UBS

Financial Report 2003

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Introduction

Our Financial Report forms an essential part of our annual reporting portfolio. It includes the audited Financial Statements of UBS for 2002 and 2003, prepared according to International Financial Reporting Standards (IFRS) and reconciled to the United States' Generally Accepted Accounting Principles (US GAAP), and the audited financial statements of UBS AG (the "Parent Bank") for 2002 and 2003, prepared according to Swiss Banking Law requirements. It also contains a discussion and analysis of the financial and business performance of UBS and its Business Groups, and additional disclosures required under Swiss and US regulations.

The Financial Report should be read in conjunction with the other information published by UBS, described on page 4.

We sincerely hope that you will find our annual reports useful and informative. We believe that UBS is one of the leaders in corporate disclosure, although we would be very interested to hear your views on how we might improve the content, information and presentation of the reporting products that we publish.

Mark Branson
Chief Communication Officer
UBS AG

UBS Financial Highlights

CHF million, except where indicated For the year ended	**31.12.03**	31.12.02	31.12.01	% change from 31.12.02
Income statement key figures				
Operating income	**33,972**	34,121	37,114	0
Operating expenses	**25,624**	29,577	30,396	(13)
Operating profit before tax	**8,348**	4,544	6,718	84
Net profit	**6,385**	3,535	4,973	81
Cost/income ratio (%) [1]	**75.2**	86.2	80.8	
Per share data (CHF)				
Basic earnings per share [2]	**5.72**	2.92	3.93	96
Diluted earnings per share [2]	**5.61**	2.87	3.78	95
Return on shareholders' equity (%) [3]	**18.2**	8.9	11.7	

CHF million, except where indicated As at	**31.12.03**	31.12.02	31.12.01	% change from 31.12.02
Balance sheet key figures				
Total assets	**1,386,000**	1,181,118	1,253,297	17
Shareholders' equity	**35,446**	38,991	43,530	(9)
Market capitalization	**95,401**	79,448	105,475	20
BIS capital ratios				
Tier 1 (%) [4]	**11.8**	11.3	11.6	
Total BIS (%)	**13.3**	13.8	14.8	
Risk-weighted assets	**251,901**	238,790	253,735	5
Invested assets (CHF billion)	**2,209**	2,037	2,448	8
Headcount (full-time equivalents)				
Switzerland	**26,662**	27,972	29,163	(5)
Europe (excluding Switzerland)	**9,906**	10,009	9,650	(1)
Americas	**25,511**	27,350	27,463	(7)
Asia Pacific	**3,850**	3,730	3,709	3
Total	**65,929**	69,061	69,985	(5)
Long-term ratings [5]				
Fitch, London	**AA+**	AAA	AAA	
Moody's, New York	**Aa2**	Aa2	Aa2	
Standard & Poor's, New York	**AA+**	AA+	AA+	

Earnings adjusted for significant financial events and pre-goodwill [6, 7]

CHF million, except where indicated For the year ended	**31.12.03**	31.12.02	31.12.01	% change from 31.12.02
Operating income	**33,811**	33,894	37,114	0
Operating expenses	**24,681**	27,117	29,073	(9)
Operating profit before tax	**9,130**	6,777	8,041	35
Net profit	**7,326**	5,529	6,296	33
Cost/income ratio (%) [8]	**72.7**	79.5	77.3	
Basic earnings per share (CHF) [9]	**6.56**	4.57	4.97	44
Diluted earnings per share (CHF) [10]	**6.43**	4.50	4.81	43
Return on shareholders' equity (%) [11]	**20.9**	13.9	14.8	

1 Operating expenses/operating income less credit loss expense or recovery.

2 For the EPS calculation, see Note 8 to the Financial Statements.

3 Net profit/average shareholders' equity less dividends.

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

5 See the Capital strength section on page 74 of the Handbook 2003/2004.

6 Excludes the amortization of goodwill and other intangible assets.

7 Details of significant financial events can be found in this report on page 12.

8 Operating expenses less the amortization of goodwill and other intangible assets and significant financial events/operating income less credit loss expense or recovery and significant financial events.

9 Net profit less the amortization of goodwill and other intangible assets and significant financial events (after-tax)/weighted average shares outstanding.

10 Net profit for diluted EPS less the amortization of goodwill and other intangible assets and significant financial events (after-tax)/weighted average shares outstanding for diluted EPS.

11 Net profit less the amortization of goodwill and other intangible assets and significant financial events (after-tax)/average shareholders' equity less dividends.

Throughout this report, 2001 and 2002 segment results have been restated to reflect the transfer of the Private Banks & GAM to Corporate Center.

UBS at a Glance

UBS is one of the world's leading financial firms, serving a discerning global client base. As an organization, it combines financial strength with a global culture that embraces change. As an integrated firm, UBS creates added value for clients by drawing on the combined resources and expertise of all its businesses.

UBS is present in all major financial centers worldwide, with offices in 50 countries. UBS employs 65,929 people, 40% of whom are located in Switzerland, 39% in the Americas, 15% in Europe and 6% in Asia Pacific.

UBS is one of the best-capitalized financial institutions in the world, with a BIS Tier 1 ratio of 11.8%, invested assets of CHF 2.2 trillion, shareholders' equity of CHF 35.4 billion and market capitalization of CHF 95.4 billion on 31 December 2003.

Businesses

Wealth management

UBS is the world's leading wealth management business. In the US, it is one of the biggest private client businesses with a client base of nearly 2 million investors. Its American network of 7,766 financial advisors manages CHF 634 billion in invested assets and provides sophisticated services through consultative relationships with affluent and high net worth clients. UBS also has more than 140 years of private banking experience around the world, with an extensive global network of 168 offices and CHF 701 billion in invested assets. Some 3,300 client advisors provide a comprehensive range of services customized for wealthy individuals, ranging from asset management to estate planning and from corporate finance to art banking.

Investment banking and securities

UBS is a global investment banking and securities firm with a strong institutional and corporate client franchise. Consistently placed in the top tiers of major industry rankings, it is a leading player in the global primary and secondary markets for equity, equity-linked and equity derivative products. In investment banking, it provides first-class advice and execution capabilities to its corporate client base worldwide. In fixed income, it is a first-rate global player. In foreign exchange, it places first in many key industry rankings. All its businesses are sharply client-focused, providing innovative products, top-quality research and comprehensive access to the world's capital markets.

Asset management

UBS is a leading asset manager with invested assets of CHF 574 billion. It provides investment management solutions to private clients, financial intermediates and institutional investors across the world.

Swiss corporate and individual clients

UBS holds roughly a quarter of the Swiss lending market, offering comprehensive banking and securities services for 3.5 million individual and 150,000 clients in Switzerland.

Corporate Center

The Corporate Center partners with the Business Groups, ensuring that the firm operates as a coherent and integrated whole with a common vision and set of values.

Sources of Information

This Financial Report contains our audited Financial Statements for the year 2003 and the related detailed analysis. You can find out more about UBS from the sources shown below.

Publications

This Financial Report is available in English and German. (SAP no. 80531-0401).

Annual Review 2003

Our Annual Review contains a description of UBS and our Business Groups, as well as a summary review of our performance in 2003. It is available in English, German, French, Italian, Spanish and Japanese. (SAP no. 80530-0401).

Handbook 2003 / 2004

The Handbook 2003/2004 contains a detailed description of UBS, our strategy, organization, and businesses, as well as our financial management including credit, market and operational risk, our treasury processes and details of our corporate governance. It is available in English and German. (SAP no. 80532-0401).

Quarterly reports

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

How to order reports

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

Information tools for investors

Website

Our Analysts and Investors website at www.ubs.com/investors offers a wide range of information about UBS, including financial information (including SEC filings), corporate information, share price graphs and data, an event calendar, dividend information and recent presentations given by senior management to investors at external conferences. Our internet-based information is available in English and German, with some sections in French and Italian as well.

Messenger service

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

Results presentations

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

UBS and the environment

The Handbook 2003/2004 contains a summary of UBS environmental policies as part of the Corporate Responsibility section. More detailed information is available at: www.ubs.com/environment

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

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

Our Form 20-F filing is structured as a "wrap-around" document. Most sections of the filing are satisfied by referring to parts of the Handbook 2003/2004 or to parts of this Financial Report 2003. However, there is a small amount of additional information in the Form 20-F, which is not presented elsewhere, and is particularly targeted at readers in the US. You are encouraged to refer to this additional disclosure.

You may read and copy any document that we file with the SEC on the SEC's website, www.sec.gov, or at the SEC's public reference room at 450 Fifth Street NW, Washington, DC, 20549. Please call the SEC at 1-800-SEC-0330 (in the US) or at +1 202 942 8088 (outside the US) for further information on the operation of its public reference room. You may also inspect our SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, NY 10005. 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 addresses and telephone numbers of our two registered offices 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 (traded through its trading platform virt-x), on the New York Stock Exchange and on the Tokyo Stock Exchange.

Contacts

Switchboards
For all general queries.

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

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Shareholder Services
UBS Shareholder Services, a unit of the Company Secretary, is responsible for the registration of the Global Registered Shares.

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US Transfer Agent
For all Global Registered Share-related queries in the USA.

www.melloninvestor.com

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shrrelations@melloninvestor.com

Overview

Preparation and Presentation of Financial Information

Standards and principles in UBS financial reporting

Accounting principles

The UBS Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). As a US listed company, we also provide a description in Note 40 to the Financial Statements of the significant differences which would arise were our accounts to be presented under the United States Generally Accepted Accounting Principles (US GAAP), and a detailed reconciliation of IFRS shareholders' equity and net profit to US GAAP.

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

Pages 185 to 196 contain the Financial Statements for the UBS AG Parent Bank – the Swiss company, including branches worldwide, which owns all the UBS companies, directly or indirectly. The Parent Bank's financial statements are prepared in order to meet Swiss regulatory requirements and in compliance with Swiss Federal Banking Law. Except in those pages, or where otherwise explicitly stated, all references to "UBS" refer to the UBS Group and not to the Parent Bank.

All references to 2003, 2002 and 2001 refer to the UBS Group and the Parent Bank's fiscal years ended 31 December 2003, 2002, and 2001. The Financial Statements for the UBS Group and the Parent Bank for each of these periods have been audited by Ernst & Young Ltd., as described in the Report of the Independent Auditors on page 81 and the Report of the Statutory Auditors on page 195.

An explanation of the critical accounting policies applied in the preparation of our Financial Statements is provided on page 16. The basis of our accounting is given in Note 1 to the Financial Statements on page 88.

Standards for management accounting

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

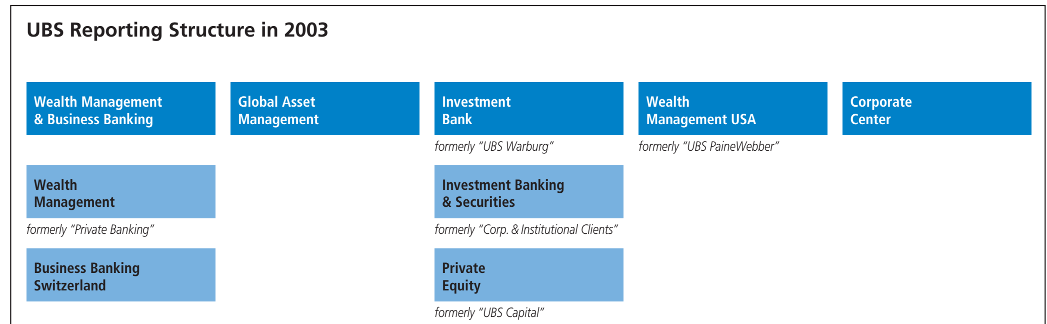
Inter-business unit revenues and expenses. Revenue-sharing agreements are used to allocate external customer revenues to business units on a reasonable basis. Transactions between business units are conducted at arm's length. Inter-business unit charges are recorded as a reduction to general and administrative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

Net interest income is allocated to each business unit based on their balance sheet positions. Assets and liabilities of each business unit are funded through/invested with the central treasury departments, reflecting the net margin in the results of each business unit. To complete the allocation, the business units are credited with a risk-free return on the regulatory equity used.

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

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

Headcount, which is expressed in terms of full-time equivalents (FTE), is measured as a percentage of the standard hours normally worked by permanent full-time staff and is used to track the number of individuals employed by UBS. FTE cannot exceed 1.0 for any particular individual. Headcount includes all staff and trainees other



than short-term temporary workers (hired for less than 90 calendar days) and contractors.

Disclosure principles and additional financial information

Restatement of results

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 our reported results, we restate UBS's results for previous periods to show how they would have been reported according to the new basis, and provide clear explanations of all changes.

Changes to accounting presentation in 2003

Our segment reporting shown in Note 2 to the Financial Statements has been restated to reflect the change we made to our organizational structure in 2003.

Effective 1 January 2003, our independent private banks – Ehinger & Armand von Ernst, Banco di Lugano and Ferrier Lullin – and GAM, our specialist asset management firm, were transferred from the Wealth Management & Business Banking and Global Asset Management Business Groups into a separate new holding company held by the Corporate Center. At the same time, we added additional disclosure for the new holding company, showing its performance before tax, net new money, invested assets and headcount.

While this restructuring had no impact on the UBS Financial Statements, we have restated all prior periods for all business units affected to reflect these changes.

There were no other accounting changes during 2003 that affected either the UBS Financial Statements or our business unit reporting.

Fair value disclosure of employee stock options

In 2003, we started to disclose in our quarterly result discussion the pro-forma expense, net of tax, for stock options awarded to employees, which would have been incurred if they were recorded at fair value at grant date instead of using the intrinsic value method.

Additionally, we disclose on an annual basis for every business unit the compensation expense we would have incurred had we recognized the fair value of stock option grants made during that year.

In 2003, this expense would have been CHF 576 million (CHF 439 million after-tax), down from CHF 827 million in 2002 (CHF 690 million after-tax). This drop was mainly attributable to a lower share price at grant date. Most of our employee stock options are granted in the first quarter of the year. For the other quarters, grants are mainly made under the Equity Plus program, an employee participation program under which voluntary investments in UBS shares are matched with option awards.

Further details on the accounting treatment of equity-based compensation can be found in the Critical accounting policies section on page 16 and in Note 32 to the Financial Statements.

PaineWebber merger-related costs

In 2003, UBS incurred amortization expenses of CHF 606 million on goodwill and intangible assets resulting from the acquisition of PaineWebber in 2000, while goodwill funding costs amounted to CHF 754 million. The remaining goodwill and intangible assets on our balance sheet amount to CHF 9.3 billion on 31 December 2003.

Indicative Pre-goodwill Tax Rates

in % For the year ended	31.12.03	31.12.02	31.12.01
Wealth Management & Business Banking	**18**	19	20
Wealth Management	**16**	18	18
Business Banking Switzerland	**20**	20	22
Global Asset Management	**20**	22	22
Investment Bank	**32**	38	39
Investment Banking & Securities	**30**	31	31
Private Equity	**3**	3	4
Wealth Management USA	**38**	37	37

As part of the merger, UBS agreed to make retention payments to PaineWebber key function holders, subject to these employees' continued employment and other restrictions. The payments vest over periods of up to four years from November 2000 and the vast majority of them are paid in the form of UBS shares. Personnel expenses in 2003 include retention payments of USD 196 million (CHF 263 million). In 2004, we expect a final expense of approximately USD 80 million.

Changes in Accounting and Presentation in 2004

Effective 2004, we will make a number of changes in accounting and presentation as well as to our disclosure. They will require us to restate comparative prior periods, although not all of them will have an effect on net profit or shareholders' equity. Because of the changes, we will release restated interim and annual financial statement figures for 2002 and 2003 before we publish our first quarter 2004 report.

The following changes in accounting and presentation will be made:

Early adoption of IAS 32 and 39

UBS has decided to adopt the revised International Accounting Standards (IAS) 32 and 39 early, effective 1 January 2004. Together they provide comprehensive guidance on recognition, measurement, presentation and disclosure of financial instruments. For the first time, they allow us to choose to carry non-trading financial instruments (such as loans or issued debt) at fair value, meaning that their change in value will pass through the profit and loss account.

Adopting the two standards will largely eliminate the separation requirement for derivatives embedded in the structured notes we issue. It will reduce profit and loss volatility generated by issuance of structured debt instruments (for example equity-linked GOALs or credit-linked notes). Previously, such instruments had to be accounted for on an accrual basis, while the embedded derivative and related hedge instruments were carried at fair value. The revised standards now allow us to measure both components of our structured notes at fair value, with any changes in their value directly recorded in the income statement – just as we already do for the related hedging instruments. The change will, as an example, eliminate unwanted volatility in our net income from treasury activities income line.

Positive and negative replacement values of derivative contracts where close-out netting is legally enforceable in the case of insolvency are currently offset when they are recorded in our balance sheet. Revised IAS 32 clarifies that netting is permitted only if normal settlement is also intended to take place on a net basis. In general, that condition is not met and therefore we will now separately record the replacement values that were previously offset. This will increase the gross value of the assets and liabilities on our balance sheet by approximately CHF 165 billion at 31 December 2003. There will be no effect on net profit, shareholders' equity, earnings per share or regulatory capital from this change.

The two new standards will prompt us to restate results of the last two years in order to reflect the current treatment. We are currently assessing the exact effect that the adoption of the two revised standards will have on our financial statements.

Accounting for investment property

Effective 1 January 2004, we adopted a fair value accounting model for our investment property. Before that, we used a historical cost less accumulated depreciation model. This means that all changes in the fair value of investment property will now be recog-

Business Group tax rates

Indicative Business Group and business unit tax rates are calculated on an annual basis based on the results and statutory tax rates of the financial year. These rates are approximate calculations, based upon the application to the year's adjusted earnings of statutory tax rates for the locations in which the Business Groups operated. These tax rates therefore give guidance on the tax cost to each Business Group of doing business during 2003 on a stand-alone basis, without the benefit of tax losses brought forward from earlier years.

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

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

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nized immediately in the profit and loss account. Investment property is held exclusively to earn rental income and benefit from appreciation in value. That contrasts bank property, which we use to supply services or for administration purposes. Carrying investment property at fair value better reflects the business rationale behind acquiring and managing these assets.

This change in accounting will lead to restatement of the 2002 and 2003 comparative financial years. The approximate effects of the restatement will be:

- to credit retained earnings as of 1 January 2002 by CHF 202 million for the then existing difference between book value and fair value of the investment property portfolio
- to reduce net profit for 2002 by CHF 117 million
- to reduce net profit for 2003 by CHF 64 million.

The reduction in net profits in 2002 and 2003 was due to the reversal of gains now booked in 2002 opening retained earnings that arose on sales of investment properties during those two years. Our current investment property portfolio is valued at CHF 236 million on 31 December 2003. While this new treatment eliminates regular depreciation charges on investment property, it is likely that the fair value model will add some volatility to our income statement.

Credit risk losses incurred on OTC derivatives

Effective 1 January 2004, we also changed the accounting for credit risk losses incurred on over-the-counter (OTC) derivatives. All such credit risk losses will now be reported in net trading income and will no longer be reported in credit loss expense. This change better reflects how the business is run, simplifying the current treatment. It does not affect our net profit or earnings per share results. The change does, however, affect our segment reporting, as actual losses reported as credit loss expense are deferred over a three-year period in the Business Group accounts, whereas actual losses in trading income are not subject to such a deferral. In the segment report, therefore, actual losses on OTC derivatives will now be reported as incurred. The changed accounting will not have a material effect on the Investment Bank's restated performance before tax.

Change in treatment of corporate client assets in Business Banking Switzerland

Effective 1 January 2004, UBS re-classified corporate client assets (other than pension funds) in Business Banking Switzerland to exclude them from invested assets. We are making this change because we have a minimal advisory role for such clients and asset flows are erratic as they are often driven more by liquidity requirements than pure investment reasons. This change will reduce Business Banking Switzerland's invested assets by approximately CHF 75 billion, but will leave client assets unchanged. Net new money will increase by approximately CHF 7.5 billion for 2003.

Measurement and Analysis of Performance

We analyze our quarterly and annual financial performance on the basis of International Financial Reporting Standards (IFRS). Additionally, we provide comments and analysis on an adjusted basis which excludes from the reported amounts certain items we term significant financial events (SFEs). Another adjustment we use in our results discussion is the exclusion of the amortization of goodwill and other acquired intangible assets.

These adjustments reflect our internal analysis approach where SFE-adjusted figures before goodwill / intangibles amortization are used to assess past performance against peers and to estimate future growth potential. In particular, our financial targets have been set in terms of adjusted results, excluding SFEs and goodwill / intangibles amortization, and all the analysis provided in our management accounting is based on operational SFE-adjusted performance.

In our financial reporting, we clearly identify all adjusted figures as such and provide a reconciliation to the reported figures.

Significant financial events

The use of figures adjusted for significant financial events and goodwill / intangible amortization for performance analysis helps us to illustrate the underlying operational performance of our businesses, insulated from the individual gain or loss items that are not indicative of future performance and are related to specific events. This provides a better basis for our internal performance assessment and planning. A policy approved by the Group Executive Board defines which items may be classified as SFEs. In general an item that is treated as an SFE is:
- Event-specific
- Significant for the consolidated statements of UBS
- UBS-specific, not industry-wide
- Not indicative of or relevant for future performance.

The concept of analyzing our results on the basis of excluding SFEs is to provide investors with meaningful comments on all of our businesses as they will be continued, which will allow them to better assess their future prospects. For that reason, the concept is consistently applied to all items that meet the above criteria regardless of whether a particular item is a gain or a loss.

SFEs are not a recognized accounting concept under IFRS or US GAAP, and are therefore not reflected as such in our Financial Statements. In our analysis, we clearly identify all adjusted figures as such, disclose a detailed reconciliation showing the line item affected and disclose both the pre-tax amount of each individual SFE, and the net tax benefit or loss associated with all the SFEs in each period.

There were no SFEs in 2001. In 2002 there were three and in 2003 there was one – all of them shown in the table on the next page and described in more detail below.
- We realized a net gain of CHF 2 million (pre-tax CHF 161 million) in second quarter 2003 from the sale of Wealth Management USA's Correspondent Services Corporation (CSC) clearing business. A substantial portion of CSC's net assets comprised goodwill stemming from the PaineWebber acquisition. After deducting taxes of CHF 159 million (based on the purchase price) and the writedown of the goodwill associated with CSC, the net gain from the transaction was CHF 2 million.
- In fourth quarter 2002, we recorded a non-cash writedown of CHF 953 million (pre-tax CHF 1,234 million) relating to the value of the PaineWebber brand that was held as an intangible asset on our balance sheet.
- In fourth quarter 2002, we realized a net gain of CHF 60 million (pre-tax CHF 72 million) from the sale of Klinik Hirslanden, a private hospital group.
- In first quarter 2002, we realized a net gain of CHF 125 million (pre-tax CHF 155 million) from the sale of private bank Hyposwiss.

Significant Financial Events (SFE)

CHF million		UBS			Wealth Management USA		Corporate Center
For the year ended	*Income Statement line affected*	**31.12.03**	31.12.02	31.12.01	31.12.03	31.12.02	31.12.02
Operating income							
As reported		**33,972**	34,121	37,114	5,182	5,548	2,676
Less: Gain on disposal of Correspondent Services Corporation	*Other income*	**161**			161		
Less: Gain on disposal of Hyposwiss	*Other income*		155				155
Less: Gain on disposal of Klinik Hirslanden	*Other income*		72				72
Adjusted operating income		**33,811**	33,894	37,114	5,021	5,548	2,449
Operating expenses							
As reported		**25,624**	29,577	30,396	5,187	7,348	2,399
Less: Writedown of PaineWebber brand name	*Amortization of goodwill and other intangible assets*		1,234			1,234	
Adjusted operating expenses		**25,624**	28,343	30,396	5,187	6,114	2,399
Operating profit / (loss) before tax and minority interests							
As reported		**8,348**	4,544	6,718	(5)	(1,800)	277
SFE adjustments, net		**(161)**	1,007		(161)	1,234	(227)
Adjusted operating profit / (loss) before tax and minority interests		**8,187**	5,551	6,718	(166)	(566)	50
Net profit							
As reported		**6,385**	3,535	4,973			
SFE adjustments, net		**(161)**	1,007				
Tax effect of significant financial events, net	*Tax expense / (benefit)*	**159**	(239)				
Adjusted net profit		**6,383**	4,303	4,973			
Amortization of goodwill and other intangible assets		**943**	1,226	1,323			
Adjusted net profit before goodwill		**7,326**	5,529	6,296			

Amortization of goodwill and other intangibles

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

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

In first quarter 2004, the International Accounting Standard Board (IASB) is expected to issue a new standard regarding business combinations, which would be effective for 2005. We presume that the accounting for goodwill will change to the model applicable under US GAAP, which requires that goodwill is tested for impairment rather than amortized over its estimated life. Accordingly, goodwill amortization would cease beginning in 2005 and eliminate a significant reconciling item to US GAAP currently included in Note 40.

Targets and performance measures

UBS targets

At UBS we focus on a consistent set of four long-term financial targets defined across periods of varying market conditions and designed to ensure that we deliver continuously improving returns to our shareholders. We report our performance against these targets each quarter:

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

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

Business Group key performance indicators

At the Business Group or business unit level, performance is measured with carefully chosen

Key Performance Indicators

Business	Key performance indicators	Definition
All business units	Cost/income ratio before goodwill	Total operating expenses excluding goodwill amortization/ total operating income before adjusted expected credit loss.
Wealth Management and Asset Management businesses and Business Banking Switzerland	Invested assets	Assets managed by or deposited with UBS for investment purposes only (for further details please refer to page 15).
	Net new money	Inflow of invested assets from new clients – outflows due to client defection +/– inflows/outflows from existing clients. (for further details please refer to page 15)
Wealth Management and Asset Management businesses	Gross margin on invested assets	Annualized operating income before adjusted expected credit loss/average invested assets.
Wealth Management	Client advisors (CAs)	Expressed in full-time equivalents.
Business Banking Switzerland	Non-performing loans (%)	Non-performing loans/gross loans.
	Impaired loans (%)	Impaired loans/gross loans.
Investment Banking & Securities	Compensation ratio	Personnel expenses/operating income before adjusted expected credit loss.
	Non-performing loans (%)	Non-performing loans/gross loans.
	Impaired loans (%)	Impaired loans/gross loans.
	Average VaR (10-day 99%)	VaR expresses the potential loss on a trading portfolio assuming a 10-day time horizon before positions can be adjusted, and measured to a 99% level of confidence.
Private Equity	Value creation	Value creation adds the increase in the unrealized portfolio gains to realized gains/losses for the period.
	Investment	Historical cost of investment made, less divestments and impairments.
Wealth Management USA	Recurring fees	Asset-based fees for portfolio management and fund distribution, account-based and advisory fees (as opposed to transactional fees).
	Financial advisors (FAs)	Expressed in full-time equivalents.

key performance indicators (KPIs). These do not carry explicit targets, but are indicators of the business units' success in creating value for shareholders. They reflect the key drivers of each unit's core business activities and include both financial metrics, such as the cost/income ratio, and non-financial metrics, such as invested assets or the number of client advisors.

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 businesses towards achieving success in the externally reported value drivers and avoid the risk of managing to purely internal performance measures. SFEs and goodwill amortization are not taken into account when calculating KPIs at the business unit level.

Client/invested assets reporting

Since 2001 we report two distinct metrics for client funds:

- Client assets are all client assets managed by or deposited with UBS including custody-only assets and assets held for purely transactional purposes
- Invested assets is a more restrictive term and includes all client assets managed by or deposited with UBS for investment purposes.

Invested assets is our central measure and excludes all assets held for purely transactional and or custody-only purposes. It includes, for example, discretionary and advisory wealth management portfolios, managed institutional assets, managed fund assets and wealth management securities or brokerage accounts, but excludes custody-only assets, and transactional cash or current accounts. Non-bankable assets (e.g. art collections) and deposits from third-party banks for funding or trading purposes are excluded from both measures.

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

When products are managed in one Business Group and sold in another, they are counted in both the investment management unit and the distribution unit. This results in double counting in UBS's total invested assets as both units provide an independent service to their respective client, add value and generate revenues. Most double counting arises where mutual funds are managed by the Global Asset Management business or GAM and sold by a wealth management unit (Wealth Management or Wealth Management USA). Both business units involved count these funds as invested assets. This approach is in line with the overall industry and our open architecture strategy and allows us to accurately reflect the performance of each individual business. Overall, CHF 287 billion of invested assets were double counted in 2003 (CHF 295 billion in 2002).

Seasonal characteristics

Of our main businesses, only Investment Banking & Securities shows significant seasonal patterns. Its revenues are impacted by the seasonal characteristics of general financial market activity and deal flows in investment banking. In our quarterly reporting, we therefore compare the Investment Bank's results for the reported quarter with those achieved in the same period of the previous year. For all other business units, results are compared with the previous quarter.

Critical Accounting Policies

Basis of preparation and selection of policies

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

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

Many of the judgements which we make in applying accounting principles depend on an assumption, which we believe to be correct, that UBS maintains sufficient liquidity to hold positions or investments until a particular trading strategy matures – i.e. that we do not need to realize positions at unfavorable prices in order to fund immediate cash needs. Liquidity is discussed in more detail on page 69 of the Handbook 2003/2004.

Recognition and measurement of financial instruments – fair value

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

For substantially all of our portfolios, fair values are based on quoted market prices for the specific instrument, comparisons with other highly similar financial instruments, or the use of models. Valuation models are used primarily to value credit derivatives and certain equity and fixed income derivatives. Where valuation models are used to compute fair values, or where they are used in our control functions for independent risk monitoring, they must be validated and periodically reviewed by qualified personnel independent of the area that created the model. Our Quantitative Risk Models and Statistics unit certifies all models before they are used, we generally employ 'backtesting' procedures to check model outputs against actual data and we seek comparative market prices for additional verification.

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

As a result of the potential uncertainty in computed fair values, valuation adjustments are an integral part of the valuation process and are applied consistently from period to period. Establishing valuations inherently involves the

use of judgement, and management also applies its judgement in establishing reserves against indicated valuations for aged positions, deteriorating economic conditions (including country-specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity, model risk itself, and other factors.

Despite the fact that a significant degree of judgement is required in order to establish fair values in some cases, management believes the fair values recorded in the balance sheet and the changes in fair values recorded in the income statement are reasonable and reflective of the underlying economics, based on a number of controls and procedural safeguards we employ. We apply our models consistently from one period to the next, ensuring comparability and continuity of the valuations over time.

Hedge accounting

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

Applying hedge accounting means that changes in the fair values of designated hedging instruments affect reported net profit in a period *only to the extent that each hedge is ineffective*. Alternatively, if we were to choose not to apply hedge accounting, the entire change in fair value of the designated hedging instruments in each individual reporting period would be reported in net income for that period, regardless of the economic effectiveness of the hedge. For our fair value hedges, the net effect of not applying hedge accounting would have resulted in a pre-tax loss of CHF 555 million in 2003, a pre-tax gain of CHF 951 million in 2002, and a pre-tax gain of CHF 319 million in 2001. For our cash flow hedges, the respective amounts of the net effect are a pre-tax gain of CHF 199 million in 2003, a pre-tax gain of CHF 326 million for 2002 and a pre-tax loss of CHF 79 million for 2001. Please refer to Note 1(v) to the Financial Statements for further information on hedge accounting.

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

In 2003, UBS recorded mark to market losses of CHF 678 million on CDSs that hedge existing credit exposures, without recording a corresponding credit loss expense recovery. The development in 2003 is explained by improved credit ratings of the hedged exposures, which means lower probabilities of default and hence a decline in fair value of the related CDSs. In 2002, the opposite development occurred and UBS recorded mark to market gains of CHF 226 million on CDSs that hedge existing credit risk exposures without recording a corresponding credit loss expense. Had we been able to apply hedge accounting, we could have deferred recognition of gains on the CDSs until the underlying claim became impaired. Unless we decide to settle CDSs prematurely, and thus realize the mark to market gains or losses, for example because we believe that we will ultimately not incur a credit loss on a hedged exposure, any mark to market gains may be offset by losses in future periods. This may occur either because the fair value of the CDS will decrease or because a credit loss is incurred on the hedged exposure.

Financial investments – available for sale

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

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

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

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

Goodwill and other intangible assets

We regularly review assets that are not carried at fair value (e.g. goodwill and other intangibles) for possible impairment indications. If impairment indicators are identified, we make an assessment about whether the carrying value of such assets remains fully recoverable. When making this assessment, we compare the carrying value to the market value, if available, or the value in use. Value in use is determined by discounting expected future net cash flows gener-

ated by an asset or group of assets to present value. Determination of the value in use requires management to make assumptions and use estimates. We believe that the assumptions and estimates used are reasonable and supportable in the existing market environment and commensurate with the risk profile of the assets valued, but different ones could be used which would lead to different results.

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

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

Allowances and provisions for credit losses

UBS classifies a claim as impaired if the book value of the claim exceeds the present value of the cash flows actually expected in future periods – loan interest payments, scheduled loan principal repayments, or other payments due (for example on guarantees), including liquidation of collateral where available. UBS has established policies to ensure that the carrying values of impaired claims are determined on a consistent and fair basis, especially for those impaired claims for which no market estimate or benchmark for the likely recovery value is available. Future cash flows considered recoverable are discounted to present value in accordance with IAS 39. A loan loss allowance is then recorded for the probable loss on the claim in question and charged to the income statement as credit loss expense.

Each case is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Control function. Although judgement is involved, we believe that the estimates and assumptions made in determining provisions and allowances on each individual impaired claim are reasonable and supportable. Since there are no general estimates or assumptions underlying the determination of allowances and provisions, but instead, as noted above, these allowances and provisions are determined on a case by case basis, it is not possible to provide any meaningful estimate of the impact on earnings of variations in assumptions and estimates.

Further details on this subject are given in Note 1(l) to the Financial Statements and in the Risk Analysis section of the Handbook 2003/2004, on page 50.

Securitizations and Special Purpose Entities

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

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

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

Principal types of SPE used by UBS

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

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

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

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

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

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

Equity compensation

Currently IFRS does not specifically address the recognition and measurement of equity-based compensation plans, including employee option plans. However, two basic methods, the intrinsic value method and the fair value method, are applied in practice. Under the intrinsic value method, if the exercise price of options granted is equal to or greater than the fair value of the underlying equity at grant date, no compensation expense need be recorded. Under the fair value method, an amount would be computed for such options and charged to compensation expense. For IFRS, UBS records as compensation expense only the intrinsic value at grant date, if any, of options granted to employees. Subsequent changes in intrinsic value are not recognized.

Had we recognized the fair value of stock option grants on grant date as compensation expense, net income would have been lower by the following amounts: CHF 439 million in 2003, CHF 690 million in 2002, and CHF 347 million in 2001. Further information on UBS equity compensation plans is disclosed in Note 32 to the Financial Statements. In February 2004, the International Accounting Standards Board issued IFRS2, "Share-based payments", which will become effective 1 January 2005. We are currently evaluating the effect of this new standard on our Financial Statements.

Deferred tax

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

UBS records a valuation allowance to reduce its deferred tax assets to the amount that it believes can be realized in its future tax returns. Our valuation allowance is based on the assessment of future taxable income and our tax planning strategies. At each balance sheet date, existing assessments are reviewed and, if necessary, revised to reflect changed circumstances. The magnitude of the valuation allowance is

Credit Loss Expense Charged to the Business Groups

CHF million For the year ended 31.12.03	Wealth Management & Business Banking	Investment Bank	Wealth Management USA	Corporate Center[1]	**Total**
Actuarial expected loss	(542)	(94)	(8)	(2)	**(646)**
Deferred releases	411	(45)	0	0	**366**
Credit loss expense charged to the Business Groups	**(131)**	**(139)**	**(8)**	**(2)**	**(280)**
Actual credit loss expense	**(75)**	**(40)**	**(3)**	**2**	**(116)**
Balancing item charged as credit loss expense in Corporate Center					164

[1] Includes Private Banks & GAM.

significantly influenced by our own forecast of future profit generation, which drives the extent to which we will be able to utilize the deferred tax assets. Were we to be more optimistic or pessimistic when forecasting future taxable profits, we would record a lower or higher valuation allowance, which would have a direct impact on earnings. Additionally, changes in circumstances may result in either an increase or a reduction of the valuation allowance, and therefore net income. An example of such might be a change in tax legislation. See Note 21 to the Financial Statements for further details.

Segment reporting

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

The most significant of these policies is the treatment of credit loss expense. Credit loss expense represents the charges to profit and loss relating to amounts due to UBS from loans and advances, other credit products and off-balance sheet products that are considered impaired or uncollectible. We determine the amount of credit loss expense reported in the Group income statement and in our segment reporting in Note 2a to the Financial Statements based on the credit losses actually incurred. Actual credit loss expense is the total of net allowances and direct writeoffs less recoveries. In our segment reporting we also disclose a measure of credit loss expense using an expected loss concept, which reflects the average annual cost that is expected to arise on transactions in the current portfolio which become impaired in the future. Over the longer term, the expected loss will equal actual loss, although the latter is more erratic, in both timing and amount.

To hold the Business Groups accountable for credit losses actually incurred and to encourage risk adjusted pricing, we charge or refund them with the difference between actual credit loss expense and expected loss, amortized over a three-year period. The sum of the expected loss plus the amortization of the difference from actual credit loss expense is charged to the Business Groups as adjusted expected credit loss. To re-

Reconciliation of Credit Loss Expense Charged to the Business Groups to Actual Credit Loss (Expense) / Recovery

CHF million	Credit loss charge			Actual credit loss (expense) / recovery		
For the year ended	**31.12.03**	31.12.02	31.12.01	**31.12.03**	31.12.02	31.12.01
Wealth Management & Business Banking	**(131)**	(312)	(601)	**(75)**	(238)	(124)
Investment Bank	**(139)**	(128)	(112)	**(40)**	35	(360)
Wealth Management USA	**(8)**	(13)	(18)	**(3)**	(15)	(15)
Corporate Center	**(2)**	(2)	(3)	**2**	12	1
Total	**(280)**	(455)	(734)	**(116)**	(206)	(498)
Balancing item in Corporate Center	**164**	249	236			

concile the total of credit loss expense charged to the Business Groups with the actual credit loss expense reported in the consolidated income statement, we record a balancing item in Corporate Center.

As a result of adopting the method described above for charging credit loss expense to the Business Groups, the segment result determined on that basis may be materially different from the result based on actual credit loss expense. While the concept requires that each Business Group over time bears the credit loss it actually incurs, a timing difference is introduced.

Risk Factors

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

Interest rates, equity prices, foreign exchange levels and other market fluctuations may affect earnings

A substantial part of our business consists in taking trading positions in the debt, currency, equity, precious metal and energy markets as well as making investments in private equity, real estate and other assets. The value of these assets and liabilities can be adversely affected by fluctuations in financial markets. Our market risks are subject to a control framework and to portfolio and concentration limits. We avoid undue concentrations of risk and, where appropriate, hedge exposure to stress events. Nevertheless, in the event of sudden, severe or unexpected market movements, we might suffer significant losses. A description of our controls and limits, including limits on our exposure to a range of market stress events, is provided on page 45 of our Handbook 2003/2004.

Because we prepare our accounts in Swiss francs while assets, liabilities, revenues and expenses from certain businesses are denominated in other currencies, changes in foreign exchange rates, particularly between the Swiss franc and the US dollar (US dollar income representing the major part of our non-Swiss franc income), may have an effect on our reported earnings. Our approach to currency management is explained on page 71 of our Handbook 2003/2004.

Regulatory or political changes impacting financial market structures can affect our earnings – an example was the introduction of the euro in 1999, which affected European foreign exchange markets by reducing the volume of foreign exchange business, and prompted greater harmonization between financial products. Movements in interest rates can also affect our net interest income and the value of our fixed income trading portfolio, while movements in equity markets can affect the value of our equity trading portfolio. Changes in both can affect the investment performance of our asset management businesses. Our fixed income and equity trading portfolios and our asset management businesses may also be impacted by credit events, including defaults, related to the issuers of bonds and equities.

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

Market levels and trading volumes may be affected by a broad range of geopolitical or regional issues or events beyond our control, such as the possibility of war, terrorism, or economic developments such as low growth, inflation, recession or depression.

Counterparty failure may lead to credit loss

Credit is an integral part of many of our business activities. The results of our credit-related activities (including loans, commitments to lend, contingent liabilities such as letters of credit, and derivative products such as swaps and options) would be adversely affected by any deterioration in the creditworthiness of our counterparties and the ability of clients to meet their obligations. The credit quality of our counterparties may be affected by various factors, such as an economic downturn, lack of liquidity, or an unexpected

political event. Any of these events could lead us to incur losses.

In general, we aim to avoid risk concentrations in our credit portfolio and we make active use of credit protection. If our risk management and control measures prove inadequate or ineffective, then any credit losses sustained might have a material adverse effect on both our income and the value of our assets. We believe that any losses incurred would be adequately covered by our allowances and provisions.

A discussion of our approach to managing credit risk can be found on page 50 of our Handbook 2003/2004.

Operational risk may increase costs and impact revenues

All our businesses are dependent on our ability to process a large number of complex transactions across many and diverse markets in different currencies and subject to many different legal and regulatory regimes. Our systems and processes are designed to ensure that the risks associated with our activities, including those arising from process error, failed execution, fraud, systems failure, failure of security and physical protection are appropriately controlled. However, if our system of internal controls is ineffective in identifying and remedying such risks, we will be exposed to operational failures that might result in losses. A discussion of our approach to the management and control of operational risks is provided on page 64 of our Handbook 2003/2004.

Legal claims may arise in the conduct of our business

Due to the nature of our business, we are involved in various claims, disputes and legal proceedings in Switzerland and in a number of jurisdictions outside Switzerland, including the United States, arising in the ordinary course of business. Such legal proceedings may expose us to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil penalties.

Competitive forces may influence business direction

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

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

Our global presence exposes us to other risks

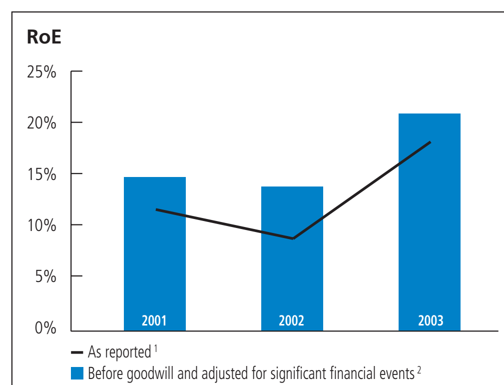
We operate in over 50 countries, earn income and hold assets and liabilities in many different currencies and are subject to many different legal and regulatory regimes. Changes in local tax or legal regulations may affect our clients' ability or willingness to do business with us. Country, regional and political risks may increase market and credit risk. Political, economic and social deterioration in a country or region, including local market disruptions, currency crises, the breakdown of monetary controls or terrorism, may adversely affect the ability of clients or counterparties located in that country or region to obtain foreign exchange or credit and, therefore, to satisfy their obligations towards us. As a truly global financial services company, we are also exposed to economic instability in emerging markets. We have a system of controls and procedures to mitigate this risk. A discussion of our country risk controls is provided on page 57 of our Handbook 2003/2004. However, if our controls fail to fully identify and respond to country risk, we may suffer a negative impact on our results and financial condition.

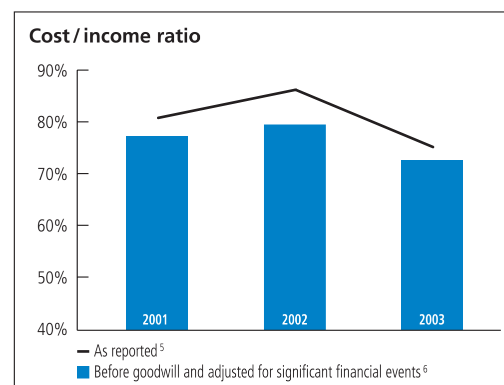
UBS Results

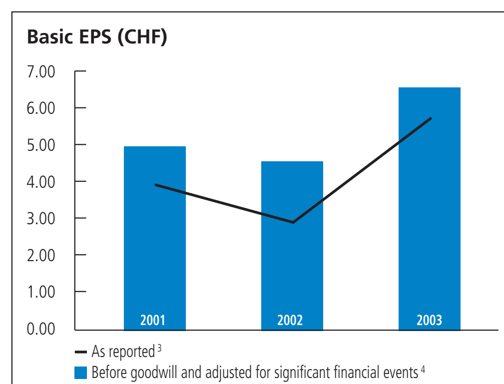
UBS Results

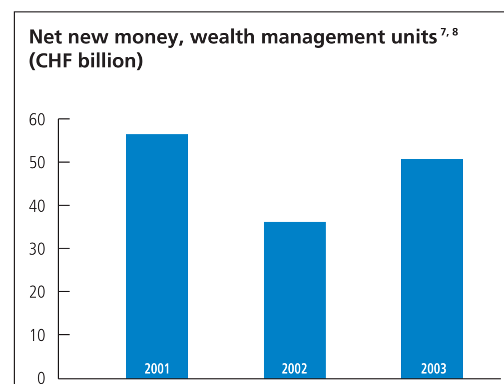
Performance Against Targets

For the year ended	31.12.03	31.12.02	31.12.01
RoE (%)			
as reported [1]	**18.2**	8.9	11.7
before goodwill and adjusted for significant financial events [2]	**20.9**	13.9	14.8
Basic EPS (CHF)			
as reported [3]	**5.72**	2.92	3.93
before goodwill and adjusted for significant financial events [4]	**6.56**	4.57	4.97
Cost / income ratio (%)			
as reported [5]	**75.2**	86.2	80.8
before goodwill and adjusted for significant financial events [6]	**72.7**	79.5	77.3
Net new money, wealth management units (CHF billion) [7,8]			
Wealth Management	**29.7**	17.7	23.2
Wealth Management USA	**21.1**	18.5	33.2
Total	**50.8**	36.2	56.4









1 Net profit / average shareholders' equity less dividends.

2 Net profit less the amortization of goodwill and other intangible assets and significant financial events (after-tax) / average shareholders' equity less dividends.

3 For the EPS calculation, see Note 8 to the Financial Statements.

4 Net profit less the amortization of goodwill and other intangible assets and significant financial events (after-tax) / weighted average shares outstanding.

5 Operating expenses / operating income less credit loss expense or recovery.

6 Operating expenses less the amortization of goodwill and other intangible assets and significant financial events / operating income less credit loss expense or recovery and significant financial events.

7 Excludes interest and dividend income.

8 Wealth Management and Wealth Management USA.

Invested Assets and Net New Money

CHF billion	Invested assets 31.12.03	31.12.02	31.12.01	Net new money[1] 2003	2002	2001
UBS	**2,209**	2,037	2,448	**61.6**	36.9	102.0
Wealth Management & Business Banking						
Wealth Management	**701**	642	728	**29.7**	17.7	23.2
Business Banking Switzerland	**212**	205	215	**(5.0)**	3.7	9.2
Global Asset Management						
Institutional	**313**	274	324	**12.7**	(1.4)	6.4
Wholesale Intermediary	**261**	259	325	**(5.0)**	(6.3)	24.5
Investment Bank	**4**	3	1	**0.9**	0.5	0.1
Wealth Management USA	**634**	584	769	**21.1**	18.5	33.2
Corporate Center						
Private Banks & GAM	**84**	70	86	**7.2**	4.2	5.4

[1] Excludes interest and dividend income.

2003

This time last year, we could not have anticipated that 2003 would turn out to be such a positive year for the financial services industry. It was also an excellent year for UBS – the second most profitable in our history. When conditions were difficult at the outset of the year, our results were resilient. As the year progressed, investor sentiment turned increasingly positive and activity levels picked up along with stock market valuations. Helped by this improving environment, we fully captured the resulting revenue opportunities.

At the same time, we continued to invest in our domestic European wealth management business, and started to reap significant benefits from our expanded investment banking presence, especially in the US and Asia. Another key endorsement of UBS is the trust our clients continue to place in us – shown by the considerable quantity of new assets they invested in our wealth management businesses.

Overall, all our businesses reported excellent results – despite the difficult market environment in the first half of the year – by clearly focusing on costs and risk while aggressively capturing the revenue opportunities.

Net profit

In 2003, we recorded the second-best annual result since UBS and SBC merged in 1998. All businesses reported a stronger set of results in 2003 than in the previous year. Our net profit in full-year 2003 was CHF 6,385 million, up from CHF 3,535 million in 2002 – an increase of 81%. Results in both 2002 and 2003 were influenced by individual items we call significant financial events. The first was the gain from our sale of private bank Hyposwiss in first quarter 2002. Then, in fourth quarter 2002, we wrote down the value of the PaineWebber brand and sold the Klinik Hirslanden hospital chain. In second quarter 2003, we sold the Correspondent Services Corporation (CSC) clearing business. Excluding these effects, and before goodwill amortization, net profit increased by 33% in 2003 from 2002. The increase was driven by our tight management of costs and our ability to build market share and capture revenues during the steady recovery in financial markets as the year progressed. In particular, our asset-based revenues recovered from the lows posted in 2002. Our result was further helped by much improved trading opportunities, a gradual improvement in investor sentiment and significantly lower writedowns in our Private Equity business. At the same time, expenses remained under tight control. We recorded reductions in all cost categories compared with 2002, with non-personnel expenses falling below the year 2000 level.

Return on equity in 2003 was 18.2%, compared to 8.9% a year earlier. Basic earnings per share were CHF 5.72 in 2003, against CHF 2.92 in 2002. The cost/income ratio was 75.2% in 2003 compared to 86.2% in 2002.

Targets

As mentioned in the previous section (Measurement and Analysis of Performance), we focus on four key performance targets, designed to deliver continually improving returns to our shareholders. These targets are evaluated before goodwill and adjusted for SFEs:

- Our return on equity for 2003 was 20.9%, up from 13.9% a year ago and above our target range of 15% to 20%. This was the best result since the very strong return of 24.3% in 2000. The increase reflects our much improved net profit combined with a lower average level of equity resulting from our continued buyback programs.
- Basic earnings per share (EPS) stood at the highest level since 2000. In 2003, they were CHF 6.56, an increase of CHF 1.99 or 44% from 2002, reflecting the increase in profit as well as the 8% reduction in average number of shares outstanding due to our continued buyback activities. Without the buyback programs in place since 2000, our earnings per share would now be 14% lower.
- The cost/income ratio was 72.7% in 2003, an improvement from 79.5% in 2002. It stands at its lowest level since PaineWebber became part of UBS. The slight drop in income, reflecting the difficult market environment in first half 2003, was more than compensated by a 9% decline in operating expenses due to ongoing cost management initiatives and the downward pressure on compensation ratios.

In full-year 2003, the net new money inflows into our Wealth Management businesses totaled CHF 50.8 billion compared with CHF 36.2 billion in 2002. This is an increase of 40% and corresponds to an annual growth rate of 4.2%. Both the Wealth Management and Wealth Management USA businesses were able to attract more client money in 2003 than in 2002.

Results

Operating income

Total operating income fell slightly to CHF 33,972 million in 2003 from CHF 34,121 million in 2002. Adjusted for the divestment gains of CHF 227 million from the sale of Hyposwiss and Klinik Hirslanden in 2002 and CHF 161 million from the sale of Correspondent Services Corporation in 2003, total operating income in 2003 was CHF 33,811 million, compared to CHF 33,894 million in 2002. The drop was caused by lower asset-based revenues impacted by the low market levels in early 2003, which only started to recover in the second half of the year. Operating income was also affected by the weakening of major currencies against the Swiss franc, including the 13% drop of the US dollar. This was partially offset by higher income from fixed income trading and much lower private equity write-downs.

Net interest income of CHF 12,299 million in 2003 was 17% higher than the CHF 10,546 million in 2002. *Net trading income*, at CHF 3,883 million in 2003, declined 30% from CHF 5,572 million a year earlier.

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

Net income from interest margin products dropped by 4% to CHF 5,077 million in 2003 from CHF 5,275 million in 2002. The result reflects lower interest margins on client savings and cash accounts, and declining revenues from our diminishing recovery portfolio in Switzerland as well as lower interest revenue on margin loans in the US as we sold our Correspondent Services Corporation (CSC) clearing business. These effects were partially offset by higher mortgages and saving accounts volumes in Switzerland.

Over the full year, *net income from trading activities*, at CHF 10,810 million in 2003, was up 2% from CHF 10,605 million a year earlier. Equity trading income of CHF 2,464 million was down 12% from CHF 2,794 million a year earlier. The drop reflected the weakening of most major currencies against the Swiss franc. Excluding currency fluctuations, equity trading revenues increased as the business benefited from improved trading opportunities that followed the strong market recovery. Fixed income trading

Net Interest and Trading Income

CHF million For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Net interest income	**12,299**	10,546	8,041	17
Net trading income	**3,883**	5,572	8,802	(30)
Total net interest and trading income	**16,182**	16,118	16,843	0

Breakdown by business activity

CHF million For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Net income from interest margin products	**5,077**	5,275	5,694	(4)
Equities	**2,464**	2,794	3,661	(12)
Fixed income	**6,530**	6,041	6,294	8
Foreign exchange	**1,501**	1,500	1,490	0
Other	**315**	270	84	17
Net income from trading activities	**10,810**	10,605	11,529	2
Net income from treasury activities	**1,415**	1,667	1,424	(15)
Other [1]	**(1,120)**	(1,429)	(1,804)	22
Total net interest and trading income	**16,182**	16,118	16,843	0

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

revenue was CHF 6,530 million in 2003, up 8% from CHF 6,041 million in the same period a year earlier. This increase was due to better performances across our businesses with very strong revenues in our Principal Finance, Mortgage-backed Securities and Derivatives businesses. However, results were also affected by the US dollar's decline against the Swiss franc and negative revenues of CHF 678 million relating to Credit Default Swaps (CDS) hedging existing credit exposure in the loan book. In 2002, we recorded a mark to market gain of CHF 226 million on these CDS positions. Our use of CDSs as hedging instruments for our loan book is only one part of our overall management approach to trading credit risk. The Critical accounting policies section on page 16 in this report and the Capital and Risk Management section of our Handbook 2003/2004 contain further information on how we use CDSs to hedge our credit exposure. Over the full year, *foreign exchange trading revenues*, at CHF 1,501 million, remained virtually unchanged from CHF 1,500 million in 2002.

Net income from treasury activities, at CHF 1,415 million in 2003, was down 15% from CHF 1,667 million a year earlier. The drop mainly reflected lower income from our invested equity as we continued to buy back shares, as well as a further decline in interest rates. The impact of falling interest rates was partially offset by the diversification of our invested equity into currencies other than Swiss francs.

In 2003, *other net trading and interest income* showed negative revenues of CHF 1,120 million compared to negative CHF 1,429 million a year earlier. The improvement was mainly due to lower goodwill funding costs related to the writedown

Actual Credit Loss (Expense)/Recovery

CHF million For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Wealth Management & Business Banking	**(75)**	(238)	(124)	68
Investment Bank	**(40)**	35	(360)	
Wealth Management USA	**(3)**	(15)	(15)	80
Corporate Center	**2**	12	1	(83)
UBS	**(116)**	(206)	(498)	44

of the value of the PaineWebber brand, and lower funding needs for our private equity portfolio.

Total *credit loss expense* for UBS in 2003 amounted to CHF 116 million, compared to CHF 206 million in 2002.

Net actual credit loss expense at Wealth Management & Business Banking amounted to CHF 75 million compared to CHF 238 million in 2002. This exceptionally strong result was achieved despite the negative impact of the Erb Group, a privately held Swiss conglomerate which defaulted in fourth quarter 2003. Our domestic credit portfolio demonstrated strong resilience in a Swiss economic environment which saw an increase in the number of corporate bankruptcies by 13.4% compared to 2002, the highest annual increase in 10 years. The measures taken in recent years to improve the quality of our credit portfolio have resulted in lower levels of new defaults, and our success in managing the impaired portfolio has resulted in a higher than anticipated level of recoveries. In response to an improving economic and political environment in some emerging markets, we were also able to release country allowances relating to our correspondent banking business.

Outside Switzerland, the global credit environment gradually improved during 2003, especially in the second half of the year, reversing the downward trend observed in the previous two years. Although some concerns regarding sustainability remain, signs of a global economic recovery have increased.

The Investment Bank experienced net actual credit loss expense of CHF 40 million, compared to net credit loss recoveries of CHF 35 million in 2002 and credit loss expense of CHF 360 million in 2001. This continued strong performance was the result of minimal exposures to new defaults plus the recovery of country provisions consistent with the more favorable outlook for emerging market economies. For further details on our risk management approach, how we measure credit risk and the development of our credit risk exposures, please see the Capital and Risk Management section in our Handbook 2003/2004.

At CHF 17,345 million, *net fee and commission income* in 2003 was 5% lower than CHF 18,221 million in 2002. The drop was mainly due to the weakening of the US dollar and other major currencies against the Swiss franc. Excluding currency effects, net fee and commission income actually increased, with a record result in our underwriting activities. However, our asset-based revenues suffered from the low market levels in early 2003 and only started to recover in the second half of the year. Further, our brokerage revenues only started to rebound as the year progressed, following the gradual rise in market activity levels. Underwriting fees, at their highest level ever, increased 10% from CHF 2,134 million in 2002 to CHF 2,354 million in 2003. Fixed

Net Fee and Commission Income

CHF million				% change from
For the year ended	**31.12.03**	31.12.02	31.12.01	31.12.02
Underwriting fees	**2,354**	2,134	2,158	10
Corporate finance fees	**761**	848	1,339	(10)
Brokerage fees	**5,608**	5,987	6,445	(6)
Investment fund fees	**3,895**	4,033	4,276	(3)
Fiduciary fees	**241**	300	355	(20)
Custodian fees	**1,201**	1,302	1,356	(8)
Portfolio and other management and advisory fees	**3,855**	4,065	4,650	(5)
Insurance-related and other fees	**355**	417	538	(15)
Total securities trading and investment activity fees	**18,270**	19,086	21,117	(4)
Credit-related fees and commissions	**249**	275	307	(9)
Commission income from other services	**1,087**	1,006	946	8
Total fee and commission income	**19,606**	20,367	22,370	(4)
Brokerage fees paid	**1,483**	1,349	1,281	10
Other	**778**	797	878	(2)
Total fee and commission expense	**2,261**	2,146	2,159	5
Net fee and commission income	**17,345**	18,221	20,211	(5)

income and equities underwriting revenues increased by 12% and 9% respectively compared to a year earlier, reflecting the improved market conditions. Corporate Finance fees dropped by 10% to CHF 761 million in 2003 from CHF 848 million in 2002, reflecting lower market activity and a drop in overall size of the global fee pool for merger and acquisitions, although we were able to again improve our market share. Net brokerage fees dropped 11% to CHF 4,125 million in 2003 from CHF 4,638 million in 2002. The drop reflects the weakening of the US dollar against the Swiss franc as well as lower client activity, which only recovered in the second half of the year as market activity levels started to improve. The result was further impacted by the sale of our Correspondent Service Corporation (CSC) business. Investment fund fees dropped just 3% to CHF 3,895 million in 2003 from CHF 4,033 million in 2002, reflecting lower asset-based fees. This was partially offset by higher revenues due to the expansion of our alternative and quantitative investment business. Custodian fees, at CHF 1,201 million in 2003, were down 8% from CHF 1,302 million in 2002, principally due to lower market values and, consequently, average asset levels. The 5% fall in portfolio and other management and advisory fees from CHF 4,065 million in 2002 to CHF 3,855 million in 2003 mainly reflects the drop of the US dollar against the Swiss franc and lower management fees resulting from the low market levels at the outset of the year. This was partially offset by higher performance fees. At CHF 355 million in 2003, insurance-related and other fees decreased by 15% from a year earlier, mainly reflecting the weakening of the US dollar.

Other income was CHF 561 million in 2003 compared with a loss of CHF 12 million a year earlier. The increase was mainly due to a drop in private equity impairment charges, as well as higher disposal gains from our private equity investments. This was partially offset by a reduction in divestment gains from other financial investments as well as a CHF 66 million decline in gains from disposals of associates and subsidiaries (the two 2002 gains of CHF 72 million from Klinik Hirslanden and CHF 155 million from Hyposwiss less 2003's CSC gain of CHF 161 million). Other income was further impacted by the fall-off in income from Klinik Hirslanden.

Operating expenses

We continued to manage our cost base tightly. Strong cost control measures remain in place and we further streamlined processes and structures across the firm. Total operating expenses fell below their level in 2000. In full-year 2003, they were CHF 25,624 million, down 13% from CHF 29,577 million a year earlier. The drop was influenced by the writedown of the value of the PaineWebber brand in fourth quarter 2002, which resulted in an amortization expense of CHF 1,234 million. Excluding the writedown, expenses declined 10% with drops recorded in all categories of costs. General and administrative expenses fell 14%, reflecting our continuous cost-cutting initiatives, while personnel expenses dropped by 7%. Overall, the decline in expenses was helped by the weakening of the US dollar against the Swiss franc and last year's sale of Klinik Hirslanden.

Personnel expenses dropped by 7% to CHF 17,231 million in 2003 from CHF 18,524 million in 2002. The drop was mainly due to the weakening of the US dollar against the Swiss franc. Salary expenses fell due to the 5% reduction in headcount over the period. The drop was further accentuated by lower contractor expenses and retention payments. This was partially offset by higher performance-related compensation expenses that increased in line with our improving revenue, as well as slightly higher contributions to retirement plans. Personnel expenses are managed on a full-year basis with final fixing of annual performance-related payments in the fourth quarter. Over the full year, approximately 44% of this year's personnel expense was paid as bonus or other variable compensation, up from 42% last year. Average variable compensation per head in 2003 was 3% higher than in 2002.

In full-year 2003, *general and administrative expenses*, at CHF 6,086 million, were down 14% from CHF 7,072 million a year earlier. Strict cost control in all our businesses led to a drop in nearly all cost categories. The biggest falls were in overall provisions, with major declines in legal and security provisions (2002 included the global charge of CHF 111 million (USD 80 million) related to the US equity research settlement). Administration, IT and telecommunication expenses saw significant drops from our continued cost-saving initiatives, partially offset by

Headcount

(full-time equivalents)	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Wealth Management & Business Banking	**26,796**	27,841	28,138	(4)
Wealth Management	**9,176**	9,399	8,918	(2)
Business Banking Switzerland	**17,620**	18,442	19,220	(4)
Global Asset Management	**2,689**	2,733	2,704	(2)
Investment Bank	**15,550**	16,037	15,690	(3)
Investment Banking & Securities	**15,500**	15,964	15,562	(3)
Private Equity	**50**	73	128	(32)
Wealth Management USA	**18,016**	19,563	20,413	(8)
Corporate Center	**2,878**	2,887	3,040	0
Total	**65,929**	69,061	69,985	(5)

slightly higher rent and maintenance expenses as well as professional fees, the latter due to higher project-related costs.

At CHF 1,521 million in 2002, *depreciation* fell 10% to CHF 1,364 million in 2003, mainly due to lower IT-related charges, as well as the weakening of the US dollar against the Swiss franc.

Amortization of goodwill and other intangible assets decreased from CHF 2,460 million in 2002 to CHF 943 million in 2003. The main reason for the drop was because, a year earlier, in 2002, we wrote down the value of the PaineWebber brand name. Excluding that charge, the drop would have been 23%, reflecting the full amortization of some businesses, as well as the strengthening of the Swiss franc against the US dollar.

Tax

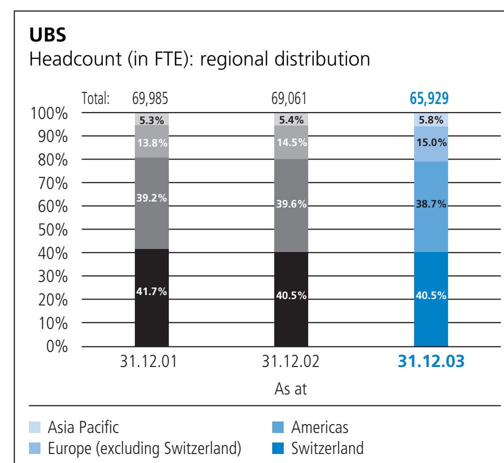
We incurred a tax expense of CHF 1,618 million in 2003, up from CHF 678 million in 2002. This corresponds to an effective tax rate of 19.4% in 2003. Excluding the effect of the sale of CSC (sold in second quarter 2003), our effective tax rate for the full year is 17.8%, compared to 2002's full-year rate of 16.5% (before significant financial events). The particularly low 2002 rate was driven by lower progressive tax rates in Switzerland, the ability to benefit from tax losses in the US and UK and a high proportion of earnings generated in lower tax jurisdictions. The 2003 tax rate was positively influenced by a continued favorable regional profit mix and the successful conclusion of tax audits. We believe that an underlying tax rate of around 19–20% (before significant financial events) continues to be a reasonable indicator for 2004.

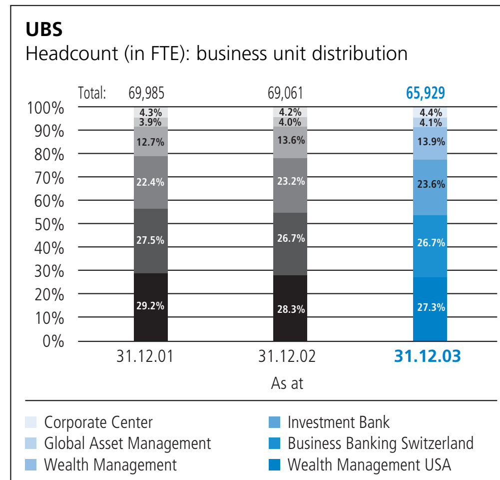
Headcount

Headcount, at 65,929 on 31 December 2003, was 5% lower than a year ago. While we have been able to avoid major job cut programs in the last three years, we have closely monitored our cost structure and staffing needs. We have not needed to maintain all our capacity during the recent market downturn and we have continued to improve efficiency and productivity. Therefore, we have gradually reduced headcount across the firm while, at the same time, expanding our capabilities in areas with positive growth potential.

Dividend

The Board of Directors will recommend at the Annual General Meeting on 15 April 2004 that UBS should pay a dividend of CHF 2.60 per share for the 2003 financial year, an increase of 30% or CHF 0.60 from the CHF 2.00 dividend paid at the same time a year earlier for the 2002 financial year.





If the dividend is approved, the ex-dividend date will be 16 April 2004, with payment on 20 April 2004 for shareholders of record on 15 April 2004.

Balance sheet

Total assets, at CHF 1,386 billion on 31 December 2003, increased by 17% from CHF 1,181 billion on 31 December 2002. The increase was mainly due to higher overall trading activities although that was partially offset by the weakening of the US dollar, which fell by 10% against the Swiss franc in the period. Cash and balances with central banks was CHF 3.6 billion on 31 December 2003, down slightly from CHF 4.3 billion on the same date a year earlier. The drop was mainly due to a decline in our positions held with the Swiss National Bank. Assets due from banks decreased to CHF 31.7 billion on 31 December 2003 from CHF 32.5 billion on 31 December 2002, reflecting lower short-term deposits with third-party banks. Trading-related assets (cash collateral on securities borrowed, trading portfolio assets and reverse repurchase agreements) rose by CHF 191.7 billion between 31 December 2003 and the same date a year earlier. This increase reflects higher trading activities, mainly in the Fixed Income, Rates and Currencies (FIRC) business, especially in the US. Cash collateral on securities borrowed rose by 54% or CHF 74.9 billion in the same period, reflecting an increase in securities lending activities, influenced by our acquisition of ABN AMRO's US prime brokerage business. Reverse repurchase agreements increased by 9% or CHF 26.5 billion, reflecting higher client and market making activity and a lower level of counterparty netting. Trading portfolio assets increased by 24% or CHF 90.3 billion, mirroring higher positions in most products, particularly in mortgage-backed securities and principal finance positions. Loans, net of allowances for credit losses, remained virtually unchanged in the period. Financial investments fell to CHF 5.1 billion on 31 December 2003 from CHF 8.4 billion on the same date a year earlier, mainly reflecting a decrease in money market and debt positions, and reduced equity investments and private equity positions. Goodwill and other intangible assets, at CHF 11.5 billion on 31 December 2003, fell 16% or CHF 2.2 billion from CHF 13.7 billion a year earlier. The drop was mainly due to ongoing amortization, the sale of our CSC clearing business in the US (with its goodwill written down accordingly), as well as the decline of the US dollar against the Swiss franc.

Total liabilities increased to CHF 1,346 billion on 31 December, up 18% from CHF 1,139 billion a year earlier. Liabilities due to banks jumped by 53% or CHF 44.0 billion, reflecting a high allocation in European Central Bank repo funding at year-end. Trading-related liabilities (cash collateral on securities lent, repurchase agreements and trading portfolio liabilities) increased by CHF 102.9 billion in 2003 from a year earlier, reflecting growth across most sectors of the business. Amounts due to customers increased by 13% or CHF 40.5 billion, as a result of the acquired customer accounts from ABN AMRO's US prime brokerage business and the launch of UBS Bank USA, where client cash balances previously swept into money market funds are now redirected into FDIC-insured deposit accounts. Debt issued decreased by CHF 9.2 billion to CHF 120.2 billion on 31 December 2003, reflecting a decrease in commercial paper issuance as the bank funded more in the interbank market and on a collateralized basis. Our long-term debt rose to CHF 62.1 billion on 31 December 2003 from CHF 56.6 billion a year earlier, reflecting attractive market conditions for new issuance of bonds and structured funding products. We believe the maturity profile of our long-term debt portfolio balances well and matches the maturity profile of our assets. For further details, please refer to

Note 18 to the Financial Statements. Minority interests increased by 15% to CHF 4.1 billion on 31 December 2003 as we issued an additional USD 300 million (CHF 372 million) in trust preferred securities.

Shareholders' equity decreased by CHF 3.5 billion, or 9%, between 2003 and 2002, due to the dividend payment and the increase in treasury shares due to our continuous share buyback programs offsetting retention of our 2003 net profit.

Contractual obligations

The table below summarizes our contractual obligations as of 31 December 2003. All contracts, with the exception of purchase obligations (those where we are committed to purchase determined volumes of goods and services), are either recognized as liabilities on our balance sheet or, in the case of operating leases, are disclosed in Note 26 to the Financial Statements.

The following liabilities recognized on the balance sheet are excluded from the table because we do not consider these obligations as contractual: provisions, current and deferred tax liabilities, liabilities to employees for equity participation plans, settlement and clearing accounts and amounts due to banks and customers.

With purchase obligations, we have excluded our obligation to employees under the mandatory notice period, during which we are required to pay employees contractually agreed salaries. We believe that these amounts are not included in the definition of contractual purchase obligations.

Off-balance sheet arrangements

In the normal course of business, UBS enters into arrangements that, under IFRS, are not recognized on the balance sheet and do not affect the income statement. These types of arrangements are kept off-balance sheet as long as UBS does not incur an obligation from them or become entitled to an asset itself. As soon as an obligation is incurred, it is recognized on the balance sheet, with the resulting loss recorded in the income statement. It should be noted, however, that the amount recognized on the balance sheet does not, in many instances, represent the full loss potential inherent in such arrangements.

For the most part, the arrangements discussed below either meet the financial needs of customers or offer investment opportunities through entities that are not controlled by UBS. The importance of such arrangements to us, with respect to liquidity, capital resources or market and credit risk support, is minimal. We do not rely on such arrangements as a major source of revenue nor have we incurred significant expenses in the past and we do not expect to do so in the future. The following paragraphs discuss four distinct areas of off-balance sheet arrangements as of 31 December 2003 and any potential obligations that may arise from them.

Guarantees

In the normal course of business, we issue various forms of guarantees to support our customers. These guarantees are kept off-balance sheet unless a provision is needed to cover probable losses. The contingent liabilities arising from these guarantees are disclosed in Note 25, Commitments and Contingent Liabilities, to the Financial Statements. In 2003, the level of our contingent liabilities from guarantees fell compared to a year earlier. Fee income earned from issuing guarantees is not material to our total revenues. Losses incurred under guarantees were insignificant for each of the last three years.

Contractual Obligations

	Payment due by period			
CHF million	Less than 1 year	1–3 years	3–5 years	More than 5 years
Long-term debt	7,598	18,828	14,719	20,977
Capital lease obligations	64	147	130	0
Operating leases	876	1,477	1,227	3,992
Purchase obligations	937	594	169	11
Other long-term liabilities	267	1	0	6
Total	**9,742**	**21,047**	**16,245**	**24,986**

Retained interests

UBS also sponsors the creation of Special Purpose Entities (SPEs) that facilitate the securitization of acquired residential and commercial mortgage loans and related securities. We also securitize customers' debt obligations in transactions that involve SPEs which issue collateralized debt obligations. A typical securitization transaction of this kind would involve the transfer of assets into a trust or corporation in return for beneficial interests in the form of securities. Generally, the beneficial interests are sold to third parties shortly after the securitization. We do not provide guarantees or other forms of credit support to these SPEs. Assets are no longer reported in our consolidated financial statements as soon as their risk or reward is transferred to a third party. For further discussion of our securitization activities, see Note 34, Sales of Financial Assets in Securitizations.

Derivative instruments recorded in shareholders' equity

We have no derivative contracts linked to our own share that are accounted for as equity instruments. All derivative contracts linked to our share are accounted for as derivative instruments and are carried at fair value on the balance sheet under positive replacement values or negative replacement values.

Variable Interest Entities (VIE)

Under US GAAP, VIEs are entities where the voting interests are not substantive, or differ significantly from economic interests. If UBS, together with its related parties (which includes all employees of UBS), bears more than 20% of a VIE's expected residual losses, expected residual gains, or both, it holds a significant variable interest in that entity. If UBS bears the majority of the expected residual losses or gains, it is considered to be the primary beneficiary. More detailed information is provided in Note 41 to the Financial Statements.

Below is a summary of the obligations that UBS bears in relation to such entities, in so far as they are not consolidated in UBS's primary consolidated Financial Statements under IFRS, using 'maximum exposure to loss' as a measure to quantify the potential obligations arising out of these arrangements.

VIEs in which UBS is the primary beneficiary

UBS has established VIEs prior to 1 February 2003, including entities which hold UBS shares or derivatives on UBS shares for employee equity compensation trusts and leveraged investments available to key employees. The maximum exposure to loss of these VIEs is approximately CHF 5.6 billion. This consists of the total assets of the VIEs (which are not consolidated under IFRS or US GAAP) of CHF 5.1 billion and an additional amount of CHF 426 million which UBS might be obligated to invest as part of the contractual obligation to the leveraged investment of key employees. Since 31 January 2003, UBS has established VIEs with total assets of approximately CHF 4.1 billion for which the maximum exposure to loss is approximately CHF 481 million. We believe, however, that the probability of suffering the maximum amount of loss from the above VIEs is remote.

VIEs in which UBS has a significant interest, but is not the primary beneficiary

UBS has identified that it holds significant variable interests in other VIEs. It is estimated that the total assets of such VIEs amount to approximately CHF 1.9 billion, and that UBS has a maximum exposure to loss of approximately CHF 593 million in relation to these VIEs. The latter amount relates only to amounts that UBS has actually invested into the entities in question, as there are no additional contractual obligations. Again, we believe that the probability of suffering the maximum loss from these VIEs is remote.

VIEs in which UBS may hold a significant variable interest, or be the primary beneficiary

In addition to the VIEs noted above, UBS has identified other VIEs established prior to 1 February 2003, which are still being assessed. UBS holds at least a significant variable interest in these VIEs. Once the assessment is complete, it may be determined that UBS is the primary beneficiary for a portion of them. These VIEs are currently not consolidated under IFRS or US GAAP. It is estimated that the total assets of these VIEs amounts to CHF 4.5 billion, and that UBS has a maximum exposure to loss of CHF 253 million in relation to these VIEs. The latter amount relates only to amounts that UBS has actually invested into the entities in question, as there are no additional contractual obligations. Again, we believe that the probability of suffering the maximum loss from these VIEs is remote.

Cash flows

In the full year to 31 December 2003, cash and cash equivalents decreased by CHF 9.0 billion, principally as a result of financing activities, which generated negative cash flows of CHF 13.3 billion. Significant cash outflows resulted from CHF 14.7 billion in repayments of money market paper, CHF 6.8 billion from movements in treasury shares and derivative activity in own equity, and CHF 2.3 billion from dividends paid. Issuance of long-term debt of CHF 23.6 billion and repayments of CHF 13.6 billion brought a net cash inflow of CHF 10.0 billion. When compared to 2002, cash outflows from financing activities fell by approximately CHF 19 billion. The main reasons for the reduced outflows were an approximate CHF 12 billion decline in repayments of money market paper and higher net inflows of roughly CHF 8 billion in both issuance and repayment of long-term debt. Increased buybacks of treasury shares in 2003, coupled with a higher average price for our shares, resulted in a higher cash outflow of approximately CHF 1.2 billion in 2003.

Operating cash inflows (before changes in operating assets and liabilities and income taxes paid) amounted to CHF 9.1 billion, an increase of CHF 944 million from 2002. While net profit in 2003 was CHF 2.9 billion higher than a year earlier, we had considerably higher non-cash expenses in 2002, which reduce net profit but do not affect cash flow. Notably, amortization of goodwill and intangible assets was CHF 1.5 billion higher in 2002 than in 2003. The main reason was the writedown of the value of the PaineWebber brand name of CHF 1,234 million, but the US dollar exchange rate, which was higher in 2002 against most currencies than it was last year, also contributed to the difference. The other two significant items were deferred tax expense and gains or losses from investing activities included in net profit. In 2003, we had deferred tax expenses of CHF 514 million, attributable to a range of sources generating taxable temporary differences. In 2002, we had a deferred tax benefit of CHF 509 million, to which the release of deferred tax liabilities related to the PaineWebber brand name was the largest single contributor.

Cash of CHF 88.2 billion was used to fund the net increase in operating assets, while a net increase in operating liabilities generated cash inflows of CHF 83.6 billion. The comparative amounts in 2002 were much smaller, primarily reflecting a pick-up in activities in 2003 related to the rebound of the financial markets. Payments to tax authorities were CHF 1.1 billion, an increase of CHF 532 million compared to 2002.

Investing activities generated cash inflow of CHF 1.5 billion. Divestments of financial investments contributed CHF 2.3 billion while the sale of CSC clearing business and a few smaller subsidiaries and associates generated CHF 834 million. Purchases of property and equipment amounted to CHF 1.4 billion, of which the largest portion was spent for IT, software and communication equipment. Comparative amounts in 2002 did not deviate materially from the current year.

Outlook

Having successfully navigated the turbulent down-markets of the last few years with no unpredictable changes in our profitability, our strategy, or our staffing levels, we now enter what seem likely to be calmer waters with, we believe, the full confidence of our clients, our employees and our shareholders. Our businesses are all performing extremely well. And while, of course, we cannot predict with certainty whether markets will continue in their friendly mood, we are committed to again securing for our investors the best possible returns in 2004.

2002

Net profit

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

Return on equity, also affected by the brand writedown, was 8.9% in 2002, down from 11.7%

in 2001. In the same timeframe, basic earnings per share were CHF 2.92, 26% lower than in 2001. The cost / income ratio was 86.2% in 2002, an increase of 5.4 percentage points from 2001.

UBS targets

Before goodwill and adjusted for significant financial events:

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

Net new money in the wealth management units (Wealth Management and Wealth Management USA) dropped from CHF 56.4 billion in 2001 to CHF 36.2 billion in 2002. The drop was mainly due to difficult market conditions, which were accentuated by the Italian tax amnesty.

Results

Operating income

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

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

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

Net income from interest margin products was CHF 5,275 million in 2002, down 7% from CHF 5,694 million in 2001, mostly reflecting lower interest margins on savings and cash accounts, as well as mortgages because of the extremely low interest rate environment. This was accentuated by the decline of the US dollar and the euro, which caused the Swiss franc equivalent of US dollar interest rate revenues to drop.

In 2002, *net income from trading activities* fell by 8% from CHF 11,529 million in 2001 to CHF 10,605 million in 2002. Equities revenues, at CHF 2,794 million in 2002, dropped from 2001, reflecting worsening market conditions and lower client activity, although we recorded better results in our US equity business, where we continue to gain market share. At CHF 6,041 million in 2002, fixed income trading revenues were lower than in 2001, when they benefited from a buoyant trading environment following coordinated interest rate cuts by major central banks in the second half of 2001. This change in environment and lower revenues from our Investment Grade Credit and High Yield businesses were partially offset by better results in our Principal Finance and Emerging Market businesses. Additionally, the 2002 trading result of our fixed income business profited from unrealized gains of CHF 226 million relating to credit default swaps (CDS) hedging existing credit exposures in the loan book. Our use of CDSs as hedging instruments for our loan book is only one part of our overall management approach to trading credit risk. In 2002, our foreign exchange trading revenues, at CHF

1,500 million, increased slightly, due to increased volumes and spreads.

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

Other net trading and interest income showed a loss of CHF 1,429 million in 2002 compared to a loss of CHF 1,804 million in 2001. This drop was mainly due to lower goodwill funding costs, reflecting the weakening of the US dollar against the Swiss franc, lower funding costs for our private equity portfolio as well as the reclassification of some revenues previously reported as income from trading activities.

In 2002, *credit loss expenses* totaled CHF 206 million compared to CHF 498 million in 2001. Throughout 2002, the global credit environment continued the downward trend observed in 2001. Concerns regarding the sustainability of the global economic recovery increased. The outlook for corporate profits weakened that year as geopolitical tension rose. Financial market developments were characterized by a heightened aversion to risk among investors, an increasingly pronounced tiering of credit quality, resulting in higher-risk corporate and sovereign borrowers facing increasingly difficult financing conditions.

Net fee and commission income for 2002 was CHF 18,221 million, a decline of 10% compared to 2001, due to a drop in most revenue categories.

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

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

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

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

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

The drop in portfolio and other management and advisory fees from CHF 4,650 million in 2001 to CHF 4,065 million in 2002 reflected lower average asset levels and third-party fees resulting from the difficult market environment.

At CHF 417 million in 2002, insurance-related and other fees decreased by 22% from 2001. This drop was mainly due to a decrease in insurance sales volumes in Wealth Management USA mirroring the more difficult market environment.

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

Other income showed a loss of CHF 12 million compared to a gain of CHF 558 million in 2001. Higher impairment charges for private equity investments and other financial investments were only partially offset by gains from disposals of financial investments and of the Klinik Hirslanden and Hyposwiss subsidiaries.

Operating expenses

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

Personnel expenses dropped by 7% to CHF 18,524 million in 2002 on much lower performance-related compensation expenses and lower salaries, and a reduction in headcount, especially in Wealth Management USA and Business Banking Switzerland. The drop was further accentuated by lower recruitment, training and contractor costs across the firm, reflecting our continued cost control initiatives. Finally, the result was helped by a weaker US dollar against the Swiss franc. In 2002, approximately 42% of personnel expenses were bonus or other variable compensation, down from 43% in 2001. Average variable compensation per head in 2002 was 8% lower than in 2001. We did not build up any significant overcapacity during the peak of the last business cycle, and have therefore been able to reduce headcount gradually as economic conditions weakened – without resorting to drastic cuts. UBS headcount dropped by 924 from 69,985 to 69,061, as we streamlined processes and structures at the same time as we expanded our capabilities in areas with positive growth potential.

In 2002, *general and administrative expenses*, at CHF 7,072 million, were down from CHF 7,631 million in 2001. Strict cost control in all our businesses led to a drop in nearly all cost categories. The biggest declines were in telecommunication, IT, outsourcing and branding expenses. This was partially offset by higher legal and security provisions including a global settlement charge of CHF 111 million (USD 80 million) regarding equity research in the US.

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

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

Tax

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

PaineWebber merger-related costs

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

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

Dividend

On 23 April 2003, we paid a dividend of CHF 2.00 per share to our shareholders for the financial year 2002, a level on par with 2001's CHF 2.00 distribution (which was distributed in a tax-efficient way).

Cash flows

In the twelve-month period to December 2002, cash equivalents decreased by CHF 33,915 million, principally as a result of financing activities, which generated negative cash flow of CHF 32,470 million. A cash outflow of CHF

26,206 million resulted from the repayment of money market paper, CHF 5,605 million from movements in treasury shares and derivative activity in own equity, with CHF 2,509 million resulting from a capital repayment by par value reduction. The issuance of long-term debt of CHF 17,132 million and repayments of CHF 14,911 million brought a net cash inflow of CHF 2,221 million.

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

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

Business Group Results

Wealth Management & Business Banking

Georges Gagnebin
Chairman, Wealth Management & Business Banking

Marcel Rohner
CEO, Wealth Management & Business Banking

In 2003, Wealth Management's pre-tax profit was CHF 2,609 million, a 4% increase from 2002. Strong inflows in most markets resulted in net new money rising to CHF 29.7 billion from CHF 17.7 billion. Business Banking Switzerland's profit before tax rose 9% to CHF 2,153 million in 2003, with operating expenses falling a further 8% – to the lowest level since 1999.

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Income	**12,052**	12,184	12,782	(1)
Adjusted expected credit loss [1]	**(131)**	(312)	(601)	(58)
Total operating income	**11,921**	11,872	12,181	0
Personnel expenses	**4,584**	4,596	4,558	0
General and administrative expenses	**2,116**	2,251	2,319	(6)
Depreciation	**384**	448	568	(14)
Amortization of goodwill and other intangible assets	**75**	97	100	(23)
Total operating expenses	**7,159**	7,392	7,545	(3)
Business Group performance before tax	**4,762**	4,480	4,636	6
Business Group performance before tax and amortization of goodwill and other intangible assets	**4,837**	4,577	4,736	6
Additional information				
Regulatory equity allocated (average)	**8,750**	8,600	9,150	2
Cost/income ratio (%) [2]	**59**	61	59	
Cost/income ratio before goodwill (%) [3]	**59**	60	58	
Fair value of employee stock options granted [4]	**64**	92		(30)

[1] In management accounts, adjusted expected credit loss rather than net actual credit loss is reported for the Business Groups (see Note 2 to the Financial Statements). [2] Operating expenses/income. [3] Operating expenses less the amortization of goodwill and other intangible assets/income. [4] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Wealth Management

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Income	**6,797**	6,690	6,990	2
Adjusted expected credit loss [1]	**(4)**	(26)	(34)	(85)
Total operating income	**6,793**	6,664	6,956	2
Personnel expenses	**1,944**	1,869	1,680	4
General and administrative expenses	**2,083**	2,092	1,923	0
Depreciation	**82**	93	103	(12)
Amortization of goodwill and other intangible assets	**75**	97	100	(23)
Total operating expenses	**4,184**	4,151	3,806	1
Business unit performance before tax	**2,609**	2,513	3,150	4
Business unit performance before tax and amortization of goodwill and other intangible assets	**2,684**	2,610	3,250	3
KPI's				
Invested assets (CHF billion)	**701**	642	728	9
Net new money (CHF billion) [2]	**29.7**	17.7	23.2	
Gross margin on invested assets (bps) [3]	**101**	97	96	4
Cost/income ratio (%) [4]	**62**	62	54	
Cost/income ratio before goodwill (%) [5]	**60**	61	53	
Cost/income ratio before goodwill and excluding the European wealth management initiative (%) [6]	**52**	53	47	
Client advisors (full-time equivalents)	**3,300**	3,001	2,681	10
International Clients				
Income	**4,734**	4,640	4,792	2
Invested assets (CHF billion)	**491**	447	492	10
Net new money (CHF billion) [2]	**29.7**	20.2	21.8	
Gross margin on invested assets (bps) [3]	**101**	98	98	3
European wealth management initiative (part of International Clients)				
Income	**267**	186	140	44
Invested assets (CHF billion)	**46**	28	16	64
Net new money (CHF billion) [2]	**10.8**	7.6	5.6	
Client advisors (full-time equivalents)	**672**	551	370	22
Swiss Clients				
Income	**2,063**	2,050	2,198	1
Invested assets (CHF billion)	**210**	195	236	8
Net new money (CHF billion) [2]	**0.0**	(2.5)	1.4	
Gross margin on invested assets (bps) [3]	**102**	95	92	7

Additional information As at	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Client assets (CHF billion)	**884**	788	886	12
Regulatory equity allocated (average)	**2,650**	2,900	3,300	(9)
Fair value of employee stock options granted [7]	**37**	54		(31)
Headcount (full-time equivalents)	**9,176**	9,399	8,918	(2)

[1] In management accounts, adjusted expected credit loss rather than net actual credit loss is reported for the Business Groups (see Note 2 to the Financial Statements).

[2] Excludes interest and dividend income.

[3] Income/average invested assets.

[4] Operating expenses/income.

[5] Operating expenses less the amortization of goodwill and other intangible assets/income.

[6] Operating expenses less the amortization of goodwill and other intangible assets and expenses for the European wealth management initiative/income less income for the European wealth management initiative.

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

Components of operating income

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

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

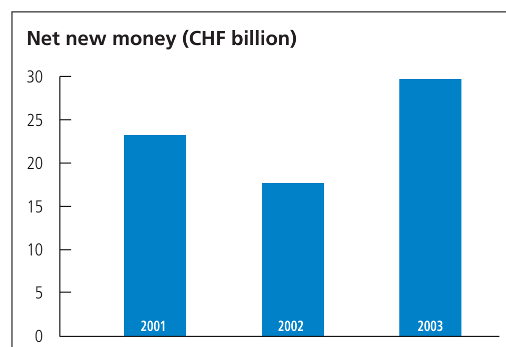
Significant financial events

There were no significant financial events that affected this business unit in 2003, 2002 or 2001.

2003

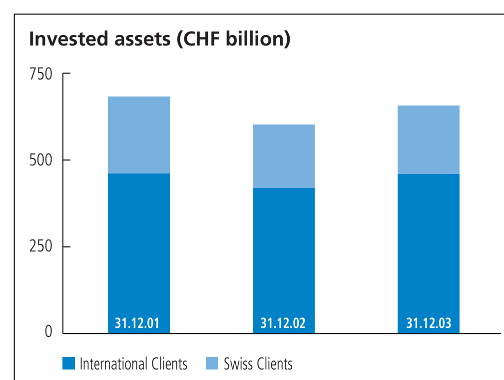
Key performance indicators

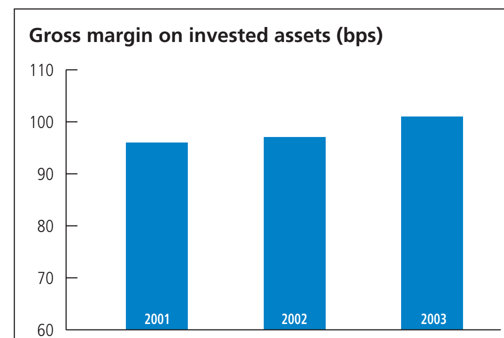
In full-year 2003, net new money inflows totaled CHF 29.7 billion, up 68% from CHF 17.7 billion in 2002. The excellent performance was due to strong inflows into our European wealth management business as well as significant inflows from clients in Asia and Eastern Europe.



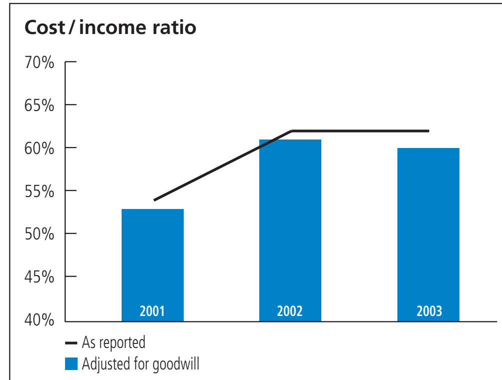
Invested assets, at CHF 701 billion on 31 December 2003, were up 9% from CHF 642 billion a year earlier, mainly due to the recovery in global equity markets during the second half of the year, as well as the strong inflows of net new money. That more than compensated for the 10% fall in the US dollar against the Swiss franc in 2003, which had a direct impact on the value of Wealth Management's invested assets, 37% of which are denominated in US dollars.

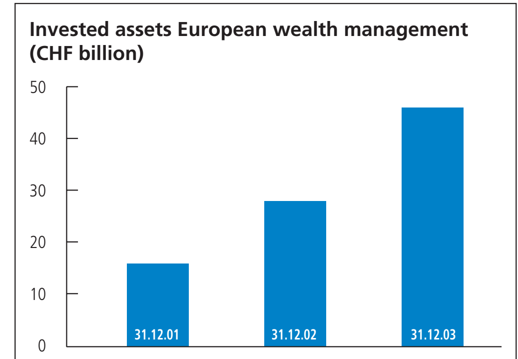
The average asset base in 2003 was lower in comparison to 2002 as asset levels were unusually depressed at the beginning of the year. In contrast, revenues increased due to higher non-recurring income, which was positively influenced by higher trading and brokerage income and a gain on disposal of our participation in Deutsche Börse. The gross margin on invested assets was 101 basis points in 2003, up 4 basis points from 97 basis points a year earlier.





The pre-goodwill cost/income ratio declined to 60% in 2003 from 61% a year earlier, reflecting higher non-recurring revenues, more than offsetting the increased costs from rising personnel expenses. Excluding the European wealth management business, the cost/income ratio fell to 52% in 2003 from 53% a year earlier.

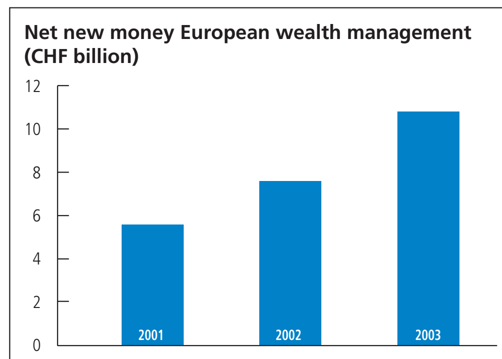




European wealth management

Our European wealth management business continued to make significant progress. After three years of intense effort, the total level of invested assets in Germany, France, UK, Spain and Italy reached CHF 46 billion.

With a particularly good performance in the UK and Germany, the inflow of net new money in 2003 was CHF 10.8 billion, up 42% from the year-earlier intake of CHF 7.6 billion. The result reflects an annual net new money inflow rate of 39% of the underlying asset base.



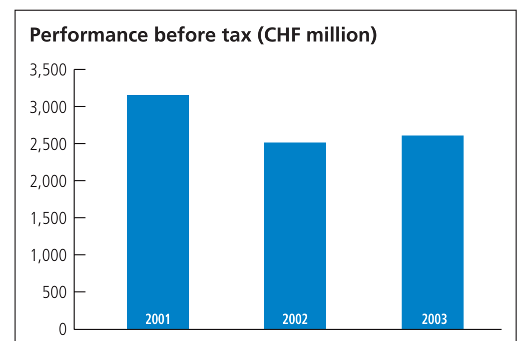
The level of invested assets reached a record CHF 46 billion on 31 December 2003, up from CHF 28 billion a year earlier, reflecting healthy inflows of net new money, our acquisition of the French business of Lloyds TSB and positive markets.

In full-year 2003, income from our European wealth management business was CHF 267 million, up 44% or CHF 81 million from a year earlier, reflecting the growing asset and client base.

In 2003, the number of client advisors increased by 121 (including 21 client advisors from the French business of Lloyds TSB), bringing the total on 31 December 2003 to 672. We remain committed to growing our presence in our European target markets and will continue to invest in qualified advisory staff at a rate determined by the market environment and business opportunities.

Results

Wealth Management's full-year 2003 pre-tax profit, at CHF 2,609 million, increased 4% from 2002 on the financial market recovery in the second half of the year, which resulted in higher revenues. Slightly higher operating expenses partly offset this rise, which is why the cost/income ratio remained unchanged at 62%.



Operating income

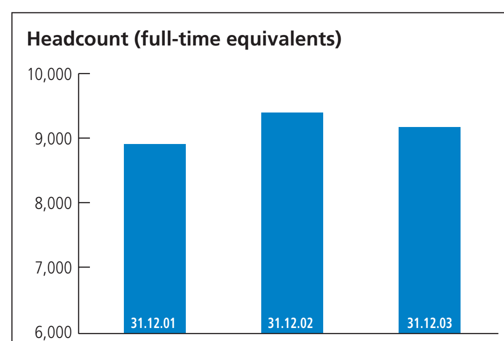
Full-year 2003 total operating income was CHF 6,793 million, up 2% from CHF 6,664 million in 2002. Recurring income decreased 2% on lower asset-based revenues, reflecting the lower average asset base in 2003. Non-recurring income increased 11% on the Deutsche Börse disposal gain and as trading and brokerage revenues went up because of higher client activity levels in the second half of the year.

Operating expenses

At CHF 4,184 million, full-year operating expenses for 2003 were up 1% from CHF 4,151 million a year earlier, reflecting our investments in the European wealth management business and higher personnel expenses. Personnel expenses rose 4% to CHF 1,944 million in 2003 compared to a year earlier, mainly due to higher severance payments as well as slightly higher performance-related compensation. General and administrative expenses in 2003, at CHF 2,083 million, were almost unchanged from 2002, as our ongoing tight management of costs more than offset the investments in our European wealth management business. Full-year depreciation was CHF 82 million in 2003, down 12% from a year earlier because of lower charges for information technology equipment, which is increasingly being leased instead of bought. Goodwill amortization was CHF 75 million in 2003, down 23% from 2002 mainly due to the weakening of the US dollar against the Swiss franc.

Headcount

Headcount, at 9,176 on 31 December 2003, decreased by 223 from 31 December 2002. Although we continued to hire client advisors, we reduced headcount in non-client facing areas as we continued to streamline processes and structures. In 2003, the number of client advisors increased to 3,300, up 10% from a year earlier.



2002

Key performance indicators

In 2002, net new money inflows totaled CHF 17.7 billion, down from the 2001 result of CHF 23.2 billion. International clients invested net new money of CHF 20.2 billion in 2002, down by only CHF 1.6 billion from 2001 despite the Italian tax amnesty. This excellent underlying result in these difficult markets was due to the continued success of our European wealth management business as well as significant inflows from clients in Asia and the Americas.

In the year to 31 December 2002, invested assets fell 12% to CHF 642 billion, mainly due to the steep drop in global equity markets as well as the 17% drop in the US dollar against the Swiss franc. Some 39% of Wealth Management's invested assets were denominated in US dollars.

Gross margin on invested assets remained resilient and rose by 1 basis point to 97 basis points. Assets as well as revenues fell in 2002 from the already depressed 2001 levels.

In full-year 2002, the pre-goodwill cost/income ratio increased from 53% in 2001 to 61% in 2002, reflecting the ongoing investment in our European wealth management business as well as the strong decline in asset-based revenues. Excluding the European wealth management business, our cost/income ratio increased from 47% in 2001 to 53% in 2002.

European wealth management

Net new money inflow into our domestic European network for full-year 2002 was CHF 7.6 billion, up 36% from 2001's intake of CHF 5.6 billion. The result in 2002 reflects an annual net new money inflow rate of 48% of the underlying asset base. For full-year 2002, income from our European wealth management business was CHF 186 million, 33% or CHF 46 million above the 2001 level. The number of client advisors increased in 2002 by 181, bringing the total on 31 December 2002 to 551.

Results

Wealth Management's full-year 2002 pre-tax profit, at CHF 2,513 million, fell 20% from 2001 due to the steep decline in asset-based revenues which could not be fully offset by cost reductions as we continue to invest in our European wealth management business. Personnel as well as general and administrative expenses increased due to this strategic initiative. The cost/income ratio rose accordingly from 54% in 2001 to 62% in 2002.

Operating income

Full-year 2002 total operating income was CHF 6,664 million, down 4% from CHF 6,956 million in 2001. Both non-recurring transaction revenues and recurring asset-based revenues fell from 2001.

Operating expenses

At CHF 4,151 million, full-year operating expenses for 2002 rose 9% from 2001, reflecting investments in our European wealth management business. Both personnel expenses, which rose 11% to CHF 1,869 million, as well as general and administrative expenses, up 9% at CHF 2,092 million, increased chiefly because of these investments. Full-year depreciation fell in 2002 by 10% to CHF 93 million because of lower charges for information technology equipment, which is increasingly being leased instead of bought, while goodwill amortization was CHF 97 million, down 3% from 2001.

Headcount

Headcount, at 9,399 on 31 December 2002, increased by 481, mainly due to the hiring of experienced client advisors for the build-up of the European wealth management activities. Overall, the number of client advisors increased by 12% to 3,001 at the end of 2002.

Business Banking Switzerland

Business Unit Reporting

CHF million, except where indicated				% change from
For the year ended	**31.12.03**	31.12.02	31.12.01	31.12.02
Income	**5,255**	5,494	5,792	(4)
Adjusted expected credit loss [1]	**(127)**	(286)	(567)	(56)
Total operating income	**5,128**	5,208	5,225	(2)
Personnel expenses	**2,640**	2,727	2,878	(3)
General and administrative expenses	**33**	159	396	(79)
Depreciation	**302**	355	465	(15)
Amortization of goodwill and other intangible assets	**0**	0	0	
Total operating expenses	**2,975**	3,241	3,739	(8)
Business unit performance before tax	**2,153**	1,967	1,486	9
Business unit performance before tax and amortization of goodwill and other intangible assets	**2,153**	1,967	1,486	9
KPI's				
Invested assets (CHF billion)	**212**	205	215	3
Net new money (CHF billion) [2]	**(5.0)**	3.7	9.2	
Cost/income ratio (%) [3]	**57**	59	65	
Cost/income ratio before goodwill (%) [4]	**57**	59	65	
Non-performing loans/gross loans (%)	**3.2**	3.6	4.8	
Impaired loans/gross loans (%)	**4.6**	6.0	7.7	

Additional information				% change from
As at or for the year ended	**31.12.03**	31.12.02	31.12.01	31.12.02
Deferred releases included in credit loss expense [1]	**383**	240	115	60
Client assets (CHF billion)	**622**	494	544	26
Regulatory equity allocated (average)	**6,100**	5,700	5,850	7
Fair value of employee stock options granted [5]	**27**	38		(29)
Headcount (full-time equivalents)	**17,620**	18,442	19,220	(4)

[1] In management accounts, adjusted expected credit loss rather than net actual credit loss is reported for the Business Groups (see Note 2 to the Financial Statements). [2] Excludes interest and dividend income. [3] Operating expenses/income. [4] Operating expenses less the amortization of goodwill and other intangible assets/income. [5] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Components of operating income

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

As a result, operating income is affected by movements in interest rates, fluctuations in invested assets, client activity levels, investment performance, changes in market conditions and the credit environment.

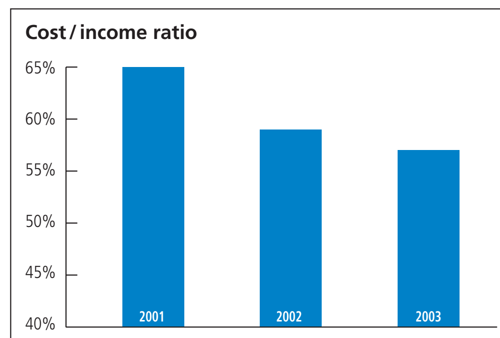
Significant financial events

There were no significant financial events that affected this business unit in 2003, 2002 or 2001.

2003

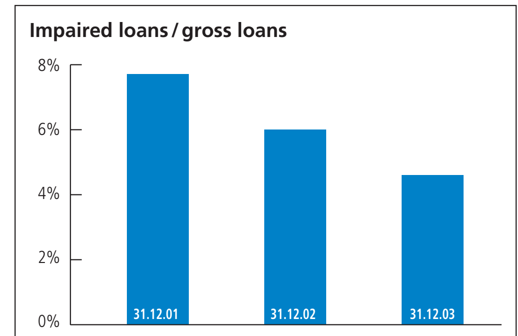
Key performance indicators

In full-year 2003, the cost / income ratio was a record low 57%, two percentage points below the previous year's ratio of 59%, reflecting total operating expenses dropping to their lowest level since 1999.



Invested assets rose to CHF 212 billion in 2003 from CHF 205 billion a year earlier as positive market developments were only partially offset by the weakening of the US dollar against the Swiss franc and outflows of net new money. Net new money was negative CHF 5.0 billion in 2003 compared to an inflow of CHF 3.7 billion in 2002, as corporate clients continued to make transfers from short-term deposits to current accounts, which are not classified as invested assets. As mentioned on page 11, we will in future no longer classify assets from corporate clients (except for pension funds) as invested assets. This change will reduce invested assets by approximately CHF 75 billion.

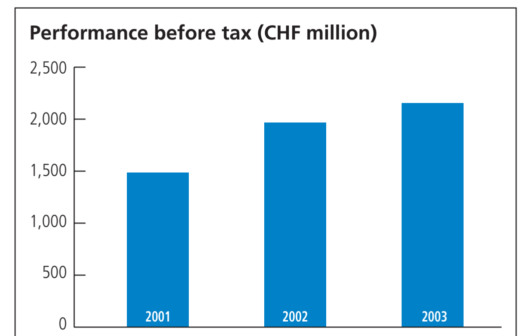
Business Banking Switzerland's loan portfolio was CHF 139 billion on 31 December 2003, unchanged from a year earlier, as an increase in volumes of private client mortgages was offset by declining volumes in the corporate clients area and a further reduction in the recovery portfolio to CHF 6.4 billion on 31 December 2003 from CHF 8.6 billion a year earlier. This positive development was also reflected in the key credit quality ratios:



the non-performing loan ratio improved to 3.2% from 3.6%, while the ratio of impaired loans to gross loans was 4.6% compared to 6.0% in 2002.

Full-year interest income in 2003 was below 2002, mainly due to lower interest margins on savings and cash accounts as well as lower revenues from our reduced recovery portfolio. This was partially offset by higher mortgage and saving account volumes.

Results



Full-year pre-tax profit in 2003 was a record CHF 2,153 million, up 9% from 2002. The result was achieved despite slightly lower revenues in market conditions that were difficult at the outset of the year but improved steadily thereafter. This performance is also evidence of the continued tight management of our cost base, and lower credit loss expenses reflecting the deferred benefit of the structural improvement in our loan portfolio in recent years. In 2003, personnel expenses, general and administrative expenses and depreciation all reached their lowest levels since 1999.

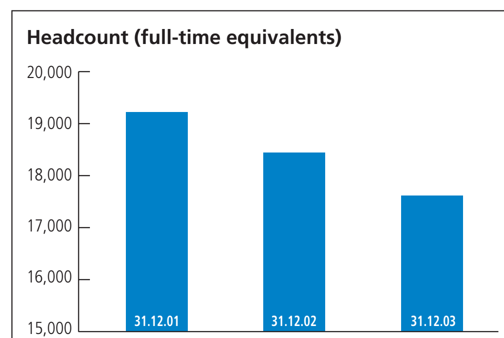
Operating income

Full-year total operating income was CHF 5,128 million, down slightly from 2002's level of

CHF 5,208 million. Interest income declined due to continued pressure on the margins of liability products and the decrease in the recovery portfolio. Trading and fee income also declined, reflecting the difficult market environment at the beginning of the year. These developments were mostly offset by lower credit loss expense, which fell to CHF 127 million in 2003, down 56% from CHF 286 million in 2002. The latter reflects the deferred benefit of the structural improvement in our loan portfolio in recent years.

Operating expenses

Full-year 2003 operating expenses were CHF 2,975 million, down 8% from CHF 3,241 million in 2002. They were at their lowest level since 1999. Personnel expenses, at CHF 2,640 million, were down 3% from CHF 2,727 million in 2002, mainly due to lower salaries reflecting the 4% drop in headcount. General and administrative expenses, at CHF 33 million in 2003, continued to drop and were 79% or CHF 126 million lower than the CHF 159 million recorded in 2002. This reflects our continuous efforts to control our costs tightly. Overall, this very low level of general and administrative expenses is explained by the integrated business model of UBS, through which Business Banking Switzerland provides a significant number of services to other business units, mainly Wealth Management. In accounting terms, the costs for these services are charged to the receiving unit as general and administrative expenses, offset by lower general and administrative expenses in the provider unit. Depreciation for full-year 2003 dropped to CHF 302 million from CHF 355 million in 2002 as information technology equipment is increasingly being leased instead of bought.



Headcount

Business Banking Switzerland's headcount was 17,620 on 31 December 2003, a decline of 822 or 4% from 31 December 2002, reflecting our continued investment in technology and automation, as well as the ongoing streamlining of processes and structures.

2002

Key performance indicators

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

For full-year 2002, the cost/income ratio was at 59%, 6 percentage points below 2001's ratio of 65%, reflecting the drop in total operating expenses.

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

Full-year interest income in 2002 was below 2001's mainly due to lower interest margins on savings and cash accounts as well as lower revenues from our reduced recovery portfolio.

Results

In 2002, full-year pre-tax profit was a record CHF 1,967 million, up 32% from 2001, achieved despite declining revenues in difficult market conditions, due to continued tight man-

agement of our cost base and lower credit loss expenses. Personnel expenses dropped due to lower performance-related compensation as well as a fall in headcount while general and administrative expenses declined due to our continued cost management initiatives.

Operating income

Full-year 2002 operating income was CHF 5,208 million, almost unchanged from 2001's level of CHF 5,225 million. Interest income fell because of continued pressure on margins of liability products. Trading and fee income also declined, reflecting the difficult market environment, although these developments were mostly offset by lower credit loss expense, which fell to CHF 286 million in 2002, down 50% from CHF 567 million in 2001. This drop reflected the continued success in improving the quality of our loan portfolio through the implementation of risk-adjusted pricing and the deferred benefit of the structural improvement in our loan portfolio in recent years.

Operating expenses

Full-year 2002 operating expenses decreased 13% from CHF 3,739 million in 2001 to CHF 3,241 million. Personnel expenses fell 5% from CHF 2,878 million in 2001 to CHF 2,727 million in 2002, due to lower headcount. General and administrative expenses, at CHF 159 million, continued to drop and were 60% lower than the CHF 396 million recorded in 2001. This decrease reflected our continuous efforts to control costs as well as higher usage of services, mainly IT, provided to other business units. Overall, this very low level of general and administrative expenses is explained by the integrated business model of UBS, through which Business Banking Switzerland provides a significant number of services to other business units, mainly Wealth Management. In accounting terms, the costs for these services are charged to the receiving unit as general and administrative expenses, offset by lower general and administrative expenses in the provider unit. Depreciation for full-year 2002 dropped to CHF 355 million from CHF 465 million in 2001 as information technology equipment is increasingly being leased instead of bought.

Headcount

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

Global Asset Management

John A. Fraser
Chairman and CEO,
Global Asset Management

Strong markets in the second half of the year, net new money inflows into equities, fixed income and alternative investment mandates and ongoing cost control measures all contributed towards a 2003 pre-tax profit of CHF 332 million, up by 52% from CHF 219 million in 2002. Money market fund outflows disguised strong inflows to higher-quality asset classes.

Business Group Reporting

CHF million, except where indicated				% change from
For the year ended	**31.12.03**	31.12.02	31.12.01	31.12.02
Institutional fees	**922**	865	1,154	7
Wholesale Intermediary fees	**815**	790	809	3
Total operating income	**1,737**	1,655	1,963	5
Personnel expenses	**816**	774	886	5
General and administrative expenses	**407**	447	498	(9)
Depreciation	**29**	29	38	0
Amortization of goodwill and other intangible assets	**153**	186	196	(18)
Total operating expenses	**1,405**	1,436	1,618	(2)
Business Group performance before tax	**332**	219	345	52
Business Group performance before tax and amortization of goodwill and other intangible assets	**485**	405	541	20
KPI's				
Cost/income ratio (%) [1]	**81**	87	82	
Cost/income ratio before goodwill (%) [2]	**72**	76	72	
Institutional				
Invested assets (CHF billion)	**313**	274	324	14
of which: money market funds	***14***	*19*	*23*	*(26)*
Net new money (CHF billion) [3]	**12.7**	(1.4)	6.4	
of which: money market funds	***(5.0)***	*(1.8)*	*12.0*	
Gross margin on invested assets (bps) [4]	**32**	29	37	10
Wholesale Intermediary				
Invested assets (CHF billion)	**261**	259	325	1
of which: money market funds	***87***	*106*	*134*	*(18)*
Net new money (CHF billion) [3]	**(5.0)**	(6.3)	24.5	
of which: money market funds	***(23.0)***	*(6.9)*	*2.5*	
Gross margin on invested assets (bps) [4]	**31**	27	26	15

Additional information				% change from
As at	**31.12.03**	31.12.02	31.12.01	31.12.02
Client assets (CHF billion)	**574**	533	649	8
Regulatory equity allocated (average)	**1,000**	1,100	1,050	(9)
Fair value of employee stock options granted [5]	**41**	43		(5)
Headcount (full-time equivalents)	**2,689**	2,733	2,704	(2)

[1] Operating expenses/operating income. [2] Operating expenses less the amortization of goodwill and other intangible assets/operating income. [3] Excludes interest and dividend income. [4] Income/average invested assets. [5] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Components of operating income

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

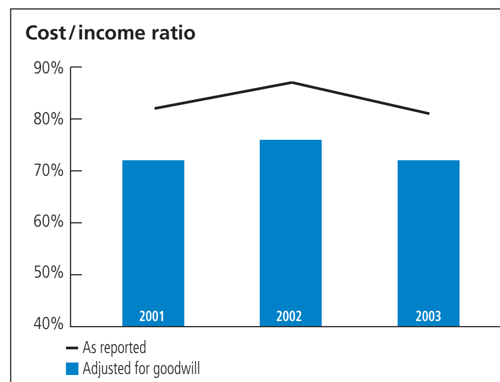
Significant financial events

There were no significant financial events that affected this Business Group in 2003, 2002 or 2001.

2003

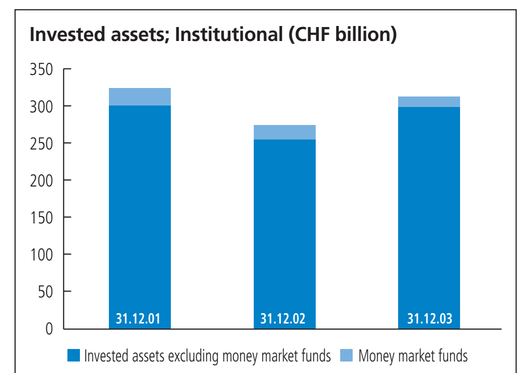
Key performance indicators

For 2003, the pre-goodwill cost/income ratio was 72%, an improvement of 4 percentage points from 2002. This was a result of improvements in both operating income and operating expenses. The recovery in equity markets experienced in the second half of the year resulted in higher invested asset levels and, consequently, higher asset-based revenues. Strong inflows of net new money (excluding lower fee money market funds), combined with improved investment performance, especially in the alternative and quantitative platform, helped revenues to rise. These developments were supported by ongoing cost control initiatives that drove operating expenses down by 2%.

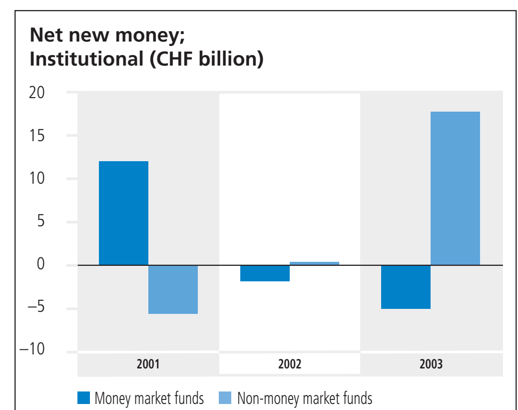


Institutional

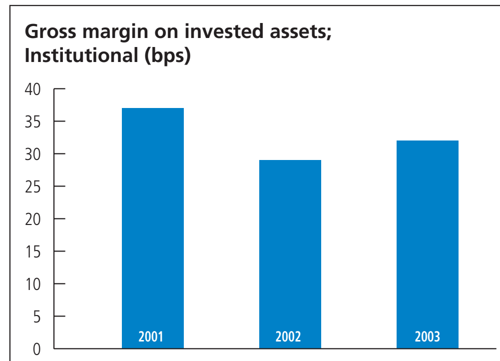
Institutional invested assets totaled CHF 313 billion on 31 December 2003, up 14% from CHF 274 billion on 31 December 2002, reflecting the strong market development in the second half of the year and strong inflows of net new money. The increase was partly offset by the weakening of major currencies against the Swiss franc.



For full-year 2003, net new money inflows were CHF 12.7 billion, up significantly from the outflows of CHF 1.4 billion recorded in 2002. Equity mandates and alternative and quantitative investments experienced strong inflows, partially offset by outflows from asset allocation mandates and money market funds.



The full-year 2003 gross margin was 32 basis points, up from 29 basis points a year earlier, reflecting higher performance fees and an improving asset mix.

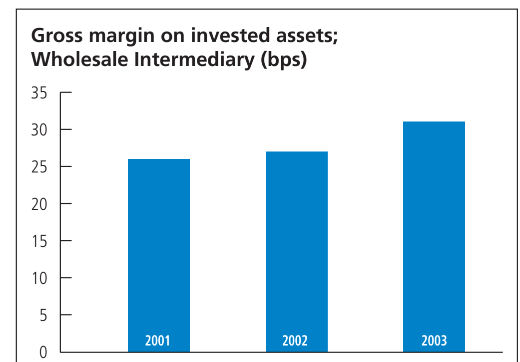


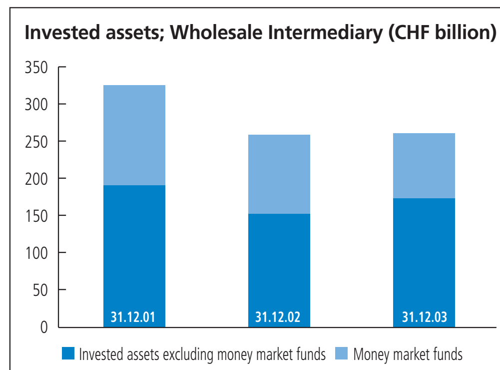
Wholesale Intermediary

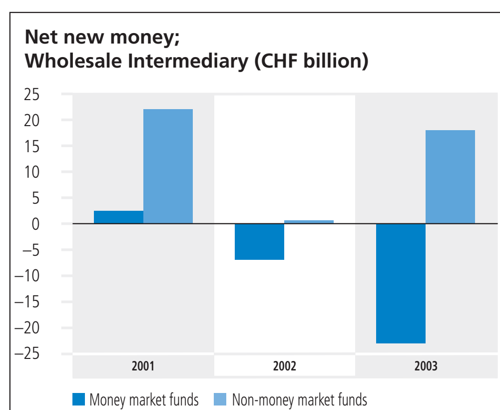
Invested assets were CHF 261 billion on 31 December 2003, up by CHF 2 billion from the same date a year earlier. The impact of adverse currency movements and the launch of UBS Bank USA, which prompted outflows from money market funds, nearly offset the positive effect from rising financial markets.

For full-year 2003, the net new money outflow amounted to CHF 5.0 billion compared with the CHF 6.3 billion outflow in 2002. The money market outflow in 2003 was CHF 23.0 billion, partially offset by inflows of CHF 17.1 billion into higher-margin equity and fixed income mandates. The outflows in money market funds were primarily in the Americas as a result of the launch of UBS Bank USA.

The gross margin increased to 31 basis points in 2003 from 27 basis points in 2002, reflecting the change in the asset mix towards higher-margin assets.







Money market sweep accounts

The majority of money market fund assets managed by our US wholesale intermediary business represents the cash portion of private client accounts. In 2003, we saw outflows from money market funds of CHF 16.0 billion. The primary reason for the outflows was the launch of UBS Bank USA in third quarter 2003. Before the bank's start, cash balances of private clients in the US were swept into our money market funds. Now, those cash proceeds are redirected automatically into FDIC-insured deposit accounts at UBS Bank USA. Although there was no one-time bulk transfer of client money market assets to the bank, the funds invested in our sweep accounts are being used to complete client transactions and will therefore gradually deplete over time. Such funds are, however, a low-fee component of invested assets.

Investment capabilities and performance

After three years of disappointing returns, equity markets posted convincing gains in 2003 as the global economy improved and corporate earnings recovered. Cyclical industries, such as the technology sector, led the rally. Fixed income

		Annualized		
Composite	1 Year	3 Years	5 Years	10 Years
Global Equity Composite vs. MSCI World Equity (Free) Index	–	+	+	+
Global Bond Composite vs. Citigroup World Government Bond Index	+	+	–	–
Global Securities Composite vs. Global Securities Markets Index	+	+	+	+

(+) above benchmark; (–) under benchmark. All after fees.

returns were more modest and constrained by expectations of higher interest rates.

Within our core investment management platform, relative equity performance was mixed in 2003 as a whole. Our actively managed Global Equity composite lagged the benchmark across these periods, reflecting our underweight position in highly cyclical technology stocks, where market prices already reflected robust future earnings growth. Despite that, the long-term track record of our Global Equity composite remains strong.

Our Global Bond composite performed well in 2003, due to both our currency and our interest rate strategies.

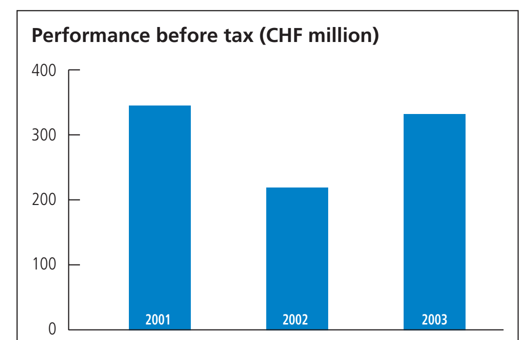
Our asset allocation and currency strategy made another positive contribution in full-year 2003. Portfolios benefited from an overweight position in equities relative to bonds and from being underweight in the US dollar, whose value steadily depreciated throughout the year.

In the alternative and quantitative business, strategies performed well across the board in 2003. All key equity-oriented strategies recorded positive returns, and core strategies based on macro-economic themes performed strongly over the full year. Across the multi-manager groups, strategies with exposure to the equity markets performed exceptionally well, while more market-neutral strategies also recorded solid returns.

Based on the latest available return information, the global real estate business achieved strong returns in the US, Switzerland, the UK and Japan.

Results

Global Asset Management reported a pre-tax profit of CHF 332 million in 2003, an increase of 52% from 2002's pre-tax profit of CHF 219 million. The recovery in the second half of the year in equity market valuations, coupled with strong inflows into alternative investments, equities and fixed income mandates, resulted in higher invested asset levels and, consequently, increased asset-based revenues. Performance-related fees, especially in the alternative and quantitative business, showed significant improvement over 2002. Ongoing cost control initiatives that systematically reduced operating expenses contributed significantly to improved profitability. General and administrative expenses decreased due to lower IT and premises costs. Amortization expenses fell as the goodwill of some assets became fully amortized. These developments were partially offset by higher incentive-based compensation resulting from the increase in operating income. Accordingly, the cost/income ratio dropped from 87% in 2002 to 81% in 2003.



Operating income

In full-year 2003, operating income was CHF 1,737 million, up 5% from CHF 1,655 million, reflecting the recovery in equity market valuations in the second half of 2003, coupled with strong inflows into alternative investments, equities and fixed income mandates, resulting in higher invested asset levels and consequently higher asset-based revenues. Performance-related fees, especially in the alternative and quantitative business, showed significant improvement over 2002. Institutional revenues increased to CHF 922 million in full-year 2003 from CHF 865 million in 2002, driven by both the improved market environment and the strong asset inflows, especially in the alternative and quantitative business. For full-year 2003, Wholesale Intermediary revenues, at CHF 815 million, increased from CHF 790 million in 2002, reflecting the

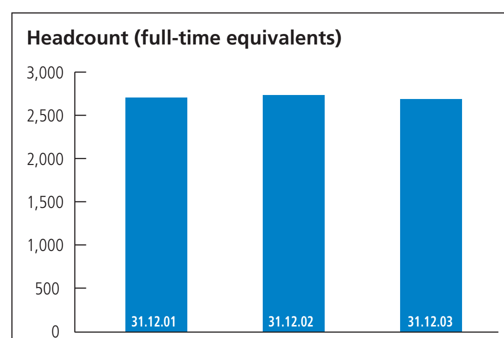
recovery in the equity markets and an improvement in the asset mix, both of which had a positive impact on our asset-based revenues.

Operating expenses

For full-year 2003, operating expenses declined to CHF 1,405 million from CHF 1,436 million in 2002, primarily due to cost-saving initiatives and lower goodwill amortization. Personnel expenses were CHF 816 million in 2003, 5% above the prior year, due to higher incentive-based compensation reflecting the improved revenue. General and administrative expenses fell to CHF 407 million in 2003 from CHF 447 million in 2002. The decrease is a result of ongoing cost-saving initiatives, resulting in a significant reduction of IT and premises expenses. These savings were partly offset by non-recurring operational provisions. Depreciation, at CHF 29 million, remained unchanged compared with a year earlier. Amortization of goodwill decreased to CHF 153 million in 2003 from CHF 186 million a year earlier. The drop was due both to the full amortization of the goodwill of some businesses and to the US dollar's drop against the Swiss franc.

Headcount

Headcount was 2,689 on 31 December 2003, down by 44 from 2,733 on 31 December 2002. The decrease of 2% primarily reflects cost-saving efforts in the core investment management business.



2002

Key performance indicators

For 2002, the pre-goodwill cost/income ratio was 76%, up 4 percentage points from 2001. The increase was primarily due to lower invested asset values, which resulted in lower asset-based revenues. Those developments, however, were partially offset by lower operating expenses prompted by ongoing initiatives to control costs.

Institutional

Institutional invested assets, at CHF 274 billion on 31 December 2002, declined 15% from their level on 31 December 2001. The decrease in assets was due to the decline seen in financial markets during 2002, as well as the drop of the US dollar against the Swiss franc over 2002.

For full-year 2002, the outflow of net new money was CHF 1.4 billion. This was a disappointing figure compared to the net new money inflow of CHF 6.4 billion recorded in 2001. Strong inflows into equity mandates were more than offset by outflows from alternative asset and fixed income mandates.

Full-year 2002 gross margin was 29 basis points, a decrease of 8 basis points from 2001 due to lower performance fees and a lower proportion of assets in alternative investments.

Wholesale Intermediary

Invested assets stood at CHF 259 billion on 31 December 2002, down from CHF 325 billion on 31 December 2001. The decline was primarily the result of negative currency impacts and declining markets as well as negative net new money.

For full-year 2002, the outflow of net new money was CHF 6.3 billion compared to an inflow of CHF 24.5 billion in 2001. The outflow was largely due to CHF 6.9 billion in money market funds, primarily in the Americas.

The gross margin rose to 27 basis points in 2002 from 26 basis points in 2001 thanks to a shift in the asset mix towards higher-margin asset classes.

Results

Global Asset Management reported for full-year 2002 a pre-tax profit of CHF 219 million, a decrease of 37% from 2001's pre-tax profit of CHF 345 million. The declines in equity markets experienced throughout 2002 resulted in lower invested asset levels and, subsequently, lower asset-based revenues. These developments were partially offset by ongoing initiatives to control

costs. Over 2002, personnel expenses decreased due to a decline in incentive compensation while general and administrative expenses fell due to lower IT and premises expenditures. However, the drop in expenses could not compensate for the drop in revenues. Therefore, the cost/income ratio increased from 82% in 2001 to 87% in 2002.

Operating income

In full-year 2002, operating income fell 16%, to CHF 1,655 million, primarily due to the declines in financial markets during 2002 feeding through to asset-based revenues. The decline was also due to the US dollar's weakening against the Swiss franc. Institutional revenues fell to CHF 865 million in full-year 2002 from CHF 1,154 million in 2001 due to the US dollar's weakening against the Swiss franc, lower performance fees at O'Connor, and the effect of market declines on asset-based revenues. For full-year 2002, Wholesale Intermediary revenues, at CHF 790 million, decreased from CHF 809 million in 2001, reflecting the difficult market environment in 2002.

Operating expenses

For full-year 2002, operating expenses declined to CHF 1,436 million from CHF 1,618 million in 2001, primarily due to cost-saving initiatives. Personnel expenses were CHF 774 million in 2002, 13% less than in 2001, reflecting lower incentive-based compensation partially offset by higher severance expenses. General and administrative expenses fell to CHF 447 million from CHF 498 million in the same period, reflecting a weaker US dollar, and lower project-related expenses. Over 2002, depreciation decreased from CHF 38 million to CHF 29 million as some assets became fully depreciated. Amortization declined 5% to CHF 186 million, reflecting the drop in the US dollar against the Swiss franc.

Headcount

Headcount, at 2,733 on 31 December 2002, was up from 2,704 on 31 December 2001. The increase of 1% primarily reflected the reclassification from contractors to employees at O'Connor.

Investment Bank

John P. Costas
Chairman and CEO,
Investment Bank

In 2003, the Investment Bank as a whole posted pre-tax profit of CHF 3,889 million. The Investment Banking & Securities business unit's pre-tax profit was CHF 4,078 million, up 30% from 2002. Private Equity reported a pre-tax loss of CHF 189 million in 2003 compared to a loss of CHF 1,761 million in 2002. This improvement reflects much lower levels of writedowns and a number of successful divestments.

Business Group Reporting

CHF million, except where indicated For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Income	**14,120**	12,498	14,715	13
Adjusted expected credit loss [1]	**(139)**	(128)	(112)	9
Total operating income	**13,981**	12,370	14,603	13
Personnel expenses	**7,357**	7,878	8,354	(7)
General and administrative expenses	**2,130**	2,378	2,650	(10)
Depreciation	**327**	382	456	(14)
Amortization of goodwill and other intangible assets	**278**	364	402	(24)
Total operating expenses	**10,092**	11,002	11,862	(8)
Business Group performance before tax	**3,889**	1,368	2,741	184
Business Group performance before tax and amortization of goodwill and other intangible assets	**4,167**	1,732	3,143	141
Additional information				
Cost/income ratio (%) [2]	**71**	88	81	
Cost/income ratio before goodwill (%) [3]	**70**	85	78	
Net new money (CHF billion) [4]	**0.9**	0.5	0.1	
Invested assets (CHF billion)	**4**	3	1	33
Client assets (CHF billion)	**143**	133	109	8
Regulatory equity allocated (average)	**12,700**	13,100	14,300	(3)
Fair value of employee stock options granted [5]	**391**	582		(32)

[1] In management accounts, adjusted expected credit loss rather than net actual credit loss is reported for the Business Groups (see Note 2 to the Financial Statements). [2] Operating expenses/income. [3] Operating expenses less the amortization of goodwill and other intangible assets/income. [4] Excludes interest and dividend income. [5] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Investment Banking & Securities

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Investment Banking	**1,703**	1,915	2,541	(11)
Equities	**4,894**	5,625	6,422	(13)
Fixed Income, Rates and Currencies	**7,600**	6,560	6,624	16
Income	**14,197**	14,100	15,587	1
Adjusted expected credit loss [1]	**(139)**	(128)	(112)	9
Total operating income	**14,058**	13,972	15,475	1
Personnel expenses [2]	**7,308**	7,784	8,258	(6)
General and administrative expenses	**2,071**	2,314	2,586	(11)
Depreciation	**323**	381	454	(15)
Amortization of goodwill and other intangible assets	**278**	364	402	(24)
Total operating expenses	**9,980**	10,843	11,700	(8)
Business unit performance before tax	**4,078**	3,129	3,775	30
Business unit performance before tax and amortization of goodwill and other intangible assets	**4,356**	3,493	4,177	25
KPI's				
Compensation ratio (%) [3]	**51**	55	53	
Cost/income ratio (%) [4]	**70**	77	75	
Cost/income ratio before goodwill (%) [5]	**68**	74	72	
Non-performing loans/gross loans (%)	**0.9**	1.6	2.6	
Impaired loans/gross loans (%)	**2.2**	3.2	5.4	
Average VaR (10-day 99%)	**354**	275	252	29

Additional information As at or for the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Deferred releases included in credit loss expense [1]	**(45)**	(2)	38	
Regulatory equity allocated (average)	**12,250**	12,550	13,600	(2)
Fair value of employee stock options granted [6]	**390**	567		(31)
Headcount (full-time equivalents)	**15,500**	15,964	15,562	(3)

[1] In management accounts, adjusted expected credit loss rather than net actual credit loss is reported for the Business Groups (see Note 2 to the Financial Statements). [2] Includes retention payments in respect of the PaineWebber acquisition. 2002: CHF 54 million, 2001: CHF 46 million. There were no retention payments in 2003. [3] Personnel expenses/income. [4] Operating expenses/income. [5] Operating expenses less the amortization of goodwill and other intangible assets/income. [6] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Components of operating income

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

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

Significant financial events

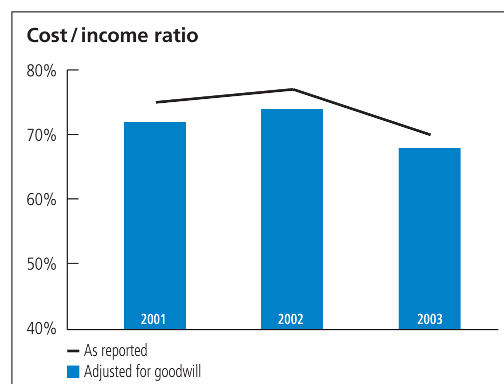
There were no significant financial events that affected this business unit in 2003, 2002 or 2001.

2003

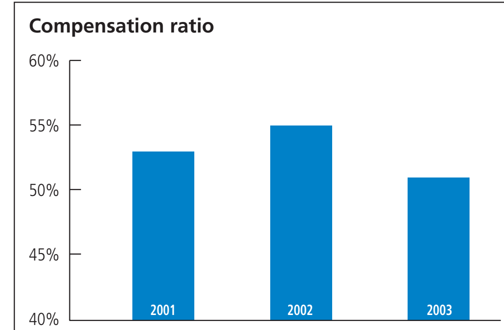
Key performance indicators

In 2003, we performed strongly despite the difficult market environment at the start of the year. As the year progressed, and the overall environment improved, we were able to profit from market opportunities, capturing market share in most of our businesses.

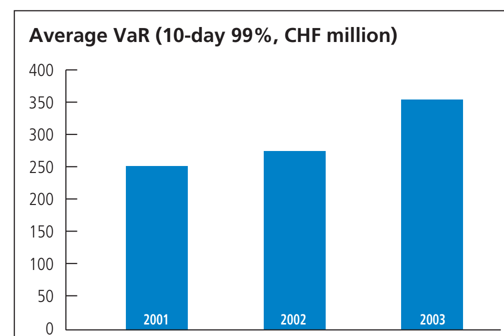
The pre-goodwill cost/income ratio decreased to 68% in 2003 from 74% in 2002. The fall reflects a slight increase in revenues, driven by our Fixed Income, Rates and Currencies business, set against the drop in operating expenses, which reflected our disciplined cost control. Both revenues and expenses were affected by the weakening of major currencies, mainly the US dollar, against the Swiss franc.



Our compensation ratio in 2003 was 51%, down from 55% in 2002. The payout levels of annual performance-related payments are driven by the revenue mix across business areas and are managed in line with market levels.

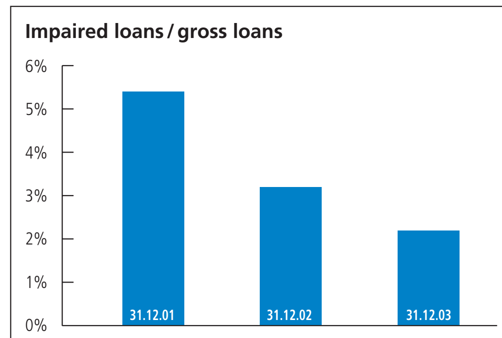


Market risk, as measured by average 10-day 99% confidence Value at Risk (VaR), increased to CHF 354 million in 2003 from CHF 275 million a year earlier, reflecting primarily the expanding activity level in the Fixed Income, Rates and Currencies business area.



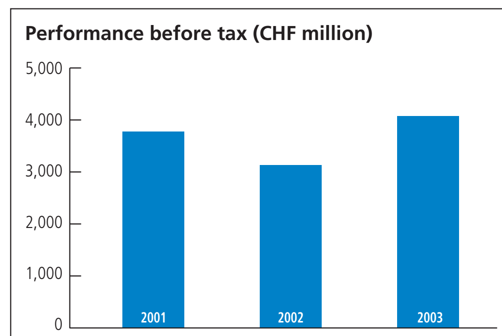
Total loans were CHF 55 billion on 31 December 2003, down 11% from CHF 62 billion a year earlier, mainly due to the drop in the US

dollar against the Swiss franc. Continued successful recovery efforts led the ratio of impaired loans to total loans to fall from 3.2% on 31 December 2002 to 2.2% at the end of 2003. The non-performing loans to total loans ratio declined from 1.6% to 0.9% in the same period.



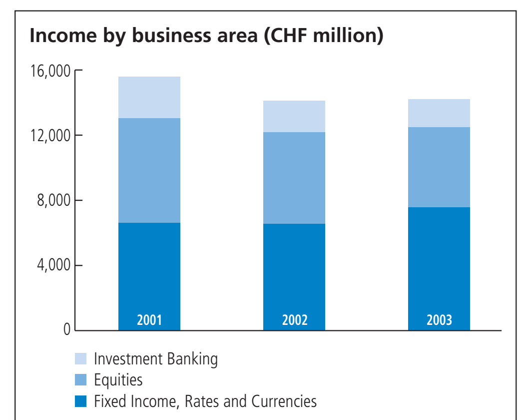
Results

Pre-tax profit was CHF 4,078 million in full-year 2003, up 30% from a year earlier. This result was achieved despite the weakening of the US dollar against the Swiss franc and reflects strong performances in all our businesses. In particular, the Fixed Income, Rates and Currencies business, gaining 16% from a year earlier, posted a record result, reflecting the breadth of our capabilities and our expanding franchise. At the same time, costs were tightly controlled. Both personnel expenses and general and administrative expenses fell because of currency fluctuations. Excluding the impact of currency movements, personnel expenses rose in 2003, reflecting improved revenues, while general and administrative expenses remained largely unchanged from the previous year's level. Accordingly, our cost / income ratio fell to 70% in 2003 from 77% a year earlier.



Operating income

Full-year 2003 revenues were CHF 14,197 million, up 1% from CHF 14,100 million a year earlier. Investment Banking revenues, at CHF 1,703 million in 2003, dropped 11% from CHF 1,915 million a year earlier. Excluding the currency impact, revenues actually rose, reflecting our increased share of the investment banking fee pool. According to *Freeman*, we ranked fourth for investment banking fees in 2003 with a market share of 5.6%, up from seventh and a market share of 4.8% a year earlier. Equities revenues in full-year 2003 also reflected negative currency impacts, falling to CHF 4,894 million from CHF 5,625 million in 2002. Excluding currency fluctuations, equity results improved, reflecting strong performances in the equity finance, proprietary and primary businesses. In full-year 2003, the Fixed Income, Rates and Currencies business posted a record result. Revenues, at CHF 7,600 million in 2003, were up 16% from CHF 6,560 million a year earlier. Revenues increased in all businesses, but the gains were particularly strong in Fixed Income, Principal Finance, Mortgages and Foreign Exchange. The positive result was somewhat offset by negative revenues of CHF 678 million relating to Credit Default Swaps (CDS) hedging existing credit exposure in the loan book.



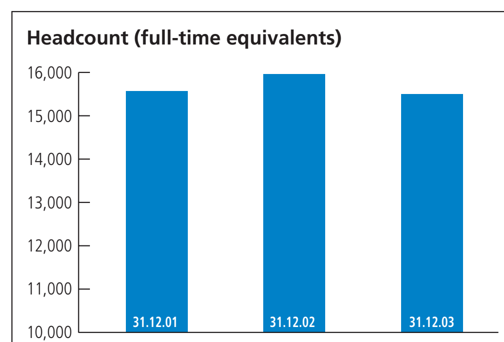
Operating expenses

Total operating expenses dropped 8% to CHF 9,980 million in 2003, mainly reflecting the weakening of the US dollar against the Swiss franc, although our continued tight management of costs helped. Personnel expenses in 2003, at CHF 7,308 million, fell 6% from 2002. Excluding

currency fluctuations, personnel expenses rose, reflecting higher performance-related compensation, which increased along with revenues, and higher severance expenses. Full-year general and administrative expenses were CHF 2,071 million in 2003, down 11% from 2002's CHF 2,314 million. Excluding the effect of currencies, expenses rose slightly, reflecting provisions for vacant space, higher professional fees in all businesses and an increase in administration expenses. Depreciation declined 15% to CHF 323 million in 2003 from CHF 381 million in 2002. The decrease is mainly due to lower depreciation on workstations, servers and other equipment. Amortization of goodwill and other intangibles, at CHF 278 million in 2003, fell 24% from CHF 364 million a year earlier, reflecting the full amortization of the goodwill of various businesses in 2003.

Headcount

Headcount, at 15,500 on 31 December 2003, fell 3% from a year earlier. The drop reflects ongoing, regular reviews of our cost structure and staffing needs, taking into account productivity gains and the automation of services. That was partially offset by the acquisition of ABN AMRO's prime brokerage business and continued investment in specific areas, including our US investment banking and Fixed Income, Rates and Currencies businesses.



2002

Key performance indicators

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

Over 2002, the pre-goodwill cost/income ratio increased slightly to 74% from 72% in 2001.

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

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

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

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

Results

The business unit Investment Banking & Securities reported 2002 pre-tax profit of CHF 3,129 million, a decrease of 17% from 2001, reflecting difficult economic conditions, particularly for the investment banking and equities businesses. This was partially offset by the strong result of our Fixed Income, Rates and Currencies business. Over 2002, overall expenses dropped by 7%, reflecting lower personnel expenses driven by a reduction in incentive compensation, as well as the success of our continued cost containment initiatives. Our cost/income ratio increased from 75% in 2001 to 77% in 2002.

Operating income

Full-year 2002 revenues of CHF 14,100 million were 10% lower than in 2001. Investment Banking revenues for the full-year 2002 dropped by 25% from CHF 2,541 million to CHF 1,915 million in 2002, due to much lower corporate activ-

ity, which translated into a 22% drop in the global fee pool compared to 2001. Equities revenues for the full-year 2002 were also lower than in 2001, down from CHF 6,422 million to CHF 5,625 million, reflecting falling indices worldwide and much lower market activity. Full-year 2002 primary revenues remained flat, because of market share gains in the US and in Asia, which compensated for the drop in overall market activity. In full-year 2002, Fixed Income, Rates and Currencies revenues decreased 1% to CHF 6,560 million, primarily due to reductions in our Interest Rates and Foreign Exchange business lines and much lower revenues from our non-core businesses. This was nearly offset by the substantial growth in our Emerging Markets and Principal Finance businesses. Revenues related to gains in credit default swaps hedging credit exposures in the loan book also positively impacted the result. Our Foreign Exchange business increased volumes and spreads compared to 2001.

Operating expenses

Total operating expenses dropped by 7% from 2001 to CHF 10,843 million in 2002. The underlying decline in 2002 is even more marked than these figures would suggest as the 2002 results include a provision of CHF 90 million (USD 65 million) for the US equity research settlement and a CHF 72 million charge for the restructuring of our Energy trading business. The underlying reduction of 9% from 2001's expense levels reflected the continuing success of our cost containment initiatives accentuated by the drop of the US dollar against the Swiss franc. In total, personnel expenses in 2002, at CHF 7,784 million, were 6% lower than 2001, mainly driven by a reduction in incentive compensation in line with lower revenues and the weaker US dollar. Full-year 2002 general and administrative expenses were CHF 2,314 million in 2002, down 11% from 2001's CHF 2,586 million, as cost saving programs implemented during the course of 2002 helped to lower IT and other costs, particularly travel, advertising costs and professional fees. In full-year 2002, depreciation declined to CHF 381 million from CHF 454 million in 2001, reflecting our cost control initiatives, which helped to lower charges for new computer workstations and other IT-related equipment. Amortization of goodwill and other intangibles fell 9% for the full-year 2002, reflecting the fact that various assets became fully amortized in 2002.

Headcount

Headcount, at 15,964 on 31 December 2002, increased by 402 or 3% from 31 December 2001, reflecting the expansion in the Fixed Income, Rates and Currencies area as well as the transfer of the prime brokerage and Australian private clients businesses from Wealth Management USA.

Private Equity

Business Unit Reporting

CHF million, except where indicated For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Total operating income	**(77)**	(1,602)	(872)	95
Personnel expenses	**49**	94	96	(48)
General and administrative expenses	**59**	64	64	(8)
Depreciation	**4**	1	2	300
Amortization of goodwill and other intangible assets	**0**	0	0	
Total operating expenses	**112**	159	162	(30)
Business unit performance before tax	**(189)**	(1,761)	(1,034)	89
Business unit performance before tax and amortization of goodwill and other intangible assets	**(189)**	(1,761)	(1,034)	89
KPI's				
Value creation (CHF billion)	**(0.3)**	(1.4)	(1.4)	79

As at	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Investment (CHF billion)[1]	**2.3**	3.1	5.0	(26)

Additional information As at	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Portfolio fair value (CHF billion)	**2.9**	3.8	5.6	(24)
Regulatory equity allocated (average)	**450**	550	700	(18)
Fair value of employee stock options granted[2]	**1**	15		(93)
Headcount (full-time equivalents)	**50**	73	128	(32)

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

Components of operating income

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

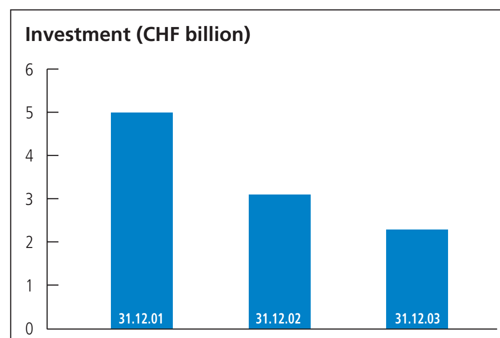
Significant financial events

There were no significant financial events that affected this business unit in 2003, 2002 or 2001.

2003

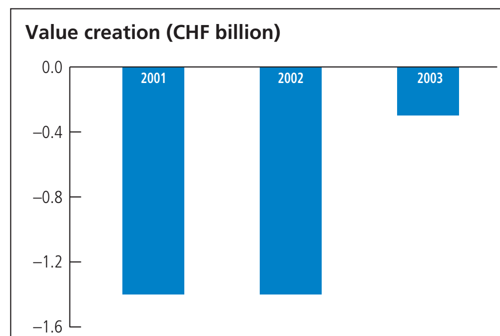
Key performance indicators

The level of our private equity investments was CHF 2.3 billion on 31 December 2003, a decline of 26% from CHF 3.1 billion on 31 December 2002 reflecting writedowns made on direct investments and third-party funds, as well as successful exits and currency fluctuations. Unfunded commitments fell by 29% to CHF 1.5 billion on 31 December 2003 from CHF 2.1 billion a year ago.



The fair value of the portfolio on 31 December 2003 was CHF 2.9 billion, down from CHF 3.8 billion on 31 December 2002, reflecting divestments, value reductions on existing investments and currency fluctuations.

The level of net unrealized gains was CHF 0.6 billion on 31 December 2003, down from CHF 0.8 billion on 31 December 2002, partially reflecting successful divestments.

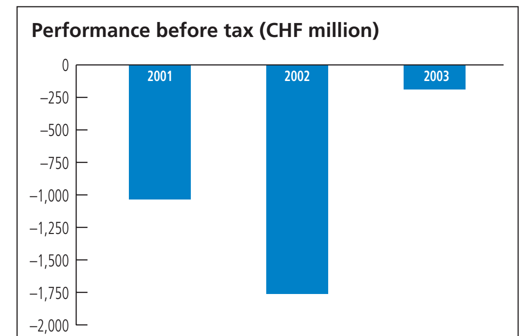


Results

In full-year 2003, Private Equity posted a pre-tax loss of CHF 189 million – a marked improvement on the pre-tax loss of CHF 1,761 million in 2002, reflecting lower levels of writedowns and a number of successful exits. Writedowns in 2003 totaled CHF 353 million, compared to CHF 1.7 billion in 2002.

Total operating income for 2003 was negative CHF 77 million, compared to negative CHF 1,602 million in 2002. The significant improvement in performance was primarily driven by a sharp fall in investment writedowns.

Operating expenses were CHF 112 million in 2003, 30% lower than a year earlier. Personnel expenses in 2003 were CHF 49 million, down from CHF 94 million in 2002, reflecting the drop in headcount as well as lower incentive-based compensation. General and administrative expenses fell to CHF 59 million in 2003 from CHF 64 million in 2002 due to lower professional fees as well as the drop of the US dollar against the Swiss franc. This was partially offset by one-time costs for vacant premises.



Headcount

Headcount levels dropped to 50 employees on 31 December 2003, down from 73 on 31 December 2002, reflecting the reduction of our portfolio and the restructuring of some regional investment teams.

Change in disclosure from 2004

From first quarter 2004 onwards, we will no longer report Private Equity as a stand-alone business unit. Results from the private equity business will be reported as a separate revenue

line in the income statement of the Investment Bank – just as we currently do for all the major business areas. We will continue to disclose Private Equity's key performance indicators – portfolio size, fair value, and the value created.

2002

Key performance indicators

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

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

Results

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

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

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

Wealth Management USA

Joseph J. Grano, Jr.
Chairman, Wealth Management USA

Mark B. Sutton
CEO, Wealth Management USA

In 2003, Wealth Management USA's pre-tax loss was CHF 5 million compared to a pre-tax loss of CHF 1,800 million in 2002, when the value of the PaineWebber brand was written down. Before acquisition costs, pre-tax profit increased 5% to CHF 664 million in 2003 from CHF 632 million a year earlier. On the same basis, but in US dollars, the operating result rose 21%.

Business Group Reporting

CHF million, except where indicated				% change from
For the year ended	**31.12.03**	31.12.02	31.12.01	31.12.02
Income	**5,190[1]**	5,561	6,391	(7)
Adjusted expected credit loss[2]	**(8)**	(13)	(18)	(38)
Total operating income	**5,182**	5,548	6,373	(7)
Personnel expenses[3]	**3,712**	4,245	5,019	(13)
General and administrative expenses	**988**	1,263	1,441	(22)
Depreciation	**151**	149	124	1
Amortization of goodwill and other intangible assets	**336**	1,691[4]	502	(80)
Total operating expenses	**5,187**	7,348	7,086	(29)
Business Group performance before tax	**(5)**	(1,800)	(713)	(100)

Business Group reporting excluding acquisition costs and significant financial events

Total operating income	**5,021[5]**	5,548	6,373	(9)
Add back: Net goodwill funding[6]	**231**	390	468	(41)
Operating income excluding acquisition costs	**5,252**	5,938	6,841	(12)
Total operating expenses	**5,187**	6,114[7]	7,086	(15)
Retention payments	**(263)**	(351)	(436)	25
Amortization of goodwill and other intangible assets	**(336)**	(457)	(502)	26
Operating expenses excluding acquisition costs	**4,588**	5,306	6,148	(14)
Business Group performance before tax and excluding acquisition costs	**664**	632	693	5

[1] Includes significant financial event: gain on disposal of Correspondent Services Corporation of CHF 161 million. [2] In management accounts, adjusted expected credit loss rather than net actual credit loss is reported for the Business Groups (see Note 2 to the Financial Statements). [3] Includes retention payments in respect of the PaineWebber acquisition. [4] Includes significant financial event: writedown of PaineWebber brand name of CHF 1,234 million. [5] Excludes significant financial event: gain on disposal of Correspondent Services Corporation of CHF 161 million. [6] Goodwill and intangible asset-related funding, net of risk-free return on the corresponding equity allocated. [7] Excludes significant financial event: writedown of PaineWebber brand name of CHF 1,234 million.

Wealth Management USA (continued)

KPI's

CHF million, except where indicated For the year ended	**31.12.03**	31.12.02	31.12.01	% change from 31.12.02
Invested assets (CHF billion)	**634**	584	769	9
Net new money (CHF billion)[1]	**21.1**	18.5	33.2	
Interest and dividend income (CHF billion)[2]	**15.8**	17.9	21.5	(12)
Gross margin on invested assets (bps)[3]	**86**	82	84	5
Gross margin on invested assets excluding acquisition costs and SFEs (bps)[4]	**87**	88	90	(1)
Cost/income ratio (%)[5]	**100**	132	111	
Cost/income ratio excluding acquisition costs and SFEs (%)[6]	**87**	89	90	
Recurring fees[7]	**1,927**	2,199	2,366	(12)
Financial advisors (full-time equivalents)	**7,766**	8,857	8,718	(12)

Additional information As at	**31.12.03**	31.12.02	31.12.01	% change from 31.12.02
Client assets (CHF billion)	**690**	650	841	6
Regulatory equity allocated (average)	**5,700**	7,450	8,550	(23)
Fair value of employee stock options granted[8]	**62**	73		(15)
Headcount (full-time equivalents)	**18,016**	19,563	20,413	(8)

[1] Excludes interest and dividend income. [2] For purposes of comparison with US peers. [3] Income/average invested assets. [4] Income, add back net goodwill funding and less significant financial events/average invested assets. [5] Operating expenses/income. [6] Operating expenses less the amortization of goodwill and other intangible assets, retention payments and significant financial events/income, add back net goodwill funding and less significant financial events. [7] Asset-based fees for portfolio management and fund distribution, account-based and advisory fees. [8] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Components of operating income

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

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

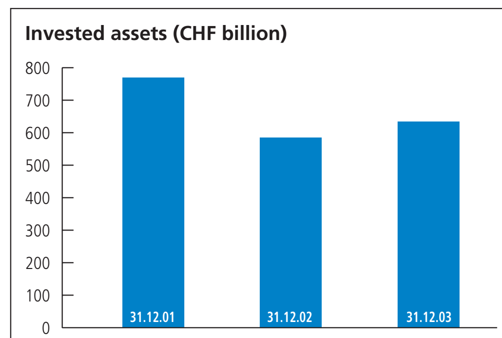
Significant financial events

The Business Group was affected by one significant financial event in 2003 and one in 2002:
- In second quarter 2003, Wealth Management USA realized a pre-tax gain of CHF 161 million from the sale of its Correspondent Services Corporation (CSC) business.
- In fourth quarter 2002, we recorded a non-cash pre-tax writedown of CHF 1,234 million of the value of the PaineWebber brand that was held as an intangible asset on our balance sheet. The writedown followed a strategic decision announced in November 2002 to move all our businesses to the single UBS brand.

2003

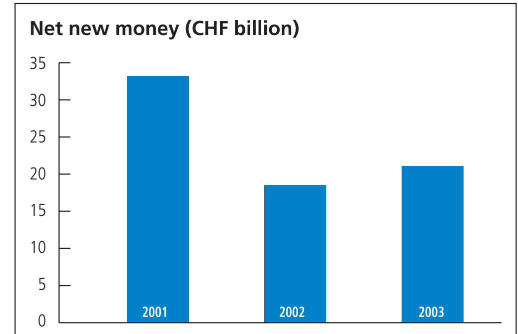
Key performance indicators

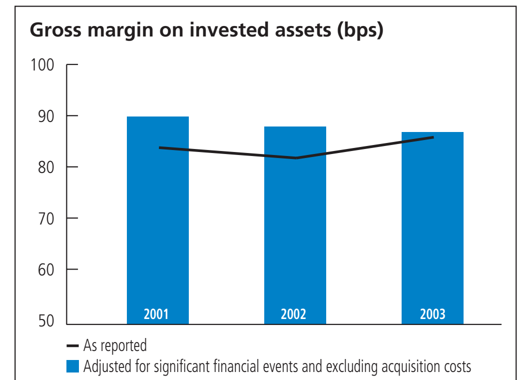
Wealth Management USA had CHF 634 billion in invested assets on 31 December 2003, up 9% from CHF 584 billion on 31 December 2002. The increase was due to inflows of net new money and the effects of market appreciation. In US dollar terms, invested assets were 21% higher on 31 December 2003 than they were a year earlier.



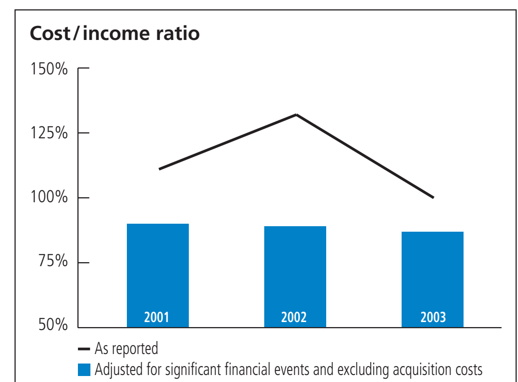
We continue to report consistently strong inflows of net new money. In 2003, inflows were CHF 21.1 billion, 14% above the CHF 18.5 billion result reported for 2002. Including interest and dividends, net new money in 2003 was CHF 36.9 billion, up from CHF 36.4 billion in 2002.

The gross margin on invested assets was 86 basis points for full-year 2003, up from 82 basis points in 2002. The gross margin on invested assets before acquisition costs (goodwill and intangible asset amortization, net goodwill funding costs and retention payments) was 87 basis points, down from 88 basis points in 2002.

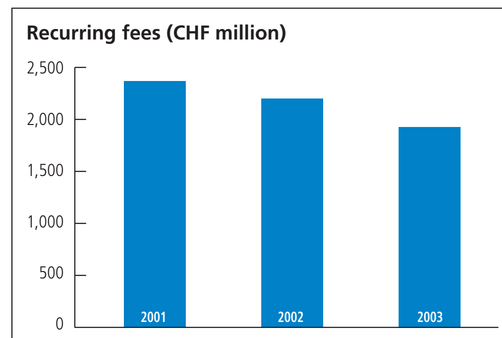




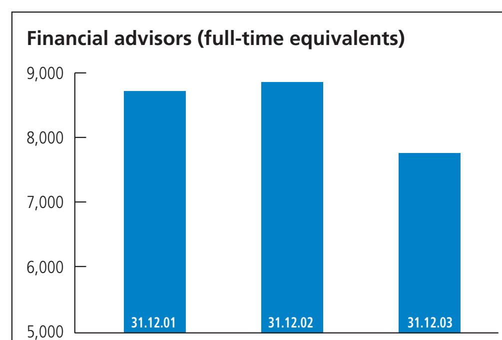
The cost/income ratio before acquisition costs and significant financial events was 87% for full-year 2003, compared to 89% in 2002. The improvement in the cost/income ratio reflects our continuous cost control as well as the excellent performance of our core private client business.



In 2003, recurring fees were CHF 1,927 million, down from CHF 2,199 million a year earlier, reflecting the weakening of the US dollar against the Swiss franc. Excluding the impact of currency fluctuations, recurring fees were up 1% in 2003 from 2002, mainly as a result of increased fees from mutual fund products as well as rising asset-based fees that reflected higher asset levels in managed account products. In addition, the gain was accentuated by higher recurring fees in the municipal securities business.



The number of financial advisors decreased to 7,766 in 2003 from 8,857 a year earlier due to the curtailment of our training program and an increase in attrition rates among less experienced and less productive financial advisors.

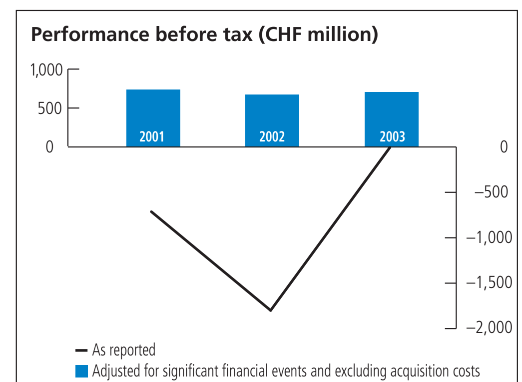


Results

In the early part of the year, political, economic and financial uncertainty adversely affected investor activity. Conditions, however, started to improve over the course of second quarter 2003 and continued to do so as the year progressed. The UBS Index of Investor Optimism rose steadily in 2003, reaching its highest level in 21 months by December.

Because our business is almost entirely conducted in US dollars, comparisons of 2003 and 2002 results are affected by the depreciation of the US dollar versus the Swiss franc.

In full-year 2003, Wealth Management USA reported a pre-tax loss of CHF 5 million compared to a loss of CHF 1,800 million a year earlier. Both 2003 and 2002 results included the significant financial events highlighted at the beginning of this section. After their exclusion and before acquisition costs, profit was CHF 664 million in 2003, up from CHF 632 million in 2002. In US dollar terms, profit in 2003 was 21% above that in 2002. This represents the best result since PaineWebber became part of UBS, reflecting higher recurring fee gains and improved transactional revenues. Client activity increased, with daily average trades rising 3% above their 2002 level. In addition, conditions in the municipal securities market remained extremely buoyant, with new issues hitting an all-time high this year. At the same time, we continued to benefit from cost-saving initiatives started when we became a part of UBS. Accordingly, the cost/income ratio dropped to 100% in 2003 from 132% in 2002. Excluding acquisition costs, the ratio fell to 87% in 2003 from 89% in 2002.



Operating income

In 2003, total operating income was CHF 5,182 million compared to CHF 5,548 million in 2002. Before acquisition costs and excluding the sale of our CSC business, total operating income was CHF 5,252 million, 12% lower compared to a year earlier. Excluding the currency effect, operating income actually increased by 2% from 2002. This increase was due to higher

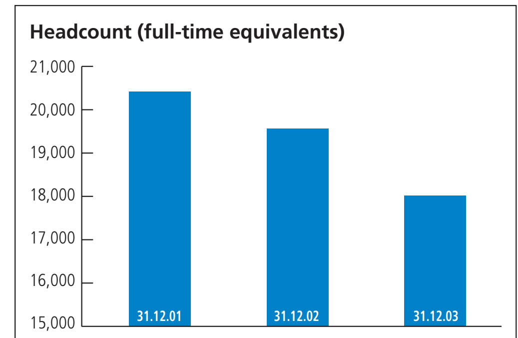
recurring fees as well as higher transactional revenue, reflecting the improved market conditions. Further, revenues were accentuated by much stronger revenues from our municipal securities business.

Operating expenses

Total operating expenses decreased 29% to CHF 5,187 million in 2003 from CHF 7,348 million in 2002. Excluding acquisition costs and the writedown of the PaineWebber brand in 2002, the drop was 14%, mainly due to the weakening of the US dollar against the Swiss franc. Excluding currency effects, operating expenses were 1% lower, reflecting lower general and administrative expenses which were nearly offset by higher performance-related compensation. Personnel expenses dropped 13% from CHF 4,245 million in 2002 to CHF 3,712 million in 2003. Excluding the effects of currency translation, personnel expenses were actually slightly higher than in 2002, reflecting higher performance-related compensation due to an increase in revenue partially offset by lower retention payments. General and administrative expenses fell 22% from CHF 1,263 million in 2002 to CHF 988 million in 2003. Excluding the impact of currency fluctuations, general and administrative expenses dropped 10% compared to 2002 due to the strict cost management discipline that we have exerted in the past three years. Operational provisions also fell as 2002 included the equity research settlement charge of CHF 21 million. The drop was further accentuated by the sale of the CSC business. Depreciation increased CHF 2 million to CHF 151 million in 2003 from CHF 149 million in 2002. Excluding currency movements, the increase in depreciation of 16% was due to higher charges for broker workstations purchased in 2003. Goodwill and other intangible amortization decreased from CHF 1,691 million in 2002 to CHF 336 million in 2003. This decrease was due to the prior-year writedown of the PaineWebber brand name, and the sale of CSC. Excluding the writedown and the sale of CSC, amortization charges dropped by 26% as a result of the weakening US dollar against the Swiss franc.

Headcount

Wealth Management USA's headcount decreased 8% during 2003 to 18,016, reflecting our continued cost management initiatives, curtailment of the trainee program and the sale of CSC. Non-financial advisor headcount was down by 456 or 4% compared to the end of 2002.



2002

Key performance indicators

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

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

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

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

agement initiatives implemented in 2002, among them reductions in non-financial advisor headcount, professional fees, advertising and office-related costs.

In 2002, recurring fees were CHF 2,199 million compared to CHF 2,366 million in 2001 because of the weakening of the US dollar against the Swiss franc. Excluding currency translation effects, recurring fees rose 2% in 2002 from 2001. The increase was due to higher account-based fees and higher recurring fees in the municipal securities business. These increases were offset by lower asset-based fees, which fell in line with the decline in asset levels.

In 2002, the number of financial advisors rose by 139 from 8,718 to 8,857 with recruiting and retention success partially offset by higher attrition rates among less experienced and less productive financial advisors.

Results

In 2002, political, economic and financial uncertainty continued to adversely affect investor activity. The UBS Index of Investor Optimism dropped significantly during 2002, with a low in October. Daily average client transaction volumes were 10% lower than in 2001.

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

Over full-year 2002, Wealth Management USA reported a pre-tax loss of CHF 1,800 million in 2002 compared to a loss of CHF 713 million in 2001. The drop was mainly due to the writedown of the PaineWebber brand. Performance before tax and acquisition costs showed a profit of CHF 632 million in 2002 compared to CHF 693 million in 2001. Excluding the effects of currency movements, 2002 performance before tax and acquisition costs was 3% higher than in 2001. Despite a decline in transactional revenues and lower asset-based revenues following further market drops, strict cost management discipline enabled us to improve our full-year 2002 operating performance. Excluding the USD 15 million (CHF 21 million) equity research settlement charge, full-year 2002 results in USD terms would have improved by 6% over 2001. The cost/income ratio dropped from 111% in 2001 to 110% in 2002.

Operating income

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

Operating expenses

Total operating expenses increased 4% to CHF 7,348 million in 2002 from CHF 7,086 million in 2001. Excluding the brand writedown and the effects of the weaker US dollar against the Swiss franc, operating expenses declined 5% from 2001, reflecting lower performance-driven compensation and lower retention expenses. In addition, cost management initiatives implemented during the course of 2002, the transfer of the prime brokerage business to the Investment Bank and the closure of the Japanese domestic private client businesses helped to reduce overall expenses. Personnel expenses dropped 15% from CHF 5,019 million in 2001 to CHF 4,245 million in 2002. Excluding the effects of currency translation, personnel expenses were 7% lower than 2001, reflecting lower performance-driven compensation due to a decline in revenues, a fall in non-financial advisor headcount, the transfer of the prime brokerage business to the Investment Bank, the closure of the Japanese domestic private client business and lower retention expenses. General and administrative expenses fell 12% from CHF 1,441 million in 2001 to CHF 1,263 million in 2002. Excluding the impact of the falling US dollar against the Swiss franc, general and administrative expenses dropped by 4% compared to 2001 due to the cost management initiatives implemented during the course of 2002, reducing our professional fees, advertising, travel and other office-related costs. In addition, general and administrative expenses were reduced by the transfer of prime brokerage business to the Investment Bank and the closure of the Japanese private client businesses. This was partially offset by the equity research settlement charge of CHF 21 million.

Depreciation increased CHF 25 million to CHF 149 million in 2002 from CHF 124 million in 2001. Excluding currency movements, the increase in depreciation of 32% was due to higher technology equipment charges. Goodwill and other intangible amortization increased from CHF 502 million in 2001 to CHF 1,691 million in 2002. This increase was entirely due to the writedown of the PaineWebber brand name. Excluding the writedown, amortization charges would have dropped as a result of the weakening US dollar against the Swiss franc.

Headcount

Wealth Management USA's headcount decreased 4% during 2002 to 19,563, reflecting our continued cost management initiatives. Non-financial advisor headcount was down by 989 or 8% compared to end of 2001. Further, we closed our Japanese domestic private client business and transferred the prime brokerage business to the Investment Bank. At the same time we expanded our financial advisor headcount by 139, reflecting our continued aim to extend the reach of our business.

Corporate Center

Business Group Reporting

CHF million, except where indicated For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Income	989	2,429[1]	1,761	(59)
Credit loss (expense)/recovery[2]	162	247	233	(34)
Total operating income	1,151	2,676	1,994	(57)
Personnel expenses	762	1,031	1,011	(26)
General and administrative expenses	445	733	723	(39)
Depreciation	473	513	428	(8)
Amortization of goodwill and other intangible assets	101	122	123	(17)
Total operating expenses	1,781	2,399	2,285	(26)
Business Group performance before tax	(630)	277	(291)	

Business Group reporting excluding significant financial events

	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Total operating income	1,151	2,449[3]	1,994	(53)
Total operating expenses	1,781	2,399	2,285	(26)
Business Group performance before tax	(630)	50	(291)	
Business Group performance before tax and amortization of goodwill and other intangible assets	(529)	172	(168)	
Private Banks & GAM				
Performance before tax	208	229[4]	198	(9)
Performance before tax and amortization of goodwill and other intangible assets	289	327[4]	297	(12)
Invested assets (CHF billion)	84	70	86	20
Net new money (CHF billion)[5]	7.2	4.2	5.4	
Headcount (full-time equivalents)	1,672	1,702	1,908	(2)

Additional information As at	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Regulatory equity allocated (average)	9,150	10,250	9,300	(11)
Fair value of employee stock options granted[6]	18	37		(51)
Total headcount (full-time equivalents)	2,878	2,887	3,040	0

[1] Includes significant financial events: gain on disposal of Hyposwiss of CHF 155 million and gain on disposal of Klinik Hirslanden of CHF 72 million. [2] In order to show the relevant Business Group performance over time, adjusted expected credit loss rather than the net actual credit loss expenses are reported for all Business Groups. The difference between the adjusted expected credit loss and the net actual credit loss expenses recorded at Group level is reported in the Corporate Center (see Note 2 to the Financial Statements). [3] Excludes significant financial events: gain on disposal of Hyposwiss of CHF 155 million and gain on disposal of Klinik Hirslanden of CHF 72 million. [4] Excludes significant financial event: gain on disposal of Hyposwiss of CHF 155 million. [5] Excludes interest and dividend income. [6] For informational purposes only. These pre-tax amounts have not been recorded in the Income statement. For details on the fair value calculation, refer to Note 32e to the Financial Statements.

Significant financial events

- In fourth quarter 2002, we realized a pre-tax gain of CHF 72 million from the sale of Klinik Hirslanden, a private hospital group.
- In first quarter 2002, we realized a pre-tax gain of CHF 155 million from the sale of private bank Hyposwiss.

There were no significant financial events in Corporate Center in 2003 or 2001.

2003

Results

Corporate Center recorded a pre-tax loss of CHF 630 million in full-year 2003, down from the CHF 277 million profit reported a year earlier.

Operating income

The credit loss expense or recovery booked in Corporate Center represents the difference between the expected loss-based amounts charged to the business units and the actual credit loss expense recognized in the Financial Statements. UBS recorded an actual credit loss expense of CHF 116 million in 2003, compared to a credit loss expense of CHF 206 million in 2002. In both periods, actual credit loss expense was lower than the sums charged to the business units, leading to a credit loss recovery of CHF 162 million in 2003 and CHF 247 million in 2002 in the Corporate Center.

Total operating income dropped by 57% from CHF 2,676 million in 2002 to CHF 1,151 million in 2003. Excluding the divestment gains of CHF 227 million from Hyposwiss and Hirslanden in 2002, the drop was 53%. This was mainly due to a fall-off in income of Klinik Hirslanden, and lower gains from financial investments. It also reflected lower interest income from our treasury activities following a decrease in revenues from our invested equity as we continued to buy back shares and experienced low interest rates. The impact of falling interest rates was partially offset by the diversification of our invested equity into currencies other than Swiss francs which led to higher returns and increased currency hedging revenues. Results also reflected the CHF 85 million fall in credit loss recoveries.

Operating expenses

Total operating expenses fell to CHF 1,781 million in 2003, down from CHF 2,399 million a year earlier. Personnel expenses declined 26% from CHF 1,031 million in 2002 to CHF 762 million in 2003. The drop was due to the deconsolidation of Klinik Hirslanden, but was partially offset by higher expenses for performance-related compensation. In the same period, general and administrative expenses fell to CHF 445 million from CHF 733 million. This was mainly due to lower legal provisions, the disposal of Klinik Hirslanden and lower project-related expenses, partially offset by higher branding costs. Depreciation dropped from CHF 513 million in 2002 to CHF 473 million in 2003. The decrease is mainly due to the absence of depreciation expenses from Klinik Hirslanden and lower depreciation in the Private Banks & GAM unit. At CHF 101 million in 2003, amortization of goodwill and other intangibles dropped by 17% from CHF 122 million in 2002, reflecting the drop of the US dollar against the Swiss franc.

Headcount

Corporate Center headcount, excluding Private Banks & GAM, was 1,206 on 31 December 2003, an increase of 21 from the 1,185 on 31 December 2002. The increase was mainly due to the first-time consolidation of Hotel Widder as well as an increase in our human resources and risk functions. This was nearly offset by a decline in the number of trainees, a transfer of some employees to the Business Groups and lower headcount in the Chief Communication Officer area.

Private Banks & GAM

Invested assets in Private Banks & GAM totaled CHF 84 billion on 31 December 2003, up from CHF 70 billion on 31 December 2002, reflecting strong net new money inflows, and positive financial markets as well as the acquisition of Banque Notz Stucki S.A. by Ferrier Lullin & Cie S.A., which was completed in December 2003.

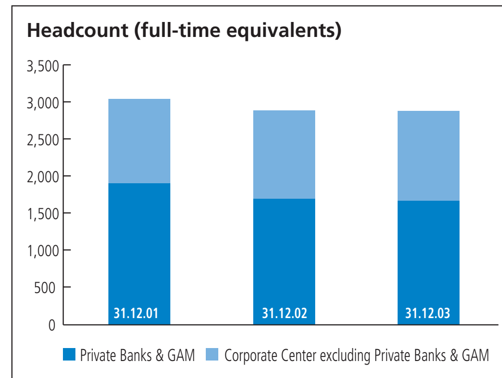
Net new money was CHF 7.2 billion in 2003, up from CHF 4.2 billion in 2002, driven by excellent inflows into GAM.

Pre-tax profit, at CHF 208 million in 2003, dropped by 9% from CHF 229 million a year

earlier, mainly reflecting higher legal provisions, as well as restructuring costs related to the merger of Cantrade, Bank Ehinger and Armand von Ernst to form Ehinger & Armand von Ernst.

Headcount Private Banks & GAM

Headcount decreased by 30 to 1,672 on 31 December 2003 from 1,702 a year earlier, mainly due to the rationalization within the individual private banks. This was partially offset by the acquisition of Banque Notz Stucki S.A. as well as an increase in headcount at GAM due to the growth of the business.



2002

Results

Corporate Center recorded a pre-tax gain of CHF 277 million in 2002, compared to the pre-tax loss of CHF 291 million in 2001.

Operating income

We recorded an actual credit loss of CHF 206 million in 2002 and CHF 498 million in 2001. The difference between expected loss-based amounts charged to the business units and the actual credit loss expense recognized in the Financial Statements is booked as a credit loss expense or recovery in the Corporate Center. In 2002, the actual loss was lower than the overall adjusted credit loss expense charged to the business units, resulting in a credit loss recovery in Corporate Center of CHF 247 million, compared to a credit loss recovery of CHF 233 million in 2001.

Full-year 2002 total operating income increased by 34% from CHF 1,994 million in 2001 to CHF 2,676 million in 2002. This was primarily due to the abovementioned divestment gains of Klinik Hirslanden and Hyposwiss, higher interest income at Group Treasury, gains from the sale of financial investments and an unrealized gain on derivatives used to economically hedge interest rate risk related to structured notes issued. These developments, however, were partially offset by writedowns on financial investments.

Operating expenses

Total operating expenses were CHF 2,399 million in 2002, 5% higher than in 2001. Over full-year 2002, personnel expenses increased by 2% from CHF 1,011 million in 2001 to CHF 1,031 million in 2002, mainly reflecting higher expenses at Klinik Hirslanden, although that was partially offset by lower performance-related compensation. General and administrative expenses for 2002, at CHF 733 million, were CHF 10 million higher than in 2001. This was mainly due to higher provisions for legal cases, advertising expenditures and higher expenses at Klinik Hirslanden. At CHF 513 million in 2002, depreciation increased by 20% compared to 2001. This was mainly due to higher software depreciation, which was previously capitalized, as well as higher depreciation levels for Klinik Hirslanden.

Headcount

Corporate Center headcount, excluding Private Banks & GAM, increased 5% during 2002 to 1,185 at 31 December 2002, reflecting new hires in Human Resources and Controller areas as well as transfers of staff from the Business Groups.

Private Banks & GAM

Invested assets were CHF 70 billion on 31 December 2002, down from CHF 86 billion a year earlier, reflecting the drop in equity markets in 2002.

Net new money was CHF 4.2 billion in 2002, slightly down from CHF 5.4 billion a year earlier. The slight drop reflects the much more difficult market environment in 2002 compared to a year earlier.

Pre-tax profit increased from CHF 198 million in 2001 to CHF 384 million in 2002. Excluding the divestment gains of CHF 155 million of Hyposwiss and after goodwill, the

increase was CHF 31 million or 16%. The adjusted operating income was down CHF 73 million due to generally weaker income as a result of unfavorable market conditions. On the other hand, expenses were CHF 104 million lower as a result of rigid cost control. The decline in revenues and expenses includes the divestment of Hyposwiss (two months of business in 2002).

Headcount Private Banks & GAM

Headcount in Private Banks & GAM decreased by 206 during 2002 to 1,702 at 31 December 2002, mainly reflecting the sale of Hyposwiss.

Financial Statements

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 4 February 2004

Report of the group auditors

We have audited the accompanying group balance sheets of UBS AG as of 31 December 2003 and 2002, and the related group statements of income, cash flows and changes in equity for each of the three years ended 31 December 2003, and notes thereto / pages 82 to 183. These financial statements are the responsibility of the company's management and the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements in Switzerland concerning professional qualification and independence.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, as well as those promulgated by the profession in Switzerland. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit, the group financial statements referred to above present fairly, in all material respects, the consolidated financial position of UBS AG as of 31 December 2003 and 2002, and the consolidated results of operations and cash flows for each of the three years ended 31 December 2003, in conformity with International Financial Reporting Standards ("IFRS"), and they comply with Swiss Law.

In accordance with Swiss Law, we recommend that the group financial statements submitted to you be approved.

IFRS vary in certain significant respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States of America would have affected shareholders' equity as of 31 December 2003 and 2002 and the results of operations for each of the three years ended 31 December 2003 to the extent summarized in Note 40 of the notes to the financial statements.

Ernst & Young Ltd

Roger K. Perkin	Peter Heckendorn
Chartered Accountant	lic. oec.
(in charge of the audit)	(in charge of the audit)

■ Offices in Aarau, Baden, Basel, Berne, Geneva, Kreuzlingen, Lausanne, Lucerne, Lugano, Neuchâtel, St. Gallen, Zug, Zurich.
Member of the Swiss Chamber of Auditors

Financial Statements

UBS Income Statement

CHF million, except per share data For the year ended	Note	**31.12.03**	31.12.02	31.12.01	% change from 31.12.02
Operating income					
Interest income	3	**40,159**	39,963	52,277	0
Interest expense	3	**(27,860)**	(29,417)	(44,236)	(5)
Net interest income		**12,299**	10,546	8,041	17
Credit loss (expense)/recovery		**(116)**	(206)	(498)	(44)
Net interest income after credit loss expense		**12,183**	10,340	7,543	18
Net fee and commission income	4	**17,345**	18,221	20,211	(5)
Net trading income	3	**3,883**	5,572	8,802	(30)
Other income	5	**561**	(12)	558	
Total operating income		**33,972**	34,121	37,114	0
Operating expenses					
Personnel expenses	6	**17,231**	18,524	19,828	(7)
General and administrative expenses	7	**6,086**	7,072	7,631	(14)
Depreciation of property and equipment	14	**1,364**	1,521	1,614	(10)
Amortization of goodwill and other intangible assets	15	**943**	2,460	1,323	(62)
Total operating expenses		**25,624**	29,577	30,396	(13)
Operating profit before tax and minority interests		**8,348**	4,544	6,718	84
Tax expense	21	**1,618**	678	1,401	139
Net profit before minority interests		**6,730**	3,866	5,317	74
Minority interests	22	**(345)**	(331)	(344)	4
Net profit		**6,385**	3,535	4,973	81
Basic earnings per share (CHF)	8	**5.72**	2.92	3.93	96
Diluted earnings per share (CHF)	8	**5.61**	2.87	3.78	95

UBS Balance Sheet

CHF million	Note	31.12.03	31.12.02	% change from 31.12.02
Assets				
Cash and balances with central banks		3,584	4,271	(16)
Due from banks	9	31,667	32,468	(2)
Cash collateral on securities borrowed	10	213,932	139,052	54
Reverse repurchase agreements	10	320,587	294,086	9
Trading portfolio assets	11	461,772	371,436	24
Positive replacement values	23	84,334	82,092	3
Loans	9	212,504	211,647	0
Financial investments	12	5,139	8,391	(39)
Accrued income and prepaid expenses		6,218	6,453	(4)
Investments in associates	13	1,616	705	129
Property and equipment	14	7,659	7,869	(3)
Goodwill and other intangible assets	15	11,529	13,696	(16)
Other assets	16, 21	25,459	8,952	184
Total assets		1,386,000	1,181,118	17
Total subordinated assets		*4,794*	*3,652*	*31*
Liabilities				
Due to banks	17	127,153	83,178	53
Cash collateral on securities lent	10	53,278	36,870	45
Repurchase agreements	10	415,863	366,858	13
Trading portfolio liabilities	11	143,957	106,453	35
Negative replacement values	23	93,646	81,282	15
Due to customers	17	347,358	306,876	13
Accrued expenses and deferred income		13,673	15,331	(11)
Debt issued	18	120,237	129,411	(7)
Other liabilities	19, 20, 21	31,316	12,339	154
Total liabilities		1,346,481	1,138,598	18
Minority interests	22	4,073	3,529	15
Shareholders' equity				
Share capital		946	1,005	(6)
Share premium account		6,938	12,638	(45)
Net gains/(losses) not recognized in the income statement, net of tax		(983)	(159)	(518)
Retained earnings		36,725	32,638	13
Treasury shares		(8,180)	(7,131)	(15)
Total shareholders' equity		35,446	38,991	(9)
Total liabilities, minority interests and shareholders' equity		1,386,000	1,181,118	17
Total subordinated liabilities		*9,301*	*10,102*	*(8)*

UBS Statement of Changes in Equity

CHF million For the year ended	31.12.03	31.12.02	31.12.01
Issued and paid up share capital			
Balance at the beginning of the year	1,005	3,589	4,444
Issue of share capital	2	6	12
Capital repayment by par value reduction [1]		(2,509)	(683)
Cancellation of second trading line treasury shares (2000 Program)			(184)
Cancellation of second trading line treasury shares (2001 Program)		(81)	
Cancellation of second trading line treasury shares (2002 Program)	(61)		
Balance at the end of the year	946	1,005	3,589
Share premium			
Balance at the beginning of the year	12,638	14,408	20,885
Premium on shares issued and warrants exercised	92	157	80
Net premium/(discount) on treasury share and own equity derivative activity	(324)	282	(239)
Settlement of own shares to be delivered			(2,502)
Cancellation of second trading line treasury shares (2000 Program)			(3,816)
Cancellation of second trading line treasury shares (2001 Program)		(2,209)	
Cancellation of second trading line treasury shares (2002 Program)	(5,468)		
Balance at the end of the year	6,938	12,638	14,408
Net gains / (losses) not recognized in the income statement, net of taxes			
Foreign currency translation			
Balance at the beginning of the year	(849)	(769)	(687)
Movements during the year [2]	(795)	(80)	(82)
Subtotal – balance at the end of the year	(1,644)	(849)	(769)
Net unrealized gains / (losses) on available-for-sale investments, net of taxes			
Balance at the beginning of the year	946	1,035	0
Change in accounting policy			1,577 [3]
Net unrealized gains/(losses) on available-for-sale investments	(108)	(144)	(139)
Impairment charges reclassified to the income statement	285	635	47
Gains reclassified to the income statement	(340)	(600)	(461)
Losses reclassified to the income statement	22	20	11
Subtotal – balance at the end of the year	805	946	1,035
Change in fair value of derivative instruments designated as cash flow hedges, net of taxes			
Balance at the beginning of the year	(256)	(459)	0
Change in accounting policy			(380) [3]
Net unrealized gains/(losses) on the revaluation of cash flow hedges	116	(11)	(316)
Net (gains)/losses reclassified to the income statement	(4)	214	237
Subtotal – balance at the end of the year	(144)	(256)	(459)
Balance at the end of the year	(983)	(159)	(193)
Retained earnings			
Balance at the beginning of the year	32,638	29,103	24,191
Change in accounting policy			(61) [3]
Balance at the beginning of the year (restated)	32,638	29,103	24,130
Net profit for the year	6,385	3,535	4,973
Dividends paid [1]	(2,298)		
Balance at the end of the year	36,725	32,638	29,103
Treasury shares, at cost			
Balance at the beginning of the year	(7,131)	(3,377)	(4,000)
Acquisitions	(8,424)	(8,313)	(13,506)
Disposals	1,846	2,269	10,129
Cancellation of second trading line treasury shares (2000 Program)			4,000
Cancellation of second trading line treasury shares (2001 Program)		2,290	
Cancellation of second trading line treasury shares (2002 Program)	5,529		
Balance at the end of the year	(8,180)	(7,131)	(3,377)
Total shareholders' equity	35,446	38,991	43,530

[1] On 16 July 2001, UBS made a distribution to shareholders of CHF 1.60 per share, paid in the form of a reduction in the par value of its shares, from CHF 10.00 to CHF 8.40. At the same time, UBS split its share 3 for 1, resulting in a new par value of CHF 2.80 per share. On 10 July 2002, UBS made a distribution of CHF 2.00 per share to shareholders which reduced the par value from CHF 2.80 to CHF 0.80 per share. A dividend of CHF 2.00 per share was paid out on 23 April 2003. There was no capital repayment by par value reduction in 2003.

[2] Included are gains and losses from match-funding of net investments in foreign entities as follows: CHF 93 million net gain for 2003, CHF 849 million net gain for 2002 and CHF 43 million net loss for 2001.

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

UBS Statement of Changes in Equity (continued)

Shares issued

	Number of shares			% change from
For the year ended	**31.12.03**	31.12.02	31.12.01	31.12.02
Balance at the beginning of the year	**1,256,297,678**	1,281,717,499	1,333,139,187	(2)
Issue of share capital	**2,719,166**	3,398,869	3,843,661	(20)
Cancellation of second trading line treasury shares (2000 Program)			(55,265,349)	
Cancellation of second trading line treasury shares (2001 Program)		(28,818,690)		
Cancellation of second trading line treasury shares (2002 Program)	**(75,970,080)**			
Balance at the end of the year	**1,183,046,764**	1,256,297,678	1,281,717,499	(6)

Treasury shares

	Number of shares			% change from
For the year ended	**31.12.03**	31.12.02	31.12.01	31.12.02
Balance at the beginning of the year	**97,181,094**	41,254,951	55,265,349	136
Acquisitions	**116,080,976**	110,710,741	162,818,045	5
Disposals	**(25,931,298)**	(25,965,908)	(121,563,094)	0
Cancellation of second trading line treasury shares (2000 Program)			(55,265,349)	
Cancellation of second trading line treasury shares (2001 Program)		(28,818,690)		
Cancellation of second trading line treasury shares (2002 Program)	**(75,970,080)**			
Balance at the end of the year	**111,360,692**	97,181,094	41,254,951	15

During the year a total of 75,970,080 shares acquired under the second trading line buyback program 2002 were cancelled. At 31 December 2003, a maximum of 6,871,752 shares can be issued against the exercise of options from former PaineWebber employee option plans. These shares are shown as conditional share capital in the UBS AG (Parent Bank) disclosure. Out of the total number of 111,360,692 treasury shares, 56,707,000 shares (CHF 4,266 million) were acquired under the second trading line buyback program 2003 and are earmarked for cancellation. The Board of Directors will propose to the Annual General Meeting on 15 April 2004 to reduce the outstanding number of shares and the share capital by the number of shares purchased for cancellation. All issued shares are fully paid.

Financial Statements

UBS Statement of Cash Flows

CHF million For the year ended	31.12.03	31.12.02	31.12.01
Cash flow from / (used in) operating activities			
Net profit	6,385	3,535	4,973
Adjustments to reconcile net profit to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation of property and equipment	1,364	1,521	1,614
Amortization of goodwill and other intangible assets	943	2,460	1,323
Credit loss expense / (recovery)	116	206	498
Equity in income of associates	(123)	(7)	(72)
Deferred tax expense / (benefit)	514	(509)	292
Net loss / (gain) from investing activities	(63)	986	513
Net (increase) / decrease in operating assets:			
Net due from / to banks	42,921	(22,382)	27,306
Reverse repurchase agreements and cash collateral on securities borrowed	(101,381)	(944)	(60,536)
Trading portfolio and net replacement values	(52,264)	21,967	(78,456)
Loans / due to customers	38,594	(11,537)	42,813
Accrued income, prepaid expenses and other assets	(16,100)	2,875	(424)
Net increase / (decrease) in operating liabilities:			
Repurchase agreements and cash collateral on securities lent	65,413	4,791	80,006
Accrued expenses and other liabilities	18,188	(4,754)	(5,235)
Income taxes paid	(1,104)	(572)	(1,742)
Net cash flow from / (used in) operating activities	3,403	(2,364)	12,873
Cash flow from / (used in) investing activities			
Investments in subsidiaries and associates	(428)	(60)	(467)
Disposal of subsidiaries and associates	834	984	95
Purchase of property and equipment	(1,376)	(1,763)	(2,021)
Disposal of property and equipment	123	67	380
Net (investment in) / divestment of financial investments	2,317	2,153	(5,770)
Net cash flow from / (used in) investing activities	1,470	1,381	(7,783)
Cash flow from / (used in) financing activities			
Net money market paper issued / (repaid)	(14,737)	(26,206)	24,226
Net movements in treasury shares and treasury share contract activity	(6,810)	(5,605)	(6,038)
Capital issuance	2	6	12
Capital repayment by par value reduction	0	(2,509)	(683)
Dividends paid	(2,298)		
Issuance of long-term debt	23,644	17,132	18,233
Repayment of long-term debt	(13,615)	(14,911)	(18,477)
Increase in minority interests [1]	755	0	1,291
Dividend payments to / and purchase from minority interests	(278)	(377)	(461)
Net cash flow from / (used in) financing activities	(13,337)	(32,470)	18,103
Effects of exchange rate differences	(524)	(462)	(304)
Net increase / (decrease) in cash and cash equivalents	(8,988)	(33,915)	22,889
Cash and cash equivalents, beginning of the year	82,344	116,259	93,370
Cash and cash equivalents, end of the year	73,356	82,344	116,259
Cash and cash equivalents comprise:			
Cash and balances with central banks	3,584	4,271	20,990
Money market paper [2]	40,599	46,183	69,938
Due from banks maturing in less than three months	29,173	31,890	25,331
Total	73,356	82,344	116,259

[1] Includes issuance of trust preferred securities of CHF 372 million for the year ended 31 December 2003 and CHF 1,291 million for the year ended 31 December 2001.
[2] Money market paper is included in the Balance sheet under Trading portfolio assets and Financial investments. CHF 6,430 million, CHF 10,475 million and CHF 29,895 million were pledged at 31 December 2003, 31 December 2002 and 31 December 2001, respectively.

UBS Statement of Cash Flows (continued)

Significant non-cash investing and financing activities

CHF million For the year ended	31.12.03	31.12.02	31.12.01
Hyposwiss, Zurich, deconsolidation			
Financial investments	0	53	0
Property and equipment	0	18	0
Debt issued	0	63	0
Hirslanden Holding AG, Zurich, deconsolidation			
Financial investments	0	3	0
Property and equipment	0	718	0
Goodwill and other intangible assets	0	15	0
Consolidation of special purpose entities			
Debt issued	0	2,322	0
Provisions for reinstatement costs			
Property and equipment	137	0	0

Notes to the Financial Statements

Note 1 Summary of Significant Accounting Policies

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

The consolidated financial statements of UBS (the "Financial Statements") are prepared in accordance with International Financial Reporting Standards ("IFRS") and stated in Swiss francs (CHF), the currency of the country in which UBS AG is incorporated. On 4 February 2004 the Board of Directors approved them for issue.

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

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

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

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

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

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

financial assets. Derecognition of a financial asset takes place when the Group loses control of the contractual rights that comprise the financial asset, which is normally the case when the asset is sold, or all the cash flows attributable to the asset are passed through to an independent third party. These transactions do not affect the consolidation status of an entity.

d) Foreign currency translation

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

Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For a non-monetary financial asset classified as held for trading, unrealized exchange differences are recognized in the income statement. For non-monetary Financial investments, which are classified as available-for-sale, unrealized exchange differences are recorded directly in Shareholder's equity until the asset is sold.

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

e) Segment reporting

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

Segment income, segment expenses and segment performance include transfers between business segments and between geographic segments. Such transfers are conducted at arm's length.

f) Cash and cash equivalents

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

g) Fee income

UBS earns fee income from a diverse range of services it provides to its customers. Fee income can be divided into two broad categories: income earned from services that are provided over a certain period of time, for which customers are generally billed on an annual or semi-annual basis, and income earned from providing transaction-type services. Fees earned from services that are provided over a certain period of time are recognized ratably over the service period. Fees earned from providing transaction-type services are recognized when the service has been completed. Fees or components of fees that are performance linked are recognized when the performance criteria are fulfilled.

The following fee income is predominantly earned from services that are provided over a period of time: investment fund fees, fiduciary fees, custodian fees, portfolio and other management and advisory fees, insurance-related fees, credit-related fees and commission income. Fees predominantly earned from providing transaction type services include underwriting fees, corporate finance fees, and brokerage fees.

h) Securities borrowing and lending

Securities borrowing and securities lending transactions are generally entered into on a collateralized basis, with securities predominantly advanced or received as collateral. Transfer of the securities themselves, whether in a borrowing/lending transaction or as collateral, is not reflected on the balance sheet unless the risks and rewards of ownership are also transferred. If cash collateral is advanced or received, securities borrowing and lending activities are recorded at the amount of cash

collateral advanced (Cash collateral on securities borrowed) or received (Cash collateral on securities lent).

UBS monitors the market value of the securities borrowed and lent on a daily basis and provides or requests additional collateral in accordance with the underlying agreements.

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

i) Repurchase and reverse repurchase transactions

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are generally treated as collateralized financing transactions. In reverse repurchase agreements, the cash advanced, including accrued interest, is recognized on the balance sheet as Reverse repurchase agreements. In repurchase agreements, the cash received, including accrued interest, is recognized on the balance sheet as Repurchase agreements.

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

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

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

j) Trading portfolio

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

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

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

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

k) Loans originated by the Group

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

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

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

l) Allowance and provision for credit losses

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

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

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

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

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

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

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

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

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

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

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

A loan is classified as non-performing when the contractual payments of principal and/or interest are in arrears for 90 days or more, bankruptcy proceedings have been initiated or concessionary terms have been granted in restructuring procedures.

Country-specific: Where, in management's opinion, it is probable that some claims may be affected by systemic crisis, transfer restrictions or non-enforceability, specific country allowances for probable losses are established. They are based on country-specific scenarios,

taking into consideration the nature of the individual exposures, but excluding those amounts covered by counterparty-specific allowances.

m) Securitizations

UBS securitizes various consumer and commercial financial assets, which generally results in the sale of these assets to special-purpose entities, which, in turn issue securities to investors. Financial assets are partially or wholly derecognized when the Group gives up control of the financial asset or portions thereof.

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

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

n) Financial investments

Financial investments are classified as available-for-sale and recorded on a settlement date basis. Available-for-sale financial investments are instruments which, in management's opinion, may be sold in response to or in anticipation of needs for liquidity or changes in interest rates, foreign exchange rates or equity prices. Financial investments consist of money market paper, other debt instruments and equity instruments, including private equity investments.

Available-for-sale financial investments are carried at fair value. Unrealized gains or losses on available-for-sale investments are reported in Shareholders' equity, net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until such investment is determined to be impaired. On disposal of an available-for-sale investment, the accumulated unrealized gain or loss included in Shareholders' equity is transferred to net profit or loss for the period and reported in Other income. Gains and losses on disposal are determined using the average cost method.

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

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

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

o) Property and equipment

Property and equipment includes own-used properties, investment properties, leasehold improvements, IT, software and communication, and other machines and equipment.

Own-used property is defined as property held by the Group for use in the supply of services or for administrative purposes whereas investment property is defined as property held

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

Leasehold improvements are investments made to customize buildings and offices occupied under operating lease contracts to make them suitable for the intended purpose. The estimated reinstatement costs to bring a leased property into its original condition at the end of the lease, if required, is capitalized as part of the total leasehold improvements costs. At the same time, a corresponding liability is recognized to reflect the obligation incurred. Reinstatement costs are recognized in profit and loss through depreciation of the capitalized leasehold improvements over their estimated useful life.

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

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

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

Properties, excluding land	Not exceeding 50 years
Leasehold improvements	Residual lease term, but not exeeding 10 years
Other machines and equipment	Not exceeding 10 years
IT, software and communication	Not exceeding 5 years

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

For investment property carried at cost less accumulated depreciation, the investment property's fair value and details of how fair value is determined are disclosed in Note 14. UBS employs internal real estate experts who determine the fair value of investment property by applying recognized valuation techniques. In cases where prices of recent market transactions of comparable properties are available, fair value is determined by reference to these transactions.

p) Goodwill and other intangible assets

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

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

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

q) Income taxes

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

Deferred tax liabilities are recognized for temporary differences between the carrying

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

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

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

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

r) Debt issued

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

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

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

It is the Group's policy to hedge the fixed interest rate risk on debt issues (except for certain subordinated long-term note issues, see Note 29a) and apply fair value hedge accounting. When hedge accounting is applied to fixed rate debt instruments, the carrying values of debt issues are adjusted for changes in fair value related to the hedged exposure rather than carried at amortized cost. See v) Derivative instruments for further discussion.

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

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

s) Treasury shares

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

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

less cost (net of tax, if any), are reported as Share premium.

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

t) Retirement benefits

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

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

The principal actuarial assumptions used by the actuary are set out in Note 31.

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

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

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

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

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

u) Equity participation plans

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

v) Derivative instruments and hedging

All derivative instruments are carried at fair value on the balance sheet and are reported as Positive or Negative replacement values. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying. Inputs used in pricing models are generally market observable or can be derived from market observable data. If market observable data are not available, the initial increase in fair value indicated by valuation techniques but based on unobservable inputs is amortized to income over the life of the transactions. The Group offsets positive and negative replacement values with the same counterparty for transactions covered by legally enforceable master netting agreements, as explained in Note 23.

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

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

At the time a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s). Documentation includes its risk management objectives and its strategy in undertaking the hedge transac-

tion, together with the methods that will be used to assess the effectiveness of the hedging relationship. Accordingly, the Group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been "highly effective" in offsetting changes in the fair value or cash flows of the hedged items. A hedge is normally regarded as highly effective if, at inception and throughout its life, the Group can expect, and actual results indicate, changes in the fair value or cash flows of the hedged item are offset by the changes in the fair value or cash flows of the hedging instrument, and actual results are within a range of 80% to 125%. In the case of hedging a forecast transaction, the transaction must have a high probability of occurring and must present an exposure to variations in cash flows that could ultimately affect reported net profit or loss. The Group discontinues hedge accounting when it is determined that: a derivative is not, or has ceased to be, highly effective as a hedge; when the derivative expires, or is sold, terminated, or exercised; when the hedged item matures or is sold or repaid; or when a forecast transaction is no longer deemed highly probable.

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

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

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

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

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

A derivative may be embedded in a "host contract". Such combinations are known as hybrid instruments and arise predominantly from the issuance of certain structured debt instruments. If the host contract is not carried at fair value with changes in fair value reported in

net profit or loss, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative instrument at fair value if, and only if: the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the embedded derivative actually meets the definition of a derivative.

w) Earnings per Share (EPS)

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

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

x) Comparability

Amended IAS 19, Employee Benefits

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

Segment Reporting

As at 1 January 2003, the five private label banks (three of which were subsequently merged into one bank) owned by UBS were transferred out of Wealth Management & Business Banking into Corporate Center. At the same time, GAM was transferred out of Global Asset Management into Corporate Center. All prior period comparative amounts of the affected Business Groups have been restated to conform to the current year presentation.

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

IAS 39, Recognition and Measurement of Financial Instruments

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

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

As a result of the adoption of IAS 39, Gains/losses not recognized in the income statement is a new component of Shareholders' equity as at 1 January 2001. It includes unrealized gains and losses on available-for-sale financial investments and on derivatives designated as cash flow hedges as well as Foreign currency translation. The opening adjustment as at 1 January 2001 to financial investments recorded as available for sale was a net unrealized gain of CHF 1,769 million (CHF 1,577 million net of taxes), and for derivatives designated as cash flow hedges an unrealized net loss of CHF 506 million (CHF 380 million net of taxes).

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

y) Recently issued International Financial Reporting Standards

Revised IAS 32 and 39

In December 2003, the International Accounting Standards Board (IASB) issued revised IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement. Both standards are effective for financial years beginning on or after 1 January 2005, with earlier application of both standards together being permitted. Together the two standards provide comprehensive guidance on recognition, measurement, presentation and disclosure of financial instruments. The standards are to be applied retrospectively, with the exception of portions of the guidance relating to derecogni-

tion of financial assets and liabilities, which is to be applied prospectively.

UBS decided to early adopt these revised standards as of 1 January 2004. Therefore, comparative prior years 2003 and 2002 presented in the 2004 financial statements will need to be restated as if the revised standards had always been in effect.

Revised IAS 39 permits any financial instrument that is not a derivative or included in the trading portfolio to be designated at inception, or at adoption of this standard, as at fair value through profit and loss. UBS has designated the majority of its compound instruments issued as at fair value through the income statement, which will eliminate the requirement to separate the embedded derivative instrument from the host contract. Instead, the instrument in its entirety will be carried at fair value, with changes in fair value being recorded in income.

The guidance governing recognition and derecognition of a financial asset is considerably more complex under revised IAS 39 and may require a multi-step decision process to determine whether derecognition is appropriate. The impact, if any, from the changed accounting guidance is currently not expected to be material to UBS.

Financial guarantees have to be recognized on the balance sheet under revised IAS 39 at fair value upon issuance. Previously, they were kept off-balance sheet unless a provision had to be recognized because a loss had been incurred. Guarantees provided against a fee are now initially recognized as a liability equal to the amount of fee receivable over the contractual life of the guarantee issued. They are subsequently carried at the higher of the initial amount less cumulative amortization or, if it is probable that a loss has been incurred, at the estimated amount of that loss. This change in accounting does not affect revenue recognition related to guarantees, and the effect from restating prior periods is insignificant.

Under revised IAS 39, loan commitments that can be settled net meet the definition of a derivative. Additionally, any loan commitment may be designated at inception as held at fair value through profit and loss. If the loan is subsequently funded, it must also be carried at fair value. A loan commitment provided at a below-market interest rate not designated as held at fair value is initially recorded at fair value (liability) and a loss has to be recognized. The liability can subsequently be amortized to income, as appropriate, unless a provision needs to be recorded to cover an incurred loss. The change in accounting will not have a material impact on the financial statements as loan commitments are generally issued at market conditions.

Revised IAS 32 requires that certain derivative contracts linked to an entity's own shares be treated as assets or liabilities and not as equity instruments. Obligations to repurchase own shares against cash, for example through a forward purchase contract, must be recognized as a liability on the balance sheet by transferring the fair value of the obligation out of shareholders' equity. Subsequently, the obligation is accreted to the settlement amount through recognizing interest expense. All net share settled contracts on own shares have to be accounted for as derivatives, whereas under old IAS 32 they were classified as equity instruments. The impact from restatement on our prior period net profit, earnings per share and shareholders' equity is insignificant.

Revised IAS 32 provides that netting is permitted only if normal settlement is also intended to take place on a net basis. In general, that condition is not met and therefore certain replacement values that were previously offset will be reported gross. This will increase the total amount of assets and liabilities on our balance sheet by approximately CHF 165 billion at 31 December 2003. There will be no effect on net profit, shareholders' equity, earnings per share or regulatory capital from the change.

UBS is currently completing the assessment of the effect the adoption of the two revised standards will have on its Financial Statements.

IASB Improvements Project

In December 2003, the IASB issued 13 revised International Accounting Standards under its Improvement Project in an attempt to clarify language, to remove inconsistencies and to achieve convergence with other accounting standards, notably US GAAP. All revised standards are effective for financial years beginning on or after 1 January 2005. Of these 13 improved standards only two are expected to have a significant influence on UBS. These are IAS 27,

Consolidated and Separate Financial Statements, and IAS 28, Investments in Associates.

IAS 27 has been amended to limit the exemption from consolidating a subsidiary over which control is exercised temporarily to a twelve-month period. UBS has several private equity investments where it owns a controlling interest. As they are held longer than a twelve-month period, these investments need to be consolidated commencing 1 January 2005 with retrospective restatement of comparative prior years 2004 and 2003. The initial calculations of the effect from consolidating these investments indicate that the balance sheet and income statement impact could be material and could lead to the addition of a new business segment that comprises the operations of these industrial and non-financial services businesses.

IAS 28 has been amended in the same way as IAS 27 to limit the exemption from equity method accounting to investments that are held with a view to their disposal within twelve months. Private equity investments, where UBS exercises significant influence, need to be accounted for using the equity method instead of as financial investments available-for-sale. UBS's share in income or loss will be recognized in profit and loss, whereas currently unrealized gains and losses from fair value changes are directly recorded in shareholders' equity, unless an investment is impaired, in which case the loss is recognized in income. UBS is currently in the process of determining the effect this change in accounting will have on its financial statements.

All other revised standards under the Improvement Project will primarily affect presentation and disclosure, but not recognition and measurement of assets and liabilities, and will, therefore, not have a material impact on the financial statements.

IFRS 2 Share-based Payment

On 19 February 2004, the IASB issued IFRS 2 Share-based Payment, which governs the accounting for share-based payments. When share-based payments are made to employees, for example through awards of shares or share options, the fair value of these awards measured at the date of grant must be recognized as compensation expense. The new standard is effective for financial years beginning on or after 1 January 2005 and applies to equity-settled awards granted after 7 November 2002 that have not vested at 1 January 2005 and to liabilities arising from share-based awards that exist at the effective date. Comparative prior periods need to be restated and the opening balance of retained earnings at 1 January 2003 has to be adjusted. UBS discloses the compensation expense attributable to share-based awards in Note 32, but the amounts disclosed are based on the requirements under US generally accepted accounting principles, which may differ from IFRS 2. UBS is currently evaluating the impact the new standard will have on its financial statements.

z) Accounting changes effective in 2004

Investment Properties

Effective 1 January 2004, UBS changed its accounting for investment property from historical cost less accumulated depreciation to the fair value model. All changes in the fair value of investment property will now be recognized in the profit and loss account, and depreciation expense will no longer be recorded for these properties. Investment property is held exclusively to earn rental income and benefit from appreciation in value. Therefore, carrying investment property at fair value better reflects the business rationale behind acquiring and managing these assets.

This change in accounting will lead to restatement of the 2002 and 2003 comparative financial years. The effects from restatement will be:

- to credit (increase) retained earnings as of 1 January 2002 by CHF 202 million, net of taxes of CHF 64 million, for the then existing difference between book value and fair value of the investment property portfolio;
- to reduce net profit for 2003 by CHF 64 million; and
- to reduce net profit for 2002 by CHF 117 million.

Credit risk losses incurred on OTC derivatives

Effective 1 January 2004, the accounting for credit risk losses incurred on over-the-counter (OTC) derivatives has been changed. All such credit risk losses will now be reported in net trading income and will no longer be reported in credit loss expense. This change better

reflects how the business is run and simplifies the current treatment. It does not affect net profit or earnings per share results. The change will, however, affect segment reporting, as actual losses reported as credit loss expense are currently deferred over a three-year period in the Business Group accounts, whereas actual losses in trading income are not subject to such a deferral. In the segment report, therefore, actual losses on OTC derivatives will now be reported as incurred. The changed accounting will not have a material effect on the Investment Bank's performance before tax for 2003.

Change in treatment of corporate client assets
Effective 1 January 2004, UBS re-classified corporate client assets of Business Banking Switzerland (except for pension funds) to exclude them from invested assets. This change was made because UBS has a minimal advisory role for such clients and asset flows are erratic as they are often driven more by liquidity requirements than pure investment reasons. This change will reduce invested assets at 31 December 2003 by approximately CHF 75 billion and increase net new money for 2003 by CHF 7.5 billion.

Note 2a Segment Reporting by Business Group

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

Effective 1 January 2003, our independent private banks – Ehinger & Armand von Ernst (formerly Ehinger, Armand von Ernst and Cantrade), Banco di Lugano and Ferrier Lullin – and GAM, our specialist asset management firm, were transferred from Wealth Management & Business Banking and Global Asset Management into a separate new holding company held by the Corporate Center. While this restructuring had no impact on the UBS Financial Statements, we have restated all prior periods for all Business Groups affected to reflect these changes.

Wealth Management & Business Banking
Wealth Management & Business Banking comprises two business units.

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

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

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

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

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

Investment Banking & Securities provides innovative products, research, advice and complete access to the world's capital markets for intermediaries, governments, corporate and institutional clients and other parts of UBS.

Private Equity is the private equity business unit of Investment Bank, investing UBS and third-party funds, primarily in unlisted companies.

Wealth Management USA
Wealth Management USA is a US financial services firm providing sophisticated wealth management services to affluent US clients through a highly trained financial advisor network.

Corporate Center
Corporate Center ensures that the Business Groups operate as a coherent and effective whole with a common set of values and principles in such areas as risk management, financial reporting, marketing and communications, funding, capital and balance sheet management and management of foreign exchange earnings. It also holds our private label banks and GAM, which provide clients with a complete range of private banking services in Switzerland and specialized asset management services, respectively.

Note 2a Segment Reporting by Business Group (continued)

Internal charges and transfer pricing adjustments are reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a Business Group on a reasonable basis. Transactions between Business Groups are conducted at arm's length.

For the year ended 31 December 2003

CHF million	Wealth Management & Business Banking	Global Asset Management	Investment Bank	Wealth Management USA	Corporate Center	UBS
Income [1]	12,052	1,737	14,120	5,190	989	34,088
Actual credit loss (expense) / recovery	(75)	0	(40)	(3)	2	(116)
Total operating income	11,977	1,737	14,080	5,187	991	33,972
Personnel expenses	4,584	816	7,357	3,712	762	17,231
General and administrative expenses	2,116	407	2,130	988	445	6,086
Depreciation	384	29	327	151	473	1,364
Amortization of goodwill and other intangible assets [2]	75	153	278	336	101	943
Total operating expenses	7,159	1,405	10,092	5,187	1,781	25,624
Business Group contribution before tax	**4,818**	**332**	**3,988**	**0**	**(790)**	**8,348**
Tax expense						1,618
Net profit before minority interests						**6,730**
Minority interests						(345)
Net profit						**6,385**
Additional information [3]						
Total assets	312,520	21,928	1,151,750	46,837	(147,035)	**1,386,000**
Total liabilities and minority interests	303,382	20,917	1,138,133	41,732	(153,610)	**1,350,554**
Capital expenditure	436	17	424	68	436	**1,381**

For internal management reporting purposes we measure credit loss expense using an expected loss concept. The table below shows Business Group performance consistent with the way in which our businesses are managed and the way Business Group performance is measured. Expected credit loss reflects the average annual costs that are expected to arise from positions in the current portfolio that become impaired in the future. The adjusted expected credit loss reported for each Business Group is the expected credit loss on its portfolio, plus the difference between actual credit loss expense and expected credit loss, amortized over a three year period. The difference between these adjusted expected credit loss figures and the actual net credit loss expense recorded at Group level for financial reporting purposes is reported in the Corporate Center.

CHF million	Wealth Management & Business Banking	Global Asset Management	Investment Bank	Wealth Management USA	Corporate Center	UBS
Income [1]	12,052	1,737	14,120	5,190	989	34,088
Adjusted expected credit loss	(131)	0	(139)	(8)	162	(116)
Total operating income	11,921	1,737	13,981	5,182	1,151	33,972
Personnel expenses	4,584	816	7,357	3,712	762	17,231
General and administrative expenses	2,116	407	2,130	988	445	6,086
Depreciation	384	29	327	151	473	1,364
Amortization of goodwill and other intangible assets [2]	75	153	278	336	101	943
Total operating expenses	7,159	1,405	10,092	5,187	1,781	25,624
Business Group performance before tax	**4,762**	**332**	**3,889**	**(5)**	**(630)**	**8,348**
Tax expense						1,618
Net profit before minority interests						**6,730**
Minority interests						(345)
Net profit						**6,385**

[1] Impairments on private equity and other financial investments for the year ended 31 December 2003 were as follows: Wealth Management & Business Banking CHF 18 million; Global Asset Management CHF 2 million; Investment Bank CHF 371 million; Wealth Management USA CHF 1 million; Corporate Center CHF 149 million. [2] For further information regarding goodwill and other intangible assets by Business Group, please see Note 15: Goodwill and Other Intangible Assets. [3] The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

For the year ended 31 December 2002

CHF million	Wealth Management & Business Banking	Global Asset Management	Investment Bank	Wealth Management USA	Corporate Center	UBS
Income [1]	12,184	1,655	12,498	5,561	2,429	34,327
Actual credit loss (expense) / recovery	(238)	0	35	(15)	12	(206)
Total operating income	11,946	1,655	12,533	5,546	2,441	34,121
Personnel expenses	4,596	774	7,878	4,245	1,031	18,524
General and administrative expenses	2,251	447	2,378	1,263	733	7,072
Depreciation	448	29	382	149	513	1,521
Amortization of goodwill and other intangible assets [2]	97	186	364	1,691	122	2,460
Total operating expenses	7,392	1,436	11,002	7,348	2,399	29,577
Business Group contribution before tax	**4,554**	**219**	**1,531**	**(1,802)**	**42**	**4,544**
Tax expense						678
Net profit before minority interests						**3,866**
Minority interests						(331)
Net profit						**3,535**
Additional information [3]						
Total assets	310,722	4,428	933,962	39,610	(107,604)	**1,181,118**
Total liabilities and minority interests	302,272	2,937	921,446	33,225	(117,753)	**1,142,127**
Capital expenditure	380	20	473	185	705	**1,763**

For internal management reporting purposes we measure credit loss expense using an expected loss concept. The table below shows Business Group performance consistent with the way in which our businesses are managed and the way Business Group performance is measured. Expected credit loss reflects the average annual costs that are expected to arise from positions in the current portfolio that become impaired in the future. The adjusted expected credit loss reported for each Business Group is the expected credit loss on its portfolio, plus the difference between actual credit loss expense and expected credit loss, amortized over a three year period. The difference between these adjusted expected credit loss figures and the actual net credit loss expense recorded at Group level for financial reporting purposes is reported in the Corporate Center.

CHF million	Wealth Management & Business Banking	Global Asset Management	Investment Bank	Wealth Management USA	Corporate Center	UBS
Income [1]	12,184	1,655	12,498	5,561	2,429	34,327
Adjusted expected credit loss	(312)	0	(128)	(13)	247	(206)
Total operating income	11,872	1,655	12,370	5,548	2,676	34,121
Personnel expenses	4,596	774	7,878	4,245	1,031	18,524
General and administrative expenses	2,251	447	2,378	1,263	733	7,072
Depreciation	448	29	382	149	513	1,521
Amortization of goodwill and other intangible assets [2]	97	186	364	1,691	122	2,460
Total operating expenses	7,392	1,436	11,002	7,348	2,399	29,577
Business Group performance before tax	**4,480**	**219**	**1,368**	**(1,800)**	**277**	**4,544**
Tax expense						678
Net profit before minority interests						**3,866**
Minority interests						(331)
Net profit						**3,535**

[1] Impairments on private equity and other financial investments for the year ended 31 December 2002 were as follows: Wealth Management & Business Banking CHF 32 million; Global Asset Management CHF 1 million; Investment Bank CHF 1,703 million; Corporate Center CHF 208 million. [2] For further information regarding goodwill and other intangible assets by Business Group, please see Note 15: Goodwill and Other Intangible Assets. [3] The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

For the year ended 31 December 2001

CHF million	Wealth Management & Business Banking	Global Asset Management	Investment Bank	Wealth Management USA	Corporate Center	UBS
Income [1]	12,782	1,963	14,715	6,391	1,761	37,612
Actual credit loss (expense) / recovery	(124)	0	(360)	(15)	1	(498)
Total operating income	12,658	1,963	14,355	6,376	1,762	37,114
Personnel expenses	4,558	886	8,354	5,019	1,011	19,828
General and administrative expenses	2,319	498	2,650	1,441	723	7,631
Depreciation	568	38	456	124	428	1,614
Amortization of goodwill and other intangible assets [2]	100	196	402	502	123	1,323
Total operating expenses	7,545	1,618	11,862	7,086	2,285	30,396
Business Group contribution before tax	**5,113**	**345**	**2,493**	**(710)**	**(523)**	**6,718**
Tax expense						1,401
Net profit before minority interests						**5,317**
Minority interests						(344)
Net profit						**4,973**
Additional information [3]						
Total assets	313,800	6,335	1,005,397	39,747	(111,982)	**1,253,297**
Total liabilities and minority interests	304,988	4,367	992,272	31,556	(123,416)	**1,209,767**
Capital expenditure	540	37	337	296	811	**2,021**

For internal management reporting purposes we measure credit loss expense using an expected loss concept. The table below shows Business Group performance consistent with the way in which our businesses are managed and the way Business Group performance is measured. Expected credit loss reflects the average annual costs that are expected to arise from positions in the current portfolio that become impaired in the future. The adjusted expected credit loss reported for each Business Group is the expected credit loss on its portfolio, plus the difference between actual credit loss expense and expected credit loss, amortized over a three year period. The difference between these adjusted expected credit loss figures and the actual net credit loss expense recorded at Group level for financial reporting purposes is reported in the Corporate Center.

CHF million	Wealth Management & Business Banking	Global Asset Management	Investment Bank	Wealth Management USA	Corporate Center	UBS
Income [1]	12,782	1,963	14,715	6,391	1,761	37,612
Adjusted expected credit loss	(601)	0	(112)	(18)	233	(498)
Total operating income	12,181	1,963	14,603	6,373	1,994	37,114
Personnel expenses	4,558	886	8,354	5,019	1,011	19,828
General and administrative expenses	2,319	498	2,650	1,441	723	7,631
Depreciation	568	38	456	124	428	1,614
Amortization of goodwill and other intangible assets [2]	100	196	402	502	123	1,323
Total operating expenses	7,545	1,618	11,862	7,086	2,285	30,396
Business Group performance before tax	**4,636**	**345**	**2,741**	**(713)**	**(291)**	**6,718**
Tax expense						1,401
Net profit before minority interests						**5,317**
Minority interests						(344)
Net profit						**4,973**

[1] Impairments on private equity and other financial investments for the year ended 31 December 2001 were as follows: Wealth Management & Business Banking CHF 109 million; Global Asset Management CHF 3 million; Investment Bank CHF 1,143 million; Corporate Center CHF 39 million. [2] For further information regarding goodwill and other intangible assets by Business Group, please see Note 15: Goodwill and Other Intangible Assets. [3] The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

Note 2b Segment Reporting by Geographic Location

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

For the year ended 31 December 2003

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	13,278	39	180,629	13	689	50
Rest of Europe / Africa / Middle East	6,057	18	430,901	31	247	18
Americas	12,923	38	688,762	50	411	30
Asia Pacific	1,714	5	85,708	6	34	2
Total	**33,972**	**100**	**1,386,000**	**100**	**1,381**	**100**

For the year ended 31 December 2002

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	14,307	42	174,878	15	885	51
Rest of Europe / Africa / Middle East	6,850	20	258,147	22	199	11
Americas	11,055	32	669,823	56	635	36
Asia Pacific	1,909	6	78,270	7	44	2
Total	**34,121**	**100**	**1,181,118**	**100**	**1,763**	**100**

For the year ended 31 December 2001

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	14,223	38	195,321	16	1,039	52
Rest of Europe / Africa / Middle East	7,445	20	240,094	19	304	15
Americas	13,587	37	691,157	55	630	31
Asia Pacific	1,859	5	126,725	10	48	2
Total	**37,114**	**100**	**1,253,297**	**100**	**2,021**	**100**

Income Statement

Note 3 Net Interest and Trading Income

Accounting standards require separate disclosure of net interest income and net trading income (see the tables on the following page). This required disclosure, however, does not take into account that net interest and trading income are generated by a range of different business activities. In many cases, a particular business activity can generate both net interest and trading income. Fixed income trading activity, for example, generates both trading profits and coupon income. UBS management therefore analyzes net interest and trading income according to the business activity generating it. The table below provides information that corresponds to this management view. For example, net income from trading activities is further broken down into the four sub-components of Equities, Fixed income, Foreign exchange and Other. These activities generate both types of income (interest and trading revenue) and therefore this analysis is not comparable to the breakdown provided in the third table on the next page (Net trading income only).

Net Interest and Trading Income

CHF million For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Net interest income	**12,299**	10,546	8,041	17
Net trading income	**3,883**	5,572	8,802	(30)
Total net interest and trading income	**16,182**	16,118	16,843	0

Breakdown by business activity

CHF million For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Net income from interest margin products	**5,077**	5,275	5,694	(4)
Equities	**2,464**	2,794	3,661	(12)
Fixed Income	**6,530**	6,041	6,294	8
Foreign Exchange	**1,501**	1,500	1,490	0
Other	**315**	270	84	17
Net income from trading activities	**10,810**	10,605	11,529	2
Net income from treasury activities	**1,415**	1,667	1,424	(15)
Other [1]	**(1,120)**	(1,429)	(1,804)	22
Total net interest and trading income	**16,182**	16,118	16,843	0

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

Note 3 Net Interest and Trading Income (continued)

Net interest Income[1]

CHF million For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Interest income				
Interest earned on loans and advances	**10,542**	11,600	16,955	(9)
Interest earned on securities borrowed and reverse repurchase agreements	**11,148**	11,184	18,337	0
Interest and dividend income from financial investments	**75**	165	453	(55)
Interest and dividend income from trading portfolio	**18,394**	17,014	16,532	8
Total	**40,159**	39,963	52,277	0
Interest expense				
Interest on amounts due to banks and customers	**5,093**	6,383	14,088	(20)
Interest on securities lent and repurchase agreements	**9,623**	10,081	14,517	(5)
Interest and dividend expense from trading portfolio	**10,101**	8,366	7,815	21
Interest on debt issued	**3,043**	4,587	7,816	(34)
Total	**27,860**	29,417	44,236	(5)
Net interest income	**12,299**	10,546	8,041	17

Net trading income[1]

CHF million For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Equities	**1,679**	2,638	4,026	(36)
Fixed income[2]	**452**	1,061	2,731	(57)
Foreign exchange and other	**1,752**	1,873	2,045	(6)
Net trading income	**3,883**	5,572	8,802	(30)

[1] Please refer to the table "Net Interest and Trading Income" on the previous page for the Equities, Fixed Income, Foreign exchange and Other business results (for an explanation, read the corresponding introductory comment). [2] Includes commodities trading income.

Note 4 Net Fee and Commission Income

CHF million For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
Underwriting fees	**2,354**	2,134	2,158	10
Corporate finance fees	**761**	848	1,339	(10)
Brokerage fees	**5,608**	5,987	6,445	(6)
Investment fund fees	**3,895**	4,033	4,276	(3)
Fiduciary fees	**241**	300	355	(20)
Custodian fees	**1,201**	1,302	1,356	(8)
Portfolio and other management and advisory fees	**3,855**	4,065	4,650	(5)
Insurance-related and other fees	**355**	417	538	(15)
Total securities trading and investment activity fees	**18,270**	19,086	21,117	(4)
Credit-related fees and commissions	**249**	275	307	(9)
Commission income from other services	**1,087**	1,006	946	8
Total fee and commission income	**19,606**	20,367	22,370	(4)
Brokerage fees paid	**1,483**	1,349	1,281	10
Other	**778**	797	878	(2)
Total fee and commission expense	**2,261**	2,146	2,159	5
Net fee and commission income	**17,345**	18,221	20,211	(5)

Note 5 Other Income

CHF million For the year ended	**31.12.03**	31.12.02	31.12.01	% change from 31.12.02
Gains / losses from disposal of associates and subsidiaries				
Net gain from disposal of:				
Consolidated subsidiaries	**160**	228	3	(30)
Investments in associates	**2**	0	0	
Total	**162**	228	3	(29)
Financial investments available for sale				
Net gain from disposal of:				
Private equity investments	**352**	273	454	29
Other financial investments	**90**	457	256	(80)
Impairment charges on private equity investments and other financial investments	**(541)**	(1,944)	(1,294)	72
Total	**(99)**	(1,214)	(584)	92
Net income from investments in property	**75**	90	68	(17)
Equity in income of associates	**123**	7	72	
Other	**300**	877	999	(66)
Total other income	**561**	(12)	558	

Note 6 Personnel Expenses

CHF million For the year ended	**31.12.03**	31.12.02	31.12.01	% change from 31.12.02
Salaries and bonuses	**13,478**	14,219	15,238	(5)
Contractors	**539**	579	729	(7)
Insurance and social contributions	**923**	939	984	(2)
Contribution to retirement plans	**721**	676	603	7
Other personnel expenses	**1,570**	2,111	2,274	(26)
Total personnel expenses	**17,231**	18,524	19,828	(7)

Note 7 General and Administrative Expenses

CHF million For the year ended	**31.12.03**	31.12.02	31.12.01	% change from 31.12.02
Occupancy	**1,304**	1,354	1,314	(4)
Rent and maintenance of machines and equipment	**708**	665	632	6
Telecommunications and postage	**864**	1,019	1,213	(15)
Administration	**599**	819	906	(27)
Marketing and public relations	**398**	453	574	(12)
Travel and entertainment	**526**	600	700	(12)
Professional fees	**589**	568	667	4
IT and other outsourcing	**844**	1,036	1,224	(19)
Other	**254**	558	401	(54)
Total general and administrative expenses	**6,086**	7,072	7,631	(14)

Note 8 Earnings per Share (EPS) and Shares Outstanding

For the year ended	**31.12.03**	31.12.02	31.12.01	% change from 31.12.02
Basic Earnings (CHF million)				
Net profit	**6,385**	3,535	4,973	81
Diluted Earnings (CHF million)				
Net profit	**6,385**	3,535	4,973	81
Less: profit on own equity derivative contracts deemed dilutive	**1**	(20)	(99)	
Net profit for diluted EPS	**6,386**	3,515	4,874	82
Weighted average shares outstanding				
Weighted average shares outstanding	**1,116,953,623**	1,208,586,678	1,266,038,193	(8)
Potentially dilutive ordinary shares resulting from options and warrants outstanding [1]	**21,847,002**	14,796,264	22,539,745	48
Weighted average shares outstanding for diluted EPS	**1,138,800,625**	1,223,382,942	1,288,577,938	(7)
Earnings per share (CHF)				
Basic EPS	**5.72**	2.92	3.93	96
Diluted EPS	**5.61**	2.87	3.78	95

[1] Total equivalent shares outstanding on options that were not dilutive for the respective periods but could potentially dilute earnings per share in the future were 37,234,538, 75,385,368 and 28,741,886 for the years ended 31 December 2003, 31 December 2002 and 31 December 2001, respectively.

Shares outstanding As at	**31.12.03**	31.12.02	31.12.01	% change from 31.12.02
Total ordinary shares issued	**1,183,046,764**	1,256,297,678	1,281,717,499	(6)
Second trading line treasury shares				
2001 program			23,064,356	
2002 first program		67,700,000		
2002 second program		6,335,080		
2003 program	**56,707,000**			
Other treasury shares	**54,653,692**	23,146,014	18,190,595	136
Total treasury shares	**111,360,692**	97,181,094	41,254,951	15
Shares outstanding	**1,071,686,072**	1,159,116,584	1,240,462,548	(8)

Balance Sheet: Assets

Note 9a Due from Banks and Loans

By type of exposure

CHF million	**31.12.03**	31.12.02
Banks	**32,024**	32,911
Allowance for credit losses	**(357)**	(443)
Net due from banks	**31,667**	32,468
Loans		
Residential mortgages	**110,239**	108,779
Commercial mortgages	**18,903**	19,090
Other loans	**87,041**	88,590
Subtotal	**216,183**	216,459
Allowance for credit losses	**(3,679)**	(4,812)
Net loans	**212,504**	211,647
Net due from banks and loans	**244,171**	244,115
thereof subordinated	***23***	*115*

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

CHF million	**31.12.03**	31.12.02
Switzerland	**152,374**	151,604
Rest of Europe / Africa / Middle East	**43,842**	39,352
Americas	**42,653**	48,412
Asia Pacific	**9,338**	10,002
Subtotal	**248,207**	249,370
Allowance for credit losses	**(4,036)**	(5,255)
Net due from banks and loans	**244,171**	244,115

By type of collateral

CHF million	**31.12.03**	31.12.02
Secured by real estate	**130,740**	129,525
Collateralized by securities	**28,062**	26,769
Guarantees and other collateral	**18,507**	12,398
Unsecured	**70,898**	80,678
Subtotal	**248,207**	249,370
Allowance for credit losses	**(4,036)**	(5,255)
Net due from banks and loans	**244,171**	244,115

Note 9b Allowances and Provisions for Credit Losses

CHF million	Specific allowances and provisions	Country risk allowances and provisions	Total 31.12.03	Total 31.12.02
Balance at the beginning of the year	4,885	736	5,621	8,218
Write-offs	(1,413)	(23)	(1,436)	(2,536)
Recoveries	87	0	87	70
Increase/(decrease) in credit loss allowance and provision	191	(75)	116	206
Foreign currency translation and other adjustments	(28)	(34)	(62)	(337)
Transfers [1]	318	(318)	0	0
Balance at the end of the year	**4,040**	**286**	**4,326**	5,621

CHF million	31.12.03	31.12.02
As a reduction of Due from banks	357	443
As a reduction of Loans	3,679	4,812
Subtotal	4,036	5,255
Included in other liabilities related to commitments and contingent liabilities	290	366
Total allowances and provisions for credit losses	**4,326**	5,621

[1] Transfer to identified counterparties of specifically allocated country provisions against rescheduled and/or defaulted sovereign and quasi-sovereign claims.

Note 9c Impaired Due from Banks and Loans

CHF million	31.12.03	31.12.02
Total gross impaired due from banks and loans [1,2]	7,606	10,365
Allowance for impaired due from banks	245	291
Allowance for impaired loans	3,561	4,601
Total allowances for credit losses related to impaired due from banks and loans	3,806	4,892
Average total gross impaired due from banks and loans [3]	8,985	12,623

1 All impaired due from banks and loans have a specific allowance for credit losses. [2] Interest income on impaired due from banks and loans was CHF 279 million for 2003 and CHF 428 million for 2002. [3] Average balances were calculated from quarterly data.

CHF million	31.12.03	31.12.02
Total gross impaired due from banks and loans	7,606	10,365
Estimated liquidation proceeds of collateral	2,465	3,531
Net impaired due from banks and loans	5,141	6,834
Specific allowances and provisions	3,806	4,892

Note 9d Non-Performing Due from Banks and Loans

A loan (included in due from banks or loans) is classified as non-performing when the payment of interest, principal or fees is overdue by more than 90 days or – as required by Swiss regulatory guidelines as at 31 December 2003 – when insolvency proceedings have commenced or obligations have been restructured on concessionary terms. Prior year numbers have not been restated.

CHF million	31.12.03	31.12.02
Total gross non-performing due from banks and loans	4,959	6,029
Total allowances for credit losses related to non-performing due from banks and loans	2,815	3,485
Average total gross non-performing due from banks and loans [1]	5,482	7,361

[1] Average balances are calculated from quarterly data.

CHF million	31.12.03	31.12.02
Non-performing due from banks and loans at the beginning of the year	6,029	8,639
Net additions / (reductions)	346	(509)
Write-offs and disposals	(1,416)	(2,101)
Non-performing due from banks and loans at the end of the year	4,959	6,029

By type of exposure

CHF million	31.12.03	31.12.02
Banks	253	311
Loans		
Mortgages	1,470	1,972
Other	3,236	3,746
Total loans	4,706	5,718
Total non-performing due from banks and loans	4,959	6,029

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

CHF million	31.12.03	31.12.02
Switzerland	4,012	4,609
Rest of Europe / Africa / Middle East	488	621
Americas	366	499
Asia Pacific	93	300
Total non-performing due from banks and loans	4,959	6,029

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

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

Balance sheet assets

CHF million	**Cash collateral on securities borrowed 31.12.03**	**Reverse repurchase agreements 31.12.03**	Cash collateral on securities borrowed 31.12.02	Reverse repurchase agreements 31.12.02
By counterparty:				
Banks	**172,783**	**237,212**	122,764	201,269
Customers	**41,149**	**83,375**	16,288	92,817
Total	**213,932**	**320,587**	139,052	294,086

Balance sheet liabilities

CHF million	**Cash collateral on securities lent 31.12.03**	**Repurchase agreements 31.12.03**	Cash collateral on securities lent 31.12.02	Repurchase agreements 31.12.02
By counterparty:				
Banks	**39,587**	**263,905**	29,748	200,904
Customers	**13,691**	**151,958**	7,122	165,954
Total	**53,278**	**415,863**	36,870	366,858

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms as at 31 December 2003 and 31 December 2002 were as follows:

CHF million	**31.12.03**	31.12.02
Securities received under reverse repurchase and/or securities borrowing arrangements which can be repledged or resold	**827,602**	641,341
thereof repledged/transferred to others in connection with financing activities or to satisfy commitments under short sale transactions	***593,049***	*530,188*

Note 11 Trading Portfolio

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

CHF million	**31.12.03**	31.12.02
Trading portfolio assets		
Money market paper	**40,003**	45,310
thereof pledged as collateral with central banks	***6,208***	*10,475*
Debt instruments		
Swiss government and government agencies	**1,011**	1,140
US Treasury and government agencies	**92,250**	71,884
Other government agencies	**69,755**	50,296
Corporate listed	**152,413**	73,268
Other unlisted	**8,457**	39,613
Total	**323,886**	236,201
thereof pledged as collateral	***130,093***	*132,221*
thereof can be repledged or resold by the counterparty	***104,402***	*92,460*
Equity instruments		
Listed	**64,116**	66,150
Unlisted	**10,507**	4,841
Total	**74,623**	70,991
thereof pledged as collateral	***16,426***	*18,614*
thereof can be repledged or resold by the counterparty	***16,357***	*17,905*
Traded loans	**12,650**	11,533
Precious metals	**10,610**	7,401
Total trading portfolio assets	**461,772**	371,436

Trading portfolio liabilities

Debt instruments		
Swiss government and government agencies	**586**	1,807
US Treasury and government agencies	**52,377**	38,327
Other government agencies	**38,369**	19,722
Corporate listed	**13,537**	14,177
Other unlisted	**10,851**	8,296
Total	**115,720**	82,329
Equity instruments	**28,237**	24,124
Total trading portfolio liabilities	**143,957**	106,453

Note 12 Financial Investments (available-for-sale)

CHF million	**31.12.03**	31.12.02
Money market paper	**596**	873
Other debt instruments		
Listed	**189**	290
Unlisted	**72**	885
Total	**261**	1,175
Equity investments		
Listed	**387**	596
Unlisted	**630**	1,443
Total	**1,017**	2,039
Private equity investments	**3,265**	4,304
Total financial investments	**5,139**	8,391
thereof eligible for discount at central banks	***196***	*261*

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

The following tables show the unrealized gains and losses not recognized in the income statement for the years 2003 and 2002:

		Unrealized gains / losses not recognized in the income statement				
CHF million	Fair value	Gross gains	Gross losses	Net, before tax	Tax effect	Net, after tax
31 December 2003						
Money market paper	596	0	0	0	0	0
Debt securities issued by the Swiss national government and agencies	14	2	0	2	0	2
Debt securities issued by Swiss local governments	25	0	0	0	0	0
Debt securities issued by US Treasury and agencies	0	0	0	0	0	0
Debt securities issued by foreign governments and official institutions	54	0	0	0	0	0
Corporate debt securities	156	3	8	(5)	1	(6)
Mortgage-backed securities	0	0	0	0	0	0
Other debt securities	12	0	0	0	0	0
Equity securities	1,017	296	7	289	58	231
Private equity investments	3,265	781	216	565	0	565
Total	**5,139**	**1,082**	**231**	**851**	**59**	**792**

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

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

The unrealized losses not recognized in the income statement are considered to be temporary on the basis that the investments are intended to be held for a period of time sufficient to recover their cost, and UBS believes that the evidence indicating that the cost of the investments should be recoverable within a reasonable period of time outweighs the evidence to the contrary. This includes the nature of the investments, valuations and research undertaken by UBS, the current outlook for each investment, offers under negotiation at favourable prices, the duration of the unrealized losses, and the relationship of unrealized losses with unrealized gains on other investments.

The following table shows the duration of unrealized losses not recognized in the income statement for the year ended 2003:

	Fair Value			Unrealized Losses		
CHF million	Investments with unrealized loss less than 12 months	Investments with unrealized loss more than 12 months	Total	Investments with unrealized loss less than 12 months	Investments with unrealized loss more than 12 months	Total
31 December 2003						
Money market paper	0	0	0	0	0	0
Debt securities issued by the Swiss national government and agencies	0	0	0	0	0	0
Debt securities issued by Swiss local governments	0	0	0	0	0	0
Debt securities issued by US Treasury and agencies	0	0	0	0	0	0
Debt securities issued by foreign governments and official institutions	0	0	0	0	0	0
Corporate debt securities	0	0	0	8	0	8
Mortgage-backed securities	0	0	0	0	0	0
Other debt securities	0	0	0	0	0	0
Equity securities	6	44	50	3	4	7
Private equity investments	98	359	457	86	130	216
Total	**104**	**403**	**507**	**97**	**134**	**231**

Contractual maturities of the investments in debt instruments[1]

	Within 1 year		1–5 years		5–10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2003								
Swiss national government and agencies	3	6.61	4	2.92	6	3.80	1	4.00
Swiss local governments	5	3.90	20	2.01	0	0.00	0	0.00
Foreign governments and official institutions	45	1.89	9	1.49	0	0.00	0	0.00
Corporate debt securities	81	1.09	68	3.53	7	7.38	0	0.00
Mortgage-backed securities	0	0.00	0	0.00	0	0.00	0	0.00
Other debt securities	4	0.00	8	0.00	0	0.00	0	0.00
Total fair value	**138**		**109**		**13**		**1**	

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

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

CHF million	**31.12.03**	31.12.02
Proceeds	**1379**	1,820
Gross realized gains	**112**	479
Gross realized losses	**(23)**	(21)

Note 13 Investments in Associates

CHF million	31.12.03	31.12.02
Carrying amount at the beginning of the year	**705**	697
Additions	**1,232**	51
Disposals	**(285)**[1]	(1)
Income	**123**	24
Write-offs	**0**	(17)
Dividend paid	**(30)**	(44)
Foreign currency translation	**(129)**	(5)
Carrying amount at the end of the year	**1,616**	705

[1] CHF 123 million of the amount in disposals has been transferred to financial investments (available-for-sale) or relates to investments which have been fully consolidated at 31 December 2003.

Note 14 Property and Equipment

CHF million	Own-used properties	Investment properties[1]	Leasehold improve-ments	IT, software and com-munication	Other machines and equipment	Projects in progress	31.12.03	31.12.02
Historical cost								
Balance at the beginning of the year	9,307	560	1,312	4,105	2,432	234	**17,950**	19,479
Additions	297	5	83	674	120	178	**1,357**	1,763
Additions from acquired companies	3	0	14	3	4	0	**24**	0
Disposals/write-offs[2]	(118)	(89)	(59)	(720)	(126)	(7)	**(1,119)**	(2,588)
Reclassifications	(46)	(257)	1,257	313	(928)	(125)	**214**	14
Foreign currency translation	(35)	(1)	(62)	(134)	(77)	0	**(309)**	(718)
Balance at the end of the year	9,408	218	2,545	4,241	1,425	280	**18,117**	17,950
Accumulated depreciation								
Balance at the beginning of the year	4,210	211	757	3,240	1,663	0	**10,081**	10,784
Depreciation	221	14	184	859	86	0	**1,364**	1,521
Disposals/write-offs[2]	(114)	(60)	(50)	(709)	(63)	0	**(996)**	(1,786)
Reclassifications	49	(145)	715	61	(499)	4	**185**	35
Foreign currency translation	(1)	0	(36)	(117)	(22)	0	**(176)**	(473)
Balance at the end of the year	4,365	20	1,570	3,334	1,165	4	**10,458**	10,081
Net book value at the end of the year[3]	5,043	198	975	907	260	276	**7,659**	7,869

[1] The fair value of Investment properties was CHF 236 million at 31 December 2003 and CHF 539 million at 31 December 2002. [2] Includes write-offs of fully depreciated assets. [3] Fire insurance value of property and equipment is CHF 14,021 million (2002: CHF 14,221 million).

Note 15 Goodwill and Other Intangible Assets

CHF million	Goodwill Total	Other intangible assets Infra-structure	Other intangible assets Customer relation-ships and other	Other intangible assets Total	**31.12.03**	31.12.02
Historical cost						
Balance at the beginning of the year	13,957	1,069	1,996	3,065	**17,022**	21,792
Additions and reallocations	241	0	99	99	**340**	290
Disposals and other reductions	(368)	0	(3)	(3)	**(371)**	(115)
Write-offs [1]	(508)	0	0	0	**(508)**	(1,350)
Foreign currency translation	(1,290)	(111)	(177)	(288)	**(1,578)**	(3,595)
Balance at the end of the year	12,032	958	1,915	2,873	**14,905**	17,022
Accumulated amortization						
Balance at the beginning of the year	2,776	116	434	550	**3,326**	2,707
Amortization	756	52	135	187	**943**	2,460
Disposals	(68)	0	(2)	(2)	**(70)**	(28)
Write-offs [1]	(508)	0	0	0	**(508)**	(1,350)
Foreign currency translation	(272)	(16)	(27)	(43)	**(315)**	(463)
Balance at the end of the year	2,684	152	540	692	**3,376**	3,326
Net book value at the end of the year	9,348	806	1,375	2,181	**11,529**	13,696

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

The following table presents the disclosure of goodwill and other intangible assets by Business Group for the year ended 31 December 2003.

CHF million	Balance at the beginning of the year	Additions and reallo-cations [1]	Disposals and other reductions	Amorti-zation	Foreign currency translation	Balance at the end of the year
Goodwill						
Wealth Management & Business Banking	1,003	(10)	(4)	(54)	(98)	837
Global Asset Management	2,185	(525)	(1)	(152)	(106)	1,401
Investment Bank	3,793	218	(16)	(251)	(372)	3,372
Wealth Management USA	4,199	(1)	(270)	(220)	(393)	3,315
Corporate Center	1	559	(9)	(79)	(49)	423
UBS	**11,181**	**241**	**(300)**	**(756)**	**(1,018)**	**9,348**
Other Intangible Assets						
Wealth Management & Business Banking	33	(8)	0	(21)	0	4
Global Asset Management	1	0	0	(1)	0	0
Investment Bank	278	99	0	(27)	(26)	324
Wealth Management USA	2,134	0	0	(116)	(213)	1,805
Corporate Center	69	8	(1)	(22)	(6)	48
UBS	**2,515**	**99**	**(1)**	**(187)**	**(245)**	**2,181**

[1] Includes amounts reallocated due to the transfer of Private Banks & GAM to Corporate Center.

For further information about disclosure by Business Group, including the amortization of goodwill and other intangible assets of previous years, please see Note 2a: Segment Reporting by Business Group.

Note 15 Goodwill and Other Intangible Assets (continued)

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

CHF million	Goodwill	Other intangible assets	**Total**
Estimated, aggregated amortization expenses for:			
2004	709	162	**871**
2005	704	159	**863**
2006	695	146	**841**
2007	668	139	**807**
2008	588	138	**726**
2009 and thereafter	5,984	1,437	**7,421**
Total	9,348	2,181	**11,529**

If the IASB issues in 2004 a final standard following ED3 Business Combinations, as proposed, goodwill amortization will cease as of 1 January 2005.

Note 16 Other Assets

CHF million	Note	**31.12.03**	31.12.02
Deferred tax assets	21	**2,276**	2,800
Settlement and clearing accounts		**2,874**	1,449
VAT and other tax receivables		**338**	436
Prepaid pension costs		**862**	250
Properties held for resale		**754**	1,071
Receivables under life insurance policies		**13,544**	0
Other receivables		**4,811**	2,946
Total other assets		**25,459**	8,952

Balance Sheet: Liabilities

Note 17 Due to Banks and Customers

CHF million	**31.12.03**	31.12.02
Due to banks	**127,153**	83,178
Due to customers in savings and investment accounts	**94,914**	76,884
Other amounts due to customers	**252,444**	229,992
Total due to customers	**347,358**	306,876
Total due to banks and customers	**474,511**	390,054

Note 18 Debt Issued

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

Subordinated debt securities are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group. At 31 December 2003 and 31 December 2002, the Group had CHF 8,014 million and CHF 9,933 million, respectively, in subordinated debt. Subordinated debt usually pays interest annually and provides for single principal payments upon maturity. At 31 December 2003 and 31 December 2002, the Group had CHF 54,108 million and CHF 46,678 million, respectively, in unsubordinated debt (excluding money market paper).

The Group issues debt with returns linked to equity, interest rates, foreign exchange and credit instruments or indices. As described in Note 1r), derivatives embedded in these instruments are separated from the host debt contract and reported as stand-alone derivatives. The amount recorded within Debt Issued represents the host contract after the separation of the embedded derivative. At 31 December 2003 and 31 December 2002, the Group had CHF 427 million and CHF 1,389 million, respectively, in bonds with attached warrants on UBS shares outstanding. At year end 2003 all warrants related to those bonds have expired.

In addition, the Group uses interest rate and foreign exchange derivatives to manage the risks inherent in certain debt issues. In the case of interest rate risk management, the Group applies hedge accounting as discussed in Note 1 – Summary of Significant Accounting Policies and Note 23 – Derivative Instruments. As a result of applying hedge accounting, the carrying value of debt issued is CHF 610 million higher reflecting changes in fair value due to interest rate movements.

Note 18 Debt Issued (continued)

CHF million	31.12.03	31.12.02
Short-term debt: Money market paper issued	58,115	72,800
Long-term debt:		
Bonds		
Senior	51,324	41,939
Subordinated	8,014	9,933
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	210	517
Medium-term notes	2,574	4,222
Subtotal long-term debt	62,122	56,611
Total debt issued	120,237	129,411

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

Contractual maturity dates *CHF million, except where indicated*	2004	2005	2006	2007	2008	2009–2013	Thereafter	Total 31.12.03
UBS AG Parent Bank								
Senior debt								
Fixed rate	28,981	4,299	5,958	4,419	3,702	1,446	377	49,182
Interest rates (range in %)	0.00–20.00	0.00–19.00	0.00–16.50	0.00–11.00	0.00–20.00	0.00–13.50	0.00–8.50	
Floating rate	65	339	138	179	791	2,236	7,941	11,689
Subordinated debt								
Fixed rate	1,036	1,505	1,772	1,430	0	525	1,199	7,467
Interest rates (range in %)	4.25–7.38	4.00–8.75	4.25–7.25	5.75–8.00		5.88	0.00–8.75	
Floating rate	0	0	0	0	0	0	506	506
Subtotal	30,082	6,143	7,868	6,028	4,493	4,207	10,023	68,844
Subsidiaries								
Senior debt								
Fixed rate	35,336	535	2,377	1,237	2,712	1,135	247	43,579
Interest rates (range in %)	0.00–10.00	0.00–10.00	0.00–10.00	0.00–10.00	0.00–10.00	0.00–35.00	0.00–20.00	
Floating rate	199	592	1,360	25	236	1,689	3,672	7,773
Subordinated debt								
Fixed rate	23	0	0	0	0	0	18	41
Interest rates (range in %)	6.90–8.06						9.00	
Floating rate	0	0	0	0	0	0	0	0
Subtotal	35,558	1,127	3,737	1,262	2,948	2,824	3,937	51,393
Total	65,640	7,270	11,605	7,290	7,441	7,031	13,960	120,237

The table above indicates fixed interest rates coupons ranging from 0 up to 35 percent on the Group's bonds. These high or low coupons generally relate to structured debt issues prior to the separation of embedded derivatives. As a result, the stated interest rate on such debt issues generally does not reflect the effective interest rate the Group is paying to service its debt after the embedded derivative has been separated and, where applicable, the application of hedge accounting.

Note 19 Other Liabilities

CHF million	Note	31.12.03	31.12.02
Provisions	20	1,361	1,375
Provision for commitments and contingent liabilities	9b	290	366
Current tax liabilities		1,754	2,079
Deferred tax liabilities	21	2,214	2,239
VAT and other tax payables		544	613
Settlement and clearing account		2,608	1,354
Obligations under life insurance policies		13,544	0
Other payables		9,001	4,313
Total other liabilities		**31,316**	12,339

Note 20 Provisions

CHF million	Operational	Litigation	Total 31.12.03	Total 31.12.02
Balance at the beginning of the year	721	654	1,375	1,748
New provisions charged to income	136	194	330	688
Capitalized reinstatement costs	155		155	
Recoveries	17	23	40	25
Provisions applied	(135)	(317)	(452)	(902)
Reclassifications	4	(4)	0	0
Foreign currency translation	(43)	(44)	(87)	(184)
Balance at the end of the year	855	506	**1,361**	1,375

Note 21 Income Taxes

CHF million For the year ended	31.12.03	31.12.02	31.12.01
Domestic			
Current	810	938	563
Deferred	143	(32)	231
Foreign			
Current	294	249	546
Deferred	371	(477)	61
Total income tax expense	**1,618**	678	1,401

The Group made net tax payments, including domestic and foreign taxes, of CHF 1,104 million, CHF 572 million and CHF 1,742 million for the full years of 2003, 2002 and 2001, respectively.

Note 21 Income Taxes (continued)

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

CHF million For the year ended	31.12.03	31.12.02	31.12.01
Operating profit before tax	**8,348**	4,544	6,718
Domestic	**5,491**	6,510	5,565
Foreign	**2,857**	(1,966)	1,153
Income taxes at Swiss statutory rate of 24% in 2003 and 25% in 2002 and 2001, respectively	**2,004**	1,136	1,680
Increase/(decrease) resulting from:			
Applicable tax rates differing from Swiss statutory rate	**(250)**	(341)	(239)
Tax losses not recognized	**42**	51	77
Previously unrecorded tax losses now recognized	**(291)**	(349)	(630)
Lower taxed income	**(366)**	(378)	(499)
Non-deductible goodwill amortization	**386**	291	429
Other non-deductible expenses	**186**	301	134
Adjustments related to prior years and other	**(191)**	(122)	371
Change in deferred tax valuation allowance	**98**	89	78
Income tax expense	**1,618**	678	1,401

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

CHF million	31.12.03	31.12.02
Deferred tax assets		
Compensation and benefits	**1,538**	1,559
Allowance for credit losses	**4**	84
Net operating loss carry forwards	**2,626**	2,883
Trading assets	**306**	330
Other	**685**	779
Total	**5,159**	5,635
Valuation allowance	**(2,883)**	(2,835)
Net deferred tax assets	**2,276**	2,800
Deferred tax liabilities		
Property and equipment	**307**	412
Investments	**388**	430
Other provisions	**401**	470
Trading assets	**348**	182
Other	**770**	745
Total deferred tax liabilities	**2,214**	2,239

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

Note 21 Income Taxes (continued)

Certain foreign branches and subsidiaries of the Group have deferred tax assets related to net operating loss carry forwards and other items. Due to realization of these assets being uncertain, the Group has established valuation allowances of CHF 2,883 million (CHF 2,835 million at 31 December 2002). For companies that suffered tax losses in either the current or preceding year an amount of CHF 542 million (CHF 947 million at 31 December 2002) has been recognized as deferred tax assets based on expectations that sufficient taxable income will be generated in future years to utilize the tax loss carry forwards.

The Group provides deferred income taxes on undistributed earnings of non-Swiss subsidiaries except to the extent that such earnings are indefinitely invested. In the event these earnings were distributed, additional taxes of approximately CHF 25 million would be due.

At 31 December 2003 net operating loss carry forwards totaling CHF 6,989 million (not recognized as a deferred tax asset) are available to reduce future taxable income of certain branches and subsidiaries.

The carry forwards expire as follows:	31.12.03
Within 1 year	97
From 2 to 4 years	469
After 4 years	6,423
Total	**6,989**

Note 22 Minority Interests

CHF million	31.12.03	31.12.02
Balance at the beginning of the year	3,529	4,112
Issuance of trust preferred securities	372	0
Other increases	573	172
Decreases and dividend payments	(357)	(377)
Foreign currency translation	(389)	(709)
Minority interest in net profit	345	331
Balance at the end of the year	**4,073**	3,529

Note 23 Derivative Instruments

Type of derivatives

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

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

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

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

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

Derivatives transacted for trading purposes

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

Derivatives transacted for hedging purposes

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

Derivatives designated and accounted for as hedging instruments

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

Fair value hedges

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term debt due to changes in market interest rates. For the year ended 31 December 2003, the Group recognized a net gain of CHF 21 million (reported as Net trading income in the Financial Statements), which represents the ineffective portion of fair value hedges.

As at 31 December 2003, the fair value of outstanding derivatives designated as fair value hedges was a CHF 797 million net positive replacement value.

Cash flow hedges of individual variable rate assets and liabilities

The Group uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. During the year ended 31 December 2003, all hedged financial instruments have matured and there has been no material gain or loss associated with ineffective portions of the cash flow hedges.

Gains and losses on derivative contracts designated as cash flow hedges are initially recorded in Shareholders' equity but are reclassified to current period earnings when the hedged cash flows occur, as explained in Note 1, v) Derivative instruments and hedging.

Cash flow hedges of forecast transactions

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

The schedule of forecast principal cash flows as at 31 December 2003 is as follows.

CHF billion	< 1 year	1–3 years	3–5 years	5–10 years	over 10 years
Cash inflows (Assets)	170	261	181	191	16
Cash outflows (Liabilities)	148	250	183	287	167
Net cash flows	**22**	**11**	**(2)**	**(96)**	**(151)**

Gains and losses on derivatives designated as cash flow hedges of forecast transactions are initially recorded in Shareholders' equity as Gains/losses not recognized in the income statement and transferred to current period earnings when the forecast cash flows affect net profit or loss. As at 31 December 2003, the fair value of outstanding derivatives designated as cash flow hedges of forecast transactions was a CHF 871 million net negative replacement value. During the year, certain CHF hedging interest rate swaps with a positive replacement value of CHF 867 million were terminated. At this year-end, the unrecognized income of CHF 805 million associated with swaps has remained deferred in shareholders' equity to be removed from the equity when the underlying previously hedged cash flows impact net profit or loss. Amounts reclassified from Gains/losses not recognized in the income statement to current period earnings due to discontinuation of hedge accounting were CHF 7 million net gain which is recorded in net interest income.

Notional amounts and replacement values

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

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

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

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

Credit mitigation

The Group seeks, wherever possible, to enter into master netting agreements with OTC derivative counterparties. Where the Group has such an agreement and it has a legal opinion that it is enforceable by UBS in the event of insolvency of the counterparty, positive and negative replacement values of transactions covered by the agreement are netted and a single payable or receivable amount is included in the balance sheet. The impact of master netting agreements as at 31 December 2003 is to reduce positive and negative replacement values on OTC derivative instruments by approximately CHF 165 billion. The impact can change substantially over short periods of time, because the exposure is affected by each transaction subject to the arrangement.

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

Note 23 Derivative Instruments (continued)

As at 31 December 2003	Term to maturity										Total notional amount
	Within 3 months		3–12 months		1–5 years		over 5 years		**Total**	**Total**	
CHF million	PRV[1]	NRV[2]	PRV	NRV	PRV	NRV	PRV	NRV	**PRV**	**NRV**	CHF bn
Interest rate contracts											
Over the counter (OTC) contracts											
Forward contracts	423	588	258	312	71	130	6	4	**758**	**1,034**	1,128.4
Swaps	3,831	4,388	9,715	9,918	66,959	65,074	52,019	50,517	**132,524**	**129,897**	8,064.4
Options	464	977	868	992	4,579	5,967	4,223	5,334	**10,134**	**13,270**	815.4
Exchange-traded contracts[3]											
Futures											243.7
Options	7	9	2	8					**9**	**17**	63.4
Total	**4,725**	**5,962**	**10,843**	**11,230**	**71,609**	**71,171**	**56,248**	**55,855**	**143,425**	**144,218**	**10,315.3**
Credit derivative contracts											
Over the counter (OTC) contracts											
Credit default swaps	109	102	39	61	3,443	3,537	2,105	1,880	**5,696**	**5,580**	289.3
Total rate of return swaps	27	2	29	576	197	470	112	305	**365**	**1,353**	12.0
Total	**136**	**104**	**68**	**637**	**3,640**	**4,007**	**2,217**	**2,185**	**6,061**	**6,933**	**301.3**
Foreign exchange contracts											
Over the counter (OTC) contracts											
Forward contracts	3,045	3,879	1,978	2,573	161	317	15	12	**5,199**	**6,781**	298.4
Interest and currency swaps	24,929	25,242	14,258	12,428	17,804	14,394	6,002	5,250	**62,993**	**57,314**	2,254.4
Options	3,232	3,348	3,211	2,550	360	356	9	1	**6,812**	**6,255**	576.8
Exchange-traded contracts[3]											
Futures											5.0
Options	3	3	119	116					**122**	**119**	13.2
Total	**31,209**	**32,472**	**19,566**	**17,667**	**18,325**	**15,067**	**6,026**	**5,263**	**75,126**	**70,469**	**3,147.8**
Precious metals contracts											
Over the counter (OTC) contracts											
Forward contracts	246	247	377	306	333	270	18	23	**974**	**846**	15.9
Options	304	193	308	386	668	629	116	54	**1,396**	**1,262**	35.1
Exchange-traded contracts[3]											
Futures											1.1
Options	9	40	21	63	3	4			**33**	**107**	2.3
Total	**559**	**480**	**706**	**755**	**1,004**	**903**	**134**	**77**	**2,403**	**2,215**	**54.4**
Equity / Index contracts											
Over the counter (OTC) contracts											
Forward contracts	510	529	760	583	923	449	1,408	500	**3,601**	**2,061**	57.9
Options	1,843	2,788	3,476	7,847	8,584	13,646	1,329	4,560	**15,232**	**28,841**	213.8
Exchange-traded contracts[3]											
Futures											8.6
Options	708	858	892	1,363	886	768	54	117	**2,540**	**3,106**	62.6
Total	**3,061**	**4,175**	**5,128**	**9,793**	**10,393**	**14,863**	**2,791**	**5,177**	**21,373**	**34,008**	**342.9**
Commodity contracts											
Over the counter (OTC) contracts											
Forward contracts	206	181	456	424	93	42			**755**	**647**	10.6
Options	168	153	73	53					**241**	**206**	1.6
Total	**374**	**334**	**529**	**477**	**93**	**42**	**0**	**0**	**996**	**853**	**12.2**
Total derivative instruments	**40,064**	**43,527**	**36,840**	**40,559**	**105,064**	**106,053**	**67,416**	**68,557**	**249,384**	**258,696**	
Replacement value netting									**165,050**	**165,050**	
Replacement values after netting									**84,334**	**93,646**	

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

Note 23 Derivative Instruments (continued)

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

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

Off-Balance Sheet Information

Note 24 Fiduciary Transactions

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

CHF million	31.12.03	31.12.02
Placements with third parties	37,851	43,440
Fiduciary credits and other fiduciary financial transactions	74	774
Total fiduciary transactions	37,925	44,214

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

Note 25 Commitments and Contingent Liabilities

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

The contractual amount of these instruments is the maximum amount at risk for the Group if the customer fails to meet its obligations. The risk is similar to the risk involved in extending loan facilities and is monitored with the same risk control processes and specific credit risk policies. For the years ended 31 December 2003, 2002 and 2001 the Group recognized CHF 23 million expense recovery, CHF 13 million expense and CHF 25 million expense, respectively, in the income statement related to obligations incurred for contingencies and commitments.

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

Note 25 Commitments and Contingent Liabilities (continued)

CHF million	**31.12.03**	31.12.02
Contingent liabilities		
Credit guarantees and similar instruments [1]	**10,832**	11,522
Sub-participations	**(765)**	(650)
Total	**10,067**	10,872
Performance guarantees and similar instruments [2]	**2,760**	3,216
Sub-participations	**(276)**	(348)
Total	**2,484**	2,868
Irrevocable commitments under documentary credits	**1,971**	1,856
Sub-participations	**(373)**	(259)
Total	**1,598**	1,597
Gross contingent liabilities	**15,563**	16,594
Sub-participations	**(1,414)**	(1,257)
Net contingent liabilities	**14,149**	15,337
Irrevocable commitments		
Undrawn irrevocable credit facilities	**46,623**	39,306
Sub-participations	**(235)**	(446)
Total	**46,388**	38,860
Liabilities for calls on shares and other equities	**337**	21
Gross irrevocable commitments	**46,960**	39,327
Sub-participations	**(235)**	(446)
Net irrevocable commitments	**46,725**	38,881
Gross commitments and contingent liabilities	**62,523**	55,921
Sub-participations	**(1,649)**	(1,703)
Net commitments and contingent liabilities	**60,874**	54,218

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

CHF million	Mortgage collateral	Other collateral	Unsecured	**Total**
Overview of collateral				
Gross contingent liabilities	142	7,297	8,124	**15,563**
Gross irrevocable commitments	2,495	23,573	20,555	**46,623**
Liabilities for calls on shares and other equities			337	**337**
Total 31.12.2003	**2,637**	**30,870**	**29,016**	**62,523**
Total 31.12.2002	1,359	23,210	31,352	55,921

Other commitments

The Group enters into commitments to fund external private equity funds and investments, which typically expire within five years. The commitments themselves do not involve credit or market risk as the funds purchase investments at market value at the time the commitments are drawn. The maximum amount available to fund these investments at 31 December 2003 and 31 December 2002 was CHF 1,537 million and CHF 2,245 million, respectively.

Note 26 Operating Lease Commitments

At 31 December 2003, UBS was obligated under a number of non-cancellable operating leases for premises and equipment used primarily for banking purposes. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions as well as rent adjustments based on price indices. However, the lease agreements do not contain contingent rent payment clauses and purchase options. The leases also do not impose any restrictions on UBS's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

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

CHF million	**31.12.03**
Operating leases due	
2004	**876**
2005	**770**
2006	**707**
2007	**632**
2008	**595**
2009 and thereafter	**3,992**
Subtotal commitments for minimum payments under operating leases	**7,572**
Less: Sublease rentals under non-cancellable leases	**645**
Net commitments for minimum payments under operating leases	**6,927**

Operating expenses for the year ended 31 December 2003 include CHF 1,233 million of gross operating lease rentals which were reduced by CHF 43 million of sublease income. Operating expenses include CHF 1,193 million and CHF 1,092 million in respect of operating lease rentals for the years ended 31 December 2002 and 31 December 2001, respectively.

Additional Information

Note 27 Pledged Assets

Assets are pledged as collateral for collateralized credit lines with central banks, loans from central mortgage institutions, deposit guarantees for savings banks, security deposits relating to stock exchange membership and mortgages on the Group's property. The following table shows additional information about assets pledged or assigned as security for liabilities and assets subject to reservation of title for the years ended 31 December 2003 and 31 December 2002.

CHF million	**Carrying amount 31.12.03**	**Related liability 31.12.03**	Carrying amount 31.12.02	Related liability 31.12.02
Mortgage loans	**428**	**209**	808	506
Securities [1]	**157,639**	**121,984**	50,945	37,038
Property and equipment	**0**	**0**	129	33
Other	**0**	**0**	2	0
Total pledged assets	**158,067**	**122,193**	51,884	37,577

[1] Amounts for 2003 include securities pledged in respect of securities lending and repurchase agreements: assets CHF 125,411 million and liabilities CHF 121,939 million.

Note 28 Litigation

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

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

Note 29 Financial Instruments Risk Position

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

- market risk is exposure to observable market variables such as interest rates, exchange rates and equity markets
- credit risk is the risk of loss resulting from client or counterparty default and arises on credit exposure in all forms, including settlement risk
- funding and liquidity risk is the risk that UBS is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.

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

Note 29 Financial Instruments Risk Position

a) Market Risk

(a)(i) Overview

Market risk is the risk of loss arising from movements in observable market variables such as interest rates, exchange rates and equity markets. The risk of price movements on securities resulting from general credit and country risk factors and events specific to individual issuers is also considered market risk.

Market risk is incurred in UBS primarily through trading activities, which are centered in the Investment Bank. It arises from market making, client facilitation and proprietary positions in equities, fixed income and interest rate products, foreign exchange and, to a lesser extent, precious metals and energy.

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

Market risks arise, but to a much lesser extent, in other Business Groups primarily from the facilitation of customer business.

Each Business Group has a Chief Risk Officer (CRO), reporting functionally to the Group CRO, responsible for independent risk control of market risk.

Market risk measures are applied to all trading activities, to foreign exchange, precious metal and energy exposures wherever they arise, and to interest rate risk in the banking books of all business groups including Group Treasury and the independent private banks.

The principal risk measures and controls on market risk are Value at Risk (VaR) and stress loss. VaR expresses the potential loss on the current portfolio from adverse market movements assuming a specified time horizon before positions can be adjusted (holding period), and measured to a specified level of confidence, based on historical market movements. Stress loss is assessed against a set of forward-looking scenarios using stress moves in market variables, which are regularly reviewed. Complementary controls are also applied, where appropriate, to prevent undue concentrations, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk variables, such as individual interest or exchange rates, and positions in the securities of individual issuers ('issuer risk').

(a)(ii) Interest Rate Risk

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

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

The table sets out the extent to which UBS was exposed to interest rate risk at 31 December 2003 and 2002. It shows the net impact of a one basis point (0.01%) increase in market interest rates across all time bands on the fair values of interest rate sensitive positions, including balance sheet assets and liabilities and derivatives. The impact of such an increase in interest rates depends on UBS's net asset or net liability position in each category, currency and time band in the table. A negative amount in the table reflects a potential reduction in fair value, while a positive amount reflects a potential increase in fair value.

Note 29 Financial Instruments Risk Position (continued)

a) Market Risk (continued)

Interest rate sensitivity position (continued)

Interest rate sensitivity by time bands at 31.12.2003

CHF thousand per basis point increase		Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	**Total**
CHF	Trading	19	(185)	(6)	311	(91)	**48**
	Non-trading	(38)	(99)	(359)	(4,288)	(3,587)	**(8,371)**
USD	Trading	(17)	(690)	(638)	(941)	1,190	**(1,096)**
	Non-trading	50	(55)	(92)	(2,213)	(1,702)	**(4,012)**
EUR	Trading	(84)	(206)	398	(1,018)	649	**(261)**
	Non-trading	4	6	(21)	(131)	(196)	**(338)**
GBP	Trading	24	31	131	(736)	536	**(14)**
	Non-trading	0	(10)	(55)	(40)	481	**376**
JPY	Trading	59	(326)	(34)	410	(273)	**(164)**
	Non-trading	(4)	3	(1)	(5)	(2)	**(9)**
Others	Trading	(43)	22	80	(464)	335	**(70)**
	Non-trading	(1)	0	(6)	(1)	(3)	**(11)**

Interest rate sensitivity by time bands at 31.12.2002

CHF thousand per basis point increase		Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	**Total**
CHF	Trading	(10)	211	(287)	(47)	(18)	**(151)**
	Non-trading	(42)	(153)	(365)	(6,504)	(5,119)	**(12,183)**
USD	Trading	(93)	(256)	(1,021)	(2,668)	2,445	**(1,593)**
	Non-trading	26	(82)	(72)	(927)	(230)	**(1,285)**
EUR	Trading	114	33	12	(1,387)	728	**(500)**
	Non-trading	(1)	10	(2)	(86)	(193)	**(272)**
GBP	Trading	(78)	200	(227)	(453)	(269)	**(827)**
	Non-trading	(1)	(6)	(39)	92	587	**633**
JPY	Trading	21	12	(502)	(249)	(204)	**(922)**
	Non-trading	0	1	0	18	(24)	**(5)**
Others	Trading	(46)	(61)	500	(54)	(286)	**53**
	Non-trading	0	0	(4)	(1)	(3)	**(8)**

Positions shown as 'trading' are those which contribute to market risk regulatory capital, i. e. those considered 'trading book' for regulatory capital purposes (see section d). 'Non-trading' includes all other interest rate sensitive assets and liabilities including derivatives designated as hedges for accounting purposes (as explained in Note 23). This distinction differs somewhat from the accounting classification of trading and non-trading assets and liabilities.

Details of money market paper and debt instruments defined as trading portfolio for accounting purposes are included in Note 11 and of debt instruments defined as financial investments for accounting purposes in Note 12. Both contribute to the interest rate sensitivity shown in the table. Details of derivatives are shown in Note 23 but it should be noted that interest rate risk arises not only on interest rate contracts but also on other forwards, swaps and options, in particular on forward foreign exchange contracts.

Trading

The major part of this risk arises in the Investment Bank's Fixed Income Rates and Currencies business.

Note 29 Financial Instruments Risk Position (continued)

a) Market Risk (continued)

Non-trading

Interest rate risk is inherent in many of UBS's businesses and arises from factors such as differences in timing between contractual maturity or re-pricing of assets, liabilities and derivative instruments.

Most non-trading interest rate risk is captured at the point of business origination and transferred to a risk management unit – primarily the Cash and Collateral Trading unit of the Investment Bank or Group Treasury – where it is managed within the market risk limits described in (a)(i). The margin risks embedded in retail products remain with, and are subject to additional analysis and control by, the originating business units.

Many client products have no contractual maturity date or directly market-linked rate. Their interest rate risk is transferred on a pooled basis through "replication" portfolios – portfolios of revolving transactions between the originating business unit and Group Treasury at market rates designed to approximate their average cash flow and re-pricing behavior. The structure and parameters of the replication portfolios are set in accordance with long-term observations of market and client behavior, and are reviewed periodically. In response to both the extremely low domestic yield environment in Switzerland in 2002 and 2003 and the increased client demand for floating rate investment accounts, temporary adjustments deviating from long-term observations were made to the model that replicates client behavior.

Interest rate risk also arises from balance sheet items such as the financing of bank property and investments in equity of associated companies, and the investment of the Group's equity. The risk on these items is also transferred to Group Treasury, through replicating portfolios designed to approximate the desired investment or funding profile.

The Group's equity is invested at longer-term fixed interest rates in CHF, USD, EUR and GBP with an average duration of approximately four years, in line with strategic investment targets set by the Group Executive Board (GEB).

These investments account for CHF 13.1 million of the non-trading interest rate sensitivity, with CHF 8.1 million arising in CHF, CHF 4.3 million in USD and the remainder in EUR and GBP. The interest rate sensitivity of these investments is directly related to the chosen investment duration and it should be recognized that, although investing in significantly shorter maturities would lead to a reduction in apparent interest rate sensitivity, it would lead to higher volatility in interest earnings.

For the currencies EUR and GBP additional interest rate sensitivity arises mainly from subordinated note issues which are intentionally unhedged as they are regarded as part of the Group's equity for asset and liability management purposes.

(iii) Currency Risk

Currency risk is the risk of loss resulting from changes in exchange rates.

Trading

UBS is an active participant in currency markets and carries currency risk from these trading activities, conducted primarily in the Investment Bank. These trading exposures are subject to VaR, stress and concentration limits as described in (a)(i). Details of foreign exchange contracts, most of which arise from trading activities and contribute to currency risk, are shown in Note 23.

Non-Trading

UBS's reporting currency is the Swiss franc but its assets, liabilities, income and expense are denominated in many currencies, with significant amounts in USD, EUR and GBP, as well as CHF.

Reported profits or losses are exchanged monthly into CHF, reducing volatility in the Group's earnings from changes in exchange rates. Group Treasury also, from time to time, proactively hedges significant expected foreign currency earnings/costs (mainly USD, EUR and GBP) within a time horizon up to one year, in accordance with the instructions of the Group Executive Board and subject to its VaR limit. Economic hedging strategies employed include a cost-efficient option strategy, providing a safety net against unfavorable currency fluctuations while preserving upside potential.

Note 29 Financial Instruments Risk Position (continued)

a) Market Risk (Continued)

The Group's equity investment is managed in order to reflect the currency distribution of its risk-weighted assets and is diversified into CHF, USD, EUR and GBP. This creates structural foreign currency exposures, the gains or losses on which are recorded through equity, leading to fluctuations in UBS's capital base in line with the fluctuations in risk-weighted assets, thereby protecting the BIS Tier 1 capital ratio.

The table below shows the major currency breakdown of UBS's balance sheet and net position by currency at 31 December 2003.

Breakdown of assets and liabilities by currencies

	31.12.03				31.12.02			
CHF billion	CHF	USD	EUR	Other	CHF	USD	EUR	Other
Assets								
Cash and balances with central banks	2.4	0.1	0.8	0.3	2.4	0.1	0.6	1.2
Due from banks	4.6	11.8	8.2	7.1	5.2	11.4	7.4	8.5
Cash collateral on securities borrowed	0.7	192.5	7.3	13.4	0.1	126.7	2.7	9.5
Reverse repurchase agreements	1.2	162.4	73.8	83.2	1.9	164.6	61.0	66.5
Trading portfolio assets	8.9	288.9	77.6	86.4	6.1	247.6	51.7	66.0
Positive replacement values	14.6	7.6	0.8	61.3	10.4	8.1	0.8	62.8
Loans	149.7	39.2	12.9	10.7	147.8	39.5	11.5	12.8
Financial investments	0.6	2.4	1.2	0.9	1.1	5.0	1.5	0.8
Accrued income and prepaid expenses	0.3	3.0	1.8	1.1	0.5	4.0	0.3	1.7
Investments in associates	0.5	1.1	0.0	0.0	0.7	0.0	0.0	0.0
Property and equipment	5.9	1.2	0.1	0.5	5.6	1.3	0.1	0.9
Goodwill and other intangible assets	0.1	11.1	0.0	0.3	0.7	12.7	0.0	0.3
Other assets	2.4	4.2	1.8	17.1	1.4	5.0	1.0	1.6
Total balance sheet assets	191.9	725.5	186.3	282.3	183.9	626.0	138.6	232.6
Receivables from FX spot, FX forwards, FX options and currency swaps[1]	189.5	1,210.5	604.5	871.2				
Total assets including FX derivatives[1]	381.4	1,936.0	790.8	1,153.5				
Liabilities								
Due to banks	5.8	58.7	39.2	23.5	7.6	48.0	13.8	13.8
Cash collateral on securities lent	0.1	35.4	6.8	11.0	0.0	21.6	5.2	10.1
Repurchase agreements	17.9	277.8	76.4	43.7	17.8	260.8	51.9	36.4
Trading portfolio liabilities	2.4	90.8	20.3	30.5	3.7	68.6	11.3	22.9
Negative replacement values	15.8	7.0	0.4	70.4	10.1	7.1	0.7	63.5
Due to customers	137.1	126.4	51.8	32.1	123.5	111.5	43.6	28.2
Accrued expenses and deferred income	2.0	7.1	0.8	3.8	1.9	8.1	0.9	4.3
Debt issued	10.0	68.1	21.0	21.1	11.4	96.1	14.3	7.6
Other liabilities	6.6	5.3	2.9	16.5	5.4	4.1	0.9	1.9
Minority interests	0.0	3.9	0.1	0.1	0.0	3.4	0.0	0.1
Shareholders' equity	35.4	0.0	0.0	0.0	39.0	0.0	0.0	0.0
Of which foreign currency capital in subsidiaries	(13.2)	10.2	1.3	1.7				
Total liabilities, minority interests and shareholders' equity	219.9	690.7	221.0	254.4	220.4	629.3	142.6	188.8
Payables from FX spot, FX forwards, FX options and currency swaps[1]	160.6	1,246.2	569.7	899.2				
Total liabilities, minority interests and shareholders' equity including FX derivatives[1]	380.5	1,936.9	790.7	1,153.6				
Net position by currency[1]	0.9	(0.9)	0.1	(0.1)				

[1] Information required by Swiss banking law for 2003 onwards. This information is not available for 2002.

Note 29 Financial Instruments Risk Position (continued)

a) Market Risk (Continued)

(iv) Equity Risk

Equity risk is the risk of loss resulting from changes in the levels of equity indices and values of individual stocks.

The Investment Bank is a significant player in major equity markets and carries equity risk from these activities. These exposures are subject to VaR, stress and concentration limits as described in (a)(i) and, in the case of individual stocks, to issuer risk controls as described in (a)(v).

Details of equity derivatives contracts (on indices and individual equities), which arise primarily from these activities, are shown in Note 23.

(v) Issuer Risk

The values of tradable assets – equities, bonds and other debt instruments held for trading – are affected by factors specific to individual issuers as well as general market moves. This can include short-term factors influencing price but also more fundamental causes including severe financial deterioration.

As an active trader and market maker in equities and bonds, the Investment Bank holds positions in tradable assets, which are not only included in VaR, but are also subject to concentration limits on individual issuers, including positions arising from derivatives as well as physical holdings.

b) Credit Risk

Credit risk represents the loss which UBS would suffer if a client or counterparty failed to meet its contractual obligations. It is inherent in traditional banking products – loans, commitments to lend and other contingent liabilities, such as letters of credit – and in traded products – derivative contracts such as forwards, swaps and options, and repo and securities borrowing and lending transactions.

Reductions in the market values of tradable assets (securities and other obligations in tradable form held for trading) resulting from changes in the credit quality of individual obligors are considered market risk. This is explained in a (v) above.

To ensure a consistent and unified approach, with appropriate checks and balances, all Business Groups taking material credit risk have independent credit risk control functions headed by Chief Credit officers (CCOs) reporting functionally to the Group CCO. They are responsible for counterparty ratings and credit risk assessment.

Credit risk authority, including authority to establish allowances and provisions for credit loss, is exercised by the Chairman's Office (by delegation to an Executive Vice Chairman), by the GEB (by delegation to the Group CCO) and within the Business Groups.

UBS manages and controls concentrations of credit risk wherever they are identified, in particular to individual counterparties and groups and to industries and countries.

UBS sets limits on its credit exposure to both individual counterparties and counterparty groups. Exposure is measured for banking products as the face value amount. For loans, this is shown on the balance sheet and detailed in Note 9a), and for commitments, detailed in Note 25. Both are included in the table below.

For all traded products, credit exposure is measured for internal risk control purposes based not only on the current replacement value of contracts but also on potential future changes in replacement value, and credit limits are applied on this basis. The replacement values of derivatives are included in the balance sheet and in the table below. For further information about derivatives see Note 23. Securities borrowing and lending transactions are represented on the balance sheet by the values of cash collateral placed with or received from counterparties while repo/reverse repo transactions are represented by the amounts of the forward commitments – for

Note 29 Financial Instruments Risk Position (continued)

b) Credit Risk (continued)

details see Note 10. The credit exposure is generally only a small percentage of the balance sheet amounts. The amounts shown in the table below represent the mark to market values of these transactions, i.e. the difference in value between the cash or securities lent or given as collateral by UBS and the value of cash or securities borrowed or taken as collateral by UBS.

Breakdown of credit exposure

Amounts for each product type are shown gross before allowances and provisions.

CHF million	**31.12.03**	31.12.02
Banking products		
Loans to customers and due from banks [1]	**248,207**	249,370
Contingent liabilities (gross – before participations) [2]	**15,563**	16,594
Undrawn irrevocable commitments (gross – before participations) [2]	**46,623**	39,306
Traded products [3]		
Derivatives positive replacement values (before collateral but after netting) [4]	**84,334**	82,092
Securities borrowing and lending, repos and reverse repos [5, 6]	**30,833**	20,120
Allowances and provisions [7]	**(4,326)**	(5,621)
Total credit exposure net of allowances and provisions [8]	**421,234**	401,861

[1] See Note 9a – Due from Banks and Loans for further information. [2] See Note 25 – Commitments and Contingent Liabilities for further information. [3] Does not include future potential credit exposure arising from changes in value of products with variable value, i.e. traded products. Potential future credit exposure is however included in internal measures of credit exposure for risk management and control purposes. [4] See Note 23 – Derivative Instruments for further information. [5] This figure represents the difference in value between the cash or securities lent or given as collateral to counterparties, and the value of cash or securities borrowed or taken as collateral from the same counterparties under stock borrow / lend and repo / reverse repo transactions. [6] See Note 10 –- Securities Borrowing, Securities Lending, Repurchase and Reverse Repurchase Agreements for further information about these types of transactions. [7] See Note 9b – Allowances and Provisions for Credit Losses for further information. [8] The values of bonds, equities and other tradable obligations in the Group's trading business area are also affected by credit events and default. They are not included in this table – exposure is controlled under the market risk control structure described in Note 29 – Financial Instruments Risk Position, section a).

Note 29 Financial Instruments Risk Position (continued)

b) Credit Risk (continued)

UBS is an active user of credit derivatives to hedge credit risk in banking and traded products. It also makes use of master netting agreements where possible in its OTC derivatives trading and, in line with general market trends, has also entered into bilateral collateral agreements with market participants. Further information is given in Note 23.

Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Stress measures are therefore applied to assess the impact of variations in bankruptcy rates and asset values, taking into account risk concentrations in each portfolio. Stress loss limits are applied where considered necessary, including limits on exposure to all but the best-rated countries.

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 – loan interest payments and scheduled principal repayments, or other payments due, for example on guarantees, and including liquidation of collateral where available. Loans are further classified as non-performing where payment of interest, principal or fees is overdue by more than 90 days or (as now required by Swiss regulatory guidelines) when insolvency proceedings have commenced or obligations have been restructured on concessionary terms. Allowances or provisions are determined such that the carrying values of impaired claims are consistent with the principles of IAS 39. For further information about accounting policy for allowance and provision for credit losses see Note 1 l). For the amounts of allowance and provision for credit losses and amounts of impaired and non-performing loans, see Note 9 b), c) and d).

The occurrence of actual credit losses is erratic in both timing and amount and those that arise usually relate to transactions entered into in previous accounting periods. In order to account for average credit loss over time and to encourage risk-adjusted pricing, UBS uses the concept of 'expected loss' for management purposes. Expected loss is a statistically based measure intended to reflect the annual costs that will arise, on average, over time, from positions that become impaired, and is a function of the probability of default (given by the counterparty rating), current and likely future exposure to the counterparty and the likely severity of the loss should default occur.

Note 29 Financial Instruments Risk Position (continued)

c) Liquidity Risk

UBS's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without compromising its ability to respond quickly to strategic market opportunities. A centralized approach is adopted, based on an integrated framework incorporating the assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors. Scenarios encompass both normal market conditions and stressed conditions, including both UBS-specific and general market crises. The impact on both trading and client businesses is considered, taking account of potential collateral with which funds might be raised, and the possibility that customers might seek to withdraw funds or draw down unutilized credit lines.

The breakdown by contractual maturity of assets and liabilities, which is the basis of the "normal market conditions" scenario, at 31 December 2003 is shown in the table below.

Maturity analysis of assets and liabilities

CHF billion	On demand	Subject to notice[1]	Due within 3 mths	Due between 3 and 12 mths	Due between 1 and 5 years	Due after 5 years	Total
Assets							
Cash and balances with central banks	3.6						3.6
Due from banks	22.4	0.8	6.0	0.9	1.4	0.2	31.7
Cash collateral on securities borrowed	9.5	166.2	37.4	0.7	0.1	0.0	213.9
Reverse repurchase agreements	44.0	35.1	193.7	43.0	3.7	1.1	320.6
Trading portfolio assets[2]	461.8	0.0	0.0	0.0	0.0	0.0	461.8
Positive replacement values[2]	84.3	0.0	0.0	0.0	0.0	0.0	84.3
Loans	20.6	44.9	33.5	37.8	66.8	8.9	212.5
Financial investments	4.0	0.0	0.6	0.2	0.2	0.1	5.1
Accrued income and prepaid expenses	6.2	0.0	0.0	0.0	0.0	0.0	6.2
Investments in associates	0.0	0.0	0.0	0.0	0.0	1.6	1.6
Property and equipment	0.0	0.0	0.0	0.0	0.0	7.7	7.7
Goodwill and other intangible assets	0.0	0.0	0.0	0.0	0.0	11.5	11.5
Other assets	11.9	13.6	0.0	0.0	0.0	0.0	25.5
Total 31.12.2003	**668.3**	**260.6**	**271.2**	**82.6**	**72.2**	**31.1**	**1,386.0**
Total 31.12.2002	489.7	23.7	478.1	90.7	69.7	29.2	1,181.1
Liabilities							
Due to banks	52.0	4.6	66.3	3.4	0.8	0.1	127.2
Cash collateral on securities lent	5.1	46.8	1.4	0.0	0.0	0.0	53.3
Repurchase agreements	158.5	13.2	186.0	57.8	0.3	0.0	415.8
Trading portfolio liabilities[2]	144.0	0.0	0.0	0.0	0.0	0.0	144.0
Negative replacement values[2]	93.6	0.0	0.0	0.0	0.0	0.0	93.6
Due to customers	146.3	109.7	83.1	5.3	1.8	1.2	347.4
Accrued expenses and deferred income	13.7	0.0	0.0	0.0	0.0	0.0	13.7
Debt issued	0.0	0.0	1.7	63.9	33.6	21.0	120.2
Other liabilities	17.6	13.7	0.0	0.0	0.0	0.0	31.3
Total 31.12.2003	**630.8**	**188.0**	**338.5**	**130.4**	**36.5**	**22.3**	**1,346.5**
Total 31.12.2002	373.4	5.4	636.0	66.1	36.7	21.0	1,138.6

[1] Deposits without a fixed term, on which notice of withdrawal or termination has not been given (such funds may be withdrawn by the depositor or repaid by the borrower subject to an agreed period of notice). [2] Trading and derivative positions are shown within 'on demand' which management believes most accurately reflects the short-term nature of trading activities. The contractual maturity of the instruments may however extend over significantly longer periods.

Note 29 Financial Instruments Risk Position (continued)

d) Capital Adequacy

The adequacy of UBS's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios"). The BIS ratios compare the amount of eligible capital (in total and Tier 1) with the total of risk-weighted assets (RWAs).

While UBS monitors and reports its capital ratios under BIS rules, it is the rules established by the Swiss regulator, the EBK, which ultimately determine the capital required to underpin its business, and these rules, on balance, result in higher RWAs than the BIS rules. As a result, UBS's ratios are lower when calculated under the EBK regulations than they would be if calculated under the BIS rules.

UBS has complied with all BIS and EBK regulatory capital rules for all periods reported.

BIS Eligible capital

BIS eligible capital consists of two parts: Tier 1 capital comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and minority interests less accrued dividends, net long positions in own shares and goodwill; Tier 2 capital includes subordinated long-term debt. Tier 1 capital is required to be at least 4% and Total eligible capital at least 8% of RWAs.

BIS Risk-Weighted Assets (RWAs)

Three elements make up total RWAs – credit risk, other assets and market risk, each of which is described below.

The credit risk component consists of on- and off-balance sheet claims, measured according to regulatory formulae outlined below, weighted according to type of counterparty and collateral at 0%, 20%, 50% or 100%. The least risky claims, such as claims on OECD governments and claims collateralized by cash, are weighted at 0%, meaning that no capital support is required, while the claims deemed most risky, including unsecured claims on corporates and private customers, are weighted at 100%, meaning that 8% capital support is required.

Securities not held for trading are included as claims, based on the net long position in the securities of each issuer, including both physical holdings and positions derived from other transactions such as options.

Claims arising from derivatives transactions include not only the current positive replacement value (shown in the table below under Balance sheet assets), but also an 'add-on' to reflect their potential future exposure (shown in the table below under Off-balance sheet and other positions – Forward and swap contracts, and Purchased options).

Claims arising from contingent commitments and irrevocable facilities granted are converted to credit equivalent amounts based on specified percentages of nominal value.

There are other types of asset, most notably property and equipment and intangibles, which, while not subject to credit risk, represent a risk to the bank in respect of their potential for write-down and impairment and which therefore require capital underpinning.

Capital is required to support market risk arising in all foreign exchange, precious metals and energy positions, and all positions held for trading in interest rate instruments and equities, including risks on individual equities, and traded debt obligations such as bonds. UBS computes this risk using a Value at Risk model approved by the EBK, from which the market risk capital requirement is derived. Unlike the calculations for credit risk and other assets, this produces the capital requirement itself rather than the RWA amount. In order to compute a total capital ratio, the market risk capital requirement is therefore converted to a 'RWA equivalent' (shown in the table below as Market risk positions) such that the capital requirement is 8% of this RWA equivalent, i.e. the market risk capital requirement is multiplied by 12.5.

Note 29 Financial Instruments Risk Position (continued)

d) Capital Adequacy (continued)

Risk-weighted assets (BIS)

CHF million	Balance sheet / notional amount 31.12.03	Risk-weighted amount 31.12.03	Balance sheet / notional amount 31.12.02	Risk-weighted amount 31.12.02
Balance sheet assets				
Due from banks and other collateralized lendings[1]	441,662	8,565	356,501	8,877
Net positions in securities[2]	6,755	6,182	9,096	8,193
Positive replacement values[3]	84,334	22,324	82,092	21,680
Loans, net of allowances for credit losses and other collateralized lendings[1]	337,028	153,537	320,752	147,703
Accrued income and prepaid expenses	6,218	4,284	6,453	3,025
Property and equipment	9,840	9,614	10,384	10,149
Other assets	25,459	7,670	8,952	5,774
Off-balance sheet and other positions				
Contingent liabilities	15,563	8,167	16,594	8,224
Irrevocable commitments	46,960	6,863	39,327	4,622
Forward and swap contracts[4]	11,746,880	4,710	9,455,928	4,253
Purchased options[4]	1,183,708	1,716	298,800	1,023
Market risk positions[5]		18,269		15,267
Total risk-weighted assets		251,901		238,790

[1] Includes securities lending and reverse repo transactions. [2] Excluding positions in the trading book, which are included in Market risk positions. [3] Represents the mark to market values of Forward and swap contracts and Purchased options, where positive. [4] Risk-weighted amount represents the "add-ons" for these contracts. [5] Regulatory capital adequacy requirements for market risk, calculated using the approved Value at Risk model, multiplied by 12.5 to give the "risk-weighted asset equivalent".

BIS capital ratios

	Capital CHF million 31.12.03	Ratio % 31.12.03	Capital CHF million 31.12.02	Ratio % 31.12.02
Tier 1	29,765	11.8	27,047	11.3
of which hybrid Tier 1	3,224	1.3	3,182	1.3
Tier 2	3,816	1.5	5,962	2.5
Total BIS	33,581	13.3	33,009	13.8

The Tier 1 capital includes CHF 3,224 million (USD 2,600 million) trust preferred securities at 31 December 2003 and CHF 3,182 million (USD 2,300 million) at 31 December 2002.

Note 30 Fair Value of Financial Instruments

The following table presents the fair value of financial instruments based on the following valuation methods and assumptions. It is presented because not all financial instruments are reflected in the financial statements at fair value.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Market prices are used to determine fair value, where an active market (such as a recognized stock exchange) exists, as it is the best evidence of the fair value of a financial instrument. Market prices are not, however, available for a significant number of the financial assets and liabilities held and issued by the Group. Therefore, for financial instruments where no market price is available, the fair values presented in the following table have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance sheet dates.

The values derived from applying these techniques are significantly affected by the underlying assumptions made concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(a) trading assets, derivatives and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or discounted cash flows. Fair value is equal to the carrying amount for these items;

(b) financial investments classified as available for sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognized valuation techniques. Prior to the adoption of IAS 39 in 2001, financial investments were carried at cost or if considered held for sale, at the lower of cost or market. Upon the adoption of the standard, all financial investments are carried at fair value. Unrealized gains and unrealized losses, excluding impairment writedowns, are recorded in shareholders' equity until an asset is sold, collected or otherwise disposed of;

(c) the carrying amount of liquid assets and other assets maturing within 12 months is assumed to approximate their fair value. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;

(d) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;

(e) the fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans, does not, therefore, reflect changes in their credit quality as the impact of credit risk is recognized separately by deducting the amount of the allowance for credit losses from both book and fair values;

(f) the fair value of fixed rate loans and mortgages is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognized separately by deducting the amount of the allowance for credit losses from both book and fair values.

The assumptions and techniques have been developed to provide a consistent measurement of fair value for the Group's assets and liabilities in the following table. However, because other institutions may use different methods and assumptions, such fair value disclosures in this Note cannot necessarily be compared from one financial institution to another.

Note 30 Fair Value of Financial Instruments (continued)

CHF billion	Carrying value 31.12.03	Fair value 31.12.03	Unrealized gain / (loss) 31.12.03	Carrying value 31.12.02	Fair value 31.12.02	Unrealized gain / (loss) 31.12.02
Assets						
Cash and balances with central banks	3.6	3.6	0.0	4.3	4.3	0.0
Due from banks	31.7	31.7	0.0	32.5	32.5	0.0
Cash collateral on securities borrowed	213.9	213.9	0.0	139.1	139.1	0.0
Reverse repurchase agreements	320.6	320.6	0.0	294.1	294.1	0.0
Trading portfolio assets	461.8	461.8	0.0	371.4	371.4	0.0
Positive replacement values	84.3	84.3	0.0	82.1	82.1	0.0
Loans	212.5	213.8	1.3	211.8	214.1	2.3
Financial investments	5.1	5.1	0.0	8.4	8.4	0.0
Liabilities						
Due to banks	127.2	127.2	0.0	83.4	83.4	0.0
Cash collateral on securities lent	53.3	53.3	0.0	36.9	36.9	0.0
Repurchase agreements	415.9	415.9	0.0	366.9	366.9	0.0
Trading portfolio liabilities	144.0	144.0	0.0	106.5	106.5	0.0
Negative replacement values	93.6	93.6	0.0	81.3	81.3	0.0
Due to customers	347.3	347.3	0.0	307.4	307.5	(0.1)
Debt issued	120.2	121.5	(1.3)	129.8	131.7	(1.9)
Subtotal			0.0			0.3
Unrealized gains and losses recorded in shareholders' equity before tax on:						
Financial investments			0.8			1.1
Derivative instruments designated as cash flow hedges			(0.2)			(0.3)
Net unrealized gains and losses not recognized in the income statement			0.6			1.1

The table does not reflect the fair values of non-financial assets and liabilities such as property, equipment, goodwill, prepayments and non-interest accruals. Where applicable, the interest accrued to date on financial instruments is included, for purposes of the above fair value disclosure, in the carrying value of the financial instruments.

Substantially all of the Group's commitments to extend credit are at variable rates. Accordingly, the Group has no significant exposure to fair value fluctuations resulting from interest rate movements related to these commitments.

The fair values of the Group's fixed rate loans, long- and medium-term notes and bonds issued are predominantly hedged by derivative instruments, mainly interest rate swaps, as explained in Note 23. The interest rate risk inherent in balance sheet positions with no specific maturity is also hedged with derivative instruments based on management's view on the effective interest repricing date of the products.

The hedging derivative instruments are carried on the balance sheet at fair values, which are included in the Positive or Negative replacement values in the above table. When the interest rate risk on a fixed rate financial instrument is hedged with a derivative in a fair value hedge, the fixed rate financial instrument (or hedged portion thereof) is reflected in the above table at fair value only in relation to the interest rate risk, not the credit risk as explained in (f) above. Fair value changes are recorded in net profit. The treatment of derivatives designated as cash flow hedges is explained in Note 1v). The amount shown in the table as "derivative instruments designated as cash flow hedges" is the net change in fair values on such derivatives that is recorded in Shareholders' equity and not yet transferred to income or expense.

The decrease in the Net fair value gains and losses during 2003 of CHF 0.5 billion is mainly attributable to the change in the unrealized gains of fixed rate long-term assets, which have decreased by CHF 1.0 billion from the prior year as a result of higher interest rates in 2003. This was partially offset by a decrease in unrealized loss from fixed rate long-term debt.

Note 31 Pension and Other Post-Retirement Benefit Plans

a) Defined benefit plans

The Group has established various pension plans inside and outside of Switzerland. The major plans are located in Switzerland, the UK, the US and Germany. Independent actuarial valuations are performed for the plans in these locations. The measurement date of these plans is the 31 December for each year presented.

The overall investment policy and strategy for the Group's defined benefit pension plans is guided by the objective to achieve an investment return which, together with the contributions paid, is sufficient to maintain reasonable control over the various funding risks of the plans. The investment advisors appointed by plan trustees are responsible for determining the mix of asset types and target allocations which are reviewed by the plan trustees on an ongoing basis. Actual asset allocation is determined by a variety of current economic and market conditions and in consideration of specific asset class risk.

The expected long-term rates of return on plan assets are based on long-term expected inflation, interest rates, risk premiums and targeted asset class allocations. These estimates take into consideration historical asset class returns and are determined together with the plans' investment and actuarial advisors.

Swiss pension plan

The pension plan covers practically all employees in Switzerland and exceeds the minimum benefit requirements under Swiss law. Contributions to the pension plan are paid for by employees and the Group. The employee contributions are calculated as a percentage of insured annual salary and are deducted monthly. The percentages deducted from salary for full benefit coverage (including risk benefits) depend on age and vary between 7% and 10%. The Group pays a variable contribution that ranges between 150% and 220% of the sum of employees' contributions. The employer contributions expected to be made in 2004 to the pension plan are CHF 350 million.

The computation of the benefits is based on the final covered salary. The benefits covered include retirement benefits, disability, death and survivor pension.

In 1999, the Group recognized a prepaid pension asset of CHF 456 million representing excess employer contributions. In 2003, the remaining CHF 33 million (2002 CHF 323 million, 2001 CHF 0 million) of this asset was used to fund the employer contributions and was recognized as a pension expense.

The accumulated benefit obligation (which is the current value of accrued benefits without allowance for future salary increases) was CHF 16,817 million as of 31 December 2003 (2002 CHF 15,853 million, 2001 CHF 14,750 million).

Foreign pension plans

The foreign locations of UBS operate various pension plans in accordance with local regulations and practices. Among these plans are defined contribution plans as well as defined benefit plans. The locations with defined benefit plans of a material nature are in the UK, the US and Germany. The UK and the US defined benefit plans are closed to new entrants who are covered by defined contribution plans. The amounts shown for foreign plans reflect the net funded positions of the major foreign plans.

The retirement plans provide benefits in the event of retirement, death, disability or employment termination. The plans' retirement benefits depend on age, contributions and level of compensation. The principal plans are financed in full by the Group. The employer contributions expected to be made in 2004 to these pension plans are CHF 63 million. The funding policy for these plans is consistent with local government and tax requirements.

The assumptions used in foreign plans take into account local economic conditions.

The accumulated benefit obligation for these pension plans was CHF 3,609 million as of 31 December 2003 (2002 CHF 3,376 million, 2001 CHF 3,195 million).

For pension plans with an accumulated benefit obligation in excess of plan assets, the aggregate projected benefit obligation and accumulated benefit obligation was CHF 944 million and CHF 930 million as of 31 December 2003 (2002 CHF 3,436 million and 3,376 million, 2001 CHF 1,411 million and 1,373 million). The fair value of plan assets for these plans was 677 million as of 31 December 2003 (2002 CHF 2,382 million, 2001 CHF 1,010 million).

Note 31 Pension and Other Post-Retirement Benefit Plans (continued)

b) Post-retirement medical and life plans
In the US and the UK the Group offers retiree medical benefits that contribute to the health care coverage of employees and beneficiaries after retirement. In addition to retiree medical benefits, the Group in the US also provides retiree life insurance benefits.

The benefit obligation in excess of fair value of plan assets for those plans amounts to CHF 179 million as of 31 December 2003 (2002 CHF 164 million, 2001 CHF 142 million) and the total accrued post-retirement cost to CHF 137 million as of 31 December 2003 (2002 CHF 130 million, 2001 CHF 130 million). The net periodic post-retirement costs for the years ended 31 December 2003, 31 December 2002 and 31 December 2001 were CHF 22 million, CHF 25 million and CHF 24 million, respectively.

c) Defined contribution plans
The Group also sponsors a number of defined contribution plans primarily in the UK and the US. Certain plans permit employees to make contributions and earn matching or other contributions from the Group. The contributions to these plans recognized as expense for the years ended 31 December 2003, 31 December 2002 and 31 December 2001 were CHF 141 million, CHF 133 million and CHF 117 million, respectively.

a) Defined benefit plans

	Swiss			Foreign		
CHF million	**31.12.03**	31.12.02	31.12.01	**31.12.03**	31.12.02	31.12.01
Defined benefit obligation at the beginning of the year	**(19,204)**	(17,879)	(17,712)	**(3,436)**	(3,553)	(3,406)
Service cost	**(564)**	(554)	(541)	**(91)**	(108)	(121)
Interest cost	**(703)**	(699)	(674)	**(197)**	(210)	(204)
Plan amendments						(1)
Special termination benefits	**(70)**	(209)	(262)			
Actuarial gain/(loss)	**1,395**	(681)	421	**(201)**	(177)	(345)
Benefits paid	**930**	818	889	**124**	111	107
Curtailment/settlement					74	
Foreign currency translation				**138**	427	(12)
Other						429
Defined benefit obligation at the end of the year	**(18,216)**	(19,204)	(17,879)	**(3,663)**	(3,436)	(3,553)
Fair value of plan assets at the beginning of the year	**16,566**	18,289	19,074	**2,382**	2,887	3,378
Actual return on plan assets	**1,411**	(1,350)	(765)	**429**	(240)	(220)
Employer contributions	**370**	236	656	**831**	164	258
Plan participant contributions	**202**	209	213			
Benefits paid	**(930)**	(818)	(889)	**(124)**	(111)	(107)
Foreign currency translation				**(116)**	(318)	7
Other						(429)
Fair value of plan assets at the end of the year	**17,619**	16,566	18,289	**3,402**	2,382	2,887
Funded status	**(597)**	(2,638)	410	**(261)**	(1,054)	(666)
Unrecognized net actuarial (gains)/losses	**1,716**	3,892	961	**970**	1,126	673
Unrecognized prior service cost				**1**	1	2
Unrecognized asset	**(1,119)**	(1,221)	(1,015)			
(Accrued)/prepaid pension cost	**0**	33	356	**710**	73	9

Note 31 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans (continued)

	Swiss			Foreign		
CHF million	**31.12.03**	31.12.02	31.12.01	**31.12.03**	31.12.02	31.12.01
Movement in the net (liability) or asset						
(Accrued)/prepaid pension cost at the beginning of the year	**33**	356	356	**73**	9	(153)
Net periodic pension cost	**(403)**	(559)	(656)	**(168)**	(83)	(97)
Employer contributions	**370**	236	656	**831**	164	258
Foreign currency translation				**(26)**	(17)	1
(Accrued)/prepaid pension cost	**0**	33	356	**710**	73	9
Amounts recognized in the Balance Sheet						
Prepaid pension cost		33	356	**862**	220	185
Accrued pension liability				**(152)**	(147)	(176)
(Accrued)/prepaid pension cost	**0**	33	356	**710**	73	9

CHF million For the year ended						
Components of net periodic pension cost						
Service cost	**564**	554	541	**91**	108	121
Interest cost	**703**	699	674	**197**	210	204
Expected return on plan assets	**(818)**	(900)	(947)	**(178)**	(199)	(228)
Increase/(decrease) of unrecognized assets	**(102)**	206	339			
Special termination benefits	**70**	209	262			
Amortization of unrecognized prior service cost					1	
Amortization of unrecognized net (gains)/losses	**188**			**58**	22	
Curtailment/settlement					(59)	
Employee contributions	**(202)**	(209)	(213)			
Net periodic pension cost	**403**	559	656	**168**	83	97
Principal actuarial assumptions used (%)						
Assumptions used to determine defined benefit obligations at the end of the year						
Discount rate	**3.8**	3.8	4.0	**5.7**	5.8	6.2
Expected rate of salary increase	**2.5**	2.5	2.5	**4.6**	4.4	4.4
Rate of pension increase	**1.0**	1.5	1.5	**1.9**	1.5	1.5
Assumptions used to determine net periodic pension cost for the year ended						
Discount rate	**3.8**	4.0	4.0	**5.8**	6.2	6.3
Expected rate of return on plan assets	**5.0**	5.0	5.0	**7.1**	7.3	7.9
Expected rate of salary increase	**2.5**	2.5	2.5	**4.4**	4.4	4.4
Rate of pension increase	**1.5**	1.5	1.5	**1.5**	1.5	1.6

Plan assets						
Actual plan asset allocation (%)						
Equity instruments	**39**	35	45	**52**	57	57
Debt instruments	**43**	47	39	**30**	36	35
Real estate	**12**	13	13	**1**	1	1
Other	**6**	5	3	**17**	6	7
Total	**100**	100	100	**100**	100	100

Note 31 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans (continued)

	Swiss			Foreign		
	31.12.03	31.12.02	31.12.01	**31.12.03**	31.12.02	31.12.01
Long-term target plan asset allocation (%)						
Equity instruments	**35–53**			**51–55**		
Debt instruments	**30–48**			**44–46**		
Real estate	**12–19**			**0–1**		
Other	**0**			**1–2**		
Actual return on plan assets (%)	**8.6**	(7.5)	(4.0)	**17.8**	(8.7)	(7.3)

CHF million			
Additional details to fair value of plan assets			
UBS financial instruments and UBS bank accounts	**1,005**	814	476
UBS AG shares [1]	**246**	206	305
Securities lent to UBS included in plan assets	**2,930**	2,645	824
Other assets used by UBS included in plan assets	**84**	90	104

[1] The number of UBS AG shares were 2,908,699, 3,072,500 and 3,639,800 as of 31 December 2003, 31 December 2002 and 31 December 2001, respectively. The amount of capital repayment and dividend received on UBS AG shares for the years ended 31 December 2003, 31 December 2002 and 31 December 2001 were CHF 7 million, CHF 7 million and CHF 2 million, respectively.

b) Post-retirement medical and life plans

CHF million	**31.12.03**	31.12.02	31.12.01
Post-retirement benefit obligation at the beginning of the year	**(166)**	(145)	(115)
Service cost	**(11)**	(8)	(7)
Interest cost	**(10)**	(9)	(9)
Plan amendments		(3)	(10)
Actuarial gain/(loss)	**(14)**	(31)	(6)
Benefits paid	**6**	4	4
Foreign currency translation	**16**	26	(2)
Post-retirement benefit obligation at the end of the year	**(179)**	(166)	(145)
Fair value of plan assets at the beginning of the year	**2**	3	4
Actual return on plan assets	**0**	0	0
Employer contributions	**4**	3	3
Benefits paid	**(6)**	(4)	(4)
Fair value of plan assets at the end of the year	**0**	2	3

The assumed average health care cost trend rates used in determining post-retirement benefit expense is assumed to be 10.3% for 2003 and to decrease to an ultimate trend rate of 5% in 2010. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in the assumed health care cost trend rates would change the US post-retirement benefit obligation and the service and interest cost components of the net periodic post-retirement benefit costs as follows:

CHF million	**1% increase**	**1% decrease**
Effect on total service and interest cost	**5**	**(4)**
Effect on the post-retirement benefit obligation	**25**	**(19)**

Note 32 Equity Participation Plans

a) Equity Participation Plans Offered

UBS has established several equity participation plans to further align the long-term interests of executives, managers, staff and shareholders. The plans are offered to eligible employees in approximately 50 countries and are designed to meet the complex legal, tax and regulatory requirements of each country in which they are offered. The explanations below describe the most significant plans in general, but specific plan rules and investment offerings may vary by country.

Equity Plus (EP): This voluntary plan gives eligible employees the opportunity to purchase UBS shares at fair market value on the purchase date and receive at no additional cost two UBS options for each share purchased, up to a maximum annual limit. The options have a strike price equal to the fair market value of the stock on the date the option is granted. Share purchases can be made annually from bonus compensation or quarterly based on regular deductions from salary. Shares purchased under EP are restricted from resale for two years from the time of purchase, and the options granted have a two-year vesting requirement and generally expire from ten years to ten and one-half years after the date of grant.

Discounted Purchase Plans: Employees in Switzerland are entitled to purchase a specified number of UBS shares at a predetermined discounted price each year. The number of shares that can be purchased depends on rank. Any such shares purchased must be held for a specified period of time. The discount is recorded as compensation expense.

Equity Ownership Plan (EOP): Selected personnel receive a mandatory portion of their performance-related compensation in UBS shares and in some cases UBS options, and most are eligible to receive a matching contribution in the form of UBS options. Participants in certain countries are eligible to receive a portion of their award in Alternative Investment Vehicles (AIVs). These are generally money market funds, UBS and non-UBS mutual funds and other UBS sponsored funds. EOP awards vest in one-third increments over a three-year vesting period. Under certain conditions, these awards are fully forfeitable by the employee.

Key employee option plans: Under these plans, key and high potential employees are granted UBS options with a strike price not less than the fair market value of the shares on the date the option is granted. Option grants generally vest in one-third increments over a three-year period. Expiration of the options is generally from ten to ten and one-half years. One option gives the right to purchase one registered UBS share at the option's strike price. In one outstanding prior year grant, accelerated vesting or non-forfeitability may occur if certain share appreciation targets are met.

Other deferred compensation plans: UBS sponsors other deferred compensation plans for selected eligible employees. Generally, contributions are made on a tax deferred basis, and participants are allowed to invest in AIVs. No additional company match is granted, and the plan is generally not forfeitable. In addition, UBS also grants deferred compensation awards to new recruits, senior management and other key employees in the form of UBS shares, options or other leveraged interests in non-UBS instruments.

Equity Investment Plan (EIP) (now discontinued): Prior to the discontinuance of new awards under this plan in 2001, employees had the choice to invest part of their annual bonus in UBS shares, warrants or other derivatives on UBS shares. A holding period, generally three years, applied during which the instruments could not be sold or exercised. In addition, participants in the plan received a matching contribution of additional UBS shares or derivatives. Only the UBS-matching contribution was forfeitable. The last EIP vesting will take place in 2004. Staff who had the possibility to take part in EIP are now offered the opportunity to take part in EP.

Note 32 Equity Participation Plans (continued)

b) UBS share awards

i) Stock compensation plans

Movements in shares granted under various equity participation plans mentioned on the previous page are as follows:

Stock compensation plans	31.12.03	31.12.02	31.12.01
Unvested shares outstanding, at the beginning of the year	**48,136,561**	52,299,332	47,458,928
Shares awarded during the year	**11,023,553**	13,511,655	16,850,859
Vested during the year	**(26,915,860)**	(16,333,832)	(10,740,466)
Forfeited during the year	**(860,364)**	(1,340,594)	(1,269,989)
Unvested shares outstanding, at the end of the year	**31,383,890**	48,136,561	52,299,332
Weighted-average fair market value of shares awarded (in CHF)	**61**	71	90
Fair market value of outstanding shares at the end of the year (CHF billion)	**2.7**	3.2	4.4

ii) Stock purchase plans

The following table shows the shares awarded and the weighted-average fair value per share for the Group's stock purchase plans.

Stock purchase plans	31.12.03	31.12.02	31.12.01
Share quantity purchased through discounted purchase plans	**1,722,492**	1,339,223	1,701,099
Weighted-average purchase price (in CHF)	**31**	40	47
Share quantity purchased through EP at fair market value	**2,593,391**	2,483,684	1,221,416
Weighted-average purchase price (in CHF)	**61**	77	
Weighted-average purchase price (in USD)	**49**	46	51

Note 32 Equity Participation Plans (continued)

c) UBS option awards

Movements in options granted under various equity participation plans mentioned on the previous page are as follows:

	Number of options 31.12.03	Weighted-average exercise price (in CHF) 31.12.03[1]	Number of options 31.12.02	Weighted-average exercise price (in CHF) 31.12.02[1]	Number of options 31.12.01	Weighted-average exercise price (in CHF) 31.12.01[1]
Outstanding, at the beginning of the year	**88,164,227**	**67**	63,286,669	66	63,308,502	58
Granted during the year	**38,969,319**	**59**	37,060,178	71	11,070,992	94
Exercised during the year	**(14,782,471)**	**54**	(9,595,133)	54	(10,083,075)	49
Forfeited during the year	**(2,721,970)**	**64**	(2,082,356)	71	(1,009,750)	74
Expired unexercised	**(589,079)**	**76**	(505,131)	77	0	0
Outstanding, at the end of the year	**109,040,026**	**63**	88,164,227	67	63,286,669	66
Exercisable, at the end of the year	**34,726,720**	**59**	21,765,482	51	25,550,932	50

[1] Some of the options in this table have exercise prices denominated in US dollars which have been converted into CHF at the year-end spot exchange rate for purposes of this table.

The following table summarizes additional information about stock options outstanding at 31 December 2003:

	Options outstanding			Options exercisable	
Range of exercise prices per share	Number of options outstanding	Weighted-average exercise price	Weighted-average remaining contractual life	Number of options exercisable	Weighted-average exercise price
CHF		***CHF***	***Years***		***CHF***
53.37–70.00	27,389,634	61.17	6.4	10,496,007	63.76
70.01–85.00	23,708,208	78.13	6.7	8,845,007	78.52
85.01–106.00	5,686,709	98.66	4.7	420,348	87.56
53.37–106.00	**56,784,551**	**72.00**	**6.3**	**19,761,362**	**70.87**
USD		***USD***	***Years***		***USD***
6.48–35.00	6,342,786	19.32	2.0	6,342,786	19.32
35.01–45.00	14,530,862	43.15	9.1	79,679	39.52
45.01–55.00	26,951,159	47.30	7.1	8,500,619	46.57
55.01–65.31	4,430,668	59.11	7.4	42,274	57.87
6.48–65.31	**52,255,475**	**43.75**	**7.1**	**14,965,358**	**35.02**

Note 32 Equity Participation Plans (continued)

d) Compensation Expense

Generally under IFRS, for all equity participation instruments (shares, cash-settled warrants and other cash-settled derivatives for which the underlying is UBS shares) except options, UBS accrues expense in the performance year and determines the number of instruments granted to employees based on the instrument's market price at the grant date, which is generally in the year following the performance year. For options, the amount of expense recognized is equal to the intrinsic value at grant date (i. e. the difference between the strike price and fair market value of shares at the date of grant. This difference is generally zero, as option strike prices are generally at or above the market prices of the shares). For discounted share plans, the expense is equal to the difference between the fair market value and the discounted value and is accrued for in the performance year. Management's estimate of the accrued expense before tax for share-based compensation for the years ended 31 December 2003, 2002 and 2001 was CHF 833 million, CHF 592 million and CHF 974 million, respectively.

e) Pro-Forma Net Income

The following table presents IFRS Net profit and Earnings per share for 2003, 2002 and 2001 as if UBS had applied the fair value method of accounting for its equity participation plans. The fair value method would recognize expense equal to the fair value of option awards at grant, which is higher than the intrinsic value because of the time value of options.

CHF million, except per share data	**31.12.03**	31.12.02	31.12.01
Net Profit, as reported	**6,385**	3,535	4,973
Add: Equity-based employee compensation expense included in reported net income, net of tax	**630**	493	769
Deduct: Total equity-based employee compensation expense determined under the fair-value-based method for all awards, net of tax	**(1,069)**	(1,183)	(1,116)
Net profit, pro-forma	**5,946**	2,845	4,626
Earnings per share			
Basic, as reported	**5.72**	2.92	3.93
Basic, pro-forma	**5.32**	2.35	3.65
Diluted, as reported	**5.61**	2.87	3.78
Diluted, pro-forma	**5.22**	2.31	3.51

The fair value of options granted was determined using a proprietary option pricing model, substantially similar to the Black-Scholes model, with the following assumptions:

	31.12.03	31.12.02	31.12.01
Expected volatility	**35%**	35%	30%
Risk-free interest rate (CHF)	**1.70%**	3.28%	3.51%
Risk-free interest rate (USD)	**3.17%**	4.65%	5.81%
Expected dividend rate	**4.43%**	3.35%	2.67%
Expected life (years)	**4.5**	4.5	4.5

The weighted-average fair value of options granted in 2003, 2002 and 2001 was CHF 15, CHF 20 and CHF 23 per share, respectively.

Note 33 Related Parties

For its 2003 and 2002 Financial Statements, the Group defines related parties as Associated companies, private equity investees, the Board of Directors, the Group Executive Board, close family members and enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/ or CEO in those companies. In 2001, the Group Managing Board was also included in the above definition.

The change in definition is due to the "Directive on Information Relating to Corporate Governance" issued by the SWX Swiss Exchange, effective from 1 July 2002 for all listed companies in Switzerland. Included in the new rules are specific disclosure requirements for members of the Board of Directors and "management board". For UBS, the Group Executive Board meets the definition of "management board" under the directive. Members of the Group Managing Board, however, are excluded from the new SWX requirements. The modification is also a response to the expansion of the Group Executive Board and the Group Managing Board during 2002. The number of Group Executive Board members increased from six to ten and the Group Managing Board members from thirty to fifty-two.

Amounts and share and option quantities for 2001 are based on the definition applied in that year.

a) Remuneration and equity holdings

The executive members of the Board of Directors have top-management employment contracts and receive pension benefits upon retirement. Total remuneration to the executive members of the Board of Directors and Group Executive Board recognized in the income statement including cash, shares and accrued pension benefits amounted to CHF 144.6 million in 2003 and CHF 131.8 million in 2002. Total compensation numbers exclude merger-related retention payments for the two ex-PaineWebber executives of CHF 21.1 million (USD 17.0 million) in 2003 and CHF 20.6 million (USD 14.9 million) in 2002. These retention payments were committed to at the time of the merger in 2000 and fully disclosed at the time. Total remuneration to the executive members of the Board of Directors, Group Executive Board and Group Managing Board including accrued pension benefits amounted to CHF 321.4 million in 2001.

The external members of the Board of Directors do not have employment or service contracts with UBS, and thus are not entitled to benefits upon termination of their service on the Board of Directors. Total fees paid to these individuals for their services as external board members amounted to CHF 5.4 million in 2003, CHF 3.5 million in 2002 and CHF 3.3 million in 2001.

The number of long-term stock options and warrants outstanding to the executive members of the Board of Directors and Group Executive Board from equity participation plans was 6,218,011 (equivalent to the same number of shares) and 120,264 (equivalent to 7,214 shares) at 31 December 2003 and 5,410,172 (equivalent to the same number of shares) and 24,558,529 (equivalent to 1,473,217 UBS shares) at 31 December 2002. The number of long-term stock options and warrants to these two groups plus the Group Managing Board amounted to 8,366,103 (equivalent to the same number of shares) and 60,578,417 (equivalent to 6,002,599 shares) at 31 December 2001. These plans are further explained in Note 32, Equity Participation Plans.

The total number of shares held by members of the Board of Directors, the Group Executive Board and parties closely linked to them was 3,150,217 at 31 December 2003 and 2,139,371 at 31 December 2002. The total number of shares held by these two groups plus the Group Managing Board was 4,068,918 at 31 December 2001. No member of the Board of Directors or Group Executive Board is the beneficial owner of more than 1% of the Group's shares at 31 December 2003.

b) Loans and advances to Board of Directors and senior executives

The outstanding balance of loans to the members of the Board of Directors, the Group Executive Board and close family members amounted to CHF 25.2 million at 31 December 2003 and CHF 28 million at 31 December 2002. In the past, executive members of the Board and GEB

Note 33 Related Parties (continued)

members were granted loans, fixed advances and mortgages at the same terms and conditions that are available to other employees, based on terms and conditions granted to third parties adjusted for reduced credit risk. New loans and mortgages are now granted at general market conditions with no preferential rates, following the US Sarbanes-Oxley Act of 2002. Non-executive Board members are granted loans and mortgages at general market conditions.

c) Loans, advances to and transactions with significant associated companies

CHF million	**31.12.03**	31.12.02
Balance at the beginning of the year	**40**	65
Additions	**48**	10
Reductions	**(25)**	(35)
Balance at the end of the year	**63**	40

All loans and advances to associated companies are transacted at arm's length. At 31 December 2003 and 2002, there were trading exposures and guarantees to significant associated companies of CHF 35 million and CHF 136 million, respectively. In addition, the Group routinely receives services from associated companies at arm's length terms. For the years ended 31 December 2003, 31 December 2002 and 31 December 2001, the amount paid to significant associates for these services was CHF 106 million, CHF 60 million and CHF 98 million, respectively.

During 2003, UBS sold its VISA acquiring business to Telekurs Holding AG, an associated company. UBS realized a CHF 90 million gain from this divestment.

Note 36 provides a list of significant associates.

d) Loans, advances to and transactions with private equity investees

CHF million	**31.12.03**	31.12.02
Balance at the beginning of the year	**338**	489
Additions	**153**	328
Reductions	**(125)**	(479)
Balance at the end of the year	**366**	338

At 31 December 2003 and 31 December 2002, there were trading exposures and guarantees or commitments to private equity companies of CHF 23 million and CHF 73 million, respectively. In addition the Group purchased services from private equity companies at arm's length terms for the years ended 31 December 2003, 31 December 2002 and 31 December 2001 in the amount of CHF 14 million, CHF 116 million and CHF 196 million, respectively.

Note 33 Related Parties (continued)

e) Other related party transactions

During 2003 and 2002, UBS entered into the following transactions at arm's length with companies whose Chairman and/or CEO is an external member of the Board of Directors of UBS or of which an external director is a controlling shareholder.

In 2003 and 2002 these companies included Unisys (Switzerland), a wholly owned subsidiary of Unisys Corporation (USA), J Sainsbury plc. (UK), Serono Group and its various subsidiary companies and Bertarelli & Cie (Switzerland). In 2003, in addition to those mentioned previously, related parties included Sika AG (Switzerland), Kedge Capital Partners Ltd. (Jersey) and Team Alinghi SA (Switzerland).

CHF million	**2003**	2002
Goods sold and services provided by related parties to UBS	**43**	54
Services provided to related parties by UBS (fees received)	**7**	13
Loans granted to related parties by UBS	**79**[1]	140

[1] Includes guarantees, contingent liabilities and committed credit facilities of CHF 58.5 million, but excludes uncommitted working capital facilities of CHF 119.6 million.

As part of its sponsorship of Team Alinghi, UBS paid CHF 12 million to AC 2003 SA during 2002. AC 2003 SA, whose controlling shareholder is UBS board member Ernesto Bertarelli, is Team Alinghi's management company.

Note 34 Sales of Financial Assets in Securitizations

During the years ended 31 December 2003, 2002 and 2001, UBS securitized (i.e., transformed owned financial assets into securities through sales transactions) residential mortgage loans and securities, commercial mortgage loans and other financial assets, acting as lead or co-manager. UBS's continuing involvement in these transactions was primarily limited to the temporary retention of various security interests.

Proceeds received at the time of securitization were as follows:

	Proceeds Received		
CHF billion	**31.12.03**	31.12.02	31.12.01
Residential mortgage securitizations	**131**	143	68
Commercial mortgage securitizations	**4**	4	4
Other financial asset securitizations	**2**	6	3

Related pre-tax gains (losses) recognized, including unrealized gains (losses) on retained interests, at the time of securitization were as follows:

	Pre-tax gains / (losses) recognized		
CHF million	**31.12.03**	31.12.02	31.12.01
Residential mortgage securitizations	**338**	524	113
Commercial mortgage securitizations	**214**	206	130
Other financial asset securitizations	**2**	(5)	21

At 31 December 2003 and 2002, UBS retained CHF 3.8 billion and CHF 5.2 billion, respectively in agency residential mortgage securities, backed by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). The fair value of retained interests in residential mortgage securities is generally determined using observable market prices. Retained interests in other residential mortgage, commercial mortgage and other securities were not material at 31 December 2003 and 2002.

Note 35 Post-Balance Sheet Events

There have been no material post-balance sheet events which would require disclosure or adjustment to the 31 December 2003 Financial Statements.

Bond issues have increased by CHF 697 million from the balance sheet date to 4 February 2004.

On 4 February 2004, the Board of Directors reviewed the Financial Statements and authorized them for issue. These Financial Statements will be submitted to the Annual General Meeting of Shareholders to be held on 15 April 2004 for approval.

Note 36 Significant Subsidiaries and Associates

The legal entity group structure of UBS is designed to support the Group's businesses within an efficient legal, tax, regulatory and funding framework. Neither the Business Groups of UBS (namely Wealth Management & Business Banking, Global Asset Management, Investment Bank and Wealth Management USA) nor Corporate Center are replicated in their own individual legal entities but rather they generally operate out of the parent bank, UBS AG, through its Swiss and foreign branches.

The parent bank structure allows UBS to capitalize on the advantages offered by the use of one legal platform by all the Business Groups. It provides for the most cost-efficient and flexible structure and facilitates efficient allocation and use of capital, comprehensive risk management and straightforward funding processes.

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

Significant subsidiaries

Company	Jurisdiction of incorporation	Business Group [1]		Share capital in millions	Equity interest accumulated in %
Aventic AG	Zurich, Switzerland	WM&BB	CHF	30.0	100.0
Banco UBS SA	Rio de Janeiro, Brazil	IB	BRL	52.9	100.0
BDL Banco di Lugano	Lugano, Switzerland	CC	CHF	50.0	100.0
BDL Banco di Lugano (Singapore) Ltd	Singapore, Singapore	CC	SGD	25.0	100.0
Brunswick UBS Ltd	George Town, Cayman Islands	IB	USD	25.0	50.0
Cantrade Private Bank Switzerland (CI) Limited	St. Helier, Jersey	CC	GBP	0.7	100.0
Crédit Industriel SA	Zurich, Switzerland	WM&BB	CHF	10.0	100.0
Ehinger & Armand von Ernst AG	Zurich, Switzerland	CC	CHF	21.0	100.0
Factors AG	Zurich, Switzerland	WM&BB	CHF	5.0	100.0
Ferrier Lullin & Cie SA	Geneva, Switzerland	CC	CHF	30.0	100.0
GAM Holding AG	Zurich, Switzerland	CC	CHF	116.0	100.0
GAM Limited	Hamilton, Bermuda	CC	USD	2.0	100.0
Giubergia UBS SIM SpA	Milan, Italy	IB	EUR	15.1	50.0
Noriba Bank BSC	Manama, Bahrain	WM&BB	USD	10.0	100.0
PaineWebber Capital Inc	Delaware, USA	WM-US	USD	25.8 [2]	100.0
PT UBS Securities Indonesia	Jakarta, Indonesia	IB	IDR	25,000.0	93.4
SBC Wealth Management AG	Zug, Switzerland	CC	CHF	290.1	100.0
SBCI IB Limited	London, Great Britain	IB	GBP	100.0	100.0
SG Warburg & Co International BV	Amsterdam, the Netherlands	IB	GBP	40.5	100.0
Thesaurus Continentale Effekten-Gesellschaft in Zürich	Zurich, Switzerland	WM&BB	CHF	30.0	100.0
UBS (Bahamas) Ltd	Nassau, Bahamas	WM&BB	USD	4.0	100.0
UBS (France) SA	Paris, France	WM&BB	EUR	10.7	100.0
UBS (Italia) SpA	Milan, Italy	WM&BB	EUR	42.0	100.0
UBS (Luxembourg) SA	Luxembourg, Luxembourg	WM&BB	CHF	150.0	100.0
UBS (Monaco) SA	Monte Carlo, Monaco	WM&BB	EUR	9.2	100.0
UBS (Trust and Banking) Limited	Tokyo, Japan	Global AM	JPY	10,900.0	100.0
UBS Advisory and Capital Markets Australia Ltd	Sydney, Australia	IB	AUD	580.8 [2]	100.0
UBS Americas Inc	Delaware, USA	IB	USD	4,490.8 [2]	100.0
UBS Asesores SA	Panama, Panama	WM&BB	USD	–	100.0
UBS Australia Limited	Sydney, Australia	IB	AUD	50.0	100.0
UBS Bank (Canada)	Toronto, Canada	WM&BB	CAD	8.5	100.0
UBS Bank USA	Utah, USA	WM-US	USD	1,700.0 [2]	100.0
UBS Belgium SA/NV	Brussels, Belgium	WM&BB	EUR	14.5	100.0
UBS Beteiligungs-GmbH & Co KG	Frankfurt am Main, Germany	IB	EUR	398.8	100.0

Footnotes

1 WM&BB: Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, WM-US: Wealth Management USA, CC: Corporate Center.

2 Share Capital and Share Premium.

Note 36 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business Group[1]		Share capital in millions	Equity interest accumulated in %
UBS Capital (Jersey) Ltd	St. Helier, Jersey	IB	GBP	226.0	100.0
UBS Capital AG	Zurich, Switzerland	IB	CHF	5.0	100.0
UBS Capital Americas Investments II LLC	Delaware, USA	IB	USD	130.0[2]	100.0
UBS Capital Americas Investments III Ltd	George Town, Cayman Islands	IB	USD	61.1[2]	100.0
UBS Capital Asia Pacific Limited	George Town, Cayman Islands	IB	USD	5.0	100.0
UBS Capital BV	Amsterdam, the Netherlands	IB	EUR	118.8[2]	100.0
UBS Capital II LLC	Delaware, USA	IB	USD	2.6[2]	100.0
UBS Capital Latin America LDC	George Town, Cayman Islands	IB	USD	113.0[2]	100.0
UBS Capital LLC	Delaware, USA	IB	USD	378.5[2]	100.0
UBS Capital SpA	Milan, Italy	IB	EUR	25.8	100.0
UBS Card Center AG	Glattbrugg, Switzerland	WM&BB	CHF	40.0	100.0
UBS Corporate Finance Italia SpA	Milan, Italy	IB	EUR	1.9	100.0
UBS Corporate Finance South Africa (Proprietary) Limited	Sandton, South Africa	IB	ZAR	–	100.0
UBS Derivatives Hong Kong Limited	Hong Kong, China	IB	HKD	20.0	100.0
UBS Employee Benefits Trust Limited	St. Helier, Jersey	CC	CHF	–	100.0
UBS Equity Research Malaysia Sdn Bhd	Kuala Lumpur, Malaysia	IB	MYR	0.5	70.0
UBS España SA	Madrid, Spain	WM&BB	EUR	115.3	100.0
UBS Fiduciaria SpA	Milan, Italy	WM&BB	EUR	0.2	100.0
UBS Fiduciary Trust Company	New Jersey, USA	WM-US	USD	4.4[2]	99.6
UBS Finance (Cayman Islands) Ltd	George Town, Cayman Islands	CC	USD	0.5	100.0
UBS Finance (Curaçao) NV	Willemstad, Netherlands Antilles	CC	USD	0.1	100.0
UBS Finance (Delaware) LLC	Delaware, USA	IB	USD	37.3[2]	100.0
UBS Financial Services Inc.	Delaware, USA	WM-US	USD	1,672.3[2]	100.0
UBS Financial Services Incorporated of Puerto Rico	Hato Rey, Puerto Rico	WM-US	USD	31.0[2]	100.0
UBS Finanzholding AG	Zurich, Switzerland	CC	CHF	10.0	100.0
UBS Fund Advisor LLC	Delaware, USA	WM-US	USD	–	100.0
UBS Fund Holding (Luxembourg) SA	Luxembourg, Luxembourg	Global AM	CHF	42.0	100.0
UBS Fund Holding (Switzerland) AG	Basel, Switzerland	Global AM	CHF	18.0	100.0
UBS Fund Management (Switzerland) AG	Basel, Switzerland	Global AM	CHF	1.0	100.0
UBS Fund Services (Cayman) Ltd	George Town, Cayman Islands	Global AM	USD	5.6	100.0
UBS Fund Services (Luxembourg) SA	Luxembourg, Luxembourg	Global AM	CHF	2.5	100.0
UBS Global Asset Management (Americas) Inc	Delaware, USA	Global AM	USD	–	100.0
UBS Global Asset Management (Australia) Ltd	Sydney, Australia	Global AM	AUD	8.0	100.0
UBS Global Asset Management (Canada) Co	Halifax, Canada	Global AM	CAD	117.0	100.0
UBS Global Asset Management (France) SA	Paris, France	WM&BB	EUR	2.1	100.0
UBS Global Asset Management (Hong Kong) Limited	Hong Kong, China	Global AM	HKD	25.0	100.0
UBS Global Asset Management (Italia) SIM SpA	Milan, Italy	Global AM	EUR	2.0	100.0
UBS Global Asset Management (Japan) Ltd	Tokyo, Japan	Global AM	JPY	2,200.0	100.0
UBS Global Asset Management (Singapore) Ltd	Singapore, Singapore	Global AM	SGD	4.0	100.0
UBS Global Asset Management (Taiwan) Ltd	Taipei, Taiwan	Global AM	TWD	340.0	84.1
UBS Global Asset Management (US) Inc	Delaware, USA	Global AM	USD	35.2[2]	100.0
UBS Global Asset Management Holding Ltd	London, Great Britain	Global AM	GBP	8.0	100.0

Footnotes

1 WM&BB: Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, WM-US: Wealth Management USA, CC: Corporate Center.

2 Share Capital and Share Premium.

Note 36 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business Group[1]		Share capital in millions	Equity interest accumulated in %
UBS Global Trust Corporation	St. John, Canada	WM&BB	CAD	0.1	100.0
UBS International Holdings BV	Amsterdam, the Netherlands	CC	EUR	6.8	100.0
UBS International Inc	New York, USA	WM&BB	USD	34.3[2]	100.0
UBS International Life Limited	Dublin, Ireland	WM&BB	EUR	1.0	100.0
UBS Invest Kapitalanlagegesellschaft mbH	Frankfurt am Main, Germany	Global AM	EUR	7.7	100.0
UBS Investment Bank AG	Frankfurt am Main, Germany	IB	EUR	155.7	100.0
UBS Investment Bank Nederland BV	Amsterdam, the Netherlands	IB	EUR	10.9	100.0
UBS Leasing AG	Brugg, Switzerland	WM&BB	CHF	10.0	100.0
UBS Life AG	Zurich, Switzerland	WM&BB	CHF	25.0	100.0
UBS Limited	London, Great Britain	IB	GBP	21.2	100.0
UBS Loan Finance LLC	Delaware, USA	IB	USD	16.7	100.0
UBS Mortgage Holdings LLC	Delaware, USA	WM-US	USD	–	100.0
UBS New Zealand Limited	Auckland, New Zealand	IB	NZD	7.5	100.0
UBS O'Connor LLC	Delaware, USA	Global AM	USD	1.0	100.0
UBS PaineWebber Life Insurance Company	California, USA	WM-US	USD	39.3[2]	100.0
UBS Portfolio LLC	New York, USA	IB	USD	0.1	100.0
UBS Preferred Funding Company LLC I	Delaware, USA	IB	USD	–	100.0
UBS Preferred Funding Company LLC II	Delaware, USA	IB	USD	–	100.0
UBS Preferred Funding Company LLC III	Delaware, USA	IB	USD	–	100.0
UBS Preferred Funding Company LLC IV	Delaware, USA	IB	USD	–	100.0
UBS Principal Finance LLC	Delaware, USA	IB	USD	0.1	100.0
UBS Private Clients Australia Ltd	Melbourne, Australia	IB	AUD	53.9	100.0
UBS Real Estate Investments Inc	Delaware, USA	IB	USD	0.3	100.0
UBS Real Estate Securities Inc	Delaware, USA	IB	USD	0.4	100.0
UBS Realty Investors LLC	Connecticut, USA	Global AM	USD	9.3	100.0
UBS Securities (Thailand) Ltd	Bangkok, Thailand	IB	THB	400.0	100.0
UBS Securities Asia Limited	Hong Kong, China	IB	HKD	20.0	100.0
UBS Securities Australia Ltd	Sydney, Australia	IB	AUD	209.8[2]	100.0
UBS Securities Canada Inc	Toronto, Canada	IB	CAD	10.0	50.0
UBS Securities España Sociedad de Valores SA	Madrid, Spain	IB	EUR	15.0	100.0
UBS Securities France SA	Paris, France	IB	EUR	22.9	100.0
UBS Securities Hong Kong Limited	Hong Kong, China	IB	HKD	30.0	100.0
UBS Securities India Private Limited	Mumbai, India	IB	INR	237.8	75.0
UBS Securities International Limited	London, Great Britain	IB	GBP	18.0	100.0
UBS Securities Japan Ltd	George Town, Cayman Islands	IB	JPY	50,000.0	100.0
UBS Securities Limited	London, Great Britain	IB	GBP	140.0	100.0
UBS Securities LLC	Delaware, USA	IB	USD	2,141.4[2]	100.0
UBS Securities Philippines Inc	Makati City, Philippines	IB	PHP	150.0	100.0
UBS Securities Singapore Pte Ltd	Singapore, Singapore	IB	SGD	55.0	100.0
UBS Securities South Africa (Proprietary) Limited	Sandton, South Africa	IB	ZAR	87.1[2]	100.0
UBS Trust (Canada)	Toronto, Canada	WM&BB	CAD	12.5	100.0
UBS Trust Company National Association	New York, USA	WM-US	USD	5.0[2]	100.0
UBS Trustees (Bahamas) Ltd	Nassau, Bahamas	WM&BB	USD	2.0	100.0
UBS Trustees (Cayman) Ltd	George Town, Cayman Islands	WM&BB	USD	2.0	100.0
UBS Trustees (Jersey) Ltd	St. Helier, Jersey	WM&BB	GBP	–	100.0
UBS Trustees (Singapore) Limited	Singapore, Singapore	WM&BB	SGD	3.3	100.0
UBS UK Holding Limited	London, Great Britain	IB	GBP	5.0	100.0
UBS Wealth Management AG	Hamburg, Germany	WM&BB	EUR	51.0	100.0

Footnotes

1 WM&BB: Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, WM-US: Wealth Management USA, CC: Corporate Center.

2 Share Capital and Share Premium.

Note 36 Significant Subsidiaries and Associates (continued)

Consolidated companies: changes in 2003

Significant new companies
Giubergia UBS SIM SpA – Milan, Italy
SBC Wealth Management AG – Zug, Switzerland
UBS Bank USA – Utah, USA
UBS International Life Limited – Dublin, Ireland
UBS Preferred Funding Company LLC IV – Delaware, USA

Deconsolidated companies

Significant deconsolidated companies	Reason for deconsolidation
Bank Ehinger & Cie AG – Basel, Switzerland	Merged
Cantrade Privatbank AG – Zurich, Switzerland	Merged
UBS (USA) Inc – Delaware, USA	Merged

Significant associates

Company	Industry	Equity interest in %	Share capital in millions	
Motor Columbus AG – Baden, Switzerland	Electricity	36	CHF	253
SIS Swiss Financial Services Group AG – Zurich, Switzerland	Financial	33	CHF	26
Telekurs Holding AG – Zurich, Switzerland	Financial	33	CHF	45
O'Connor Global Convertible Portfolio – Luxembourg, Luxembourg	Private Investment Company	60	USD	33[1]
UBS Currrency Portfolio Ltd – George Town, Cayman Islands	Private Investment Company	20	USD	1,750[1]
UBS Global Equity Arbitrage Ltd – George Town, Cayman Islands	Private Investment Company	52	USD	823[1]
UBS Neutral Alpha Strategies Ltd – George Town, Cayman Islands	Private Investment Company	12	USD	695[1]
Volbroker.com Limited – London, Great Britain	Financial	21	GBP	18

[1] For Hedge Funds Net Asset Value instead of share capital.

None of the above investments carry voting rights that are significantly different from the proportion of shares held.

Note 37 Invested Assets and Net New Money

Invested assets include all client assets managed by or deposited with UBS for investment purposes only. They therefore exclude all assets held for purely transactional purposes. Assets included are, for example, managed fund assets, managed institutional assets, discretionary and advisory wealth management portfolios, fiduciary deposits, time deposits, savings accounts and wealth management securities or brokerage accounts. Custody-only assets and transactional cash or current accounts as well as non-bankable assets (e.g. art collections) and deposits from third-party banks for funding or trading purposes are excluded.

Discretionary assets are defined as those where the bank decides on how a client's assets are invested. Other invested assets are those where the client decides on how the assets are invested.

When a single product is created in one Business Group and sold in another, it is counted in both the Business Group that does the investment management and the one that distributes it. This results in double counting within UBS total invested assets, as both Business Groups are providing a service independently to their respective clients, and both add value and generate revenue.

Net new money is the net amount of invested assets that are acquired by the bank from new clients, invested assets that are lost when clients terminate their relationship with UBS and the inflows and outflows of invested assets from existing UBS clients. Interest and dividend income from invested assets is not included in the net new money result. Market and currency movements are also excluded, as are the effects resulting from any acquisition or divestment of a UBS subsidiary or business. Interest expense on loans result in net new money outflows.

CHF billion	**31.12.03**	31.12.02
Fund assets managed by UBS	**339**	322
Discretionary assets	**511**	446
Other invested assets	**1,359**	1,269
Total invested assets	**2,209**	2,037
thereof double count	***287***	*295*
Net new money	**61.6**	36.9

Note 38 Currency Translation Rates

The following table shows the principal rates used to translate the financial statements of foreign entities into Swiss francs:

	Spot rate As at		**Average rate** Year ended		
	31.12.03	31.12.02	**31.12.03**	31.12.02	31.12.01
1 USD	**1.24**	1.38	**1.34**	1.54	1.69
1 EUR	**1.56**	1.45	**1.54**	1.46	1.50
1 GBP	**2.22**	2.23	**2.20**	2.33	2.44
100 JPY	**1.15**	1.17	**1.16**	1.24	1.40

Note 39 Swiss Banking Law Requirements

The consolidated financial statements of UBS are prepared in accordance with International Financial Reporting Standards. Set out below are the significant differences regarding recognition and measurement between IFRS and the provisions of the Banking Ordinance and the Guidelines of the Swiss Banking Commission governing financial statement reporting pursuant to Article 23 through Article 27 of the Banking Ordinance.

1. Financial investments

Under IFRS, available-for-sale financial investments are carried at fair value. Changes in fair value are recorded directly in Shareholders' equity until an investment is sold, collected or otherwise disposed of, or until an investment is determined to be impaired. At the time an available-for-sale investment is determined to be impaired, the cumulative unrealized loss previously recognized in Shareholders' equity is included in net profit or loss for the period. On disposal of a financial investment, the difference between the net disposal proceeds and the carrying amount plus any attributable unrealized gain or loss balance recognized in Shareholders' equity, is included in net profit or loss for the period.

Under Swiss law, financial investments are carried at the lower of cost or market value. Reductions to market value below cost and reversals of such reductions as well as gains and losses on disposal are included in Other income.

2. Cash flow hedges

The Group uses derivative instruments to hedge against the exposure from varying cash flows receivable and payable. Under IFRS, when hedge accounting is applied for these instruments, the unrealized gain or loss on the effective portion of the derivatives is recorded in Shareholders' equity until the hedged cash flows occur, at which time the accumulated gain or loss is realized and released to income.

Under Swiss law, the unrealized gains or losses on the effective portion of the derivative instruments used to hedge cash flow exposures are deferred on the balance sheet as assets or liabilities. The deferred amounts are released to income when the hedged cash flows occur.

Note 40 Reconciliation of International Financial Reporting Standards (IFRS) to United States Generally Accepted Accounting Principles (US GAAP)

Note 40.1 Valuation and income recognition differences between IFRS and US GAAP

The consolidated financial statements of UBS have been prepared in accordance with IFRS. The principles of IFRS differ in certain respects from United States Generally Accepted Accounting Principles ("US GAAP"). The following is a summary of the relevant significant accounting and valuation differences between IFRS and US GAAP.

a. Purchase accounting (merger of Union Bank of Switzerland and Swiss Bank Corporation)

Under IFRS, the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation was accounted for under the uniting of interests method. The balance sheets and income statements of the banks were combined, and no adjustments were made to the carrying values of the assets and liabilities. Under US GAAP, the business combination creating UBS AG is accounted for under the purchase method with Union Bank of Switzerland being considered the acquirer. Under the purchase method, the cost of acquisition is measured at fair value and the acquirer's interests in identifiable tangible assets and liabilities of the acquiree are restated to fair values at the date of acquisition. Any excess consideration paid over the fair value of net tangible assets acquired is allocated, first to identifiable intangible assets based on their fair values, if determinable, with the remainder allocated to goodwill.

Goodwill and intangible assets

For US GAAP purposes, the excess of the consideration paid for Swiss Bank Corporation over the fair value of the net tangible assets received has been recorded as goodwill and was amortized on a straight-line basis using a weighted-average life of 13 years from 29 June 1998 to 31 December 2001.

Under US GAAP until 31 December 2001, goodwill acquired before 30 June 2001 was capitalized and amortized over its estimated useful life with adjustments for any impairment.

On 1 January 2002, UBS adopted SFAS 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 requires reclassification of intangible assets to goodwill which no longer meet the recognition criteria under the new standard. SFAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized but be tested annually for impairment. Identifiable intangible assets with finite lives will continue to be amortized. Upon adoption, the amortization charges related to the 1998 business combination of Union Bank of Switzerland and Swiss Bank Corporation ceased to be recorded under US GAAP.

In 2003 and 2002, goodwill recorded under US GAAP was reduced by CHF 39 million and CHF 43 million respectively, due to recognition of deferred tax assets of Swiss Bank Corporation which had previously been subject to valuation reserves.

Other purchase accounting adjustments

The restatement of Swiss Bank Corporation's net assets to fair value in 1998 resulted in decreasing net tangible assets by CHF 1,077 million for US GAAP. This amount is being amortized over periods ranging from two years to 20 years.

b. Reversal of IFRS goodwill amortization

The adoption of SFAS 142 "Goodwill and Intangible Assets" resulted in two new reconciling items: 1) Intangible assets on the IFRS balance sheet with a book value of CHF 1.8 billion at 31 December 2001 were reclassified to goodwill for US GAAP; 2) The amortization of IFRS goodwill and the intangible assets reclassified to goodwill for US GAAP (CHF 831 million and CHF 1,017 million for the years ended 31 December 2003 and 31 December 2002, respectively) was reversed for US GAAP.

Had UBS been required to adopt SFAS 142 for its US GAAP Financial Statements in 2001, reported Net profit and Earnings per share would have been as follows:

CHF million, except for per share data For the year ended	31.12.03	31.12.02	31.12.01
Reported Net profit under US GAAP	6,513	5,546	3,234
Add back: SBC purchase accounting goodwill	0	0	1,657
Add back: Amortization of intangibles reclassified to goodwill for US GAAP and/or IFRS goodwill	0	0	886
Adjusted net profit under US GAAP	**6,513**	5,546	5,777
Reported basic earnings per share under US GAAP	5.83	4.59	2.58
Add back: SBC purchase accounting goodwill	0.00	0.00	1.32
Add back: Amortization of intangibles reclassified to goodwill for US GAAP and/or IFRS goodwill	0.00	0.00	0.71
Adjusted basic earnings per share under US GAAP	**5.83**	4.59	4.61
Reported diluted earnings per share under US GAAP	5.72	4.51	2.46
Add back: SBC purchase accounting goodwill	0.00	0.00	1.30
Add back: Amortization of intangibles reclassified to goodwill for US GAAP and/or IFRS goodwill	0.00	0.00	0.70
Adjusted diluted earnings per share under US GAAP	**5.72**	4.51	4.46

The table below shows the estimated, aggregated amortization expenses for other intangible assets, which are still subject to an annual amortization, on a US GAAP basis:

CHF million	
Estimated, aggregated amortization expense for:	
2004	93
2005	90
2006	77
2007	70
2008	69
2009 and thereafter	775
Total	**1,174**

c. Restructuring provision

Under IFRS, restructuring provisions are recognized when a legal or constructive obligation has been incurred. In 1997, a CHF 7,000 million restructuring provision was recognized to cover personnel, IT, premises and other costs associated with combining and restructuring the merged banks. A further CHF 300 million provision was recognized in 1999, reflecting the impact of increased precision in the estimation of certain leased and owned property costs.

Under US GAAP, the criteria for establishing restructuring provisions were more stringent than under IFRS prior to 2000. For US GAAP, the aggregate CHF 7,300 million restructuring provision was reversed. As a result of the business combination with Swiss Bank Corporation and the decision to combine and streamline certain activities of the banks for the purpose of reducing costs and improving efficiencies, Union Bank of Switzerland recognized a restructuring provision of CHF 1,575 million during 1998 for US GAAP. CHF 759 million of this provision related to estimated costs for restructuring the operations and activities of Swiss Bank Corporation, and that amount was recorded as a liability of the acquired business. The remaining CHF 816 million of estimated costs were charged to restructuring expense during 1998. The US GAAP restructuring provision was increased by CHF 600 million and CHF 130 million in 1999 and 2000, respectively.

During 2001, CHF 112 million restructuring costs were expensed as incurred under US GAAP. These costs were already part of the restructuring provision under IFRS, but were not eligible for recognition under US GAAP until 2001. The restructuring plan was completed and the remaining balance of the US GAAP restructuring provision was used substantially in accordance with previously disclosed plans. At 31 December 2001, the restructuring provision for both IFRS and US GAAP has been fully utilized.

d. Derivative instruments

Derivative instruments held or issued for hedging activities

On 1 January 2001, UBS adopted IAS 39 for its IFRS Financial Statements and SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" for its US GAAP Financial Statements. These standards introduced new rules for the accounting and reporting of derivative instruments, including certain derivative instruments embedded in other contracts, and of hedging activities. The adoption of SFAS 133 did not result in any transition items for UBS on 1 January 2001 as it previously did not apply hedge accounting under US GAAP for derivative instruments.

With the adoption of IAS 39 on 1 January 2001, an opening adjustment was made in 2001 to reduce Retained earnings by CHF 61 million, consisting of CHF 19 million reflecting the impact of the new hedge accounting rules and CHF 42 million reflecting the impact of remeasuring assets to either amortized cost or fair value as required under the standard. For US GAAP purposes, the first adjustment was not required (because all derivatives were already recorded in the Income statement prior to 1 January 2001) and was reversed, and the second adjustment was recorded in the Income statement.

Under IAS 39, UBS is permitted to hedge interest rate risk based on forecast cash inflows and outflows on a group basis. For this purpose, UBS accumulates information about financial assets and financial liabilities, which is then used to estimate and aggregate cash flows and to schedule the future periods in which these cash flows are expected to occur. Appropriate derivative instruments are then used to hedge the estimated future cash flows. SFAS 133 does not permit hedge accounting for hedges of future cash flows determined by this methodology. Accordingly, for US GAAP such items continue to be carried at fair value with changes in fair value recognized in Net trading income.

Since 1 January 2001, UBS's derivative hedging relationships have been treated the same under both IFRS and US GAAP, except for hedges of interest rate risk of forecast cash flows on a group basis as mentioned in the previous paragraph.

In addition, amounts deferred under previous hedging relationships that now do not qualify as hedges under IAS 39 are being amortized against IFRS net profit over the remaining life of the hedging relationship. Such amounts have been reversed for US GAAP as they have never been treated as hedges.

Derivative instruments indexed to UBS shares

US GAAP, like IFRS, generally requires that derivatives instruments indexed to a company's own shares be recorded as an equity instrument in Shareholders' equity if gross physical settlement is required in its own shares or if the company has the choice to settle the instrument by delivery or receipt of its own shares. If, however, the instrument requires cash settlement or if the counterparty may choose cash settlement, then the instrument must be classified as a derivative, with changes in fair value recorded in income.

Derivative classification is also required under US GAAP if a company may not have sufficient issuable shares available to settle a contract in its own shares. This is determined by the maximum number of shares a company could be forced to issue to settle a contract. Under IFRS, however, such contracts are recorded as equity instruments in Shareholders' equity.

In 2003 and 2001, UBS had no instruments indexed to its own shares for which the accounting treatment under US GAAP differed from IFRS, so there was no reconciling item for these derivative instruments. In 2002, however, UBS issued net-share settled put options as part of its share repurchases in 2002. Such contracts are recorded under IFRS as equity instruments in Shareholders' equity and under US GAAP as derivatives with changes in fair value reflected in Net income. Such contracts increased US GAAP Net income by CHF 12 million in 2002.

Trading income of CHF 22 million under both IFRS and US GAAP in 2003, CHF 125 million under IFRS (CHF 137 million under US GAAP) in 2002 and CHF 261 million under both IFRS and US GAAP in 2001 was recorded in the financial statements from trading in potentially cash settled derivative instruments indexed to UBS shares.

Bifurcation of embedded issuer calls out of structured debt instruments

UBS issues certain structured debt instruments that contain an embedded issuer call option. If the embedded derivatives contained in the structured debt are not clearly and closely related to the host debt instrument, IFRS requires that a combined derivative is separated, including the issuer call, and accounted for as a stand-alone derivative contract. Under US GAAP, however, certain issuer calls must remain with the host contract and are therefore not separated. This results in different values of the bifurcated derivatives and the related host contracts. Because the host contract under US GAAP includes the issuer call option, and therefore, its fair value changes differently from the host contract under IFRS, hedge effectiveness criteria under US GAAP can generally not be met for those contracts that are hedged under IFRS. The impact of not separating these issuer call features including the disallowance of the hedge accounting was to increase US GAAP Net income by CHF 14 million before tax at 31 December 2003 and to reduce US GAAP Net income by CHF 55 million before tax at 31 December 2002.

e. Financial investments and private equity

Financial investments available for sale

With the adoption of IAS 39 on 1 January 2001, the accounting for financial investments available for sale generally became the same under IFRS and US GAAP. Three exceptions exist, however: 1) Non-marketable equity financial investments (excluding private equity investments discussed below), which are classified as available for sale and carried at fair value under IFRS, continue to be carried at cost less "other than temporary" impairments under US GAAP. The opening adjustment and subsequent changes in fair value recorded directly in Shareholders' equity on non-marketable equity financial instruments due to the implementation of IAS 39 have been reversed under US GAAP to reflect the difference between the two standards in measuring such investments. 2) Writedowns on impaired assets can be fully or partially reversed under IFRS if the value of the impaired assets increases. Such reversals of impairment writedowns are not allowed under US GAAP. Reversals under IFRS were not significant in 2003, 2002 or 2001. 3) Private equity investments, as described below.

Private equity investments

Since the adoption of IAS 39 on 1 January 2001, UBS has accounted for private equity investments as available-for-sale securities in its primary Financial Statements under IFRS, with changes in fair value recognized in Shareholders' equity. Under US GAAP, these investments continued to be accounted for at cost less "other than temporary" impairments.

On 1 January 2002, UBS adopted the provisions of SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" for its US GAAP Financial Statements. The statement primarily addresses financial accounting and reporting for the impairment or disposal of long-lived assets. In addition, SFAS 144 eliminated the exception to consolidation for subsidiaries for which control is likely to be temporary, as previously contained in Accounting Research Bulletin 51 "Consolidated Financial Statements" as amended by SFAS 94 "Consolidation of All Majority-Owned Subsidiaries". Therefore, on adopting SFAS 144, UBS changed its US GAAP accounting for certain private equity investments by accounting for those investments held within separate investment subsidiaries in accordance with the "AICPA Audit and Accounting Guide, Audits of Investment Companies". The effect of this change for US GAAP reporting purposes is that certain private equity investments are now recorded at fair value, with changes in fair value recognized in US GAAP net profit. The remaining private equity investments continue to be accounted for at cost less "other than temporary" impairment.

For the IFRS to US GAAP reconciliation, fair value adjustments on certain private equity investments recorded directly in Shareholders' equity under IFRS had to be shown in the Income statement for US GAAP purposes. At 1 January 2002, the date of adoption of SFAS 144, the cumulative effect of this change in accounting on US GAAP net profit was an increase of CHF 639 million, after tax. For the years ended 31 December 2003 and 31 December 2002, the effect of applying the new standard on the reconciliation of IFRS net profit to US GAAP was to decrease US GAAP net profit by an additional CHF 19 million, after tax and to increase US GAAP net profit by CHF 83 million, after tax, respectively.

The pro-forma Net profit assuming that the change in accounting principle were applied retroactively would be as follows:

CHF million, except for per share data For the year ended	pro-forma 31.12.03	pro-forma 31.12.02	pro-forma 31.12.01
Net profit under US GAAP	**6,513**	4,907	2,763
Basic earnings per share	**5.83**	4.06	2.21
Diluted earnings per share	**5.72**	3.99	2.09

See Note 2 for information regarding impairment charges recorded for private equity investments.

f. Pension plans

Under IFRS, UBS recognizes pension expense based on a specific method of actuarial valuation used to determine the projected plan liabilities for accrued service, including future expected salary increases, and expected return on plan assets. Plan assets are recorded at fair value and are held in a separate trust to satisfy plan liabilities. Under IFRS the recognition of a prepaid asset is subject to certain limitations, and any unrecognized prepaid asset is recorded as pension expense. US GAAP does not allow a limitation on the recognition of prepaid assets recorded in the Balance sheet.

Under US GAAP, pension expense is based on the same actuarial method of valuation of liabilities and assets as under IFRS. Differences in the amounts of expense and liabilities (or prepaid assets) exist due to different transition date rules, stricter provisions for recognition of a prepaid asset, and the treatment of the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation.

In addition, under US GAAP, if the fair value of plan assets falls below the accumulated benefit obligation (which is the current value of accrued benefits without allowance for future salary increases), an additional minimum liability must be shown in the balance sheet. If an additional minimum liability is recognized, an equal amount will be recognized as an intangible asset up to the amount of any unrecognized past service cost. Any amount not recognized as an intangible asset is reported in Other comprehensive income. The additional minimum liability required under US GAAP amounts to CHF 306 million, CHF 1,225 million and CHF 306 million as at 31 December 2003, 2002 and 2001, respectively. The amount recognized in intangible assets was CHF 0 million, CHF 2 million and CHF 3 million and the amount recognized in Other comprehensive income before tax was CHF 306 million, CHF 1,223 million and CHF 303 million as at 31 December 2003, 2002 and 2001, respectively.

g. Other post-retirement benefit plans

Under IFRS, UBS has recorded expenses and liabilities for post-retirement, medical and life insurance benefits, determined under a methodology similar to that described above under pension plans.

Under US GAAP, expenses and liabilities for post-retirement medical and life insurance benefits are determined under the same methodology as under IFRS. Differences in the levels of expenses and liabilities have occurred due to different transition date rules and the treatment of the merger of Union Bank of Switzerland and Swiss Bank Corporation under the purchase method.

h. Equity participation plans

IFRS does not specifically address the recognition and measurement requirements for equity participation plans.

US GAAP permits the recognition of compensation cost on the grant date for the estimated fair value of equity instruments issued (SFAS 123) or based on the intrinsic value of equity instruments issued (Accounting Principles Board "APB" No. 25), with the disclosure of the pro-forma effects of equity participation plans on net profit and earnings per share, as if the fair value had been recorded on the grant date. Under IFRS, UBS recognizes only intrinsic values at the grant date with subsequent changes in value not recognized. Under US GAAP, UBS applies the APB No. 25 intrinsic value method, which requires adjustments to intrinsic values subsequent to the grant date in certain circumstances.

The shares and other diversified instruments of UBS's equity participation plans are held in trusts on behalf of the participants. Certain of these trusts are recorded on UBS's balance sheet for US GAAP presentation, the effect of which is

to increase assets by CHF 460 million and CHF 396 million, liabilities by CHF 483 million and CHF 429 million, and decrease Shareholders' equity by CHF 23 million and CHF 33 million (for UBS AG shares held by the trusts which are treated as treasury shares) at 31 December 2003 and 2002 respectively.

For US GAAP, certain of UBS's option awards have been determined to be variable pursuant to APB No. 25, primarily because they may be settled in cash or because UBS has offered to hedge the value of the award. The effect of applying variable accounting to the option awards in the US GAAP reconciliation for the years ended 31 December 2003, 2002 and 2001, is a CHF 28 million increase in compensation expense, CHF 51 million decrease in compensation expense and CHF 30 million decrease in compensation expense, respectively. In addition, certain of UBS's share plans have been deemed variable under APB No. 25 or required a new expense measurement date due to diversification or cash settlement of awards. Additional expense was also recorded related to social tax payments on equity instruments recorded directly in Shareholders' equity for IFRS. For US GAAP, the net effect of these transactions is an increase to compensation expense of CHF 118 million, a decrease to compensation expense of CHF 12 million, and an increase to compensation expense of CHF 41 million for the years ended 31 December 2003, 2002 and 2001, respectively.

i. Software capitalization

Under IFRS, effective 1 January 2000, certain costs associated with the acquisitions or development of internal-use software had to be capitalized. Once the software was ready for its intended use, the costs capitalized were amortized to the Income statement over the estimated life of the software. Under US GAAP, the same principle applied, however this standard was effective 1 January 1999. For US GAAP, the costs associated with the acquisition or development of internal-use software that met the US GAAP software capitalization criteria in 1999 were reversed from Operating expenses and amortized over a life of two years from the time that the software was ready for its intended use. From 1 January 2000, the only remaining reconciliation item was the amortization of software capitalized in 1999 for US GAAP purposes. At 31 December 2002, this amount was fully utilized and there is no longer a difference between IFRS and US GAAP.

j. Consolidation of Variable Interest Entities (VIEs)

US GAAP, like IFRS, generally requires consolidation of entities on the basis of controlling a majority of voting rights. In certain situations, control over the majority of voting rights is not a reliable indicator of the need to consolidate, such as when there are no voting rights, or when voting rights and exposure to risks and rewards are largely disproportionate. However, there are differences in the approach of IFRS and US GAAP to those situations.

Under IFRS, the assessment of control over an entity is based on controlling a majority of voting rights, or, if control is exercised through other means, consideration is given to the substance of the relationship. Indicators of these situations include: predetermination of the entity's activities; the entity's activities being conducted on behalf of the enterprise; decision-making powers being held by the enterprise; the right to obtain the majority of the benefits or be exposed to the risks inherent in the activities of the entity; or retaining the majority of the residual or ownership risks related to the entity's assets in order to obtain benefits from its activities.

US GAAP consolidation considerations are subject to FASB interpretation FIN 46, "Consolidation of Variable Interest Entities", an interpretation of Accounting Research Bulletin No. 51, which was issued on 17 January 2003. A revised version of FIN 46 was issued in December 2003.

FIN 46 requires that control over an entity be assessed first based on voting interests. If voting interests do not exist or differ significantly from economic interests, then an entity is considered to be a "Variable Interest Entity" ("VIE"). Specifically, VIEs are entities in which the equity investors:

- do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties
- do not have the characteristics of a controlling financial interest

- have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of an investor with disproportionately small voting interest.

FIN 46 requires an enterprise – the "primary beneficiary" – to consolidate a VIE if it has variable interests that will absorb a majority of the VIE's "expected losses", receive a majority of the VIE's "expected residual returns", or both. In addition, the primary beneficiary is required to make certain disclosures in relation to the VIE.

FIN 46 requires an enterprise which is the holder of a "significant variable interest" to provide certain disclosures in relation to its involvement with the VIE. UBS considers its variable interests to be significant if it expects to receive more than 20% of a VIE's expected losses, expected residual returns, or both.

At 31 December 2003, FIN 46 applies to UBS's US GAAP financial statements with respect to transitional disclosure requirements and the consolidation and disclosure of VIEs created after 31 January 2003, in which UBS is the primary beneficiary.

In many cases the assessment of consolidation under IFRS and US GAAP is the same, however the application of FIN 46 for US GAAP purposes results in certain differences from IFRS. The result of consolidating certain entities at 31 December 2003 for US GAAP purposes, which are not otherwise consolidated in UBS's primary consolidated Financial Statements under IFRS, has been a CHF 4.1 billion increase in the US GAAP Balance sheet.

A discussion of FIN 46 measurement requirements, the disclosure and consolidation in the US GAAP Balance sheet of VIEs created after 31 January 2003 in which UBS is the primary beneficiary, and FIN 46 transitional disclosures, are set out in Note 41.1.

k. Recently issued US accounting standards

On 1 January 2003, UBS adopted SFAS 145, Rescission of FASB Statements 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. The adoption of this new accounting standard did not affect the Financial Statements for the year ended 31 December 2003.

On 1 January 2003, UBS adopted FASB Interpretation No. (FIN) 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires that a liability be recognized at inception of certain guarantees equal to the fair value of the obligation assumed, which extends over the period of the guarantee. FIN 45 is applicable prospectively for certain guarantees issued or modified after 31 December 2002. The adoption of FIN 45 had no material impact on the results of operations and financial position of UBS.

In April 2003, the FASB issued SFAS 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. The new standard amends Statement 133 for decisions made as part of the Derivatives Implementation Group process that effectively required amendments to SFAS 133, but more importantly in relation to the definition of a derivative. SFAS 149 is effective prospectively for contracts entered into or modified after 30 June 2003, and for hedging relationships designated after 30 June 2003. The adoption of the new standard by UBS had no material effect on the 2003 Financial Statements prepared in accordance with US GAAP.

In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. The new standard is applicable to freestanding financial instruments which embody obligations for the issuer and changes their classification from equity to liabilities or assets in the following situations:

- for a financial instrument linked to an entity's own shares that embodies an obligation to repurchase the equity shares or settle the obligation by transferring assets.
- for an obligation that the entity must or may settle by issuing a variable number of its equity shares whereby the counterparty receiving the equity shares has no or only little exposure to changes in the entity's share price.
- for an instrument whose fair value is inversely related to the change in fair value of the entity's equity shares, for example a written put option that could be net share settled.

SFAS 150 does not apply to financial instruments with embedded conversion features, conditional redemption features or other embedded features in financial instruments that are not derivatives in their entirety. UBS has adopted SFAS 150 as at 1 June 2003 for financial instru-

ments entered into or modified after that date, and adopted the standard as at 1 July 2003 for financial instruments entered into on or before 31 May 2003.

At 31 December, 2003, UBS had no financial instruments outstanding that were within the scope of SFAS 150, nor had it entered into transactions after 31 May 2003, that were settled on or before 31 December 2003, and would have been accounted for under the new standard. Therefore, the adoption of SFAS 150 had no impact on UBS's 2003 Financial Statements prepared in accordance with US GAAP.

In November 2003, the FASB's Emerging Issues Task Force (EITF) issued EITF 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The Task Force reached a consensus that the following disclosures are required for debt and marketable equity securities classified as available-for-sale or held-to-maturity under Statements 115 and 124 that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. For those investments with unrealized losses that have not been recognized as other-than-temporary impairments, the investor should disclose:

a) Quantitative information, aggregated by each category of financial investment that the investor discloses in tabular form:
- the aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and
- the aggregate related fair value of investments with unrealized losses.

The disclosures above should be segregated by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer.

b) Additional information, in narrative form, that provides sufficient information to understand the quantitative disclosures and the information that the investor considered (both positive and negative) in reaching the conclusion that the impairments are not other-than-temporary. This disclosure could include:
- the nature of the investment(s)
- the cause(s) of the impairment(s)
- the number of investment positions that are in an unrealized loss position
- the severity and duration of the impairment(s)
- other evidence considered by the investor in reaching its conclusion that the investment(s) is not other-than-temporarily impaired, including, for example, industry analyst reports, sector credit ratings, volatility of the security's market price, and / or any other information that the investor considers relevant.

EITF 03-1 is effective for financial years ending after 15 December 2003. UBS has included these additional disclosures in Note 12 Financial Investments.

In December 2003, the FASB issued revised SFAS 132, Employers' Disclosures about Pensions and Other Postretirement Benefits. Except for some of the new disclosures, this revised standard is effective for financial years ending after 15 December 2003. Additional disclosures required under the revised standard include information about major categories of assets held by benefit plans, a narrative description of the investment strategy and how the expected long-term rate of return on plan assets has been determined, the accumulated benefit obligation, benefits expected to be paid in each of the next five financial years and the aggregate for the five financial years thereafter, the measurement dates for the benefit plans, and the employer's best estimate of contributions expected to be paid to the plan during the next financial year. Those new disclosures which are effective for the year ended 31 December 2003, are included in Note 31 Pension and Other Post-Retirement Benefit Plans. Revised SFAS 132 requires that certain disclosures are made in interim financial statements starting in 2004. The components of periodic pension cost and employer's contribution paid or expected to be paid during the current fiscal year have to be disclosed.

In December 2003, the "Medicare Prescription Drug, Improvement and Modernization Act of 2003" was passed in the USA, which adds prescription drug coverage for Medicare-eligible employees. Since the Group sponsors post-retirement health care plans in the USA, the Group has a range of options for coordinating with the new government-sponsored program, including supplementing the government program on a secondary payer basis or accepting a direct subsidy from the government to support a portion of the cost of the employer's program.

Pursuant to guidance included in FASB Staff Position FAS 106-1, the Group has chosen to defer recognition of the potential effects of the Act. This decision was made largely due to the number of open issues about various provisions of the Act and a lack of authoritative accounting guidance concerning certain technical matters. Therefore, the retiree health obligation and cost reported in these Financial Statements and the accompanying notes as at and for the year ended 31 December 2003 do not yet reflect any potential impact of the Act. Specific authoritative guidance on the accounting for the government subsidy is pending and that guidance, when issued, could require the Group to change previously reported information. It is expected that a change would decrease the obligation and cost attributable to post-retirement medical coverage.

Several other interpretations and FASB Staff Positions were recently issued, none of which has or is expected to have a material impact on UBS's Financial Statements.

Note 40.2 Reconciliation of IFRS Shareholders' equity and Net profit to US GAAP

CHF million	Note 40.1 Reference	Shareholders' equity 31.12.03	Shareholders' equity 31.12.02	Net profit 31.12.03	Net profit 31.12.02	Net profit 31.12.01
Amounts determined in accordance with IFRS		**35,446**	38,991	**6,385**	3,535	4,973
Adjustments in respect of:						
SBC purchase accounting goodwill and other purchase accounting adjustments	a	**15,196**	15,285	**(89)**	(128)	(1,614)
Reversal of IFRS goodwill amortization	b	**1,825**	1,017	**808**	1,017	0
Restructuring provision	c	**0**	0	**0**	0	(112)
Derivative instruments	d	**(94)**	(138)	**188**	354	25
Financial investments and private equity	e	**(84)**	(30)	**(159)**	767	0
Pension plans	f	**1,303**	621	**(235)**	(156)	119
Other post-retirement benefit plans	g	**(1)**	(1)	**0**	7	8
Equity participation plans	h	**(112)**	(164)	**(152)**	63	(12)
Software capitalization	i	**0**	0	**0**	(60)	(169)
Consolidation of variable interest entities (VIEs)	j	**(10)**	0	**(10)**	0	0
Tax adjustments		**(295)**	(5)	**(223)**	147	16
Total adjustments		**17,728**	16,585	**128**	2,011	(1,739)
Amounts determined in accordance with US GAAP		**53,174**	55,576	**6,513**	5,546	3,234

Note 40.3 Earnings per share

Under both IFRS and US GAAP, basic earnings per share ("EPS") are computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS include the determinants of basic EPS and, in addition, gives effect to dilutive potential common shares that were outstanding during the period.

The computations of basic and diluted EPS for the years ended 31 December 2003, 31 December 2002 and 31 December 2001 are presented in the following table.

	31.12.03		31.12.02		31.12.01	
For the year ended	**US GAAP**	**IFRS**	US GAAP	IFRS	US GAAP	IFRS
Net profit available for ordinary shares (CHF million)	**6,513**	**6,385**	5,546	3,535	3,234	4,973
Net profit for diluted EPS (CHF million)	**6,514**	**6,386**	5,520	3,515	3,135	4,874
Weighted-average shares outstanding	**1,116,602,289**	**1,116,953,623**	1,208,055,132	1,208,586,678	1,251,180,815	1,266,038,193
Diluted weighted-average shares outstanding	**1,138,800,625**	**1,138,800,625**	1,222,862,165	1,223,382,942	1,273,720,560	1,288,577,938
Basic earnings per share (CHF)	**5.83**	**5.72**	4.59	2.92	2.58	3.93
Diluted earnings per share (CHF)	**5.72**	**5.61**	4.51	2.87	2.46	3.78

Note 40.4 Presentation differences between IFRS and US GAAP

In addition to the differences in valuation and income recognition, other differences, essentially related to presentation, exist between IFRS and US GAAP. Although there is no impact on IFRS and US GAAP reported Shareholders' equity and Net profit due to these differences, it may be useful to understand them to interpret the financial statements presented in accordance with US GAAP. The following is a summary of presentation differences that relate to the basic IFRS financial statements.

1. Settlement date vs. trade date accounting
UBS's transactions from securities activities are recorded under IFRS on the settlement date. This results in recording a forward transaction during the period between the trade date and the settlement date. Forward positions relating to trading activities are revalued to fair value and any unrealized profits and losses are recognized in Net profit.

Under US GAAP, trade date accounting is required for spot purchases and sales of securities. Therefore, all such transactions with a trade date on or before the balance sheet date with a settlement date after the balance sheet date have been recorded at trade date for US GAAP. This has resulted in receivables and payables to broker-dealers and clearing organizations recorded in Other assets and Other liabilities in the US GAAP Balance sheet.

2. Financial investments
Under IFRS, UBS's private equity investments and non-marketable equity financial investments are included in Financial investments. For US GAAP presentation, non-marketable equity financial investments are reclassified to Other assets, and private equity investments are shown separately on the Balance sheet.

3. Securities received as proceeds in a securities for securities lending transaction
When UBS acts as the lender in a securities lending agreement and receives securities as collateral that can be pledged or sold, it recognizes the securities received and a corresponding obligation to return them. These securities are reflected on the US GAAP Balance sheet in the line "Securities received as collateral" on the asset side of the Balance sheet. The offsetting liability is presented in the line "Obligation to return securities received as collateral".

4. Reverse repurchase, repurchase, securities borrowing and securities lending transactions
UBS enters into certain specific reverse repurchase, repurchase, securities borrowing and securities lending transactions that result in a difference between IFRS and US GAAP. Under IFRS, they are considered borrowing and lending transactions which are not reflected in the balance sheet except to the extent of cash collateral advanced or received. Under US GAAP, however, they are considered purchase and sale transactions due to the fact that the contracts do not meet specific collateral or margining requirements under SFAS 140. Due to the different treatment of these transactions under IFRS and US GAAP, interest income and expense recorded under IFRS must be reclassified to Net trading income or Other income for US GAAP. Additionally under US GAAP, the securities received are recognized on the balance sheet as a spot purchase (Trading portfolio assets) with a corresponding forward sale transaction (Replacement values) and a receivable (Cash collateral on securities borrowed) is reclassified, as applicable. The securities delivered are recognized as a spot sale (Trading portfolio liabilities) with a corresponding forward repurchase transaction (Replacement values) and a liability (Cash collateral on securities lent) is reclassified, as applicable.

Note 40.5 Consolidated Income Statement

The following is a Consolidated Income Statement of the Group, for the years ended 31 December 2003, 31 December 2002 and 31 December 2001, restated to reflect the impact of valuation and income recognition differences and presentation differences between IFRS and US GAAP.

CHF million		31.12.03		31.12.02		31.12.01	
For the year ended	Reference	US GAAP	IFRS	US GAAP	IFRS	US GAAP	IFRS
Operating income							
Interest income	a, d, 4, j	39,940	40,159	39,679	39,963	51,907	52,277
Interest expense	a, 4	(27,700)	(27,860)	(29,334)	(29,417)	(44,096)	(44,236)
Net interest income		12,240	12,299	10,345	10,546	7,811	8,041
Credit loss expense / (recovery)		(116)	(116)	(206)	(206)	(498)	(498)
Net interest income after credit loss expense / (recovery)		12,124	12,183	10,139	10,340	7,313	7,543
Net fee and commission income		17,345	17,345	18,221	18,221	20,211	20,211
Net trading income	d, 4, h, j	4,065	3,883	6,031	5,572	8,959	8,802
Other income [1]	b, e, 4	380	561	96	(12)	534	558
Total operating income		33,914	33,972	34,487	34,121	37,017	37,114
Operating expenses							
Personnel expenses	f, g, h	17,615	17,231	18,610	18,524	19,713	19,828
General and administrative expenses		6,086	6,086	7,072	7,072	7,631	7,631
Depreciation of property and equipment	a, i	1,396	1,364	1,613	1,521	1,815	1,614
Amortization of goodwill	a, b	0	756	0	930	2,484	1,025
Amortization of other intangible assets	b	112	187	1,443	1,530	298	298
Restructuring costs	c	0	0	0	0	112	0
Total operating expenses		25,209	25,624	28,738	29,577	32,053	30,396
Operating profit / (loss) before tax and minority interests		8,705	8,348	5,749	4,544	4,964	6,718
Tax expense / (benefit)		1,842	1,618	511	678	1,386	1,401
Net profit / (loss) before minority interests		6,863	6,730	5,238	3,866	3,578	5,317
Minority interests	j	(350)	(345)	(331)	(331)	(344)	(344)
Change in accounting principle: cumulative effect of adoption of "AICPA Audit and Accounting Guide, Audits of Investment Companies" on certain financial investments, net of tax	e	0	0	639	0	0	0
Net profit		6,513	6,385	5,546	3,535	3,234	4,973

[1] The CHF 159 million loss and CHF 108 million gain included in US GAAP Other income at 31 December 2003 and 31 December 2002, respectively are due to UBS's adoption of the "AICPA Audit and Accounting Guide, Audits of Investment Companies" on certain private equity investments for its US GAAP financial statements. These amounts represent the change in fair value of these investments during 2003 and 2002.

Note: References above coincide with the discussions in Note 40.1 and Note 40.4. These references indicate which IFRS to US GAAP differences affect an individual financial statement caption.

Note 40.6 Condensed Consolidated Balance Sheet

The following is a Condensed Consolidated Balance Sheet of the Group, as at 31 December 2003 and 31 December 2002, restated to reflect the impact of valuation and income recognition principles and presentation differences between IFRS and US GAAP.

		31.12.03		31.12.02	
CHF million	Reference	US GAAP	IFRS	US GAAP	IFRS
Assets					
Cash and balances with central banks		3,584	3,584	4,271	4,271
Due from banks	a, j	31,685	31,667	32,481	32,468
Cash collateral on securities borrowed	4	211,058	213,932	139,073	139,052
Reverse repurchase agreements		320,587	320,587	294,086	294,086
Trading portfolio assets (including assets pledged as collateral of CHF 125,411 million at 31.12.03 and CHF 110,365 million at 31.12.02)	1, 4, h, j	544,492	461,772	441,845	371,436
Positive replacement values	1, 4, j	84,034	84,334	83,757	82,092
Loans	a, d	212,554	212,504	211,755	211,647
Financial investments	e, 2	1,303	5,139	2,846	8,391
Securities received as collateral	3	13,071		16,308	
Accrued income and prepaid expenses	4, h	6,219	6,218	6,462	6,453
Investments in associates		1,616	1,616	705	705
Property and equipment	a	8,116	7,659	8,358	7,869
Goodwill	a, b	26,775	9,348	28,127	11,181
Other intangible assets	b	1,174	2,181	1,222	2,515
Private equity investments	e, 2	3,308		4,328	
Other assets	d, e, f, h, j, l, 2	64,381	25,459	21,314	8,952
Total assets		1,533,957	1,386,000	1,296,938	1,181,118
Liabilities					
Due to banks		127,385	127,153	83,178	83,178
Cash collateral on securities lent	4	51,157	53,278	36,870	36,870
Repurchase agreements		415,863	415,863	366,858	366,858
Trading portfolio liabilities	1, 4	149,380	143,957	117,721	106,453
Obligation to return securities received as collateral	3	13,071		16,308	
Negative replacement values	1, 4, j	161,086	93,646	132,354	81,282
Due to customers	a, d	347,358	347,358	306,872	306,876
Accrued expenses and deferred income	4	13,673	13,673	15,330	15,331
Debt issued	a, d, j, 1	123,259	120,237	129,527	129,411
Other liabilities	d, f, g, h, j, 1	74,044	31,316	32,815	12,339
Total liabilities		1,476,276	1,346,481	1,237,833	1,138,598
Minority interests	j	4,507	4,073	3,529	3,529
Total shareholders' equity		53,174	35,446	55,576	38,991
Total liabilities, minority interests and shareholders' equity		1,533,957	1,386,000	1,296,938	1,181,118

Note: References above coincide with the discussions in Note 40.1 and Note 40.4. These references indicate which IFRS to US GAAP differences affect an individual financial statement caption.

Note 40.7 Comprehensive income

Comprehensive income under US GAAP is defined as the change in Shareholders' equity excluding transactions with shareholders. Comprehensive income has two major components: Net profit, as reported in the income statement, and Other comprehensive income. Other comprehensive income includes such items as foreign currency translation, unrealized gains/losses on available-for-sale securities, unrealized gains/losses on changes in fair value of derivative instruments designated as cash flow hedges and additional minimum pension liability. The components and accumulated other comprehensive income amounts on a US GAAP basis for the years ended 31 December 2003, 31 December 2002 and 31 December 2001 are as follows:

CHF million	Foreign currency translation	Unrealized gains/(losses) on available-for-sale investments	Unrealized gains/(losses) on cash flow hedges	Additional minimum pension liability	Deferred income taxes	Accumulated other comprehensive income/(loss)	Comprehensive income/(loss)
Balance at 1 January 2001	**(687)**	**463**	**0**	**0**	**(112)**	**(336)**	
Net profit							3,234
Other comprehensive income:							
Foreign currency translation	(82)					(82)	(82)
Net unrealized gains on available-for-sale investments		136			(27)	109	109
Reclassification of gains on available-for-sale investments realized in net profit		(130)			26	(104)	(104)
Net unrealized gains on cash flow hedges			5		(1)	4	4
Reclassification of losses on cash flow hedges realized in net profit			4		(1)	3	3
Additional minimum pension liability				(303)	108	(195)	(195)
Other comprehensive income/(loss)	(82)	6	9	(303)	105	(265)	(265)
Comprehensive income							2,969
Balance at 31 December 2001	**(769)**	**469**	**9**	**(303)**	**(7)**	**(601)**	
Net profit							5,546
Other comprehensive income:							
Foreign currency translation	(80)					(80)	(80)
Net unrealized gains on available-for-sale investments		143			(34)	109	109
Impairment charges reclassified to the income statement		121			(26)	95	95
Reclassification of gains on available-for-sale investments realized in net profit		(470)			102	(368)	(368)
Net unrealized losses on cash flow hedges			(4)		3	(1)	(1)
Reclassification of gains on cash flow hedges realized in net profit			(8)		0	(8)	(8)
Additional minimum pension liability				(920)	93	(827)	(827)
Other comprehensive income/(loss)	(80)	(206)	(12)	(920)	138	(1,080)	(1,080)
Comprehensive income							4,466
Balance at 31 December 2002	**(849)**	**263**	**(3)**	**(1,223)**	**131**	**(1,681)**	
Net profit							6,513
Other comprehensive income:							
Foreign currency translation	(795)					(795)	(795)
Net unrealized losses on available-for-sale investments		(130)			49	(81)	(81)
Impairment charges reclassified to the income statement		111			(18)	93	93
Reclassification of gains on available-for-sale investments realized in net profit		(69)			11	(58)	(58)
Reclassification of losses on cash flow hedges realized in net profit			3		(1)	2	2
Additional minimum pension liability				917	(82)	835	835
Other comprehensive income/(loss)	**(795)**	(88)	3	917	(41)	(4)	(4)
Comprehensive income							6,509
Balance at 31 December 2003	**(1,644)**	**175**	**0**	**(306)**	**90**	**(1,685)**	

Note 41 Additional Disclosures Required under US GAAP and SEC Rules

Note 41.1 Variable interest entities

FIN 46 was originally issued on 17 January 2003. Subsequently, in December 2003, the FASB issued a revised version of FIN 46.

FIN 46 requires that control over an entity be assessed first based on voting interests; if voting interests do not exist, or differ significantly from economic interests, then an entity is considered to be a "Variable Interest Entity" ("VIE"), and the assessment of control is based on its variable interests. FIN 46 provides guidance for determining whether entities are considered to be VIEs, and whether "variable interests" in such VIEs result in an enterprise being the "primary beneficiary", or the holder of a "significant variable interest". UBS considers a variable interest to be significant if it expects to receive more than 20% of a VIE's residual losses, residual gains, or both.

Variable interests are contractual, ownership, or other pecuniary interests in an entity that change with changes in the fair value of that entity's net assets exclusive of variable interests. Variable interests may include fee payments to decision makers and to providers of guarantees (including writers of put options and other instruments with similar results). In assessing the extent of an entity's variable interests, FIN 46 requires that the interests of an enterprise's related parties (including management, employees, affiliates and agents) be evaluated as if owned directly by the enterprise.

When fully effective, FIN 46 requires that the primary beneficiary of a VIE must consolidate that VIE, requires certain disclosures by the enterprise which is the primary beneficiary of that VIE, and requires certain other disclosures by any holder of a significant variable interest in a VIE.

At 31 December 2003, FIN 46 has application to UBS with respect to transitional disclosure requirements, and the consolidation and disclosure of VIEs created after 31 January 2003, in which UBS is the primary beneficiary.

Measurement

Measurement of a VIE's size is usually determined using the fair value of the VIE's assets. Some VIEs function as a passive intermediary to a derivative transaction and are generally established to facilitate the transfer of credit risk on portfolios to investors. The size of such VIEs may also be measured using the "notional amount" of the derivatives' underlying referenced assets, i.e. the size of the portfolio for which credit risk has been transferred. These notional amounts are also included in Note 23. In measuring the total size of VIEs quantified below, the most appropriate measure has been taken for each specific VIE on an individual basis.

FIN 46 requires disclosures of UBS's maximum exposure to loss as a result of its involvement with VIEs in which it has a significant variable interest. Generally, UBS's maximum exposure to loss is measured as its net investment in the VIE, plus any additional amounts it may be obligated to invest. In cases where the Group has provided guarantees or other types of credit protection to a VIE it is measured as the notional amount of the credit protection instruments or derivatives. In cases where the Group is a non-credit derivative counterpart to a VIE or has received credit protection, it is measured as the positive replacement value (if any) of the derivatives. These measures of maximum exposure to loss do not consider the offsetting effects of hedges outside the VIE. It is UBS's general practice to hedge interest rate risk, credit risk, and other market risk exposures. See Note 29 for a further discussion of UBS's risk mitigation strategies.

VIEs created after 31 January 2003

For VIEs created after 31 January 2003, FIN 46 is fully effective at 31 December 2003 regarding consolidation treatment and disclosures. The tables on the following page include information for all such VIEs:

VIEs, created after 31 January 2003, for which UBS is the primary beneficiary[1]

(CHF million) Nature, purpose and activities of VIEs	Total assets	Consolidated assets that are collateral for the VIEs' obligations Classification	Amount	Creditors' recourse to UBS
Passive intermediary to a derivative transaction	1,013	Cash, corporate debt securities	494	0
Credit protection vehicles	3,548	Credit derivatives, corporate debt securities	2,795	0
Investment funds managed by UBS	541	Debt, equity	428	0
Total 31.12.2003	**5,102**		**3,717**	**0**

VIEs, created after 31 January 2003, in which UBS has a significant variable interest

(CHF million) Nature, purpose and activities of VIEs	Total assets	Nature of involvement	Maximum exposure to loss
Credit protection vehicles	281	SPE used for credit protection – (UBS sells credit risk on portfolios to investors)	1
Total 31.12.2003	**281**		**1**

[1] The above table of VIEs created after 31 January 2003, for which UBS is the primary beneficiary, includes VIEs with a total size of CHF 1,014 million which are already consolidated in UBS's Financial Statements based on the determination of exercise of control under IFRS, and VIEs with a total size of CHF 4,089 million which are not currently consolidated under IFRS.

VIEs created prior to 1 February 2003

For VIEs created prior to 1 February 2003, FIN 46 becomes fully effective from the first reporting period beginning after 15 June 2003, regarding both consolidation treatment and disclosures, and is therefore not fully effective at 31 December 2003. Accordingly, with respect to VIEs created prior to 1 February 2003, only the transitional disclosure requirements are applicable to UBS at 31 December 2003. Those transitional disclosure provisions require assessment of cases where it is "reasonably possible" that UBS will be the primary beneficiary of a VIE, or be the holder of a significant variable interest in a VIE, and to make certain disclosures about such entities, pending final evaluation and conclusions about those entities. UBS has sought to determine the extent of significant variable interests, and situations where it is the primary beneficiary in VIEs created before 1 February 2003.

UBS expects the key impact to be the consolidation of VIEs in which it is the primary beneficiary for US GAAP purposes, which are not otherwise consolidated in UBS's primary consolidated Financial Statements under IFRS.

The total size of VIEs which are currently not consolidated under IFRS, which may become consolidated for US GAAP purposes, is estimated to be in the order of CHF 5.1 billion total assets. Of this amount, approximately CHF 4.6 billion relates to employee equity compensation trusts established to hold UBS shares, UBS share options, and alternative investment vehicles; approximately CHF 93 million relates to certain leveraged investment opportunities available to key employees, and approximately CHF 370 million relates to other VIEs. UBS has a maximum exposure to loss, according to the provisions of FIN 46, of approximately CHF 4.6 billion in relation to the employee equity compensation trusts (see below), approximately CHF 503 million in relation to the leveraged investment plans (see below), and approximately CHF 370 million in relation to other VIEs which may become consolidated. In addition to the above VIEs, UBS has identified other VIEs which are still being assessed, and which are discussed in more detail below.

The CHF 4.6 billion size and maximum exposure to loss mentioned above in relation to employee equity compensation trusts does not represent an exposure of UBS, as the assets are held in trust for employees. The employees would bear all exposure to loss, however the provisions of FIN 46 treat employees as related parties, and require that their variable interests be added to those of UBS. The result is that UBS expects to be treated as the primary beneficiary of these trusts, and to consolidate them for US GAAP purposes.

In connection with the leveraged investment opportunities available to key employees, UBS

has committed to provide up to CHF 394 million in loans to employee investment partnerships. At 31 December 2003, a total of CHF 77 million in loans had actually been drawn down. Repayment of these loans is on a non recourse basis but is senior to the employees' investment in the partnerships. The remaining unfunded portion of these commitments is also included in Note 25. In addition, if employees default on their investment commitments, UBS is obliged to assume the remaining unfunded portion, which amounted to CHF 109 million at 31 December 2003. In the event that all the investments made by these partnerships became worthless, UBS could be exposed to the loss of the entire committed amount of CHF 503 million which is included in the CHF 503 million maximum exposure to loss noted for these VIEs.

It should be noted that for most VIEs required to be consolidated under US GAAP as mentioned above, that in some cases the total figures above may increase both total assets and total liabilities of the US GAAP accounts, and in other cases may result in a reclassification of existing assets or liabilities to other types of assets or liabilities. In the case of the employee equity compensation trusts, the CHF 4.6 billion total size comprises assets of approximately CHF 2.1 billion in UBS shares, CHF 1.6 billion in UBS share options, and CHF 0.9 billion in alternative investment vehicles. Depending on the impact of possible changes in employee equity compensation expense accounting, the consolidation of these trusts would result in a portion of these amounts being recognized as changes to either shareholders' equity or liabilities.

A significant percentage of entities which may meet the definition of a VIE under FIN 46 in which UBS is the primary beneficiary are already consolidated in UBS's Financial Statements, based on the determination of exercise of control under IFRS. The total size of such VIEs is estimated to be CHF 9.0 billion, which is measured by fair value of assets except for CHF 50 million measured by notional amounts of underlying assets in relation to derivatives. UBS has a maximum exposure to loss of approximately CHF 1.8 billion in relation to these VIEs, which are used primarily as credit protection vehicles, or passive intermediaries to derivative transactions.

In certain cases an entity which has been consolidated under IFRS may be considered to be non-consolidated under FIN 46. UBS has issued trust preferred securities amounting to CHF 3.2 billion which in future periods would be de-consolidated for US GAAP purposes.

In addition to the primary beneficiary situations noted above, UBS has identified that it holds significant variable interests in other VIEs. It is estimated that the total assets of such VIEs amount to approximately CHF 1.6 billion, and that UBS has a maximum exposure to loss of approximately CHF 592 million in relation to these VIEs.

In addition to the VIEs noted above, UBS has identified other VIEs which are still being assessed. UBS holds at least a significant variable interest in these VIEs. Once the assessment is complete, it may be determined that UBS is the primary beneficiary for a portion of them. These VIEs are currently not consolidated under IFRS or US GAAP. The total size of these VIEs is estimated to be CHF 4.5 billion, which is measured by fair value of assets. UBS has a maximum exposure to loss of approximately CHF 253 million in relation to these VIEs, which are used primarily as credit protection vehicles, or passive intermediaries to derivative transactions.

As the guidance for FIN 46 has seen continued development, UBS is still in the process of evaluating the full impact FIN 46 may have on its US GAAP financial position, results, and reporting, including possible changes in employee equity compensation expense accounting due to the consolidation of certain of the employee equity compensation trusts. Therefore it is not possible to predict the impact of consolidation on the consolidated income statement under US GAAP, but it is expected that additional volatility would be introduced in future periods.

Note 41.2 Supplemental Guarantor Information

Guarantee of PaineWebber securities

Following the acquisition of Paine Webber Group Inc., UBS AG made a full and unconditional guarantee of the senior and subordinated notes and trust preferred securities ("Debt Securities") of PaineWebber. Prior to the acquisition, PaineWebber was an SEC Registrant. Upon the acquisition, Paine Webber was merged into UBS Americas Inc., a wholly owned subsidiary of UBS.

Under the guarantee, if UBS Americas Inc. fails to make any timely payment under the Debt Securities agreements, the holders of the Debt Securities or the Debt Securities trustee may demand payment from UBS without first proceeding against UBS Americas Inc. UBS's obligations under the subordinated note guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. At 31 December 2003, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,337 billion.

The information presented in this note is prepared in accordance with IFRS and should be read in conjunction with the Consolidated Financial Statements of UBS of which this information is a part. At the bottom of each column, Net profit and Shareholders' equity has been reconciled to US GAAP. See Note 40 for a detailed reconciliation of the IFRS financial statements to US GAAP for UBS on a consolidated basis.

Supplemental Guarantor Consolidating Income Statement

CHF million For the year ended 31 December 2003	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating Entries	UBS Group
Operating income					
Interest income	28,749	13,091	9,280	(10,961)	40,159
Interest expense	20,033	10,292	8,496	(10,961)	27,860
Net interest income	8,716	2,799	784	0	12,299
Credit loss expense	(124)	(12)	20	0	(116)
Net interest income after credit loss expense	8,592	2,787	804	0	12,183
Net fee and commission income	6,873	6,711	3,761	0	17,345
Net trading income	1,525	1,540	818	0	3,883
Income from subsidiaries	2,466	0	0	(2,466)	0
Other income	337	230	(6)	0	561
Total operating income	19,793	11,268	5,377	(2,466)	33,972
Operating expenses					
Personnel expenses	8,853	6,886	1,492	0	17,231
General and administrative expenses	2,861	1,620	1,605	0	6,086
Depreciation of property and equipment	682	186	496	0	1,364
Amortization of goodwill and other intangible assets	104	789	50	0	943
Total operating expenses	12,500	9,481	3,643	0	25,624
Operating profit / (loss) before tax and minority interests	7,293	1,787	1,734	(2,466)	8,348
Tax expense / (benefit)	908	344	366	0	1,618
Net profit / (loss) before minority interests	6,385	1,443	1,368	(2,466)	6,730
Minority interests	0	0	(345)	0	(345)
Net profit / (loss)	6,385	1,443	1,023	(2,466)	6,385
Net profit / (loss) US GAAP[2]	3,389	2,120	1,004	0	6,513

[1] UBS AG Parent Bank prepares its financial statements in accordance with Swiss Banking Law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. [2] Refer to Note 40 for a description of the differences between IFRS and US GAAP.

Supplemental Guarantor Consolidating Balance Sheet

CHF million For the year ended 31 December 2003	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating Entries	UBS Group
Assets					
Cash and balances with central banks	2,894	8	682	0	3,584
Due from banks	76,780	12,106	109,713	(166,932)	31,667
Cash collateral on securities borrowed	75,609	190,993	76,773	(129,443)	213,932
Reverse repurchase agreements	197,765	149,507	219,444	(246,129)	320,587
Trading portfolio assets	248,999	182,346	30,427	0	461,772
Positive replacement values	111,612	849	25,474	(53,601)	84,334
Loans	234,356	23,001	40,420	(85,273)	212,504
Financial investments	826	739	3,574	0	5,139
Accrued income and prepaid expenses	3,665	1,868	3,391	(2,706)	6,218
Investments in associates	14,077	11	594	(13,066)	1,616
Property and equipment	5,891	787	981	0	7,659
Goodwill and other intangible assets	218	11,270	41	0	11,529
Other assets	5,194	3,356	19,958	(3,049)	25,459
Total assets	977,886	576,841	531,472	(700,199)	1,386,000
Liabilities					
Due to banks	139,525	83,193	71,367	(166,932)	127,153
Cash collateral on securities lent	59,356	46,313	77,052	(129,443)	53,278
Repurchase agreements	112,245	337,030	212,717	(246,129)	415,863
Trading portfolio liabilities	79,714	55,351	8,892	0	143,957
Negative replacement values	125,925	1,157	20,165	(53,601)	93,646
Due to customers	343,297	34,530	54,804	(85,273)	347,358
Accrued expenses and deferred income	7,034	6,026	3,319	(2,706)	13,673
Debt issued	64,264	7,331	48,642	0	120,237
Other liabilities	11,222	1,873	21,270	(3,049)	31,316
Total liabilities	942,582	572,804	518,228	(687,133)	1,346,481
Minority interests	0	42	4,031	0	4,073
Total shareholders' equity	35,304	3,995	9,213	(13,066)	35,446
Total liabilities, minority interests and shareholders' equity	977,886	576,841	531,472	(700,199)	1,386,000
Total shareholders' equity – US GAAP[2]	38,129	5,471	9,574	0	53,174

[1] UBS AG Parent Bank prepares its financial statements in accordance with Swiss Banking Law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. [2] Refer to Note 40 for a description of the differences between IFRS and US GAAP.

Supplemental Guarantor Consolidating Cash Flow Statement

CHF million For the year ended 31 December 2003	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	(12,936)	1,366	14,973	3,403
Cash flow from / (used in) investing activities				
Investments in subsidiaries and associates	(428)	0	0	(428)
Disposal of subsidiaries and associates	123	667	44	834
Purchase of property and equipment	(862)	(338)	(176)	(1,376)
Disposal of property and equipment	88	17	18	123
Net (investment in) / divestment of financial investments	524	867	926	2,317
Net cash flow from / (used in) investing activities	(555)	1,213	812	1,470
Cash flow from / (used in) financing activities				
Net money market paper issued / (repaid)	1,910	(333)	(16 314)	(14 737)
Net movements in treasury shares and treasury share contract activity	(6,810)	0	0	(6 810)
Capital issuance	2	0	0	2
Dividends paid	(2,298)	0	0	(2,298)
Issuance of long-term debt	15,932	2,362	5,350	23,644
Repayment of long-term debt	(8,324)	(1,254)	(4,037)	(13,615)
Increase in minority interests[2]	0	0	755	755
Dividend payments to / and purchase from minority interests	0	(8)	(270)	(278)
Net activity in investments in subsidiaries	(773)	1,007	(234)	0
Net cash flow from / (used in) financing activities	(361)	1,774	(14,750)	(13,337)
Effects of exchange rate differences	(751)	(661)	888	(524)
Net increase / (decrease) in cash equivalents	(14,603)	3,692	1,923	(8,988)
Cash and cash equivalents, beginning of the year	57,912	15,119	9,313	82,344
Cash and cash equivalents, end of the year	43,309	18,811	11,236	73,356
Cash and cash equivalents comprise:				
Cash and balances with central banks	2,894	8	682	3,584
Money market paper[3]	21,232	15,812	3,555	40,599
Due from banks maturing in less than three months	19,183	2,991	6,999	29,173
Total	43,309	18,811	11,236	73,356

[1] UBS AG Parent Bank prepares its financial statements in accordance with Swiss Banking Law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. [2] Includes issuance of trust preferred securities of CHF 372 million. [3] Money market paper is included in the Balance sheet under Trading portfolio assets and Financial investments. CHF 6,430 million was pledged at 31 December 2003.

Guarantee of other securities

In October 2000, UBS AG, acting through a wholly owned subsidiary, issued USD 1.5 billion (CHF 2.6 billion at issuance) 8.622% UBS Trust Preferred securities. In June 2001, UBS issued an additional USD 800 million (CHF 1.3 billion at issuance) of such securities (USD 300 million at 7.25% and USD 500 million at 7.247%). In May 2003, UBS issued USD 300 million of Floating Rate Noncumulative Trust Preferred Securities (CHF 390 million at issuance) at 0.7% above one-month LIBOR of such securities. UBS AG has fully and unconditionally guaranteed these securities. UBS's obligations under the trust preferred securities guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. At 31 December 2003, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,337 billion.

UBS AG (Parent Bank)

UBS AG (Parent Bank)
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Parent Bank Review

Income Statement

The Parent Bank UBS AG net profit decreased CHF 1,637 million from CHF 5,834 million to CHF 4,197 million. Income from investments in associates decreased to CHF 1,914 million from CHF 3,417 million in 2002 mainly due to less distribution received. Depreciation and writeoffs were CHF 919 million, down from CHF 3,025 million in 2002 mainly caused by lower writeoffs on investments in associated companies. Extraordinary income contains CHF 33 million (2002: CHF 260 million) from the sale of associates and CHF 59 million from release of provisions.

Balance Sheet

Total assets overall decreased by CHF 69 billion to CHF 995 billion by 31 December 2003. This reduction is mostly caused by the first-time netting of the positive and negative replacement values on the Parent Bank level in accordance with the RRV-EBK requirement of CHF 141 billion in 2003 (netting impact in 2002 would have been CHF 167 billion). This change was partially offset by the increased positions in due from banks and trading balances in securities.

Financial Statements

Income Statement

CHF million For the year ended	31.12.03	31.12.02	% change from 31.12.02
Interest and discount income	**19,417**	20,059	(3)
Interest and dividend income from trading portfolio	**9,325**	7,074	32
Interest and dividend income from financial investments	**11**	23	(52)
Interest expense	**(20,034)**	(20,125)	0
Net interest income	**8,719**	7,031	24
Credit-related fees and commissions	**228**	252	(10)
Fee and commission income from securities and investment business	**6,998**	7,249	(3)
Other fee and commission income	**826**	515	60
Fee and commission expense	**(1,180)**	(1,167)	1
Net fee and commission income	**6,872**	6,849	0
Net trading income	**521**	4,634	(89)
Net income from disposal of financial investments	**(69)**	125	
Income from investments in associated companies	**1,914**	3,417	(44)
Income from real estate holdings	**43**	50	(14)
Sundry income from ordinary activities	**1,213**	1,908	(36)
Sundry ordinary expenses	**(96)**	(381)	(75)
Other income from ordinary activities	**3,005**	5,119	(41)
Operating income	**19,117**	23,633	(19)
Personnel expenses	**8,889**	8,916	0
General and administrative expenses	**3,943**	4,379	(10)
Operating expenses	**12,832**	13,295	(3)
Operating profit	**6,285**	10,338	(39)
Depreciation and writeoffs on investments in associated companies and fixed assets	**919**	3,025	(70)
Allowances, provisions and losses	**658**	1,053	(38)
Profit before extraordinary items and taxes	**4,708**	6,260	(25)
Extraordinary income	**92**	265	(65)
Extraordinary expenses	**1**	7	(86)
Tax expense/(benefit)	**602**	684	(12)
Profit for the period	**4,197**	5,834	(28)

Balance Sheet

CHF million	31.12.03	31.12.02	% change from 31.12.02
Assets			
Liquid assets	2,895	3,609	(20)
Money market paper	21,233	33,671	(37)
Due from banks	321,796	265,106	21
Due from customers	130,814	165,938	(21)
Mortgage loans	131,900	117,677	12
Trading balances in securities and precious metals	236,096	199,546	18
Financial investments	8,955	8,377	7
Investments in associated companies	14,757	10,275	44
Tangible fixed assets	4,367	4,633	(6)
Accrued income and prepaid expenses	3,666	2,342	57
Positive replacement values	111,612	249,064	(55)
Other assets	6,585	3,734	76
Total assets	**994,676**	1,063,972	(7)
Total subordinated assets	*4,450*	*4,717*	*(6)*
Total amounts receivable from Group companies	*397,410*	*218,915*	*82*
Liabilities			
Money market paper issued	23,879	22,131	8
Due to banks	377,447	303,023	25
Due to customers on savings and deposit accounts	84,360	76,687	10
Other amounts due to customers	274,408	274,431	0
Medium-term bonds	2,403	4,220	(43)
Bond issues and loans from central mortgage institutions	45,968	67,759	(32)
Accruals and deferred income	7,060	7,846	(10)
Negative replacement values	127,885	256,278	(50)
Other liabilities	6,802	3,281	107
Value adjustments and provisions	3,894	4,177	(7)
Share capital	946	1,005	(6)
General statutory reserve	7,212	12,392	(42)
Reserve for own shares	8,024	6,623	21
Other reserves	20,191	18,285	10
Profit brought forward			
Profit for the period	4,197	5,834	(28)
Total liabilities	**994,676**	1,063,972	(7)
Total subordinated liabilities	*12,471*	*13,315*	*(6)*
Total amounts payable to Group companies	*257,955*	*142,139*	*81*

Statement of Appropriation of Retained Earnings

CHF million	
The Board of Directors proposes to the Annual General Meeting the following appropriation:	
Profit for the financial year 2003 as per the Parent Bank's Income Statement	4,197
Appropriation to general statutory reserve	288
Appropriation to other reserves	980
Proposed dividends	2,929
Total appropriation	4,197

Dividend Distribution

The Board of Directors will recommend to the Annual General Meeting on 15 April 2004 that UBS should pay a dividend of CHF 2.60 per share of CHF 0.80 par value. If the dividend is approved, the payment of CHF 2.60 per share, after deduction of 35% Swiss withholding tax, would be made on 20 April 2004 for shareholders who hold UBS shares on 15 April 2004.

Notes to the Financial Statements

Accounting Principles

The Parent Bank's accounting policies are in compliance with Swiss banking law. The accounting policies are principally the same as for the Group Financial Statements outlined in Note 1, Summary of Significant Accounting Policies. Major differences between the Swiss banking law requirements and International Financial Reporting Standards are described in Note 39 to the Group Financial Statements.

In addition, the following principles are applied for the Parent Bank:

Treasury shares

Treasury shares is the term used to describe when an enterprise holds its own equity instruments. Under IFRS, treasury shares are presented in the balance sheet as a deduction from equity. No gain or loss is recognized in the income statement on the sale, issuance, acquisition, or cancellation of those shares. Consideration received or paid is presented in the financial statement as a change in equity.

Under Swiss law, treasury shares are classified in the balance sheet as trading balances or as financial assets, short positions are included in Due to banks. Realized gains and losses on the sale, issuance or acquisition of treasury shares, and unrealized gains or losses from remeasurement of treasury shares in the trading portfolio to market value are included in the Income statement. Treasury shares included in Financial investments are carried at the lower of cost or market value.

Foreign currency translation

Foreign currency transactions and translation of assets and liabilities denominated in foreign currencies into the Parent Bank's or a branch's reporting currency are accounted for as described in Note 1d). Assets and liabilities of foreign branches are translated into CHF at the exchange rates at the balance sheet date, while income and expense items are translated at weighted average rates for the period. Exchange differences arising on the translation of each of these foreign branches are credited to a provision account (other liabilities) in case of a gain, while any losses are firstly debited to that provision account until such provision is fully utilized, and secondly to profit and loss.

Investments in associated companies

Investments in associated companies are equity interests which are held for the purpose of the Parent Bank's business activities or for strategic reasons. They are carried at cost less valuation reserves, if needed.

Property and equipment

Bank buildings and other real estate are carried at cost less accumulated depreciation. Depreciation of computer and telecommunication equipment, other office equipment, fixtures and fittings is recognized on a straight-line basis over the estimated useful lives of the related assets. The useful lives of Property and equipment are summarized in Note 1, Summary of Significant Accounting Policies, of the Group Financial Statements.

Extraordinary income and expenses

Certain items of income and expense appear as extraordinary within the Parent Bank Financial Statements, whereas in the Group Financial Statements they are considered to be operating income or expenses and appear within the appropriate income or expense category. These items are separately identified on page 191.

Additional Income Statement Information

Net Trading Income

CHF million For the year ended	**31.12.03**	31.12.02	% change from 31.12.02
Equities	**1,708**	2,208	(23)
Fixed income [1]	**(1,307)**	565	
Foreign exchange and other	**120**	1,861	(94)
Total	**521**	4,634	(89)

[1] Includes commodities trading income.

Extraordinary Income and Expenses

Extraordinary income contains CHF 33 million (2002: CHF 260 million) from the sale of associates and CHF 59 million from release of provisions (2002: CHF 5 million from other disposals).

Extraordinary expenses consist of immaterial items.

Additional Balance Sheet Information

Value Adjustments and Provisions

CHF million	Balance at 31.12.02	Provisions applied in accordance with their specified purpose	Recoveries, doubtful interest, currency translation differences	New provisions charged to income	**Balance at 31.12.03**
Default risks (credit and country risk)	5,406	(1,372)	66	118	**4,218**
Trading portfolio risks	2,359		(221)	585	**2,723**
Litigation risks	445	(98)	(20)	65	**392**
Operational risks	1,437	(332)	151	615	**1,871**
Capital and income taxes	1,279	(743)	(96)	678	**1,118**
Total allowance for general credit losses and other provisions	**10,926**	**(2,545)**	**(120)**	**2,061**	**10,322**
Allowances deducted from assets	6,749				**6,428**
Total provisions as per balance sheet	**4,177**	-	-	-	**3,894**

Statement of Shareholders' Equity

CHF million	Share capital	General statutory reserves: Share premium	General statutory reserves: Retained earnings	Reserves for own shares	Other reserves	**Total share-holders' equity (before distribution of profit)**
As at 31.12.01 and 1.1.02	**3,589**	**13,665**	**842**	**3,253**	**21,538**	**42,887**
Par value reduction	(2,509)				117	**(2,392)**
Cancellation of own shares	(81)	(2,209)				**(2,290)**
Capital increase	6	94				**100**
Increase in reserves						**0**
Profit for the period					5,834	**5,834**
Changes in reserves for own shares				3,370	(3,370)	**0**
As at 31.12.02 and 1.1.03	**1,005**	**11,550**	**842**	**6,623**	**24,119**	**44,139**
Par value reduction						
Cancellation of own shares	(61)	(5,468)				**(5,529)**
Capital increase	2	59				**61**
Increase in reserves			229		(229)	**0**
Prior year dividend					(2,298)	**(2,298)**
Profit for the period					4,197	**4,197**
Changes in reserves for own shares				1,401	(1,401)	**0**
As at 31.12.03	**946**	**6,141**	**1,071**	**8,024**	**24,388**	**40,570**

Share Capital

	Par value		Ranking for dividends	
As at 31 December 2003	No. of shares	Capital in CHF	No. of shares	Capital in CHF
Issued and paid up	1,183,046,764	**946,437,411**	1,126,339,764	**901,071,811**
Conditional share capital	6,871,752	**5,497,402**	0	**0**

Off-Balance Sheet and Other Information

Assets Pledged or Assigned as Security for Own Obligations, Assets Subject to Reservation of Title

	31.12.03		31.12.02		Change in %	
CHF million	**Book value**	**Effective liability**	Book value	Effective liability	Book value	Effective liability
Money market paper	**6,225**		10,475		(41)	
Mortgage loans	**428**	**210**	808	506	(47)	(58)
Securities [1]	**96,065**	**66,395**	2,495			
Total	**102,718**	**66,605**	13,778	506	646	

[1] Amounts for 2003 include securities lending and repo transactions: book value CHF 92,628 million and effective liability CHF 66,395 million.

Assets are pledged as collateral for securities borrowing and repo transactions, for collateralized credit lines with central banks, loans from mortgage institutions and security deposits relating to stock exchange membership.

Fiduciary Transactions

CHF million	**31.12.03**	31.12.02	% change from 31.12.02
Deposits			
with other banks	**29,549**	28,865	2
with Group banks	**672**	351	91
Loans and other financial transactions	**6**	713	(99)
Total	**30,227**	29,929	1

Due to UBS Pension Plans, Loans to Corporate Bodies / Related Parties

CHF million	**31.12.03**	31.12.02	% change from 31.12.02
Due to UBS pension plans and UBS debt instruments held by pension plans	**1,096**	905	21
Securities borrowed from pension plans	**2,930**	2,645	11
Loans to directors, senior executives and auditors [1]	**25**	28	(11)

[1] Loans to directors, senior executives and auditors are loans to members of the Board of Directors, the Group Executive Board and the Group's official auditors under Swiss company law. This also includes loans to companies which are controlled by these natural or legal persons. There are no loans to the auditors.

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 4 February 2004

Report of the statutory auditors

As statutory auditors, we have audited the accounting records and the accompanying financial statements (income statement, balance sheet and notes / pages 188 to 194) of UBS AG for the year ended 31 December 2003.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of association.

We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Roger K. Perkin	Peter Heckendorn
Chartered Accountant	lic. oec.
(in charge of the audit)	(in charge of the audit)

Offices in Aarau, Baden, Basel, Berne, Geneva, Kreuzlingen, Lausanne, Lucerne, Lugano, Neuchâtel, St. Gallen, Zug, Zurich.
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To the Board of Directors of

UBS AG, Zurich and Basel

Basel, 16 February 2004

Confirmation in respect of conditional capital increase

As auditor of the capital increase of UBS AG, we have audited the issue of new shares related to employee stock option plans of Paine Webber Group Inc., New York, during the period between 1 January 2003 and 31 December 2003 in accordance with the provisions of the Swiss law.

The issue of new shares in accordance with the provisions in the company's articles of association is the responsibility of the board of directors. Our responsibility is to express an opinion whether the issue of new shares is accordance with the provisions of the Swiss law and the company's articles of association. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the issue of new shares was free from material errors. We have performed the audit procedures appropriate in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the issue of 2'719'166 registered shares of a nominal value of CHF 0.80 was in accordance with the provisions of the Swiss law and the company's articles of association.

Ernst & Young Ltd

Roger K. Perkin
Chartered Accountant
(in charge of the audit)

Peter Heckendorn
lic. oec.
(in charge of the audit)

■ Offices in Aarau, Baden, Basel, Berne, Geneva, Kreuzlingen, Lausanne, Lucerne, Lugano, Neuchâtel, St.Gallen, Zug, Zurich.
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Additional Disclosure Required under SEC Regulations

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A – Introduction

The following pages contain additional disclosure about UBS Group which is required under SEC regulations.

Unless otherwise stated, UBS's Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are denominated in Swiss francs, or CHF, the reporting currency of the Group. Certain financial information has also been presented in accordance with United States Generally Accepted Accounting Principles (US GAAP).

B – Selected Financial Data

The tables below set forth, for the periods and dates indicated, information concerning the noon buying rate for the Swiss franc, expressed in United States dollars, or USD, per one Swiss franc. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

On 27 February 2004 the noon buying rate was 0.7921 USD per 1 CHF.

Year ended 31 December	High	Low	Average rate[1] (USD per 1 CHF)	At period end
1999	0.7361	0.6244	0.6605	0.6277
2000	0.6441	0.5479	0.5912	0.6172
2001	0.6331	0.5495	0.5910	0.5857
2002	0.7229	0.5817	0.6453	0.7229
2003	0.8189	0.7048	0.7493	0.8069

Month	High	Low
September 2003	0.7581	0.7048
October 2003	0.7618	0.7468
November 2003	0.7745	0.7261
December 2003	0.8069	0.7709
January 2004	0.8036	0.7958
February 2004	0.8152	0.7891

[1] The average of the noon buying rates on the last business day of each full month during the relevant period.

B – Selected Financial Data (continued)

CHF million, except where indicated For the year ended	31.12.03	31.12.02	31.12.01	31.12.00	31.12.99
Income statement data					
Interest income	**40,159**	39,963	52,277	51,745	35,604
Interest expense	**27,860**	29,417	44,236	43,615	29,695
Net interest income	**12,299**	10,546	8,041	8,130	5,909
Credit loss (expense)/recovery	**(116)**	(206)	(498)	130	(956)
Net interest income after credit loss (expense)/recovery	**12,183**	10,340	7,543	8,260	4,953
Net fee and commission income	**17,345**	18,221	20,211	16,703	12,607
Net trading income	**3,883**	5,572	8,802	9,953	7,719
Other income	**561**	(12)	558	1,486	3,146
Operating income	**33,972**	34,121	37,114	36,402	28,425
Operating expenses	**25,624**	29,577	30,396	26,203	20,532
Operating profit before tax	**8,348**	4,544	6,718	10,199	7,893
Tax expense/(benefit)	**1,618**	678	1,401	2,320	1,686
Minority interests	**(345)**	(331)	(344)	(87)	(54)
Net profit	**6,385**	3,535	4,973	7,792	6,153
Cost/income ratio (%) [1]	**75.2**	86.2	80.8	72.2	69.9
Per share data (CHF)					
Basic earnings per share [2]	**5.72**	2.92	3.93	6.44	5.07
Diluted earnings per share [2]	**5.61**	2.87	3.78	6.35	5.02
Cash dividends declared per share (CHF) [3]	**2.60**	2.00	0.00	1.50	1.83
Cash dividends equivalent in USD [3]		1.46	0.00	0.86	1.10
Dividend payout ratio (%) [3]	**45.45**	68.49		23.28	36.18
Rates of return (%)					
Return on shareholders' equity [4]	**18.2**	8.9	11.7	21.5	22.4
Return on average equity	**17.1**	8.3	11.3	22.0	18.6
Return on average assets	**0.41**	0.24	0.36	0.70	0.65

[1] Operating expenses/operating income before credit loss expense. [2] For EPS calculation, see Note 8 to the Financial Statements. [3] Dividends are normally declared and paid in the year subsequent to the reporting period. In 2000, as part of the arrangements of the acquisition of PaineWebber, a dividend of CHF 1.50 was paid on 5 October 2000 in respect of the nine months ended 30 September 2000. Prior to the merger between Union Bank of Switzerland and Swiss Bank Corporation, each paid dividends in accordance with its own dividend policies. In 2001 a further amount of CHF 1.60 per share was distributed to shareholders in the form of a par value reduction, in respect of 2000. No dividend was paid out for the year 2001. A par value reduction of CHF 2.00 per share was paid on 10 July 2002. A dividend of CHF 2.00 per share was paid on 23 April 2003, and a dividend of CHF 2.60 per share will be paid on 20 April 2004 subject to approval by shareholders at the Annual General Meeting. The USD amount per share will be determined on 16 April 2004. [4] Net profit/average Shareholders' equity excluding dividends.

B – Selected Financial Data (continued)

CHF million, except where indicated As at	**31.12.03**	31.12.02	31.12.01	31.12.00	31.12.99
Balance sheet data					
Total assets	**1,386,000**	1,181,118	1,253,297	1,087,552	896,556
Shareholders' equity	**35,446**	38,991	43,530	44,833	30,608
Average equity to average assets (%)	**2.38**	3.14	3.49	3.17	3.52
Market capitalization	**95,401**	79,448	105,475	112,666	92,642
Shares					
Registered ordinary shares	**1,183,046,764**	1,256,297,678	1,281,717,499	1,333,139,187	1,292,679,486
Own shares to be delivered	**0**	0	0	28,444,788	0
Treasury shares	**111,360,692**	97,181,094	41,254,951	55,265,349	110,621,142
BIS capital ratios					
Tier 1 (%)	**11.8**	11.3	11.6	11.7	10.6
Total BIS (%)	**13.3**	13.8	14.8	15.7	14.5
Risk-weighted assets	**251,901**	238,790	253,735	273,290	273,107
Invested assets (CHF billion)	**2,209**	2,037	2,448	2,445	1,744
Headcount (full-time equivalents)					
Switzerland	**26,662**	27,972	29,163	30,215	32,843
Europe (excluding Switzerland)	**9,906**	10,009	9,650	9,286	7,892
Americas	**25,511**	27,350	27,463	28,114	5,025
Asia Pacific	**3,850**	3,730	3,709	3,461	3,298
Total	**65,929**	69,061	69,985	71,076	49,058
Long-term ratings [1]					
Fitch, London	**AA+**	AAA	AAA	AAA	AAA
Moody's, New York	**Aa2**	AA2	AA2	Aa1	Aa1
Standard & Poor's, New York	**AA+**	AA+	AA+	AA+	AA+

[1] See the Handbook 2003/2004, page 74 for information about the nature of these ratings.

Balance Sheet Data

CHF million As at	**31.12.03**	31.12.02	31.12.01	31.12.00	31.12.99
Assets					
Total assets	**1,386,000**	1,181,118	1,253,297	1,087,552	896,556
Due from banks	**31,667**	32,468	27,526	29,147	29,907
Cash collateral on securities borrowed	**213,932**	139,052	162,938	177,857	113,162
Reverse repurchase agreements	**320,587**	294,086	269,256	193,801	132,391
Trading portfolio assets	**461,772**	371,436	397,886	315,588	211,932
Positive replacement values	**84,334**	82,092	73,447	57,875	62,957
Loans	**212,504**	211,647	226,545	244,842	234,858
Liabilities					
Due to banks	**127,153**	83,178	106,531	82,240	76,365
Cash collateral on securities lent	**53,278**	36,870	30,317	23,418	12,832
Repurchase agreements	**415,863**	366,858	368,620	295,513	196,914
Trading portfolio liabilities	**143,957**	106,453	105,798	82,632	54,638
Negative replacement values	**93,646**	81,282	71,443	75,923	95,786
Due to customers	**347,358**	306,876	333,781	310,679	279,960
Debt issued	**120,237**	129,411	156,218	129,635	120,987
Shareholders' equity	**35,446**	38,991	43,530	44,833	30,608

B – Selected Financial Data (continued)

US GAAP Income Statement Data

CHF million For the year ended	31.12.03	31.12.02	31.12.01	31.12.00	31.12.99
Operating income					
Interest income	**39,940**	39,679	51,907	51,565	35,404
Interest expense	**(27,700)**	(29,334)	(44,096)	(43,584)	(29,660)
Net interest income	**12,240**	10,345	7,811	7,981	5,744
Credit loss (expense)/recovery	**(116)**	(206)	(498)	130	(956)
Net interest income after credit loss (expense)/recovery	**12,124**	10,139	7,313	8,111	4,788
Net fee and commission income	**17,345**	18,221	20,211	16,703	12,607
Net trading income	**4,065**	6,031	8,959	8,597	7,174
Other income	**380**	96	534	1,514	3,182
Total operating income	**33,914**	34,487	37,017	34,925	27,751
Operating expenses					
Personnel expenses	**17,615**	18,610	19,713	17,262	12,483
General and administrative expenses	**6,086**	7,072	7,631	6,813	6,664
Depreciation of property and equipment	**1,396**	1,613	1,815	1,800	1,619
Amortization of goodwill	**0**	0	2,484	2,018	1,793
Amortization of other intangible assets	**112**	1,443	298	134	42
Restructuring costs	**0**	0	112	191	750
Total operating expenses	**25,209**	28,738	32,053	28,218	23,351
Operating profit/(loss) before tax and minority interests	**8,705**	5,749	4,964	6,707	4,400
Tax expense/(benefit)	**1,842**	511	1,386	2,183	1,509
Net profit/(loss) before minority interests	**6,863**	5,238	3,578	4,524	2,891
Minority interests	**(350)**	(331)	(344)	(87)	(54)
Change in accounting principle: cumulative effect of adoption of "AICPA Audit and Accounting Guide, Audits of Investment Companies" on certain financial investments, net of tax [1]	**0**	639	0	0	0
Net profit/(loss)	**6,513**	5,546	3,234	4,437	2,837

[1] Please refer to Note 40.1(e) to the Consolidated Financial Statements under the heading "Financial investments and private equity", for further information about this item.

B – Selected Financial Data (continued)

US GAAP Balance Sheet Data

CHF million As at	31.12.03	31.12.02	31.12.01	31.12.00	31.12.99
Assets					
Total assets	**1,533,957**	1,296,938	1,361,920	1,124,554	893,525
Due from banks	**31,685**	32,481	27,550	29,182	29,954
Cash collateral on securities borrowed	**211,058**	139,073	162,566	177,857	113,162
Reverse repurchase agreements	**320,587**	294,086	269,256	193,801	132,391
Trading portfolio assets	**544,492**	441,845	455,406	318,788	228,230
Positive replacement values [1]	**84,034**	83,757	73,474	57,775	62,294
Loans	**212,554**	211,755	226,747	245,214	235,401
Goodwill	**26,775**	28,127	29,255	31,016	21,163
Other intangible assets	**1,174**	1,222	4,510	4,710	265
Other assets	**64,381**	21,314	36,972	27,955	18,717
Liabilities					
Due to banks	**127,385**	83,178	106,531	82,240	76,363
Cash collateral on securities lent	**51,157**	36,870	30,317	23,418	12,832
Repurchase agreements	**415,863**	366,858	368,620	295,513	173,840
Trading portfolio liabilities	**149,380**	117,721	119,528	87,832	52,658
Obligation to return securities received as collateral	**13,071**	16,308	10,931	0	0
Negative replacement values [1]	**161,086**	132,354	116,666	75,423	95,004
Due to customers	**347,358**	306,872	333,766	310,686	279,971
Accrued expenses and deferred income	**13,673**	15,330	17,289	21,038	12,040
Debt issued	**123,259**	129,527	156,462	129,750	120,704
Shareholders' equity	**53,174**	55,576	59,282	62,960	51,833

[1] Positive and negative replacement values represent the fair value of derivative instruments.

Ratio of Earnings to Fixed Charges

The following table sets forth UBS's ratio of earnings to fixed charges, for the periods indicated. Ratios of earnings to combined fixed charges and preferred stock dividends requirements are not presented as there were no preferred share dividends in any of the periods indicated.

For the year ended	31.12.03	31.12.02	31.12.01	31.12.00	31.12.99
IFRS [1]	**1.28**	1.14	1.14	1.23	1.25
US GAAP [1]	**1.29**	1.18	1.10	1.15	1.14

[1] The ratio is provided using both IFRS and US GAAP values, since the ratio is materially different under the two accounting standards.

C – Information on the Company

Property, Plant and Equipment

At 31 December 2003, UBS operated about 1,317 business locations worldwide, of which about 50% were in Switzerland, 10% in the rest of Europe, Middle East and Africa, 38% in the Americas and 2% in Asia Pacific.

32% of the business locations in Switzerland were owned directly by UBS with the remainder, along with most of UBS's offices outside Switzerland, being held under commercial leases.

These premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for our current and anticipated operations.

D – Information Required by Industry Guide 3

Selected Statistical Information

The tables below set forth selected statistical information regarding the Group's banking operations extracted from the Financial Statements. Unless otherwise indicated, average balances for the year ended 31 December 2003, 31 December 2002 and 31 December 2001 are calculated from monthly data. The distinction between domestic and foreign is generally based on the booking location. For loans, this method is not significantly different from an analysis based on the domicile of the borrower.

Average Balances and Interest Rates

The following table sets forth average interest-earning assets and average interest-bearing liabilities, along with the average rates, for the years ended 31 December 2003, 2002 and 2001.

	31.12.03			31.12.02			31.12.01		
CHF million, except where indicated	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
Assets									
Due from banks									
Domestic	11,417	200	1.8	12,534	388	3.1	11,753	1,055	9.0
Foreign	20,997	1,035	4.9	17,603	634	3.6	15,528	1,823	11.7
Cash collateral on securities borrowed and reverse repurchase agreements									
Domestic	6,576	200	3.0	5,471	235	4.3	7,868	563	7.2
Foreign	582,152	10,948	1.9	573,576	10,949	1.9	474,295	17,774	3.7
Trading portfolio assets									
Domestic	7,990	222	2.8	7,812	269	3.4	12,940	307	2.4
Foreign – taxable	407,867	18,151	4.5	373,810	16,714	4.5	332,126	16,183	4.9
Foreign – non-taxable	1,668	21	1.3	1,720	31	1.8	1,450	42	2.9
Foreign – total	409,535	18,172	4.4	375,530	16,745	4.5	333,576	16,225	4.9
Loans									
Domestic	165,397	6,437	3.9	170,641	6,987	4.1	177,404	8,017	4.5
Foreign	51,457	1,805	3.5	55,199	1,789	3.2	72,176	3,090	4.3
Financial investments									
Domestic	1,988	40	2.0	3,794	60	1.6	4,598	90	2.0
Foreign – taxable	4,798	35	0.7	8,781	105	1.2	39,252	363	0.9
Foreign – non-taxable	0	0	0.0	0	0	0.0	0	0	0.0
Foreign – total	4,798	35	0.7	8,781	105	1.2	39,252	363	0.9
Total interest-earning assets	1,262,307	39,094	3.1	1,230,941	38,161	3.1	1,149,390	49,307	4.3
Net interest on swaps		1,065			1,802			2,970	
Interest income and average interest-earning assets	1,262,307	40,159	3.2	1,230,941	39,963	3.2	1,149,390	52,277	4.5
Non-interest-earning assets									
Positive replacement values	250,871			190,063			153,687		
Fixed assets	11,643			12,532			13,376		
Other	40,104			53,293			46,954		
Total average assets	1,564,925			1,486,829			1,363,407		

D – Information Required by Industry Guide 3 (continued)

Average Balances and Interest Rates (continued)

CHF million, except where indicated	31.12.03 Average balance	31.12.03 Interest	31.12.03 Average rate (%)	31.12.02 Average balance	31.12.02 Interest	31.12.02 Average rate (%)	31.12.01 Average balance	31.12.01 Interest	31.12.01 Average rate (%)
Liabilities and Equity									
Due to banks									
Domestic	28,719	150	0.5	28,625	452	1.6	36,260	1,424	3.9
Foreign	72,757	1,751	2.4	60,621	1,362	2.2	61,642	3,506	5.7
Cash collateral on securities lent and repurchase agreements									
Domestic	23,287	295	1.3	18,382	355	1.9	13,147	600	4.6
Foreign	515,665	9,328	1.8	523,375	9,726	1.9	415,121	13,917	3.4
Trading portfolio liabilities									
Domestic	3,252	156	4.8	3,239	146	4.5	2,526	1	0.0
Foreign	127,104	9,945	7.8	109,013	8,220	7.5	94,597	7,814	8.3
Due to customers									
Domestic – demand deposits	55,496	100	0.2	42,484	435	1.0	41,664	715	1.7
Domestic – savings deposits	81,963	527	0.6	71,465	625	0.9	66,089	716	1.1
Domestic – time deposits	21,125	395	1.9	27,646	447	1.6	31,261	989	3.2
Domestic – total	158,584	1,022	0.6	141,595	1,507	1.1	139,014	2,420	1.7
Foreign [1]	161,942	2,170	1.3	172,650	3,062	1.8	187,783	6,738	3.6
Short-term debt									
Domestic	64	0	0.0	69	0	0.0	69	0	0.0
Foreign	73,193	1,015	1.4	91,616	1,915	2.1	96,184	4,227	4.4
Long-term debt									
Domestic	6,413	188	2.9	10,082	433	4.3	12,754	587	4.6
Foreign	52,216	1,840	3.5	46,930	2,239	4.8	43,798	3,002	6.9
Total interest-bearing liabilities	1,223,196	27,860	2.3	1,206,197	29,417	2.4	1,102,895	44,236	4.0
Non-interest-bearing liabilities									
Negative replacement values	257,075			192,659			165,220		
Other	47,410			45,217			51,308		
Total liabilities	1,527,681			1,444,073			1,319,423		
Shareholders' equity	37,244			42,756			43,984		
Total average liabilities and shareholders' equity	1,564,925			1,486,829			1,363,407		
Net interest income		12,299			10,546			8,041	
Net yield on interest-earning assets			1.0			0.9			0.7

[1] Due to customers in foreign offices consists mainly of time deposits.

The percentage of total average interest-earning assets attributable to foreign activities was 85% for 2003 (84% for 2002 and 81% for 2001). The percentage of total average interest-bearing liabilities attributable to foreign activities was 82% for 2003 (83% for 2002 and 82% for 2001). All assets and liabilities are translated into CHF at uniform month-end rates. Interest income and expense are translated at monthly average rates.

Average rates earned and paid on assets and liabilities can change from period to period based on the changes in interest rates in general, but are also affected by changes in the currency mix included in the assets and liabilities. This is especially true for foreign assets and liabilities. Tax-exempt income is not recorded on a tax-equivalent basis. For all three years presented, tax-exempt income is considered to be insignificant and therefore the impact from such income is negligible.

D – Information Required by Industry Guide 3 (continued)

Analysis of Changes in Interest Income and Expense

The following tables allocate, by categories of interest-earning assets and interest-bearing liabilities, the changes in interest income and expense due to changes in volume and interest rates for the year ended 31 December 2003 compared to the year ended 31 December 2002, and for the year ended 31 December 2002 compared to the year ended 31 December 2001. Volume and rate variances have been calculated on movements in average balances and changes in interest rates. Changes due to a combination of volume and rates have been allocated proportionally. Refer to page 213 of Industry Guide 3 for a discussion of the treatment of impaired, non-performing and restructured loans.

	2003 compared to 2002			2002 compared to 2001		
	Increase / (decrease) due to changes in			Increase / (decrease) due to changes in		
CHF million	Average volume	Average rate	Net change	Average volume	Average rate	Net change
Interest income from interest-earning assets						
Due from banks						
Domestic	(35)	(153)	(188)	70	(737)	(667)
Foreign	122	279	401	243	(1,432)	(1,189)
Cash collateral on securities borrowed and reverse repurchase agreements						
Domestic	48	(83)	(35)	(173)	(155)	(328)
Foreign	163	(164)	(1)	3,673	(10,498)	(6,825)
Trading portfolio assets						
Domestic	6	(53)	(47)	(123)	85	(38)
Foreign – taxable	1,533	(96)	1,437	2,043	(1,512)	531
Foreign – non-taxable	(1)	(9)	(10)	8	(19)	(11)
Foreign – total	1,532	(105)	1,427	2,051	(1,531)	520
Loans						
Domestic	(215)	(335)	(550)	(304)	(726)	(1,030)
Foreign	(120)	136	16	(730)	(571)	(1,301)
Financial investments						
Domestic	(29)	9	(20)	(16)	(14)	(30)
Foreign – taxable	(48)	(22)	(70)	(274)	16	(258)
Foreign – non-taxable	0	0	0	0	0	0
Foreign – total	(48)	(22)	(70)	(274)	16	(258)
Interest income						
Domestic	(225)	(615)	(840)	(546)	(1,547)	(2,093)
Foreign	1,649	124	1,773	4,963	(14,016)	(9,053)
Total interest income from interest-earning assets	1,424	(491)	933	4,417	(15,563)	(11,146)
Net interest on swaps			(737)			(1,168)
Total interest income			196			(12,314)

D – Information Required by Industry Guide 3 (continued)

Analysis of Changes in Interest Income and Expense (continued)

	2003 compared to 2002			2002 compared to 2001		
	Increase / (decrease) due to changes in			Increase / (decrease) due to changes in		
CHF million	Average volume	Average rate	Net change	Average volume	Average rate	Net change
Interest expense on interest-bearing liabilities						
Due to banks						
Domestic	2	(304)	(302)	(298)	(674)	(972)
Foreign	267	122	389	(58)	(2,086)	(2,144)
Cash collateral on securities lent and repurchase agreements						
Domestic	93	(153)	(60)	241	(486)	(245)
Foreign	(146)	(252)	(398)	3,681	(7,872)	(4,191)
Trading portfolio liabilities						
Domestic	1	9	10	0	145	145
Foreign	1,357	368	1,725	1,197	(791)	406
Due to customers						
Domestic – demand deposits	130	(465)	(335)	14	(294)	(280)
Domestic – savings deposits	94	(192)	(98)	59	(150)	(91)
Domestic – time deposits	(104)	52	(52)	(116)	(426)	(542)
Domestic – total	120	(605)	(485)	(43)	(870)	(913)
Foreign	(193)	(699)	(892)	(545)	(3,131)	(3,676)
Short-term debt						
Domestic	0	0	0	0	0	0
Foreign	(387)	(513)	(900)	(201)	(2,111)	(2,312)
Long-term debt						
Domestic	(158)	(87)	(245)	(123)	(31)	(154)
Foreign	254	(653)	(399)	216	(979)	(763)
Interest expense						
Domestic	58	(1,140)	(1,082)	(223)	(1,916)	(2,139)
Foreign	1,152	(1,627)	(475)	4,290	(16,970)	(12,680)
Total interest expense	1,210	(2,767)	(1,557)	4,067	(18,886)	(14,819)

D – Information Required by Industry Guide 3 (continued)

Deposits

The following table analyzes average deposits and the average rates on each deposit category listed below for the years ended 31 December 2003, 2002 and 2001. The geographic allocation is based on the location of the office or branch where the deposit is made. Deposits by foreign depositors in domestic offices were CHF 92,858 million, CHF 43,914 million and CHF 54,095 million at 31 December 2003, 31 December 2002 and 31 December 2001, respectively.

	31.12.03		31.12.02		31.12.01	
CHF million, except where indicated	**Average deposit**	**Average rate (%)**	Average deposit	Average rate (%)	Average deposit	Average rate (%)
Banks						
Domestic offices						
Demand deposits	**3,836**	**0.0**	3,524	0.7	3,741	1.2
Time deposits	**7,581**	**0.6**	9,010	1.7	8,012	4.2
Total domestic offices	**11,417**	**0.4**	12,534	1.4	11,753	3.3
Foreign offices						
Interest-bearing deposits [1]	**20,997**	**2.4**	17,603	2.2	15,528	5.7
Total due to banks	**32,414**	**1.7**	30,137	1.9	27,281	4.6
Customer accounts						
Domestic offices						
Demand deposits	**55,496**	**0.2**	42,484	1.0	41,664	1.7
Savings deposits	**81,963**	**0.6**	71,465	0.9	66,089	1.1
Time deposits	**21,125**	**1.9**	27,646	1.6	31,261	3.2
Total domestic offices	**158,584**	**0.6**	141,595	1.1	139,014	1.7
Foreign offices						
Interest-bearing deposits [1]	**161,942**	**1.3**	172,650	1.8	187,783	3.6
Total due to customers	**320,526**	**1.0**	314,245	1.5	326,797	2.8

[1] Mainly time deposits.

At 31 December 2003, the maturity of time deposits exceeding CHF 150,000, or an equivalent amount in other currencies, was as follows:

CHF million	**Domestic**	**Foreign**
Within 3 months	**22,382**	**122,522**
3 to 6 months	**1,492**	**3,354**
6 to 12 months	**1,335**	**2,384**
1 to 5 years	**483**	**2,172**
Over 5 years	**94**	**1,241**
Total time deposits	**25,786**	**131,673**

D – Information Required by Industry Guide 3 (continued)

Short-term Borrowings

The following table presents our period-end, average and maximum month-end outstanding amounts for short-term borrowings, along with the average rates and period-end rates at and for the years ended 31 December 2003, 2002 and 2001.

	Money market paper issued			Due to banks			Repurchase agreements [1]		
CHF million, except where indicated	**31.12.03**	31.12.02	31.12.01	**31.12.03**	31.12.02	31.12.01	**31.12.03**	31.12.02	31.12.01
Period-end balance	**58,115**	72,800	99,006	**89,303**	48,780	77,312	**500,592**	464,020	462,316
Average balance	**73,257**	91,685	96,253	**69,062**	59,109	70,621	**498,679**	509,572	400,648
Maximum month-end balance	**92,605**	108,463	117,022	**96,694**	77,312	85,808	**593,738**	593,786	502,578
Average interest rate during the period (%)	**1.4**	2.1	4.4	**2.8**	3.1	7.0	**1.8**	1.8	3.2
Average interest rate at period-end (%)	**1.3**	1.5	2.6	**1.5**	2.0	2.2	**1.3**	1.7	2.9

[1] For the purpose of this disclosure, balances are presented on a gross basis.

D – Information Required by Industry Guide 3 (continued)

Contractual Maturities of the Investments in Debt Instruments

	Within 1 year		1–5 years		5–10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2003[1]								
Swiss national government and agencies	3	6.61	4	2.92	6	3.80	1	4.00
Swiss local governments	5	3.90	20	2.01	0	0.00	0	0.00
Foreign governments and official institutions	45	1.89	9	1.49	0	0.00	0	0.00
Corporate debt securities	81	1.09	68	3.53	7	7.38	0	0.00
Mortgage-backed securities	0	0.00	0	0.00	0	0.00	0	0.00
Other debt securities	4	0.00	8	0.00	0	0.00	0	0.00
Total fair value	**138**		**109**		**13**		**1**	

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

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

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

	Within 1 year		1–5 years		5–10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2001[1]								
Swiss national government and agencies	9	5.26	10	4.50	16	3.43	1	4.00
Swiss local governments	3	4.36	38	3.90	4	3.59	0	0.00
US Treasury and agencies	0	0.00	24	4.38	8	5.15	0	0.00
Foreign governments and official institutions	5,014	0.97	5,048	1.01	27	2.88	0	0.00
Corporate debt securities	63	4.53	1,102	4.59	30	3.22	23	15.37[2]
Mortgage-backed securities	0	0.00	5	5.41	0	0.00	0	0.00
Other debt securities	2	4.77	87	3.91	28	3.56	0	0.00
Total fair value	**5,091**		**6,314**		**113**		**24**	

[1] Money market papers have contractual maturities of less than one year. [2] The yield presented is the current contractual yield based on current market rates at 31 December 2001, but may not represent the yield through maturity since this is a floating rate debt instrument.

D – Information Required by Industry Guide 3 (continued)

Due from Banks and Loans (gross)

Loans are widely dispersed over industry sectors both within and outside of Switzerland. With the exceptions of private households (foreign and domestic) and banks and financial institutions outside Switzerland and real estate and rentals in Switzerland, there is no material concentration of loans. For further discussion of the loan portfolio, see the Handbook 2003/2004. The following table illustrates the diversification of the loan portfolio among industry sectors at 31 December 2003, 2002, 2001, 2000 and 1999. The industry categories presented are consistent with the classification of loans for reporting to the Swiss Federal Banking Commission and Swiss National Bank.

CHF million	**31.12.03**	31.12.02	31.12.01	31.12.00	31.12.99
Domestic					
Banks	**619**	1,029	1,533	2,896	5,802
Construction	**2,175**	2,838	3,499	4,870	6,577
Financial institutions	**4,009**	4,301	5,673	5,725	9,387
Hotels and restaurants	**2,440**	2,655	2,950	3,526	4,259
Manufacturing [1]	**6,478**	7,237	8,686	9,577	11,377
Private households	**102,181**	95,295	93,746	91,667	93,846
Public authorities	**5,251**	5,529	5,222	5,658	5,277
Real estate and rentals	**12,449**	13,573	14,992	16,673	19,835
Retail and wholesale	**6,062**	7,172	8,674	9,635	10,904
Services [2]	**9,493**	10,237	12,161	11,767	14,862
Other [3]	**1,217**	1,738	1,860	2,651	1,818
Total domestic	**152,374**	151,604	158,996	164,645	183,944
Foreign [4]					
Banks	**31,405**	31,882	26,728	27,168	24,983
Chemicals	**245**	519	1,080	1,423	
Construction	**84**	153	266	773	
Electricity, gas and water supply	**249**	1,105	977	1,584	
Financial institutions	**23,493**	18,378	14,458	20,348	
Manufacturing [5]	**2,421**	2,300	4,258	4,596	
Mining	**1,114**	868	1,313	2,070	
Private households	**21,194**	33,063	25,619	29,470	
Public authorities	**1,224**	2,628	6,454	11,754	
Real estate and rentals	**473**	616	10,227	5,077	
Retail and wholesale	**1,880**	1,367	1,732	1,862	
Services	**7,983**	1,654	4,786	1,585	
Transport, storage and communication	**3,658**	676	2,117	993	
Other [6]	**410**	2,557	2,973	11,168	69,087
Total foreign	**95,833**	97,766	102,988	119,871	94,070
Total gross	**248,207**	249,370	261,984	284,516	278,014

[1] Includes chemicals, food and beverages. [2] Includes transportation, communication, health and social work, education and other social and personal service activities. [3] Includes mining and electricity, gas and water supply. [4] For 1999, no detailed industry classifications are available. [5] Includes food and beverages. [6] Includes hotels and restaurants.

D – Information Required by Industry Guide 3 (continued)

Due from Banks and Loans (gross) (continued)

The following table analyzes the Group's mortgage portfolio by geographic origin of the client and type of mortgage at 31 December 2003, 2002, 2001, 2000 and 1999. Mortgages are included in the industry categories mentioned above.

CHF million	**31.12.03**	31.12.02	31.12.01	31.12.00	31.12.99
Mortgages					
Domestic	**122,069**	116,359	116,628	116,348	126,677
Foreign	**7,073**	11,510	9,583	4,206	1,310
Total gross mortgages	**129,142**	127,869	126,211	120,554	127,987
Mortgages					
Residential	**110,239**	108,779	101,969	96,181	91,408
Commercial	**18,903**	19,090	24,242	24,373	36,579
Total gross mortgages	**129,142**	127,869	126,211	120,554	127,987

Due from Banks and Loan Maturities (gross)

The following table discloses due from banks and loans by maturity at 31 December 2003. The determination of maturities is based on contract terms. Information on interest rate sensitivities can be found in Note 29 to the UBS Financial Statements.

CHF million	Within 1 year	1 to 5 years	Over 5 years	**Total**
Domestic				
Banks	619	0	0	**619**
Mortgages	56,604	58,666	6,799	**122,069**
Other loans	21,695	6,528	1,463	**29,686**
Total domestic	78,918	65,194	8,262	**152,374**
Foreign				
Banks	29,587	1,382	436	**31,405**
Mortgages	6,287	732	54	**7,073**
Other loans	54,220	2,419	716	**57,355**
Total foreign	90,094	4,533	1,206	**95,833**
Total gross	169,012	69,727	9,468	**248,207**

At 31 December 2003, the total amount of due from banks and loans due after one year granted at fixed and floating rates are as follows:

CHF million	1 to 5 years	Over 5 years	**Total**
Fixed rate loans	67,134	8,856	**75,990**
Adjustable or floating rate loans	2,593	612	**3,205**
Total	69,727	9,468	**79,195**

D – Information Required by Industry Guide 3 (continued)

Impaired, Non-performing and Restructured Loans

A loan (included in due from banks and loans) is classified as impaired if the book value of the claim exceeds the present value of the cash flows actually expected in future periods – interest payments, scheduled principal repayments, or other payments due (for example on guarantees), and including liquidation of collateral where available. Within this category, we further classify loans as non-performing where payment of interest, principal or fees is overdue by more than 90 days or – as required by Swiss regulatory guidelines as at 31 December 2003 – when insolvency proceedings have commenced or obligations have been restructured on concessionary terms.

The gross interest income that would have been recorded on non-performing loans was CHF 171 million for domestic loans and CHF 23 million for foreign loans for the year ended 31 December 2003, CHF 148 million for domestic loans and CHF 53 million for foreign loans for the year ended 31 December 2002, CHF 336 million for all non-performing loans for the year ended 31 December 2001 and CHF 182 million for all non-performing loans for the year ended 31 December 2000. The amount of interest income that was included in net income for those loans was CHF 163 million for domestic loans and CHF 8 million for foreign loans for the year ended 31 December 2003, CHF 152 million for domestic loans and CHF 22 million for foreign loans for the year ended 31 December 2002 and CHF 201 million for all non-performing loans for the year ended 31 December 2001. There was no interest income recorded in net income for non-performing loans in 2000. The table below provides an analysis of the Group's non-performing loans, for further information see the Handbook 2003/2004.

CHF million	**31.12.03**	31.12.02	31.12.01	31.12.00	31.12.99
Non-performing due from banks and loans:					
Domestic	**4,012**	4,609	6,531	7,588	11,435
Foreign	**947**	1,420	2,108	2,864	1,638
Total non-performing due from banks and loans	**4,959**	6,029	8,639	10,452	13,073
Foreign restructured due from banks and loans [1]				179	287

[1] Include only performing foreign restructured loans. UBS does not, as a matter of policy, typically restructure loans to accrue interest at rates different from the original contractual terms or reduce the principal amount of loans. Instead, specific loan allowances are established as necessary. Unrecognized interest related to foreign restructured loans was not material to the results of operations during these periods.

In addition to the non-performing due from banks and loans shown above, the Group had CHF 2,647 million, CHF 4,336 million, CHF 5,990 million, CHF 8,042 million and CHF 9,383 million in "other impaired loans" for the years ended 31 December 2003, 2002, 2001, 2000 and 1999, respectively. For the years ended 31 December 2002, 2001, 2000 and 1999, respectively, these are loans that are current, or less than 90 days in arrears, with respect to payment of principal or interest; and for the year ended 31 December 2003, these are loans not considered "non-performing" in accordance with Swiss regulatory guidelines, however, the Group's credit officers have expressed doubts as to the ability of the borrowers to repay the loans. As at 31 December 2003 specific allowances of CHF 991 million had been established against these loans.

D – Information Required by Industry Guide 3 (continued)

Cross-Border Outstandings

Cross-border outstandings consist of general banking products such as loans (including unutilized commitments) and deposits with third parties, credit equivalents of over the counter (OTC) derivatives and repurchase agreements, and the market value of the inventory of securities. Outstandings are monitored and reported on an ongoing basis by the credit risk management and control organization with a dedicated country risk information system. With the exception of the 32 most developed economies, these exposures are rigorously limited.

Claims that are secured by third-party guarantees are recorded against the guarantor's country of domicile. Outstandings that are secured by collateral are recorded against the country where the asset could be liquidated. This follows the "Guidelines for the Management of Country Risk", which are applicable to all banks that are supervised by the Swiss Federal Banking Commission.

The following tables list those countries for which cross-border outstandings exceeded 0.75% of total assets at 31 December 2003, 2002 and 2001. At 31 December 2003, there were no outstandings that exceeded 0.75% of total assets in any country currently facing liquidity problems that the Group expects would materially affect the country's ability to service its obligations.

For more information on cross-border exposure, see the Handbook 2003/2004.

D – Information Required by Industry Guide 3 (continued)

	31.12.03					
	Banking products		Traded	Tradable		% of total
CHF million	Banks	Non-banks	products[1]	assets[2]	Total	assets
United States	**916**	**288**	**17,470**	**108,050**	**126,724**	**9.1**
Italy	**1,041**	**967**	**8,714**	**14,547**	**25,269**	**1.8**
Germany	**1,928**	**3,814**	**13,307**	**5,605**	**24,654**	**1.8**
United Kingdom	**4,223**	**525**	**4,374**	**11,112**	**20,234**	**1.5**
France	**441**	**1,505**	**4,450**	**8,320**	**14,716**	**1.1**
Japan	**7**	**300**	**1,622**	**11,548**	**13,477**	**1.0**

	31.12.02					
	Banking products		Traded	Tradable		% of total
CHF million	Banks	Non-banks	products[1]	assets[2]	Total	assets
United States	1,083	698	27,617	95,046	124,444	10.5
Germany	2,590	4,732	13,101	9,104	29,527	2.5
Italy	1,139	296	7,229	14,852	23,516	2.0
United Kingdom	4,161	606	5,437	12,106	22,310	1.9
France	2,077	1,805	5,710	11,403	20,995	1.8
Australia	133	535	4,514	6,651	11,833	1.0
Canada	130	872	4,964	5,115	11,081	0.9
Japan	312	88	1,766	7,816	9,982	0.8
Cayman Islands	7	1,175	5,054	3,387	9,623	0.8
Netherlands	289	1,548	4,110	3,313	9,260	0.8

	31.12.01					
	Banking products		Traded	Tradable		% of total
CHF million	Banks	Non-banks	products[1]	assets[2]	Total	assets
United States	2,360	1,284	31,129	114,615	149,388	11.9
United Kingdom	2,483	543	9,128	27,754	39,908	3.2
Germany	3,605	6,395	11,962	11,755	33,717	2.7
Japan	640	770	4,442	22,995	28,847	2.3
Italy	1,086	498	11,628	11,180	24,392	1.9
France	159	2,043	4,114	8,052	14,368	1.1
Canada	114	950	5,220	8,038	14,322	1.1
Netherlands	1,834	2,414	6,126	3,110	13,484	1.1

[1] Traded products consist of derivative instruments and repurchase agreements. [2] Tradable assets consist of equity and fixed income financial instruments held for trading purposes, which are marked to market on a daily basis and private equity investments at the lower of book or market value.

D – Information Required by Industry Guide 3 (continued)

Summary of Movements in Allowances and Provisions for Credit Losses

The following table provides an analysis of movements in allowances and provisions for credit losses.

As a result of Swiss bankruptcy laws, banks write off loans against allowances only upon final settlement of bankruptcy proceedings, the sale of the underlying assets and/or in case of debt forgiveness. Under Swiss law, a creditor can continue to collect from a debtor who has emerged from bankruptcy, unless the debt has been forgiven through a formal agreement.

CHF million	**31.12.03**	31.12.02	31.12.01	31.12.00	31.12.99
Balance at beginning of year	**5,621**	8,218	10,581	13,398	14,978
Write offs					
Domestic					
Banks	**0**	0	0	0	(4)
Construction	**(73)**	(148)	(248)	(261)	(296)
Financial institutions	**(37)**	(103)	(51)	(178)	(92)
Hotels and restaurants	**(57)**	(48)	(52)	(193)	(137)
Manufacturing [1]	**(121)**	(275)	(109)	(264)	(242)
Private households	**(262)**	(536)	(1,297)	(640)	(598)
Public authorities	**(18)**	0	0	0	0
Real estate and rentals	**(206)**	(357)	(317)	(729)	(823)
Retail and wholesale	**(67)**	(101)	(115)	(160)	(210)
Services [2]	**(111)**	(155)	(93)	(227)	(315)
Other [3]	**(43)**	(49)	(46)	(30)	(41)
Total domestic write offs	**(995)**	(1,772)	(2,328)	(2,682)	(2,758)
Foreign [4]					
Banks	**(17)**	(49)	(24)	(15)	
Chemicals	**0**	0	(2)	0	
Construction	**0**	0	(10)	(13)	
Electricity, gas and water supply	**0**	(36)	(63)	(3)	
Financial institutions	**(112)**	(228)	(74)	(33)	
Manufacturing [5]	**(77)**	(70)	(119)	(11)	
Mining	**(15)**	(1)	(304)	0	
Private households	**(11)**	(65)	(5)	0	
Public authorities	**0**	(1)	0	(4)	
Real estate and rentals	**(1)**	(2)	(1)	0	
Retail and wholesale	**(76)**	(10)	0	(160)	
Services	**(25)**	(39)	(30)	(8)	
Transport, storage and communication	**(24)**	(74)	0	(11)	
Other [6]	**(83)**	(189)	(48)	(55)	
Total foreign write offs	**(441)**	(764)	(680)	(313)	(517)
Total write offs	**(1,436)**	(2,536)	(3,008)	(2,995)	(3,275)
Recoveries					
Domestic	**49**	43	58	124	54
Foreign	**38**	27	23	39	11
Total recoveries	**87**	70	81	163	65
Net write offs	**(1,349)**	(2,466)	(2,927)	(2,832)	(3,210)
Credit loss expense/(recovery)	**116**	206	498	(130)	956
Other adjustments [7]	**(62)**	(337)	66	145	674
Balance at end of year	**4,326**	5,621	8,218	10,581	13,398

[1] Includes chemicals, food and beverages. [2] Includes transportation, communication, health and social work, education and other social and personal service activities. [3] Includes mining and electricity, gas and water supply. [4] For 1999, no detailed industry classifications are available. [5] Includes food and beverages. [6] Includes hotels and restaurants. [7] See the following table for details.

D – Information Required by Industry Guide 3 (continued)

Summary of Movements in Allowances and Provisions for Credit Losses (continued)

CHF million	**31.12.03**	31.12.02	31.12.01	31.12.00	31.12.99
Doubtful interest	**0**	0	0	182	409
Net foreign exchange	**(57)**	(269)	44	23	351
Subsidiaries sold and other	**(5)**	(68)	22	(60)	(86)
Total adjustments	**(62)**	(337)	66	145	674

D – Information Required by Industry Guide 3 (continued)

Allocation of the Allowances and Provisions for Credit Losses (continued)

The following table provides an analysis of the allocation of the allowances and provisions for credit losses by industry sectors and geographic location at 31 December 2003, 2002, 2001, 2000 and 1999. For a description of procedures with respect to allowances and provisions for credit losses, see the Handbook 2003/2004.

CHF million	31.12.03	31.12.02	31.12.01	31.12.00	31.12.99
Domestic					
Banks	**10**	10	34	0	41
Construction	**158**	265	467	843	1,247
Financial institutions	**137**	89	262	328	342
Hotels and restaurants	**214**	286	346	454	690
Manufacturing [1]	**327**	458	722	863	1,223
Private households	**511**	750	1,082	1,570	2,350
Public authorities	**9**	39	37	0	40
Real estate and rentals	**383**	577	1,067	1,635	2,696
Retail and wholesale	**201**	315	395	629	779
Services [2]	**549**	470	448	419	934
Other [3]	**241**	315	165	413	141
Total domestic	**2,740**	3,574	5,025	7,154	10,483
Foreign [4]					
Banks [5]	**256**	24	39	32	
Chemicals	**5**	5	5	0	
Construction	**0**	6	0	11	
Electricity, gas and water supply	**0**	96	88	107	
Financial institutions	**168**	153	420	262	
Manufacturing [6]	**359**	314	653	547	
Mining	**19**	148	169	586	
Private households	**48**	58	103	72	
Public authorities	**69**	0	0	0	
Real estate and rentals	**7**	6	9	82	
Retail and wholesale	**51**	13	0	41	
Services	**32**	262	414	126	
Transport, storage and communication	**195**	144	45	2	
Other [7]	**91**	82	242	267	
Total foreign, net of country provisions	**1,300**	1,311	2,187	2,135	1,539
Country provisions	**286**	736	1,006	1,292	1,376
Total foreign [8]	**1,586**	2,047	3,193	3,427	2,915
Total allowances and provisions for credit losses	**4,326**	5,621	8,218	10,581	13,398

[1] Includes chemicals, food and beverages. [2] Includes transportation, communication, health and social work, education and other social and personal service activities. [3] Includes mining and electricity, gas and water supply. [4] For 1999, no detailed industry classifications are available. [5] Counterparty allowances and provisions only. Country provisions with banking counterparties amounting to CHF 91 million are disclosed under country provisions. [6] Includes food and beverages. [7] Includes hotels and restaurants. [8] The 2003, 2002, 2001, 2000 and 1999 amounts include CHF 290 million, CHF 366 million, CHF 305 million, CHF 54 million and CHF 149 million respectively of provisions and for unused commitments and contingent liabilities.

D – Information Required by Industry Guide 3 (continued)

Due from Bank and Loans by Industry Sector (gross)

The following table presents the percentage of loans in each industry sector and geographic location to total loans. This table can be read in conjunction with the preceding table showing the breakdown of the allowances and provisions for credit losses by industry sectors to evaluate the credit risks in each of the categories.

in %	**31.12.03**	31.12.02	31.12.01	31.12.00	31.12.99
Domestic					
Banks	**0.2**	0.4	0.6	1.0	2.1
Construction	**0.9**	1.1	1.3	1.7	2.4
Financial institutions	**1.6**	1.7	2.2	2.0	3.4
Hotels and restaurants	**1.0**	1.1	1.1	1.2	1.5
Manufacturing [1]	**2.6**	2.9	3.3	3.4	4.1
Private households	**41.2**	38.2	35.8	32.2	33.8
Public authorities	**2.1**	2.2	2.0	2.0	1.9
Real estate and rentals	**5.0**	5.5	5.7	5.9	7.1
Retail and wholesale	**2.4**	2.9	3.3	3.4	3.9
Services [2]	**3.8**	4.1	4.6	4.1	5.3
Other [3]	**0.6**	0.7	0.8	1.0	0.7
Total domestic	**61.4**	60.8	60.7	57.9	66.2
Foreign [4]					
Banks	**12.7**	12.8	10.2	9.5	9.0
Chemicals	**0.1**	0.2	0.4	0.5	
Construction	**0.0**	0.1	0.1	0.3	
Electricity, gas and water supply	**0.1**	0.4	0.4	0.6	
Financial institutions	**9.5**	7.4	5.5	7.2	
Manufacturing [5]	**1.0**	0.9	1.6	1.6	
Mining	**0.4**	0.3	0.5	0.7	
Private households	**8.5**	13.3	9.8	10.4	
Public authorities	**0.5**	1.1	2.5	4.1	
Real estate and rentals	**0.2**	0.2	3.9	1.8	
Retail and wholesale	**0.8**	0.5	0.7	0.7	
Services	**3.2**	0.7	1.8	0.6	
Transport, storage and communication	**1.5**	0.3	0.8	0.3	
Other [6]	**0.1**	1.0	1.1	3.8	24.8
Total foreign	**38.6**	39.2	39.3	42.1	33.8
Total gross	**100.0**	100.0	100.0	100.0	100.0

[1] Includes chemicals, food and beverages. [2] Includes transportation, communication, health and social work, education and other social and personal service activities. [3] Includes mining and electricity, gas and water supply. [4] For 1999, no detailed industry classifications are available. [5] Includes food and beverages. [6] Includes hotels and restaurants.

D – Information Required by Industry Guide 3 (continued)

Loss History Statistics

The following is a summary of the Group's loan loss history (relating to due from banks and loans).

CHF million, except where indicated	**31.12.03**	31.12.02	31.12.01	31.12.00	31.12.99
Gross loans	**248,207**	249,370	261,984	284,516	278,014
Impaired loans	**7,606**	10,365	14,629	18,494	22,456
Non-performing loans	**4,959**	6,029	8,639	10,452	13,073
Allowances and provisions for credit losses	**4,326**	5,621	8,218	10,581	13,398
Net write offs	**1,349**	2,466	2,927	2,832	3,210
Credit loss expense/(recovery)	**116**	206	498	(130)	956
Ratios					
Impaired loans as a percentage of gross loans	**3.1**	4.2	5.6	6.5	8.1
Non-performing loans as a percentage of gross loans	**2.0**	2.4	3.3	3.7	4.7
Allowance and provisions for credit losses as a percentage of:					
Gross loans	**1.7**	2.3	3.1	3.7	4.8
Impaired loans	**56.9**	54.2	56.2	57.2	59.7
Non-performing loans	**87.2**	93.2	95.1	101.2	102.5
Allocated allowances as a percentage of impaired loans [1]	**50.0**	47.2	49.9	52.4	55.5
Allocated allowances as a percentage of non-performing loans [2]	**56.8**	57.8	62.2	60.6	66.3
Net write offs as a percentage of:					
Gross loans	**0.5**	1.0	1.1	1.0	1.2
Average loans outstanding during the period	**0.6**	1.1	1.2	1.1	1.2
Allowance and provisions for credit losses	**31.2**	43.9	35.6	26.8	24.0
Allowance and provisions for credit losses as a multiple of net write offs	**3.21**	2.28	2.81	3.74	4.17

[1] Allowances relating to impaired loans only. [2] Allowances relating to non-performing loans only.

Cautionary statement regarding forward-looking statements
This communication contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to the implementation of strategic initiatives, such as the implementation of the European wealth management strategy, expansion of our corporate finance presence in the US and worldwide, and other statements relating to our future business development and economic performance. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to, (1) general market, macro-economic, governmental and regulatory trends, (2) movements in local and international securities markets, currency exchange rates and interest rates, (3) competitive pressures, (4) technological developments, (5) changes in the financial position or credit-worthiness of our customers, obligors and counterparties and developments in the markets in which they operate, (6) legislative developments, (7) management changes and changes to our business group structure in 2001, 2002 and 2003 and (8) other key factors that we have indicated could adversely affect our business and financial performance which are contained in other parts of this document and in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth elsewhere in this document and in documents furnished by UBS and filings made by UBS with the SEC, including UBS's Annual Report on Form 20-F for the year ended 31 December 2003. UBS is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

Imprint
Publisher/Copyright: UBS AG, Switzerland
Languages: English, German. SAP-No. 80531E-0401

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