

# Handbook 2003/2004





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# Introduction

This is the fourth annual edition of our Handbook.

In it, we describe ourselves – our strategy, organization, and businesses. We outline the principles by which we manage risk, and report on last year's developments in our credit risk, market risk, and treasury management areas.

The Handbook also discusses our corporate governance arrangements and our relationships with regulators and shareholders, while providing detailed information on the UBS share.

You should read the Handbook in conjunction with the other information published by UBS, as 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, and we would be very interested to hear your views on how we might improve the content, information and presentation of the reporting products we publish.

Mark Branson  
Chief Communication Officer  
UBS

# UBS Financial Highlights

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

<sup>2</sup> For EPS calculation, see Note 8 to the Financial Statements of the Financial Report 2003.

<sup>3</sup> Net profit / average shareholders' equity less dividends.

<sup>4</sup> Includes hybrid Tier 1 capital, please refer to Note 29 in the Notes to the Financial Statements of the Financial Report 2003.

<sup>5</sup> See the Capital strength section on page 74.

<sup>6</sup> Excludes the amortization of goodwill and other intangible assets.

<sup>7</sup> Details of significant financial events can be found in the Financial Report 2003 on page 12.

<sup>8</sup> 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.

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

<sup>10</sup> 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.

<sup>11</sup> 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.

CHF million, except where indicated

For the year ended	31.12.03	31.12.02	31.12.01	% change from 31.12.02
<b>Income statement key figures</b>				
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 (%) <sup>1</sup>	75.2	86.2	80.8	
<b>Per share data (CHF)</b>				
Basic earnings per share <sup>2</sup>	5.72	2.92	3.93	96
Diluted earnings per share <sup>2</sup>	5.61	2.87	3.78	95
<b>Return on shareholders' equity (%)<sup>3</sup></b>	<b>18.2</b>	<b>8.9</b>	<b>11.7</b>	

CHF million, except where indicated

As at	31.12.03	31.12.02	31.12.01	% change from 31.12.02
<b>Balance sheet key figures</b>				
Total assets	1,386,000	1,181,118	1,253,297	17
Shareholders' equity	35,446	38,991	43,530	(9)
<b>Market capitalization</b>	<b>95,401</b>	<b>79,448</b>	<b>105,475</b>	<b>20</b>
<b>BIS capital ratios</b>				
Tier 1 (%) <sup>4</sup>	11.8	11.3	11.6	
Total BIS (%)	13.3	13.8	14.8	
Risk-weighted assets	251,901	238,790	253,735	5
<b>Invested assets (CHF billion)</b>	<b>2,209</b>	<b>2,037</b>	<b>2,448</b>	<b>8</b>
<b>Headcount (full-time equivalents)</b>				
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)
<b>Long-term ratings<sup>5</sup></b>				
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<sup>6,7</sup>

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 (%) <sup>8</sup>	72.7	79.5	77.3	
Basic earnings per share (CHF) <sup>9</sup>	6.56	4.57	4.97	44
Diluted earnings per share (CHF) <sup>10</sup>	6.43	4.50	4.81	43
<b>Return on shareholders' equity (%)<sup>11</sup></b>	<b>20.9</b>	<b>13.9</b>	<b>14.8</b>	

# 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 intermediaries 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 about UBS

This Handbook contains a detailed description of UBS, its strategy, its organization and its businesses, as well as our financial management including credit, market and operational risk, our treasury processes, and details of our corporate governance.

## Publications

This Handbook is available in English and German. (SAP no. 80532-0401).

### 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 the year 2003. It is available in English, German, French, Italian, Spanish, and Japanese. (SAP no. 80530-0401).

### Financial Report 2003

The Financial Report 2003 contains our audited Financial Statements for the year 2003 and related detailed analysis. It is available in English and German. (SAP no. 80531-0401).

### 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](http://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 Investors and Analysts website at [www.ubs.com/investors](http://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](http://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](http://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](http://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.

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## 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, Phone +41-1-234 11 11; and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, Phone +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

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## Switchboards

For all general queries.

<b>Zurich</b>	+41-1-234 11 11
<b>London</b>	+44-20-7568 0000
<b>New York</b>	+1-212-821 3000
<b>Hong Kong</b>	+852-2971 8888

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## Investor Relations

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

[www.ubs.com/investors](http://www.ubs.com/investors)

<b>Zurich Hotline</b>	<b>+41-1-234 41 00</b>	UBS AG
Christian Gruetter	+41-1-234 43 60	Investor Relations
Cate Lybrook	+41-1-234 22 81	P.O. Box
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<b>New York Hotline</b>	<b>+1-212-713 3641</b>	UBS Americas Inc.
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Fax	+1-212-713 1381	135 W. 50th Street, 10th Floor
		New York, NY 10020, USA

[sh-investorrelations@ubs.com](mailto:sh-investorrelations@ubs.com)

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## Media Relations

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

[www.ubs.com/media](http://www.ubs.com/media)

<b>Zurich</b>	<b>+41-1-234 8500</b>	<a href="mailto:sh-gpr@ubs.com">sh-gpr@ubs.com</a>
<b>London</b>	<b>+44-20-7567 4714</b>	<a href="mailto:ubs-media-relations@ubs.com">ubs-media-relations@ubs.com</a>
<b>New York</b>	<b>+1-212-713 8391</b>	<a href="mailto:mediarelations-ny@ubs.com">mediarelations-ny@ubs.com</a>
<b>Hong Kong</b>	<b>+852-2971 8200</b>	<a href="mailto:sh-mediarelations-ap@ubs.com">sh-mediarelations-ap@ubs.com</a>

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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.

<b>Hotline</b>	<b>+41-1-235 62 02</b>	UBS AG
Fax	+41-1-235 31 54	Shareholder Services
		P.O. Box
		CH-8098 Zurich, Switzerland

[sh-shareholder-services@ubs.com](mailto:sh-shareholder-services@ubs.com)

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## US Transfer Agent

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

[www.melloninvestor.com](http://www.melloninvestor.com)

calls from the US	+1-866-541 9689	Mellon Investor Services
calls outside the US	+1-201-329 8451	Overpeck Centre
Fax	+1-201-296 4801	85 Challenger Road
		Ridgefield Park, NJ 07660, USA

[shrelations@melloninvestor.com](mailto:shrelations@melloninvestor.com)

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UBS

# Strategy, Structure and Culture

We at UBS have an ambitious vision – to be recognized as the best global financial services company. We are the world's largest wealth and asset manager, while in investment banking and securities trading we are among a select bracket of leading global houses. In Switzerland, we are the clear market leader in corporate and retail banking. Based on our integrated approach, we deliver the whole firm to our clients, giving them added value by drawing on the combined resources and expertise of all our businesses. Every client is a client of UBS, not of an individual business unit. Our first priority is always our clients' success.

## Our vision

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

## Our strategy

In the financial services industry, we are a truly global firm, working with corporate, institutional and private clients around the world. Our strategy focuses on investment banking and securities trading, asset management and wealth management, all on a global scale, as well as retail and business banking in Switzerland. These areas have been our consistent strategic priorities for many years and here we strive to achieve a leading position. This long-term perspective and commitment has helped us to become the successful firm we are today, with a broadly diversified business mix.

One of the keys to our success is our “one firm” approach. We believe our clients should effortlessly be able to access all the services our firm can provide, where and when they are required, and regardless of what combinations of teams lie behind the solutions. Our clients should

not feel the boundaries inherent in a large, global organization. Our integrated model means that teams from across businesses and organizational units work together to pool different skills for the benefit of an individual client.

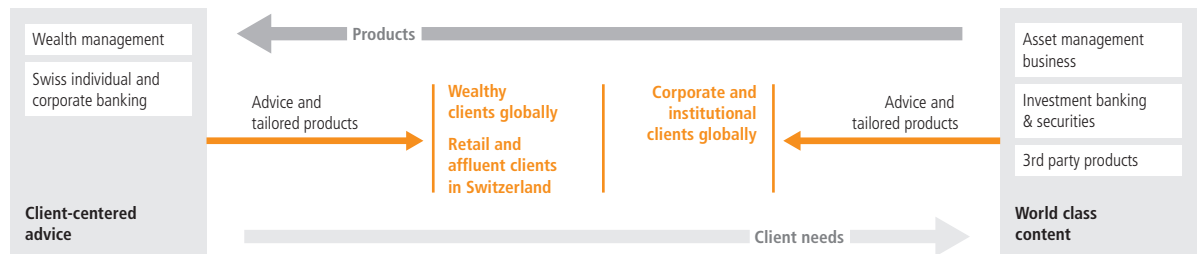
Our businesses put our “one firm” philosophy into action. Our wealth management businesses provide client-centered advice and tailored products to their clients. They, in turn, are supplied with a world-class product and research offering from the investment banking, securities and asset management businesses. At the same time, these businesses provide advice and tailored products to their own corporate and institutional clients while being kept abreast of changing client needs by the wealth management businesses. That in turn helps them develop innovative new products and services. Overall, the exchange benefits both sides. Our individual clients benefit from sophisticated products and services while our wholesale businesses enjoy access to first-class distribution opportunities. Acting as “one firm” also enables us to extend key client relationships across several businesses.

## Financial success, risk and capital management

Our approach to capital management has been a trademark of UBS. Our focus when managing capital is to employ all the tools at hand, assuring attractive value creation for shareholders while protecting our strong capitalization and credit ratings. Our strong earnings generation capacity means that in normal circumstances we continue to generate capital well in excess of our requirements.

Because taking risk is an integral part of our business, our overriding goal is to achieve an appro-

**UBS**  
Integrated client-service model



appropriate balance between risk and return, limiting the scope for adverse variations in our earnings from exposure to major individual ‘stress’ events. In recent times, market opportunities as well as our business and client franchise have both grown very considerably, as a result of which we see enhanced potential for revenue growth. Consequently, our market and credit risk levels are likely to experience a gradual increase in coming quarters. We have, however, no intention of substantially changing our risk culture and processes, and we are determined to retain our overriding commitment to high-quality earnings through diversification and liquidity of risk. As one example, we continue to believe that the quality of our advice will remain the principal driving factor in building our global investment banking franchise. That means that we will neither attempt to acquire new business through balance sheet strength alone nor systematically increase our appetite for pure proprietary trading.

**Operational efficiency and innovation**

In all our key businesses, we are committed to attaining scale and scope, as this will enable us to deliver a full spectrum of services efficiently. Our integrated business model, in line with our overall “one firm” approach, ensures that, where UBS has a best-in-class offering, we capture the whole of the value chain. The exchange of services, knowledge and capabilities across the firm gives us the ability to build a coherent infrastructure that does not duplicate activities unnecessarily.

This also helps us capture synergies between different components of our businesses, eliminating redundant infrastructure, services, management and control. An example of that is our centralized treasury process which ensures that cash flows within UBS are pooled and netted before being funded through one access point to the money markets. At the same time, embedding risk management deeply into all our busi-

nesses is one of our most important success factors. Risk identification, management and control are critical components of all our business processes and plans, and our integrated approach to risk control ensures that risks are consistently assessed and evaluated across UBS.

The most recent example underlining our “one firm” approach is our decision to integrate our information technology infrastructure (ITI) functions across our organization. We will create a new ITI unit with an entrepreneurial mandate to service the Business Groups in a client-focused and cost-efficient way. This new unit will be housed within the Corporate Center and will cover almost all existing IT infrastructure functions across UBS – the management of data networks, telephone and other communications systems, IT security, distributed computing and servers, mainframes and data centers, market data services, user services and desktop computing.

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

**Organic growth**

Our future remains one of growth. After a decade of transformational mergers and acquisitions, we have, over the past two years, built a successful track record of organic growth. We continue to believe that the best way to expand our business is by using the internal resources that we already have at our disposal. Still, we are always open to bolt-on acquisitions that expand the presence of our core businesses and we remain attuned to any opportunities which might help us reach our objectives quickly and efficiently. Examples of such acquisitions in 2003 were the purchase of

the French business of Lloyds TSB and the German wealth management business of Merrill Lynch. In 2004, we acquired Laing & Cruickshank and Scott Goodman Harris. Both helped us reinforce our platform in key countries targeted by our European wealth management business. Another example was our acquisition of ABN AMRO's prime brokerage business. That transaction immediately boosted the Investment Bank's services to hedge fund clients.

A key component of our organic growth strategy – critical in attracting and retaining clients in this increasingly competitive market – is our brand. In June 2003, we adopted the single UBS brand for all our major businesses around the world. This successful implementation, supported by wide-ranging internal communications and a global advertising campaign, publicly illustrated the “one firm” philosophy that is integral to UBS. The identity conveyed by the UBS brand is that of a powerful company, operating on a global scale, that seeks, above all, to achieve success for its clients, by listening to their needs and proactively offering the right financial solutions.

With our strategy and our capabilities, we believe we are excellently positioned to take advantage of the long-term trends determining the future of the financial services industry. Thanks to the global presence of all of our businesses, we are very well placed to capture the growth potential in Asia Pacific, Europe and the US.

#### **Business strategies**

In the *wealth management business*, our services are targeted at high net worth and affluent clients around the world, whether investing internationally or in their home country. Choice is central to our client offering, with our in-house range of products enhanced by a quality-screened selection of third-party products.

We believe there is a strong secular growth trend in private wealth across all our key markets. In Asia Pacific, our reputation for wealth management is unmatched, helping us to capture a substantial share of the growth in wealth. Another key region for growth is Europe. Our expansion strategy into domestic European wealth management was launched in 2001. Today, we have established a strong platform in all our five target markets – France, Germany, Italy, Spain and the UK – which we continue to develop by investing in qualified advisory staff and selective

strategic acquisitions. In the US, we benefit from the strong presence of the former PaineWebber, which we acquired in 2000. This business, now operating under the UBS brand, has been successful in reinventing itself from a traditional US brokerage firm to a holistic wealth management business, providing comprehensive investment and financing advice to its clients.

In the *investment banking and securities businesses* we aim to be the global leader and the most profitable service provider to corporate clients, institutional investors and intermediaries. In the past year, we have demonstrated that our diversified mix of businesses allows us to capture changing market opportunities. For the future, we see significant potential for growth. Our equity-related businesses, for instance, are very strong and gaining momentum, with increases being seen in underwriting and trading volumes and in the hedge fund business. We are also excellently positioned to expand our market position in equity finance, enhancing profitability in a scale-driven business through the use of technology.

Over the past two years, we have significantly expanded and diversified our Fixed Income, Rates and Currencies business. In particular, we still see real opportunities in debt trading and believe we can further strengthen our market position in the derivatives business as well as in the emerging markets and European segments.

In investment banking for corporate clients, our presence in Europe has traditionally been strong. Over the last three years, we have also made substantial investments to expand in the key US market. In fact, we are the fastest growing bank in the US, with an increase of 1 percentage point in our market share in the past year to 5.4%. An extensive presence in the US is critical to building a strong global position, due to its dominating share of the global investment banking fee pool. Furthermore, we see substantial potential for growth in Asia Pacific. Our competitive position there is already strong in the major markets and the evolution of the Chinese market for financial services holds significant growth opportunities in the long term.

As one of the world's leading asset managers, we are competitively positioned in the *institutional and wholesale asset management businesses*. Our record of strong investment performance and our solid reputation will help us to benefit from the growth expected in institutional and wholesale markets because of the increased need for private

savings to supplement public pension systems. We expect competitive pressures for traditional products to increase, with slower growth underscoring the importance of gains in market share. The increasing importance of elevating compliance and risk control to anticipate and exceed regulatory standards represents an opportunity for large global asset managers, such as UBS.

For the *Swiss retail and business banking business*, our strategy concentrates on retaining our position as the country's leading bank, taking

advantage of business opportunities that arise in order to grow our share in selected market segments – such as residential mortgages where we have been able to increase volumes thanks to a dedicated marketing campaign specifically tailored to capture new business in a low interest rate environment. While we remain committed to excellent, high-quality banking and expanding advisory services for our Swiss individual, corporate and institutional clients, we do not think that retail banking lends itself to a global strategy.

## Industry trends

### Long-term perspectives

Economic growth is a key indicator of the potential for financial services in the different regional markets. The world economy is expected to grow at around 3.5% a year over the coming decade. The principal driving forces for this are continued productivity gains due to the diffusion of new technologies, and trade liberalization. These developments will, however, further increase global competition. Additionally, these favorable effects may be somewhat dampened by slowing employment growth due to demographic shifts towards older populations in certain countries.

We expect the largest increases in GDP over the next 10 years to occur in North America, followed by Asia Pacific (excluding Japan) and Western Europe. Even though North America is set to grow at a slower rate than Asia Pacific, the absolute GDP increase will be higher. This demonstrates the importance in our industry of having a significant presence in the US. However, Asia Pacific is also a market with huge potential.

The financial services sector has been a growth industry for decades now, growing faster than GDP.

Financial innovations, closely linked to the evolution of securities markets, will continue to represent the engine for further development in the financial sector. In addition, we see several factors determining the development of our industry over the coming five to ten years:

- financial liberalization and deregulation
- wealth accumulation
- retirement provisioning
- securitization
- equitization
- corporate restructuring

Each of these factors has a distinct impact on our businesses, as described below.

### Financial liberalization and deregulation

Over the past few decades, the trend towards deregulation and liberalization in financial services has contributed significantly to the industry's expansion. It has triggered considerable improvements in the quality and variety of new financial services. This reform process is now well advanced in many countries, and in some markets, for example the US, we do not expect any further notable deregulation. Further liberalization is, however, likely in emerging markets countries where domestic markets are still highly protected. At the same time, the World Trade Organization's (WTO) multilateral trade negotiations under the Doha Round could improve market access and cross-border supply in financial services. The success of the Doha Round, however, is still uncertain (the Doha Round is named after the November 2001 WTO declaration at its Fourth Ministerial Conference, which took place in Doha, Qatar).

In general, further liberalization of financial markets is expected to benefit investment banking and securities firms which are posi-

tioned to take advantage of any further opening of individual domestic capital markets. Asset managers with a global platform could benefit from the facilitation of cross-border business in the mutual fund business, and possibly from a trend towards harmonized pension fund regulation, for example across Europe.

### Wealth accumulation

In many economies, a notable shift is taking place away from labor-intensive production to more capital-intensive activity. Based on this development, we see a clear secular trend towards wealth accumulation that is likely to continue over the next decade, with wealth expected to grow faster than GDP in most developed countries. In addition, the ratio of wealth to GDP in many other economies (for example, in emerging markets) is currently low and may increase, due, among other factors, to generally higher saving rates. This development will hugely benefit wealth management businesses across the world. It will also help the asset management industry as private wealth is a key driver for institutional asset growth. Investment banks and securities businesses will also benefit thanks to rising capitalization levels in global financial markets and higher trading volumes.

### Retirement provisioning

In coming decades, most developed countries will be confronted with significant

## Industry trends (continued)

demographic shifts. Thus, pension reform is on the agenda of many governments across the world. The strong reliance in Continental Europe and Japan on unfunded schemes will make reform increasingly inevitable. Although each country will follow its own regulatory agenda, we believe that a gradual shift from public unfunded to private funded pension schemes is likely to take place.

Institutional asset management will be the sector most impacted by this trend. In wealth management, we believe that these developments may influence the demand for retirement and estate planning, but they are not expected to accelerate asset growth.

### Securitization

The transformation of financial services over the last ten to twenty years has been driven primarily by the increasing de-emphasis of traditional lending activities combined with the increasing importance of securities trading and financial markets. That means that corporations are frequently in a position to directly finance their funding needs by accessing the capital markets. This has driven the long-term expansion of

corporate bond markets, replacing traditional bank lending services. At the same time, an increase in bank assets such as loans, mortgages and receivables has fueled growth in the securitization of these assets, increasing the volume of asset-backed securities.

We expect these trends to continue, for several reasons. The ability of financial market participants to assess counterparty risk will further improve, facilitating financing by way of the securities market at the expense of traditional bank lending. As the number of listed companies increases, they will have to fulfill the transparency standards required by listing, and meet requirements for issuing debt securities. And, while Basel II capital requirements might somewhat reduce the incentive to securitize, they may at the same time promote a more widespread use of more sophisticated internal risk rating systems – which is an incentive for banks to manage their assets more actively.

### Equitization

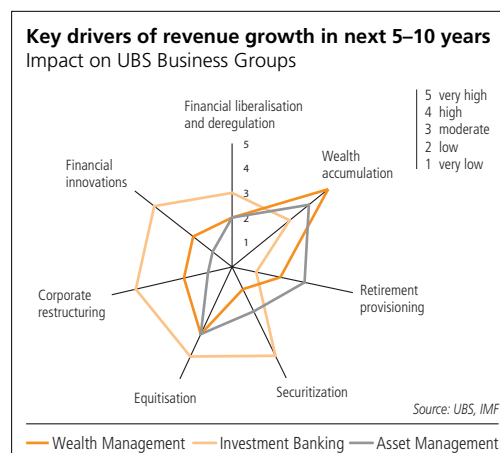
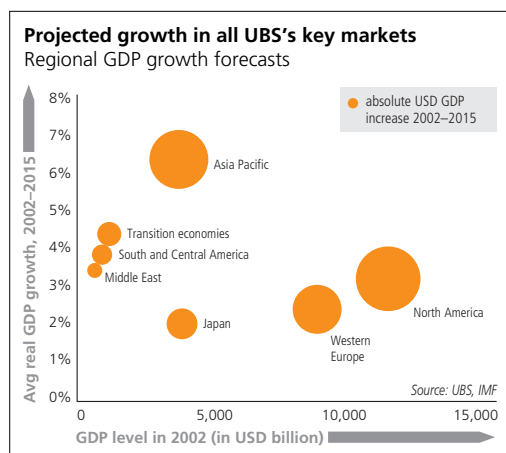
The developments over the past ten years indicate that global equity markets will continue to grow. Institutional and indi-

vidual market participants will tend to invest a greater share of their assets into equity products and the corporate sector will increasingly rely on equity financing. Because of the relatively low level of share market capitalization in the emerging markets of Asia Pacific, their growth potential is highest. In Western Europe, however, we also see significant growth potential because of continued financial market integration. Besides investment banking and securities businesses, equitization is expected to provide growth opportunities to wealth and asset managers, as assets are increasingly shifted into higher-margin asset classes.

### Corporate restructuring

Despite the drastic market setbacks experienced in the corporate finance sector over the last few years, we see some long-term secular trends pointing towards an ongoing demand for advice on corporate restructuring. Liberalization of trade and technological progress will increase global competition for corporations, pressuring them to restructure and consolidate their activities and structures. The same factors are likely to support cross-border consolidation in some industries – in particular

within the EU. Additionally, as economies mature and their structure moves gradually from traditional sectors to more sophisticated ones, the restructuring of companies may follow.





## UBS

Peter A. Wuffli, CEO; Stephan Haeringer, Deputy CEO

### Wealth Management & Business Banking

**Georges Gagnebin**  
Chairman  
**Marcel Rohner**  
CEO

### Investment Bank

**John P. Costas**  
Chairman & CEO

### Global Asset Management

**John A. Fraser**  
Chairman & CEO

### Wealth Management USA

**Joseph J. Grano Jr.**  
Chairman  
**Mark B. Sutton**  
CEO

### Corporate Center

**Peter A. Wuffli**  
Head  
**Stephan Haeringer**  
Deputy Head

## Managing our business

### Board structure

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

The Board of Directors is the most senior body, with ultimate responsibility for the strategy and the management of the company, as well as the supervision of executive management. The Board of Directors also defines UBS's risk framework, principles and overall risk taking capacity. A clear majority of the Board of Directors is non-executive and fully independent.

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

Our dual board structure establishes a system of checks and balances, ensuring the Board of Directors and executive management are institutionally independent of each other. In particular, the functions of Chairman of the Board of Directors and Chief Executive Officer are conferred on two different people. Moreover, no member of one board may be a member of the other. More information on our Corporate Governance structures and principles can be found in the relevant chapter of this Handbook.

### Organizational structure

UBS is structured in four Business Groups and a Corporate Center, but managed as an integrated firm, making the whole worth more than the sum of the parts. Business Groups are led by a member of the Group Executive Board, each of

whom is individually responsible for the performance of his Business Group.

### Senior executive appointments communicated in 2003

The continuous strengthening of our leadership and clear succession planning are one of our key priorities. In that context, we were pleased to announce in 2003 a number of executive appointments that became effective in 2004.

On 1 January 2004, Joseph J. Grano Jr. handed his post as Chief Executive Officer of the Wealth Management USA business over to Mark B. Sutton, previously President. Joe Grano will remain with the firm as Chairman of the Business Group until the middle of 2004. This hand-over follows the successful integration of PaineWebber into UBS.

Clive Standish, currently Chairman and Chief Executive Officer Asia Pacific, will become UBS's Chief Financial Officer (CFO) from 1 April 2004, a move which significantly strengthens our corporate leadership. As CFO, Clive Standish takes on a broad role that encompasses our highly regarded finance, risk, treasury and strategy functions. He continues to hold regional responsibility for Asia Pacific.

Stephan Haeringer, Deputy Chief Executive Officer, is being proposed for election to the Board of Directors as an executive Vice Chairman at the Annual General Meeting (AGM) on 15 April 2004. At the AGM, the Board of Directors is also proposing Helmut Panke and Peter Spuhler as additional candidates for election.

In 2003, we also pre-announced the candidature to the Board in 2005 of Marco Suter, Chief Credit Officer, to succeed Alberto Togni, who will reach retirement age, as Executive Vice Chairman with a special focus on credit risk.

### Our culture and values

Our corporate culture has benefited from our diverse roots. Each of the entities that has joined us over the last decade has provided us with strengths that have significantly influenced the

course of our business. Unlike a holding company or a conglomerate, our approach to building one powerful firm by integrating these components has helped us to successfully develop a common set of values and aspirations.

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## Our values for action

### Striving for Excellence

*Client focus:* Our clients' success is our success. Through our consultative approach in advising clients, we understand their objectives, and unambiguously commit our resources to helping them meet their goals.

*Entrepreneurial Leadership:* Our leaders lead, and engender enthusiasm and commitment. It is through entrepreneurial leadership that we capture opportunities, and succeed in the marketplace. It is through leadership and accountability across our company that we establish direction, encourage creative collaboration and provide an inspiring environment for our people.

*Ambition, Energy and Fun:* Our business is exciting and full of opportunities for growth. Only with high ambitions and relentless commitment to work hard – while still having fun – can we realize these opportunities.

*Innovation and Learning:* Our expertise is built on experience, innovation and learning. Our distinctive creativity is recognized. We constantly strive to find better solutions for our clients' challenges and to leverage insights throughout the company.

### Responsible Relationships

*Partnership:* Relationships among our staff members as well as with our clients are driven by the power of partnership. The power of partnership engenders involvement, respect, contribution and mutual support. We encourage the free exchange of ideas and demand teamwork.

*Meritocracy:* Our success calls for entrepreneurial spirit and initiative from each individual. We actively strive to be the best at attracting, developing and retaining talented people. We invest in our people's development, and coach them to levels of performance and contribution beyond what they might believe possible.

*Corporate Responsibility:* We are a member of the global community and behave as a responsible corporate citizen. Our corporate governance ensures the implementation of our corporate responsibility agenda. We as a corporation, and our employees individually, strive to contribute positively and actively to the communities within which we do business.

### High Ethical Standards

*Integrity:* Our firm and its employees conduct themselves in a manner that is above reproach. Our integrity is key to preserving our most valuable asset – our reputation.

*Privacy:* We respect our clients' right to privacy, and use information with appropriate discretion.

*Diversity:* Our strengths are leveraged by embracing a global diversity of cultures, perspectives, skills, and experiences.



## Diversity – open minds – open markets

At UBS, we believe that open minds can open markets. And that is why diversity is an important element in our business culture. Capitalizing on the inherent creativity and innovation of a diverse workforce helps us to grow our customer base. Diverse viewpoints, which spur challenging intellectual debates, are key to our firm's success around the globe.

For us, diversity means recognizing and appreciating multiple backgrounds, cultures and perspectives. We strive to build a culture that acknowledges individual differences and builds on the unique contribution of each and every one of our people – regardless of nationality, gender, physical attributes, or ethnicity.

Our diversity initiatives center on creating a culture where employees with multiple perspectives and flexible work styles thrive.

### Global strategy, regional focus and local respect

Diversity at UBS has both an internal and an external focus. We support an open, flexible culture within the bank. For this purpose, senior leadership at UBS is committed to a diversity strategy that, although global, has a regional focus and is based on respecting local cultures.

Our global strategy has the following priorities:

- integrating diversity into the employee life cycle – which includes recruiting, orientation, training and development, as well as performance management and succession planning
- tracking progress consistently to create both organizational and individual accountability
- communicating our commitment to diversity to key stakeholders.

While a global diversity strategy is essential, implementation must be driven regionally. We have set up separate Regional Diversity Boards in Asia Pacific, Germany,

Switzerland, the UK and the US. In 2004, each Regional Diversity Board will identify relevant diversity issues and develop strategies to meet the region's specific needs. For example, in the Asia Pacific region, the Diversity Board, among other activities, has the task of identifying 50 local employees poised to succeed expatriates in key positions, while in the UK, one of the key objectives is to address work/life balance. In the US, an important priority is to coordinate resources for regional key sponsorships to cultivate minority and female talent, while in Switzerland the focus is on women's advancement and age issues.

### From vision to reality – progress in 2003

In 2003, we moved a step forward in implementing our diversity vision, from improving awareness to enhancing the structures and systems helping us to manage diversity in an integrated way.

We also believe in a business case for diversity. In 2003, we analyzed our key client and contact lists for various businesses. In the US, for example, women in leading fixed income buy-side companies control over a trillion dollars worth of assets. We also discovered that many of our key institutional and corporate clients are focused on diversity themselves. Many have won awards and accolades for their internal diversity efforts. A closer look at asset management, brokerage and private clients shows us that minority-held accounts in the US and women-held accounts in Switzerland are increasingly a substantial portion of our business.

Operationally, we have integrated diversity into recruiting, employee training, and succession planning. Additionally, we have piloted a Leadership Links program to foster dialogue between senior management and women and minorities in the firm. We have also developed an interactive toolkit designed to help managers address issues related to diversity that are part of their day-to-day work.

In the Investment Bank, we have rolled out a diversity awareness program in the US, UK, Asia Pacific and Continental Europe. In the UK, we launched a reverse mentoring program that gives junior women and minorities exposure to senior management.

Last year, we also took an important step to improve the measurement of and accountability for diversity. We set out to create individual accountability by making it a mandatory part of our annual internal appraisal process for most managerial roles.

Effective communication is essential to the success of our diversity initiative because raising awareness is the first step in culture change. In 2003, for example, we launched an intranet site for employees. We also sponsored a number of internal events around the globe to bring employees together, and support their networking with one other and also with clients. Our Stamford women's network in December, for example, co-hosted an event for "100 Women in Hedge Funds", an association for women hedge fund managers, while our women's network in Singapore held a successful event in November for local women clients. Other employee groups established in 2003 include the UBS Pride network, which supports employees facing gay and lesbian related issues in the US and the Minority Leadership Council, comprised of senior-level African-American and Hispanic employees in the New York area. On the external front, UBS sponsored several diversity-related organizations and participated in conferences and events around the globe. In June, senior women from UBS spoke about their work/life balance at the "Women in European Leadership: A Business Imperative" conference in Geneva, Switzerland.

We will continue to build on the momentum we have generated in 2003, focusing on integration within all our human resources activities. Additionally, we will partner with the businesses to integrate diversity into their strategic planning, and daily management processes.

# The Making of UBS

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

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

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

In 1994, SBC acquired Brinson Partners – one of the leading US-based institutional asset management firms. Both the O'Connor and Brinson

deals represented fundamental steps in the development of the firm's products and processes.

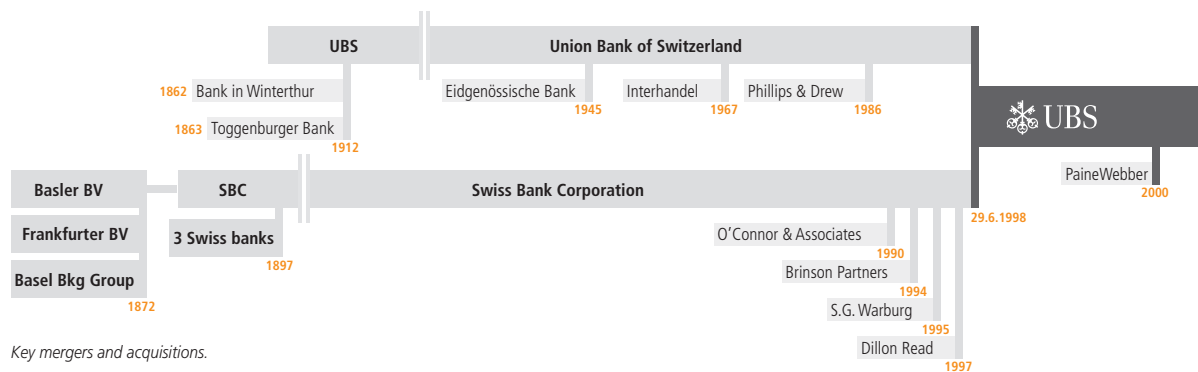
The next major step followed in 1995, when SBC merged with SG Warburg, the British merchant bank. The deal helped to fill SBC's strategic gaps in corporate finance, brokerage and research and, most importantly, brought with it an institutional client franchise, which is still at the core of today's equities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

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

But there was still a major item left on the firm's broader strategic agenda. It needed to garner a significant presence in the key US market in order to be fully credible as a truly global player in investment banking and wealth management. That was achieved when PaineWebber became a part of UBS in 2000. Following its successful integration into our business, and a decade of transformational change, we adopted a strategy based primarily on organic growth – thanks to our complete, global set of businesses.

Our efforts to define the future as "one firm" were demonstrated in 2003 by our decision to introduce UBS as a single brand for all our businesses.

## The history of UBS



# The Business Groups

# Wealth Management & Business Banking



**Georges Gagnebin**  
Chairman, Wealth Management  
& Business Banking



**Marcel Rohner**  
CEO, Wealth Management  
& Business Banking

**Wealth Management & Business Banking provides wealth management services for wealthy clients around the world and is the leading bank for individual and corporate clients in Switzerland.**

## Business Group / Business Unit Reporting

CHF million, except where indicated For the year ended or as at	Wealth Management		Business Banking Switzerland		Wealth Management & Business Banking	
	31.12.03	31.12.02	31.12.03	31.12.02	31.12.03	31.12.02
Total operating income	6,793	6,664	5,128	5,208	11,921	11,872
Total operating expenses	4,184	4,151	2,975	3,241	7,159	7,392
<b>Business Group / Business unit performance before tax</b>	<b>2,609</b>	2,513	<b>2,153</b>	1,967	<b>4,762</b>	4,480
Net new money (CHF billion)	29.7	17.7	(5.0)	3.7		
Invested assets (CHF billion)	701	642	212	205		
Headcount (full-time equivalents)	9,176	9,399	17,620	18,442	26,796	27,841

## Business

Our global branch network delivers comprehensive financial services to wealthy private individuals around the world and to private and corporate clients in Switzerland. Our focus is to provide all our clients with the advice, financial products and tools that meet their individual needs.

## Organizational structure

In 2002, we created the new Wealth Management & Business Banking organization. High-end affluent clients that were previously the responsibility of the former Private and Corporate Clients unit became Wealth Management clients, although their advisor relationships

remained the same. Product development was consolidated into a single Products and Services area, with a new Market Strategy and Development area created to provide comprehensive marketing services for the whole Business Group. We report results for the following two business units:

- Wealth Management, serving wealthy and high-end affluent clients
- Business Banking Switzerland, serving retail and corporate clients in Switzerland, and housing the majority of the support functions.

In 2003, our five independent private banks were integrated into a new holding company which is now reported as part of Corporate Center.

# Wealth Management

With more than 140 years of experience, an extensive global network and CHF 701 billion in invested assets on 31 December 2003, we are the world's largest private bank.

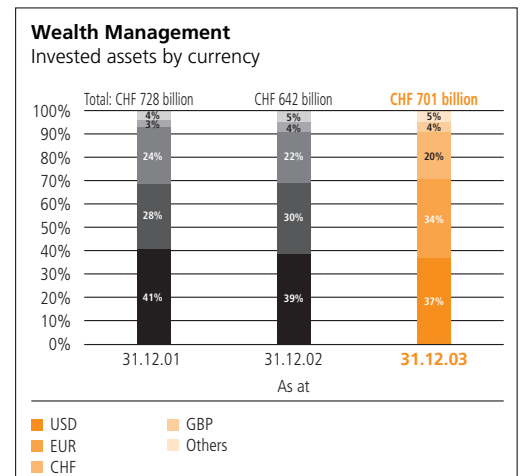
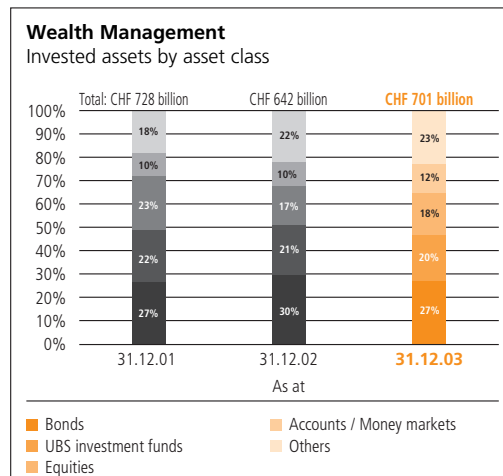
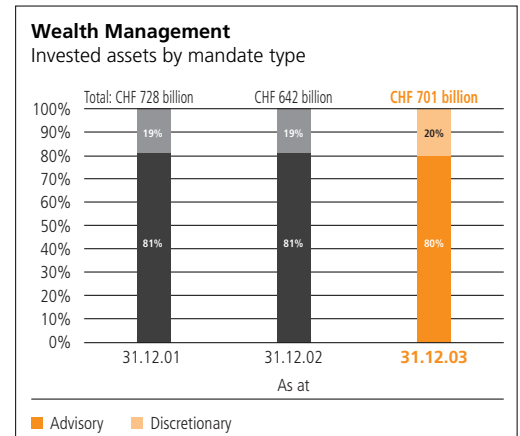
## Business

Wealth Management provides a comprehensive range of products and services individually tailored for wealthy clients around the world via its global branch network and through financial intermediaries.

With CHF 701 billion in invested assets on 31 December 2003, more than 140 years of wealth management experience and an extensive branch network comprising 112 offices in Switzerland and 56 offices around the world, we are the world's largest private bank.

Our 3,300 client advisors combine strong personal relationships with the resources that are available from across UBS, helping them provide a full range of wealth management services – from asset management to estate planning and from corporate finance advice to art banking. Our open product platform gives clients access to a wide array of pre-screened, top-quality products from third-party providers that complement UBS's own lines.

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



**The Business Groups**  
**Wealth Management & Business Banking**

**Organizational structure**

Our clients have specific needs and we carefully tailor our global product offering in order to meet their financial aspirations. Where it is necessary, we complement our range of internal and external products by entering into partnerships with local specialist providers, for example, in life insurance. Our client advisors are organized into the two business areas of:

- Wealth Management – Swiss Clients, covering clients domiciled in Switzerland, divided into eight geographic regions in Switzerland
- Wealth Management – International Clients, serving clients domiciled outside Switzerland, including the clients of the European wealth management initiative. It is organized into the seven regions of:
  - Italy
  - Western Europe
  - Benelux (Belgium, Netherlands, Luxembourg), Germany and Central Europe
  - UK, North and Eastern Europe
  - Eastern Mediterranean, Middle East and Africa
  - Asia Pacific
  - Americas International.

A number of global teams with specialized areas of expertise concentrate on the requirements of particular client groups. An example is our Islamic finance subsidiary in Bahrain, Noriba, which we opened in September 2002. It offers sharia-compliant products to institutions and high net worth individuals residing in the Middle East and around the world.

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

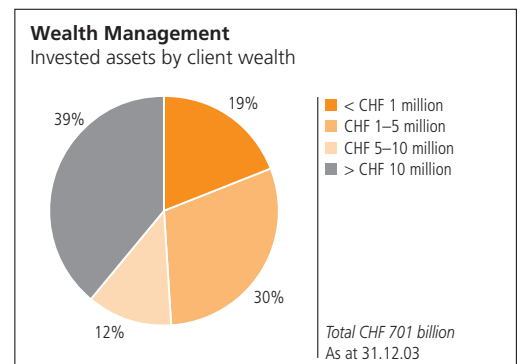
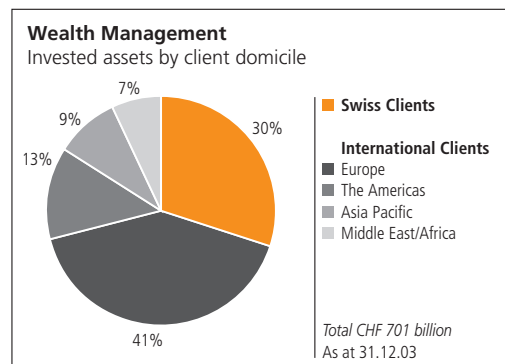
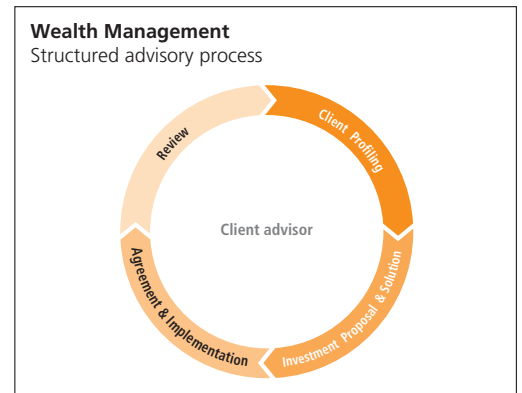
**Competitors**

Wealth Management’s major competitors comprise all globally active wealth managers, such as the wealth management operations of Credit Suisse, HSBC, and Citigroup. We also compete with private banks that operate within their respective domestic markets, such as Pictet and Julius Baer in Switzerland, Coutts in the UK, Deutsche Bank and Sal. Oppenheim in Germany, and Unicredito in Italy.

**Clients**

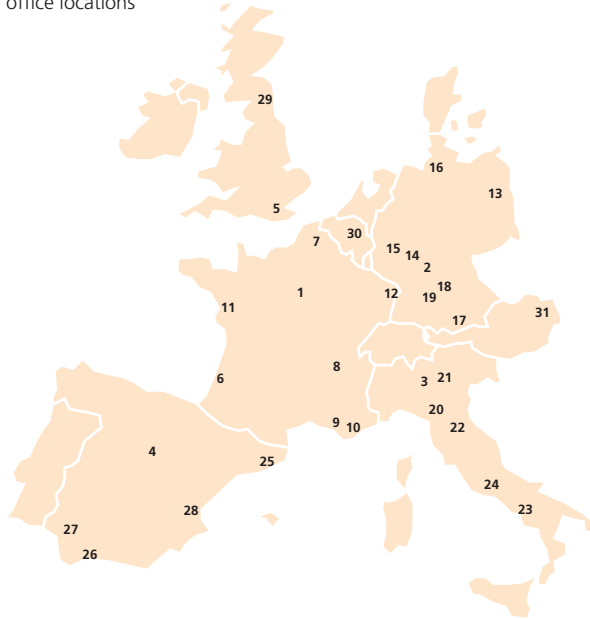
Client focus is the main driver of all our activities. We are committed to proactively and consistently delivering tailored and unbiased financial solutions of the highest quality to our clients. We strive to create long-term personal relationships.

A clearly structured advisory process helps client advisors add value at each step and provides our clients with a consistent and comprehensive experience. The consistent delivery of a truly consultative advisory process combined with a comprehensive product positioning framework is essen-



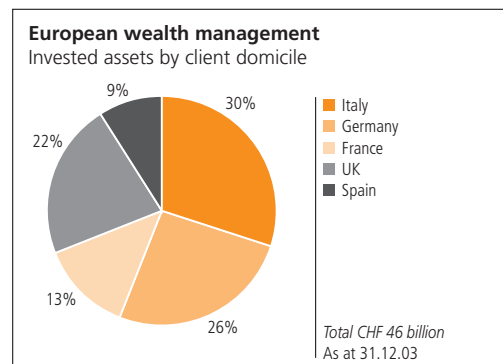
## Wealth Management

European wealth management:  
office locations



Main country offices	Branch offices	
1 Paris	6 Bordeaux	19 Stuttgart
2 Frankfurt	7 Lille	20 Bologna
3 Milan	8 Lyon	21 Brescia
4 Madrid	9 Marseille	22 Florence
5 London	10 Cannes	23 Naples
	11 Nantes	24 Rome
	12 Strasbourg	25 Barcelona
	13 Berlin	26 Marbella
	14 Bielefeld	27 Seville
	15 Dusseldorf	28 Valencia
	16 Hamburg	29 Edinburgh
	17 Munich	30 Brussels
	18 Offenbach	31 Vienna

tial to putting Wealth Management's value proposition into action. Our process can be broken down into four clear, mutually enhancing steps. In the first, our advisors take the time to understand what it is their clients want and need, and look at all the different factors that might affect their goals and willingness to take risk. As a second step, the advisor formulates investment proposals crafted for



that client's specific requirements by selecting from the best products and services available. In the third step, the advisor agrees with the client which of the solutions should be implemented. The fourth step rounds out the whole process with comprehensive monitoring and reporting of investment performance to the client by the advisor, as well as regular communication between the two in which goals and strategies are constantly evaluated, and adjusted as required. Our extensive training programs ensure that client advisors become fully versed in all aspects of this structured, four-step advisory process.

## Financial intermediaries

We provide products and services to financial intermediaries, from independent asset managers and financial consultants to small and medium-sized banks in Switzerland, where we lead the market, and also in France, Germany and other countries. This allows us to further leverage the scale and scope of our wealth management expertise.

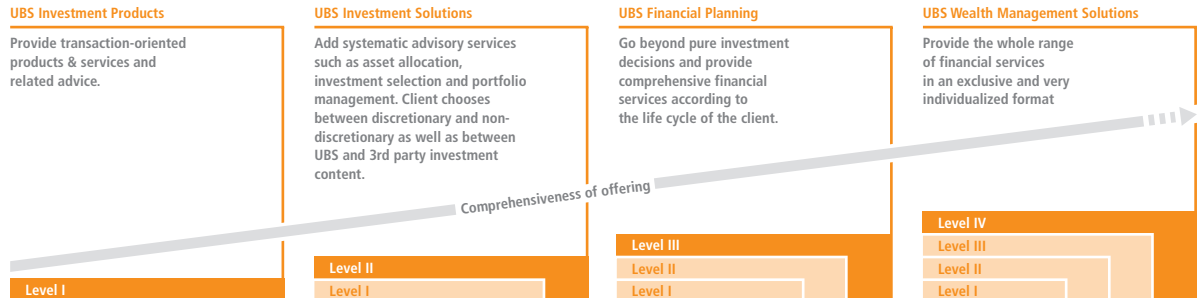
## European wealth management

The European wealth management initiative was launched in early 2001, and is aimed at wealthy clients in the five target countries of France, Germany, Italy, Spain and the UK. Together these countries comprise around 80% of the total European market for wealthy clients. The initiative draws on the best of the marketing and product skills developed over the years by PaineWebber in the US.

In 2003, our initiative made further strong progress on many fronts. Its growth potential was underlined by the continued hiring of new client advisors, who helped bring in net new money of CHF 10.8 billion. This result represents an annual net new money inflow rate of 39% of the underlying asset base. In the same period, invested assets were 64% higher at CHF 46 billion on 31 December 2003. Although the initiative is focused on organic growth, we also exploit strategic acquisition opportunities in core markets. As an example, last year we acquired the wealth management operations of Lloyds TSB in France (CHF 1.6 billion in assets), and Merrill Lynch in Germany (CHF 1.8 billion in assets). Early this year in the UK, we agreed to take over Laing & Cruickshank Investment Management Limited from Crédit Lyonnais (assets of CHF

## The Business Groups Wealth Management & Business Banking

### Wealth Management Product positioning framework



11.5 billion) and Scott Goodman Harris.

We opened new branches in Florence, Valencia and Vienna in 2003. The pace of expansion, however, is expected to slow from now on as our European business reaches critical mass. A total of 672 client advisors currently operate out of 31 offices, up from 177 advisors and 15 offices at the beginning of 2001. They are supported by an extensive array of secure e-banking services, further helping them seamlessly communicate with their clients.

With market forecasts showing European core affluent and high net worth assets increasing by 7.7% a year until 2006, outstripping the projected global average annual growth rate of 6.7%, we believe our current strategy places us in an excellent position to expand, helping us further cement our position as the global wealth manager of choice.

### Products and services

Our credibility and reputation hinges on our ability to ensure that clients receive the best products and services available, regardless of whether we produce them internally or access them from external sources. However, as we have no intention of becoming a one-stop financial supermarket, we carefully choose and screen third-party offerings, selecting those that meet the high standards our clients' demand. Depending on their financial situation and individual preferences, clients have varying requirements regarding the level of service they expect.

### Investment products

UBS Investment Products, the first level of our product and services framework, comprises advisory services primarily focused on effective

management of a standard suite of transaction-oriented products as well as credit and life insurance products to cover our clients' basic needs. Our clients benefit from exemplary service and execution standards across a full range of products that stretches from equities to foreign exchange and from structured products to precious metals. In addition, our clients can access a wide range of alternative investments, from our own hedge funds to third-party private equity funds and fund of funds products.

Our credit products include a range of products – mainly mortgages and margin loans – for the financing needs of our clients.

Our UBS Life business in Switzerland, established in 2001, focuses on the sale of unit-linked products that are sold alongside more traditional life insurance policies from third-party sources. UBS International Life, launched in 2003, extends our product offering to Europe and provides clients with highly flexible long-term investment, retirement or inheritance planning solutions.

### Investment solutions

UBS Investment Solutions, the second level, adds systematic advisory services such as asset allocation, investment selection and portfolio management. Our clients can choose between discretionary portfolio management and advisory management of assets, just as they can choose between UBS and third-party investment management.

Clients that opt for discretionary portfolio management delegate the management of their assets to a team of professional UBS portfolio managers according to an investment strategy agreed with their client advisor that reflects their risk appetite. Many clients wish to be involved in



**Wealth Management**  
Product Portal

UBS Investment Products	UBS Investment Solutions	UBS Financial Planning	UBS Wealth Management Solutions
Direct Investments	Portfolio Management	Financial Planning	Ultra-HNWI Solutions
Money Market	UBS Managed Fund Portfolio	Tax Planning	Corporate Advisory Services
Structured Products / Derivatives	UBS Active Advisory	Retirement Planning	Real Estate Services
Investment Funds	UBS Fund Advisory	Succession Planning	Wine Banking
Alternative Investments		Trust and Foundation	Art Banking
Provision / Life Insurance			Gold and Numismatics
Credits			Corporate Executive Financial Services
<b>Basic Products and Services</b>	Accounts / Payments / Cards	Custody Account / Services	Reporting
		e-banking	
<b>Special Services</b>	Banking abroad	VIP Center	UBS Optimus Foundation
		Research	

the management of their own assets, with support from UBS’s investment professionals. For them, Wealth Management provides analysis and supervision of portfolios and their risk profiles, together with tailor-made proposals to support investment decisions. We offer different levels of structured advisory services, most based on an all-inclusive fee.

**Financial planning**

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

**Wealth management solutions**

At the top end of the range, UBS Wealth Management Solutions provides the whole spectrum of financial services in an exclusive and very

individualized format for individuals, taking their entire asset base into account. These services include real estate advisory, art banking and corporate finance services for company and vineyard owners as well as reporting and custody services.

Our initiative for ultra high net worth individuals – launched at the beginning of 2003 – aims to create a consistent and pro-active approach for this client segment by leveraging all the efforts and resources of UBS worldwide. We have established a dedicated competence center in Zurich, which mobilizes UBS’s global resources to deliver sophisticated wealth management services that otherwise only a combination of specialist providers could offer.

Wealth Management also provides independent corporate finance advice and services to business owners through a team of professional investment bankers who can draw on the extensive resources of UBS’s Investment Bank.

**Distribution**

Our extensive wealth management branch network comprises 112 offices in Switzerland and 56 offices worldwide. Working from these offices, 3,300 client advisors combine strong personal relationships with their clients with access to all of the resources of UBS.

# Business Banking Switzerland

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

## Business

We are the leading bank in Switzerland. At the end of 2003, our Business Banking Switzerland unit had around 3.5 million individual client accounts, and relationships with around some 150,000 corporate clients, including institutional investors, public entities and foundations based in Switzerland, as well as 3,000 financial institutions worldwide. Clients have invested assets of CHF 212 billion with us. With a total loan book of CHF 139 billion on 31 December 2003, we lead the Swiss lending and retail mortgage market.

Our aim is to provide our clients with optimal levels of convenience and service by continuously expanding our comprehensive range of distribution channels. Together with our successful e-banking offering and customer service centers, our 1,225 ATMs and 303 branches across Switzerland provide a network that is more extensive than that of any of our domestic competitors.

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

## Organizational structure

The Business Banking Switzerland unit comprises the domestic branch network for corporate and individual clients, which is organized into eight regions. It also includes Operations, Resources, and Information Technology business areas.

## Competitors

Business Banking Switzerland's major competitors are banks active in the retail and corporate

banking markets in Switzerland. This group includes Credit Suisse, the country's cantonal banks, Raiffeisen Bank, and other regional or local Swiss banks.

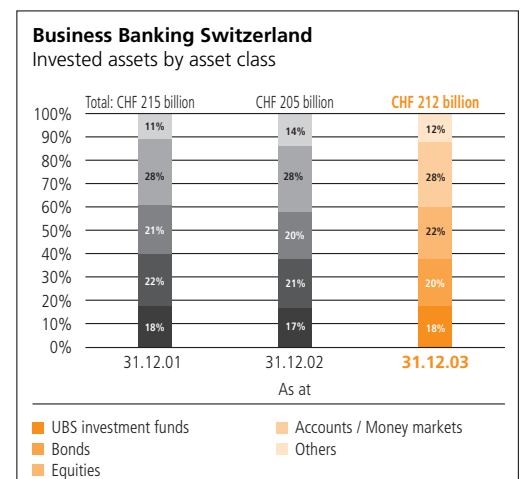
## Clients and products

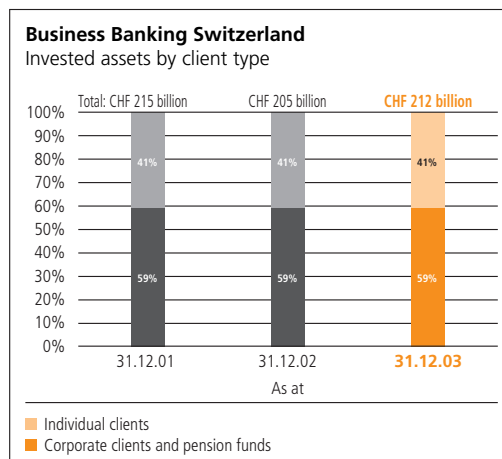
Business Banking Switzerland offers high-quality, standardized products to the retail market for individual and small company clients, as well as more complex products and advisory services for larger corporate and institutional clients and financial institutions.

## Individual clients

We serve around 3.5 million individual client accounts in Switzerland, offering a wide range of products and services. Supported by a complete set of distribution channels (automated teller machines, phone services, e-banking), our branches are a key driving force in serving our clients effectively and efficiently.

Our range of products and services for private clients includes a comprehensive selection of





cash accounts, savings products, wealth management services, residential mortgages, pensions and life insurance. We have a leading position in many Swiss markets. In the mortgages segment for individual clients, we have a share of 26%, in the savings market for individuals it is 25%, while in the credit card business it is 32%.

### Corporate clients

Business Banking Switzerland services 150,000 corporate clients, including institutional investors, public entities and foundations based in Switzerland.

Of the 150,000, around 160 are major companies, with operations that span a broad range of markets and geographical regions. These clients require our advanced financing and risk management skills and comprehensive access to the capital markets for funding needs.

Around 7,600 of our clients are large companies that utilize our expertise in handling complex financial transactions. We provide them with a wide range of financial advice, from the selection and design of investment products to assisting in complex mergers and acquisitions or providing structured financing, often working in close cooperation with specialists from other parts of UBS.

The remaining corporate clients (some 140,000) are small and medium-sized enterprises requiring local market expertise and access to our full range of products and services.

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

Our global custody services offer institutional investors the opportunity to consolidate multiple agent bank relationships into a single, cost-efficient global custodial relationship. This simplifies their processing and administration arrangements and allows them to take advantage of our value-added services, such as flexible consolidated performance reporting, and powerful portfolio management tools. Over 2003, assets under global custody for institutional clients grew from CHF 112 billion to CHF 133 billion.

### Financial institutions

We also offer payments, securities, and custodial services to more than 3,000 financial institutions worldwide and play a leading role, together with the Investment Bank, in the firm's "Bank for Banks" strategy. This focuses on offering state-of-the-art services to other banks, allowing us to optimize the utilization of our infrastructure. Other banks that lack our scale can outsource their payment, security and custodial services, benefiting from UBS's wide-ranging expertise.

### Logistics areas

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

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

### New IT platform

Recognizing the need to comprehensively overhaul our basic IT architecture, we launched a large-scale project in 1999 called the Strategic Solution Program (SSP) in Switzerland. It will provide us with a wholly new IT platform and replace a number of current platforms. The modular nature of the SSP platform lays a technical foundation that will help us further increase the overall flexibility of our products while providing our clients with more transparent information and data. SSP reached an important milestone in autumn 2003, when all client accounts were successfully transferred to the new platform.

As further bank applications in Switzerland are transferred to the SSP platform, it will allow for real-time processing around the clock as well as shortening the length of time it takes to bring new product solutions to market. As it will also progressively replace our old IT system, SSP will help us lower operational and maintenance costs over the next few years.

**Distribution**

Our private clients' needs have changed in recent years. Today, they want the flexibility of being able to access their accounts using the full range of modern communication technology when it is convenient for them, without restrictions imposed by regular business hours.

To meet these needs, Business Banking pursues an integrated, multi-channel strategy. We use technology to complement, rather than replace the traditional physical branch network. Standard transactions can be conveniently executed using one of the electronic channels, enabling client advisors to focus on providing advice and developing financial solutions. For basic products and services, technology is used to ensure around-the-clock availability. Our five customer service centers provide basic information and support 24 hours a day over the phone. Additionally, in 51 of our branches in Switzerland, we have implemented a two-zone concept where standard transactions are executed via ATMs, while client advisors sit in an open plan desk area next to the ATMs, and focus on giving clients value-added advice. Our customers make extensive use of our e-banking channels. During 2003, 76% of payment orders were initiated via electronic channels, up 2% from 2002.

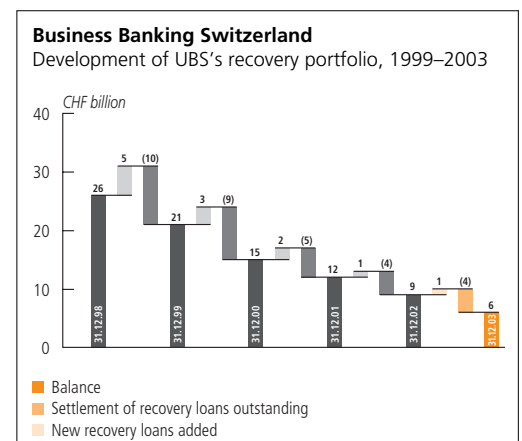
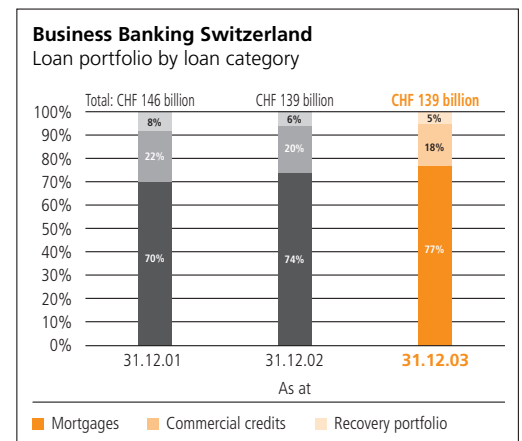
**Loan portfolio**

On 31 December 2003, Business Banking Switzerland's loan portfolio was CHF 139 billion. Mortgages represented CHF 109 billion, of which more than 80% were residential mortgages. Continued discipline in implementing our risk-adjusted pricing model has resulted in a strengthened focus of origination efforts on higher quality exposures with an attractive risk/return relationship. Thanks to the introduction of this model, the risk profile of our portfolio further improved during 2003. For details of the credit portfolio, please refer to the Risk Analysis section on page 50.

**Recovery portfolio**

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

Our recovery portfolio amounted to CHF 6.4 billion at 31 December 2003, of which CHF 5.8 billion was impaired and carried provisions of CHF 2.8 billion. Since 1998, the recovery portfolio's size has been cut by 75% thanks to our successful recovery efforts. Over the same five-year period, non-performing loans decreased from CHF 14.0 billion to CHF 4.4 billion, leading to a non-performing loans to gross loans ratio of 3.2%.



# Global Asset Management



**John A. Fraser**  
Chairman and CEO  
Global Asset Management

The Global Asset Management business is one of the world's leading asset managers, providing investment management solutions to private clients, financial intermediaries and institutional investors.

## Business Group Reporting

CHF million, except where indicated For the year ended or as at	Global Asset Management	
	31.12.03	31.12.02
Total operating income	1,737	1,655
Total operating expenses	1,405	1,436
<b>Business Group performance before tax</b>	<b>332</b>	219
Net new money – Institutional (CHF billion)	12.7	(1.4)
of which: money market funds – Institutional (CHF billion)	(5.0)	(1.8)
Invested assets – Institutional (CHF billion)	313	274
of which: money market funds – Institutional (CHF billion)	14	19
Net new money – Wholesale Intermediary (CHF billion)	(5.0)	(6.3)
of which: money market funds – Wholesale Intermediary (CHF billion)	(23.0)	(6.9)
Invested assets – Wholesale Intermediary (CHF billion)	261	259
of which: money market funds – Wholesale Intermediary (CHF billion)	87	106
Headcount (full-time equivalents)	2,689	2,733

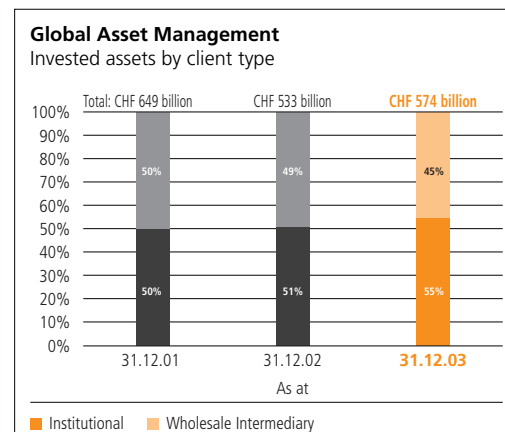
## Business

We are distinguished by our integrated global investment processes and the breadth, depth and scope of our investment capabilities which enable us to offer investment solutions in nearly every major asset class.

Invested assets totaled CHF 574 billion on 31 December 2003, making us one of the largest global institutional asset managers, the second largest mutual fund manager in Europe, and the largest mutual fund manager in Switzerland.

In February 2003, we refined our business and investment model and the organization now consists of three areas. The *core investment management business* is based on our price/intrinsic value investment philosophy, and founded on our commitment to securities research and fundamental analysis. Disciplined processes systematically apply our investment philosophy and ensure the quality of our execution.

The *alternative and quantitative investments business* encompasses several specialist areas, including the O'Connor hedge funds business. Unlike many alternative investment providers, we have both single and multi-manager investment streams.



## The Business Groups Global Asset Management

Our *real estate business* provides specialized property investment expertise. The business purchases, sells and actively manages investments in property, including office, industrial, retail and residential real estate. It then structures the investments into private funds, publicly listed investment funds or individually managed client accounts. The business is active in the Americas, UK, Continental Europe and Asia Pacific.

Risk management is an integral and active part of our investment management process and is employed to assess and consider the implications of any investment decision we make on our client portfolios. Substantial resources have been devoted to the development of our proprietary global risk management system. One of its key qualities is its capability to ensure that portfolios have predefined risk budgets and are managed consistently according to client objectives and expectations for risk and return. A team of some 60 risk management, asset allocation and currency specialists manage risk at the country, currency, industry sector and security level.

### Organizational structure

Our main offices are in London, Chicago, New York, Tokyo and Zurich. We have around 2,600 employees, of which some 520 are investment professionals, located in 21 countries.

The separate asset management Business Group was formed after the merger of Union Bank of Switzerland and Swiss Bank Corporation in 1998. In July 2000, the investment teams of the respective asset management businesses were integrated – UBS Asset Management, Brin-

son Partners (whose Chicago origins date back to the early 1970s) and Phillips & Drew (established in London in 1895).

We report revenues and key performance indicators according to the two main segments of Institutional and Wholesale Intermediary clients.

### Competitors

In the institutional arena, Global Asset Management competes against other global asset managers including Capital, Guardian, PIMCO, Deutsche Asset Management and Alliance Bernstein. In the wholesale area, our main global competitors include Fidelity, AMVESCAP (INVESCO) and JP Morgan Fleming.

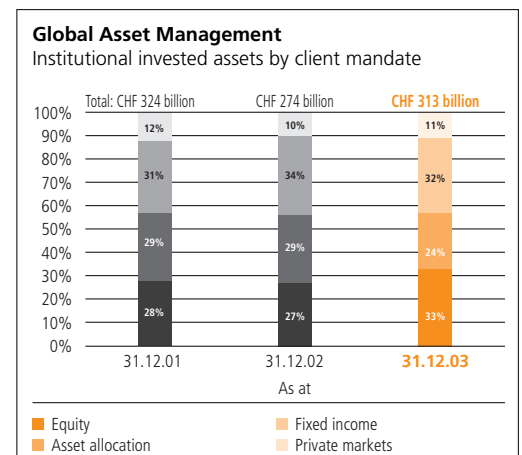
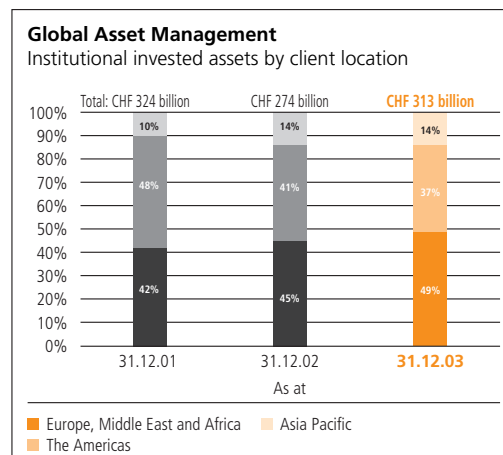
### Clients

Our clients receive the most appropriate investment solutions for their needs through our combination of investment expertise with local delivery of our capabilities and services as well as an ongoing dialogue with clients. Apart from the advisory and reporting aspects of our client communications, we also keep them updated on current investment perspectives and business issues through a comprehensive range of publications and events.

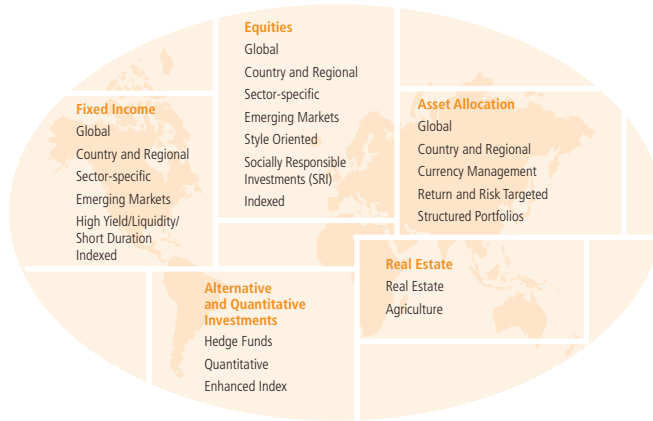
### Distribution

#### Institutional

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



**Global Asset Management**  
Global capabilities



- corporate and public pension plans
- endowments, municipalities, charities and private foundations
- insurance companies
- governments and central banks; and
- supranationals

In consultant-driven markets, such as the US and UK, we rely on developing and maintaining strong relationships with the major consultants that advise corporates and institutions.

**Wholesale Intermediary**

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

Distribution of our investment funds is principally through financial intermediaries. Our most significant distribution channels are Wealth

Management & Business Banking and Wealth Management USA. We are continuing to evolve towards a distribution architecture in which an increasing proportion of funds will be sold through third-party channels.

**Products and services**

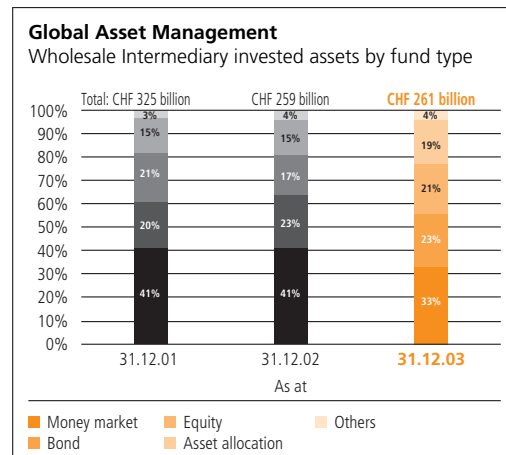
Our capabilities and services include active investment in equity and fixed income asset classes, indexed and exchange-traded funds, advisory services, hedge funds with both single and multi-manager investment streams, and real estate.

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

To meet investors' needs for increasingly complex solutions, we have developed targeted return solutions which include advice and services that encompass risk management, asset allocation, currency overlay and asset/liability matching. Opportunities exist to offer these advisory services to large institutions, sovereign clients, banks and insurance firms who are looking to outsource asset management capabilities. We are also repositioning UBS Fund Services as a global, stand-alone fund administration business. The business already has substantial third-party mandates, and we believe that the administration of funds will be increasingly outsourced by many providers of fund products.

**Investment performance**

There was a substantial recovery in most equity markets during 2003 as investors anticipated a strengthening global economic upturn. Some stock prices were pushed to levels that were unjustified by their long-term profit outlook – making a challenging environment for individual security selection based on fundamentals. Against this background, and after several years of strong out-performance, some of our core global equity portfolios lagged their benchmarks. Global bond markets, in the meantime, only recorded moderate returns because of concerns regarding stronger economic growth and a possible increase in central bank interest rates. Our active bond management strategies performed well in 2003 as they





benefited from interest rate and individual security selection, with our asset allocation and currency strategies also making a strong contribution.

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.

With investors seeking less volatile returns and preservation of capital, demand for property investments increased. Historically, these have proven to be a strong source of income and total return. Based on the latest available return information, the real estate business achieved strong returns in the US, Switzerland, UK and Japan.

#### **Strategic initiatives / strategic opportunities**

Global equity markets staged a convincing recovery in 2003, helping to support the asset management industry's recovery. In the medium to longer term, the industry outlook continues to be bright, because of the shift in demographics in developed societies towards older populations, coupled with an increased need for private savings to supplement the various public pension systems. With a record of strong three- and five-year investment performance for most core capabilities and a solid reputation, we are competitively placed to benefit from the expected growth in institutional and wholesale markets.

On a product level, Europe is expected to continue to see a broad shift towards open architecture platforms and further development of multi-manager investment solutions – although progress to date has been slower than expected. In terms of asset mix, real estate and hedge funds are expected to continue to benefit from investors' need for greater portfolio diversification. Passive investments are also expected to increase in importance, implying a relatively subdued outlook for traditional active equity and fixed income capabilities. As a result, competitive pressures for traditional products are expected to increase, with slower growth underscoring the importance of gains in market share. This is compounded by continuing pressure on industry fees as consultants and institutional investors remain sensitive to pricing levels, as well as expected continued regulatory pressure on wholesale and retail fund pricing.

The importance to the industry of restoring public trust following recent US regulatory scandals cannot be overstated. Asset managers must elevate compliance and risk control to anticipate and exceed regulatory standards. Increased competitive pressures, and the resultant higher costs, together with rising regulatory complexity, are likely to result in consolidation and segmentation within the industry. Many mid-tier players may decide to outsource non-core investment management activities to focus on more core activities. This presents opportunities for large managers, such as UBS, with a broad array of traditional and innovative capabilities and services and a well-known, strong brand.



# Investment Bank



**John P. Costas**  
Chairman and CEO  
Investment Bank

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

## Business Group / Business Unit Reporting

CHF million, except where indicated For the year ended or as at	Investment Banking & Securities		Private Equity		Investment Bank	
	31.12.03	31.12.02	31.12.03	31.12.02	31.12.03	31.12.02
Total operating income	14,058	13,972	(77)	(1,602)	13,981	12,370
Total operating expenses	9,980	10,843	112	159	10,092	11,002
<b>Business Group / Business unit performance before tax</b>	<b>4,078</b>	3,129	<b>(189)</b>	(1,761)	<b>3,889</b>	1,368
Headcount (full-time equivalents)	15,500	15,964	50	73	15,550	16,037

## Business

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

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

## Organizational structure

Since 1 January 2002, the Investment Bank has been organized into two business units:

- the Investment Banking & Securities business unit, one of the world's leading investment

- banking and securities firms, which provides products and advice to institutional and corporate clients
- Private Equity, which manages private equity investments in a diverse global range of private companies.

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.

## Competitors

As a global investment banking and securities firm, we compete against other major international players such as Citigroup, Credit Suisse First Boston, Goldman Sachs, Deutsche Bank, JP MorganChase, Merrill Lynch and Morgan Stanley.

# Investment Banking & Securities

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

## Business

The Investment Banking & Securities (IB&S) business unit provides wholesale financial products and advisory services to a diverse client base spread throughout the globe. It has a significant corporate client financing and advisory business, whose particular strengths lie in providing advice on cross-border mergers and acquisitions and raising capital for our corporate and governmental client base. Historically, we have been among the leaders in European corporate finance, and in recent years we have also been one of the few investment banks experiencing strong growth in the US, according to data provided by Freeman & Co's All Industries survey.

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

We also manage cash and collateral trading and interest rate risks on behalf of UBS, while executing the vast majority of securities, deriva-

tives and foreign exchange transactions for the firm's individual clients.

To our core clients, we offer lending products to support their financing needs although risk/return considerations are paramount drivers in determining balance sheet usage. We also occasionally provide them with bridge financing to help them complete their financing needs.

The IB&S unit, headquartered in London and New York, employs over 15,000 people in 31 countries around the world.

## Organizational structure

Our businesses are run on a global basis and organized into the three distinct areas of:

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

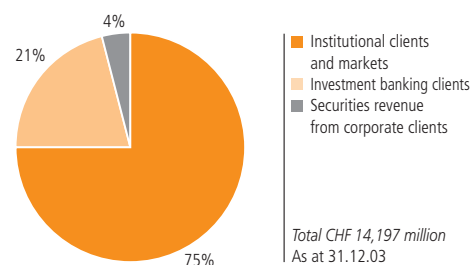
They are distinguished by the type of products and services offered and the nature of the business risks they incur.

## Legal structure

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

## Investment Banking & Securities: income by client type

% of total	For the year ended		
	31.12.03	31.12.02	31.12.01
Investment banking clients	21	23	23
Securities revenue from corporate clients	4	6	6
Institutional clients and markets	75	71	71
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>



## Products and services

### Equities

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

We are a member of more than 80 stock exchanges in 31 countries and have a local presence in 40 offices around the world. This multi-local approach allows our client teams to deliver the advantages of our scale and global reach to individual clients regardless of their home market. In 2003, we were named the “World’s Best Equity House” by *Euromoney*, a recognition of the excellence of our client service.

Our equity research supplies independent assessments of the prospects of approximately 2,900 companies (corresponding to 80% of world market capitalization) across diverse industry sectors, as well as economic, strategy and derivative research. We took the top position for the best overall global equity research in this year’s *Institutional Investor* survey. Our equity research principles are very strict in maintaining effective confidential information barriers between investment banking and research and in following appropriate and clear procedures for any crossing of those barriers in connection with investment banking transactions. In

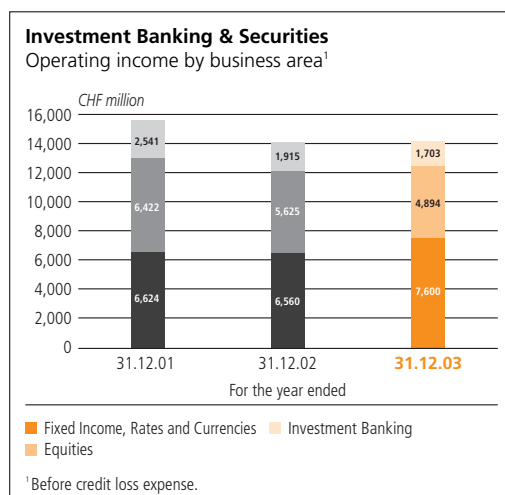
2003, we introduced a new simplified rating system for equity analysis that combines a recommendation with a new predictability indicator that highlights the degree of certainty an analyst has in their price target. We believe the new research process is both easier to understand and more comprehensive. By carefully coordinating the efforts of our regional and product distribution teams, we have built a global cash equities franchise that is second to none. With the scale and balance of our platform across all time zones, we offer liquidity, and efficient completion in executing orders in every major world market.

We are also a recognized market leader in derivatives, winning the “Best Equity Derivatives” awards from *International Financing Review*, *Risk* and *Euromoney* in the past year. Risk management products remain among the segments of our business with the fastest pace of growth, and we will continue to focus on providing innovative and customized investment solutions to institutional and corporate clients, as well as clients in our asset management and wealth management businesses.

Our Equity Capital Markets team manages many of the world’s largest and most complex transactions, demonstrating the cross-border nature of our relationships and the strength of our distribution network. We have built a leading global position as a distributor of block trades, rights offerings, initial public offerings, and hybrid and convertible issues to both institutional and private clients in every regional market.

We have made significant investments in our technology platform, and are recognized as a market leader in providing a number of electronic services to our clients such as equity research and trading. This was confirmed by a number of *Euromoney* 2003 Technology Awards, among them “Best Equities Trading Connectivity”, “Best Online Equities Research” and “Best Equity New Issues Platform”. Our front-to-back focus on technology allows us to adapt and continuously improve our business processes and client services.

Our Hedge Fund Services business provides integrated global services, including stock borrowing and lending, and prime brokerage to the rapidly expanding universe of hedge fund clients. In 2003, UBS acquired the US prime brokerage



## The Business Groups Investment Bank

operations of ABN AMRO, significantly enhancing our market position there. The business was focused on small and mid-segment hedge funds and formed an excellent strategic fit with our existing platform by adding over 300 new clients, helping UBS position itself among the top five prime brokers in the US.

### Investment Banking

In the investment banking business, we provide advice and execution capabilities to a global corporate client base. Our services encompass advising on mergers and acquisitions, strategic reviews and corporate restructuring solutions. In conjunction with other business areas of the Investment Bank, and other Business Groups, we also arrange the execution of debt and equity issues on a global basis.

In 2003, we assisted our corporate clients in a range of successful merger and acquisition transactions and capital market issues. Some of the more notable mandates included:

- joint financial advisor to WellPoint Health Networks, the US healthcare company, on its USD 16.4 billion sale to Anthem
- sole financial advisor to Vodafone on its USD 2.2 billion sale of fixed-line subsidiary Japan Telecom to Ripplewood
- joint global coordinator for Allianz, the German insurance company, on its EUR 3.5 billion rights issue
- sole bookrunner for Australian financial services company AMP on its demerger and related USD 2 billion equity issue
- joint bookrunner for Russian natural gas producer Gazprom on its 7-year EUR 1 billion issue
- joint bookrunner for US telecommunications company Sprint on its USD 5 billion multi-tranche issue due 2006, 2013 and 2033.

One of our strategic goals is the expansion of our global corporate client franchise. To maintain a strong global position, an extensive pres-

ence in the US is critical and we have made substantial investments to expand our business there over the last three years. The combination of our larger investment banking and equities presence in the US, as well as increased awareness of the UBS brand, has given us greater access to key corporate executives, allowing us to participate in some of the largest and most complex transactions last year. As a result, we had one of the highest growth rates in US market share of any investment bank in 2003 and we see clear potential to expand further.

The results achieved this year, against a background of relatively modest recovery in corporate activity levels, clearly show the strength and momentum of our leading investment banking franchise.

We believe the market fee pool will increase in 2004, although we do not expect a return to the extraordinarily high levels of activity experienced in 1999 and 2000. Increased activity is anticipated in mergers and acquisitions and primary equity issuance, but this is likely to be partly offset by a flat to slightly smaller fee pool in debt capital markets.

### Fixed Income, Rates and Currencies

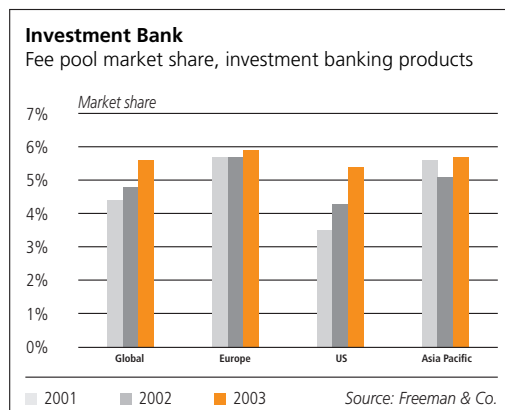
Our Fixed Income, Rates and Currencies (FIRC) business provides a broad spectrum of products and innovative solutions to corporate and institutional clients in all major markets. With over 2,200 professionals employed around the world, we offer our clients a seamless global service. The FIRC unit is a diverse portfolio of business lines, which include:

- Fixed income, incorporating debt capital markets, credit trading and credit derivatives
- Foreign exchange and cash & collateral trading
- Rates, incorporating interest rate derivatives, residential mortgages, government bonds and energy trading
- Principal finance and commercial real estate

### Key performance indicators: league table rankings

	31.12.03		31.12.02		31.12.01	
	Rank	Market share %	Rank	Market share %	Rank	Market share %
Global mergers and acquisitions (completed)	8	11.2	9	10.4	8	9.8
International equity new issues	4	8.5	6	8.6	2	13.0

<sup>1</sup>Source: Thomson Financial Securities. <sup>2</sup>Source: Dealogic EquitywarePlus.



These major business lines are underpinned by our global distribution and our highly regarded research capabilities, as acknowledged by our number one ranking for Fixed Income Strategy in *Thomson Financial's* Extel survey and number one ranking in *Institutional Investor* for mortgage-backed securities (MBS) research.

Our approach to specific products and markets varies. Where potential for sufficient risk-adjusted returns exists, we seek market share leadership in high-volume, liquid markets, using our capital and economies of scale to generate returns. As an example, we have, according to *Euromoney*, the leading 11.5% market share in the foreign exchange trading market, and we execute roughly a quarter of all online FX trades. Furthermore, our residential mortgage business retained its top global position in the *Thomson Financial* Global MBS league tables for the third year running.

In those markets where there are not sufficient risk-adjusted returns, we may decide not to seek market share, but instead focus on specific products where there are potentially higher margins.

In 2003, we maintained our presence in the international and US debt capital markets through our ability to execute across a range of currencies and products and to distribute those products in the global institutional and retail markets. We have continued not to pursue volume through large-scale lending.

While there are no definitive surveys or overall measures of market share in the fixed income, rates and currencies space, we continue to win awards for the depth of our client coverage and technical expertise. Accolades in 2003 include “World’s Best FX House” in the *Euromoney* 2003 Awards for Excellence (for which UBS also won the “World’s Best Bank” and “World’s Best Equity House” awards, among others). We also took the top place for a FX bank in *FX Week*, and were third in *Institutional Investor's* annual US Fixed Income Sales and Trading poll. In the 2003 *International Financing Review* 2003 awards, we were named “Emerging Markets Bond House”, “Asian Bond House”, “Financial Bond House (subordinated debt)” and “Swiss Franc Bond House”.

### Strategic opportunities

Markets are showing signs of a pick-up in activity, especially in the US and Asia, giving us reason for cautious optimism. With our diversified business portfolio, we have demonstrated the ability to shift focus according to market opportunities – taking advantage of and capitalizing on revenue opportunities where they arise and withdrawing resources at the right moment, when conditions change. We continue to build our competitive strength, focusing on growth opportunities and winning market share.

# Private Equity

UBS's Private Equity business focuses mainly on managing its existing portfolio to maximize value.

## Business

The Private Equity business seeks to maximize the value of its investments through active portfolio management and to capitalize on orderly exit opportunities. The portfolio comprises majority and minority stakes in substantially privately owned companies. These investments were made, either directly or as a limited partner in third-party funds, in a number of different regions and sectors. In our direct investments we support management teams to grow earnings, rationalize costs and enhance the value of the company before selling to a trade or financial buyer, or through an IPO.

## Organizational structure

The Private Equity business is managed on a global basis, fully integrated within the management and control structures of the Investment Bank. Its portfolio in Asia and Europe mainly comprises direct balance sheet investments. Private Equity in the US is focused on both direct balance sheet investments and the UBS Capital Americas fund. Around 20% of our portfolio is invested in third-party funds, which are overseen by a dedicated portfolio management team.

## Investment portfolio

Private Equity had a total investment portfolio of CHF 2.3 billion on 31 December 2003, measured by the historical cost of investments less divestments, returns of capital and permanent impairments. The fair value of the portfolio at the same date was CHF 2.9 billion.

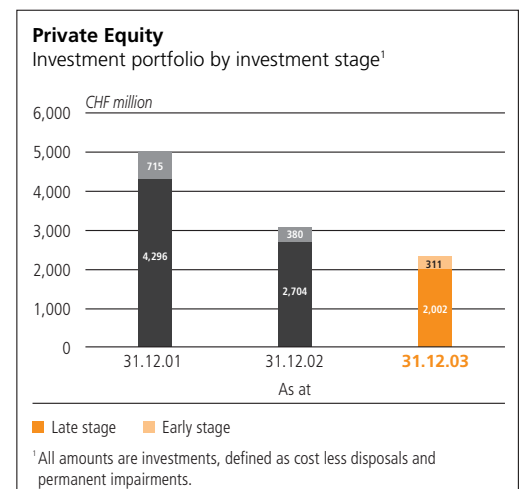
On 31 December 2003, approximately 32% of the investment portfolio was three years old or less. In line with the bank's aim of reducing

exposure to the private equity asset class, undrawn commitments were reduced to CHF 1.5 billion on 31 December 2003 from CHF 2.1 billion a year earlier.

The reduction in undrawn commitments over the course of 2003, as well as the successful divestments in 2003, is proof that our reduction efforts succeeded this year.

## Business outlook

The Private Equity business will continue to focus on managing existing assets in order to maximize value for UBS shareholders and for investors in UBS funds. Consistent with the de-emphasis of this asset class, we continue to capitalize on orderly exit opportunities for investments when they arise and to reduce exposure to private equity funds. As the portfolio shrinks, our performance will continue to be linked to the economic conditions prevailing in the markets of our underlying investments.



### Private Equity investment portfolio

Aging (based on date of initial investment)

CHF million <sup>1</sup>	As at		
	31.12.03	31.12.02	31.12.01
pre-1994	46	54	85
1994	4	97	190
1995	40	112	214
1996	44	63	202
1997	95	134	207
1998	91	373	722
1999	258	636	1,123
2000	986	1,119	1,781
2001	284	438	487
2002	79	58	
2003	386		
<b>Total</b>	<b>2,313</b>	<b>3,084</b>	<b>5,011</b>

<sup>1</sup> All amounts are investments, defined as cost less disposals and impairments.

### Private Equity investment portfolio

Geographic region (by headquarters of investee)

CHF million <sup>1</sup>	As at		
	31.12.03	31.12.02	31.12.01
North America	1,157	1,302	2,134
Europe	794	1,238	2,018
Latin America	108	189	339
Asia Pacific	254	355	520
<b>Total</b>	<b>2,313</b>	<b>3,084</b>	<b>5,011</b>

<sup>1</sup> All amounts are investments, defined as cost less disposals and impairments.

### Private Equity investment portfolio

Industry sector (based on industry classification codes)

CHF million, except where indicated <sup>1</sup>	As at					
	31.12.03	% of Portfolio	31.12.02	% of Portfolio	31.12.01	% of Portfolio
Consumer-related	383	17	517	17	773	15
Transportation	17	1	85	3	522	10
Communications	170	7	240	8	414	8
Computer-related	132	6	342	11	833	17
Energy	0	0	83	3	152	3
Other electronics-related	145	6	174	6	247	5
Other manufacturing	59	3	286	9	94	2
Chemicals and materials	2	0	8	0	54	1
Industrial products and services	422	18	746	24	1,360	27
Others	983	42	603	19	562	12
<b>Total</b>	<b>2,313</b>	<b>100</b>	<b>3,084</b>	<b>100</b>	<b>5,011</b>	<b>100</b>

<sup>1</sup> All amounts are investments, defined as cost less disposals and impairments.

# Wealth Management USA



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

As one of the top wealth managers in the US, we provide a complete set of sophisticated wealth management services to our affluent and high net worth clients.

## Business Group Reporting

CHF million, except where indicated  
For the year ended or as at

	Wealth Management USA	
	31.12.03	31.12.02
Total operating income	5,182 <sup>1</sup>	5,548
Total operating expenses	5,187	7,348 <sup>2</sup>
<b>Business Group performance before tax</b>	<b>(5)</b>	(1,800)



**Mark B. Sutton**  
CEO, Wealth Management USA

## Business Group Reporting excluding acquisition costs and significant financial events

Total operating income	5,021 <sup>3</sup>	5,548
Total operating expenses	5,187	6,114 <sup>4</sup>
<b>Business Group performance before tax</b>	<b>(166)</b>	(566)
Add: Net goodwill funding	231	390
Add: Retention payments	263	351
Add: Amortization of goodwill and other intangible assets	336	457
<b>Business Group performance before tax and excluding acquisition costs</b>	<b>664</b>	632

## KPI's and additional information

Net new money (CHF billion)	21.1	18.5
Interest and dividend income (CHF billion)	15.8	17.9
Invested assets (CHF billion)	634	584
Headcount (full-time equivalents)	18,016	19,563

<sup>1</sup> Includes significant financial event: gain on disposal of Correspondent Services Corporation of CHF 161 million. <sup>2</sup> Includes significant financial event: writedown of PaineWebber brand name of CHF 1,234 million. <sup>3</sup> Excludes significant financial event: gain on disposal of Correspondent Services Corporation of CHF 161 million. <sup>4</sup> Excludes significant financial event: writedown of PaineWebber brand name of CHF 1,234 million.

## Business

With CHF 634 billion in invested assets and nearly 2 million private client relationships, our focus is on wealth management services to the core affluent (clients with more than USD 500,000 in investable assets) and to high net worth individuals (clients with more than USD 5 million in investable assets). We have almost 7,800 financial advisors in 366 branch office locations that build and maintain consultative relationships with their clients.

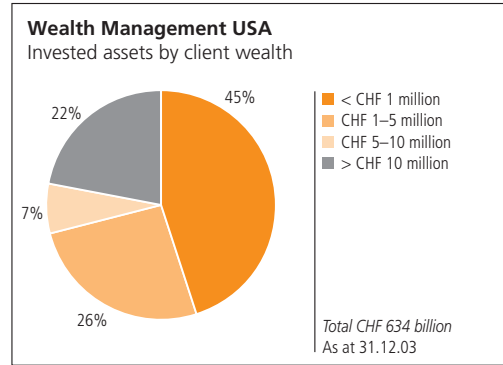
## Organizational structure

PaineWebber merged with UBS in November 2000 and its US private clients business became a separate business unit within UBS's Investment Bank. At the same time, PaineWebber's Capital Markets Group was integrated within the Investment Banking & Securities business unit while its asset management unit (then called Mitchell Hutchins) moved into the Global Asset Management Business Group. Most non-US private client businesses became part of our Wealth Management business unit. The US private client





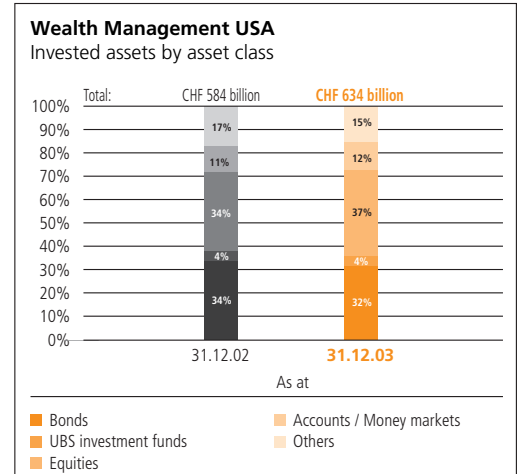
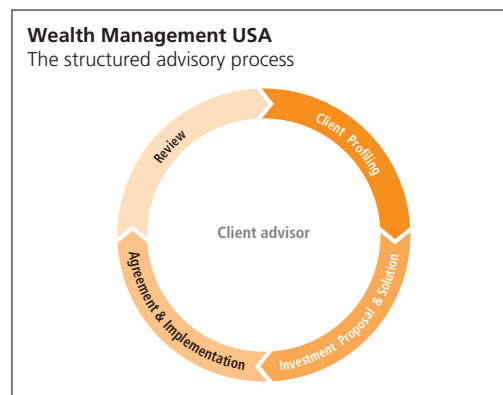
**The Business Groups**  
**Wealth Management USA**



wealth management platform – embracing both the assets and liabilities of our clients. Our asset-gathering strategy emphasizes the importance of generating recurring fees from advice and products, as fee-based relationships provide us with a source of regular, low volatility revenues.

In 2003, we attracted CHF 21.1 billion in net new money, excluding interest and dividends. As a visible example of the success of our strategy, a leading industry survey indicated our share of the US private clients market grew to 15.2% in 2003 from 14.4% in 2002.

The heart of the relationship between our clients and their financial advisors is our consultative process, during which each advisor profiles and creates an investment plan for his or her client based on individual needs, requirements and goals. It takes the client’s risk tolerance into account, and follows the appropriate asset allocation strategy. The plan is designed to help the client accumulate, preserve and transfer wealth. Once the plan is put in place, advisors hold regular portfolio reviews that help ensure the client’s long-term goals are met.



We continually commit considerable resources to further develop and expand the expertise of our financial advisors. All new advisors undergo a training program that is designed to provide them with the necessary financial planning, analysis, client relationship management, and legal and compliance knowledge. Moreover, this process does not end when an advisor starts working at a branch – it is continuous. We believe experience shows that our training programs are a key factor in helping to develop long-term, mutually beneficial relationships with clients.

Our dedication to and emphasis on training is one of the reasons why our financial advisors are among the most productive in the industry. A leading industry survey in fourth quarter 2003 put our revenue per financial advisor at 15% above the industry average on 31 December. By comparison, in second quarter 2000 (when we became part of UBS), our productivity stood 4% above the average.

**Products and services**

We offer clients wealth management services that meet individual investment needs with an open architecture product platform that gives them investment products from both UBS and third-party providers – where and when appropriate. This ensures that financial advisors and clients have a comprehensive source of investment solutions at their disposal. Our array of wealth management services includes financial planning and wealth management consulting. It also comprises transaction-based services such as securities

brokerage, as well as asset-based and advisory services (discretionary and non-discretionary portfolio management). Furthermore, we also provide money market accounts and fiduciary products, FDIC-insured deposits and lending products, including collateralized loans and mortgages.

Also, from the mid-1990s, our Corporate Employee Financial Services Group has provided stock option financing services to many of the largest US corporations and their executives.

#### **Investment products**

We offer core affluent and high net worth clients a number of products designed to help enhance the equity portion of their investment portfolios. For example, in 2003, we continued to develop our equity-linked note products as well as issuing a variety of principal protected notes, enhanced appreciation securities, and hedge fund underlying structured products.

Our clients also have a wide selection of fixed income securities to choose from, including government, mortgage-backed, corporate and municipal bonds, as well as preferred stock. As one of the leading US underwriters of municipal bonds, an investment class that is particularly attractive to many core affluent and high net worth investors, we give clients access to new issue offerings as well as the secondary market. Our Municipal Securities Group is a complete origination, structuring and distribution team. It assists municipalities and agencies in addressing their funding needs by accessing the debt markets, and distributing securities through our network. In 2003, the Group was ranked second in senior negotiated volume.

We offer a broad range of fee-based money management programs that utilize the expertise of professional money managers, both within UBS and through third parties. Indicative of the scope of investment products available to our clients, we have selling arrangements with over 150 mutual fund companies, many of which are leaders in the industry.

Because of high investor interest in hedge funds and funds of funds, we have also built up a capability to create, structure and manage a

broad array of alternative investments for qualified high net worth individuals and institutions.

#### **Lending products**

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

The launch of UBS Bank USA on 15 September 2003 significantly increased our lending advisory capabilities. We now provide FDIC-insured deposit accounts and enhanced collateralized lending options. By the end of the year, the bank had over USD 11 billion in assets, of which USD 4.5 billion were client borrowings under Premier Fixed and Premier Variable Credit Lines. Deposits of USD 8.2 billion provide most of the funding for the bank's assets.

In addition our financial advisors can offer a full array of mortgage products that help meet our clients' home financing needs. During 2003, we received local licensing which enables us to offer mortgages in all 50 states.

#### **Industry trends**

Today, we are the fifth-largest full-service brokerage firm in the US in terms of number of financial advisors. In 2004, we plan to remain focused on further increasing our market share of US household financial assets and capitalizing on our enhanced capabilities as well as the strengths of UBS's global platform. A key to achieving further growth will be a continued commitment to recruiting and retaining top financial advisors and providing them with the resources they need to sustain increased productivity. We are committed to pursuing financial success in 2004 and beyond by providing US clients with access to the resources of a global powerhouse.

# Corporate Center

Corporate Center creates sustainable value for shareholders and stakeholders by partnering with the Business Groups to ensure that the firm operates as an effective and integrated whole with a common vision and set of values.

## Business Group Reporting

CHF million, except where indicated For the year ended or as at	Corporate Center	
	31.12.03	31.12.02
Total operating income	1,151	2,676 <sup>1</sup>
Total operating expenses	1,781	2,399
<b>Business Group performance before tax</b>	<b>(630)</b>	277

## Business Group Reporting adjusted for significant financial events

Total operating income	1,151	2,449 <sup>2</sup>
Total operating expenses	1,781	2,399
<b>Business Group performance before tax</b>	<b>(630)</b>	50

## Private Banks & GAM

Performance before tax	208	384 <sup>3</sup>
Performance before tax and adjusted for significant financial events	208	229 <sup>4</sup>
Invested assets (CHF billion)	84	70
Net new money (CHF billion)	7.2	4.2
Headcount (full-time equivalents)	1,672	1,702

## Additional information

Total headcount (full-time equivalents)	2,878	2,887
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<sup>1</sup> Includes significant financial events: gain on disposal of Klinik Hirslanden of CHF 72 million and gain on disposal of Hyposwiss of CHF 155 million. <sup>2</sup> Excludes significant financial events: gain on disposal of Klinik Hirslanden of CHF 72 million and gain on disposal of Hyposwiss of CHF 155 million. <sup>3</sup> Includes significant financial event: gain on disposal of Hyposwiss of CHF 155 million. <sup>4</sup> Excludes significant financial event: gain on disposal of Hyposwiss of CHF 155 million.

## Aims and objectives

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

The Corporate Center's responsibility is to enforce high ethical and corporate governance standards in order to enhance and preserve UBS's most important asset – its reputation.

It defines and implements a coherent risk management and control framework that safeguards, in cooperation with the Business Groups, our long-term financial stability and health with an appropriate balance of risk and reward.

We also manage the UBS corporate legal structure, its regulatory capital, balance sheet, group funding, liquidity, non-trading currency and interest rate risks, and certain financial investments.

We advise the Business Groups and corporate leadership on the strategic allocation of the firm's human, technological and financial resources.

We ensure the integrity of the firm's financial reporting by the application of a common set of accounting and risk principles across the organization and transparent and timely communication of UBS's results and activities.

It is also our task to establish a positive and powerful image of UBS and raise the profile of the firm, its brand and what it stands for, both within and outside the organization.

## Organizational structure

The key functions within Corporate Center are:

### Group Controller

The Group Controller function produces regulatory, financial and management accounts and reports. As such, it is responsible for devising and implementing integrated and consistent financial control and accounting processes throughout UBS. It also establishes accounting policies, liaises with the external auditors, provides strategic analysis and advice and coordinates UBS's business planning process. In addition, it assumes direct responsibility for tax affairs and it coordinates and controls UBS's real estate activities worldwide.

### Chief Risk Officer/Chief Credit Officer

The Chief Risk Officer and Chief Credit Officer functions pool together vital UBS risk functions, with the Chief Credit Officer responsible for formulating credit risk policies, determining methodologies to measure credit risk, and setting and monitoring credit, settlement and country risk limits. The Chief Risk Officer is responsible for the policies, methodologies and limits for all other risk categories, and for aggregating and assessing UBS's total risk exposure.

### Group Treasurer

The Group Treasury area optimizes financial management, providing cost efficient equity and wholesale debt funding and coordinating regulatory capital and balance sheet requirements. The area is also responsible for the efficient management of UBS shares and administers our holdings of them. It is charged with preserving our excellent funding capacity, ensuring that we fully comply with all payment obligations at all times.

### Group Human Resources

Group Human Resources creates and maintains a function that stimulates and supports UBS's goal to be recognized as the best global financial services company, able to attract, develop, motivate and retain top talent by establishing standards, principles and procedures for performance evaluation, compensation and benefits, graduate and professional recruitment, learning and development.

### Chief Communication Officer

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

### Group Legal Services

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

In 2003, UBS announced a number of senior executive appointments and succession plans outlined in detail in the Strategy and Structure section on page 13. Pertaining to Corporate Center, Clive Standish will become UBS's Chief Financial Officer (CFO) from 1 April 2004. As

CFO, Standish will lead our finance, risk, treasury, and strategy functions. In 2004, Scott Abbey will take up the new Chief Technology Officer (CTO) function, which was created to integrate information technology infrastructure (ITI) functions across the firm.

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## Private Banks & GAM

In February 2003, UBS announced the creation of a holding company for its five fully owned private banking subsidiaries (Armand von Ernst, Banco di Lugano, Bank Ehinger, Cantrade and Ferrier Lullin) and GAM, our specialist asset manager. The move was made to assist them in growing faster, support them in integrating their activities, and help them to deliver their full value creation potential. They can

also target economies of scale not achievable by each organization on its own. Private Banks & GAM may also be able to expand their presence further by playing a future role in the consolidation of the Swiss wealth management industry.

Following the creation of the holding company in early 2003, three of the five subsidiaries (Armand von Ernst, Bank Ehinger and Cantrade) were then merged

to form Ehinger & Armand von Ernst – headquartered in Zurich, with branches in Basel and Bern. It is one of the most important providers of private banking services to the Swiss-German region. In late 2003, Ferrier Lullin acquired Banque Notz Stucki S.A., which specializes in wealth management for private individuals. The acquisition adds approximately CHF 2 billion in invested assets.

# Financial Management



# Risk Management and Control

Taking risk is an integral part of our business. Therefore our overriding goal is not to minimize risk, but to achieve an appropriate balance between risk and return, limiting the scope for adverse variations in our earnings through exposure to major individual 'stress' events.

## Risk management and control principles

Good risk management and control lie at the heart of banking and are an integral part of providing consistent, high-quality returns for shareholders. A bank that fails to adequately manage and control its risks will suffer financial losses. Potentially more devastating is the resultant damage to its reputation, which can undermine its share price, its client base and its ability to retain top talent, and may force regulators to impose constraints upon its business. We recognize that taking risk is core to our business, and aim to achieve an appropriate balance between risk and return. In our day to day business and in the strategic management of our balance sheet and capital, we therefore seek to limit the scope for adverse variations in our earnings and exposure to stress events arising from any of the material risks we face.

We base our approach to risk management and control on five principles.

*Business management is accountable* for the risks it assumes and for the continuous and active management of all risk exposures, so that risk and return are prudently balanced.

*Independent control* functions are responsible for providing an independent and objective check on risk-taking activities to safeguard the integrity of the entire risk management and control process.

Comprehensive, transparent and objective *risk disclosure* to senior management, the Board of Directors, shareholders, regulators, rating agencies and other stakeholders is the cornerstone of the risk control process.

To *protect our earnings*, we set limits, where appropriate. These limits not only govern normal periodic adverse results relative to the potential profit of our businesses but also help protect us from stress events which might cause unacceptable damage to our annual earnings capaci-

ty, our dividend paying ability and, ultimately, our reputation and ongoing business viability.

We *protect our reputation* by managing and controlling the risks incurred in the course of our business, and for this reason we focus on the avoidance of concentrations of exposure of all kinds, and on potential stress losses, particularly in market and credit risk. We avoid extreme positions in transactions that are sensitive for tax, legal, regulatory or accounting reasons, and we adopt a cautious approach to other risks that cannot be sensibly evaluated or priced. We aspire to the highest standards in protecting the confidentiality and integrity of our client information, and we aim to maintain the highest ethical standards in all our businesses.

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

## Key responsibilities

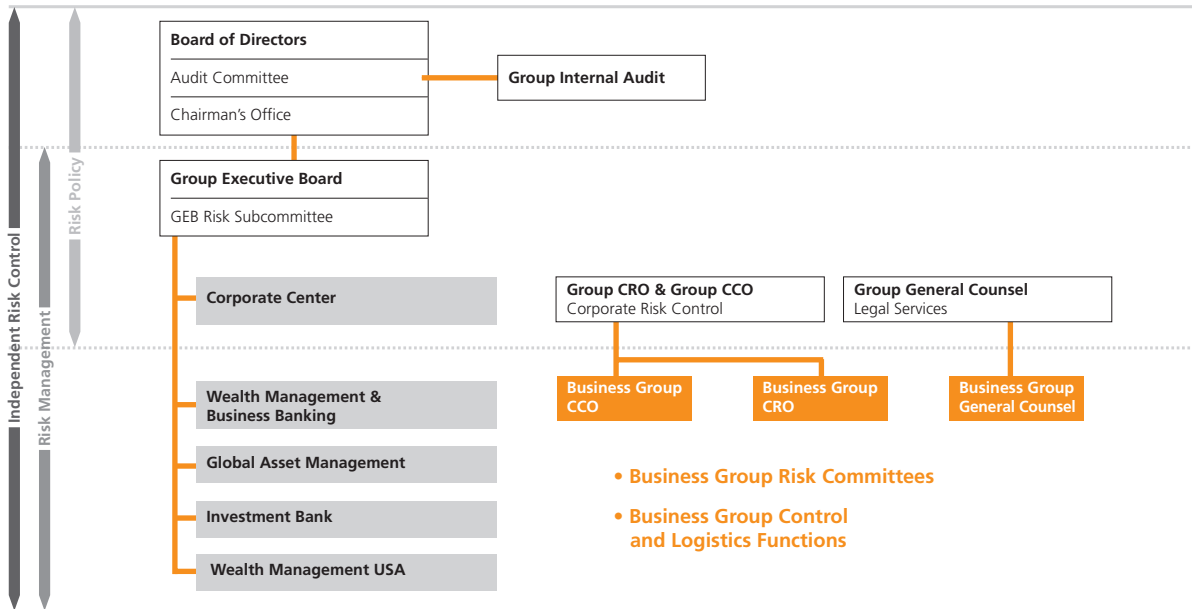
The Board of Directors is responsible for the firm's fundamental approach to risk, risk principles and the determination of our risk capacity.

The Chairman's Office oversees the risk profile of the firm on behalf of the Board of Directors and has ultimate authority for credit and other risk-related matters.

The Group Executive Board (GEB) is responsible for implementing the approach, including approval of core risk policies, allocation of risk limits to the Business Groups, and management of the risk profile of UBS as a whole.

The Group Chief Credit Officer (CCO), Group Chief Risk Officer (CRO) and Group General Counsel are responsible for formulating risk policies, for determining methodologies to measure risks, and for setting and monitoring limits where appropriate.

## UBS Risk Management and Control Framework



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

At the Corporate Center and in the business groups, we take a holistic and integrated approach to risk through close cooperation and communication between the Risk Control, Legal, Compliance, Finance, Planning, Treasury and Logistics functions. Excellence in risk management is, however, fundamentally based upon a management team that makes risk identification, management and control critical components of its processes and plans.

### The risk control process

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

- we *identify risk*, particularly in new businesses and in complex or unusual transactions, but also in response to external events and in continuous monitoring of portfolios
- we *measure quantifiable risks*, using methodologies and models which have been independently validated and approved

- we establish *risk policies* consistent with evolving business requirements and international best practice
- we have comprehensive *risk reporting* to stakeholders, and to management at all levels, against the approved risk control framework and, where applicable, limits
- we impose *risk control*, through compliance with our risk management and control principles, and with policies, limits and regulatory requirements.

Coordinated processes involving all relevant control and logistics functions are applied before commencement of any new business or significant change in business, and before the execution of any transaction which is complex or unusual in its structure or motivation, including transactions which are sensitive to or motivated by tax, legal, regulatory or accounting considerations. These processes, which involve the Business, Risk Control, Legal, Compliance, Financial Control and Logistics functions, ensure that all critical elements are addressed, including the assurance that transactions can be booked in a way that will permit appropriate ongoing risk monitoring, reporting and control.

Risk categories

Inherent risks		
Primary risks	Operational risks	
Credit risk	Transaction processing risk	Compliance risk
Market risk	Legal risk	Liability risk
Funding and liquidity risk	Security risk	Tax risk

Reputational risk

The risks we take

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

The ‘primary’ and ‘operational’ risks inherent in our business activities are subject to independent risk control. Primary risks are exposures deliberately entered into for business reasons which are actively traded and managed. Operational risk is the risk of loss arising from inadequate or failed internal processes, people or systems, or from external causes, deliberate, accidental or natural. These risks are not actively taken, but arise as a consequence of business undertaken and as a consequence of internal control gaps, which cannot be entirely eliminated.

Primary risks are credit risk, market risk and funding and liquidity risk:

- *credit risk* is the risk of loss resulting from client or counterparty default and arises on credit exposure in all forms, including settlement risk
- *market risk* is exposure to observable market variables such as interest rates, exchange rates and equity markets, and to price movements on securities and other obligations which we trade
- *funding and liquidity risk* is the risk that we are unable to meet our payment obligations when due, or that we are 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.

Operational risk can arise in a number of ways:

- *transaction processing risk* arises from errors, failures or shortcomings at any point in the transaction process, from deal execution and capture to final settlement
- *compliance risk* is the risk of financial loss due to regulatory fines or penalties, restriction or suspension of business, or costs of

mandatory corrective action. Such risks may be incurred by not adhering to applicable laws, rules and regulations, local or international best practice (including ethical standards), or UBS’s own internal standards

- *legal risk* is the risk of financial loss resulting from the non-enforceability of UBS’s actual or anticipated rights arising under law, contract or other arrangement
- *liability risk* is the risk that we, or someone acting on our behalf, fail to fulfill the obligations, responsibilities or duties imposed by law or assumed under a contract and that claims are therefore made against us
- *security risk* is the risk of loss of confidentiality, integrity or availability of our information or other assets
- *tax risk* is the risk of additional tax arising from technically incorrect positions taken on tax matters, or failure to comply with tax withholding or reporting requirements on behalf of clients or employees; and the risk of claims by clients or counterparties as a result of UBS involvement in tax sensitive products or transactions.

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

How we measure risk

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

*Expected loss* is the loss that is expected to arise on average in connection with an activity. It is an inherent cost of such activity and is budgeted and, where permitted by accounting standards, deducted from revenues directly.

*Statistical loss* (also known as ‘unexpected loss’) is an estimate of the amount by which actual loss can exceed expected loss over a specified time horizon, measured to a specified level of confidence (probability).

*Stress loss* is the loss that could arise from extreme events. We establish stress loss limits where appropriate to avoid unacceptable damage to our earnings, our dividend paying ability and, ultimately, our reputation and ongoing business

viability. The identification of stress events and scenarios to which we are vulnerable and an assessment of their potential impact, and in particular the danger of aggregated losses from a single event through concentrated exposures, is therefore a key component of the risk control process.

We use both statistical loss and stress loss measures and limits to manage our risks prudently relative to potential and actual returns.

The measurement of risk is clearly important, but quantification does not always tell the whole story, and not all risks are quantifiable. We therefore pay equal attention to ‘soft’ risks,

avoiding the temptation to ignore risks that cannot be properly quantified, and we place great emphasis on qualitative controls and processes to help in identifying and assessing both quantifiable and unquantifiable risks.

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

# Risk Analysis

## Credit risk

Credit risk represents the loss which UBS would suffer if a client or counterparty failed to meet its contractual obligations. It is inherent in traditional banking products – loans, commitments to lend and other contingent liabilities, such as letters of credit – and in ‘traded products’ – 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 to be market risks – see page 60.

Credit risk management and control at UBS are governed by a Group Credit Policy Framework, and by detailed credit policies and procedures.

To ensure a consistent approach with appropriate checks and balances, all Business Groups taking material credit risk have independent credit risk control units, 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. The level of credit authority delegated to individuals varies according to the quality of the counterparty and any security and takes into account the individual’s seniority and experience.

We manage and control concentrations of credit risk wherever we identify them, in particular to individual counterparties and groups and to industries and countries. Disciplined processes are in place, within the Business Groups and Corporate Center, to ensure prompt identification, accurate assessment, proper approval and consistent monitoring and reporting of credit risk.

## Credit risk of counterparties and groups

We set limits on our credit exposure to both individual counterparties and counterparty groups. In the Investment Bank, where it is most relevant, we differentiate between ‘take and hold’ and ‘temporary’ exposures, the latter being those accepted with the intention of syndicating, selling or hedging within a short period.

Exposure is measured for banking products as the face value amount of the loan or commitment. For most traded products we determine the future exposure profile by modeling the potential evolution of the value of the portfolio of trades with each counterparty over its life (potential credit exposure), taking into account legally enforceable close out netting agreements where applicable. Credit limits for individual counterparties are applied to the ‘maximum likely exposure’, a statistical measure derived from this model.

Investment Bank has also developed, primarily as a management tool at this stage, a measure which translates all exposures into a benchmark loan equivalent, taking into account expected changes in exposure profile of traded products and credit rating migration of the counterparty. Maximum counterparty concentration guidelines are set for each rating class. Credit exposure is monitored against these guidelines and exposure reduction through syndication, sale or hedging may be triggered when a guideline is exceeded.

## Expected loss

Credit risk exists in every credit engagement, and credit loss expenses must be expected as an inherent cost of doing business. But 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, we use the concept of ‘expected loss’.

‘Expected loss’ is an estimate of the annual costs that will arise, on average over time, from positions that become impaired. It is derived from the probability that a given counterparty

### UBS internal rating scale and mapping to external ratings

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

will default, our current and likely future exposure to that counterparty and the likely severity of the loss should default occur.

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

We determine exposure at default based on the expected amounts owed at the time of default, for example for traded products the expected exposure profile, derived from the same model as the 'maximum likely exposure' used to measure credit limit utilization.

We assess loss severity or loss given default based on a set of assumptions, taking into

account the seniority of the claim, and collateral or other credit mitigation where available.

UBS's internal measurement framework is broadly consistent with the concepts of Basel II under which future minimum regulatory capital requirements for credit risk will be determined.

### Statistical and stress loss

Our credit portfolio is heterogeneous, varying significantly in terms of client type, sector, geographical diversity and the size of exposures. For the assessment of both statistical loss and stress loss in material credit portfolios, we make an initial analysis based on sub-portfolios with more homogeneous characteristics.

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

Modeling extreme credit losses is complex because they are driven much less by systematic factors than is generally the case for market risk. We apply scenarios which allow us to assess the impact of variations in bankruptcy/default rates and asset values, taking into account risk concentrations in each portfolio. We also measure industry and geographical contributions to stress loss results.

### Composition of credit exposures

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

The two main contributors to credit exposure are Wealth Management & Business Banking and Investment Bank. To a lesser extent, credit activities are also important to Wealth Management USA.

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

In Investment Bank, credit exposure arises from both traditional banking products and

## Financial Management Risk Analysis

### Total exposure

CHF million	Wealth Management & Business Banking			Investment Bank			Wealth Management USA			Other <sup>1</sup>			UBS		
	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	31.12.03	31.12.02	31.12.01	31.12.03	31.12.02	31.12.01
As at	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	31,12,03	31,12,02	31,12,01	31,12,03	31,12,02	31,12,01
Loans utilization (gross)	174,772	169,106	175,693	55,366	61,718	61,229	13,116	12,857	18,246	4,953	5,689	6,816	248,207	249,370	261,984
Contingent claims	11,424	11,448	12,839	3,201	4,407	11,640	355	430	542	583	309	466	15,563	16,594	25,487
Unutilized committed lines	1,800	1,984	2,509	44,670	36,439	47,355	80	811	715	73	72	29	46,623	39,306	50,608
Total banking products	187,996	182,538	191,041	103,237	102,564	120,224	13,551	14,098	19,503	5,609	6,070	7,311	310,393	305,270	338,079
Unsecured OTC products	1,385	1,682	1,961	53,649	55,002	64,416				573			55,607	56,684	66,377
Other derivatives (secured or exchange-traded)	1,190	712	2,317	14,535	10,850	12,150	1	3					15,726	11,565	14,467
Securities lending / borrowing	1,093	917	45	22,220	11,962	14,575							23,313	12,879	14,620
Repo / Reverse-Repo	26	14	67	19,546	21,744	18,948	151	439					19,723	22,197	19,015
Total traded products <sup>2</sup>	3,694	3,325	4,390	109,950	99,558	110,089	152	442		573			114,369	103,325	114,479
<b>Total credit exposure, gross</b>	<b>191,690</b>	185,863	195,431	<b>213,187</b>	202,122	230,313	<b>13,703</b>	14,540	19,503	<b>6,182</b>	6,070	7,311	<b>424,762</b>	408,595	452,558
<b>Total credit exposure, net of allowances</b>	<b>188,798</b>	182,148	189,929	<b>212,072</b>	200,620	227,949	<b>13,678</b>	14,511	19,469	<b>6,178</b>	6,061	7,298	<b>420,726</b>	403,340	444,645

<sup>1</sup> Includes Global Asset Management and Corporate Center including Private Banks. <sup>2</sup> Traded products exposure is based on internal measurement methodology.

traded products. Traded products exposure to lower rated counterparties is generally collateralized or otherwise supported.

The table above provides an overview of the aggregate credit exposure of UBS in gross terms, i.e. without recognition of hedges, collateral or other risk mitigation.

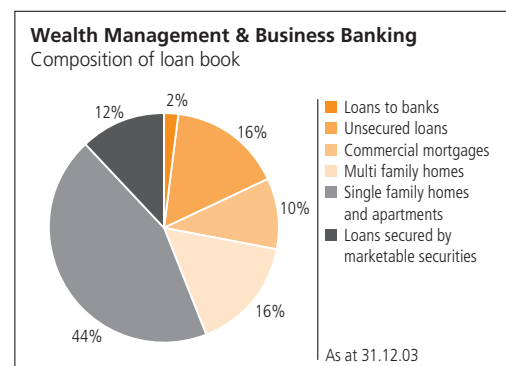
#### Wealth Management & Business Banking

Wealth Management & Business Banking's gross loans to customers at 31 December 2003 amounted to CHF 175 billion, of which 70% or CHF 123 billion were secured by real estate. Loans to customers increased by CHF 5.7 billion, mainly a reflection of the success of our home mortgage initiative in Switzerland. The pie chart to the right shows that exposure to the real estate sector is well diversified, with 44% of loans being secured on single-family homes and apartments, which, historically, have exhibited a low risk profile. The 16% of exposure secured on residential multi-family homes consists of rented apartment buildings. Loans and other credit engagements with individual clients, excluding mortgages, are predominantly extended against the pledge of marketable securities where we apply conservative standards to determine the advance value of the collateral.

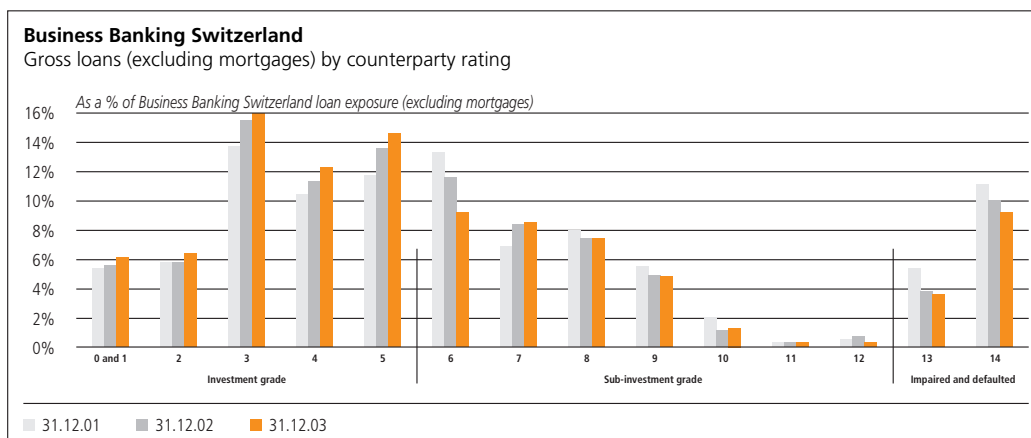
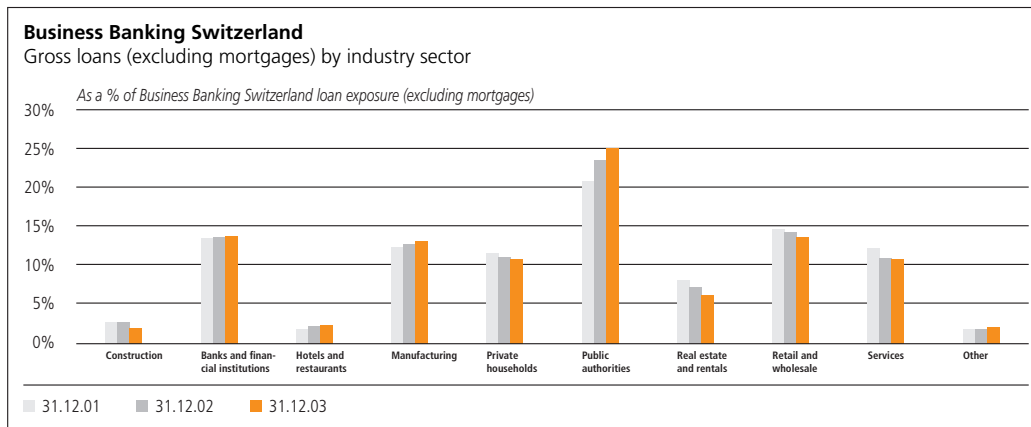
Unsecured loans consist predominantly of exposures to corporate clients. They are widely spread across rating categories and industry sec-

tors, which reflects our position as a market-leading lender to this segment of predominantly small-to medium-sized enterprises in Switzerland. During 2003, we have again focused on improving the quality of our credit portfolio, and further reducing individual and sector concentrations.

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







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

CHF million	Gross Exposure	Loss given default buckets				Weighted Average LGD (%)
		0–25%	26–50%	51–75%	76–100%	
0	1,019	469	404	146	0	34
1	567	318	56	188	5	37
2	3,611	2,101	1,000	497	13	32
3	17,024	10,807	1,566	3,142	1,509	27
4	6,261	2,531	1,727	1,966	37	38
5	104,355	96,942	3,484	2,280	1,649	25
6	8,618	2,899	3,657	1,768	294	39
7	11,124	3,899	4,497	1,335	1,393	41
8	9,309	2,452	5,013	1,261	583	38
9	4,934	1,414	2,470	740	310	39
10	1,065	249	520	216	80	42
11	217	33	115	56	13	44
12	278	133	92	25	28	35
<b>Total</b>	<b>168,382</b>	<b>124,247</b>	<b>24,601</b>	<b>13,620</b>	<b>5,914</b>	<b>29</b>
Investment grade	132,837	113,168	8,237	8,219	3,213	
Sub-investment grade	35,545	11,079	16,364	5,401	2,701	
Impaired and defaulted	6,390					
<b>Total gross loans</b>	<b>174,772</b>					

## Financial Management Risk Analysis

### Investment Bank

A substantial majority of the Investment Bank's credit exposures fall into the investment grade category (internal counterparty rating grades 0 to 5), both for banking products gross (68%) and for traded products (94%). The counterparties are primarily sovereigns, financial institutions, multinational corporate clients and investment funds.

The Investment Bank's total banking products exposure at 31 December 2003 was CHF 103 billion, of which CHF 55 billion was loans, compared with CHF 103 billion total and CHF 62

billion loans at 31 December 2002 and CHF 120 billion total and CHF 61 billion loans at 31 December 2001. In the last few years, the Investment Bank has engaged in a substantial credit risk hedging program through which we have effectively reduced our banking products exposure at 31 December 2003 by CHF 22 billion. This was achieved mainly by transferring the underlying risk to high-grade market counterparties using credit default swaps. The table below provides a view of the net banking products exposure, reflecting the effect of these credit risk hedging activities. To illustrate the effects

### Investment Bank: credit hedging, banking products

CHF million	As at 31.12.2003			
	Gross Exposure <sup>1</sup>	Credit Hedges <sup>2</sup>	Other Risk Mitigants <sup>3</sup>	Net Exposure
Investment grade	39,227	(18,892)	609	22,314
Sub-investment grade	22,306	(3,508)	(498)	18,626
Impaired and defaulted	1,495	0	(889)	615
<b>Total banking products exposure</b>	<b>63,028</b>	<b>(22,400)</b>	<b>(778)</b>	<b>41,555</b>

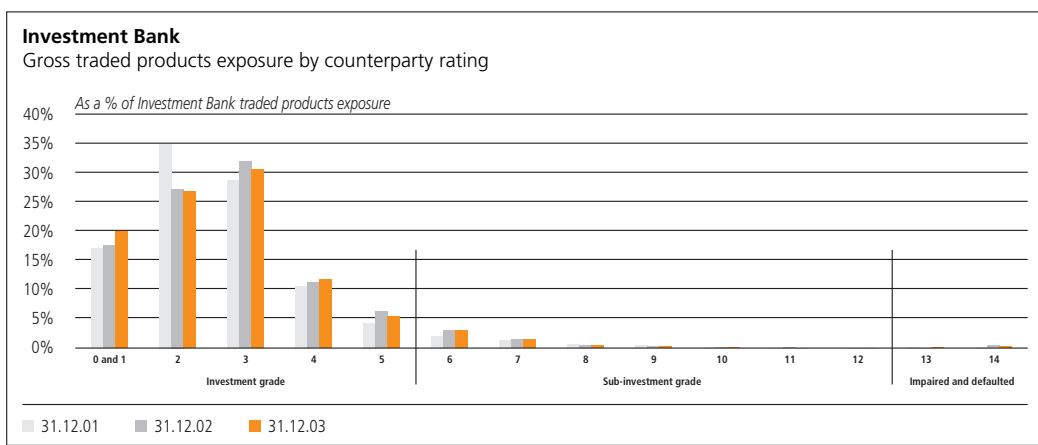
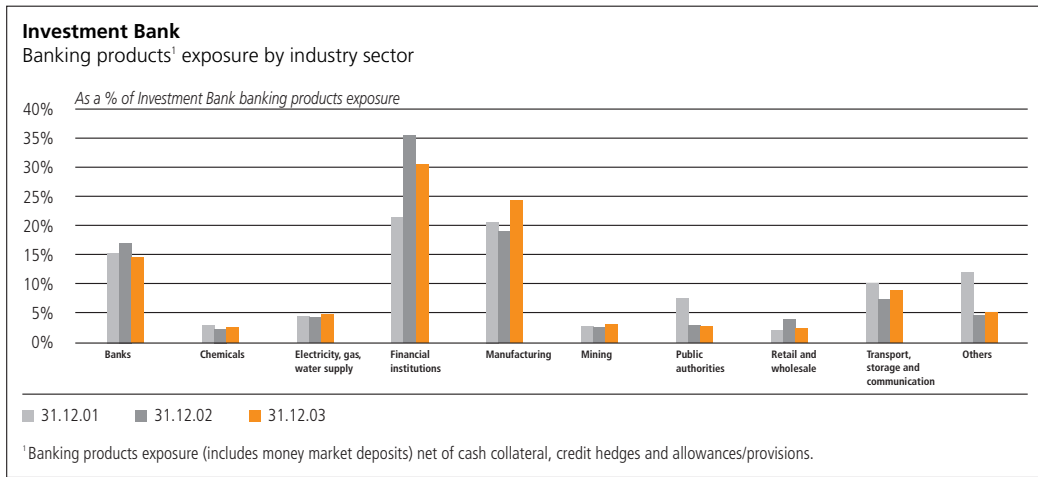
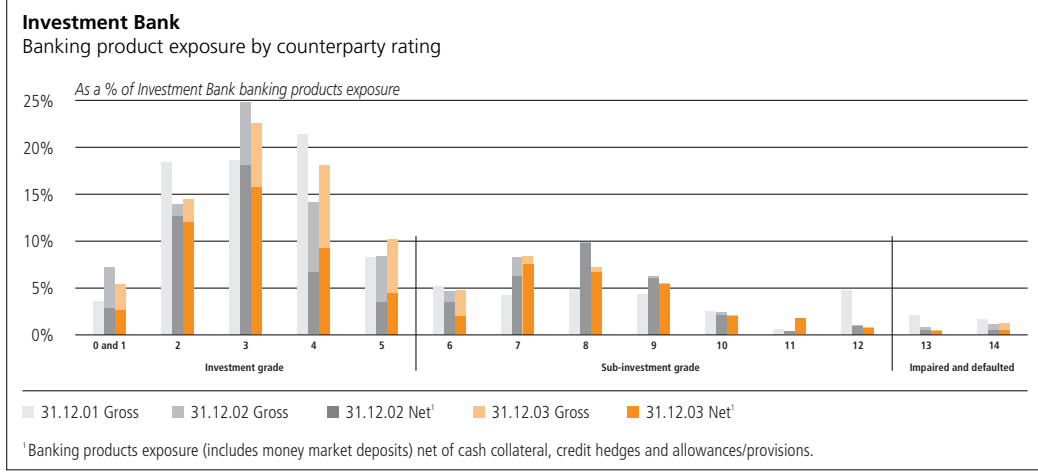
<sup>1</sup> Gross Exposure includes contingent claims and unutilized commitments but excludes money market deposits and cash collateral deposits both included in the total Banking Products of CHF 103,237 million shown in the total exposure table. <sup>2</sup> Credit Hedges include single name credit default swaps (CDS) and credit linked notes (CLN) programs at notional amounts. <sup>3</sup> Other Risk Mitigants include cash collateral and unfunded risk participations. Risk participations are shown as a reduction in exposure to the original borrower and corresponding increase in exposure to the participant bank. The impaired and defaulted category also includes counterparty-specific allowances of CHF 673 million.

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

### Investment Bank: distribution of net take and hold banking products exposure<sup>1</sup> across counterparty rating and loss given default (LGD) buckets

CHF million	Net Credit Exposure <sup>2</sup>	Loss given default buckets				Weighted Average LGD (%)
		0–25%	26–50%	51–75%	76–100%	
Not rated	36	22	14	0	0	27
0 and 1	1,875	0	1,875	0	0	49
2	4,019	217	3,790	0	12	47
3	5,520	2,513	2,767	238	2	38
4	3,887	63	3,757	67	0	50
5	1,694	573	1,121	0	0	45
6	989	345	627	5	12	44
7	5,227	4,538	629	60	0	15
8	4,731	4,255	341	0	135	14
9	3,177	2,095	872	198	12	25
10	797	119	636	36	6	46
11	492	140	316	24	12	48
12	491	163	310	18	0	34
<b>Total non-impaired</b>	<b>32,935</b>	<b>15,043</b>	<b>17,055</b>	<b>646</b>	<b>191</b>	<b>34</b>
Investment grade	17,031	3,388	13,324	305	14	
Sub-investment grade	15,904	11,655	3,731	341	177	
Impaired and defaulted	609					
<b>Total take and hold</b>	<b>33,544</b>					

<sup>1</sup> Net take and hold banking products exposure does not include money market deposit and excludes temporary (underwriting) commitments. <sup>2</sup> Net credit exposure: gross credit exposure minus credit hedges minus other risk mitigants.



of credit hedging and other risk mitigation, the rating distribution graph on the previous page shows exposures before and after risk mitigation. Additionally, in the matrix on page 54, we show the distribution of Investment Bank's net banking products exposure across rating grades and LGD buckets. In this portfolio, the LGD for senior claims is normally between 40% and 50%, which explains the concentration in the 26–50% bucket. The significant exposure in the sub-investment grade 0–25% bucket is mainly comprised of short-term loans to US mortgage originators, secured on their mortgage portfolios, pending securitization. Exposure distribution across counterparty ratings shown elsewhere in this section refers only to gross exposure and probability of default, without reference to the likely severity of loss or loss mitigation from collateral or credit hedges.

The banking products portfolio continues to be widely diversified across industry sectors. At 31 December 2003, the largest exposure (31%) was to financial institutions. Our disciplined credit underwriting and distribution standards, our focus on asset quality and our avoidance of risk concentrations, have allowed the Investment Bank to avoid any significant default situations in 2003.

A significant proportion of the Investment Bank's credit risk arises from its trading and risk management activities. Providing risk management solutions to clients, including the use of derivative products, is a core business of the Investment Bank. Transactions with counterparties of lower quality are generally conducted on a secured basis or for short tenors only. In line with general market trends, we have also entered into bilateral collateral agreements with other major banks to mitigate the potential concentrations of exposure arising from industry consolidation and the continuing increase in volumes of OTC derivatives traded.

The graph on page 55 shows the Investment Bank's traded products exposure by counterparty rating at 31 December 2003. Further details of derivative instruments are provided in Note 23 to the Financial Statements and details of securities borrowing, securities lending, repurchase and reverse repurchase activities can be found in Note 10 to the Financial Statement.

Over the last six years, we have focused our lending outside Switzerland on important advi-

sory or underwriting clients, avoiding pure commercial lending, and thereby substantially reducing our international credit exposure. With the increasing strength of the business franchise with such core clients, and the improvement in market conditions, we expect to selectively allocate moderately higher capital resources to support our business growth. Any increase in credit exposure will, however, be gradual and balanced across our lending business for core corporate clients, derivatives activity and loan underwriting.

### **Wealth Management USA**

Consistent with their business focus on regulated, collateralized lending to high net worth individuals, credit risk in the Wealth Management USA portfolio is comparatively low. The loan portfolio as at 31 December 2003 amounted to CHF 13 billion, spread across more than 100,000 individual positions, widely dispersed across the US. In order to provide a broader range of services to our US clients, in the fall of 2003, we opened UBS Bank USA, an FDIC-insured institution located in Salt Lake City. Over time this is likely to lead to growth in the collateralized loan portfolio of Wealth Management USA.

### **Settlement risk**

Settlement risk arises in transactions involving the exchange of values when we must honor our obligation to deliver without first being able to determine that we have received the counter-value. The most significant element of our settlement risk arises from foreign exchange transactions, but the Continuous Linked Settlement (CLS) system, an industry initiative which went live in October 2002, allows transactions to be settled on a delivery versus payment basis, eliminating settlement risk. The volume of transactions settled through CLS has increased throughout 2003, and by fourth quarter nearly 50% by value of our foreign exchange business was being settled in this way. CLS does not, of course, eliminate the credit risk arising on foreign exchange transactions from changes in exchange rates prior to settlement, which we continue to measure and control as for other traded products, as described on page 50 under Credit risk of counterparties and groups.

## Country risk

The CCO organization at the Corporate Center assigns ratings to all countries to which we have exposure. Like counterparty ratings, sovereign ratings express the probability of the occurrence of a country risk event that would lead to an impairment of our exposures. The default probabilities and the mapping to the ratings of the major rating agencies are the same as for counterparty credit risks (see table on page 51), the three lowest ratings being designated 'distressed'.

For all countries rated 3 and below, we set country risk ceilings approved by the Chairman's Office or under delegated authority. The country risk ceiling applies to all transactions with counterparties in these countries, and extension of credit may be denied on the basis of a country risk ceiling, even if there are adequate counterparty limits available. Within this group of countries, those which have yet to reach a mature stage of economic, financial, institutional, political and social development or where there is significant potential for economic or political instability are defined as emerging market countries. The country data provided below cover only emerging market countries and not all countries which are subject to ceilings.

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

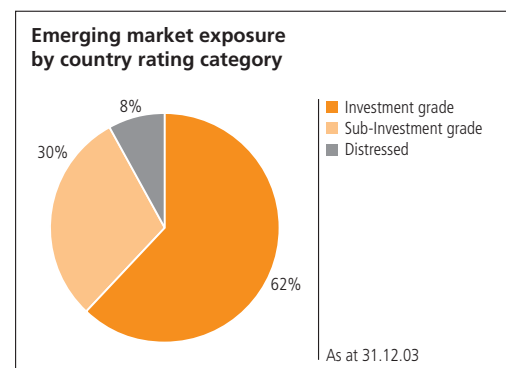
We measure the potential financial impact of severe emerging markets crises by stress testing –

identifying countries that may be subject to a potential crisis event, and determining potential loss, making conservative assumptions about potential recovery rates depending on the types of transaction involved and their economic importance to the affected countries.

## Country risk exposure

Our cross-border country risk exposure to emerging markets amounted to CHF 13.8 billion at 31 December 2003, compared with CHF 10.7 billion at 31 December 2002. Of this amount, CHF 8.6 billion or 62% is to investment grade countries. Our on-shore exposure to emerging markets is not material. The growth of CHF 3.1 billion in total emerging markets exposure arose almost entirely in liquid tradable assets, reflecting increased emerging markets trading activities, especially in Asia, where we took advantage of opportunities presented by improved investor sentiment.

The table and graphs below analyze the cross-border emerging market country exposures by country rating category, by major geographical area and by product type at 31 December 2003 compared to 31 December 2002 and 31 December 2001.



## Emerging market exposure by major geographical area and product type

CHF million As at	Total			Banking products			Traded products			Tradable assets		
	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	31.12.03	31.12.02	31.12.01
Emerging Europe	<b>1,833</b>	2,005	1,954	<b>441</b>	390	632	<b>606</b>	532	750	<b>786</b>	1,083	572
Emerging Asia	<b>7,721</b>	4,755	7,747	<b>2,416</b>	2,189	4,029	<b>1,113</b>	1,179	1,537	<b>4,192</b>	1,387	2,181
Latin America	<b>1,849</b>	1,711	2,876	<b>425</b>	618	1,122	<b>568</b>	330	863	<b>856</b>	763	891
Africa / Middle East	<b>2,363</b>	2,205	2,858	<b>882</b>	979	1,432	<b>1,083</b>	818	962	<b>398</b>	408	464
<b>Total</b>	<b>13,766</b>	10,676	15,435	<b>4,164</b>	4,176	7,215	<b>3,370</b>	2,859	4,112	<b>6,232</b>	3,641	4,108

### Provisioning policies

UBS classifies a claim as impaired if the book value of the claim exceeds the present value of the cash flows actually expected in future periods – loan interest payments and scheduled principal repayments, or other payments due, for example on guarantees, and including liquidation of collateral where available. We further classify loans 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.

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

Each case is assessed on its merits, and the workout strategy and estimation of cash flows considered recoverable are independently approved by the CCO organization.

Allowances and provisions for credit losses also include a component for country risk. We establish country-specific scenarios, which are kept under review and updated as necessary, to evaluate the extent to which the value of our banking and trad-

ed product exposures would be affected by country risk incidents or country-specific systemic risks. Appropriate provisions are then determined by evaluating the type of credit exposure in the portfolio for each country and the loss severities that have been attributed to each exposure type. With effect from fourth quarter 2003, we have reclassified certain country allowances as counterparty specific credit allowances where they cover arrears of governments and other sovereign debtors in countries that are subject to a debt moratorium or whose debt has been rescheduled.

We are confident that our policies and processes ensure a consistent and fair basis for determining prudent levels of allowances and provisions.

### Credit loss expense

Our Financial Statements are prepared in accordance with IFRS, under which credit loss expense charged to the UBS Financial Statements in any period is the sum of net allowances and direct writeoffs minus recoveries arising in that period, i.e. the credit losses actually incurred. By contrast, in our segment reporting we measure credit loss expense using the expected loss concept, which reflects the annual cost that is expected to arise on transactions in the current portfolio that become impaired in the future. To hold the Business Groups accountable for credit losses actually incurred, we charge or refund them with the difference between actual credit loss expense and expected loss, amortized over a three-year period. The

### Actual credit loss (expense) / recovery versus Business Group credit loss charge

CHF million	Wealth Management & Business Banking			Investment Bank			Wealth Management USA			Other <sup>1</sup>			UBS		
	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	31.12.03	31.12.02	31.12.01	31.12.03	31.12.02	31.12.01
For the year ended	<b>31,12,03</b>			<b>31,12,03</b>			<b>31,12,03</b>			<b>31,12,03</b>			<b>31,12,03</b>		
Total banking products exposure at year end	<b>187,996</b>	182,538	191,041	<b>103,237</b>	102,564	120,224	<b>13,551</b>	14,098	19,503	<b>5,609</b>	6,070	7,311	<b>310,393</b>	305,270	338,079
Actual credit loss (expense)/recovery	<b>(75)</b>	(238)	(124)	<b>(40)</b>	35	(360)	<b>(3)</b>	(15)	(15)	<b>2</b>	12	1	<b>(116)</b>	(206)	(498)
- as a proportion of total banking products exposure (bps)	<b>(4)</b>	(13)	(6)	<b>(4)</b>	3	(30)	<b>(2)</b>	(11)	(8)	<b>4</b>	20	1	<b>(4)</b>	(7)	(15)
Credit loss expense charged to the Business Groups <sup>2</sup>	<b>(131)</b>	(312)	(601)	<b>(139)</b>	(128)	(112)	<b>(8)</b>	(13)	(18)	<b>(2)</b>	(2)	(3)	<b>(280)</b>	(455)	(734)
- as a proportion of total banking products exposure (bps)	<b>(7)</b>	(17)	(31)	<b>(13)</b>	(12)	(9)	<b>(6)</b>	(9)	(9)	<b>(4)</b>	(3)	(4)	<b>(9)</b>	(15)	(22)

<sup>1</sup> Includes Global Asset Management and Corporate Center including Private Banks. <sup>2</sup> Based on expected credit loss. See Credit loss expense section above.

difference between the amounts charged to the Business Groups and the actual credit loss expense recorded at Group level is reported in the Corporate Center. The following discussion covers the actual credit loss expense.

Total credit loss expense for UBS in 2003 amounted to CHF 116 million, compared to CHF 206 million in 2002 and CHF 498 million in 2001.

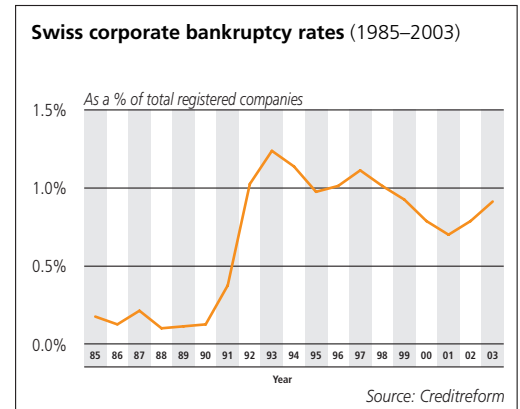
Net actual credit loss expense at Wealth Management & Business Banking amounted to CHF 75 million compared to CHF 238 million in 2002. This exceptionally strong result was achieved despite the negative impact of the Erb Group, a privately held Swiss conglomerate, which defaulted in fourth quarter 2003. 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 (see the graph to the right). 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.

### Impaired loans, allowances and provisions

As shown in the table on the following page, allowances and provisions for credit losses decreased by 23%, to CHF 4,326 million at 31 December 2003 from CHF 5,621 million at



31 December 2002. Note 9b to the Financial Statements provides further details of the changes in allowances and provisions during the year.

Allowances and provisions for emerging market-related exposures stood at CHF 286 million at 31 December 2003, compared to CHF 736 million at 31 December 2002 and CHF 1,006 million at 31 December 2001. The significant reduction is mainly a consequence of the reclassification, noted above, of country allowances earmarked to cover defaulted exposures to sovereign and quasi-sovereign borrowers whose debt has been rescheduled in the past. Their treatment as counterparty allowances is more consistent with our treatment of other impaired claims.

Impaired loans have decreased to CHF 7,606 million at 31 December 2003 from CHF 10,365 million at 31 December 2002 and CHF 14,629 million at 31 December 2001. Over the same period, non-performing loans have also decreased, to CHF 4,959 million from CHF 6,029 million at 31 December 2002 and CHF 8,639 million at 31 December 2001. We have applied the new definition of non-performing loans introduced by the Swiss regulator, as noted above, with effect from 31 December 2003. Previous period numbers have not been restated and are therefore comparatively lower than would otherwise be the case, which explains the relatively low reduction in our non-performing loans portfolio in 2003.

The ratio of impaired loans to total loans has improved continuously over the past three years to 3.1% at 31 December 2003 from 4.2% at 31 December 2002 and 5.6% at 31 December 2001, while the non-performing loans to total



## Financial Management Risk Analysis

### Allowances and provisions for credit loss

CHF million	Wealth Management & Business Banking			
	As at	31.12.03	31.12.02	31.12.01
Loans to banks (gross)		3,312	3,292	3,964
Loans to customers (gross)		171,460	165,814	171,729
Gross loans		174,772	169,106	175,693
Non-performing loans		4,420	5,032	7,001
Other impaired loans		1,970	3,332	4,303
<b>Total impaired loans</b>		<b>6,390</b>	8,364	11,304
Allowances for non-performing loans		2,346	2,749	4,245
Allowances for other impaired loans		484	824	1,137
<b>Total allowances for impaired loans</b>		<b>2,830</b>	3,573	5,382
<b>Other allowances and provisions<sup>2</sup></b>		<b>312</b>	452	243
<b>Total allowances and provisions</b>		<b>3,142</b>	4,025	5,625
<i>of which country allowances and provisions<sup>3</sup></i>		<i>118</i>	<i>515</i>	<i>507</i>
<b>Ratios</b>				
Impaired loans as a % of gross loans		3.7	4.9	6.4
Non-performing loans as a % of gross loans		2.5	3.0	4.0
Allowances and provisions for credit loss as a % of gross loans		1.8	2.4	3.2
Allocated allowances as a % of impaired loans		44.3	42.7	47.6
Allocated allowances as a % of non-performing loans		53.1	54.6	60.6

<sup>1</sup> Includes Global Asset Management and Corporate Center including Private Banks. Global Asset Management had no impaired or non-performing loans at 31.12.02 and 31.12.01.

<sup>2</sup> Includes country allowances and provisions and provisions for off balance sheet liabilities.

<sup>3</sup> In the fourth quarter 2003 CHF 318 million of country provisions earmarked to cover defaulted and rescheduled non-performing claims on sovereign and quasi-sovereign borrowers were reclassified to counterparty-specific loan loss allowances.

loans ratio improved to 2.0% at 31 December 2003 from 2.4% at 31 December 2002 and 3.3% at 31 December 2001. These positive results were due, in part, to the reduction of our exposure to international credit risk in previous years, resulting in fewer new impaired and non-performing loans than in prior periods, and in part to continuing efforts to conclude proceedings and reach settlement on existing non-performing loans.

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

### Market risk

Market risk is the risk of loss arising from movements in observable market variables such as interest rates, exchange rates and equity markets. 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 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 market risk through the transfer of long-term interest rate risk from other Business Groups, and through the Group's structural foreign exchange positions. These are non-trading positions and are discussed in the Treasury section on pages 67 to 72.

Market risks arise, to a much lesser extent, in other Business Groups, primarily from the facili-

Investment Bank			Wealth Management USA			Other <sup>1</sup>			UBS		
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	31.12.03	31.12.02	31.12.01
24,486	24,495	17,702	1,493	1,327	2,151	2,733	3,797	4,444	32,024	32,911	28,261
30,880	37,223	43,527	11,623	11,530	16,095	2,220	1,892	2,372	216,183	216,459	233,723
55,366	61,718	61,229	13,116	12,857	18,246	4,953	5,689	6,816	248,207	249,370	261,984
513	967	1,609	25	29	17	1	1	12	4,959	6,029	8,639
675	996	1,667	0	0	17	2	8	3	2,647	4,336	5,990
1,188	1,963	3,276	25	29	34	3	9	15	7,606	10,365	14,629
443	706	1,104	25	29	17	1	1	8	2,815	3,485	5,374
504	575	760	0	0	17	3	8	6	991	1,407	1,920
947	1,281	1,864	25	29	34	4	9	14	3,806	4,892	7,294
205	264	681	3	13	0	0	0	0	520	729	924
1,152	1,545	2,545	28	42	34	4	9	14	4,326	5,621	8,218
168	221	499	0	0	0	0	0	0	286	736	1,006
2.1	3.2	5.4	0.2	0.2	0.2	0.1	0.2	0.2	3.1	4.2	5.6
0.9	1.6	2.6	0.2	0.2	0.1	0.0	0.0	0.2	2.0	2.4	3.3
2.1	2.5	4.2	0.2	0.3	0.2	0.1	0.2	0.2	1.7	2.3	3.1
79.7	65.3	56.9	100.0	100.0	100.0	133.3	100.0	93.3	50.0	47.2	49.9
86.4	73.0	68.6	100.0	100.0	100.0	100.0	100.0	66.7	56.8	57.8	62.2

tation of customer business, including interest rate risk in the banking books of the independent private banks.

Each Business Group has a Chief Risk Officer (CRO), reporting functionally to the Group CRO. They are responsible for independent risk control of market risk, including monitoring of exposures against limits, for assessment of market risk in new businesses and products and in structured transactions, and for ensuring the complete capture of market risk in risk measurement and reporting systems.

We apply market risk measures to all trading activities, to foreign exchange, precious metals 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.

#### Risk measurement

*Expected market risk loss* is reflected in valuation adjustments made to the portfolio. These cover price uncertainties resulting from a lack of market liquidity or the absence of a reliable mar-

ket price for an instrument or position, and model risk in more complex products and transactions.

*Statistical loss* is measured using a Value at Risk (VaR) methodology. 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. These estimates are based on historical simulation, i.e. assessing the impact of historical market movements on today's portfolio. We set our VaR limits in terms of a 10-day holding period, measured to a 99% confidence level, and using five years of historical data, in line with the regulatory measure of market risk capital. 10-day VaR is a statistical measure of potential trading revenue volatility and a change in the general level of VaR would normally be expected to lead to a corresponding change in the volatility of daily trading revenues. However, the 10-day VaR measure takes no account of the mitigating action that could be taken in the event of adverse market moves, nor does it express the

worst result that could occur as a result of extreme or unusual market conditions. The absolute level of VaR should not, therefore, be interpreted as the likely range of daily trading revenues. We also measure VaR based on a 1-day holding period. 1-day VaR exposure expresses the maximum daily mark to market loss that UBS is likely to incur on the current portfolio under normal market conditions with a larger loss being statistically likely only once in a hundred business days.

All VaR models, while forward-looking, are based on past events and are dependent upon the quality of available market data. The quality of the VaR model is therefore continuously monitored by backtesting. In backtesting we compare the actual revenues arising from the previous day's closing positions ('backtesting revenue', which excludes non-trading revenues such as commissions and fees and revenues from intraday trading) with the 1-day VaR calculated for the previous day on these same positions. If the revenue, whether positive or negative, exceeds the 1-day VaR, a 'backtesting exception' is considered to have occurred. When VaR is measured at a 99% confidence level, a backtesting exception is expected, on average, one day in a hundred. Backtesting results are reported to senior business management, the Group CRO and Business Group CROs and, as required by regulation, to our internal and external auditors and to relevant regulators.

The VaR limit for UBS (based on 10-day VaR) is allocated among the Business Groups, the largest allocation being to the Investment Bank. Within the Business Groups, limits are allocated to lower organizational levels as necessary. The 10-day VaR measure is also the basis of our market risk regulatory capital requirement.

*Stress loss* is assessed against a standard set of forward-looking scenarios, using stress moves in market variables which are regularly reviewed and approved by the Group CRO. Stress events modeled in our standard scenarios include crises in equity, corporate bond and emerging markets, and severe currency and interest rate movements. They are kept under constant review and fine-tuned as necessary to reflect changing market and economic conditions. We also monitor our positions against more specific scenarios that target individual sectors or are based on current concerns. Where appropriate, we also set market risk stress loss limits for Business Groups.

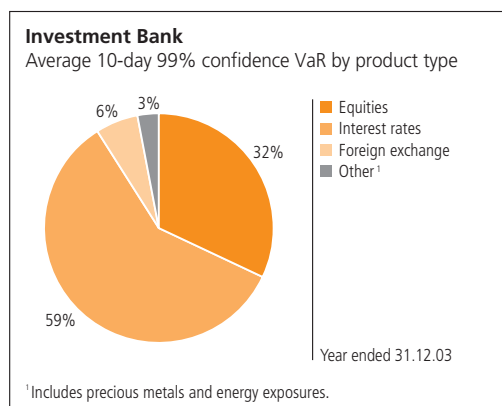
The market risk VaR and stress loss limits are the principal controls on UBS's exposure to day-to-day movements in market prices, but complementary controls are also applied to prevent undue risk concentrations, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk variables, such as individual interest or exchange rates, and 'issuer risk' positions.

Issuer risk is the risk of loss on securities and other obligations in tradable form, arising from credit-related and other 'events' and, ultimately, default and insolvency of the issuer or obligor. We take a comprehensive approach to measurement, including both debt and equity not only in physical form but also synthetic positions arising from forwards, options, credit default swaps and other derivatives. In 2003 we enhanced the measurement of potential loss by taking account of potential recovery values in default, which vary by issue type, rating and seniority. Positions are controlled in the context of the depth and liquidity of the market in which they are traded, and all material positions are kept under constant scrutiny in light of changing market conditions and specific public issuer information, including relative spread movements.

Issuer risk positions for issuers domiciled in countries subject to country ceilings are also included in the measurement of country risk.

### **Market risk developments**

During 2003, and in particular from the second quarter onwards, investor sentiment improved from its low point following the corporate scandals of 2002. In addition, the low interest rate environment that prevailed throughout the year saw sustained strength in fixed income markets, as investors sought higher yields. The buoyancy of the interest rate markets, particularly in the US, flowed through to equities with stronger deal flow and a more active IPO market, particularly in the latter part of the year. However, the year was peppered with periods of increased volatility. In the US mortgage market, prepayment rates increased due to the low interest rate environment, and in July/August yield curves steepened sharply as US treasuries were sold off. In addition, 2003 saw a depreciation of the US dollar against other currencies, in particular the euro which, in December, reached its highest level since its launch in 1999.



Against this background, market risk for the Investment Bank, as measured by 10-day 99% confidence VaR, ended the year at CHF 411 million, and averaged CHF 354 million for 2003, an increase on the 2002 year-end value of CHF 310 million and 2002 average of CHF 275 million. This increase was primarily due to expanding

trading activity in the Fixed Income, Rates and Currencies business area, particularly in US corporate and asset backed securities and, to a lesser extent, emerging market issues. As a consequence, average interest rate VaR for the year increased to CHF 323 million from CHF 219 million in 2002. Equity VaR was at similar levels to 2002. As can be seen in the VaR and backtesting revenue chart on page 64, VaR for the Investment Bank as a whole was within a tight range for most of the year, with occasional peaks as selected opportunities were taken in various emerging markets.

Like VaR, stress loss for the Investment Bank, defined as the worst case outcome from our standard scenarios, was generally somewhat higher than in 2002, but within the approved limit.

Market risk positions in the other Business Groups and Corporate Center have only a marginal impact on total VaR, as can be seen from the table below.

### Investment Bank: Value at Risk (10-day 99% confidence)

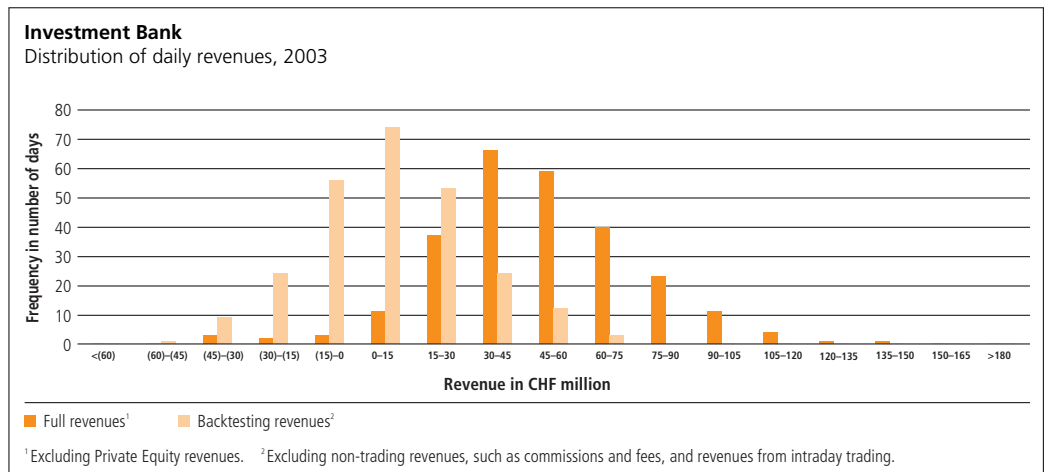
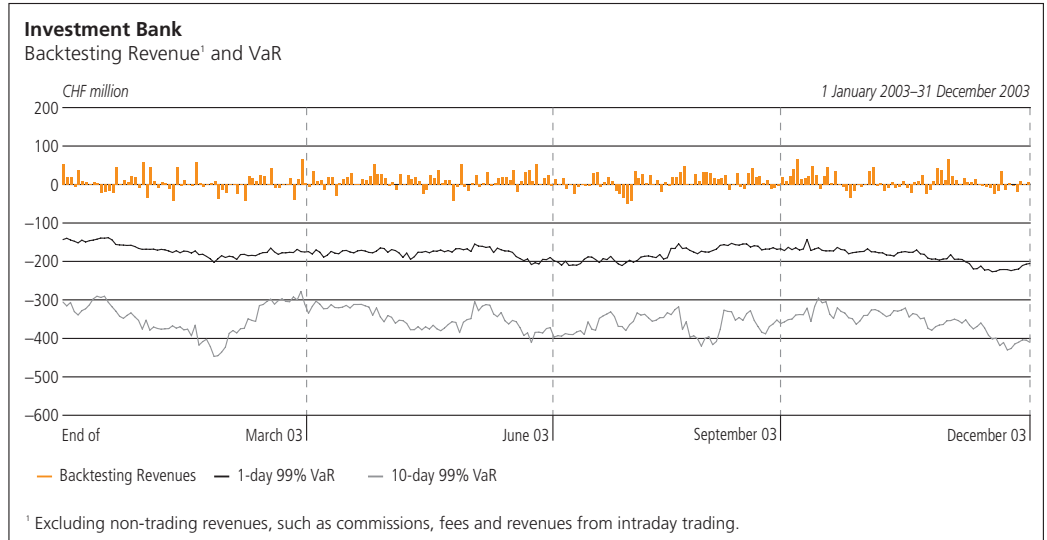
CHF million	Year ended 31.12.03				Year ended 31.12.02				Year ended 31.12.01			
	Min.	Max.	Average	31.12.03	Min.	Max.	Average	31.12.02	Min.	Max.	Average	31.12.01
<b>Risk type</b>												
Equities	142	194	171	160	123	293	177	178	124	455	181	157
Interest rates	251	437	323	395	162	303	219	281	128	300	183	226
Foreign exchange	7	82	31	28	6	100	35	10	9	91	29	26
Other <sup>1</sup>	7	51	15	10	4	113	30	13	2	14	6	5
Diversification effect	<sup>2</sup>	<sup>2</sup>	(186)	(182)	<sup>2</sup>	<sup>2</sup>	(186)	(171)	<sup>2</sup>	<sup>2</sup>	(146)	(143)
<b>Total</b>	<b>290</b>	<b>447</b>	<b>354</b>	<b>411</b>	<b>198</b>	<b>390</b>	<b>275</b>	<b>310</b>	<b>180</b>	<b>470</b>	<b>252</b>	<b>271</b>

<sup>1</sup> Includes precious metals and energy exposures. <sup>2</sup> As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

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

CHF million	Limits	Year ended 31.12.03				Year ended 31.12.02				Year ended 31.12.01			
		Min.	Max.	Average	31.12.03	Min.	Max.	Average	31.12.02	Min.	Max.	Average	31.12.01
<b>Business Groups</b>													
Investment Bank <sup>1</sup>	450	290	447	354	411	198	390	275	310	180	470	252	271
Wealth Management USA	50	8	21	14	17	11	36	19	14	13	37	20	24
Global Asset Management	30	7	16	11	8	7	13	9	9				
Wealth Management & Business Banking <sup>2</sup>	50	1	5	2	1	4	9	5	4	4	5	5	5
Corporate Center <sup>2,3</sup>	150	40	83	58	49	30	64	40	62	31	63	37	41
Reserve <sup>1</sup>	150												
Diversification effect		<sup>4</sup>	<sup>4</sup>	(76)	(72)	<sup>4</sup>	<sup>4</sup>	(68)	(87)	<sup>4</sup>	<sup>4</sup>	(49)	(36)
<b>Total</b>	<b>600</b>	<b>297</b>	<b>462</b>	<b>363</b>	<b>414</b>	<b>211</b>	<b>374</b>	<b>280</b>	<b>312</b>	<b>192</b>	<b>482</b>	<b>266</b>	<b>305</b>

<sup>1</sup> Part of the reserve was allocated to Investment Bank over year-end 2003 but was not utilized. <sup>2</sup> The Private Banks are included in Wealth Management & Business Banking up to 30 June 2003 and in Corporate Center from 1 July 2003. <sup>3</sup> Includes interest rate exposures in the banking books of Group Treasury and, from 1 July 2003, the Private Banks. <sup>4</sup> As the minimum and maximum occur on different days for different Business Groups, it is not meaningful to calculate a portfolio diversification effect.



UBS had no regulatory backtesting exceptions in 2003, despite periods of market volatility. Note that the revenues shown in the VaR and backtesting revenue chart above are ‘backtesting revenues’ – they exclude non-trading revenues, such as commissions and fees, and revenues from intraday trading, which are not relevant in the context of backtesting. In the histogram above we show these backtesting revenues alongside the daily revenues from all sources in the Investment Banking & Securities unit (‘full revenues’).

With the growth in the competitiveness of our trading businesses, particularly in Fixed Income, we have already seen a gradual increase in the level of our market risk. Given the successful growth of our franchise, and the increased mar-

ket opportunities we see, we have decided to raise the VaR limit for the Investment Bank, which has remained unchanged since 1999. From 2004, the VaR limit for the Investment Bank will increase to CHF 600 million and the limit for UBS as a whole to CHF 750 million.

### Operational risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes, whether deliberate, accidental or natural. It is inherent in all our activities, not only in the business we conduct but also from the fact that we are a business – an employer, owning and occu-

pying property, and holding assets, including information, belonging to ourselves and our clients. Our operational risk framework is not designed to eliminate risk per se but, rather, to contain it within acceptable levels, as determined by senior management, and to ensure that we have sufficient information to make informed decisions about additional controls, adjustments to controls, or risk mitigation efforts.

### Operational risk framework

Every function, whether a front-end business or a control or logistics unit, must manage its operational risks but is also reliant on others to do the same. This mutual reliance is the cornerstone of our operational risk framework, with business, control and logistics units exercising mutual oversight under the independent governance of the Group CRO and Head of Operational Risk. This ensures an element of independence in risk decisions.

Every function defines its roles and responsibilities – the tasks that it performs – and collectively they ensure that there is adequate segregation of duties, complete coverage of risks and clear accountability, and that their interdependencies are identified. From this analysis, we develop our control objectives and standards. We consider the assets and interests that are to be protected, the types of operational risk event that can arise, ranging from every day reconciliation problems to potentially severe events such as fraud, and the potential impact of any such event. We recognize, however, that we cannot eliminate the risks completely, because errors and accidents will always happen, and that it may not always be cost effective to do so, even where it is theoretically possible. We therefore adopt a risk-based approach.

It is essential to monitor compliance with controls and assess their effectiveness. To assist in this process, we can identify and track certain indicators, such as the number of unreconciled items on cash and custody accounts and the time they have been outstanding, which can potentially provide early warning of increasing risk or non-compliance with standards.

When operational risk ‘events’ occur – actual failures of processes, people or systems – we assess their causes and the implications for our control framework, because an event such as a virus attack or a customer complaint, even if it

does not lead to a direct or indirect financial loss, may indicate that our standards are not being complied with or that they are ineffective, and that remedial action must be taken.

We maintain a database of financial events (both profits and losses) and their underlying causes. It is important to understand that losses from a single event can arise in several ways, some of which may not translate directly into a monetary amount (for example losses caused by business disruption); that the impact of a loss may be large relative to its monetary amount (for example a regulatory fine); and that the level of risk at any time is not directly correlated to actual financial losses or their frequency of occurrence, which are, at best, only indicative.

We use the data to monitor overall operational risk levels for the firm and assess whether our operational risk is within acceptable bounds. We will ultimately use this data as a basis for the operational risk measurement and determination of operational risk regulatory capital required under Basel II.

Information about external events, for example a fraud committed at another institution, can provide a useful benchmark for evaluating our operational risk framework, but the level of detail necessary to do this effectively is generally only available in the rare cases where an independent, official report is made publicly available.

### Measurement of operational risk

Operational risk is difficult to quantify for a number of reasons: it may only become apparent a long time after the actions or events that caused it; the events that result in operational risk losses are highly context dependent; and the scarcity of reliable data is, and will continue for the foreseeable future, to be a challenge. Ultimately, the level of operational risk exposure depends critically on the management effort devoted to the rigorous application of our operational risk framework and the effectiveness of our insurance coverage. We can, however, identify an ‘expected’ or ‘average’ loss for operational risk and, from 2003, Business Groups have been required to budget an annual expected operational risk loss amount. We are also developing a model to calculate statistical loss under the Basel II Advanced Measurement Approach.

## Financial Management Risk Analysis

Our approach to stress loss is primarily to consider extreme but plausible events that might occur (e.g., major litigation or extreme physical disasters) and to identify the management steps that can be taken to limit the losses they might cause. We also use this form of scenario analysis to develop contingency/crisis and business continuity plans to cover extreme events, affecting a limited area (e.g. one IT system or server) or a

significant part of the business (e.g. all operations in one location), as an essential complement to our day to day operational risk controls.

While industry standards are still evolving, we believe that our operational risk control framework meets current best practice and will provide the necessary foundation for Basel II compliance.



# Treasury

The Treasury activities of UBS are the responsibility of the Group Treasurer and encompass management of most of the non-trading market risk arising outside Investment Bank, as well as our funding and liquidity position and capital.

## Interest rate risk management

Most non-trading interest rate risks are transferred from the originating business units to one of the two centralized risk management units, Group Treasury and the Investment Bank's Cash and Collateral Trading unit (CCT), who manage the risks by exploiting UBS's entire netting potential. The independent private banking subsidiaries are exceptions, managing their own non-trading interest rate risk, although the risk they hold is not material to UBS as a whole.

Risks from long-term Swiss franc transactions with fixed maturities are transferred to Group Treasury by individual back to back transactions. Risks from fixed maturity short-term Swiss franc and all non-Swiss franc transactions are generally transferred to CCT. However, as client current and savings accounts and many other products of Wealth Management & Business Banking have no contractual maturity date or direct market-linked rate, their interest rate risk cannot be transferred by simple back to back transactions. Instead, they are transferred on a pooled basis via a 'replication' portfolio – a portfolio of revolving transactions between the originating business unit and Group Treasury at market rates designed to approximate the average cash flow and re-pricing behavior of the pooled client transactions. The structure and parameters of the replication portfolios are based on long-term market observations and client behavior and are reviewed periodically. The originating business units are thus immunized as far as possible against market interest rate movements, but retain their product margins, while Group Treasury acquires market-based interest rate positions that can be managed within set limits and according to its mandate. 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.

A significant amount of interest rate risk also arises from non-business related balance sheet items, such as the financing of bank property and equity investments in associated companies, and the investment of our own equity. The risk in these non-business items is also transferred to Group Treasury through replicating portfolios which, in this case, are designed to approximate the desired investment or funding profile.

To the extent that Group Treasury needs to manage/hedge its consolidated positions, it deals with Investment Bank trading units, which are the sole interface to the external markets for both cash and derivative transactions.

In addition to the standard market risk measure, VaR, three key interest rate risk measures are applied to Group Treasury's interest rate risks.

- Interest rate sensitivity, which expresses the impact of a one basis point (0.01%) parallel rise in interest rates on the fair value (net present value) of the interest rate risk positions.
- Economic value sensitivity, which measures the potential change in fair value of Group Treasury's interest rate positions resulting from a large instantaneous shock to interest rates.
- Net interest income at risk, which is defined as the potential change in net interest income resulting from adverse movements in interest rates over the next twelve months.

The interest rate sensitivity measure is a simple unit measure of sensitivity, which does not, in itself, provide an indication of potential loss. The economic value sensitivity and net interest income at risk methodologies provide different, but complementary, views of potential loss from

interest rate risk. The economic value sensitivity measure provides a long-term view and a view of the whole book, since it takes into account the present value of all future cash flows generated from existing balance sheet positions. By contrast, the net interest income at risk measure considers only the re-pricing effect from positions maturing over the next twelve months, and thus provides a shorter-term view. In all three measures we assess the exposure both including and excluding the replication portfolio representing our equity. When this portfolio is excluded, the exposure under all three measures increases.

#### Interest rate risk development

In order to reflect the significant increase in our business activities denominated in foreign currencies, we decided in 2002 to diversify the investment of our equity from purely Swiss francs into a portfolio of major currencies. Our equity is currently invested at longer-term fixed interest rates in Swiss francs, US dollars, UK sterling and euros. At 31 December 2003 the Swiss franc portfolio had an average duration of 3.4 years and an interest rate sensitivity of CHF 8.07 million per basis point. For the US dollar portfolio,

the duration was 4.4 years and its sensitivity CHF 4.34 million per basis point. For the euro portfolio the duration was 3.3 years and its sensitivity CHF 0.51 million per basis point and for the UK sterling portfolio the duration was 3.2 years and its sensitivity CHF 0.20 million.

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

The table below shows the interest rate sensitivity of our overall interest rate risk positions as at 31 December 2003. The first total is the sensitivity including the equity replicating portfolio, while the final total, which is significantly larger, excludes this portfolio.

The table below shows the change in risk under the economic value sensitivity and net interest income at risk measures between 31 December 2001 and 31 December 2003.

#### Interest rate sensitivity of the bank book

As at 31.12.03 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	(44)	(57)	(64)	(110)	44	(231)
USD	41	(42)	(28)	(65)	676	582
EUR	7	(3)	41	168	12	225
GBP	0	(2)	(52)	75	560	581
JPY	0	0	0	(4)	0	(4)
Others	0	0	0	(1)	(2)	(3)
<b>Total<sup>1</sup></b>	<b>4</b>	<b>(104)</b>	<b>(103)</b>	<b>63</b>	<b>1,290</b>	<b>1,150</b>
of which equity replicating portfolio (CHF)	6	30	270	4,132	3,635	8,073
of which equity replicating portfolio (USD)	2	4	104	2,102	2,131	4,343
of which equity replicating portfolio (EUR)	0	1	17	286	204	508
of which equity replicating portfolio (GBP)	0	1	6	113	80	200
<b>Total equity replicating portfolio</b>	<b>8</b>	<b>36</b>	<b>397</b>	<b>6,633</b>	<b>6,050</b>	<b>13,124</b>
Bank book without equity replicating portfolio (total)	(4)	(140)	(500)	(6,570)	(4,760)	(11,974)

<sup>1</sup> Total risk position includes adjustments of the replication portfolios for variable-rate products.

#### Change in risk under the two methodologies

CHF million	As at		
	31.12.03	31.12.02	31.12.01
Net interest income at risk	(233)	(151)	(313)
Economic value sensitivity	(1,169)	(1,246)	(1,319)

The net interest income at risk figure shown is the worst case among various interest rate scenarios that have been analyzed, and results from an assumed downward interest rate shock (parallel shift) of 200 basis points. On 31 December 2003, the difference in the projected outcome in this scenario from that projected in a constant market rate scenario represented a reduction of CHF 233 million in the year's total net interest income, compared with a reduction of CHF 151 million on 31 December 2002.

The economic value sensitivity measure shows the effect of a 100 basis point adverse interest rate shock. On 31 December 2003, a 100 basis point upward shock of interest rates would lead to a CHF 1,169 million decline in fair value, compared with an exposure of CHF 1,246 million to the same scenario on 31 December 2002.

### Liquidity and funding management

UBS's range of business activities naturally generates asset and liability portfolios which are highly diversified with respect to market, product and currency. This reduces our exposure to individual funding sources, and also provides a broad range of investment opportunities, which in turn reduces liquidity risk. We adopt a centralized approach to liquidity and funding management to exploit these advantages to the full.

The liquidity and funding management process is undertaken jointly by Group Treasury and CCT. Group Treasury establishes a comprehensive management framework, while CCT undertakes operational cash and collateral management transactions within the established parameters. This centralized cash and collateral management structure permits tight control on both our global cash position and our stock of highly liquid securities.

#### Liquidity management approach

Our approach to liquidity management, which covers all branches and subsidiaries, is to ensure that we will always have sufficient liquidity to meet liabilities when due, without compromising our ability to respond quickly to strategic market opportunities. Our integrated framework incorporates an assessment of all expected cash flows and the level of high-grade collateral that could be used for additional funding purposes. Risk

limits are set by the GEB and monitored by Group Treasury and our liquidity exposure is regularly assessed by the Treasury Committee, chaired by the Treasurer. Moreover, detailed contingency plans have been developed for liquidity crisis management and have been incorporated into our global crisis management concept, which covers all types of crisis events. Regional committees monitor the markets in which UBS operates for potential threats and regularly report their findings to Group Treasury. In the event of a liquidity crisis, regional crisis task forces would implement contingency plans under the direction of senior management.

The liquidity position is assessed and managed under a variety of potential scenarios, giving due consideration to stress factors. The range of scenarios analyzed encompasses both normal market conditions and stressed conditions, including both UBS-specific and general market crises.

The starting point for these stress analyses is a breakdown of the contractual maturity of our assets and liabilities. This is displayed as at 31 December 2003 in Note 29 to the Financial Statements, which shows the profile of UBS's overall cash flow ladder under a 'business as usual' scenario.

The table on page 70 shows the development in 2003 of the cumulative 30-day liquidity gap that might arise during a UBS-specific crisis and the amount of contingency funding that could be raised to redress the potential imbalance. The secured funding capacity in the table relates exclusively to securities that are eligible for pledging at the major central banks and assumes application of crisis-level collateral margins. It does not take account of our additional stock of liquid securities that could be used to raise secured funding on the interbank market and it is assumed that no contingency funding would be raised on an unsecured basis.

The results shown on page 70 are regarded as constituting a worst-case scenario that comprises a simultaneous combination of severe impairments to UBS's overall liquidity situation across all markets, currencies and products. The scenario assumes, inter alia, that we would be unable to renew any of our unsecured debt, including our entire maturing money market papers (outstanding volume CHF 58 billion on 31 December 2003), which could occur if we

**UBS-specific crisis: liquidity gap and contingency funding**

CHF billion	As at				
	31.12.03	30.9.03	30.6.03	31.3.03	31.12.02
Crisis liquidity gap	(36)	(35)	(36)	(42)	(26)
Secured contingency funding	74	81	78	72	71
Net position	38	46	42	30	45

were to suffer a severe downgrading of our credit ratings. It further encompasses potential liquidity outflows due to contingent liabilities, in particular those due to the drawdown of committed credit lines. Exposures to other contingent commitments, such as guarantees and letters of credit, are also included in this analysis, even though these are not as vulnerable since they are generally not unconditional but are, rather, linked to other, independent conditions being fulfilled. The scenario also assumes that the crisis would engulf UBS's source of retail deposits, thereby leading to massive withdrawals from current accounts, savings accounts and deposits. Furthermore, access to the client collateral pool is assumed to be limited as a result of securities lending agreements being cancelled during such a crisis.

We regularly monitor unutilized committed credit facilities, and latent liquidity risks that could materialize if we were to suffer a downgrading of our credit ratings. 'Rating trigger' clauses, especially in derivative contracts, could result in an immediate cash outflow due to the unwinding of derivative positions, or the need to deliver additional collateral. The contingent exposure arising directly from these rating triggers is judged not to be material, even if UBS were to be downgraded to sub-investment-grade level, but the exposure is kept under review and any significant new rating trigger clauses are subject to appropriate explicit approvals.

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

**Funding sources and approach**

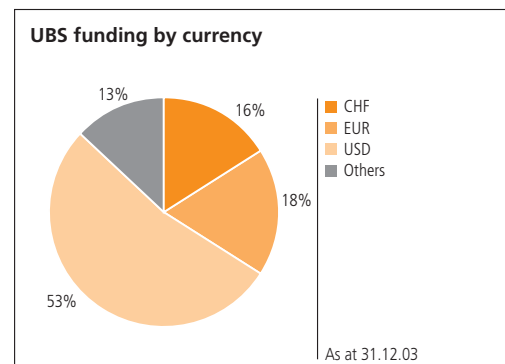
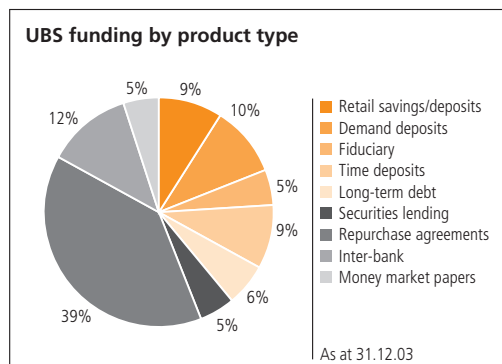
With a broad diversification of funding sources (by market, product and currency), we maintain a well-balanced portfolio of liabilities which generates a stable flow of financing and provides protection in the event of market disruptions. This, together with our centralized funding management, enables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

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

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

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

The charts on the following page show a breakdown by product type and by currency of our secured and unsecured funding as at 31 December 2003. UBS has a strong secured funding base that reduces our exposure to periods of stressed market conditions when the ability to



raise unsecured funding could be temporarily restricted. Of our total funding, 44% was raised on a secured basis and 56% unsecured. The unsecured funding base is well diversified, with 19% of funding stemming from savings and demand deposits, 5% from fiduciary deposits and only 5% from money market papers and 12% from short-term interbank borrowing. Most of our funding is originated in US dollars, with major portions also being raised in Swiss francs and in euro, roughly mirroring the currency breakdown of our assets. Around 12% of our funding was denominated in other currencies (primarily UK sterling and Japanese yen). UBS does not rely on buying committed credit facilities from third-party banks, but instead we base our contingent funding sources on our ability to raise secured funding through the use of high-quality collateral.

In the course of 2003, UBS's long-term debt remained stable, increasing slightly from CHF 56.6 billion at 31 December 2002 to CHF 62.1 billion at 31 December 2003, still representing 6% of the total balance sheet. The maturity profile of our long-term debt portfolio is well balanced. See Note 18 to the Financial Statements for further information concerning long-term debt.

### Currency management

We report our results in Swiss francs, the currency of the country in which we are incorporated.

Our corporate currency management activities are designed to protect UBS's BIS Tier 1 ratio and expected future foreign currency earnings (or financial net profits) from adverse movements of the Swiss franc against the currencies of our assets, revenues and costs, while preserving the option to take advantage of market opportunities which may arise.

We aim to maintain our flexibility in being able to divest foreign currency assets at any time without adverse currency impact by match-funding, i.e. a US dollar asset is funded in US dollars, an euro asset in euros, etc. Our equity investment is managed in order to reflect the currency distribution of our risk-weighted assets. This creates structural foreign currency exposures, the gains or losses on which are recorded through equity, leading to fluctuations in our capital base in line with the fluctuations in risk-weighted assets, thereby protecting our BIS Tier 1 capital ratio.

For financial accounting purposes, final profits or losses are translated each month from the original transaction currencies at the prevailing rate at the end of the month into Swiss francs. At the same time, Group Treasury centralizes profits or losses in foreign currencies and sells them into Swiss francs in order to reduce earnings volatility resulting from subsequent exchange rate movements. This monthly sell-down reduces the volatility of our Swiss franc results but it cannot protect the bank's earnings against a

### Non-trading currency risk VaR

CHF million	2003	2002	2001
Minimum	0.7	0.7	0.9
Maximum	32.0	14.2	16.2
Average	12.3	3.0	3.6
End of period	28.3	0.7	1.0

sustained downward or upward move of one of the main currencies against the Swiss franc.

In order to protect our Swiss franc net profits against adverse currency fluctuations we first make use of so-called natural hedge opportunities. Such opportunities exist for UBS because, overall, the currency composition of our net profit shows stable patterns of specific short and long positions in core foreign currencies such as UK sterling, euros and US dollars, and because some foreign currency pairs demonstrate high and stable correlations. This combination is exploited by offsetting core positions in certain currencies.

Group Treasury then, from time to time, proactively hedges the remaining currency exposures, in accordance with the instructions of the GEB. Economic hedging strategies employed include a cost-efficient option purchase program, which provides a safety net against unfavorable currency fluctuations while preserving upside potential. The hedge program has a time horizon of up to twelve months and is not restricted to the current financial year. Although intended to hedge future earnings, these transactions are considered open currency positions and are included in VaR for internal and regulatory capital purposes.

For 2003 the net currency impact on UBS's Swiss franc financial net profit was very muted due to efficient netting of currency pairs with high correlation combined with a successful hedging program.

### Capital management

We are dedicated to remaining one of the best capitalized financial services firms in the world with sound capital ratios and strong debt ratings

– both are key to our attractiveness to clients and investors. Our overall capital needs are continually reviewed to ensure that our capital base appropriately supports our current and planned business and regulatory capital requirements. We use a variety of instruments, including trust-preferred securities, to meet our overall capital needs, in order to support our efforts to enhance shareholder value.

### Sound capitalization

The table below shows the key capital figures and ratios as of 31 December 2003, 31 December 2002 and 31 December 2001.

The ratios measure capital adequacy by comparing UBS's eligible capital with total risk-weighted assets, which include balance sheet assets and market risk positions based on VaR (see Note 29 to the Financial Statements).

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

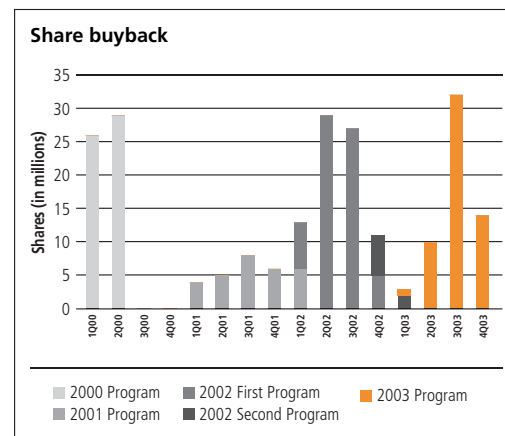
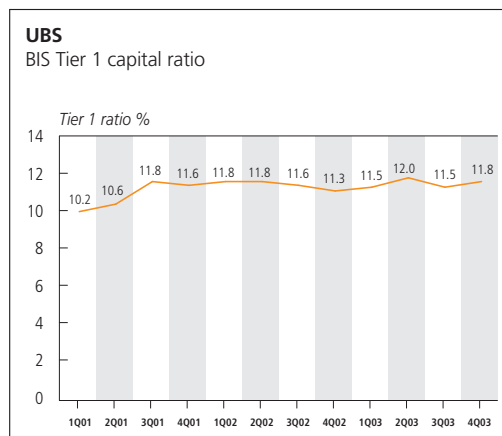
- where BIS guidelines apply a maximum risk weight of 100%, the SFBC applies risk weights above 100% to certain asset classes (for example real estate, fixed assets, intangibles, non-trading equity positions)
- where the BIS guidelines apply a 20% risk weight to obligations of OECD banks, the SFBC applies risk weights of 25% to 75%, depending on maturity.

As a result of these differences, UBS's risk-weighted assets are higher, and our ratios of total capital and Tier 1 capital to risk-weighted assets are lower, when calculated under the SFBC regu-

### Capital adequacy

		As at	
<i>CHF million, except ratios</i>	<b>31.12.03</b>	31.12.02	31.12.01
BIS Tier 1 capital	<b>29,765</b>	27,047	29,322
of which hybrid Tier 1 capital <sup>1</sup>	<b>3,224</b>	3,182	3,848
BIS total capital	<b>33,581</b>	33,009	37,471
BIS Tier 1 capital ratio (%)	<b>11.8</b>	11.3	11.6
BIS total capital ratio (%)	<b>13.3</b>	13.8	14.8
Balance sheet assets	<b>212,176</b>	205,401	214,481
Off balance sheet and other positions	<b>21,456</b>	18,122	25,935
Market risk positions	<b>18,269</b>	15,267	13,319
Total BIS risk-weighted assets	<b>251,901</b>	238,790	253,735

<sup>1</sup> Trust preferred securities.



lations than under the BIS guidelines. Nevertheless, UBS and its predecessor banks have always had total capital and Tier 1 capital in excess of the minimum requirements of both the BIS and the SFBC since their implementation in 1988.

### Capital management in 2003

In line with our shareholder focus, we were able to transfer a total of CHF 6.7 billion of free equity to our shareholders in 2003. The total amount was split between the dividend payment of CHF 2.3 billion in April 2003 and the total of the share repurchases for cancellation executed during 2003 of CHF 4.4 billion.

### Share buyback and cancellation

Careful balance sheet management and strong earnings enabled us, for the third consecutive year, to conduct share repurchase programs which are intended to reduce the number of issued shares and enhance our earnings per share.

As in previous years, we bought the shares through a second trading line, which allows us to cancel the shares in the most tax-efficient way. Under Swiss regulations, a company wishing to cancel shares must purchase them on the stock

exchange under a special security code which clearly identifies the time and quantity of shares repurchased for this purpose.

In July 2003, following the approval of shareholders at the Annual General Meeting on 16 April 2003, we cancelled a total of 75,970,080 shares bought back under our two 2002 share repurchase programs. The shares purchased under the 2003 program will be cancelled in July 2004 following the approval of the Annual General Meeting on 15 April 2004.

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

### Dividends

On April 23, 2003 after the approval of the Annual General Meeting (AGM) of shareholders, UBS paid an annual dividend of CHF 2.00 per share. A total of CHF 2.3 billion was distributed to the shareholders for the financial year 2002.

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

	For the year ended		
	31.12.03	31.12.02	31.12.01
Weighted average shares for basic EPS after treasury shares	1,116,953,623	1,208,586,678	1,266,038,193
Weighted average second trading line treasury shares	182,301,119	118,594,983	65,624,005
Basic EPS	5.72	2.92	3.93
Cumulative impact of treasury shares on basic EPS (CHF) <sup>1</sup>	0.80	0.26	0.19
Cumulative impact of treasury shares on basic EPS (%) <sup>1</sup>	14.0	8.9	4.9

<sup>1</sup> From first share buyback program in 2000.



### Capital management plans for 2004

#### New second line buy back program

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

The new program will start from 8 March 2004 and can run until 7 March 2005 permitting a maximum of CHF 6 billion worth of shares to be repurchased under the program.

We will continue to publish the number of shares repurchased and the average price paid on a weekly basis on the internet at [www.ubs.com/investors](http://www.ubs.com/investors). The repurchased shares will be canceled following approval by the Annual General Meeting in April 2005.

#### Dividend

For 2003, the Board of Directors will recommend at the AGM on 15 April 2004 that UBS should pay a dividend of CHF 2.60 per share for the financial year. This is an increase of 30% compared to last year's dividend of CHF 2.00 and reflects the continuing high cash flow generation and strong equity base of the company.

UBS has a long-term record of paying either steady or higher dividends. The decision on dividend payments falls under the authority of the AGM and is subject to shareholder approval. 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.

## Capital strength

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

In December 2003, *Moody's* reaffirmed UBS's Aa2/B+/Prime-1 ratings and commented that "the ratings of UBS are solidly underpinned by the group's strong client franchises and healthy financial fundamentals. With leadership position in the majority of its core businesses, the group's mix of businesses is well diversified across products and regions, the majority of which benefit from the good growth prospects despite being in mature and competitive industries and markets."

In December 2003, the rating agency *Standard & Poor's* raised its outlook on UBS to stable from negative. At the same time, it affirmed its AA+ long-term, and A-1+ short-term ratings on UBS AG and related entities. "This move reflects UBS's resilient financial performance and the fact that markets have stabilized since July 2002. The ratings reflect the bank's strong market positions and franchises across a wide range of private banking and interna-

tional securities activities.

Organizational fine-tuning is positioning the group to reap good benefits from economic recovery and a stabilization of equity markets, as well as to garner more synergies from the key group activities," the agency said in a press release.

In September 2003, *Fitch* Ratings, the international rating agency, downgraded UBS's long-term rating to AA+ from AAA and changed the outlook on the long-term rating to stable from negative. "The rating change reflects Fitch's view that UBS's risk profile is undergoing a gradual transformation, as the group combines its core strengths of wealth management and its domestic banking franchise in Switzerland with an expanding global investment banking operation, in particular in the US. While Fitch recognizes the fundamentally cautious approach of UBS's management to risk, it is the agency's view that the group's strategic aim to increase its market share in US investment banking and take advantage of growing business opportunities will mean increasing its risk exposure."

### Long-term credit ratings

	As at		
	31.12.03	31.12.02	31.12.01
Fitch, London	AA+	AAA	AAA
Moody's, New York	Aa2	Aa2	Aa2
Standard & Poor's, New York	AA+	AA+	AA+

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

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



# Corporate Governance

# Introduction and Principles

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

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

UBS fully complies with the standards established in the “Swiss Code of Best Practice for Corporate Governance” and the “SWX Swiss Exchange Directive on Information relating to Corporate Governance”, both effective since 1 July 2002. UBS also meets the New York Stock Exchange (NYSE) corporate governance standards applicable to listed foreign companies and complies with the overwhelming majority of the NYSE standards for US domestic issuers. The few exceptions, mainly due to different legal requirements in Switzerland and the US, are explained on pages 108–109. UBS complies with the applicable requirements of the US Sarbanes-Oxley Act of 2002, including the certification of UBS’s Annual Report on Form 20-F by the principal executive officer of the company – the Group CEO – and the principal financial officer – the Group Controller.

UBS operates under a strict dual Board structure, as mandated by Swiss banking law. The functions of Chairman of the Board of Directors (Chairman) and President of the Group Executive Board/Group Chief Executive Officer (Group CEO) are conferred on two different

people, thus providing separation of powers. No member of one board may be a member of the other. This structure establishes checks and balances and creates an institutional independence of the Board of Directors from the day-to-day management of the firm, for which responsibility is conferred on the Group Executive Board.

## SWX Swiss Exchange Reporting on Corporate Governance

This Corporate Governance section contains the following information required by the SWX Swiss Exchange Directive on Information relating to Corporate Governance:

- group structure and shareholders
- capital structure
- Board of Directors
- Group Executive Board
- compensation, shareholdings and loans to corporate bodies
- shareholders’ participation rights
- change of control and defense measures
- auditors
- information policy

In addition, this section summarizes the regulatory and supervisory environment of UBS in its principal locations of activity, describes the compliance of UBS with the NYSE listing standards on corporate governance, and contains a list of the members of the Group Managing Board of UBS, the next layer of management responsibility below the Group Executive Board.

# Group Structure and Shareholders

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

## UBS Group legal entity structure

The legal entity structure of UBS is designed to support the Group’s businesses within an efficient legal, tax, regulatory and funding framework. None of the Business Groups of UBS or Corporate Center operate through separate legal entities, but rather they generally operate out of the parent bank, UBS AG, through its branches worldwide.

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

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

## Operational Group structure

The four Business Groups – Wealth Management & Business Banking (with its two business units Wealth Management and Business Banking Switzerland), Investment Bank (comprising the two business units Investment Banking & Securities and Private Equity), Wealth Management USA, and Global Asset Management – together with the Corporate Center, form the operational structure of the Group. Group performance is reported according to this structure (see the Financial Report 2003). A description of the Business Groups, their strategy, structure, organization, products and services is contained in this Handbook on pages 17–44.

## Listed and non-listed companies belonging to the Group

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

Motor Columbus AG, Baden (Switzerland), listed on the SWX Swiss Exchange, share capital CHF 253 million, capitalization on 31 December 2003 CHF 1,467.4 million, UBS stake 35.6%, Valor No 212427/ISIN CH0002124276.

UBS Group comprises a great number of subsidiaries, none of which, however, is listed. For details of significant subsidiaries see Note 36 to the Financial Statements.

## Significant shareholders

Chase Nominees Ltd., London, acting in its capacity as a nominee for other investors, was registered with 8.27% of all shares issued as of 31 December 2003, compared to 7.68% at year-end 2002. According to UBS’s Regulation on the Registration of Shares, voting rights of nominees are restricted to 5%. As in previous years, no other shareholder was registered with more than 5% of all shares issued. Ownership of UBS shares is widely spread, as can be seen from the tables on the next page, which also provide information about the distribution by category of shareholders and by geography.

Under the Swiss Stock Exchange Act, anyone holding shares in a company listed in Switzerland has to notify the company and the stock exchange if the holding attains, falls below or exceeds the following thresholds: 5, 10, 20, 33<sup>1</sup>/<sub>3</sub>, 50, or 66<sup>2</sup>/<sub>3</sub>% of the voting rights, whether they are exercisable or not. The methodology for calculating the limit is defined in the Ordinance of the Federal Banking Commission on the Stock Exchange (disclosure of shareholdings).

## Corporate Governance Group Structure and Shareholders

### Distribution of UBS shares

As at 31.12.03 <i>Number of shares registered</i>	Shareholders registered		Shares registered	
	Number	%	Number	% of shares issued
1–100	46,071	22.1	2,447,526	0.2
101–1,000	126,940	60.9	48,592,426	4.1
1,001–10,000	32,872	15.8	81,182,005	6.9
10,001–100,000	2,307	1.1	57,611,168	4.9
100,001–1,000,000	298	0.1	84,193,059	7.1
1,000,001–5,000,000	55	0.0	117,412,209	9.9
5,000,001–11,830,467 (1%)	11	0.0	67,775,354	5.7
1–2%	3	0.0	50,156,159	4.2
2–3%	1	0.0	24,643,927	2.1
3–4%	0	0.0	0	0.0
4–5%	1	0.0	53,756,375	4.5
Over 5%	1 <sup>1</sup>	0.0	97,792,404	8.3
Total registered	208,560	100.0	685,562,612 <sup>3</sup>	57.9
Unregistered <sup>2</sup>			497,484,152	42.1
<b>Total shares issued</b>			<b>1,183,046,764</b>	<b>100.0</b>

<sup>1</sup> As at 31.12.2003, Chase Nominees Ltd., London, was entered as a trustee / nominee holding 8.27% of all shares issued. <sup>2</sup> Shares not entered in the share register at 31 December 2003. <sup>3</sup> 187,632,373 shares registered do not carry voting rights.

### Shareholders: type and distribution

As at 31.12.03	Shareholders		Shares	
	Number	%	Number	%
Individual shareholders	200,346	96.1	157,734,755	13.3
Legal entities	7,616	3.6	171,901,983	14.5
Nominees, fiduciaries	598	0.3	355,925,874	30.1
Unregistered			497,484,152	42.1
<b>Total</b>	<b>208,560</b>	<b>100.0</b>	<b>1,183,046,764</b>	<b>100.0</b>
Switzerland	192,070	92.1	308,364,680	26.0
Europe	11,837	5.7	243,605,541	20.6
North America	2,730	1.3	89,480,078	7.6
Other countries	1,923	0.9	44,112,313	3.7
Unregistered			497,484,152	42.1
<b>Total</b>	<b>208,560</b>	<b>100.0</b>	<b>1,183,046,764</b>	<b>100.0</b>

Since 13 September 2002, UBS's holdings of its own shares have been above the 5% threshold requiring disclosure under the Swiss Stock Exchange law. Primarily due to share repurchases for subsequent cancellation, UBS's holdings surpassed the 10% limit as of 5 June 2003 and dropped below 10% on 10 July following the cancellation of 76 million shares repurchased under the two 2002/2003 share buyback programs. A press release was issued on 8 June 2003 in that respect. On 11 July 2003, UBS's holdings consisted of 5.9% of its own shares, and an additional 0.8% of its own shares through derivatives. UBS's position in its own shares stood

between 5 and 10% for the remainder of the year.

At year-end, UBS's holdings in its own shares, calculated in accordance with the methodology described by the abovementioned ordinance, were 9.5% of the total share capital in the form of shares, and potentially 0.8% through derivatives.

### Cross shareholdings

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

# Capital Structure

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

## Capital

At the Annual General Meeting on 16 April 2003 shareholders gave the Board of Directors a mandate to continue a repurchase program during 2003/2004 for a maximum amount of CHF 5 billion. At the AGM on 15 April 2004, shareholders will be asked to approve the cancellation of 59,482,000 shares repurchased under this program.

### Conditional and authorized share capital

At year-end 2003, conditional share capital totaled CHF 5,497,401.60, corresponding to a maximum of 6,871,752 shares. The conditional capital was created in 2000 in connection with the acquisition of Paine Webber Group Inc. for the purpose of covering option rights granted by the Paine Webber Group to its employees. The subscription ratio, time limits and further details of these options were determined by PaineWebber before the merger and were assumed by UBS. Options under these plans are exercisable at any time between their vesting and the expiry date. Shareholders' pre-emptive rights are excluded. During 2003, options with respect to 2,719,166 shares were exercised. UBS does not have any authorized capital outstanding.

### Ordinary share capital

	Share capital in CHF	Number of shares	Par value in CHF
<b>As at 31 December 2002</b>	1,005,038,142	1,256,297,678	0.80
Share repurchase programs 2002/2003 and 2002b:			
Cancellation of shares upon AGM decision of 16 April 2003	(60,776,064)	(75,970,080)	0.80
Options exercised from conditional capital	2,175,333	2,719,166	0.80
<b>As at 31 December 2003</b>	<b>946,437,411</b>	<b>1,183,046,764</b>	<b>0.80</b>

## Changes of capital

Shareholders' equity on 31 December 2003 amounted to CHF 35,446 million, down 9% from a year earlier. For all details on changes in shareholders equity over the last three years, please refer to page 84 in the Financial Statements.

## Shares, participation and bonus certificates

UBS shares are issued as Global Registered Shares with a par value of CHF 0.80 each, with each carrying one vote. Voting rights may, however, only be exercised if the holder expressly declares having acquired these shares in his own name and for his own account. Global Registered Shares provide direct and equal ownership for all shareholders, irrespective of the country and stock exchange where they are traded. For details see the Shareholders' participation rights section on pages 96–97 of this Handbook.

As at 31 December 2003, 497,930,239 shares carried voting rights, 187,632,373 shares were entered in the share register without voting rights, and 497,484,152 shares were not registered. All 1,183,046,764 shares were fully paid up, and 1,126,339,764 shares were ranking for dividends. There are no preferential rights for individual shareholders.

UBS has not issued any participation certificates or bonus certificates.

**Limitation on transferability and nominee registration**

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

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

**Convertible bonds and options**

UBS has currently no convertible debt on UBS shares outstanding. The only options outstanding were 109,040,026 employee options on UBS shares as reported in Note 32c to the Financial Statements. For a total of 6,871,752 of those options, exercise will be satisfied through the creation of newly issued shares (conditional capital). Share capital would therefore be increased by a maximum of CHF 5,497,401.60. For the other employee options, exercise would be satisfied by the delivery of already issued treasury shares.

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

# Board of Directors

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

## Members of the Board of Directors

The table below provides information on the composition of the Board of Directors as at 31 December 2003. It shows each member's functions in UBS, nationality, year of initial appointment to the Board and current term of

office, professional history and education, date of birth, and other activities and functions such as mandates on boards of important corporations, organizations and foundations, permanent functions for important interest and pressure groups and official functions and political mandates.

Marcel Ospel	
Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Chairman
Nationality	Swiss
Year of initial appointment	2001
Current term of office runs until	2005

### Professional History, Education and Date of Birth

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

### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

Marcel Ospel is a member of the International Capital Markets Advisory Committee of the Federal Reserve Bank of New York, and holds mandates with the Monetary Authority of Singapore's International Advisory Panel and the International Monetary Conference. He is a trustee of the Foundation Board of the Patronate Committee for the Basel Museums of Art, and of the Committee for the Museum of Antiques, Basel, and is the Chairman of the "Optimus Foundation", a charitable foundation of UBS.

*Permanent functions for important interest and pressure groups*

Marcel Ospel is the treasurer of "Economiesuisse", the Swiss business federation, Zurich, and a member of the Board of Trustees of the Think Tank "Avenir Suisse" in Zurich.

Alberto Togni	
Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Executive Vice Chairman
Nationality	Swiss
Year of initial appointment	1998
Current term of office runs until	2005

### Professional History, Education and Date of Birth

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

### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

Alberto Togni is the Chairman of the Board of the Helmut Horten Foundation, Croglio (Ticino, Switzerland).

*Official functions and political mandates:*

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

## Corporate Governance Board of Directors

### Peter Böckli

Address	Böckli Bodmer & Partners St. Jakobsstrasse 41 CH-4002 Basel
Functions in UBS	Non-executive Vice Chairman Chairman of the Nominating Committee
Nationality	Swiss
Year of initial appointment	1998
Current term of office runs until	2006

### Professional History, Education and Date of Birth

Peter Böckli, non-executive Vice Chairman since 2002, has been a member of the Board of Directors of UBS and its predecessor Swiss Bank Corporation since 1985. He has been a partner in the law office of Böckli Bodmer & Partners since 1981 and was a part-time professor of tax and business law at the University of Basel from 1995 to 2001. From 1963 to 1981 he was an attorney-at-law in New York, Paris and Basel. Mr. Böckli graduated as doctor iuris at the University of Basel and as an attorney-at-law and is a non-resident member of the Association of the Bar of the City of New York. He was born on 7 May 1936.

### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

Peter Böckli is a member of the Board of Directors of Nestlé S.A., Vevey (Switzerland) and of its Audit Committee. He is the Vice Chairman of the Board of Manufacture des Montres Rolex S.A., Bienne (Switzerland), the Secretary of the Board of Trustees of the Wilhelm Doerenkamp Foundation, Chur (Switzerland), and a member of the Board of Trustees of the Holler Foundation, Munich (Germany).

*Official functions and political mandates:*

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

### Ernesto Bertarelli

Address	Serono International SA Ch. des Mines 15bis CH-1211 Geneva 20
Function in UBS	Member of the Compensation Committee
Nationality	Swiss
Year of initial appointment	2002
Current term of office runs until	2006

### Professional History, Education and Date of Birth

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

### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

Ernesto Bertarelli has been the Vice Chairman of the Board of Serono S.A., Coinsins (Switzerland) since 1991. He is the Chairman of Bertarelli & Cie., Chéserey (Switzerland), of Kedge Capital Partners Ltd., Jersey, and of Team Alinghi SA, and holds various board mandates in professional organizations of the biotech and pharmaceutical industries.

### Sir Peter Davis

Address	J Sainsbury plc 33 Holborn London EC1N 2HT
Functions in UBS	Member of the Audit Committee Member of the Nominating Committee
Nationality	British
Year of initial appointment	2001
Current term of office runs until	2004 (proposed for re-election at the 2004 AGM)

### Professional History, Education and Date of Birth

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

### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

Sir Peter Davis, in addition to sitting on the Board of J Sainsbury plc as its CEO, is a member of the Boards of Directors of Sainsbury's Supermarkets Ltd., London, and of Shaw's Supermarkets Inc., Boston (USA). He is a member of the Board of the Royal Opera House, London.

*Official functions and political mandates:*

Sir Peter Davis is the Chairman of the Employers' Task Force on Pensions, London.

### Johannes A. de Gier

Address	GAM Klausstrasse 10 CH-8008 Zurich
Functions in UBS	Member of the Board Executive Vice Chairman until February 2003
Nationality	Dutch
Year of initial appointment	2001
Current term of office runs until	2006 (stepping down as per AGM 2004)

### Professional History, Education and Date of Birth

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

### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

Johannes A. de Gier is the Chairman of SBC Wealth Management, Zug (Switzerland) and a member of the Boards of SHV Holdings N.V., Utrecht (Holland), and of Groupe Lhoist, Saint-Jean-des-Bois (Belgium).



### Rolf A. Meyer

Address	Heiniweidstrasse 18 CH-8806 Bäch
Functions in UBS	Chairman of the Compensation Committee Member of the Audit Committee
Nationality	Swiss
Year of initial appointment	1998
Current term of office runs until	2006

#### Professional History, Education and Date of Birth

Rolf A. Meyer has been a member of the Boards of UBS and its predecessor Union Bank of Switzerland since 1992. He was Chairman and CEO of Ciba Specialty Chemicals Ltd. until November 2000. He first joined Ciba-Geigy Group in 1973 as a financial analyst, and subsequently became Group Company Controller in Johannesburg, South Africa, Head of Strategic Planning and Control in Basel, Head of Finance and Information Systems in Ardsley, N.Y., and later Chief Financial Officer of the Group. After the merger of Ciba-Geigy and Sandoz to create Novartis, he led the spin-off of Ciba Specialty Chemicals. He now holds various international board mandates. Mr. Meyer graduated in Political Science (Ph.D.) and holds a Master of Business Administration. He was born on 31 October 1943.

#### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

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

### Hans Peter Ming

Address	Sika AG Wiesenstrasse 7 CH-8008 Zurich
Functions in UBS	Member of the Compensation Committee Member of the Nominating Committee
Nationality	Swiss
Year of initial appointment	1998
Current term of office runs until	2004 (not standing for re-election)

#### Professional History, Education and Date of Birth

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

#### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

Hans Peter Ming is the Chairman of Sika AG, Baar (Switzerland), and a member of the Board of Pestalozzi AG, Dietikon (Switzerland). He is also the Chairman of "Swisscontact", Zurich, a non-profit development organization of the Swiss private sector.

*Official functions and political mandates:*

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

### Lawrence A. Weinbach

Address	Unisys Corporation Unisys Way Blue Bell, PA 19424
Function in UBS	Chairman of the Audit Committee
Nationality	American (US)
Year of initial appointment	2001
Current term of office runs until	2005

#### Professional History, Education and Date of Birth

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

#### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

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

*Permanent functions for important interest and pressure groups:*

Lawrence A. Weinbach is a member of the NYSE Listed Company Advisory Committee and of the National Security Telecommunications Advisory Committee.

### Organizational principles and personnel changes

The Board, and in particular its Chairman, takes responsibility for the mid- and long-term strategic direction of the Group, for appointments and dismissals at top management levels, for mid-term succession planning and for compensation principles. It defines the firm's risk parameters and principles. A majority of the Board members

are non-executive and independent. The Chairman and at least one Vice Chairman have executive roles in line with Swiss banking laws, and assume supervisory and leadership responsibilities. As at 31 December 2003, the Board consisted of nine directors.

### Changes in 2004

As of the Annual General Meeting (AGM) on 15 April 2004, Johannes A. de Gier is stepping

down from the Board due to his new function as Chairman of SBC Wealth Management, the holding company established in 2003 within the UBS Group, with which the independent private banks and GAM have been integrated. Hans Peter Ming, whose term of office expires in 2004, is not standing for re-election as he has reached retirement age. The Board of Directors will propose the following new members for election: Stephan Haeringer, currently Deputy President of the UBS Group Executive Board, Helmut Panke, Chairman of the Board of Management of BMW AG, Munich, Germany, and Peter Spuhler, owner of Stadler Rail AG, Bussnang, Switzerland. The Board of Directors will consist of ten members – three executive and seven non-executive directors – after these changes.

#### **Executive responsibilities**

Marcel Ospel and Alberto Togni, the Chairman and executive Vice Chairman of the Board, have entered into employment contracts with UBS AG in connection with their services on the Board, and are entitled to receive pension benefits upon retirement. In line with Swiss banking law they assume clearly defined management responsibilities, separate from ordinary day-to-day management.

Chairman Marcel Ospel assumes a leading role in mid- and long-term strategic planning, the selection and supervision of the CEO and the members of the Group Executive Board, mid-term succession planning, developing and shaping global compensation principles, and the definition of the Group's risk principles and capacity. He also actively supports major client and transaction initiatives.

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

#### **Non-executive Board members**

Whereas Johannes A. de Gier served in executive functions in UBS for many years, the six other non-executive members of the Board have never had any management responsibility at UBS or for any of its subsidiaries, neither have any of their close family members. Neither these non-executive directors nor their close family members have been employed by the Company's principal Auditors, Ernst & Young. There are no employment

or service contracts with any of them. They receive fixed fees for their Board mandate and for the special functions they assume in the various Board Committees.

#### **Important business connections of non-executive Board members with UBS**

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

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

#### **Elections and term of office**

The members of the Board of Directors are elected by the AGM for a term of office of three years. The initial term of each member is fixed in such a way as to ensure that about one third of all the members has to be newly elected or re-elected every year.

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

The year of first appointment to the Board and the expiry of the current mandate of each Board member are listed in the table on pages 81–83.

#### **Internal organization**

After each Annual General Meeting of Shareholders, the Board elects its Chairman and one or more Vice Chairmen and appoints its Secretary. It meets as often as business requires, but at least six times per year. In 2003 the Board held six meetings with the members of the Group Executive Board participating, one telephone

conference for the final sign-off on the annual financial statements and a two-day strategy seminar. In addition, the Board met five times without participation of executive management. The Board is organized as follows:

#### **Chairman's Office**

The Chairman operates a Chairman's Office, including the Vice Chairmen, which meets together with the Group CEO to address fundamental issues for the firm, such as overall strategy, mid-term financial and business planning, mid-term succession plans, global compensation principles, and the risk profile of the firm. It may also hold meetings without the Group CEO. The Chairman's Office assumes ultimate approval responsibility in the credit risk process. It also acts as the supervisory body for Group Internal Audit. The Chairman's Office is responsible for shaping the corporate governance of the firm and formulates appropriate principles, which it submits to the Nominating Committee for review and subsequent submission to the full Board. It also assumes responsibility for the long-term succession planning for the Chairman and Board members and reviews, upon proposal by the Chairman and the Group CEO, GEB candidates for appointment or dismissal by the full Board. The members of the Chairman's Office, as of 31 December 2003, were Marcel Ospel, Chairman, Alberto Togni and Peter Böckli, Vice Chairmen. The Chairman's Office held 12 meetings in 2003. It additionally met five times as supervisory body for Group Internal Audit, with the meetings chaired by Alberto Togni.

#### **Audit Committee**

The Board appoints an Audit Committee with three members from among the non-executive, independent directors. The Audit Committee assists the Board in monitoring the integrity of the financial statements of the firm, compliance with regard to legal and regulatory requirements, and the qualification, independence and performance of UBS's external auditors. All members of the Audit Committee have been determined by the Board as being fully independent and financially literate, and Lawrence Weinbach, chairman, and Rolf Meyer have accounting or financial management expertise and are therefore considered as "financial experts", according to the rules established by the US Sarbanes-Oxley Act of

2002. The Audit Committee does not itself perform audits, but supervises the work of the auditors. Its primary responsibility is thereby to monitor and review the organization and efficiency of internal control procedures and the financial reporting process. As of 31 December 2003, Lawrence A. Weinbach was the chairman and Sir Peter Davis and Rolf A. Meyer the additional members of the Committee. The Audit Committee met five times in 2003, with representatives of the external auditors, the Group Controller and the Head of Group Internal Audit participating. It also held a separate meeting with the Group CEO and two sessions without management participation.

#### **Compensation Committee**

The Compensation Committee, comprising three non-executive, independent directors, has responsibility for reviewing the Group compensation policy for submission to the Board and for approving the design of the compensation system for the members of the GEB and the executive directors. It determines the individual compensation and bonus for the executive directors, the Group CEO and the members of the GEB and reviews and approves termination agreements with leaving GEB members. As of 31 December 2003, the Committee was chaired by Rolf A. Meyer, with Ernesto Bertarelli and Hans Peter Ming as its additional members. The Committee met five times during 2003.

#### **Nominating Committee**

The Nominating Committee comprises three non-executive, independent directors. It assumes responsibility for reviewing and proposing to the full Board candidates for Board membership and for supporting the Chairman's Office and the full Board in evaluating Board performance. It reviews the proposals of the Chairman's Office on Corporate Governance for submission to the full Board. As of 31 December 2003, Peter Böckli was the chairman and Sir Peter Davis and Hans Peter Ming the additional members of the Committee. In 2003, the Nominating Committee held four meetings.

#### **Corporate Responsibility Committee**

In 2001, UBS established a Corporate Responsibility Committee, which determines the company's policy with respect to corporate responsibility

and sustainable development, supports awareness within UBS for adherence to international standards in these areas and advises the GEB and other bodies on corporate responsibility. As of 31 December 2003, the Committee was chaired by Marcel Ospel. Additional members were Hans Peter Ming, representing the Board, Peter Wuffli, Group CEO, Peter Kurer, Group General Counsel, Clive Standish, Chairman & CEO Asia Pacific, Mark Branson, Chief Communication Officer, Marco Suter, Group Chief Credit Officer, Bob Silver, President and COO of UBS Wealth Management USA, and Raoul Weil, Head of Wealth Management International. The Corporate Responsibility Committee met twice during 2003.

#### **Charters and additional information**

The Charters of the Board, of the Chairman's Office and of all Board Committees are available on [www.ubs.com/boards](http://www.ubs.com/boards).

#### **Areas of responsibility of Board of Directors and Group Executive Board**

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

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

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

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

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

The Group Executive Board submits a quarterly Risk Report to the Board for approval, which updates the Board on all categories of risk and contains a comprehensive assessment of the risk situation of the Group. For details on the organization of Risk Management and Control, please refer to pages 46–49 of this Handbook.

# Group Executive Board

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

## Members of the Group Executive Board

The table below provides information on the composition of the Group Executive Board as at 31 December 2003. It shows each member's function in UBS, nationality, year of initial appointment to

the GEB, professional history and education, date of birth, and other activities and functions such as mandates on boards of important corporations, organizations and foundations, permanent functions for important interest and pressure groups and official functions and political mandates.

<b>Peter Wuffli</b>	
Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Group Chief Executive Officer
Nationality	Swiss
Year of initial appointment to the GEB	1998

### Professional History, Education and Date of Birth

Peter A. Wuffli was named President of the Group Executive Board on 18 December 2001 and Group CEO in 2003. Previously he was Chairman and CEO of UBS Asset Management, and from 1998 to 1999 Group Chief Financial Officer of UBS. From 1994 to 1998, he was the Chief Financial Officer at Swiss Bank Corporation (SBC) and a member of SBC's Group Executive Committee. In 1984, he joined McKinsey & Co as management consultant where he became a partner in 1990. He was a freelance economics reporter for "Neue Zürcher Zeitung" before joining McKinsey. Mr. Wuffli graduated in economics and social sciences from the University of St. Gallen and holds a doctor's degree in international management. He was born on 26 October 1957.

### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

Peter Wuffli is a Board member of the Zurich Opera House and of the Institute of International Finance Inc., Washington DC. He is the Vice Chairman of the Board of IMD International Institute for Management Development in Lausanne (Switzerland) and the Treasurer of the Swiss-American Chamber of Commerce in Zurich.

<b>Stephan Haeringer</b>	
Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Deputy President of the Group Executive Board
Nationality	Swiss
Year of initial appointment to the GEB	1998 (proposed for election to the Board of Directors at the AGM 2004)

### Professional History, Education and Date of Birth

Stephan Haeringer has been Deputy President of the Group Executive Board since 2002. He was the CEO of UBS Switzerland and of its Private and Corporate Clients business unit from 2000 and the Division Head of Private and Corporate Clients from 1998. Mr. Haeringer has assumed a broad variety of responsibilities within UBS over the last three decades. From 1996 to 1998, he was Chief Executive Officer Region Switzerland of Union Bank of Switzerland. From 1991 to 1996, he served as Division Head Private Banking and Institutional Asset Management. In 1991, he was appointed member of the Group Executive Board, after having been an Executive Vice President since 1987. In 1988 he became Head of the Financial Division. During the years 1967 to 1988, Mr. Haeringer assumed various management roles within the areas of Investment Counseling, Specialized Investments, Portfolio Management, Securities Administration and Collateral Loans. He received professional training at Williams de Broe Hill Chaplin & Cie, London, and at Goldman Sachs & Co. and Brown Brothers Harriman in New York. Mr. Haeringer was born on 6 December 1946.

### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

Stephan Haeringer is a member of the Board of Directors of Robert Bosch Internationale Beteiligungen AG, Zurich, a member of the Board of the Helmut Horten Foundation, Croglio (Ticino, Switzerland), and a member of the Board Committee of the Zurich Chamber of Commerce.

*Permanent functions for important interest and pressure groups:*

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

## Corporate Governance Group Executive Board

### John P. Costas

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Chairman and Chief Executive Officer Investment Bank
Nationality	American (US)
Year of initial appointment to the GEB	2001

### Professional History, Education and Date of Birth

John P. Costas has been Chairman & CEO of the Investment Bank since 2002, having been CEO since 2001. He was President and Chief Operating Officer of UBS Warburg from the beginning of 2001, and COO and Global Head Fixed Income from 1999. Mr. Costas joined Union Bank of Switzerland in 1996 as Head of Fixed Income. From 1981 to 1996 he was with Credit Suisse First Boston, his last position being co-head of Global Fixed Income. Mr. Costas graduated from the Tuck School at Dartmouth with an MBA in Finance and holds a BA in political science from the University of Delaware. He was born on 27 January 1957.

### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

John Costas is a member of the New York City Partnership & Chamber of Commerce, Inc.

### John A. Fraser

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Chairman and Chief Executive Officer Global Asset Management
Nationality	Australian
Year of initial appointment to the GEB	2002

### Professional History, Education and Date of Birth

John A. Fraser was appointed as Chairman & CEO of the Global Asset Management Business Group in late 2001. Immediately prior to that, he was President and COO of UBS Asset Management and Head of Asia Pacific. From 1994 to 1998 he was Executive Chairman and CEO of SBC Australia Funds Management Ltd. Before joining UBS, Mr. Fraser held various positions at the Australian Treasury, including two international postings to Washington DC – first, at the International Monetary Fund and, second, as Minister (Economic) at the Australian Embassy. From 1990 to 1993 he was Deputy Secretary (Economic) of the Australia Treasury. Mr. Fraser graduated from Monash University in Australia in 1972 and holds a first class honours degree in economics. He was born on 8 August 1951.

### Georges Gagnebin

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Functions in UBS	Chairman Wealth Management & Business Banking
Nationality	Swiss
Year of initial appointment to the GEB	2001

### Professional History, Education and Date of Birth

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

### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

Georges Gagnebin is a member of the Board of the International Center for Monetary and Banking Studies (ICMB), Geneva, and of the UBS Optimus Foundation.

### Joseph J. Grano Jr.

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Chairman and Chief Executive Officer Wealth Management USA
Nationality	American (US)
Year of initial appointment to the GEB	2001 (stepped down from the GEB in January 2004)

### Professional History, Education and Date of Birth

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

### Other activities and functions

*Mandates on Boards of important corporations, organizations and foundations:*

Joseph J. Grano is a member of the Board of Trustees of the Lenox Hill Hospital, New York, of the Board of Trustees of the PaineWebber Foundation, New York, and of the Council for the US & Italy, Washington, DC.

*Official functions and political mandates:*

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



**Peter Kurer**

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Group General Counsel
Nationality	Swiss
Year of initial appointment to the GEB	2002

**Professional History, Education and Date of Birth**

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

**Marcel Rohner**

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Chief Executive Officer Wealth Management & Business Banking
Nationality	Swiss
Year of initial appointment to the GEB	2002

**Professional History, Education and Date of Birth**

Marcel Rohner was COO and Deputy CEO of the Private Banking unit of UBS Switzerland from 2001 until mid-2002. In 1999 he was named Group Chief Risk Officer, after having been Head of Market Risk Control of Warburg Dillon Read since 1998. Between 1993 and 1998, Mr. Rohner was with Swiss Bank Corporation's investment banking arm. In 1995 he was appointed Head of Market Risk Control Europe. Mr. Rohner graduated with a Ph.D in economics from the University of Zurich and was a teaching assistant at the Institute for Empirical Research in Economics at the University of Zurich from 1990 to 1992. He was born on 4 September 1964.

**Other activities and functions**

*Mandates on Boards of important corporations, organizations and foundations:*

Marcel Rohner is a member of the Admission Board and the Committee of the Admission Board of the SWX Swiss Exchange, Zurich.

**Clive Standish**

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Chairman & Chief Executive Officer Asia Pacific (Group Chief Financial Officer from 1 April 2004)
Nationality	British
Year of initial appointment to the GEB	2002

**Professional History, Education and Date of Birth**

Clive Standish has been Chairman and CEO Asia Pacific since 2002. In 1998, he was named CEO Asia Pacific of Warburg Dillon Read. Between 1991 and 1998 Mr. Standish was with Swiss Bank Corporation (SBC). In 1997 he was appointed Deputy Chairman Asia Pacific of SBC Warburg Dillon Read. Between 1994 and 1997 he served as Managing Director and CEO of SBC Warburg Dillon Read Australia. In 1991 he was appointed Head of Capital Markets and Managing Director of SBC Dominguez Barry Limited. Between 1983 and 1991, Mr. Standish was Founding Executive Director at Dominguez Barry Samuel Montagu Limited, after having been a partner with Dominguez & Barry Partners from 1979 to 1983. Mr. Standish started his professional career in 1972 with NM Rothschild & Sons Limited in London, after having completed high school. He was born on 17 March 1953.

**Mark Sutton**

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	President and Chief Operating Officer Wealth Management USA (CEO as from 2004)
Nationality	American (US)
Year of initial appointment to the GEB	2002

**Professional History, Education and Date of Birth**

Mark B. Sutton was President and Chief Operating Officer of UBS PaineWebber from 2002 and head of the PaineWebber US Private Client Group since 2001. In 1998 he was named President of the Private Client Group. Mr. Sutton became Executive Vice President in 1995 after the acquisition of Kidder, Peabody & Co., where, between 1992 and 1994, he served as CEO of the Investment Services Division and CEO of the Brokerage Unit. Previously he was active at Mitchell Hutchins Asset Management, a subsidiary of PaineWebber. Between 1984 and 1987, he served as Division Manager at PaineWebber, Austin, Texas. Mr. Sutton first joined a predecessor company of PaineWebber, Rotan Mosle, as a financial advisor in 1980, after having assumed the same function with Merrill Lynch in Fayetteville, Arkansas from 1978 to 1980. He holds a bachelor of science in finance from the University of Arkansas, Fayetteville. Mr. Sutton was born on 19 October 1954.

**Other activities and functions**

*Mandates on Boards of important corporations, organizations and foundations:*

Mark Sutton is a member of the Board of the Securities Industry Association, Washington D.C.

**Responsibilities, authorities and organizational principles**

The GEB has executive management responsibility for the Group and is accountable to the Board for the firm's results. The GEB, and in particular the CEO, is responsible for the implementation and results of the firm's business strategies, for the alignment of the Business Groups to UBS's integrated business model and for the exploitation of synergies across the firm. The GEB fosters an entrepreneurial leadership spirit throughout the firm. Together with the Chairman's Office, the GEB assumes overall responsibility for the development of UBS's strategies. The authorities of the GEB are defined in the Organization Regulations, which are available on the internet at [www.ubs.com/corporate-governance](http://www.ubs.com/corporate-governance).

**Personnel changes in 2004**

Joseph J. Grano Jr. stepped down from the GEB in January 2004, handing over the CEO function of the Wealth Management USA Business Group to Mark Sutton, previously President and Chief Operating Officer of Wealth Management USA. Joe Grano remains Chairman of the US Wealth Management business until mid-2004. Clive Standish, Chairman & CEO of Asia Pacific, will assume the function of Group Chief Financial Officer as of 1 April 2004. Stephan Haeringer, currently Deputy President of the GEB, is proposed for election to the Board of Directors at the AGM of 15 April 2004. The GEB will consist of eight members after these changes.

**Management contracts**

UBS has not entered into any management contracts.



# Compensation, Shareholdings and Loans

UBS seeks to attract, motivate, develop and retain highly qualified people for senior management positions. Compensation of senior executives is closely linked to the achievement of sustainable shareholder returns and provides appropriate incentives for long-term value creation.

## Compensation principles

### Components of senior executive compensation

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

Compensation levels are based on the firm's and the individual's performance and are highly variable from year to year, in line with the profitability of the firm. As such, should UBS Group and Business Group performance increase from the prior-year, exceed established business plan targets and outperform competitor trends, the compensation of senior executives and the GMB will clearly reflect this, as 2003 numbers show. The converse would, of course, also be true.

Incentive award targets are established annually on the basis of each executive's role, performance trend over time, functional responsibilities and competitive practices for comparable positions. Actual incentive awards are made after the end of the financial year based on measurement of current against prior-year results and against set business plan targets. Additionally, they consider both qualitative and quantitative factors, such as individual key performance indicators of the respective business, which are long-term value drivers crucial to the firm's ability to deliver future performance and growth.

An annual examination of competitor pay practices is conducted to ensure that our compensation policies and practices continue to support the objectives of attracting outstanding new

executives, motivating and retaining valuable employees, and delivering sustained superior returns to shareholders.

### Executive share ownership programs

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

- A significant portion (25% to 50%) of each senior executive's or GMB member's annual performance-based incentive compensation is delivered on a mandatory basis in the form of restricted or deferred UBS shares. Shares of Swiss participants are restricted from sale for five years, due to tax reasons. Normally shares of all participants are vesting during a period of five years. Prior to vesting, the shares can be forfeited in clearly defined circumstances, primarily if the executive is joining a competitor.
- Executives are also eligible for discretionary stock option awards, which vest three years after grant date, and are made separately as long-term incentives, to reward exemplary performance as well as superior leadership skills and potential. The strike price for such options is set at up to 110% of the average high and low sale price of the UBS shares at a defined date. Options normally vest after three years and remain exercisable for a further seven years. Any unvested options will generally be forfeited if the executive leaves the company.
- Additional incentives are provided for senior executives and GMB members who voluntarily elect to take an even greater portion of their annual performance-based incentive compensation in the form of restricted or deferred UBS shares. Executives opting to

<sup>1</sup> "Senior executives" includes, as defined by the SWX Directive, the executive members of the Board of Directors and the members of the Group Executive Board.

## Corporate Governance Compensation, Shareholdings and Loans

- take a greater than mandatory proportion of their annual incentive in restricted or deferred UBS shares receive additional stock options.
- Senior executives and GMB members are required to accumulate over a certain period of time, and then hold, a significant number of UBS shares.

### Components of non-executive directors' remuneration

Remuneration of non-executive directors is not performance-related. They receive a base fee of CHF 300,000 plus CHF 350,000 for a Committee chairmanship and CHF 200,000 for each Committee membership. Remuneration is paid either 50% in cash and 50% in UBS restricted shares or 100% in restricted shares, according to the individual director's election. Shares are attributed with a price discount of 15% and are restricted from sale for four years.

### Governance

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

- Group Managing Board members: compensation recommendations are developed by the responsible member of the Group Executive Board. Recommendations are reviewed and approved by the Group CEO. For GMB members in the Corporate Center, who report directly to the Group CEO, approval by the Chairman is required. The compensation system for the Group Managing Board is subject to the approval of the Chairman's Office.
- Group Executive Board members: Compensation recommendations are developed jointly by the Group CEO and the Chairman of the Board. The Compensation Committee of the Board of Directors reviews and approves the design of the compensation system for the Group Executive Board and all resulting compensation recommendations.

- Group CEO and Executive Vice Chairmen: Compensation recommendations are developed by the Chairman of the Board. The Compensation Committee of the Board of Directors reviews and approves the design of the compensation system for the Group CEO and the Executive Vice Chairmen and all resulting compensation recommendations.
- Chairman of the Board: On behalf of the full Board of Directors, the Compensation Committee has authority to develop and approve the design of the compensation system for the Chairman of the Board and all resulting compensation decisions.
- Non-executive members of the Board: The remuneration system for the non-executive directors is developed by the Compensation Committee and submitted to the executive Board members for approval. Individual remuneration of each non-executive director is related to the positions they hold.

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

#### Executive members of the Board and members of the GEB

The total of all compensation for the financial year 2003 (cash payments, employer's contribution to retirement benefit plans, benefits in kind and fringe benefits) for the two executive members of the Board of Directors, the ten members of the Group Executive Board and Johannes A. de Gier, who stepped down as executive director during first quarter 2003, was CHF 81,423,820. The table on the next page provides details as to cash component, employer's contribution to retirement benefit plans, benefits in kind and fringe benefits, as well as fair value of shares and options granted. It also shows prior-year numbers.

In Switzerland, senior executives participate in UBS's general pension plans, which comprise a basic component operated on the defined benefit principle, a savings plan and a defined contribution plan. The cap compensation amount to be included in these plans is set at CHF 730,000 for all employees. This translates into a maximum annual pension of CHF 256,000 after retirement plus a one-off pay-out of accumulated capital from the savings plan in the maximum amount of CHF 217,052.

## Compensation for executive members of the BoD and members of the GEB<sup>1</sup>

in CHF

For the year ended	31.12.03	31.12.02 <sup>2</sup>
Cash component (base salary, cash portion of bonus)	79,204,558	89,499,015
Employer's contributions to retirement benefit plans	1,225,543	1,320,220
Benefits in kind, fringe benefits (at market value)	993,719	1,019,000
Restricted UBS shares (at fair value) <sup>3</sup>	64,176,428	41,006,156
Restricted UBS options (at fair value) <sup>4</sup>	12,752,019	14,268,501

<sup>1</sup> Total compensation numbers exclude merger-related retention payments for the two ex-PaineWebber executives of CHF 21,119,238 (USD 17,038,514) in 2003 and CHF 20,631,522 (USD 14,913,742) in 2002. These retention payments were committed at the time of the merger in 2000 and fully disclosed at the time. <sup>2</sup> Total compensation for financial year 2002 includes three executive BoD members, the 10 acting GEB members as per 31 December 2002 and two former GEB members who left the company in 2002. <sup>3</sup> Share price applied: CHF 95.30 / USD 76.40 for 2003, CHF 61.00 / USD 45.10 for 2002. <sup>4</sup> Fair value per option: CHF 12.33 / USD 9.90 for 2003, CHF 16.30 / USD 11.74 in 2002.

## Compensation for non-executive members of the BoD

in CHF

For the year ended	31.12.03	31.12.02 <sup>1</sup>
Cash component	1,889,097	1,825,000
Restricted UBS shares (at fair value) <sup>2</sup>	3,513,044	1,705,865

<sup>1</sup> Total compensation for the financial year 2002 includes compensation for seven non-executive directors (the acting members of the Board of Directors as of 31 December 2002 and one former member who stepped down at the AGM in 2002). <sup>2</sup> Share price applied: CHF 95.30 for 2003, CHF 61.00 for 2002.

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

### Non-executive members of the Board

The seven non-executive Board members (Johannes A. de Gier for nine months only) were paid CHF 1,889,097 in cash for the financial year 2003. According to internal rules on senior executive's mandates, fees due to Johannes de Gier were credited to SBC Wealth Management AG, the UBS holding company where he has been employed as chairman as from 1 April 2003.

The six external directors elected to receive 36,863 shares, which at fair value were worth CHF 3,513,044.

### Additional severance payments

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

### Compensation for former members of the Board and GEB

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

### Share grants for the year under review

#### Executive Board members and members of the GEB

The two executive Board members, the ten GEB members and Johannes A. de Gier (for first quarter 2003) were granted 307,609 shares, valued at CHF 95.30 per share (average sale price of UBS shares at virt-x over the last ten trading days of February 2004), and 368,132 shares, valued at USD 76.40 per share (average sale price of UBS shares at the NYSE over the last ten trading days of February 2004). These shares are blocked for five years.

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

#### Non-executive Board members

The six non-executive Board members were granted 36,863 shares, at a discounted value of CHF 81 per share. The shares are blocked for four years. Related parties are not granted any shares.

### Share ownership

#### Executive Board members and members of the GEB

The two executive Board members, Johannes A. de Gier and the ten members of the GEB, and parties closely linked to them, held 3,065,276 UBS shares at year-end 2003. No individual BoD or GEB member holds 1% or more of all shares issued.

#### Non-executive Board members

The six non-executive external Board members and parties closely linked to them held 84,941 UBS shares as of 31 December 2003.

### Options grants for the year under review

#### Executive Board members and members of the GEB

The two executive BoD members, the ten GEB members and Johannes A. de Gier were granted 457,000 CHF-options and 580,000 USD-

options in 2003 as a long-term incentive. The strike price was CHF 65 and USD 48 respectively, ten percent above the average high and low sale price at the virt-x and the NYSE respectively on the last trading day in January 2003. Options vest three years after grant and will expire ten or ten and a half years from the date of grant.

#### Non-executive Board members

Non-executive Board members were not granted any options.

### Options held

#### Executive Board members and members of the GEB

The group of senior executives held the following options on UBS shares as of 31 December 2003. Options held by Johannes A. de Gier that were granted to him as a senior executive are included in the table below.

### Options held as of 31 December 2003

Number of options	Year of grant	Vesting date	Expiry date	Subscription ratio	Strike price
87,882	1998	26/05/03	26/05/04	1:1	CHF 85.12
64,616	1998	26/05/03	26/08/04	1:1	CHF 85.12
72,006	1998	01/07/03	30/06/04	1:1	CHF 56.67
79,566	1999	26/02/02	26/02/05	1:1	CHF 79.00
396,000	2000	01/02/03	01/02/06	1:1	CHF 66.67
360,000	2001	24/01/04	24/01/08	1:1	USD 57.80
3,000	2001	28/02/04	29/02/08	1:1	USD 53.39
2,006,490	2001	20/02/04	20/02/09	1:1	CHF 100.00
290,828	2002	20/02/05	31/01/12	1:1	CHF 77.75
568,663	2002	31/01/05	31/01/12	1:1	USD 45.26
2,000	2002	28/02/04	29/02/12	1:1	USD 46.24
255,000	2002	28/06/07	28/06/12	1:1	CHF 80.75
380,000	2002	28/06/05	28/06/12	1:1	USD 54.50
367,960	2002	20/02/05	31/07/12	1:1	CHF 77.75
215,000	2002	28/06/05	28/12/12	1:1	CHF 80.75
60,000	2003	31/01/06	31/01/13	1:1	CHF 65.00
580,000	2003	31/01/06	31/01/13	1:1	USD 48.00
2,000	2003	28/02/05	28/02/13	1:1	USD 41.61
427,000	2003	31/01/06	31/07/13	1:1	CHF 65.00

In addition, this group of senior executives held the following warrants as of 31 December 2003:

120,264	2000	20/03/03	01/04/04	16.67:1	CHF 75.00
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### **Non-executive Board members**

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

### **Additional honorariums and remuneration**

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

### **Loans granted to members of the Board and the GEB**

Granting loans is part of the ordinary business of UBS. Executive members of the Board and the members of the GEB have been granted loans, fixed advances and mortgages at the same terms and conditions as other employees, based on third-party conditions adjusted for reduced credit risk. In 2002, a thorough review of outstanding loans to senior executives was performed to ensure compliance with the US Sarbanes-Oxley Act of 2002. New loans and mortgages are now granted at general market conditions with no preferential rates.

Loans and advances to non-executive Board members and related parties are transacted on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons. For details see Note 33 to the Financial Statements.

### **Loans granted to executive Board members and members of the GEB**

As of 31 December 2003, collateral loans and fixed advances of CHF 9,882,000 were receivable from executive Board members and members of the GEB, and mortgages in the amount of CHF 13,704,000 had been granted to this group

of senior executives and their close family members.

### **Loans granted to non-executive Board members**

Loans and mortgages granted to non-executive Board members and companies related to them amounted to CHF 80.5 million, including guarantees, contingent liabilities and committed credit facilities.

### **Highest total compensation**

Total compensation of the highest paid member of the Board of Directors, Chairman Marcel Ospel, amounted to CHF 17,232,588 for financial year 2003, including 78,698 restricted UBS shares. In addition, 127,000 options were granted as a long-term incentive award. At fair value these options were worth CHF 1,565,910.

### **Additional information on equity-based compensation and retirement benefit plans**

Note 32 to the Financial Statements provides comprehensive information on the Group's equity participation plans for employees on various levels of the organization. It shows pro-forma results under the assumption of expensing options at fair value rather than charging their intrinsic value at grant date. The Financial Report 2003 also provides information on how business unit results would have been impacted if options granted to employees had been expensed (please refer to the Business Group Results on page 41).

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

# Shareholders' Participation Rights

**UBS is committed to making it as easy as possible for shareholders to take part in its decision-making processes. All 210,000 registered shareholders and some 50,000 US shareholders registered via nominee companies receive regular written information about the firm's activities and performance and are personally invited to shareholder meetings.**

## Relations with shareholders

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

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

## Voting rights, restrictions and representation

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

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

All registered shareholders can participate in shareholder meetings. If they do not wish to attend in person, they can issue instructions to

accept, reject or abstain on each individual item on the meeting agenda by either giving instructions to an Independent Proxy designated by UBS (as required under Swiss company law) or by appointing UBS, another bank or another registered shareholder of their choice, to vote on their behalf.

## Statutory quorums

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

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

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

### Convocation of General Meetings of Shareholders

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

Extraordinary General Meetings may be convened whenever the Board of Directors or the statutory auditors consider it necessary. Shareholders individually or jointly representing at least 10% of the share capital may, at any time, ask in writing that an Extraordinary General Meeting be convened to deal with a specific issue put forward by them. Such a request may also be brought forward during the AGM.

### Placing of items on the agenda

Shareholders individually or jointly representing shares with an aggregate par value of CHF 250,000 may submit proposals for matters to be placed on the agenda for consideration by the shareholders' meeting.

UBS publishes the deadline for submitting such proposals in various Swiss and international newspapers and on its website ([www.ubs.com/shareholder-meeting](http://www.ubs.com/shareholder-meeting)). Requests for items to be placed on the agenda must include the actual motions to be put forward, together with a short explanation, if necessary. The Board of Directors formulates an opinion on the proposals, which is published together with the motions.

### Registrations in share register

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

# Change of Control and Defensive Measures

UBS refrains from restrictions that would hinder developments otherwise initiated or supported by the financial markets. There are no specific protections against hostile takeover in place.

## Duty to make an offer

An investor who acquires 33 1/3% of all voting rights, whether they are exercisable or not, has to submit a takeover offer for all shares outstanding, according to the Swiss Stock Exchange Law. UBS has not elected to change or opt out of this rule.

## Clauses on changes of control

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

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



# Auditors

**Audit, with its various functions and authorities, plays an important role in corporate governance. While remaining independent, the external auditors and Group Internal Audit closely coordinate their work, thereby ensuring the most effective performance of their responsibilities. The Chairman's Office, the Audit Committee and ultimately the Board of Directors supervise the functioning of audit work.**

## External, independent Auditors

Ernst & Young Ltd., Basel, have been assigned the mandate to serve as global auditors for the UBS Group. They assume all auditing functions according to laws, regulatory requests, and the UBS Articles of Association (see also the paragraph about auditors responsibilities in the Regulation and supervision section on page 104–105). The Audit Committee of the Board has determined that Ernst & Young Ltd. meets all independence requirements established by the US Securities and Exchange Commission (SEC). Authority for pre-approval of all additional audit, audit-related and non-audit mandates to the principal auditors is with the Audit Committee, ensuring that independence of the auditors is not jeopardized by conflicts of interests through additional mandates. Ernst & Young Ltd. inform the Audit Committee annually of the measures it takes to ensure its and its employees' independ-

ence from UBS. The Audit Committee assesses this information on behalf of the Board and informs the Board accordingly.

At the Extraordinary General Meeting on 7 September 2000, UBS shareholders appointed Deloitte & Touche AG, Basel, as special auditors according to Article 31 paragraph 3 of the UBS Articles of Association. The special auditors provide audit opinions in connection with capital increases, independently from the Group auditors. They were re-appointed at the AGM in 2003 for another three-year term of office.

## Duration of the mandate and term of office of the lead auditor

After the UBS-SBC merger, Ernst & Young Ltd., Basel were initially appointed as UBS's principal external auditor for the audit of the 1998 financial statements. Following a comprehensive evaluation process during 1999, they were proposed for re-election to the 2000 AGM. The AGMs

## Fees paid to auditors

*in CHF*

For the year ended	<b>31.12.03</b>	31.12.02
<b>Audit</b>		
Global audit fees	<b>27,645,000</b>	26,023,000
Additional services classified as audit (services required by law or statute, including work of non-recurring nature mandated by regulators)	<b>4,589,000</b>	6,106,000
<b>Total audit</b>	<b>32,234,000</b>	32,129,000
<b>Non-audit</b>		
Audit-related services	<b>10,267,000</b>	9,342,000
Tax advisory	<b>5,947,000</b>	11,047,000
Other	<b>3,404,000</b>	3,452,000
<b>Total non-audit</b>	<b>19,618,000</b>	23,841,000

through 2003 annually confirmed their mandate, and they will be proposed for re-election at the AGM 2004.

Roger K. Perkin, chartered accountant, and Peter Heckendorn, lic.oec., have been in charge of the UBS audit since the initial appointment. Both lead partners will be replaced after completion of the audit for the 2004 financial year, due to the seven-year rotation requirement established by the Swiss Chamber of Auditors and declared mandatory for banks by the Swiss Federal Banking Commission.

#### **Fees paid to principal external auditors**

UBS paid the fees (including expenses) listed in the table on the previous page to its principal external auditors Ernst & Young Ltd.

Audit-related work consists primarily of additional attest services, such as retirement and compensation plan audits, agreed upon procedures reports required by contract and audits performed at the request of management. It also includes due diligence work on acquisitions and initial work relating to the eventual attestation as to UBS's compliance with Section 404 of the Sarbanes-Oxley Act. Tax services include advisory and compliance work in respect of UBS's own affairs, including reporting on UBS's compliance with the US Qualified Intermediary rules. Other services are only approved on an exceptional basis, and for 2003 comprised on call accounting and tax advisory services, and specified procedures in respect of mortgage backed securities documentation.

All non-audit services were pre-approved by a process in which all requests for non-audit mandates are routed from the Group Controller to the Company Secretary, who submits them to the chairman of the Audit Committee for pre-approval. His decisions are brought to the next Audit Committee meeting for ratification. Pre-approval authority for certain clearly specified audit-related and tax services has been delegated, subject to aggregate financial limits, to the Group Controller (from 1 April 2004 to the

Chief Financial Officer). These pre-approvals have to be brought to the Audit Committee for approval at its next meeting.

In addition to the fees listed in the table, Ernst & Young were paid CHF 14,552,000 (CHF 11,324,000 in 2002) for audit and tax work performed on behalf of UBS Investment Funds, many of which have independent fund boards or trustees.

The SEC prohibits independent auditors from providing a number of specific services. Ernst & Young have not provided any such services during the year.

#### **Group Internal Audit**

With around 240 professionals worldwide at 31 December 2003, Group Internal Audit provides an independent review of the effectiveness of the system of internal controls and compliance with key rules and regulations. It specifically verifies or assesses whether the internal controls are commensurate with the risks and are working effectively, whether activities within the firm are being conducted and recorded properly, correctly and fully, and whether the organization of operations, including information technology, is efficient and the information is reliable. All key issues raised by Group Internal Audit are communicated to the management responsible, to the Group CEO and to the executive members of the Board of Directors via formal Audit Reports. The Chairman's Office and the Audit Committee of the Board are regularly informed of important findings.

To maximize its independence from management, the head of Group Internal Audit, Markus Ronner, reports directly to the Chairman of the Board. Group Internal Audit has unrestricted access to all accounts, books and records and must be provided with all information and data needed to fulfill its auditing duties. Group Internal Audit addresses any reports with major issues ultimately to the Chairman of the Board. The Chairman's Office may order special audits to be conducted, and the Group Executive Board, with

the agreement of the Chairman, may instruct Group Internal Audit to conduct such audits.

Coordination and close cooperation with the external auditors enhance the efficiency of Group Internal Audit's work.

#### **Supervisory and control instruments vis-à-vis the external auditors**

The Audit Committee, on behalf of the Board of Directors, monitors the qualification, independence and performance of the Group Auditors and the lead partners. It prepares proposals for appointment or removal of the external auditors for review by the full Board, which then submits the proposal to the AGM.

The Audit Committee reviews annually the written statements submitted by the external auditors as to their independence. It also reviews the engagement letter between UBS and the external auditors and the fees and terms of the planned audit work. Mandates to the Group auditors for additional audit, audit-related and permitted non-audit work are subject to pre-approval by the Audit Committee.

The external auditors provide timely reports to the Audit Committee on critical accounting policies and practices used, on alternative treatments of financial information discussed with management, and other material written communication between external auditors and management.

The Audit Committee regularly meets with the lead partners of the external auditors, at least four times per year. It also regularly meets with the Head of Group Internal Audit.

At least once per year, the Chairman's Office discusses with the lead partners of Ernst & Young Ltd. the audit work performed, main findings and critical issues that arose during the audit.

The Audit Committee and the Chairman's Office report back to the Board of Directors about their contacts and discussions with the external auditors. Once per year, the lead partners take part in a Board meeting, normally to present the Long-form Report of the External Auditors, as required by the Swiss Federal Banking Commission (Bankengesetzlicher Revisionsbericht).

# Information Policy

Our financial disclosure policies aim at achieving a fair market value for UBS shares through open, transparent and consistent communication with investors and financial markets.

## Main sources of information

UBS provides regular information to its shareholders and to the financial community.

Financial results will be published as follows:

First Quarter	4 May 2004
Second Quarter	10 August 2004
Third Quarter	2 November 2004
Fourth Quarter	8 February 2005

The Annual General Meeting of Shareholders will take place as follows:

2004	15 April 2004
2005	21 April 2005

UBS meets regularly with institutional investors throughout the year, holding results presentations, specialist investor seminars, road shows and one-to-one or group meetings across the world. Where possible, these events involve UBS senior management as well as the UBS Investor Relations team. As a means of further widening our audience and maintaining contact with our shareholders around the world, we also make use of diverse technologies such as webcasting, audio links and cross-location video-conferencing.

Our website ([www.ubs.com/investors](http://www.ubs.com/investors)) includes comprehensive information about UBS, including a complete set of our published reporting documents, on-demand-access to recent webcast presentations and copies of presentations that senior management have given at industry conferences.

Once a year, each of our registered shareholders receives our Annual Review, which provides

an overview of the firm and its activities during the year as well as key financial information. Each quarter, they are also mailed an update about our ongoing initiatives as well as information on our quarterly financial performance. If they want more detailed information, shareholders can request our complete financial reports, produced on a quarterly and annual basis, free of charge.

To ensure fair access to and dissemination of our financial information, we make our publications available to all shareholders at the same time.

A complete list of all sources of information about UBS and contact details for shareholders as well as other interested parties are included in this Handbook on pages 4–6.

## Financial disclosure principles

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

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

- *Transparency*: our disclosure is designed to enhance understanding of the economic drivers and detailed results of the business, in order to build trust and credibility
- *Consistency*: we aim to ensure that our disclosure is consistent and comparable within each reporting period and between reporting periods

- *Simplicity*: we try to disclose information in as simple a manner as possible consistent with allowing readers to gain the appropriate level of understanding of our businesses' performance
- *Relevance*: we aim to avoid information overload by focusing our disclosure on what is relevant to UBS's stakeholders, or required by regulation or statute
- *Best practice*: we strive to ensure that our disclosure is in line with industry norms, and if possible leads the way to improved standards.

### Financial reporting policies

We report UBS's results quarterly, including a breakdown of results by Business Groups and business units and extensive disclosures relating to credit and market risk.

We prepare UBS's financial statements according to International Financial Reporting Standards (IFRS), and provide additional information in our Financial Report to reconcile the UBS accounts to US Generally Accepted Accounting Principles (US GAAP). A detailed explanation of the basis of UBS's accounting is given in Note 1 to the Financial Statements, which are published in the Financial Report 2003. An explanation of the critical accounting policies applied in the preparation of our Financial Statements is provided in a specific section in our Financial Report 2003.

As required under IFRS, we are committed to maintaining the transparency of UBS's reported results and to ensuring that analysts and investors can make meaningful comparisons with previous periods. If there is a major reorganization of our business units or if changes to accounting standards or interpretations lead to a material change in the Group's reported results,

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

### US regulatory disclosure requirements

As a Swiss company listed on the New York Stock Exchange (NYSE), we comply with the disclosure requirements of the Securities and Exchange Commission (SEC) and the NYSE for private foreign issuers. These include the requirement to make certain filings with the SEC. As a private foreign issuer, some of the SEC's regulations and requirements which apply to domestic issuers are not applicable to UBS. We provide UBS's regular quarterly reports to the SEC under cover of Form 6-K, and file an annual report on Form 20-F. We also provide additional disclosure at half-year to meet specific SEC requirements, which again is provided under cover of Form 6-K. These reports, as well as materials sent to shareholders in connection with annual and special meetings, are all available on our website, at [www.ubs.com/investors](http://www.ubs.com/investors).

As of the end of the period covered by this Annual Report, an evaluation was carried out under the supervision of our management, including the Group CEO and Group Controller, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15e) under the US Securities Exchange Act of 1934). Based upon that evaluation, the Group CEO and Group Controller concluded that these disclosure controls and procedures were effective as of the end of the period covered by this Annual Report. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

# Regulation and Supervision

**We aim to monitor regulatory developments, to comply with all applicable provisions and to work closely and maintain good relations with the regulators in all jurisdictions where we conduct business.**

As a Swiss-registered company, UBS's main regulator is the Swiss Federal Banking Commission (SFBC).

UBS's operations throughout the world are regulated and supervised by the relevant central banks and regulatory authorities in each of the jurisdictions in which we conduct business, most notably in the US and UK.

The following sections describe the regulation and supervision of UBS's business in Switzerland, our home market. It also describes the regulatory and supervisory environment in the United States and the United Kingdom, our next two largest operations.

## Regulation and supervision in Switzerland

### General

UBS is regulated in Switzerland under a system established by the Swiss Federal Law relating to Banks and Savings Banks of 8 November 1934, as amended, and the related Implementing Ordinance of 17 May 1972, as amended, which are together known as the Federal Banking Law. Under this law, banks in Switzerland are permitted to engage in a full range of financial services activities, including commercial banking, investment banking and fund management. Banking groups may also engage in insurance activities, but these must be undertaken through a separate subsidiary. The Federal Banking Law establishes a framework for supervision by the SFBC.

In its capacity as a securities broker, UBS is governed by the Swiss Federal Law on Stock Exchanges and Trading in Securities of 24 March 1995, as amended, under which the SFBC is appointed as prime regulator for these activities.

### Regulatory policy

Swiss regulatory policies are formulated on three levels. The first two are the statutory levels of

primary and secondary legislation issued by Parliament and the Swiss Federal Council. The SFBC has substantial influence on the drafting of these regulatory statutes. On more technical policy, the SFBC is empowered to issue so-called circulars, 23 of which are presently effective. The latest was issued on 14 October 2003 and sets minimum standards for the use of guarantees and credit derivatives, while the ordinance concerning the prevention of money laundering came into force on 1 July 2003. In certain fields, the SFBC officially endorses self-regulatory guidelines issued by the banking industry (through the Swiss Bankers' Association), which thus become an integral part of banking regulation. Examples are:

- Guidelines concerning a Code of Conduct with regard to the Exercise of Due Diligence by Banks, 1998
- Guidelines concerning the Treatment of Accounts, Custody Deposits and Safe Deposit Boxes Remaining Dormant at Swiss Banks, 2000
- Guidelines concerning the Exercise of Asset Management Mandates, 2000
- Guidelines on Internal Control, 2002
- Directives on the Independence of Financial Research, 2003.

Certain aspects of securities broking, such as the organization of trading, are subject to self-regulation through the SWX Swiss Exchange and the Swiss Bankers' Association, under the overall supervision of the SFBC.

### Role of external auditors and direct supervision of large banking groups

The Swiss supervisory system relies on banks' external auditors, who are licensed and supervised by the SFBC, and carry out official duties, on behalf of and subject to sanctions imposed by the SFBC. The responsibility of external auditors

not only encompasses the audit of Financial Statements but also entails the review of banks' compliance with all prudential requirements.

The SFBC has direct responsibility for supervision in two areas: capital requirements for market risk, for which there is a specialist team; and the supervision of the two large Swiss banking groups, including UBS. The supervisory strategy entails direct supervision in the form of regular meetings with bank management, supervisory visits, on-site reviews, direct reporting, both routine and ad hoc, and regular meetings with the host regulators of our overseas operations. Close cooperation, including regular trilateral meetings, has been established between the SFBC and UBS's US and UK regulators, and further links are being established by the SFBC with other relevant regulators.

#### **Reporting requirements and capital requirements**

UBS reports financial, capital, legal and risk information to the SFBC. The SFBC also reviews the bank's risk management and control policies and procedures in all areas of risk, including Know Your Customer rules and anti-money laundering practices. Reporting requirements include ad hoc and event-based information requests connected with direct supervisory activity.

Switzerland applies the internationally accepted capital adequacy rules of the Basel Capital Accord, but the SFBC implementation imposes a more differentiated and tighter regime than the internationally agreed rules, including a more stringent definition of capital (see Capital management on page 72).

#### **Disclosures to the Swiss National Bank**

Switzerland's banks, according to Swiss banking law, are primarily supervised by the SFBC while compliance with liquidity rules, in particular, is monitored by the Swiss National Bank (SNB). UBS sends the SNB detailed monthly interim balance sheets, capital adequacy and liquidity statements. UBS also submits an annual statement of

condition and quarterly stress testing results. The SNB can also require UBS to make additional disclosures of financial condition and other information relevant to its regulatory oversight.

### **Regulation and supervision in the US**

#### **Banking regulation**

UBS's operations in the United States are subject to a variety of regulatory regimes. We maintain branches in California, Connecticut, Illinois, New York and Florida. UBS's branches located in California, New York and Florida are federally licensed by the Office of the Comptroller of the Currency. US banking branch offices located in Connecticut and Illinois are licensed by the state banking authority of the state in which the branch is located. Each US banking office is subject to regulation and examination by its licensing authority. In addition, the Board of Governors of the Federal Reserve System exercises examination and regulatory authority over our state-licensed US banking offices. We also maintain state and federally chartered trust companies and other limited purpose banks, which are regulated by state regulators or the Office of the Comptroller of the Currency. Only UBS's subsidiary bank located in the state of Utah is insured by the Federal Deposit Insurance Corporation. The regulation of our US banking offices and subsidiaries imposes restrictions on the activities of those offices, as well as prudential restrictions, such as limits on extensions of credit to a single borrower, including UBS subsidiaries.

The licensing authority of each US banking office has the authority to take possession of the business and property of the office it licenses in certain circumstances. Such circumstances generally include violations of law, unsafe business practices and insolvency. As long as UBS maintains one or more federal branches, the Office of the Comptroller of the Currency also has the authority to take possession of the US operations of UBS AG under similar circumstances, and this



federal power may preempt the state insolvency regimes that would otherwise be applicable to our state-licensed offices. As a result, if the Office of the Comptroller of the Currency exercised its authority over the US banking offices of UBS AG pursuant to federal law in the event of a UBS insolvency, all of UBS's US assets would be applied first to satisfy creditors of our US banking offices as a group, and then made available for application pursuant to any Swiss insolvency proceeding.

In addition to the direct regulation of our US banking offices, operating US banking offices subjects UBS to regulation by the Board of Governors of the Federal Reserve System under various laws, including the International Banking Act of 1978, the Bank Holding Company Act of 1956 and the Gramm-Leach-Bliley Financial Modernization Act of 1999. On 10 April 2000, UBS AG was designated a "financial holding company" under the Gramm-Leach-Bliley Act.

#### **US regulation of other US operations**

In the United States, UBS Securities LLC and UBS Financial Services Inc., as well as UBS's other US registered broker-dealer entities, are subject to regulations that cover all aspects of the securities business, including:

- sales methods
- trade practices among broker-dealers
- use and safekeeping of customers' funds and securities
- capital structure
- record-keeping
- the financing of customers' purchases
- the conduct of directors, officers and employees.

These entities are regulated by a number of different government agencies and self-regulatory organizations, including the Securities and Exchange Commission and the National Association of Securities Dealers. Depending upon the specific nature of a broker-dealer's business, it may also be regulated by some or all of the New York Stock Exchange, the Municipal Securities Rulemaking Board, the US Department of the Treasury, the Commodities Futures Trading Commission, and other exchanges of which it may be a member. These regulators have available a variety of sanctions, including the authority to con-

duct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of the broker-dealer or its directors, officers or employees.

UBS subsidiaries in the United States are also subject to regulation by applicable federal and state regulators of their activities in the investment advisory, mutual fund, trust company, mortgage lending and insurance businesses.

#### **Regulation and supervision in the United Kingdom**

UBS's operations in the United Kingdom are regulated by the Financial Services Authority (FSA), as the UK's unified regulator, which establishes a regime of rules and guidance governing all relevant aspects of financial services business.

The FSA has established a risk-based approach to supervision and has a wide variety of supervisory tools available to it, including on-site inspections (which may relate to an industry-wide theme or be firm-specific) and the ability to commission reports by skilled persons (who may be the firm's auditors, IT specialists, lawyers or other consultant as appropriate). The FSA also has an extremely wide set of sanctions which it may impose under the Financial Services and Markets Act, broadly similar to those available to US regulators.

Some of our subsidiaries and affiliates are also regulated by the London Stock Exchange and other UK securities and commodities exchanges of which UBS is a member. Our business can also be subject to the requirements of the UK Panel on Takeovers and Mergers where relevant.

Financial services regulation in the UK is conducted in accordance with European Union directives which require, among other things, compliance with certain capital adequacy standards, customer protection requirements and conduct of business rules. These Directives apply throughout the European Union and are reflected in the regulatory regimes in other member states. The standards, rules and requirements established under these directives are broadly comparable in scope and purpose to the regulatory capital and customer protection requirements imposed under applicable US law.

# Compliance with NYSE Listing Standards on Corporate Governance

UBS aims to comply with all relevant standards on corporate governance. As a foreign company, listed at the New York Stock Exchange (NYSE), we only have to fully comply with the rules for Audit Committees. UBS, however, is also in compliance with the overwhelming majority of the NYSE rules for US companies.

## Introduction

On 4 November 2003, the Securities and Exchange Commission (SEC) approved the revised New York Stock Exchange corporate governance rules, as filed on 8 October 2003 by the NYSE. Foreign private issuers – such as UBS – must comply with the rules on Audit Committees by 31 July 2005 and disclose significant differences and material non-compliance with the NYSE standards by the first annual shareholders meeting after 15 January 2004.

UBS fully complies with the SEC requirements as to its Audit Committee and fulfills the overwhelming majority of the NYSE listing standards on corporate governance. The few exceptions are mainly due to the different legal system in Switzerland.

## Independence of directors

In line with the NYSE rules, the UBS Board of Directors has established the following criteria for a director to be considered independent:

- The UBS Board of Directors has determined that the director has no material relationship with UBS, either directly or as a partner, shareholder or officer of a company that has a relationship with UBS.
- The director has not been employed by UBS during the last three years.
- Immediate family members of the director have not been employed by UBS as an executive officer during the last three years.
- The director did not receive more than USD 100,000 per year in direct compensation from UBS within the past three years (other than director and committee fees).
- Immediate family members of the director did not receive more than USD 100,000 per year in direct compensation from UBS (other than

as an employee at a level below executive officer) within the past three years.

- The director has not been affiliated with or employed by UBS's principal auditors, Ernst & Young Ltd. during the last three years.
- Immediate family members of the director have not been affiliated with or employed in a professional capacity by Ernst & Young Ltd. during the past three years.
- The director or an immediate family member is not and has not been employed as an executive officer of a company whose compensation committee includes an executive officer of UBS.
- The director has not been an executive officer or employee within the past three years of a company that makes or receives payments to or from UBS in any fiscal year in excess of the greater of USD 1 million or 2% of the consolidated revenues of such company.
- Immediate family members have not been an executive officer within the past three years of a company that makes or receives payments to or from UBS in any fiscal year in excess of the greater of USD 1 million or 2% of the consolidated revenues of such company.
- The director, his immediate family members and/or companies controlled by him do not have banking relationships with UBS that are not in the ordinary course of business and on substantially the same terms as those prevailing at the time for comparable transactions with other clients.
- The director has not entered into consulting contracts with UBS.
- The director does not hold any other Board mandates that might infringe on his independence.
- There were no interlocking directorships over the past three years between the companies related to the director and UBS.

## Corporate Governance Compliance with NYSE Listing Standards on Corporate Governance

The Board of Directors, based on an individual assessment of its external members and their relationships with UBS, and after having carefully considered the detailed information provided by them as to the independence standards listed above, has determined that Peter Böckli, Sir Peter Davis, Rolf A. Meyer, Hans Peter Ming and Lawrence A. Weinbach are independent in accordance with the criteria mentioned above and therefore meet the independence requirements established by the NYSE.

Although Ernesto Bertarelli meets most of the above criteria and complies with Swiss independence standards, he is not entirely “independent” under the new NYSE requirements. UBS is a main sponsor of Mr Bertarelli’s sailing team Alinghi, which won the 31st America’s Cup. As a consequence, Ernesto Bertarelli decided to step down from his function as a member of the Compensation Committee as of February 2004. He shall be replaced by another director, who meets all NYSE criteria.

The Board of Directors has also determined that Lawrence A. Weinbach, Sir Peter Davis and Rolf A. Meyer meet the more stringent independence requirements for Audit Committee members. They do not receive directly or indirectly any consulting, advisory or other compensatory fees from UBS other than in their capacity as directors. They do not hold directly or indirectly UBS shares in excess of 5% of the outstanding capital, and none of them serves on the audit committees of more than two other public companies. The Board determined that all three Audit Committee members are financially literate and that Lawrence Weinbach and Rolf Meyer are “financial experts” according to the definitions established by the Sarbanes-Oxley Act of 2002, Lawrence Weinbach being a certified public accountant and having been in the audit and accounting business during most of his professional career, and Rolf Meyer through his former responsibility as Chief Financial Officer of a large listed company.

UBS operates under a strict dual Board structure mandated by Swiss banking law. No member of the Group Executive Board may also be a member of the Board of Directors and vice versa. This structure ensures an institutional independence of the entire Board of Directors from the day-to-day management. Therefore all Board members are considered non-management direc-

tors, although the two executive members of the Chairman’s Office are former members of the executive management and have entered into employment contracts with UBS in connection with their functions as Board members. The Board meets regularly without executive management, but including the executive members of the Board.

### Board Committees

UBS has established an Audit, a Compensation and a Nominating Committee. The charters for all the Board Committees are published on [www.ubs.com/corporate-governance](http://www.ubs.com/corporate-governance). Additional information on the Board Committee’s mandates, responsibilities and authorities can be found on page 85 of this Section.

In addition to these three committees, the Chairman of the Board and the Vice Chairmen form a “Chairman’s Office”, which has clearly defined authorities and duties. It also has responsibility for oversight of the internal audit function (as defined in the Swiss Federal Banking Commission’s Circular Letter on internal audit). For more details see page 85 of this Section and the UBS Organization Regulations with its two Appendices and the Charter for the Chairman’s Office ([www.ubs.com/corporate-governance](http://www.ubs.com/corporate-governance)).

### Differences from NYSE standards

For US listed companies the NYSE rules require:

- *responsibility of the Audit Committee for appointment, compensation, retention and oversight of the Independent Auditors.* UBS’s Audit Committee has been assigned all these responsibilities, except for appointment of the Independent Auditors, which – according to Swiss Company Law – is an authority of the Shareholders Meeting. The Audit Committee assesses the performance and qualification of the External Auditors and submits its proposal for appointment, re-appointment or removal to the full Board, which brings this proposal to the AGM for decision.
- *discussion on risk assessment and risk management between management and the Audit Committee.* UBS, as a global financial services firm, has a very sophisticated and complex system of risk management and control. Risk management and control is the clear responsi-

bility of the business and not of the Board or of its Committees. The full Board has authority to define the firm's risk framework, principles and capacity. The Chairman's Office, on behalf of the full Board, is responsible for monitoring the adherence to the defined risk principles and for reviewing whether the business and control units run appropriate systems of management and control of risks. For further details see the Risk Management and Control section of this Handbook on page 46–49.

- *supervision of internal audit by Audit Committee.* In accordance with the Swiss Federal Banking Commission's Circular Letter on Internal Audit, dated 14 December 1995, UBS gave the Chairman's Office responsibility and authority for supervising the internal audit function. The complexity of the financial services industry requires in-depth knowledge of the global businesses to allow for an effective supervision of the internal audit function. The Chairman's Office reports back to the full Board on all important findings, and the Audit Committee is regularly updated directly by the head of Group Internal Audit.
- *responsibility of the Nominating Committee for oversight of management and Board evaluation.* Management evaluation (performance of the Group CEO and the members of the Group Executive Board) is done by the Chairman's Office and reported to the full Board. All Board Committees perform a self-assessment of their activities and report back to the full Board. The Board has direct responsibility and authority to evaluate the Board's own performance, without preparation by a Board Committee.
- *proxy statement reports of the Audit and Compensation Committees.* Under Swiss Company Law, all reports addressed to share-

holders are provided and signed by the full Board. The Committees submit their reports to the Board.

- *shareholders' votes on equity compensation plans.* Under Swiss Company Law, the approval of compensation plans is not within the authority of the AGM, but of the Board of Directors. The reason for this approach is the fact that the capital of a Swiss company is determined in the Articles of Association and, therefore, each increase of capital has to be submitted for shareholders' approval. If equity-based compensation plans result in a need for a capital increase, AGM approval is mandatory. If, however, shares for such plans are purchased in the market, shareholders do not have the authority to vote.

#### Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Whistleblowing Protection

The UBS Board of Directors has adopted corporate governance guidelines, which are published on the UBS website at [www.ubs.com/corporate-governance](http://www.ubs.com/corporate-governance).

The UBS Board of Directors has also adopted a Code of Business Conduct and Ethics with an Addendum for principal executive, financial and accounting officers or controllers, as required by the Sarbanes-Oxley Act. The code is available on the UBS website at [www.ubs.com/corporate-governance](http://www.ubs.com/corporate-governance).

The Audit Committee of the Board has established rules for the handling of complaints related to accounting and auditing matters in addition to the internal UBS Group Policies on Whistleblowing Protection for Employees and on Compliance with Attorney Standards of Professional Conduct. The Audit Committee Procedures are available on the UBS website ([www.ubs.com/corporate-governance](http://www.ubs.com/corporate-governance)).

# Group Managing Board

The Group Managing Board (GMB) represents the next layer in the leadership of the Group below the Group Executive Board. Its members are drawn from the management teams of the Business Groups and the Corporate Center.

## Role of the Group Managing Board

The purpose of the GMB is to align leadership with the firm's agenda and targets according to strategic objectives, culture and incentives. Its

role is to understand, challenge and contribute to further developing the firm's direction, values and principles and to promote and communicate its culture both throughout UBS and externally.

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### Wealth Management & Business Banking

Michel Adjadj	Head of Wealth Management Middle East & Africa
Arthur Decurtins	Head of Wealth Management Germany & Benelux
Thomas Escher	Head of IT
Jürg Haller	Head of Products & Services
Eugen Haltiner	Head of Business Banking Switzerland
Marten Hoekstra	Head of Market Strategy & Development
Dieter Kiefer	Head of Wealth Management Western Europe
Martin Liechti	Head of Wealth Management Americas
Joe Rickenbacher	Chief Credit Officer
Alain Robert	Head of Wealth Management Switzerland
Kathryn Shih	Head of Wealth Management Asia Pacific
Jean Francis Sierro	Head of Resources
Richard Sipes	Head of Wealth Management UK & Northern, Eastern and Southern Europe (retired as of 31.12.03)
Anton Stadelmann	Chief Financial Officer
Vittorio Volpi	Head of Wealth Management Italy
Raoul Weil	Head of Wealth Management International
Stephan Zimmermann	Head of Operations
<i>New members as from 1 March 2004:</i>	
Hans-Ulrich Meister	Head of Business Unit Large Corporates & Multinationals
Jeremy Palmer	Head of Wealth Management UK, Northern & Eastern Europe
Werner Peyer	Head of Wealth Management Region Zurich

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### Investment Bank

Andy Amschwand	Head of Investment Bank Switzerland Global Head of Foreign Exchange / CCT
Mike Bolin	Chief Administrative Officer
Jonathan Britton	Chief Financial Officer
Gary Bullock	Global Head of Infrastructure Logistics
Regina A. Dolan	Global Head of Strategic Planning and Business Development
Robert Gillespie	Joint Global Head of Investment Banking
Alan C. Hodson	Global Head of Equities

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**Investment Bank (continued)**

Michael Hutchins	Global Head of Fixed Income, Rates & Currencies
Huw Jenkins	Head of Equities for the Americas
Ken Moelis	Head of Investment Banking for the Americas
Rory Tapner	Joint Global Head of Investment Banking
Robert Wolf	Global Head of Fixed Income

*New members as from 1 March 2004:*

Stephan Keller	Chief Risk Officer
Philip J. Lofts	Credit Officer

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**Wealth Management USA**

Barry Buchsbaum	Director of the Branch Group (until 29 February 2004)
Bruce Bursej	Director of Investment Counseling Services (until 29 February 2004)
Luzius Cameron	Director of Strategic Planning and New Business Development
Tom Naratil	Director of Investment Products Group
James D. Price	Director of Investment and Marketing Solutions
Robert H. Silver	President and Chief Operating Officer

*New members as from 1 March 2004:*

Robert J. Chersi	Chief Financial Officer
Mike Davis	Division Manager Western Division
James M. Pierce	Division Manager Central Division
Timothy J. Sennatt	Division Manager Eastern Division

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**Global Asset Management**

Gabriel Herrera	Head of Europe, Middle East & Africa
Thomas Madsen	Global Head of Equities
Joe Scoby	CEO Alternative & Quantitative Investments
Danny Schweizer	Deputy CEO Alternative & Quantitative Investments
Brian Singer	Global Head of Asset Allocation
Kai Sotorp	Head of Asia Pacific
Brian M. Storms	CEO Americas
Mark Wallace	Global Head of Logistics Infrastructure
Paul Yates	Head of UK

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**Corporate Center**

Mark Branson	Chief Communication Officer
Rolf Enderli	Group Treasurer
Thomas Hammer	Group Head of Human Resources
Robert Mann	Head UBS Leadership Institute
Hugo Schaub	Group Controller
Walter H. Stuerzinger	Group Chief Risk Officer
Marco Suter	Group Chief Credit Officer

*New member as from 1 March 2004:*

Scott G. Abbey	Chief Technology Officer
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**Chairman's Office**

Gertrud Erismann-Peyer	Company Secretary
Markus Ronner	Head of Group Internal Audit





# Corporate Responsibility

# Corporate Responsibility

**For us, responsible behavior is integral to everything we do, meaning that we want to create sustainable value for our shareholders, clients and employees, and at the same time, preserve our environment and contribute to the development of the communities we do business in.**

UBS makes responsible behavior an important part of its culture, identity and business practices. As a leading global financial services firm, we want to provide our clients with value-added products and services, promote a corporate culture that adheres to the highest ethical standards, and generate superior but sustainable returns for our shareholders. For UBS, responsible corporate conduct means sometimes moving beyond purely profit oriented or legal and regulatory considerations when doing business.

We are committed to being an equal opportunity employer, adhering to high social standards, protecting the environment and contributing to the communities which we are a part of. We give all our stakeholders every opportunity to monitor our behavior by adhering to best-in-class transparency standards.

We aim to provide a first-class working environment that is based on the values of diversity and meritocracy. Along with business-related targets, we link the performance measurement and assessment of our employees closely to our values.

UBS has endorsed and signed several international charters. In 1992, we were one of the first signatories to the United Nations Environment Program's Bank Declaration. Since its introduction, the declaration has exerted a considerable influence on the setting of environmental guidelines and practices for financial institutions. In 1999, we signed the Global Compact, a UN-sponsored platform for encouraging and promoting good corporate practice in the areas of human rights, labor and the environment.

## **Our corporate responsibility processes**

Corporate responsibility is not simply another "issue" that needs to be managed. We believe it is an underlying principle of doing business.

In 2001, we created a Corporate Responsibility Committee. It discusses and judges how to meet the evolving expectations of our stakeholders related to responsible corporate conduct. If it comes to the conclusion that there is gap between what stakeholders expect and our practice, the committee suggests appropriate measures to management, which is then responsible for finding solutions.

The committee is chaired by Marcel Ospel and includes one other member of the Board of Directors, and seven senior UBS executives representing our businesses, as well as a number of corporate functions, including legal, communication and risk management.

The committee's work is supported by a Corporate Responsibility Working Group that comprises representatives from all our Business Groups, as well as functional experts from the Corporate Center. It is alert to any new issues or expectations potentially related to responsible corporate conduct, and ensures that all are brought to the attention of the Corporate Responsibility Committee. Involving all parts of UBS early helps ensure the broad acceptance of the committee's suggestions, facilitating the implementation of necessary measures.

Neither the Corporate Responsibility Committee nor the Corporate Responsibility Working Group runs ongoing operational processes. They ensure UBS aligns business practices with changing societal expectations.

## **Investing in our communities**

The "raison d'être" behind our well established program of community investment is the recognition that our success does not only depend on the skill and resources of our people and the relationships we foster with clients, but also on the health and prosperity of the communities of

which we are a part. Dedicated teams worldwide work closely with senior managers to build partnerships with organizations in the communities where we operate, focusing on education, regeneration and environmental projects.

UBS supports communities in various ways. We make direct cash donations to organizations, and match donations from our employees to selected charity funds. Our employees, through their volunteer efforts, make significant contributions to the communities they are a part of.

Besides the engagement of the bank and its employees, we also give our clients the opportunity of engaging in charitable causes. The UBS Optimus Foundation invests donations from our clients into a number of programs and organizations that focus particularly on children. The projects involve close collaboration with respected partner organizations and are selected by a team of specialists of the Foundation, which also

closely monitors their implementation. The costs of managing and administering the UBS Optimus Foundation are borne in full by UBS, so that the full contribution from our clients reaches the projects.

### Promoting environmental awareness

Our commitment to the environment is underpinned with a professional environmental management system certified under the ISO 14001 standard. We remain committed to integrating environmental considerations into all our business activities. To this end, our environmental policy focuses on taking advantage of the market for environmentally friendly products and services, and taking environmental risks into account in our risk management processes, especially in lending and investment banking. In our inhouse operations, we actively look for ways to reduce

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## A glimpse of what we do

The community investment programs we support are regionally focused and respond to a variety of needs in the communities we do business in around the world. A few examples of our activities last year:

In the US, the Power Lunch mentoring program pairs professionals with elementary school children to practice reading one lunchtime a week. After six years of participation in New York and New Jersey, UBS sponsored the launch of Power Lunch in a Chicago public school in conjunction with WITS, an award-winning, public-private partnership that serves as a national model of corporate volunteerism. Over 250 UBS employees in New York City, Newark, Chicago, Los Angeles and Stamford have participated in the last two years.

In Asia Pacific, the UBS SARS Research Foundation was set up in cooperation with the Faculty of Medicine at the University of Hong Kong. It is part of a wider effort across Asia to learn about the disease and prevent similar outbreaks in the future. We

were determined to respond to the SARS crisis in a way that not only allowed us and our employees to contribute in a sustainable way, but would also serve as a vehicle for clients to support efforts to fight the disease. Within six weeks of its launch, donations from corporate and individual donors exceeded USD 330,000 while donations from UBS employees in Hong Kong and elsewhere stood at more than USD 117,000. In addition to the USD 128,000 of seed capital provided by UBS, donations by employees qualify for our match-giving program. Furthermore, the Hong Kong government matches our donations.

In the UK, we support The Brokerage, a small, proactive charity working with the City of London and other employers to promote local recruitment. It was established to widen access to quality, sustainable job opportunities in the City, breaking down perceived barriers between companies such as UBS and people living in the inner London areas, such as Hackney and Tower Hamlets, which rate high on

the poverty index. By offering a range of services to unemployed people who are interested in working for a City firm, The Brokerage has helped more than 1,000 individuals find employment. To complement our financial contributions, our volunteers have hosted three-month internships for The Brokerage candidates and also run workshops for them in our London offices.

In Switzerland, our employees, past and present, have built up “A helping hand from UBS employees”, which disburses employees’ donations to enable disadvantaged people to lead active and independent lives. We encourage employee involvement by matching some of the funds raised and through an employee membership scheme. Many of our staff volunteer to support fundraising campaigns throughout the year. For example, the program has funded the training of guide dogs for Le Copain, a Swiss association. These dogs, each of which is trained to carry out more than 50 tasks, help wheelchair users lead a more autonomous life.

the direct environmental impact of our business activities.

Our Global Asset Management Business Group offers a wide range of socially responsible investment (SRI) products to both private and institutional investors. In Switzerland and Japan, we use an approach which actively selects the best performers in each industry on social criteria and manages a total of CHF 706 million in assets. Our largest SRI fund, the UBS (Lux) Equity Fund – Eco Performance, invests globally in more than 100 equities with superior sustainability performance, while the latest SRI fund launched in the Japanese market, the UBS Global Equity 40 SRI+ Mother Fund, invests in approximately 40 stocks, mainly blue chip companies. In the US, Global Asset Management manages various institutional accounts that exclude certain companies or sectors using “negative” screening criteria. Finally, in the UK, the Global Asset Management business actively seeks to influence corporate responsibility and corporate governance performance of the companies it is invested in.

Rigorous assessment of the risks involved in an investment banking or lending transaction is crucial to our success. Although financial considerations lead the assessment of the overall risk of any proposed transaction, environmental aspects can also be meaningful and our Investment Bank has established processes to allow early identification of environmental risks in transactions. In 2003, an institutional investment research firm was hired to design and deliver a training program for senior managers and executives on the key environmental risks arising from business activities. In our Wealth Management & Business Banking business, a careful review of financially relevant environmental factors is an important part of the credit risk process. The environmental risk assessment procedures within this Business Group have improved significantly over the last few years. For example, environmental criteria are now fully built into the IT-based standard credit process. The Wealth Management USA business was also integrated into our program in 2003.

Our electricity consumption, our heating, our paper consumption and business travel are the major factors that have a direct impact on the environment. Following the successful extension in 2002 of our ISO 14001 certification of inhouse operations, we implemented a number of environmental improvement initiatives. One example is the comprehensive recycling program now established in all major buildings globally. In 2003, the top 20 largest offices outside Switzerland recycled an estimated 6,100 tons of waste, 43% more than in 2002. The proportion of recycled waste in these offices increased from 39% in 2002 to 50% in 2003. Annually, this equates to a saving of approximately 80,000 trees and 25,000 cubic meters of landfill.

In 2003, Société Générale de Surveillance (SGS), the testing, verification and certification company, confirmed that our environmental management system complied with the ISO 14001 standard both in our banking business and our worldwide inhouse operations. More detailed information on UBS's environmental management system is available on the internet. See <http://www.ubs.com/environment>

### Third-party ratings

A number of different independent rating agencies that assess corporate responsibility programs across the world have rated us among the leaders in the field.

Since 1999, the Dow Jones Sustainability Group Indexes (DJSI) have tracked the social, environmental and financial performance of companies in the Dow Jones Global Index. UBS has been part of the DJSI since the inception of the index. It is also a benchmark in the banking sector of the Dow Jones STOXX Sustainability indices, which track the performance of the top 20% of companies in the Dow Jones STOXX 600 Index.

Furthermore, UBS is included in the FTSE4Good Index, which measures the performance of global companies in the areas of environmental sustainability, stakeholder relations and support for human rights.

# UBS Share

# The Global Registered Share

UBS ordinary shares are registered shares with a par value of CHF 0.80 each, fully paid up and non-assessable. They are issued in the form of Global Registered Shares (GRS) and listed on the Swiss Exchange (where they are traded on virt-x), and the New York and Tokyo stock exchanges.

A Global Registered Share is a security that provides direct and equal ownership for all shareholders. It can be traded and transferred across borders without the need for conversion, with identical shares traded on different stock exchanges in different currencies. For example, a share purchased on the New York Stock Exchange (NYSE) can be sold on virt-x or vice versa.

## Register

A single register exists for UBS ordinary shares, although it is split into two. There is a Swiss register, which is maintained by UBS acting as Swiss transfer agent, and a US register, which is maintained by Mellon Investor Services, as US transfer agent. A shareholder is entitled to hold shares registered in his/her name on either register and transfer shares from one register to the other upon giving proper instruction to the transfer agents.

## Share liquidity and currency effects

During 2003, daily average volume in the UBS share on virt-x was 3.95 million shares. On NYSE, it was 282,000 shares. Because of the greater volume on virt-x, trading of UBS shares there is expected to remain the main factor determining the movement in our share price.

During the hours in which both virt-x and NYSE are simultaneously open for trading (currently 3:30 pm to 5:30 pm Central European Time), price differences are likely to be arbitrated away by professional market makers. The NYSE price will therefore typically be expected to depend on both the virt-x price and the prevailing US dollar/Swiss franc exchange rate. When virt-x is closed for trading, traded volumes will typically be lower. However, the specialist firm making a market in UBS shares on the

NYSE, Van der Moolen, is required to facilitate sufficient liquidity and an orderly market in the UBS share.

## Dividends

UBS normally pays a regular annual dividend to shareholders registered as of the date of the Annual General Meeting (the record date). Payment is usually scheduled three business days thereafter.

The norm in the US is to declare dividends at least ten days in advance of the applicable record date with ex-dividend trading commencing two days before the record date. To ensure that shareholders on the Swiss and US registers are similarly treated in connection with dividend payments, and to avoid disparities between the two markets, NYSE trading takes place with due bills for the two-business day period preceding the dividend record date.

UBS pays dividends in Swiss francs. For UBS ordinary shares held in street name through The Depository Trust Company, any dividend will be converted into US dollars. Holders of UBS ordinary shares registered on the US register will receive dividend payments in US dollars unless they provide notice to Mellon Investor Services, UBS's US transfer agent, that they wish to receive dividend payments in Swiss francs.

UBS will fix the US dollar dividend amount on the basis of the DJ Interbank Foreign Exchange rate for sale of Swiss francs against US dollars.

Holders of UBS shares who are US taxpayers are normally subject to 35% withholding tax on dividends they receive from UBS, although they can normally reclaim part of this, bringing their withholding tax rate down to 15%. Further disclosure relating to the taxation of US holders of UBS shares can be found in our Form 20-F, in section E of item 10.

## Planned dividend for 2003

We will recommend at the Annual General Meeting on 14 April 2004 that UBS should pay

## Trading volumes

1,000 shares	For the year ended		
	31.12.03	31.12.02	31.12.01
SWX total	987,743	1,049,364	1,000,402
SWX daily average	3,951	4,148	4,002
NYSE total	71,096	48,850	54,768
NYSE daily average	282	194	221

<sup>1</sup> The trading volumes have been adjusted for the three-for-one share split effective 16 July 2001.

## Ticker symbols

Trading exchange	Bloomberg	Reuters	Telekurs
virt-x	UBSN VX	UBSN.VX	UBSN, 380
New York Stock Exchange	UBS US	UBS.N	UBS, 65
Tokyo Stock Exchange	8657 JP	UBS.T	N16631, 106

a dividend of CHF 2.60 per share for the 2003 financial year, 30% higher than last year's CHF 2.00. This increase reflects the continuously high cash flow generation and strong equity base of the company, but also the fact that our shareholders have different preferences for receiving shareholder returns: some prefer cash dividends, some prefer share buybacks. By pursuing both avenues, we aim to attract and retain the widest, most diverse global shareholder base.

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.

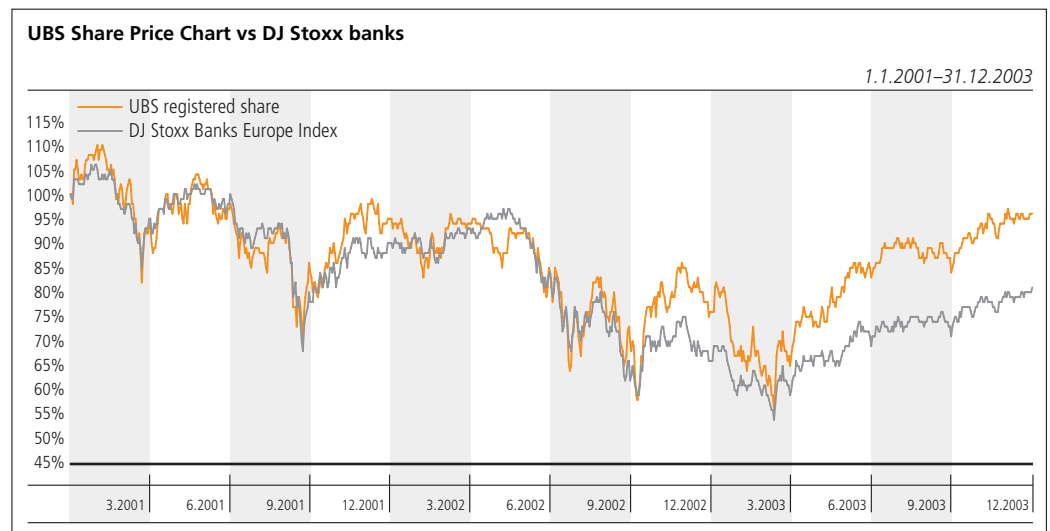
## Previous dividends, par value reductions

In 2003, we paid a normal dividend to our shareholders of CHF 2.00 per share for the 2002 financial year. The ex-dividend date was 17 April 2003. Payment took place on 23 April 2003 for shareholders of record on 16 April 2003.

In 2002, we reduced the par value of our shares to CHF 0.80 each by a distribution of CHF 2.00 per share. This was done in lieu of a dividend payment for the 2001 financial year. This type of payment is treated under Swiss regulations as a return of capital and therefore tax efficient for shareholders who pay taxes in Switzerland, and for those outside Switzerland, as it is not subject to Swiss withholding tax.



## The UBS Share 2003

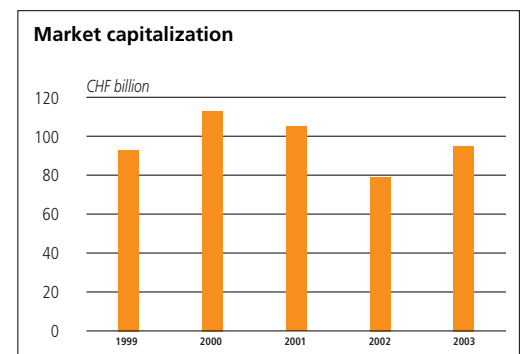


### UBS share price performance in 2003

The global equity markets rebounded significantly in 2003 on evidence of a sustained recovery in corporate earnings and favorable leading economic indicators. Banking and financial stocks in particular gained considerably year on year, with most outperforming the main market indices. The UBS share was no exception and closed 2003 at CHF 84.7, up 26% from the year's start. Over the same period, the Dow Jones Europe Stoxx Banks Index, our main benchmark, gained 22%.

After the initial market gains seen early in the year, geopolitical concerns began to weigh on sentiment, pushing global equity prices lower. The UBS share tracked those developments and on 12 March reached its 2003 low of CHF 49.8. In the middle of March, however, those concerns began to recede as investors became less worried that the situation in Iraq would have a protracted and negative influence on the global political and economic environment. The UBS share recovered in line with the market to CHF 63.2, holding its total decline in first quarter to slightly more than 14%.

The beginning of the second quarter signaled the start of a nine-month rally in global equity markets as investor sentiment became increasingly buoyant. The second quarter saw gains of 18% for the Swiss Market Index (SMI) and 12% for the Dow Jones Industrial Average (DJIA). The UBS share correlated with the Dow Jones Europe Stoxx Banks Index in the period. The share closed at CHF 75.35, a gain of 31% between the end of March and the end of June. These gains more than compensated for the declines witnessed in the first quarter.



## UBS share data

	As at		
	31.12.03	31.12.02	31.12.01
<i>Registered shares in 1000 units</i>	<b>31.12.03</b>		
Total shares outstanding	<b>1,183,047</b>	1,256,298	1,281,717
Total shares ranking for dividend	<b>1,126,340</b>	1,182,263	1,258,653
Treasury shares	<b>111,361</b>	97,181	41,255
Weighted average shares (for basic EPS calculations)	<b>1,116,954</b>	1,208,587	1,266,038
Weighted average shares (for diluted EPS calculations)	<b>1,138,801</b>	1,223,383	1,288,578
	For the year ended		
<i>CHF</i>	31.12.03	31.12.02	31.12.01
<b>Earnings per share</b>			
Basic EPS	<b>5.72</b>	2.92	3.93
Basic EPS before goodwill amortization <sup>1</sup>	<b>6.56</b>	4.73	4.97
Diluted EPS	<b>5.61</b>	2.87	3.78
Diluted EPS before goodwill amortization <sup>1</sup>	<b>6.44</b>	4.65	4.81

<sup>1</sup> Excludes the amortization of goodwill and other intangible assets.

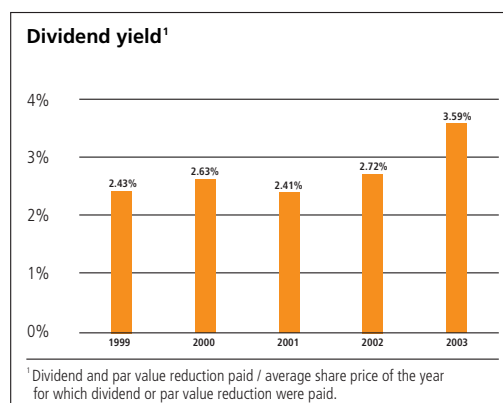
## UBS shares and market capitalization

<i>Number of shares, except where indicated</i>				% change from	
	As at	31.12.03	31.12.02	31.12.01	31.12.02
<b>Total ordinary shares issued</b>	<b>1,183,046,764</b>	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	<b>(56,707,000)</b>				
<b>Shares outstanding for market capitalization</b>	<b>1,126,339,764</b>	1,182,262,598	1,258,653,143		(5)
<b>Share price (CHF)</b>	<b>84.70</b>	67.20	83.80		26
<b>Market capitalization (CHF million)</b>	<b>95,401</b>	79,448	105,475		20
<i>Total treasury shares</i>	<b>111,360,692</b>	97,181,094	41,254,951		15

The UBS share fluctuated between CHF 73.5 and CHF 80.5 in third quarter, following broader equity market developments, despite UBS itself reporting a strong set of second quarter results. Although investor confidence remained high in the market, there were latent concerns

about the general sustainability of the corporate earnings recovery then underway, as well as whether the upward spike in GDP growth in certain major industrial economies would last. The UBS share price reflected this by declining just over 1.7%.

In fourth quarter, UBS's earnings performance (in third quarter) gave a substantial boost to the share price. On the day of announcement, the share price rose CHF 2.50. That was in stark contrast to the broader market, which declined that day. General investor sentiment also improved on continued positive worldwide economic data, which further helped to propel the UBS share to a 2003 high of CHF 85.4 on 3 December, a level it remained close to for the rest of the month. It closed 2003 at CHF 84.7. When taking into account the CHF 2 dividend paid in April 2003, the total pre-tax return generated for investors in 2003 was 29%.



**UBS Share**  
**The UBS Share 2003**

**Stock exchange prices<sup>1</sup>**

	SWX Swiss Exchange			New York Stock Exchange <sup>2</sup>		
	High (CHF)	Low (CHF)	Period end (CHF)	High (USD)	Low (USD)	Period end (USD)
<b>2003</b>	<b>85.40</b>	<b>49.80</b>	<b>84.70</b>	<b>68.16</b>	<b>38.00</b>	<b>67.99</b>
<b>Fourth quarter 2003</b>	<b>85.40</b>	<b>74.85</b>	<b>84.70</b>	<b>68.16</b>	<b>57.54</b>	<b>67.99</b>
December	85.40	83.10	84.70	68.16	65.07	67.99
November	84.35	80.20	83.25	64.38	59.52	64.18
October	82.00	74.85	82.00	61.34	57.54	61.34
<b>Third quarter 2003</b>	<b>80.50</b>	<b>73.50</b>	<b>74.10</b>	<b>59.25</b>	<b>54.38</b>	<b>56.23</b>
September	79.60	74.10	74.10	58.20	54.45	56.23
August	80.50	75.55	75.55	59.25	54.38	54.38
July	80.40	73.50	80.40	58.90	55.20	58.30
<b>Second quarter 2003</b>	<b>75.75</b>	<b>58.90</b>	<b>75.35</b>	<b>58.35</b>	<b>43.58</b>	<b>55.40</b>
June	75.75	72.75	75.35	58.35	55.31	55.40
May	71.40	64.60	70.20	55.14	47.39	54.72
April	67.75	58.90	64.35	49.30	43.58	47.45
<b>First quarter 2003</b>	<b>72.10</b>	<b>49.80</b>	<b>57.50</b>	<b>51.86</b>	<b>38.00</b>	<b>42.70</b>
March	63.20	49.80	57.50	46.09	38.00	42.70
February	64.50	55.55	56.90	45.43	40.94	41.70
January	72.10	59.05	59.05	51.86	43.75	43.92
<b>2002</b>	<b>84.30</b>	<b>51.05</b>	<b>67.20</b>	<b>51.99</b>	<b>34.54</b>	<b>48.12</b>
Fourth quarter 2002	75.45	51.05	67.20	50.88	34.54	48.12
Third quarter 2002	75.15	56.80	61.30	49.94	37.86	41.00
Second quarter 2002	84.15	69.80	74.85	51.99	46.90	49.89
First quarter 2002	84.30	73.00	82.80	50.50	43.27	49.75
<b>2001</b>	<b>96.83</b>	<b>62.10</b>	<b>83.80</b>	<b>58.49</b>	<b>40.12</b>	<b>50.00</b>
Fourth quarter 2001	86.85	69.70	83.80	52.83	43.23	50.00
Third quarter 2001	86.33	62.10	75.60	49.73	40.12	46.15
Second quarter 2001	92.00	77.50	85.83	51.47	44.87	47.02
First quarter 2001	96.83	72.33	83.17	58.49	43.02	47.68
<b>2000</b>	<b>88.17</b>	<b>63.58</b>	<b>88.17</b>	<b>54.10</b>	<b>40.18</b>	<b>54.10</b>
Fourth quarter 2000	88.17	71.17	88.17	54.10	40.18	54.10
Third quarter 2000	88.00	74.67	76.67	50.74	44.76	44.85
Second quarter 2000	83.33	69.83	79.67	50.66	42.99	48.67
First quarter 2000	72.83	63.58	72.83			
<b>1999</b>	<b>80.00</b>	<b>67.50</b>	<b>71.67</b>			
Fourth quarter 1999	79.92	67.50	71.67			
Third quarter 1999	82.25	67.50	70.50			
Second quarter 1999	88.00	73.67	77.33			
First quarter 1999	82.00	69.08	77.50			

<sup>1</sup> The share prices and volumes have been adjusted for the two-for-one share split that became effective on 8 May 2000 and for the three-for-one share split effective 16 July 2001. <sup>2</sup> UBS was listed on 16 May 2000, therefore there are no NYSE figures for periods prior to May 2000. NYSE figures for second quarter are for 16 May 2000 to 30 June 2000 only, and NYSE figures for 2000 are for 16 May 2000 to 31 December 2000 only.

**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.

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