

Handbook 2001/2002





The Power of Partnership

Flawless strategy, teamwork, and technology are the prerequisites for competing in the world's great ocean races. The same elements underpin success in the global financial markets.

UBS is Main Partner of Alinghi, Swiss Challenge for the Americas' Cup 2003 and is also Principal Partner of the Nautor Challenge team for the 2001-2002 Volvo Ocean Race. Our Annual Review carries pictures of the two teams.

The very essence of yacht racing with the relentless demands of the ocean relies upon the crew to operate as a team. Whether on a match racing course, in the midst of the southern ocean, or indeed in the world of global finance – individual efforts are eclipsed by the Power of Partnership.

Introduction

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

The Handbook describes the UBS Group: its strategy and organization, and the businesses it operates. It outlines the principles by which the Group manages risk, and reports on developments during 2001 in the areas of credit risk, market risk, and treasury management. It also contains a description of the Group's environmental policies.

The Handbook describes the value-based management processes that are being implemented at UBS. It contains an extensive discussion of the Group's corporate governance arrangements and its relationships with regulators and shareholders, along with detailed facts about the UBS ordinary share.

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

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
Head of Group Communications
UBS AG

UBS Group Financial Highlights

	<i>CHF million, except where indicated</i>			% change from	
	For the year ended	31.12.00	31.12.99	31.12.00	
¹ Operating expenses / operating income before credit loss expense.	31.12.01				
² Excludes the amortization of goodwill and other intangible assets.					
³ For EPS calculation, see Note 9 to the Financial Statements.					
⁴ Net profit / average shareholders' equity excluding dividends.					
⁵ Includes hybrid tier 1 capital, please refer to Note 30e in the Notes to the Financial Statements.					
⁶ Calculated using the former definition of assets under management.					
⁷ The Group headcount does not include the Klinik Hirslanden AG headcount of 2,450, 1,839 and 1,853 for 31 December 2001, 31 December 2000 and 31 December 1999, respectively.					
⁸ See the Capital strength section on pages 10–11.					
⁹ Details of significant financial events can be found in the Financial Report 2001.					
All earnings per share figures have been restated for the 3 for 1 share split which took place on 16 July 2001. Except where otherwise stated, all 31 December 2001 and 31 December 2000 figures throughout this report include the impact of the acquisition of PaineWebber, which occurred on 3 November 2000.					
All invested assets figures for 31 December 2000 have been restated to reflect the new definition.					
	Income statement key figures				
	Operating income	37,114	36,402	28,425	2
	Operating expenses	30,396	26,203	20,532	16
	Operating profit before tax	6,718	10,199	7,893	(34)
	Net profit	4,973	7,792	6,153	(36)
	Cost / income ratio (%) ¹	80.8	72.2	69.9	
	Cost / income ratio before goodwill (%) ^{1,2}	77.3	70.4	68.7	
	Per share data (CHF)				
	Basic earnings per share ³	3.93	6.44	5.07	(39)
	Basic earnings per share before goodwill ^{2,3}	4.97	7.00	5.35	(29)
	Diluted earnings per share ³	3.78	6.35	5.02	(40)
	Diluted earnings per share before goodwill ^{2,3}	4.81	6.89	5.30	(30)
	Return on shareholders' equity (%)				
	Return on shareholders' equity ⁴	11.7	21.5	22.4	
	Return on shareholders' equity before goodwill ^{2,4}	14.8	23.4	23.6	
		<i>CHF million, except where indicated</i>			% change from
	As at	31.12.01	31.12.00	31.12.99	31.12.00
	Balance sheet key figures				
	Total assets	1,253,297	1,087,552	896,556	15
	Shareholders' equity	43,530	44,833	30,608	(3)
	Market capitalization				
		105,475	112,666	92,642	(6)
	BIS capital ratios				
	Tier 1 (%) ⁵	11.6	11.7	10.6	(1)
	Total BIS (%)	14.8	15.7	14.5	(6)
	Risk-weighted assets	253,735	273,290	273,107	(7)
	Invested assets (CHF billion)				
		2,457	2,452	1,744 ⁶	0
	Headcount (full time equivalents)⁷				
		69,985	71,076	49,058	(2)
	Long-term ratings⁸				
	Fitch, London	AAA	AAA	AAA	
	Moody's, New York	Aa2	Aa1	Aa1	
	Standard & Poor's, New York	AA+	AA+	AA+	

Earnings adjusted for significant financial events and pre-goodwill^{2,9}

	<i>CHF million, except where indicated</i>			% change from	
	For the year ended	31.12.00	31.12.99	31.12.00	
	Operating income	37,114	36,402	26,587	2
	Operating expenses	29,073	25,096	20,194	16
	Operating profit before tax	8,041	11,306	6,393	(29)
	Net profit	6,296	8,799	5,005	(28)
	Cost / income ratio (%) ¹	77.3	69.2	73.3	
	Basic earnings per share (CHF) ³	4.97	7.28	4.12	(32)
	Diluted earnings per share (CHF) ³	4.81	7.17	4.09	(33)
	Return on shareholders' equity (%) ⁴	14.8	24.3	18.2	

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 reputation for innovation and a global culture which embraces change. Our vision is to be the pre-eminent global integrated investment services firm and the leading bank in Switzerland. We are the world's leading provider of private banking 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 in corporate and retail banking. As an integrated group, not merely a holding company, we create added value for our clients by drawing on the combined resources and expertise of all our businesses.

Our client philosophy puts advice at the heart of relationships. Our priority is to provide premium-quality services to our clients, giving them the best possible choice by supplementing best-in-class products we develop ourselves with a quality-screened selection of products from others.

With head offices in Zurich and Basel, we operate in over 50 countries and from all major international financial centers. Our global physical presence is complemented by leading edge on-line services. All our clients can benefit from our technology – it complements our advisory services and allows us to deliver our services faster, more widely and more 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 Switzerland

UBS Switzerland includes the world's leading private banking business, with CHF 682 billion of invested assets at 31 December 2001. UBS Private Banking provides a comprehensive range of products and services individually tailored for wealthy clients, through offices around the world.

UBS Switzerland also provides a complete set of banking and securities services for some four million individual and corporate clients in Switzerland. Its CHF 182 billion of outstanding loans at 31 December 2001 give it around a quarter of the Swiss lending market.

UBS Asset Management

UBS Asset Management is a leading institutional asset manager and mutual fund provider, with invested assets of CHF 672 billion at 31 December 2001, offering a broad range of asset management services and products for institutional and individual clients across the world.

UBS Warburg

UBS Warburg operates globally as a client-driven securities, investment banking and wealth management firm. UBS Warburg provides innovative products, top-quality research and advice, and comprehensive access to the world's capital markets, for both its own corporate and institutional clients and for the other parts of the UBS Group. UBS PaineWebber, one of the top US wealth managers, became part of UBS Warburg in November 2000. Its distribution network of 8,870 financial advisors manages over CHF 782 billion of invested assets at 31 December 2001. On 1 January 2002, UBS PaineWebber was separated from UBS Warburg to form a new Business Group within UBS.

Corporate Center

Our portfolio of businesses is planned and managed for the long-term maximization of shareholder value. 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.

Sources of information about UBS

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

Publications

This Handbook is available in English and German.
(SAP-R/3 80532-0201)

Annual Review 2001

Our Annual Review contains a short description of UBS, and a summary review of our performance in the year 2001. It is available in English, German, French, Italian and Spanish.
(SAP-R/3 80530-0201).

Financial Report 2001

Our Financial Report contains our audited Financial Statements for the year 2001 and accompanying detailed analysis. It is available in English and German.
(SAP-R/3 80531-0201).

Quarterly reports

We provide detailed quarterly financial reporting and analysis, including comment on the progress of our businesses and key strategic initiatives. These 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 also in French and Italian.

Messenger service

On the Investors and Analysts website, you can register to receive news alerts about UBS via SMS or e-mail. Messages are sent in either English or German and users are able to state their preferences for the theme of the alerts received, e.g. SEC filings or webcast broadcasts.

Results presentations

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

UBS and the Environment

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

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

We file periodic reports and 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 part of this Handbook or to part of the Financial Report 2001. 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 from 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, D.C.

20549. Please call the SEC at 1-800-SEC-0330 (in 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 next 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 address and telephone number 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 virt-x (a joint venture between Tradepoint and the SWX Swiss Exchange). They are also listed on the New York Stock Exchange and on the Tokyo Stock Exchange.

UBS Investor Relations

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

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For all general queries.

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New York	+1 212 821 3000
Tokyo	+81 3 5293 3000

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).

	Telephone	Fax	E-mail
Zurich	+41 1 235 6202	+41 1 235 3154	sh-shareholder-service@ubs.com

UBS AG
Shareholder Services
P.O. Box
CH-8098 Zurich, Switzerland

US Transfer Agent

For all Global Registered Share related queries in the USA.

Mellon Investor Services
Overpeck Center
85 Challenger Road
Ridgefield Park, NJ 07660, USA

Telephone: +1 866 541 9689
Fax: +1 201 296 4801
Web: <http://www.melloninvestor.com>

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



The UBS Group

Strategy, Structure and History

Our vision is to be the pre-eminent global integrated investment services firm and the leading bank in Switzerland. We are the world's leading provider of private banking 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 in corporate and retail banking. As an integrated group, not merely a holding company, we create added value for our clients by drawing on the combined resources and expertise of all our businesses.

Being dedicated to total value management means creating value for all stakeholders.

We will only succeed by providing our *clients* with innovative and high-quality service coupled with long-term personal relationships. Client focus is the main driver of all our activities.

We seek to create value for our *shareholders* through sustainable growth of our business within appropriate risk parameters.

We are committed to succeed in the fierce competition for talent. The expertise and integrity of our *staff* create value for our clients and for the Group as a whole. We seek to be a highly attractive firm for our employees.

UBS's reputation is one of our most valuable assets. We aim to adhere to the highest ethical standards, and to manage our risks with the

greatest care. We are committed to the *communities* we are part of and to complying fully with the letter and spirit of the laws, rules and practices that govern UBS and its staff.

Strategy

UBS's strategy is to deliver top-quality investment products and advice to a premier client base across all client segments: individual, institutional and corporate. UBS aims to bring its content excellence to an ever wider client base, adding distribution organically, through acquisition and through strategic partnership.

Choice is central to enhancing UBS's client offerings. We aim to increase product choice by augmenting our in-house range with a quality-screened selection of third-party products.

Capital strength

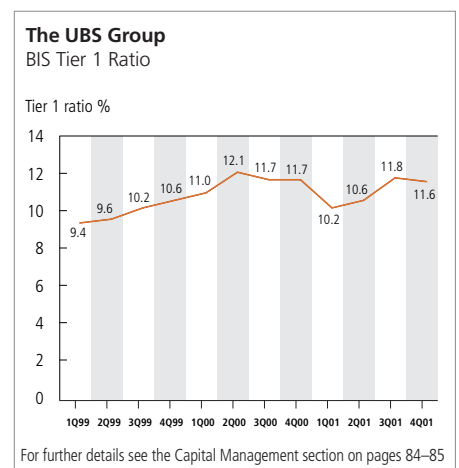
UBS's financial stability stems from the fact that it is one of the most well capitalized banks in the world. We believe that this financial strength is a key part of the value proposition offered to both clients and investors.

In May 2001, Moody's downgraded UBS's long-term credit rating from Aa1 to Aa2, attributing the change to concerns about "the ongoing challenges UBS faces in gradually shifting the center of its global private banking activities to onshore client segments".

At the same time, Moody's commented that the new long-term ratings continue to

reflect UBS's position as one of the world's stronger and financially sounder banking groups and pointed to UBS's "good profitability, low and balanced risk profile, and its ample economic capitalization", adding that it expects UBS to preserve these healthy fundamentals.

In early August 2001, Standard & Poor's reaffirmed its AA+ rating for UBS's long-term debt, citing UBS's strong market positions and franchises across a wide range of private banking and international securities activities, which provide a high degree of business and geographic diversification. Standard & Poor's commented



We believe that in the future, our clients will be global in outlook: either with global presence or global investments. All our businesses must compete on a global scale.

We are committed to attaining scale and scope in all our key businesses: this is both desirable and necessary to enable us to deliver the full spectrum of services at maximum efficiency, though we will rarely use price as a first-line competitive weapon.

Our client philosophy is advice-led, with intimacy stemming from the quality of our relationship managers. UBS's businesses offer convenient access through multiple conventional and online channels, but put advice at the heart of relationships.

We are committed to being part of the technological elite, but we see e-commerce not as a business per se, nor as a discipline in its own right, but as integral to all our businesses. We aim to use technology to extend our reach to clients and markets we could not previously have accessed, to perfect clients' experience of UBS, to increase the number of products and services they buy, and to minimize the production cost of our services.

UBS has a strong and well-managed capital structure. We are committed to rigorous balance sheet management and the optimization of UBS's capital structure. We use the full range of capital management tools to apply any excess capital generated in the best interests of UBS's shareholders, or to return it to them.

Financial targets

We focus on four key performance targets, designed to ensure that UBS delivers continually improving returns to its shareholders. The Group's performance against these targets is reported each quarter.

- We seek to increase the value of UBS by achieving a sustainable, after-tax return on equity of 15–20%, across periods of varying market conditions.
- We aim to increase shareholder value through double-digit average annual percentage growth 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.
- We aim to achieve a clear growth trend in net new money in the private client businesses.

The first three targets are all reported pre-goodwill amortization, and adjusted for significant financial events (for an explanation of significant financial events see Financial Disclosure Principles on pages 99 to 101).

We seek to achieve an appropriate market price for UBS's shares by communicating transparently, openly and consistently with investors and the financial markets.

that “the ratings also reflect solid profitability and strong capitalization, the combination of which still sets a standard for international banks generally”.

In December 2001, Fitch reaffirmed its AAA long-term rating of UBS, but changed the outlook for the rating to negative, reflecting “the weaker operating environment for investment banking”.

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

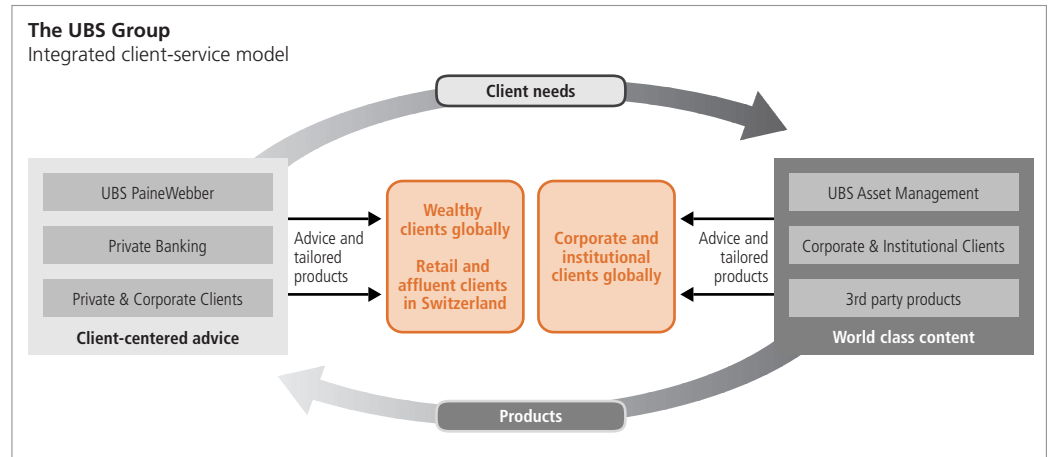
UBS's long-term credit ratings are shown in the table below. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency. There

is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency, if in the rating agency's judgment, circumstances so warrant.

Long-term credit ratings

	As at		
	31.12.01	31.12.00	31.12.99
Fitch, London	AAA	AAA	AAA
Moody's, New York	Aa2	Aa1	Aa1
Standard & Poor's, New York	AA+	AA+	AA+

**The UBS Group
Strategy, Structure and History**



Business and management structure

UBS pursues its strategies through four Business Groups, all of which are in the top echelon of their businesses globally, and aims to further enhance the competitive position of each one. However, UBS is not merely a holding company – it operates an integrated client service model.

UBS's Business Groups are managed together to optimize shareholder value – to make the whole worth more than the sum of the parts.

In practice this means that products from the wholesale-focused Business Groups, UBS Warburg and UBS Asset Management, are distributed to their own corporate and institutional clients and through the Business Groups focused on individual clients, UBS Switzerland and UBS PaineWebber. This exchange benefits both sides – UBS's individual clients get access to sophisticated products and services; UBS's wholesale Business Groups have access to premier distribution; and the Group captures the whole of the value chain.

Each Business Group is led by a member of the Group Executive Board or Group Managing

Board who is individually responsible for the performance of the Business Group.

UBS's Corporate Center complements the Business Groups, aiming to ensure that the Business Groups operate as a coherent and effective whole, in alignment with UBS's overall corporate goals.

UBS Switzerland – Stephan Haeringer

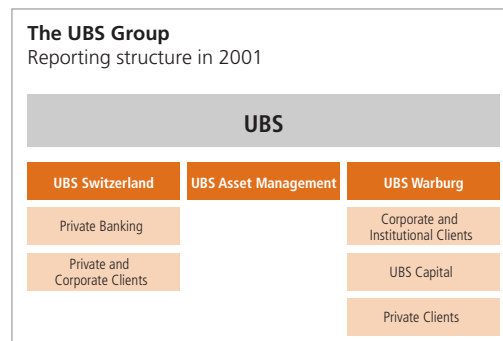
UBS Switzerland is made up of two business units. Its Private Banking business unit offers comprehensive wealth management services for private clients from across the world, who bank in Switzerland and other financial centers worldwide.

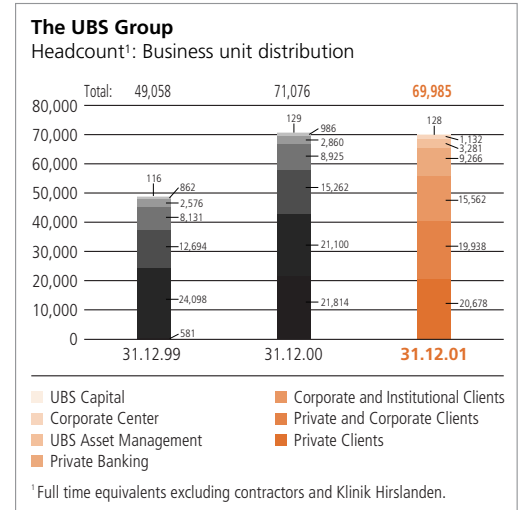
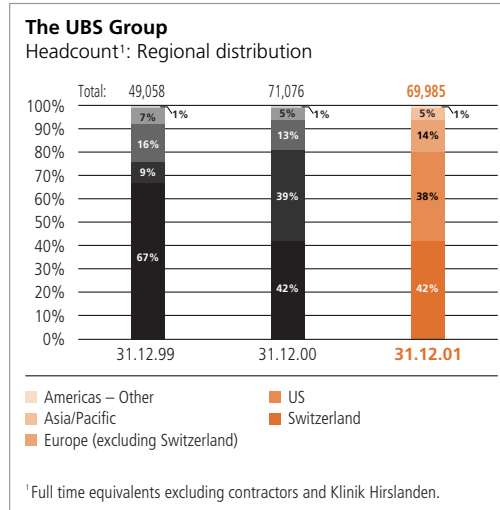
Private Banking is the world's biggest private bank. Its strategy is centered on the client advisor, combining strong personal relationships with a full range of products and services specifically designed for the wealthy client, complemented by leading-edge technology.

Within Switzerland, the Private and Corporate Clients business unit provides a complete set of banking and securities services for individual and corporate clients, focused foremost on customer service excellence, profitability and growth via multi-channel distribution.

UBS Asset Management – John Fraser

UBS Asset Management provides asset management services and products to a broad range of institutional, individual and mutual fund clients across the world. It offers a diverse range of investment management capabilities from the traditional to the alternative, with a core focus on identifying and exploiting the discrepancies





between asset prices and their fundamental worth. UBS Asset Management also provides investment fund products for the UBS Group and intends to increasingly widen its reach through third parties to individual clients outside the UBS Group.

UBS Asset Management is the twelfth largest institutional asset managers in the world, the second largest investment fund manager in Europe and the leading fund manager in Switzerland.

UBS Warburg – John Costas and Markus Granzio

UBS Warburg operates globally as a client-driven securities and investment banking firm. For both its own corporate and institutional clients and for other parts of the UBS Group, UBS Warburg provides product innovation, top-quality research and advice, and complete access to the world's capital markets.

In 2001, UBS PaineWebber was part of UBS Warburg, and was reported as a business unit called Private Clients. This is the structure reflected in the UBS Financial Report 2001 and in this Handbook. On 1 January 2002, UBS PaineWebber was separated from UBS Warburg to form a new Business Group within UBS, and will be reported separately with effect from our First Quarter 2002 Report.

UBS PaineWebber – Joseph J. Grano, Jr.

UBS PaineWebber, the fourth largest private client firm in the US, provides advisory services and best-in-class products to a uniquely affluent US client base.

Corporate Center – Peter Wuffli

The UBS Group's portfolio of businesses is planned and managed for the long-term maximization of shareholder value. Risk and reward profiles are carefully monitored and controlled. Strong capitalization and ratings will remain key distinguishing characteristics of UBS. The Corporate Center aims to ensure that the Business Groups operate as a coherent and effective whole with a common set of values and principles.

Corporate Center is led by Peter Wuffli, President of the Group Executive Board.

Board structure

In order to further the highest standards of corporate governance, UBS has a dual board structure. UBS's Board of Directors, a majority of whom are independent non-executive directors, has responsibility for the ultimate direction of the Group and the supervision and control of executive management. The Group Executive Board, which is UBS's most senior executive body, assumes overall responsibility for the day-to-day management of the Group, for the implementation of strategy and for the results of the business. Together with the Chairman's Office it develops the Group's strategies for submission to the Board.

Industry trends

UBS believes that it is particularly well positioned to gain from the developing trends in global financial markets.

The increasing reliance of individuals on equity investment, for their personal savings and for their pension provision, will benefit firms that manage assets or trade in capital market products.

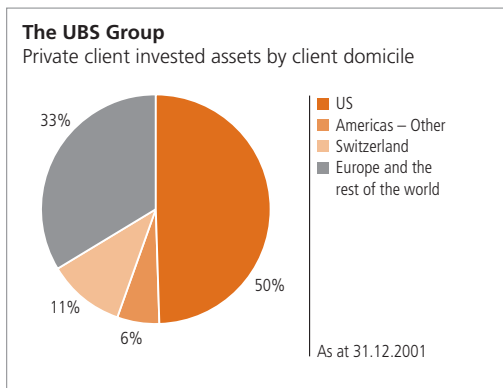
Commoditization of wholesale products, with increased competition and shrinking margins, is a fact of life, but one that is least harmful to institutions like UBS with the scale, global reach and technology infrastructure to support the volumes required to maintain profitability.

UBS believes markets will further deregulate and globalize, driving sharp increases in cross-border investment, both corporate and institutional. These changes present enormous opportunities for a firm like UBS with a global presence and the expertise to capitalize on cross-border flows.

The biggest trend that will drive UBS's business in the coming years is the anticipated expansion and concentration of

private wealth. In the US, wealthy households (those with USD 500,000 or more in net investable assets), represented 65% of assets in 2001, according to UBS proprietary research data. By 2005 they are expected to represent 68% of total household assets. The compound annual growth rate of this segment from 2001 to 2005 amounts to 6.6%, compared to 5.9% for total US household assets. While wealth is less concentrated in Europe, wealthy households (in this case with more than EUR 500,000 of investable assets), are still expected to own 42% of total household assets by 2005, up from 38% in 2001, with annual growth of 9.6% compared to 8.0% for total household assets.

The combination of this growth in wealth with the increasing shift towards equity investments, will provide huge opportunities for the best, most global, asset managers. Those securities firms with large institutional franchises will experience significant growth servicing the expanding asset management industry. And of course, the concentration and growth of wealth will bring with it a huge demand for private



History and development of UBS

UBS was formed on 29 June 1998, by the merger of two of Switzerland's leading banking groups, Union Bank of Switzerland and Swiss Bank Corporation.

Union Bank of Switzerland's history as a powerful force in banking began in the 1860s with the founding of the Bank in Winterthur and the Toggenburger Bank. In 1912, the merger of these two financial institutions resulted in the creation of the Union Bank of Switzerland. Subsequently, Union Bank of Switzerland developed primarily through internal growth, although it also made certain significant acquisitions, such as the asset management firm Phillips & Drew in 1985.

Swiss Bank Corporation celebrated its 125th anniversary in 1997. It was incorporated in Basel in 1872 and its history can be traced back to the creation of "Bankverein" from six private banking houses in 1854. Swiss Bank Corporation's

expansion involved significant acquisitions, including:

- O'Connor & Associates, a group of affiliated firms specializing in the trading of options and other derivative instruments, in 1992.
- Brinson Partners, a leading institutional investment management firm, in 1995.
- the investment banking and securities operations of S.G. Warburg Group, in 1995.
- Dillon Read & Co. Inc., a United States-based investment bank, in 1997.

All the entities that have joined UBS have, regardless of their size, had a significant impact on our culture and ethos. O'Connor & Associates was a much smaller firm, but brought an affinity for technology, which has remained with UBS ever since, and a trading approach and risk management sophistication which still remains core to our operations today. The

most significant benefit was the reverse cultural revolution O'Connor brought. This was quite deliberate; it transformed the company and helped it move into the modern age in a dramatic way. Later mergers reinforced this pattern of cultural change, with S.G. Warburg bringing a deep and passionate client focus, and Brinson Partners redefining the asset management process.

Merger with PaineWebber

On 3 November 2000, UBS transformed the scope and scale of its private client business in the US, through the merger with PaineWebber, one of the leading US wealth management firms.

The operational integration of PaineWebber's businesses was completed swiftly and smoothly in early 2001, and capped by the introduction of the new brand, UBS PaineWebber. We had not

banking services, providing a further opportunity for the current market leaders to grow their market share.

All of UBS's businesses are positioned to benefit from this increase in private wealth. UBS Asset Management is among the top five global asset managers, with an increasingly diversified range of investment styles. UBS Warburg has an extremely strong institutional client franchise. And the combination of Private Banking and UBS PaineWebber gives UBS the largest and most balanced share of the global wealth market.

Strategic developments in 2001

UBS Warburg continues to develop its corporate finance business, aiming to bring its origination strength in line with its strength in research and distribution. The addition of UBS PaineWebber has brought a step change to our profile in the US, demonstrating our commitment to the US market and strengthening our hiring platform. We have capitalized on this to make significant new hires during the year, appointing a new head

of US corporate finance for UBS Warburg, and other senior bankers across different sectors in the US and worldwide. Despite a very difficult year for corporate finance globally, with significantly lower volumes, UBS has begun to see the results of this initiative, with increased market share in both Europe and the US, according to a leading industry survey.

The merger with PaineWebber has been a transforming partnership for UBS, not just in the US, but across our private client businesses, through the strengths that UBS PaineWebber can bring to our developing European wealth management business. Applying the combined skills and expertise of Private Banking and UBS PaineWebber, we have started to build a successful business in the growing domestic wealth management markets of Europe. Since the start of 2001, we have added almost 250 new client advisors in our key European markets of Germany, France, Italy, Spain and the UK, and projects to upgrade products, training, marketing and technology are all on target.

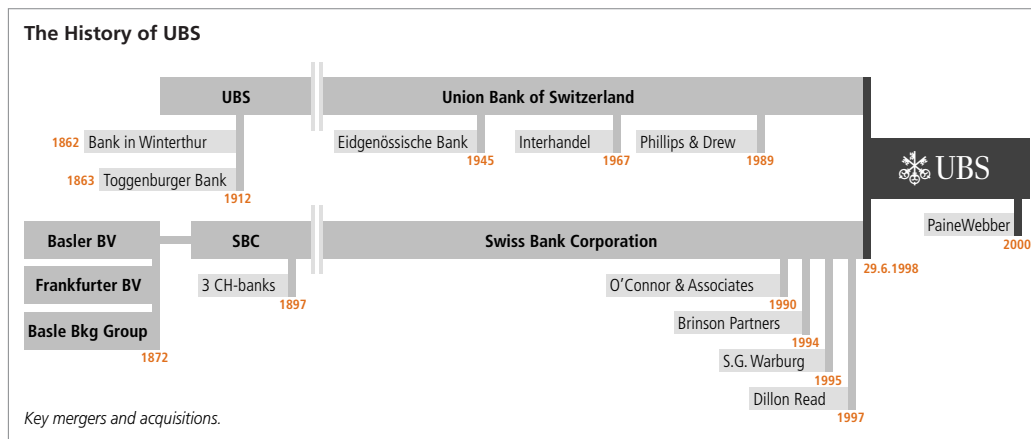
planned to change the PaineWebber brand so soon after the merger, but it was made possible by the extremely positive reception for the merger from PaineWebber staff and the smooth progress of integration. The decision to implement the new brand was supported by requests from UBS

PaineWebber financial advisors, who wanted a way to emphasize to their clients the advantages in scope, scale and access to global resources brought by this business's new place in the UBS Group.

At the same time, like previous merger partners, UBS PaineWebber is already

transforming UBS; not just through increased US presence and distribution capacity, but through the proven strengths in marketing, technology, product development and training that it is bringing to all our private client businesses, leveraging its skills to help drive UBS's European wealth management initiative.

This history of acquisition and openness to cultural diversity continues to be a key strength of the UBS Group. We are conscious of the importance of cultural change as a response to the growing challenges of the competitive global environment. The diversity of knowledge and experience offered by new acquisitions means that we can import into UBS better corporate cultures, better ways of doing business and better insights.





The Business Groups

UBS Switzerland

UBS Switzerland is the world's largest private banking business and the leading bank in Switzerland.



Stephan Haeringer
CEO UBS Switzerland and
CEO Private and Corporate Clients

Business Group Reporting adjusted for significant financial events

CHF million	Private and Corporate Clients		Private Banking		UBS Switzerland	
	31.12.01	31.12.00	31.12.01	31.12.00	31.12.01	31.12.00
For the year ended						
Income	7,161	7,443	6,314	6,928	13,475	14,371
Credit loss expense	(576)	(759)	(28)	(26)	(604)	(785)
Total operating income	6,585	6,684	6,286	6,902	12,871	13,586
Personnel expenses	2,988	3,187	1,776	1,956	4,764	5,143
General and administrative expenses	991	1,058	1,609	1,561	2,600	2,619
Depreciation	459	419	157	142	616	561
Amortization of goodwill and other intangible assets	0	27	41	43	41	70
Total operating expenses	4,438	4,691	3,583	3,702	8,021	8,393
Business Group performance before tax	2,147	1,993	2,703	3,200	4,850	5,193
Cost / income ratio before goodwill (%)	62	63	56	53	59	58
Net new money (CHF billion)	8.5	0.4	22.5	2.8		
Invested assets (CHF billion)	320	345	682	691		
Headcount (Full time equivalents)	19,938	21,100	9,266	8,925	29,204	30,025

Organization structure

UBS Switzerland Business Group is made up of two business units:

- Private Banking, the world's leading provider of wealth management services;
- Private and Corporate Clients, Switzerland's premier retail and commercial bank.

Shared expertise

Since the bringing together of Private Banking and Private and Corporate Clients into UBS Switzerland in February 2000, we have continued to examine opportunities for synergies between the two business units. We aim to concentrate resources in centers of excellence, sharing common products, infrastructure and services.

Some of these areas, such as Risk and Financial Control, are managed centrally by UBS Switzerland, while for others, such as the products and services unit in Private Banking or the wide range

of operations, IT and middle office services provided in Private and Corporate Clients, a business unit takes the lead. The aim is always to ensure that functions are provided by those areas with the best expertise, so that UBS Switzerland's domestic and international clients benefit from state-of-the-art products and services, while we gain the benefits of scale effects and avoid duplication.

Product development

In late 2001, we established a centralized Products and Services unit, based within Private Banking. The new unit will take responsibility for design and delivery of the whole investment product portfolio for UBS Switzerland. The aim of the new group is to promote a client driven sales process which puts clients' requirements clearly at the center of all new product development, and to deliver excellent support and training to our client advisors.

Services UBS Switzerland

At the end of 2001, we merged Private Banking and Private and Corporate Clients' middle office services. The combined group employs over 1,200 people and is responsible for all documentation management, retained mail, loan processing and client information management. It will process over 230,000 loan events, 4.8 million documents and 7.5 million changes in customer information per year. The merger of these two units is intended to enhance our ability to ensure swift and comprehensive compliance with developments in "know your customer" rules and to improve efficiency.

e-commerce

Over recent years the needs of our private clients have changed: while the physical branch network used to be the central distribution platform, nowadays banking clients require the flexibility to access their accounts using the full range of modern communication technology; they want to contact their bank when it is convenient for them, without restrictions imposed by opening hours.

In response, we thoroughly revised our distribution strategy after the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation, leading to the establishment of a centralized "e-Channel and Products" business area.

While simultaneously enhancing our ATM network and introducing a new branch concept which focuses resources on financial advice rather than transactions, we concentrated on realizing our e-commerce vision and strategy. Our success in designing and implementing a wide range of client centered e-banking solutions has been recognized by top ranks in both European and Swiss surveys.

The result is that all clients can benefit from a wide choice of ways to interact with UBS, while UBS Switzerland is able to further increase its efficiency.

e-commerce strategy

Our internet and other e-banking platforms are part of an integrated multi-channel strategy in which technology is employed wherever it creates additional value for our clients and the bank.

We use technology to complement, not replace the traditional physical branch network. Standard transactions can be conveniently exe-

cuted using one of the alternative electronic channels, leaving client advisors able to focus on providing personalized added value advice, developing financial solutions to match each client's individual requirements. Technology is therefore critical to supporting our goal of building strong client relationships, with advice at the center.

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

Our integrated distribution strategy, combining advice with a comprehensive e-banking offering, helps to strengthen our relationship with our existing clients, but is also pivotal in acquisition of new clients.

e-commerce highlights 2001

The internet provides a wealth of financial information which was previously not easily available, bringing challenges in deciding which information is genuinely useful and accessing it conveniently. *myUBS*, launched in June 2001, provides a free, tailor-made solution to this need for UBS e-banking clients.

In an easy configuration process, clients can create their own personalized internet page, showing their own selection of news, research and market price charts, and giving convenient links to UBS Quotes, UBS's free on-line financial information service, and e-banking.

myUBS continues to be enhanced, with a number of additional services introduced since its launch:

- *Secure Messaging* is a secure mechanism for transferring messages from a client to and from their advisor. It operates in a safeguarded environment, avoiding the need to send e-mail messages over the open internet. The system automatically routes client messages to the appropriate client advisor, who can respond via the same secure link.
- *my Opportunities* allows e-banking clients to create an investor profile and call up corresponding investment proposals. Additional tools help a client to plan the financing of life-cycle events, such as buying a first house, or paying for a child's education.

- *my IPO* is a calendar containing details of current and expected initial public offerings that will be available through UBS.

Despite the growth in internet penetration in recent years, many of our clients do not have access to the internet, so providing access to e-banking services via the telephone is still a key part of our e-commerce strategy. Clients calling UBS e-banking phone can talk to an e-banking advisor, or request information about their accounts through an automated system.

UBS Voice now provides voice-activated access to this information service. Launched in its German version at the beginning of June, this technology allows navigation through e-banking services by the spoken word. It provides access to information on current account balances or account transactions and can process transfers between accounts. It can tell a user information about exchange rates and the contents of their securities portfolio and can accept stock exchange orders. During 2002 we plan to extend the offering to other languages and allow users to receive details of their account balances or portfolio using the SMS text messaging system to a standard mobile telephone. UBS is the first Swiss bank to provide voice activated access of this sort.

UBS Quotes, our comprehensive free on-line financial information service, has evolved into a powerful financial analysis platform and has recently been integrated with the e-banking portal.

UBS Quotes covers the world's financial centers, the entire range of UBS funds as well as IPO's and provides access to UBS research and up to the minute market news sourced directly from the UBS Warburg trading floor. The system can provide detailed portfolio analysis, tracking a portfolio's value, unrealized gains or losses, and breaking it down by currency, sector, domi-

cile, and instrument type. It can hold sub-positions with individual prices and allows drill-downs to see the status of individual positions. A limit minder service monitors security-specific price limits set by the client and automatically sends an e-mail or a text message to a mobile phone if the limit is reached.

UBS Quotes is now fully integrated into the rest of our e-banking offering, allowing a user who has looked up details of a security to proceed directly to entering a stock exchange order.

UBS Quotes can also be accessed anywhere via personal digital assistants or WAP phones. Layouts adapt to the display size and format of the user's particular device. UBS Quotes for mobile users includes a wide selection of services available on the Internet version, including personal lists, portfolio analysis functions, the prices of several hundred thousands securities, and a currency converter.

Extensive e-banking services are also available to corporate clients and financial intermediaries. For example, UBS Connect, our professional, multi-client banking system, gives financial intermediaries full access to data on their client's assets. Direct links to the leading exchanges enable the intermediary to place and process orders during normal trading hours directly and instantly, with information on allocation and settlement available without delay. In addition, the user can access asset statements, detailed asset statistics and performance figures. UBS Connect has been a great success with our clients: at 31 December 2001, 84% of our intermediary accounts were administered through this channel.

Our customers make extensive use of our e-banking channels. At the end of December 2001, 295,000 clients had active e-banking contracts. Approximately 29.2% of payment orders are initiated via e-banking, and 11.5% of securities transactions.

Private and Corporate Clients

Private and Corporate Clients, UBS Switzerland's retail and commercial banking unit, provides a complete set of banking and securities services for individual and corporate clients, focused foremost on customer service excellence, profitability and growth via multi-channel distribution.

Business description and organization

Private and Corporate Clients is the leading bank in Switzerland. At year end 2001, Private and Corporate Clients had in excess of 4 million individual client accounts and relationships with some 170 top-tier companies, approximately 8,000 large corporations and 170,000 small and medium sized enterprises across Switzerland. Clients have invested assets of CHF 320 billion with us. With a total loan book of CHF 152 billion at December 31 2001, we have a share of over 25% in the Swiss lending market and the retail mortgage market.

We aim to provide our clients with optimal levels of convenience and service by continuously expanding our comprehensive range of alternative distribution channels. Together with our successful e-banking offering and customer service centers, our 1,177 ATM's and 327 branches across Switzerland provide a network broader than any of our domestic competitors.

At the end of 2001, the Private and Corporate Clients business unit employed 19,938 people throughout Switzerland. This represents a reduction of more than 5,700 since the merger in 1998 between Union Bank of Switzerland and Swiss Bank Corporation, as we have continued to realize the cost control effects of the systematic implementation of our strategic projects portfolio and the synergy benefits of the merger.

Private and Corporate Clients' objective is to further develop the most profitable large bank serving private, business and corporate clients in Switzerland. While continuously realizing further efficiency gains and exploiting cost saving potential, Private and Corporate Clients strives to create additional value by providing integrated financial solutions for clients' individual requirements. We will maintain and develop our state-of-the-art infrastructure by optimizing efficiency,

quality of services and security to the benefit of our clients and the rest of the UBS Group.

The Private and Corporate Clients business unit is composed of six business areas, four of which have income generating activities (Individual Clients, Corporate Clients, Operations and Risk Transformation and Capital Management) and two of which provide essential support services (Resources and Information Technology). Almost one quarter of our staff, primarily in the business areas Operations, Resources and Information Technology, provide services to other UBS units.

Our business areas

Individual Clients

The Individual Clients business area offers financial solutions for private clients. At the end of 2001, we had over four million individual client accounts, of which more than one-quarter related to affluent clients, with assets between approximately CHF 50,000 and CHF 1 million, a key focus of our efforts.

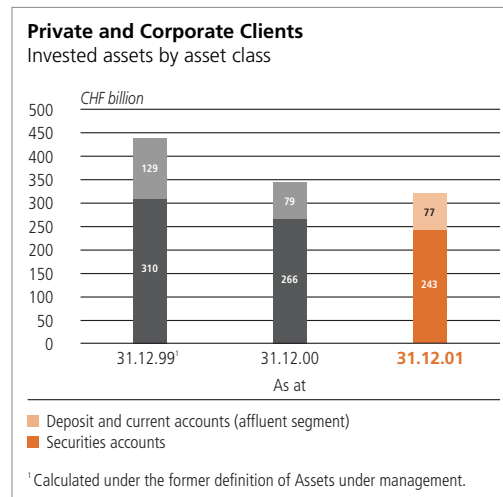
Our range of products and services provides comprehensive coverage of clients' financial life cycle needs, from current accounts and savings products, residential mortgages, to wealth management services, pensions and life insurance.

UBS is the leading lender to private clients in Switzerland, offering a comprehensive range of mortgage products, and has the biggest Swiss credit card portfolio, with a market share of 31%. We offer both the most widely accepted cards, VISA and Eurocard (Mastercard), giving our clients financial independence worldwide.

Our clients benefit from access to a wide range of services and expertise, be it from specialists within Private and Corporate Clients, from the newly established UBS Switzerland products and services unit, or from the capabili-

ties of UBS Warburg or UBS Asset Management. Examples include the recently launched UBS classic mortgage, where the interest rate is linked to the ten-year Swiss federal bond rate, the newly established Alternative Investments unit, which provides screened access to high quality alternative investments, or innovative investment products such as UBS's Fresco Index shares, which bring the benefits of exchange traded funds to the European market.

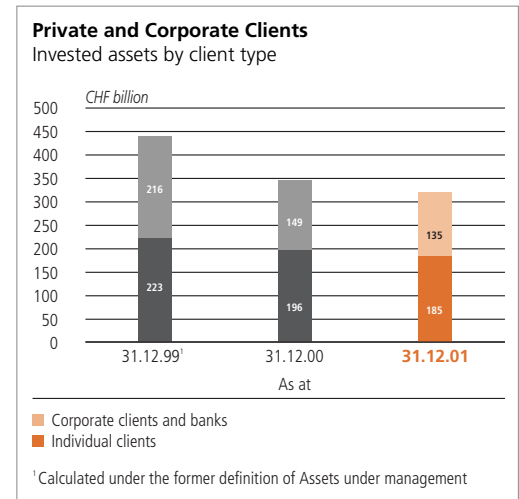
In addition to UBS Group's own products, our offering is also supplemented by an open product architecture approach, which provides access to carefully screened "best in class" third-party products. For example, UBS recently introduced third party management of funds deposited in its Fiscainvest retirement savings account, and UBS Life, which provides its own unit-linked life insurance products to UBS clients, also offers more traditional life insurance products sourced from a third party supplier.



As a leader in a relatively slow growing market, we are dedicated to increasing operational efficiency through the intelligent application of technology. Centered on UBS Switzerland's integrated multi-channel strategy, with its extensive e-banking offering, our infrastructure is designed to give our clients convenient and efficient access to banking services. For basic products and services technology is used, both to ensure round the clock availability and low cost provision. Our customer service centers provide convenient contact, and basic information or advice 24 hours a day, while for in depth advice and to work out specific indi-

vidual investment solutions all our clients have our expert client advisors and Switzerland's largest banking network at their disposal. In 26 of our branches we have implemented a "two-zone concept": standard transactions can be undertaken via ATMs, while client advisors focus on value-adding advice.

Technological support for our client advisors is also critical to our success. During 2001 we became the first bank in Switzerland to introduce a fully integrated and standardized automated lending business process. Our client advisors receive complete end-to-end support in all activities relating to granting and administering loans. Functionalities range from client relationship management to obtaining a rating and a credit decision, risk-adjusted pricing and the automatic execution and documentation of the transaction. Our clients benefit from fast response times, clear and comprehensive documentation and price transparency, while we gain from high data quality to support risk management tasks and, of course, increased efficiency with minimal manual intervention.



Corporate Clients

Corporate Clients provides integrated financial solutions for corporate clients including institutional investors, public entities and foundations based in Switzerland.

Our range of products and services is tailored to the needs and sophistication of our clients. The 170 top-tier companies, many of them with operations that span a multitude of markets, require advanced financing and risk management skills and comprehensive access to the capital

markets for their funding needs. Approximately 8,000 large companies utilize our expertise in handling complex financial transactions; focused on the domestic market, around 170,000 small and medium enterprises (SMEs) primarily require local market know-how and access to a full range of products and services. We are also the leading bank in Switzerland for public sector bodies.

Lending is naturally a core part of our business. Since 1998 we have introduced a completely new lending business process, using portfolio theory and detailed knowledge of our loans and our borrowers to introduce a comprehensive risk adjusted pricing model. This was designed to alter the focus from the volume of lending to the quality of lending, with an emphasis on transactions which create economic value, through an adequate risk/return relationship. As a result of this process the risk profile of our loan portfolio has gradually improved, with a higher proportion of higher quality counterparties, reflected in a reduction in our adjusted expected credit loss charge. At the same time risk adjusted pricing can bring benefits to our clients, promoting transparent and open discussions between client and advisor. The advisor communicates clearly the basis for credit decisions and can provide an external perspective to the client, as a basis for suggesting products and services that address identified issues and add value. Possible areas of improvement can be identified, which, if successfully implemented, can be reflected in lower loan pricing.

Our client advisors can also provide a wide range of financial advice, from investment products to complex mergers and acquisitions or structured financing advisory services, often working in close cooperation with specialists from UBS Warburg and UBS Asset Management. As well as lending and finance, Corporate Clients provides substantial business processes support to its clients, ranging from transactional payments and securities services to facilitating cross-border transactions with trade finance products.

To support a close relationship and ensure personalized advice, detailed knowledge of each client and their situation is key. During 2001, we introduced a web-based client relationship management system which consolidates data from a number of different systems, allowing each client advi-

sor to view client data in a structured and systematic way. Each client's particular situation and preferences can be analyzed in detail with the objective to propagate an even more client-tailored advisory process and actively address client needs.

Risk Transformation and Capital Management

The Risk Transformation and Capital Management (RTC) area was created in 1999 in order to separate the management of UBS Switzerland's balance sheet, and the risks associated with it, from loan origination, as part of our redesign of the entire lending process. Although other business areas are responsible for managing client relationships and granting loans, RTC is in charge of managing the risk profile of the loan portfolio as a whole.

This responsibility covers both strategy for new credits, including the management of risk adjusted pricing, and the management of the recovery portfolio, which principally contains impaired and non-performing loans. In addition RTC is responsible for identifying opportunities for securitization, sale or syndication of loans or risk exposures, in order to best manage the risk profile of the whole portfolio.

RTC has begun to use its extensive product and process expertise in this field to develop new products and services for third party distribution channels. Through its Credit Asset Transfer (CAT) initiative RTC works with third party financial institutions to give them the opportunity to sell on all or a portion of their residential mortgages. UBS then takes on the risk directly and refinances the transactions in the market, while the seller remains responsible for servicing the loan and maintains the customer relationship. A major new CAT relationship was announced on 15 February 2002, between UBS and Postfinance, the financial services arm of the Swiss Post Office. With outlets in every town in Switzerland, Postfinance will be able to offer mortgages and loans to individuals and small and medium sized enterprises without being licensed to operate as a bank.

Based on our expertise in this field, this innovative service gives our partners access to top quality risk management and funding, while UBS is able to leverage the robustness and scalability of its processes to generate additional revenues for the bank.

Operations

The Operations business area provides the transaction processing infrastructure to UBS Switzerland and to other UBS units. For example, in the Primary Booking Name initiative, which was implemented over the last two years, FX interbank and FX options transactions from key UBS Warburg locations such as London, Stamford, Singapore, Hong Kong, and Tokyo are now centrally processed in Switzerland. This centralized approach exploits economies of scale, and ensures that synergies between the various units are fully realized. Since the 1998 merger between Union Bank of Switzerland and Swiss Bank Corporation we have streamlined overlapping infrastructure and re-engineered processes, so that UBS now has a stable and reliable infrastructure at its disposal, able to provide state-of-art services with high efficiency.

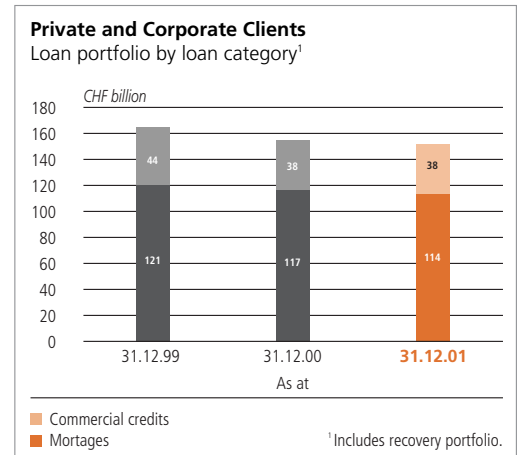
Operations also offers payments, securities, and custodial services to more than 3,000 financial institutions world-wide, and plays a leading role with UBS Warburg in the group-wide “Bank for Banks” initiative which offers state-of-the-art wholesale banking services to third party banks. This allows the bank to optimize the utilization of its existing infrastructure and increase efficiency, while third parties who lack our scale can outsource activities and benefit from wide-ranging UBS’s expertise.

UBS Global Custody & Investment Services offers institutional investors the opportunity to consolidate multiple bank relationships into a single cost-efficient global custodian. This simplifies their processing and administration and allows them to take advantage of our value added services, such as flexible consolidated performance reporting, investment controlling and accounting, and powerful portfolio management tools.

Loan Portfolio

At 31 December 2001, the Private and Corporate Clients loan portfolio amounted to CHF 152 billion. Mortgages represented CHF 114 billion, of which 82% were residential mortgages.

Continued discipline in implementing our credit portfolio strategy has resulted in a strong focus of our origination efforts on higher quality exposure with an attractive risk return relationship. The risk profile of the portfolio further improved over the past year. For details on the credit port-

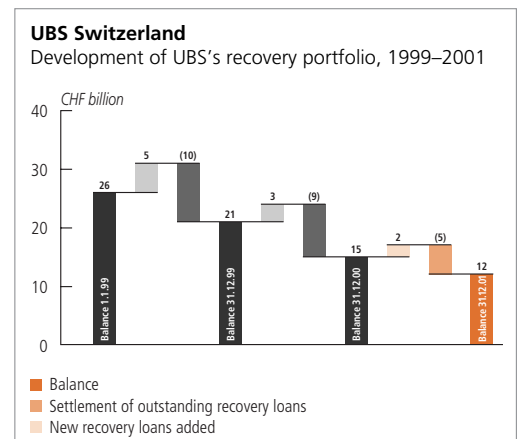


folio, please refer to the Risk Analysis section on pages 61 to 76.

Recovery portfolio

Risk-adjusted pricing takes account of the fact that, based on historic loss experience and considering our economic scenario for the future, a certain percentage of clients will be unable to meet their financial obligations. Once a particular client is in actual default, dedicated teams of recovery specialists advise the client to achieve the best financial result either by pursuing a possible economic recovery through restructuring, or alternatively, by achieving the best possible value through liquidation of available collateral in order to limit our financial loss.

The recovery portfolio amounted to CHF 12 billion at 31 December 2001, of which CHF 11 billion were impaired and carried provisions of CHF 5 billion. The recovery portfolio has reduced by 54% over the last three years from



CHF 26 billion at 31 December 1998, soon after it was set up, thanks to the improved economic situation in Switzerland and our successful recovery efforts. Over the same period, non-performing loans with payments outstanding for ninety days or longer decreased from CHF 14.0 billion at 31 December 1998 to CHF 7.0 billion at 31 December 2001, leading to a non-performing loans to gross loans ratio of 4.6%.

Strategic initiatives

The Strategic Projects Portfolio

Private and Corporate Clients has enjoyed considerable success since the formation of UBS following the 1998 merger. Net profit before tax grew at an average annual rate of more than 33% from 1998 to 2001, despite the difficult environment of the last year. Much of this success has resulted from our dedicated efforts to realize the opportunities presented by the merger, including both cost synergies and improved revenue generation.

In order to make the most of these opportunities, we set up a Strategic Projects Portfolio, which groups together our most important initiatives – those with the highest potential to contribute towards achieving our strategic goals – giving them regular senior management attention and priority in terms of IT and other resources, and subjecting them to a systematic control process.

Structured along five value drivers: “distribution”, “pricing”, “products”, “processes”, and

“cost control”, its achievements since the merger have included rationalizing and extending our product portfolio, streamlining our distribution network, combining payments and securities operations centers and integrating logistics functions, resulting in substantial efficiency gains.

The biggest positive effect on income has come through the implementation of risk-adjusted pricing in the lending business and our continued efforts to increase the efficiency and customer focus of the different steps in the lending process. At the same time we have filled out our product portfolio, for example by introducing the UBS Classic mortgage which has an interest rate linked to the ten-year federal bond rate. This addition to our product range ensures that we can offer our clients an optimized product for any phase of the interest rate cycle. We are also using technology to help us increase revenues, using data mining to better understand our clients needs and identify cross-selling opportunities, while at the same time increasing process efficiency so that client advisors can spend more time on providing advice.

Cost control initiatives within the strategic projects portfolio are now increasingly focused towards exploiting synergies for the entire UBS Switzerland Business Group – providing services centrally for both Private and Corporate Clients and Private Banking. Examples include the centralized products and services unit, the centralization of document management and loan processing and shared development of e-banking initiatives.

Private Banking

UBS Private Banking is committed to becoming the wealth management provider of choice for private investors, world-wide.



Georges Gagnebin
CEO UBS Private Banking

Business description

UBS Private Banking provides a comprehensive range of products and services individually tailored for wealthy clients from Switzerland and abroad, through offices around the world.

With 140 years of private banking experience, 85 offices world wide and CHF 682 billion of client invested assets, Private Banking is the world's largest private bank.

Private Banking's 2,346 highly trained client advisors, combine strong personal relationships with access to the resources of the whole UBS Group to provide a full range of wealth man-

agement services, from asset management to estate planning, corporate finance advice to art banking. Private Banking is committed to developing an open product platform, widening the choices available to its clients by complementing UBS's own products with top quality third party products, through a screened open-architecture.

Private Banking is currently expanding its domestic business in five key European markets – France, Germany, Italy, Spain and the UK – opening new offices and aiming to hire a total of up to 250 new client advisors each year.

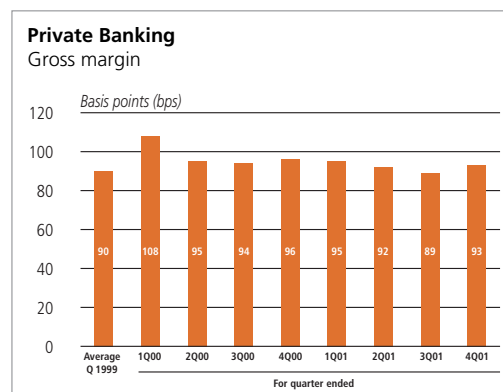
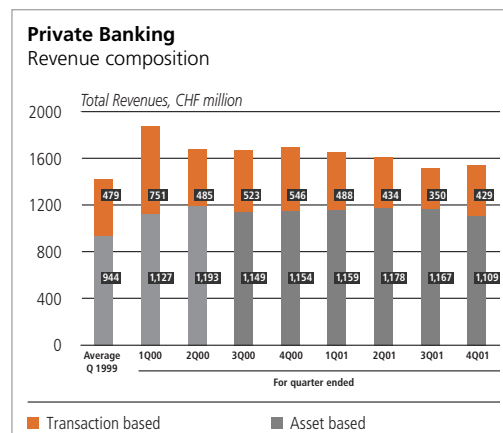
Organization

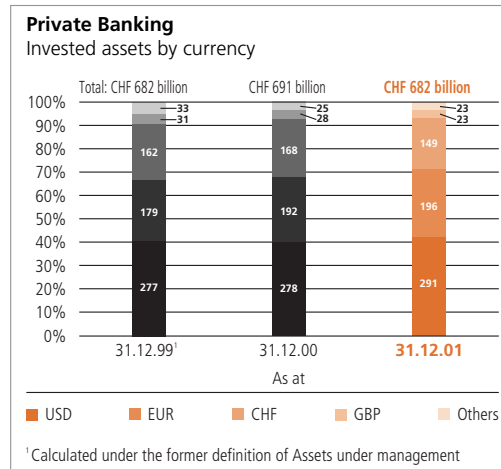
Private Banking's global product offering is carefully tailored to meet country-specific tax and legal regulations and the different aspirations of clients in different markets. Our client advisors are organized in line with this geographical focus, into five regional business areas:

- Europe
- Asia
- Middle East and Africa
- Americas International, and
- Swiss Clients

Where local regulations allow, client advisors who serve clients domestically or internationally report through to a single manager, helping to avoid channel conflict and ensuring that our clients receive a consistent high quality service whether they bank at home or abroad.

In addition, we have established expert global teams which concentrate on the requirements of particular client groups or provide specialized services. Examples include the Family Office for wealthy families, the sports and entertainment group focusing on the special life-cycle related needs of artists or sports professionals, the Islamic banking team which provides products designed to be Shari'a compliant, and our numismatic and art banking groups.





The Intermediaries business area is the market leading provider of products and services to financial intermediaries in Switzerland. Leveraging the scale and scope of our private banking expertise, we provide financial intermediaries in Switzerland, Germany and elsewhere with solutions, products and services that add substantial value to their client relationships, and allow efficient and convenient management of their clients' assets through UBS Connect, our sophisticated e-platform.

Finally, we operate five independently branded, but wholly-owned private banks: Armand von Ernst, Banco di Lugano, Cantrade, Ehinger, and Ferrier Lullin, each based in a different one of Switzerland's key regional private banking markets.

Clients and marketing

Target clients

UBS has moved away from rigid client segmentation. We prefer clients to "self-segment" themselves, based on the different levels of service we provide at different costs.

In Europe, our products and services are designed for "core affluent clients", i.e. those with in excess of EUR 500,000/CHF 750,000 of investable assets, a market which represents a tremendous opportunity. A Datamonitor study in April 2001 predicted that there will be over four million individuals in this target segment in Europe by 2004, with over EUR 4 trillion in investable assets. In addition, the wealth of the most affluent segment (those with EUR 3 million or more in investable assets) is expected to grow

fastest, providing great potential for UBS, which has the focus, resources and expertise to meet these clients' needs.

Marketing

Brand strength and brand recognition are a key success factor in the private banking industry, helping to create a situation in which clients trust us to provide them with high quality advice, products and services.

UBS is one of the best known brand names among high net worth individuals globally. This position is bolstered by the UBS Group's brand marketing campaigns, which aim to increase awareness of UBS amongst high net worth individuals and business leaders, and by Private Banking's own brand campaigns, specifically targeted at potential private banking clients.

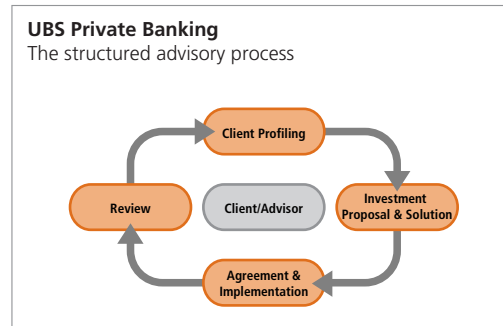
UBS Private Banking is associated with values such as "security and stability", "inspires trust", "takes clients seriously" and "excellent products and services", all factors which are among the most important for high net worth individuals. Our brand advertising campaigns aim to sustain and strengthen our image and brand awareness. For the last two years, these campaigns have been based around images of the UBS Verbier Youth Orchestra, which gives around 100 talented young musicians aged between 17 and 29 the opportunity to gain experience working with top international conductors.

In addition to brand based activities, each business area is responsible for its own regional marketing activities, supported by a centralized UBS Switzerland marketing function, which is responsible for coordinating brand management activities, advertising, market research, and for sponsoring and the preparation of standardized marketing materials.

Structured advisory process

The consistent delivery of a truly consultative advisory process combined with a comprehensive product positioning framework is essential to putting Private Banking's value proposition into action. Highly skilled client advisors take time to understand clients' needs in order to provide comprehensive, best-in-class solutions through a carefully structured process, supported by leading technology.

The client advisor's role is to ensure a clear focus on the needs of each individual client.



Together with the client, the client advisor invests significant time and energy to understand and analyze the client's situation, taking into account all the different factors which affect the client's investment goals and risk appetite. The client advisor then acts as a consultant, helping to build a personalized financial strategy to meet these requirements.

The client advisor acts as a gateway for the client to the resources and expertise of the whole of UBS and third-party providers, building on a robust product management framework and the resources of our specialists to bring together the products and services required to implement the client's strategy. Our commitment to open architecture forms a key part of the value proposition for our clients in this process, allowing the client advisor to select the best product to meet the client's needs from a much wider range.

The process is completed through comprehensive monitoring and reporting of investment performance, with regular feedback to adjust goals and strategies as required.

Products and Services

UBS Private Banking's offering spans the entire range of financial solutions, allowing us to tailor our offerings to each client's specific needs. The bank's own range includes products from all our Business Groups and is supplemented by carefully screened third party products which have been through a comprehensive due diligence process.

Open architecture

In order to be credible to our clients we have to offer them product-neutral advice, selecting the best possible products for each client's specific situation. But the only way to do this meaningfully is to give our clients access to best in class products in every field, suited to their needs and

risk appetite. To do this successfully means opening our product architecture to include products and services from third-party suppliers. But rather than becoming a financial supermarket, we have chosen to carefully screen third-party offerings, only selecting those that meet the high quality our clients require. The combination of this careful product selection with our structured, consultative advisory process aims to ensure that the solutions we propose best fits our clients' needs and goals.

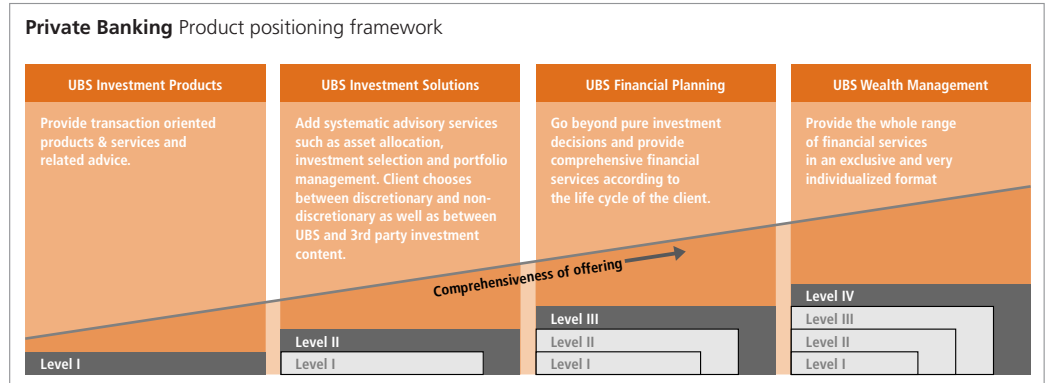
In order to have the greatest possible impact, our open architecture framework is focused on products or services which differ substantially in both quality and content between different providers, such as mutual funds and alternative investment products.

At the same time, a successful open architecture framework requires efficient product management capabilities, with clear ownership of each product category across all phases of the product lifecycle, including responsibility for selecting and screening potential product offerings. During 2001, we have rationalized our product management structures and processes, introducing end to end responsibility for product selection, development, and support.

Product positioning framework

Depending on their financial situation and individual preferences, clients have varying requirements regarding the level of service they expect from their advisor. This is where a logical and intuitive positioning of our wide range of products and services can add value for the client as well as the client advisor.

At the first level, *UBS Investment Products* include advisory services which are primarily focused upon effective management of a standard suite of transaction-oriented products. *UBS Investment Solutions*, the second level, adds systematic advisory services including asset allocation, investment selection and portfolio management. Clients choose investments based on a consultative advisory service or delegate all decision making to their client advisor. The third level, *UBS Financial Planning*, goes beyond pure investment decisions and offers comprehensive advice reflecting the client's lifecycle needs and their entire asset base, including for example real estate and art. At the top end of the range, *UBS Ultra High Net Worth Wealth Management* pro-



vides the whole range of financial services in an exclusive and very individualized format for ultra high net worth individuals.

The framework is fully dedicated to open architecture and provides access to carefully screened best-in-class products. By applying a consultative advisory process the services are centered around the individual client with the goal of creating and reinforcing the UBS brand experience.

The four levels of the product positioning framework provide the foundation for external and internal communication of our product offering. The framework also acts as the basis for the organizational and structural set-up of our product functions as we implement a systematic product development process.

To promote the proposition and ensure consistency in communication, a comprehensive client advisor training program is being carried out, and client literature and other promotional material are being updated. The overall message is also taken up in the latest UBS Private Banking advertisement campaign “AAA”: “Access” representing the open architecture; “Analysis” representing the screening process; and “Advice” representing the systematic advisory process.

Research and investment products

UBS Private Banking clients benefit from the same service standards enjoyed by institutional investors, with direct access to market specialists and execution on major financial markets worldwide, across the full range of products from equities to FX, structured products to precious metals.

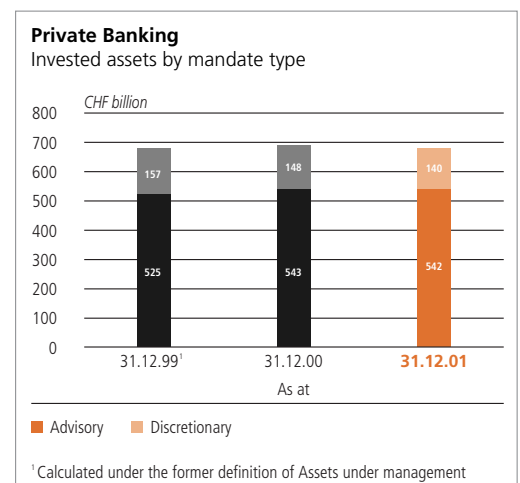
Alternative investments. Our clients can access a wide range of alternative investments, from in-house hedge funds (like the GAM or

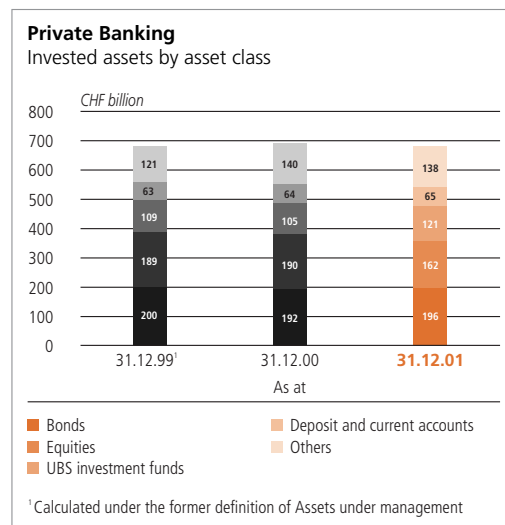
O’Connor range of funds) to third party private equity funds and fund of funds products. In particular, we offer discretionary portfolio management clients the option to include alternative investments in their asset allocation.

Research. UBS Private Banking clients have access to a broad range of research on the development of economies and financial markets, on industries and on individual companies. Research and analysis is provided through the investment center within UBS Private Banking. Private Banking clients can have direct access to exclusive research information via the internet.

Investment solutions

Discretionary portfolio management. Clients delegate the management of their assets to a team of professional UBS portfolio managers, according to an investment strategy agreed with their client advisor and reflecting the client’s risk appetite and investment goals.





Clients can elect either to invest in the full range of securities directly, or to limit their investments to investment funds, through our Managed Fund Portfolio product. In each case, our portfolio management service offers clients an active, but risk-controlled investment approach, based on consistent analysis of macroeconomics, markets and individual companies with regular monitoring of credit quality and liquidity of assets. Investments are managed with an emphasis on diversification across asset categories and markets, and an increasing focus on a regional and sector orientation. We can also take into consideration tax aspects in our investment process, if requested.

Through discretionary portfolio management our clients can benefit directly from the investment policy of a leading financial institution with international resources and access to a large fund of knowledge and experience, secure in the knowledge that portfolios and risks are continually monitored. UBS's portfolio management services do not simply provide an "off-the-peg" product: there are over 650 different investment plans within the six basic strategies, depending on criteria such as currency, home market bias, and the inclusion or exclusion of alternative investments.

Advisory management of assets. Clients increasingly wish to be involved in the management of their own assets, with the support from UBS's investment professionals. For them, Private Banking provides analysis and supervision of portfolios and their risk profiles, together with tailor-made proposals to support investment deci-

sions. We offer different levels of structured advisory services, all based on an all-inclusive fee. Examples of our different offerings include: Active Portfolio Supervision (APS) in which a client receives investment recommendations whenever their portfolio breaches specified parameters; Active Fund Supervision, which is essentially the same, but the client's portfolio is limited to investment funds; and Active Portfolio Advisory (APA) which, in addition, provides direct access to a dedicated investment specialist and tailor-made strategies. UBS Choice and UBS Fund Choice provides more limited supervision and advice for smaller portfolios, including access to a screened selection of third party funds and a comprehensive banking package, all for a flat fee.

Financial planning

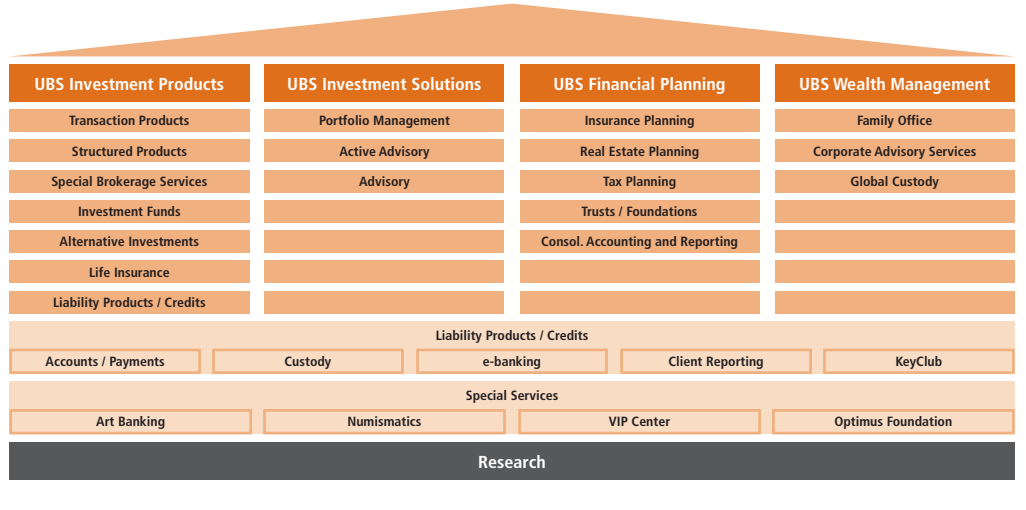
We provide professional financial planning to help our clients achieve their personal and financial objectives and cope with important lifecycle events (e.g. inheritance, proceeds from business sale, change in tax regulations). We develop and execute customized solutions using our own in-house experts and top external consultants, to deliver value-adding and personalized wealth enhancement strategies.

The financial planning advice we provide to our clients and their families covers every stage of life, from education funding and gifts to children through business start-up to succession planning and inheritance. Specific advisory services we can provide include strategic wealth management and lifestyle planning, retirement planning, tax planning, inheritance and succession planning, real estate advice, asset protection, art banking, insurance advice and the establishment of trusts, foundations and other corporate structures.

Corporate finance advice

UBS Private Banking provides independent corporate finance advice and services to business owners, drawing on the resources of UBS Warburg. This advice can cover the whole range of business situations, from venture capital search for start-up companies to succession planning, or the development of derivative structures to help diversify single stock holdings. The corporate finance advice we give to clients is carefully coordinated with financial planning and tax advice, helping to optimize the proceeds from corporate finance transactions.

Private Banking
Product Portal: The Private Banking House



Family office team

During 2001, Private Banking formed a specialist team to spearhead its work with the top segment of its clientele. The aim of the team is to help wealthy families to preserve and optimize their investments across generations, taking into account all economic, political, legal, and personal aspects.

The services provided by the family office team will vary from client to client. In some cases, where a professional family office already exists, UBS can provide additional specialist advice. This might cover institutional-style strategic asset allocation and portfolio risk analysis, or investment banking services, perhaps advising on the sale or restructuring of a family business. In other situations, where a family office does not exist, the expert team can help the client to build it up. In each case, the specialist team's role is to identify and analyze clients' unique needs and then to tailor UBS's services to meet those needs in the most efficient and effective manner. The family office team ensures that their clients receive the very best quality products and services, sourced from across UBS's Business Groups and from best-in-class third-party providers.

The family office market in Europe is estimated at around CHF 220 billion in investable assets, with forecast growth of 11% a year over the next three years. The launch of this dedicated team underlines our ambition to further

expand our position as the provider of choice for the top segment of private banking clients.

Banking products

We provide a full range of global custody and investment services, including securities lending and reporting and risk control. We also offer real-estate financing, Lombard credit and structured credit products. At 31 December 2001, Private Banking's outstanding loan book amounted to CHF 29 billion, or 16% of UBS Switzerland's gross loan book.

e-business

Our philosophy is to put the client advisor at the center of all our client relationships, supported by the most advanced technology. Our e-banking activities aim to enhance this relationship. Independent from time and venue, state-of-the-art applications provide clients with convenient access to their assets and comprehensive personalized services, designed to reflect local characteristics and requirements. All services are protected by our proprietary SAFE security infrastructure, which safeguards client access and data transmission over the internet.

Originally developed and implemented in our Asia operations, SAFE has recently been rolled out in our locations in Monaco and Luxembourg and successfully integrated with their banking systems. This process is a good

illustration of our strategy for delivering successful global e-commerce projects: solutions and applications are first developed for a particular local market and then, after successful implementation, adapted to reflect local characteristics and requirements and rolled out in other locations.

Other prominent examples also include solutions initially developed for e-banking in Asia and launched in July 2001: *e-Portfolio* which gives an online-view of client's assets and liabilities, *Wealth Optimizer* which supports clients in analysing their financial situation, and *Advisory Messenger* which provides a secure online communication link for our clients routing messages automatically to the dedicated advisor. These three e-advisory applications are now being rolled out in other markets. After country-specific customization to meet local client requirements, the e-portfolio application has been launched for clients of UBS Luxembourg. In November, a version of the Wealth Optimizer was implemented for clients of UBS Switzerland, as the myOpportunities tool within myUBS. All three tools are also now available to clients of some of our private banking subsidiaries (Bank Ehinger, Cantrade and Banco di Lugano).

European wealth management

UBS has scale and excellence in two different types of private client business: the brokerage model, through UBS PaineWebber, and the private banking model, through Private Banking. In Europe in 2001 we have been putting the combined strengths of these two traditions together to help build our domestic presence in five key target countries, Germany, France, Italy, Spain

and the UK, which together represent about 80% of the European market. By deploying staff and expertise, we have taken the best of UBS PaineWebber's top-class abilities in marketing, product management and innovation, technology, and training and applied them as a key catalyst in building our European business.

Our strategy is based on three building blocks: 'People', 'Products' and 'Platform'. Private Banking strives to provide all our clients with excellent service and financial solutions tailored to their needs, based on in depth analysis and a strong relationship between each advisor and his or her clients. Only by deploying the best people, with the best products and superior technology to support them will we deliver this experience to clients in our target countries.

People

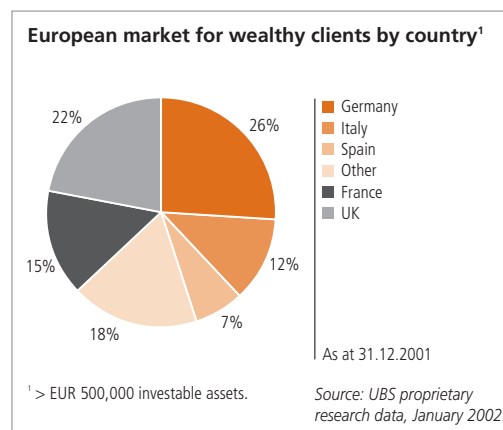
Acquiring high quality client advisors with profound knowledge of their domestic markets is a cornerstone of the European Wealth Management initiative. Our ambition is to hire and train up to 250 new client advisors a year, representing an entirely new level of recruitment activity for Private Banking. Our success so far has been bolstered by the acquisition of new skills learned from UBS PaineWebber, which hired almost 2,000 new advisors between 1998 and the start of 2001. An unprecedented training initiative, developed with UBS PaineWebber's assistance, helps every private banker to master state-of-the-art know how in wealth management, complemented with product specific training for the new generation of open architecture advisory services.

Products

While all our clients have access to the full range of Private Banking's product offering, we have also launched two new innovative open architecture services in 2001, specifically targeted at the European market.

UBS Managed Fund Portfolio is a client investment account constructed primarily with third-party mutual funds. In contrast to other "fund of funds" structures, UBS Managed Fund Portfolio offers funds from a truly global range of managers and further distinguishes itself by a quantitative and qualitative screening, analysis and selection process.

Clients benefit from a state-of-the-art process that ensures top due diligence standards as well





85 Private Banking Offices (incl. 35 in Switzerland)

as identifying offerings with a superior performance track-record. Around 30 providers have been selected for the initial launch from a screened universe of over 1,000, including AXA Investment Management, DWS, Fidelity, JP Morgan Fleming Asset Management and Swissca.

As its name implies, *UBS Money Manager Access* opens the door to exceptional investment talent. The product provides UBS clients with access to a wide range of independent third-party investment managers to create tailor-made investment solutions. In addition to the mutual funds available through UBS Managed Fund Portfolio, UBS Money Manager Access will provide direct access to the management skills of institutional managers such as Lazard Frères, JP Morgan and Alliance Capital.

As well as taking on the work of manager selection on behalf of the client, UBS will provide access to third-party managers at much lower minimum investment levels than would be possible direct. UBS Money Manager Access currently has no equivalent in Europe. Both UBS Managed Fund Portfolio and UBS Money Manager Access have been developed in close co-operation with UBS PaineWebber. These new products represent further progress in Private Banking's commitment to open architecture, and will be rolled out progressively in other Private Banking locations outside of Europe.

Platform

As we hire new client advisors, we are expanding our European branch network, extending our reach to new locations and increasing convenience for our clients. Potential locations within the five target countries, are systematically screened according to a number of criteria such as market potential, market share to break even, and potential availability of professional client advisors. Three different types of branches are

being implemented, tailored to local market requirements and taking account of potential invested assets: "main country offices" are located in a country's most important financial center and comprise extensive infrastructure, while branch offices and satellites are operated using a leaner set up. Through this process, our network has expanded to 21 offices, from 15 offices at the start of 2001, with new offices opened in Seville, Lyon, Marseille, Bordeaux, and Bielefeld, and a small representation established in Edinburgh.

In order to ensure that we can operate in the most cost effective and efficient manner, while at the same time maintaining the flexibility to swiftly introduce innovative new products, we are building a new IT infrastructure to support the European wealth management initiative. The new platform passed its first essential test in December 2001 with its successful implementation in France. Locations in other target countries are scheduled to be migrated to the new platform over the course of the next five quarters. It also forms the basis for the implementation of new advisor tools which support analysis of a client's profile and situation and the selection of the appropriate asset allocation through a systematic approach.

After a year of intense effort, the European Wealth Management initiative is well on track, producing promising results despite adverse market conditions, with clients entrusting CHF 5.6 billion in net new money to us in our target countries in 2001.

According to market analysis, the top client segment targeted by the initiative is expected to grow significantly over the coming years, representing major potential for the future. We believe that with our unique expertise, business model, and technology, UBS is excellently placed to enhance our position in Europe, establishing ourselves as the wealth manager of choice in our five target countries.

UBS Asset Management

UBS Asset Management delivers superior results for its clients through a globally integrated investment organisation.



John Fraser
CEO UBS Asset Management

Business Group Reporting

CHF million	UBS Asset Management	
	31.12.01	31.12.00
For the year ended	31.12.01	31.12.00
Institutional fees	1,007	1,119
Mutual funds fees	1,103	834
Total operating income	2,110	1,953
Personnel expenses	1,003	880
General and administrative expenses	564	439
Depreciation	46	49
Amortization of goodwill and other intangible assets	266	263
Total operating expenses	1,879	1,631
Business Group performance before tax	231	322
Cost / income ratio before goodwill (%)	76	70
Net new money – Institutional (CHF billion)	6.2	(70.8)
Invested assets – Institutional (CHF billion)	328	323
Net new money – Mutual Funds (CHF billion)	28.7	2.9
Invested assets – Mutual Funds (CHF billion)	344	319
Headcount (full time equivalents)	3,281	2,860

Business

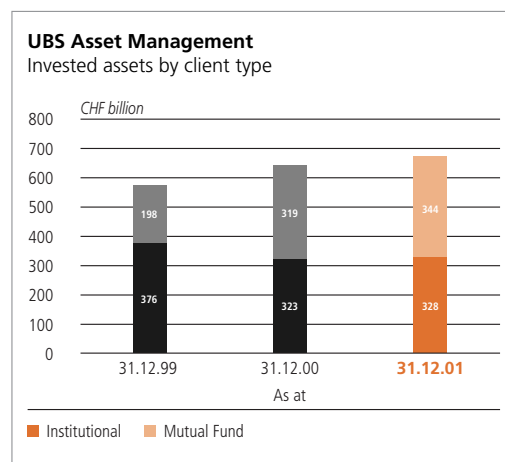
Our business is investment management: delivering value-added investment performance and excellence in client service to a diverse international client base, ranging from major institutions to

individual mutual fund clients. The breadth, depth and global scope of UBS Asset Management's investment capabilities, research and risk management distinguishes it from its peers.

UBS Asset Management has a total of CHF 672 billion of invested assets making it the twelfth largest global institutional asset manager, the second largest mutual fund manager in Europe, and by far the largest mutual fund manager in Switzerland.

UBS Asset Management brings together the key elements of investment solutions for its clients:

- A global perspective on markets and economies.
- A top quality investment management platform, dedicated to valuing markets, currencies and securities around the world, based on a range of investment styles, with a particular expertise in identifying price/value discrepancies derived from fundamental research.

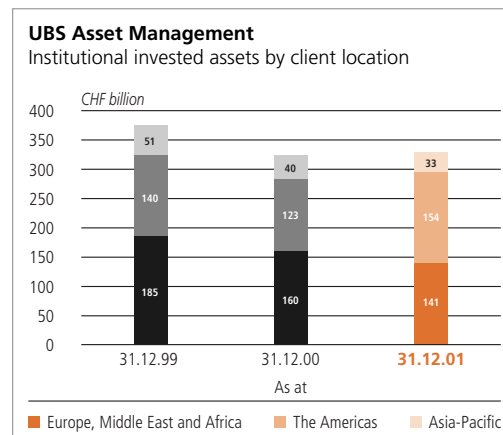


- Innovative thought leadership and investment ideas.
- Extensive financial, informational and, most important, human capital.
- A dedication to providing personal client services and personalized business solutions.

UBS Asset Management's main offices are in Chicago, London and Zurich. With 3,000 employees in over 15 countries, UBS Asset Management offers a truly global perspective on investment management.

Organization

UBS Asset Management's investment expertise is based on a single global investment platform, with over 450 investment specialists located in the world's major financial centers. The resources and expertise of all these specialists are available to support all of UBS Asset Management's clients, wherever they are located.



UBS Asset Management's investment expertise is delivered through specialized local client franchises around the world, which combine access to UBS Asset Management's global investment management platform with detailed knowledge of local clients, markets and regulations. Our best known client brands are Brinson Partners, Brinson Advisors and Brinson Canada in the Americas, Phillips and Drew in the UK, and UBS Asset Management and UBS Investment Funds in Europe, the Middle East, Africa and Asia.

In addition, specialized investment capabilities are offered through specific brands including: O'Connor, which offers hedge funds and other alternative investments; GAM (Global

Asset Management) a multi-manager specialist; Fresco exchange traded funds; UBS Realty and UBS Timber.

In April 2002, we will launch a new brand, UBS Global Asset Management, to replace the different brands that have been used around the world for our core institutional and wholesale businesses. This strategic move reflects the global integration and scope of our investment approach and offerings and underlines our consistency of approach and commitment to shared principles throughout the world. Specialty businesses with separate identities such as GAM, Fresco and O'Connor will retain their current names.

Investment capabilities

UBS Asset Management has historically been closely associated with a price/intrinsic value investment style. Although this remains true, we have broadened our capabilities and developed our investment platform in recent years to the point where we believe that we are now better described as a multi-paradigm investment firm. This paradigm is supported by one global, totally integrated investment platform, employing resources from all areas of the globe.

Our investment capabilities include:

- Equities
- Balanced
- Fixed Income
- Alternative - Private equity, real estate, timber, farmland, hedge funds
- Multi-manager and fund of funds

Our client mandates reflect the very broad range of these capabilities, from fully discretionary global asset allocation portfolios to equity or fixed income portfolios with a single country emphasis, including alternative asset classes such as real estate, timber, hedge funds and private equity. These portfolios are available through separately managed portfolios as well as through a comprehensive range of pooled investment funds. We pride ourselves on our ability to create customized investment portfolios to meet the specific needs of any prospective client.

Our underlying investment philosophy remains: the ultimate value of a security is based on fundamentals, specifically, the present worth of future discounted cash flows. We are constantly looking for discrepancies between asset prices and their fundamental worth, but further-

more, we look to understand these differences. We realize that these differences and the risks associated with them, if not fully understood, can lead to periods of under-performance. Therefore it is important to both understand the market pricing and actively manage the risk.

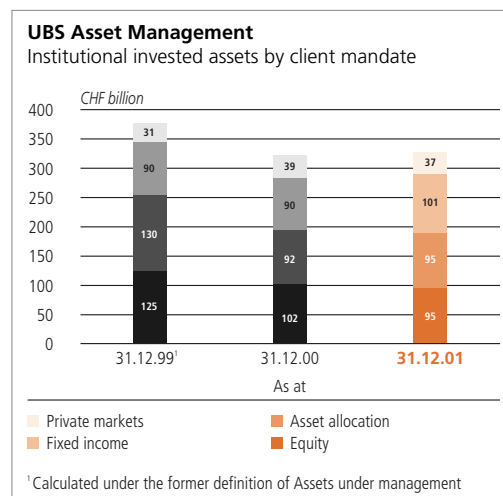
Our investment process is driven by essential fundamentals, which are necessary for us to be successful value added providers. These include recruiting and maintaining the highest quality investment talent, a focus on excellent and innovative research and disciplined portfolio construction and risk management. In addition, we pride ourselves in providing thought leadership, which extends our influence to assets beyond the realm of UBS.

Clients and marketing

Institutional

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

- corporate and public pension plans
- endowments and private foundations
- insurance companies
- central banks and supranationals
- financial advisors



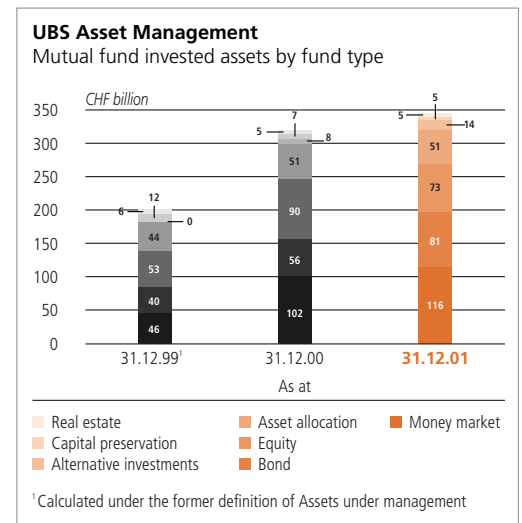
We use our long-term track record and strong client franchise to increase the penetration of our services with both new and existing clients. As a full service institutional asset management firm, offering our clients a comprehensive global range of research and investment analysis is a key part of our overall service and capability package.

In consultant-driven markets, such as the United States and the United Kingdom, we rely on developing and maintaining strong relationships with the major consultants that advise corporate and public pension plans, endowments, foundations, and other institutions. We also dedicate resources to generating new business directly with large clients.

In the US, our Brinson Advisors business provides products and services to the wholesale intermediary market, focusing on three core areas: quantitatively driven investments, short-term fixed income products and municipal securities. We are committed to developing and extending this wholesale business over the next two years.

Mutual funds

UBS Asset Management offers almost 500 mutual funds, exchange traded funds and other investment vehicles, across all asset types in diverse country, regional, and industry sectors.



In general, we do not maintain direct relationships with individual customers, but distribute our funds through intermediaries. Our most significant distribution channels are UBS Switzerland and UBS PaineWebber, with a minority of assets distributed through third-party providers. The penetration of our mutual fund products within the UBS Group's existing client base is already very high, especially within Switzerland. The trend in the industry towards an open, multi-channel distribution architecture will

provide increased competition for sales within UBS, but also increased opportunities outside the Group. Our business is on the leading edge of this trend, in which an increasing proportion of funds will be sold through third party channels. Within the UBS Group, we have an opportunity to offer our products through UBS PaineWebber, and to build on their successful experience of open architecture products in the US. Outside the UBS Group, UBS Asset Management will focus on distribution through third party financial institutions as demand increases for outsourcing of asset management and mutual fund services.

UBS Asset Management will increasingly leverage GAM's range of mutual funds and its external manager selection process, in which it selects the best from over 4,000 third-party fund providers, to enhance the range of its investment styles and products. GAM products are now actively distributed by UBS Switzerland.

Strategic opportunities

Industry trends and competitive positioning

UBS Asset Management operates in a business which is growing across all market segments and geographic locations, with Europe and Japan leading the way. The US remains the largest market on an absolute basis, but shows slower growth rates and a much more competitive environment than other regions.

The trend to open architecture is fully entrenched within the US but is in its early stages in Europe and other regions of the globe. This clearly changes the landscape of the mutual fund business, presenting both opportunities and challenges. The biggest opportunity is the chance to increasingly offer our investment management services through other distribution channels. Undoubtedly, the challenge will be to retain our very high market share among UBS clients as competitors begin to offer their own investment management services.

The asset mix of investors throughout the world is expected to shift towards alternative investments, driven largely by regulatory activity and the continued pursuit of consistent risk-adjusted returns. Alternative investments can provide returns with a low correlation to traditional markets and therefore offer an investor's portfolio potential for better risk-adjusted return. Management of alternative investments offers us

the potential for higher margins, as well as a closer alignment of fees with relative performance.

Global pension reform is expected to continue as regulatory constraints ease. The pension market is undergoing a shift towards increased private funding which is expected to provide significant opportunities to asset managers.

UBS Asset Management believes that it is strongly positioned to take advantage of this growing and changing market:

- We have the reach to succeed in an increasingly global industry.
- We have a multi-specialist offering of diverse investment capabilities matched by very few companies.
- We are one of very few large investment management firms with an equally strong institutional and mutual fund capability.

Investment performance

UBS Asset Management continued its strong relative investment performance from 2000 into and through 2001. 2001 brought us one of the best years of relative performance in the history of the organization, exceeded only by 2000.

UBS Asset Management was well positioned for the economic down-turn that occurred in the US and spread throughout the world. Overall performance was helped by relative overweights to high yield and emerging market debt, real estate and a general underweight to equities. Within each asset type, individual security selection contributed significantly to our strong relative performance. We feel this is a direct result of the integration of our investment platform, with the opportunities this has brought to share knowledge and research across the world.

We believe that UBS Asset Management is well positioned to continue its recent strength of the past two years' investment performance. We will continue to develop the integrated global investment platform created in 2000, increase the coverage of our research in all major asset classes and continue to leverage the strengths of O'Connor and GAM. Additionally, we will continue to broaden our search for future investment opportunities in alternative asset classes and continue to commit significant resources to product innovation, research and thought leadership.

UBS Warburg

UBS Warburg is a leading investment banking and securities firm, providing a full spectrum of products to institutional and corporate clients, governments and intermediaries globally.



Markus Granzio
Chairman UBS Warburg



John Costas
CEO UBS Warburg

Business Group Reporting adjusted for significant financial events

CHF million, except where indicated For the year ended	Corporate and Institutional Clients		UBS Capital		Private Clients		UBS Warburg	
	31.12.01	31.12.00	31.12.01	31.12.00	31.12.01	31.12.00	31.12.01	31.12.00
Income	16,011	18,033	(868)	368	6,969	1,321	21,349	19,590
Credit loss expense	(112)	(243)			(18)	(3)	(130)	(246)
Total operating income	15,899	17,790	(868)	368	6,951	1,318	21,219	19,344
Personnel expenses	8,339	9,284	96	142	5,080	1,106	13,515	10,532
General and administrative expenses	2,705	2,779	66	49	1,489	355	4,260	3,183
Depreciation	454	555	2	2	124	42	580	599
Goodwill amortization	145	149	0	2	0	1	991	290
Total operating expenses	11,643	12,767	164	195	6,693	1,504	19,346	14,604
Business Group performance before tax	4,256	5,023	(1,032)	173	258	(186)	1,873	4,740
Cost/income ratio before goodwill (%)	72	70			90 ¹	105 ¹	86	73
Net new money (CHF billion)					36.0	15.2		
Invested assets (CHF billion)			1	1	782	773		
Headcount (full time equivalents)	15,562	15,262	128	129	20,678	21,814	36,368	37,205

¹ Excluding retention payments.

Business

UBS Warburg operates globally as a client-driven securities and investment banking firm. For both its own corporate and institutional clients and the individual clients of other parts of the UBS Group, UBS Warburg provides product innovation, top-quality research and advice, and comprehensive access to the world's capital markets.

Organization

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

- The Corporate and Institutional Clients business unit is one of the leading global investment banking and securities firms, providing

products and advice to institutional and corporate clients.

- UBS Capital is responsible for the private equity investment of UBS and third-party funds in a diverse global range of private companies.

During 2001, the private clients business centered on UBS PaineWebber was also reported as a business unit of UBS Warburg, and this is the financial presentation shown here and in the Financial Report 2001. With effect from 1 January 2002, UBS PaineWebber became a separate Business Group within UBS, and this will be the structure used for future financial reporting.

Corporate and Institutional Clients

The global reach, breadth and diversification of our direct access to investors is unique, and our relationship-enhancing technology is among the best in the world.

Business

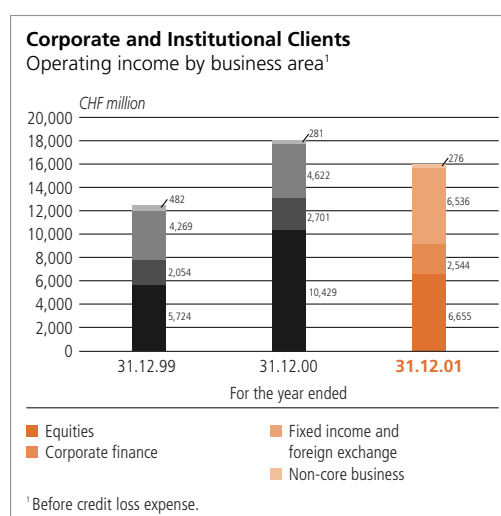
UBS Warburg is one of the leading global investment banking and securities firms. Its diverse heritage has shaped a business with a truly global client base and culture.

Our Corporate and Institutional Clients business unit provides wholesale products and advisory services to a diversified client base worldwide. It has a significant corporate client financing and advisory business, with particular strengths in advising on cross-border mergers and acquisitions and the capital raising requirements of our global corporate and government client base. Historically, among the leaders in corporate finance in Europe, we have expanded our US capabilities considerably over the last 18 months, leading to increased market share and visibility. We are one of the top-ranked firms in the world for institutional clients, with particular strengths in global equities research and distribution and in originating, structuring and distributing fixed income cash and derivatives products.

UBS Warburg has a strong history of risk management skills across all product areas, with integrated trading and risk management across cash and derivative products, and a consolidated global view of risk across different world regions. We leverage these skills to provide a broad array of risk management products for our institutional and corporate clients.

Corporate and Institutional Clients also manages cash and collateral trading and interest rate risks on behalf of the UBS Group and executes the vast majority of securities, derivatives and foreign exchange transactions for UBS's retail clients.

Corporate and Institutional Clients' headquarters are in London and it employs 15,562 people in over 30 countries throughout the world.



Organization

We organize our business into three main business areas, distinguished by the type of products and services offered and the nature of business risks: Equities, Fixed Income and Foreign Exchange, and Corporate Finance. All businesses are run on a global basis, with co-heads in place across each of the business areas to provide leadership across our regions and product sectors.

Legal structure

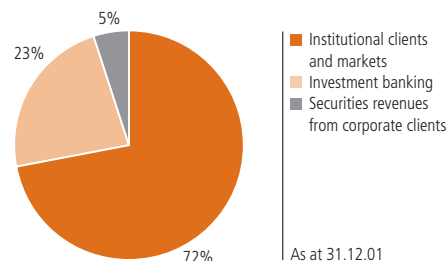
UBS Warburg operates through branches and subsidiaries of UBS AG. Securities activities in the US are conducted through UBS Warburg LLC, a registered broker-dealer.

Clients

Our client base is truly global and broad based, and our salespeople, research analysts and investment bankers provide products and services to institutional investors, intermediaries, banks, insurance companies, corporations, sovereign governments and supranational organizations.

Corporate and Institutional Clients Operating income by client type

% of total	For the year ended		
	31.12.01	31.12.00	31.12.99
Investment Banking	23	23	23
Securities revenue from corporate clients	5	5	5
Institutional clients and markets	72	72	72
Total	100	100	100



Products and services

Equities

Our Equities business area is a leading player in the secondary equity markets and in equity, equity-linked and equity derivative products for the primary markets. In 2001, we were a leading player in the primary markets as measured by league tables, ranked 2nd in International Equities and in International Equity Linked and were one of the top two distributors of equities globally and the top ranked player in Europe. During the year we have rapidly expanded our client penetration in the US, as measured by a leading private industry survey.

Key products and services within Equities include:

- providing research about companies, industry sectors, geographic markets and macro-economic trends to our corporate and institutional clients.
- sales and trading of cash equities, equity-linked products, equity derivatives and equity structured products.
- structuring, originating, distributing and trading newly issued equity, equity-linked and equity derivative products.

We operate a multi-local model, with membership on over 87 different stock exchanges in 31 countries and a local presence in 40 offices globally, giving us enviable market access. We also have memberships of a wide range of electronic exchange ventures, and UBS Warburg owns equity stakes in some of these, including FXAll and Volbroker.

Our commitment to giving our clients the best possible access to the world's equity markets is delivered through a team of 900 sales people and sales traders, in 40 locations globally. They are supported by a focused account management structure, in which continuous review and feed-

back from our institutional clients covers all aspects of our performance including research, sales, trading, execution and settlement.

Our equity research team supplies independent assessments of the prospects of approximately 3,400 companies across diverse sectors worldwide, representing about 90% of world market capitalization. With 600 professionals worldwide, we now have the largest team of equity analysts at any firm, according to Nelson Information's Investment Research Survey 2001.

Direct client contact is complemented by our leading edge technology and e-commerce tools. We aim to use e-commerce to help enhance our clients' experience of UBS Warburg, using the internet and other technologies to empower our clients, and offering direct access to our products and services via their medium of choice. Technology allows us to intensify our relationship with our clients, providing individualized content and automating routine tasks, allowing our staff to concentrate on providing value added advice.

The merger with PaineWebber in November 2000 has transformed our US equity franchise. The addition of a significant number of highly rated equity research analysts, combined with access to the wealthy US private client base of UBS PaineWebber have helped us to become one of the top five firms, by volume, in trading equities on the New York Stock Exchange, as well as having one of the fastest growing market shares in equity underwriting, up to 4.7% (ranked 7th) in 2001 from 1.0% (ranked 12th) in 2000. Our US equity research team now numbers over 100 analysts making it the fifth largest in the US.

In Europe, we have regained a leadership position in primary issuance in 2001, combining our extensive knowledge of the international markets with strong research and trading capabilities. Our strengths lie not only in the issuance of ordinary shares, but, through our

top-tier capabilities in equity-linked products including convertibles and exchangeables, in our ability to lead manage the issuance of the most appropriate products to meet our clients' equity financing needs. We more than doubled our market share internationally in 2001 and were the only firm to increase market share in all regions. We improved our position in all products and regions, converted the secondary franchise into primary solutions, and generated a positive momentum that is the envy of our peer group.

During 2001, UBS Warburg was widely recognized in industry awards, receiving the following accolades from industry publications and peers:

- Best Equity House of the Year according to The Banker Magazine in September 2001.
- First for equity research in the Thomson Extel Pan-European Research Survey, capturing 22 first places among 71 different industry-sector awards.
- Institutional Investor Research rankings – 1st for Global Sector Teams, 4th in Europe, 2nd in All Asia ex-Japan (with the largest increase in rankings) and 8th in the All American Research Team 2001 (improved from 17th in 2000).
- Best Broker for Execution in the Reuters UK Larger Company Survey, for the fifth year running.
- Most Improved Broker Award in the Reuters US Larger Companies Survey.
- First for Independent European Equity Research in Global Investor Magazine.
- International Financial Review's European Equity House of the Year (and Australian Equity House of the Year for the fifth consecutive year).

IFR praised UBS Warburg for "consistently pushing back the boundaries of what was considered feasible and for moving the Equity Capital Markets industry forward in tough conditions. Time and again in 2001, UBS Warburg showed how an equity house could draw on all its resources in atrocious market conditions in order to win and execute mandates."

Corporate finance

The Corporate Finance business area provides a variety of advisory services including mergers and acquisitions, strategic advisory and restructuring to supranational, corporate and sovereign

clients. It also provides primary capital markets and global syndicated finance services, in cooperation with the Equities and Fixed income and foreign exchange businesses. Products and services include:

- mergers and acquisitions.
- equity and equity-linked capital offerings, initial public offerings and other public and private equity offerings in conjunction with the Equities business area.
- investment grade and high-yield debt offerings in conjunction with the Fixed Income and Foreign Exchange business area.
- leveraged debt offerings in conjunction with the Fixed Income and Foreign Exchange business area.
- structured finance.

We were very active in all sectors in 2001, across all regions, providing our expertise, knowledge and execution capabilities to help our key clients in their ongoing strategic development. Just a few examples of the deals included:

- Vodafone, the leading global mobile phone operator used UBS Warburg for all five transactions required for the USD 11.5 billion takeover of J-Tel. This further strengthens an already deep relationship where we have been advising Vodafone on acquisitions for several years.
- De Beers of South Africa, a USD 19.3 billion public to private transaction, where we proved our familiarity with the highest levels of complexity, and provided a USD 3 billion underwritten loan commitment to assist the financing.
- Allianz AG, one of the worlds leading insurance companies, used us as their advisors on their EUR 24.2 billion acquisition of Dresdner Bank AG – a testament to our creativity when it comes to problem solving.

We have more than 2,600 corporate finance professionals worldwide, providing top-quality strategic advice and capital markets execution to our key clients globally.

Expansion of UBS Warburg's global corporate client franchise is one of our key strategic goals. Over the last eighteen months, we have been actively recruiting, gathering together some of the best professionals in the industry to extend both our client reach and our execution capabilities. We have appointed senior bankers and research professionals in Media, Telecoms, Technology, General Industrials and Mergers and acquisitions, both in the US and elsewhere, including

Ken Moelis, now head of our Corporate Finance business in the US. As a result of these successes our Corporate Finance team in the US has almost doubled in size since 1999.

Despite these investments, we do not expect immediate results. Gaining new corporate finance business can involve very long lead times, but we are very pleased at the progress that we have made during 2001, both in terms of league table position and market share. The combination of our expanded corporate finance and equities footprint in the US, giving us greater access to key corporate executives, combined with our global reach and scale, has allowed us to become involved in some of the largest and most complex deals in 2001, helping us to achieve the highest fee pool market share growth of any leading investment bank this year.

We have established a longer term goal of achieving market share, on a global basis, in excess of 5%, which effectively means a target of maintaining a leading fee pool market share in Europe and Asia-Pacific and a top 5 position in the Americas. We believe that the market share gains we have achieved this year represent a solid foundation on our path to this goal, particularly against a background of very challenging conditions this year for corporate finance, with the combined effects of volatile markets and uncertain economic conditions significantly reducing the overall levels of market activity and the total fee pool.

Fixed income and foreign exchange

Our Fixed Income and Foreign Exchange business area operates across a broad spectrum of products and markets, including government

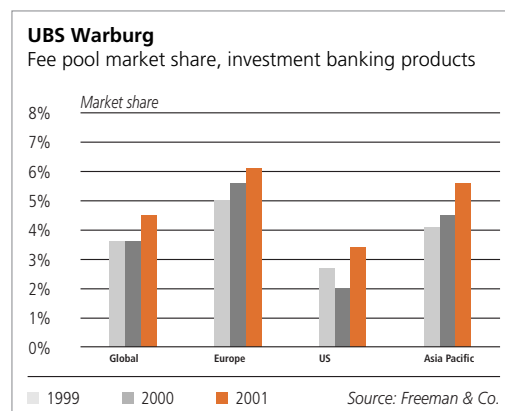
and corporate bonds, fixed income derivatives, mortgage backed securities, foreign exchange, cash and collateral trading, principal finance and credit derivatives. For institutional investor clients, we can provide access to the widest range of cash and derivative products covering bonds, foreign exchange and other fixed income products. Our global structuring capability combined with our distribution to investor clients allows us to provide unique financing and hedging products to issuing clients.

Our approach to specific products and markets varies. Where potential for sufficient risk-adjusted returns exist, we will seek market share leadership in high-volume, liquid markets, using our client flow, capital and economies of scale to generate returns. However there are certain high profile fixed income markets where scale can only be gained at the expense of returns. In these cases, we focus on earning higher margins in specialized products where we can develop a position as a dominant global intermediary, leveraging our top quality research, and our premier structuring, trading, distribution and execution capabilities.

The prime example of this approach is in the most visible segments of the global fixed income markets: the primary international and eurobond sectors. We have always made a conscious decision to operate our businesses and allocate resources based on profitability and not on pure league table positions. So, while our league table positions have slipped in 2001 as compared to 2000, we have recorded a record year in terms of revenues, with full year revenues across all products increasing by 41%.

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

- 1st in Fixed Income Strategy Research – Institutional Investor Global Survey.
- 2nd Best overall bank in FX Week Awards 2001, with 1st place rankings in FX forwards, currency options and internet trading. We also received the 1st place ranking overall with corporate clients.
- Best website in the euromoney.com 2001 internet awards for: FX Research and Analytics, FX Options and Execution, Swaps, Medium Term Notes, Euro-Commercial Paper and Fixed Income Analytics.



Loan portfolio

UBS took a strategic decision during 1998 to reduce the size of its international loan portfolio, limiting exposures unless they directly supported core client relationships. UBS continues to avoid engaging in substantial balance-sheet-led earnings growth, with the result that the size of its international loan portfolio has reduced considerably from the level recorded in 1998. Despite this, we continue to support our core clients in their financing needs. Risk/return considerations will be the paramount consideration in determining balance sheet usage.

Corporate and Institutional Clients' loan portfolio was CHF 61.2 billion at 31 December 2001. The Risk Analysis section on pages 61 to 76 contains an in-depth review of UBS's credit portfolio and business, including a discussion of its impaired and non-performing loans.

e-commerce capabilities

UBS Warburg is among the leaders in the provision of innovative e-commerce and technology solutions to institutional clients, using these to strengthen the link between advisors and our clients. We will continue to expand and enhance our web-based technology solutions, in order to simplify distribution of information and execution, and provide individualized services, analytical tools and transparency to our clients.

Our e-commerce capabilities are based around our Client Portal, formerly known as Investment Banking On-Line (IBOL). Through this single home page, our clients have direct access to prices, research, trade ideas and analytical tools through leading edge applications such as ResearchWeb – our equity research site, DealKey, an internet facility for managing equity and equity-linked new issues, and CreditDelta, our credit portfolio management product.

The quality of our e-commerce sites has again been recognized by industry awards in 2001. In the euromoney.com 2001 internet awards, UBS Warburg won more awards than any other bank, including Best Site awards to: FX Research and Analytics – *FX Web*, FX Options and Execution – *FX Option Trader*, Swap – *LIBOR Derivatives Online*, Medium Term Notes – *MTNWeb*, Euro-commercial paper – *ECPWeb* and Fixed Income Analytics – *CreditDelta*. The Extel European Research Survey also ranked ResearchWeb as

the number one Equity Research Website, as voted by institutional clients.

UBS Warburg sees technology as an enabling tool, allowing clients to benefit from the expertise and skills of its advisors. While the pace of technology development has not changed in 2001, we have focused on developing e-commerce capabilities as core components of our products and services, rather than as stand alone initiatives. Each business is continually seeking to enhance products and distribution methods with one goal – delivering the whole of UBS Warburg effortlessly and seamlessly to our clients.

Providing superior advice will be key to the Corporate and Institutional Clients business unit's future success. UBS believes its e-commerce initiatives enhance its ability to add value to clients, as well as allowing it to extract value from the scale of its core business processes.

Energy trading

Early in 2002, UBS Warburg established an energy trading unit, based on Enron's wholesale electricity and natural gas trading operations, through a licensing agreement that will give Enron an interest in the future income of our new business. UBS Warburg has not agreed to assume any of Enron's past, current or future liabilities, and started with an empty trading book.

Under the deal, UBS Warburg will use Enron's proprietary software (including EnronOnline), some of its trading floors and its back office equipment. We have hired 650 former Enron employees, including 150 trading professionals. The key members of Enron's electricity and natural gas trading management team will join UBS, including Greg Whalley, who became President and Chief Operating Officer of Enron in August 2001. The Enron team will be supplemented by management and other staff transferred from existing UBS businesses.

Despite the recent interruption of Enron's trading businesses, we expect that the combination of Enron's existing technology and personnel together with the risk management skills and financial strength of UBS Warburg will prove attractive to Enron's former clients and trading partners. Prior to its collapse, Enron was the undisputed leader in this market, with a reputation for trading innovation and the excellence of its technology. We believe that the talent and expertise of the team will continue to be per-

ceived as the market's best, recovering past relationships and attracting new clients.

We see this as a great opportunity for UBS Warburg to leverage its risk management skills and trusted capital strength in an area in which market risk is largely uncorrelated to market risk in our other trading operations. It will take time to establish ourselves in this business, but we are confident that the combination of UBS Warburg with the technology and staff of the Enron trading operations will prove highly successful.

Strategic opportunities

UBS Warburg is one of the few truly global content and advice providers for institutional clients, with a full range of products. The international reach, breadth and diversification of its direct access to investors is best-in-class. We believe that markets will continue to be difficult until the second half of 2002 at the earliest, which will have a short term negative impact, particularly on our equity and corporate finance businesses. Nonetheless, we are confident that as recent new hires build their productivity, and as the momentum we have built in European and US markets pays dividends, we will continue to gain market share across all businesses, products and regions in 2002.

Industry trends and competitive positioning

We continue to show a significantly improved competitive position in both the corporate client segment and with institutional clients. Our market share in virtually all markets has improved and although we have not yet broken in to the

top 5 in the corporate finance fee markets, we are a solid top 3 institutional player and have demonstrated strong momentum this year.

Our profits and cost/income ratio were hurt by the weaker revenue opportunities as 2001 progressed, but our overall costs are down and are tightly controlled. We are increasingly competitive and well positioned to take full advantage of any market improvements.

Expansion of Corporate finance

The merger with PaineWebber has positioned UBS Warburg as an employer of choice in the key US market by further demonstrating UBS Group's commitment to the world's largest market and establishing a solid platform from which to build.

During the latter part of 2000 and continuing throughout 2001, we took advantage of our enhanced credibility as an employer, and the dislocation in labor markets through various mergers within our industry, to hire key experienced and talented individuals and small teams in corporate finance.

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

Building our franchise in this way will not result in overnight success. We expect it to take

Structure of the Enron deal

Under the agreement, UBS Warburg receives an exclusive license for ten years for the North American natural gas and electricity trading systems and a non-exclusive license for its systems in the rest of the world and for trading any other commodity or financial instrument globally. There will be no initial cash payment – all payments will take the form of royalties, based on future pre-tax income. Through the exercise of call options, UBS Warburg has the possibility to

acquire all rights to the business (each call option would allow UBS Warburg to buy a third of Enron's retained interest). If we exercise no calls after ten years and three months, our exclusive license for the North American gas and power trading operations will convert into a non-exclusive license and Enron will have the right to offer the intellectual property for trading gas and power in North America on a non-exclusive basis to other parties.

two or three years for the new hires we have made and the new teams we are building to reach full productivity and generate substantial returns. Despite this, we have already achieved significant results, dramatically improving our corporate finance rankings compared to 2000. Using Freeman & Co data as a reasonable proxy for improvement in competitive positioning, we have clearly started building positive momentum with corporate clients in the Americas and are one of the few among our competitors to have increased absolute fee revenues in the Americas in 2001. However, we recognize the need to continue to build our

franchise, hiring bankers and research analysts with significant expertise and client relationships.

Expansion in secondary markets in the US

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

UBS Capital

UBS Capital will focus on managing its existing portfolio and selectively investing in core sectors and industries where we can leverage our capabilities and experience.

Business

In July 2001, we announced the postponement of plans to spin off UBS Capital to an affiliated status given the difficult market conditions for the private equity asset class. Since then, results at UBS Capital have continued to disappoint, as further deterioration of the economic climate has forced the postponement of planned divestments and led to continued degradation of value in parts of the portfolio.

During this period, we carefully considered the strategic future of UBS Capital in the light of the market environment, shifts in the structure of the private equity industry and our current assessment of the long-term opportunities for UBS Group. Although we are still undergoing a detailed review of the prospects for continued investments in some limited sectors, we expect that, consistent with our overall focus on advisory services, UBS will now concentrate on the management of its existing portfolio of investments, on enhancing our capabilities in private equity asset management, and restricting the level of our direct investments as principal.

New investments by UBS and its clients in UBS Capital funds will be limited to those sectors and regions with the strongest performance track record, and where UBS has the greatest competitive strengths, management depth and industry knowledge.

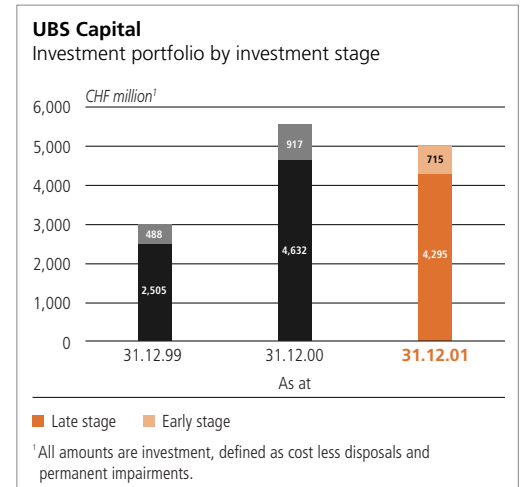
UBS Capital's portfolio outside these strongest performing sectors and regions will be managed down by a team of proven and experienced investment managers over a period of several years to reduce UBS's exposure without unnecessary sacrifice of fair value.

In the short-term, divestment opportunities remain highly restricted, and the future development of the portfolio will depend on the performance of the portfolio companies, the resumption of more normal levels of capital mar-

ket activity, as well as the general outlook for company valuations.

Investment portfolio

UBS Capital had a total investment portfolio of CHF 5.0 billion at 31 December 2001, defined as historic cost of investments made, less divestments and permanent impairments. The fair value of the portfolio at the same date was CHF 5.6 billion.



At 31 December 2001, approximately 68% of the investment portfolio was three years old or less. Generally, investments are sold, and operating income recognized, between the third and the sixth year after the initial investment.

Organization

UBS Capital is structured on both a regional and sector basis. Given our revised approach, we now focus our efforts on ongoing management of our portfolio, and evaluating opportunities to exit investments which are appropriate to market conditions, the strategic positioning of the operating company and a satisfactory return for UBS and other investors. In considering any new

UBS Capital investment portfolio

Aging (based on date of initial investment)

CHF million ¹	As at		
	31.12.01	31.12.00	31.12.99
pre-1994	85	65	89
1994	190	253	200
1995	214	272	308
1996	202	166	204
1997	207	520	496
1998	722	842	718
1999	1,123	1,490	978
2000	1,781	1,941	
2001	487		
Total	5,011	5,549	2,993

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

UBS Capital investment portfolio

Geographic region (by headquarters of investee)

CHF million ¹	As at		
	31.12.01	31.12.00	31.12.99
North America	2,134	2,356	1,389
Europe	339	382	217
Latin-America	2,018	2,333	1,153
Asia-Pacific	520	478	234
Total	5,011	5,549	2,993

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

UBS Capital investment portfolio

Industry sector (based on industry classification codes)

CHF million ¹	As at					
	31.12.01	% of Portfolio	31.12.00	% of Portfolio	31.12.99	% of Portfolio
Consumer related	773	15	1,023	18	610	20
Transportation	522	10	640	12	605	20
Communications	414	8	380	7	326	11
Computer related	833	17	819	15	282	9
Energy	152	3	190	3	167	6
Other electronics related	247	5	247	4	38	1
Other Manufacturing	94	2	106	2	45	2
Chemicals and materials	54	2	106	2	23	1
Industrial products and services	1,360	27	1,361	25	635	21
Others	562	11	677	12	262	9
Total	5,011	100	5,549	100	2,993	100

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

investments we will aim to exploit the specific skills of our most successful teams, and draw on the resources and strengths of the Group.

Investment process

UBS Capital concentrates on late-stage investments, believing that these have a better chance of producing superior risk-adjusted returns. At 31 December 2001, 86% of the book value of UBS Capital's investments was late-stage at the time of investment.

Investment opportunities have originated from a variety of sources, including referrals from UBS Switzerland and UBS Warburg. UBS Capital's investment policy concentrates on five aims:

- negotiate an attractive entry price.
- increase the company's efficiency.
- implement a sales growth strategy.
- repay company debt and reduce leverage.
- achieve an exit at a higher multiple of earnings than the entry price.

Where appropriate, UBS Capital aims to provide a broader depth of resources and experience to the management teams of these companies to allow them to develop their businesses over the medium term (three to six years) in order to optimize their performance. UBS Capital's exit strategies for the businesses include direct sales to strategic buyers, initial public offerings, leveraged recapitalizations and sales to other financial sponsors.

Strategic opportunities

Private equity funds

An established strategic goal of UBS Capital has been to develop best-of-breed alternative investments for the private clients of UBS Group. We will therefore leverage our knowledge of the industry, its dynamics and its key players to provide a screen selection of best-of-breed providers and advise institutional clients on third party private equity investments.

Private Clients (UBS PaineWebber)

UBS PaineWebber – providing sophisticated wealth management services to affluent clients in the US.



Joseph J. Grano
Chairman and CEO

During 2001, Private Clients was a business unit of UBS Warburg, which is how it is presented in this Handbook and how its results are reported in the Financial Report 2001. On 1 January 2002, the Private Clients business unit was renamed UBS PaineWebber and became a separate Business Group within UBS. Future financial reporting will follow this new structure.

Business

Operating under the brand name UBS PaineWebber, Private Clients is the fourth largest private client business in the US, with one of the most affluent client bases in the industry. Its 8,870 financial advisors provide a full range of wealth management services to some 2.5 million wealthy households in America. Its focus is on households with investable assets in excess of USD 500,000, the segment with the largest, fastest growing pool of assets in the US. Private Clients also has operations in Japan and Australia, although these represent a small percentage of its overall business.

Organization

The primary business area within UBS PaineWebber is the Private Clients Group, serving wealthy clients in the US. In addition, specialist products areas include Corporate Employee Financial Services, which provides stock option and stock purchase programs to corporations and employees in the US, and Transaction Services, which provides prime brokerage and securities lending to major US and international investment firms, and execution and clearing services to correspondent broker-dealers across the US, leveraging UBS PaineWebber's infrastructure and skills.

Legal Structure

UBS PaineWebber operates through branches and subsidiaries of UBS AG. Securities activities

in the US are conducted through UBS PaineWebber Inc., a registered broker-dealer.

Clients and marketing

UBS PaineWebber financial advisors are key to its client relationships, supported, but never replaced, by its top class online services. Financial advisors build and maintain strong relationships with their clients, taking the time to understand their financial objectives and risk appetite, in order to help them select the specific products and services they need. They also form the front-line in client acquisition, responsible for developing relationships with prospective investors and converting them into UBS PaineWebber clients. UBS PaineWebber's financial advisors are based in 385 offices across the US, with representation in every major region.

Each year, UBS PaineWebber recruits on average 1,800 financial advisors, both experienced professionals and new entrants to the industry. All new brokers undergo a rigorous training program which is designed to provide them with the necessary financial planning, analysis, client management, legal and compliance training for dealing with our clients. The training program is a continuous process and does not end when the broker enters a branch office. In fact it is key to the development of our relationships with our clients and to retaining our brokers: broker turnover has been maintained at 8% over the last five years, and the average length of service is nine years.

Financial advisors' individual efforts are backed up by sophisticated and long-running marketing and advertising campaigns, featuring the long famous tag-line "Thank you, PaineWebber", and now its revised version "UBS PaineWebber, Thank you", reflecting the introduction in March 2001 of the new brand, UBS PaineWebber. The new name is designed to underscore UBS and PaineWebber's complemen-

tary strengths and to reinforce the benefits of the merger to clients, financial advisors and other employees.

Products and Services

UBS PaineWebber provides a full range of wealth management services, including:

- financial planning and wealth management consulting.
- asset-based and advisory services such as discretionary and non-discretionary portfolio management, money market accounts, loans and fiduciary products.
- transaction-based services, such as securities brokerage.

It covers the full range of products available to private clients, including purchase and sale of securities, option contracts, commodity and financial futures contracts, fixed income instruments, mutual funds, trusts, wrap-fee products, alternative investments and selected insurance products.

UBS PaineWebber's financial advisors are backed up by comprehensive online capabilities, centered on UBS PaineWebber Online Services. Launched in 1997, this now reaches 525,000 client households, representing more than USD 254 billion in invested assets at year-end 2001. The system provides a wealth of information and analysis to each client, about their accounts, and the markets and stocks they might want to invest in, and gives them a convenient means to keep in touch with his or her financial advisor. It also provides a range of trading, bill payment and other transactional tools. Each client and their client advisor has the opportunity to customize these services, extending the advisory relationship online, and empowering the client to make more confident decisions.

Strategic opportunities

UBS PaineWebber remains clearly focused on increasing its market share of US household financial assets, taking advantage of the additional capabilities and balance sheet strength that the merger with UBS has brought, by leveraging Private Clients broad domestic distribution capabilities, and building the strength of the new UBS PaineWebber brand.

Industry trends and competitive positioning

UBS PaineWebber faces increasing pressures from a diverse set of competitive categories. All

of our key competitors are aggressively battling for share of the affluent investor market and are deploying new marketing strategies to acquire new customers and develop their existing client relationships.

We believe we understand the goals and needs of core affluent investors and believe those needs are best met within the framework of the financial advisor relationship. UBS PaineWebber is distinguished by its personal approach to client relationships, placing the financial advisor at the forefront of all interactions with the client. Among core affluent investors, we have developed the following key capabilities:

- National network of core affluent-focused financial advisors – allowing us to develop and maintain local, personalized client relationships.
- A strong US brand name, which builds trust with our clients, is now backed up by the international resources and capital strength of UBS.
- A long commitment to, and understanding of, the benefits for our clients of a truly open product architecture – providing screened selections of the best products available in the market.
- Innovative investment products – giving us comprehensive financial solutions.
- A unique approach and process for the affluent – providing unbiased investment advice.
- Leveraging technology to develop an interactive client/advisor relationship.

PACE and ACCESS

UBS PaineWebber continues to meet the core affluent clients' needs for a broad palette of advisory and discretionary account services. Two leading "wrap fee" products developed by UBS PaineWebber are PACE and ACCESS. Under both of these accounts, which are distributed by the UBS PaineWebber financial advisor network, the client is charged a fee based on the amount of assets managed as opposed to any commission or transaction charges.

- ACCESS combines the money management expertise of third-party professional investment managers with personal guidance by the UBS financial advisor. The managers selected to participate in the ACCESS program are some of the most prestigious in the industry and count among their clients many large

pension funds, foundations, endowments and wealthy individuals. UBS PaineWebber clients may invest in ACCESS with a minimum investment of USD 100,000.

- PACE (Personalized Asset Consulting and Evaluation) incorporates the consulting process into a single, comprehensive service that includes access to hundreds of no-load, load-waived and low-load mutual funds managed by some of the world's leading investment management companies. The client is guided through a personal evaluation of investment needs to determine the correct risk profile and investment mix.

While these products meet client needs for fee-based products, wrap products also help UBS PaineWebber to enhance its revenue stream, by expanding recurring fees which are not-related to the volume of transactions carried out, and so are less sensitive to changes in market sentiment.

Products from UBS Group

UBS PaineWebber continues to benefit from UBS's strong balance sheet and product expertise, making new structured products available to its clients.

One example of these is GOALS, equity-linked securities created by UBS Warburg that combine a bond with a short put option on a specific stock. An entirely new kind of investment product for UBS PaineWebber, GOALS were developed using UBS Warburg's expertise in packaging structured products for private clients, and rely on the UBS Group's rating and capital strength for the credit element of the product. Combined with its equity derivative features, this was a product that PaineWebber could not have originated before joining the UBS

Group, and UBS Warburg could not have distributed in the US.

UBS PaineWebber distributed 12 different GOALS and GOALS+ issues to its clients during 2001, together with several other issues of other structured securities such as BULS and FORENS.

During early 2002, we plan to roll-out a series of new secured lending products. Our financial advisors will be able to offer UBS PaineWebber branded liquidity solutions such as fixed and variable rate non-purpose loans as well as residential mortgages to their individual clients, increasing our ability to meet the wider financial needs of our clients.

Corporate Employee Financial Services

Over the last few years, UBS PaineWebber's Corporate Employee Financial Services (CEFS) business has established a strong franchise in the delivery of Stock Option Processing services for S&P 500 companies with broad based plan participation. UBS PaineWebber provides services to over 500,000 active employee share plan participants with "in the money value" of unexercised options of over USD 40 billion. As well as a good business in its own right, CEFS acts as an important asset-gathering tool. By providing a high service relationship with the employees prior to the execution of the options, we aim to encourage them to invest their option proceeds through UBS PaineWebber. We operate a dedicated network of specially selected and trained financial advisors who offer a suite of advisory and educational services to our clients' employees. Through this network we can maintain our market position as the best full service provider for corporations, while building a book of pre-qualified high net worth clients.

Corporate Center

Our Business Groups are managed together to optimize shareholder value – making the whole worth more than the sum of the parts.

Business Group Reporting adjusted for significant financial events

<i>CHF million</i>	Corporate Center	
For the year ended	31.12.01	31.12.00
Income	678	358
Credit loss recovery	236	1,161
Total operating income	914	1,519
Personnel expenses	546	490
General and administrative expenses	207	281
Depreciation	372	320
Amortization of goodwill and other intangible assets	25	44
Total operating expenses	1,150	1,135
Business Group performance before tax	(236)	384
Headcount (full time equivalents)	1,132	986

Aims and objectives

UBS's commitment to an integrated business model remains as strong as ever. UBS is not merely a holding company. It is a portfolio of complementary businesses, managed together for optimal shareholder value, where the whole is worth more than the sum of its parts.

UBS's Business Groups are accountable for their results and enjoy considerable autonomy in pursuing their business objectives – hence the need for a strong Corporate Center, with the mission to maximize sustainable shareholder value by coordinating the activities of the Business Groups. It aims to ensure that they operate as a coherent and effective Group with a common set of values and principles. To perform its role, Corporate Center avoids ownership of processes wherever possible, but instead establishes standards and principles, thereby minimizing its own staffing levels.

Key functions

Finance and Risk management and control

Corporate Center includes the Group's accounting, tax, treasury and risk management and control functions. These teams are responsible for safeguarding UBS's long-term financial stability by maintaining an appropriate balance between risk and rewards, so that the Group is competitively positioned in growing market places with an optimal business model and adequate resources.

Further details of risk management and control policies and Treasury activities can be found in the Risk Management and Control, Regulators and Supervision and Group Treasury sections of this Handbook.

Group Controlling

Group Controlling is responsible for devising and implementing integrated and consistent

financial control and accounting processes throughout the Group, in order to produce the Group's regulatory, financial and management accounts.

Group Communications and Marketing

The Group Communications and Marketing function is responsible for the effective communication of our strategy, values and results to employees, clients, investors, media and the public, and for building the UBS brand worldwide.

Group Human Resources

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

Legal

Legal protects UBS's reputation by managing its legal affairs and coordinating the activities of Business Group legal departments.



Capital and Risk Management

Risk Management and Control

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

Risk management and control principles

UBS's approach to risk management and control has evolved over a number of years, and is documented in the Group's Risk Management and Control Principles, which lay the foundations on which UBS builds its risk culture and risk process:

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

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

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

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

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

- We continue to develop potential stress loss measures for credit and market risk.

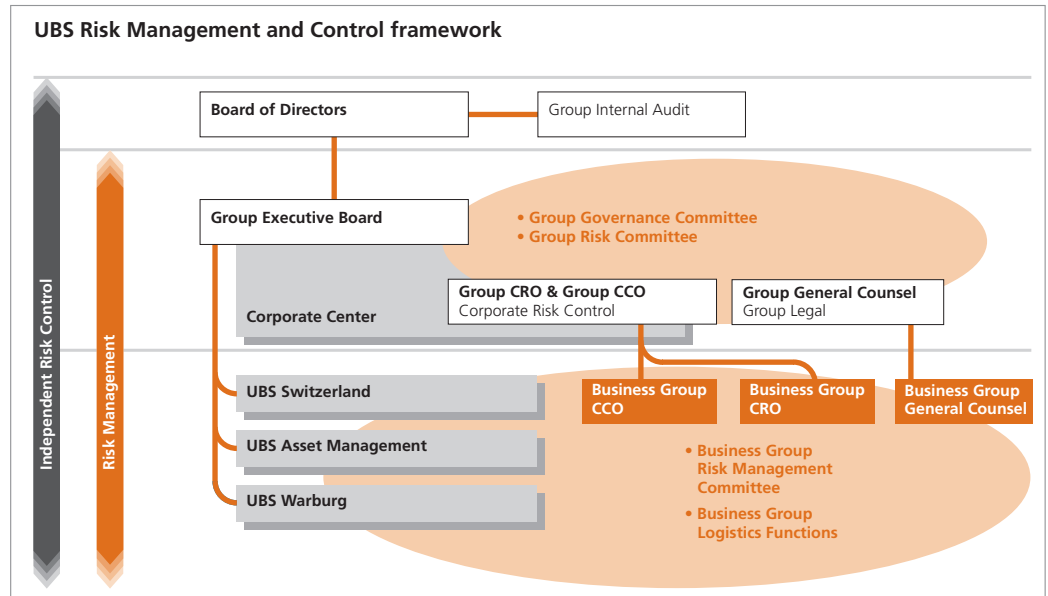
- We avoid taking extreme positions in tax, regulatory and accounting sensitive transactions.
- We aspire to the highest standards in protecting the confidentiality and integrity of our internal information.
- We aim to maintain the highest ethical standards in all our businesses.

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

An integrated approach to risk management and control

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

UBS has an integrated, Group-wide function at the Corporate Center responsible for finance, strategic planning, risk control, and balance sheet and capital management. The independent risk control organization is mirrored in the Business Groups. Excellence in risk management is, however, most fundamentally based upon a business management team that makes risk identification, management and control critical components of their processes and plans.



Key responsibilities

The *Board of Directors* is responsible for the Group's fundamental approach to risk (the Risk Management and Control Principles), and for the determination of its risk capacity and risk appetite.

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

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

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

The *Chief Risk Officer (CRO)* is responsible for the policies, methodologies and limits for all other inherent risk categories (see the section: *The risks we take* on page 58), and for aggregating and assessing the total risk exposure of the Group.

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

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

Business Group Risk Management Committees monitor all risks taken by the Business Groups and are the primary risk management bodies. They are chaired by the Business Group Chief Executive Officers and include heads of business areas and delegates of the Group CRO and CCO.

The *Group Risk Committee* reviews and evaluates the key risk issues globally and in the Business Groups, and in particular the state of the current portfolio, risk and revenue trends, and concentrations and vulnerabilities. It is chaired by the Group CRO.

The *Group Governance Committee* is responsible for coordination and oversight of the Group's public policy interface with regulators, central banks and governments, and for minimizing the Group's reputational risks. It is chaired by the Group General Counsel and its members include the President of the GEB, key risk officers from Corporate Center and representatives of the Business Groups.

The risk control process

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

- *risk identification*, particularly in new businesses and in complex or unusual transactions but also in response to external events and in the continuous monitoring of the portfolio.
- *risk measurement*, using approved methodologies and models which have been independently validated.
- *risk policies*, covering all inherent risk categories, both at Group level and in the Business Groups, consistent with evolving business requirements and international best practice.
- comprehensive *risk reporting* to management at all levels against the approved risk limits and control framework, for all inherent risk categories.
- *risk control*, to enforce compliance with the Risk Management and Control Principles, and with policies, limits and regulatory requirements.

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

The risk control process also extends beyond the independent risk control functions to *Financial Control* and the *Logistics Areas*, notably Operations, which are critical to establishing an effective control environment. Given their responsibility for the booking, settlement, and financial reporting processes, comprehensive control by these functions creates a powerful defense against inappropriate activity.

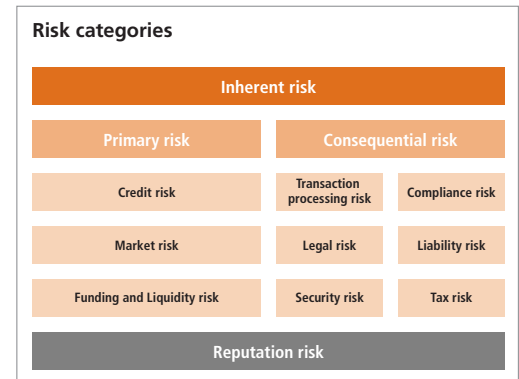
Group Internal Audit provides an independent view to the Board of Directors of the effectiveness of the Risk Management and Control Principles and their enforcement, and of the effectiveness of the independent control units.

During 2001, we have continued to develop and enhance UBS's risk control process. Principles, policies and processes are reinforced through a "risk awareness" education program which has been made available throughout the

Group in the form of live and recorded presentations by UBS risk control professionals covering all aspects of risk control for all categories of risk.

The risks we take

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



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

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

- *credit risk* is the risk of loss resulting from client, counterparty or issuer default and arises on credit exposure in all forms, including settlement risk.
- *market risk* is exposure to observable market variables such as interest rates, exchange rates and equity markets.
- *liquidity and funding risk* is the risk that the Group is unable to fund assets or meet obligations at a reasonable price or, in extreme situations, at any price. These risks are managed at the Group level, rather than in the Business Groups, and are discussed in the Group Treasury section on pages 77 to 85.

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

- *transaction processing risk* arises from errors, failures or shortcomings at any point in the transaction process, from deal execution and capture to final settlement.
- *compliance risk* is the risk of financial loss due to regulatory fines or penalties, restriction or suspension of business, or costs of mandatory corrective action. Such risks may be incurred by not adhering to applicable laws, rules, and regulations, local or international best practice (including ethical standards), and UBS's own internal standards.
- *legal risk* is the risk of financial loss resulting from the unenforceability of rights under a contract or property due to inadequate or inappropriate contractual arrangements or other causes.
- *liability risk* is the risk of financial loss arising from a legal or equitable claim against the Group.
- *security risk* is the risk of loss of confidentiality, integrity, or availability of information or assets, through accident or crime, and includes both IT and physical security.
- *tax risk* is the risk of financial loss due to tax authorities opposing the Group's position on tax matters. While the other consequential risk categories are managed at Business Group level, tax risk is managed at the Group level since tax is assessed on a legal entity basis and the parent bank and many subsidiary groupings carry out activities for more than one Business Group.

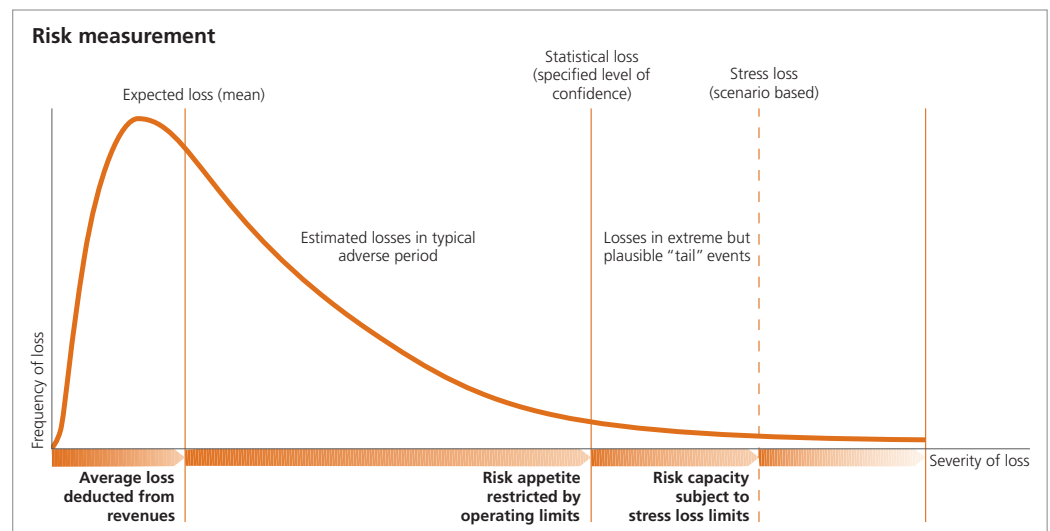
A failure adequately to identify, manage or control any of these risks, including business risks, may result not only in financial loss but also in loss of reputation, and repeated or widespread failure compounds the impact. Reputation risk is not directly quantifiable and cannot be managed and controlled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

How we measure risk

We measure potential loss at three levels – expected loss, statistical loss and stress loss.

Expected loss is the loss that is expected to arise on average in connection with an activity. It is the inherent cost of such activity, and should be budgeted and deducted from revenues directly. The use of the expected loss concept for credit risk is discussed in the Expected Loss section on page 62. In the context of market risk, expected loss is reflected in valuation adjustments which are routinely made in mark-to-market books to reflect market liquidity or model risk. We are continuing to develop the expected loss framework for consequential risks and have made further progress in 2001, particularly for transaction processing risk.

Statistical loss (also known as “unexpected loss”) is the estimated loss in a typical adverse period, as statistically defined by a given confidence interval. A statistical loss measure in the form of Value at Risk has been used to measure market risk in UBS for a number of years, and is both the basis of a key internal market risk limit



structure and the measure used to determine our market risk regulatory capital charge. We continue to work towards robust measures of statistical loss for other risk categories, although it can be complex to apply statistical techniques to risks for which the loss distribution is irregular and discontinuous.

Stress loss is the loss that could arise from extreme, but plausible, stress events. We define our risk capacity as the maximum loss that the Board of Directors considers we could withstand in a stress event without unacceptable damage to our earnings, our dividend paying ability and, ultimately, our reputation and ongoing business viability. The identification of stress events and scenarios to which we are vulnerable and an assessment of their potential impact is therefore critical to the risk control process. Formal stress loss measures and limits are most extensively implemented for our trading activities and for country risk, but we use a variety of scenarios and techniques, which we continue to refine, to identify other areas of risk concentration and potential vulnerability to stress events, particularly for credit and funding and liquidity risks.

Although the focus of this work is initially the primary risk categories, the events of 2001 have re-emphasized that stress situations can arise from many sources, and the essential complement to quantitative assessments is a tried and tested process which can be invoked immediately in response to any crisis. While we were fortunate that our buildings were not physically affected by the events of 11 September 2001, our crisis management process proved robust and effective, allowing us to overcome the market and public systems disruptions which followed and properly to control the ensuing risks, including funding and liquidity risk – see the Liquidity and funding management section on page 80.

Risk reporting

Senior management at both business unit and Group level are regularly provided with risk reports, both quantitative, where available, and qualitative. During 2001, the coverage of the reports has been extended to encompass more comprehensively all consequential risk categories, with particular focus on risks which pose a reputational as well as financial threat.

Risk Analysis

Credit risk

Credit risk represents the loss which UBS would suffer if a client, counterparty or issuer 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”). Positions in tradable assets such as bonds and equities, including both direct holdings and synthetic positions through derivatives, also carry credit risk, but where they are held for trading and are marked to market they fall under the market risk limits and controls described in the Market Risk section below. They are, however, included in the credit risk exposures reported in the Composition of Credit Risk section below.

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

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

The approval and monitoring of new counterparties, and of new transactions giving rise to credit risk, plays a central part in the risk control process. Credit approval authority is exercised within the independent CRC functions by

authorized credit officers. The notional amount of their authority is dependent, on the one hand, on the quality of the counterparty, the size and tenor of the exposure and any security and, on the other hand, on the experience and seniority of the credit officer.

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

Credit limits

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

Exposure against limits is measured for banking products as the face value amount of the loan or commitment. For most traded products we determine the future exposure profile by modeling the potential evolution of the value of the portfolio of trades with each counterparty over its life (potential credit exposure), taking into account legally enforceable close out netting agreements where applicable (see Note 30b to the UBS Group Financial Statements). Credit limits for individual counterparties are applied to the “maximum likely exposure” derived from this analysis, a 95% confidence statistical measure of the exposure in each counterparty portfolio. This approach is being enhanced and extended to all traded products, including collateralized portfolios.

Credit risk measurement

We determine the amounts of credit loss expenses in our Financial Statements and in business unit reporting on different bases. In the Group

Financial Statements, we report results according to International Accounting Standards (IAS) definitions. Under these rules, losses are recognized and charged to the Financial Statements in the period when they arise (see the Provisioning Policies section on page 64 and Notes 1 and 10 to the Financial Statements). By contrast, in its segment and business unit reporting, UBS aims to reflect the fact that credit risk exists in every credit engagement, and that credit loss expenses must be expected as an inherent cost of the business.

Expected loss

The occurrence of actual credit losses is erratic in both timing and amount and those that arise usually relate to transactions entered into in previous accounting periods. In order to manage credit risk effectively by earning, over time, sufficient income to compensate for intermittent losses caused by impairment, UBS uses the concept of “*expected loss*” to encourage appropriate pricing of transactions and income recognition.

For UBS, expected loss is a statistically based measure intended to reflect the annual costs that will arise, on average, over time, from transactions that become impaired. It is derived from the probability that a given counterparty will default, our current and likely future exposure to that counterparty and the likely severity of the loss should default occur. For further details of how we use expected loss in our segmental reporting, please see the Credit loss expense section on page 34 of the Financial Report 2001.

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

Clients are segmented into 14 rating classes, two being reserved for assets that are already

UBS internal rating scale and mapping to external ratings

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

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

We determine *exposure at default* based on the expected outstanding at the time of default, for example for traded products the expected exposure profile, derived from the same model as for credit limit utilization (see Credit limits section on page 61).

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

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

The concept of expected loss and its components form the basis for various business appli-

cations within UBS: individual credit policies refer to counterparty rating classes to determine, for example, the maximum tenor allowed for OTC derivative transactions; the rating concept is used to define credit authorities granted to individual credit officers across the Group and for some business processes within the Private and Corporate Clients business unit; and expected loss is used as an approximation for valuing the OTC derivative books and, thereby, accounting for the credit risk assumed in these trades. UBS's internal measurement framework is consistent with the concepts likely to be incorporated in the New Basel Capital Accord under which future minimum regulatory capital requirements for credit risk will be determined (see comment in the Financial disclosure principles section on page 99 and in the Regulation and supervision section on page 106).

Statistical and stress loss

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

We have continued to develop internal models for the measurement of statistical loss for credit risk at the sub-portfolio level. This provides an indication of the level of risk in the portfolio and the way it changes, and is used in pricing decisions.

Modeling extreme credit losses is complex because they are driven much less by systematic factors than is generally the case for market risk. We apply scenarios which allow us to assess the impact of variations in bankruptcy rates and asset values, taking into account risk concentrations in each portfolio. Where concentrations are high or the credit quality of a segment of the portfolio is low, specific limits and controls are applied to contain the risks within acceptable bounds.

Settlement risk

UBS is exposed to settlement risk as a consequence of its international transactional businesses. Settlement risk arises in transactions involving the exchange of values when we must honor our obligation to deliver cash or securities without first being able to determine that we

have received the counter-value. This risk is particularly significant in foreign exchange and precious metals transactions. We limit and monitor this risk on a continuous basis against settlement limits set for each of our counterparties based on our assessment of their credit standing. Settlement risk reduction is a high priority for CRC, Operations and Business Groups. They work together to achieve shorter settlement cycles from payment release to reconciliation, and to reduce exposure by establishing risk reduction arrangements with counterparties, such as payment netting and covered settlements.

UBS participates in payment and securities clearing houses, and we continue to play a major role in the Continuous Linked Settlement (CLS) project, an industry initiative to establish a global clearing house, CLS Bank, to settle foreign exchange transactions on a delivery versus payment basis. CLS is now scheduled to go live in mid-2002 and will substantially reduce both settlement and systemic risks faced by UBS and other major foreign exchange trading banks.

Country risk

UBS's definition of country risk covers all cross-border exposures from banking products and traded products, including our own intra-Group cross-border positions, and exposure to issuers of tradable assets such as bonds and equities.

The CRC function at the Corporate Center assigns ratings to all countries to which we have exposure. Like the counterparty ratings, the sovereign ratings express the probability of the occurrence of a country risk event that would lead to an impairment of UBS's exposures. The default probabilities and the mapping to the ratings of the major rating agencies are the same as for counterparty credit risks (see table on page 62).

Countries are classified as industrialized or emerging markets. In view of the higher risk associated with emerging market countries, including those considered investment grade (rated 5 or better), we closely and continuously monitor exposure to these countries, within country ceilings approved by the Chairman's Office. The country risk ceiling is a primary limit for all transactions with counterparties in these

countries, and extension of credit may be denied on the basis of a country risk ceiling even if there are adequate counterparty limits available.

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

Under a framework introduced in 2000, we measure exposures to emerging market countries not only in terms of nominal claims (loans outstanding, potential credit exposure from OTC derivatives and market value of tradable assets), but also in terms of risk equivalent (potential loss), reflecting the fact that the risk profiles of exposures can vary significantly, depending on the type of product, any collateral, and the degree to which they have been hedged against market shocks. Country ceilings based on risk are now the primary risk management and control tool for individual countries, although we continue also to limit and report nominal exposures in line with regulatory and financial reporting requirements.

In order to limit the potential financial impact of a severe emerging markets crisis, the overall portfolio is subject to a risk limit derived from stress scenario analysis – we identify countries that may be subject to a potential crisis event and determine potential loss under conservative assumptions of recovery rates for individual products. The potential loss under this stress loss measure is subject to a limit approved by the Board of Directors. The analysis is the responsibility of the country economists under the Group CCO.

Provisioning policies

UBS classifies a claim as impaired if the book value of the claim exceeds the present value of the cash flows actually expected in future periods – interest payments, scheduled principal repayments, or other payments due (for example on derivatives transactions), and including liquidation of collateral where available. Within this category, we further classify loans as non-per-

forming where payment of interest, principal or fees is overdue by more than 90 days. Non-performance is not the determinant of impairment, although it may, in some circumstances, be the first evidence of impairment.

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

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

Allowances and provisions for credit losses also include a component for country risk. We establish country-specific scenarios which are reviewed and used on an ongoing basis, to evaluate the current and future probability of default due to country risk incidents or country-specific systemic risks. The appropriate provisions are then determined by evaluating the type of credit exposure in the portfolio for each country and the loss severities that have been attributed to each exposure type. Furthermore, we have specific allowances against exposures in countries that are subject to a moratorium or have been rescheduled. The amount of such allowances is determined case by case from an assessment of the amounts that we deem to be irrecoverable.

In general, Swiss practice is to write off loans only on final settlement of bankruptcy proceedings, sale of the underlying assets, or formal debt forgiveness. By contrast, US practice is generally

to write off non-performing loans, in whole or in part, much sooner, thereby reducing the amount of such loans and corresponding provisions recorded. A consequence of applying the Swiss approach is that, for UBS, recoveries of amounts written off in prior accounting periods tend to be small, and the level of outstanding impaired loans and non-performing loans as a percentage

of gross loans will tend to be higher than for our US peers.

Composition of credit risk

Credit risk is assumed as an integral part of their businesses by UBS Switzerland's Private and Corporate Clients business unit and by UBS Warburg's Corporate and Institutional Clients

Total credit risk exposure

CHF million	UBS Switzerland			UBS Warburg			Other ¹			UBS Group		
	As at	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99
Loans utilization (gross)	181,854	185,271	199,960	79,475	98,459	77,151	655	786	903	261,984	284,516	278,014
Contingent claims	13,235	10,613	9,465	7,301	11,440	15,136	2	0	0	20,538	22,053	24,601
Unutilized committed lines	2,009	3,574	3,444	48,026	47,402	60,412	18	0	0	50,053	50,976	63,856
Total banking products	197,098	199,458	212,869	134,802	157,301	152,699	675	786	903	332,575	357,545	366,471
Unsecured OTC products	1,961	883	2,415	64,416	61,340	107,898	0	0	11	66,377	62,223	110,324
Other derivatives (secured exchange-traded)	2,317	1,638	2,338	12,150	8,994	8,133	0	0	0	14,467	10,632	10,471
Securities lending	45	2,193	32	14,575	12,159	11,732	0	0	0	14,620	14,352	11,764
Repo	67	650	11	18,948	22,183	12,287	0	0	2	19,015	22,833	12,300
Total traded products ²	4,390	5,364	4,796	110,089	104,676	140,050	0	0	13	114,479	110,040	144,859
Total tradable assets ³	2,908	2,626	2,785	241,357	219,070	219,019	121	136	471	244,386	221,832	222,275
Total credit risk exposure, gross	204,396	207,448	220,450	486,248	481,047	511,768	796	922	1,387	691,440	689,417	733,605
Total credit risk exposure, net of allowances	198,886	199,670	210,003	483,850	478,303	508,972	791	917	1,381	683,327	678,890	720,356

¹ Includes Corporate Center and UBS Asset Management. ² Traded products valuation based on internal methodology. ³ Tradable assets valuation: net long, maximum default exposure.

Total loan portfolio exposure by Business Group

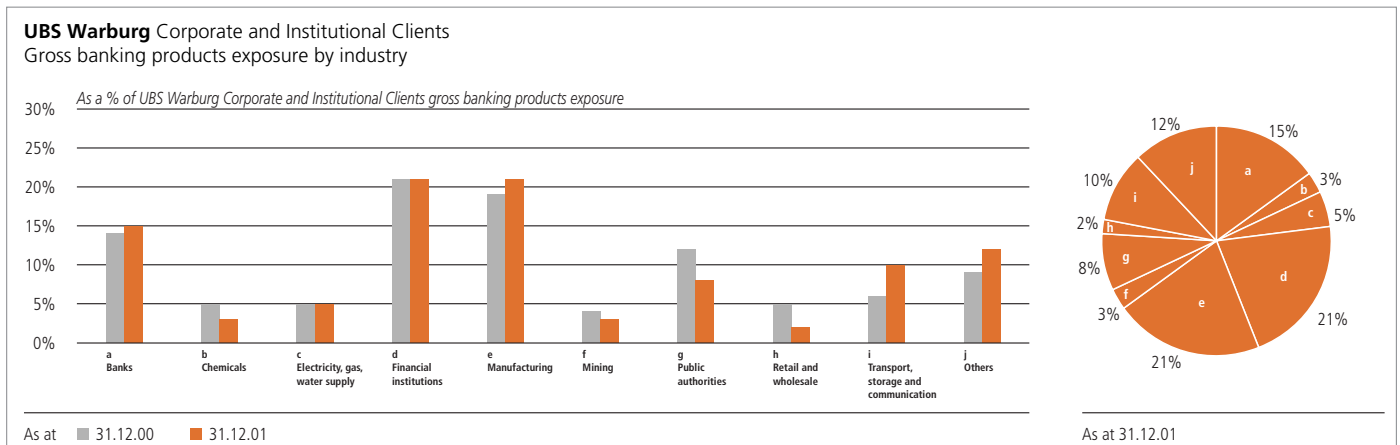
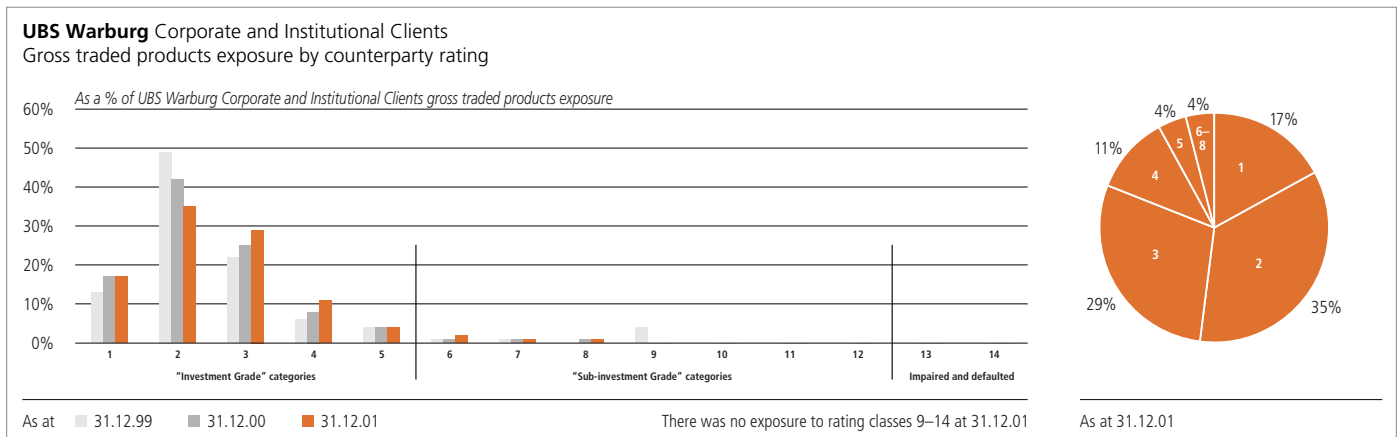
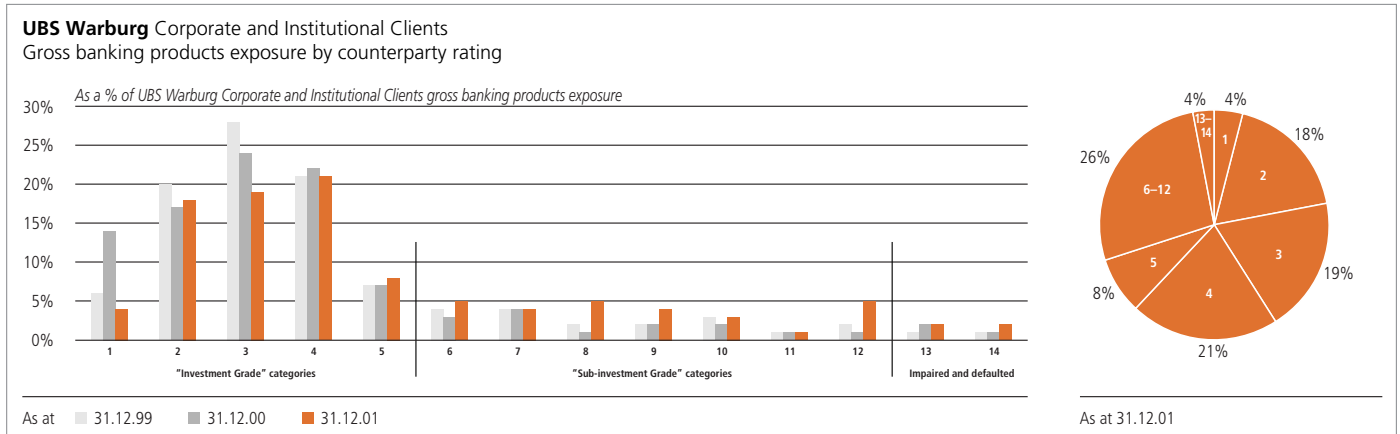
CHF million	UBS Switzerland			UBS Warburg			Other ¹			UBS Group		
	As at	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99
Loans to banks (gross)	7,938	9,150	8,780	19,853	20,370	21,481	470	544	524	28,261	30,064	30,785
Loans to customers (gross)	173,916	176,121	191,180	59,622	78,089	55,670	185	242	379	233,723	254,452	247,229
Loans (gross)	181,854	185,271	199,960	79,475	98,459	77,151	655	786	903	261,984	284,516	278,014
Counterparty allowance	5,016	7,280	10,447	1,899	1,962	1,550	5	5	6	6,920	9,247	12,003
Country allowance	494	498	0	499	782	1,246	0	0	0	993	1,280	1,246
Allowances for loan losses²	5,510	7,778	10,447	2,398	2,744	2,796	5	5	6	7,913	10,527	13,249
Loans, net of allowances	176,344	176,165	189,513	77,077	97,043	74,355	650	781	897	254,071	273,989	264,765
Counterparty provision for contingent claims	111	23	0	181	19	19	0	0	0	292	42	19
Country provision for contingent claims	13	0	0	0	12	130	0	0	0	13	12	130
Total provisions³	124	23	0	181	31	149	0	0	0	305	54	149
Summary												
Allowances and provisions for counterparty risk	5,127	7,303	10,447	2,080	1,981	1,569	5	5	6	7,212	9,289	12,022
Allowances and provisions for country risk	507	498	0	499	794	1,376	0	0	0	1,006	1,292	1,376
Total allowances and provisions	5,634	7,801	10,447	2,579	2,775	2,945	5	5	6	8,218	10,581	13,398

¹ Includes Corporate Center and UBS Asset Management. ² Deducted from assets. ³ Booked as liabilities.

Capital and Risk Management Risk Analysis

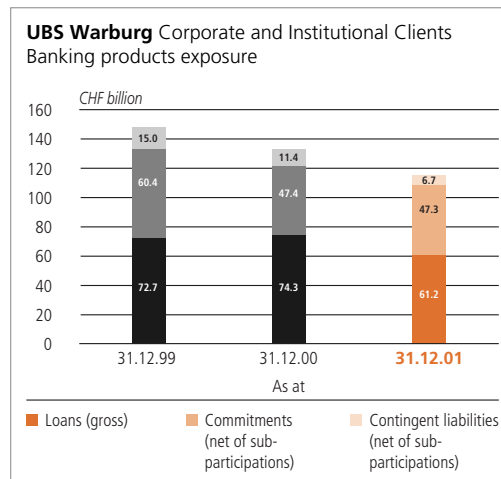
business unit and, to a lesser extent, by the private banking businesses of these Business Groups. The tables on page 65 provide an overview of the aggregate credit risk exposure of the UBS Group and, within that, of the loan portfolio.

Note that in the tables and charts which follow, where we show the rating distribution of counterparties, we refer to the credit exposure and the probability of default only, without reference to any potential loss mitigation from collateral.



UBS Warburg

UBS Warburg's gross credit exposure of CHF 486 billion includes CHF 20 billion of exposure in the Private Clients business unit, which is not included in the following discussion, since almost all lending within the Private Clients business unit is secured.



A substantial majority of UBS Warburg Corporate and Institutional Clients' counterparties fall into the investment grade category (internal counterparty rating grades 1 to 5), both for banking products (66%) and for the traded products portfolio (95%). These counterparties are primarily sovereigns, insurance companies, financial institutions, multinational corporate clients and investment funds. Exposure to lower rated counterparties is generally collateralized or otherwise structurally supported.

In the last few years, but more intensively in 2001, UBS Warburg has engaged in a substantial credit risk hedging program through which we have effectively reduced UBS Warburg's banking products exposure by CHF 24.7 billion. This was achieved mainly by transferring the underly-

ing risk to high grade market counterparties using credit default swaps. The table below provides a pro-forma view of the net banking products exposure in UBS Warburg Corporate and Institutional Clients business unit, reflecting the effect of these credit risk hedging activities.

During the course of 2001, we have seen a number of high profile investment grade defaults, and our relatively low level of new provisions and allowances this year (see table on page 71) has confirmed not only that the strategy of reducing risk concentrations, even for well rated counterparties, is sound, but also that the hedges employed are in practice successful. This strategy, coupled with a reluctance to engage in balance sheet led earnings growth, positions UBS relatively well for any continued turbulence in the international credit markets.

The Corporate and Institutional Clients business unit's banking products portfolio continues to be widely diversified across industry sectors. At 31 December 2001, the largest exposure (21%) was to the Finance sector. The reported 10% exposure to the transport, storage and communication sector includes CHF 6.9 billion of exposure to the telecommunication industry, the vast majority of it relating to established investment grade operators.

We closely follow and continuously review the exposure development in industry sectors most affected by the terrorist attacks of last September, such as insurance, aviation, tourism, technology and telecommunications. 72% of the aggregate credit exposures to these sectors was rated in the investment grade category.

A significant proportion of UBS Warburg's credit risk arises from its trading activities, including its trading of derivative products. The provision of risk management solutions involving the use of derivative products is a core service offered by UBS Warburg, but derivative prod-

UBS Warburg Corporate and Institutional Clients Credit hedging, banking products¹

CHF million	As at 31.12.01		
	As reported	Amount hedged	Net ³
Investment Grade	60,174	21,394	39,765
Sub-investment Grade	22,189	2,831	19,496
Impaired and Defaulted	3,431	2,017 ²	1,787
Total exposure	85,794	26,242²	61,048

¹Reported exposure excludes money market business. Net exposure does not take overhedging into account. ²Includes CHF 1,473 million of counterparty specific allowances. ³Net after hedges and allowances.

Capital and Risk Management
Risk Analysis

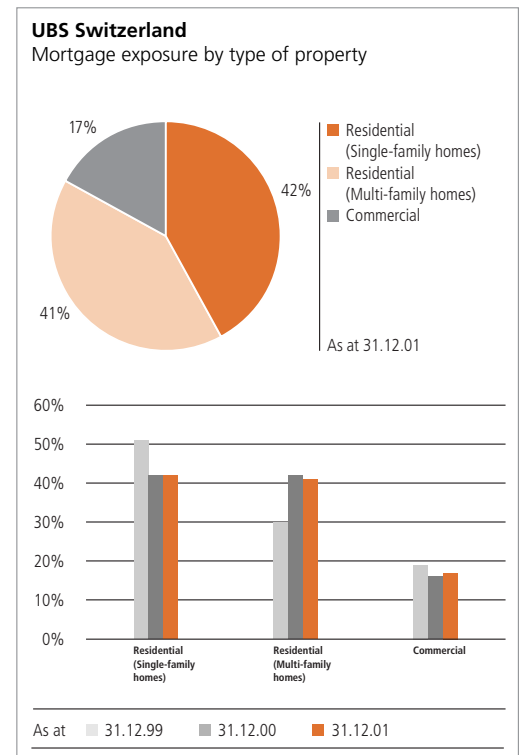
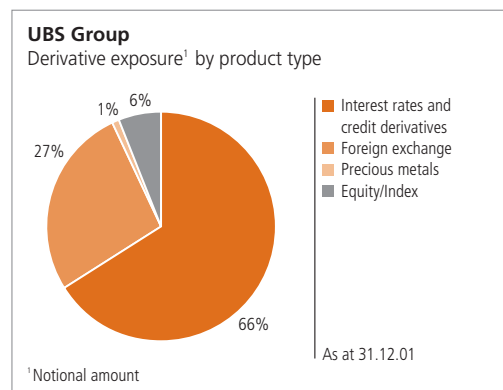
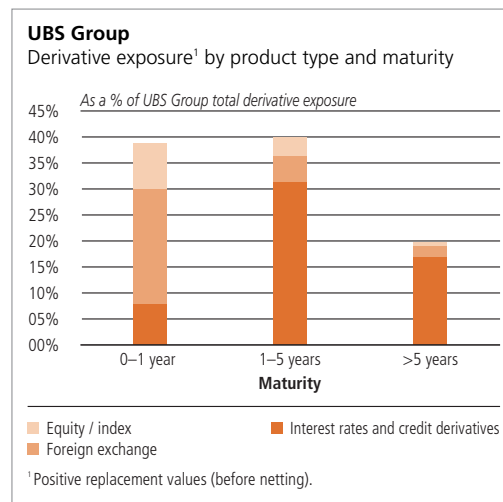
ucts, by their nature, are sensitive to changes in market prices and UBS therefore pays close attention to the management and control of these risks.

We place particular emphasis on the maturity profile, and transactions with counterparties of lower quality are generally conducted only on a secured basis or for short tenors. In line with general market trends, UBS Warburg has entered into bilateral collateral agreements with other major banks to mitigate the potential concentrations of exposure arising from industry consolidation and the continuing increase in volumes of OTC derivatives traded.

Note 24 to the UBS Group Financial Statements *Derivative Instruments* for further details.

UBS Switzerland

UBS Switzerland's loans to customers at 31 December 2001 amounted to CHF 182 billion, 66% or CHF 120 billion of which were secured mortgages. The graphs below show that UBS's exposure to the real estate sector is well diversified with 42% of loans being secured on owner-occupied property (single-family homes). The exposure on residential multi-family homes of 41% consists of owner occupied apartments and rented apartment buildings. In particular, the owner-occupied dwellings exhibit a low risk profile both in terms of individual assets and at a portfolio level. Loans and other credit engagements with individual clients, excluding mortgages, are predominantly extended against the

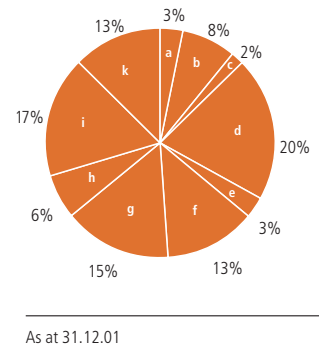
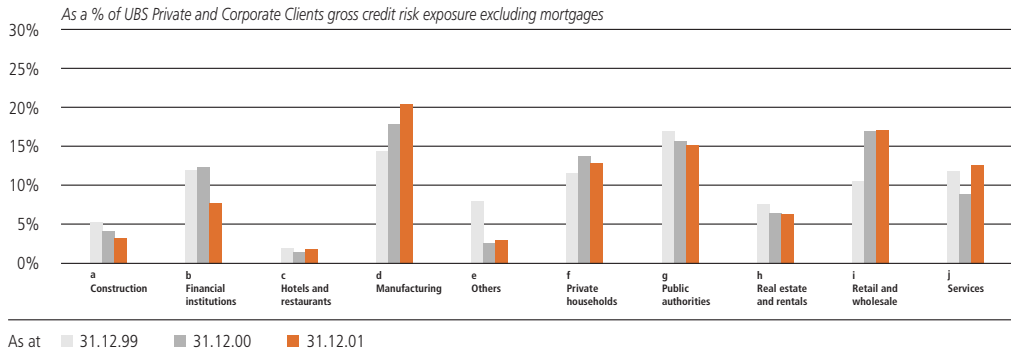


The graphs show UBS Group's OTC derivative exposure by product type and maturity at 31 December 2001, while the table on page 66 shows details of all traded products exposure at 31 December 2001, by counterparty rating. See

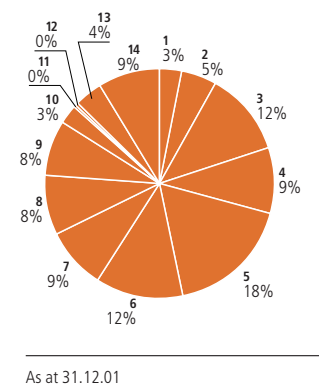
pledge of marketable securities where UBS applies conservative standards to determine the advance value of the collateral.

The remainder of UBS Switzerland's portfolio, excluding mortgages, consists of exposures to corporate and individual clients. These

UBS Switzerland Private and Corporate Clients
Gross credit risk exposure (excluding mortgages) by industry



UBS Switzerland Private and Corporate Clients
Gross banking products exposure by counterparty rating (excluding mortgages)



clients are fairly widely spread across rating categories and industry sectors, which reflects UBS's position as a market leading lender to this segment of predominantly small to medium sized enterprises in Switzerland. During 2001, our high credit underwriting standards and the continued relative strength of the Swiss economy have contributed to improved credit quality within UBS Switzerland's portfolio, with individual and sector concentrations having been further reduced.

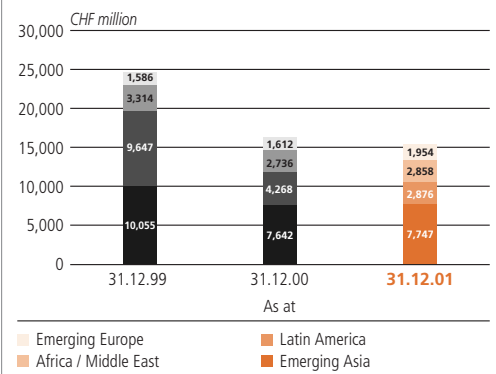
Country risk

At 31 December 2001, CHF 1,127 billion or 98.6% of our country risk exposure was to industrialized countries, where the risk of default is judged to be negligible and, of this, CHF 562 billion, or 50% were intra-Group cross-border money market positions.

The remaining 1.4%, or CHF 15.4 billion, of UBS's country risk exposure is to emerging mar-

kets countries. This exposure has continued to decrease during 2001 in line with our policy of limiting exposure to these risks, falling by CHF 823 million between 31 December 2000 and 31 December 2001, a reduction of 5%. As a result

Emerging market exposures by major geographical area



Capital and Risk Management Risk Analysis

Emerging markets exposures by major geographical area and product type

CHF million As at	Total			Banking products			Traded products ¹			Tradable assets ²		
	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99
Emerging Europe	1,954	1,612	1,586	632	809	919	750	395	248	572	408	419
Emerging Asia	7,747	7,642	10,055	4,029	4,053	5,003	1,537	1,355	3,873	2,181	2,234	1,179
Latin America	2,876	4,268	9,647	1,122	2,352	8,169	863	1,025	665	891	891	813
Africa / Middle East	2,858	2,736	3,314	1,432	1,564	2,539	962	669	659	464	503	116
Total	15,435	16,258	24,602	7,215	8,778	16,630	4,112	3,444	5,445	4,108	4,036	2,527

¹ Traded products consist of derivative instruments, reverse repurchase agreements and other collateralized transactions. ² Tradable assets consist of equity and fixed income financial instruments held for trading purposes, which are marked to market on a daily basis.

of this ongoing reduction, the Argentine default in late 2001 had almost no effect on us.

The table above analyzes the emerging market country exposures by major geographical area and product type at 31 December 2001 compared to 31 December 2000 and 31 December 1999.

Credit loss expense

UBS Group's Financial Statements are prepared in accordance with IAS, under which credit loss expense charged to the Financial Statements in any period is the sum of net allowances and direct write-offs minus recoveries arising in that period, i.e. the credit losses actually incurred. So that the risks and rewards of credit decisions can be better reflected in their results over time, we present our Business Group results in terms of expected loss, rather than actual IAS loss, and provide a reconciliation between the two – see pages 34 to 35 of our Financial Report 2001 for further details. The following discussion covers the actual credit loss expense recorded under IAS.

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 have focused on ensuring that our counterparty ratings are rapidly adjusted to reflect the changing economic situation. At the same time, we have increased the frequency of sector and geographic rating reviews.

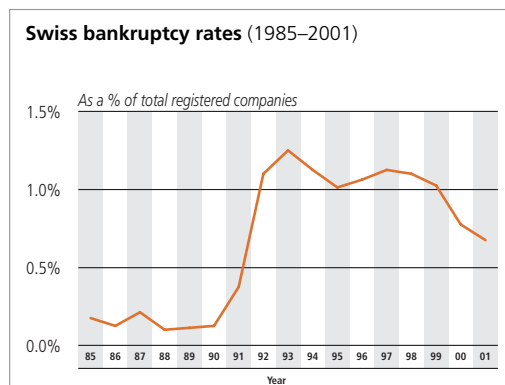
In UBS Warburg, the ongoing strategy of actively hedging credit exposure has kept new provisions to a relatively low level, resulting in a credit loss expense of CHF 375 million in 2001, compared to CHF 565 million in 2000.

Corporate bankruptcies in Switzerland have now reached their lowest level since the early 1990s (see graph on page 71), and we have successfully improved the credit quality of our domestic portfolio over recent years. The level of recoveries of previously existing provisions has, however, declined compared to the somewhat exceptional levels of 2000, reflecting less robust

Credit loss expense

CHF million, except where indicated For the year ended	UBS Switzerland			UBS Warburg			Other ¹			UBS Group		
	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99
Total banking products exposure at year end	197,098	198,130	212,869	134,802	158,629	152,699	675	786	903	332,575	357,545	366,471
IAS actual credit loss expense/(recovery)	123	(695)	965	375	565	0	0	0	(9)	498	(130)	956
– as a proportion of total banking products exposure (bps)	6	(35)	45	28	36	0	0	0	(100)	15	(4)	26
Adjusted expected loss charged to Business Groups ²	604	784	1,071	130	247	333	0	0	0	734	1,031	1,404
– as a proportion of total banking products exposure (bps)	31	40	50	10	16	22	0	0	0	22	29	38

¹ Includes Corporate Center and UBS Asset Management. ² For an explanation of the credit loss charge used in our Business Group reporting please see the Expected loss section on page 62 and pages 34–35 of the Financial Report 2001.



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 Switzerland in 2001 was CHF 123 million, compared to a net recovery of CHF 695 million in 2000.

Group credit loss expenses in 2001 amounted to CHF 498 million, compared to a net recovery of CHF 130 million in 2000 but down from an expense of CHF 956 million in 1999. The exceptional result in 2000 was a result of the significant recovery of the Swiss economy and especially its effect on the real estate and construction markets, which meant that UBS Switzerland was able to make a substantial write back of credit loss provisions, which was only partly offset by additional provisions for the UBS Warburg portfolio.

Impaired loans, allowances and provisions

UBS believes that the foreseeable losses in its portfolio are adequately covered by its allowances and provisions. As shown in the table below, allowances and provisions for credit losses decreased by 22.3%, from CHF 10,581 million at 31 December 2000 to CHF 8,218 million at 31 December 2001. Note 10b to the Financial Statements in our Financial Report 2001 provides further details of the changes in allowances and provisions during the year.

Allowances and provisions for credit risk

CHF million	UBS Switzerland			UBS Warburg			Other ¹			UBS Group		
	As at	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99	31.12.01	31.12.00	31.12.99
Loans (gross)	181,854	185,271	200,479	79,475	98,459	76,632	655	786	903	261,984	284,516	278,014
Non-performing loans	7,004	8,342	11,847	1,626	2,084	1,163	9	26	63	8,639	10,452	13,073
Other impaired loans	4,306	5,978	8,038	1,684	2,064	1,344	0	0	1	5,990	8,042	9,383
Total impaired loans	11,310	14,320	19,885	3,310	4,148	2,507	9	26	64	14,629	18,494	22,456
Allowances for non-performing loans	4,248	5,141	7,738	1,121	1,183	918	5	5	5	5,374	6,329	8,661
Allowances for other impaired loans	1,143	2,579	3,182	777	777	627	0	0	1	1,920	3,356	3,810
Total allowances for impaired loans	5,391	7,720	10,920	1,898	1,960	1,545	5	5	6	7,294	9,685	12,471
Other allowances and provisions	243	83	33	681	813	894	0	0	0	924	896	927
Total allowances and provisions	5,634	7,803	10,953	2,579	2,773	2,439	5	5	6	8,218	10,581	13,398
<i>of which country allowances and provisions</i>	507	498	0	499	794	1,376	0	0	0	1,006	1,292	1,376
Ratios												
Impaired loans as a % of gross loans	6.2	7.7	9.9	4.2	4.2	3.3	1.4	3.3	7.1	5.6	6.5	8.1
Non-performing loans as a % of gross loans	3.9	4.5	5.9	2.0	2.1	1.5	1.4	3.3	7.0	3.3	3.7	4.7
Allowances and provisions for credit loss as a % of gross loans	3.1	4.2	5.5	3.2	2.8	3.2	0.8	0.6	0.7	3.1	3.7	4.8
Allocated allowances as a % of impaired loans	47.7	53.9	54.9	57.3	47.3	61.6	55.6	19.2	9.4	49.9	52.4	55.5
Allocated allowances as a % of non-performing loans	60.7	61.6	65.3	68.9	56.8	78.9	55.6	19.2	7.9	62.2	60.6	66.3

¹ Includes Corporate Center and UBS Asset Management. UBS Asset Management had no impaired or non-performing loans at 31 December 01, 31 December 00 and 31 December 99.

Provisions and allowances for emerging market-related exposures stood at CHF 1,006 million at 31 December 2001, compared to CHF 1,292 million at 31 December 2000 and 1,376 million at 31 December 1999. The reduction is mainly a consequence of our policy of reducing the overall size of UBS's emerging market exposures, especially in Latin America.

Impaired loans have decreased to CHF 14,629 million at 31 December 2001 from CHF 18,494 million at 31 December 2000 and CHF 22,456 million at 31 December 1999. Over the same period, non-performing loans (a sub-set of impaired loans) have also decreased, to CHF 8,639 million from CHF 10,452 million at 31 December 2000 and CHF 13,073 million at 31 December 1999.

The ratio of impaired loans to total loans has improved over the past three years from 8.1% at 31 December 1999 to 6.5% at 31 December 2000, reaching 5.6% at 31 December 2001, while the non-performing loans to total loans ratio improved to 3.3% at 31 December 2001 from 3.7% at 31 December 2000 and 4.7% at 31 December 1999. These positive results were due in part to our successful reduction of exposures to international credit risk, which produced fewer new impaired and non-performing loans than in previous years, and in part to continuing efforts to conclude proceedings and reach settlement on existing non-performing loans.

Although UBS's non-performing loans to total loans ratio is somewhat higher than that of comparable US banks, the comparison principally reflects different write-off procedures under Swiss regulation and practice, rather than necessarily implying a lower underlying asset quality. In turn, this practice causes relatively higher allowances and provisions to be kept on the balance sheet, than if we operated under US conventions. (See Provisioning policies on page 64).

Market risk

Market risk is the risk of loss arising from movements in observable market variables such as interest rates, exchange rates and equity markets. In addition to these and other general market risk factors, the risk of price movements specific to an individual issuer of securities or an individual issue ("residual risk") are included in the measurement of 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. Activity is mainly in OECD markets, with some business in emerging markets.

Group Treasury assumes market risk in the management of the Group's balance sheet where long-term interest rate risk is transferred from other Business Groups, and through the Group's structural foreign exchange positions, as described in the Group Treasury section on pages 77 to 85.

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

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

Risk measurement

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

- *Expected loss* is reflected in the valuation adjustments made to the portfolio. These cover price uncertainties resulting from a lack of market liquidity or the absence of a reliable market price for an instrument or position, and model risk in more complex models.
- *Statistical loss* is measured using a Value at Risk (VaR) methodology. VaR expresses the potential loss on the current portfolio assuming a specified time horizon before positions can be adjusted (holding period), and measured to a specified level of confidence. UBS measures VaR on both a one-day and a ten-day holding period, in both cases to a 99% confidence level. Estimates are based on historical simulation, assessing the impact of historical market movements on today's portfolio, based on five years of historical data.

One-day VaR exposure expresses the maximum daily mark-to-market loss that UBS is likely to incur on the current portfolio under normal market conditions with a larger loss being statistically likely only once in a hundred business days.

- *Stress loss* is assessed against our standard set of forward looking scenarios, approved by the Board of Directors, using stress moves in market variables which are regularly reviewed and approved by the Group CRO. Scenarios may be derived from severe historical events or based on prospective crisis scenarios developed from the current economic situation and perceived market trends. They are kept under continuous review and enhanced or augmented as and when necessary to reflect changing market and economic conditions.

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

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

backtesting exceptions (where revenue is negative and greater than the previous one-day VaR) must be reported to the regulators.

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

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

Risk control of investment positions

Investment positions such as private equity are, by definition, positions held with a longer-term view than trading positions and pose difficulties for risk quantification: liquidity may be limited, market quoted prices may not be readily available and there may be legal or other constraints on sale. Thus, although such positions are subject to fair value accounting, the risk measures applied to trading positions are not appropriate to investment positions without modification. On the other hand, there are elements of the credit risk control approach that can usefully be applied to such positions, for example debt capacity analysis and valuation techniques. Our risk control approach to investment positions therefore draws on the tools of both credit and market risk.

The approach starts with a rigorous evaluation of new investments and a defined business plan which addresses the purpose, the likely time frame and the expected or targeted returns. Every investment is owned by a specific business unit, management of which is responsible for continuous monitoring against the original plan and regular reporting to senior management at Business Group and Group level. Where investments are made on a regular basis, limits per investment and for the total portfolio may be applied. In other cases, case by case approval is required.

Valuation reviews are conducted regularly for material investments – quarterly for private equity. These reviews are a joint effort between the relevant business unit, Financial Control, the CRO Organization and Credit Risk Control.

Capital and Risk Management Risk Analysis

UBS Warburg – Value at Risk (10-day 99% confidence)¹

CHF million	Year ended 31.12.01				Year ended 31.12.00				Year ended 31.12.99			
	Min.	Max.	Average	31.12.01	Min.	Max.	Average	31.12.00	Min.	Max.	Average	31.12.99
Risk type												
Equities	124.1	458.0	181.6	157.4	144.7	245.9	199.4	146.5	121.8	207.6	162.5	172.8
Interest rates	136.6	318.7	193.3	239.7	113.8	202.3	149.8	132.8	87.7	187.6	140.2	140.1
Foreign exchange	9.3	90.7	28.5	25.8	7.6	97.5	32.5	31.6	9.5	144.7	57.5	76.1
Precious metals	2.2	14.4	6.1	5.1	2.1	27.4	9.7	5.3	5.3	35.8	21.0	27.8
Diversification effect	²	²	(148.6)	(144.2)	²	²	(148.3)	(129.0)	²	²	(168.1)	(193.2)
Total	187.2	479.6	260.9³	283.8	186.8	296.1	243.0 ³	187.1	176.6	275.7	213.1 ³	223.6

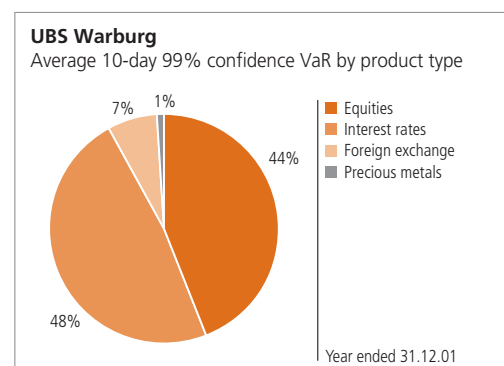
¹ Positions from PaineWebber are included from legal merger date 3 November 2000 onwards. ² As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect. ³ The corresponding figures for the Corporate and Institutional Clients business unit of UBS Warburg were CHF 252 million at 31 December 2001, CHF 242 million at 31 December 2000 and CHF 213 million at 31 December 1999.

Market risk developments

The table above shows average, minimum, maximum and year end market risk exposure for UBS Warburg, as measured by ten day, 99% confidence VaR exposure.

As in 2000, the major exposures arose in the equity and interest rate risk classes, but while average VaR for equities decreased from CHF 199.4 million to CHF 181.6 million, for interest rates the average increased from CHF 149.8 million to CHF 193.3 million. These changes reflect changing market opportunities and, in particular, good trading opportunities in the bond markets which resulted in interest rates being the strongest risk driver at the end of 2001. Average VaR for UBS Warburg increased only slightly from CHF 243.0 million in 2000 to CHF 260.9 million in 2001 and, in general, market risk exposures have 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.

Market risk positions in UBS Switzerland and Corporate Center have only a marginal impact on the total VaR at Group level as can be seen in the table below.



UBS has had no regulatory backtesting exceptions in 2001, as can be seen in the backtesting revenue and VaR graph. The 10-day VaR, which is the basis of the limits and exposures in the tables, is also shown for information. Note that the revenues shown in this graph are “backtesting revenues” – they exclude non-trading revenues, such as commissions and fees, and revenues from intra-day trading, which are not relevant in the

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

CHF million	Limit	Average utilization for the year ended		
		31.12.01	31.12.00	31.12.99
Business Groups				
UBS Warburg	450	260.9	243.0	213.1
UBS Switzerland ¹	50	4.8	4.1	4.1
Corporate Center ²	250	37.4	69.4	37.1
Reserves	100			
Diversification effect	n/a	(37.3)	(68.5)	(40.5)
UBS Group	600	265.8	248.0	213.8

¹ Includes interest rate exposures in the banking books of the private label banks. ² Includes interest exposures in the banking book of Group Treasury.

context of backtesting. The first histogram below shows these backtesting revenues, while the second shows daily revenues from all sources in Corporate and Institutional Clients (“full revenues”).

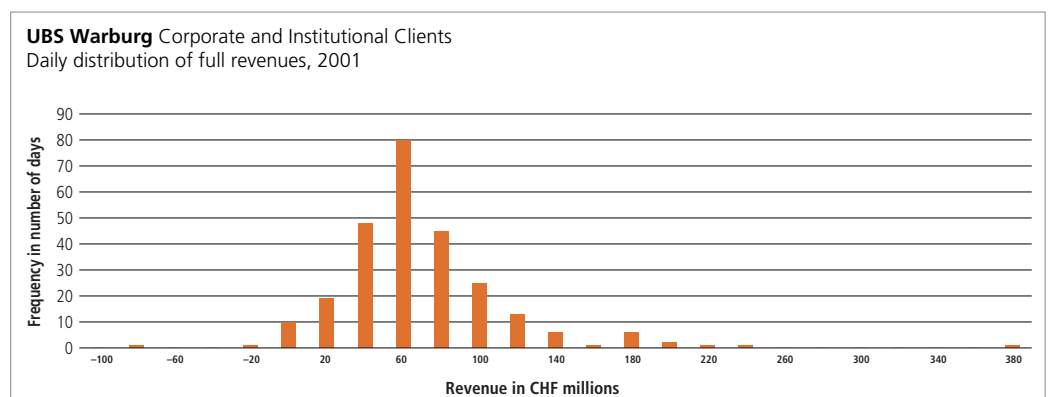
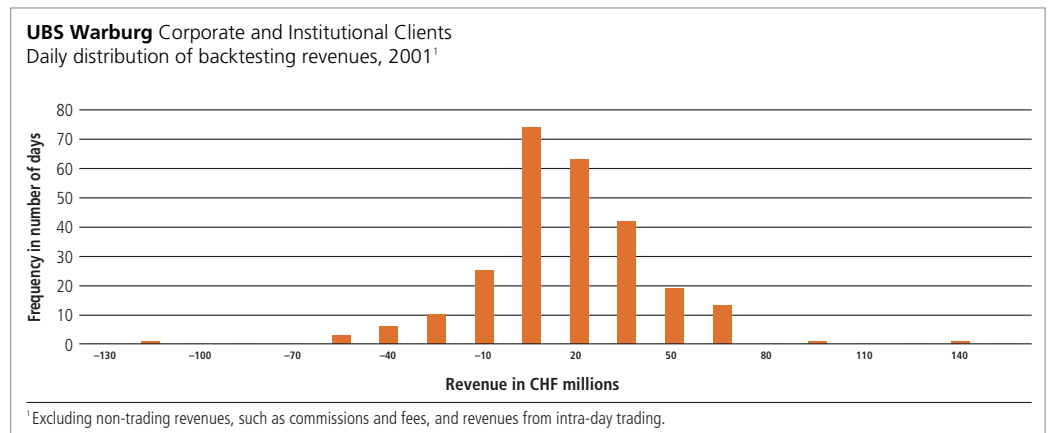
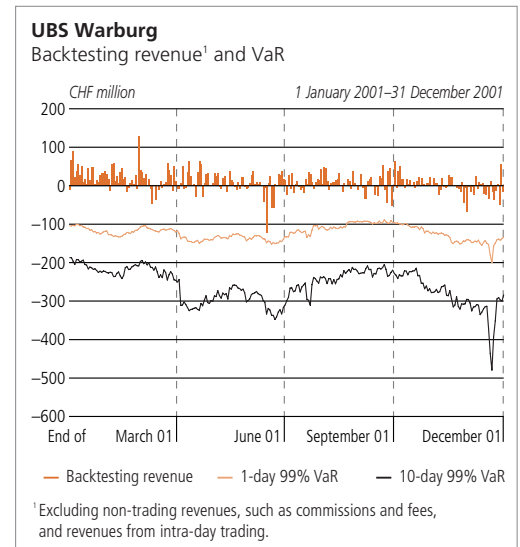
UBS has continued to refine its VaR model during 2001, particularly in modeling risk on the break up of merger and acquisition deals. Following final approval from the EBK the new methodology will be implemented in 2002 but we do not anticipate a major impact on overall VaR exposure.

Market risk in energy trading

In mid-February 2002, UBS Warburg established a new energy trading unit, based on Enron’s wholesale electricity and natural gas trading operations, through a licensing agreement that will give Enron an interest in the future income of the business. Further details of the new business are given in the UBS Warburg business description, on pages 43 to 44.

We estimate that the Value at Risk (VaR) for this product may reach around CHF 100 million

initially, but that there will be an offsetting diversification effect, which means that overall VaR usage within UBS Warburg is expected to rise by less than this amount. Future VaR usage will be



Capital and Risk Management Risk Analysis

reviewed later in 2002 in light of the performance of the new business.

Consequential risk developments

The events of 11 September 2001 resulted in a renewed and more intensive focus on the principle of “Know your customer” and on anti-money laundering activities. UBS’s involvement in the Wolfsberg Group and enhancements to our own internal practices are discussed in the Corporate Responsibility chapter on page 111.

Information security

Financial institutions are typically highly dependent on IT infrastructure, which is subject to ever-increasing attempted attacks. In UBS, information security risk is subject to independent controls with multiple layers of oversight, in the Business Groups and at Corporate Center, and within both the IT organization and Risk Control. Corporate Security also provides an independent view, on behalf of senior risk control management, into the complex risk environment created by a global network of sensitive applications with multiple attachments to the internet. The mandatory requirements of confidentiality, integrity and availability of critical information throughout the Group are set out in the UBS IT Security Framework, which is further elaborated in the Business Groups to meet their specific market environment and regulatory requirements.

As in previous years, the frequency, scope, and severity of attempted attacks on IT systems and information through the internet has increased. UBS is responding to this heightened risk through a combination of human and technical defenses.

Defensive barriers and attack detection systems are designed to combat cyber attacks, while internal access control systems ensure that sensitive data can only be accessed by authorized persons.

The effectiveness of our security defenses was demonstrated in our response to global internet virus attacks, such as Nimda and Goner – our e-mail servers were immediately protected to prevent spread of the hostile code, defensive tools were updated on all desktops and servers, and all copies of the virus were quickly located and removed.

Basel Capital Accord

Credit and market risk are well established risk categories for which management and control processes, although constantly evolving, are widely established and understood in the industry. These risks are the basis of the current Basel Capital Accord, which determines regulatory capital requirements for internationally active banks, including UBS.

A new Basel Capital Accord has been under development since 1999 and throughout 2001 UBS has been active in the ongoing discussion between the regulators and the industry. It is hoped that the new Accord, which is currently scheduled to be implemented from 1 January 2005, will provide a more risk sensitive framework for credit risk than the 1988 Accord, and that any capital requirement imposed on consequential (operational) risk will be responsive to changing risk and loss experience and will promote further rational development of risk control practice in this area.

Group Treasury

Group Treasury manages the core financial positions of the Group and coordinates and controls the corresponding processes on a Group-wide basis.

The goals of the Group Treasury processes are:

- Efficient management of the Group’s main non-trading interest rate exposures, to immunize originating business units from interest rate risk and provide them with an interest rate risk free margin.
- Sustainable and cost-efficient funding of the Group’s balance sheet, using a well diversified portfolio of funding sources and preserving a balanced liability structure.
- Providing a framework for optimal liquidity management in order to generate cash when required without compromising our ability to take advantage of market opportunities. This includes an integrated collateral management process, operated in conjunction with UBS Warburg’s Cash and Collateral Trading book (CCT) to generate revenues for both the Group and our clients.
- Efficient management of the Group’s non-trading foreign exchange exposure, to shield our equity and expected future cash flows from adverse fluctuations in exchange rates against the Swiss franc.
- Efficient management of regulatory capital, while maintaining strategic flexibility, sound capitalization and strong ratings.

Group Treasury is subject to the Group’s Risk Management and Control Principles, but also has its own specific processes and policies, tailored to the risks for which it is responsible.

Interest rate risk management

Interest rate risk is inherent in many of UBS’s businesses. It arises from a variety of factors, including differences in timing between contractual maturity or re-pricing of assets, liabilities and derivative instruments, which impact net interest income in the event of changes in market interest rates. In the case of floating rate assets and liabilities, UBS is also exposed to basis risk, which is

the difference in re-pricing characteristics of floating rate indices, such as the savings rate and six months LIBOR. These differences can result in changes to net income and in the valuation of our assets and liabilities when one group of assets or liabilities bears or pays interest on one basis, while others bear or pay interest on another. In addition, certain products have embedded options that affect their pricing and effective maturity.

Interest rate risk is segregated into trading and non-trading risk. Interest rate risk positions which are not subject to “trading book” regulatory capital treatment (and are therefore not included in our Value-at-Risk process discussed in the Market risk section on pages 71 to 76) are reported as “Bank Book” (non-trading risk) positions.

Most interest rate risks are captured at the point of business origination and then transferred, through a Group-wide transfer pricing mechanism, to one of the risk management units. Centralized risk management takes place within pre-defined risk limits, either in Group Treasury or in CCT, depending on the currency and original maturity.

This process allows us to exploit Group-wide netting potential and to shift the interest rate risk away from the originating business units, for financial reporting and internal risk management purposes, providing them with an interest rate risk-free margin. The only notable exceptions to this rule are the five independent private banking subsidiaries of UBS Switzerland which manage their own interest rate risk separately; however the amount of interest rate risk involved is not material to the financial condition or results of the Group as a whole.

Internal hedging process

In applying our internal hedging process, a distinction is made between transactions with fixed maturities and those without contractual maturity dates or directly market-linked rates (such as retail products), and also between long-term (over one year) and short-term (up to one year) Swiss franc denominated business.

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

Client current and savings accounts and many other products of UBS Switzerland have no contractual maturity date or directly market-linked rate, and can be thought of as effectively containing embedded pre-payment/withdrawal and re-pricing options. Their interest rate risk cannot be transferred to Group Treasury or CCT by simple back-to-back transactions and they are therefore transferred on a pooled basis. This entails the establishment of a “replication” portfolio – a portfolio of revolving transactions between the originating business unit and Group Treasury at market rates designed to approximate the average cash flow and re-pricing behavior of the pooled client transactions.

In both cases, risk transferred to CCT is managed by CCT within its risk limits, according to its risk view and appetite (see also Market Risk section on pages 71 to 76). To the extent that Group Treasury needs to hedge its positions, it also deals with CCT, which is the sole interface to the money market.

As a result of this process the originating business unit is “immunized”, for financial reporting and risk management purposes, against market interest rate movements, but retains the product margin, while Group Treasury acquires market rate based positions which it can manage within the Bank Book.

By transferring long-term Swiss franc exposures to Group Treasury, this process also allows us to benefit directly from the netting potential between the two types of client transactions, before the positions are transferred to CCT, where there is further netting potential and from where the risk may be transferred to the market.

In addition to the interest rate risk associated with client business, a significant amount of interest rate risk arises from non-business related balance sheet items, such as the financing of the Group’s real estate and equity investments in associated companies, and the investment of our own equity. These are all strategic decisions, which implicitly create Bank Book interest rate exposures. In a process similar to that used for client products that are at non-market rates or

lack contractual maturity dates, the non-business items are represented by replicating portfolios to approximate the investment or funding profile mandated by the Group Executive Board (GEB), and are thereby transferred to Group Treasury.

All replicating portfolios are updated monthly by replacing maturing tranches with new tranches, taking into account changes in the underlying portfolios over the period. Although the choice of monthly rollovers for each replicating portfolio helps to minimize the volume of transactions required at any one time, new aggregate tranches are, nevertheless, of such a size that they cannot be laid off to the market instantly. The Bank Book therefore staggers the execution of offsetting hedges with CCT, thereby assuming intra-month interest rate exposure, which fluctuates somewhat during the course of each month.

Interest rate risk in the Bank Book

The GEB has approved risk management policies, risk limits and a control framework for the entire Bank Book interest rate risk management process.

The internal control framework includes an allocation of the Group VaR limit, which covers both the interest rate risk and the foreign exchange risk for which Group Treasury is responsible. (Under Swiss Banking Commission regulations, only the foreign exchange risk is included in VaR for determination of regulatory capital – interest rate risk is included for internal risk management and control purposes only.) Group Treasury’s VaR exposure is included in the table on page 74. UBS Warburg’s central VaR Reporting unit monitors the risk in Group Treasury on a daily basis as part of UBS’s overall market risk control process.

Three key interest rate risk measures are also used:

- *Interest rate sensitivity* expresses the impact of a one basis point (0.01%) parallel rise in interest rates on the fair value (net present value) of all Bank Book items.
- *Economic value sensitivity* measures the potential change in fair value of the Bank Book resulting from a large instantaneous shock to interest rates.
- *Net interest income at risk* is defined as the potential change in net interest income from the Bank Book resulting from adverse movements in interest rates over the next twelve months. Various changes in the level of interest rates are applied. Usually the worst case is captured by

Interest rate sensitivity of the Bank Book

As 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	9	0	(2)	(173)	(863)	(1,029)
USD	35	(113)	(157)	(274)	(15)	(524)
EUR	(2)	(6)	(38)	182	0	136
GBP	0	(7)	(57)	175	624	735
JPY	1	0	(3)	1	(4)	(5)
Others	0	(1)	0	(1)	(4)	(6)
Total	43	(127)	(257)	(90)	(262)	(693)
of which equity replicating portfolio (CHF)	6	24	364	7,483	5,167	13,044
Bank Book without equity replicating portfolio (total)	37	(151)	(621)	(7,573)	(5,429)	(13,737)

using instantaneous shock scenarios. All of the scenarios are compared with a scenario where current market rates and client behavior are held constant for the next twelve months.

This measure considers such variables as:

- Re-pricing characteristics of assets and liabilities.
- The effect of rate barriers, such as caps and floors, on assets and liabilities.
- Maturity effects of replicating portfolios.
- Behavior of clients.

The methodology is designed to highlight the effects of market changes in interest rates on existing balance sheet positions – it ignores future changes in the asset and liability mix and therefore it is not a *predictor* of future net interest income.

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

In all three measures, for internal purposes we

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

At 31 December 2001, our equity was invested in a portfolio of fixed-rate CHF assets with an average duration of three years. This is equivalent to a sensitivity of CHF 13.0 million per basis point, in line with the strategic investment targets set by the GEB.

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

The table above shows the interest rate sensitivity of the Bank Book as at 31 December 2001. The first total is the sensitivity including the equity replicating portfolio, while the final total, which is significantly larger, excludes this portfolio.

The table below shows the change in risk under the economic value sensitivity and net interest income at risk measures between 31 December 1999 and 31 December 2001.

Change in risk under the two methodologies

CHF million	As at		
	31.12.01	31.12.00	31.12.99
Net interest income at risk	(313)	(247)	(355)
Economic value sensitivity	(1,319)	(908)	(555)

The net interest income at risk figure shown is the worst case among various interest rate scenarios that have been analyzed, and results from an assumed downward interest rate shock (parallel shift) of 200 basis points. At 31 December 2001, the difference in the projected outcome in this scenario from that projected in a constant market rate scenario represented a reduction of 3.9% in the year's total net interest income, compared with a reduction of 3% at 31 December 2000. In this extreme scenario, the largest part of the decrease would result from lower margins on savings, deposit and current accounts and lower returns on the investment of the Group's equity.

The economic value sensitivity measure shows the effect of a 100 basis point adverse interest rate shock. At 31 December 2001 a 100 basis point upward shock of Swiss franc rates would lead to a CHF 1,319 million decline in fair value, compared with an exposure of CHF 908 million to the same scenario at 31 December 2000.

The increase in the economic value sensitivity in the course of 2001 is mainly due to the decision to lengthen the duration of the investment of Group's CHF equity, while maintaining short-term refinancing of equity investments in UBS Group companies.

Other effects of interest rate changes on UBS's profitability

Neither of these two methodologies gives a complete picture of the potential effect of interest rate changes on the Group's revenues and costs. In principle, higher rates give UBS opportunities to improve loan pricing and deposit margins. Income from invested equity also increases, particularly where the yield curve is steep, although as it is mostly invested long-term, the average rate rises only slowly. However, rising interest rates can also reduce income: the cost of funding trading portfolios increases, especially if the yield curve is inverted. Loan demand may reduce with higher rates, while the likely deterioration in credit quality may result in increased credit loss expense, especially if rates rise towards the bottom of the credit cycle. At the same time, increased rates may reduce the prospects for growth in equity markets, leading to lower net new money in our client businesses and lower transaction volumes in our wholesale businesses, both of which would impact our fee income. Furthermore, changes in rates in different cur-

rencies have stronger or weaker effects on different aspects of the overall Group picture – trading-related revenues are more exposed to changes in US dollar rates, loan and deposit margins to changes in Swiss franc rates.

A similarly complex picture would apply to a reduction in interest rates. So, although the sensitivity of UBS's income to changes in the rates applied to its current balance sheet positions gives some indication of interest rate risk, the overall effect of a change in interest rates on the whole of the Group's business is much harder to model. It will partly depend on other factors, such as the shape of the yield curve, the position in the credit cycle and market perceptions of the progress of key economies.

Liquidity and funding management

The GEB has approved a policy, which establishes the core principles for liquidity management and has defined an appropriate contingency plan. A first set of principles relates to the establishment of liquidity risk limits (for example, a net overnight funding limit). The risk limits are set by the GEB and monitored by the Group Treasury Committee (GTC) which is chaired by the Group Treasurer and meets on a monthly basis to assess the Group's liquidity exposure. A second set of principles concentrates on liquidity crisis management, for which detailed contingency plans have been developed. Regional committees monitor the markets in which UBS operates for potential threats and regularly report their findings to the GTC. In the event of a liquidity crisis, regional crisis task forces implement contingency plans under the direction of senior management.

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

Liquidity management approach

UBS's approach to liquidity management is to ensure, as far as possible, that the Group will

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

The starting point for these stress analyses is the breakdown by contractual maturity of our assets and liabilities. This is displayed as of 31 December 2001 in Note 30 to the Financial Statements, which shows the profile of UBS's overall cash-flow ladder under a going-concern scenario. Various stress scenarios are then simulated by adjusting this assumed cash-flow ladder according to each type of stress event. These scenarios range from a liquidity squeeze that remains confined to the capital and inter-bank

markets (akin to the Asian crisis of 1997 and the Russian crisis of 1998) to a full-blown general market crisis that affects all participants and spans all market sectors on a global basis. Particular emphasis is also placed on a bank-specific crisis, where UBS alone is affected. Once again, this crisis is assumed to occur globally across all market sectors. In this way, varying degrees of severity are simulated and all of UBS's funding sources and investments are assumed to be put under stress. The range of effects evaluated encompasses the following stress factors:

- inability to roll over maturing unsecured debt (both long-term and short-term debt such as UBS's commercial paper programs),
- inability to raise new unsecured (short-term or long-term) debt,
- increased collateral margins on the banks secured funding sources,
- a sudden, large outflow of retail deposits (“bank run”),
- a large increase in draw-downs of unutilized committed credit lines.

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

UBS's exposure under these liquidity stress scenarios is analyzed on a monthly basis and any ensuing liquidity gap is assessed to ascertain the ability of the bank to bridge the gap by means of its large stock of pledged, undrawn central bank facilities and through increased use of repurchase and similar transactions. The assumed crisis gap is monitored monthly by Group Treasury and, if it were to exceed a predefined trigger level, appropriate measures would be taken to reduce the liquidity gap exposure accordingly.

The results of the liquidity stress scenario analyses are reported on a monthly basis to the Chief Risk Officer and are presented on a quarterly basis to the Group Executive Board.

Benefits of centralization

Being a globally integrated financial services firm, UBS's range of business activities naturally generates asset and liability portfolios which are highly diversified with respect to market, product and currency. This lowers UBS's exposure to

individual funding sources, and also provides a broader range of investment opportunities, which in turn reduces liquidity risk. The centralized approach to liquidity management adopted at UBS allows these advantages to be exploited. Group Treasury is, furthermore, instrumental in executing an integrated collateral management process on a Group-wide basis to ensure that the large, high-quality pool of collateral gathered across the Group is made accessible for repurchase and securities lending transactions as part of UBS Warburg's CCT activities. Through these securities lending transactions, CCT creates additional revenues for both UBS Group and its clients, and also generates substantial funding on a secured basis, providing an additional liquidity cushion that could be crucial in crisis situations.

Funding management approach

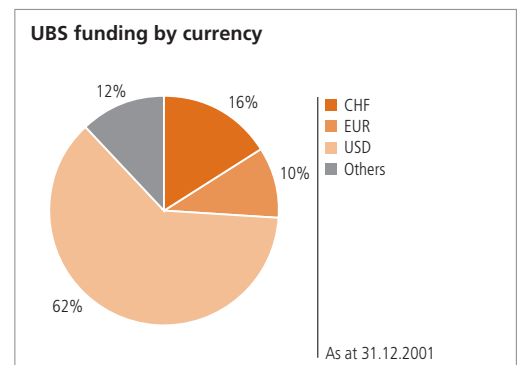
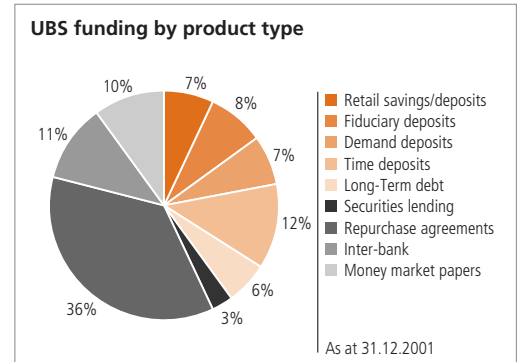
UBS's funding strategy seeks to ensure that business activities are funded at the lowest possible cost. With a broad diversification of funding sources (by market, product and currency), UBS maintains a well-balanced portfolio of liabilities which generates a stable flow of financing and provides protection in the event of market disruptions.

In this context, UBS's strong domestic retail business is a very valuable, cost efficient and reliable source of funding. Through the establishment of short, medium and long-term funding programs in Europe, in the US and in Asia, UBS can both provide specialized investments to its customers and efficiently raise funds globally, minimizing its dependence on any particular source.

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

The charts show a breakdown by product type and by currency of our secured and unsecured funding as at 31 December 2001. Of our total funding, 39% was raised on a secured basis and 61% unsecured. Most of our funding was originated in US dollars, with major portions

also being raised in Swiss francs and in Euro, roughly mirroring the currency breakdown of our asset base. Around 12% of our funding was denominated in other currencies (primarily GBP and JPY).



In the course of 2001, UBS's long-term debt increased slightly from CHF 54.9 billion at 31 December 2000 to CHF 57.2 billion at 31 December 2001. The maturity profile of our long-term debt portfolio is well balanced. See Note 19 to the Financial Statements in UBS's Financial Report 2001 for further information concerning long-term debt.

During 2001, UBS revised and fully implemented an expanded Global Crisis Management Concept (GCMC). The revised concept covers all types of crisis events – including a liquidity crisis – and applies to all Business Groups and subsidiaries of the UBS Group. Within the concept, a set of Regional Task Forces, each containing experts spanning all business areas, ensures global coverage of any crisis. The Group Liquidity Contingency Plan has been fully incorporated into the overall GCMC.

The market reaction to the terrorist attacks in

America on 11 September 2001 resulted in a severe liquidity squeeze in the financial markets, in particular in the US dollar, which had come to be regarded as a safe-haven currency. UBS's liquidity management and contingency plans successfully overcame this severe test.

Currency management

UBS reports its results in Swiss francs (CHF), the currency of the country in which it is incorporated. UBS's corporate currency management activities are designed to protect the Group's equity and expected future foreign currency cash flows from adverse currency movements against the Swiss franc, while preserving the option to take advantage of market opportunities which may arise.

In managing this risk, the following overarching principles are applied:

- Equity must be invested in Swiss francs.
- Currency management processes must be designed to minimize exposures against the Swiss franc.
- Core currency exposures must be actively managed to protect against adverse currency movements.

Translation (balance sheet) currency risk

UBS aims to maintain the flexibility to allow foreign assets to be divested at any time without adverse currency impacts. Foreign currency assets are therefore match-funded in the relevant currency – i.e. a US dollar asset is funded in US dollars, a Euro asset in Euros. The match-funding principle is also applied to the financing of foreign investments, including foreign equity investments. This strategy, together with the periodic repatriation of foreign currency dividends and retained earnings, ensures that the Group's equity is always fully invested in Swiss francs.

Transaction (revenues/expenses) currency risk

At each month end profits or losses are translated for financial accounting purposes into Swiss

francs from the original transaction currencies at the prevailing month-end rate, with actual exchange into Swiss francs taking place within a few days of month end. (Small gains or losses from these timing differences are reported as income in Corporate Center.)

The benefits of this transaction-currency risk-management process are:

- The monthly sell-down of foreign currency profits or losses into Swiss francs reduces volatility in the Group's earnings from changes in exchange rates.
- The visibility of the underlying original transaction currencies enables UBS to manage the currency exposures inherent in the Group's cost and revenue flows.

While the process reduces the susceptibility of annual earnings to adverse currency movements, it does not completely eliminate their effect. Group Treasury therefore proactively hedges significant currency exposures (mainly USD, EUR and GBP), in accordance with the instructions of the Group Executive Board and subject to the VaR limit which has been established for this risk. Economic hedging strategies employed include a cost-efficient option strategy, providing a safety net against unfavorable currency fluctuations while preserving upside potential.

New developments

From 1 January 2002 a rolling medium-term business planning process will replace UBS's current annual budget process. In line with this development, the economic hedging process for foreign currency profits and losses will be adjusted: instead of managing this risk on a strict financial year basis (1 January until 31 December of the current year), Group Treasury will employ a rolling twelve month hedge program. In this way, the total hedge volume is kept roughly constant (depending on potential business plan adjustments).

Non-trading currency risk VaR

<i>CHF million</i>	Minimum	Maximum	Average	End of period
1999	1.4	77.8	37.1	59.7
2000	11.6	113.4	33.7	12.7
2001	0.9	16.2	3.6	1.0

Capital management

Over recent years, European companies have become increasingly active managers of their capital, resulting in a growth of hybrid capital issuance and share repurchase programs. UBS's capital management is driven by shareholder value considerations, while sound capitalization and strong ratings are also key parts of UBS's attractiveness to clients and investors. UBS's overall capital needs are continually reviewed to ensure that our capital base can appropriately support our business and regulatory capital requirements. The use of a variety of instruments, such as trust preferred securities, to meet the overall capital level is designed to help support the Group's efforts to meet its return on equity targets and enhance shareholder value.

Sound capitalization

The table below shows the key capital figures and ratios as of 31 December 2001, 31 December 2000 and 31 December 1999.

The ratios measure capital adequacy by comparing UBS's eligible capital with its risk-weighted assets, which include balance sheet assets, net positions in securities not held in the trading portfolio, off-balance sheet transactions converted into their credit equivalents and market risk positions (based on Value at Risk) at a weighted amount to reflect their relative risk.

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

- Where BIS guidelines apply a maximum risk weight of 100%, the EBK applies risk weights above 100% to certain asset classes (for

example real estate, bank premises, other fixed assets, intangible assets excluding goodwill, equity securities and unconsolidated equity investments).

- Where the BIS guidelines apply a 20% risk weight to obligations of OECD banks, the EBK applies risk weights of 25% to 75%, depending on maturity, to such obligations.

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

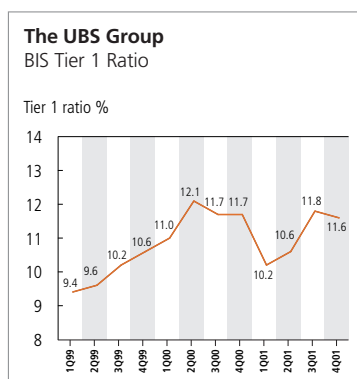
Capital management in 2001

Share buy back and cancellation

UBS's careful balance sheet management and strong earnings continued to generate additional capital in 2000. This enabled us to fund part of the share issuance for the merger with PaineWebber through a share buy-back program in late 2000 and early 2001, minimizing dilution to existing shareholders. When this had been completed, in February 2001, we were also able to announce a further share buy back program, intended to reduce the number of issued shares and enhance earnings per share.

As in 2000, this was a "second line" trading program, allowing for the tax efficient cancellation of shares and aimed mainly at institutional investors. Under Swiss regulations a company wishing to cancel shares must purchase them on the stock exchange under a special security code which clearly identifies the time and quantity of shares repurchased for this purpose. This separate coding is known as a "second line trading program".

This program ran from 5 March 2001 to 5 March 2002. A total of 28,818,690 shares were repurchased at an average price of CHF 79 per share representing a total cost of CHF 2.29 billion and repurchase of 2.25% of the shares issued at 31 December 2001. These shares will be cancelled in July 2002, following the approval of shareholders at the Annual General Meeting on 18 April 2002.



Capital adequacy

	As at		
CHF million, except ratios	31.12.01	31.12.00	31.12.99
BIS Tier 1 capital	29,322	31,892	28,952
BIS total capital	37,471	42,860	39,682
BIS Tier 1 capital ratio (%)	11.6	11.7	10.6
BIS total capital ratio (%)	14.8	15.7	14.5
Balance sheet assets	214,481	223,528	214,012
Off balance sheet and other positions	25,935	39,002	48,282
Market risk positions	13,319	10,760	10,813
Total BIS risk-weighted assets	253,735	273,290	273,107

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

	For the year ended		
	31.12.01	31.12.00	31.12.99
Weighted average shares for basic EPS after treasury shares	1,266,038,193	1,209,087,927	1,214,227,446
Weighted average second trading line treasury shares	40,116,921	43,261,410	0
Basic EPS	3.93	6.44	5.07
Impact of buy-back on basic EPS	0.12	0.23	0

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

The issuance of new shares for the merger with PaineWebber in fourth quarter 2000 had its main impact on the average outstanding shares and therefore on basic earnings per share in 2001. By 31 December 2001 the number of outstanding shares was again below the level before the merger with PaineWebber, thanks to the share buy-back program, and the careful structuring of the share issuance for the merger.

Share split and par value reduction

Under new regulations, which became effective on 1 May 2001, the minimum par value for Swiss shares was reduced to CHF 0.01. UBS took advantage of this change to lower its market price per share to a level more in line with that of its global peer group, and to make a tax efficient payment to its shareholders in the form of a CHF 1.60 reduction in the par value of its shares.

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

The distribution reduced the par value of the share to CHF 8.40 and was followed by a 3 for 1 share split, resulting in a new par value of CHF 2.80.

The par value reduction took place on 16 July 2001, for payment on 18 July 2001 to holders of record on 13 July 2001. The share split was also implemented on 16 July 2001.

Combined with the dividend paid in October 2000 in respect of the first three quarters of 2000, the par value repayment meant that UBS

distributed CHF 2.03 per share (CHF 6.10 before adjustment for the share split), compared to CHF 1.83 (CHF 5.50 before share split) the previous year.

Capital management plans for 2002

New second line buy back program

Given our continuing strong cash flow generation UBS intends again to repurchase shares for capital reduction purposes under a "second-line" buy-back program aimed at institutional investors, allowing tax efficient cancellation of shares.

This new second line program becomes available from 6 March 2002 and can run until 5 March 2003. A maximum of CHF 5 billion worth of shares may be repurchased under the program.

The number of shares repurchased and the average number of outstanding shares will be published weekly on the internet at www.ubs.com/investors. The repurchased shares will be cancelled following approval by the Annual General Meeting in April 2003.

Par value reduction

This year we plan once again to make use of the new regulations introduced in Switzerland in 2001 to make a tax efficient distribution of capital to our shareholders rather than paying a dividend.

The Board of Directors will recommend to the Annual General Meeting on 18 April 2002 that UBS should make a par value repayment of CHF 2.00 per share. This proposed distribution in respect of 2001 is consistent with last year, when the total per share distribution to shareholders (adjusted for last July's 3-for-1-share split) was CHF 2.03.

If the par value reduction is approved, it will take place on 8 July 2002, with payment on 10 July 2002 for shareholders of record on 5 July 2002, and will bring the par value of each UBS share down to CHF 0.80.



Corporate Governance

Corporate Organization

UBS is committed to meeting the highest international standards of corporate governance in its organizational structure. Corporate and executive bodies are organized in line with the leading codes of best practice.

UBS's organizational structure, based on two separate boards having different functions and responsibilities, provides clear controls and a balance between the Board of Directors (Board) and the Group Executive Board (GEB).

The functions of Chairman of the Board of Directors (Chairman) and President of the Group Executive Board (President) are conferred on two different people, thus providing separation of powers.

Organizational principles

The shareholders elect each member of the Board. The Board appoints the Chairman, the Vice Chairmen and the members of the various Board committees from among the elected Board members. It also appoints the President and members of the GEB.

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

The GEB has business management responsibility for the company. Together with the Chairman's Office (the Chairman working with the executive and non-executive Vice Chairmen) it assumes overall responsibility for the development of UBS's strategies. The GEB, and in par-

ticular its President, is responsible for the implementation and results of those strategies, for the alignment of the Business Groups to the UBS Group's integrated model and for the exploitation of synergies across the Group. The President also assumes responsibility for business and financial planning, financial reporting and the definition and supervision of risk control. The President and the GEB are accountable to the Chairman and the Board for the Group results, and the Board in turn is accountable to UBS's shareholders.

In order to ensure that the Board and GEB are independent of each other, no member of one board may also be a member of the other.

The Board of Directors

As at 31 December 2001, the Board consisted of nine Directors (see list on page 94). At its Annual General Meeting (AGM) on 26 April 2001, UBS's shareholders elected Marcel Ospel to the Board, and the Board appointed him as its Chairman with effect from that date. Eric Honegger, member of the Board since 1999, resigned as of 15 October 2001, for personal reasons. Markus Kündig, Vice Chairman since 1998, has reached retirement age and will therefore step down at the AGM to be held on 18 April 2002. The Board will propose to the AGM that Ernesto Bertarelli (born 1965), CEO of Serono International SA, Geneva, be elected to the Board.

The Board is organized as follows:

The Chairman operates a *Chairman's Office*, including the Vice Chairmen, which meets regularly with the President and his appointees drawn from the GEB to address fundamental issues for the Group, such as overall strategy, mid-term financial and business planning, mid-term succession plans, global compensation principles, and the risk profile of the Group. The

Chairman's Office assumes special authority in the credit approval process and is responsible for the appointment and dismissal of the members of the Group Managing Board (GMB). It also acts as the *Audit Supervisory Board*, with responsibility for the supervision of Group Internal Audit, and as the *Nomination Committee*, with responsibility for identifying and proposing candidates for membership of the Board of Directors and for the long-term preparation of succession planning for the Chairman and Board of Directors.

The *Compensation Committee* has responsibility for determining the individual compensation and bonus for the executive Directors, the President and members of the GEB and for submitting proposals for the compensation of non-executive Directors to the Board. The Committee is chaired by Markus Kündig, with Rolf A. Meyer and Marcel Ospel as its additional members.

The Board appoints an *Audit Committee* from among its non-executive members. The Audit Committee meets at least four times a year to oversee the performance of the external Group and Statutory Auditors. It also monitors interaction between Group Internal Audit and the external auditors. All three members – Peter Böckli as Chairman, Lawrence A. Weinbach and Hans Peter Ming – are fully independent from UBS. They are financially literate and familiar with the accounting practices of international financial services groups. The Audit Committee does not itself perform audits, but supervises the work of the auditors. Its primary responsibility is thereby to review the organization and efficiency of internal control procedures and the financial reporting process.

The *Corporate Responsibility Committee* is described in the Corporate Responsibility section on pages 111 to 118.

Changes to committee memberships following the AGM

Following the Annual General Meeting on 18 April 2002, there will be some changes to the membership of committees of the Board. Professor Peter Böckli will become non-executive Vice Chairman of UBS. He will succeed Markus Kündig, who will retire from the Board of Directors at the Annual General Meeting, after 20 years service first as a Director and later as Vice

Chairman of UBS. Lawrence A. Weinbach will replace Peter Böckli as Chairman of the Audit Committee. Rolf A. Meyer will replace Markus Kündig as Chairman of the Compensation Committee. The Nomination Committee will become a separate committee, with Hans de Gier as its Chairman.

The Group Executive Board

As at 31 December 2001, the GEB consisted of six members (see list on page 95).

Marcel Ospel, Chief Executive Officer, stepped down from his function after the 2001 AGM when he was elected to the Board. At the same time, Luqman Arnold became President of the Group Executive Board. Pierre de Weck left UBS in July 2001.

In December 2001, Luqman Arnold left UBS and was replaced as President of the Group Executive Board by Peter Wuffli. John Costas was appointed Chief Executive Officer of UBS Warburg and joined the Group Executive Board.

The GEB appoints the following major committees:

- The *Group Governance Committee* is responsible for the coordination of the Group's interface with central banks and regulators, and for minimizing the Group's reputation risks.
- The *Group Finance and Risk Committee* is responsible for coordinating the Group's accounting, risk management and control, treasury and financial communication processes, aiming for the long-term maximization of shareholder value. The Group Finance and Risk Committee includes the chairmen of the associated functional committees: Group Risk Committee, Group Controlling Committee, and Group Treasury Committee.
- The *Group Communications and Marketing Committee* ensures that communication to all stakeholders, internally and externally, is transparent, accurate, concise, timely and consistent.
- The *Group Human Resources Committee* has responsibility for the definition of human resources policies and standards which contribute to the identification, recruitment, development and retention of high-caliber staff.

The Group Managing Board

The Group Managing Board (GMB) consists of

the most senior managers from the Business Groups and Corporate Center, who are not members of the GEB. The GMB meets at least once a year to discuss fundamental Group issues.

As of 31 December 2001 the GMB had 30 members (see list on page 98).

Senior management compensation principles

Overall philosophy

UBS operates in extremely competitive labor markets, around the globe and across different sectors of the financial services industry. Accordingly, it seeks to attract, retain, motivate and develop highly qualified employees at all levels. In particular, it is critical to achieve this for positions with the greatest degree of influence over the leadership and management of the firm and the creation of shareholder value. UBS is prepared to provide its senior executives with superior compensation in return for superior performance, and has developed the measurement systems and decision processes necessary to ensure that pay is tied directly to performance.

The performance of senior executives (executive members of the UBS Board of Directors, members of the UBS Group Executive Board, and members of the UBS Group Managing Board) is evaluated in the context of UBS Group, Business Group and business area results, as appropriate to a particular executive's responsibilities. Performance assessments consider both quantitative and qualitative factors, and include a balanced assessment of both current financial results and key performance indicators, which are longer-term value drivers crucial to the Group's ability to deliver future performance and growth. This assessment process is closely linked to the value-based management process that UBS is now implementing.

In conducting its assessments of executive performance, UBS reviews changes to its overall performance and the performance of its individual businesses over time, results achieved against specifically established performance targets, and results compared to competitor performance, to the extent that such data are available.

Compensation levels are strongly correlated with performance assessments and are highly variable from year to year. As such, should UBS Group and Business Group performance decline from the prior year, lag behind established per-

formance targets or trail competitor trends, senior executives' compensation will clearly reflect this. The converse is also true, should performance exceed all of these benchmarks.

Components of compensation

Compensation for senior executives consists of base salary and a discretionary performance-based incentive component. A significant portion of the incentive component is paid in the form of forfeitable UBS equity, which may be restricted stock, employee stock option grants, or a combination of both. This incentive component is determined on a discretionary basis considering the performance data described above, and generally represents a substantial portion of total compensation. Annual examination of competitor pay practices is conducted to ensure that our compensation policies and practices continue to support the objectives of attracting outstanding new executives, motivating and retaining valuable employees, and delivering sustained superior returns to shareholders.

Executive share ownership commitment

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

- A significant portion of each senior executive's annual performance-based incentive compensation is delivered in the form of UBS shares or employee stock options, on a mandatory basis.
- Additional incentives are provided for senior executives who voluntarily elect to take an even greater portion of their annual performance-based incentive compensation in the form of restricted UBS shares. Executives opting to take a greater than mandatory proportion of their annual incentive in restricted/deferred UBS shares will receive additional stock options. Executives will also be eligible for additional discretionary stock option grants made separately from the regular annual incentive awards and intended to reward exemplary performance.
- Beginning in 2002, senior executives will be required to accumulate over a five-year period and then hold, a number of UBS shares

equivalent in value to a multiple of their cash compensation earned (base salary plus cash portion of incentive). Although the first official measurement of stock ownership attainment will be conducted after five years, progress reports will be provided annually in the interim and executives will be expected to make steady progress towards attaining their target multiple.

Governance

The approval of senior executive compensation recommendations and the design of senior executive compensation systems (plan design, performance measures, pay/performance relationship) are subject to a rigorous process which ensures that decisions are taken at least of two organizational levels above the executive concerned. The following is a description of the decision making process for different senior executive populations:

- Group Managing Board members: Compensation recommendations are developed by the responsible member of the Group Executive Board. Recommendations are reviewed by the President of the Group Executive Board and then final recommendations are submitted to the Chairman of the Board for approval. The compensation system for the Group Managing Board is subject to the approval of the Chairman's Office.
- Group Executive Board members: Compensation recommendations are developed jointly by the President of the Group Executive Board and the Chairman of the Board. The Compensation Committee of the Board of Directors reviews and approves the design of the compensation system for the Group Executive Board and all resulting compensation recommendations.
- President of the Group Executive Board and Vice Chairmen: Compensation recommendations are developed by the Chairman of the Board. The Compensation Committee of the Board of Directors reviews and approves the design of the compensation system for the President of the Group Executive Board and the Vice Chairmen and all resulting compensation recommendations.
- Chairman of the Board: On behalf of the full Board of Directors, non-executive members of the Compensation Committee of the Board

of Directors have authority to develop and approve the design of the compensation system for the Chairman of the Board and all resulting compensation recommendations.

For details of membership of the Compensation Committee, please see page 89.

Employee share ownership commitment

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

UBS also believes that broader-based employee stock ownership will further enhance its ability to deliver superior shareholder returns by increasing the alignment between the interests of employees and shareholders. UBS hopes to increase its level of employee stock ownership through shares and options from approximately 14% in 2000 to 20 - 25% over the next three years. Broader employee share ownership is encouraged in the following ways:

- Employee incentive awards above a certain threshold are delivered in UBS shares, or a combination of shares and employee stock options, on a mandatory basis. The threshold varies by business and labor market. Generally, employees are further encouraged to voluntarily elect to defer a portion of their incentives into UBS shares in exchange for additional stock options, or to diversify into an array of funds including those managed by UBS fund managers. UBS believes it is important to provide employees the opportunity and incentive to voluntarily invest into UBS shares, but where possible also to encourage employees to consider the same wealth management principles in diversifying their personal portfolios as they would apply to a client.
- The highest performing and highest potential employees are also eligible for discretionary stock option grants. These highly selective awards are intended to provide the greatest degree of shareholder alignment among the emerging pool of future UBS leaders, senior managers and technical experts, and to enhance UBS's value proposition in an increasingly competitive market for the best management, financial and technical talent.

- Beginning in 2002, all UBS employees (unless prohibited by local law) are eligible to participate in a program called Equity Plus which is a global adaptation of a program that was implemented at PaineWebber before its merger with UBS in November 2000. Equity Plus enables UBS employees in 48 countries to voluntarily elect to purchase a limited number of UBS shares with after-tax funds either from their incentive awards or base salaries, and receive two UBS stock options for every share acquired and held for two years. The goal of this program is to build on UBS's "Power of Partnership" strategy by motivating employees at all levels to become partners in UBS's success.

Audit

Group Internal Audit

To maximize its independence from management, the head of Group Internal Audit, Markus Ronner, reports directly to the Chairman of the Board and the Audit Supervisory Board.

With 230 professionals worldwide at 31 December 2001, Group Internal Audit provides an independent review of the effectiveness of the system of internal controls and compliance with key rules and regulations. All key issues raised by Group Internal Audit are communicated to the management responsible, to the President of the GEB and to the Chairman's Office via formal Audit Reports. The Audit Supervisory Board and the Audit Committee of the Board are regularly informed of important findings.

Continuous coordination and close cooperation with the external auditors enhances the efficiency of Group Internal Audit's work.

External auditors

Ernst & Young Ltd., Basel, has been assigned the mandate of global auditors for the UBS Group. They assume all auditing functions according to laws, regulatory requests, and the UBS Articles of Association (see also the paragraph about auditors responsibilities in the Regulation and supervision section, on page 105). Ernst & Young Ltd. meets all independence requirements established by the Securities and Exchange Commission (SEC). As part of its audit process, Ernst & Young Ltd. informs the Audit Committee of the measures it takes to ensure its and its employees' independence from

UBS, and outlines the non-audit services which it delivers to UBS. The Audit Committee assesses this information on behalf of the Board and informs the Board accordingly.

At the Extraordinary General Meeting on 7 September 2000, UBS shareholders appointed Deloitte & Touche Experta AG, Basel, as Special auditors according to Article 31 paragraph 3 of the UBS Articles of Association. The Special auditors provide audit opinions in respect of the details of capital increases, independently from the Group auditors.

Relations with shareholders

UBS has nearly 250,000 shareholders registered in the Swiss or US Share Registry, ranging from large investment institutions to individual investors. All registered shareholders receive an illustrated Annual Review providing an overview of the Group and its activities during the year, and a short letter each quarter outlining new initiatives and UBS's financial performance during the quarter. More detailed financial reports are produced each quarter and each year, and can be received on request (see page 5 for ordering details). All registered shareholders are personally invited to ordinary and extraordinary Shareholders' Meetings and receive direct written information in case of special events.

Shareholder rights

Shareholders, as the owners of the company, have specific rights under Swiss law. UBS is committed to make it as easy as possible for shareholders to take part in its decision-making processes. There are no restrictions with regard to share ownership and voting rights, except for nominees and trustees, whose voting rights are limited to a maximum of 5% of the outstanding shares. This limitation exists in order to avoid the risk of unknown shareholders with extensive holdings being entered in the share register. An exception from the strict 5% rule exists for securities clearing organizations such as The Depository Trust Company (DTC) in New York and SegalInterSettle (SIS) in Switzerland, which both fulfil a special fiduciary function for UBS shareholders.

UBS Annual General Meetings (AGMs) are open for participation to all shareholders. Personal invitations are sent to every registered shareholder at least 20 days ahead of the meeting. Shareholders may, if they do not wish to attend in

person, issue instructions to accept, reject or abstain on each individual item on the agenda. They may also appoint UBS, another bank or a person of their choice to vote on their behalf, or appoint the Independent Proxy designated by UBS as required under Swiss company law. AGMs offer the opportunity to shareholders to raise any questions regarding the development of the company and the events of the year under review. The members of the Board and Group Executive Board as well as the internal and external auditors are present to answer these questions. Decisions are normally taken by the majority of votes cast and in some cases, defined by law or UBS Articles of Association, a two-third majority of the votes represented at the AGM is required.

Shareholders representing shares with an aggregate par value of one million Swiss francs may submit proposals for matters to be placed on the agenda for consideration by the AGM, provided that their proposals are submitted in writing within the deadline published by the company. Shareholders representing at least ten percent of the share capital, may ask that an Extraordinary General Meeting be convened to deal with a specific issue put forward by these shareholders.

UBS Group legal entity structure

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 (UBS Warburg, UBS Switzerland and UBS Asset Management) nor the Corporate Center operate through their own individual legal entities but rather they generally operate out of the parent bank, UBS AG, through its Swiss and foreign branches.

The goal of the focus on the parent bank structure is to capitalize on the synergies offered by the use of a single legal platform, enable the flexible use of capital in an efficient manner and to provide a structure where the activities of the Business Groups may be carried on without the need to set up separate subsidiaries beforehand.

Where it is either not possible or not efficient to operate out of the parent bank, usually due to local legal, tax or regulatory rules or due to additional legal entities joining the UBS Group via acquisition, then the businesses operate through local subsidiary companies. The significant operating subsidiary companies in the Group are listed in note 36 to the Financial Statements, in our Financial Report 2001.

Directors and Officers of UBS

The Board of Directors

Each member of the Board is elected at the Annual General Meeting of Shareholders for a four-year term. The initial term of office for each Director is, however, planned in such a way as to ensure that about a quarter of all the members have to be newly elected or reelected every year.

The table below shows information about the Board of Directors as at 31 December 2001.

Name and business address	Positions held	Year of initial appointment	Expiration of current term of office
Marcel Ospel UBS AG Bahnhofstrasse 45 CH-8098 Zurich	Chairman Chairman of the Corporate Responsibility Committee	2001	2005
Alberto Togni UBS AG Bahnhofstrasse 45 CH-8098 Zurich	Executive Vice Chairman Chairman of the Audit Supervisory Board	1998	2005
Johannes A. de Gier UBS AG Bahnhofstrasse 45 CH-8098 Zurich	Executive Vice Chairman	2001	2003
Markus Kündig Bundesplatz 10 CH-6304 Zug	Vice Chairman Chairman of the Compensation Committee	1998	2002
Peter Böckli Böckli Bodmer & Partners St. Jakobs-Strasse 41 P.O. Box 2348 CH-4002 Basel	Chairman of the Audit Committee	1998	2003
Sir Peter Davis J. Sainsbury plc. Stamford House, Stamford Street London SE1 9LL	Board Member	2001	2004
Rolf A. Meyer Heiniweidstrasse 18 CH-8806 Bäch	Member of the Compensation Committee	1998	2003
Hans Peter Ming Sika Finanz AG Wiesenstrasse 7 CH-8008 Zurich	Member of the Audit Committee	1998	2004
Lawrence A. Weinbach Unisys Corporation Unisys Way Blue Bell, PA 19424	Member of the Audit Committee	2001	2005

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

Alberto Togni, Vice Chairman, has been with UBS and SBC since 1959. From 1994 to 1997 he was Chief Risk Officer and a member of the Group Executive Committee of Swiss Bank Corporation. He previously held various functions in the Commercial division, becoming its head in 1993. In 1987 he was named General Manager and member of the Executive Board. Prior to that, he assumed different management roles in Zurich, New York, Tokyo and as representative for the Middle East in Beirut. Mr. Togni serves as a director of Unilever (Schweiz) AG, Zurich; Laboratories Thomson Multimedia Ltd., Zurich; and Swiss National Bank, Zurich. Mr. Togni was born on 30 October 1938 and is a Swiss citizen.

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

Markus Kündig, Vice Chairman of the Board and Chairman of the Compensation Committee,

is also the Chairman of the Board of Directors of LZ Medien Holding AG and the Vice Chairman of the Board of Directors of Clariant. He is a member of the Boards of Directors of Metro International AG, and Pelikan Holding AG. Until 1999, Mr. Kündig was the proprietor of Kündig Printers Ltd. Mr. Kündig was born on 12 October 1931 and is a Swiss citizen.

Peter Böckli, Chairman of the Audit Committee, is a partner in the law office of Böckli Bodmer & Partners and a part-time professor of tax and business law at the University of Basel. He is a member of the Boards of Directors of Nestlé S.A., Vevey and Firmenich International S.A., Geneva. In addition, he is the Vice Chairman of the Board of Directors of Manufacture des Montres Rolex S.A., Bienne. Mr. Böckli was born on 7 May 1936 and is a Swiss citizen.

Sir Peter Davis, a member of the Board since 2001, has been Group Chief Executive Officer of J. Sainsbury plc, London, since 2000. He was the Group Chief Executive of Prudential plc from 1995 to 2000 and Chief Executive and Chairman of Reed International and Chairman of Reed Elsevier respectively (following the merger of Reed International with Elsevier) from 1986 to 1995. From 1976 to 1986, he had responsibility for all buying and marketing operations at J. Sainsbury plc. Prior to that he served as Marketing and Sales Director at Fitch Lovell Ltd., and as Marketing and Sales manager at General Foods Ltd., Banbury. He is also a member of the Board of Directors of Shaw's Supermarkets Inc., Boston, USA. Sir Peter was born on 23 December 1941 and is a British citizen.

Rolf A. Meyer, a member of the Compensation Committee, was Chairman and CEO of Ciba Specialty Chemicals until November 2000. He was with Ciba-Geigy Ltd. from when he first joined in 1973 as a financial analyst, and subsequently became Head of Finance and Information Systems and later Chief Financial Officer. After the merger of Ciba-Geigy and Sandoz to create Novartis, he led the spin-off of Ciba Specialty Chemicals. He is now a consultant and is also Vice Chairman of the Board of Siber Hegner AG and a member of the Board of COS AG. Mr. Meyer was born on 31 October 1943 and is a Swiss citizen.

Hans Peter Ming, a member of the Audit Committee, is the Chairman of the Board of

Corporate Governance Directors and Officers of UBS

Directors of Sika Finanz AG. He has been with SIKA AG since he first joined in 1967, and assumed various management positions in this group in Germany and in Switzerland. He was named CEO in 1986 and delegate of the Board of Directors in 1987. In 1999 he was elected as Chairman. He is also a member of the Board of Pestalozzi AG, Dietikon, Switzerland. Mr. Ming was born on 12 October 1938 and is a Swiss citizen.

Lawrence A. Weinbach, a member of the Audit Committee, has been the Chairman, President and CEO of Unisys Corporation since 1997. From 1961 to 1997 he was with Arthur Andersen / Andersen Worldwide, as Managing Partner and Chief Executive of Andersen Worldwide from 1989 to 1997, Chief Operating Officer from 1987 to 1989, and Managing Partner of the New York office since 1983. He was elected to partnership at Arthur Andersen in 1970 and became Managing Partner of the

Stamford, Connecticut, office in 1974 and Partner in charge of accounting audit practice in New York. He is also a member of the Board of Directors of Avon Products Inc., New York. Mr. Weinbach was born on 8 January 1940 and is a US citizen.

Marcel Ospel, Alberto Togni and Johannes de Gier, the Chairman and the two executive Vice Chairmen of the Board, have entered into contracts with UBS AG in connection with their service in those capacities. The compensation payable to them under those contracts is included in the compensation arrangements described in Notes 33 and 34 to the Financial Statements.

There are no service contracts with any of the other members of the Board, although they do receive remuneration for their work for UBS. The remuneration paid to the non-executive Directors is also included in the compensation figures shown in Note 34 to the Financial Statements.

The Group Executive Board

The table below shows the membership of the Group Executive Board at 31 December 2001.

Name	Position held	Year of initial appointment to the GEB
Peter A. Wuffli	President	1998
John P. Costas	Chief Executive Officer, UBS Warburg	2001
Georges Gagnebin	Chief Executive Officer, UBS Private Banking	2000
Joseph J. Grano Jr.	Chairman and Chief Executive Officer, UBS PaineWebber	2001
Markus Granzio	Chairman, UBS Warburg	1999
Stephan Haeringer	Chief Executive Officer, UBS Switzerland	1998

The business address of all members of the Group Executive Board is UBS AG, Bahnhofstrasse 45, Zurich, Switzerland. Peter Kurer, the Group General Counsel, is an ex-officio member of the Group Executive Board.

Peter A. Wuffli, previously Chairman and CEO of UBS Asset Management, was named President of the Group Executive Board on 18 December 2001. He was Group Chief Financial Officer of UBS from 1998 to 1999. From 1994 to 1998, he was the Chief Financial Officer at SBC and a member of SBC's Group Executive Committee. In 1984, he joined McKinsey & Co as management consultant and in 1990 became a partner of the McKinsey Switzerland senior management. Mr. Wuffli was born on 26 October 1957. He is a Swiss citizen.

John P. Costas is the CEO of UBS Warburg. He was President and Chief Operating Officer of UBS Warburg from the beginning of 2001, after

having been COO and Global Head Fixed Income. Mr. Costas joined UBS in 1996 as Head of Fixed Income. From 1981 to 1996 he was in charge of Global Fixed Income at Credit Suisse First Boston. Mr. Costas was born on 27 January 1957. He is a US citizen.

Georges Gagnebin is the CEO of the Private Banking unit of UBS Switzerland. Before holding this function, he was the Head of the International Clients Europe, Middle East & Africa business area in the Private Banking division. In 1994, he was named General Manager and Member of the SBC Group Executive Board, and in 1992, he became Deputy General Manager and a Member of the Executive Board.

Between 1987 and 1992, he served as Head of Finance & Investment at SBC in Berne and Lausanne. In 1982, he was named Head of the Finance & Investment unit of SBC in Berne. Mr. Gagnebin began his career in 1969 at SBC in Berne. Mr. Gagnebin was born on 3 March 1946. He is a Swiss citizen.

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

Markus Granzio, Chairman of UBS Warburg, was also CEO of this Business Group from 1999 until 2001. From 1998 to 1999 he served as Global Head Equities and Fixed Income at Warburg Dillon Read and was a member of the Group Managing Board. From 1996 to 1998, he was General Manager and member

of the SBC Group Executive Board. Between 1995 and 1996 he served with SBC Warburg as the Joint Global Head of Equities. In 1994, he became Global Head of Equities at SBC in Hong Kong. Mr. Granzio joined SBC in 1987 as Head of the Securities Department in Zurich. Prior to that, he was Chief of Staff at the Swiss National Bank, and was also lecturer in macro-economics and financial theory at the University of Zurich. Mr. Granzio was born on 21 January 1952. He is a Swiss citizen.

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

Corporate Governance Directors and Officers of UBS

Group Managing Board

The following members belonged to the Group Managing Board as at 31 December 2001:

Colin Buchan	Senior Advisor, UBS Warburg
Crispian Collins	Vice Chairman, UBS Asset Management
Arthur Decurtins	Head of Asia, UBS Private Banking
Jeffrey J. Diermeier	Chief Investment Officer, UBS Asset Management
Regina A. Dolan	Chief Administrative Officer, UBS PaineWebber
Thomas K. Escher	Head of IT, UBS Switzerland
John A. Fraser	Chief Executive Officer, UBS Asset Management
Robert Gillespie	Joint Global Head of Corporate Finance, UBS Warburg
Jürg Haller	Head of Risk Transformation and Capital Management, UBS Switzerland
Eugen Haltiner	Head of Corporate Clients, UBS Switzerland
Gabriel Herrera	Head of Europe, Middle East and Africa / Investment Funds, UBS Asset Management
Alan C. Hodson	Head of Equities, UBS Warburg
Peter Kurer	Group General Counsel
Benjamin F. Lenhardt, Jr.	Deputy Head of Business Management / Head of Americas, UBS Asset Management
Donald B. Marron	Chairman UBS Americas (ex officio GMB member)
Urs. B. Rinderknecht	Group Mandates
Alain Robert	Head of Individual Clients, UBS Switzerland
Marcel Rohner	Chief Operating Officer, Deputy CEO, UBS Private Banking
Gian Pietro Rossetti	Head of Swiss Clients, UBS Private Banking
Hugo Schaub	Group Controller
Jean Francis Sierro	Head of Resources, UBS Switzerland
Robert H. Silver	Head of Operations, Technology, and Corporate Employee Financial Services, UBS PaineWebber
J. Richard Sipes	Joint Head of Europe, UBS Private Banking
Clive Standish	Chief Executive Officer Asia Pacific, UBS Warburg
Walter Stürzinger	Group Chief Risk Officer
Marco Suter	Group Chief Credit Officer
Mark B. Sutton	Head of US Private Clients, UBS PaineWebber
Rory Tapner	Joint Global Head of Corporate Finance, UBS Warburg
Raoul Weil	Joint Head of Europe, UBS Private Banking
Stephan Zimmermann	Head of Operations, UBS Switzerland

Auditors

External auditors

Ernst & Young Ltd., Basel	Auditors for the Parent Bank and for the Group	(term expires AGM 2002, proposed for reelection)
Deloitte & Touche Experta, Ltd., Basel	Special auditors	(term expires AGM 2003)

Internal audit

Markus Ronner	Head of Group Internal Audit
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Financial Disclosure Principles

UBS's financial disclosure policies aim to achieve a fair market value for the UBS share by communicating transparently, openly and consistently with investors and the financial markets at all times.

Based on our discussions with analysts and investors, we believe that the market accords a “transparency premium” to the share prices of companies who provide clear, consistent and informative disclosure about their business. Our aim therefore is to communicate UBS's strategy and results in such a way that investors can gain a full and accurate understanding of how the company works, what its growth prospects are and what risks there are that this growth will not be realized.

To continue to achieve these goals, we apply the following principles in our financial reporting and disclosure:

- *Transparency*: our disclosure is designed to enhance understanding of the economic drivers and detailed results of the business, building trust and credibility.
- *Consistency*: we aim to ensure that our disclosure is consistent and comparable within each reporting period and between reporting periods.
- *Simplicity*: we try to disclose information in as simple a manner as possible consistent with allowing readers to gain the appropriate level of understanding of our businesses' performance.
- *Relevance*: we aim to avoid information overload by disclosing information only where it is relevant to UBS's stakeholders, or required by regulation or statute.
- *Best practice*: we strive to ensure that our disclosure is in line with industry norms, and if possible leads the way to improved standards.

We report UBS's results quarterly, including a breakdown of results by Business Groups and business units and extensive disclosures relating to credit and market risk. The quantity of disclosure and the quality of analysis and comment we provide put UBS's reporting among the leaders in the banking sector, worldwide.

We also aim to take a prominent role in developing and enhancing industry standards for disclosure. UBS is actively represented in committees and similar bodies helping to improve accounting standards and risk disclosure standards. Last year we took the lead in proposing a new standard for measuring and reporting client assets. This was well received by investors, analysts and peers.

Performance measures and targets

Group targets

UBS focuses on four key performance targets, designed to ensure that it delivers continually improving returns to its shareholders. We report UBS's performance against these targets each quarter:

- We seek to increase the value of the Group by achieving a sustainable, after-tax return on equity of 15–20%, across periods of varying market conditions.
- We aim to increase shareholder value through double-digit average annual percentage growth in basic earnings per share (EPS), across periods of varying market conditions.
- Through cost reduction and earnings enhancement initiatives we aim to reduce UBS's cost/income ratio, to a level that compares positively with best-in-class competitors.
- We aim to achieve a clear growth trend in net new money in our private client businesses.

The first three targets are all reported pre-goodwill amortization, and adjusted for significant financial events (see below).

Business Group key performance indicators

We also report carefully chosen key performance indicators for each of UBS's Business Groups and business units. These do not carry explicit targets, but are indicators of the business units' success in

creating value for shareholders. They include financial metrics, such as the cost/income ratio, and non-financial metrics such as client assets.

These key performance indicators are used for internal performance measurement and planning as well as external reporting. This ensures that management has a clear responsibility to lead their businesses towards achieving success in the externally reported value drivers and avoid the risk of managing to purely internal performance measures.

Financial reporting policies

Accounting principles

We prepare UBS Group's accounts according to International Accounting Standards (IAS), and provide additional information to reconcile the Group accounts to US Generally Accepted Accounting Principles (US GAAP). A detailed explanation of the basis of UBS's accounting is given in Note 1 to the Financial Statements, which is published in the Financial Report 2001.

In addition, the Financial Report 2001 contains the financial statements of the UBS AG parent bank, the Swiss company, including branches worldwide, which owns all the UBS Group companies directly or indirectly. These parent bank financial statements exclude the results of all UBS's subsidiaries and associated companies, and are prepared to meet Swiss regulatory requirements and Swiss federal banking law. Major differences between Swiss federal banking law requirements and International Accounting Standards are described in Note 39 to the UBS Group Financial Statements.

Significant financial events

The financial targets we have set and the analysis of financial results which we provide in quarterly and annual reports, concentrate on figures which have been adjusted by the exclusion of what we call Significant Financial Events. This adjustment is designed to facilitate meaningful comparisons between different reporting periods, illustrating the underlying operational performance of the business, insulated from the impact of one-off gains or losses outside the normal course of business.

Treatment of an item as a significant financial event is at the discretion of the Group Executive Board, but in general the item should be:

- Non-recurring
 - Event specific
 - Material at Group level
 - UBS-specific, not industry-wide
- and should not be a consequence of the normal run of business.

Examples of items that we would treat as significant financial events include the gain or loss on the sale of a significant subsidiary or associate, such as the divestment in 1999 of UBS's stake in Swiss Life/Rentenanstalt, or the restructuring costs associated with a major integration, such as the merger in 2000 with PaineWebber.

Significant financial events are not a recognized accounting concept under International Accounting Standards or US GAAP, and are therefore not separately reflected in our Financial Statements. The use of numbers which have been adjusted for significant financial events is restricted to the Business Group and business unit reporting and to the analysis of the Group results and the accompanying illustrative tables. We clearly identify all adjusted figures, and disclose the pre-tax amount of each individual significant financial event in the quarter in which it is recorded, and in the annual report for that year, together with the net tax benefit or cost associated with the significant financial events recorded in each period.

Restatement of results

As required under IAS, we are committed to maintaining the transparency of UBS's reported results and to ensuring that analysts and investors can make meaningful comparisons with previous periods. If there is a major reorganization of our business units or if changes to accounting standards or interpretations lead to a material change in the Group's reported results, we restate UBS's results for previous periods to show how they would have been reported according to the new basis (except when accounting standards prohibit us from doing so), and provide clear explanations of all changes.

Disclosure channels

We meet with UBS's institutional investors regularly throughout the year, holding results presentations, specialist investor seminars, roadshows and one-to-one or group meetings across the world. Where possible, these events involve UBS senior management in addition to the UBS

Investor Relations team. We have also made significant progress in developing the use of technology to further broaden access to our presentations through webcasting, audio links and cross-location video-conferencing for external audiences.

We fully subscribe to the principle of equal treatment of all shareholders. To ensure fair access to information, we make UBS publications available to all shareholders at the same time and generally make key documents available in both English and German. Letters to shareholders and media releases about results are also translated into French and Italian. We post letters to shareholders and material information related to corporate events direct to all shareholders, while other information is distributed via press release and posted to UBS's website, at www.ubs.com/investors. Our website includes comprehensive information about UBS, including a complete set of our published reporting documents, on demand access to recent webcast presentations and copies of presentations that senior management have given at industry conferences.

US regulatory disclosure requirements

As a Swiss company listed on the New York Stock Exchange (NYSE), we comply with the disclosure requirements of the Securities and Exchange Commission (SEC) and the NYSE for foreign issuers. These include the requirement to make certain filings with the SEC. As a foreign issuer, some of the SEC's regulations and requirements which apply to domestic issuers are not applicable to UBS. We provide UBS's regular quarterly reports to the SEC under cover of Form 6-K, and file an annual report on Form 20-F. We also provide additional disclosure at half year to meet specific SEC or US GAAP requirements, which again is provided under cover of Form 6-K. In addition, important corporate announcements, including press releases, are provided under cover of Form 6-K as they occur. These reports, as well as materials sent to shareholders in connection with annual and special meetings, are all available on our website, at www.ubs.com/investors.

New Basel Capital Accord – Pillar 3

Pillar 3 of the proposed New Basel Capital Accord will require internationally active banks

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

UBS is a supporter and exponent of transparency in banks' financial statements, and of disclosure as a means to promote market discipline. The philosophy behind Pillar 3 is therefore close to our thinking and we fully support it – indeed, we would like to see it extended to other financial institutions, including securities firms, insurance companies and intermediaries.

For a publicly quoted financial institution, we believe market discipline is a three-step feedback loop:

- evidence of a firm's practices and their results through disclosure
- market reaction to the disclosure, and its impact on shareholder value
- change in behavior or strategy by firms seeking to maximize shareholder value.

Although the effect of market discipline is not uniform, enhanced disclosure requirements can undoubtedly contribute to improved risk management and control. In this we fully support the aims of Pillar 3.

UBS has been active in the ongoing discussion between the regulators and the industry, and we believe that this is a unique opportunity for regulators, accounting standard setters and industry participants to work together to achieve a disclosure framework that meets the needs of all relevant parties.

As a result of these discussions, we have identified areas where further improvements to our risk disclosure can be made in future, taking into account the needs of both equity and credit analysts. New developments and standards in risk management and control emerge all the time, and risk disclosure is therefore a moving target, but we are committed to developing our reporting over coming years, with the aim of remaining at the forefront of meaningful disclosure.

Value-based Management

UBS's performance measurement framework considers the creation of long-term value for shareholders in a more explicit way than traditional profit-based measures. UBS believes that the measurement of value creation can only be effective in the context of a comprehensive value-based management (VBM) process which is truly embedded in its management decisions, and consistently applied across the organization.

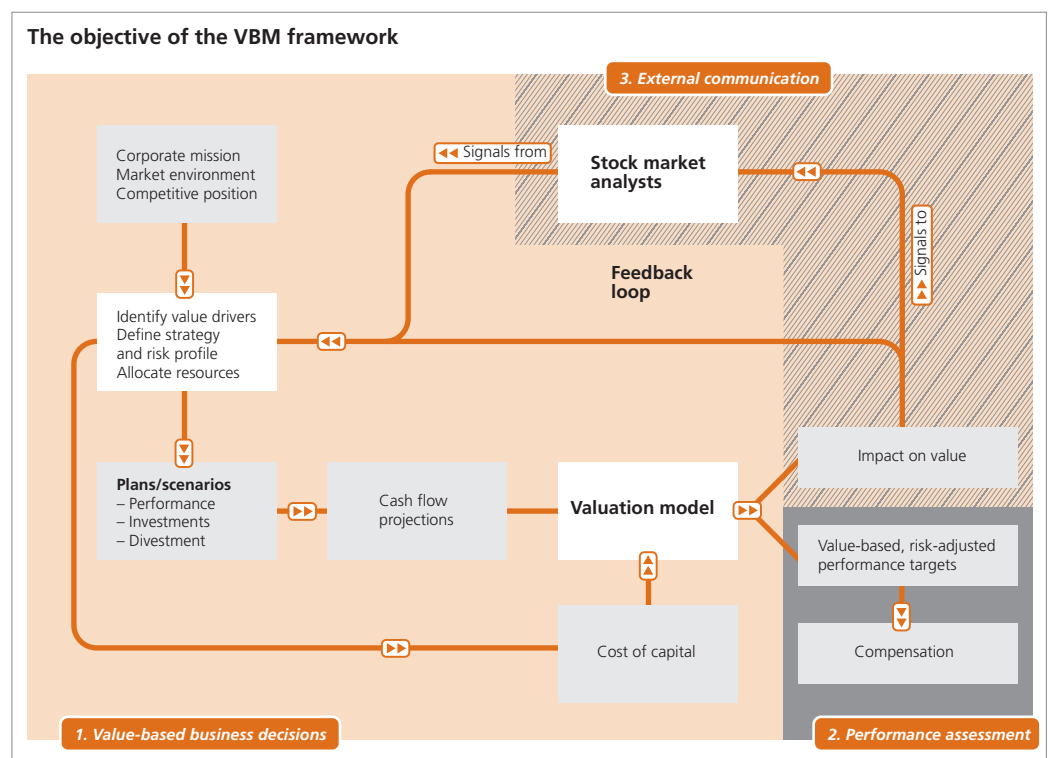
UBS's value-based management (VBM) framework supports value-based decisions, performance assessment and external communication. The heart of the framework is a process for monitoring the development of the value of the Group and its constituent businesses, based on the identification of the fundamental drivers of value creation.

Overview of objectives and process

The aim of VBM is to create an understanding of the sources and drivers of value within all of UBS's businesses, and to integrate this under-

standing into its management processes and principles, translating the value creation mindset into action. The diagram below summarizes the VBM processes.

Value-based business decisions: To ensure that UBS's actions are value-enhancing, the Group evaluates strategic initiatives, acquisitions and investments on the basis of the impact of their earnings potential and inherent risk on shareholder value. Funding and capital resources are allocated only to business plans and projects that are expected to create value on a sustainable basis.



To help make this evaluation, UBS benchmarks the internal assessment of a project's value creation potential against analysts' and investors' expectations. The Group also assesses and manages the risk of current and planned business strategies by analyzing the impact of long-term industry and macro-economic trends on value.

Performance assessment: Performance measures are designed to demonstrate the extent to which value has been created: both the value derived from actual performance during the current reporting period and the value of future growth prospects resulting from tactical and strategic positioning.

External communication: The drivers of value creation are a focal point of our communication to investors and analysts. The analysis and interpretation of sources of valuation gaps provides valuable evidence of the external evaluation of our future prospects.

Measuring value creation

Measuring value creation at the Group level

The fundamental assumption underlying the VBM framework is that the creation of sustainable value is the primary objective of business activity. By emphasizing sustainable value creation, UBS considers the interests of both its shareholders and other important stakeholders such as employees, clients and regulators. The framework views the management as custodians of shareholder wealth. They are responsible for generating adequate returns on a risk-adjusted basis through strategic decisions and their effective implementation.

To be a long-term success, a company must provide its owners with a total return greater than its risk-adjusted cost of capital. For the shareholders, the total return on their investment is a combination of cash distributions and share price appreciation over a specific period. Share price development is therefore a very important indicator of value creation at the corporate level,

since it reflects the assessment by investors of current performance, of the ability of management to define, communicate and implement innovative and compelling strategies for the future and of the level of strategic risk those plans involve.

Measuring value creation at the business level

The share price is a useful indicator of the value creation performance of the Group, but it cannot be used to evaluate the performance of business units. As business units are not listed on any stock exchange, UBS needs a measure that corresponds to the total return on shares but is applicable to business units. For this, UBS has chosen *fair value* and *total return on fair value* as the most suitable measures of value creation.

The starting point in assessing value creation for a business unit is thus to assess its *fair value*, i.e., the theoretical value of the current franchise and associated earnings potential as well as the resources the business unit management has been entrusted with.

By relating realized cash earnings and the incremental fair value added by strategic plans and investments to the initial fair value, we then calculate the *total return on fair value* of the business unit. Actual total return is compared to the business unit hurdle rate, which represents the minimum required return for a given level of business risk.

For the purposes of value-based management, fair value is calculated as the sum of all future discounted free cash flows, which correspond to anticipated earnings adjusted for investments and depreciation. The discount rate reflects the financial and business risks of the unit and is also the targeted total return on fair value (the business unit hurdle rate). Discount rates are derived from historical market data using the capital asset pricing model (CAPM), which yields discount rates that account for the undiversifiable (systematic) risk of the business.

Since our business units are not listed on any stock market, their cost of equity is inferred from stock market data of listed competitors and peers.

Generated free equity

An important difference between a financial institution and industrial firms is that borrowing and lending form part of everyday business activities and are not used merely for financing and placement of excess liquidity. This makes the traditional definition of free cash flow, as used in industrial firms, difficult to apply to a bank. In addition, banks face regulatory constraints in the form of capital adequacy regulation, which reduce their discretion to determine and implement an optimal capital structure.

In view of these differences, free cash flow for banks is generally defined as the change in free equity, after investments and after all claims from debt holders (interests and principal repayments) have been serviced. UBS has dubbed this measure “Generated Free Equity” (GFE) as it is the amount that can be either reinvested or returned to shareholders via dividends and share repurchases. We use GFE in the calculation of its fair value and the total return on fair value. This method is known as the *equity* method of valuation, as opposed to the *enterprise* method which arrives at the value of the equity by discounting the entire cash flow and thereafter deducting the value of the debt.

GFE is the net profit after tax adjusted for changes in the required equity. There are many possible methods to determine the equity requirements for a business. For the calculation of GFE, UBS uses the regulatory requirements for each business unit as the key for determining the equity requirements of its business units.

The VBM process

The implementation of a comprehensive VBM framework in a large organization like UBS is a complex task and the full benefit of it will only materialize over time. To be truly effective the VBM framework must become an integrated part of key management processes, such as the formulation and evaluation of strategic plans and investments, the measurement and evaluation of performance, and the definition of criteria for performance related compensation.

Value drivers

In order to have an operational tool for analyzing the extent to which current and projected performance contribute to sustainable value creation, UBS has identified value drivers for each business unit, relating to revenue, cost and investment. Net new money growth and average margins on assets are examples of typical revenue drivers for the private banking and asset management businesses.

The analysis of the future development of value drivers extends beyond the standard business plan horizon of three years to consider the potential impact on value of long-term industry and macro-economic trends, and constitutes an important input in the evaluation of strategic options.

Internal value driver projections and valuations are benchmarked against external assessments and the expectations of the stock market and leading analysts and against performance of key competitors. They are also subjected to a sensitivity analysis, both to understand the sensitivity of the valuation to assumptions, and to test the impact on value of failing to meet plans. Together these measures help to avoid the risk that over-optimistic planning might distort the VBM process.

Value-based decisions in strategic planning

The business units of UBS complement their standard business plans with explicit projections for key value drivers. Equity expenditures (investments and incremental working capital), which are required to increase or sustain current operating levels, are explicitly considered via their effect on generated free equity.

The impact of business plans on valuation is analyzed on the basis of the internal value driver targets and long-term forecasts on the development of value drivers beyond the planning horizon. The valuation analysis considers the views on sector and macro-economic development of neutral internal and external experts and the impact of worst case scenarios.

Value-based decisions and strategic risk

UBS considers strategic risk, such as the failure to recognize changing customer priorities, the failure to recognize opportunities and threats from emerging technologies and business models or the failure to define and implement innova-

tive, compelling value propositions for customers and investors, as the major challenge in today's competitive environment.

In order to meet this challenge, companies need to implement systematic and rigorous tools and processes (as has already been done in the case of market, credit and operational risk control) to identify and manage strategic risk. Value-based analysis constitutes a key input for assessing and addressing strategic risk.

UBS produces a Value Report, circulated quarterly to senior managers throughout the Group. This report to management tracks the development of value drivers and also measures total return on fair value of the Group and Business Groups, which includes the incremental impact of new business initiatives and the realized generated free equity. In addition, the value report contains a section which analyzes the source of gaps between internal valuation and market capitalization and between internal valuation of the Group and its Business Groups and leading external analysts' valuations of business units.

Compensation

A key aspect of a comprehensive VBM framework is compensation. The objective of value-based compensation is to reward sustainable shareholder value creation. Managers and employees should receive an appropriate share of the value created in order to align their interests to the interests of shareholders. As with all other professional services organizations, human resources costs in banking are the single largest operating expense. As a result compensation is a highly sensitive area, where market practice and cultural considerations need to be taken into account.

Total return on fair value and the development of value drivers are very powerful measures for compensation and UBS currently is in the process of developing methods to include the

VBM measures in its compensation scheme. However, UBS believes that compensation should never be formula driven, so, while these measures will become important inputs, they will not replace managerial judgement in determining compensation levels.

One of the goals of value-based compensation is the alignment of the interests of employees and shareholders. Such alignment can also be achieved through increased employee ownership. UBS has launched Equity Plus, a program that aims to substantially increase employee ownership by stimulating employees to use part of their total compensation to buy UBS shares.

External communication

Although VBM is essentially an internal management tool, it can also provide useful information for investors and analysts. Unfortunately, as many of the concepts in the framework are forward-looking, subject to frequent change and contain sensitive proprietary information, they are unsuitable for public disclosure. However, there is a strong conceptual link between the development of value drivers and value creation. During 2002 we intend to publish further quantitative information on the development of key value drivers as well as guidance on how the value drivers fit into a valuation framework.

Conclusion

UBS believes that the focus on value drivers in planning and performance tracking is the most effective and efficient way to direct the organization towards building value. It also allows the linking of compensation to the key drivers of sustainable profitability in a pragmatic way. Value-based management combines the analysis of current performance with the analysis of future earnings potential. This increases management's focus on strategic risk and further improves UBS's ability to create sustainable value.

Regulation and Supervision

As a Swiss-registered company, UBS's main regulator is the Swiss Federal Banking Commission (Eidgenössische Bankenkommision or "EBK"), but we are also regulated worldwide by supervisory agencies in the countries in which we conduct business, most notably the US and the UK. We aim to monitor regulatory developments, to comply with all local and regional provisions and to work closely and maintain good relations with the regulators in all jurisdictions where we have offices, branches and subsidiaries. The Group Governance Committee oversees the interface with our regulators, which is coordinated by the risk control, compliance and financial control functions at Corporate Center and in the Business Groups.

UBS's operations throughout the world are regulated and supervised by the relevant central banks and regulatory authorities in each of the jurisdictions in which we have offices, branches and subsidiaries. These authorities impose reserve and reporting requirements and controls on banks, including those relating to capital adequacy, depositor protection and prudential supervision. In addition, a number of countries where UBS operates impose additional limitations on or affecting foreign-owned or controlled banks and financial institutions, including

- restrictions on the opening of local offices, branches or subsidiaries and the types of banking and non-banking activities that may be conducted by those local offices, branches or subsidiaries;
- restrictions on the acquisition or level of ownership of local banks;
- restrictions on investment and other financial flows entering or leaving the country.

The supervisory and regulatory regimes of the countries where UBS operates will determine, to some degree, our ability to expand into new markets, the services and products that we will be able to offer in those markets and how we structure specific operations.

The following sections describe the regulation and supervision of UBS's business in

Switzerland, our home market, and in the United States and the United Kingdom, our next two largest operations which together employ a total of 49% of our staff.

Regulation and supervision in Switzerland

General

UBS is regulated in Switzerland under a system established by the Swiss Federal Law relating to Banks and Savings Banks of 8 November 1934, as amended, and the related Implementing Ordinance of 17 May 1972, as amended, which are together known as the Federal Banking Law. Under this law, banks in Switzerland are permitted to engage in a full range of financial services activities, including commercial banking, investment banking and fund management. Banking groups may also engage in insurance activities, but these must be undertaken through a separate subsidiary. The Federal Banking Law establishes a framework for supervision by the EBK.

In our capacity as a securities broker, UBS is governed by the Swiss Federal Law on Stock Exchanges and Trading in Securities of 24 March 1995, as amended, under which the EBK is appointed as prime regulator for these activities.

Regulatory policy

Swiss regulatory policies are formulated on three levels. The first two are the statutory levels of primary and secondary legislation issued by Parliament and the Swiss Federal Council. The EBK has substantial influence on the drafting of regulatory statutes. On more technical policy, the EBK is empowered to issue so-called circulars, 21 of which have been issued to date. In certain fields, the EBK officially endorses self-regulatory guidelines issued by the banking industry (through the Swiss Bankers' Association), which thus become an integral part of banking regulation. Recent examples are:

- Guidelines concerning a Code of Conduct with regard to the Exercise of Due Diligence by Banks, 1998.

- Guidelines concerning the Treatment of Accounts, Custody Deposits and Safe Deposit Boxes Remaining Dormant at Swiss Banks, 2000.
- Guidelines concerning the Exercise of Asset Management Mandates, 2000.

Certain aspects of securities broking, such as the organization of trading, are subject to self-regulation through the SWX Swiss Exchange and the Swiss Bankers' Association, under the overall supervision of the EBK.

Role of external auditors and direct supervision of large banking groups

The Swiss supervisory system relies on banks' external auditors, who are licensed and supervised by the EBK, and carry out official duties subject to sanctions imposed by the EBK. The responsibility of external auditors not only encompasses the audit of Financial Statements but also entails the review of banks' compliance with all prudential requirements.

In recent years, the EBK has taken on more direct responsibility for supervision in two areas: capital requirements for market risk, for which there is a specialist team; and the supervision of the two large Swiss banking groups, including UBS, for which a dedicated department was created in 1998. Thus, the supervisory strategy now entails direct supervision in the form of regular meetings with bank management, supervisory visits, on site reviews, direct reporting, both routine and ad hoc, and regular meetings with the host regulators of our overseas operations. Close cooperation, including regular trilateral meetings, has been established between the EBK and UBS's US and UK regulators, and further links are being established by the EBK with other relevant regulators.

Reporting requirements and capital requirements

UBS reports to the EBK both financial information and prudential information in such areas as risk exposures, risk concentrations, liquidity, reserves and provisions. The EBK also reviews the bank's risk management and control policies and procedures in all areas of risk, including know your customer and anti-money laundering practices.

Switzerland applies the internationally accepted capital adequacy rules of the Basel

Capital Accord but the EBK implementation imposes a more differentiated and tighter regime than the internationally agreed rules, including a more stringent definition of capital (see Capital management on page 84.) Furthermore, the EBK expects banks to hold capital at least 20% above the minimum that would be required under the Basel Capital Accord. A bank falling below this level would be subject to more intense supervision. (The Basel Capital Accord is currently in the process of being revised, as discussed below on page 110) .

Disclosures to the Swiss National Bank

Although the primary responsibility for supervision of banks under the Federal Banking Law lies with the EBK, UBS also submits an annual statement of condition and detailed monthly interim balance sheets to the Swiss National Bank, which monitors compliance with liquidity rules. The Swiss National Bank can require UBS to supply further disclosures of financial condition and other information relevant to its regulatory oversight.

Regulation and supervision in the United States

Banking regulation

UBS's operations in the United States are subject to a variety of regulatory regimes. We maintain branches in California, Connecticut, Illinois and New York and agencies in Florida and Texas. UBS's California branches are located in Los Angeles and San Francisco and are licensed by the Office of the Comptroller of the Currency. Each of our other US banking offices is licensed by the state banking authority of the state in which it is located. Each US banking office is subject to regulation and examination by its licensing authority and. In addition, the Board of Governors of the Federal Reserve System exercises examination and regulatory authority over our state-licensed US banking offices. We also maintain state and federally chartered trust companies and other limited purpose banks, which are regulated by state regulators or the Office of the Comptroller of the Currency. None of UBS's US banking offices is insured by the Federal Deposit Insurance Corporation. The regulation of our US banking offices and subsidiaries imposes restrictions on the activities of those

offices, as well as prudential restrictions, such as limits on extensions of credit to a single borrower, including UBS subsidiaries.

The licensing authority of each US banking office has the authority to take possession of the business and property of the office it licenses in certain circumstances. Such circumstances generally include violations of law, unsafe business practices and insolvency. So long as UBS maintains one or more federal branches, such as our California branches, the Office of the Comptroller of the Currency also has the authority to take possession of our US operations under similar circumstances, and this federal power may preempt the state insolvency regimes that would otherwise be applicable to our state licensed offices. As a result, if the Office of the Comptroller of the Currency exercised its authority over our US banking offices pursuant to federal law in the event of a UBS insolvency, all of UBS's US assets would be applied first to satisfy creditors of our US banking offices as a group, and then made available for application pursuant to any Swiss insolvency proceeding.

In addition to the direct regulation of our US banking offices, operating US banking offices subjects UBS to regulation by the Board of Governors of the Federal Reserve System under various laws, including the International Banking Act of 1978, as amended, the Bank Holding Company Act of 1956, as amended, and the Gramm-Leach-Bliley Financial Modernization Act of 1999. The Bank Holding Company Act imposes significant restrictions on UBS's US non-banking operations and on our worldwide holdings of equity in companies operating in the United States, as well as restrictions on transactions between our US banking offices and our non-banking subsidiaries. On 10 April 2000, UBS AG was designated a "financial holding company" under the Gramm-Leach-Bliley Act. This designation generally permits us to exercise the new powers granted by that act, which include the following:

- Bank holding companies meeting management and capital standards are permitted to engage in a substantially broader range of non-banking activities than previously was permissible, including insurance underwriting and making merchant banking investments.
- Insurers and other financial services compa-

nies are permitted to acquire banks.

- Various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies have been removed.
- The overall regulatory structure applicable to bank holding companies, including those that also engage in insurance and securities operations, has been revised.

The Gramm-Leach-Bliley Act also modified other existing financial laws, including laws related to the conduct of securities activities by US banks and US banking offices. As a result, UBS is in the process of relocating certain activities previously conducted by our US banking offices to a UBS subsidiary or elsewhere.

US regulation of other US operations

In the United States, UBS Warburg LLC and UBS PaineWebber Inc., as well as UBS's other US registered broker-dealer entities, are subject to regulations that cover all aspects of the securities business, including:

- sales methods
- trade practices among broker-dealers
- use and safekeeping of customers' funds and securities
- capital structure
- record-keeping
- the financing of customers' purchases
- the conduct of directors, officers and employees.

These entities are regulated by a number of different government agencies and self-regulatory organizations, including the Securities and Exchange Commission and the National Association of Securities Dealers. Depending upon the specific nature of a broker-dealer's business, it may also be regulated by some or all of the New York Stock Exchange, the Municipal Securities Rulemaking Board, the US Department of the Treasury, the Commodities Futures Trading Commission, and other exchanges of which it may be a member. These regulators have available a variety of sanctions, including the authority to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of the broker-dealer or its directors, officers or employees.

UBS subsidiaries in the United States are also subject to regulation by applicable federal and state regulators of their activities in the invest-

ment advisory, mutual fund, trust company, mortgage lending and insurance businesses.

USA Patriot Act

On 26 October 2001, the US adopted the USA Patriot Act in response to the events of 11 September 2001. The Act requires US banks and foreign banks with US operations, including UBS, to take certain steps to help prevent, detect and prosecute international money laundering and the financing of terrorism. The required actions include terminating correspondent accounts with “shell banks” and obtaining information about the owners of foreign bank clients and the identity of the foreign bank’s agent for service of process in the US. The Act also expands the power of the US government to subpoena foreign banks for records relating to transactions in their US correspondent accounts, including records kept outside the US.

The scope of the Act will be determined, to some degree, by the regulations that are adopted to implement its provisions. The US Secretary of the Treasury has published interim guidance and proposed regulations to implement some portions of the Act, and is expected to propose additional regulations to implement other sections. Although we cannot predict when and in what form these regulations will be adopted, we believe that the cost of compliance with the Act is not likely to be material to us, and that compliance with the statute will not have a material effect on our global operations.

Regulation and supervision in the United Kingdom

Since 1 December 2001, following the implementation of the Financial Services and Markets Act 2000, UBS’s operations in the United Kingdom have been regulated by the Financial Services Authority (FSA), as the United Kingdom’s unified regulator. FSA assumed the responsibilities of UBS’s previous UK regulators, the Securities and Futures Authority and the Investment Management Regulatory Organisation, with effect from this date. The Bank of England’s responsibilities for regulation of banking activities were transferred to the FSA by the Bank of England Act 1998.

The FSA has established a risk-based approach to supervision and UBS is supervised by the Major Financial Groups section of the

Deposit Takers and Markets Directorate. The FSA has a wide variety of supervisory tools available to it, including on-site inspections by supervisors (which may relate to a risk-based industry-wide theme or be firm-specific) and the ability to commission reports by skilled persons (who may be the firm’s auditors or IT specialists, compliance consultants or lawyers). The FSA also has an extremely wide set of sanctions which it may impose under the new Act, similar to those available to US regulators.

During most of 2001, however, UBS was regulated by the FSA in respect of its banking activities but continued to be regulated by the Securities and Futures Authority in respect of its investment banking, individual asset management, brokerage and principal trading activities, and by the Investment Management Regulatory Organisation in respect of its institutional asset management and fund management activities.

Some of our subsidiaries and affiliates are also regulated by the London Stock Exchange and other United Kingdom securities and commodities exchanges of which UBS is a member.

The investment services that are subject to oversight by United Kingdom regulators are regulated in accordance with European Union directives requiring, among other things, compliance with certain capital adequacy standards, customer protection requirements and conduct of business rules. These standards, requirements and rules are similarly implemented, under the same directives, throughout the European Union and are broadly comparable in scope and purpose to the regulatory capital and customer protection requirements imposed under applicable US law.

Basel Committee on Banking Supervision

In January 2001, the Basel Committee on Banking Supervision issued “A New Basel Capital Accord”, a second consultative paper in the drive to radically overhaul the way minimum regulatory capital requirements are determined for internationally active banks, including UBS. UBS supports the aims of the new Accord, which include increasing the risk sensitivity of the capital measure, reducing regulatory capital arbitrage in the area of credit risk, and promoting greater safety and soundness in the banking system worldwide.

The new Accord will introduce a capital requirement for operational (consequential) risks. It is hoped that, when finally agreed, this requirement will be responsive to changing risk and loss experience and will promote further rational development of risk control practice in this area.

Implementation was originally scheduled for 1 January 2004, but has been delayed to 1 January 2005 following intensive consultation with the industry. UBS provided a comprehensive written response to the Committee, participated actively in the development of industry group responses and contributed to the formal quantitative impact studies conducted by the

regulators. Discussions will continue with the Committee well into 2002 when a third quantitative impact study will be conducted and a final consultative paper issued. The release of the final Accord will then be followed by extensive dialogue with individual regulators as they incorporate the new Accord into local regulations.

The new Accord has been the main focus of industry and UBS interaction with the Committee over the last year, but the Committee continues to explore other areas of regulatory interest and concern and to issue consultative and sound practice papers, for example "Customer Due Diligence for Banks".

Corporate Responsibility

UBS has a strong commitment to corporate responsibility. We recognize the demands that are placed on us by different stakeholders, and have therefore made corporate responsibility part of our culture and our identity, integral to our business model.

Corporate responsibility means different things to different people and different businesses. UBS aims to build a truly responsible corporate strategy by continuously identifying and anticipating new issues through regular dialogues with stakeholders, outside experts and the media. Key corporate responsibility issues for a financial institution like UBS include strengthening corporate governance, fighting money laundering, protecting financial privacy, being an equal opportunity employer, promoting environmental stewardship and contributing to the communities which we are part of. At UBS, we take a pragmatic approach, emphasizing issues that provide clear benefits for our shareholders, clients, employees and societies in our main markets.

We realize that simply meeting existing legal requirements is not sufficient. Society's expectations are constantly evolving and often precede formal legal and regulatory requirements; we find that we are being held to ever higher standards. Globalization has added to these demands as multinationals are accused of arbitraging social standards to boost their bottom line. However the growing demand for more responsible corporate behavior means that firms that meet this demand at an early stage stand to win, while laggards put themselves at risk.

Taking our corporate responsibilities seriously can bring positive benefits to all our stakeholders. Good corporate governance benefits our shareholders, putting their interests first. Protecting the privacy of our clients helps win their trust. Being recognized as a responsible employer helps increase employee satisfaction and the retention and recruitment of the best staff.

Managing our responsibilities

Reaping the full benefits of corporate responsibility requires a formal management process to identify and analyze the relevant topics, shape strategy, implement guidelines in the businesses, and provide efficient control.

The challenge is to develop a comprehensive approach to corporate responsibility that is Group-wide and globally consistent. The active participation of all Business Groups and regions is critical for an effective corporate responsibility program. Our goal is to build upon their different areas of expertise and to ensure that corporate responsibility issues are handled as part of regular ongoing business operations. At the same time, implementing a corporate responsibility strategy requires sustained effort over a number of years – policies and procedures can be changed relatively quickly, but reshaping attitudes can be much harder, and requires commitment throughout an organization, especially at the highest levels.

In 2001, we created a Corporate Responsibility Committee to guide this process at UBS, comprising members of the Board of Directors, the Group Executive Board, and the Group Managing Board. This committee is chaired by Marcel Ospel and has Hans de Gier, Vice Chairman of the Board, Peter Wuffli, President of the Group Executive Board, Donald Marron, Chairman UBS Americas, and Marcel Rohner, Chief Operating Officer UBS Private Banking as members. The Committee has the following duties:

- to determine the company's policy with respect to corporate responsibility and sustainable development;
- to support increased awareness of and monitor the company's adherence to international standards in these areas;
- to advise the Group Executive Board and other bodies on corporate responsibility;
- to advise the Board of Directors on reporting about the Group's efforts on corporate responsibility and sustainable development.

In close cooperation with the Business Groups, a specialized unit in the Corporate Center guides the Corporate Responsibility Committee in shaping the Group's overall strategy. The objective is to add value by combining existing, Group-wide activities into a consistent framework, systematically identifying and analyzing market opportunities and risks associated with society's changing expectations of corporate behavior, and ensuring that all relevant corporate responsibility issues are effectively covered. The following section highlights some of the progress made in key issues of interest to our stakeholders.

Shareholders

Corporate governance

The key corporate responsibility issue for shareholders is that of corporate governance. Shareholders seek assurance that management always acts in their best interest and that the benefits they receive from their ownership stakes are being maximized. To this end the protection of shareholders' rights, a strong commitment to disclosure, and a clear board structure are crucial. We are committed to meeting the highest international standards of corporate governance in UBS's organizational structure. The organization of our corporate and executive bodies is designed to conform to the leading codes of best practice. For further information, please refer to the section on Corporate Organization on pages 88 to 93 of this Handbook.

In 2001 a working group under the lead of Economiesuisse, the Swiss business federation, has been involved in drafting a "Swiss Code of Best Practice" in Corporate Governance, while the SWX Swiss Exchange has proposed "Reporting Guidelines on Corporate Governance", which aim to make available for investors standardized information on the corporate governance of the companies listed on the Swiss Exchange. UBS has contributed to the review of both proposals. It is planned that both the Code and the Reporting Guidelines become effective mid-2002.

Clients

Trust is critical for a global financial company like UBS. That trust is based on our having a sensible view of future risks and returns, sound

corporate ethics (including stringent "know your customer rules") and protecting clients' private information. However, due to the growing importance of advisory-based financial services and of regulations regarding the exercise of due diligence, financial institutions are gathering more and more information from their clients. Unsurprisingly, public and private sector agents are showing a strong appetite for that data, and clients are worried about its misuse. In line with its Corporate Responsibility commitment, UBS carefully protects the privacy of its customers.

Fighting money laundering

Over the years, UBS has established an effective internal framework to prevent the misuse of its services by criminals, and has extended this framework as part of the international efforts to combat terrorism. Switzerland's "know your customer rules" and other regulations concerning the exercise of due diligence are among the most stringent in the world:

- Banks in Switzerland are not only required to verify the identity of their clients but also have to establish the identity of the beneficial owners of funds and assets.
- To prevent the misuse of their services for purposes of money laundering or financing crime, banks in Switzerland must notify the authorities whenever they have knowledge or a justified suspicion that assets are of criminal origin or are under the control of a criminal organization. This includes the financing of terrorist activity.

Since 11 September 2001, UBS has actively supported the investigations into the terrorist attacks in the US, making use of the procedures already in place. A process of gathering information from all accessible public and private sources globally was started immediately. Based on this information, an internal Watch List of all names of persons and companies who could be implicated in the terrorist attacks was created and is continually updated. Currently the list contains more than a thousand names, predominantly those published by the US government, and it is steadily growing. UBS has searched its files and reported a small number of possible matches which could be of help for further investigation by the relevant local authorities.

The effectiveness of UBS's process of due diligence is further enhanced by an internal Financial

Intelligence Unit. Drawing on worldwide research and intelligence resources, the unit can provide detailed information on existing and prospective clients. In addition, it maintains a special database on politically exposed persons (and other persons with public exposure) in order to reduce reputation and legal risks that may arise from such client relationships.

The Wolfsberg Principles

As part of its commitment to promote stringent due diligence processes in the financial industry, UBS was one of the driving forces behind the launch of the Wolfsberg Anti-Money Laundering Principles for international private banks jointly announced on 30 October 2000 by eleven of the world's largest private banks and by Transparency International, the global anti-corruption organization.

These principles encompass "know your customer" policies, in particular identification of the source of a client's wealth, and the identification and follow-up or reporting of unusual or suspicious activities. They are designed to ensure that private banking services are only offered to clients with legitimate sources of wealth and that the same high standards are applied globally.

Following the attacks in the US on 11 September 2001, the Wolfsberg group has drafted a statement on the "Suppression of the

Financing of Terrorism" in which the banks commit themselves to support authorities in the fight against terrorism.

Employees

In an increasingly competitive global market for talented employees, becoming an employer of choice allows UBS to attract and retain a top quality workforce. But highly talented people want to work for firms that they can be proud of. An ethical corporate culture has an impact on the behavior of every employee and helps build such pride.

An important part of developing a strong and compelling corporate culture in the workplace is promoting diversity: accepting and valuing people from different backgrounds and cultures, and encouraging them to bring their varied talents and perspectives to bear on all tasks, encouraging problem-solving and innovation.

Since the mid-1990s, we have initiated more than 200 pro-diversity activities in UBS's different businesses across the world, designed to approach this issue with appropriate sensitivity to local circumstances. Our efforts have covered recruiting, education, training and development programs, but also the creation of structures and networks to provide long-term support.

One of our competitive strengths in many of our businesses is the ability to leverage the skills

The challenges of avoiding money laundering

As part of our ongoing internal control procedures, UBS in Zurich identified a business relationship with a suspected connection to the family of the late Nigerian dictator Sani Abacha, and reported this suspicion to the Swiss Federal Banking Commission and the Swiss Federal Money Laundering Reporting Office.

This case demonstrated the challenges of preventing money laundering, but also gave us an opportunity to publicly reaffirm the strength of our commitment to avoiding inappropriate banking relationships.

In 1996, a British citizen resident in Lon-

don who was a reputable and longstanding UBS client, introduced to UBS a company in which he and two Nigerian business partners held interests. When questioned by us, the client gave a credible assurance that his business partners had no political background or interests.

After ascertaining one of the false names used by one of Abacha's sons, we requested further information. When further clarifications were not forthcoming, we conducted additional internal investigations, which led us to suspect that at least part of the money in the accounts belongs to Abacha's

sons. At this point we reported this suspicion to the authorities and blocked the company's accounts.

It is our strict policy that suspect business connections of this sort are to be avoided under all circumstances, so it was a matter of deep regret that this relationship with UBS was not prevented at the outset and was not discovered earlier.

UBS takes its responsibilities in this area extremely seriously and remains dedicated to meeting both legal and regulatory requirements and our commitments under the Wolfsberg principles.

and knowledge of our staff across the 50 countries in which UBS operates. We believe that our intercultural training program is one of the most integrated, comprehensive and advanced in the world. Last year more than 600 new and early career staff worldwide were involved in workshops to help them learn how to develop cultural understanding and how to succeed in intercultural communication and integration.

We are increasingly coordinating our efforts on a global basis. In February 2001, a “Global Diversity Steering Committee” was established within UBS Warburg, supported by a Global Diversity Manager in human resources. In November 2001, the Committee launched a Diversity intranet website which provides detailed information about UBS Warburg’s diversity initiatives and is designed to facilitate employee involvement.

A number of initiatives are specifically targeted to increase the representation of women in senior management positions at UBS. For example, UBS Warburg has increased the number of college graduate women it hires. Of some 600 hires in the latest UBS Warburg graduate intake, approximately 30 per cent are women, even though women represented only 20 per cent of applicants. In July 2001, 375 senior female executives and financial advisors from UBS Warburg and UBS PaineWebber offices around the globe attended the fourth annual UBS Women’s Leadership Conference in New York City to share insights and exchange ideas with UBS’s senior managers.

Valuing diversity also opens up market opportunities: a workforce that reflects the variety of cultures where the bank does business will help identify new markets, develop innovative products and strengthen client relationships. A report on women and investing was commissioned as part of UBS PaineWebber’s ongoing Index of Investor Optimism Survey. It showed that the number of wealthy women investors had increased significantly, despite the recent economic downturn. In 2001, they represented 47% of investors with \$100,000 or more in investable assets – an increase of 11% since 1999.

Our Annual Review 2001 provides more information about how UBS recruits and retains some of the best talent in the industry.

Society

Investing in the community

UBS is committed to honoring its responsibility to the communities in which it operates. The success of UBS depends not only on the skills and resources of our people and the relationships we foster with our clients, but also on the health and prosperity of the communities of which we are part. We receive very direct benefit, for instance, from a stable political and social environment, an advanced infrastructure and a good education system. Furthermore, community programs create benefits for a company’s reputation, and increase its appeal to its clients.

UBS supports communities through cash donations given directly to organizations, through employee volunteering and through matching donations made by employees on their own initiative. We have set up several Community Affairs programs, organized at a regional level in order to be responsive to local expectations. Here are some examples of their activities.

At Group level we provide regular ongoing support to UNICEF and the Theodora Foundation, and in September 2001 we set up a special UBS Humanitarian Fund to help the victims of the terrorist attacks in the US.

UNICEF, the United Nations Children’s Fund, is dedicated to ensuring that the basic needs of children around the world are met. UBS has been in partnership with UNICEF Switzerland since November 1996, actively supporting the Fund in its aid programs. One such is the “Change for Good” fund-raising campaign. Its aim is to encourage people to donate any foreign currency they may have that is too small to be changed at a bank. Donation envelopes are available throughout our branches in Switzerland. We then convert the money into Swiss Francs for UNICEF. In the context of the physical introduction of the Euro in January 2002, the amounts collected by UBS massively increased towards the end of 2001: up to 2 tons of coins were collected every week in the last quarter of 2001.

The Theodora Foundation is a Swiss based charity which aims to help ease the suffering of children in hospital by making them laugh. Specially trained Clown Doctors entertain them with music, juggling, conjuring tricks and by telling them stories. UBS has supported the Theodora Foundation since 1995.

In September 2001, following the terrorist attacks in the US, UBS set up the UBS Humanitarian Fund to help those in need as a result of the attacks. UBS pledged USD 5 million towards the relief efforts, alongside many donations from our employees. Many of our US staff, especially from our New York, New Jersey and Stamford offices, took part in volunteer efforts in support of the injured and bereaved.

UBS Warburg runs a tightly focussed program of community investment, concentrated on education and community regeneration. In the UK, community regeneration is targeted at the East End of London and aims to assist in the social and economic regeneration of one of the country's most deprived regions. For instance, UBS Warburg provides funds and expertise to assist in job creation and business start up in the deprived boroughs adjacent to the City of London. The bank also encourages its employees to be actively involved in the community and to contribute time and skills to help causes they care about. One example is the mentoring scheme run in cooperation with local schools, where UBS Warburg employees act as mentor to a teenager, meeting regularly with them to motivate them, to give them an idea of how business works and to help them understand the importance of succeeding in their education. In 2001 nearly 15% of staff in London took part in volunteering activities through UBS. For the fourth consecutive year, UBS Warburg employees in London have won an 'Employee Volunteer of the Year' award by the East London Business Alliance.

In the US, UBS has also been recognized as a leader in community affairs. Employees of UBS PaineWebber, UBS Warburg and UBS Asset Management serve as literacy tutors and mentors in their local communities. For example, over 200 employees in New York, Stamford and Chicago volunteered in 2001 to participate in the Everybody WINS! Power Lunch program, a lunchtime reading and mentoring program for elementary school students.

In Switzerland, the UBS Optimus Foundation harnesses the expertise and the capabilities of UBS as a global financial services company to support clients in their contributions to worthy causes. The Foundation focuses on three areas – Children, Talents and Medical Research. Another foundation, the UBS Foundation for

Social Issues and Education, contributes to various social projects in Switzerland. Finally, the association "UBS employees lend a hand" in Switzerland provides assistance through staff collection schemes to charitable institutions, which has collected over CHF 3 million for a great number of social projects.

Promoting environmental awareness

UBS's overall commitment to the environment, its environmental policy, has been approved by the Group Executive Board. The following is an outline of the key points of the policy:

- Environmental protection is one of the most pressing issues facing our world today. UBS is committed to continuing the integration of environmental issues into business activities, while building shareholder value by taking advantage of environmental market opportunities. We also incorporate due consideration of environmental risks into our risk management processes, especially in lending and investment banking.
- We actively seek ways to reduce the environmental impact to air, soil and water from our in-house operations. The main focus is the reduction of greenhouse gas emissions.
- We seek to ensure the efficient implementation of our environmental policy through an environmental management system which includes sound objectives, programs and monitoring.

The environmental factor in asset management Studies and stock indices have shown that there can be a positive link between environmental and social aspects and economic performance. As a result, clients – particularly institutional investors such as pension funds – increasingly demand that asset management decisions take into account environmental and social aspects as well as economic ones. UBS Asset Management has developed expertise in incorporating environmental and social aspects into its investment research, looking at how companies' strategies, processes and products impact their financial success, society and the environment.

Focusing on the concept of sustainability, UBS launched a new investment fund in 1997, the "UBS (Lux) Equity Fund – Eco Performance". This fund invests worldwide in stocks of exemplary sector leaders and forward-looking small

and medium-sized companies with above average financial, environmental and social performance.

Moves towards low-carbon energy production, (lower CO₂ emissions per unit of usable energy produced), continue to be supported by legislative changes and the increasing liberalization of the energy markets. Against this background, in July 2001 UBS launched a new energy sector fund, the UBS (Lux) Equity Fund – Future Energy. The fund invests in carefully selected smaller and medium-sized companies which operate in solar energy, wind energy and fuel cell technology as well as other forward-looking research areas in the renewable energy sector.

By 31 December 2001, the total of UBS clients' invested assets managed according to environmental and social criteria amounted to approximately CHF 776 million.

The environmental factor in investment banking
Adequate assessment of the risk involved in an investment banking transaction is crucial to its success. Although financial risks dominate, environmental aspects can also be important. Environmental risks can become credit risks – for example, if a client can no longer repay a loan as a result of environmental problems. Furthermore, liability risks could be incurred if, for example, UBS were to become owner of a company or were to sit on the management board of a company which finds itself facing environmental liabilities. Lastly, environmental risks could damage the Group's reputation if it were to be involved in a controversial transaction.

Based on its Global Environmental Risk Policy, UBS Warburg has introduced processes that allow early identification of environmental risks in transactions. Initially, environmental factors are screened by investment banking staff. If there are indications of increased risk, external environment specialists are called in to investigate the issues as part of the due diligence process.

The environmental factor in credit business
A prerequisite for a healthy loan portfolio is professional risk analysis that takes account of all types of risk, including environmental risks. Alongside traditional rating factors such as financial data and management quality, a careful

review of financially relevant environmental aspects is an important part of UBS's credit risk analysis. In assessing a loan application, the client advisor uses internal guidelines and up-to-date information to assess environmental risks, and includes environmental information in the data provided to the loan assessor.

During 2001 we have continued to integrate environmental risk assessment into our loan processes. We have rolled out a comprehensive information platform for account managers and credit officers to help identification and decision-making in case of environmental risks.

The benefits of incorporating the “environmental factor” into the lending business are threefold: UBS has a healthier loan portfolio, the client is aware of the environmental risks and opportunities for its company, and the environment itself benefits from the resulting improvements.

The environmental factor in-house
UBS impacts the environment primarily through its energy consumption, the running of its heating systems, its paper consumption and business travel. The more efficiently and sparingly UBS uses its resources and hence reduces emission levels, the less its expenses will be. Professional know-how and an efficient environmental management system allow the Group to use resources better and reduce these costs. Clearly, energy management and in-house environmental initiatives enhance operating margins.

During 2001, as part of our regular process of updating obsolete IT equipment, we replaced 32,000 CRT monitors in UBS Switzerland with more energy-efficient flat screen LCD monitors. These new displays require 75%–80% less electrical power. We expect that as a result, UBS will save between 4 and 6 Gigawatt hours of electricity each year, representing around 2–3% of our total electricity consumption in Switzerland.

We have also entered into a pilot project with ATEL, our exclusive energy supplier in Switzerland. ATEL will install monitoring devices for heating, cooling, water and electricity consumption and UBS's building maintenance staff will periodically receive advice on how to reduce energy consumption. ATEL will receive a share of any profit resulting from cost and energy saving.

Finally, we have started work on integrating

all of our non-Swiss locations into our formal environmental management system.

Further details and Environmental Performance Indicators are available in our Environmental Report, which can be found at www.ubs.com/environment.

Performance assessment

A corporate responsibility strategy needs to be transparent and to show clear results for the efforts undertaken. Measuring performance is therefore essential, but remains a challenge. Although various organizations are developing proposals in this area, there are currently no comprehensive and generally accepted criteria or standards for corporate responsibility reporting that would allow one to measure progress against objectives and make comparisons within our industry, across the whole range of corporate responsibility issues.

We believe that corporate responsibility criteria and standards must be industry specific, and need to be defined through consultation with key players. An example of what can be done is the EPI-Finance 2000 standard, jointly developed by eleven finance and insurance companies, including UBS, to measure and report environmental

performance. Details of our performance against EPI-Finance 2000 indicators are shown in our Environmental Report.

A similar process was initiated in 2001, to develop performance indicators for the financial industry covering key areas of social performance.

Third-party ratings of our corporate responsibility programs

Although a comprehensive framework for assessing corporate responsibility is still to be developed, a number of different certifying bodies and independent rating agencies that assess corporate responsibility programs across the world have rated UBS among the leaders in this field:

- In May 1999, UBS was the first bank to obtain ISO 14001 certification for its worldwide environmental management system in its banking business. UBS also received certification for its corporate services in Switzerland. The certification was undertaken by an independent certification company, SGS International Certification Services AG.
- The Dow Jones Sustainability Group Indexes (DJSGI) have tracked, since 1999, the per-

Commitments and memberships

UBS has undertaken to comply with the UN Global Compact principles proposed at the 1999 World Economic Forum in Davos. These principles set out the framework in which a company can help ensure sustainable development worldwide. In addition to protecting the environment, the nine principles deal with aspects such as respecting human rights and workplace rights.

In 1992, UBS was one of the first signatories to the United Nations Environment Program's Bank Declaration and is helping to shape further developments through its role on the Steering Committee for financial institutions. The Statement commits UBS to integrating environmentally sound practices into all its activities.

UBS is also an active member of the World Business Council for Sustainable Development

(WBCSD), a coalition of 150 international companies united by a shared commitment to sustainable development. The WBCSD provides business leadership as a catalyst for change toward sustainable development, and promotes the role of eco-efficiency, innovation and corporate responsibility.

UBS was one of the 36 companies from around the world to sign the Statement "Global Corporate Citizenship: The Leadership Challenge for CEOs and Boards" presented at the World Economic Forum Annual Meeting in New York in January 2002. The statement recommends a framework for action that CEOs, chairmen, and executive management teams can use to develop a strategy for managing their company's impact on society and its relationships with stakeholders.

- formance of companies in the Dow Jones Global Index that lead the field in terms of corporate responsibility. UBS has been part of the DJSGI since their inception, and has been the leader in the global banking industry since 2000. The bank's top position in this sector of the index was last confirmed on 15 October 2001.
- In October 2001, UBS was selected as leader for the banking sector of the Dow Jones STOXX Sustainability indices, that track the performance of the top 20% of sustainability leaders of the Dow Jones STOXX 600 index.
 - UBS is included in the FTSE4Good Index, which measures global companies performance in the areas of environmental sustainability, stakeholder relations and support for human rights.
 - In Spring 2001, UBS was the strongest new entrant in the Business in the Environment Index of global corporate environmental management. This index is designed to engage companies and drive continuous improvement in environmental management and performance. 184 international companies were included in this year's index.



UBS Share Information

The Global Registered Share

UBS ordinary shares are registered shares with a par value of CHF 2.80 per share, fully paid up and non-assessable. As outlined in the Capital Management section on page 85, UBS plans to reduce the par value of its shares through a distribution of CHF 2.00 per share on 8 July 2002, to shareholders of record on 5 July 2002. Following this distribution, the par value of the share will be reduced to CHF 0.80.

UBS's ordinary shares are issued in the form of Global Registered Shares. UBS has pioneered the use of Global Registered Shares (GRS), which allow for cross-market portability at a minimized cost to investors. Alternatives to the GRS involve the creation of tailor-made securities for individual unlinked markets, following local regulations. UBS believes that, with the globalization of financial markets, this concept is becoming less valid, and that securities will increasingly be traded in multiple markets; such global fungible securities can best track the changing patterns of liquidity across the world.

UBS also believes that regulatory structures of different markets will continue to align, reducing the need to have individual securities in each market to comply with different local regulations.

A Global Registered Share is a security that provides direct and equal ownership for all shareholders. It can be traded and transferred across applicable borders without the need for conversion, with identical shares traded on different stock exchanges in different currencies. For example, the same share purchased on the New York Stock Exchange (NYSE) can be sold on virt-x, the pan-European stock exchange where Swiss-listed blue chip stocks are traded, or vice versa. The UBS GRS is listed on the Swiss, New York and Tokyo stock exchanges. All members of the SMI Swiss Market Index listed on the Swiss stock exchange are now traded on virt-x, a joint venture between the SWX Swiss Exchange and Tradepoint.

The UBS ADR (American Depositary Receipt) program was terminated at the time of the listing of the GRS on the New York Stock Exchange (NYSE) – 16 May 2000.

Registration

A single register exists for UBS ordinary shares, 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 Services, as US transfer agent. A shareholder is entitled to hold shares registered in their name on either register and transfer shares from one register to the other upon giving proper instruction to the transfer agents.

Share liquidity and currency effects

For the foreseeable future, because of the greater volume of UBS shares traded on virt-x, trading on this exchange is expected to be the primary determinant of the share price, and liquidity on virt-x is expected to be higher than on the NYSE. During 2001, daily trading volume in UBS shares on the NYSE represented an average of just 5.19% of the total daily trading volume in UBS shares.

During the hours in which both virt-x and NYSE are simultaneously open for trading (currently 15.30 to 17.30 CET), price differences are likely to be arbitrated away by professional market makers. The NYSE price will therefore typically be expected to depend on both the virt-x price and the prevailing USD/CHF exchange rate. When virt-x is closed for trading, traded volumes will typically be lower, however the specialist firm making a market in UBS shares on the NYSE, Van der Moolen, is required to facilitate sufficient liquidity and an orderly market in the UBS share.

As a global financial services firm, UBS earns profits in many currencies. Since UBS prepares its accounts in CHF, changes in currency exchange rates, particularly CHF/USD and CHF/EUR may have an effect on reported earnings.

Dividends

UBS normally pays a regular annual dividend to shareholders registered as of the date of the Annual General Meeting (the record date). Payment is usually scheduled three business days thereafter.

Following an AGM, UBS shares typically begin trading ex-dividend. As a result of this structure, shareholders that sell shares on virt-x two business days prior to the payment date are required to compensate the purchaser for the amount of the dividend. An automated compensation system properly allocates the dividend for those transactions and allows SIS SegInterSettle participants to execute transactions between the record date and the payment date.

These practices differ from the US norm of declaring dividends at least ten days in advance of the applicable record date and the commencement of ex-dividend trading two days before the record date. To ensure that shareholders on the Swiss and US registers are similarly treated in connection with dividend payments, and to avoid disparities between the two markets, NYSE trading will be with due bills for the two business day period preceding the dividend record date.

UBS pays dividends in CHF (Swiss francs). For UBS ordinary shares held in street name through The Depository Trust Company, any dividend will be converted into USD (US dollars). Holders of UBS ordinary shares registered on the US register will receive dividend payments in USD unless they provide notice to Mellon Investor Services, UBS's US transfer agent, that they wish to receive dividend payments in CHF.

UBS will fix the USD dividend amount on the basis of the DJ Interbank Foreign Exchange rate for sale of CHF against USD. The date for this fixing will be set at the same time as the respective ex-dividend, record and payment dates are set.

Holders of UBS shares who are US taxpayers are normally subject to 35% withholding tax on dividends they receive from UBS, although they can normally reclaim part of this, bringing their withholding tax rate down to 15%. UBS is currently in discussions with the Swiss tax authorities to change the withholding tax treatment of

Global Registered Shares, so that either tax is only withheld at 15% for US tax payers, or to allow approved processors to file bulk reclamations on behalf of qualified UBS shareholders. Despite our efforts, there can be no assurance that this withholding tax will be reduced or eliminated. Further disclosure relating to the taxation of US holders of UBS shares can be found in our Form 20-F, in section E of item 10.

Dividends in 2001

In 2001 UBS departed from its normal process for paying dividends. Initially, as part of the process for the acquisition of Paine Webber Group, Inc., we paid a dividend in respect of the first three quarters of 2000 in October 2000. In 2001 we then took advantage of Swiss regulations which allow a company to reduce the par value of its shares by returning capital to shareholders, to make a distribution in this form in respect of the last quarter of 2000, instead of paying a dividend.

Par value distribution July 2002

As outlined in the Capital management section on page 85, UBS again plans to reduce the par value of its shares through a distribution of CHF 2.00 on 8 July 2002. This will be done instead of paying a dividend in respect of the year ended 31 December 2001.

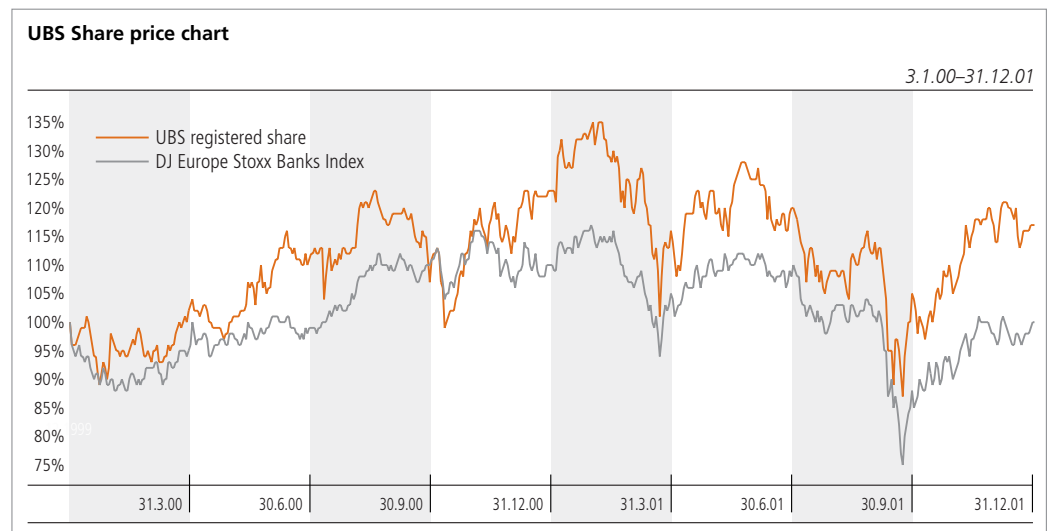
This will generally follow the principles described in the preceding section with respect to dividends. The record date for the distribution has been set for the close of business on 5 July 2002. NYSE trades on 8 and 9 July will be with due bills. The CHF/USD exchange rate for the distribution will be fixed on 8 July 2002 the day on which the par value reduction itself takes place. The distribution will be paid for value on 10 July 2002.

The par value distribution in July 2002 will not be subject to the 35% withholding tax on dividends.

Ticker symbols

Trading exchange	Bloomberg	Reuters	Telekurs
virt-x	UBSN VX	UBSZn.VX	UBSN, 004
New York Stock Exchange	UBS US	UBS.N	UBS, 65
Tokyo Stock Exchange	8657 JP	UBS.T	N16631, 106

UBS Shares 2001



UBS share price performance in 2001

The UBS share price performed well during 2001, in the context of weak European bank stocks in general (as measured by the DJ Europe Stoxx Europe Banks index). The UBS share fell 5.0% through the year, and generated a total pre-tax return of -4.4% to investors over the year if distributions are included.

The year began well for European banking stocks, rising approximately 4% by 6 February. In the same period, UBS rose 10% to the year's high of CHF 96.83. By 22 March, however, the index had fallen 18% from these levels with rising investor fears over a sharp economic downturn, and a related decline in investment banking profits, combined with increased credit losses. The UBS share fell to a first-quarter low of CHF 72.33 on this date.

Sentiment improved during April and May 2001, and by 1 June the index had recovered to the level at the start of the year. UBS outperformed European banks during this period, ris-

ing to a mid-year high of CHF 91.17 on 5 June. From this date, pessimistic economic data, and poor second quarter financial results, caused European bank stock prices to decline slowly, falling 9% by end August 2001. The UBS share fell to CHF 81.40.

As September 2001 began, bank stocks fell 7% in the first 10 days of September, as fears rapidly escalated over further economic downturn. In the three days following the US terrorist attacks on 11 September bank stocks fell a further 10% from their 10 September close. The UBS share price fell to a year low of CHF 62.10 on 21 September. However, during the first week in December 2001, European bank stocks were once again nearing their end-August levels. UBS reached a fourth quarter high of CHF 86.85 on 10 December. Our share price then declined, ending the year down 5.0% from the level on 1 January 2001 at CHF 83.80, although outperforming the DJ Europe Stoxx Banks index by 5.1% over the year.

UBS share data¹

	As at		
	31.12.01	31.12.00	31.12.99
<i>Registered shares in 1000 units</i>	31.12.01		
Total shares outstanding	1,281,717	1,333,139	1,292,679
Total shares ranking for dividend	1,258,653	1,277,874	1,292,679
Treasury shares (average)	47,244	97,545	77,264
Treasury shares (year end)	41,255	55,265	110,621
Weighted average shares (for basic EPS calculations)	1,266,038	1,209,088	1,214,227
Weighted average shares (for diluted EPS calculations)	1,288,578	1,225,578	1,225,125

	For the year ended		
	31.12.01	31.12.00	31.12.99
<i>CHF</i>	31.12.01		
Earnings per share			
Basic EPS	3.93	6.44	5.07
Basic EPS before goodwill amortization ²	4.97	7.00	5.35
Diluted EPS	3.78	6.35	5.02
Diluted EPS before goodwill amortization ²	4.81	6.89	5.30

	As at		
	31.12.01	31.12.00	31.12.99
<i>CHF billions</i>	31.12.01		
Market capitalization	105.5	112.7	92.6
% change year-on-year	(6)	22	2
As a % of the Swiss Market Index (SMI)	13.80	10.80	10.62
As a % of the Swiss Performance Index (SPI)	12.48	9.08	8.51

	For the year ended		
	31.12.01	31.12.00	31.12.99
<i>1000 shares</i>	31.12.01		
Trading volumes			
virt-x/SWX total	1,000,402	1,211,446	1,068,732
virt-x/SWX daily average	4,002	4,826	4,224
NYSE total	54,768	83,032	–
NYSE daily average	221	522	–

¹All share and earnings per share figures have been restated for the 3 for 1 share split which took place on 16 July 2001. ²Excludes the amortization of goodwill and other intangible assets.

UBS Share Information
UBS Shares 2001

Stock exchange prices¹

	virt-x/SWX Swiss Exchange			New York Stock Exchange ²		
	High (CHF)	Low (CHF)	Period end (CHF)	High (USD)	Low (USD)	Period end (USD)
2001	96.83	62.10	83.80	58.49	40.12	50.00
Fourth quarter 2001	86.85	69.70	83.80	52.83	43.23	50.00
December	86.85	80.90	83.80	52.83	49.18	50.00
November	86.15	76.55	81.75	51.80	47.52	49.86
October	79.05	69.70	75.95	47.60	43.23	46.37
Third quarter 2001	86.33	62.10	75.60	49.73	40.12	46.15
September	81.20	62.10	75.60	47.70	40.12	46.15
August	82.80	74.30	81.40	49.73	44.36	48.82
July	86.33	75.00	78.35	47.09	43.41	45.15
Second quarter 2001	92.00	77.50	85.83	51.47	44.87	47.02
June	91.17	83.17	85.83	50.69	46.33	47.02
May	92.00	82.50	89.33	51.47	47.35	49.62
April	88.33	77.50	88.00	51.16	44.87	50.26
First quarter 2001	96.83	72.33	83.17	58.49	43.02	47.68
March	90.83	72.33	83.17	54.57	43.02	47.68
February	96.83	86.33	88.67	58.32	50.96	52.85
January	96.67	86.67	96.67	58.49	53.24	58.49
2000	88.17	63.58	88.17	54.10	40.18	54.10
Fourth quarter 2000	88.17	71.17	88.17	54.10	40.18	54.10
Third quarter 2000	88.00	74.67	76.67	50.74	44.76	44.85
Second quarter 2000	83.33	69.83	79.67	50.66	42.99	48.67
First quarter 2000	72.83	63.58	72.83			
1999	80.00	67.50	71.67			
Fourth quarter 1999	79.92	67.50	71.67			
Third quarter 1999	82.25	67.50	70.50			
Second quarter 1999	88.00	73.67	77.33			
First quarter 1999	82.00	69.08	77.50			
1998³	108.83	45.00	70.33			
1997³						

¹ The share prices and volumes have been adjusted for the two-for-one share split that became effective on 8 May 2000 and for the three-for-one share split effective 16 July 2001. ² UBS was listed on 16 May 2000, therefore there are no NYSE figures for periods prior to May 2000. NYSE figures for second quarter 2000 are for 16 May 2000 to 30 June 2000 only, and NYSE figures for full year 2000 are for 16 May 2000 to 31 December 2000 only. ³ UBS was created by the merger of Union Bank of Switzerland and Swiss Bank Corporation, on 29 June 1998. 1998 figures are therefore for the period 29 June 1998 to 31 December 1998 only. There are no figures for 1997.

UBS Shares and market capitalization

Number of shares, except where indicated As at	31.12.01	31.12.00	31.12.99	% change from	
				31.12.00	31.12.99
Total ordinary shares issued	1,281,717,499	1,333,139,187	1,292,679,486	(4)	(1)
Second trading line treasury shares (2000 program)		(55,265,349)			
Second trading line treasury shares (2001 program)	(23,064,356)				
Shares outstanding for market capitalization	1,258,653,143	1,277,873,838	1,292,679,486	(2)	(3)
Share Price (CHF)	83.80	88.17	71.67	(5)	17
Market Capitalization (CHF million)	105,475	112,666	92,642	(6)	14
<i>Total treasury shares</i>	41,254,951	55,265,349	110,621,142	(25)	(63)

Distribution of UBS Shares

As at 31.12.01 Number of shares registered	Shareholders registered		Shares registered	
	Number	%	Number	% of shares issued
1-100	43,268	19.7	2,211,404	0.2
101-1,000	134,713	61.3	52,016,145	4.1
1,001-10,000	38,414	17.5	95,134,124	7.4
10,001-100,000	2,905	1.3	71,936,991	5.6
100,001-1,000,000	338	0.2	94,420,825	7.4
1,000,001-5,000,000	61		127,656,380	10.0
5,000,001-12,817,174 (1%)	14		108,210,291	8.4
1-2%	2		28,812,592	2.2
2-3%	0		0	
3-4%	1		40,834,352	3.2
4-5%	1		54,816,479	4.3
Over 5%	1 ¹		88,946,417	6.9
Total registered	219,718	100	764,996,000 ³	59.7
Unregistered ²			516,721,499	40.3
Total shares issued			1,281,717,499	100

¹As at 31.12.2001, Chase Nominees Ltd., London, was entered as a trustee/nominee holding 6.94% of all shares issued. ²Shares not entered in the share register at 31 December 2001. ³154,153,201 shares registered do not carry voting rights.

As far as UBS is aware, UBS is neither directly nor indirectly owned or controlled by another corporation or government, there are no arrangements in place, the operation of which may result in a change in control and UBS has no shareholders whose beneficial ownership exceeds 5% of the total shares issued.

UBS Share Information
UBS Shares 2001

Registered shareholders: type and distribution

As at 31.12.2001	Shareholders		Shares	
	Number	%	Number	%
Individual shareholders	210,463	95.8	182,196,910	23.8
Legal entities	8,610	3.9	235,014,128	30.7
Nominees, fiduciaries	645	0.3	347,784,962	45.5
Total	219,718	100.0	764,996,000	100.0
Switzerland	204,582	93.1	396,665,957	51.9
Europe	9,612	4.4	227,465,501	29.7
North America	2,995	1.4	59,904,634	7.8
Other Countries	2,529	1.1	80,959,908	10.6
Total	219,718	100.0	764,996,000	100.0

At 31 December 2001, UBS employees held approximately 8% of all shares issued, and options equivalent to about a further 6%.

Cautionary statement regarding forward-looking statements

This communication contains statements that constitute "forward-looking statements", including, without limitation, statements relating to the implementation of strategic initiatives, including the implementation of the new European wealth management strategy, expansion of our corporate finance presence in the US and worldwide, the development of UBS Warburg's new 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, (6) legislative developments, (7) the impact of the terrorist attacks on the World Trade Center and other sites in the United States on 11 September 2001 and subsequent related developments, (8) the impact of the management changes and changes to our Business Group structure which took place in December 2001 and (9) other key factors that we have indicated could adversely affect our business and financial performance which are contained in our past and future filings and reports, including those with the SEC.

More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS's Annual Report on Form 20-F for the year ended 31 December 2001. UBS is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

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