	45
1999	6.375		17.05.2004		USD	525
1995	8.875		15.03.2005		USD	125
1999	2.210		15.03.2005		USD	45
1993	6.500		01.11.2005		USD	200
1996	6.750		01.02.2006		USD	100
1998	6.720		01.04.2008		USD	35
1998	6.730		03.04.2008		USD	43
1998	6.550		15.04.2008		USD	250
1996	7.625		15.10.2008		USD	150
1999	7.625		01.12.2009		USD	275
1994	7.625		17.02.2014		USD	200
Eisberg Finance Ltd.						
1998	FRN		15.06.2004	10.10.2003	USD	83
1998	FRN		15.06.2004	10.10.2003	USD	65
1998	FRN		15.06.2004	10.10.2003	USD	41

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Note 18 Debt Issued (continued)

Publicly placed bond issues of UBS subsidiaries outstanding as at 31.12.2002 [1]

Year of issue	Interest rate in %	Remarks	Maturity	Early redemption option	Currency	Notional amounts in millions in local currency
UBS Finance N.V., Curaçao						
1997	0.000	Zero Coupons	29.01.2027		EUR	226
1998	0.000	Zero Coupons	03.03.2028	03.03.2003	EUR	81
UBS Australia Holdings Ltd.						
1999	5.000	European commercial paper	25.02.2004		AUD	104
UBS Warburg AG						
1998	0.000		19.12.2005		EUR	56
2001	0.000		30.06.2006	30.06.2003	EUR	505
2001	0.000		30.06.2006	30.06.2003	USD	202
2001	0.000		31.07.2006	30.06.2003	EUR	500
2001	0.000		08.08.2006		EUR	77
2001	0.000		30.09.2006	30.06.2003	USD	200
2001	0.000		30.09.2006	30.06.2003	CHF	200
2002	0.000		31.12.2006	30.06.2003	USD	350
2002	0.000		31.12.2006	30.06.2003	EUR	300
2002	0.000		31.12.2006	30.06.2003	USD	350
2002	0.000		31.12.2006	30.06.2003	EUR	450
2002	0.000		31.12.2006	30.06.2003	EUR	300
2002	0.000		31.12.2006	30.06.2003	EUR	450
2002	0.000		31.12.2006	30.06.2003	USD	250
2002	0.000		31.12.2006	30.06.2003	EUR	250
2002	0.000		31.12.2006	30.06.2003	CHF	250
2002	0.000		31.12.2006	30.06.2003	USD	250
2002	0.000		31.12.2006	30.06.2003	USD	250
2001	0.000		02.01.2007	30.06.2003	EUR	100
2001	0.000		02.01.2007	30.06.2003	EUR	100
2001	0.000		02.01.2007	30.06.2003	EUR	100
2002	0.000		30.03.2007	30.06.2003	EUR	60
2002	0.000		31.12.2007	30.06.2003	EUR	50
2001	0.000		30.09.2011	31.03.2003	EUR	50
2001	0.000		31.12.2011	30.06.2003	EUR	150
2002	0.000		28.09.2012	30.06.2003	EUR	50

[1] In this table only publicly placed bonds with a carrying value exceeding CHF 50 million (prior to the elimination of own bonds held) have been disclosed. The total carrying amount of the bonds disclosed in this table is CHF 34,320 million. The total carrying amount of publicly placed bonds of UBS Group (prior to the elimination of own bonds held) is CHF 44,759 million of the total bond issues.

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Note 19 Other Liabilities

CHF million	Note	31.12.02	31.12.01
Provisions	20	1,375	1,748
Provision for commitments and contingent liabilities	9b	366	305
Current tax liabilities		2,079	1,799
Deferred tax liabilities	21	2,239	2,827
VAT and other tax payables		613	622
Settlement and clearing accounts		1,354	4,473
Other payables		4,313	3,884
Total other liabilities		12,339	15,658

Note 20 Provisions

CHF million	Operational	Litigation	Total 31.12.02	Total 31.12.01
Balance at the beginning of the year	1,036	712	1,748	2,294
New provisions charged to income	210	478	688	384
Recoveries	16	9	25	95
Provisions applied	(439)	(463)	(902)	(1,115)
Reclassifications	(9)	9	0	64
Foreign currency translation	(93)	(91)	(184)	26
Balance at the end of the year	721	654	1,375	1,748

Note 21 Income Taxes

CHF million For the year ended	31.12.02	31.12.01	31.12.00
Domestic			
Current	938	563	1,325
Deferred	(32)	231	233
Foreign			
Current	249	546	451
Deferred	(477)	61	311
Total income tax expense	678	1,401	2,320

The Group made net tax payments, including domestic and foreign taxes, of CHF 572 million, CHF 1,742 million and CHF 959 million for the full years of 2002, 2001 and 2000, respectively.

Note 21 Income Taxes (continued)

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the amounts calculated at the Swiss statutory rate of 25% are as follows:

CHF million For the year ended	31.12.02	31.12.01	31.12.00
Operating profit before tax	4,544	6,718	10,199
Domestic	6,510	5,565	7,079
Foreign	(1,966)	1,153	3,120
Income taxes at Swiss statutory rate of 25%	1,136	1,680	2,550
Increase / (decrease) resulting from:			
Applicable tax rates differing from Swiss statutory rate	(341)	(239)	(336)
Tax losses not recognized	51	77	164
Previously unrecorded tax losses now recognized	(349)	(630)	(655)
Lower taxed income	(378)	(499)	(401)
Non-deductible goodwill amortization	291	429	159
Other non-deductible expenses	301	134	432
Adjustments related to prior years and other	(122)	371	245
Change in deferred tax valuation allowance	89	78	162
Income tax expense	**678**	**1,401**	**2,320**

Significant components of the Group's gross deferred income tax assets and liabilities are as follows:

CHF million	31.12.02	31.12.01
Deferred tax assets		
Compensation and benefits	1,559	1,778
Allowance for credit losses	84	122
Net operating loss carry forwards	2,883	2,902
Trading assets	330	259
Other	779	1,365
Total	5,635	6,426
Valuation allowance	(2,835)	(2,977)
Net deferred tax assets	**2,800**	**3,449**
Deferred tax liabilities		
Property and equipment	412	449
Investments	430	464
Other provisions	470	571
Trading assets	182	298
Other	745	1,045
Total deferred tax liabilities	**2,239**	**2,827**

The change in the balance of net deferred tax assets and deferred tax liabilities does not equal the deferred tax expense in those years. This is due to the effect of foreign currency rate changes on tax assets and liabilities denominated in currencies other than CHF.

Certain foreign branches and subsidiaries of the Group have deferred tax assets related to net operating loss carry forwards and other items. Due to realization of these assets being uncertain, the Group has established valuation allowances of CHF 2,835 million (CHF 2,977 million at 31 December 2001). For companies that suffered tax losses in either the current or preceding year an amount of CHF 947 million (CHF 965 million at 31 December 2001) has been recognized as deferred tax assets based on expectations that sufficient taxable income will be generated in future years to utilize the tax loss carry forwards.

The Group provides deferred income taxes on undistributed earnings of non-Swiss subsidiaries except to the extent that such earnings are indefinitely invested. In the event these earnings were distributed, additional taxes of approximately CHF 40 million would be due.

Note 21 Income Taxes (continued)

At 31 December 2002 net operating loss carry forwards totaling CHF 6,572 million are available to reduce future taxable income of certain branches and subsidiaries.

The carry forwards expire as follows:	31.12.02
Within 1 year	29
From 2 to 4 years	252
After 4 years	6,291
Total	**6,572**

Note 22 Minority Interests

CHF million	31.12.02	31.12.01
Balance at the beginning of the year	4,112	2,885
Issuance of trust preferred securities	0	1,291
Other increases	172	0
Decreases and dividend payments	(377)	(461)
Foreign currency translation	(709)	53
Minority interest in net profit	331	344
Balance at the end of the year	**3,529**	**4,112**

Note 23 Derivative Instruments

Type of derivatives

The Group uses the following derivative financial instruments for both trading and hedging purposes:

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. The major types of swap transaction undertaken by the Group are as follows:

- Interest rate swap contracts generally entail the contractual exchange of fixed and floating rate interest payments in a single currency, based on a notional amount and an interest reference rate.
- Cross currency swaps involve the exchange of interest payments based on two different currency principal balances and interest reference rates and generally also entail exchange of principal amounts at the start and/or end of the contract.
- Credit default swaps (CDS) are the most common form of credit derivative, under which the party buying protection makes one or more payments to the party selling protection during the life of the swap in exchange for an undertaking by the seller to make a payment to the buyer following a credit event, as defined in the contract, with respect to a third party. Settlement following a credit event may be a cash amount, or cash in return for physical delivery of one or more deliverable obligations of the credit entity, as defined in the contract and is made regardless of whether the protection buyer has suffered a loss. After a credit event and settlement, the contract is terminated.
- Total Rate of Return Swaps give the total return receiver exposure to all of the cash flow and economic benefits and risks of an underlying security without actually owning the security, while the total return payer has a synthetic short position in the underlying reference security.

Forwards and futures are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter (OTC) market, whereas futures are standardized contracts transacted on regulated exchanges.

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified amount of a financial instrument or commodity at a predetermined price. The seller receives a premium from the purchaser for this right. Options may be traded OTC or on a regulated exchange.

Derivatives transacted for trading purposes

Most of the Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers at competitive prices to enable them to take, transfer, modify or reduce current or expected risks. Trading includes market-making, positioning and arbitrage activities: market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume; positioning means managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices; arbitrage activities involve identifying and profiting from price differentials between markets and products.

Derivatives transacted for hedging purposes

The Group enters into derivative transactions which are designated and qualify as either fair value or cash flow hedges for recognized assets or liabilities or forecast transactions. It also enters into derivative transactions which provide economic hedges for risk exposures but do not meet the accounting requirements for hedge accounting treatment. As stated in Note 1, Summary of Significant Accounting Policies, part v) Derivative instruments and hedging, the Group uses CDSs as economic hedges for credit risk exposures in the loan and traded product portfolios but cannot apply hedge accounting to such positions. Gains or losses on these CDSs have therefore been recorded in trading income.

Derivatives designated and accounted for as hedging instruments

The Group's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 1 v) where terms used in the following sections are explained.

Fair value hedges

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term debt due to changes in market interest rates. For the year ended 31 December 2002, the Group recognized a net loss of CHF 10 million (reported as Net trading income in the Financial Statements), which represents the ineffective portion of fair value hedges.

As at 31 December 2002, the fair value of outstanding derivatives designated as fair value hedges was a CHF 1,925 million net positive replacement value.

Cash flow hedges of individual variable rate assets and liabilities

The Group uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. For the year ended 31 December 2002, there has been no material gain or loss associated with ineffective portions of cash flow hedges.

Gains and losses on derivative contracts designated as cash flow hedges are initially recorded in Shareholders' equity but are reclassified to current period earnings when the hedged cash flows occur, as explained in Note 1, part v) Derivative instruments and hedging. As at 31 December 2002, deferred net gains on derivative instruments designated as cash flow hedges accumulated in Shareholders' equity were CHF 2 million.

Cash flow hedges of forecast transactions

The Group applies hedge accounting for its non-trading interest rate risk in major currencies by analyzing expected cash flows on an enterprise basis. The objective is to protect against changes in future interest cash flows resulting from the impact of changes in market interest rates on reinvestment or reborrowing of current balances and expected future cash flows. The Group accumulates information about financial assets and liabilities, and thereby estimates and aggregates the amounts and timing of future period cash flows, based on the contractual terms of instruments and other factors including estimates of prepayments and defaults. The aggregate cash flows form the basis for identifying the non-trading interest rate risk of the Group, which is hedged with interest rate swaps, which extend over a twenty-four-year period.

The schedule of forecast principal cash flows as at 31 December 2002 is as follows:

CHF billion	< 1 year	1–3 years	3–5 years	5–10 years	over 10 years
Cash inflows (Assets)	119	202	124	128	8
Cash outflows (Liabilities)	159	247	193	324	237
Net cash flows	**(40)**	**(45)**	**(69)**	**(196)**	**(229)**

Gains and losses on derivatives designated as cash flow hedges of forecast transactions are initially recorded in Shareholders' equity as "Gains/losses not recognized in the income statement" and transferred to current period earnings when the forecast cash flows occur. As at 31 December 2002, the fair value of outstanding derivatives designated as cash flow hedges of forecast transactions was a CHF 181 million net unrealized loss. Amounts reclassified from Gains/losses not recognized in the income statement to current period earnings due to discontinuation of hedge accounting were immaterial.

Notional amounts and replacement values

The following table provides the notional amounts and the positive and negative replacement values of the Group's derivative transactions.

The notional amount is a derivative's underlying contract amount and is the basis upon which changes in the value of derivatives are measured. It provides an indication of the underlying volume of business transacted by the Group but does not provide any measure of risk.

The majority of derivatives are negotiated as to amount, tenor and price, between the bank and its counterparty, whether other professionals or customers (OTC). The rest are standardized in terms of their amounts and settlement dates and are bought and sold in organized markets (exchange traded).

Positive replacement value represents the cost to the Group of replacing all transactions with a fair value in the Group's favour if all the relevant counterparties of the Group were to default at the same time, and transactions could be replaced instantaneously. Negative replacement value is the cost to the Group's counterparties of replacing all their transactions with the Group where the fair value is in their favor if the Group were to default. The total positive and negative replacement values are included in the balance sheet separately. For internal credit risk measurement the potential evolution of the value of the portfolio of trades with each counterparty is also modelled over its life (potential future exposure), taking into account legally enforceable close out netting agreements where applicable (see below).

Credit mitigation

The Group seeks, wherever possible, to enter into master netting agreements with OTC derivative counterparties. Where the Group has such an agreement and it has a legal opinion that it is enforceable by UBS in the event of insolvency of the counterparty, positive and negative replacement values of transactions covered by the agreement are netted and a single payable or receivable amount is included in the balance sheet. The impact of master netting agreements as at 31 December 2002 is to reduce positive and negative replacement values on OTC derivative instruments by approximately CHF 167 billion. The impact can change substantially over short periods of time, because the exposure is affected by each transaction subject to the arrangement.

In line with general market trends, the Group has also entered into bilateral collateral agreements with major market participants to mitigate the potential concentrations of exposure arising from industry consolidation and the continuing increase in volumes of OTC derivatives traded. The figures in the tables do not, however, reflect the risk mitigating effects of such collateral agreements.

Note 23 Derivative Instruments (continued)

As at 31 December 2002	Term to maturity										Total notional amount
	Within 3 months		3–12 months		1–5 years		over 5 years				
CHF million	PRV[1]	NRV[2]	PRV	NRV	PRV	NRV	PRV	NRV	**Total PRV**	**Total NRV**	CHF bn
Interest rate contracts											
Over the counter (OTC) contracts											
Forward contracts	3,785	4,127	93	121	141	333	33	8	**4,052**	**4,589**	1,517.3
Swaps	2,862	3,778	9,451	8,127	78,413	76,244	55,377	51,917	**146,103**	**140,066**	5,753.0
Options	338	706	1,143	1,488	4,216	5,484	3,905	4,464	**9,602**	**12,142**	663.2
Exchange-traded contracts[3]											
Futures									**0**	**0**	40.3
Options	4	16		1					**4**	**17**	101.1
Total	**6,989**	**8,627**	**10,687**	**9,737**	**82,770**	**82,061**	**59,315**	**56,389**	**159,761**	**156,814**	**8,074.9**
Credit derivative contracts											
Over the counter (OTC) contracts											
Credit default swaps	2	7	95	504	1,636	2,740	2,852	958	**4,585**	**4,209**	164.6
Total rate of return swaps	15	21	194	782	2,308	1,726	162	35	**2,679**	**2,564**	14.5
Total	**17**	**28**	**289**	**1,286**	**3,944**	**4,466**	**3,014**	**993**	**7,264**	**6,773**	**179.1**
Foreign exchange contracts											
Over the counter (OTC) contracts											
Forward contracts	2,406	3,100	1,005	1,732	232	270	11	1	**3,654**	**5,103**	252.0
Interest and currency swaps	21,561	20,641	8,962	10,292	8,627	8,907	3,360	3,990	**42,510**	**43,830**	1,843.1
Options	2,223	2,219	1,681	1,636	361	312	7		**4,272**	**4,167**	500.8
Exchange-traded contracts[3]											
Futures									**0**	**0**	0.0
Options		1	1						**1**	**1**	0.1
Total	**26,190**	**25,961**	**11,649**	**13,660**	**9,220**	**9,489**	**3,378**	**3,991**	**50,437**	**53,101**	**2,596.0**
Precious metals contracts											
Over the counter (OTC) contracts											
Forward contracts	329	231	235	257	150	121	9	8	**723**	**617**	18.0
Options	205	217	325	289	407	373	86	63	**1,023**	**942**	38.6
Exchange-traded contracts[3]											
Futures											0.0
Options		1		1		4			**0**	**6**	0.2
Total	**534**	**449**	**560**	**547**	**557**	**498**	**95**	**71**	**1,746**	**1,565**	**56.8**
Equity / Index contracts											
Over the counter (OTC) contracts											
Forward contracts	5,393	1,406	583	512	917	205	124	219	**7,017**	**2,342**	33.2
Options	8,676	12,441	2,515	3,496	6,650	7,125	403	794	**18,244**	**23,856**	99.3
Exchange-traded contracts[3]											
Futures									**0**	**0**	7.4
Options	861	246	316	247	443	338			**1,620**	**831**	7.5
Total	**14,930**	**14,093**	**3,414**	**4,255**	**8,010**	**7,668**	**527**	**1,013**	**26,881**	**27,029**	**147.4**
Commodity contracts											
Over the counter (OTC) contracts											
Forward contracts	5	3	2,629	2,670	346	304			**2,980**	**2,977**	24.9
Options									**0**	**0**	0.0
Total	**5**	**3**	**2,629**	**2,670**	**346**	**304**	**0**	**0**	**2,980**	**2,977**	**24.9**
Total derivative instruments	**48,665**	**49,161**	**29,228**	**32,155**	**104,847**	**104,486**	**66,329**	**62,457**	**249,069**	**248,259**	
Replacement value netting									**166,977**	**166,977**	
Replacement values after netting									**82,092**	**81,282**	

[1] PRV: Positive replacement value. [2] NRV: Negative replacement value. [3] Exchange-traded products include proprietary trades only.

Note 23 Derivative Instruments (continued)

As at 31 December 2001

	Term to maturity										Total notional amount
	Within 3 months		3–12 months		1–5 years		over 5 years		**Total**	**Total**	
CHF million	PRV[1]	NRV[2]	PRV	NRV	PRV	NRV	PRV	NRV	**PRV**	**NRV**	CHF bn
Interest rate contracts											
Over the counter (OTC) contracts											
Forward contracts	2,844	3,260	114	530	108	245	48	134	**3,114**	**4,169**	1,768.7
Swaps	2,807	4,322	5,724	6,393	49,043	45,029	25,232	22,866	**82,806**	**78,610**	4,552.4
Options	388	950	670	2,095	3,037	4,048	2,830	3,336	**6,925**	**10,429**	784.9
Exchange-traded contracts[3]											
Futures									**0**	**0**	83.6
Options	3			24					**3**	**24**	63.2
Total	**6,042**	**8,532**	**6,508**	**9,042**	**52,188**	**49,322**	**28,110**	**26,336**	**92,848**	**93,232**	**7,252.8**
Credit derivative contracts											
Over the counter (OTC) contracts											
Credit default swaps	6	18	707	1,104	1,020	1,490	773	1,184	**2,506**	**3,796**	75.7
Total rate of return swaps			84	621		636	12	0	**96**	**1,257**	3.6
Total	**6**	**18**	**791**	**1,725**	**1,020**	**2,126**	**785**	**1,184**	**2,602**	**5,053**	**79.3**
Foreign exchange contracts											
Over the counter (OTC) contracts											
Forward contracts	3,615	3,163	1,639	1,899	755	428	20		**6,029**	**5,490**	279.7
Interest and currency swaps	19,344	11,224	8,991	7,763	7,463	7,673	3,465	2,312	**39,263**	**28,972**	1,699.3
Options	2,138	1,942	2,148	1,888	445	433	23	1	**4,754**	**4,264**	1,033.7
Exchange-traded contracts[3]											
Futures									**0**	**0**	0.0
Options			1	2					**1**	**2**	0.8
Total	**25,097**	**16,329**	**12,779**	**11,552**	**8,663**	**8,534**	**3,508**	**2,313**	**50,047**	**38,728**	**3,013.5**
Precious metals contracts											
Over the counter (OTC) contracts											
Forward contracts	242	223	210	198	195	179	6		**653**	**600**	17.0
Options	177	164	535	507	740	805	90	81	**1,542**	**1,557**	54.1
Exchange-traded contracts[3]											
Futures											0.0
Options		2	3	1					**3**	**3**	0.9
Total	**419**	**389**	**748**	**706**	**935**	**984**	**96**	**81**	**2,198**	**2,160**	**72.0**
Equity / Index contracts											
Over the counter (OTC) contracts											
Forward contracts	1,402	1,422	445	1,713	1,461	1,464	111	85	**3,419**	**4,684**	35.3
Options	6,140	6,222	4,294	5,105	4,076	6,991	1,087	2,844	**15,597**	**21,162**	238.0
Exchange-traded contracts[3]											
Futures									**0**	**0**	12.4
Options	1,497	1,080	1,187	1,431	601	463	21	14	**3,306**	**2,988**	440.3
Total	**9,039**	**8,724**	**5,926**	**8,249**	**6,138**	**8,918**	**1,219**	**2,943**	**22,322**	**28,834**	**726.0**
Commodity contracts											
Over the counter (OTC) contracts											
Forward contracts	8	14	1	1					**9**	**15**	6.4
Options									**0**	**0**	0.0
Total	**8**	**14**	**1**	**1**	**0**	**0**	**0**	**0**	**9**	**15**	**6.4**
Total derivative instruments	**40,611**	**34,006**	**26,753**	**31,275**	**68,944**	**69,884**	**33,718**	**32,857**	**170,026**	**168,022**	
Replacement value netting									**96,579**	**96,579**	
Replacement values after netting									**73,447**	**71,443**	

[1] PRV: Positive replacement value. [2] NRV: Negative replacement value. [3] Exchange-traded products include proprietary trades only.

Off-Balance Sheet Information

Note 24 Fiduciary Transactions

Fiduciary placement represents funds which customers have instructed the Group to place in foreign banks. The Group is not liable to the customer for any default by the foreign bank nor do creditors of the Group have a claim on the assets placed.

CHF million	**31.12.02**	31.12.01
Placements with third parties	**43,440**	58,466
Fiduciary credits and other fiduciary financial transactions	**774**	1,136
Total fiduciary transactions	**44,214**	59,602

The Group also acts in its own name as trustee or in fiduciary capacities for the account of third parties. The assets managed in such capacities are not reported on the balance sheet unless they are invested with UBS. UBS earns commission and fee income from such transactions and assets. These activities potentially expose UBS to liability risks in cases of gross negligence with regard to non-compliance of its fiduciary and contractual duties. The risks associated with this business are covered by the standard UBS risk framework.

Note 25 Commitments and Contingent Liabilities

The Group utilizes various lending-related financial instruments in order to meet the financial needs of its customers. The Group issues commitments to extend credit, standby and other letters of credit, guarantees, commitments to enter into repurchase agreements, note issuance facilities and revolving underwriting facilities. Guarantees represent irrevocable assurances, subject to the satisfaction of certain conditions, that the Group will make payment in the event that the customer fails to fulfill its obligation to third parties. The Group also enters into commitments to extend credit in the form of credit lines which are available to secure the liquidity needs of our customers, but not yet drawn upon by them, the majority of which range in maturity from 1 month to 5 years.

The contractual amount of these instruments is the maximum amount at risk for the Group if the customer fails to meet its obligations. The risk is similar to the risk involved in extending loan facilities and is monitored with the same risk control processes and specific credit risk policies. For the years ended 31 December 2002, 2001 and 2000 the Group recognized expense in the income statement related to obligations incurred for contingencies and commitments of CHF 13 million, CHF 25 million and CHF 1 million, respectively.

The Group generally enters into sub-participations to mitigate the risks from the Group's commitments and contingencies. A sub-participation is an agreement with another party to fund a portion of the credit facility and to take a share of the loss in the event that the borrower fails to fulfill its obligations. The Group retains the contractual relationship with the borrower and the sub-participant has only an indirect relationship with the borrower. The Group will only enter into sub-participation agreements with banks whose rating is at least equal to or higher than that of the borrower.

Note 25 Commitments and Contingent Liabilities (continued)

CHF million	**31.12.02**	31.12.01
Contingent liabilities		
Credit guarantees and similar instruments [1]	**11,522**	18,566
Sub-participations	**(650)**	(4,944)
Total	**10,872**	13,622
Performance guarantees and similar instruments [2]	**3,216**	4,865
Sub-participations	**(348)**	(4)
Total	**2,868**	4,861
Irrevocable commitments under documentary credits	**1,856**	2,056
Sub-participations	**(259)**	0
Total	**1,597**	2,056
Gross contingent liabilities	**16,594**	25,487
Sub-participations	**(1,257)**	(4,948)
Net contingent liabilities	**15,337**	20,539
Irrevocable commitments		
Undrawn irrevocable credit facilities	**39,306**	50,608
Sub-participations	**(446)**	(532)
Total	**38,860**	50,076
Liabilities for calls on shares and other equities	**21**	98
Gross irrevocable commitments	**39,327**	50,706
Sub-participations	**(446)**	(532)
Net irrevocable commitments	**38,881**	50,174
Gross commitments and contingent liabilities	**55,921**	76,193
Sub-participations	**(1,703)**	(5,480)
Net commitments and contingent liabilities	**54,218**	70,713

[1] Credit guarantees in the form of bills of exchange and other guarantees, including guarantees in the form of irrevocable letters of credit, endorsement liabilities from bills rediscounted, advance payment guarantees and similar facilities. [2] Bid bonds, performance bonds, builders' guarantees, letters of indemnity, other performance guarantees in the form of irrevocable letters of credit and similar facilities.

CHF million	Mortgage collateral	Other collateral	Unsecured	**Total**
Overview of collateral				
Gross contingent liabilities	275	8,254	8,065	**16,594**
Gross irrevocable commitments	1,084	14,956	23,266	**39,306**
Liabilities for calls on shares and other equities			21	**21**
Total 31.12.2002	**1,359**	**23,210**	**31,352**	**55,921**
Total 31.12.2001	1,711	25,625	48,857	76,193

Other commitments

The Group enters into commitments to fund external private equity funds and investments, which typically expire within five years. The commitments themselves do not involve credit or market risk as the funds purchase investments at market value at the time the commitments are drawn. The maximum amount available to fund these investments at 31 December 2002 and 31 December 2001 was CHF 2,245 million and CHF 3,548 million, respectively.

Note 26 Operating Lease Commitments

At 31 December 2002, UBS was obligated under a number of non-cancellable operating leases for premises and equipment used primarily for banking purposes. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions as well as rent adjustments based on price indices. However, the lease agreements do not contain contingent rent payment clauses and purchase options. The leases also do not impose any restrictions on UBS's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

Our minimum commitments for non-cancellable leases of premises and equipment are presented as follows:

CHF million	**31.12.02**
Operating leases due	
2003	**1,038**
2004	**913**
2005	**777**
2006	**663**
2007	**623**
2008 and thereafter	**5,082**
Total commitments for minimum payments under operating leases	**9,096**

Operating expenses include CHF 1,193 million, CHF 1,092 million and CHF 816 million in respect of operating lease rentals for the year ended 31 December 2002, 31 December 2001 and 31 December 2000, respectively.

Additional Information

Note 27 Pledged Assets

Assets are pledged as collateral for collateralized credit lines with central banks, loans from central mortgage institutions, deposit guarantees for savings banks, security deposits relating to stock exchange membership and mortgages on the Group's property. The following table shows additional information about assets pledged or assigned as security for liabilities and assets subject to reservation of title for the years ended 31 December 2002 and 31 December 2001. The securities presented in the table below include securities pledged in respect of securities lending and repurchase agreements.

CHF million	**Carrying amount 31.12.02**	**Related liability 31.12.02**	Carrying amount 31.12.01	Related liability 31.12.01
Mortgage loans	**808**	**506**	1,311	873
Securities	**50,945**	**37,038**	204,623	163,134
Property and equipment	**129**	**33**	160	89
Other	**2**	**0**	2	0
Total pledged assets	**51,884**	**37,577**	206,096	164,096

Note 28 Litigation

Due to the nature of their business, the bank and other companies within the UBS Group are involved in various claims, disputes and legal proceedings, arising in the ordinary course of business. The Group makes provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (see Note 20).

In respect of the further claims asserted against the Group of which management is aware (and which, according to the principles outlined above, have not been provided for), it is the opinion of the management that such claims are either without merit, can be successfully defended or will not have a material adverse effect on the Group's financial condition, results of operations or liquidity.

Note 29 Financial Instruments Risk Position

This section presents information about the Group's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

- market risk is exposure to observable market variables such as interest rates, exchange rates and equity markets
- credit risk is the risk of loss resulting from client or counterparty default and arises on credit exposure in all forms, including settlement risk
- 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.

This section also presents and explains the Group's regulatory capital position.

Note 29 Financial Instruments Risk Position (continued)

a) Market Risk

(a)(i) Overview

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 an individual issuer of securities is considered market risk.

Market risk is incurred in UBS primarily through trading activities which are centered in the Corporate and Institutional Clients business of UBS Warburg. It arises primarily from market making, client facilitation and proprietary positions in equities, fixed income and interest rate products, foreign exchange and, to a lesser extent, precious metals and energy. Such activities are mainly in OECD markets, with some business in emerging markets.

Group Treasury assumes non-trading risk positions that arise from its balance sheet management activities.

Further market risks arise, but to a much lesser extent, in other businesses primarily from the facilitation of customer business.

Market risk measures are applied to all foreign exchange, precious metal and energy positions, to 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.

The principal risk measures and controls on market risk are Value at Risk (VaR) and stress loss. 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, based on historical market movements. Stress loss is assessed against a set of forward-looking scenarios, approved by the Board of Directors, using stress moves in market variables. Complementary controls are also applied where appropriate, 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.

(a)(ii) Interest Rate Risk

Interest rate risk is the risk of loss resulting from changes in interest rates. It is controlled primarily through the limit structure described in (a)(i) above. Exposure to interest rate movements can be expressed for all interest rate sensitive positions, whether marked to market or subject to accrual accounting, as the impact on their fair values of a one basis point (0.01%) change in interest rates. This sensitivity, analyzed by time band, is set out below. Interest rate sensitivity is one of the inputs to the VaR model.

It should be noted that, in management's view, any representation of interest rate risk at a specific date offers only a snapshot of the risks taken by the Group, since both trading and non-trading positions can vary significantly on a daily basis, because they are actively managed. As such, it may not be representative of the level of risk at other times, either in general or in specific currencies or tenors. Furthermore, the presence in the portfolio of option products means that only limited inferences can be drawn about exposure to larger movements in interest rates.

The table sets out the extent to which the Group was exposed to interest rate risk at 31 December 2001 and 2002. It shows the net impact of a one basis point (0.01%) increase in market interest rates across all time bands on the fair values of interest rate sensitive positions, including balance sheet assets and liabilities and derivatives. The impact of such an increase in interest rates depends on the net asset or net liability position of the Group in each category, currency and time band in the table. A negative amount in the table reflects a potential reduction in fair value as a result of an increase in interest rates, while a positive amount reflects a potential increase in fair value.

Note 29 Financial Instruments Risk Position (continued)

a) Market Risk (continued)

Interest rate sensitivity position

Interest rate sensitivity by time bands at 31.12.2002

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	Trading	(10)	211	(287)	(47)	(18)	**(151)**
	Non-trading	(42)	(153)	(365)	(6,504)	(5,119)	**(12,183)**
USD	Trading	(93)	(256)	(1,021)	(2,668)	2,445	**(1,593)**
	Non-trading	26	(82)	(72)	(927)	(230)	**(1,285)**
EUR	Trading	114	33	12	(1,387)	728	**(500)**
	Non-trading	(1)	10	(2)	(86)	(193)	**(272)**
GBP	Trading	(78)	200	(227)	(453)	(269)	**(827)**
	Non-trading	(1)	(6)	(39)	92	587	**633**
JPY	Trading	21	12	(502)	(249)	(204)	**(922)**
	Non-trading	0	1	0	18	(24)	**(5)**
Others	Trading	(46)	(61)	500	(54)	(286)	**53**
	Non-trading	0	0	(4)	(1)	(3)	**(8)**

Interest rate sensitivity by time bands at 31.12.2001

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	Trading	22	(121)	(35)	(297)	(314)	**(745)**
	Non-trading	3	(24)	(366)	(7,656)	(6,030)	**(14,073)**
USD	Trading	(299)	35	96	(960)	(2,115)	**(3,243)**
	Non-trading	35	(113)	(157)	(274)	(15)	**(524)**
EUR	Trading	(129)	73	(269)	(308)	(806)	**(1,439)**
	Non-trading	(2)	(6)	(38)	182	0	**136**
GBP	Trading	(89)	27	(520)	65	172	**(345)**
	Non-trading	0	(7)	(57)	175	624	**735**
JPY	Trading	175	695	(98)	(1,386)	246	**(368)**
	Non-trading	1	0	(3)	1	(4)	**(5)**
Others	Trading	(51)	167	126	(404)	369	**207**
	Non-trading	0	(1)	0	(1)	(4)	**(6)**

Positions shown as "trading" are those which contribute to market risk regulatory capital, i.e. those considered "trading book" for regulatory capital purposes (see section d). "Non-trading" includes all other interest rate sensitive assets and liabilities including derivatives designated as hedges for accounting purposes (as explained in Note 23). This distinction differs somewhat from the accounting classification of trading and non-trading assets and liabilities.

Details of money market paper and debt instruments defined as trading portfolio for accounting purposes are included in Note 11 and of debt instruments defined as financial investments for accounting purposes in Note 12. Both contribute to the interest rate sensitivity shown in the table. Details of derivatives are shown in Note 23 but it should be noted that interest rate risk arises not only on interest rate contracts but also on other forwards, swaps and options, and, in particular, on forward foreign exchange contracts.

Trading

The major part of this risk arises in UBS Warburg's fixed income securities, currency forwards and other derivatives, and money market trading activities.

Note 29 Financial Instruments Risk Position (continued)

a) Market Risk (continued)

Non-trading

Interest rate risk is inherent in many of UBS's businesses and arises from factors such as differences in timing between contractual maturity or re-pricing of assets, liabilities and derivative instruments, and the difference in re-pricing characteristics of floating rate indices, such as the savings rate and six-month LIBOR.

Most non-trading interest rate risk is captured at the point of business origination and transferred to a risk management unit – primarily the Cash and Collateral Trading unit of UBS Warburg or Group Treasury – where it is managed within the market risk limits described in (a)(i). The margin risks embedded in retail products remain and are subject to additional analysis and control within the originating business units.

Many client products have no contractual maturity date or directly market-linked rate. Their interest rate risk is transferred on a pooled basis through "replication" portfolios – portfolios of revolving transactions between the originating business unit and Group Treasury at market rates designed to approximate their average cash flow and re-pricing behavior. 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 adjustment of the replication portfolios for variable rate liabilities.

Interest rate risk also arises from balance sheet items such as the financing of the Group's real estate and equity investments in associated companies and, in particular, the investment of the Group's equity. These items are also transferred to Group Treasury, through replicating portfolios designed to approximate the investment or funding profile mandated by the Group Executive Board.

The investment of the Group's equity accounts for CHF 14.2 million of the non-trading interest rate sensitivity, with CHF 11.9 million arising in CHF and the remainder mainly in USD and a smaller amount in EUR. At 31 December 2002, the Group's equity was invested in a portfolio of fixed-rate assets with an average duration of three and a half years, in line with the strategic investment targets set by the Group Executive Board. The interest rate sensitivity of these investments is directly related to the chosen investment duration and it should be recognized that, although investing in significantly shorter maturities would lead to a reduction in apparent interest rate sensitivity, it would lead to higher volatility in the Group's interest earnings.

For the currencies EUR and GBP the additional interest rate sensitivity arises mainly from subordinated note issues which are intentionally unhedged as they are regarded as part of the Group's equity for asset and liability management purposes. The additional interest rate sensitivity in USD results predominantly from the write-down of USD intangibles.

(a)(iii) Currency Risk

Currency risk is the risk of loss resulting from changes in exchange rates.

Trading

UBS is an active participant in currency markets and carries currency risk from these trading activities, conducted primarily in UBS Warburg. These trading exposures are subject to VaR, stress and concentration limits as described in (a)(i). Details of foreign exchange contracts, most of which arise from trading activities and contribute to currency risk, are shown in Note 23.

Non-trading

The Group's reporting currency is the Swiss franc but its assets, liabilities, income and expense are denominated in many currencies, with significant amounts in USD, EUR and GBP, as well as CHF.

Reported profits or losses are exchanged monthly into CHF, reducing volatility in the Group's earnings from changes in exchange rates. Group Treasury proactively hedges significant expected foreign currency earnings/costs (mainly USD, EUR and GBP) within a time horizon of one year, in accordance with the instructions of the

Note 29 Financial Instruments Risk Position (continued)

a) Market Risk (continued)

Group Executive Board and subject to its VaR limit. Economic hedging strategies employed include a cost-efficient option strategy, providing a safety net against unfavorable currency fluctuations while preserving upside potential.

From late 2002 the Group has begun to diversify the investment of its equity into CHF, USD and EUR in proportion to the currencies of its risk-weighted assets in order to protect its Tier 1 capital ratio against adverse exchange rate movements against CHF. Other foreign currency assets and liabilities of the business units are required to be match-funded / invested in the relevant currency or otherwise hedged to avoid currency risk.

The table below shows the major currency breakdown of the Group's balance sheet.

Breakdown of assets and liabilities by currencies

	31.12.02				31.12.01			
CHF billion	**CHF**	**USD**	**EUR**	**Other**	CHF	USD	EUR	Other
Assets								
Cash and balances with central banks	**2.4**	**0.1**	**0.6**	**1.2**	3.0	0.3	0.6	17.1
Due from banks	**5.2**	**11.4**	**7.4**	**8.5**	5.0	8.6	5.2	8.7
Cash collateral on securities borrowed	**0.1**	**126.7**	**2.7**	**9.5**	0.1	156.4	2.5	3.9
Reverse repurchase agreements	**1.9**	**164.6**	**61.0**	**66.5**	5.1	142.9	40.2	81.1
Trading portfolio assets	**6.1**	**247.6**	**51.7**	**66.0**	9.6	265.2	47.2	75.9
Positive replacement values	**10.4**	**8.1**	**0.8**	**62.8**	30.6	11.4	1.2	30.2
Loans	**147.8**	**39.5**	**11.5**	**12.8**	151.4	43.1	11.9	20.1
Financial investments	**1.1**	**5.0**	**1.5**	**0.8**	2.9	7.4	1.5	17.0
Accrued income and prepaid expenses	**0.5**	**4.0**	**0.3**	**1.7**	0.7	4.9	0.8	1.2
Investments in associates	**0.7**	**0.0**	**0.0**	**0.0**	0.7	0.0	0.0	0.0
Property and equipment	**5.6**	**1.3**	**0.1**	**0.9**	6.3	1.5	0.1	0.8
Goodwill and other intangible assets	**0.7**	**12.7**	**0.0**	**0.3**	0.2	18.5	0.0	0.4
Other assets	**1.4**	**5.0**	**1.0**	**1.6**	2.1	5.6	0.8	1.4
Total assets	**183.9**	**626.0**	**138.6**	**232.6**	**217.7**	**665.8**	**112.0**	**257.8**
Liabilities								
Due to banks	**7.6**	**48.0**	**13.8**	**13.8**	8.0	68.6	12.9	17.0
Cash collateral on securities lent	**0.0**	**21.6**	**5.2**	**10.1**	0.0	24.3	3.2	2.8
Repurchase agreements	**17.8**	**260.8**	**51.9**	**36.4**	12.8	271.1	30.7	54.0
Trading portfolio liabilities	**3.7**	**68.6**	**11.3**	**22.9**	2.8	65.2	12.5	25.3
Negative replacement values	**10.1**	**7.1**	**0.7**	**63.5**	25.7	6.5	1.6	37.7
Due to customers	**123.5**	**111.5**	**43.6**	**28.2**	123.3	138.8	41.5	30.2
Accrued expenses and deferred income	**1.9**	**8.1**	**0.9**	**4.3**	2.4	10.0	0.9	4.0
Debt issued	**11.4**	**96.1**	**14.3**	**7.6**	15.7	120.0	8.8	11.7
Other liabilities	**5.4**	**4.1**	**0.9**	**1.9**	7.2	6.1	0.9	1.5
Minority interests	**0.0**	**3.4**	**0.0**	**0.1**	0.1	3.9	0.0	0.1
Shareholders' equity	**39.0**	**0.0**	**0.0**	**0.0**	43.5	0.0	0.0	0.0
Total liabilities, minority interests and shareholders' equity	**220.4**	**629.3**	**142.6**	**188.8**	**241.5**	**714.5**	**113.0**	**184.3**

Note 29 Financial Instruments Risk Position (continued)

a) Market Risk (continued)

(a)(iv) Equity Risk

Equity risk is the risk of loss resulting from changes in the levels of equity indices and values of individual stocks.

UBS Warburg is a significant player in major equity markets and carries equity risk from these activities. These exposures are subject to VaR, stress and concentration limits as described in (a)(i) and, in the case of individual stocks, to issuer risk controls as described in (a)(v).

Details of equity derivatives contracts (on indices and individual equities), which arise primarily from these activities, are shown in Note 23.

(a)(v) Issuer Risk

The values of tradable assets – equities, bonds and other traded debt instruments – are affected by factors specific to individual issuers as well as general market moves. This can include short term factors influencing price but also more fundamental causes including severe financial deterioration.

As an active trader and market maker in equities and bonds, UBS Warburg holds positions in tradable assets, which are not only included in VaR, but are also subject to concentration limits on individual issuers, including positions arising from derivatives as well as physical holdings.

b) 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 foreign exchange and derivatives contracts, such as swaps and options ("traded products").

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 within which credit approval authority is exercised by authorized credit officers. CRC has authority over counterparty rating, credit risk assessment and approval, and the establishment of allowances and provisions.

The Group restricts its credit exposure to both individual counterparties and counterparty groups by credit limits. The size of limit depends on the assessment of their financial strength, particularly the sustainable free cash flow to service obligations, and on the economic environment, industry position, and qualitative factors such as management strength. Exposure against limits is measured on a continuous basis and is subject to standard exception reporting.

Exposure against limits for banking products is measured at face value. For loans, this is shown on the balance sheet and detailed in Note 9a), and for commitments detailed in Note 25. Both are included in the table below.

For all traded products, credit exposure is measured for internal risk control purposes based on not only the current replacement value of contracts but also potential future changes in replacement value, and credit limits are applied on this basis. The replacement values of derivatives are included in the balance sheet and in the table below. For further information about derivatives see Note 23. Securities borrowing and lending transactions are represented on the balance sheet by the values of cash collateral placed with or received from counterparties while repo / reverse repo transactions are represented by the amounts of the forward commitments – for details see Note 10. The credit exposure is generally only a small percentage of the balance sheet amounts. The amounts shown in the table below represent the mark to market values of these transactions, i.e. the difference in value between the cash or securities lent or given as collateral by UBS and the value of cash or securities borrowed or taken as collateral by UBS.

Note 29 Financial Instruments Risk Position (continued)

b) Credit Risk (continued)

Breakdown of credit exposure

Amounts for each product type are shown gross before allowances and provisions.

CHF million	31.12.02	31.12.01
Banking products		
Loans and due from banks [1]	249,370	261,984
Contingent liabilities (gross – before participations) [2]	16,594	25,487
Undrawn irrevocable commitments (gross – before participations) [2]	39,306	50,608
Traded products [3]		
Derivatives positive replacement values (before collateral but after netting) [4]	82,092	73,447
Securities borrowing and lending, repos and reverse repos [5, 6]	20,120	14,074
Allowances and provisions [7]	(5,621)	(8,218)
Total credit exposure net of allowances and provisions [8]	401,861	417,382

[1] See Note 9a – Due from Banks and Loans and the section about the Information Required by Industry Guide 3 in the Additional Disclosures Required under SEC Regulations for further information. [2] See Note 25 – Commitments and Contingent Liabilities for further information. [3] Does not include future potential credit exposure arising from changes in value of products with variable value, i.e. traded products. Potential future credit exposure is however included in internal measures of credit exposure for risk management and control purposes. [4] See Note 23 – Derivative Instruments: Positive Replacement Values for further information. [5] This figure represents the difference in value between the cash or securities lent or given as collateral to counterparties, and the value of cash or securities borrowed or taken as collateral from the same counterparties under stock borrow / lend and repo / reverse repo transactions. [6] See Note 10 – Securities Borrowing, Securities Lending, Repurchase and Reverse Repurchase Agreements for further information for these types of transactions. [7] See Note 9b – Allowances and Provisions for Credit Losses for further information. [8] The values of bonds, equities and other tradable obligations in the Group's trading business area are also affected by credit events and default. They are not included in this table – exposure is controlled under the market risk control structure described in Note 29 – Financial Instruments Risk Position, section a).

Note 29 Financial Instruments Risk Position (continued)

b) Credit Risk (continued)

The Group is an active user of credit derivatives to hedge credit risk in banking and traded products. It also makes use of master netting agreements where possible in its OTC derivatives trading and, in line with general market trends, UBS Warburg has also entered into bilateral collateral agreements with market participants. Further information is given in Note 23.

Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Group therefore applies stress measures to assess the impact of variations in bankruptcy rates and asset values, taking into account risk concentrations in each portfolio. Stress loss limits are applied where considered necessary, including limits on exposure to all but the best rated countries.

The Group 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. Allowances or provisions are established to ensure that the carrying values of impaired claims are determined in accordance with the principles of IAS 39. For further information about accounting policy for allowance and provision for credit losses see Note 1 l). For the amounts of allowance and provision for credit losses and amounts of impaired and non-performing loans, see Note 9 b), c) and d).

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 ultimately accountable for any credit losses they suffer but also to give them the incentive to align their credit risk decisions and risk adjusted pricing with the medium term risk profile of their credit transactions, the Group uses the concept of "expected loss" for management purposes. Expected loss is a statistically based measure intended to reflect the annual cost that will arise, on average, over time, from transactions that become impaired, and is a function of the probability of default (given by the rating), current and likely future exposure to the counterparty and the likely severity of the loss should default actually occur.

Note 29 Financial Instruments Risk Position (continued)

c) Liquidity Risk

The Group's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without compromising its ability to respond quickly to strategic market opportunities. The Group's centralized approach is based on an integrated framework incorporating the assessment of expected cash flows 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 scenarios, giving due consideration to stress factors. Scenarios encompass both normal market conditions and stressed conditions, including both UBS-specific and general market crises. The impact on both trading and client businesses is considered, taking account of potential collateral with which funds might be raised, and the possibility that customers might seek to withdraw funds or draw down unutilized committed credit lines.

The breakdown by contractual maturity of assets and liabilities, which is the basis of the "normal market conditions" scenario, at 31 December 2002 is shown in the table below.

Maturity analysis of assets and liabilities

CHF billion	On demand	Subject to notice[1]	Due within 3 mths	Due between 3 and 12 mths	Due between 1 and 5 years	Due after 5 years	Total
Assets							
Cash and balances with central banks	4.3						4.3
Due from banks	10.5	0.0	20.5	0.8	0.5	0.2	32.5
Cash collateral on securities borrowed	0.0	0.0	138.7	0.0	0.4	0.0	139.1
Reverse repurchase agreements	0.0	2.7	230.8	55.3	3.7	1.5	294.0
Trading portfolio assets	371.4	0.0	0.0	0.0	0.0	0.0	371.4
Positive replacement values	82.1	0.0	0.0	0.0	0.0	0.0	82.1
Loans	0.0	21.0	86.6	34.4	64.6	4.9	211.5
Financial investments	5.9	0.0	1.5	0.2	0.5	0.3	8.4
Accrued income and prepaid expenses	6.5	0.0	0.0	0.0	0.0	0.0	6.5
Investments in associates	0.0	0.0	0.0	0.0	0.0	0.7	0.7
Property and equipment	0.0	0.0	0.0	0.0	0.0	7.9	7.9
Goodwill and other intangible assets	0.0	0.0	0.0	0.0	0.0	13.7	13.7
Other assets	9.0	0.0	0.0	0.0	0.0	0.0	9.0
Total 31.12.2002	**489.7**	**23.7**	**478.1**	**90.7**	**69.7**	**29.2**	**1,181.1**
Total 31.12.2001	529.7	30.0	513.4	74.2	63.6	42.4	1,253.3
Liabilities							
Due to banks	10.7	2.9	64.7	2.5	2.2	0.1	83.1
Cash collateral on securities lent	0.0	0.0	36.8	0.0	0.0	0.0	36.8
Repurchase agreements	0.0	0.3	329.5	36.9	0.1	0.1	366.9
Trading portfolio liabilities	106.5	0.0	0.0	0.0	0.0	0.0	106.5
Negative replacement values	81.3	0.0	0.0	0.0	0.0	0.0	81.3
Due to customers	147.3	2.2	150.2	5.1	1.3	0.9	307.0
Accrued expenses and deferred income	15.3	0.0	0.0	0.0	0.0	0.0	15.3
Debt issued	0.0	0.0	54.8	21.6	33.1	19.9	129.4
Other liabilities	12.3	0.0	0.0	0.0	0.0	0.0	12.3
Total 31.12.2002	**373.4**	**5.4**	**636.0**	**66.1**	**36.7**	**21.0**	**1,138.6**
Total 31.12.2001	362.8	6.4	700.0	93.9	29.3	13.3	1,205.7

[1] Deposits without a fixed term, on which notice of withdrawal or termination has not been given (such funds may be withdrawn by the depositor or repaid by the borrower subject to an agreed period of notice).

Note 29 Financial Instruments Risk Position (continued)

d) Capital Adequacy

The Group monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios"). The BIS ratios compare the amount of the Group's eligible capital (in total and Tier 1) with the total of its risk weighted assets (RWAs).

While the Group monitors and reports its capital ratios under BIS rules, it is the rules established by the Swiss regulator, the EBK, which ultimately determine the capital required to underpin its business, and these rules, on balance, result in higher RWAs than the BIS rules. As a result, UBS's ratios are lower when calculated under the EBK regulations than they would be if calculated under the BIS guidelines.

The Group has complied with all BIS and EBK regulatory capital rules for all periods reported.

BIS Eligible capital

BIS eligible capital consists of two parts: Tier 1 capital comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and minority interests, less accrued dividends, net long positions in own shares and goodwill; Tier 2 capital includes the Group's subordinated long-term debt. Tier 1 capital is required to be at least 4% and Total eligible capital at least 8% of RWAs.

BIS Risk-Weighted Assets (RWAs)

Three elements make up total RWAs – credit risk, other assets and market risk, each of which is described below.

The credit risk component consists of on and off-balance sheet claims, measured according to regulatory formulae outlined below, weighted according to type of counterparty and collateral at 0%, 20%, 50% or 100%. The least risky claims, such as claims on OECD governments and claims collateralized by cash, are weighted at 0%, meaning that no capital support is required, while the claims deemed most risky, including unsecured claims on corporates and private customers, are weighted at 100%, meaning that 8% capital support is required.

Securities not held for trading are included as claims, based on the net long position in the securities of each issuer, including both physical holdings and positions derived from other transactions such as options.

Claims arising from derivatives transactions include not only the current positive replacement value (shown in the table below under Balance sheet assets), but also an "add-on" to reflect their potential future exposure (shown in the table below under Off-balance sheet and other positions – Forward and swap contracts, and Purchased options).

Claims arising from contingent commitments and irrevocable facilities granted are converted to credit equivalent amounts based on specified percentages of nominal value.

There are other assets, most notably property and equipment, investments and intangibles, which, while not subject to credit risk, represent a risk to the bank in respect of their potential for write-down and impairment and which therefore require capital underpinning. They are weighted at 100% of book value under BIS rules but EBK weightings are generally higher.

Capital is required to support market risk arising in all foreign exchange, precious metals and energy positions, and all positions held for trading in interest rate instruments and equities, including risks on individual equities, and traded debt obligations such as bonds. UBS computes this risk using a Value at Risk model approved in 1999 by the EBK, from which the market risk capital requirement is derived. Unlike the calculations for credit risk and other assets, this produces the capital requirement itself rather than the RWA amount. In order to compute a total capital ratio, the market risk capital requirement is therefore converted to a "RWA equivalent" (shown in the table below as Market risk positions) such that the capital requirement is 8% of this RWA equivalent, i.e. the market risk capital requirement is multiplied by 12.5.

Note 29 Financial Instruments Risk Position (continued)

d) Capital Adequacy (continued)

Risk-weighted assets (BIS)

CHF million	Balance sheet / notional amount 31.12.02	Risk-weighted amount 31.12.02	Balance sheet / notional amount 31.12.01	Risk-weighted amount 31.12.01
Balance sheet assets				
Due from banks and other collateralized lendings [1]	356,501	8,877	380,641	7,640
Net positions in securities [2]	9,096	8,193	29,500	10,992
Positive replacement values [3]	82,092	21,680	73,447	19,556
Loans and other collateralized lendings [1]	320,752	147,703	305,624	154,908
Accrued income and prepaid expenses	6,453	3,025	7,554	3,679
Property and equipment	10,384	10,149	13,202	13,202
Other assets	8,952	5,774	9,875	4,504
Off-balance sheet and other positions				
Contingent liabilities	16,594	8,224	25,487	9,868
Irrevocable commitments	39,327	4,622	50,705	5,034
Forward and swap contracts [4]	9,455,928	4,253	8,362,374	9,256
Purchased options [4]	298,800	1,023	365,100	1,777
Market risk positions [5]		15,267		13,319
Total risk-weighted assets		238,790		253,735

[1] Includes securities lending and reverse repo transactions. [2] Excluding positions in the trading book, which are included in Market risk positions. [3] Represents the mark to market values of Forward and swap contracts and Purchased options, where positive. [4] Risk-weighted amount represents the "add-ons" for these contracts. [5] Regulatory capital adequacy requirements for market risk, calculated using the approved Value at Risk model, multiplied by 12.5 to give the "risk-weighted asset equivalent".

BIS capital ratios

	Capital CHF million 31.12.02	Ratio % 31.12.02	Capital CHF million 31.12.01	Ratio % 31.12.01
Tier 1	27,047	11.3	29,322	11.6
of which hybrid Tier 1	3,182	1.3	3,848	1.5
Tier 2	5,962	2.5	8,149	3.2
Total BIS	33,009	13.8	37,471	14.8

The Tier 1 capital includes CHF 3,182 million (USD 2,300 million) trust preferred securities at 31 December 2002 and CHF 3,848 million (USD 2,300 million) at 31 December 2001.

Note 30 Fair Value of Financial Instruments

The following table presents the fair value of financial instruments based on the following valuation methods and assumptions. It is presented because not all financial instruments are reflected in the financial statements at fair value.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Market prices are used to determine fair value, where an active market (such as a recognized stock exchange) exists, as it is the best evidence of the fair value of a financial instrument. Market prices are not, however, available for a significant number of the financial assets and liabilities held and issued by the Group. Therefore, for financial instruments where no market price is available, the fair values presented in the following table have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance sheet dates.

The values derived from applying these techniques are significantly affected by the underlying assumptions made concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(a) trading assets, derivatives and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or discounted cash flows. Fair value is equal to the carrying amount for these items;

(b) financial investments classified as available for sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognized valuation techniques. Prior to the adoption of IAS 39 in 2001, financial investments were carried at cost or if considered held for sale, at the lower of cost or market. Upon the adoption of the standard, all financial investments are carried at fair value. Unrealized gains and unrealized losses, excluding impairment writedowns, are recorded in Shareholders' equity until an asset is sold, collected or otherwise disposed of;

(c) the carrying amount of liquid assets and other assets maturing within 12 months is assumed to approximate their fair value. This assumption is applied to liquid assets and the short term elements of all other financial assets and financial liabilities;

(d) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;

(e) the fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans, does not, therefore, reflect changes in their credit quality as the impact of credit risk is recognized separately by deducting the amount of the allowance for credit losses from both book and fair values;

(f) the fair value of fixed rate loans and mortgages is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognized separately by deducting the amount of the allowance for credit losses from both book and fair values.

The assumptions and techniques have been developed to provide a consistent measurement of fair value for the Group's assets and liabilities in the following table. However, because other institutions may use different methods and assumptions, such fair value disclosures in this Note cannot necessarily be compared from one financial institution to another.

Note 30 Fair Value of Financial Instruments (continued)

CHF billion	Carrying value 31.12.02	Fair value 31.12.02	Unrealized gain/(loss) 31.12.02	Carrying value 31.12.01	Fair value 31.12.01	Unrealized gain/(loss) 31.12.01
Assets						
Cash and balances with central banks	4.3	4.3	0.0	21.0	21.0	0.0
Due from banks	32.5	32.5	0.0	27.7	27.7	0.0
Cash collateral on securities borrowed	139.1	139.1	0.0	162.9	162.9	0.0
Reverse repurchase agreements	294.1	294.1	0.0	269.3	269.3	0.0
Trading portfolio assets	371.4	371.4	0.0	397.9	397.9	0.0
Positive replacement values	82.1	82.1	0.0	73.4	73.4	0.0
Loans	211.8	214.1	2.3	226.7	227.0	0.3
Financial investments	8.4	8.4	0.0	28.8	28.8	0.0
Liabilities						
Due to banks	83.4	83.4	0.0	107.2	107.2	0.0
Cash collateral on securities lent	36.9	36.9	0.0	30.3	30.3	0.0
Repurchase agreements	366.9	366.9	0.0	368.6	368.6	0.0
Trading portfolio liabilities	106.5	106.5	0.0	105.8	105.8	0.0
Negative replacement values	81.3	81.3	0.0	71.4	71.4	0.0
Due to customers	307.4	307.5	(0.1)	334.0	334.0	0.0
Debt issued	129.8	131.7	(1.9)	157.5	158.6	(1.1)
Subtotal			0.3			(0.8)
Unrealized gains and losses recorded in shareholders' equity before tax on:						
Financial investments			1.1			1.2
Derivative instruments designated as cash flow hedges			(0.3)			(0.6)
Net unrealized gains and losses not recognized in the income statement			**1.1**			**(0.2)**

The table does not reflect the fair values of non-financial assets and liabilities such as property, equipment, goodwill, prepayments and non-interest accruals. Where applicable, the interest accrued to date on financial instruments is included, for purposes of the above fair value disclosure, in the carrying value of the financial instruments.

Substantially all of the Group's commitments to extend credit are at variable rates. Accordingly, the Group has no significant exposure to fair value fluctuations resulting from interest rate movements related to these commitments.

The fair values of the Group's fixed rate loans, long- and medium-term notes and bonds issued are predominantly hedged by derivative instruments, mainly interest rate swaps, as explained in Note 23. The interest rate risk inherent in balance sheet positions with no specific maturity is also hedged with derivative instruments based on management's view on the effective interest repricing date of the products.

The hedging derivative instruments are carried on the balance sheet at fair values, which are included in the Positive or Negative replacement values in the above table. When the interest rate risk on a fixed rate financial instrument is hedged with a derivative in a fair value hedge, the fixed rate financial instrument (or hedged portion thereof) is reflected in the above table at fair value only in relation to the interest rate risk, not the credit risk as explained in (f) above. Fair value changes are recorded in net profit. The treatment of derivatives designated as cash flow hedges is explained in Note 1v). The amount shown in the table as "derivative instruments designated as cash flow hedges" is the net change in fair values on such derivatives that is recorded in Shareholders' equity and not yet transferred to income or expense.

The increase in the Net unrealized gains and losses during 2002 of CHF 1.3 billion is mainly attributable to the change in the unrealized gains and losses of fixed rate long-term assets, which have increased by CHF 2.0 billion from the prior year as a result of declining interest rates during 2002. This was partially offset by an increase in fair value loss from fixed rate long-term debt.

Note 31 Retirement Benefit Plans and Other Employee Benefits

Defined benefit plans

The Group has established various pension plans inside and outside of Switzerland. The major plans are located in Switzerland, the UK, the US and Germany. Independent actuarial valuations are performed for the plans in these locations.

Swiss pension plan

The pension plan covers practically all employees in Switzerland and exceeds the minimum benefit requirements under Swiss law. Contributions to the pension plan are paid for by employees and the Group. The employee contributions are calculated as a percentage of insured annual salary and are deducted monthly. The percentages deducted from salary for full benefit coverage (including risk benefits) depend on age and vary between 7% and 10%. The Group pays a variable contribution that ranges between 150% and 220% of the sum of employees' contributions.

The pension plan formula is based on years of contributions and final covered salary. The benefits covered include retirement benefits, disability, death and survivor pension.

In 1999, the Group recognized a prepaid pension asset of CHF 456 million representing excess employer contributions. In 2002, CHF 323 million (2001 CHF 0 million, 2000 CHF 100 million) of this asset was used to fund the employer contributions and was recognized as pension expenses.

Foreign pension plans

The foreign locations of UBS operate various pension plans in accordance with local regulations and practices. Among these plans are defined contribution plans as well as defined benefit plans. The locations with defined benefit plans of a material nature are in the UK, the US and Germany. The UK and the US defined benefit plans are closed to new entrants who are covered by defined contribution plans.

The retirement plans provide benefits in the event of retirement, death, disability or employment termination. The plans' retirement benefits depend on age, contributions and level of compensation. The principal plans are financed in full by the Group. The funding policy for these plans is consistent with local government and tax requirements.

The assumptions used in foreign plans take into account local economic conditions.

The amounts shown for foreign plans reflect the net funded positions of the major foreign plans.

Post-retirement medical and life plans

In the US and the UK the Group offers retiree medical benefits that contribute to the health care coverage of employees and beneficiaries after retirement. In addition to retiree medical benefits, the Group in the US also provides retiree life insurance benefits.

The benefit obligation in excess of fair value of plan assets for those plans amounts to CHF 164 million as of 31 December 2002 (2001 CHF 142 million, 2000 CHF 111 million) and the total accrued post-retirement cost to CHF 130 million as of 31 December 2002 (2001 CHF 130 million, 2000 CHF 108 million). The net periodic post-retirement costs for the years ended 31 December 2002, 31 December 2001 and 31 December 2000 were CHF 25 million, CHF 24 million and CHF 22 million, respectively.

Defined contribution plans

The Group also sponsors a number of defined contribution plans primarily in the UK and the US. Certain plans permit employees to make contributions and earn matching or other contributions from the Group. The contributions to these plans recognized as expense for the years ended 31 December 2002, 31 December 2001 and 31 December 2000 were CHF 133 million, CHF 117 million and CHF 66 million, respectively.

Note 31 Retirement Benefit Plans and Other Employee Benefits (continued)

Defined benefit plans

	Swiss			Foreign		
CHF million	**31.12.02**	31.12.01	31.12.00	**31.12.02**	31.12.01	31.12.00
Defined benefit obligation at the beginning of the year	**(17,879)**	(17,712)	(17,011)	**(3,553)**	(3,406)	(2,444)
Service cost	**(554)**	(541)	(545)	**(108)**	(121)	(165)
Interest cost	**(699)**	(674)	(666)	**(210)**	(204)	(162)
Plan amendments					(1)	
Special termination benefits	**(209)**	(262)	(211)			(3)
Actuarial gain/(loss)	**(681)**	421		**(177)**	(345)	(99)
Benefits paid	**818**	889	721	**111**	107	84
Curtailment/settlement				**74**		
Acquisition of PaineWebber						(740)
Foreign currency translation				**427**	(12)	123
Other					429	
Defined benefit obligation at the end of the year	**(19,204)**	(17,879)	(17,712)	**(3,436)**	(3,553)	(3,406)
Fair value of plan assets at the beginning of the year	**18,289**	19,074	18,565	**2,887**	3,378	2,880
Actual return on plan assets	**(1,350)**	(765)	535	**(240)**	(220)	
Employer contributions	**236**	656	490	**164**	258	13
Plan participant contributions	**209**	213	205			23
Benefits paid	**(818)**	(889)	(721)	**(111)**	(107)	(84)
Acquisition of PaineWebber						676
Foreign currency translation				**(318)**	7	(130)
Other					(429)	
Fair value of plan assets at the end of the year	**16,566**	18,289	19,074	**2,382**	2,887	3,378
Funded status	**(2,638)**	410	1,362	**(1,054)**	(666)	(28)
Unrecognized net actuarial (gains)/losses	**3,892**	961	(331)	**1,126**	673	(81)
Unrecognized transition amount						1
Unrecognized prior service cost				**1**	2	2
Unrecognized asset	**(1,221)**	(1,015)	(675)			(47)
(Accrued)/prepaid pension cost	**33**	356	356	**73**	9	(153)
Movement in the net (liability) or asset						
(Accrued)/prepaid pension cost at the beginning of the year	**356**	356	456	**9**	(153)	(63)
Net periodic pension cost	**(559)**	(656)	(590)	**(83)**	(97)	(55)
Employer contributions	**236**	656	490	**164**	258	13
Acquisition of PaineWebber						(63)
Foreign currency translation				**(17)**	1	15
(Accrued)/prepaid pension cost	**33**	356	356	**73**	9	(153)
Amounts recognized in the Balance Sheet						
Prepaid pension cost	**33**	356	356	**220**	185	53
Accrued pension liability				**(147)**	(176)	(206)
(Accrued)/prepaid pension cost	**33**	356	356	**73**	9	(153)

Note 31 Retirement Benefit Plans and Other Employee Benefits (continued)

Defined benefit plans (continued)

CHF million	Swiss			Foreign		
For the year ended	**31.12.02**	31.12.01	31.12.00	**31.12.02**	31.12.01	31.12.00
Components of net periodic pension cost						
Current service cost	**554**	541	545	**108**	121	165
Interest cost	**699**	674	666	**210**	204	162
Expected return on plan assets	**(900)**	(947)	(927)	**(199)**	(228)	(243)
Adjustment to limit prepaid pension cost	**206**	339	300			
Amortization of unrecognized prior service cost	**209**	262	211	**1**		3
Amortization of unrecognized net (gains)/losses				**22**		(9)
Curtailment/settlement				**(59)**		
Employee contributions	**(209)**	(213)	(205)			(23)
Net periodic pension cost	**559**	656	590	**83**	97	55
Actual return on plan assets (%)	**(7.5)**	(4.0)	2.9	**(8.7)**	(7.3)	(0.9)
Principal actuarial assumptions used (%)						
Discount rate	**3.8**	4.0	4.0	**5.8**	6.2	6.3
Expected rate of return on plan assets	**5.0**	5.0	5.0	**7.3**	7.9	8.1
Expected rate of salary increase	**2.5**	2.5	2.5	**4.4**	4.4	4.4
Rate of pension increase	**1.5**	1.5	1.5	**1.5**	1.5	1.6

Additional details to fair value of plan assets	Swiss		
	31.12.02	31.12.01	31.12.00
UBS financial instruments and UBS bank accounts	**814**	476	920
UBS AG shares [1]	**206**	305	291
Securities lent to UBS included in plan assets	**2,645**	824	3,432
Other assets used by UBS included in plan assets	**90**	104	179

[1] The number of UBS AG shares were 3,072,500, 3,639,800 and 3,295,800 as of 31 December 2002, 31 December 2001 and 31 December 2000, respectively. The amount of capital repayment and dividend received on UBS AG shares for the years ended 31 December 2002, 31 December 2001 and 31 December 2000 were CHF 7 million, CHF 2 million and CHF 11 million, respectively.

Note 31 Retirement Benefit Plans and Other Employee Benefits (continued)

Post-retirement medical and life plans

CHF million	**31.12.02**	31.12.01	31.12.00
Post-retirement benefit obligation at the beginning of the year	**(145)**	(115)	(117)
Service cost	**(8)**	(7)	(6)
Interest cost	**(9)**	(9)	(8)
Plan amendments	**(3)**	(10)	(7)
Actuarial gain/(loss)	**(31)**	(6)	27
Benefits paid	**4**	4	5
Acquisition of PaineWebber			(9)
Foreign currency translation	**26**	(2)	0
Post-retirement benefit obligation at the end of the year	**(166)**	(145)	(115)
Fair value of plan assets at the beginning of the year	**3**	4	4
Actual return on plan assets	**0**	0	0
Employer contributions	**3**	3	4
Benefits paid	**(4)**	(4)	(4)
Fair value of plan assets at the end of the year	**2**	3	4

The assumed average health care cost trend rates used in determining post-retirement benefit expense is assumed to be 10.4% for 2002 and to decrease to an ultimate trend rate of 5% in 2008. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in the assumed health care cost trend rates would change the US post-retirement benefit obligation and the service and interest cost components of the net periodic post-retirement benefit costs as follows:

CHF million	**1% increase**	1% decrease
Effect on total service and interest cost	**4**	(3)
Effect on the post-retirement benefit obligation	**17**	(13)

Note 32 Equity Participation Plans

a) Equity Participation Plans Offered

UBS has established several equity participation plans to further align the long-term interests of executives, managers, staff and shareholders. The plans are offered to eligible employees in approximately 50 countries and are designed to meet the complex legal, tax and regulatory requirements of each country in which they are offered. The explanations below describe the most significant plans in general, but specific plan rules and investment offerings may vary by country.

Equity Plus Program (EPP): This voluntary plan replaced the Equity Investment Plan (EIP) in 2002 (see below). Prior to that time, it was only available to UBS PaineWebber employees. EPP gives eligible employees the opportunity to purchase UBS shares at fair market value on the purchase date and receive at no additional cost two UBS options for each share purchased, up to a maximum limit. The options have a strike price equal to the fair market value of the stock on the date the option is granted. Share purchases can be made annually from bonus compensation or quarterly based on regular deductions from salary. Shares purchased under EPP are restricted from resale for two years from the time of purchase, and the options granted have either a two- or three-year vesting requirement and expire either seven or ten years after the date of grant.

Discounted Purchase Plans: All employees in Switzerland are entitled to purchase a specified number of UBS shares at a predetermined discounted price each year. The number of shares that can be purchased depends primarily on years of service and rank. Any such shares purchased must be held for a specified period of time. The discount is recorded as compensation expense.

Equity Ownership Plan (EOP): Selected personnel receive a mandatory portion of their performance-related compensation in UBS shares or options and are also awarded a matching contribution in the form of UBS options. Participants in certain countries are eligible to receive a portion of their award in Alternative Investment Vehicles (AIVs). These are generally money market funds, UBS and non-UBS mutual funds and other UBS sponsored funds. EOP awards normally vest in one-third increments over a three-year vesting period. Under certain conditions, these awards are fully forfeitable by the employee.

Key employee option plans: Under these plans, key and high potential employees are granted UBS options with a strike price not less than the fair market value of the shares on the date the option is granted. Some option grants have a three- to five-year vesting period during which they cannot be exercised. Other grants vest in one-third increments over a three-year period. Expiration of the options is generally from six to ten and one-half years. One option gives the right to purchase one registered UBS share at the option's strike price. In some grants, accelerated vesting or non-forfeitability may occur if certain share appreciation targets are met.

Other deferred compensation plans: UBS sponsors other deferred compensation plans for selected eligible employees. Generally, contributions are made on a tax deferred basis. Participants are allowed to invest in UBS shares or AIVs. No additional company match is granted, and the plan is generally not forfeitable. In addition, UBS also grants deferred compensation awards to new recruits, senior management and other key employees in the form of UBS shares, options or other leveraged interests in non-UBS instruments.

Equity Investment Plan (EIP) (now discontinued): Prior to the discontinuance of new awards under this plan in 2001, employees had the choice to invest part of their annual bonus in UBS shares, warrants or other derivatives on UBS shares. A holding period, generally three years, applied during which the instruments could not be sold or exercised. In addition, participants in the plan received a matching contribution of additional UBS shares or derivatives. Only the UBS-matching contribution was forfeitable. The last EIP vesting will take place in 2004. Staff who had the possibility to take part in EIP are now offered the opportunity to take part in EPP.

Note 32 Equity Participation Plans (continued)

b) UBS share awards

i) Stock compensation plans

Shares granted under the various equity participation plans are as follows:

Stock bonus plans	31.12.02	31.12.01	31.12.00
Unvested shares outstanding, at the beginning of the year	52,299,332	47,458,928	14,418,646
Shares awarded during the year	13,511,655	16,850,859[1]	39,188,528[1]
Vested during the year	(16,333,832)	(10,740,466)[1]	(5,215,503)[1]
Forfeited during the year	(1,340,594)	(1,269,989)	(932,743)
Unvested shares outstanding, at the end of the year	48,136,561	52,299,332	47,458,928
Weighted-average fair market value of shares awarded (in CHF)	71	90	76
Fair market value of outstanding shares at the end of the year (CHF billion)	3.2	4.4	4.2

[1] Restated for shares granted and fully vested at grant date.

The stock bonus awards for 2000 include approximately 19.8 million shares granted under the retention agreements with key employees of UBS PaineWebber at the time of merger.

ii) Stock purchase plans

The following table shows the shares awarded and the weighted-average fair value per share for the Group's stock purchase plans.

Stock purchase plans	31.12.02	31.12.01	31.12.00
Share quantity purchased	3,822,907	2,922,515	1,264,725
Weighted-average purchase price (in CHF)[1]	63	63	44

[1] Some of the shares purchased are denominated in US dollars and were converted into CHF for purposes of this table.

Note 32 Equity Participation Plans (continued)

c) UBS option awards

Movements in options granted under the various equity participation plans mentioned above are as follows:

	Number of options 31.12.02	Weighted average exercise price (in CHF) 31.12.02[1]	Number of options 31.12.01	Weighted average exercise price (in CHF) 31.12.01[1]	Number of options 31.12.00	Weighted average exercise price (in CHF) 31.12.00
Outstanding, at the beginning of the year	**63,286,669**	**66**	63,308,502	58	30,415,386	66
Options due to the acquisition of PaineWebber					18,975,810[2]	34
Granted during the year	**37,060,178**	**71**	11,070,992	94	21,248,046[3]	72
Exercised during the year	**(9,595,133)**	**54**	(10,083,075)	49	(5,390,307)	50
Forfeited during the year	**(2,082,356)**	**71**	(1,009,750)	74	(1,940,433)	64
Expired unexercised	**(505,131)**	**77**	0	0	0	0
Outstanding, at the end of the year	**88,164,227**	**67**	63,286,669	66	63,308,502	58
Exercisable, at the end of the year	**21,765,482**	**51**	25,550,932	50	18,310,839	34

[1] Some of the options in this table have exercise prices denominated in US dollars which have been converted into CHF at the year-end spot exchange rate for purposes of this table. [2] UBS AG issued options in exchange for options of PaineWebber which have been included in the purchase price for PaineWebber at a fair value of CHF 992 million. [3] Includes options granted to key employees of UBS PaineWebber, vesting over a 3-year period, subject to employee's continued employment and other restrictions.

The following table summarizes additional information about stock options outstanding at 31 December 2002:

	Options outstanding			Options exercisable	
Range of exercise prices per share	Number of options outstanding	Weighted-average exercise price	Weighted-average remaining contractual life	Number of options exercisable	Weighted-average exercise price
CHF		***CHF***	***Years***		***CHF***
56.67–70.00	18,132,696	63.02	2.3	5,643,680	58.37
70.01–85.00	25,733,308	77.99	7.1	6,406,246	79.00
85.01–106.00	5,565,873	98.51	5.2	31,800	90.00
56.67–106.00	**49,431,877**	**74.81**	**5.1**	**12,081,726**	**69.39**
USD		***USD***	***Years***		***USD***
6.34–15.00	3,986,289	8.91	1.8	3,986,289	8.91
15.01–25.00	2,340,754	22.52	2.2	2,340,754	22.52
25.01–35.00	2,870,675	27.05	4.0	2,870,675	27.05
35.01–45.00	222,175	39.24	9.6	0	0
45.01–55.00	27,328,610	46.85	7.7	451,038	47.72
55.01–66.08	1,983,847	57.96	5.1	35,000	57.80
6.34–66.08	**38,732,350**	**40.54**	**6.4**	**9,683,756**	**19.56**

Options are normally granted with a strike price either equal to fair market value or approximately 10% greater than the fair value of the underlying share on the grant date.

Note 32 Equity Participation Plans (continued)

d) Compensation Expense

Generally, the Group's policy is to recognize expense at the date of grant for equity participation instruments (shares, warrants, options and other derivatives for which the underlying is the Group's own shares). The amount of expense recognized is equal to the intrinsic value of the instrument at such date and is calculated as follows: 1) For stock options, it is the difference between the strike price and fair market value of shares at the date of grant, if any. 2) For UBS shares and other derivative instruments, it is the fair market value. 3) For discounted share plans, the expense is equal to the difference between the fair market value and discounted value. Management's estimate of the accrued expense before tax for share-based compensation for the years ended 31 December 2002, 2001 and 2000 was CHF 592 million, CHF 974 million and CHF 1,749 million, respectively. The accruals include awards earned currently but issued in the following year.

e) Pro-Forma Net Income

The following table presents Net income and Earnings per share for 2002, 2001 and 2000 as if the Group had adopted the fair value method of accounting for its equity participation plans, rather than the intrinsic value method described in paragraph d) above. In addition, the table shows amounts already recorded in the Income statement for equity participation plans and the total expense that would have been recognized had the fair value method been applied.

CHF million, except per share data	**31.12.02**	31.12.01	31.12.00
Net Income, as reported	**3,535**	4,973	7,792
Add: Equity-based employee compensation expense included in reported net income, net of tax	**493**	769	1,347
Deduct: Total equity-based employee compensation expense determined under the fair-value-based method for all awards, net of tax	**(1,183)**	(1,116)	(1,505)
Net income, pro-forma	**2,845**	4,626	7,634
Earnings per share			
Basic, as reported	**2.92**	3.93	6.44
Basic, pro-forma	**2.35**	3.65	6.31
Diluted, as reported	**2.87**	3.78	6.35
Diluted, pro-forma	**2.31**	3.51	6.22

The fair value of options granted was determined using a proprietary option pricing model, substantially similar to the Black-Scholes model, with the following assumptions:

	31.12.02	31.12.01	31.12.00
Expected volatility	**35%**	30%	30%
Risk free interest rate (CHF)	**3.28%**	3.51%	3.27%
Risk free interest rate (USD)	**4.65%**	5.81%	5.66%
Expected dividend rate	**3.35%**	2.67%	2.44%
Expected life (years)	**4.5**	4.5	4.4

The weighted-average fair value of options granted in 2002, 2001 and 2000 was CHF 20, CHF 23 and CHF 16 per share, respectively.

Note 33 Related Parties

For its 2002 Financial Statements, the Group defines related parties as Associated companies, private equity investees, the Board of Directors, the Group Executive Board, close family members and enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or CEO in those companies. In 2001 and 2000, the Group Managing Board was also included in the above definition.

The change in definition is due to the "Directive on Information Relating to Corporate Governance" issued by the SWX Swiss Exchange, effective from 1 July 2002 for all listed companies in Switzerland. Included in the new rules are specific disclosure requirements for members of the Board of Directors and "management board". For UBS, the Group Executive Board meets the definition of "management board" under the directive. Members of the Group Managing Board, however, are excluded from the new SWX requirements. The modification is also a response to the expansion of the Group Executive Board and the Group Managing Board during 2002. The number of Group Executive Board members increased from six to ten and the Group Managing Board members from thirty to fifty-two.

Prior period figures and share and option quantities are based on the definition applied for 2001 and 2000.

a) Remuneration and equity holdings

The executive members of the Board of Directors have top-management employment contracts and receive pension benefits upon retirement. Total remuneration to the executive members of the Board of Directors and Group Executive Board recognized in the income statement including cash, shares and accrued pension benefits amounted to CHF 131.8 million in 2002. Total remuneration to the executive members of the Board of Directors, Group Executive Board and Group Managing Board including accrued pension benefits amounted to CHF 321.4 million in 2001 and CHF 272.3 million in 2000.

The external members of the Board of Directors do not have employment or service contracts with UBS, and thus are not entitled to benefits upon termination of their service on the Board of Directors. Total fees paid to these individuals for their services as external board members amounted to CHF 3.5 million in 2002, CHF 3.3 million in 2001 and CHF 3.3 million in 2000.

The number of long-term stock options and warrants outstanding to the executive members of the Board of Directors and Group Executive Board from equity participation plans was 5,410,172 (equivalent to the same number of shares) and 24,558,529 (equivalent to 1,473,217 UBS shares) at 31 December 2002. The number of long-term stock options and warrants to these two groups plus the Group Managing Board amounted to 8,366,103 (equivalent to the same number of shares) and 60,578,417 (equivalent to 6,002,599 shares) at 31 December 2001. These plans are further explained in Note 32 Equity Participation Plans.

The total number of shares held by members of the Board of Directors and the Group Executive Board was 2,139,371 at 31 December 2002. The total number of shares held by these two groups plus the Group Managing Board was 4,068,918 at 31 December 2001. No member of the Board of Directors, Group Executive Board or Group Managing Board is the beneficial owner of more than 1% of the Group's shares at 31 December 2002 and 31 December 2001.

b) Loans and advances to Board of Directors and senior executives

The outstanding balance of loans to the Board of Directors and the Group Executive Board amounted to CHF 28 million at 31 December 2002. The outstanding balance of loans to these two groups plus the Group Managing Board amounted to CHF 32 million at 31 December 2001. The 2001 amount only included mortgages. Loans and advances are granted with the same terms and conditions that are available to other employees. The terms and conditions are based on those granted to third parties adjusted for reduced credit risk.

Note 33 Related Parties (continued)

c) Loans, advances to and transactions with significant associated companies

CHF million	**31.12.02**	31.12.01
Balance at the beginning of the year	**65**	0
Additions	**10**	65
Reductions	**(35)**	0
Balance at the end of the year	**40**	65

All loans and advances to associated companies are transacted at arm's length. At 31 December 2002 and 2001, there were trading exposures and guarantees to significant associated companies of CHF 136 million and CHF 306 million, respectively. In addition, the Group routinely receives services from associated companies at arm's length terms. For the years ended 31 December 2002 and 31 December 2001, the amount paid to significant associates for these services was CHF 60 million and CHF 98 million, respectively.

Note 35 provides a list of significant associates.

d) Loans, advances to and transactions with private equity investees

CHF million	**31.12.02**	31.12.01
Balance at the beginning of the year	**489**	682
Additions	**328**	65
Reductions	**(479)**	(258)
Balance at the end of the year	**338**	489

At 31 December 2002 and 31 December 2001 there were trading exposures and guarantees or commitments to private equity companies of CHF 73 million and CHF 177 million, respectively. In addition the Group purchased services from private equity companies at arm's length terms for the years ended 31 December 2002 and 31 December 2001 in the amount of CHF 116 million and CHF 196 million, respectively.

e) Other related party transactions

During 2001 and 2002, UBS entered into the following transactions at arm's length with companies whose Chairman and/or CEO is an external member of UBS' Board of Directors or of which an external director is a controlling shareholder.

In 2001 these companies included Unisys (Switzerland), a wholly owned subsidiary of Unisys Corporation (USA) and J Sainsbury plc. (UK). In 2002, in addition to those previously mentioned, related parties included Serono Group and its various subsidiary companies and Bertarelli & Cie (Switzerland).

CHF million	**2002**	2001
Goods sold and services provided by related parties to UBS	**54**	38
Services provided to related parties by UBS (fees received)	**13**	17
Loans granted to related parties by UBS	**140**	0

As part of its sponsorship of Team Alinghi, UBS paid CHF 12 million to AC 2003 SA during 2002. AC 2003 SA, whose controlling shareholder is UBS board member Ernesto Bertarelli, is Team Alinghi's management company.

Note 34 Post-Balance Sheet Events

There have been no material post-balance sheet events which would require disclosure or adjustment to the 31 December 2002 Financial Statements.

Bond issues have decreased by CHF 850 million from the balance sheet date to 11 February 2003.

On 11 February 2003, the Board of Directors reviewed the Financial Statements and authorized them for issue. These Financial Statements will be submitted to the Annual General Meeting of Shareholders to be held on 16 April 2003 for approval.

Note 35 Significant Subsidiaries and Associates

The legal entity group 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 (namely UBS Warburg, UBS PaineWebber, UBS Wealth Management & Business Banking and UBS Asset Management) nor Corporate Center are replicated in their own individual legal entities but rather they generally operate out of the parent bank, UBS AG, through its Swiss and foreign branches.

The parent bank structure allows UBS to capitalize on the advantages offered by the use of one legal platform by all the Business Groups. It provides for the most cost-efficient and flexible structure and facilitates efficient allocation and use of capital, comprehensive risk management and straightforward funding processes.

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

Significant subsidiaries

Company	Jurisdiction of incorporation	Business Group [1]		Share capital in millions	Equity interest accumulated in %
Armand von Ernst & Cie AG	Berne, Switzerland	WB	CHF	5.0	100.0
Aventic AG	Zurich, Switzerland	WB	CHF	30.0	100.0
Banco UBS Warburg SA	Rio de Janeiro, Brazil	WA	BRL	52.9	100.0
Bank Ehinger & Cie AG	Basel, Switzerland	WB	CHF	6.0	100.0
BDL Banco di Lugano	Lugano, Switzerland	WB	CHF	50.0	100.0
BDL Banco di Lugano (Singapore) Ltd	Singapore, Singapore	WB	CHF	22.5	100.0
Brunswick UBS Warburg Ltd	George Town, Cayman Islands	WA	USD	25.0 [2]	50.0
Cantrade Privatbank AG	Zurich, Switzerland	WB	CHF	10.0	100.0
Cantrade Private Bank Switzerland (CI) Limited	St. Helier, Jersey	WB	GBP	0.7	100.0
Crédit Industriel SA	Zurich, Switzerland	WB	CHF	10.0	100.0
EIBA AG	Zurich, Switzerland	WA	CHF	1.4	100.0
Factors AG	Zurich, Switzerland	WB	CHF	5.0	100.0
Ferrier Lullin & Cie SA	Geneva, Switzerland	WB	CHF	30.0	100.0
Fondvest AG	Zurich, Switzerland	AM	CHF	4.3	100.0
GAM Holding AG	Zurich, Switzerland	AM	CHF	200.0	100.0
Global Asset Management Limited, Bermuda	Hamilton, Bermuda	AM	USD	2.0	100.0
IL Immobilien-Leasing AG	Opfikon, Switzerland	WB	CHF	5.0	100.0
Noriba Bank BSC	Manama, Bahrain	WB	USD	10.0	100.0
PaineWebber Capital Inc	Delaware, USA	PW	USD	25.8 [2]	100.0
PT UBS Warburg Indonesia	Jakarta, Indonesia	WA	IDR	11,000.0	85.0
PW Trust Company	New Jersey, USA	PW	USD	4.4 [2]	99.6
SG Warburg & Co International BV	Amsterdam, the Netherlands	WA	GBP	40.5	100.0

Footnotes
1 WB: UBS Wealth Management & Business Banking, AM: UBS Global Asset Management, WA: UBS Warburg, PW: UBS PaineWebber, CC: Corporate Center.
2 Share Capital and Share Premium.

Note 35 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business Group[1]		Share capital in millions	Equity interest accumulated in %
Thesaurus Continentale Effekten-Gesellschaft in Zürich	Zurich, Switzerland	WB	CHF	30.0	100.0
UBS (Bahamas) Ltd	Nassau, Bahamas	WB	USD	4.0	100.0
UBS (France) SA	Paris, France	WB	EUR	10.0	100.0
UBS (Italia) SpA	Milan, Italy	WB	EUR	22.2	100.0
UBS (Luxembourg) SA	Luxembourg, Luxembourg	WB	CHF	150.0	100.0
UBS (Monaco) SA	Monte Carlo, Monaco	WB	EUR	9.2	100.0
UBS (Sydney) Limited	Sydney, Australia	WA	AUD	12.7	100.0
UBS (Trust and Banking) Limited	Tokyo, Japan	AM	JPY	10,900.0	100.0
UBS (USA) Inc	Delaware, USA	WA	USD	315.0	100.0
UBS Americas Inc	Delaware, USA	WA	USD	4,490.8[2]	100.0
UBS Australia Limited	Sydney, Australia	WA	AUD	50.0	100.0
UBS Bank (Canada)	Toronto, Canada	WB	CAD	20.7	100.0
UBS Beteiligungs-GmbH & Co KG	Frankfurt, Germany	WA	EUR	398.8	100.0
UBS Bunting Warburg Inc	Toronto, Canada	WA	CAD	33.3	50.0
UBS Capital (Jersey) Ltd	St. Helier, Jersey	WA	GBP	226.0	100.0
UBS Capital AG	Zurich, Switzerland	WA	CHF	5.0	100.0
UBS Capital Americas Investments II LLC	Delaware, USA	WA	USD	130.0[2]	100.0
UBS Capital Americas Investments III Ltd	George Town, Cayman Islands	WA	USD	61.0[2]	100.0
UBS Capital Asia Pacific Limited	George Town, Cayman Islands	WA	USD	5.0	100.0
UBS Capital BV	Amsterdam, the Netherlands	WA	EUR	104.1[2]	100.0
UBS Capital II LLC	Delaware, USA	WA	USD	2.6[2]	100.0
UBS Capital Latin America LDC	George Town, Cayman Islands	WA	USD	113.0[2]	100.0
UBS Capital LLC	Delaware, USA	WA	USD	378.5[2]	100.0
UBS Capital Partners Limited	London, Great Britain	WA	GBP	6.7	100.0
UBS Capital SpA	Milan, Italy	WA	EUR	25.8	100.0
UBS Card Center AG	Glattbrugg, Switzerland	WB	CHF	40.0	100.0
UBS Employee Benefits Trust Limited	St. Helier, Jersey	CC	CHF	–	100.0
UBS España SA	Madrid, Spain	WB	EUR	85.3	100.0
UBS Fiduciaria SpA	Milan, Italy	WB	EUR	0.2	100.0
UBS Finance (Cayman Islands) Ltd	George Town, Cayman Islands	CC	USD	0.5	100.0
UBS Finance (Curaçao) NV	Willemstad, Netherlands Antilles	CC	USD	0.1	100.0
UBS Finance (Delaware) LLC	Delaware, USA	WA	USD	37.3[2]	100.0
UBS Finanzholding AG	Zurich, Switzerland	CC	CHF	10.0	100.0
UBS Fund Holding (Luxembourg) SA	Luxembourg, Luxembourg	AM	CHF	42.0	100.0
UBS Fund Holding (Switzerland) AG	Basel, Switzerland	AM	CHF	18.0	100.0
UBS Fund Management (Switzerland) AG	Basel, Switzerland	AM	CHF	1.0	100.0
UBS Fund Services (Cayman) Ltd	George Town, Cayman Islands	AM	USD	5.6	100.0
UBS Fund Services (Luxembourg) SA	Luxembourg, Luxembourg	AM	CHF	2.5	100.0
UBS Global Asset Management (Americas) Inc	Delaware, USA	AM	USD	–	100.0
UBS Global Asset Management (Australia) Ltd	Sydney, Australia	AM	AUD	8.0	100.0
UBS Global Asset Management (Canada) Co	Halifax, Canada	AM	CAD	117.0	100.0
UBS Global Asset Management (France) SA	Paris, France	AM	EUR	1.5	100.0
UBS Global Asset Management (Hong Kong) Limited	Hong Kong, China	AM	HKD	25.0	100.0
UBS Global Asset Management (Italia) SIM SpA	Milan, Italy	AM	EUR	2.0	100.0
UBS Global Asset Management (Japan) Ltd	Tokyo, Japan	AM	JPY	2,200.0	100.0
UBS Global Asset Management (New York) Inc	New York, USA	AM	USD	0.5	100.0
UBS Global Asset Management (Singapore) Ltd	Singapore, Singapore	AM	SGD	4.0	100.0
UBS Global Asset Management (Taiwan) Ltd	Taipei, Taiwan	AM	TWD	340.0	84.1
UBS Global Asset Management (US) Inc	Delaware, USA	AM	USD	35.3[2]	100.0

Footnotes

1 WB: UBS Wealth Management & Business Banking, AM: UBS Global Asset Management, WA: UBS Warburg, PW: UBS PaineWebber, CC: Corporate Center.
2 Share Capital and Share Premium.

Note 35 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business Group [1]		Share capital in millions	Equity interest accumulated in %
UBS Global Asset Management Holding Ltd	London, Great Britain	AM	GBP	8.0[2]	100.0
UBS Global Trust Corporation	St. John, Canada	WB	CAD	0.1	100.0
UBS Immoleasing AG	Zurich, Switzerland	WB	CHF	3.0	100.0
UBS International Holdings BV	Amsterdam, the Netherlands	CC	CHF	13.8	100.0
UBS Invest Kapitalanlagegesellschaft mbH	Frankfurt, Germany	AM	EUR	6.4	100.0
UBS Investment Bank Limited	London, Great Britain	WA	GBP	10.0	100.0
UBS Leasing AG	Brugg, Switzerland	WB	CHF	10.0	100.0
UBS Life AG	Zurich, Switzerland	WB	CHF	25.0	100.0
UBS Limited	London, Great Britain	WA	GBP	10.0	100.0
UBS O'Connor LLC	Delaware, USA	AM	USD	1.0	100.0
UBS O'Connor Trading Limited	George Town, Cayman Islands	AM	USD	350.0	100.0
UBS PaineWebber Inc	Delaware, USA	PW	USD	1,707.5[2]	100.0
UBS PaineWebber Incorporated of Puerto Rico	Hato Rey, Puerto Rico	PW	USD	31.6[2]	100.0
UBS PaineWebber Life Insurance Company	California, USA	PW	USD	39.3[2]	100.0
UBS Portfolio LLC	New York, USA	WA	USD	0.1	100.0
UBS Preferred Funding Company LLC I	Delaware, USA	WA	USD	–	100.0
UBS Preferred Funding Company LLC II	Delaware, USA	WA	USD	–	100.0
UBS Preferred Funding Company LLC III	Delaware, USA	WA	USD	–	100.0
UBS Principal Finance LLC	Delaware, USA	WA	USD	0.1	100.0
UBS Private Banking (Belgium) SA	Brussels, Belgium	WB	EUR	7.3	100.0
UBS Private Banking Deutschland AG	Hamburg, Germany	WB	EUR	51.0	100.0
UBS Realty Investors LLC	Massachusetts, USA	AM	USD	–	100.0
UBS Trust (Canada)	Toronto, Canada	WB	CAD	12.5	100.0
UBS Trustees (Bahamas) Ltd	Nassau, Bahamas	WB	USD	2.0	100.0
UBS Trustees (Cayman) Ltd	George Town, Cayman Islands	WB	USD	2.0	100.0
UBS Trustees (Jersey) Ltd	St. Helier, Jersey	WB	GBP	0.7	100.0
UBS Trustees (Singapore) Limited	Singapore, Singapore	WB	SGD	3.3	100.0
UBS UK Holding Limited	London, Great Britain	WA	GBP	5.0	100.0
UBS UK Limited	London, Great Britain	WA	GBP	609.0	100.0
UBS Warburg (France) SA	Paris, France	WA	EUR	22.9	100.0
UBS Warburg (Italia) SpA	Milan, Italy	WA	EUR	1.9	100.0
UBS Warburg (Japan) Limited	George Town, Cayman Islands	WA	JPY	50,000.0	100.0
UBS Warburg (Malaysia) Sdn Bhd	Kuala Lumpur, Malaysia	WA	MYR	0.5	70.0
UBS Warburg (Nederland) BV	Amsterdam, the Netherlands	WA	EUR	10.9	100.0
UBS Warburg AG	Frankfurt, Germany	WA	EUR	155.7	100.0
UBS Warburg Asia Limited	Hong Kong, China	WA	HKD	20.0	100.0
UBS Warburg Australia Corporate Finance Ltd	Sydney, Australia	WA	AUD	–	100.0
UBS Warburg Australia Corporation Pty Limited	Sydney, Australia	WA	AUD	50.4[2]	100.0
UBS Warburg Australia Equities Ltd	Sydney, Australia	WA	AUD	190.0[2]	100.0
UBS Warburg Australia Limited	Sydney, Australia	WA	AUD	571.5[2]	100.0
UBS Warburg Derivatives Limited	Hong Kong, China	WA	HKD	20.0	100.0
UBS Warburg Hong Kong Limited	Hong Kong, China	WA	HKD	30.0	100.0
UBS Warburg International Ltd	London, Great Britain	WA	GBP	18.0	100.0
UBS Warburg Investments Ltd	Sydney, Australia	WA	AUD	0.1	100.0
UBS Warburg LLC	Delaware, USA	WA	USD	948.1	100.0
UBS Warburg Ltd	London, Great Britain	WA	GBP	17.5	100.0
UBS Warburg New Zealand Equities Ltd	Auckland, New Zealand	WA	NZD	7.5	100.0
UBS Warburg Private Clients Ltd	Melbourne, Australia	WA	AUD	53.9	100.0
UBS Warburg Pte Ltd	Singapore, Singapore	WA	SGD	55.0	100.0
UBS Warburg Real Estate Securities Inc	Delaware, USA	WA	USD	0.4	100.0
UBS Warburg Securities (España) SV SA	Madrid, Spain	WA	EUR	15.0	100.0

Footnotes

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2 Share Capital and Share Premium.

Note 35 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business Group [1]		Share capital in millions	Equity interest accumulated in %
UBS Warburg Securities (South Africa) (Pty) Limited	Sandton, South Africa	WA	ZAR	87.1	100.0
UBS Warburg Securities Co Ltd	Bangkok, Thailand	WA	THB	400.0	100.0
UBS Warburg Securities India Private Limited	Mumbai, India	WA	INR	237.8	75.0
UBS Warburg Securities Ltd	London, Great Britain	WA	GBP	140.0	100.0
UBS Warburg Securities Philippines Inc	Makati City, Philippines	WA	PHP	150.0	100.0

Consolidated companies: changes in 2002

Significant new companies
BDL Banco di Lugano (Singapore) Ltd – Singapore, Singapore
GAM Holding AG – Zurich, Switzerland
Noriba Bank BSC – Manama, Bahrain
UBS Fiduciaria SpA – Milan, Italy
UBS Private Banking (Belgium) SA – Brussels, Belgium

Deconsolidated companies

Significant deconsolidated companies	Reason for deconsolidation
Hirslanden Holding AG – Zurich, Switzerland	Sold
HYPOSWISS Schweizerische Hypotheken- und Handelsbank – Zurich, Switzerland	Sold

Significant associates

Company	Industry	Equity interest in %	Share capital in millions
SIS Swiss Financial Services Group AG – Zurich, Switzerland	Financial	32.9	CHF 26
Giubergia UBS Warburg SIM SpA – Milan, Italy	Financial	49.9	EUR 15
Motor Columbus AG – Baden, Switzerland	Electricity	35.6	CHF 253
Telekurs Holding AG – Zurich, Switzerland	Financial	33.3	CHF 45
Volbroker.com Limited – London, Great Britain	Financial	21.0	GBP 18

None of the above investments carry voting rights that are significantly different from the proportion of shares held.

Note 36 Acquisition of Paine Webber Group, Inc.

On 3 November 2000, UBS completed its acquisition of 100% of the outstanding common stock of the Paine Webber Group, Inc. ("PaineWebber"), a full-service broker-dealer and one of the largest securities and commodities firms in the United States servicing both individual and institutional clients. The transaction was accounted for using the purchase method of accounting, making PaineWebber a wholly owned subsidiary of UBS. Results of operations of PaineWebber have been included in the consolidated results beginning on the date of acquisition. Under IFRS, the valuation of shares and options issued was measured on the date of acquisition, 3 November 2000.

Purchase consideration amounted to CHF 22.0 billion (USD 12.5 billion) consisting of shares, options and cash. Total goodwill recorded in connection with the acquisition amounted to CHF 12.8 billion (USD 7.3 billion) at 3 November 2000 and is being amortized using the straight-line method over an estimated useful life of 20 years. At 31 December 2002 and 2001, the net book value of goodwill related to the PaineWebber acquisition amounted to CHF 9.0 billion and CHF 11.6 billion respectively.

Note 37 Currency Translation Rates

The following table shows the principal rates used to translate the financial statements of foreign entities into Swiss francs:

	Spot rate As at		Average rate Year ended		
	31.12.02	31.12.01	**31.12.02**	31.12.01	31.12.00
1 USD	**1.38**	1.67	**1.54**	1.69	1.69
1 EUR	**1.45**	1.48	**1.46**	1.50	1.56
1 GBP	**2.23**	2.43	**2.33**	2.44	2.57
100 JPY	**1.17**	1.27	**1.24**	1.40	1.57

Note 38 Swiss Banking Law Requirements

The consolidated financial statements of UBS are prepared in accordance with International Financial Reporting Standards. Set out below are the deviations which would result if the provisions of the Banking Ordinance and the Guidelines of the Swiss Federal Banking Commission governing financial statement reporting pursuant to Article 23 through Article 27 of the Banking Ordinance were applied in the preparation of the consolidated financial statements of UBS.

1. Treasury shares

Under IFRS, treasury shares are presented in the balance sheet as a deduction from Shareholders' equity and accounted for at weighted average cost. Contracts that require physical settlement or net share settlement in UBS AG shares are classified in Shareholders' equity as Share premium and accounted for at weighted average cost. The difference between the proceeds from sales of treasury shares or contracts that require physical settlement or contracts that require net share settlement and their cost (net of tax) is reported as Share premium. The par value of shares repurchased and cancelled is debited to the issued and paid up share capital for the par value, with the remainder of the cost of the repurchased shares debited to Share premium. No dividends are paid on treasury shares.

Under Swiss law, own shares held for market-making purposes are presented in the balance sheet as Trading portfolio assets. Own shares held for other purposes are classified as Financial investments and a corresponding reserve for own shares is established within Shareholders' equity. All derivative contracts on own shares are reported as Positive or Negative replacement values. Traded own shares and derivatives on own shares are carried at fair value. Gains and losses realized on disposal and unrealized gains and losses from changes in the fair value are recorded as Net trading income. Own shares reported within Financial investments are reported at the lower of cost or market value. Reductions to market value and reversals of such reductions, as well as gains and losses on disposal, are included in Other income. Own shares repurchased for cancellation are reported as financial investments and accounted for at cost. Upon cancellation, the par value of shares repurchased and cancelled is debited against Share capital for the par value, with the remainder of the purchase cost debited against General statutory reserve.

2. Financial investments

Under IFRS, available for sale financial investments are carried at fair value. Changes in the fair value of available for sale financial investments are recorded as increases or decreases to Shareholders' equity until an investment is sold, collected or otherwise disposed of, or until an investment is determined to be impaired. At the time an available for sale investment is determined to be impaired, the cumulative unrealized loss previously recognized in Shareholders' equity is included in net profit or loss for the period. On disposal of an available for sale investment, the difference between the net disposal proceeds and the carrying amount, including any previously recognized unrealized gain or loss arising from a change in fair value reported within Shareholders' equity, is included in net profit or loss for the period.

Under Swiss law financial investments are carried at the lower of cost or market value. Reductions to market value and reversals of such reductions as well as gains and losses on disposal are included in Other income.

3. Cash flow hedges

The Group also uses derivative instruments to hedge against the exposure from varying cash flows receivable and payable. Under IFRS, when hedge accounting is applied for these instruments, the unrealized gain or loss on the effective portion of the derivatives is recorded in Shareholders' equity until the hedged cash flows occur, at which time the accumulated gain or loss is realized and released to income.

Under Swiss law, the unrealized gains or losses on the effective portion of the derivative instruments used to hedge cash flow exposures are deferred on the balance sheet. The deferred amounts are released to income when the hedged cash flows occur.

4. Gains/losses not recognized in the income statement

Gains/losses not recognized in the income statement is a separate line within Shareholders' equity where under IFRS unrealized gains and losses from currency translation, changes in fair value of financial investments available for sale and of derivative instruments designated as cash flow hedges are reported.

Under Swiss law, only foreign currency translation differences are reported in Shareholders' equity. The other two components are reported according to the methods described in captions 2. and 3. above.

5. Extraordinary income and expense

Under IFRS, items of income and expense can only be classified as extraordinary if they are clearly distinct from the ordinary activities and their occurrence is expected to be rare.

Under Swiss law, income and expense related to other accounting periods and/or not directly related to the core business activities of the enterprise (e.g. realized gains or losses on sale of Investments in associated companies or Property and equipment) are recorded as extraordinary income or expense.

The significant differences between IFRS and Swiss banking law are as follows:

Note 38 Swiss Banking Law Requirements (continued)

CHF million	**31.12.02**	31.12.01
Differences in the Balance Sheet		
Treasury shares		
Trading portfolio	**371**	128
Financial investments	**6,623**	3,253
Due to banks	**23**	24
Negative replacement values	**(2)**	0
Other liabilities	**293**	0
Shareholders' equity	**6,680**	3,357
Financial investments		
Financial investments	**(1,314)**	(1,856)
Other liabilities	**(113)**	(215)
Shareholders' equity	**(1,201)**	(1,641)
Cash flow hedges		
Other liabilities	**(256)**	(459)
Shareholders' equity	**256**	459
Differences in the Income Statement		
Treasury shares		
Net trading income	**(70)**	(70)
Other income	**(269)**	(231)
Personnel expenses	**4**	
Tax expenses	**(53)**	(71)
Financial investments		
Other income	**(255)**	(607)
Reclassification of extraordinary income and expense		
Other income	**(350)**	(95)
Extraordinary income	**361**	109
Extraordinary expense	**11**	14

Note 39 Reconciliation of International Financial Reporting Standards (IFRS) to United States Generally Accepted Accounting Principles (US GAAP)

Note 39.1 Valuation and income recognition differences between IFRS and US GAAP

The consolidated financial statements of the Group have been prepared in accordance with IFRS. The principles of IFRS differ in certain respects from United States Generally Accepted Accounting Principles ("US GAAP"). The following is a summary of the relevant significant accounting and valuation differences between IFRS and US GAAP.

a. Purchase accounting (merger of Union Bank of Switzerland and Swiss Bank Corporation)

Under IFRS, the Group accounted for the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation under the uniting of interests method. The balance sheets and income statements of the banks were combined, and no adjustments were made to the carrying values of the assets and liabilities. Under US GAAP, the business combination creating UBS AG is accounted for under the purchase method with Union Bank of Switzerland being considered the acquirer. Under the purchase method, the cost of acquisition is measured at fair value and the acquirer's interests in identifiable tangible assets and liabilities of the acquiree are restated to fair values at the date of acquisition. Any excess consideration paid over the fair value of net tangible assets acquired is allocated, first to identifiable intangible assets based on their fair values, if determinable, with the remainder allocated to goodwill.

Goodwill and intangible assets

For US GAAP purposes, the excess of the consideration paid for Swiss Bank Corporation over the fair value of the net tangible assets received has been recorded as goodwill and was amortized on a straight line basis using a weighted average life of 13 years from 29 June 1998 to 31 December 2001.

Under US GAAP until 31 December 2001, goodwill acquired before 30 June 2001 was capitalized and amortized over its estimated useful life with adjustments for any impairment.

On 1 January 2002, the Group adopted SFAS 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 requires reclassification of intangible assets to goodwill which no longer meet the recognition criteria under the new standard. SFAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized but be tested annually for impairment. Identifiable intangible assets with finite lives will continue to be amortized.

Upon adoption, the amortization charges related to the 1998 business combination of Union Bank of Switzerland and Swiss Bank Corporation ceased to be recorded under US GAAP. For the year ended 31 December 2002, these charges would have been CHF 1,477 million.

In 2002 and 2001, goodwill recorded under US GAAP was reduced by CHF 43 million and CHF 53 million respectively, due to recognition of deferred tax assets of Swiss Bank Corporation which had previously been subject to valuation reserves.

Other purchase accounting adjustments

The restatement of Swiss Bank Corporation's net assets to fair value in 1998 resulted in decreasing net tangible assets by CHF 1,077 million for US GAAP. This amount is being amortized over periods ranging from two years to 20 years.

b. Reversal of IFRS goodwill amortization

The adoption of SFAS 142 "Goodwill and Intangible Assets" resulted in two new reconciling items 1) Intangible assets on the IFRS Balance sheet with a book value of CHF 1.8 billion at 31 December 2001 were reclassified to goodwill for US GAAP. 2) The amortization of IFRS goodwill and the intangible assets reclassified to goodwill for US GAAP (CHF 1,017 million for the year ended 31 December 2002) was reversed for US GAAP.

Had the Group been required to adopt SFAS 142 for its US GAAP Financial Statements in prior years, reported Net profit and Earnings per share would have been as follows:

CHF million, except for per share data For the year ended	31.12.02	31.12.01	31.12.00
Reported Net profit under US GAAP	5,546	3,234	4,437
Add back: SBC purchase accounting goodwill	0	1,657	1,679
Add back: Amortization of intangibles reclassified to goodwill for US GAAP and/or IFRS goodwill	0	886	315
Adjusted net profit under US GAAP	**5,546**	5,777	6,431
Reported basic earnings per share under US GAAP	4.59	2.58	3.70
Add back: SBC purchase accounting goodwill	0.00	1.32	1.40
Add back: Amortization of intangibles reclassified to goodwill for US GAAP and/or IFRS goodwill	0.00	0.71	0.26
Adjusted basic earnings per share under US GAAP	**4.59**	4.61	5.36
Reported diluted earnings per share under US GAAP	4.51	2.46	3.64
Add back: SBC purchase accounting goodwill	0.00	1.30	1.38
Add back: Amortization of intangibles reclassified to goodwill for US GAAP and/or IFRS goodwill	0.00	0.70	0.26
Adjusted diluted earnings per share under US GAAP	**4.51**	4.46	5.28

The table below shows the estimated, aggregated amortization expenses for other intangible assets, which are still subject to an annual amortization, on a US GAAP basis:

CHF million	
Estimated, aggregated amortization expense for:	
2003	116
2004	97
2005	93
2006	80
2007	71
2008 and thereafter	765
Total	**1,222**

c. Restructuring provision

Under IFRS, restructuring provisions are recognized when a legal or constructive obligation has been incurred. In 1997, the Group recognized a CHF 7,000 million restructuring provision to cover personnel, IT, premises and other costs associated with combining and restructuring the merged Group. A further CHF 300 million provision was recognized in 1999, reflecting the impact of increased precision in the estimation of certain leased and owned property costs.

Under US GAAP, the criteria for establishing restructuring provisions were more stringent than under IFRS prior to 2000. For US GAAP, the aggregate CHF 7,300 million restructuring provision was reversed. As a result of the business combination with Swiss Bank Corporation and the decision to combine and streamline certain activities of the banks for the purpose of reducing costs and improving efficiencies, Union Bank of Switzerland recognized a restructuring provision of CHF 1,575 million during 1998 for US GAAP. CHF 759 million of this provision related to estimated costs for restructuring the operations and activities of Swiss Bank Corporation, and that amount was recorded as a liability of the acquired business. The remaining CHF 816 million of estimated costs were charged to restructuring expense during 1998. The US GAAP restructuring provision was increased by CHF 600 million and CHF 130 million in 1999 and 2000, respectively.

During 2001, CHF 112 million restructuring costs were expensed as incurred under US GAAP. These costs were already part of the restructuring provision under IFRS, but were not eligible for recognition under US GAAP until 2001. The restructuring plan was completed and the remaining balance of the US GAAP restructuring provision was used substantially in accordance with previously disclosed plans. At 31 December 2001, the restructuring provision for both IFRS and US GAAP had been fully utilized.

d. Derivative instruments

Derivative instruments held or issued for hedging activities

Prior to 1 January 2001, the Group applied no hedge accounting for derivative instruments under US GAAP. As a result, all derivative instruments were carried on the balance sheet at fair value, with changes in fair value recorded in the Income statement. Under IFRS, the Group accounted for derivative instruments hedging non-trading positions in the Income statement using the accrual or deferral method, which was the same as the accounting methodology applied to the underlying item hedged.

On 1 January 2001, the Group adopted IAS 39 for its IFRS Financial Statements and SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" for its US GAAP Financial Statements. These standards introduce new rules for the accounting and reporting of derivative instruments, including certain derivative instruments embedded in other contracts, and of hedging activities. The adoption of SFAS 133 did not result in any transition items for the Group on 1 January 2001 as the Group previously did not apply hedge accounting under US GAAP for derivative instruments.

With the adoption of IAS 39 on 1 January 2001, an opening adjustment was made in 2001 to reduce Retained earnings by CHF 61 million, consisting of CHF 19 million reflecting the impact of the new hedge accounting rules and CHF 42 million reflecting the impact of remeasuring assets to either amortized cost or fair value as required under the standard. For US GAAP purposes, the first adjustment was not required (because all derivatives were previously recorded in the Income statement) and was reversed, and the second adjustment was recorded in the Income statement.

Under IAS 39, the Group is permitted to hedge interest rate risk based on forecasted cash inflows and outflows on a group basis. For this purpose, the Group accumulates information about financial assets, financial liabilities, and forward commitments which is then used to estimate and aggregate cash flows and to schedule the future periods in which these cash flows are expected to occur. Appropriate derivative instruments are then used to hedge the estimated future cash flows. SFAS 133 does not permit hedge accounting for hedges of future cash flows determined by this methodology. Accordingly, for US GAAP such items continue to be carried at fair value with changes in fair value recognized in Net trading income.

Since 1 January 2001, the Group's derivative hedging relationships have been treated the same under both IFRS and US GAAP, except for hedges of interest rate risk of forecasted cash flows on a group basis as mentioned in the previous paragraph.

In addition, amounts deferred under previous hedging relationships that now do not qualify as hedges under IAS 39 are being amortized against IFRS net profit over the remaining life of the hedging relationship. Such amounts have been reversed for US GAAP as they have never been treated as hedges.

Derivative instruments indexed to UBS shares

US GAAP, like IFRS, generally requires that derivatives indexed to a company's own stock be recorded as an equity instrument if settlement is required in actual shares or the company has the choice to settle the contract by delivery or receipt of its own shares. If, however, the derivative contract requires cash settlement or the counterparty may choose cash settlement, then the derivative must be classified as an asset or liability, with changes in fair value recorded in income.

Asset or liability classification is also required under US GAAP if a company may not have sufficient issuable shares available to settle a contract in its own shares. This is determined by the maximum number of shares a company could be forced to issue to settle a contract. Under IFRS, however, such contracts are recorded in Shareholders' equity.

In 2001 and 2000, the Group had no contracts for which the accounting treatment under US GAAP differed from IFRS, and there was no reconciling item for these derivative instruments. In 2002, however, the Group issued net-share settled put options as part of its share repurchases in 2002. Such contracts are recorded under IFRS in Shareholders' equity and under US GAAP as a liability with changes in fair value reflected in Net income. Such contracts increased US GAAP Net income by CHF 12 million in 2002.

UBS Warburg acts as a liquidity provider to the equity futures markets and as a market maker in UBS shares and derivatives. Trading income of CHF 125 million under IFRS (CHF 137 million under US GAAP) in 2002, CHF 261 million under both IFRS and US GAAP in 2001 and CHF

42 million under both IFRS and US GAAP in 2000 was recorded in the financial statements from trading in cash settled derivative instruments indexed to UBS shares.

Bifurcation of embedded issuer calls out of structured debt instruments

The Group issues certain structured debt instruments that contain an embedded issuer call option. If the embedded derivatives contained in the structured debt are not clearly and closely related to the host debt instrument, IFRS requires that a combined derivative is separated, including the issuer call, and accounted for as a stand alone derivative contract. Under US GAAP, however, certain issuer calls must remain with the host contract and are therefore not separated. The impact of not separating these issuer call features was to reduce US GAAP Net income by CHF 55 million before tax at 31 December 2002.

e. Financial investments (prior to the adoption of IAS 39)

Prior to the adoption of IAS 39 on 1 January 2001, financial investments were classified as either current investments or long-term investments under IFRS. The Group considered current financial investments to be held for sale and carried at lower of cost or market value ("LOCOM"). The Group accounted for long-term financial investments at cost, less any impairments. Under US GAAP, the Group's financial investments are classified as available for sale (debt and marketable equity securities), and are carried at fair value with changes in fair value recorded in Other comprehensive income. Gains and losses are recognized in Net profit in the period sold, and losses are recognized in the period of impairment for IFRS and US GAAP. For the IFRS to US GAAP reconciliation, debt and marketable equity securities were adjusted from LOCOM to fair value and classified as available for sale investments. Unrealized gains or unrealized losses relating to these investments were recorded in Other comprehensive income.

f. Financial investments and private equity

Financial investments available for sale

With the adoption of IAS 39 on 1 January 2001, the accounting for financial investments available for sale generally became the same under IFRS and US GAAP. Three exceptions exist, however: 1) Non-marketable equity financial investments (excluding private equity investments discussed below), which are classified as available for sale and carried at fair value under IFRS, continue to be carried at cost less "other than temporary" impairments under US GAAP. The opening adjustment and subsequent changes in fair value recorded directly in Shareholders' equity on non-marketable equity financial instruments due to the implementation on IAS 39 have been reversed under US GAAP to reflect the difference between the two standards in measuring such investments. 2) Write-downs on impaired assets can be fully or partially reversed under IFRS if the value of the impaired assets increases. Such reversals of impairment write-downs are not allowed under US GAAP. Reversals under IFRS were not significant in 2002 or 2001. 3) Private equity investments, as described below.

Private equity investments

Since the adoption of IAS 39 on 1 January 2001, the Group has accounted for private equity investments as available for sale securities in its primary Financial Statements under IFRS, with changes in fair value recognized in Shareholders' equity. Under US GAAP, these investments continued to be accounted for at cost less "other than temporary" impairments.

On 1 January 2002, the Group adopted the provisions of Statement of Financial Accounting Standards ("SFAS") 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" for its US GAAP Financial Statements. The statement primarily addresses financial accounting and reporting for the impairment or disposal of long-lived assets. In addition, SFAS 144 eliminated the exception to consolidation for subsidiaries for which control is likely to be temporary, as previously contained in Accounting Research Bulletin 51 "Consolidated Financial Statements" as amended by SFAS 94 "Consolidation of All Majority-Owned Subsidiaries". Therefore, on adopting SFAS 144, the Group changed its US GAAP accounting for certain private equity investments by accounting for those investments held within separate investment subsidiaries in accordance with the "AICPA Audit and Accounting Guide, Audits of Investment Companies". The effect of this change for US GAAP reporting purposes is that certain private equity investments are now recorded at fair value, with changes in fair value recognized in US GAAP net profit. The remaining private equity investments continue to be accounted for at cost less impairment.

For the IFRS to US GAAP reconciliation, fair value adjustments on certain private equity investments recorded directly in Shareholders' equity under IFRS had to be shown in the Income statement for US GAAP purposes. At 1 January 2002, the date of adoption of SFAS 144, the cumulative effect of this change in accounting on US GAAP net profit was an increase of CHF 639 million, after tax. For the year ended 31 December 2002, the effect of applying the new standard on the reconciliation of IFRS net profit to US GAAP was to increase US GAAP net profit by an additional CHF 83 million, after tax.

The pro-forma Net profit assuming that the change in accounting principle were applied retroactively for all periods presented, would be as follows:

CHF million, except for per share data For the year ended	31.12.02	31.12.01	31.12.00
Net profit under US GAAP	4,907	2,763	5,523
Basic earnings per share	4.06	2.21	4.61
Diluted earnings per share	3.99	2.09	4.53

See Note 2 for information regarding impairment charges recorded for private equity investments.

g. Retirement benefit plans

Under IFRS, the Group recognizes pension expense based on a specific method of actuarial valuation used to determine the projected plan liabilities for accrued service, including future expected salary increases, and expected return on plan assets. Plan assets are recorded at fair value and are held in a separate trust to satisfy plan liabilities. Under IFRS the recognition of a prepaid asset is subject to certain limitations, and any unrecognized prepaid asset is recorded as pension expense. US GAAP does not allow a limitation on the recognition of prepaid assets recorded in the Balance Sheet.

Under US GAAP, pension expense is based on the same actuarial method of valuation of liabilities and assets as under IFRS. Differences in the amounts of expense and liabilities (or prepaid assets) exist due to different transition date rules, stricter provisions for recognition of a prepaid asset, and the treatment of the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation.

In addition, under US GAAP, if the fair value of plan assets falls below the accumulated benefit obligation (current value of accrued benefits without allowance for future salary increases), an additional minimum liability must be shown in the balance sheet. If an additional minimum liability is recognized, an equal amount will be recognized as an intangible asset up to the amount of any unrecognized past service cost. Any amount not recognized as an intangible asset is reported in Other comprehensive income. The additional minimum liability required under US GAAP before tax amounts to CHF 1,225 million and CHF 306 million as at 31 December 2002 and 2001, respectively. The amount recognized in intangible assets was CHF 2 million and CHF 3 million and the amount recognized in Other comprehensive income was CHF 1,223 million, before taxes and CHF 303 million, before taxes as at 31 December 2002 and 2001 respectively.

h. Other employee benefits

Under IFRS, the Group has recorded expenses and liabilities for post-retirement, medical and life insurance benefits, determined under a methodology similar to that described above under retirement benefit plans.

Under US GAAP, expenses and liabilities for post-retirement medical and life insurance benefits are determined under the same methodology as under IFRS. Differences in the levels of expenses and liabilities have occurred due to different transition date rules and the treatment of the merger of Union Bank of Switzerland and Swiss Bank Corporation under the purchase method.

i. Equity participation plans

IFRS does not specifically address the recognition and measurement requirements for equity participation plans.

US GAAP permits the recognition of compensation cost on the grant date for the estimated fair value of equity instruments issued (SFAS 123) or based on the intrinsic value of equity instruments issued (Accounting Principles Board "APB" No. 25), with the disclosure of the pro-forma effects of equity participation plans on net profit and earnings per share, as if the fair value had been recorded on the grant date. Under IFRS, the Group recognizes only intrinsic values at the grant date with subsequent changes in value not recognized. Under US GAAP, the Group applies the APB No. 25 intrinsic value method, which requires adjustments to intrinsic values subsequent to the grant date in certain circumstances.

The shares and other diversified instruments of the Group's equity participation plans are held in trusts on behalf of the participants. Certain of these trusts are recorded on the Group's balance sheet for US GAAP presentation, the effect of which is to increase assets by CHF 396 million and CHF 1,485 million, liabilities by CHF 429 million and CHF 1,607 million, and decrease Shareholders' equity by CHF 33 million and CHF 122 million (for UBS AG shares held by the trusts which are treated as treasury shares) at 31 December 2002 and 2001 respectively.

For US GAAP, certain of the Group's option awards have been determined to be variable pursuant to APB No. 25, primarily because they may be settled in cash or because the Group has offered to hedge the value of the award. The effect of applying variable accounting to the option awards in the US GAAP reconciliation for the years ended 31 December 2002, 2001 and 2000, is a CHF 51 million decrease in compensation expense, CHF 30 million decrease in compensation expense and CHF 85 million increase in compensation expense, respectively. In addition, certain of the Group's share plans have been deemed variable under APB No. 25 or required a new expense measurement date due to diversification or cash settlement of awards. Additional expense was also recorded related to social tax payments on exercised options recorded directly in Shareholders' equity for IFRS. For US GAAP, the net effect of these transactions is a decrease to compensation expense of CHF 12 million, an increase to compensation expense of CHF 41 million and an increase to compensation expense of CHF 82 million for the years ended 31 December 2002, 2001 and 2000, respectively.

j. Software capitalization

Under IFRS, effective 1 January 2000, certain costs associated with the acquisitions or development of internal use software must be capitalized. Once the software is ready for its intended use, the costs capitalized are amortized to the Income statement over the estimated life of the software. Under US GAAP, the same principle applies, however this standard was effective 1 January 1999. For US GAAP, the costs associated with the acquisition or development of internal use software that met the US GAAP software capitalization criteria in 1999 have been reversed from Operating expenses and amortized over a life of two years from the time that the software is ready for its intended use. From 1 January 2000, the only remaining reconciliation item is the amortization of software capitalized in 1999 for US GAAP purposes. At 31 December 2002, this amount was fully utilized and there is no longer a difference between IFRS and US GAAP.

k. Recently issued US accounting standards

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The new standard is effective for fiscal years beginning after 15 May 2002. UBS will adopt the new standard for its fiscal year 2003, but does not expect that it will have a significant effect on the financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses primarily recognition and measurement of cost for employee termination benefits, contract terminations, closure or consolidation of facilities, relocation, and similar items associated with exit or disposal activities. The new standard requires that a liability for such costs should be recognized at its fair value in the period in which the liability is incurred and not at the time an entity commits to an exit or disposal plan. SFAS No. 146 is applicable prospectively for exit or disposal activities initiated after 31 December 2002. UBS does not expect that the new standard will have a significant impact on its financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-based Compensation – Transition and Disclosure", an amendment of FASB Statement No. 123, which was effective for financial years ending after 15 December 2002. UBS adopted SFAS No. 148 for the year ended 31 December 2002. The new standard requires additional disclosures in respect to pro-forma disclosures had the fair value based method for valuing employee stock option awards been applied. These additional disclosures are included in Note 32. Other than additional disclosures, SFAS No. 148 currently has no impact on the financial statements.

In January 2003, the FASB issued FASB Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities", an interpretation of Accounting Research Bulletin No. 51. FIN 46 applies to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Such entities are called variable interest entities (VIE) under the new interpretation, which requires consolidation of a VIE if the variable interest either absorbs the majority of the expected losses, or receives the majority of the expected gains, or both. FIN 46 applies to all VIEs created before 1 February 2003 no later than the beginning of the first interim or annual reporting period beginning after 15 June 2003. The new interpretation applies immediately to all VIEs created after 31 January 2003. FIN 46 also establishes disclosure requirements for VIEs that an enterprise will consolidate or in which it will have a significant variable interest. These disclosure requirements became effective for financial statements issued after 31 January 2003 and are provided in Note 40.2.

In November 2002, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 02-3, "Issues Involved in the Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management". The consensus precludes mark-to-market accounting for energy trading contracts that are not derivatives pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". UBS has adopted the provisions of EITF Issue 02-3 related to energy trading contracts as at 1 January 2003 for contracts that existed on or before 25 October 2002, the date when this consensus was issued. For contracts entered into after 25 October 2002, the consensus was applied with immediate effect. The effect of adoption was not material either for contracts entered into after or those that existed on 25 October 2002.

Included in EITF Issue 02-3 is the FASB staff's view that an entity should not recognize an unrealized gain or loss at inception of a derivative instrument unless the fair value of that instrument is obtained from a quoted market price in an active market or is otherwise evidenced by comparison to observable market data. Management is in the process of completing the evaluation of the impact of this view on the Group's financial condition and profit. As required, the Group applied this view to transactions entered into after the effective date of 21 November 2002. The impact was not significant. The impact of this issue is dependent upon the level of transactions executed that rely on data not observable in the market. Accordingly, it is not possible to project the impact this matter could have on the Group's 2003 financial statements.

Note 39.2 Reconciliation of IFRS Shareholders' equity and Net profit to US GAAP

CHF million	Note 39.1 Reference	Shareholders' equity 31.12.02	31.12.01	Net profit 31.12.02	31.12.01	31.12.00
Amounts determined in accordance with IFRS		**38,991**	43,530	**3,535**	4,973	7,792
Adjustments in respect of:						
SBC purchase accounting goodwill and other purchase accounting adjustments	a	**15,285**	15,413	**(128)**	(1,614)	(1,669)
Reversal of IFRS goodwill amortization	b	**1,017**	0	**1,017**	0	0
Restructuring provision	c	**0**	0	**0**	(112)	(238)
Derivative instruments	d	**(138)**	(169)	**354**	25	(1,353)
Financial investments (prior to the adoption of IAS 39)	e	**0**	0	**0**	0	28
Financial investments and private equity	f	**(30)**	(709)	**767**	0	0
Retirement benefit plans	g	**621**	1,714	**(156)**	119	59
Other employee benefits	h	**(1)**	(8)	**7**	8	8
Equity participation plans	i	**(164)**	(186)	**63**	(12)	(167)
Software capitalization	j	**0**	60	**(60)**	(169)	(160)
Tax adjustments		**(5)**	(363)	**147**	16	137
Total adjustments		**16,585**	15,752	**2,011**	(1,739)	(3,355)
Amounts determined in accordance with US GAAP		**55,576**	59,282	**5,546**	3,234	4,437

Note 39.3 Earnings per share

Under both IFRS and US GAAP, basic earnings per share ("EPS") is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS includes the determinants of basic EPS and, in addition, gives effect to dilutive potential common shares that were outstanding during the period.

The computations of basic and diluted EPS for the years ended 31 December 2002, 31 December 2001 and 31 December 2000 are presented in the following table.

	31.12.02		31.12.01		31.12.00	
For the year ended	**US GAAP**	**IFRS**	US GAAP	IFRS	US GAAP	IFRS
Net profit available for ordinary shares (CHF million)	**5,546**	**3,535**	3,234	4,973	4,437	7,792
Net profit for diluted EPS (CHF million)	**5,520**	**3,515**	3,135	4,874	4,423	7,778
Weighted-average shares outstanding	**1,208,055,132**	**1,208,586,678**	1,251,180,815	1,266,038,193	1,198,680,193	1,209,087,927
Diluted weighted average shares outstanding	**1,222,862,165**	**1,223,382,942**	1,273,720,560	1,288,577,938	1,215,169,966	1,225,577,700
Basic earnings per share (CHF)	**4.59**	**2.92**	2.58	3.93	3.70	6.44
Diluted earnings per share (CHF)	**4.51**	**2.87**	2.46	3.78	3.64	6.35

Note 39.4 Presentation differences between IFRS and US GAAP

In addition to the differences in valuation and income recognition, other differences, essentially related to presentation, exist between IFRS and US GAAP. Although there is no impact on IFRS and US GAAP reported Shareholders' equity and Net profit due to these differences, it may be useful to understand them to interpret the financial statements presented in accordance with US GAAP. The following is a summary of presentation differences that relate to the basic IFRS financial statements.

1. Settlement date vs. trade date accounting

The Group's transactions from securities activities are recorded under IFRS on the settlement date. This results in recording a forward transaction during the period between the trade date and the settlement date. Forward positions relating to trading activities are revalued to fair value and any unrealized profits and losses are recognized in Net profit.

Under US GAAP, trade date accounting is required for spot purchases and sales of securities. Therefore, all such transactions with a trade date on or before the balance sheet date with a settlement date after the balance sheet date have been recorded at trade date for US GAAP. This has resulted in receivables and payables to broker-dealers and clearing organizations recorded in Other assets and Other liabilities in the US GAAP Balance sheet.

2. Financial investments

Under IFRS, the Group's private equity investments and non-marketable equity financial investments are included in Financial investments. For US GAAP presentation, non-marketable equity financial investments are reclassified to Other assets, and private equity investments are shown separately on the Balance sheet.

3. Securities received as proceeds in a securities for securities lending transaction

When the Group acts as the lender in a securities lending agreement and receives securities as collateral that can be pledged or sold, it recognizes the securities received and a corresponding obligation to return them. These securities are reflected on the US GAAP balance sheet in the line "Securities received as collateral" on the asset side of the balance sheet. The offsetting liability is presented in the line "Obligation to return securities received as collateral".

4. Reverse repurchase, repurchase, securities borrowing and securities lending transactions

The Group enters into certain specific reverse repurchase, repurchase, securities borrowing and securities lending transactions that result in a difference between IFRS and US GAAP. Under IFRS, they are considered borrowing and lending transactions which are not reflected in the balance sheet except to the extent of cash collateral advanced or received. Under US GAAP, however, they are considered purchase and sale transactions due to the fact that the contracts do not meet specific collateral or margining requirements under SFAS 140. Due to the different treatment of these transactions under IFRS and US GAAP, interest income and expense recorded under IFRS must be reclassified to Net trading income or Other income for US GAAP. Additionally under US GAAP, the securities received are recognized on the balance sheet as a spot purchase (Trading portfolio assets) with a corresponding forward sale transaction (Replacement values) and a receivable (Cash collateral on securities borrowed) is reclassified, as applicable. The securities delivered are recognized as a spot sale (Trading portfolio liabilities) with a corresponding forward repurchase transaction (Replacement values) and a liability (Cash collateral on securities lent) is reclassified, as applicable.

Note 39.5 Consolidated Income Statement

The following is a Consolidated Income Statement of the Group, for the years ended 31 December 2002, 31 December 2001 and 31 December 2000, restated to reflect the impact of valuation and income recognition differences and presentation differences between IFRS and US GAAP.

CHF million		**31.12.02**		31.12.01		31.12.00	
For the year ended	Reference	**US GAAP**	**IFRS**	US GAAP	IFRS	US GAAP	IFRS
Operating income							
Interest income	a, d, 4	**39,679**	**39,963**	51,907	52,277	51,565	51,745
Interest expense	a, 4	**(29,334)**	**(29,417)**	(44,096)	(44,236)	(43,584)	(43,615)
Net interest income		**10,345**	**10,546**	7,811	8,041	7,981	8,130
Credit loss expense / (recovery)		**(206)**	**(206)**	(498)	(498)	130	130
Net interest income after credit loss expense / (recovery)		**10,139**	**10,340**	7,313	7,543	8,111	8,260
Net fee and commission income		**18,221**	**18,221**	20,211	20,211	16,703	16,703
Net trading income	d, 4	**6,031**	**5,572**	8,959	8,802	8,597	9,953
Other income [1]	e, f, 4	**96**	**(12)**	534	558	1,514	1,486
Total operating income		**34,487**	**34,121**	37,017	37,114	34,925	36,402
Operating expenses							
Personnel expenses	c, g, h, i	**18,610**	**18,524**	19,713	19,828	17,262	17,163
General and administrative expenses	c	**7,072**	**7,072**	7,631	7,631	6,813	6,765
Depreciation of property and equipment	a, j	**1,613**	**1,521**	1,815	1,614	1,800	1,608
Amortization of goodwill	a, b	**0**	**930**	2,484	1,025	2,018	533
Amortization of other intangible assets	b	**1,443**	**1,530**	298	298	134	134
Restructuring costs	c	**0**	**0**	112	0	191	0
Total operating expenses		**28,738**	**29,577**	32,053	30,396	28,218	26,203
Operating profit / (loss) before tax and minority interests		**5,749**	**4,544**	4,964	6,718	6,707	10,199
Tax expense / (benefit)		**511**	**678**	1,386	1,401	2,183	2,320
Net profit / (loss) before minority interests		**5,238**	**3,866**	3,578	5,317	4,524	7,879
Minority interests		**(331)**	**(331)**	(344)	(344)	(87)	(87)
Change in accounting principle: cumulative effect of adoption of "AICPA Audit and Accounting Guide, Audits of Investment Companies" on certain financial investments, net of tax	f	**639**	**0**	0	0	0	0
Net profit		**5,546**	**3,535**	3,234	4,973	4,437	7,792

[1] CHF 108 million of the difference in Other income between IFRS and US GAAP at 31 December 2002 is due to the Group's adoption of the "AICPA Audit and Accounting Guide, Audits of Investment Companies" on certain private equity investments for its US GAAP financial statements. This amount represents the increase in fair value of these investments during 2002.

Note: References above coincide with the discussions in Note 39.1 and Note 39.4. These references indicate which IFRS to US GAAP differences affect an individual financial statement caption. Certain prior year amounts have been reclassified to conform to the current year's presentation.

Note 39.6 Condensed Consolidated Balance Sheet

The following is a Condensed Consolidated Balance Sheet of the Group, as of 31 December 2002 and 31 December 2001, restated to reflect the impact of valuation and income recognition principles and presentation differences between IFRS and US GAAP.

		31.12.02		31.12.01	
CHF million	Reference	US GAAP	IFRS	US GAAP	IFRS
Assets					
Cash and balances with central banks		4,271	4,271	20,990	20,990
Due from banks	a	32,481	32,468	27,550	27,526
Cash collateral on securities borrowed	4	139,073	139,052	162,566	162,938
Reverse repurchase agreements		294,086	294,086	269,256	269,256
Trading portfolio assets (including assets pledged as collateral of CHF 110,365 million at 31.12.02 and CHF 121,456 million at 31.12.01)	1, 4	441,845	371,436	455,406	397,886
Positive replacement values	1, 4	83,757	82,092	73,474	73,447
Loans	a, d	211,755	211,647	226,747	226,545
Financial investments	f, 2	2,846	8,391	20,676	28,803
Securities received as collateral	3	16,308		10,931	
Accrued income and prepaid expenses	4	6,462	6,453	7,545	7,554
Investments in associates		705	705	697	697
Property and equipment	a, j	8,358	7,869	9,276	8,695
Goodwill	a, b	28,127	11,181	29,255	14,578
Other intangible assets	b, g	1,222	2,515	4,510	4,507
Private equity investments	2	4,328		6,069	
Other assets	d, f, g, h, i, 1, 2	21,314	8,952	36,972	9,875
Total assets		1,296,938	1,181,118	1,361,920	1,253,297
Liabilities					
Due to banks		83,178	83,178	106,531	106,531
Cash collateral on securities lent		36,870	36,870	30,317	30,317
Repurchase agreements		366,858	366,858	368,620	368,620
Trading portfolio liabilities	1, 4	117,721	106,453	119,528	105,798
Obligation to return securities received as collateral	3	16,308		10,931	
Negative replacement values	1, 4	132,354	81,282	116,666	71,443
Due to customers	a, d	306,872	306,876	333,766	333,781
Accrued expenses and deferred income	4	15,330	15,331	17,289	17,289
Debt issued	a, d	129,527	129,411	156,462	156,218
Other liabilities	d, g, h, i, 1	32,815	12,339	38,416	15,658
Total liabilities		1,237,833	1,138,598	1,298,526	1,205,655
Minority interests		3,529	3,529	4,112	4,112
Total shareholders' equity		55,576	38,991	59,282	43,530
Total liabilities, minority interests and shareholders' equity		1,296,938	1,181,118	1,361,920	1,253,297

Note: References above coincide with the discussions in Note 39.1 and Note 39.4. These references indicate which IFRS to US GAAP differences affect an individual financial statement caption. Amounts have been adjusted to reflect the treatment of reverse repurchase, repurchase, securities borrowing and securities lending transactions on a consistent basis. See Note 39.4.4 for details.

Note 39.7 Comprehensive Income

Comprehensive income under US GAAP is defined as the change in Shareholders' equity excluding transactions with shareholders. Comprehensive income has two major components: Net profit, as reported in the income statement, and Other comprehensive income. Other comprehensive income includes such items as foreign currency translation, unrealized gains/losses on available for sale securities, unrealized gains/losses on changes in fair value of derivative instruments designated as cash flow hedges and additional minimum pension liability. The components and accumulated other comprehensive income amounts on a US GAAP basis for the years ended 31 December 2002, 31 December 2001 and 31 December 2000 are as follows:

CHF million	Foreign currency translation	Unrealized gains / (losses) on available for sale securities	Unrealized gains / (losses) on cash flow hedges	Additional minimum pension liability	Accumulated other comprehensive income / (loss)	Comprehensive income / (loss)
Balance at 1 January 2000	**(442)**	**16**			**(426)**	
Net profit						4,437
Other comprehensive income:						
Foreign currency translation	(245)				(245)	
Net unrealized gains on available for sale investments arising during the year, net of CHF 152 million tax		456			456	
Reclassification adjustment for gains on available for sale investments realized in net profit, net of CHF 40 million tax		(121)			(121)	
Other comprehensive income / (loss)						90
Comprehensive income						4,527
Balance at 31 December 2000	**(687)**	**351**			**(336)**	
Net profit						3,234
Other comprehensive income:						
Foreign currency translation	(82)				(82)	
Net unrealized gains on available for sale investments arising during the year, net of CHF 27 million tax		109			109	
Reclassification adjustment for gains on available for sale investments realized in net profit, net of CHF 26 million tax		(104)			(104)	
Net unrealized gains on cash flow hedges arising during the year, net of CHF 1 million tax			4		4	
Reclassification adjustment for losses on cash flow hedges realized in net profit, net of CHF 1 million tax			3		3	
Additional minimum pension liability, net of CHF 108 million tax				(195)	(195)	
Other comprehensive income / (loss)						(265)
Comprehensive income						2,969
Balance at 31 December 2001	**(769)**	**356**	**7**	**(195)**	**(601)**	
Net profit						5,546
Other comprehensive income:						
Foreign currency translation	(80)				(80)	
Net unrealized gains on available for sale investments arising during the year, net of CHF 34 million tax		109			109	
Impairment charges reclassified to the income statement, net of CHF 26 million tax		95			95	
Reclassification adjustment for gains on available for sale investments realized in net profit, net of CHF 102 million tax		(368)			(368)	
Net unrealized losses on cash flow hedges arising during the year, net of CHF 3 million tax			(1)		(1)	
Reclassification adjustment for gains on cash flow hedges realized in net profit, net of CHF 0 million tax			(8)		(8)	
Additional minimum pension liability, net of CHF 93 million tax				(827)	(827)	
Other comprehensive income / (loss)						(1,080)
Comprehensive income						4,466
Balance at 31 December 2002	**(849)**	**192**	**(2)**	**(1,022)**	**(1,681)**	

Note 40 Additional Disclosures Required under US GAAP and SEC Rules

Note 40.1 Sales of financial assets in securitizations

During the years ended 31 December 2002 and 2001, the Group securitized (i. e., transformed owned financial assets into securities through sales transactions) residential mortgage loans and securities, commercial mortgage loans and other financial assets, acting as lead or co-manager. The Group's continuing involvement in these transactions was primarily limited to the temporary retention of various security interests. Proceeds received at the time of securitization from residential mortgage, commercial mortgage and other financial asset securitizations were CHF 143.5 billion, CHF 4.0 billion and CHF 5.8 billion, respectively in 2002 and CHF 67.6 billion, CHF 4.1 billion and CHF 2.8 billion, respectively in 2001. Related pre-tax gains (losses) recognized, including unrealized gains (losses) on retained interests, at the time of securitization were CHF 523.9 million, CHF 206.4 million and CHF (4.5) million, respectively in 2002 and CHF 112.9 million, CHF 129.7 million and CHF 20.6 million, respectively in 2001. A significant portion of the securitization activities conducted in 2002 and 2001 were derived from businesses acquired in the purchase of PaineWebber Group Inc. in November 2000. During 2000, the Group did not engage in significant securitization transactions involving the transfer of its financial assets.

At 31 December 2002 and 2001, the Group retained CHF 5.2 billion and CHF 6.8 billion, respectively in agency residential mortgage securities, backed by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). The fair value of retained interests in residential mortgage securities is generally determined using observable market prices. Retained interests in other residential mortgage, commercial mortgage and other securities were not material at 31 December 2002 and 2001.

Note 40.2 Variable interest entities

FASB interpretation (FIN) No. 46, Consolidation of Variable Interest Entities, was issued on 17 January 2003 and provides guidance for determining whether or not such entities are subject to consolidation. FIN 46 requires that control over a special purpose entity be first assessed based on voting interests, and only if voting interests do not exist or differ significantly from economic interests, the assessment of control is based on variable interests. Such entities are referred to as Variable Interest Entities. ("VIE's").

Variable interests are contractual, ownership, or other pecuniary interests in an entity that vary with changes in that entity's net asset value, including fee payments to decision makers and to providers of guarantees (including writers of put options and other instruments with similar results) as well as the interests of related parties (including management, employees, affiliates and agents).

FIN 46 is effective after 31 January 2003 for all newly acquired or created interests in VIE's and for periods beginning after 15 June 2003 for all interests in VIE's existing and owned prior to 1 February 2003. The table below includes information for all entities where it is reasonably possible that UBS holds a significant interest which will be characterized as a VIE.

Note 40.2 Variable interest entities (continued)

(in CHF million) SPE category	Total assets	Notional amount of derivatives	*Description of primary assets*	Maximum loss exposure
Trust vehicles for awards to UBS employees	4,624.6	37,717.0	UBS shares and derivatives thereon, alternative investments	4,982.2[1]
Private equity investments	784.6	0	Private equity investments	318.4
Hedge fund products including direct investment funds and funds of funds	4,970.6	8,665.0	Bonds, equities, derivatives and alternative investments	1,643.6
Passive intermediary to a derivative transaction[2]	2,131.1	37,248.2	Cash / corporate securities	876.9
Dispersion of risk in a pool of investments	2,689.1	8,125.6	Debt securities, loan receivables and credit linked notes	333.8
Other credit protection vehicles	1,639.0	2,922.5	Cash, debt securities, asset-backed securities and credit default swaps	528.9
Other miscellaneous structures	205.3	205.3	Corporate debt and equities	194.8
Total 31.12.2002	**17,044.3**	**94,883.6**		**8,878.6**

[1] In connection with certain leveraged investment opportunities available to key employees, UBS has committed to provide up to CHF 440.8 million in loans to employee investment partnerships. At 31 December 2002, a total of CHF 35.5 million in loans had actually been drawn down. Repayment of these loans is senior to the employees' investment in the partnerships. The remaining unfunded portion of these commitments is also included in Note 25. In addition, if employees default on their future investment commitments, the Group is obliged to assume the remaining unfunded portion which amounted to CHF 137.7 million at 31 December 2002. In the event that all the investments made by these partnerships became worthless, UBS could be exposed to the loss of the entire committed amount of CHF 578.5 million which is included in the CHF 4,982.2 million in the table above. [2] The maximum loss exposure relating to SPE's which function as a "Passive intermediary to a derivative transaction" is calculated as the discounted value of the Group's gross contractual swap payment obligations pursuant to the underlying derivative contracts. In calculating the maximum loss, the Group has not included the effect of positive or negative replacement values which are already reflected for the Group in total on the Balance sheet and further discussed in Note 23.

The table above includes information for consolidated and non-consolidated special purpose entities. Certain entities subject to the above disclosure have been consolidated in the Group's Financial Statements under IFRS and US GAAP due to the Group's significant economic interest. However, in many special purpose entities UBS has a less than significant variable interest, or control is determined based on voting interest. These entities are not included in the table.

In addition, the "maximum exposure to loss" presented in the table represents worst-case scenarios and does not consider the offsetting effects of hedges. It is the Group's practice to hedge interest rate, credit and other market risk exposures. See Note 29 for a further discussion of the Group's risk mitigation strategies.

Some of the special purpose entities in the table above function as passive intermediaries to derivatives transactions and are generally established to facilitate the transfer of credit risk on portfolios to investors. The relevant size of such entities is measured by the "notional amount" of the derivatives' underlying referenced assets; i.e., the size of the portfolio for which credit risk has been transferred. These notional amounts are also included in Note 23, Derivative Instruments.

Note 40.3 Supplemental Guarantor Information

Guarantee of PaineWebber securities
Following the acquisition of Paine Webber Group Inc., UBS AG made a full and unconditional guarantee of the senior and subordinated notes and trust preferred securities ("Debt Securities") of PaineWebber. Prior to the acquisition, PaineWebber was an SEC Registrant. Upon the acquisition, PaineWebber was merged into UBS Americas Inc., a wholly owned subsidiary of UBS. Under the guarantee, if UBS Americas Inc. fails to make any timely payment under the Debt Securities agreements, the holders of the Debt Securities or the Debt Securities trustee may demand payment from UBS without first proceeding against UBS Americas Inc. UBS's obligations under the subordinated note guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. At 31 December 2002, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,129 billion.

The information presented in this note is prepared in accordance with IFRS and should be read in conjunction with the consolidated financial statements of the Group of which this information is a part. At the bottom of each column, Net profit and Shareholders' equity has been reconciled to US GAAP. See Note 39 for a detailed reconciliation of the IFRS financial statements to US GAAP for the Group on a consolidated basis.

Effective 1 January 2002, the ownership of all major US subsidiaries of UBS AG was transferred to UBS Americas Inc. through a capital contribution. As a result, the current disclosure note is not comparable with those presented in previous periods.

Supplemental Guarantor Consolidating Income Statement

CHF million For the year ended 31 December 2002	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating Entries	UBS Group
Operating income					
Interest income	25,253	16,693	4,520	(6,503)	39,963
Interest expense	18,187	14,273	3,460	(6,503)	29,417
Net interest income	7,066	2,420	1,060	0	10,546
Credit loss expense	(134)	(15)	(57)	0	(206)
Net interest income after credit loss expense	6,932	2,405	1,003	0	10,340
Net fee and commission income	6,841	7,325	4,055	0	18,221
Net trading income	4,420	773	379	0	5,572
Income from subsidiaries	(1,429)	0	0	1,429	0
Other income	(131)	(26)	145	0	(12)
Total operating income	16,633	10,477	5,582	1,429	34,121
Operating expenses					
Personnel expenses	8,370	7,531	2,623	0	18,524
General and administrative expenses	2,627	2,003	2,443	0	7,073
Depreciation of property and equipment	1,062	204	255	0	1,521
Amortization of goodwill and other intangible assets	144	2,211	104	0	2,459
Total operating expenses	12,203	11,949	5,425	0	29,577
Operating profit / (loss) before tax and minority interests	4,430	(1,472)	157	1,429	4,544
Tax expense / (benefit)	895	(460)	243	0	678
Net profit / (loss) before minority interests	3,535	(1,012)	(86)	1,429	3,866
Minority interests	0	0	(331)	0	(331)
Net profit / (loss)	3,535	(1,012)	(417)	1,429	3,535
Net profit / (loss) US GAAP[2]	5,214	(65)	397	0	5,546

[1] UBS AG Parent Bank prepares its financial statements in accordance with Swiss Banking Law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. [2] Refer to Note 39 for a description of the differences between IFRS and US GAAP.

Supplemental Guarantor Consolidating Balance Sheet

CHF million For the year ended 31 December 2002	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating Entries	UBS Group
Assets					
Cash and balances with central banks	3,609	7	655	0	4,271
Due from banks	65,992	14,205	82,384	(130,113)	32,468
Cash collateral on securities borrowed	32,248	139,424	1,056	(33,676)	139,052
Reverse repurchase agreements	197,168	150,717	40,725	(94,524)	294,086
Trading portfolio assets	197,184	148,430	25,823	0	371,437
Positive replacement values	82,087	3,249	17,168	(20,413)	82,091
Loans	252,625	25,904	14,796	(81,678)	211,647
Financial investments	1,613	1,684	5,094	0	8,391
Accrued income and prepaid expenses	2,343	3,143	1,458	(491)	6,453
Investments in associates	9,730	20	81	(9,126)	705
Property and equipment	6,144	731	994	0	7,869
Goodwill and other intangible assets	128	12,946	622	0	13,696
Other assets	3,989	4,009	3,603	(2,649)	8,952
Total assets	854,860	504,469	194,459	(372,670)	1,181,118
Liabilities					
Due to banks	85,634	89,815	37,842	(130,113)	83,178
Cash collateral on securities lent	35,800	32,625	2,121	(33,676)	36,870
Repurchase agreements	136,797	295,885	28,700	(94,524)	366,858
Trading portfolio liabilities	56,105	43,784	6,564	0	106,453
Negative replacement values	89,135	3,524	9,036	(20,413)	81,282
Due to customers	339,787	19,957	28,810	(81,678)	306,876
Accrued expenses and deferred income	7,779	6,580	1,463	(491)	15,331
Debt issued	58,704	7,111	63,596	0	129,411
Other liabilities	6,933	2,604	5,451	(2,649)	12,339
Total liabilities	816,674	501,885	183,583	(363,544)	1,138,598
Minority interests	0	55	3,474	0	3,529
Total shareholders' equity	38,186	2,529	7,402	(9,126)	38,991
Total liabilities, minority interests and shareholders' equity	854,860	504,469	194,459	(372,670)	1,181,118
Total shareholders' equity – US GAAP[2]	44,852	3,176	7,548	0	55,576

[1] UBS AG Parent Bank prepares its financial statements in accordance with Swiss Banking Law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. [2] Refer to Note 39 for a description of the differences between IFRS and US GAAP.

Supplemental Guarantor Consolidating Cash Flow Statement

CHF million For the year ended 31 December 2002	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	8,422	(927)	(9,859)	(2,364)
Cash flow from / (used in) investing activities				
Investments in subsidiaries and associates	(23)	(16)	(21)	(60)
Disposal of subsidiaries and associates	984	0	0	984
Purchase of property and equipment	(1,019)	(189)	(555)	(1,763)
Disposal of property and equipment	22	28	17	67
Net (investment in)/divestment of financial investments	931	307	915	2,153
Net cash flow from / (used in) investing activities	895	130	356	1,381
Cash flow from / (used in) investing activities				
Net money market paper issued/(repaid)	(30,635)	471	3,958	(26,206)
Net movements in treasury shares and own equity derivative activity	(5,605)	0	0	(5,605)
Capital issuance	6	0	0	6
Capital repayment by par value reduction	(2,509)	0	0	(2,509)
Issuance of long-term debt	8,414	915	7,803	17,132
Repayment of long-term debt	(11,099)	(2,780)	(1,032)	(14,911)
Increase in minority interests	0	0	0	0
Dividend payments to / and purchase from minority interests	0	0	(377)	(377)
Net activity in investments in subsidiaries	2,775	(161)	(2,614)	0
Net cash flow from / (used in) financing activities	(38,653)	(1,555)	7,738	(32,470)
Effects of exchange rate differences	(2,608)	1,919	227	(462)
Net increase / (decrease) in cash equivalents	(31,944)	(433)	(1,538)	(33,915)
Cash and cash equivalents, beginning of the year	89,856	15,552	10,851	116,259
Cash and cash equivalents, end of the year	57,912	15,119	9,313	82,344
Cash and cash equivalents comprise:				
Cash and balances with central banks	3,609	7	655	4,271
Money market paper[2]	33,509	9,615	3,059	46,183
Due from banks maturing in less than three months	20,794	5,497	5,599	31,890
Total	57,912	15,119	9,313	82,344

[1] UBS AG Parent Bank prepares its Financial Statements in accordance with Swiss Banking Law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. [2] Money market paper is included in the Balance sheet under Trading portfolio assets and Financial investments. CHF 10,475 million was pledged at 31 December 2002.

Guarantee of other securities

In October 2000, UBS AG, acting through a wholly owned subsidiary, issued USD 1.5 billion (CHF 2.6 billion at issuance) 8.622% UBS Trust Preferred securities. In June 2001, UBS issued an additional USD 800 million (CHF 1.3 billion at issuance) of such securities (USD 300 million at 7.25% and USD 500 million at 7.247%). UBS AG has fully and unconditionally guaranteed these securities. UBS's obligations under the trust preferred securities guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. At 31 December 2002, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,129 billion.

ERNST & YOUNG

■ Ernst & Young Ltd
Financial Services
Aeschengraben 9
P.O. Box 2149
CH-4002 Basel

■ Phone +41 58 286 86 86
Fax +41 58 286 86 00
www.ey.com/ch

Report of the Group Auditors

to the General Meeting of

UBS AG, ZURICH AND BASEL

Mr. Chairman,
Ladies and Gentlemen,

We have audited the accompanying Group balance sheets of UBS AG as of 31 December 2002 and 2001, and the related Group statements of income, cash flows and changes in equity for each of the three years in the period ended 31 December 2002, and notes thereto. These financial statements are the responsibility of the Company's management and the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audits. We confirm that we meet the legal requirements in Switzerland concerning professional qualification and independence.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, as well as those promulgated by the profession in Switzerland. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the Group financial statements referred to above present fairly, in all material respects, the consolidated financial position of UBS AG as of 31 December 2002 and 2001, and the consolidated results of operations and cash flows for each of the three years in the period ended 31 December 2002, in conformity with International Financial Reporting Standards ("IFRS"), and they comply with Swiss Law.

In accordance with Swiss Law, we recommend that the Group financial statements submitted to you be approved.

IFRS vary in certain significant respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States of America would have affected shareholders' equity as of 31 December 2002 and 2001 and the results of operations for each of the three years in the period ended 31 December 2002 to the extent summarized in Note 39 of the notes to the financial statements.

Basel, 11 February 2003

Ernst & Young Ltd

Roger K. Perkin
Chartered Accountant
in charge of the audit

Peter Heckendorn
lic. oec.
in charge of the audit

Enclosures

UBS AG (Parent Bank)

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Parent Bank Review

Income Statement

The Parent Bank UBS AG net profit increased CHF 1,179 million from CHF 4,655 million to CHF 5,834 million. Income from investments in associates increased to CHF 3,417 million from CHF 1,532 million in 2001 mainly due to higher distribution received. Sundry expense from ordinary activities was CHF 381 million, up from CHF 139 million in 2001. This was mainly due to higher net writedown of financial investments. Depreciation and write-offs were CHF 3,025 million, up from CHF 1,650 million in 2001 mainly caused by higher writedown on investments in associated companies. Extraordinary income contains CHF 260 million (2001: CHF 87 million) from the sale of subsidiaries.

Balance Sheet

Total assets increased by CHF 48 billion to CHF 1,064 billion by 31 December 2002. This movement is mostly impacted by increased trading-related assets where mainly trading balances in securities and positive replacement values have increased. Liquid assets have significantly decreased due to reduction of deposits with the Bank of Japan.

Financial Statements

Income Statement

CHF million For the year ended	31.12.02	31.12.01	% change from 31.12.01
Interest and discount income	20,059	29,967	(33)
Interest and dividend income from trading portfolio	7,074	8,089	(13)
Interest and dividend income from financial investments	23	185	(88)
Interest expense	(20,125)	(31,444)	(36)
Net interest income	7,031	6,797	3
Credit-related fees and commissions	252	291	(13)
Fee and commission income from securities and investment business	7,249	8,232	(12)
Other fee and commission income	515	524	(2)
Fee and commission expense	(1,167)	(1,176)	(1)
Net fee and commission income	6,849	7,871	(13)
Net trading income	4,634	5,015	(8)
Net income from disposal of financial investments	125	15	733
Income from investments in associated companies	3,417	1,532	123
Income from real estate holdings	50	54	(7)
Sundry income from ordinary activities	1,908	1,183	61
Sundry ordinary expenses	(381)	(139)	174
Other income from ordinary activities	5,119	2,645	94
Operating income	23,633	22,328	6
Personnel expenses	8,916	9,443	(6)
General and administrative expenses	4,379	4,869	(10)
Operating expenses	13,295	14,312	(7)
Operating profit	10,338	8,016	29
Depreciation and write-offs on investments in associated companies and fixed assets	3,025	1,650	83
Allowances, provisions and losses	1,053	1,140	(8)
Profit before extraordinary items and taxes	6,260	5,226	20
Extraordinary income	265	95	179
Extraordinary expenses	7	7	0
Tax expense / (benefit)	684	659	4
Profit for the period	5,834	4,655	25

Balance Sheet

CHF million	**31.12.02**	31.12.01	% change from 31.12.01
Assets			
Liquid assets	**3,609**	20,215	(82)
Money market paper	**33,671**	54,384	(38)
Due from banks	**265,106**	252,226	5
Due from customers	**165,938**	173,690	(4)
Mortgage loans	**117,677**	117,706	0
Trading balances in securities and precious metals	**199,546**	185,306	8
Financial investments	**8,377**	17,253	(51)
Investments in associated companies	**10,275**	11,331	(9)
Tangible fixed assets	**4,633**	5,624	(18)
Accrued income and prepaid expenses	**2,342**	3,231	(28)
Positive replacement values	**249,064**	171,798	45
Other assets	**3,734**	3,725	0
Total assets	**1,063,972**	1,016,489	5
Total subordinated assets [1]	***4,717***	*4,219*	*12*
Total amounts receivable from Group companies	***218,915***	*213,954*	*2*
Liabilities			
Money market paper issued	**22,131**	52,604	(58)
Due to banks	**303,023**	303,036	0
Due to customers on savings and deposit accounts	**76,687**	67,664	13
Other amounts due to customers	**274,431**	288,684	(5)
Medium-term note issues	**4,220**	5,213	(19)
Bond issues and loans from central mortgage institutions	**67,759**	65,471	3
Accruals and deferred income	**7,846**	8,707	(10)
Negative replacement values	**256,278**	172,469	49
Other liabilities	**3,281**	5,795	(43)
Value adjustments and provisions	**4,177**	3,959	6
Share capital	**1,005**	3,589	(72)
General statutory reserve	**12,392**	14,507	(15)
Reserve for own shares	**6,623**	3,253	104
Other reserves	**18,285**	16,883	8
Profit brought forward			
Profit for the period	**5,834**	4,655	25
Total liabilities	**1,063,972**	1,016,489	5
Total subordinated liabilities	***13,315***	*16,444*	*(19)*
Total amounts payable to Group companies	***142,139***	*126,182*	*13*

[1] The subordinated assets for 2001 have been restated to include the subordinated traded assets of CHF 2,325 million.

Statement of Appropriation of Retained Earnings

CHF million	
The Board of Directors proposes to the Annual General Meeting the following appropriation:	
Profit for the financial year 2002 as per the Parent Bank's Income Statement	**5,834**
Appropriation to general statutory reserve	**232**
Appropriation to other reserves	**3,237**
Proposed dividends	**2,365**
Total appropriation	**5,834**

Dividend Distribution

The Board of Directors will recommend to the Annual General Meeting on 16 April 2003 that UBS should pay a dividend of CHF 2.00 per share of CHF 0.80 par value. If the dividend is approved, the payment of CHF 2.00 per share, after deduction of 35% Swiss withholding tax would be made on 23 April 2003 for shareholders who hold UBS shares on 16 April 2003.

Notes to the Financial Statements

Accounting and Valuation Principles

The Parent Bank's accounting and valuation policies are in compliance with Swiss banking law. The accounting and valuation policies are principally the same as for the Group Financial Statements outlined in Note 1: Summary of Significant Accounting Policies. Major differences between the Swiss banking law requirements and International Financial Reporting Standards are described in Note 38 to the Group Financial Statements.

In addition, the following principles are applied for the Parent Bank:

Treasury shares

Treasury shares is the term used to describe when an enterprise holds its own equity instruments. Under IFRS, treasury shares are presented in the balance sheet as a deduction from equity. No gain or loss is recognized in the income statement on the sale, issuance, acquisition, or cancellation of those shares. Consideration received or paid is presented in the financial statement as a change in equity.

Under Swiss law, treasury shares are classified in the balance sheet as trading balances or as financial assets, short positions are included in Due to banks. Realized gains and losses on the sale, issuance or acquisition of treasury shares, and unrealized gains or losses from remeasurement of treasury shares in the trading portfolio to market value are included in the income statement. Treasury shares included in Financial investments are carried at the lower of cost or market value.

Investments in associated companies

Investments in associated companies are equity interests which are held for the purpose of the Parent Bank's business activities or for strategic reasons. They are carried at cost less valuation reserves, if needed.

Property and equipment

Bank buildings and other real estate are carried at cost less accumulated depreciation. Depreciation of computer and telecommunication equipment, other office equipment, fixtures and fittings is recognized on a straight-line basis over the estimated useful lives of the related assets. The useful lives of Property and equipment are summarized in Note 1, Significant Accounting Policies, of the Group Financial Statements.

Extraordinary income and expenses

Certain items of income and expense appear as extraordinary within the Parent Bank Financial Statements, whereas in the Group Financial Statements they are considered to be operating income or expenses and appear within the appropriate income or expense category. These items are separately identified below.

Additional Income Statement Information

Net Trading Income

CHF million For the year ended	**31.12.02**	31.12.01	% change from 31.12.01
Equities	**2,208**	2,435	(9)
Fixed income [1]	**565**	829	(32)
Foreign exchange and other	**1,861**	1,751	6
Total	**4,634**	5,015	(8)

[1] Includes commodities trading income.

Extraordinary Income and Expenses

Extraordinary income contains CHF 260 million (2001: CHF 87 million) from the sale of subsidiaries and CHF 5 million (2001: CHF 8 million) from other disposals. Extraordinary expenses consist of immaterial items.

Additional Balance Sheet Information

Value Adjustments and Provisions

CHF million	Balance at 31.12.01	Provisions applied in accordance with their specified purpose	Recoveries, doubtful interest, currency translation differences	New provisions charged to income	**Balance at 31.12.02**
Default risks (credit and country risk)	8,032	(2,451)	(310)	135	**5,406**
Trading portfolio risks	2,133		(285)	511	**2,359**
Litigation risks	528	(235)	(39)	191	**445**
Operational risks	1,264	(630)	(90)	893	**1,437**
Capital and income taxes	901	(394)	6	766	**1,279**
Total allowance for general credit losses and other provisions	**12,858**	**(3,710)**	**(718)**	**2,496**	**10,926**
Allowances deducted from assets	8,899				**6,749**
Total provisions as per balance sheet	**3,959**				**4,177**

Statement of Shareholders' Equity

CHF million	Share capital	General statutory reserves: Share premium	General statutory reserves: Retained earnings	Reserves for own shares	Other reserves	**Total share-holders' equity (before distribution of profit)**
As at 31.12.00 and 1.1.01	**4,444**	**17,370**	**677**	**4,007**	**16,274**	**42,772**
Par value reduction	(683)				20	**(663)**
Cancellation of own shares	(184)	(3,815)				**(3,999)**
Capital increase	12	110				**122**
Increase in reserves			165		(165)	**0**
Profit for the period					4,655	**4,655**
Changes in reserves for own shares				(754)	754	**0**
As at 31.12.01 and 1.1.02	**3,589**	**13,665**	**842**	**3,253**	**21,538**	**42,887**
Par value reduction	(2,509)				117	**(2,392)**
Cancellation of own shares	(81)	(2,209)				**(2,290)**
Capital increase	6	94				**100**
Increase in reserves						**0**
Profit for the period					5,834	**5,834**
Changes in reserves for own shares				3,370	(3,370)	**0**
As at 31.12.02	**1,005**	**11,550**	**842**	**6,623**	**24,119**	**44,139**

Share Capital

	Par value		Ranking for dividends	
As at 31 December 2002	No. of shares	Capital in CHF	No. of shares	Capital in CHF
Issued and paid up	1,256,297,678	**1,005,038,142**	1,182,262,598	**945,810,078**
Conditional share capital	9,590,918	**7,672,734**	0	**0**

Off-Balance Sheet and Other Information

Assets Pledged or Assigned as Security for Own Obligations, Assets Subject to Reservation of Title

	31.12.02		31.12.01		Change in %	
CHF million	**Book value**	**Effective liability**	Book value	Effective liability	Book value	Effective liability
Money market paper	**10,475**		29,893		(65)	
Mortgage loans	**808**	**506**	1,239	813	(35)	(38)
Securities	**2,495**		5,224		(52)	
Total	**13,778**	**506**	36,356	813	(62)	(38)

Assets are pledged as collateral for securities borrowing and repo transactions, for collateralized credit lines with central banks, loans from mortgage institutions and security deposits relating to stock exchange membership.

Fiduciary Transactions

CHF million	**31.12.02**	31.12.01	% change from 31.12.01
Deposits			
with other banks	**28,865**	38,978	(26)
with Group banks	**351**	532	(34)
Loans and other financial transactions	**713**	1,042	(32)
Total	**29,929**	40,552	(26)

Due to UBS Pension Plans, Loans to Corporate Bodies / Related Parties

CHF million	**31.12.02**	31.12.01	% change from 31.12.01
Due to UBS pension plans and			
UBS debt instruments held by pension plans	**814**	476	71
Securities borrowed from pension plans	**2,645**	824	221
Loans to directors, senior executives and auditors [1]	**28**	32	(13)

[1] Loans to directors, senior executives and auditors are loans to members of the Board of Directors, the Group Executive Board and the Group's official auditors under Swiss company law. This also includes loans to companies which are controlled by these natural or legal persons. There are no loans to the auditors.

ERNST & YOUNG

Ernst & Young Ltd
Financial Services
Aeschengraben 9
P.O. Box 2149
CH-4002 Basel

Phone +41 58 286 86 86
Fax +41 58 286 86 00
www.ey.com/ch

Report of the statutory auditors

to the General Meeting of

UBS AG, ZURICH AND BASEL

Mr. Chairman,
Ladies and Gentlemen,

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes) of UBS AG for the year ended 31 December 2002.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with the Swiss law and the company's articles of association.

We recommend that the financial statements submitted to you be approved.

Basel, 11 February 2003

Ernst & Young Ltd

Roger K. Perkin
Chartered Accountant
in charge of the audit

Peter Heckendorn
lic. oec.
in charge of the audit

Enclosures

ERNST & YOUNG

■ Ernst & Young Ltd
Financial Services
Aeschengraben 9
P.O. Box 2149
CH-4002 Basel

■ Phone +41 58 286 86 86
Fax +41 58 286 86 00
www.ey.com/ch

To the Board of Directors of
UBS AG
P.O. Box
8098 Zurich

Report of the capital increase auditors on the conditional capital increase

Mr Chairman
Gentlemen

As auditors of the capital increase of UBS AG, we have audited the issue of new shares related to employee stock option plans of Paine Webber Group Inc., New York, during the period from 1 January 2002 to 31 December 2002, as prescribed by the law.

The issue of new shares in accordance with the provisions of the articles of association is the responsibility of the Board of Directors. Our responsibility is to audit whether the share issue complies with the law and with the articles of association. We confirm that we meet the legal requirements as to professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance whether the issue of the new shares is free from material error. We have conducted the appropriate audit steps. We believe that our audit provides a sufficient basis for our opinion.

In our opinion, the issue of 1'579'737 new nominal shares with a par value of CHF 2.80 each (before par value reduction on 8 July 2002) and 1'819'132 new nominal shares with a par value of CHF 0.80 comply with the law and the articles of association.

We also confirm that in the reporting period 27'929 options have expired in the employee stock option plans of Paine Webber Group Inc., New York.

Basel, 20 February 2003

Ernst & Young Ltd

Roger K. Perkin
Chartered Accountant

PeterHeckendorn
lic. oec.

Additional Disclosure Required under SEC Regulations

Additional Disclosure Required under SEC Regulations Table of Contents

A – Introduction

The following pages contain additional disclosure about UBS Group which is required under SEC regulations.

Unless otherwise stated, UBS's Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are denominated in Swiss francs, or CHF, the reporting currency of the Group. Certain financial information has also been presented in accordance with United States Generally Accepted Accounting Principles (US GAAP).

B – Selected Financial Data

The tables below set forth, for the periods and dates indicated, information concerning the noon buying rate for the Swiss franc, expressed in United States dollars, or USD, per one Swiss franc. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

On 28 February 2003 the noon buying rate was 0.7376 USD per 1 CHF.

Year ended 31 December	High	Low	Average rate[1] (USD per 1 CHF)	At period end
1998	0.7731	0.6485	0.6894	0.7281
1999	0.7361	0.6244	0.6605	0.6277
2000	0.6441	0.5479	0.5912	0.6172
2001	0.6331	0.5495	0.5910	0.5857
2002	0.7229	0.5817	0.6453	0.7229

Month	High	Low
September 2002	0.6789	0.6578
October 2002	0.6760	0.6605
November 2002	0.6928	0.6714
December 2002	0.7229	0.6736
January 2003	0.7401	0.7135
February 2003	0.7411	0.7275

[1] The average of the noon buying rates on the last business day of each full month during the relevant period.

B – Selected Financial Data (continued)

CHF million, except where indicated For the year ended	31.12.02	31.12.01	31.12.00	31.12.99	31.12.98
Income statement data					
Interest income	**39,963**	52,277	51,745	35,604	37,442
Interest expense	**29,417**	44,236	43,615	29,695	32,424
Net interest income	**10,546**	8,041	8,130	5,909	5,018
Credit loss (expense) / recovery	**(206)**	(498)	130	(956)	(951)
Net interest income after credit loss (expense)/recovery	**10,340**	7,543	8,260	4,953	4,067
Net fee and commission income	**18,221**	20,211	16,703	12,607	12,626
Net trading income	**5,572**	8,802	9,953	7,719	3,313
Other income	**(12)**	558	1,486	3,146	2,241
Operating income	**34,121**	37,114	36,402	28,425	22,247
Operating expenses	**29,577**	30,396	26,203	20,532	18,376
Operating profit before tax	**4,544**	6,718	10,199	7,893	3,871
Tax expense/(benefit)	**678**	1,401	2,320	1,686	904
Minority interests	**(331)**	(344)	(87)	(54)	5
Net profit	**3,535**	4,973	7,792	6,153	2,972
Cost / income ratio (%) [1]	**86.2**	80.8	72.2	69.9	79.2
Cost / income ratio before goodwill (%) [1, 2]	**79.0**	77.3	70.4	68.7	77.7
Per share data (CHF)					
Basic earnings per share [3]	**2.92**	3.93	6.44	5.07	2.44
Basic earnings per share before goodwill [2, 3]	**4.73**	4.97	7.00	5.35	2.72
Diluted earnings per share [3]	**2.87**	3.78	6.35	5.02	2.40
Diluted earnings per share before goodwill [2, 3]	**4.65**	4.81	6.89	5.30	2.68
Cash dividends declared per share (CHF) [4]	**2.00**		1.50	1.83	1.67
Cash dividends declared per share (USD) [4]			0.86	1.10	1.10
Dividend payout ratio (%) [4]	**68.49**		23.28	36.18	68.21
Rates of return (%)					
Return on shareholders' equity [5]	**8.9**	11.7	21.5	22.4	10.7
Return on shareholders' equity before goodwill [2, 5]	**14.4**	14.8	23.4	23.6	12.0
Return on average equity	**7.6**	10.4	22.0	18.6	9.0
Return on average assets	**0.24**	0.36	0.70	0.65	0.28

[1] Operating expenses / operating income before credit loss expense. [2] The amortization of goodwill and other intangible assets is excluded from the calculation. [3] For EPS calculation, see Note 8 to the Financial Statements. [4] Dividends are normally declared and paid in the year subsequent to the reporting period. In 2000, as part of the arrangements of the acquisition of PaineWebber, a dividend of CHF 1.50 was paid on 5 October 2000 in respect of the nine months ended 30 September 2000. Prior to the merger between Union Bank of Switzerland and Swiss Bank Corporation, each paid dividends in accordance with its own dividend policies. In 2001 a further amount of CHF 1.60 per share was distributed to shareholders in the form of a par value reduction, in respect of 2000. No dividend was paid out for the year 2001. A par value reduction of CHF 2.00 per share was paid on 10 July 2002. A dividend of CHF 2.00 per share will be paid on 23 April 2003, subject to approval by shareholders at the Annual General Meeting. The USD amount per share will be determined on 17 April 2003. [5] Net profit/average Shareholders' equity excluding dividends.

B – Selected Financial Data (continued)

CHF million, except where indicated As at	31.12.02	31.12.01	31.12.00	31.12.99	31.12.98
Balance sheet data					
Total assets	**1,181,118**	1,253,297	1,087,552	896,556	861,282
Shareholders' equity	**38,991**	43,530	44,833	30,608	28,794
Average equity to average assets (%)	**3.14**	3.49	3.17	3.52	3.06
Market capitalization	**79,448**	105,475	112,666	92,642	90,720
Shares					
Registered ordinary shares	**1,256,297,678**	1,281,717,499	1,333,139,187	1,292,679,486	1,289,857,836
Own shares to be delivered	**0**	0	28,447,788	0	0
Treasury shares	97,181,094	41,254,951	55,265,349	110,621,142	73,370,094
BIS capital ratios					
Tier 1 (%)	**11.3**	11.6	11.7	10.6	9.3
Total BIS (%)	**13.8**	14.8	15.7	14.5	13.2
Risk-weighted assets	**238,790**	253,735	273,290	273,107	303,719
Invested assets (CHF billion)	**2,037**	2,448	2,445	1,744	1,573
Headcount (full-time equivalents) [1]	**69,061**	69,985	71,076	49,058	48,011
Long-term ratings [2]					
Fitch, London	AAA	AAA	AAA	AAA	AAA
Moody's, New York	AA2	AA2	Aa1	Aa1	Aa1
Standard & Poor's, New York	AA+	AA+	AA+	AA+	AA+

[1] The Group headcount does not include Klinik Hirslanden headcount. Klinik Hirslanden was sold on 5 December 2002. [2] See the UBS Handbook 2002/2003, page 10 to 11 for information about the nature of these ratings.

Balance Sheet Data

CHF million As at	31.12.02	31.12.01	31.12.00	31.12.99	31.12.98
Assets					
Total assets	**1,181,118**	1,253,297	1,087,552	896,556	861,282
Due from banks	**32,468**	27,526	29,147	29,907	68,495
Cash collateral on securities borrowed	**139,052**	162,938	177,857	113,162	91,695
Reverse repurchase agreements	**294,086**	269,256	193,801	132,391	141,285
Trading portfolio assets	**371,436**	397,886	315,588	211,932	159,179
Positive replacement values	**82,092**	73,447	57,875	62,957	90,511
Loans	**211,647**	226,545	244,842	234,858	247,926
Liabilities					
Due to banks	**83,178**	106,531	82,240	76,365	85,716
Cash collateral on securities lent	**36,870**	30,317	23,418	12,832	19,171
Repurchase agreements	**366,858**	368,620	295,513	196,914	137,617
Trading portfolio liabilities	**106,453**	105,798	82,632	54,638	47,033
Negative replacement values	**81,282**	71,443	75,923	95,786	125,847
Due to customers	**306,876**	333,781	310,679	279,960	274,850
Debt issued	**129,411**	156,218	129,635	120,987	102,310
Shareholders' equity	**38,991**	43,530	44,833	30,608	28,794

B – Selected Financial Data (continued)

US GAAP Income Statement Data

CHF million For the year ended	**31.12.02**	31.12.01	31.12.00	31.12.99	31.12.98
Operating income					
Interest income	**39,679**	51,907	51,565	35,404	29,136
Interest expense	**(29,334)**	(44,096)	(43,584)	(29,660)	(25,773)
Net interest income	**10,345**	7,811	7,981	5,744	3,363
Credit loss (expense) / recovery	**(206)**	(498)	130	(956)	(787)
Net interest income after credit loss (expense) / recovery	**10,139**	7,313	8,111	4,788	2,576
Net fee and commission income	**18,221**	20,211	16,703	12,607	8,925
Net trading income	**6,031**	8,959	8,597	7,174	455
Other income	**96**	534	1,514	3,182	725
Total operating income	**34,487**	37,017	34,925	27,751	12,681
Operating expenses					
Personnel expenses	**18,610**	19,713	17,262	12,483	7,938
General and administrative expenses	**7,072**	7,631	6,813	6,664	6,259
Depreciation of property and equipment	**1,613**	1,815	1,800	1,619	1,439
Amortization of goodwill	**0**	2,484	2,018	1,793	936
Amortization of other intangible assets	**1,443**	298	134	42	28
Restructuring costs	**0**	112	191	750	1,089
Total operating expenses	**28,738**	32,053	28,218	23,351	17,689
Operating profit / (loss) before tax and minority interests	**5,749**	4,964	6,707	4,400	(5,008)
Tax expense / (benefit)	**511**	1,386	2,183	1,509	(1,339)
Net profit / (loss) before minority interests	**5,238**	3,578	4,524	2,891	(3,669)
Minority interests	**(331)**	(344)	(87)	(54)	4
Change in accounting principle: cumulative effect of adoption of "AICPA Audit and Accounting Guide, Audits of Investment Companies" on certain financial investments, net of tax	**639**	0	0	0	0
Net profit / (loss)	**5,546**	3,234	4,437	2,837	(3,665)

Note: Certain prior year amounts have been reclassified to conform to the current year's presentation.

B – Selected Financial Data (continued)

US GAAP Balance Sheet Data

CHF million As at	31.12.02	31.12.01	31.12.00	31.12.99	31.12.98
Assets					
Total assets	**1,296,938**	1,361,920	1,124,554	893,525	899,589
Due from banks	**32,481**	27,550	29,182	29,954	68,554
Cash collateral on securities borrowed	**139,073**	162,566	177,857	113,162	91,695
Reverse repurchase agreements	**294,086**	269,256	193,801	132,391	141,285
Trading portfolio assets	**441,845**	455,406	318,788	228,230	178,130
Positive replacement values [1]	**83,757**	73,474	57,775	62,294	90,520
Loans	**211,755**	226,747	245,214	235,401	248,657
Goodwill	**28,127**	29,255	31,016	21,163	21,455
Other intangible assets	**1,222**	4,510	4,710	265	252
Other assets	**21,314**	36,972	27,955	18,717	29,398
Liabilities					
Due to banks	**83,178**	106,531	82,240	76,363	85,716
Cash collateral on securities lent	**36,870**	30,317	23,418	12,832	19,127
Repurchase agreements	**366,858**	368,620	295,513	173,840	136,824
Trading portfolio liabilities	**117,721**	119,528	87,832	52,658	47,772
Obligation to return securities received as collateral	**16,308**	10,931	0	0	0
Negative replacement values [1]	**132,354**	116,666	75,423	95,004	125,857
Due to customers	**306,872**	333,766	310,686	279,971	274,861
Accrued expenses and deferred income	**15,330**	17,289	21,038	12,040	11,232
Debt issued	**129,527**	156,462	129,750	120,704	101,973
Shareholders' equity	**55,576**	59,282	62,960	51,833	54,761

[1] Positive and negative replacement values represent the fair value of derivative instruments.
Note: 2001 amounts have been adjusted to reflect the treatment of reverse repurchase, repurchase, securities borrowing and securities lending transactions on a consistent basis. See Note 39.4.4 for details.

Ratio of Earnings to Fixed Charges

The following table sets forth UBS AG's ratio of earnings to fixed charges, for the periods indicated. Ratios of earnings to combined fixed charges and preferred stock dividends requirements are not presented as there were no preferred share dividends in any of the periods indicated.

For the year ended	31.12.02	31.12.01	31.12.00	31.12.99	31.12.98
IFRS [1]	**1.14**	1.14	1.23	1.25	1.11
US GAAP [1, 2]	**1.18**	1.10	1.15	1.14	0.80

[1] The ratio is provided using both IFRS and US GAAP values, since the ratio is materially different under the two accounting standards.
[2] The deficiency in the coverage of fixed charges by earnings before fixed charges at 31 December 1998 was CHF 5,319 million.

C – Information on the Company

Property, Plant and Equipment

At 31 December 2002, UBS operated about 1,800 offices and branches worldwide, of which about 47% were in Switzerland, 10% in the rest of Europe, 40% in the Americas and 2% in Asia.

28% of the offices and branches in Switzerland were owned directly by UBS with the remainder, along with most of UBS's offices outside Switzerland, being held under commercial leases.

These premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for our current and anticipated operations.

D – Information Required by Industry Guide 3

Selected Statistical Information
The tables below set forth selected statistical information regarding the Group's banking operations extracted from the Financial Statements. Unless otherwise indicated, average balances for the year ended 31 December 2002, 31 December 2001 and 31 December 2000 are calculated from monthly data. Certain prior year balances and figures have been reclassified to conform to current year presentation. The distinction between domestic and foreign is generally based on the booking location. For loans, this method is not significantly different from an analysis based on the domicile of the borrower.

D – Information Required by Industry Guide 3 (continued)

Average Balances and Interest Rates

The following table sets forth average interest-earning assets and average interest-bearing liabilities, along with the average rates, for the years ended 31 December 2002, 2001 and 2000.

	31.12.02			31.12.01			31.12.00		
CHF million, except where indicated	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
Assets									
Due from banks									
Domestic	12,534	388	3.1	11,753	1,055	9.0	13,366	1,273	9.5
Foreign	17,603	634	3.6	15,528	1,823	11.7	16,994	2,280	13.4
Cash collateral on securities borrowed and reverse repurchase agreements									
Domestic	5,471	235	4.3	7,868	563	7.2	8,383	558	6.7
Foreign	573,576	10,949	1.9	474,295	17,774	3.7	348,395	18,530	5.3
Trading portfolio assets									
Domestic	7,812	269	3.4	12,940	307	2.4	20,800	244	1.2
Foreign – taxable	373,810	16,714	4.5	332,126	16,183	4.9	255,399	11,560	4.5
Foreign – non-taxable	1,720	31	1.8	1,450	42	2.9	1,206	38	3.2
Foreign – total	375,530	16,745	4.5	333,576	16,225	4.9	256,605	11,598	4.5
Loans									
Domestic	170,641	6,987	4.1	177,404	8,017	4.5	181,646	10,985	6.0
Foreign	55,199	1,789	3.2	72,176	3,090	4.3	67,528	3,813	5.6
Financial investments									
Domestic	3,794	60	1.6	4,598	90	2.0	3,440	105	3.1
Foreign – taxable	8,781	105	1.2	39,252	363	0.9	22,529	297	1.3
Foreign – non-taxable	0	0	0.0	0	0	0.0	0	0	0.0
Foreign – total	8,781	105	1.2	39,252	363	0.9	22,529	297	1.3
Total interest-earning assets	1,230,941	38,161	3.1	1,149,390	49,307	4.3	939,686	49,683	5.3
Net interest on swaps		1,802			2,970			2,062	
Interest income and average interest-earning assets	1,230,941	39,963	3.2	1,149,390	52,277	4.5	939,686	51,745	5.5
Non-interest-earning assets									
Positive replacement values	190,063			153,687			135,762		
Fixed assets	12,532			13,376			9,660		
Other	53,293			46,954			32,925		
Total average assets	1,486,829			1,363,407			1,118,033		

D – Information Required by Industry Guide 3 (continued)

Average Balances and Interest Rates (continued)

	31.12.02			31.12.01			31.12.00		
CHF million, except where indicated	**Average balance**	**Interest**	**Average rate (%)**	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
Liabilities and Equity									
Due to banks									
Domestic	**28,625**	**452**	**1.6**	36,260	1,424	3.9	31,133	2,397	7.7
Foreign	**60,621**	**1,362**	**2.2**	61,642	3,506	5.7	57,258	3,758	6.6
Cash collateral on securities lent and repurchase agreements									
Domestic	**18,382**	**355**	**1.9**	13,147	600	4.6	12,700	478	3.8
Foreign	**523,375**	**9,726**	**1.9**	415,121	13,917	3.4	284,220	14,437	5.1
Trading portfolio liabilities									
Domestic	**3,239**	**146**	**4.5**	2,526	1	0.0	1,078	4	0.4
Foreign	**109,013**	**8,220**	**7.5**	94,597	7,814	8.3	66,597	5,305	8.0
Due to customers									
Domestic – demand deposits	**42,484**	**435**	**1.0**	41,664	715	1.7	44,403	595	1.3
Domestic – savings deposits	**71,465**	**625**	**0.9**	66,089	716	1.1	72,207	781	1.1
Domestic – time deposits	**27,646**	**447**	**1.6**	31,261	989	3.2	27,199	826	3.0
Domestic – total	**141,595**	**1,507**	**1.1**	139,014	2,420	1.7	143,809	2,202	1.5
Foreign [1]	**172,650**	**3,062**	**1.8**	187,783	6,738	3.6	143,432	7,303	5.1
Short-term debt									
Domestic	**69**	**0**	**0.0**	69	0	0.0	79	0	0.0
Foreign	**91,616**	**1,915**	**2.1**	96,184	4,227	4.4	78,075	4,338	5.6
Long-term debt									
Domestic	**10,082**	**433**	**4.3**	12,754	587	4.6	15,490	778	5.0
Foreign	**46,930**	**2,239**	**4.8**	43,798	3,002	6.9	38,020	2,615	6.9
Total interest-bearing liabilities	**1,206,197**	**29,417**	**2.4**	1,102,895	44,236	4.0	871,891	43,615	5.0
Non-interest-bearing liabilities									
Negative replacement values	**192,659**			165,220			157,668		
Other	**41,297**			47,676			53,049		
Total liabilities	**1,440,153**			1,315,791			1,082,608		
Shareholders' equity	**46,676**			47,616			35,425		
Total average liabilities and shareholders' equity	**1,486,829**			1,363,407			1,118,033		
Net interest income		**10,546**			8,041			8,130	
Net yield on interest-earning assets			**0.9**			0.7			0.9

[1] Due to customers in foreign offices consists mainly of time deposits.

The percentage of total average interest-earning assets attributable to foreign activities was 84% for 2002 (81% for 2001 and 76% for 2000). The percentage of total average interest-bearing liabilities attributable to foreign activities was 83% for 2002 (82% for 2001 and 77% for 2000).

All assets and liabilities are translated into CHF at uniform month-end rates. Interest income and expense are translated at monthly average rates.

Average rates earned and paid on assets and liabilities can change from period to period based on the changes in interest rates in general, but are also affected by changes in the currency mix included in the assets and liabilities. This is especially true for foreign assets and liabilities. Tax-exempt income is not recorded on a tax-equivalent basis. For all three years presented, tax-exempt income is considered to be insignificant and therefore the impact from such income is negligible.

D – Information Required by Industry Guide 3 (continued)

Analysis of Changes in Interest Income and Expense

The following tables allocate, by categories of interest-earning assets and interest-bearing liabilities, the changes in interest income and expense due to changes in volume and interest rates for the year ended 31 December 2002 compared to the year ended 31 December 2001, and for the year ended 31 December 2001 compared to the year ended 31 December 2000. Volume and rate variances have been calculated on movements in average balances and changes in interest rates. Changes due to a combination of volume and rates have been allocated proportionally. Refer to page 209 of Industry Guide 3 for a discussion of the treatment of impaired, non-performing and restructured loans.

	2002 compared to 2001			2001 compared to 2000		
	Increase / (decrease) due to changes in			Increase / (decrease) due to changes in		
CHF million	Average volume	Average rate	Net change	Average volume	Average rate	Net change
Interest income from interest-earning assets						
Due from banks						
Domestic	70	(737)	(667)	(153)	(65)	(218)
Foreign	243	(1,432)	(1,189)	(196)	(261)	(457)
Cash collateral on securities borrowed and reverse repurchase agreements						
Domestic	(173)	(155)	(328)	(35)	40	5
Foreign	3,673	(10,498)	(6,825)	6,673	(7,429)	(756)
Trading portfolio assets						
Domestic	(123)	85	(38)	(94)	157	63
Foreign – taxable	2,043	(1,512)	531	3,456	1,167	4,623
Foreign – non-taxable	8	(19)	(11)	8	(4)	4
Foreign – total	2,051	(1,531)	520	3,464	1,163	4,627
Loans						
Domestic	(304)	(726)	(1,030)	(255)	(2,713)	(2,968)
Foreign	(730)	(571)	(1,301)	260	(983)	(723)
Financial investments						
Domestic	(16)	(14)	(30)	36	(51)	(15)
Foreign – taxable	(274)	16	(258)	217	(151)	66
Foreign – non-taxable	0	0	0	0	0	0
Foreign – total	(274)	16	(258)	217	(151)	66
Interest income						
Domestic	(546)	(1,547)	(2,093)	(501)	(2,632)	(3,133)
Foreign	4,963	(14,016)	(9,053)	10,418	(7,661)	2,757
Total interest income from interest-earning assets	4,417	(15,563)	(11,146)	9,917	(10,293)	(376)
Net interest on swaps			(1,168)			908
Total interest income			(12,314)			532

D – Information Required by Industry Guide 3 (continued)

Analysis of Changes in Interest Income and Expense (continued)

	2002 compared to 2001			2001 compared to 2000		
	Increase / (decrease) due to changes in			Increase / (decrease) due to changes in		
CHF million	Average volume	Average rate	Net change	Average volume	Average rate	Net change
Interest expense on interest-bearing liabilities						
Due to banks						
Domestic	(298)	(674)	(972)	395	(1,368)	(973)
Foreign	(58)	(2,086)	(2,144)	289	(541)	(252)
Cash collateral on securities lent and repurchase agreements						
Domestic	241	(486)	(245)	17	105	122
Foreign	3,681	(7,872)	(4,191)	6,676	(7,196)	(520)
Trading portfolio liabilities						
Domestic	0	145	145	6	(9)	(3)
Foreign	1,197	(791)	406	2,240	269	2,509
Due to customers						
Domestic – demand deposits	14	(294)	(280)	(36)	156	120
Domestic – savings deposits	59	(150)	(91)	(67)	2	(65)
Domestic – time deposits	(116)	(426)	(542)	31	132	163
Domestic – total	(43)	(870)	(913)	(72)	290	218
Foreign	(545)	(3,131)	(3,676)	2,262	(2,827)	(565)
Short-term debt						
Domestic	0	0	0	0	0	0
Foreign	(201)	(2,111)	(2,312)	1,014	(1,125)	(111)
Long-term debt						
Domestic	(123)	(31)	(154)	(137)	(54)	(191)
Foreign	216	(979)	(763)	419	(32)	387
Interest expense						
Domestic	(223)	(1,916)	(2,139)	209	(1,036)	(827)
Foreign	4,290	(16,970)	(12,680)	12,900	(11,452)	1,448
Total interest expense	4,067	(18,886)	(14,819)	13,109	(12,488)	621

D – Information Required by Industry Guide 3 (continued)

Deposits

The following table analyzes average deposits and the average rates on each deposit category listed below for the years ended 31 December 2002, 2001 and 2000. The geographic allocation is based on the location of the office or branch where the deposit is made. Deposits by foreign depositors in domestic offices were CHF 43,914 million, CHF 54,095 million and CHF 45,815 million at 31 December 2002, 31 December 2001 and 31 December 2000, respectively.

	31.12.02		31.12.01		31.12.00	
CHF million, except where indicated	**Average deposit**	**Average rate (%)**	Average deposit	Average rate (%)	Average deposit	Average rate (%)
Banks						
Domestic offices						
Demand deposits	**3,524**	**0.7**	3,741	1.2	4,649	1.9
Time deposits	**9,010**	**1.7**	8,012	4.2	8,717	8.7
Total domestic offices	**12,534**	**1.4**	11,753	3.3	13,366	6.3
Foreign offices						
Interest-bearing deposits [1]	**17,603**	**2.2**	15,528	5.7	16,994	6.6
Total due to banks	**30,137**	**1.9**	27,281	4.6	30,360	6.5
Customer accounts						
Domestic offices						
Demand deposits	**42,484**	**1.0**	41,664	1.7	44,403	1.3
Savings deposits	**71,465**	**0.9**	66,089	1.1	72,207	1.1
Time deposits	**27,646**	**1.6**	31,261	3.2	27,199	3.0
Total domestic offices	**141,595**	**1.1**	139,014	1.7	143,809	1.5
Foreign offices						
Interest bearing deposits [1]	**172,650**	**1.8**	187,783	3.6	143,432	5.1
Total due to customers	**314,245**	**1.5**	326,797	2.8	287,241	3.3

[1] Mainly time deposits.

At 31 December 2002, the maturity of time deposits exceeding CHF 150,000, or an equivalent amount in other currencies, was as follows:

CHF million	**Domestic**	**Foreign**
Within 3 months	**27,456**	**110,053**
3 to 12 months	**8,202**	**26,821**
1 to 5 years	**768**	**2,766**
Over 5 years	**44**	**859**
Total time deposits	**36,470**	**140,499**

D – Information Required by Industry Guide 3 (continued)

Short-term Borrowings

The following table presents our period-end, average and maximum month-end outstanding amounts for short-term borrowings, along with the average rates and period-end rates at and for the years ended 31 December 2002, 2001 and 2000.

	Money market paper issued			Due to banks			Repurchase agreements[1]		
CHF million, except where indicated	**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
Period-end balance	**72,800**	99,006	74,780	**48,780**	77,312	51,245	**464,020**	462,316	330,857
Average balance	**91,685**	96,253	78,154	**59,109**	70,621	58,031	**509,572**	400,648	278,601
Maximum month-end balance	**108,463**	117,022	89,821	**77,312**	85,808	73,355	**593,786**	502,578	342,427
Average interest rate during the period (%)	**2.1**	4.4	5.6	**3.1**	7.0	7.0	**1.8**	3.2	4.8
Average interest rate at period-end (%)	**1.5**	2.6	6.0	**2.0**	2.2	4.1	**1.7**	2.9	4.8

[1] For the purpose of this disclosure, balances are presented on a gross basis.

D – Information Required by Industry Guide 3 (continued)

Contractual Maturities of the Investments in Debt Instruments

Due to the adoption of IAS 39, Financial investments, available for sale, are reported at fair value from 1 January 2001. 31 December 2000 amounts have not been restated.

	Within 1 year		1–5 years		5–10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2002[1]								
Swiss national government and agencies	0	0.00	7	4.88	8	3.86	1	4.00
Swiss local governments	8	4.02	30	3.94	4	3.59	0	0.00
US Treasury and agencies	0	0.00	0	0.00	0	0.00	0	0.00
Foreign governments and official institutions	35	4.63	45	3.13	1	6.12	0	0.00
Corporate debt securities	675	2.23	249	2.64	19	3.41	21	8.02
Mortgage-backed securities	4	2.25	15	3.97	4	4.03	0	0.00
Other debt securities	1	4.77	48	2.65	0	0.00	0	0.00
Total fair value	**723**		**394**		**36**		**22**	

[1] Money market papers have contractual maturities of less than one year.

	Within 1 year		1–5 years		5–10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2001[1]								
Swiss national government and agencies	9	5.26	10	4.50	16	3.43	1	4.00
Swiss local governments	3	4.36	38	3.90	4	3.59	0	0.00
US Treasury and agencies	0	0.00	24	4.38	8	5.15	0	0.00
Foreign governments and official institutions	5,014	0.97	5,048	1.01	27	2.88	0	0.00
Corporate debt securities	63	4.53	1,102	4.59	30	3.22	23	15.37[2]
Mortgage-backed securities	0	0.00	5	5.41	0	0.00	0	0.00
Other debt securities	2	4.77	87	3.91	28	3.56	0	0.00
Total fair value	**5,091**		**6,314**		**113**		**24**	

[1] Money market papers have contractual maturities of less than one year. [2] The yield presented is the current contractual yield based on current market rates at 31 December 2001, but may not represent the yield through maturity since this is a floating rate debt instrument.

	Within 1 year		1–5 years		5–10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2000								
Swiss national government and agencies	2	6.90	16	5.13	16	6.45	0	0.00
Swiss local governments	1	6.11	27	5.19	18	4.43	0	0.00
US Treasury and agencies	0	0.00	0	0.00	0	0.00	0	0.00
Foreign governments and official institutions	2,451	1.62	1,236	1.80	1,165	0.85	0	0.00
Corporate debt securities	16	5.20	917	6.02	206	2.21	0	0.00
Mortgage-backed securities	20	6.02	5	6.54	22	14.46	0	0.00
Other debt securities	21	6.57	56	4.33	11	3.68	0	0.00
Total amortized cost	2,511		2,257		1,438		0	
Total market value	**2,514**		**2,272**		**1,434**		**0**	

D – Information Required by Industry Guide 3 (continued)

Loans

Loans are widely dispersed over industry sectors both within and outside of Switzerland. With the exceptions of private households (foreign and domestic) and banks and financial institutions outside Switzerland and real estate and rentals in Switzerland, there is no material concentration of loans. For further discussion of the loan portfolio, see the UBS Handbook 2002/2003. The following table illustrates the diversification of the loan portfolio among industry sectors at 31 December 2002, 2001, 2000, 1999 and 1998. The industry categories presented are consistent with the classification of loans for reporting to the Swiss Federal Banking Commission and Swiss National Bank.

CHF million	**31.12.02**	31.12.01	31.12.00	31.12.99	31.12.98
Domestic					
Banks	**1,029**	1,533	2,896	5,802	4,543
Construction	**2,838**	3,499	4,870	6,577	7,897
Financial institutions	**4,301**	5,673	5,725	9,387	10,240
Hotels and restaurants	**2,655**	2,950	3,526	4,259	4,129
Manufacturing [1]	**7,237**	8,686	9,577	11,377	13,505
Private households	**95,295**	93,746	91,667	93,846	97,664
Public authorities	**5,529**	5,222	5,658	5,277	5,858
Real estate and rentals	**13,573**	14,992	16,673	19,835	21,231
Retail and wholesale	**7,172**	8,674	9,635	10,904	8,912
Services [2]	**10,237**	12,161	11,767	14,862	11,582
Other [3]	**1,738**	1,860	2,651	1,818	1,662
Total domestic	**151,604**	158,996	164,645	183,944	187,223
Foreign [4]					
Banks	**31,882**	26,728	27,168	24,983	65,000
Chemicals	**519**	1,080	1,423		
Construction	**153**	266	773		
Electricity, gas and water supply	**1,105**	977	1,584		
Financial institutions	**18,378**	14,458	20,348		
Manufacturing [5]	**2,300**	4,258	4,596		
Mining	**868**	1,313	2,070		
Private households	**33,063**	25,619	29,470		
Public authorities	**2,628**	6,454	11,754		
Real estate and rentals	**616**	10,227	5,077		
Retail and wholesale	**1,367**	1,732	1,862		
Services	**1,654**	4,786	1,585		
Transport, storage and communication	**676**	2,117	993		
Other [6]	**2,557**	2,973	11,168	69,087	78,741
Total foreign	**97,766**	102,988	119,871	94,070	143,741
Total gross	**249,370**	261,984	284,516	278,014	330,964

[1] Includes chemicals, food and beverages. [2] Includes transportation, communication, health and social work, education and other social and personal service activities. [3] Includes mining and electricity, gas and water supply. [4] For the years prior to the year 2000, no detailed industry classifications are available. [5] Includes food and beverages. [6] Includes hotels and restaurants.

D – Information Required by Industry Guide 3 (continued)

Loans (continued)

The following table analyzes the Group's mortgage portfolio by geographic origin of the client and type of mortgage at 31 December 2002, 2001, 2000, 1999 and 1998. Mortgages are included in the industry categories mentioned above.

CHF million	**31.12.02**	31.12.01	31.12.00	31.12.99	31.12.98
Mortgages					
Domestic	**116,359**	116,628	116,348	126,677	138,306
Foreign	**11,510**	9,583	4,206	1,310	2,479
Total gross mortgages	**127,869**	126,211	120,554	127,987	140,785
Mortgages					
Residential	**108,779**	101,969	96,181	91,408	106,093
Commercial	**19,090**	24,242	24,373	36,579	34,692
Total gross mortgages	**127,869**	126,211	120,554	127,987	140,785

Loan Maturities

The following table discloses loans by maturity at 31 December 2002. The determination of maturities is based on contract terms. Information on interest rate sensitivities can be found in Note 29 to the UBS Group Financial Statements.

CHF million	Within 1 year	1 to 5 years	Over 5 years	**Total**
Domestic				
Banks	969	60	0	**1,029**
Mortgages	57,875	55,676	2,808	**116,359**
Other loans	24,905	7,534	1,777	**34,216**
Total domestic	83,749	63,270	4,585	**151,604**
Foreign				
Banks	31,285	373	224	**31,882**
Mortgages	10,711	688	111	**11,510**
Other loans	52,447	1,492	435	**54,374**
Total foreign	94,443	2,553	770	**97,766**
Total gross loans	178,192	65,823	5,355	**249,370**

D – Information Required by Industry Guide 3 (continued)

Impaired, Non-performing and Restructured Loans

A loan is classified 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 derivative transactions), and including liquidation of collateral where available. Impaired obligations are thus obligations where losses are foreseeable. An allowance for credit loss is then made with respect to the loan in question. Impaired loans include non-performing loans, for which the contractual payments of principal, interest or commission are overdue by 90 days. When loans are classified as non-performing, the recognition of interest or commission income ceases according to the original terms of the loan agreement. Allowances are provided for non-performing loans to reflect their net estimated recoverable amount.

The gross interest income that would have been recorded on non-performing loans was CHF 201 million for the year ended 31 December 2002, CHF 336 million for the year ended 31 December 2001 and CHF 182 million for the year ended 31 December 2000. The amount of interest income that was included in net income for those loans was CHF 174 million for the year ended 31 December 2002 and CHF 201 million for the year ended 31 December 2001. There was no interest income recorded in net income for non-performing loans in 2000. The table below provides an analysis of the Group's non-performing loans, for further information see the UBS Handbook 2002/2003.

CHF million	**31.12.02**	31.12.01	31.12.00	31.12.99	31.12.98
Non-performing loans:					
Domestic	**4,609**	6,531	7,588	11,435	14,023
Foreign	**1,420**	2,108	2,864	1,638	2,091
Total non-performing loans	**6,029**	8,639	10,452	13,073	16,114
Foreign restructured loans [1]			179	287	449

[1] Include only performing foreign restructured loans. UBS does not, as a matter of policy, typically restructure loans to accrue interest at rates different from the original contractual terms or reduce the principal amount of loans. Instead, specific loan allowances are established as necessary. Unrecognized interest related to foreign restructured loans was not material to the results of operations during these periods.

In addition to the non-performing loans shown above, the Group had CHF 4,336 million, CHF 5,990 million, CHF 8,042 million and CHF 9,383 million in "other impaired loans" for the years ended 31 December 2002, 2001, 2000 and 1999, respectively. These are loans that are current, or less than 90 days in arrears, with respect to payment of principal or interest; however, the Group's credit officers have expressed doubts as to the ability of the borrowers to repay the loans. As at 31 December 2002 specific allowances of CHF 1,407 million had been established against these loans.

D – Information Required by Industry Guide 3 (continued)

Cross-Border Outstandings

Cross-border outstandings consist of general banking products such as loans (including unutilized commitments) and deposits with third parties, credit equivalents of over the counter (OTC) derivatives and repurchase agreements, and the market value of the inventory of securities. Outstandings are monitored and reported on an ongoing basis by the credit risk management and control organization with a dedicated country risk information system. With the exception of the 32 most developed economies, these exposures are rigorously limited.

Claims that are secured by third-party guarantees are recorded against the guarantor's country of domicile. Outstandings that are secured by collateral are recorded against the country where the asset could be liquidated. This follows the "Guidelines for the Management of Country Risk", which are applicable to all banks that are supervised by the Swiss Federal Banking Commission.

The following tables list those countries for which cross-border outstandings exceeded 0.75% of total assets at 31 December 2002, 2001 and 2000. At 31 December 2002, there were no outstandings that exceeded 0.75% of total assets in any country currently facing liquidity problems that the Group expects would materially affect the country's ability to service its obligations.

For more information on cross-border exposure, see the UBS Handbook 2002/2003.

D – Information Required by Industry Guide 3 (continued)

	31.12.02					
	Banking products		Traded	Tradable		% of total
CHF million	Banks	Non-banks	products[1]	assets[2]	Total	assets
United States	1,083	698	27,617	95,046	124,444	10.5
Germany	2,590	4,732	13,101	9,104	29,527	2.5
Italy	1,139	296	7,229	14,852	23,516	2.0
United Kingdom	4,161	606	5,437	12,106	22,310	1.9
France	2,077	1,805	5,710	11,403	20,995	1.8
Australia	133	535	4,514	6,651	11,833	1.0
Canada	130	872	4,964	5,115	11,081	0.9
Japan	312	88	1,766	7,816	9,982	0.8
Cayman Islands	7	1,175	5,054	3,387	9,623	0.8
Netherlands	289	1,548	4,110	3,313	9,260	0.8

	31.12.01					
	Banking products		Traded	Tradable		% of total
CHF million	Banks	Non-banks	products[1]	assets[2]	Total	assets
United States	2,360	1,284	31,129	114,615	149,388	11.9
United Kingdom	2,483	543	9,128	27,754	39,908	3.2
Germany	3,605	6,395	11,962	11,755	33,717	2.7
Japan	640	770	4,442	22,995	28,847	2.3
Italy	1,086	498	11,628	11,180	24,392	1.9
France	159	2,043	4,114	8,052	14,368	1.1
Canada	114	950	5,220	8,038	14,322	1.1
Netherlands	1,834	2,414	6,126	3,110	13,484	1.1

	31.12.00					
	Banking products		Traded	Tradable		% of total
CHF million	Banks	Non-banks	products[1]	assets[2]	Total	assets
United States	1,826	958	21,796	64,077	88,657	8.2
Japan	123	895	6,378	58,779	66,175	6.1
United Kingdom	1,795	1,224	9,037	22,440	34,496	3.2
Germany	2,686	3,720	13,198	5,085	24,689	2.3
Italy	1,293	931	3,629	9,700	15,553	1.4
France	1,085	1,900	3,956	5,987	12,928	1.2
Netherlands	910	1,480	6,092	3,803	12,285	1.1
Australia	27	370	3,113	7,508	11,018	1.0

[1] Traded products consist of derivative instruments and repurchase agreements. In 2002, 2001 and 2000 unsecured OTC derivatives exposure is reported based on the Potential Credit Exposure measurement methodology and is therefore not directly comparable to the exposures in the prior years, which were measured based on Gross Replacement Values plus Add-on. [2] Tradable assets consist of equity and fixed income financial instruments held for trading purposes, which are marked to market on a daily basis and private equity investments at the lower of book or market value.

D – Information Required by Industry Guide 3 (continued)

Summary of Movements in Allowances and Provisions for Credit Losses

The following table provides an analysis of movements in allowances and provisions for credit losses.

As a result of Swiss bankruptcy laws, banks write-off loans against allowances only upon final settlement of bankruptcy proceedings, the sale of the underlying assets and/or in case of debt forgiveness. Under Swiss law, a creditor can continue to collect from a debtor who has emerged from bankruptcy, unless the debt has been forgiven through a formal agreement.

CHF million	**31.12.02**	31.12.01	31.12.00	31.12.99	31.12.98
Balance at beginning of year	**8,218**	10,581	13,398	14,978	16,213
Write-offs					
Domestic					
Banks	**0**	0	0	(4)	(2)
Construction	**(148)**	(248)	(261)	(296)	(228)
Financial institutions	**(103)**	(51)	(178)	(92)	(66)
Hotels and restaurants	**(48)**	(52)	(193)	(137)	(98)
Manufacturing [1]	**(275)**	(109)	(264)	(242)	(214)
Private households	**(536)**	(1,297)	(640)	(598)	(534)
Public authorities	**0**	0	0	0	(2)
Real estate and rentals	**(357)**	(317)	(729)	(823)	(610)
Retail and wholesale	**(101)**	(115)	(160)	(210)	(178)
Services [2]	**(155)**	(93)	(227)	(315)	(116)
Other [3]	**(49)**	(46)	(30)	(41)	(15)
Total domestic write-offs	**(1,772)**	(2,328)	(2,682)	(2,758)	(2,063)
Foreign [4]					
Banks	**(49)**	(24)	(15)		
Chemicals	**0**	(2)	0		
Construction	**0**	(10)	(13)		
Electricity, gas and water supply	**(36)**	(63)	(3)		
Financial institutions	**(228)**	(74)	(33)		
Manufacturing [5]	**(70)**	(119)	(11)		
Mining	**(1)**	(304)	0		
Private households	**(65)**	(5)	0		
Public authorities	**(1)**	0	(4)		
Real estate and rentals	**(2)**	(1)	0		
Retail and wholesale	**(10)**	0	(160)		
Services	**(39)**	(30)	(8)		
Transport, storage and communication	**(74)**	0	(11)		
Other [6]	**(189)**	(48)	(55)		
Total foreign write-offs	**(764)**	(680)	(313)	(517)	(261)
Total write-offs	**(2,536)**	(3,008)	(2,995)	(3,275)	(2,324)
Recoveries					
Domestic	**43**	58	124	54	59
Foreign	**27**	23	39	11	0
Total recoveries	**70**	81	163	65	59
Net write-offs	**(2,466)**	(2,927)	(2,832)	(3,210)	(2,265)
Credit loss expense/(recovery)	**206**	498	(130)	956	951
Other adjustments [7]	**(337)**	66	145	674	79
Balance at end of year	**5,621**	8,218	10,581	13,398	14,978

[1] Includes chemicals, food and beverages. [2] Includes transportation, communication, health and social work, education and other social and personal service activities. [3] Includes mining and electricity, gas and water supply. [4] For years prior to 2000, no detailed industry classifications are available. [5] Includes food and beverages. [6] Includes hotels and restaurants. [7] See the following table for details.

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Summary of Movements in Allowances and Provisions for Credit Losses (continued)

CHF million	**31.12.02**	31.12.01	31.12.00	31.12.99	31.12.98
Doubtful interest	**0**	0	182	409	423
Net foreign exchange	**(269)**	44	23	351	(98)
Subsidiaries sold and other	**(68)**	22	(60)	(86)	(246)
Total adjustments	**(337)**	66	145	674	79

D – Information Required by Industry Guide 3 (continued)

Allocation of the Allowances and Provisions for Credit Losses

The following table provides an analysis of the allocation of the allowances and provisions for credit loss by industry sectors and geographic location at 31 December 2002, 2001, 2000, 1999 and 1998. For a description of procedures with respect to allowances and provisions for credit losses, see the UBS Handbook 2002/2003.

CHF million	31.12.02	31.12.01	31.12.00	31.12.99	31.12.98
Domestic					
Banks	10	34	0	41	49
Construction	265	467	843	1,247	1,671
Financial institutions	89	262	328	342	668
Hotels and restaurants	286	346	454	690	657
Manufacturing [1]	458	722	863	1,223	1,331
Private households	750	1,082	1,570	2,350	2,741
Public authorities	39	37	0	40	107
Real estate and rentals	577	1,067	1,635	2,696	3,333
Retail and wholesale	315	395	629	779	825
Services [2]	470	448	419	934	766
Other [3]	315	165	413	141	71
Total domestic	3,574	5,025	7,154	10,483	12,219
Foreign [4]					
Banks [5]	24	39	32		
Chemicals	5	5	0		
Construction	6	0	11		
Electricity, gas and water supply	96	88	107		
Financial institutions	153	420	262		
Manufacturing [6]	314	653	547		
Mining	148	169	586		
Private households	58	103	72		
Public authorities	0	0	0		
Real estate and rentals	6	9	82		
Retail and wholesale	13	0	41		
Services	262	414	126		
Transport, storage and communication	144	45	2		
Other [7]	82	242	267		
Total foreign, net of country provisions	1,311	2,187	2,135	1,539	1,309
Country provisions	736	1,006	1,292	1,376	1,450
Total foreign [8]	2,047	3,193	3,427	2,915	2,759
Total allowances and provisions for credit losses	5,621	8,218	10,581	13,398	14,978

1 Includes chemicals, food and beverages. 2 Includes transportation, communication, health and social work, education and other social and personal service activities. 3 Includes mining and electricity, gas and water supply. 4 For years prior to 2000, no detailed industry classifications are available. 5 Counterparty allowances and provisions only. Country provisions with banking counterparties amounting to CHF 409 million are disclosed under country provisions. 6 Includes food and beverages. 7 Includes hotels and restaurants. 8 The 2002, 2001, 2000, 1999 and 1998 amounts include CHF 366 million, CHF 305 million, CHF 54 million, CHF 149 million and CHF 435 million respectively of provisions and for unused commitments and contingent liabilities.

D – Information Required by Industry Guide 3 (continued)

Loans by industry sector

The following table presents the percentage of loans in each industry sector and geographic location to total loans. This table can be read in conjunction with the preceding table showing the breakdown of the allowances and provisions for credit losses by industry sectors to evaluate the credit risks in each of the categories.

in %	**31.12.02**	31.12.01	31.12.00	31.12.99	31.12.98
Domestic					
Banks	**0.4**	0.6	1.0	2.1	1.4
Construction	**1.1**	1.3	1.7	2.4	2.4
Financial institutions	**1.7**	2.2	2.0	3.4	3.1
Hotels and restaurants	**1.1**	1.1	1.2	1.5	1.2
Manufacturing [1]	**2.9**	3.3	3.4	4.1	4.1
Private households	**38.2**	35.8	32.2	33.8	29.5
Public authorities	**2.2**	2.0	2.0	1.9	1.8
Real estate and rentals	**5.5**	5.7	5.9	7.1	6.4
Retail and wholesale	**2.9**	3.3	3.4	3.9	2.7
Services [2]	**4.1**	4.6	4.1	5.3	3.5
Other [3]	**0.7**	0.8	1.0	0.7	0.5
Total domestic	**60.8**	60.7	57.9	66.2	56.6
Foreign [4]					
Banks	**12.8**	10.2	9.5	9.0	19.6
Chemicals	**0.2**	0.4	0.5		
Construction	**0.1**	0.1	0.3		
Electricity, gas and water supply	**0.4**	0.4	0.6		
Financial institutions	**7.4**	5.5	7.2		
Manufacturing [5]	**0.9**	1.6	1.6		
Mining	**0.3**	0.5	0.7		
Private households	**13.3**	9.8	10.4		
Public authorities	**1.1**	2.5	4.1		
Real estate and rentals	**0.2**	3.9	1.8		
Retail and wholesale	**0.5**	0.7	0.7		
Services	**0.7**	1.8	0.6		
Transport, storage and communication	**0.3**	0.8	0.3		
Other [6]	**1.0**	1.1	3.8	24.8	23.8
Total foreign	**39.2**	39.3	42.1	33.8	43.4
Total gross loans	**100.0**	100.0	100.0	100.0	100.0

[1] Includes chemicals, food and beverages. [2] Includes transportation, communication, health and social work, education and other social and personal service activities. [3] Includes mining and electricity, gas and water supply. [4] For the years prior to 2000, no detailed industry classifications are available. [5] Includes food and beverages. [6] Includes hotels and restaurants.

D – Information Required by Industry Guide 3 (continued)

Loss History Statistics

The following is a summary of the Group's loan loss history.

CHF million, except where indicated	**31.12.02**	31.12.01	31.12.00	31.12.99	31.12.98
Gross loans	**249,370**	261,984	284,516	278,014	330,964
Impaired loans	**10,365**	14,629	18,494	22,456	26,447
Non-performing loans	**6,029**	8,639	10,452	13,073	16,114
Allowances and provisions for credit losses	**5,621**	8,218	10,581	13,398	14,978
Net write-offs	**2,466**	2,927	2,832	3,210	2,265
Credit loss expense/(recovery)	**206**	498	(130)	956	951
Ratios					
Impaired loans as a percentage of gross loans	**4.2**	5.6	6.5	8.1	8.0
Non-performing loans as a percentage of gross loans	**2.4**	3.3	3.7	4.7	4.9
Allowances and provisions for credit losses as a percentage of:					
Gross loans	**2.3**	3.1	3.7	4.8	4.5
Impaired loans	**54.2**	56.2	57.2	59.7	56.6
Non-performing loans	**93.2**	95.1	101.2	102.5	93.0
Allocated allowances as a percentage of impaired loans[1]	**47.2**	49.9	52.4	55.5	51.4
Allocated allowances as a percentage of non-performing loans[2]	**57.8**	62.2	60.6[3]	66.3	62.1
Net write-offs as a percentage of:					
Gross loans	**1.0**	1.1	1.0	1.2	0.7
Average loans outstanding during the period	**1.1**	1.2	1.1	1.2	0.8
Allowances and provisions for credit losses	**43.9**	35.6	26.8	24.0	15.1
Allowances and provisions for credit losses as multiple of net write-offs	**2.28**	2.81	3.74	4.17	6.61

[1] Allowances relating to impaired loans only. [2] Allowances relating to non-performing loans only. [3] 31 December 2000 figure has been restated to account for an overallocation of allowances to non-performing loans.

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.

Imprint

Publisher/Copyright: UBS AG, Switzerland

Languages: English, German; SAP-R/3 80531E-0301

UBS AG
P.O. Box, CH-8098 Zurich
P.O. Box, CH-4002 Basel

www.ubs.com