UBS Preferred Funding (Jersey) Ltd.

St. Helier, Jersey

Börsenzulassungsprospekt

für die Zulassung von

1.000.000 Fixed/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities

mit einem Ausgabe- und Liquidationsvorzugsbetrag von jeweils Euro 1.000,-
nachrangig garantiert durch die

UBS AG

Basel und Zürich, Schweiz
(handelnd durch ihre Niederlassung Jersey)

ISIN: DE000A0D1KX0

zum Handel im amtlichen Markt der Frankfurter Wertpapierbörse

UBS

UBS Preferred Funding (Jersey) Ltd.

(incorporated with limited liability in Jersey)

1,000,000 Fixed/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities

having the benefit of a subordinated guarantee of

UBS AG (acting through its Jersey branch)

(incorporated with limited liability in Switzerland)

Issue price: Euro 1,000 per Preferred Security

The 1,000,000 Fixed/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (the "Preferred Securities") each with a liquidation preference of Euro 1,000 (the "Liquidation Preference") have been issued by UBS Preferred Funding (Jersey) Ltd. (the "Issuer"), on 15 April 2005 (the "Closing Date"). The Preferred Securities entitle Holders (as defined herein) to receive (subject as described herein under "Description of the Preferred Securities" and see in particular "Limitations on payment in respect of Distributions" under "Summary of the Offering" herein) non-cumulative preferential cash distributions, which accrue from the date of issue. Distributions will be payable annually in arrear on 15 April in each year from 15 April 2006 until (and excluding) the First Optional Redemption Date (as defined below) at the rate of 4.28 per cent. per annum and quarterly in arrear on 15 April, 15 July, 15 October and 15 January from (and including) the First Optional Redemption Date and for each period thereafter at a floating rate per annum equal to the sum of 1.58 per cent. and three-month EURIBOR for such period (each, a "Distribution Payment Date").

All obligations of the Issuer to make payments in respect of the Preferred Securities are guaranteed on a limited and subordinated basis by UBS AG (acting through its Jersey branch) ("UBS") pursuant to a subordinated guarantee dated 15 April 2005 (the "Guarantee"), all as more fully described herein under "Subordinated Guarantee".

The Preferred Securities are perpetual securities and not subject to any mandatory redemption provisions. The Preferred Securities will be redeemable however on 15 April 2015 or on any Distribution Payment Date thereafter in whole, but not in part, subject to satisfaction of the Redemption Conditions (as defined herein), at the option of the Issuer at the Liquidation Preference, plus any Additional Amounts (as defined herein), plus any accrued and unpaid distributions for the then current Distribution Period (as defined herein) to but excluding the redemption date. The Preferred Securities will also be redeemable at the option of the Issuer, subject to satisfaction of the Redemption Conditions, in whole but not in part, at any time following the occurrence of a Tax Event or a Capital Disqualification Event (each as defined herein), as more fully described herein under "Description of the Preferred Securities". Under existing requirements of the Swiss Federal Banking Commission, neither the Issuer nor UBS may redeem or purchase any Preferred Securities unless the Swiss Federal Banking Commission has given its prior written consent.

In the event of the dissolution of the Issuer, Holders of Preferred Securities will be entitled to receive a liquidation preference in an amount which does not exceed the distributions that those Holders would have received in a dissolution of UBS at that time, if they had held, instead of the Preferred Securities, non-cumulative preference shares issued directly by UBS, having the same liquidation preference and stated distribution rate as the Preferred Securities, subject as described herein under "Description of the Preferred Securities".

The Preferred Securities on issue were assigned a rating of "AA-" by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's"), "A1" by Moody's Investors Services, Inc. ("Moody's") and "AA" by Fitch Ratings Ltd. ("Fitch"). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

See "Investment Considerations" for a discussion of certain factors that should be considered by prospective investors.

The Preferred Securities were admitted to trading on the Official Market (*Amtlicher Markt*) of the Frankfurt Stock Exchange on 15 April 2005.

The Preferred Securities are represented by a single global certificate in registered form (the "Global Certificate"). The Global Certificate is registered in the name of, and was deposited with, Clearstream Banking Aktiengesellschaft ("Clearstream, Frankfurt") on or before the Closing Date. The Preferred Securities are also eligible for clearing and settlement through Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg").

Lead Manager

UBS INVESTMENT BANK

Barclays Capital	**Citigroup**
Deutsche Bank	**Fortis Bank**
ING Financial Markets	**Lloyds TSB**
Rabobank International	**The Royal Bank of Scotland**

ABN AMRO	**ALPHA BANK**
Banc of America Securities Limited	**BayernLB**
BNP PARIBAS	**CALYON Corporate and Investment Bank**
Daiwa Securities SMBC Europe	**Danske Bank**
Davy	**Handelsbanken Capital Markets**
HSBC	**HSH Nordbank AG**
HVB Corporates & Markets	**Keybanc Capital Markets**
LGT Bank	**Merrill Lynch International**
Millennium bcp investimento	**Mitsubishi Securities International plc**
MPS Finance B.M.	**NBG Group**
Nordea	**SEB Merchant Banking**
SNS Bank NV	**Santander Central Hispano**
Standard Chartered Bank	**UBM - Unicredit Banca Mobiliare**

Wachovia Securities

15 April 2005

The Issuer and UBS confirm, after having made all reasonable enquiries, that this Listing Prospectus (the "Listing Prospectus") contains all information with regard to the Issuer and with regard to UBS and its subsidiaries (the "UBS Group") and the Preferred Securities which is material in the context of the issue of the Preferred Securities, that the information contained in this Listing Prospectus is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Listing Prospectus are honestly held and that there are no other facts the omission of which makes this Listing Prospectus as a whole, or any such information or the expression of any such opinion or intention, misleading. Each of the Issuer, UBS and the Managers (as defined under "Subscription and Sale") accepts responsibility for this Listing Prospectus pursuant to Sections 44 et seq. of the German Stock Exchange Act (*Börsengesetz*).

No person has been authorised to give any information or to make any representation not contained in this Listing Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, UBS or the Managers. Neither the delivery of this Listing Prospectus nor any subscription, sale or purchase made in connection herewith shall, in any circumstances, create any implication that there has been no change in the affairs of the Issuer, UBS or the UBS Group since the date hereof.

Prospective investors should inform themselves as to the legal requirements and tax consequences within the countries of their residence and domicile for the acquisition, holding or disposal of Preferred Securities and any foreign exchange restrictions that might be relevant to them. This Listing Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, UBS or the Managers to subscribe for or purchase any of the Preferred Securities.

Prospective investors should satisfy themselves that they understand all of the risks associated with making investments in the Preferred Securities. If a prospective investor is in any doubt whatsoever as to the risks involved in investing in the Preferred Securities, he should consult his professional advisers.

The distribution of this Listing Prospectus and the offering of the Preferred Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Listing Prospectus comes are required by the Issuer, UBS and the Managers to inform themselves about, and to observe, any such restrictions.

No action has been taken to permit a public offering of the Preferred Securities in any jurisdiction (other than Germany) where action would be required for such purpose. Accordingly, the Preferred Securities may not be offered or sold, directly or indirectly, and this Listing Prospectus may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in that jurisdiction. In particular, the Preferred Securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"). Subject to certain exceptions, the Preferred Securities may not be offered, sold or delivered within the United States or to U.S. persons. A further description of certain restrictions on the offering and sale of the Preferred Securities and on the distribution of this Listing Prospectus is given under "Subscription and Sale" below.

The Jersey Financial Services Commission (the "Commission") has given and has not withdrawn its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue by the Issuer of the Preferred Securities.

A copy of this Listing Prospectus has been delivered to the Jersey Registrar of Companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and he has given, and has not withdrawn, his consent to its circulation.

It must be distinctly understood that in giving such consents, neither the Jersey Registrar of Companies nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Issuer or for the correctness of any statements made, or opinions expressed, with regard to it. The Jersey Financial Services Commission is protected by the Borrowing (Control) (Jersey) Law 1947, as amended, against any liability arising from the discharge of its functions under that law.

An investment in the Preferred Securities is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result therefrom.

Unless otherwise specified or the context requires, references in this Listing Prospectus to "USD" are to the currency of the United States of America, "CHF" are to the currency of Switzerland and "€" and "Euro" are to the currency introduced at the start of the third stage of European Economic and Monetary Union, pursuant to the Treaty establishing the European Community, as amended from time to time.

In connection with this issue, UBS Limited or any agent acting on its behalf may over-allot or effect transactions with a view to supporting the market price of the Preferred Securities in order to balance short-term downward price or quotation movements. Any such activities may be conducted from the time the offer is announced up until the 30th calendar day after the receipt of the proceeds of the issue by the Issuer, or the 60th calendar day following the allotment of the Preferred Securities, whichever is earlier. Such activities may result in a price of the Preferred Securities higher than that which would otherwise prevail, with the risk that the price might be kept at an artificially elevated level for too long. However, there is no obligation on UBS Limited or any agent acting on its behalf to do this. Such activity, if commenced, may be discontinued at any time. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

Contents

Summary of the Issue

The following summary is qualified in its entirety by the more detailed information included elsewhere in this Listing Prospectus. Capitalised terms used but not defined in this summary shall bear the respective meanings ascribed to them under "Description of the Preferred Securities". Prospective investors should also consider carefully, amongst other things, the factors set out under "Investment Considerations" below.

Issuer:	UBS Preferred Funding (Jersey) Ltd., a wholly-owned subsidiary of, and fully controlled by, UBS, incorporated in Jersey with limited liability (the "Issuer").
Guarantor:	UBS AG ("UBS" or the "Guarantor") (acting through its Jersey branch).
Issue details:	1,000,000 Fixed/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities, each with a liquidation preference of Euro 1,000 (the "Liquidation Preference").
Use of Proceeds:	The proceeds of the issue of the Preferred Securities are to be used by the Issuer outside Switzerland to subscribe for subordinated non-cumulative perpetual notes issued by UBS, acting through its Jersey branch (the "Notes") and will augment the regulatory capital base of UBS.
The Notes:	The Notes contain terms and conditions which correspond to the provisions of the Preferred Securities. In particular, the Notes have an aggregate principal amount which equals the aggregate Liquidation Preference of the Preferred Securities, bear interest at a rate which is the same as the rate paid as the Distributions on the Preferred Securities and contain rights as to redemption which are substantially the same as those of the Preferred Securities. The rights of Holders are represented solely by the Guarantee and the Preferred Securities. Interests in the Notes will not be delivered or otherwise made available to Holders.
Ranking of the Preferred Securities:	The Preferred Securities, together with the Guarantee, are intended to provide Holders, as nearly as possible, with rights in respect of Distributions and Liquidation Preference equivalent to those to which the Holders would be entitled if they held the most senior preference shares of UBS. Claims under the Preferred Securities in respect of any Liquidation Distributions rank *pari passu* with claims of the holders of all other preferred securities issued by the Issuer which rank *pari passu* with the Preferred Securities.
Subordinated Guarantee:	UBS, acting through its Jersey branch, has irrevocably guaranteed on a subordinated basis, and to the extent set out in the Guarantee, payments due on the Preferred Securities representing (i) Distributions, (ii) Liquidation Distributions, (iii) the Optional Redemption Price and (iv) Additional Amounts. The Guarantee ranks (a) junior to all liabilities of UBS including subordinated liabilities (in each case other than any liability of UBS which constitutes Tier 1 Securities or any liability which is referred to in (b) or (c) and any other liability expressed to rank *pari passu* with or junior to the Guarantee), (b) *pari passu* with UBS Parity Securities (as defined below) issued by UBS and any guarantee or support agreement of UBS ranking *pari passu* with the Guarantee and (c) senior to UBS Junior Obligations (as defined below).

"UBS Parity Securities" means (i) each class of preferred or preference shares or similar securities of UBS that ranks equally with the most senior ranking preferred or preference shares or similar securities of UBS and (ii) any securities issued by any subsidiaries of UBS and entitled to the benefit of any guarantee or support agreement or similar undertaking of UBS that ranks equally with the Guarantee.

"UBS Junior Obligations" means (i) ordinary shares of UBS, (ii) each class of preferred or preference shares or similar securities of UBS that ranks junior to the most senior ranking preferred or preference shares or similar securities of UBS, and (iii) any indebtedness, guarantee or support agreement or similar undertaking of UBS in respect of any subsidiary securities that rank junior to the Guarantee.

Distributions: The Preferred Securities entitle Holders to receive non-cumulative preferential cash distributions which accrue from the Closing Date and will be payable: (i) annually in arrear on 15 April in each year from 15 April 2006 until (and excluding) the First Optional Redemption Date (as defined below) at the rate of 4.28 per cent. per annum (calculated on an Actual/Actual (ISMA) Basis); and (ii) quarterly in arrear on 15 April, 15 July, 15 October and 15 January from (and including) the First Optional Redemption Date and for each Distribution Period thereafter at a floating rate equal to the sum of 1.58 per cent. per annum and three-month EURIBOR for such Distribution Period (calculated on an Actual/360 Basis).

Limitations on payments in respect of Distributions: Distributions on the Preferred Securities will be payable out of the Issuer's own legally available resources on each Distribution Payment Date. Notwithstanding the existence of such resources legally available for distribution by the Issuer neither the Issuer nor UBS will pay any Distributions or make any payment in respect of Distributions (including any Additional Amounts) under the Preferred Securities or the Guarantee:

(a) to the extent that such payment in respect of the Preferred Securities would breach or cause a breach of the Swiss Federal Banking Commission's minimum capital adequacy requirements then applicable to UBS on a consolidated or unconsolidated basis (a "Capital Limitation"); or

(b) if the amount of the Distribution would exceed the amount of dividends that UBS would have been legally able to pay on such securities had they been issued directly by UBS as non-cumulative preference shares of UBS (a "Distributable Profits Limitation"). This Distributable Profits Limitation does not apply to Distributions due following the occurrence of a Mandatory Distribution Event.

Dividend Pusher: Subject to having its own legally available resources, the foregoing limitations and the limitations described in Clause 2.12.3 of the Description of the Preferred Securities below, the Issuer will be required to pay Distributions on its Preferred Securities in two circumstances, as follows:

(a) If UBS declares or pays dividends or makes any other payment or distribution on any UBS Junior Obligations, and provided that the Capital Limitation does not apply, then the Issuer will be required to pay full Distributions during the one-year period beginning on and including the earlier of the date on which such distribution was declared or the date on which such distribution or other payment was made; or

(b) If UBS or any of its subsidiaries redeems, repurchases or otherwise acquires any UBS Parity Securities or UBS Junior Obligations for any consideration, except by conversion into or exchange for shares of UBS or UBS Junior Obligations and except as described below in the Description of the Preferred Securities (and provided that the Capital Limitation does not apply), then the Issuer will be required to pay Distributions on the Preferred Securities during the one-year period beginning on and including the date on which such redemption, repurchase or other acquisition occurred.

Withholding Tax and Additional Amounts: The Issuer (or UBS, pursuant to the Guarantee) will pay such additional amounts as may be necessary in order that the net payment received by each Holder in respect of the Preferred Securities or the Guarantee, as the case may be, after withholding for any taxes imposed by tax authorities in Jersey or Switzerland, as the case may be, upon payments made by or on behalf of the Issuer or UBS, as the case may be, will equal the amount which would have been received in the absence of any such withholding taxes.

Optional Redemption: The Preferred Securities are perpetual securities and not subject to any mandatory redemption provisions. They will be, however, redeemable on 15 April 2015 (the "First Optional Redemption Date") or on any Distribution Payment Date thereafter in whole, but not in part, at the option of the Issuer, subject to the Companies (Jersey) Law 1991 as amended or restated from time to time (the "Law") and subject to satisfaction of the Redemption Conditions, at the Optional Redemption Price, being the Liquidation Preference per Preferred Security together with any due and accrued but unpaid Distributions calculated to (but excluding) the date of payment from (and including) the immediately preceding Distribution Payment Date and any relevant Additional Amounts.

As used herein:

"Redemption Conditions" means (i) that the consent of the Swiss Federal Banking Commission to the redemption, if then required, has been obtained and (ii) that UBS has Available Distributable Profits in an amount at least equal to the aggregate Optional Redemption Price.

Tax Redemption: If at any time a Tax Event occurs and is continuing, the effect of which cannot be avoided by the Issuer or UBS taking reasonable measures available to it, the Preferred Securities will be redeemable in whole, but not in part, at the option of the Issuer, subject to the Law and to satisfaction of the Redemption Conditions. The redemption price is described in Clause 4 of the "Description of the Preferred Securities" below.

As used herein, "Tax Event" means, with respect to the Issuer, the receipt by UBS of an opinion of a nationally recognised law firm or other tax advisor (which may be an accounting firm) in Switzerland or Jersey, as appropriate, experienced in such matters to the effect that there is a more than an insubstantial risk that (i) the Issuer is or will be subject to more than a *de minimis* amount of additional taxes, duties or other governmental charges, (ii) UBS is or will be required to pay any additional amounts in respect of any taxes, duties or other governmental charges with respect to payments of interest or principal on the Notes, (iii) the Issuer is or will be required to pay any additional amounts in respect of any taxes, duties or other governmental charges with respect to distributions on the Preferred Securities, or (iv) the treatment of the Issuer's items of income, gain, loss, deduction or expense, or the treatment of any item of income, gain, loss, deduction or expense of UBS related to the Notes or its ownership of the Issuer, in each case as reflected on the tax returns (including estimated returns) filed (or to be filed) by the Issuer or UBS, will not be respected by a taxing authority, as a result of which the Issuer or UBS is or will be subject to more than a *de minimis* amount of additional taxes, duties or other governmental charges or civil liabilities, the effect of which cannot be avoided by the Issuer or UBS taking reasonable measures available to it without any adverse effect on or material cost to UBS or the Issuer (as determined by UBS in its sole discretion).

Capital Disqualification Event Redemption:

If at any time a Capital Disqualification Event has occurred and is continuing, the Preferred Securities are redeemable at any time in whole, but not in part, at the option of the Issuer, subject to the Law and to satisfaction of the Redemption Conditions. The redemption price is described in Clause 4 of the "Description of the Preferred Securities" below.

As used herein, "Capital Disqualification Event" means a change in any applicable law or regulation, or in the official interpretation or application thereof, as a result of which, for the purposes of the Swiss Federal Banking Commission's minimum capital adequacy requirements applicable to banks in Switzerland at that time, the Preferred Securities cannot be included in calculating the Tier 1 Capital of UBS.

Rights upon Liquidation:

In the event of the dissolution of the Issuer, Holders will be entitled to receive for each Preferred Security a Liquidation Distribution (being the Liquidation Preference, together with any due and accrued but unpaid Distributions calculated to (but excluding) the date of payment from (and including) the immediately preceding Distribution Payment Date or, if none, the Closing Date and any relevant Additional Amounts) out of the assets of the Issuer available for distribution under the Law.

Notwithstanding the availability of sufficient assets of the Issuer to pay any Liquidation Distribution to Holders as aforesaid, if, at the time such Liquidation Distribution is to be paid, proceedings have been commenced for the voluntary or involuntary dissolution, liquidation or winding-up of UBS other than pursuant to a Permitted Reorganisation, the Liquidation Distribution payable per Preferred Security shall not exceed the amount per security that would have been paid as a liquidation distribution out of the assets of UBS had the Preferred Securities and all UBS Parity Securities been the most senior class of preference shares issued by UBS with equivalent rights of participation in the capital of UBS (whether or not UBS could in fact have issued such securities at such time) and ranked (a) junior to all liabilities of UBS including subordinated liabilities (in each case other than any liability of UBS which constitutes Tier 1 Securities or any liability which is referred to in (b) or (c) and any other liability expressed to rank *pari passu* with or junior to the Guarantee), (b) *pari passu* with UBS Parity Securities, if any, issued by UBS and any guarantee or support agreement of UBS ranking *pari passu* with the Guarantee and (c) senior to UBS Junior Obligations.

In the event of an order being made for the liquidation, dissolution or winding-up of UBS other than pursuant to a Permitted Reorganisation or a declaration being made that UBS is insolvent, the Issuer shall be dissolved and the amount per Preferred Security to which Holders will be entitled as a Liquidation Distribution will be as described above.

Payments:

If, with the prior approval of the Swiss Federal Banking Commission (if then required), the Issuer is liquidated, dissolved or wound up in circumstances where proceedings have not been commenced for the liquidation, dissolution or winding-up of UBS, the Liquidation Distribution shall only be payable to the extent that UBS has Distributable Profits in an amount at least equal to the aggregate Liquidation Distribution.

Voting Rights:	Holders of the Preferred Securities are not entitled to vote at any general meeting of shareholders of the Issuer. Holders of the Preferred Securities together with the holders of any preferred securities, preference shares or other securities of the Issuer having the right to vote for the election of directors in such event are entitled to elect two additional directors to the Issuer's board of directors if Distributions and any Additional Amounts in respect of such Distributions have not been paid in full for two consecutive Distribution Payment Dates (in the case of annual Distribution Payment Dates) and four consecutive Distribution Payment Dates (in the case of quarterly Distribution Payment Dates). Such directors must vacate their office if for two consecutive Distribution Payment Dates (in the case of annual Distribution Payment Dates) or four consecutive Distribution Payment Dates (in the case of quarterly Distribution Payment Dates), Distributions and any Additional Amounts in respect of such Distributions are paid in full by the Issuer.
Form of the Preferred Securities:	The Preferred Securities are in registered form. The Global Certificate was deposited with Clearstream, Frankfurt on or before the Closing Date. The Preferred Securities are also eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg. The Global Certificate is registered in the name of Clearstream, Frankfurt. For so long as the Global Certificate is deposited and registered as described above, book-entry interests in the Preferred Securities will be shown on, and transfers thereof will be effected only through, records maintained by Clearstream, Frankfurt, Euroclear and Clearstream, Luxembourg. Other than in limited circumstances, definitive certificates will not be made available to Holders.
Governing Law:	The Issuer is incorporated in Jersey and, accordingly, the Preferred Securities are governed by, and are construed in accordance with, Jersey law. However, determinations in respect of amounts of Available Distributable Profits are construed in accordance with Swiss law. The Guarantee is governed by, and construed in accordance with, Swiss law.
Listing:	The Preferred Securities were admitted to trading on the Official Market of the Frankfurt Stock Exchange on 15 April 2005.
Ratings:	The Preferred Securities were assigned on issue a rating of "AA-" by Standard & Poor's, "A1" by Moody's and "AA" by Fitch. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

Investment Considerations

Prospective investors should consider carefully the following information in conjunction with the other information contained in this Listing Prospectus before investing in the Preferred Securities.

RISKS ASSOCIATED WITH UBS'S FINANCIAL CONDITION

An investment in the Preferred Securities will have substantially the same economic risks as an investment in non-cumulative perpetual preference shares issued directly by UBS having the same liquidation preference and rate of distribution as the Preferred Securities. It is expected that the Issuer's sole source of funds to pay Distributions on the Preferred Securities will be payments which it receives under the Notes. The rights of Holders shall be represented solely by the Guarantee and the Preferred Securities, the terms of which provide that interests in the Notes will not be delivered or otherwise made available to Holders. The Preferred Securities are guaranteed on a limited and subordinated basis by UBS pursuant to the terms of the Guarantee. Accordingly, if UBS's financial condition were to deteriorate, the Issuer and the Holders may suffer direct and materially adverse consequences, including non-payment of Distributions on the Preferred Securities or of payments under the Guarantee.

DISTRIBUTIONS NOT CUMULATIVE

Distributions on the Preferred Securities are not cumulative. As set out in "Description of the Preferred Securities", Distributions on the Preferred Securities will be paid on each Distribution Payment Date out of interest received by the Issuer under the Notes and from other resources legally available, if any, unless UBS has insufficient Available Distributable Profits to enable the Issuer to pay Distributions on the Preferred Securities (and in respect of any UBS Parity Securities) or such payment would result in UBS on a consolidated or unconsolidated basis breaching Swiss Federal Banking Commission's minimum capital adequacy requirements. If Distributions on the Preferred Securities for any Distribution Period are not paid, the Holders will not be entitled to receive such Distributions (or any payment under the Guarantee in respect of such Distributions) whether or not funds are, or subsequently become, available.

PERPETUAL NATURE OF THE PREFERRED SECURITIES

The Preferred Securities have no fixed final redemption date and Holders have no rights to call for the redemption of the Preferred Securities. Although the Issuer may redeem the Preferred Securities in certain circumstances (including at its option on 15 April 2015 or on any Distribution Payment Date thereafter or following the occurrence of a Tax Event or a Capital Disqualification Event), there are limitations on its ability to do so. Therefore, Holders should be aware that they may be required to bear the financial risks of an investment in the Preferred Securities for an indefinite period of time.

NO OPERATING HISTORY

The Issuer is a newly established company with no previous operating history or revenues.

SUBORDINATION

The obligations of UBS under the Guarantee will rank junior as to payments to all liabilities to creditors of UBS (including without limitation depositors, general creditors and subordinated debt holders) and claims of holders of senior ranking securities. In the event that UBS is wound-up, liquidated or dissolved, the assets of UBS would be available to pay obligations under the Guarantee only after all payments have been made on such senior liabilities and claims.

UBS Parity Securities will share equally in payment with the Guarantee if UBS does not have sufficient funds to make full payments on all of them. The entitlement of the Holders of Preferred Securities under the Guarantee in a liquidation of UBS will be substantially the same as, and no greater than, the claim such Holders would have been entitled to if they had purchased the most senior ranking non-cumulative perpetual preferred shares that could be issued directly by UBS with financial terms equivalent to those of the Preferred Securities.

NO LIMITATION ON FUTURE DEBT

UBS is not prohibited from issuing, guaranteeing or otherwise incurring further debt ranking *pari passu* with, or senior to, its obligations under the Guarantee.

ABSENCE OF PRIOR PUBLIC MARKETS

Prior to the issue of the Preferred Securities, there will have been no public market for the Preferred Securities. Although application has been made for the Preferred Securities to be listed on the Frankfurt Stock Exchange, there can be no assurance that an active public market for the Preferred Securities will develop and, if such a market were to develop, the Managers are under no obligation to maintain such a market. The liquidity of and the market prices for the Preferred Securities can be expected to vary with changes in market and economic conditions, the financial condition and prospects of UBS and other factors that generally influence the market prices of securities.

Use of Proceeds

The proceeds of the issue of the Preferred Securities, which are expected to amount to approximately Euro 990,000,000, are to be used by the Issuer outside Switzerland, after paying any expenses of the issue, to subscribe for the Notes. The Managers have received fees and commissions as set out under "Subscription and Sale" below. The net proceeds of the issue of the Notes will be used by UBS to augment its regulatory capital base.

Description of UBS Preferred Funding (Jersey) Ltd.

CORPORATE INFORMATION

UBS Preferred Funding (Jersey) Ltd. was registered in Jersey on 17 March 2005 under the Law for an unlimited duration as a public company with limited liability.

The Issuer is a wholly owned subsidiary of UBS. The registered office of the Issuer is Durell House, 28 New Street, St. Helier, Jersey JE3 0XT. No Holder may participate in the administration of the Issuer.

SOLE PURPOSE

The Issuer was established for the sole purpose of raising finance for the UBS Group. It has carried out no operations since its registration other than in relation to the creation of the Preferred Securities.

CAPITALISATION AND INDEBTEDNESS

The capitalisation of the Issuer on the Closing Date is as follows:

	Aggregate amount paid-up
Share Capital	
1000 Ordinary Shares of €0.01 nominal value each, all of which have been issued at a price of €0.01 per Ordinary Share and are fully paid	10
1,000,000 Preferred Securities of €0.01 nominal value each, all of which have been issued at a price of €1,000 per Preferred Security and are fully paid	1,000,000,000
	1,000,000,010

Since the date of its registration, the Issuer has not had any loan capital outstanding, has not incurred any borrowings, has had no contingent liabilities, has not granted any guarantees and does not intend to have outstanding any such loan capital, incur any such borrowings, have any such contingent liabilities or grant any such guarantees other than in connection with the issue of the Preferred Securities. UBS has undertaken not to incur any indebtedness in the name of the Issuer other than the costs and expenses incidental to creating the Preferred Securities and the Issuer, maintaining the listing of the Preferred Securities, the Register, the Paying and Transfer Agents and a listing agent in respect of the Preferred Securities, the Issuer's holding of the Notes or any securities substituted therefor and the maintenance of a custodian therefor and the exercise of the Issuer's rights in respect of the Notes or any securities substituted therefor.

OPENING BALANCE SHEET OF UBS PREFERRED FUNDING (JERSEY) LTD. AS OF 17 MARCH 2005 (UNAUDITED)

Assets

	17 March 2005 EUR
Cash	10
Total Assets	10

Liabilities and Shareholders' Equity

	17 March 2005 EUR
Total Liabilities	0
Share Capital	10
Total Shareholders' Equity	10

BOARD OF DIRECTORS

Name	Principal Occupation Outside the Issuer
Johann Baerlocher	Branch Manager
Flavio Mueller	Treasurer
Jean-Pierre Mathey	Treasurer
Stuart Littlewood	Treasurer

All of the directors are employees of UBS. The business address of each of the directors of the Issuer is 24 Union Street, St. Helier, Jersey JE4 8UJ, save in the case of Jean-Pierre Mathey whose business address is Europastrasse 1, CH-8152 Opfikon, Switzerland.

COMPANY SECRETARY AND PRINCIPAL BANKERS

The company secretary of the Issuer is UBS Secretaries Limited, Durell House, 28 New Street, St. Helier, Jersey JE3 0XT and the principal bankers of the Issuer are UBS AG, 24 Union Street, St. Helier, Jersey JE4 8UJ.

Description of UBS

OVERVIEW

UBS is one of the world's leading financial firms, serving a discerning global client base. As an organisation, 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 centres worldwide, with offices in 50 countries. UBS employs 67,424 people, 39 per cent. in the Americas, 38 per cent. in Switzerland, 16 per cent. in Europe and 7 per cent. in the Asia Pacific time zone.

UBS is one of the best-capitalised financial institutions in the world, with a BIS Tier 1 ratio of 11.8 per cent., invested assets of CHF 2.25 trillion, shareholders' equity of CHF 35.0 billion and market capitalisation of CHF 103.6 billion on 31 December 2004.

Wealth Management

With more than 140 years of experience, an extensive global network of around 180 offices and almost CHF 800 billion in invested assets, UBS is the world's leading wealth management business. Some 3,700 client advisors provide a comprehensive range of services customised for wealthy individuals, ranging from asset management to estate planning and from corporate finance to art banking. In the US, UBS is one of the biggest private client businesses with a client base of nearly 2 million. Its American network of around 7,500 financial advisors manages roughly CHF 640 billion in invested assets and provides sophisticated services to affluent and high net worth clients.

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 fixed income, it is a first-rate global player. In foreign exchange, it is placed first in many key industry rankings. In investment banking, it provides first-class advice and execution capabilities to its corporate client base worldwide. 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, a leading asset manager with invested assets of slightly more than CHF 600 billion, provides a broad base of innovative capabilities stretching from traditional to alternative investment solutions for, among other clients, financial intermediaries and institutional investors across the world.

Swiss corporate and individual clients

Depending on segment, UBS holds roughly a quarter and a third of the Swiss banking market. It offers comprehensive banking and securities services for approximately 3.5 million individual and around 143,000 corporate clients, including institutional investors, public entities and foundations based in Switzerland, as well as 3,000 financial institutions worldwide. With a total loan book of nearly CHF 140 billion, UBS leads the Swiss lending and retail mortgage markets.

Corporate Centre

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

Industrial Holdings

The Industrial Holdings segment is a new segment, currently made up of UBS's majority stake in Motor-Columbus, a financial holding company whose only significant asset is a 59.3 per cent. interest in the Atel Group (Aare-Tessin Ltd. for Electricity). Atel, based in Olten, Switzerland, is a European energy provider focused on electricity trading and marketing, domestic and international power generation, electricity transmission and energy services.

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 purpose of UBS is the operation of a bank. Its scope of operations extends to all types of banking, financial, advisory, trading and service activities in Switzerland and abroad. UBS may establish branches and representative offices as well as banks, finance companies and other enterprises of any kind in Switzerland and abroad, hold equity interests in these companies, and conduct their management. UBS is authorised to acquire, mortgage and sell real estate and building rights in Switzerland and abroad.

The addresses and telephone numbers of UBS's two registered offices are: Bahnhofstrasse 45, CH-8098 Zurich, Switzerland, telephone +41-44-234 11 11; and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, telephone +41-61-288 20 20.

UBS AG shares are listed on the SWX Swiss Exchange (traded through its trading platform virt-x), on the New York Stock Exchange and on the Tokyo Stock Exchange.

Recent Developments

The 2004 result was the best ever. The first quarter saw an all-time performance record and the year ended with the best ever fourth quarter. Net profit in 2004 was CHF 8,044 million, up by 29 per cent. from CHF 6,239 million in 2003. Before goodwill and excluding the sale of Correspondent Services Corporation (CSC) clearing subsidiary, completed in second quarter 2003, net profit rose by 24 per cent.

The increase was driven by higher revenues in all categories, clearly outpacing cost growth. The asset-based revenues showed particular strength, reflecting improved market valuations as well as strong inflows of net new money into the wealth and asset management businesses.

Overall, UBS attracted CHF 88.9 billion in net new money in 2004, up 29 per cent. from CHF 69.1 billion in 2003. As a result, the invested asset base rose to CHF 2.25 trillion. UBS also saw a strong increase in brokerage, corporate finance and underwriting fees. Overall fee and commission income now contributes 52 per cent. to total operating income. Trading income also contributed to the growth, as improved market conditions boosted opportunities, particularly in the first and fourth quarters. UBS also saw improving results in its private equity business, which recorded positive revenues for the first time in three years on higher divestment gains and lower writedowns. UBS also reported record credit loss recoveries. Performance-related compensation rose in line with revenues. Higher general and administrative expenses were driven by higher legal provisions, and operational risk costs.

UBS intends to continue re-investing in its growth businesses and expects a satisfactory performance in 2005.

Capitalisation and Indebtedness of UBS

The following table is derived from audited information and the figures are extracted without material adjustment from that audited information. This table sets out the capitalisation and indebtedness of the UBS Group at 31 December 2004:

	31 December 2003		30 September 2004	
	CHF	USD	CHF	USD
			(in millions)	
Debt				
Short term debts issued[1]	104,578	91,774	97,160	81,687
Long term debt issued[1]	80,692	70,812	82,314	69,205
Total Debt issued[1]	185,270	162,586	179,474	150,892
Minority Interest[2]	7,187	6,207	5,334	4,485
Shareholder's equity	34,524	30,297	34,978	29,408
Total capitalisation	226,981	199,190	219,786	184,784
CHF amounts have been translated into USD at the rate of CHF 1		0.87756		0.84075

(1) Includes Money Market Paper and Medium Term Notes as per Balance sheet position based on remaining maturities (split in short and long term is available only quarterly).

(2) Includes Trust preferred securities.

(3) The USD-amounts of prior periods have been adjusted back to the current rate.

None of the capitalisation, indebtedness or contingent liabilities of the UBS Group referred to above is secured on assets of the UBS Group or guaranteed outside the UBS Group.

There has been no material change to the capitalisation, indebtedness or contingent liabilities (including guarantees) of the UBS Group since 31 December 2004.

BOARD OF DIRECTORS

The Board of Directors shall consist of at least six and no more than twelve members. The term in office for members of the Board of Directors is three years. The Directors of UBS as at the date of this Information Memorandum are as follows:

Name	Title	Position outside UBS
Marcel Ospel	Chairman	—
Alberto Togni	Executive Vice Chairman	—
Stephan Haeringer	Executive Vice-Chairman	—
Peter Böckli	Non-executive Vice Chairman	Partner in the law firm Böckli Bodmer & Partner, Basel
Ernesto Bertarelli	Member	Chief Executive Officer of Serono International SA, Geneva
Sir Peter Davis	Member	
Rolf A. Meyer	Member	Consultant, Bach
Helmut Panke	Member	Chairman of the Board of Management of BMW AG
Peter Spuhler	Member	Owner of Stadler Rail AG
Lawrence A. Weinbach	Member	Chairman, President and Chief Executive Officer of Unisys Corporation, Blue Bell, PA, USA

The business address of the board of directors is Bahnhofstrasse 45, 8098 Zurich.

GROUP EXECUTIVE BOARD

The Group Executive Board is composed of 8 members, none of whom has significant business interests outside UBS AG:

Name	Title
Peter A. Wuffli	Group Chief Executive Officer
John P. Costas	Deputy Group CEO and Chairman and CEO, Investment Bank
John A. Fraser	Chairman and CEO, Global Asset Management
Peter Kurer	Group General Counsel
Marcel Rohner	Chairman and CEO, Wealth Management & Business Banking
Clive Standish	Group Chief Financial Officer
Walter H. Stuerzinger	Group Chief Risk Officer
Mark B. Sutton	Chairman and CEO, Wealth Management USA

Description of the Preferred Securities

Set forth below is a summary of the terms and conditions of the Preferred Securities and a summary of certain provisions of the Issuer's Articles of Association (the "Articles"), as in effect on the date hereof insofar as such provisions relate to the rights and privileges of the Holders of the Preferred Securities.

The summaries set forth below contain all material information concerning the Preferred Securities but do not purport to be complete and are subject to, and qualified in their entirety by reference to, the Articles which, among other things, establish the rights, preferences, privileges, limitations and restrictions relating to the Preferred Securities. Copies of the Articles are available for inspection as described under "General Information".

1. DEFINITIONS AND INTERPRETATION

In this description of the Preferred Securities, except to the extent that the context otherwise requires:

"Actual/Actual (ISMA) Basis" means the actual number of days in the Distribution Period, divided by the number of days in the Distribution Period in which the relevant period falls (including the first such day but excluding the last day);

"Actual/360 Basis" means the actual number of days in the Distribution Period divided by 360;

"Additional Amounts" means the additional amounts which may be payable in respect of the Preferred Securities as described in Clause 5;

"Agency Agreement" means the agency agreement dated 15 April 2005 relating to the Preferred Securities between, *inter alios*, UBS and the Paying and Transfer Agents;

"Available Distributable Profits" means, for any financial year of UBS:

(a) if there are no UBS Parity Securities outstanding, Distributable Profits for the immediately preceding financial year of UBS; and

(b) if there are UBS Parity Securities outstanding, then an amount determined as the product of:

  (i) Distributable Profits for the immediately preceding financial year of UBS; and

  (ii) a ratio (i) the numerator of which is the aggregate amount of full Distributions on the Preferred Securities to be paid on the Distribution Payment Dates that occur during the then current financial year (not including Distributions paid on any preceding Distribution Payment Date of the current year and including Distributions to be paid on the corresponding Distributions Payment Date of the following year) and (ii) the denominator of which is equal to the amount determined pursuant to (i) *plus* the aggregate amount of full dividends on the UBS Parity Securities to be paid on dividend payment dates which occur during the then current financial year;

"Business Day" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London, Switzerland and Jersey, and on which the TARGET System or any successor thereto, is operating;

"Capital Disqualification Event" means a change in any applicable law or regulation, or in the official interpretation or application thereof, as a result of which for the purposes of the Swiss Federal Banking Commission's minimum capital adequacy requirements applicable to banks in Switzerland, at that time the Preferred Securities cannot be included in calculating the Tier 1 Capital of UBS;

"Capital Disqualification Event Redemption Date" means the date designated for optional redemption of the Preferred Securities as described under sub-clause 4.4;

"Clearstream, Frankfurt" means Clearstream Banking Aktiengesellschaft or its successor;

"Clearstream, Luxembourg" means Clearstream Banking, société anonyme or its successor;

"Closing Date" means 15 April 2005;

"Distributions" means the non-cumulative distributions in respect of the Preferred Securities as described under Clause 2;

"Distribution Determination Date" means, with respect to any Distribution Payment Date, the second TARGET Settlement Day before the first day of the relevant Distribution Period;

"Distribution Payment Date" means 15 April in each year from 15 April 2006 to the First Optional Redemption Date and 15 April, 15 July, 15 October and 15 January in each year thereafter;

"Distribution Period" means the period from (and including) the Closing Date to (but excluding) the first Distribution Payment Date and each period thereafter from (and including) one Distribution Payment Date to (but excluding) the next following Distribution Payment Date;

"Distributable Profits" means, for any financial year of UBS, profit that may be distributed in accordance with Swiss law and regulation then applicable. Currently, for any financial year of UBS, distributable profits are equal to profit brought forward, *plus* profit for the period, *minus* appropriation to general statutory reserve, *plus* other reserves, each as shown in the audited unconsolidated balance sheet and statement of appropriation of retained earnings of UBS and as determined in accordance with accounting standards applicable under Swiss law. The "appropriation to general statutory reserve" is equal to up to 5 per cent. of annual profit to the extent the general reserves of UBS do not equal 20 per cent. of the paid-in share capital *plus* 10 per cent. of the amount distributed as a dividend from profit for the period in excess of 5 per cent. of the par value of the UBS common shares;

"Distribution Rate" means (i) 4.28 per cent. per annum for the Distribution Periods from and including the Closing Date to but excluding the First Optional Redemption Date; and (ii) an amount equal to the sum of 1.58 per cent. per annum and three-month EURIBOR for Distribution Periods from and including the First Optional Redemption Date and thereafter;

"Euroclear" means Euroclear Bank S.A./N.V. as operator of the Euroclear System;

"First Optional Redemption Date" means 15 April 2015;

"Guarantee" means the subordinated guarantee in respect of the Preferred Securities executed by UBS, acting through its Jersey branch and dated 15 April 2005;

"Holder" means, in respect of each Preferred Security, each person registered on the Register as the holder of such Preferred Security at the relevant time;

"Issuer" means UBS Preferred Funding (Jersey) Ltd.;

"Jersey" means the Island of Jersey;

"Jersey Tax" means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Jersey or by any authority therein or thereof having power to tax;

"Law" means the Companies (Jersey) Law 1991 as amended or restated from time to time;

"Liquidation Distribution" means the Liquidation Preference plus (a) any due and accrued but unpaid Distributions calculated from (and including) the immediately preceding Distribution Payment Date (or, if none, the Closing Date) to (but excluding) the date of payment, and (b) any Additional Amounts, in each case in cash only;

"Liquidation Preference" means the liquidation preference of Euro 1,000 per Preferred Security;

"Notes" means the Euro 1,000,000,000 Non-cumulative Fixed/Floating Rate Undated Subordinated Notes issued by UBS, acting through its Jersey branch and subscribed for by the Issuer, with the net proceeds of the issue of the Preferred Securities and any further Notes of UBS, acting through its Jersey branch of the same series issued after the Closing Date and ranking *pari passu* with the Notes, or any successor securities issued or securities substituted therefor with the prior written consent of the Swiss Federal Banking Commission (if then required);

"Optional Redemption Date" means, in the case of an optional redemption pursuant to sub-clause 4.2, the First Optional Redemption Date or any Distribution Payment Date thereafter, as specified in the relevant notice of redemption;

"Optional Redemption Price" means the Liquidation Preference plus (a) any due and accrued but unpaid Distributions calculated from (and including) the immediately preceding Distribution Payment Date (or, if none, the Closing Date) to (but excluding) the relevant Optional Redemption Date, Tax Event Redemption Date or Capital Disqualification Event Redemption Date, as the case may be and (b) any Additional Amounts payable;

"Paying and Transfer Agents" means HSBC Bank plc and HSBC Trinkhaus & Burkhardt or such other entities as are appointed by the Issuer and notified to the Holders as described under Clause 8;

"Permitted Reorganisation" means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation, with the prior approval of the Holders of not less than a simple majority of outstanding Preferred Securities, whereby all or substantially all the business, undertaking and assets of UBS are transferred to a successor entity, which assumes all the obligations under the Guarantee;

"Preferred Securities" means the 1,000,000 Fixed/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities outstanding each with a Liquidation Preference of Euro 1,000, including any further Preferred Securities of the Issuer of the same series issued after the Closing Date and ranking *pari passu* with the Preferred Securities then in issue, and "Preferred Security" shall be construed accordingly;

"Principal Paying and Transfer Agent" means HSBC Bank plc;

"Redemption Amount" means the Optional Redemption Price and any other redemption amount payable in accordance with Clause 4;

"Redemption Conditions" means, with respect to any redemption, (i) that the consent of the Swiss Federal Banking Commission to the redemption, if then required, has been obtained and (ii) that UBS has Available Distributable Profits in an amount at least equal to the aggregate Optional Redemption Price;

"Register" means the register of Holders maintained at the Issuer's registered office on behalf of the Issuer under the Law;

"Registrar" means UBS Trustees (Jersey) Limited or such other entity appointed by the Issuer having its office in Jersey and notified to the Holders as described under Clause 8;

"Relevant Proportion" means in relation to any partial payment of any Liquidation Distribution on a Preferred Security, the total amount available for any such payment and for making any corresponding payment of a liquidation distribution on any UBS Parity Securities divided by the sum of (i) the full Liquidation Distributions before any reduction or abatement in respect of the Preferred Securities and (ii) the amount of the full Liquidation Distribution before any reduction or abatement in respect of any UBS Parity Securities, converted where necessary into the same currency in which liquidation payments are made to creditors of UBS;

"Stock Exchange" means the Frankfurt Stock Exchange or such other stock exchange on which the Preferred Securities may be listed from time to time;

"Subsidiary" means any entity which is for the time being a subsidiary undertaking of UBS and where UBS controls the majority of the voting rights of such subsidiary undertaking;

"TARGET Settlement Day" means a day on which the TARGET System is open;

"TARGET System" means the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system;

"Tax Event" means, with respect to the Issuer, the receipt by UBS of an opinion of a nationally recognised law firm or other tax advisor (which may be an accounting firm) in Switzerland or Jersey, as appropriate, experienced in such matters to the effect that there is amore than an insubstantial risk that (i) the Issuer is or will be subject to more than a *de minimis* amount of additional taxes, duties or other governmental charges, (ii) UBS is or will be required to pay any additional amounts in respect of any taxes, duties or other governmental charges with respect to payments of interest or principal on the Notes, (iii) the Issuer is or will be required to pay any additional amounts in respect of any taxes, duties or other governmental charges with respect to distributions on the Preferred Securities, or (iv) the treatment of the Issuer's items of income, gain, loss, deduction or expense, or the treatment of any item of income, gain, loss, deduction or expense of UBS related to the Notes or its ownership of the Issuer, in each case as reflected on the tax returns (including estimated returns) filed (or to be filed) by the Issuer or UBS, will not be respected by a taxing authority, as a result of which the Issuer or UBS is or will be subject to more than a *de minimis* amount of additional taxes, duties or other governmental charges or civil liabilities, the effect of which cannot be avoided by the Issuer or UBS taking reasonable measures available to it without any adverse effect on or material cost to UBS or the Issuer (as determined by UBS in its sole discretion);

"Tax Event Redemption Date" means the date designated for optional redemption of the Preferred Securities as described under sub-clause 4.3;

"Tier 1 Capital" means Core Capital which has the meaning ascribed to it in the Swiss Federal Banking Commission's minimum capital adequacy requirements or any successor requirements replacing these;

"Tier 1 Securities" means any obligation of UBS or, as the case may be, a Subsidiary or other entity which is, or is capable of being, treated as Tier 1 Capital of UBS on a consolidated or unconsolidated basis;

"UBS" means UBS AG and its successors and assigns;

"UBS Group" means UBS together with the Subsidiaries;

"UBS Junior Obligations" means (i) ordinary shares of UBS, (ii) each class of preferred or preference shares or similar securities of UBS that ranks junior to the most senior ranking preferred or preference shares or similar securities of UBS, and (iii) any indebtedness, guarantee or support agreement or similar undertaking of UBS in respect of any subsidiary securities that rank junior to the Guarantee; and

"UBS Parity Securities" means (i) each class of preferred or preference shares or similar securities of UBS that ranks equally with the most senior ranking preferred or preference shares or similar securities of UBS and (ii) any securities issued by any subsidiaries of UBS and entitled to the benefit of any guarantee or support agreement or similar undertaking of UBS that ranks equally with the Guarantee.

In this description of the Preferred Securities any reference to a particular time shall, unless otherwise specified, be to that time in Jersey.

2. DISTRIBUTIONS

2.1 Distribution Payment Dates

Subject as provided by the Law and in sub-clause 2.9, non-cumulative distributions ("Distributions") on the Preferred Securities will accrue from the Closing Date (or, in the case of any further Preferred Securities of the same series issued so as to rank *pari passu* with the Preferred Securities as regards participation in the profits and assets of the Issuer, their respective dates of issue or as otherwise provided). The Distributions shall be payable annually in arrear on 15 April in each year from 15 April 2006 until (and excluding) the First Optional Redemption Date (the "Fixed Rate Period") and quarterly in arrear on 15 April, 15 July, 15 October and 15 January from (and including) the First Optional Redemption Date for each Distribution Period thereafter (the "Floating Rate Period").

2.2 **Distribution Rate — Fixed Rate Period**

The rate of Distribution during the Fixed Rate Period shall be 4.28 per cent. per annum of the Liquidation Preference (calculated on an Actual/Actual (ISMA) Basis).

2.3 **Distribution Rate — Floating Rate Period**

The rate of Distribution during the Floating Rate Period shall be the sum of three-month EURIBOR and 1.58 per cent. per annum of the Liquidation Preference (calculated on an Actual/360 Basis).

2.4 For the purposes of calculating this, "three-month EURIBOR" means:

the rate for deposits in Euro for a period of three months which appears on the display page designated 248 on Moneyline Telerate Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as of 11:00 a.m. (Brussels time) on the second TARGET Settlement Day before the first day of the relevant Distribution Period (the "Distribution Determination Date").

2.5 If such rate does not appear on that page on the Distribution Determination Date, the Principal Paying and Transfer Agent will:

(a) request the principal Eurozone office of each of four major banks in the Eurozone interbank market to provide a quotation of the rate at which deposits in Euro are offered by it at approximately 11.00 a.m. (Brussels time) on the Distribution Determination Date to prime banks in the Eurozone interbank market for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time; and

(b) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and

(c) if fewer than two such quotations are provided as requested, the Principal Paying and Transfer Agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Eurozone, selected by the Principal Paying and Transfer Agent, at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Distribution Period for loans in Euro to leading European banks for a period equal to the relevant Distribution Period and in an amount that is representative for a single transaction in that market at that time,

provided, however, that if the Principal Paying and Transfer Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Distribution Period, the rate of Distribution applicable to the Preferred Securities during such Distribution Period will be the sum of 1.58 per cent. per annum and the rate or (as the case may be) arithmetic mean last determined in relation to the Preferred Securities in respect of a preceding Distribution Period.

2.6 The Principal Paying and Transfer Agent shall, as soon as practicable after 11.00 a.m., Brussels time, on the day which is two TARGET Settlement Days prior to the first day of each Distribution Period, calculate the Distribution payable on the relevant Distribution Payment Date on each Preferred Security for the relevant Distribution Period.

2.7 The Principal Paying and Transfer Agent will cause the amount of the Distribution to be notified to the Issuer and the Frankfurt Stock Exchange as soon as possible after determination thereof, but in no event later than the first day of the relevant Distribution Period. Notice will also be provided to the Holders in accordance with Clause 8 below.

2.8 Distributions on the Preferred Securities will be payable out of the Issuer's own legally available resources on each Distribution Payment Date. Notwithstanding the existence of resources legally available for distribution by the Issuer, neither the Issuer nor UBS will pay any Distributions or make any payment in respect of Distributions (including any Additional Amounts) under the Preferred Securities or the Guarantee to the extent that such payment in respect of the Preferred Securities would breach or cause a breach of the Swiss Federal Banking Commission's minimum capital adequacy requirements then applicable to UBS on a consolidated or unconsolidated basis (a "Capital Limitation");

2.9 Subject to 2.8 above and unless the Distribution is to be made following a Mandatory Distribution Event (as defined below), neither the Issuer nor UBS will pay any Distributions or make any payment in respect of Distributions (including any Additional Amounts) under the Preferred Securities or the Guarantee if the amount of the payment, together with the amount of any distributions or dividends paid or scheduled to be paid to holders of UBS Parity Securities, would exceed the amount of dividends that UBS would have been legally able to pay on the Preferred Securities had they been issued directly by UBS as non-cumulative preference shares of UBS (a "Distributable Profits Limitation"). To this end, on or before the first Distribution Payment Date of each year, UBS will deliver a certificate to the Issuer (a "Distributable Profits Limitation Certificate") specifying:

(a) the Distributable Profits of UBS for the financial year ending on the preceding 31 December; and

(b) the Available Distributable Profits (as defined above) for payment of Distributions on the Preferred Securities on the Distribution Payment Dates in the then current year.

Unless the Issuer is required to pay a Distribution due to a Mandatory Distribution Event having occurred: (i) the aggregate amount of Distributions on the Preferred Securities that the Issuer may pay on the first Distribution Payment of the current year may not exceed the lesser of full Distributions and the Available Distributable Profits set forth in such Distributable Profits Limitation Certificate, and (ii) the aggregate amount of Distributions on the Preferred Securities that the Issuer may pay on any subsequent Distribution Payment Dates in the current year may not exceed the lesser of full Distributions and the remaining amount of such Available Distributable Profits (after giving effect to the payment of Distributions pursuant to this (ii) or (i) immediately above).

2.10 On each Distribution Determination Date, the Issuer will determine whether sufficient Available Distributable Profits exist to allow a payment of the relevant Distribution. In the event that any Distribution cannot be paid, the Issuer will notify or procure notification to the Stock Exchange, the Registrar and the Paying and Transfer Agents and to Holders, in accordance with Clause 8, that no Distribution will be made.

2.11 Save as described above, Holders will have no right to participate in the profits of the Issuer or UBS and in particular will have no rights to receive from the Issuer amounts paid under the Notes or otherwise amounts in excess of Distributions due and payable under the Preferred Securities. In the event that any amounts received by the Issuer exceed the amount (if any) then due by way of Distribution under the Preferred Securities, the amount of such excess will be paid to UBS and Holders will have no rights in respect thereof.

2.12 Subject to sub-clause 2.8 and the Law, the Issuer will be required to pay Distributions on its Preferred Securities in two circumstances (as set out below under 2.12.1 and 2.12.2, each a "Mandatory Distribution Event"), as follows:

2.12.1 If UBS declares or pays dividends or makes any other payment or distribution on any UBS Junior Obligations, and provided that the Capital Limitation does not apply, then the Issuer will be required to pay full Distributions during the one-year period beginning on and including the earlier of the date on which such dividend was declared or the date on which such dividend or other payment was made.

2.12.2 If UBS or any of its subsidiaries redeems, repurchases or otherwise acquires any UBS Parity Securities or UBS Junior Obligations for any consideration, except by conversion into or exchange for shares of UBS or UBS Junior Obligations and except as described below (and provided that the Capital Limitation does not apply), then the Issuer will be required to pay Distributions on the Preferred Securities during the one-year period beginning on and including the date on which such redemption, repurchase or other acquisition occurred.

2.12.3 Notwithstanding paragraph 2.12.2, the Issuer will not be required to pay Distributions solely as a result of:

(a) repurchases, redemptions or other acquisitions of UBS Parity Securities or UBS Junior Obligations in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants, in connection with a dividend reinvestment or shareholder share purchase plan or in connection with the issuance of UBS Parity Securities or UBS Junior Obligations (or securities convertible into or exercisable for such UBS Parity Securities or UBS Junior Obligations) as consideration in an acquisition transaction;

(b) market-making in the UBS Parity Securities or UBS Junior Obligations as part of the securities business of UBS or any of its subsidiaries;

(c) the purchase of fractional interests in UBS Parity Securities or UBS Junior Obligations pursuant to the conversion or exchange provisions of such UBS Parity Securities or UBS Junior Obligations or the security being converted or exchanged;

(d) any declaration of a dividend in connection with any shareholder's rights plan, or the issuance of rights, shares or other property under any shareholder's rights plan, or the redemption or repurchase of rights pursuant to any such plan; or

(e) any dividend in the form of shares, warrants, options or other rights where the dividend shares or the shares issuable upon exercise of such warrants, options or other rights are the same shares as that on which the dividend is being paid or ranks equally with or junior to such shares.

2.13 Any Distribution Payment Date or other date on which Distributions on the Preferred Securities are required to be paid as described in Clause 2.12.1 or 2.12.2 above is a "Mandatory Distribution Payment Date". The amount of Distributions required to be paid on any Mandatory Distribution Payment Date (after giving effect to the Capital Limitation, if applicable) is called the "Mandatory Distribution Payment Amount". If a Distribution Payment Date or other date is a Mandatory Distribution Payment Date, the Issuer will be required to pay the Mandatory Distribution Payment Amount as a Distribution on that date whether or not there are Available Distributable Profits and whether or not interest is paid on the Notes.

3. LIQUIDATION DISTRIBUTIONS

3.1 In the event of the commencement of any dissolution of the Issuer, the Holders will be entitled, subject as set out in sub-clause 3.4, to receive the Liquidation Distribution, in respect of each Preferred Security held, out of the assets of the Issuer available for distribution to such Holders under the Law.

Notwithstanding the availability of sufficient assets of the Issuer to pay any Liquidation Distribution to the Holders, if, at the time such Liquidation Distribution is to be paid, proceedings have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of UBS other than pursuant to a Permitted Reorganisation, the Liquidation Distribution per Preferred Security paid to Holders thereof shall not exceed the amount per security that would have been paid as a liquidation distribution out of the assets of UBS had the Preferred Securities and all UBS Parity Securities been the most senior class of preference shares in UBS with equivalent rights of participation in the capital of UBS (whether or not UBS could in fact have issued such securities at such time) and ranked (a) junior to all liabilities of UBS including subordinated liabilities (in each case other than any liability of UBS which constitutes Tier 1 Securities or any liability which is referred to in (b) or (c) and any other liability expressed to rank *pari passu* with or junior to the Guarantee), (b) *pari passu* with UBS Parity Securities, if any, issued by UBS and any guarantee or support agreement of UBS ranking *pari passu* with the Guarantee and (c) senior to UBS Junior Obligations.

3.2 If the Liquidation Distribution and any other such liquidation distributions cannot be made in full by reason of the limitation described in sub-clause 3.1 or any equivalent article or term of a Parity Security, but there are funds available for payment so as to allow payment of part of the Liquidation Distribution, then each Holder will be entitled to receive the Relevant Proportion of the Liquidation Distribution.

3.3 In the event of an order being made for the liquidation, dissolution, or winding-up of UBS other than pursuant to a Permitted Reorganisation or UBS is declared insolvent, the Issuer shall be dissolved and the amount per Preferred Security to which Holders shall be entitled as a Liquidation Distribution will be as set out in sub-clauses 3.1 and 3.2.

3.4 Subject to the Law, other than in the event referred to in sub-clause 3.3, unless (i) the Swiss Federal Banking Commission has given its approval, if then required and (ii) UBS has Available Distributable Profits in an amount at least equal to the aggregate Liquidation Distribution, UBS will not permit, or take any action that would or might cause, the liquidation or dissolution of the Issuer. Notwithstanding the foregoing restriction imposed on UBS, if for any other reason the Issuer is liquidated, dissolved or wound up in circumstances where proceedings have not been commenced for the liquidation, dissolution or winding-up of UBS, the Liquidation Distribution shall only be payable to the extent that (ii) above applies. No Holder shall have any claim (whether against the Issuer or UBS) in respect of any Liquidation Distribution or part thereof not paid when it would, but for the operation of this sub-clause 3.4, otherwise have become due.

4. REDEMPTION AND PURCHASE

4.1 The Preferred Securities have no fixed final redemption date and Holders have no rights to call for the redemption of the Preferred Securities.

4.2 The Preferred Securities are redeemable, at the option of the Issuer, subject to the satisfaction of the Redemption Conditions and the Law, in whole, but not in part, on any Optional Redemption Date upon not less than 30 nor more than 60 days' notice to the Holders specifying the Optional Redemption Date (which notice shall be irrevocable). Upon the expiry of such notice, the Issuer shall be bound to redeem each of the Preferred Securities accordingly by payment of an amount equal to the Optional Redemption Price.

4.3 If at any time a Tax Event has occurred and is continuing, the effect of which cannot be avoided by the Issuer or UBS taking reasonable measures available to it, then the Preferred Securities may be redeemed, in whole but not in part, at the option of the Issuer, subject to the satisfaction of the Redemption Conditions and to the Law, at any time upon not less than 30 nor more than 60 days' notice to the Holders specifying the Tax Event Redemption Date (which notice shall be irrevocable). Prior to the publication of any notice of redemption pursuant to the foregoing, the Issuer shall deliver to the Registrar a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and an opinion of counsel to the Issuer experienced in such matters to the effect that a Tax Event has occurred (and specifying which of Clauses (i) to (iv) as set out in the definition of "Tax Event" is applicable). Upon the expiry of such notice, the Issuer shall be bound to redeem each of the Preferred Securities accordingly in accordance with and subject to the Law. The redemption price for a redemption arising out of a Tax Event resulting from a Change in Tax Law (as defined below) will be the Optional Redemption Price. Otherwise, the redemption price for such redemptions arising out of a Tax Event will be calculated in accordance in Clause 4.5 below.

4.4 If at any time a Capital Disqualification Event has occurred and is continuing the Preferred Securities may be redeemed, in whole but not in part, at the option of the Issuer, subject to the satisfaction of the Redemption Conditions and to the Law, at any time upon not less than 30 nor more than 60 days' notice to the Holders specifying the Capital Disqualification Event Redemption Date (which notice shall be irrevocable). The redemption price for a redemption arising out of a Capital Disqualification Event will be calculated in accordance in Clause 4.5 below. Prior to the publication of any notice of redemption pursuant to the foregoing, the Issuer shall deliver to the Registrar a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and an opinion of counsel to the Issuer experienced in such matters to the effect that a Capital Disqualification Event has occurred. Upon the expiry of such notice, the Issuer shall be bound to redeem each of the Preferred Securities accordingly in accordance with and subject to the Law.

4.5 The redemption price for redemptions arising out of a Tax Event (other than a Tax Event resulting from a Change in Tax Law) or a Capital Qualification Event will be:

(a) the Make Whole Amount (as defined below), plus

(b) an amount equal to unpaid Distributions, if any, on the Preferred Securities with respect to the current Distribution Period (whether or not declared) accrued on a daily basis to the date fixed for redemption.

As used in this Clause 4:

"Administrative Action" means any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) by any legislative body, court, governmental authority or regulatory body having appropriate jurisdiction;

"Change in Tax Law" means the receipt by UBS of an opinion of a nationally recognised law firm or other tax advisor (which may be an accounting firm) in Switzerland or Jersey, as appropriate, experienced in such matters to the effect that an event of the type described in clause (i), (ii) or (iii) of the definition of "Tax Event" has occurred or will occur as a result of (a) any amendment to, clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations under any laws or treaties) of Switzerland or Jersey or any political subdivision, or taxing authority of or in Switzerland or Jersey affecting taxation or (b) any Administrative Action or any amendment to, clarification of, or change in the official position of or UBS interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to any Administrative Action that differs from the previously generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, regardless of the manner in which such amendment, clarification, change, interpretation or pronouncement is made known, which amendment, clarification, change or Administrative Action is effective or which interpretation or pronouncement is announced on or after the date of issuance of the Preferred Securities;

"Make Whole Amount" as applied to a redemption of the Preferred Securities means, in respect of each Preferred Security, (a) the Liquidation Preference of such Preferred Security or, if redemption occurs before the First Optional Redemption Date and this is higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the then current yield on the Preferred Security on the Reference Date (as defined below) (assuming for this purpose that the Preferred Securities are to be redeemed at their Liquidation Preference on the First Optional Redemption Date) is equal to the then current yield (determined by reference to the middle market price) at 11.00 a.m. (Frankfurt time) on the Reference Date of the Reference Bond plus 0.45 per cent., all as determined by UBS;

"Reference Bond" means the 3.75 per cent. German Bundesobligationen due January 2015, or if such stock is no longer in issue such other German government stock with a maturity date as near as possible to the First Optional Redemption Date, as UBS may reasonably determine to be appropriate by way of substitution for the 3.75 per cent. German Bundesobligationen due January 2015; and

"Reference Date" means the date which is the three dealing days prior to the date fixed for redemption pursuant to Clauses 4.3 and 4.4 above.

4.6 For so long as the Preferred Securities are listed on the Frankfurt Stock Exchange, the Issuer shall cause any notice of redemption given pursuant to Clauses 4.2, 4.3 and 4.4 above to be given to the Frankfurt Stock Exchange.

4.7 Under existing Swiss Federal Banking Commission requirements, neither the Issuer nor UBS may redeem or purchase any Preferred Securities unless the Swiss Federal Banking Commission gives its prior written consent. The Swiss Federal Banking Commission may impose conditions on any such redemption or purchase.

4.8 In each year in which a repurchase is made, the aggregate nominal amount of the Preferred Securities repurchased shall be announced in accordance with the Listing and Issuing Rules of the Frankfurt Stock Exchange with mention of remaining Preferred Securities.

5. ADDITIONAL AMOUNTS

All payments in respect of the Preferred Securities by the Issuer will be made without withholding or deduction for, or on account of, any Jersey Tax, unless the withholding or deduction of such Jersey Tax is required by law. In the event of such withholding or deduction, each Holder will be entitled to receive, as further distributions, such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Preferred Securities in the absence of such withholding or deduction; except that no such Additional Amounts will be payable to a Holder (or to a third party on his behalf) with respect to any Preferred Security (i) to the extent that such Jersey Tax is imposed or levied by virtue of such Holder (or the beneficial owner) of such Preferred Security having some connection with Jersey, other than merely being a Holder (or beneficial owner) of such Preferred Security or (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or (iii) who would have been able to avoid such withholding or deduction by presenting the Preferred Securities to another Paying and Transfer Agent in a Member State of the European Union, and except that the Issuer's obligations to make any such payments are subject to the Law and to the limitations provided in sub-clauses 2.8, 3.1 and 3.4.

6. PAYMENTS

6.1 Distributions will be payable on the relevant Distribution Payment Date (or where any Distribution Payment Date is not a Business Day on the next Business Day (without interest in respect of such delay)) to the Holders of record as they appear on the Register on the relevant record date, which will be five Business Days prior to the relevant Distribution Payment Date.

If the Issuer gives a notice of redemption pursuant to sub-clause 4.2, 4.3 or 4.4 in respect of the Preferred Securities, then, by 15.00 hours on the Optional Redemption Date, the Tax Event Redemption Date or the Capital Disqualification Event Redemption Date, as the case may be, the Issuer shall procure that the Redemption Amount will be paid by the Registrar or by the Paying and Transfer Agent on behalf of the Issuer to the Holders. Upon such payment, all rights of Holders to participate in the assets of the Issuer or to be returned any amount in respect of the Preferred Securities will be extinguished provided its holding of Preferred Securities is redeemed in accordance with the foregoing.

6.2 Subject to all applicable fiscal or other laws and regulations:

6.2.1 each payment in respect of Distributions will be made by cheque and mailed to the Holder of record at such Holder's address as it appears on the Register on the relevant record date for the Preferred Securities; and

6.2.2 any payment in respect of a Redemption Amount or the Liquidation Distribution in respect of any Preferred Security will be made by cheque against presentation and surrender of the relevant certificate of entitlement at the office of the Registrar or a Paying and Transfer Agent,

provided, however, that a Holder may receive such payment by direct transfer if appropriate direct transfer instructions have been received by the Registrar in sufficient time prior to the relevant date of payment. Holders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Holder is late in surrendering certificates (if required to do so) or if a cheque mailed in accordance with this Clause arrives after the due date for payment.

In the event that payment of any Redemption Amount in respect of any Preferred Security is improperly withheld or refused and not paid by the Issuer, Distributions on such Preferred Security, subject as described in sub-clause 2.8, will continue to accrue, on an Actual/Actual (ISMA) Basis (if the payment is due in the Fixed Rate Period) or on an Actual/360 Basis (if the payment is due in the Floating Rate Period), from the Optional Redemption Date, Tax Event Redemption Date or Capital Disqualification Event Redemption Date, as the case may be, to the date of actual payment of such Redemption Amount.

6.3 The Issuer will not make any payment to Holders, or procure such a payment in respect of the Preferred Securities, that could not lawfully have been made if Holders had held the most senior preference shares of UBS (if any and whether or not UBS could issue such preference shares at such time) instead of the Preferred Securities.

6.4 The Issuer will maintain, at all times whilst the Preferred Securities are outstanding (a) and listed on the Frankfurt Stock Exchange, a Paying and Transfer Agent having its specified office in Germany, (b) a Registrar having its office in Jersey and (c) a Paying and Transfer Agent having a specified office in a European Union Member State (if any) that will not be obliged to withhold or deduct tax pursuant to

European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

7. VOTING RIGHTS

7.1 Except as described below, Holders will not be entitled to receive notice of or attend or vote at any general meeting of shareholders of the Issuer or participate in the management of the Issuer.

7.2 If for two consecutive Distribution Payment dates (in the case of annual Distribution Payment Dates) and four consecutive Distribution Payment Dates (in the case of quarterly Distribution Payment Dates):

7.2.1 Distributions and any Additional Amounts in respect of such Distributions have not been paid in full on the Preferred Securities by the Issuer; and/or

7.2.2 UBS breaches any of its payment obligations under the Guarantee in respect of such Distributions or any such Additional Amounts thereon,

then the Holders, together with the holders of any other outstanding preferred securities, preference shares or other Tier 1 Securities of the Issuer having the right to vote for the election of directors in such event, acting as a single class without regard to series, will be entitled, by written notice to the Issuer given by the holders of a majority in liquidation preference of such shares or securities or by ordinary resolution passed by the holders of a majority in liquidation preference of such shares or securities present in person or by proxy at a separate general meeting of such holders convened for the purpose, to appoint two additional members of the board of directors who, whether because of their individual residency status or otherwise, do not adversely affect the Issuer's regulatory or taxation position or status.

Not later than 30 days after such entitlement arises, if the written notice of the holders of any other outstanding preferred securities, preference shares or other Tier 1 Securities of the Issuer having the right to vote for the election of directors in the circumstances described above has not been given as provided for above, the board of directors will convene a separate general meeting for the above purpose. If the board of directors fails to convene such meeting within such 30-day period, the holders of 10 per cent. in liquidation preference of the Preferred Securities and such other outstanding preferred securities, preference shares or other Tier 1 Securities will be entitled to convene such meeting. The provisions of the Articles of Association of the Issuer concerning the convening and conduct of general meetings of shareholders will apply with respect to any such separate general meeting.

Any member of the board of directors so appointed shall vacate office, subject to the terms of such other outstanding preferred securities, preference shares or other Tier 1 Securities, if for any two consecutive Distribution Payment Dates (in the case of annual Distribution Payment Dates) and four consecutive Distribution Payment Dates (in the case of quarterly Distribution Payment Dates), Distributions and any Additional Amounts in respect of such Distributions have been paid in full on the Preferred Securities by the Issuer and/or UBS has made payment of all amounts in respect of such Distributions and any Additional Amounts in respect thereof (or an amount equivalent to the Distributions to be paid in respect of the next two or four Distribution Periods (as the case may be) has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders).

The Issuer will cause a notice of any meeting at which Holders are entitled to vote to be mailed to each Holder. Each such notice will include a statement setting forth (i) the date, time and place of such meeting, (ii) a description of any resolution to be proposed for adoption at such meeting on which such Holders are entitled to vote and (iii) instructions for the delivery of proxies.

8. NOTICES

All notices to the Holders will be mailed to the Holder of record and, so long as the Preferred Securities are listed on the Official Market of the Frankfurt Stock Exchange, and the rules of such exchange so require, notices will be published in a leading daily newspaper having general circulation in Germany. This newspaper is expected to be the *Börsen-Zeitung*. Any mailed notice shall be deemed to have been given one clear day after the date on which it was posted and any notice published in a newspaper shall be deemed to have been given on the date of publication (or, if published more than once, on the date of the first publication).

9. TRANSFERS AND FORM

The Preferred Securities are in registered form each with an issue price equal to the Liquidation Preference. For each Preferred Security issued, an amount equal to its nominal value will be credited to the Issuer's issued share capital account and an amount of Euro 999.99, being the difference between its issue price and its nominal value will be credited to the Issuer's share premium account. On or about the Closing Date, a single global certificate in registered form (the "Global Certificate") representing the Preferred Securities will be registered in the name of, and deposited with, Clearstream, Frankfurt. The Preferred Securities are also eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg. For so long as the Preferred Securities are deposited and registered as described above, book-entry interests in the Preferred Securities will be shown on, and transfers of such interests will be effected through, records maintained by Clearstream, Frankfurt, Euroclear and Clearstream, Luxembourg

If (a) Clearstream, Frankfurt, or any relevant clearing system, is closed for business for a continuous period of 14 days or more (other than for the purposes of a public holiday) or announces an intention permanently to cease business or does in fact so cease business or (b) as a result of a change in law, transfer duties or similar taxes become payable on transfers of the Preferred Securities in Clearstream, Frankfurt, or the relevant clearing system, a number of Preferred Securities corresponding to its book-entry interest in the Preferred Securities represented by the certificate held by Clearstream, Frankfurt referred to above will, subject to such reasonable requirements as the Issuer may require, be transferred to each holder of an interest in the Preferred Securities whose name is notified by Clearstream, Frankfurt, or the relevant clearing system, to the Registrar. Each such holder will be registered as a Holder in the Register and receive a certificate made out in its name. Other than in the circumstances referred to in this Clause, definitive certificates will not be available to Holders.

If definitive certificates are made available in respect of Preferred Securities they will be available to the Holders from offices of the Registrar, or will be posted to the relevant Holders at the address shown in the Register or, as applicable, in the relevant instrument of transfer within three Business Days of issue, by uninsured post at the risk of such Holders. Transfers of Preferred Securities if represented by definitive certificates may be effected by presentation of the relevant certificate (with the transfer certificate relating thereto duly completed on behalf of the transferor and transferee) at the specified office of the Registrar or any Paying and Transfer Agent. Where a Holder transfers some only of the Preferred Securities represented by any such certificate he shall be entitled to a certificate for the balance without charge.

10. REPLACEMENT OF CERTIFICATES

If a certificate is damaged or defaced or alleged to have been lost, stolen or destroyed, a new certificate representing the same Preferred Securities may be issued on payment of such fee and on such terms (if any) as to evidence and indemnity and the payment of out-of-pocket expenses as the Issuer may think fit and on payment of the costs of the Issuer incidental to its investigation of the evidence and, if damaged or defaced, on delivery up of the old certificate at the office of the Registrar.

11. PRESCRIPTION

Claims against the Issuer for payment of Distributions and sums in respect of any Redemption Amount or Liquidation Distribution of the Preferred Securities will be prescribed unless made within 10 years from the date on which such payment becomes due or, if later, the date on which the Issuer makes such payment available to Holders.

Summary of Provisions Relating to the Preferred Securities in Global Form

INITIAL ISSUE OF PREFERRED SECURITIES

The Preferred Securities have been issued in registered form and are represented by a single Global Certificate which has been registered in the name of, and deposited with, Clearstream, Frankfurt on or about the Closing Date. The Preferred Securities are also eligible for clearing and settlement through Euroclear and Clearstream Luxembourg. Upon the registration of the Global Certificate in the name of Clearstream, Frankfurt and delivery of the Global Certificate to Clearstream, Frankfurt, Clearstream, Frankfurt has, in accordance with its procedures, credited each subscriber with such number of Preferred Securities equal to the number thereof for which it has subscribed and paid.

EXCHANGE

If (a) Clearstream, Frankfurt, or any relevant clearing system, is closed for business for a continuous period of 14 days (other than for the purposes of a public holiday) or announces an intention permanently to cease business or does in fact so cease business or (b) as a result of a change in law, transfer duties or similar taxes become payable on transfers of the Preferred Securities in Clearstream, Frankfurt, or the relevant clearing system, a number of Preferred Securities corresponding to its book-entry interest in the Preferred Securities represented by the Global Certificate will, subject to such reasonable requirements as the Issuer may require, be transferred to each holder of an interest in the Preferred Securities whose name is notified by Clearstream, Frankfurt, or the relevant clearing system, to the Registrar. Each such holder will be registered as a Holder of the Preferred Securities in the Register maintained by or on behalf of the Issuer and will receive a certificate made out in its name.

ACCOUNTHOLDERS

So long as the Preferred Securities are registered in the name of Clearstream, Frankfurt, Clearstream, Frankfurt will be the sole registered owner or holder of the Preferred Securities represented by the Global Certificate. Except as set forth under "Description of Preferred Securities — Transfers and Form" and under "Transfers of Interests" below, the persons shown in the records of Clearstream, Frankfurt, or any other clearing system, as the Holders of the Preferred Securities evidenced by the Global Certificate (each an "Accountholder") will not be entitled to have Preferred Securities registered in their names and will not receive or be entitled to receive physical delivery of definitive certificates evidencing interests in the Preferred Securities. Accordingly, each Accountholder must rely on the rules and procedures of Clearstream, Frankfurt, or the relevant clearing system, to exercise any rights and obligations of a holder of Preferred Securities.

PAYMENT

Each Accountholder must look solely to Clearstream, Frankfurt for its share of each payment made by the Issuer to the registered holder of the Preferred Securities and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Clearstream, Frankfurt. Such persons shall have no claim directly against the Issuer in respect of payments due on the Preferred Securities for so long as the Preferred Securities are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the registered holder of the Preferred Securities in respect of each amount so paid.

If the Preferred Securities are cleared and settled through Euroclear or Clearstream, Luxembourg, payments will be made subject to and in accordance with the respective rules and procedures of these clearing systems.

TRANSFERS OF INTERESTS

Accountholders will only be able to transfer their beneficial interests in the Preferred Securities in accordance with the restrictions described under "Description of Preferred Securities — Transfers and Form" and with the rules and procedures of Clearstream, Frankfurt, Euroclear or Clearstream, Luxembourg, as the case may be.

Subordinated Guarantee

The following is the Guarantee executed by UBS AG, acting through its Jersey branch.

THIS GUARANTEE (the "Guarantee"), dated 15 April 2005, is executed by UBS AG ("UBS"), acting through its Jersey branch, for the benefit of the Holders (as defined below).

WHEREAS:

(i) UBS desires to issue this Guarantee for the benefit of the Holders, as provided herein; and

(ii) this Guarantee is intended to provide the Holders, on a dissolution of the Issuer (as defined below) or on a default by the Issuer in discharging its obligations in respect of the Preferred Securities (as defined below), with rights against UBS in respect of the Guaranteed Payments (as defined below) which are as nearly as possible equivalent to those which they would have had if the Preferred Securities had been directly issued preference shares of UBS (whether or not UBS could in fact have issued such securities).

NOW, THEREFORE UBS executes this Guarantee for the benefit of the Holders.

1. DEFINITIONS

Terms not otherwise defined herein shall have the meaning ascribed to them in the rights attaching to the Preferred Securities as set out in the Issuer's Articles of Association and the following terms shall, unless the context otherwise requires, have the following meanings:

"Guaranteed Payments" means (without duplication) collectively (i) all Distributions due on the Preferred Securities, (ii) any Liquidation Distribution to which Holders are entitled, (iii) any Redemption Amount and (iv) any Additional Amounts;

"Holder" means, in respect of each Preferred Security, each person registered on the Register as holding such Preferred Security at the relevant time save for as long as the Preferred Securities are registered in the name of Clearstream, Frankfurt in which case each person (other than Clearstream, Frankfurt) who is for the time being shown in the records of Clearstream, Frankfurt as the holder of any Preferred Securities (in which regard any certificate or other document issued by Clearstream, Frankfurt as to the number of Preferred Securities standing to the account of any person shall be conclusive and binding for all purposes) other than with respect to payments, the right to which shall be vested in the name of the person appearing in the Register;

"Issuer" means UBS Preferred Funding (Jersey) Ltd.; and

"Preferred Securities" means the 1,000,000 Fixed/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities outstanding of the Issuer each with a Liquidation Preference of Euro 1,000, including any further Preferred Securities of the same series, whether or not in issue on the date of this Guarantee, the Holders of which are entitled to the benefits of this Guarantee as evidenced by the execution of this Guarantee.

2. GUARANTEE

2.1 Subject to the exceptions and limitations contained in the following provisions of this Clause 2, UBS irrevocably and unconditionally agrees to pay in full to the Holders the Guaranteed Payments, as and when due, to the extent that such payments shall not have been paid within 3 days of becoming due and payable by the Issuer regardless of any defence, right of set-off or counterclaim which the Issuer may have or assert. This Guarantee is continuing, irrevocable and absolute. The rights and claims of the Holders against UBS under this Guarantee are subordinated to the claims of the Senior Creditors (as defined in Clause 2.3) in that payment of the Guaranteed Payments is conditional upon satisfaction of the conditions set out in the following provisions of this Clause 2.

All amounts expressed to be payable hereunder are expressed as amounts net of mandatory deductions.

2.2 Notwithstanding Clause 2.1, UBS will not, save to the extent provided in Clause 2.5, be obliged to make any Guaranteed Payment if UBS is prevented by applicable Swiss banking regulations or other requirements from making payment in full under this Guarantee. In addition, notwithstanding Clause 2.1, UBS will not, save to the extent provided in Clause 2.5, be obliged to make any Guaranteed Payment in respect of Distributions on any Preferred Securities:

2.2.1 if the amount of the payment, together with the amount of any distributions or dividends paid or scheduled to be paid to holders of UBS Parity Securities, would exceed the amount of dividends that UBS would have been legally able to pay on the Preferred Securities had they been issued directly by UBS as non-cumulative preference shares of UBS (a "Distributable Profits Limitation"). To this end, on or before the first Distribution Payment Date of each year, UBS will deliver a certificate to the Issuer (a "Distributable Profits Limitation Certificate") specifying:

(a) the Distributable Profits of UBS for the financial year ending on the preceding 31 December; and

(b) the Available Distributable Profits for payment of Distributions on the Preferred Securities on the Distribution Payment Dates in the then current year.

2.2.2 even if Available Distributable Profits are sufficient, to the extent that such payment in respect of the Preferred Securities would breach or cause a breach of the Swiss Federal Banking Commission's minimum capital adequacy requirements then applicable to UBS on a consolidated or unconsolidated basis.

2.3 Notwithstanding Clause 2.1, if, at the time that the Liquidation Distribution is to be paid by UBS under this Guarantee in respect of any Preferred Securities, proceedings have been commenced for the voluntary or involuntary liquidation or dissolution of UBS in terms of the Swiss banking regulations other than pursuant to a Permitted Reorganisation, payment under this Guarantee of such Liquidation Distribution shall not exceed the amount per security that would have been paid as a liquidation distribution out of the assets of UBS had the Preferred Securities and all UBS Parity Securities been the most senior class of preference shares in UBS with equivalent rights of participation in the capital of UBS (whether or not UBS could in fact have issued such securities at such time) and ranked:

(a) junior to all liabilities of UBS including subordinated liabilities (in each case other than any liability of UBS which constitutes Tier 1 Securities or any liability which is referred to in (b) or (c) and any other liability expressed to rank *pari passu* with or junior to this Guarantee) ("Senior Creditors");

(b) *pari passu* with UBS Parity Securities, if any, issued by UBS and any guarantee or support agreement of UBS ranking *pari passu* with this Guarantee; and

(c) senior to UBS Junior Obligations.

The foregoing liabilities that rank senior to this Guarantee are collectively called "UBS Senior Liabilities".

Payments under this Guarantee (other than payments upon a dissolution, by bankruptcy or otherwise, in Switzerland of UBS as provided below) will be conditional upon UBS not being in default in the payment of UBS Senior Liabilities and being solvent at the time of payment. A report as to the insolvency of UBS by two persons, each being a managing director, director or other authorised officer or agent of UBS or employees of the independent accountants of UBS will, in the absence of manifest error be treated and accepted by UBS, the holders of Preferred Securities and all other interested parties as correct and sufficient evidence thereof.

The subordination provisions set out above will be irrevocable. UBS will not be permitted to create or permit to exist any charge or other security interest over its assets to secure its obligations in respect of this Guarantee.

The obligations of UBS in respect of this Guarantee will be, prior to the bankruptcy or dissolution of UBS or otherwise, conditional upon UBS being solvent immediately before and after payment by the relevant branch. If this condition is not satisfied, any amounts that might otherwise have been allocated in or towards payment in respect of this Guarantee will be used to absorb losses of UBS.

Subject to applicable law, no beneficiary of this Guarantee will be able to exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by UBS arising under or in connection with this Guarantee and each beneficiary of this Guarantee will, by virtue of being a beneficiary of this Guarantee, be deemed to have waived all such rights to set-off, compensation or retention, including in the case of insolvency of UBS.

2.4 All Guaranteed Payments made hereunder will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Switzerland or Jersey or any political sub-division thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, UBS will, if permitted by the Swiss Federal Banking Commission's approval (to the extent such approval is required), pay such additional amounts ("Guarantor Additional Amounts") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the amounts which would have been receivable under this Guarantee in the absence of such withholding or deduction; except that no such Guarantor Additional Amounts will be payable to a Holder (or a third party on his behalf) (i) to the extent that such taxes, duties, assessments or governmental charges are imposed or levied by virtue of such Holder (or the beneficial owner of a Preferred Security) having some connection with Switzerland or Jersey other than being a Holder (or beneficial owner) of a Preferred Security or (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or (iii) who would have been able to avoid such withholding or deduction by presenting the Preferred Securities to another Paying and Transfer Agent in a Member State of the European Union; provided further that UBS's obligation to pay any Guarantor Additional Amounts is subject to the exceptions relating to Guaranteed Payments set out in Clauses 2.2 and 2.3.

2.5 If in relation to Guaranteed Payments on liquidation of the Issuer, the amounts described in Clauses 2.1 and 2.4 cannot be made in full by reason of either of the conditions referred to in Clause 2.2 or 2.3, such amounts will be payable pro rata in the Relevant Proportion and the obligations of UBS in respect of any such unpaid balance shall lapse.

2.6 UBS hereby waives notice of acceptance of this Guarantee and of any liability to which it applies or may apply, presentment, demand for payment, protest, notice of non-payment, notice of dishonour, notice of redemption and all other notices and demands.

2.7 The obligations, covenants, agreements and duties of UBS under this Guarantee shall in no way be affected or impaired by reason of the happening from time to time of any of the following:

(a) the release or waiver, by operation of law or otherwise, of the performance or observance by the Issuer of any express or implied agreement, covenant, term or condition relating to the Preferred Securities to be performed or observed by or on behalf of the Issuer;

(b) the extension of time for the payment by or on behalf of the Issuer of all or any portion of any Distribution, the Optional Redemption Price, the Liquidation Distribution or any other sums payable under the terms of the Preferred Securities or the extension of time for the performance of any other obligation under, arising out of, or in connection with, the Preferred Securities, provided that nothing in this Guarantee shall affect or impair a valid extension;

(c) any failure, omission, delay or lack of diligence on the part of Holders to enforce, assert or exercise any right, privilege, power or remedy conferred on the Holders pursuant to the terms of the Preferred Securities, or any action on the part of the Issuer granting indulgence or extension of any kind;

(d) the voluntary or involuntary winding-up, dissolution, amalgamation, reconstruction, sale of any collateral, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganisation, arrangement, composition or readjustment of debt of, or other similar proceedings affecting, the Issuer or any of the assets of the Issuer;

(e) any invalidity of, or defect or deficiency in, the Preferred Securities; or

(f) the settlement or compromise of any obligation guaranteed hereby or hereby incurred.

There shall be no obligation on the Holders to give notice to, or obtain consent of, UBS with respect to the happening of any of the foregoing.

2.8 This Guarantee shall be deposited with and held by the Registrar until all the obligations of UBS have been discharged in full. UBS hereby acknowledges the right of every Holder to the production of, and the right of every Holder to obtain a copy of, this Guarantee from the Registrar.

2.9 A Holder may enforce this Guarantee directly against UBS. All waivers contained in this Guarantee shall be without prejudice to the right to proceed against the assets of the Issuer as permitted by the terms of the Preferred Securities. UBS agrees that this Guarantee shall not be discharged except by complete performance of all obligations of UBS under this Guarantee, save that, for the avoidance of doubt, any partial performance by UBS shall be good discharge of its obligations as to that part performed.

2.10 UBS shall be subrogated to any and all rights of the Holders against the assets of the Issuer in respect of any amounts paid to the Holders by UBS under this Guarantee. UBS shall not (except to the extent required by mandatory provisions of law) exercise any rights which it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of a payment under this Guarantee, if, at the time of any such payment, any amounts are due and unpaid under this Guarantee. If UBS shall receive or be paid any amount with respect to the Preferred Securities in violation of the preceding sentence, UBS agrees to pay over such amount to the Holders.

2.11 Notwithstanding any reference to the Preferred Securities herein, UBS acknowledges that this Guarantee is an undertaking pursuant to Art. 111 of the Swiss Code of Obligations and not a mere surety. Its obligations hereunder are of a non-accessory nature, independent of the obligations of the Issuer under the Preferred Securities and UBS shall be liable as principal and sole obligor hereunder to make Guaranteed Payments pursuant to the terms of this Guarantee, notwithstanding the occurrence of any event referred to in Clause 2.7.

2.12 UBS's obligations hereunder constitute and will always constitute unsecured obligations of UBS. Holders will at all times rank (a) junior to all Senior Creditors, (b) *pari passu* with any UBS Parity Securities and any guarantee or support agreement of UBS ranking *pari passu* with this Guarantee and (c) senior to UBS Junior Obligations.

2.13 Following a breach by UBS of its payment obligations under this Guarantee, a Holder may initiate debt collection proceedings against UBS, which ultimately may result in UBS's bankruptcy.

2.14 No Holder shall following any breach by UBS of any of its obligations under this Guarantee, including in case of the insolvency of UBS, be entitled to exercise any right of set-off or counterclaim which may be available to it against amounts owed by UBS to such Holder. Notwithstanding the provisions of the foregoing sentence, if any of the said rights and claims of any Holder against UBS is discharged by set-off, such Holder will immediately pay an amount equal to the amount of such discharge to UBS or, in the event of its winding-up, the liquidator of UBS (to be held for UBS) and accordingly any such discharge will be deemed not to have taken place.

3. UNDERTAKINGS

3.1 UBS undertakes that, so long as any of the Preferred Securities is outstanding unless UBS is itself in bankruptcy or subject to protective measures in terms of the Swiss banking regulations, it will not permit, or take any action that would or might cause, the liquidation, dissolution or winding-up of the Issuer otherwise than (i) with the prior approval of the Swiss Federal Banking Commission (if then required) and (ii) if UBS has sufficient Available Distributable Profits in an amount at least equal to the aggregate Liquidation Distribution.

3.2 UBS undertakes that it will not, and it will procure that no member of the UBS Group will, make any payment to Holders, or procure such a payment in respect of the Preferred Securities, that could not lawfully have been made if Holders had held the most senior preference shares of UBS (if any, and whether or not UBS could issue such preference shares at such time) instead of the Preferred Securities.

3.3 UBS undertakes not to incur any indebtedness in the name of the Issuer other than the costs and expenses incidental to creating the Preferred Securities and the Issuer, maintaining the listing of the Preferred Securities, the Register, the Registrar, the Paying and Transfer Agents and a listing agent in respect of the Preferred Securities, the Issuer's holding of the Notes and the maintenance of a custodian therefor, and the exercise of the Issuer's rights in respect of the Notes or any securities substituted therefor.

3.4 UBS will procure that the Issuer will maintain at all times whilst the Preferred Securities are outstanding (a) and whilst the Preferred Securities are listed on the Frankfurt Stock Exchange, a Paying and Transfer Agent in Germany, (b) a Registrar having its office in Jersey and (c) a Paying and Transfer Agent having a specified office in a European Union Member State (if available) that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

4. TERMINATION

With respect to the Preferred Securities, this Guarantee shall terminate and be of no further force and effect upon payment of the Optional Redemption Price on, or purchase and cancellation of, all Preferred Securities or full payment of the Liquidation Distribution, or alternatively, to the extent that partial payment is made.

5. TRANSFER; AMENDMENT; NOTICES

5.1 Subject to operation of law, all guarantees and agreements contained in this Guarantee shall bind the successors, assigns, receivers and representatives of UBS and shall inure to the benefit of the Holders. UBS shall not assign or transfer its obligations hereunder without the prior approval of the Holders of not less than a simple majority in Liquidation Preference of the outstanding Preferred Securities (excluding any Preferred Securities held by UBS or any entity of which UBS, either directly or indirectly, owns 20 per cent., or more of the voting shares or similar ownership interests), which approval shall be obtained in accordance with procedures contained in the Articles of Association of the Issuer and applicable law of Jersey, except in the case of a Permitted Reorganisation.

5.2 Except for those changes which do not adversely affect the rights of Holders (in any of which cases no agreement will be required), this Guarantee shall be changed only by agreement in writing signed by UBS with the prior approval of the Holders of not less than a simple majority in Liquidation Preference of the outstanding Preferred Securities (excluding any Preferred Securities held by UBS or any entity of which UBS, either directly or indirectly, owns 20 per cent., or more of the voting shares or other similar ownership interests), which approval shall be obtained in accordance with the procedures contained in the Articles of Association of the Issuer and applicable law of Jersey.

5.3 Any notice, request or other communication required or permitted to be given hereunder to UBS shall be given in writing by delivering the same against receipt therefor or be addressed to UBS, as follows, to:

UBS AG, Jersey branch
24 Union Street
St. Helier
Jersey JE4 8UJ
Channel Islands

Attention: Branch Manager
Telephone: +44 1534 61 12 50
Facsimile: +44 1534 50 65 80

The address of UBS may be changed at any time and from time to time and shall be the most recent such address furnished in writing by UBS to the registrar for the Preferred Securities.

Any notice, request or other communication required or permitted to be given hereunder to the Holders shall be given by UBS in the same manner as notices sent on behalf of the Issuer to Holders.

5.4 This Guarantee is solely for the benefit of the Holders and is not separately transferable from their interests in respect of the Preferred Securities.

5.5 UBS will furnish any Holder, upon request of such Holder, with a copy of its annual report, and any interim reports made generally available by UBS to Holders of the ordinary shares of UBS.

6. GOVERNING LAW

This Guarantee is governed by, and shall be construed in accordance with, Swiss law and UBS irrevocably submits to the exclusive jurisdiction of the courts of Zurich to settle any disputes arising out of this Guarantee.

Executed by
UBS AG, acting through its Jersey branch

Acting by

Director Director

Taxation

GENERAL

Prospective investors should inform themselves as to the tax consequences within the countries of their residence and domicile of the acquisition, holding or disposal of Preferred Securities. The comments below are of a general nature based on law and practice as at the date hereof in each jurisdiction referred to and do not constitute tax or legal advice. They relate only to the position of persons who are the absolute beneficial owners of their Preferred Securities and may not apply to certain classes of persons such as the Managers. Any Holders who are in doubt as to their personal tax position should consult their professional advisers. In assessing their tax position investors should note that the Issuer is a Jersey company.

JERSEY TAXATION

The Issuer has been granted "exempt company" status within the meaning of Article 123A of the Income Tax (Jersey) Law 1961, as amended, for the calendar year ending 31 December 2005. The effect of such status is that the Issuer is treated as not resident in Jersey for Jersey tax purposes. As an "exempt company", the Issuer is exempt from Jersey income tax on income arising outside of Jersey and, by concession, bank interest arising in Jersey, including interest received in respect of the Notes, but is otherwise liable to Jersey income tax on income arising in Jersey and is liable to Jersey income tax on the profits of any trade carried on through an established place of business in Jersey. For so long as the Issuer is an "exempt company", it is not required to deduct Jersey income tax from payments of dividends (if any) in respect of the Preferred Securities and no withholding in respect of taxation will be required on any such payments. The Issuer is not required to deduct Jersey income tax from payments of redemption amounts in respect of the Preferred Securities. Application for exempt company status must be made to the Comptroller of Income Tax on an annual basis. The application must be accompanied by the payment of an annual charge, currently £600. The retention of exempt company status is conditional upon and subject to, amongst other things, the Comptroller of Income Tax in Jersey being satisfied that no Jersey resident has any beneficial interest in the Issuer, except as permitted by the Comptroller of Income Tax. "Beneficial interest" includes any equitable, legal or contractual interest. It is the Issuer's intention to maintain such status. Should the Issuer cease to be an exempt company it will be liable to Jersey income tax at the rate (currently) of 20 per cent.

Under current Jersey law there are no death or estate duties, capital gains, gift, wealth, inheritance or capital transfer taxes. No stamp duty is levied in Jersey on the issue, redemption, sale or transfer of Preferred Securities. Probate or Letters of Administration normally will be required to be obtained in Jersey on the death of an individual holder of Preferred Securities. Stamp duty is payable in Jersey on the registration of such Probate or Letters of Administration calculated on the value of the holder's estate in Jersey.

On 3 June 2003, the European Union ("EU") Council of Economic and Finance Ministers reached political agreement on the adoption of a Code of Conduct on Business Taxation. Jersey is not a member of the EU. However, the Policy & Resources Committee of the States of Jersey has announced that, in keeping with Jersey's policy of constructive international engagement, it intends to propose legislation to replace the Jersey exempt company regime with a general zero rate of corporate tax. The new regime is expected to be in place by the end of 2009.

SWISS TAXATION

1. Income Taxation

1.1 Income Taxation of Distributions

Under current Swiss law, distributions to a holder of Preferred Securities who is a non-resident of Switzerland and who, during the current taxation year, has not engaged in trade or business through a permanent establishment within Switzerland and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax.

A holder of Preferred Securities who is an individual resident in Switzerland or an individual who is not resident in Switzerland but who holds Preferred Securities as part of his or her Swiss business assets and receives distributions is required to include such payments in his or her income tax return and will be taxable on any net taxable income for the relevant tax period.

Swiss resident corporate taxpayers or corporate taxpayers resident abroad which hold Preferred Securities as Swiss business assets, who receive distributions on Preferred Securities are required to recognise the distributions as earnings in their income statement for the respective tax period.

1.2 Income Taxation of Capital Gains Realised on the Sale of Preferred Securities

Under current Swiss law, an owner of Preferred Securities who is a non-resident of Switzerland and who, during the taxation year, has not engaged in trade or business through a permanent establishment within Switzerland and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax on capital gains realised during that year on the sale of Preferred Securities.

Owners of Preferred Securities who are individuals resident in Switzerland and who hold the Preferred Securities as private assets and who sell the Preferred Securities during the taxation year, realise for Swiss Federal Direct Tax purposes either a tax-free capital gain or a tax-neutral capital loss. The same is in principle true in relation to the cantonal and communal income taxes, however, there might be differences in respect of these.

Swiss-resident, individual taxpayers who hold the Preferred Securities as part of Swiss business assets and Swiss-resident corporate taxpayers resident abroad holding Preferred Securities as part of Swiss business assets, are required to recognise capital gains or losses realised on the sale of Preferred Securities in their income statements for the respective tax period and will be taxable on any net taxable earnings for such period.

2. Swiss Withholding Tax

According to the present Swiss law and practice of the Swiss Federal Tax Administration, all payments in respect of the Preferred Securities by UBS Preferred Funding (Jersey) Ltd. and by UBS AG under the guarantee are not subject to Swiss withholding tax (Swiss Anticipatory Tax), provided that the proceeds from the offering and sale of the Preferred Securities are used outside Switzerland as mentioned in the section use of proceeds.

3. Swiss issuance stamp tax

According to the present Swiss law and practice of the Swiss Federal Tax Administration, the issuance of the Preferred Securities will not be subject to the Swiss issuance stamp tax, provided that the proceeds from the offering and sale of the Preferred Securities are used outside Switzerland as mentioned in the section use of proceeds.

4. Swiss Securities turnover tax

The issuance of the Preferred Securities is not subject to the Swiss transfer stamp tax. However, dealings in the Preferred Securities where a bank or another securities dealer (as defined in the Swiss Stamp Tax Act) in Switzerland or Liechtenstein purchases or acts as an intermediary are in principle subject to the Swiss securities turnover tax at a rate of 0.3 per cent. of the purchase price.

GERMAN TAXATION

Although the exact treatment of the Preferred Securities by the German tax authorities and/or fiscal courts cannot be determined without any doubt, the Issuer is of the opinion that the Preferred Securities should qualify as debt instruments from a German tax perspective. Besides the limited voting right as set out under Clause 7.2 (*Description of Preferred Securities*) the holders of the Preferred Securities will not be entitled to receive notice or to attend or vote at any general meeting of shareholders of the Issuer. Furthermore, the Distributions payable are not legally linked to the profit of the Issuer, since the amount of the Distributions payable does not increase, if the profit (before payment of Distributions) of the Issuer increases. Furthermore, the holders of the Preferred Securities do not participate in the increase in value of the Issuer, since in case of redemption of the Preferred Securities the amount payable will not exceed the Liquidation Distribution.

Please note the tax treatment of the Preferred Securities depending upon its qualification as either equity or debt instruments is significantly different; this holds in particular true with regard to the proceeds (Distributions, capital gains and others) received by the Holders of the Preferred Securities.

(A) Taxation of the Preferred Securities (assuming the opinion of the Issuer holds true that the Preferred Securities qualify as debt instruments for German tax purposes):

Taxation of debt instruments

Payments on the Preferred Securities, including (without limitation) amounts of unpaid Distributions accrued up to the disposition of Preferred Securities and credited separately, if any, to persons who are tax residents of Germany (i.e. persons whose residence, habitual abode, statutory seat, or place of effective management and control is located in Germany) are subject to German personal or corporate income tax (plus solidarity surcharge (*Solidaritätszuschlag*) at a rate of 5.5 per cent. thereon). Such payments may also be subject to trade tax if the Preferred Securities form part of a German trade or business.

Upon the disposition, assignment or redemption of a Preferred Security a holder holding the Preferred Security as non-business assets will have to include in his taxable income further amounts if the Preferred Security can be classified as a financial innovation (*Finanzinnovation*) under German tax law. In this case, generally the difference between the proceeds from the disposition, assignment or redemption and the issue or purchase price is deemed to constitute interest income subject to income tax (plus the solidarity surcharge) in the year of the disposition, assignment or redemption of the Preferred Securities.

Capital gains from the disposition of debt instruments (other than in case the Preferred Securities qualify as financial innovations (*Finanzinnovation*)) income described in the second paragraph above, are only taxable to a German tax-resident individual if the instruments are disposed of within one year after their acquisition or form part of a German trade or business, in which case the capital gains may also be subject to trade tax. Capital gains derived by German-resident corporate holders of the debt instruments will be subject to corporate income tax (plus solidarity surcharge at a rate of 5.5 per cent. thereon) and trade tax.

Withholding Tax on debt instruments

If Preferred Securities are held in a custodial account that the holder maintains with a German branch of a German or non-German credit institution or financial services institution (the "Disbursing Agent") a 30 per cent. withholding tax on interest payments (*Zinsabschlag*), plus 5.5 per cent. solidarity surcharge on such tax, will be levied, resulting in a total tax charge of 31.65 per cent. of the gross interest payment.

In addition, if Preferred Securities qualify as financial innovations, as explained above, and are kept in a custodial account that the holder maintains with a Disbursing Agent such custodian will generally withhold tax at a rate of 30 per cent. (plus solidarity surcharge at a rate of 5.5 per cent. thereon) from the positive difference between the redemption amount or proceeds from the disposition or assignment and the issue or purchase price of the Preferred Securities if the Preferred Securities have been kept in a custodial account with such Disbursing Agent since the time of issuance or acquisition, respectively. If the Preferred Securities have not been kept in a custodial account with a Disbursing Agent since the time of issuance or acquisition, withholding tax of 30 per cent. is applied to 30 per cent. of the amounts paid in partial or final redemption or the proceeds from the disposition or assignment of the Preferred Securities, respectively.

In general, no withholding tax will be levied if the holder of Preferred Securities is an individual (i) whose Preferred Securities neither form part of a German trade or business nor give rise to income from the letting and leasing of property; and (ii) who filed a withholding exemption certificate (*Freistellungsauftrag*) with the Disbursing Agent but only to the extent the interest income derived from the Preferred Securities together with other investment income as defined under German tax law does not exceed the maximum exemption amount shown on the withholding exemption certificate. Similarly, no withholding tax will be deducted if the holder of the Preferred Securities has submitted to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the relevant local tax authority.

If Preferred Securities are not kept in a custodial account with a Disbursing Agent, withholding tax will apply at a rate of 35 per cent. of the gross amount paid by a Disbursing Agent to a holder of such Preferred Securities (other than a non-German credit institution or financial services institution) for the handing-over of interest coupons (*Tafelgeschäft)*.

Withholding tax and the solidarity surcharge thereon are credited as prepayments against the German personal or corporate income tax and the solidarity surcharge liability of the German resident. Amounts withheld will entitle the German tax resident holder of Preferred Securities to a refund.

(B) Taxation of the Preferred Securities (assuming that the Preferred Securities are qualified as equity instruments for German tax purposes)

In case the Preferred Securities do not qualify as debt instruments but would have to be classified as equity instruments, German taxation would follow the rules described below.

Taxation of individual investors in equity instruments

Profit distributions

50 per cent. of the Distributions will be exempt from personal income tax (and solidarity surcharge) at the level of a private individual holding the Preferred Securities irrespective of whether the Preferred Securities are held as private assets or business assets. Accordingly, only 50 per cent. of the expenses economically related to such income can be deducted from the taxable income.

A private individual holding the Preferred Securities in the context of a domestic trade or business will be subject to German trade tax with the Distributions received under the Preferred Securities.

Capital gains

If an individual realises a capital gain from the disposal or the redemption of a Preferred Security the gain will be exempt provided the Preferred Security is held by the private individual for more than 12 months as private asset and provided further that the respective individual has not held more than 1 per cent. in the statutory capital of the Issuer within the five years preceding the sale. If a capital gain realised by an individual is not exempt (because the Preferred Security has not been held for more than 12 months, or the Preferred Securities held by the individual investor represent more than 1 per cent. of the share capital, or the beneficial rights are held as business assets) 50 per cent. of such gain will be subject to personal income tax (and fully subject to trade tax if the Preferred Security belongs to a trade or business) and the remaining 50 per cent. would be tax-exempt.

Taxation of corporate investors in equity instruments

For German corporation tax purposes corporate investors will be taxed on 5 per cent. of capital gains and on 5 per cent. of Distributions received whereas the remainder is tax-exempt. The entire Distribution, however, will be subject to trade tax.

Expenses related to the income derived from the Preferred Securities by corporate investors are deductible. Capital losses in principle will not reduce the taxable income of corporate investors.

Special rules apply for the taxation of financial services institutions, financial enterprises, certain insurance companies and pension funds holding Preferred Securities.

Withholding Tax on foreign equity instruments

No German withholding tax will be levied when the distribution or capital gains are credited to the accounts of the individual investors.

Inheritance and Gift Tax

No inheritance or gift taxes with respect to any Preferred Security will arise under the laws of Germany, if, in the case of inheritance tax, neither the decedent nor the beneficiary, or, in the case of gift tax, neither the donor nor the donee, is a resident of Germany and such Preferred Security is not attributable to a German trade or business for which a permanent establishment is maintained, or a permanent representative has been appointed, in Germany. Exceptions from this rule apply to certain German expatriates.

Other Taxes

No stamp, issue, registration or similar taxes or duties will be payable in Germany in connection with the issuance, delivery or execution of the Preferred Securities. Currently, net assets tax is not levied in Germany.

EU SAVINGS DIRECTIVE

On 3 June 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1 July 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Subscription and Sale

Pursuant to a Subscription Agreement (the "Subscription Agreement") dated 13 April 2005, UBS Limited (in this Listing Prospectus also referred to as "UBS Investment Bank"), Barclays Bank PLC, Citigroup Global Markets Limited, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., Deutsche Bank AG London, Fortis Bank nv-sa, ING Belgium SA/NV, Lloyds TSB Bank plc, The Royal Bank of Scotland plc, ABN AMRO Bank N.V., ALPHA BANK A.E., Bank of America Securities Limited, Banco Santander Central Hispano, S.A., Bayerische Hypo- und Vereinsbank AG, Bayerische Landesbank, BCP Investimento — Banco Comercial Portugués de Investimento, SA, BNP Paribas, CALYON, Daiwa Securities SMBC Europe Limited, Danske Bank A/S, HSBC Bank plc, HSH Nordbank AG, J&E Davy, LGT Bank in Leichtenstein AG, McDonald Investment Inc., Merrill Lynch International, Mitsubishi Securities International plc, MPS Finance Banca Mobiliare S.p.A., National Bank of Greece SA, Nordea Bank Danmark A/S, Skandinaviska Enskilda Banken AB (publ), SNS Bank N.V., Standard Chartered Bank, Svenska Handelsbanken AB (publ), Unicredit Banca Mobiliare S.p.A. and Wachovia Securities International Limited (together with UBS Limited, the "Managers") have jointly and severally agreed to subscribe for the Preferred Securities at a price of Euro 1,000 per Preferred Security. The Managers have received a combined commission of 1.00 per cent. of the aggregate issue price of the Preferred Securities. In addition, the Managers shall be reimbursed for certain of their expenses in connection with the issue of the Preferred Securities. The Managers were entitled to terminate the Subscription Agreement in certain circumstances before the issue of the Preferred Securities.

UNITED KINGDOM

Each Manager has represented, warranted and agreed that:

(a) it has not offered or sold and, prior to the expiry of six months from the Closing Date, will not offer or sell, any Preferred Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(b) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "FSMA") with respect to anything done by it in relation to the Preferred Securities in, from or otherwise involving the United Kingdom; and

(c) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of such Preferred Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or UBS.

UNITED STATES

The Preferred Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Preferred Securities, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each dealer to which it sells any Preferred Security during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Preferred Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

JERSEY

The Preferred Securities may not be offered to, sold to or purchased by, persons resident for income tax purposes in Jersey (other than financial institutions in the normal course of business).

REPUBLIC OF ITALY

The offering of the Preferred Securities has not been registered pursuant to the Italian securities legislation and, accordingly, each of the Managers has represented and agreed that it has not offered or sold, and will not offer or sell, any Preferred Securities in the Republic of Italy in a solicitation to the public, and that sales of the Preferred Securities in the Republic of Italy shall be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations.

Each of the Managers has represented that it will not offer, sell or deliver any Preferred Securities or distribute copies of the Listing Prospectus or any other document relating to the Preferred Securities in the Republic of Italy except to "Professional investors", as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1st July 1998 ("Regulation No. 11522"), as amended, pursuant to Articles 30.2 and 100 of Legislative Decree No. 58 of 24th February 1998 ("Decree No. 58"), or in any other circumstances where an express exemption from compliance with the solicitation restrictions provided by Decree No. 58 or CONSOB Regulation No. 11971 of 14th May 1999, as amended, applies, provided however, that any such offer, sale or delivery of Preferred Securities or distribution of copies of the Listing Prospectus or any other document relating to the Preferred Securities in the Republic of Italy must be:

(a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1st September 1993 ("Decree No. 385"), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations:

(b) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy, pursuant to which the issue or placement of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending *inter alia*, on the amount of the issue and the characteristics of the securities, applies; and

(c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

GENERAL

No action has been or will be taken by the Issuer, UBS or any of the Managers (other than in Germany) that would permit a public offering of the Preferred Securities, or the possession or distribution of this Listing Prospectus, or any amendment or supplement thereto, or any other offering material relating to the Preferred Securities, in any country or jurisdiction where action for that purpose is required. Accordingly, the Preferred Securities may not be offered or sold, directly or indirectly, and neither this Listing Prospectus nor any other offering material may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

General Information

1. LISTING

The Preferred Securities were admitted to trading on the Official Market of the Frankfurt Stock Exchange on 15 April 2005.

2. AUTHORISATIONS

The issue of the Preferred Securities was authorised by a board resolution of the Issuer passed on 13 April 2005.

The entering into of the Guarantee by UBS was authorised by the Group Executive Board of UBS passed on 9 March 2005.

All consents, approvals, authorisations or other orders of all regulatory authorities required by the Issuer and/or UBS under the laws of Jersey and the Switzerland have been given for the issue of the Preferred Securities and for the Issuer and UBS, as the case may be, to undertake and perform their respective obligations as appropriate under the Subscription Agreement, the Agency Agreement, the Preferred Securities, the Notes and the Guarantee.

3. LEGAL STATUS

The Issuer is incorporated under the laws of Jersey (registered number 89759) as a public company with limited liability and for an unlimited duration.

UBS operates under Swiss law and is registered with the Commercial Registers of Canton Zurich and Canton Basle-City with registration number CH-270.3.004.646-4.

4. CLEARING

The Preferred Securities have been accepted for clearance through Clearstream, Frankfurt. The Preferred Securities are also eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg. The International Securities Identification Number for the Preferred Securities is DE000A0D1KX0 and the common code is 021711136.

5. NO MATERIAL CHANGE

Save as described herein, there has been no significant change in the financial or trading position of UBS or the UBS Group since 31 December 2004 or, in the case of the Issuer, since the date of its establishment and no material adverse change in the financial position or prospects of UBS or the UBS Group since 31 December 2004 or, in the case of the Issuer, since the date of its establishment.

6. DOCUMENTS FOR INSPECTION

Copies of the documents mentioned in this Listing Prospectus and relating to the Issuer or to UBS will be available for inspection (free of charge) at the offices of the Paying and Transfer Agents and at the registered offices of the Issuer and UBS during normal business hours for so long as the Preferred Securities are outstanding.

For so long as the Preferred Securities are listed on the Frankfurt Stock Exchange, the most recently published consolidated audited annual financial statements and consolidated unaudited semi-annual interim financial statements of UBS, and the most recently published non-consolidated audited annual accounts of the Issuer, will be available at the offices of the Paying and Transfer Agents. The first accounts of the Issuer are expected to be prepared for the period ending on 31 December 2005. Thereafter, the Issuer intends to publish annual accounts. The Issuer does not intend to publish any interim accounts.

7. LITIGATION

Neither the Issuer nor UBS nor any member of the UBS Group is or was involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Preferred Securities nor so far as the Issuer or UBS is aware is any such litigation or arbitration pending or threatened which may have a significant effect on the financial position of the Issuer, UBS or the UBS Group in the past two financial years.

8. AUDITORS

For the years ended 31 December 2003 and 31 December 2004, the audited consolidated and unconsolidated financial statements of UBS were audited, without qualification, by Ernst & Young Ltd, chartered accountants. Ernst & Young is a member of the Swiss Chamber of Auditors. Ernst & Young have given their consent to the issue of this Listing Prospectus with the inclusion in it of their report in the form and context in which it is included and have authorised the report for the purposes of Regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

No accounts of the Issuer have yet been audited. Ernst & Young Ltd, registered auditors, has been appointed as auditor of the Issuer in Jersey.

9. NOTICES

Notices to Holders of the Preferred Securities, including notices for general meetings of Holders of Preferred Securities, will be published in accordance with operating procedures for the time being of Clearstream, Frankfurt, Euroclear and Clearstream, Luxembourg and in English in a leading newspaper (which is expected to be the *Financial Times*) having general circulation in Europe that is published on each business day in morning editions, whether or not it is published on Saturday, Sunday or public holidays.

In addition, for so long as the Preferred Securities are listed on the Official Market of the Frankfurt Stock Exchange, and the rules of such exchange so require, notices will be published in a leading daily newspaper having general circulation in Germany this newspaper is expected to be the *Börsen-Zeitung*.

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Financial Statements

The full text of the unconsolidated and consolidated financial statements of UBS for the years ended 31 December 2003 and 2004 are reproduced on the following pages.

ERNST & YOUNG

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 3 February 2005

Report of the group auditors

As auditors of the group we have audited the consolidated balance sheets of UBS AG as of 31 December 2004 and 2003, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended 31 December 2004, and notes thereto / pages 84 to 190). These consolidated financial statements are the responsibility of the company's management and the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements in Switzerland concerning professional qualification and independence.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), as well as the auditing standards promulgated by the profession in Switzerland. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UBS AG as of 31 December 2004 and 2003, and the consolidated results of operations and cash flows for each of the three years in the period ended 31 December 2004, in conformity with International Financial Reporting Standards, and they comply with Swiss Law.

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

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States of America would have affected shareholders' equity as of 31 December 2004 and 2003 and the results of operations for each of the three years in the period ended 31 December 2004 to the extent summarized in note 41 of the notes to the consolidated financial statements.

Ernst & Young Ltd

Roger K. Perkin	Dr. Andreas Blumer
Chartered Accountant	Swiss Certified Accountant
(in charge of the audit)	(in charge of the audit)

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

Financial Statements

Income Statement

		For the year ended			% change from
CHF million, except per share data	Note	**31.12.04**	31.12.03	31.12.02	31.12.03
Operating income					
Interest income	3	**39,398**	40,159	39,963	(2)
Interest expense	3	**(27,538)**	(27,860)	(29,417)	(1)
Net interest income		**11,860**	12,299	10,546	(4)
Credit loss (expense) / recovery		**276**	(72)	(115)	
Net interest income after credit loss expense		**12,136**	12,227	10,431	(1)
Net fee and commission income	4	**19,416**	17,345	18,221	12
Net trading income	3	**4,972**	3,756	5,451	32
Other income	5	**897**	462	4	94
Income from industrial holdings		**3,648**			
Total operating income		**41,069**	33,790	34,107	22
Operating expenses					
Personnel expenses	6	**18,515**	17,231	18,524	7
General and administrative expenses	7	**6,703**	6,086	7,072	10
Depreciation of property and equipment	14	**1,352**	1,353	1,514	0
Amortization of goodwill and other intangible assets	15	**964**	943	2,460	2
Goods and materials purchased		**2,861**			
Total operating expenses		**30,395**	25,613	29,570	19
Operating profit before tax and minority interests		**10,674**	8,177	4,537	31
Tax expense	21	**2,135**	1,593	676	34
Net profit before minority interests		**8,539**	6,584	3,861	30
Minority interests	22	**(450)**	(345)	(331)	30
Net profit		**8,089**	6,239	3,530	30
Basic earnings per share (CHF)	8	**7.68**	5.59	2.92	37
Diluted earnings per share (CHF)	8	**7.47**	5.48	2.87	36

Balance Sheet

CHF million	Note	31.12.04	31.12.03	% change from 31.12.03
Assets				
Cash and balances with central banks		**6,036**	3,584	68
Due from banks	9	**35,264**	31,740	11
Cash collateral on securities borrowed	10	**220,242**	213,932	3
Reverse repurchase agreements	10	**357,164**	320,499	11
Trading portfolio assets	11	**370,259**	341,013	9
Trading portfolio assets pledged as collateral	11	**159,115**	120,759	32
Positive replacement values	23	**284,577**	248,206	15
Financial assets designated at fair value		**653**	0	
Loans	9	**232,387**	212,679	9
Financial investments	12	**5,049**	5,139	(2)
Accrued income and prepaid expenses		**5,876**	6,218	(6)
Investments in associates	13	**2,427**	1,616	50
Property and equipment	14	**8,736**	7,683	14
Goodwill and other intangible assets	15	**12,149**	11,529	5
Other assets	16, 21	**34,850**	25,459	37
Total assets		**1,734,784**	1,550,056	12
Liabilities				
Due to banks	17	**118,901**	127,012	(6)
Cash collateral on securities lent	10	**61,545**	53,278	16
Repurchase agreements	10	**422,587**	415,863	2
Trading portfolio liabilities	11	**171,033**	143,957	19
Negative replacement values	23	**303,712**	254,768	19
Financial liabilities designated at fair value	18	**65,756**	35,286	86
Due to customers	17	**376,083**	346,633	8
Accrued expenses and deferred income		**14,685**	13,673	7
Debt issued	18	**117,828**	88,843	33
Other liabilities	19, 20, 21	**42,342**	31,360	35
Total liabilities		**1,694,472**	1,510,673	12
Minority interests	22	**5,334**	4,073	31
Shareholders' equity				
Share capital		**901**	946	(5)
Share premium account		**7,348**	6,935	6
Net gains / (losses) not recognized in the income statement, net of tax		**(1,644)**	(983)	(67)
Revaluation reserve from step acquisitions		**90**	0	
Retained earnings		**37,455**	36,641	2
Equity classified as obligation to purchase own shares		**(96)**	(49)	(96)
Treasury shares		**(9,076)**	(8,180)	(11)
Total shareholders' equity		**34,978**	35,310	(1)
Total liabilities, minority interests and shareholders' equity		**1,734,784**	1,550,056	12

Statement of Changes in Equity

	For the year ended		
CHF million	**31.12.04**	31.12.03	31.12.02
Issued and paid up share capital			
Balance at the beginning of the year	**946**	1,005	3,589
Issue of share capital	**2**	2	6
Capital repayment by par value reduction [1]			(2,509)
Cancellation of second trading line treasury shares (2001 program)			(81)
Cancellation of second trading line treasury shares (2002 program)		(61)	
Cancellation of second trading line treasury shares (2003 program)	**(47)**		
Balance at the end of the year	**901**	946	1,005
Share premium			
Balance at the beginning of the year, restated	**6,935**	12,641	14,408
Premium on shares issued and warrants exercised	**379**	92	157
Net premium / (discount) on treasury share and own equity derivative activity	**26**	(330)	285
Employee stock option plan	**8**		
Cancellation of second trading line treasury shares (2001 program)			(2,209)
Cancellation of second trading line treasury shares (2002 program)		(5,468)	
Balance at the end of the year	**7,348**	6,935	12,641
Net gains / (losses) not recognized in the income statement, net of taxes			
Foreign currency translation			
Balance at the beginning of the year	**(1,644)**	(849)	(769)
Movements during the year	**(818)**	(795)	(80)
Subtotal – balance at the end of the year	**(2,462)**	(1,644)	(849)
Net unrealized gains / (losses) on available-for-sale investments, net of taxes			
Balance at the beginning of the year	**805**	946	1,035
Net unrealized gains / (losses) on available-for-sale investments	**474**	(108)	(144)
Impairment charges reclassified to the income statement	**192**	285	635
Realized gains reclassified to the income statement	**(353)**	(340)	(600)
Realized losses reclassified to the income statement	**22**	22	20
Subtotal – balance at the end of the year	**1,140**	805	946
Change in fair value of derivative instruments designated as cash flow hedges, net of taxes			
Balance at the beginning of the year	**(144)**	(256)	(459)
Net unrealized gains / (losses) on the revaluation of cash flow hedges	**(223)**	116	(11)
Net realized (gains) / losses reclassified to the income statement	**45**	(4)	214
Subtotal – balance at the end of the year	**(322)**	(144)	(256)
Balance at the end of the year	**(1,644)**	(983)	(159)
Revaluation reserve from step acquisitions, net of taxes			
New acquisitions	**90**		
Balance at the end of the year	**90**		
Retained earnings			
Balance at the beginning of the year, restated	**36,641**	32,700	29,103
Net profit for the year	**8,089**	6,239	3,597
Dividends paid [1]	**(2,806)**	(2,298)	
Cancellation of second trading line treasury shares (2003 program) [2]	**(4,469)**		
Balance at the end of the year	**37,455**	36,641	32,700
Equity classified as obligation to purchase own shares			
Balance at the beginning of the year, restated	**(49)**	(104)	
Net movements	**(47)**	55	(104)
Balance at the end of the year	**(96)**	(49)	(104)

1 On 10 July 2002, UBS made a distribution of CHF 2.00 per share to shareholders which reduced the par value from CHF 2.80 to CHF 0.80 per share. Dividends of CHF 2.00 per share and CHF 2.60 per share were paid on 23 April 2003 and 20 April 2004, respectively. **2** The cancellation of second trading line treasury shares is now made against retained earnings. In prior years it was made against the share premium account.

Statement of Changes in Equity (continued)

CHF million	For the year ended 31.12.04	31.12.03	31.12.02
Treasury shares, at cost			
Balance at the beginning of the year	**(8,180)**	(7,131)	(3,377)
Acquisitions	**(8,813)**	(8,424)	(8,313)
Disposals	**3,401**	1,846	2,269
Cancellation of second trading line treasury shares (2001 program)			2,290
Cancellation of second trading line treasury shares (2002 program)		5,529	
Cancellation of second trading line treasury shares (2003 program)	**4,516**		
Balance at the end of the year	**(9,076)**	(8,180)	(7,131)
Total shareholders' equity	**34,978**	35,310	38,952

Shares issued

	For the year ended			% change from
Number of shares	**31.12.04**	31.12.03	31.12.02	31.12.03
Balance at the beginning of the year	**1,183,046,764**	1,256,297,678	1,281,717,499	(6)
Issue of share capital	**3,293,413**	2,719,166	3,398,869	21
Cancellation of second trading line treasury shares (2001 program)			(28,818,690)	
Cancellation of second trading line treasury shares (2002 program)		(75,970,080)		
Cancellation of second trading line treasury shares (2003 program)	**(59,482,000)**			
Balance at the end of the year	**1,126,858,177**	1,183,046,764	1,256,297,678	(5)

Treasury shares

	For the year ended			% change from
Number of shares	**31.12.04**	31.12.03	31.12.02	31.12.03
Balance at the beginning of the year	**111,360,692**	97,181,094	41,254,951	15
Acquisitions	**96,139,004**	116,080,976	110,710,741	(17)
Disposals	**(44,492,725)**	(25,931,298)	(25,965,908)	(72)
Cancellation of second trading line treasury shares (2001 program)			(28,818,690)	
Cancellation of second trading line treasury shares (2002 program)		(75,970,080)		100
Cancellation of second trading line treasury shares (2003 program)	**(59,482,000)**			
Balance at the end of the year	**103,524,971**	111,360,692	97,181,094	(7)

During the year a total of 59,482,000 shares acquired under the second trading line buyback program 2003 were cancelled. On 31 December 2004, a maximum of 3,533,012 shares can be issued against the exercise of options from former PaineWebber employee option plans. These shares are shown as conditional share capital in the UBS AG (Parent Bank) disclosure. Out of the total number of 103,524,971 treasury shares, 39,935,094 shares (CHF 3,543 million) have been repurchased for cancellation. The Board of Directors will propose to the Annual General Meeting on 21 April 2005 to reduce the outstanding number of shares and the share capital by the number of shares purchased for cancellation. All issued shares are fully paid.

Statement of Cash Flows

	For the year ended		
CHF million	**31.12.04**	31.12.03	31.12.02
Cash flow from / (used in) operating activities			
Net profit	**8,089**	6,239	3,530
Adjustments to reconcile net profit to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation of property and equipment	**1,352**	1,353	1,514
Amortization of goodwill and other intangible assets	**964**	943	2,460
Credit loss expense / (recovery)	**(276)**	72	115
Equity in income of associates	**(65)**	(123)	(7)
Deferred tax expense / (benefit)	**3**	489	(511)
Net loss / (gain) from investing activities	**(475)**	(63)	986
Net loss / (gain) from financing activities	**1,203**	115	(446)
Net (increase) / decrease in operating assets:			
Net due from / to banks	**(11,679)**	42,921	(22,382)
Reverse repurchase agreements and cash collateral on securities borrowed	**(42,975)**	(101,381)	(944)
Trading portfolio and net replacement values	**(19,834)**	(52,197)	22,427
Loans / due to customers	**10,035**	38,638	(11,446)
Accrued income, prepaid expenses and other assets	**(6,927)**	(16,100)	2,875
Net increase / (decrease) in operating liabilities:			
Repurchase agreements and cash collateral on securities lent	**14,991**	65,413	4,791
Accrued expenses and other liabilities	**19,032**	18,188	(4,754)
Income taxes paid	**(1,336)**	(1,104)	(572)
Net cash flow from / (used in) operating activities	**(27,898)**	3,403	(2,364)
Cash flow from / (used in) investing activities			
Investments in subsidiaries and associates	**(2,511)**	(428)	(60)
Disposal of subsidiaries and associates	**800**	834	984
Purchase of property and equipment	**(1,149)**	(1,376)	(1,763)
Disposal of property and equipment	**704**	123	67
Net (investment in) / divestment of financial investments	**686**	2,317	2,153
Net cash flow from / (used in) investing activities	**(1,470)**	1,470	1,381

Statement of Cash Flows (continued)

	For the year ended		
CHF million	**31.12.04**	31.12.03	31.12.02
Cash flow from / (used in) financing activities			
Net money market paper issued / (repaid)	**21,379**	(14,737)	(26,206)
Net movements in treasury shares and own equity derivative activity	**(4,999)**	(6,810)	(5,605)
Capital issuance	**2**	2	6
Capital repayment by par value reduction			(2,509)
Dividends paid	**(2,806)**	(2,298)	
Issuance of long-term debt, including financial liabilities designated at fair value	**51,211**	23,644	17,132
Repayment of long-term debt, including financial liabilities designated at fair value	**(24,717)**	(13,615)	(14,911)
Increase in minority interests [1]	**102**	755	
Dividend payments to / purchase from minority interests	**(332)**	(278)	(377)
Net cash flow from / (used in) financing activities	**39,840**	(13,337)	(32,470)
Effects of exchange rate differences	**(1,052)**	(524)	(462)
Net increase / (decrease) in cash equivalents	**9,420**	(8,988)	(33,915)
Cash and cash equivalents, beginning of the year	**73,356**	82,344	116,259
Cash and cash equivalents, end of the year	**82,776**	73,356	82,344
Cash and cash equivalents comprise:			
Cash and balances with central banks	**6,036**	3,584	4,271
Money market paper [2]	**45,409**	40,599	46,183
Due from banks maturing in less than three months	**31,331**	29,173	31,890
Total	**82,776**	73,356	82,344
Significant non-cash investing and financing activities			
Hyposwiss, Zurich, deconsolidation			
Financial investments			53
Property and equipment			18
Debt issued			63
Hirslanden Holding AG, Zurich, deconsolidation			
Financial investments			3
Property and equipment			718
Goodwill and other intangible assets			15
Consolidation of special purpose entities			
Debt issued			2,322
Provisions for reinstatement costs			
Property and equipment		137	
Motor-Columbus, Baden, from valuation at equity to full consolidation			
Financial investments	**644**		
Investments in associates	**261**		
Property and equipment	**2,083**		
Goodwill and other intangible assets	**1,194**		
Debt issued	**727**		
Minority interests	**1,742**		
Investment funds transferred to other liabilities according to IAS 32			
Minority interests	**336**		

1 Includes issuance of trust preferred securities of CHF 372 million for the year ended 31 December 2003. 2 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments. CHF 13,242 million, CHF 6,430 million and CHF 10,475 million were pledged at 31 December 2004, 31 December 2003 and 31 December 2002, respectively.

Cash paid for interest during 2004 was CHF 18,614 million.

Notes to the Financial Statements

Note 1 Summary of Significant Accounting Policies

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

The consolidated financial statements of UBS (the "Financial Statements") are prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board (IASB), and stated in Swiss francs (CHF), the currency of the country in which UBS AG is incorporated. On 3 February 2005, the Board of Directors approved them for issue.

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

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

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

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

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

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

d) Derecognition
UBS enters into transactions where it transfers assets recognized on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, the transferred assets are not derecognized from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions described under paragraphs f) and g) below. Another example of a transaction where all risks and rewards are retained is where assets are sold to a third party with a concurrent total rate of return swap on the transferred assets. These types of transactions are accounted for as secured financing transactions similar to repurchase agreements.

In transactions where UBS neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognized separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, UBS retains rights to service a transferred financial asset for a fee. The transferred asset is derecognized in its entirety, if it meets the derecognition criteria. An asset or liability is recognized for the servicing rights, depending on whether the servicing fee is more than adequate to cover servicing expenses (asset) or is less than adequate for performing the servicing (liability).

e) Securitizations

UBS securitizes various consumer and commercial financial assets, which generally results in the sale of these assets to special-purpose entities, which, in turn issue securities to investors. Interests in the securitized financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests ("retained interests"). Retained interests are primarily recorded in Trading portfolio assets and carried at fair value. Gains or losses on securitization depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognized and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitization are recorded in Net trading income.

f) Securities borrowing and lending

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

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

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

g) Repurchase and reverse repurchase transactions

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

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

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

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

h) Segment reporting

UBS's financial businesses are organized on a worldwide basis into four Business Groups and the Corporate Center. Wealth Management & Business Banking is segregated into two segments, Wealth Management and Business Banking Switzerland. The Corporate Center also consists of two segments, Private Banks & GAM and Corporate Functions. The Industrial Holdings segment holds all industrial operations controlled by the Group. In total, UBS now reports eight business segments.

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

i) Foreign currency translation

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

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

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

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

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

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

l) Determination of fair value
The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. UBS uses widely recognized valuation models for determining fair value of common and more simple financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

For more complex instruments, UBS uses proprietary models, which usually are developed from recognized valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or estimated based on assumptions. When entering into a transaction, the financial instrument is initially recognized at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase, in fair value indicated by valuation techniques is recognized in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the balance sheet.

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

The trading portfolio is carried at fair value. Gains and losses realized on disposal or redemption and unrealized gains and losses from changes in the fair value of trading portfolio assets or liabilities are reported as Net trading income. Interest and dividend income and expense on trading portfolio assets or liabilities are included in Interest and dividend income or Interest and dividend expense, respectively.

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

n) Financial instruments designated as held at
fair value through profit and loss
UBS has a substantial portion of its compound debt instruments classified as held at fair value through profit and loss. These liabilities are presented in a separate line on the face of the balance sheet. A small amount of financial assets has also been classified as held at fair value through profit and loss, and they are likewise presented in a separate line. A financial instrument may be designated at inception as held at fair value through profit and loss and can subsequently not be changed. The fair value designation was made possible as part of the transition to the revised IAS 39, which UBS adopted on 1 January 2004. The Group designated approximately CHF 35.3 billion of existing compound debt instruments as held at fair value through profit and loss at 1 January 2004. All fair value changes related to financial instruments held at fair value through profit and loss are recognized in Net trading income.

o) Derivative instruments and hedging

All derivative instruments are carried at fair value on the balance sheet and are reported as Positive or Negative replacement values. Where the Group enters into derivatives for trading purposes, realized and unrealized gains and losses are recognized in Net trading income.

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

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

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

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

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognized initially in Shareholders' equity. When the cash flows that the derivative is hedging materialize, resulting in income or expense, then the associated gain or loss on the hedging derivative is simultaneously transferred from Shareholders' equity to the corresponding income or expense line item.

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

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

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

p) Loans

Loans include loans originated by the Group where money is provided directly to the borrower, participation in a loan from another lender and purchased loans that are not quoted in an active market and for which no intention of immediate or short-term resale exists. Originated and purchased loans which are intended to be sold in the short term are recorded as Trading portfolio assets.

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

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

q) Allowance and provision for credit losses

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

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

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

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

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

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

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

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

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

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

A loan is classified as non-performing when the payment of interest, principal or fees is overdue by more than 90 days and there is no firm evidence that they will be made good by later payments or the liquidation of collateral, or when insolvency proceedings have commenced, or when obligations have been restructured on concessionary terms.

Collectively: all loans for which no impairment is identified on a counterparty-specific level are grouped into economically homogeneous portfolios to collectively assess whether impairment exists within a portfolio. Allowances from collective assessment of impairment are recognized as credit loss expense and result in an offset to the loan position. As the allowance cannot be allocated to individual loans, interest is accrued on all loans according to contractual terms.

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

r) Financial investments

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

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

Shareholders' equity is transferred to net profit or loss for the period and reported in Other income. Gains and losses on disposal are determined using the average cost method.

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

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

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

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

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

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

Plant and manufacturing equipment include primarily thermal and hydro power plants and power transmission grids and equipment. The useful life is estimated based on the economic utilization of the asset, or for power plants on the end of operating life.

With the exception of investment properties, Property and equipment is carried at cost less accumulated depreciation and accumulated impairment losses. Property and equipment is periodically reviewed for impairment.

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

Properties, excluding land	Not exceeding 50 years
Leasehold improvements	Residual lease term, but not exceeding 10 years
Other machines and equipment	Not exceeding 10 years
IT, software and communication	Not exceeding 5 years
Plant and manufacturing equipment:	
– Power plants	25 to 80 years
– Transmission grids and equipment	15 to 40 years

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

Investment property is carried at fair value with changes in fair value recognized in the income statement in the period of change. UBS employs internal real estate experts who determine the fair value of investment property by applying recognized valuation techniques. In cases where prices of recent market transactions of comparable properties are available, fair value is determined by reference to these transactions.

t) Goodwill and other intangible assets
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entity at the date of acquisition.

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

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

With the introduction of *IFRS 3 Business Combinations* goodwill acquired in business combinations entered into after 31 March 2004 is not amortized, but tested annually for impairment. The impairment test is conducted at the segment level as reported in Note 2. The segment has been determined as the cash generating unit for impairment testing purposes as this is the level at which the performance of an investment is reviewed and assessed by management. During 2004, UBS recorded goodwill of CHF 631 million from business combinations entered into after 31 March 2004.

Intangible assets are classified into two categories: Infrastructure, and Customer relationships, contractual rights and other. Infrastructure includes one intangible asset recognized in connection with the acquisition of PaineWebber Group, Inc. Customer relationships, contractual rights and other include customer relationship intangibles from acquisition of financial services businesses as well as from the acquisition of Motor-Columbus, where other contractual rights from delivery and supply contracts were identified. These contractual rights are amortized over the remaining contract terms, which are up to 25 years. The most significant contract, however, is amortized over its remaining contract life of seven years, which is the shortest remaining life of all contractual rights recognized.

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

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

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

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

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

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

Compound debt instruments that are related to non-UBS AG equity instruments, foreign exchange, credit instruments or indices are considered structured instruments. If such instruments have not been designated at fair value through profit and loss, the embedded derivative is separated from the host contract and accounted for as a standalone derivative if the criteria for separation are met. The host contract is subsequently measured at amortized cost. For most of its structured debt instruments, UBS has designated them as held at fair value through profit and loss, see section n).

Debt instruments with embedded derivatives that are related to UBS AG shares or to a derivative instrument that has UBS AG shares as underlying are separated into a liability and an equity component at issue date, if they require physical settlement. Initially, a portion of the net proceeds from issuing the compound debt instrument is allocated to the debt component based on its fair value. The determination of fair value is generally based on quoted market prices for UBS debt instruments with comparable terms. The liability component is subsequently measured at amortized cost. The remaining amount is allocated to the equity component and reported in Share premium account. Subsequent changes in fair value of the separated equity component are not recognized. However, if the compound instrument or the embedded derivative related to UBS AG shares is cash settled or if it contains a settlement alternative, then the separated derivative is accounted for as a trading instrument with changes in fair value recorded in income or the entire compound instrument is designated as held at fair value through profit and loss.

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

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

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

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

Contracts that require physical settlement in UBS AG shares are classified as Shareholders' equity and reported as Share premium. Upon settlement of such contracts the proceeds received, less cost (net of tax, if any), are reported as Share premium.

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

An exception to this treatment is physically settled written put options and forward share purchase contracts, including contracts where physical settlement is a settlement alternative. In both cases the present value of the obligation to purchase own shares in exchange for cash is transferred out of Shareholders' equity and recognized as a liability at inception of a contract. The liability is subsequently accreted, using the effective interest rate method, over the life of the contract to the nominal purchase obligation by recognizing interest expense. Upon settlement of a contract, the liability is derecognized and the amount of equity originally transferred to liability is reclassified within Shareholders' equity to Treasury shares. The premium received for writing put options is recognized directly in Share premium.

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

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

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

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

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

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

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

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

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

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

aa) Changes in accounting policies and comparability
Financial instruments
On 1 January 2004, UBS adopted revised *IAS 32 Financial Instruments: Disclosure and Presentation* and revised *IAS 39 Financial Instruments: Recognition and Measurement* which were applied retrospectively to all financial instruments affected within the context of the two standards with the exception of the guidance relating to derecognition of financial assets and liabilities and, in part, recognition of Day 1 profit and loss, which were applied prospectively. As a result of adopting the revised standards, UBS has restated prior period comparative information.

Revised IAS 32 amended the accounting for certain derivative contracts linked to an entity's own shares. Physically settled written put options and forward purchase contracts with UBS shares as underlying are recorded as liabilities, see section w). UBS currently has physically settled written put options linked to own shares that are now accounted for as liabilities. Liabilities of CHF 96 million at 31 December 2004, and CHF 49 million at 31 December 2003 were debited to Shareholders' equity due to written options. The impact on the income statement of all periods presented is insignificant. All other existing derivative contracts linked to own shares are accounted for as derivative instruments and are carried at fair value on the balance sheet under Positive replacement values or Negative replacement values.

Revised IAS 32 provides that netting is permitted only if, in addition to all other netting conditions, normal settlement is intended to take place on a net basis. In general, that condition is not met for derivative instruments and therefore replacement values are now reported on a gross basis. In the 31 December 2003 balance sheet, replacement values of CHF 165,050 million that were previously offset are now reported gross.

Revised IAS 39 permits any financial instrument to be designated at inception, or at adoption of revised IAS 39, as carried at fair value through profit and loss. Upon adoption of revised IAS 39, UBS made that designation for the majority of its compound instruments issued. Previously, UBS separated the embedded derivative from the host contract and accounted for the separated derivative as a trading instrument. The amounts are now included on the balance sheet within the line item Financial liabilities designated at fair value, with amounts of CHF 65,756 million at 31 December 2004 and CHF 35,286 million at 31 December 2003 being reported in that new line. Also, at 31 December 2004 assets in the amount of CHF 653 million are reported in the new line Financial assets designated at fair value. At 31 December 2003, no financial assets were designated as held at fair value.

The guidance governing recognition and derecognition of a financial asset is considerably more complex under revised IAS 39 than previously and requires a multi-step decision process to determine whether derecognition is appropriate. See section d) for a discussion of the accounting policies regarding derecognition. As a result, certain transactions are now accounted for as secured financing transactions instead of purchases or sales of trading portfolio assets with an accompanying swap derivative. The provisions of this guidance were applied prospectively as of 1 January 2004.

The effect of restating the income statement due to the adoption of revised IAS 32 and 39 on the comparative prior periods is a reduction of net profit by CHF 82 million for 2003 and a reduction of CHF 24 million for 2002.

Investment properties

Effective 1 January 2004, UBS changed its accounting policy for investment property from historical cost less accumulated depreciation to the fair value model. All changes in the fair value of investment property are now recognized in the income statement, and depreciation expense is no longer recorded. Investment property is defined as property held exclusively to earn rental income and benefit from appreciation in value. Fair value of investment property is determined by appropriate valuation techniques employed in the real estate industry, taking into account the specific circumstances for each item. This change required restatement of the 2003 and 2002 comparative financial years. The effects of the restatement were a reduction of net profit by CHF 64 million in 2003, and an increase of net profit by CHF 19 million in 2002.

Credit losses incurred on OTC derivatives

Effective 1 January 2004, the method of accounting for credit losses incurred on over the counter (OTC) derivatives has been changed. All such credit losses are now reported in net trading income and are no longer reported in credit loss expense. This change did not affect net profit or earnings per share results. It did, however, affect segment reporting, as losses reported as credit loss expense were previously deferred over a three-year period in the Business Group segment reporting, whereas under the changed method of accounting, losses in trading income are not subject to such a deferral. In the segment report, therefore, losses on OTC derivatives are now reported as they are incurred. This change in accounting method affected, to a minor extent, certain balance sheet lines at 31 December 2003, which have been restated to conform to the current year presentation. The changed method of accounting had the following impact on the performance before tax of our Business Groups: In 2003, it reduced Wealth Management & Business Banking's pre-tax performance by CHF 8 million. It raised the Investment Bank's by CHF 37 million while Corporate Functions' fell by CHF 29 million. In 2002, the changed method lowered the Investment Bank's pre-tax performance by CHF 28 million and raised Corporate Functions' by CHF 28 million.

Segment reporting

On 1 July 2004, UBS purchased an additional 20% interest in Motor-Columbus AG, which increased its overall ownership stake to 55.6% percent. Motor-Columbus has been consolidated as of 1 July 2004, when UBS gained control over the company. Due to its size and nature of business – production, distribution and trading of electricity – a new business segment, Industrial holdings, was added, in which Motor-Columbus is reported.

As at 1 January 2003, the five private label banks (three of which were subsequently merged into one bank) owned by UBS were transferred out of Wealth Management & Business Banking into Corporate Center. At the same time, GAM was transferred out of Global Asset Management into Corporate Center. The two businesses formed the Private Banks & GAM segment, whereas the remainder of Corporate Center is reported as the Corporate Functions segment. Also, Wealth Management & Business Banking is reported as two segments, Wealth Management and Business Banking Switzerland. As at 1 January 2002, Wealth Management USA was separated from Investment Bank and became a standalone Business Group.

Note 2 to these Group Financial Statements reflects the new segment reporting structure. In all applicable instances, prior period comparative amounts of the affected Business Groups have been restated to conform to the current year presentation.

Business combinations

On 1 April 2004, UBS adopted *IFRS 3 Business Combinations* for all business combinations entered into after 31 March 2004. Subsequent to the adoption of the new standard, UBS has entered into and completed a number of business combinations that were all accounted for under the new standard. The most significant change under the new standard is that goodwill is no longer amortized over its estimated useful life but instead tested annually for impairment. Accordingly, no amortization expense has been recognized for goodwill of CHF 631 million recognized on the balance sheet related to business combinations entered into after 1 April 2004. Intangible assets may be assigned an indefinite useful life, if supportable based on facts and circumstances. These intangibles are not amortized, but tested periodically for impairment.

In a step acquisition, where control over a subsidiary is achieved in stages, or where additional shares of a subsidiary are purchased from minority owners, all assets and liabilities of that entity, excluding goodwill, are remeasured to fair value as of the acquisition date of the latest share transaction. The revaluation difference on the existing ownership interest from the carrying value to the newly established fair value is recorded directly in Shareholders' equity. As a consequence of remeasuring all assets and liabilities to fair value, minority interests are also carried at fair value of net assets excluding goodwill. Previously, only the percentage of assets and liabilities was increased to fair value by which the ownership interest was increased. Existing ownership interests were kept at their carryover basis. Other relevant changes in accounting for business combinations are that liabilities incurred for restructuring and integration of newly acquired businesses must be expensed as incurred, unless they were a pre-acquisition contingency of the acquired business. Previously, liabilities incurred for restructuring and integration could be recognized in purchase accounting, if they met certain criteria, increasing goodwill recognized. Contingent liabilities of an acquired business have to be recognized on the balance sheet at their fair value in purchase accounting, if fair value is determinable. Previously, contingent liabilities were not recognized.

The accounting for business combinations entered into before 31 March 2004 was not affected by the new standard.

Amended IAS 19, Employee Benefits

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

Change in treatment of corporate client assets

Effective 1 January 2004, UBS re-classified corporate client assets of Business Banking Switzerland (except for pension funds) to exclude them from invested assets. This change was made because UBS has a minimal advisory role for such clients and asset flows are often driven more by liquidity requirements than pure investment reasons. This change reduced invested assets at 31 December 2003 by approximately CHF 76 billion and increased net new money for 2003 by CHF 7.5 billion.

ab) International Financial Reporting Standards to be adopted in 2005

IASB Improvements Project

In December 2003, the IASB issued 15 revised International Accounting Standards under its Improvement Project in an attempt to clarify language, to remove inconsistencies and to achieve convergence with other accounting standards, notably US GAAP. All revised standards are effective for financial years beginning on or after 1 January 2005. Two of these 15 improved standards, IAS 32 and IAS 39, were adopted early at the beginning of 2004. Two of the remaining 13 improved standards will have a significant impact on UBS, which are *IAS 27 Consolidated and Separate Financial Statements* and *IAS 28 Investments in Associates.*

IAS 27 has been amended to eliminate the exemption from consolidating a subsidiary where control is exercised temporarily. UBS has several private equity investments where it owns a controlling interest, which are classified and accounted for as Financial investments available-for-sale, which will be required to be consolidated. UBS will adopt IAS 27 on 1 January 2005 with retrospective restatement of comparative prior years 2004 and 2003. The effect of the adoption and consolidating these investments will be as follows: At 1 January 2003, equity including minority interests are reduced by CHF 723 million, representing the difference between the carrying value as Financial investments available-for-sale and the value on a consolidated basis. Consolidation will lead to recognition of total assets in the amount of CHF 1.7 billion and CHF 2.9 billion at 31 December 2004 and 2003, respectively. Significant balance sheet line items affected will include Property and equipment, Intangible assets, Goodwill and Other assets. These investments generated additional income of CHF 3.8 billion and CHF 4.1 billion in 2004 and 2003, respectively and additional net profit of CHF 92 million and CHF 86 million in 2004 and 2003, respectively.

IAS 28 has been amended in the same way as IAS 27 to eliminate the exemption from equity method accounting for investments that are held exclusively for disposal. UBS will adopt the IAS 28 amendment on 1 January 2005 with retrospective restatement of comparative prior years 2004 and 2003. Certain private equity investments where UBS has a significant influence will be equity accounted for commencing 1 January 2005. Applying the equity method of accounting for these investments will have the following effects: At 1 January 2003, equity is debited by CHF 266 million, representing the difference between the carrying value as Financial investments available-for-sale versus the value on an equity method basis. The carrying value of these equity method investments will be CHF 248 million and CHF 393 million at 31 December 2004 and 2003, respectively, which includes equity in losses of CHF 55 million and gains of CHF 10 million recognized in the income statement in 2004 and 2003, respectively. Gains on sale recognized in 2004 and 2003 will be CHF 1 million and zero, respectively. When accounted for as Financial investments, gains on sale recognized were CHF 70 million in 2004 and CHF 34 million in 2003.

In 2005, these entities, along with all other investments made by the Private Equity business unit, will be reclassified from the Investment Bank segment to the Industrial Holdings segment. In addition, seven of the newly consolidated investments held at 1 January 2003 were sold during 2003 and 2004 and will be presented as discontinued operations in the restated comparative prior periods in accordance with IFRS 5 which is discussed below. Gain on sale in the amount of CHF 90 million and CHF 194 million have been reported related to private equity investments sold in 2004 and 2003, respectively. On a restated basis, the net profit from discontinued operations related to these entities will be CHF 145 million and CHF 186 million in 2004 and 2003, respectively.

UBS also has employee benefit trusts that are used in connection with share-based payment arrangements and deferred compensation schemes. In connection with the issuance of IFRS 2, the IFRIC amended *SIC 12 Consolidation – Special Purpose Entities,* an interpretation of IAS 27, to eliminate the scope exclusion for equity compensation plans. Therefore, pursuant to the criteria set out in SIC 12, an entity that controls an employee benefit trust (or similar entity) set up for the purposes of a share-based payment arrangement will be required to consolidate that trust. Consolidating these trusts will have the following effects: At 1 January 2003, no adjustment to opening retained earnings is made as assets and liabilities of the trust are equal. Consolidation will lead to recognition of total assets in the amount of CHF 1.1 billion and CHF 1.3 billion and liabilities of CHF 1.1 billion and CHF 1.3 billion at 31 December 2004 and 2003, respectively. The amount of treasury shares will increase by CHF 2,029 million and CHF 1,474 million at 31 December 2004 and 2003, respectively. The weighted average number of treasury shares held by these trusts was 22,995,954 in 2004 and 30,792,147 in 2003, thus decreasing the numerator to calculate basic earnings per share. The reduction in weighted average shares outstanding will increase basic earnings per share, but have no impact on diluted earnings per share, as the additional treasury shares will be fully added back for calculating diluted earnings per share.

All other revised standards under the Improvement Project will primarily affect presentation and disclosure, but not recognition and measurement of assets and liabilities, and will therefore not have a material impact on the financial statements. The two most significant presentation differences relate to minority interests and earnings per share. Beginning 2005, Net profit and Equity will be presented including minority interests. Net profit will be allocated to net profit attributable to UBS shareholders and attributable to minority interests on the face of the income statement. Earnings per share will continue to be presented based on net profit attributable to UBS shareholders, but will be allocated to earnings per share from continuing operations and from discontinued operations.

IFRS 2 Share-based Payment

In February 2004, the IASB issued *IFRS 2 Share-based Payment,* which requires share-based payments made to employees and non-employees to be recognized in the financial statements based on the fair value of these awards measured at the date of grant. UBS will adopt the new standard on 1 January 2005 and fully restate the two comparative prior years. In accordance with IFRS 2, UBS will apply the new requirements of the standard to all prior period awards that impact income statements commencing 2003. This includes all unvested equity settled awards and all outstanding cash settled awards at 1 January 2003. The effects of restatement are as follows: The opening balance of retained earnings at 1 January 2003 will be credited by CHF 559 million. Additional compensation expense of zero and CHF 558 million will be recognized in 2004 and 2003, respectively. The change in compensation expense is attributable to the first-time recognition of compensation expense for the fair value of share options, as well as the recognition of expense for share awards over the vesting period. Previously, share awards were recognized as compensation expense in the performance year, which is generally the year prior to grant. The reason for the zero impact in 2004 is that a significantly higher amount of bonus payments were made in the form of restricted stock rather than cash. The reversal of compensation expense attributable to these share payments offset the effect from recognizing options at fair value and share awards made prior to 2004 over the vesting period.

UBS will introduce a new valuation model to determine the fair value of share options granted in 2005 and later. Share options granted in 2004 and earlier will not be affected by this change in valuation model. As part of the implementation of IFRS 2, UBS thoroughly reviewed the option valuation model employed in the past by comparing it to alternative models. As a result of this review, a valuation model was identified that better reflects the exercise behavior of employees and the specific terms and conditions under which the share options are granted. Concurrent with the introduction of the new model, UBS will use implied instead of historic volatility as input into the new model.

IFRS 3 Business Combinations, IAS 36 Impairment of Assets and IAS 38 Intangible Assets

On 31 March 2004, the IASB issued *IFRS 3 Business Combinations,* revised *IAS 36 Impairment of Assets,* and revised *IAS 38 Intangible Assets*. UBS adopted the standards on 1 April 2004. Under the transitional requirements of IFRS 3, goodwill recognized in business combinations after 31 March 2004 will no longer be amortized over its estimated useful life but be tested annually for impairment. Goodwill existing at 31 March 2004 will cease to be amortized as of 1 January 2005 and reviewed annually for impairment. UBS recorded goodwill amortization expense of CHF 713 million in 2004 and CHF 756 million in 2003. Intangible assets acquired in a business combination must be recognized separately from goodwill, if they meet the recognition criteria. UBS will reclassify the trained workforce intangible recognized in connection with the acquisition of PaineWebber with a book value of CHF 1,010 million to Goodwill at 1 January 2005.

IFRS 4 Insurance Contracts
On 31 March 2004, the IASB issued *IFRS 4 Insurance Contracts.* The standard applies to all insurance contracts written and to reinsurance contracts held. It requires that insurance contracts that include a deposit component, are separated into the deposit and the insurance component. UBS will adopt the new standard as of 1 January 2005 and apply it to its insurance contracts. The new standard will not have a material effect on the financial statements.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
On 31 March 2004, the IASB issued *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.* The standard requires that non-current assets or disposal groups be classified as held for sale if their carrying amount is recovered principally through a sale transaction rather than through continuing use. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are classified separately from other assets in the balance sheet. Netting of assets and liabilities is not permitted. Discontinued operations are presented on the face of the income statement as a single amount comprising the total of the net profit or loss of discontinued operations and the after tax gain or loss recognized on the sale or the measurement to fair value less costs to sell of the net assets constituting the discontinued operations.

IFRS 5 provides certain criteria to be met for a component of an entity to be defined as a discontinued operation. Certain private equity investments meet this definition and will be reclassified as discontinued operations. UBS will adopt the new standard on 1 January 2005 and restate comparative prior years 2004 and 2003. While the impact on the financial statements will not be material, the income statement will be divided into two sections; net income from continuing operations and net income from discontinued operations.

Note 2a Segment Reporting by Business Group

UBS's financial businesses are organized on a worldwide basis into four Business Groups and the Corporate Center. Wealth Management & Business Banking is segregated into two segments, Wealth Management and Business Banking Switzerland. The Corporate Center also consists of two segments, Private Banks & GAM and Corporate Functions. The Industrial Holdings segment holds all industrial operations controlled by the Group. In total, UBS now reports eight business segments.

Wealth Management & Business Banking
Wealth Management & Business Banking comprises two segments. Wealth Management offers a comprehensive range of products and services individually tailored to affluent international and Swiss clients, operating from offices around the world. Business Banking Switzerland provides individual and corporate clients in Switzerland with a complete portfolio of banking and securities services, focused on customer service excellence, profitability and growth, by using a multi-channel distribution. The two segments share technological and physical infrastructure, and have joint departments supporting major functions such as e-commerce, financial planning and wealth management, investment policy and strategy.

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

Investment Bank
Investment Bank operates globally as a client-driven investment banking and securities firm providing innovative products, research, advice and complete access to the world's capital markets for intermediaries, governments, corporate and institutional clients and other parts of UBS. Investment Bank also manages the private equity business, investing UBS and third-party funds, primarily in unlisted companies.

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

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

Industrial Holdings
The Industrial Holdings segment was established in third quarter 2004 to house the non-financial businesses of UBS. At this stage, results include Motor-Columbus, in which UBS acquired an additional 20% stake on 1 July 2004, bringing the total stake to 55.6%. Motor-Columbus is a financial holding company whose only significant asset is a 59.3% interest in the Atel Group. Atel is a European energy provider focused on domestic and international power generation, electricity transmission, energy services as well as electricity trading and marketing.

Note 2a Reporting by Business Group (continued)

For the year ended 31 December 2004

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

CHF million
Income [2]
Credit loss (expense) / recovery
Total operating income
Personnel expenses
General and administrative expenses
Services to / from other business units
Depreciation
Amortization of goodwill and other intangible assets [3]
Goods and materials purchased
Total operating expenses
Business Group performance before tax
Tax expense
Net profit before minority interests
Minority interests
Net profit
Additional information [4]
Total assets
Total liabilities and minority interests
Capital expenditure

Management reporting based on expected credit loss

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

Income [2]
Adjusted expected credit loss
Total operating income
Personnel expenses
General and administrative expenses
Services to / from other business units
Depreciation
Amortization of goodwill and other intangible assets [3]
Goods and materials purchased
Total operating expenses
Business Group performance before tax
Tax expense
Net profit before minority interests
Minority interests
Net profit

	Financial Businesses							Industrial Holdings[1]	UBS
	Wealth Management & Business Banking					Corporate Center			
	Wealth Management	Business Banking Switzerland	Global Asset Management	Investment Bank	Wealth Management USA	Private Banks & GAM	Corporate Functions		
	7,701	5,063	2,022	15,984	5,098	1,145	113	3,667	40,793
	(1)	92	0	240	3	(58)	0	0	276
	7,700	5,155	2,022	16,224	5,101	1,087	113	3,667	41,069
	2,080	2,393	901	8,156	3,437	432	790	326	18,515
	642	1,064	299	2,535	800	160	1,077	126	6,703
	1,395	(533)	126	219	302	10	(1,519)		0
	66	69	23	239	71	20	794	70	1,352
	75	0	129	288	304	74	17	77	964
								2,861	2,861
	4,258	2,993	1,478	11,437	4,914	696	1,159	3,460	30,395
	3,442	**2,162**	**544**	**4,787**	**187**	**391**	**(1,046)**	**207**	**10,674**
									2,135
									8,539
									(450)
									8,089
	164,720	210,133	29,334	1,473,726	51,850	8,043	(210,909)	7,887	**1,734,784**
	161,046	204,479	28,501	1,459,757	47,259	7,480	(216,342)	7,626	**1,699,806**
	304	212	8	322	50	19	599	50	**1,564**
	7,701	5,063	2,022	15,984	5,098	1,145	113	3,667	40,793
	(8)	(25)	0	(7)	(5)	(6)	327		276
	7,693	5,038	2,022	15,977	5,093	1,139	440	3,667	41,069
	2,080	2,393	901	8,156	3,437	432	790	326	18,515
	642	1,064	299	2,535	800	160	1,077	126	6,703
	1,395	(533)	126	219	302	10	(1,519)		0
	66	69	23	239	71	20	794	70	1,352
	75	0	129	288	304	74	17	77	964
								2,861	2,861
	4,258	2,993	1,478	11,437	4,914	696	1,159	3,460	30,395
	3,435	**2,045**	**544**	**4,540**	**179**	**443**	**(719)**	**207**	**10,674**
									2,135
									8,539
									(450)
									8,089

1 Results shown for the six-month period beginning on 1 July 2004. 2 Impairments on private equity and other financial investments for the year ended 31 December 2004 were as follows: Wealth Management & Business Banking CHF 10 million; Global Asset Management CHF 4 million; Investment Bank CHF 170 million; Wealth Management USA CHF 39 million; Corporate Center CHF 0 million. 3 For further information regarding goodwill and other intangible assets by Business Group, please see Note 15: Goodwill and Other Intangible Assets. 4 The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

Note 2a Reporting by Business Group (continued)

For the year ended 31 December 2003

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

CHF million
Income[1]
Credit loss (expense) / recovery
Total operating income
Personnel expenses
General and administrative expenses
Services to / from other business units
Depreciation
Amortization of goodwill and other intangible assets[2]
Total operating expenses
Business Group performance before tax
Tax expense
Net profit before minority interests
Minority interests
Net profit
Additional information[3]
Total assets
Total liabilities and minority interests
Capital expenditure

Management reporting based on expected credit loss

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

Income[1]
Adjusted expected credit loss
Total operating income
Personnel expenses
General and administrative expenses
Services to / from other business units
Depreciation
Amortization of goodwill and other intangible assets[2]
Total operating expenses
Business Group performance before tax
Tax expense
Net profit before minority interests
Minority interests
Net profit

Wealth Management & Business Banking					Corporate Center		
Wealth Management	Business Banking Switzerland	Global Asset Management	Investment Bank	Wealth Management USA	Private Banks & GAM	Corporate Functions	UBS
6,797	5,247	1,737	13,991	5,190	880	20	33,862
4	(71)	0	(4)	(3)	2	0	(72)
6,801	5,176	1,737	13,987	5,187	882	20	33,790
1,944	2,406	806	7,303	3,627	381	764	17,231
604	1,090	265	2,074	719	169	1,165	6,086
1,479	(609)	156	180	433	11	(1,650)	0
82	88	25	246	72	28	812	1,353
75	0	153	278	336	81	20	943
4,184	2,975	1,405	10,081	5,187	670	1,111	25,613
2,617	**2,201**	**332**	**3,906**	**0**	**212**	**(1,091)**	**8,177**
							1,593
							6,584
							(345)
							6,239
150,285	192,517	21,929	1,316,897	46,837	9,084	(187,493)	**1,550,056**
147,479	186,185	20,917	1,303,281	41,732	8,406	(193,254)	**1,514,746**
167	261	17	518	68	17	427	**1,475**

6,797	5,247	1,737	13,991	5,190	880	20	33,862
(4)	(127)	0	(55)	(8)	(2)	124	(72)
6,793	5,120	1,737	13,936	5,182	878	144	33,790
1,944	2,406	806	7,303	3,627	381	764	17,231
604	1,090	265	2,074	719	169	1,165	6,086
1,479	(609)	156	180	433	11	(1,650)	0
82	88	25	246	72	28	812	1,353
75	0	153	278	336	81	20	943
4,184	2,975	1,405	10,081	5,187	670	1,111	25,613
2,609	**2,145**	**332**	**3,855**	**(5)**	**208**	**(967)**	**8,177**
							1,593
							6,584
							(345)
							6,239

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

Note 2a Reporting by Business Group (continued)

For the year ended 31 December 2002

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

CHF million
Income[1]
Credit loss (expense) / recovery
Total operating income
Personnel expenses
General and administrative expenses
Services to / from other business units
Depreciation
Amortization of goodwill and other intangible assets[2]
Total operating expenses
Business Group performance before tax
Tax expense
Net profit before minority interests
Minority interests
Net profit
Additional information[3]
Total assets
Total liabilities and minority interests
Capital expenditure

Management reporting based on expected credit loss

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

Income[1]
Adjusted expected credit loss
Total operating income
Personnel expenses
General and administrative expenses
Services to / from other business units
Depreciation
Amortization of goodwill and other intangible assets[2]
Total operating expenses
Business Group performance before tax
Tax expense
Net profit before minority interests
Minority interests
Net profit

Wealth Management & Business Banking					Corporate Center		
Wealth Management	Business Banking Switzerland	Global Asset Management	Investment Bank	Wealth Management USA	Private Banks & GAM	Corporate Functions	UBS
6,690	5,494	1,655	12,419	5,561	1,038	1,365	34,222
1	(239)	0	126	(15)	(3)	15	(115)
6,691	5,255	1,655	12,545	5,546	1,035	1,380	34,107
1,869	2,469	763	7,815	4,158	386	1,064	18,524
617	1,305	301	2,359	926	120	1,444	7,072
1,475	(638)	164	140	492	12	(1,645)	0
93	105	22	320	81	40	853	1,514
97		186	364	1,691	98	24	2,460
4,151	3,241	1,436	10,998	7,348	656	1,740	29,570
2,540	**2,014**	**219**	**1,547**	**(1,802)**	**379**	**(360)**	**4,537**
							676
							3,861
							(331)
							3,530
189,061	121,661	4,428	1,099,410	39,610	7,004	(114,496)	**1,346,678**
186,346	115,926	2,937	1,087,019	33,225	6,270	(123,997)	**1,307,726**
156	224	20	473	466	37	668	**2,044**

6,690	5,494	1,655	12,419	5,561	1,038	1,365	34,222
(26)	(286)		(90)	(13)	(2)	302	(115)
6,664	5,208	1,655	12,329	5,548	1,036	1,667	34,107
1,869	2,469	763	7,815	4,158	386	1,064	18,524
617	1,305	301	2,359	926	120	1,444	7,072
1,475	(638)	164	140	492	12	(1,645)	0
93	105	22	320	81	40	853	1,514
97		186	364	1,691	98	24	2,460
4,151	3,241	1,436	10,998	7,348	656	1,740	29,570
2,513	**1,967**	**219**	**1,331**	**(1,800)**	**380**	**(73)**	**4,537**
							676
							3,861
							(331)
							3,530

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

Note 2b Segment Reporting by Geographic Location

The geographic analysis of total assets is based on customer domicile whereas operating income and capital expenditure is based on the location of the office in which the transactions and assets are recorded. Because of the global nature of financial markets the Group's business is managed on an integrated basis worldwide, with a view to profitability by product line.

The geographical analysis of operating income, total assets, and capital expenditure is provided in order to comply with IFRS, and does not reflect the way the Group is managed. Management believes that analysis by Business Group, as shown in Note 2a to these Financial Statements, is a more meaningful representation of the way in which the Group is managed.

For the year ended 31 December 2004

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	14,949	37	189,019	11	799	51
Rest of Europe / Africa / Middle East	10,379	25	564,336	32	388	25
Americas	13,615	33	829,845	48	293	19
Asia Pacific	2,126	5	151,584	9	84	5
Total	**41,069**	**100**	**1,734,784**	**100**	**1,564**	**100**

For the year ended 31 December 2003

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	13,176	39	182,280	12	689	47
Rest of Europe / Africa / Middle East	5,977	18	535,501	34	242	16
Americas	12,923	38	738,189	48	510	35
Asia Pacific	1,714	5	94,086	6	34	2
Total	**33,790**	**100**	**1,550,056**	**100**	**1,475**	**100**

For the year ended 31 December 2002

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	14,327	42	176,544	13	885	43
Rest of Europe / Africa / Middle East	6,816	20	363,706	27	199	10
Americas	11,055	32	719,703	54	916	45
Asia Pacific	1,909	6	86,725	6	44	2
Total	**34,107**	**100**	**1,346,678**	**100**	**2,044**	**100**

Income Statement

Note 3 Net Interest and Trading Income

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

Net interest and trading income

	For the year ended			% change from
CHF million	**31.12.04**	31.12.03	31.12.02	31.12.03
Net interest income	**11,860**	12,299	10,546	(4)
Net trading income	**4,972**	3,756	5,451	32
Total net interest and trading income	**16,832**	16,055	15,997	5

Breakdown by business activity

	For the year ended			% change from
CHF million	**31.12.04**	31.12.03	31.12.02	31.12.03
Net income from interest margin products	**5,139**	5,077	5,275	1
Equities	**3,098**	2,445	2,777	27
Fixed income	**6,264**	6,474	5,977	(3)
Foreign exchange	**1,467**	1,436	1,506	2
Other	**273**	326	245	(16)
Net income from trading activities	**11,102**	10,681	10,505	4
Net income from treasury activities	**1,298**	1,417	1,646	(8)
Other [1]	**(707)**	(1,120)	(1,429)	37
Total net interest and trading income	**16,832**	16,055	15,997	5

1 Includes external funding costs of the PaineWebber Group, Inc. acquisition.

Net interest income

	For the year ended			% change from
CHF million	**31.12.04**	31.12.03	31.12.02	31.12.03
Interest income				
Interest earned on loans and advances	**9,021**	10,542	11,600	(14)
Interest earned on securities borrowed and reverse repurchase agreements	**11,006**	11,148	11,184	(1)
Interest and dividend income from financial investments	**93**	75	165	24
Interest and dividend income from trading portfolio	**19,278**	18,394	17,014	5
Total	**39,398**	40,159	39,963	(2)
Interest expense				
Interest on amounts due to banks and customers	**5,529**	5,072	6,383	9
Interest on securities lent and repurchase agreements	**10,014**	9,623	10,081	4
Interest and dividend expense from trading portfolio	**7,993**	9,925	8,226	(19)
Interest on financial liabilities designated at fair value	**1,168**	751	341	56
Interest on debt issued	**2,834**	2,489	4,386	14
Total	**27,538**	27,860	29,417	(1)
Net interest income	**11,860**	12,299	10,546	(4)

Note 3 Net Interest and Trading Income (continued)

Net trading income[1]

	For the year ended			% change from
CHF million	**31.12.04**	31.12.03	31.12.02	31.12.03
Equities	**2,254**	1,660	2,621	36
Fixed income[2]	**131**	396	997	(67)
Foreign exchange and other	**2,587**	1,700	1,833	52
Net trading income	**4,972**	3,756	5,451	32

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

Included in the Net trading income table are fair value changes of CHF (1,203) million for the year ended 31 December 2004, CHF (115) million for the year ended 31 December 2003, and CHF 446 million for the year ended 31 December 2002 related to financial liabilities designated as held at fair value through profit and loss. For 2004, CHF (801) million of the total fair value change was attributable to changes in fair value of embedded derivatives, while CHF (402) million was attributable to changes in LIBOR. The exposure from embedded derivatives is economically hedged with derivatives whose change in fair value is also reported in Net trading income, offsetting the fair value changes related to financial liabilities designated as held at fair value.

Note 4 Net Fee and Commission Income

	For the year ended			% change from
CHF million	**31.12.04**	31.12.03	31.12.02	31.12.03
Equity underwriting fees	**1,430**	1,270	1,166	13
Bond underwriting fees	**1,114**	1,084	968	3
Total underwriting fees	**2,544**	2,354	2,134	8
Corporate finance fees	**1,078**	761	848	42
Brokerage fees	**5,916**	5,608	5,987	5
Investment fund fees	**4,588**	3,895	4,033	18
Fiduciary fees	**220**	241	300	(9)
Custodian fees	**1,261**	1,201	1,302	5
Portfolio and other management and advisory fees	**4,611**	3,855	4,065	20
Insurance-related and other fees	**342**	355	417	(4)
Total securities trading and investment activity fees	**20,560**	18,270	19,086	13
Credit-related fees and commissions	**266**	249	275	7
Commission income from other services	**988**	1,087	1,006	(9)
Total fee and commission income	**21,814**	19,606	20,367	11
Brokerage fees paid	**1,399**	1,483	1,349	(6)
Other	**999**	778	797	28
Total fee and commission expense	**2,398**	2,261	2,146	6
Net fee and commission income	**19,416**	17,345	18,221	12

Note 5 Other Income

	For the year ended			% change from
CHF million	**31.12.04**	31.12.03	31.12.02	31.12.03
Gains / (losses) from disposal of associates and subsidiaries				
Net gain from disposal of:				
Consolidated subsidiaries	**83**	160	228	(48)
Investments in associates	**1**	2	0	(50)
Total	**84**	162	228	(48)
Financial investments available-for-sale				
Net gain from disposal of:				
Private equity investments	**557**	352	273	58
Other financial investments	**46**	90	457	(49)
Impairment charges on private equity investments and other financial investments	**(223)**	(541)	(1,944)	59
Total	**380**	(99)	(1,214)	
Net income from investments in property [1]	**65**	75	90	(13)
Equity in income of associates	**65**	123	7	(47)
Gains / (losses) from investment properties [2]	**11**	(42)	17	
Other	**292**	243	876	20
Total other income	**897**	462	4	94

1 Includes net rent received from third parties and net operating expenses. **2** Includes unrealized and realized profit from investment properties at fair value.

Note 6 Personnel Expenses

	For the year ended			% change from
CHF million	**31.12.04**	31.12.03	31.12.02	31.12.03
Salaries and bonuses	**14,835**	13,478	14,219	10
Contractors	**572**	539	579	6
Insurance and social contributions	**1,093**	923	939	18
Contribution to retirement plans	**707**	721	676	(2)
Other personnel expenses	**1,308**	1,570	2,111	(17)
Total personnel expenses	**18,515**	17,231	18,524	7

Note 7 General and Administrative Expenses

	For the year ended			% change from
CHF million	**31.12.04**	31.12.03	31.12.02	31.12.03
Occupancy	**1,274**	1,304	1,354	(2)
Rent and maintenance of machines and equipment	**686**	708	665	(3)
Telecommunications and postage	**835**	864	1,019	(3)
Administration	**660**	599	819	10
Marketing and public relations	**442**	398	453	11
Travel and entertainment	**634**	526	600	21
Professional fees	**705**	589	568	20
IT and other outsourcing	**953**	844	1,036	13
Other	**514**	254	558	102
Total general and administrative expenses	**6,703**	6,086	7,072	10

Note 8 Earnings per Share (EPS) and Shares Outstanding

	For the year ended			% change from
	31.12.04	31.12.03	31.12.02	31.12.03
Basic earnings (CHF million)				
Net profit	**8,089**	6,239	3,530	30
Diluted earnings (CHF million)				
Net profit	**8,089**	6,239	3,530	30
Less: Profit on equity derivative contracts	**(5)**	1	(20)	
Net profit for diluted EPS	**8,084**	6,240	3,510	30
Weighted average shares outstanding				
Weighted average shares outstanding	**1,052,914,417**	1,116,953,623	1,208,586,678	(6)
Potentially dilutive ordinary shares resulting from options and warrants outstanding [1]	**29,046,943**	21,847,002	14,796,264	33
Weighted average shares outstanding for diluted EPS	**1,081,961,360**	1,138,800,625	1,223,382,942	(5)
Earnings per share (CHF)				
Basic	**7.68**	5.59	2.92	37
Diluted	**7.47**	5.48	2.87	36

1 Total equivalent shares outstanding on options that were not dilutive for the respective periods but could potentially dilute earnings per share in the future were 18,978,199, 37,234,538 and 75,385,368 for the years ended 31 December 2004, 31 December 2003 and 31 December 2002, respectively.

Shares outstanding

	As at			% change from
	31.12.04	31.12.03	31.12.02	31.12.03
Total ordinary shares issued	**1,126,858,177**	1,183,046,764	1,256,297,678	(5)
Second trading line treasury shares				
2002 first program			67,700,000	
2002 second program			6,335,080	
2003 program		56,707,000		
2004 program	**39,935,094**			
Other treasury shares	**63,589,877**	54,653,692	23,146,014	16
Total treasury shares	**103,524,971**	111,360,692	97,181,094	(7)
Shares outstanding	**1,023,333,206**	1,071,686,072	1,159,116,584	(5)

Balance Sheet: Assets

Note 9a Due from Banks and Loans

By type of exposure

CHF million	**31.12.04**	31.12.03
Banks [1]	**35,520**	32,024
Allowance for credit losses	**(256)**	(284)
Net due from banks	**35,264**	31,740
Loans		
Residential mortgages	**117,731**	109,980
Commercial mortgages	**18,950**	19,162
Other Loans	**98,081**	86,829
Subtotal	**234,762**	215,971
Allowance for credit losses	**(2,375)**	(3,292)
Net loans	**232,387**	212,679
Net due from banks and loans	**267,651**	244,419

1 Includes due from banks from Industrial Holdings in the amount of CHF 764 million.

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

CHF million	**31.12.04**	31.12.03
Switzerland	**152,433**	152,358
Rest of Europe / Africa / Middle East	**45,712**	43,842
Americas	**61,751**	42,653
Asia Pacific	**10,386**	9,142
Subtotal	**270,282**	247,995
Allowance for credit losses	**(2,631)**	(3,576)
Net due from banks and loans	**267,651**	244,419

By type of collateral

CHF million	**31.12.04**	31.12.03
Secured by real estate	**138,692**	130,740
Collateralized by securities	**38,872**	28,062
Guarantees and other collateral	**18,973**	18,295
Unsecured	**73,745**	70,898
Subtotal	**270,282**	247,995
Allowance for credit losses	**(2,631)**	(3,576)
Net due from banks and loans	**267,651**	244,419

Note 9b Allowances and Provisions for Credit Losses

CHF million	**Specific allowances and provisions**	**Collective loan loss provision**	**Total 31.12.04**	Total 31.12.03[2]
Balance at the beginning of the year[1]	**3,692**	**262**	**3,954**	5,232
Write-offs	**(854)**	**(3)**	**(857)**	(1,436)
Recoveries	**59**		**59**	87
Increase / (decrease) in credit loss allowance and provision	**(251)**	**(25)**	**(276)**	72
Foreign currency translation and other adjustments	**30**	**(27)**	**3**	(1)
Balance at the end of the year	**2,676**	**207**	**2,883**	3,954

CHF million	**31.12.04**	31.12.03
As a reduction of Due from banks	**256**	284
As a reduction of Loans	**2,375**	3,292
As a reduction of other balance sheet positions	**41**	88
Subtotal	**2,672**	3,664
Included in other liabilities related to commitments and contingent liabilities	**211**	290
Total allowances and provisions for credit losses	**2,883**	3,954

1 Includes country provisions of CHF 183 million and CHF 262 million at 31 December 2004 and 31 December 2003 respectively. 2 Restated to reflect transfers of allowances and provisons for OTC derivatives to the trading portfolio as a reduction of fair value, following the revised treatment of OTC derivatives credit losses.

Note 9c Impaired Due from Banks and Loans

CHF million	**31.12.04**	31.12.03
Total gross impaired due from banks and loans[1, 2]	**4,861**	7,209
Allowance for impaired due from banks	**239**	245
Allowance for impaired loans	**2,266**	3,213
Total allowances for credit losses related to impaired due from banks and loans	**2,505**	3,458
Average total gross impaired due from banks and loans[3]	**6,038**	8,594

1 All impaired due from banks and loans have a specific allowance for credit losses. 2 Interest income on impaired due from banks and loans was CHF 172 million for 2004 and CHF 279 million for 2003. 3 Average balances were calculated from quarterly data.

CHF million	**31.12.04**	31.12.03
Total gross impaired due from banks and loans	**4,861**	7,209
Estimated liquidation proceeds of collateral	**1,758**	2,465
Net impaired due from banks and loans	**3,103**	4,744
Specific allowances and provisions	**2,505**	3,458

Note 9d Non-Performing Due from Banks and Loans

A loan (included in due from banks or loans) is classified as non-performing: 1) when the payment of interest, principal or fees is overdue by more than 90 days and there is no firm evidence that they will be made good by later payments or the liquidation of collateral; 2) when insolvency proceedings have commenced; or 3) when obligations have been restructured on concessionary terms.

CHF million	**31.12.04**	31.12.03
Total gross non-performing due from banks and loans	**3,696**	4,901
Total allowances for credit losses related to non-performing due from banks and loans	**2,264**	2,764
Average total gross non-performing due from banks and loans [1]	**4,338**	5,410

1 Average balances are calculated from quarterly data.

CHF million	**31.12.04**	31.12.03
Non-performing due from banks and loans at the beginning of the year	**4,901**	6,000
Net additions / (reductions)	**(496)**	317
Write-offs and disposals	**(709)**	(1,416)
Non-performing due from banks and loans at the end of the year	**3,696**	4,901

By type of exposure

CHF million	**31.12.04**	31.12.03
Banks	**242**	253
Loans		
Mortgages	**1,011**	1,470
Other	**2,443**	3,178
Total loans	**3,454**	4,648
Total non-performing due from banks and loans	**3,696**	4,901

By geographic region (based on the location of borrower)

CHF million	**31.12.04**	31.12.03
Switzerland	**2,772**	4,012
Rest of Europe / Africa / Middle East	**607**	488
Americas	**220**	366
Asia Pacific	**97**	35
Total non-performing due from banks and loans	**3,696**	4,901

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

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

Balance sheet assets

CHF million	**Cash collateral on securities borrowed 31.12.04**	**Reverse repurchase agreements 31.12.04**	Cash collateral on securities borrowed 31.12.03	Reverse repurchase agreements 31.12.03
By counterparty				
Banks	**167,567**	**243,890**	172,783	237,148
Customers	**52,675**	**113,274**	41,149	83,351
Total	**220,242**	**357,164**	213,932	320,499

Balance sheet liabilities

CHF million	**Cash collateral on securities lent 31.12.04**	**Repurchase agreements 31.12.04**	Cash collateral on securities lent 31.12.03	Repurchase agreements 31.12.03
By counterparty				
Banks	**40,580**	**252,151**	39,587	263,905
Customers	**20,965**	**170,436**	13,691	151,958
Total	**61,545**	**422,587**	53,278	415,863

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms as at 31 December 2004 and 31 December 2003 were as follows:

CHF million	**31.12.04**	31.12.03
Securities received under reverse repurchase and / or securities borrowing arrangements which can be repledged or resold	**949,570**	827,602
thereof repledged / transferred to others in connection with financing activities or to satisfy commitments under short sale transactions	***639,865***	*593,049*

Note 11 Trading Portfolio

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

CHF million	**31.12.04**	31.12.03
Trading portfolio assets		
Money market paper	**44,842**	40,003
thereof pledged as collateral with central banks	***4,706***	*6,208*
thereof pledged as collateral and can be repledged or resold by counterparty	***12,580***	*0*
Debt instruments		
Swiss government and government agencies	**776**	1,011
US Treasury and government agencies	**92,330**	92,250
Other government agencies	**79,340**	69,755
Corporate listed	**140,500**	152,413
Other unlisted	**35,646**	8,457
Total	**348,592**	323,886
thereof pledged as collateral	***147,525***	*130,093*
thereof can be repledged or resold by counterparty	***120,317***	*104,402*
Equity instruments		
Listed	**90,594**	64,116
Unlisted	**18,119**	10,507
Total	**108,713**	74,623
thereof pledged as collateral	***27,140***	*16,426*
thereof can be repledged or resold by counterparty	***26,218***	*16,357*
Traded loans	**16,077**	12,650
Precious metals, commodities [1]	**11,150**	10,610
Total trading portfolio assets	**529,374**	461,772
Trading portfolio liabilities		
Debt instruments		
Swiss government and government agencies	**511**	586
US Treasury and government agencies	**54,848**	52,377
Other government agencies	**49,512**	38,369
Corporate listed	**27,413**	13,537
Other unlisted	**2,600**	10,851
Total	**134,884**	115,720
Equity instruments	**36,149**	28,237
Total trading portfolio liabilities	**171,033**	143,957

1 Commodities basically consist of energy.

Note 12 Financial Investments (available-for-sale)

CHF million	**31.12.04**	31.12.03
Money market paper	**567**	596
Other debt instruments		
Listed	**261**	189
Unlisted	**21**	72
Total	**282**	261
Equity instruments		
Listed	**504**	387
Unlisted	**687**	630
Total	**1,191**	1,017
Private equity investments	**3,009**	3,265
Total financial investments	**5,049**	5,139
thereof eligible for discount at central banks	***86***	*196*

The following tables show the unrealized gains and losses not recognized in the income statement for the years ended 2004 and 2003:

		Unrealized gains / losses not recognized in the income statement				
CHF million	Fair value	Gross gains	Gross losses	Net, before tax	Tax effect	Net, after tax
31 December 2004						
Money market paper	567	0	0	0	0	0
Debt securities issued by Swiss national government and agencies	10	1	0	1	0	1
Debt securities issued by Swiss local governments	20	1	0	1	0	1
Debt securities issued by US Treasury and agencies	0	0	0	0	0	0
Debt securities issued by foreign governments and official institutions	40	0	0	0	0	0
Corporate debt securities	140	7	(4)	3	0	3
Mortgage-backed securities	72	0	0	0	0	0
Other debt securities	0	0	0	0	0	0
Equity securities	1,191	455	(5)	450	(83)	367
Private equity investments	3,009	979	(44)	935	(89)	846
Total	**5,049**	**1,443**	**(53)**	**1,390**	**(172)**	**1,218**

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

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

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

The following table shows the duration of unrealized losses not recognized in the income statement for the year ended 2004:

	Fair Value			Unrealized Losses		
CHF million	Investments with unrealized loss less than 12 months	Investments with unrealized loss more than 12 months	Total	Investments with unrealized loss less than 12 months	Investments with unrealized loss more than 12 months	Total
31 December 2004						
Money market paper	0	0	0	0	0	0
Debt securities issued by the Swiss national government and agencies	0	0	0	0	0	0
Debt securities issued by Swiss local governments	0	0	0	0	0	0
Debt securities issued by US Treasury and agencies	0	0	0	0	0	0
Debt securities issued by foreign governments and official institutions	0	0	0	0	0	0
Corporate debt securities	0	0	0	0	(4)	(4)
Mortgage-backed securities	0	0	0	0	0	0
Other debt securities	0	0	0	0	0	0
Equity securities	1	24	25	(1)	(4)	(5)
Private equity investments	424	82	506	(5)	(39)	(44)
Total	**425**	**106**	**531**	**(6)**	**(47)**	**(53)**

Contractual maturities of the investments in debt instruments [1]

	Within 1 year		1–5 years		5–10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2004								
Swiss national government and agencies	1	5.50	2	4.29	6	3.80	1	4.00
Swiss local governments	10	3.97	10	4.14	0	0	0	0
Foreign governments and official institutions	36	2.13	4	1.25	0	0	0	0
Corporate debt securities	57	2.74	50	2.92	0	0	33	0
Mortgage-backed securities	3	2.50	0	0	5	3.21	64	4.36
Other debt securities	0	0	0	0	0	0	0	0
Total fair value	**107**		**66**		**11**		**98**	

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

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

CHF million	**31.12.04**	31.12.03
Proceeds	**277**	1,379
Gross realized gains	**49**	112
Gross realized losses	**(4)**	(23)

Note 13 Investments in Associates

CHF million	**31.12.04**	31.12.03
Carrying amount at the beginning of the year	**1,616**	705
Additions	**1,896**[1]	88
Disposals	**(684)**	(142)
Transfers	**(378)**	1,001
Income	**65**	123
Dividend paid	**(32)**	(30)
Foreign currency translation	**(56)**	(129)
Carrying amount at the end of the year	**2,427**	1,616

1 Additions of CHF 1,022 million due to the consolidation of Motor-Columbus.

Note 14 Property and Equipment

CHF million	Own used properties	Investment properties	Leasehold improvements	IT, software and communication	Other machines and equipment	Plant and manufacturing equipment	Projects in progress	**31.12.04**	31.12.03
Historical cost									
Balance at the beginning of the year	9,408		2,545	4,241	1,425	0	266	**17,885**	17,390
Additions	232		235	460	123	29	149	**1,228**	1,352
Additions from acquired companies	179		0	0	0	1,880	34	**2,093**	24
Disposals / write-offs[1]	(436)		(175)	(619)	(46)	(11)	(52)	**(1,339)**	(1,030)
Reclassifications	(60)		85	5	(63)	0	(153)	**(186)**	457
Foreign currency translation	6		(100)	(107)	(40)	38	(2)	**(205)**	(308)
Balance at the end of the year	9,329		2,590	3,980	1,399	1,936	242	**19,476**	17,885
Accumulated depreciation									
Balance at the beginning of the year	4,365		1,570	3,334	1,165	0	4	**10,438**	9,870
Depreciation	247		201	775	68	61		**1,352**	1,353
Disposals / write-offs[1]	(7)		(53)	(636)	(43)	(10)	0	**(749)**	(936)
Reclassifications	(42)		2	0	1	0	(4)	**(43)**	330
Foreign currency translation	0		(61)	(98)	(21)	2	0	**(178)**	(179)
Balance at the end of the year	4,563		1,659	3,375	1,170	53	0	**10,820**	10,438
Fair value		41					39	**80**	236
Net book value at the end of the year[2]	4,766	41	931	605	229	1,883	281	**8,736**	7,683

1 Includes write-offs of fully depreciated assets. **2** Fire insurance value of property and equipment is CHF 15,873 million (2003: CHF 14,021 million).

Note 15 Goodwill and Other Intangible Assets

	Goodwill	Other intangible assets				
CHF million	Total	Infrastructure	Customer relationships, contractual rights and other	Total	**31.12.04**	31.12.03
Historical cost						
Balance at the beginning of the year	12,032	958	1,915	2,873	**14,905**	17,022
Additions and reallocations	960	0	1,531	1,531	**2,491**	340
Disposals and other reductions	(62)	0	14	14	**(48)**	(371)
Write-offs [1]	(105)	0	(1)	(1)	**(106)**	(508)
Foreign currency translation	(966)	(78)	(154)	(232)	**(1,198)**	(1,578)
Balance at the end of the year	11,859	880	3,305	4,185	**16,044**	14,905
Accumulated amortization						
Balance at the beginning of the year	2,684	152	540	692	**3,376**	3,326
Amortization	713	53	198	251	**964**	943
Disposals	(9)	0	0	0	**(9)**	(70)
Write-offs [1]	(105)	0	(1)	(1)	**(106)**	(508)
Foreign currency translation	(271)	(21)	(38)	(59)	**(330)**	(315)
Balance at the end of the year	3,012	184	699	883	**3,895**	3,376
Net book value at the end of the year	8,847	696	2,606	3,302	**12,149**	11,529

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

The following table presents the disclosure of goodwill and other intangible assets by business unit for the year ended 31 December 2004.

CHF million	Balance at the beginning of the year	Additions and reallocations	Disposals and other reductions	Amortization	Foreign currency translation	Balance at the end of the year
Goodwill						
Wealth Management	837	486	(5)	(67)	(75)	1,176
Business Banking Switzerland	0	0	0	0	0	0
Global Asset Management	1,401	2	(1)	(129)	(84)	1,189
Investment Bank	3,372	352	(16)	(252)	(257)	3,199
Wealth Management USA	3,315	0	(16)	(197)	(250)	2,852
Private Banks & GAM	421	0	(15)	(68)	(27)	311
Corporate Functions	2	0	0	0	(2)	0
Industrial Holdings	0	120	0	0	0	120
UBS	**9,348**	**960**	**(53)**	**(713)**	**(695)**	**8,847**
Other intangible assets						
Wealth Management	4	169	0	(8)	(6)	159
Business Banking Switzerland	0	0	0	0	0	0
Global Asset Management	0	0	0	0	0	0
Investment Bank	324	158	0	(36)	(28)	418
Wealth Management USA	1,805	0	0	(107)	(138)	1,560
Private Banks & GAM	4	0	15	(6)	1	14
Corporate Functions	44	0	0	(17)	(3)	24
Industrial Holdings	0	1,204	(1)	(77)	1	1,127
UBS	**2,181**	**1,531**	**14**	**(251)**	**(173)**	**3,302**

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

Note 15 Goodwill and Other Intangible Assets (continued)

The estimated, aggregated amortization expenses for other intangible assets are as follows:

CHF million	Other intangible assets
Estimated, aggregated amortization expenses for:	
2005	284
2006	273
2007	264
2008	252
2009	219
2010 and thereafter	1,000
Total	2,292

Due to the issuance of *IFRS 3 Business Combinations,* goodwill amortization will cease from 1 January 2005. In addition, certain intangible assets will be reclassified to goodwill at 1 January 2005 and have been excluded for the purpose of calculating estimated (aggregated) amortization expenses for Other intangible assets. See Notes 1aa) and 1ab) for further details.

Note 16 Other Assets

CHF million	Note	**31.12.04**	31.12.03
Deferred tax assets	21	**2,663**	2,276
Settlement and clearing accounts		**4,747**	2,874
VAT and other tax receivables		**326**	338
Prepaid pension costs		**804**	862
Properties held for resale		**534**	754
Life insurance assets		**19,224**	13,544
Other receivables		**6,486**	4,811
Accounts receivable trade		**66**	0
Total other assets		**34,850**	25,459

Balance Sheet: Liabilities

Note 17 Due to Banks and Customers

CHF million	**31.12.04**	31.12.03
Due to banks	**118,901**	127,012
Due to customers in savings and investment accounts	**101,081**	94,914
Other amounts due to customers	**275,002**	251,719
Total due to customers	**376,083**	346,633
Total due to banks and customers	**494,984**	473,645

Note 18 Financial liabilities designated at fair value and debt issued

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

Subordinated debt securities are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group. At 31 December 2004 and 31 December 2003, the Group had CHF 8,605 million and CHF 8,061 million, respectively, in subordinated debt. Subordinated debt usually pays interest annually and provides for single principal payments upon maturity.

At 31 December 2004 and 31 December 2003, the Group had CHF 91,427 million and CHF 57,953 million, respectively, in unsubordinated debt (excluding money market paper).

The Group issues debt with returns linked to equity, interest rates, foreign exchange and credit instruments or indices. As described in Note 1m), most of these debt instruments have been designated as held at fair value through profit and loss and are presented in a separate line in the balance sheet. For compound debt instruments not designated as held at fair value, derivatives embedded in these instruments are separated from the host debt contract and reported as stand alone derivatives, as described in Note 1o). The amount recorded within Debt Issued represents the host contract after the separation of the embedded derivative. At 31 December 2004 and 31 December 2003, the Group had CHF 148 million and CHF 427 million, respectively, in bonds with attached warrants on UBS shares outstanding. All warrants related to those bonds issued in prior years have expired.

In addition, the Group uses interest rate and foreign exchange derivatives to manage the risks inherent in certain debt issues. In the case of interest rate risk management, the Group applies hedge accounting as discussed in Note 1 – Summary of Significant Accounting Policies and Note 23 – Derivative Instruments. As a result of applying hedge accounting, at 31 December 2004 and 31 December 2003, the carrying value of debt issued is CHF 349 million higher and CHF 411 million higher, respectively, reflecting changes in fair value due to interest rate movements.

The contractual redemption amount at maturity of financial liabilities designated at fair value approximates the carrying value at 31 December 2004.

Note 18 Financial Liabilities Designated at Fair Value and Debt Issued (continued)

Financial liabilities designated at fair value

CHF million	**31.12.04**	31.12.03
Unsecuritized compound debt instruments	**4,110**	0
Bonds and compound debt instruments	**61,646**	35,286
Total	**65,756**	35,286

Debt issued (held at amortized cost)

CHF million	**31.12.04**	31.12.03
Short-term debt: Money market paper issued	**79,442**	58,115
Long-term debt:		
Bonds		
Senior	**28,035**	19,883
Subordinated	**8,605**	8,061
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	**60**	210
Medium-term notes	**1,686**	2,574
Subtotal long-term debt	**38,386**	30,728
Total	**117,828**	88,843

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

Contractual maturity dates

CHF million, except where indicated	2005	2006	2007	2008	2009	2010–2014	Thereafter	**Total 31.12.04**	Total 31.12.03
UBS AG Parent Bank									
Senior debt									
Fixed rate	35,193	7,220	8,879	4,367	5,239	7,405	1,110	**69,413**	52,174
Interest rates (range in %)	0–19	0–16.5	0–11	0–20	0–13.5	0–15	0–10		
Floating rate	6,662	1,369	1,047	527	1,622	2,435	8,923	**22,585**	12,542
Subordinated debt									
Fixed rate	1,488	1,573	1,379	0	524	1,902	1,381	**8,247**	7,514
Interest rates (range in %)	4–8.75	4.25–7.25	5.75–8		5.88	3.13–4.5	7–8.75		
Floating rate	0	0	0	0	0	0	342	**342**	506
Subtotal	43,343	10,162	11,305	4,894	7,385	11,742	11,756	**100,587**	72,736
Subsidiaries									
Senior debt									
Fixed rate	53,099	3,632	1,418	5,628	4,671	1,532	1,010	**70,990**	43,579
Interest rates (range in %)	0–10	0–10	0–10	0–10	0–18.5	0–35	0–35		
Floating rate	718	265	314	810	426	2,121	3,227	**7,881**	7,773
Subordinated debt									
Fixed rate	0	0	0	0	0	0	16	**16**	41
Interest rates (range in %)							9		
Floating rate	0	0	0	0	0	0	0	**0**	0
Subtotal	53,817	3,897	1,732	6,438	5,097	3,653	4,253	**78,887**	51,393
Total	**97,160**	**14,059**	**13,037**	**11,332**	**12,482**	**15,395**	**16,009**	**179,474**	**124,129**

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

Note 19 Other Liabilities

CHF million	Note	31.12.04	31.12.03
Provisions	20	**1,947**	1,361
Provision for commitments and contingent liabilities	9b	**211**	290
Current tax liabilities		**2,298**	1,754
Deferred tax liabilities	21	**2,984**	2,208
VAT and other tax payables		**520**	544
Settlement and clearing accounts		**2,185**	2,608
Obligations under life insurance policies		**22,057**	13,544
Accounts payable		**1,241**	0
Other payables		**8,899**	9,051
Total other liabilities		**42,342**	31,360

Note 20 Provisions

CHF million	Operational / Other [1]	Litigation	Total 31.12.04	Total 31.12.03
Balance at the beginning of the year	855	506	**1,361**	1,375
Additions from acquired companies	698	0	**698**	0
New provisions charged to income	127	414	**541**	330
Capitalized reinstatement costs	66	0	**66**	155
Recoveries	14	26	**40**	40
Provisions applied	(270)	(415)	**(685)**	(452)
Foreign currency translation	(37)	(37)	**(74)**	(87)
Balance at the end of the year	1,453	494	**1,947**	1,361

1 Comprises provisions for: contract risk related to international electricity trading business; annual cost liabilities related to power purchases from joint venture companies where production costs exceed market prices; reinstatement costs; subleases; and transaction process losses.

Note 21 Income Taxes

	For the year ended		
CHF million	**31.12.04**	31.12.03	31.12.02
Domestic			
Current	**1,336**	810	938
Deferred	**37**	118	(34)
Foreign			
Current	**796**	294	249
Deferred	**(34)**	371	(477)
Total income tax expense	**2,135**	1,593	676

The Group made net tax payments, including domestic and foreign taxes, of CHF 1,336 million, CHF 1,104 million and CHF 572 million for the full years of 2004, 2003 and 2002, respectively.

Note 21 Income Taxes (continued)

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

	For the year ended		
CHF million	**31.12.04**	31.12.03	31.12.02
Operating profit before tax	**10,674**	8,177	4,537
Domestic	**6,219**	5,384	6,542
Foreign	**4,455**	2,793	(2,005)
Income taxes at Swiss Statutory rate of 24% in 2004, 24% in 2003 and 25% in 2002, respectively	**2,561**	1,962	1,134
Increase / (decrease) resulting from:			
Applicable tax rates differing from Swiss statutory rate	**139**	(233)	(341)
Tax losses not recognized	**103**	42	51
Previously unrecorded tax losses now recognized	**(249)**	(291)	(349)
Lower taxed income	**(660)**	(366)	(378)
Non-deductible goodwill amortization	**262**	386	291
Other non-deductible expenses	**219**	186	301
Adjustments related to prior years and other	**(296)**	(191)	(122)
Change in deferred tax valuation allowance	**56**	98	89
Income tax expense	**2,135**	1,593	676

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

CHF million	**31.12.04**	31.12.03
Deferred tax assets		
Compensation and benefits	**1,716**	1,538
Allowance for credit losses	**12**	4
Net operating loss carry forwards	**2,246**	2,626
Trading assets	**483**	306
Other	**874**	685
Total	**5,331**	5,159
Valuation allowance	**(2,668)**	(2,883)
Net deferred tax assets	**2,663**	2,276
Deferred tax liabilities		
Property and equipment	**773**	307
Investments	**343**	390
Other provisions	**313**	401
Trading assets	**408**	348
Other	**1,147**	762
Total deferred tax liabilities	**2,984**	2,208

The change in the balance of net deferred tax assets and deferred tax liabilities does not equal the deferred tax expense in those years. This is mainly due to the impact of the acquisition of Motor-Columbus, as well as the effect of foreign currency rate changes on tax assets and liabilities denominated in currencies other than CHF.

Note 21 Income Taxes (continued)

Certain foreign branches and subsidiaries of the Group have deferred tax assets related to net operating loss carry forwards and other items. Due to realization of these assets being uncertain, the Group has established valuation allowances of CHF 2,668 million (CHF 2,883 million at 31 December 2003). For companies that suffered tax losses in either the current or preceding year an amount of CHF 431 million (CHF 542 million at 31 December 2003) has been recognized as deferred tax assets based on expectations that sufficient taxable income will be generated in future years to utilize the tax loss carry forwards.

The Group provides deferred income taxes on undistributed earnings of non-Swiss subsidiaries except to the extent that such earnings are indefinitely invested. In the event these earnings were distributed, additional taxes of approximately CHF 18 million would be due.

At 31 December 2004 net operating loss carry forwards totaling CHF 5,832 million (not recognized as a deferred tax asset) are available to reduce taxable income of certain branches and subsidiaries.

The carry forwards expire as follows:	**31.12.04**
Within 1 year	**46**
From 2 to 4 years	**106**
After 4 years	**5,680**
Total	**5,832**

Note 22 Minority Interests

CHF million	**31.12.04**	31.12.03
Balance at the beginning of the year	**4,073**	3,529
Issuance of trust preferred securities	**0**	372
Other increases	**1,922**[1]	573
Decreases and dividend payments	**(668)**	(357)
Foreign currency translation	**(443)**	(389)
Minority interest in net profit	**450**	345
Balance at the end of the year	**5,334**	4,073

1 Includes 1,742 million CHF related to the acquisition of Motor-Columbus.

Note 23 Derivative Instruments

A derivative is a financial instrument, the value of which is derived from the value of another ('underlying') financial instrument, an index or some other variable. Typically, the underlying is a share, commodity or bond price, an index value or an exchange or interest rate.

The majority of derivative contracts are negotiated as to amount ('notional'), tenor and price between UBS and its counterparties, whether other professionals or customers (OTC). The rest are standardized in terms of their amounts and settlement dates and are bought and sold in organized markets (exchange traded).

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

Derivative instruments are carried at fair value, shown in the balance sheet as separate totals of Positive replacement values (assets) and Negative replacement values (liabilities). Positive replacement values represent the cost to the Group of replacing all transactions with a fair value in the Group's favor if all the relevant counterparties of the Group were to default at the same time, assuming transactions could be replaced instantaneously. Negative replacement values represent the cost to the Group's counterparties of replacing all their transactions with the Group with a fair value in their favor if the Group were to default. Positive and negative replacement values on different transactions are only netted if the transactions are with the same counterparty and the cash flows will be settled on a net basis. Changes in replacement values of derivative instruments are recognized in trading income unless they qualify as hedges for accounting purposes, as explained in Note 1 Summary of Significant Accounting Policies, section o) Derivative instruments and hedging.

Types of derivative instruments

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

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

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

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

Options are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options involving more complex payment structures are also transacted. Options may be traded OTC or on a regulated exchange, and may be traded in the form of a security (warrant).

Derivatives transacted for trading purposes

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

Derivatives transacted for hedging purposes

The Group enters into derivative transactions for the purposes of hedging assets, liabilities, forecast transactions, cash flows and credit exposures. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies as such for accounting purposes.

Derivative transactions may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. These are described under the corresponding headings below. The Group's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 1 o), Derivative instruments and hedging, where terms used in the following sections are explained.

The Group also enters into derivative transactions which provide economic hedges for credit risk exposures but do not meet the requirements for hedge accounting treatment: the Group uses CDSs as economic hedges for credit risk exposures in the loan and traded product portfolios but cannot apply hedge accounting to such positions.

Fair value hedges

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed rate long-term debt due to movements in market interest rates. For the year ended 31 December 2004, the Group recognized a net gain of CHF 22 million and in 2003 a net gain of CHF 21 million, representing the ineffective portions, as defined in Note 1 o), of fair value hedges. The fair values of outstanding derivatives designated as fair value hedges were a CHF 438 million net positive replacement value at 31 December 2004 and a CHF 797 million net positive replacement value at 31 December 2003.

Cash flow hedges of forecast transactions

The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be re-funded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on their contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying the non-trading interest rate risk of the Group, which is hedged with interest rate swaps, the maximum maturity of which is twenty-two years.

The schedule of forecast principal balances on which the expected interest cash flows arise as at 31 December 2004 is as follows.

CHF billion	< 1 year	1–3 years	3–5 years	5–10 years	over 10 years
Cash inflows (Assets)	135	255	180	153	8
Cash outflows (Liabilities)	88	142	87	91	72
Net cash flows	**47**	**113**	**93**	**62**	**(64)**

Gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions are initially recorded in Shareholders' equity as Gains / losses not recognized in the income statement and are transferred to current period earnings when the forecast cash flows affect net profit or loss. The gains and losses on ineffective portions of such derivatives are recognized immediately in the income statement. In 2004, a gain of CHF 13 million was recognized due to hedge ineffectiveness, whereas in 2003 and 2002 no gains or losses from hedge ineffectiveness arose.

As at 31 December 2004 and 2003, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were a CHF 818 million net negative replacement value and a CHF 871 million net negative replacement value, respectively. Swiss franc hedging interest rate swaps terminated during 2003 had a positive replacement value of CHF 867 million. No interest rate swaps designated as cash flow hedges were terminated during 2004. At year-end 2004, unrecognized income of CHF 501 million associated with these swaps has remained deferred in Shareholders' equity. It will be removed from equity when the hedged cash flows impact net profit or loss. Amounts reclassified from Realized gains / losses not recognized in the income statement to current period earnings due to discontinuation of hedge accounting were a CHF 304 million net gain in 2004 and a CHF 7 million net gain in 2003. These amounts were recorded in net interest income.

Risks of derivative instruments

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is managed and controlled as an integral part of the market risk of these portfolios. The Group's approach to market risk is described in Note 29, Financial Instruments Risk Position, part a) Market risk.

Derivative instruments are transacted with many different counterparties, most of whom are also counterparties for other types of business. The credit risk of derivatives is managed and controlled in the context of the Group's overall credit exposure to each counterparty. The Group's approach to credit risk is described in Note 29, Financial Instruments Risk Position, part b) Credit Risk. It should be noted that although the positive replacement values shown on the balance sheet can be an important component of the Group's credit exposure, the positive replacement values for any one counterparty are rarely an adequate reflection of the Group's credit exposure on its derivatives business with that counterparty. This is because, on the one hand, replacement values can increase over time ('potential future exposure'), while on the other hand, exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements with counterparties. Both the exposure measures used by the Group internally to control credit risk and the capital requirements imposed by regulators reflect these additional factors. In Note 29, part b) Credit Risk, the Derivatives positive replacement values shown under Traded products, and in Note 29 part d) Capital Adequacy, the Positive replacement values shown under Balance sheet assets are lower than those shown in the balance sheet and in the tables on the next two pages because they reflect legally enforceable close-out netting arrangements. Conversely, there are additional capital requirements shown in Note 29 part d) Capital Adequacy under off-balance sheet and other positions as Forward and swap contracts and Purchased options, which reflect the additional potential future exposure.

Note 23 Derivative Instruments (continued)

As at 31 December 2004	Term to maturity										Total notional amount
	Within 3 months		3–12 months		1–5 years		Over 5 years		**Total**	**Total**	
CHF million	PRV [1]	NRV [2]	PRV	NRV	PRV	NRV	PRV	NRV	**PRV**	**NRV**	CHF bn
Interest rate contracts											
Over the counter (OTC) contracts											
Forward contracts	440	495	112	144	58	34	90	166	**700**	**839**	843.6
Swaps	4,305	4,002	11,015	11,921	65,419	64,487	76,470	75,287	**157,209**	**155,697**	9,871.0
Options	806	722	1,845	2,239	6,553	8,292	5,942	6,479	**15,146**	**17,732**	1,181.4
Exchange-traded contracts [3]											
Futures											2,073.0
Options	86	87	133	103	5	5			**224**	**195**	817.9
Total	**5,637**	**5,306**	**13,105**	**14,407**	**72,035**	**72,818**	**82,502**	**81,932**	**173,279**	**174,463**	**14,786.9**
Credit derivative contracts											
Over the counter (OTC) contracts											
Credit default swaps	7	10	51	99	3,819	5,409	2,401	1,501	**6,278**	**7,019**	639.2
Total rate of return swaps	31	15	57	69	433	1,076	376	272	**897**	**1,432**	27.1
Total	**38**	**25**	**108**	**168**	**4,252**	**6,485**	**2,777**	**1,773**	**7,175**	**8,451**	**666.3**
Foreign exchange contracts											
Over the counter (OTC) contracts											
Forward contracts	3,496	4,585	807	1,316	186	449	68	240	**4,557**	**6,590**	355.6
Interest and currency swaps	27,587	28,094	15,101	14,907	20,897	15,484	7,189	7,240	**70,774**	**65,725**	2,811.4
Options	2,224	2,202	2,809	2,553	508	503	4	4	**5,545**	**5,262**	559.2
Exchange-traded contracts [3]											
Futures											2.9
Options	9	9	81	79	11	10			**101**	**98**	5.9
Total	**33,316**	**34,890**	**18,798**	**18,855**	**21,602**	**16,446**	**7,261**	**7,484**	**80,977**	**77,675**	**3,735.0**
Precious metals contracts											
Over the counter (OTC) contracts											
Forward contracts	130	113	150	201	447	192	9	24	**736**	**530**	13.5
Options	156	115	281	251	683	615	34	28	**1,154**	**1,009**	43.4
Exchange-traded contracts [3]											
Futures											0.8
Options	215	237	195	259	18	33			**428**	**529**	2.5
Total	**501**	**465**	**626**	**711**	**1,148**	**840**	**43**	**52**	**2,318**	**2,068**	**60.2**
Equity / index contracts											
Over the counter (OTC) contracts											
Forward contracts	795	506	572	419	1,912	928	129	24	**3,408**	**1,877**	103.6
Options	2,017	7,807	2,057	7,245	7,367	16,290	455	2,144	**11,896**	**33,486**	223.6
Exchange-traded contracts [3]											
Futures											8.1
Options	1,212	1,040	947	1,142	1,711	1,979	98	109	**3,968**	**4,270**	401.6
Total	**4,024**	**9,353**	**3,576**	**8,806**	**10,990**	**19,197**	**682**	**2,277**	**19,272**	**39,633**	**736.9**
Commodity contracts											
Over the counter (OTC) contracts											
Forward contracts	338	343	519	491	420	379			**1,277**	**1,213**	35.4
Options	76	73	85	79	118	57			**279**	**209**	4.7
Total	**414**	**416**	**604**	**570**	**538**	**436**	**0**	**0**	**1,556**	**1,422**	**40.1**
Total derivative instruments	**43,930**	**50,455**	**36,817**	**43,517**	**110,565**	**116,222**	**93,265**	**93,518**	**284,577**	**303,712**	

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

Note 23 Derivative Instruments (continued)

As at 31 December 2003	Term to maturity										
	Within 3 months		3–12 months		1–5 years		Over 5 years				Total notional amount
CHF million	PRV [1]	NRV [2]	PRV	NRV	PRV	NRV	PRV	NRV	**Total PRV**	**Total NRV**	CHF bn
Interest rate contracts											
Over the counter (OTC) contracts											
Forward contracts	424	586	258	312	71	130	5	4	**758**	**1,032**	1,128.4
Swaps	3,831	4,388	8,698	5,991	64,216	65,075	52,019	50,517	**128,764**	**125,971**	8,065.4
Options	464	978	868	992	4,686	5,967	4,223	5,334	**10,241**	**13,271**	815.4
Exchange-traded contracts [3]											
Futures											243.7
Options	7	9	2	8					**9**	**17**	63.4
Total	**4,726**	**5,961**	**9,826**	**7,303**	**68,973**	**71,172**	**56,247**	**55,855**	**139,772**	**140,291**	**10,316.3**
Credit derivative contracts											
Over the counter (OTC) contracts											
Credit default swaps	109	102	39	61	3,443	3,536	1,928	1,880	**5,519**	**5,579**	289.3
Total rate of return swaps	27	2	29	576	197	470	112	305	**365**	**1,353**	12.0
Total	**136**	**104**	**68**	**637**	**3,640**	**4,006**	**2,040**	**2,185**	**5,884**	**6,932**	**301.3**
Foreign exchange contracts											
Over the counter (OTC) contracts											
Forward contracts	3,045	3,879	1,978	2,573	161	317	15	12	**5,199**	**6,781**	298.4
Interest and currency swaps	24,929	25,242	14,258	12,428	17,780	14,394	6,002	5,250	**62,969**	**57,314**	2,254.4
Options	3,232	3,348	3,211	2,550	513	356	9	1	**6,965**	**6,255**	576.8
Exchange-traded contracts [3]											
Futures											5.0
Options	3	3	119	116					**122**	**119**	13.2
Total	**31,209**	**32,472**	**19,566**	**17,667**	**18,454**	**15,067**	**6,026**	**5,263**	**75,255**	**70,469**	**3,147.8**
Precious metals contracts											
Over the counter (OTC) contracts											
Forward contracts	246	247	377	305	333	270	18	23	**974**	**845**	15.9
Options	304	193	308	386	668	629	116	54	**1,396**	**1,262**	35.1
Exchange-traded contracts [3]											
Futures											1.1
Options	9	40	21	63	3	4			**33**	**107**	2.3
Total	**559**	**480**	**706**	**754**	**1,004**	**903**	**134**	**77**	**2,403**	**2,214**	**54.4**
Equity / index contracts											
Over the counter (OTC) contracts											
Forward contracts	509	529	763	583	917	449	1,408	501	**3,597**	**2,062**	57.9
Options	1,841	2,788	3,482	7,847	11,111	13,646	1,328	4,560	**17,762**	**28,841**	213.8
Exchange-traded contracts [3]											
Futures											8.6
Options	708	858	892	1,363	883	768	54	117	**2,537**	**3,106**	62.6
Total	**3,058**	**4,175**	**5,137**	**9,793**	**12,911**	**14,863**	**2,790**	**5,178**	**23,896**	**34,009**	**342.9**
Commodity contracts											
Over the counter (OTC) contracts											
Forward contracts	206	181	456	424	93	42			**755**	**647**	10.6
Options	168	153	73	53					**241**	**206**	1.6
Total	**374**	**334**	**529**	**477**	**93**	**42**	**0**	**0**	**996**	**853**	**12.2**
Total derivative instruments	**40,062**	**43,526**	**35,832**	**36,631**	**105,075**	**106,053**	**67,237**	**68,558**	**248,206**	**254,768**	

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

Off-Balance Sheet Information

Note 24 Fiduciary Transactions

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

CHF million	**31.12.04**	31.12.03
Placements with third parties	**39,588**	37,851
Fiduciary credits and other fiduciary financial transactions	**57**	74
Total fiduciary transactions	**39,645**	37,925

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

Note 25 Commitments and Contingent Liabilities

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

The contractual amount of these instruments is the maximum amount at risk for the Group if the customer fails to meet its obligations. The risk is similar to the risk involved in extending loan facilities and is monitored with the same risk control processes and specific credit risk policies. For the years ended 31 December 2004, 2003 and 2002 the Group recognized a CHF 31 million credit loss expense, CHF 23 million credit loss recovery and CHF 13 million credit loss expense, respectively, related to obligations incurred for contingencies and commitments.

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

Note 25 Commitments and Contingent Liabilities (continued)

CHF million	**31.12.04**	31.12.03
Contingent liabilities		
Credit guarantees and similar instruments [1]	**10,252**	10,832
Sub-participations	**(621)**	(765)
Total	**9,631**	10,067
Performance guarantees and similar instruments [2]	**2,536**	2,760
Sub-participations	**(415)**	(276)
Total	**2,121**	2,484
Irrevocable commitments and documentary credits	**2,106**	1,971
Sub-participations	**(272)**	(373)
Total	**1,834**	1,598
Gross contingent liabilities	**14,894**	15,563
Sub-participations	**(1,308)**	(1,414)
Net contingent liabilities	**13,586**	14,149
Irrevocable commitments		
Undrawn irrevocable credit facilities	**53,168**	46,623
Sub-participations	**(7)**	(235)
Total	**53,161**	46,388
Liabilities for calls on shares and other equities	**19**	337
Gross irrevocable commitments	**53,187**	46,960
Sub-participations	**(7)**	(235)
Net irrevocable commitments	**53,180**	46,725
Gross commitments and contingent liabilities	**68,081**	62,523
Sub-participations	**(1,315)**	(1,649)
Net commitments and contingent liabilities	**66,766**	60,874
Market value guarantees in form of written put options	**352,509**	218,638

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

As part of its trading and market-making activities, UBS writes put options on a broad range of underlyings. For writing put options, UBS receives a premium, which is recognized as negative replacement value on the balance sheet. The contract volume of a written put option, which is the number of units of the underlying multiplied by the exercise price per unit, is considered a market price guarantee issued, because the option holder is entitled to make UBS purchase the underlying at the stated exercise price. The fair value of all written put options is recognized on the balance sheet as negative replacement value, which is significantly lower than the underlying total contract volume that represents the maximum potential payment UBS could be required to make upon exercise of the puts. The exposure from writing put options is managed through UBS's standard risk management process at a level that is within the set risk limits. Accordingly, neither the underlying total contract volume nor the negative replacement value are indicative of the actual risk exposure arising from written put options.

Note 25 Commitments and Contingent Liabilities (continued)

CHF million	Mortgage collateral	Other collateral	Unsecured	Total
Overview of collateral				
Gross contingent liabilities	347	7,661	6,886	**14,894**
Gross irrevocable commitments	3,252	22,384	27,532	**53,168**
Liabilities for calls on shares and other equities	0	0	19	**19**
Total 31.12.04	**3,599**	**30,045**	**34,437**	**68,081**
Total 31.12.03	2,637	30,870	29,016	**62,523**

Other commitments
The Group enters into commitments to fund external private equity funds and investments, which typically expire within five years. The commitments themselves do not involve credit or market risk as the funds purchase investments at market value at the time the commitments are drawn. The maximum amount available to fund these investments at 31 December 2004 and 31 December 2003 was CHF 1,019 million and CHF 1,537 million, respectively.

Note 26 Operating Lease Commitments

At 31 December 2004, UBS was obligated under a number of non-cancellable operating leases for premises and equipment used primarily for banking purposes. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions as well as rent adjustments based on price indices. However, the lease agreements do not contain contingent rent payment clauses and purchase options. The leases also do not impose any restrictions on UBS's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

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

CHF million	31.12.04
Operating leases due	
2005	**886**
2006	**805**
2007	**719**
2008	**647**
2009	**584**
2010 and thereafter	**4,060**
Subtotal commitments for minimum payments under operating leases	**7,701**
Less: Sublease rentals under non-cancellable leases	**547**
Net commitments for minimum payments under operating leases	**7,154**

Operating expenses include CHF 1,214 million and CHF 1,233 million of gross operating lease rentals which were reduced by CHF 43 million and CHF 43 million of sublease income for the years ended 31 December 2004 and 31 December 2003, respectively. Operating expenses for the year ended 31 December 2002 include CHF 1,193 million in respect of operating lease rentals.

Additional Information

Note 27 Pledged Assets

Assets are pledged as collateral for collateralized credit lines with central banks, loans from central mortgage institutions, deposit guarantees for savings banks, security deposits relating to stock exchange membership and mortgages on the Group's property. No financial assets are pledged for contingent liabilities. The following table shows additional information about assets pledged or assigned as security for liabilities and assets subject to reservation of title for the years ended 31 December 2004 and 31 December 2003.

CHF million	**Carrying amount 31.12.04**	**Related liability 31.12.04**	Carrying amount 31.12.03	Related liability 31.12.03
Mortgage loans	**175**	**60**	428	209
Securities	**193,028**	**131,462**	157,639	121,984
Property and equipment	**320**	**0**	0	0
Total pledged assets	**193,523**	**131,522**	158,067	122,193

Note 28 Litigation

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

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

Note 29 Financial Instruments Risk Position

This section presents information about UBS's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:
- market risk (part a) is exposure to market variables such as interest rates, exchange rates and equity markets
- credit risk (part b) is the risk of loss resulting from client or counterparty default and arises on credit exposure in all forms, including settlement risk
- liquidity and funding risk (part c) is the risk that UBS is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.

Part d) presents and explains the Group's regulatory capital position.

Sections a) to d) generally refer only to UBS's financial businesses, while section e) covers the financial instruments risk positions of the industrial holding Motor-Columbus through its operating subsidiary Atel. The tables in this note which are based on risk information include only the financial businesses of the Group. Those which present an analysis of the whole balance sheet include the positions of Motor-Columbus.

It should be noted that, in management's view, any representation of risk at a specific date offers only a snapshot of the risks taken, since both trading and non-trading positions can vary significantly on a daily basis, because they are actively managed. As such, it may not be representative of the level of risk at other times.

Note 29 Financial Instruments Risk Position (continued)
a) Market Risk

(i) Overview
Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity markets, and others which may be only indirectly observable such as volatilities and correlations. The risk of price movements on securities and other obligations in tradable form resulting from general credit and country risk factors and events specific to individual issuers is also considered market risk.

Market risk is incurred in UBS primarily through trading activities, which are centered in the Investment Bank but also arise, to a much lesser extent, in the Wealth Management businesses. 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.

Additionally, Group Treasury assumes material non-trading market risk positions that arise from its balance sheet and capital management activities. There are also smaller non-trading market risk positions, predominantly interest rate risks, in the other Business Groups.

Each Business Group has a Chief Risk Officer (CRO), reporting functionally to the Group CRO, responsible for independent risk control of market risk.

Market risk authority, including both approval of market risk limits and approval of market risks in large or complex transactions and securities underwritings, is exercised by the Chairman's Office and the GEB and is further delegated on an ad personam basis to the Group CRO and Market Risk Officers within the Business Groups.

Market risk measures and controls are applied to all trading activities, to foreign exchange, precious metal and energy exposures wherever they arise, and to interest rate risk in the banking books of all Business Groups including Group Treasury and the independent private banks.

The principal portfolio risk measures and limits on market risk are Value at Risk (VaR) and stress loss. VaR is an estimate of the potential loss on the current portfolio from adverse market movements, based on historical market movements, assuming a specified time horizon before positions can be adjusted (holding period), and expressed as the maximum potential loss that, with a specified level of confidence (probability), will not be exceeded. Stress loss is assessed against a set of forward-looking scenarios using stress moves in market variables, which are regularly reviewed. Complementary controls are also applied, where appropriate, to prevent undue concentrations, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk variables, such as individual interest or exchange rates, and on positions in the securities of individual issuers ('issuer risk').

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

The table sets out the extent to which UBS was exposed to interest rate risk at 31 December 2004 and 2003. It shows the net impact of a one basis point (0.01%) increase in market interest rates across all time bands on the fair values of interest rate sensitive positions, both on- and off-balance sheet. The impact of such an increase in interest rates depends on UBS's net asset or net liability position in each category, currency and time band in the table. A negative amount in the table reflects a potential reduction in fair value, while a positive amount reflects a potential increase in fair value.

Note 29 Financial Instruments Risk Position (continued)
a) Market Risk (continued)

Interest rate sensitivity position[1]

		Interest rate sensitivity by time bands at 31.12.04					
CHF thousand gain / (loss) per basis point increase		Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	**Total**
CHF	Trading	65	69	(83)	24	120	**195**
	Non-trading	(203)	(13)	(313)	(3,575)	(2,641)	**(6,745)**
USD	Trading	49	(236)	(1,184)	886	127	**(358)**
	Non-trading	30	(158)	(121)	(2,010)	(2,472)	**(4,731)**
EUR	Trading	192	(276)	342	(366)	(814)	**(922)**
	Non-trading	(8)	1	(22)	(180)	(200)	**(409)**
GBP	Trading	(19)	52	60	(380)	(32)	**(319)**
	Non-trading	(1)	(7)	(34)	(290)	270	**(62)**
JPY	Trading	(17)	630	(562)	(1,804)	781	**(972)**
	Non-trading	(1)	1	(1)	(4)	(1)	**(6)**
Other	Trading	75	(121)	(8)	5	145	**96**
	Non-trading	(1)	1	1	(1)	(2)	**(2)**

		Interest rate sensitivity by time bands at 31.12.03					
CHF thousand gain / (loss) per basis point increase		Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	**Total**
CHF	Trading	19	(185)	(6)	311	(91)	**48**
	Non-trading	(38)	(99)	(359)	(4,288)	(3,587)	**(8,371)**
USD	Trading	(17)	(690)	(638)	(941)	1,190	**(1,096)**
	Non-trading	50	(55)	(92)	(2,213)	(1,702)	**(4,012)**
EUR	Trading	(84)	(206)	398	(1,018)	649	**(261)**
	Non-trading	4	6	(21)	(131)	(196)	**(338)**
GBP	Trading	24	31	131	(736)	536	**(14)**
	Non-trading	0	(10)	(55)	(40)	481	**376**
JPY	Trading	59	(326)	(34)	410	(273)	**(164)**
	Non-trading	(4)	3	(1)	(5)	(2)	**(9)**
Other	Trading	(43)	22	80	(464)	335	**(70)**
	Non-trading	(1)	0	(6)	(1)	(3)	**(11)**

1 Positions in Industrial Holdings are excluded.

Positions shown as 'trading' are those which contribute to market risk regulatory capital, i. e. those considered 'trading book' for regulatory capital purposes (see section d). 'Non-trading' includes all other interest rate sensitive assets and liabilities including derivatives designated as hedges for accounting purposes (as explained in Note 23) and off balance sheet commitments on which an interest rate has been fixed. This distinction differs somewhat from the accounting classification of trading and non-trading assets and liabilities.

Details of money market paper and debt instruments defined as trading portfolio for accounting purposes are included in Note 11 and of debt instruments defined as financial investments for accounting purposes in Note 12. Details of derivatives are shown in Note 23, but it should be noted that interest rate risk arises not only on interest rate contracts but also on other forwards, swaps and options, in particular on forward foreign exchange contracts. Off-balance sheet commitments on which an interest rate has been fixed are primarily forward starting fixed term loans.

Trading
The major part of this risk arises in the Investment Bank's Fixed Income Rates and Currencies business.

Non-trading
Interest rate risk is inherent in many of UBS's businesses and arises from factors such as differences in timing between contractual maturity or re-pricing of assets, liabilities and derivative instruments.

Most non-trading interest rate risk is captured at the point of business origination and transferred to a risk management unit – primarily the Cash and Collateral Trading unit of the Investment Bank or Group Treasury – where it is managed with-

Note 29 Financial Instruments Risk Position (continued)
a) Market Risk (continued)

in the market risk limits described in (a)(i). The margin risks embedded in retail products remain with, and are subject to additional analysis and control by, the originating business units.

Many client products have no contractual maturity date or directly market-linked rate. Their interest rate risk is transferred on a pooled basis through "replication" portfolios – portfolios of revolving transactions between the originating business unit and Group Treasury at market rates designed to approximate their average cash flow and re-pricing behavior. The structure and parameters of the replication portfolios are set in accordance with long-term observations of market and client behavior, and are reviewed periodically.

Interest rate risk also arises from balance sheet items such as the financing of bank property and investments in equity of associated companies, and from the investment of the Group's equity. The risk on these items is also transferred to Group Treasury, through replicating portfolios designed to approximate the desired funding or investment profile.

The Group's equity is invested at longer-term fixed interest rates in CHF, USD, EUR and GBP with an average duration of between three and four years, in line with strategic investment targets set by the Group Executive Board (GEB). These investments account for CHF 12.6 million of the non-trading interest rate sensitivity, with CHF 6.6 million arising in CHF, CHF 5.0 million in USD and the remainder in EUR and GBP. The interest rate sensitivity of these investments is directly related to the chosen investment duration and it should be recognized that, although investing in significantly shorter maturities would lead to a reduction in apparent interest rate sensitivity, it would lead to higher volatility in interest earnings.

(iii) Currency Risk
Currency risk is the risk of loss resulting from changes in exchange rates.

Trading
UBS is an active participant in currency markets and carries currency risk from these trading activities, conducted primarily in the Investment Bank. These trading exposures are subject to VaR, stress and concentration limits as described in (a)(i). Details of foreign exchange contracts, most of which arise from trading activities and contribute to currency risk, are shown in Note 23.

Non-Trading
UBS's reporting currency is the Swiss franc but its assets, liabilities, income and expense are denominated in many currencies, with significant amounts in USD, EUR and GBP, as well as CHF.

Reported profits or losses are exchanged monthly into CHF, reducing volatility in the Group's earnings from subsequent changes in exchange rates. Group Treasury also, from time to time, proactively hedges significant expected foreign currency earnings / costs (mainly USD, EUR and GBP) within a time horizon up to one year, in accordance with the instructions of the GEB and subject to its VaR limit. Economic hedging strategies employed include a cost-efficient option strategy, providing a safety net against unfavorable currency fluctuations while preserving upside potential.

The Group's equity is invested in a diversified portfolio broadly reflecting the currency distribution of its risk-weighted assets in CHF, USD, EUR and GBP. This creates structural foreign currency exposures, the gains or losses on which are recorded through equity, leading to fluctuations in UBS's capital base in line with the fluctuations in risk-weighted assets, thereby protecting the BIS Tier 1 capital ratio.

At 31 December 2004, the largest combined trading and non-trading currency exposures against the Swiss franc were in USD (short USD 224 million), EUR (short EUR 664 million) and GBP (long GBP 221 million). At 31 December 2003 the largest exposures were in USD (short USD 723 million), EUR (long EUR 71 million) and GBP (short GBP 40 million).

(iv) Equity Risk
Equity risk is the risk of loss resulting from changes in the levels of equity indices and values of individual stocks.

The Investment Bank is a significant player in major equity markets and carries equity risk from these activities. These exposures are subject to VaR, stress and concentration limits as described in (a)(i) and, in the case of individual stocks, to issuer risk controls as described in (a)(v).

Details of equities defined as trading portfolio for accounting purposes are given in Note 11. Details of equity derivatives contracts (on indices and individual equities), which arise primarily from the Investment Bank's trading activities, are shown in Note 23.

(v) Issuer Risk
The values of tradable assets – equities, bonds and other debt instruments (including money market paper and tradable loans) held for trading – are affected by factors specific to individual issuers as well as general market moves. This can include short-term factors influencing price but also more fundamental causes including severe financial deterioration.

As an active trader and market maker in equities, bonds and other securities, the Investment Bank holds positions in tradable assets, which are not only included in VaR but also subject to concentration limits on exposure to individual issuers. This includes both exposures arising from physical holdings, and exposures from derivatives based on such assets.

Note 29 Financial Instruments Risk Position (continued)
b) Credit Risk

Credit risk represents the loss which UBS would suffer if a client or counterparty failed to meet its contractual obligations. It is inherent in traditional banking products – loans, commitments to lend and other contingent liabilities, such as letters of credit – and in traded products – derivative contracts such as forwards, swaps and options, and repo and securities borrowing and lending transactions. Some of these products are accounted for on an amortized cost basis while others are recorded in the financial statements at fair value. Banking products are generally carried at amortized cost, but loans which have been originated by the Group for subsequent syndication or distribution through the cash markets, are carried at fair value. Within traded products, OTC derivatives are carried at fair value, while repos and securities borrowing and lending transactions are accounted for on an amortized cost basis. Regardless of the accounting treatment, all banking and traded products are controlled under the same credit risk framework.

All Business Groups taking material credit risk have independent credit risk control functions headed by Chief Credit Officers (CCOs) reporting functionally to the Group CCO. They are responsible for the independent control of credit risk including counterparty ratings and credit risk assessment. Credit risk authority, including authority to establish allowances and provisions and credit valuation adjustments for impaired claims, is exercised by the Chairman's Office and the GEB and is further delegated on an ad personam basis to the Group CCO and to Credit Officers within the Business Groups.

For credit control purposes, credit exposure is measured for banking products as the face value amount. For traded products, credit exposure is measured as the current replacement value of contracts plus potential future changes in replacement value, taking account of master netting agreements with individual counterparties where they are considered enforceable in insolvency. UBS is an active user of credit derivatives to hedge credit risk on individual names and on a portfolio basis in banking and traded products. In line with general market trends, UBS has also entered into bilateral collateral agreements with market participants to mitigate credit risk on OTC derivatives. Individual hedges and collateral arrangements are reflected in our internal credit exposure measurement, and credit limits are applied on this basis.

In the table, the amounts shown as credit exposure differ somewhat from the internal credit view. For banking products, they are based on the accounting view, which, for example, does not reflect risk reduction resulting from credit hedges and collateral received, but does include cash collateral posted by UBS against negative replacement values on derivatives. For traded products, positive and negative replacement values are shown net only where permitted for regulatory capital purposes (consistent with the table in part d) Capital Adequacy), and potential future exposure is not included. This in turn differs from the accounting treatment of traded products in several respects. OTC derivatives are represented on the balance sheet by positive and negative replacement values, which are netted only if the cash flows will actually be settled net, which is not generally the case – for details see Note 23. Securities borrowing and lending transactions are represented on the balance sheet by the gross values of cash collateral placed with or received from counterparties while repos / reverse repos are represented by the gross amounts of the forward commitments – for details see Note 10 – the credit exposure generally being only a small percentage of these balance sheet amounts.

Breakdown of credit exposure[1]

Amounts for each product type are shown gross before allowances and provisions.

CHF million	**31.12.04**	31.12.03
Banking products		
Loans to customers and due from banks[2]	**269,518**	247,995
Contingent liabilities (gross – before participations)[3]	**14,894**	15,563
Undrawn irrevocable credit facilities (gross – before participations)[3]	**53,168**	46,623
Traded products[4]		
Derivatives positive replacement values (before collateral but after netting)[5]	**78,317**	84,334
Securities borrowing and lending, repos and reverse repos[6,7]	**24,768**	30,833
Allowances and provisions[8]	**(2,883)**	(3,954)
Total credit exposure net of allowances and provisions	**437,782**	421,394

1 Positions in Industrial Holdings are excluded. 2 See Note 9a – Due from Banks and Loans for further information. 3 See Note 25 – Commitments and Contingent Liabilities for further information. 4 Does not include potential future credit exposure arising from changes in value of products with variable value. Potential future credit exposure is, however, included in internal measures of credit exposure for risk management and control purposes. 5 Replacement values are shown net where netting is permitted for regulatory capital purposes. See also Note 23 – Derivative Instruments for further information. 6 This figure represents the difference in value between the cash or securities lent or given as collateral to counterparties, and the value of cash or securities borrowed or taken as collateral from the same counterparties under stock borrow / lend and repo / reverse repo transactions. 7 See Note 10 – Securities Borrowing, Securities Lending, Repurchase and Reverse Repurchase Agreements for further information about these types of transactions. 8 See Note 9b – Allowances and Provisions for Credit Losses for further information.

Note 29 Financial Instruments Risk Position (continued)
b) Credit Risk (continued)

UBS manages and controls concentrations of credit risk wherever they are identified, in particular to individual counterparties and groups, and to industries and countries. UBS sets limits on its credit exposure to both individual counterparties and counterparty groups. Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Stress measures are applied to assess the impact of variations in default rates and asset values, taking into account risk concentrations in each portfolio. Stress loss limits are applied where considered necessary, including limits on credit exposure to all but the best-rated countries. With the exceptions of private households (CHF 135,397 million), banks and financial institutions (CHF 75,311 million) and real estate and rentals in Switzerland (CHF 11,466 million), there are no material concentrations of loans at 31 December 2004, and the vast majority of those to private households and to real estate and rentals are secured. Derivatives exposure is predominantly to investment grade banks and financial institutions.

Impaired claims

UBS classifies a claim as impaired if it considers that it will suffer a loss on that claim as a result of the obligor's inability to meet its commitments (including interest payments, principal repayments or other payments due, for example on a derivative product or under a guarantee) according to the contractual terms, and after realization of any available collateral. Loans are further classified as non-performing where payment of interest, principal or fees is overdue by more than 90 days and there is no firm evidence that they will be made good by later payments or the liquidation of collateral, or where insolvency proceedings have commenced or obligations have been restructured on concessionary terms.

The recognition of impairment in the financial statements depends on the accounting treatment of the claim. For products accounted for on an amortized cost basis, impairment is recognized through the creation of a provision or allowance, which is charged to the income statement as credit loss expense. Allowances or provisions are determined such that the carrying values of impaired claims are consistent with the principles of IAS 39. For products recorded at fair value, impairment is recognized through a credit valuation adjustment, which is charged to the income statement through the net trading income line.

UBS also assesses portfolios of claims with similar credit risk characteristics for collective impairment in accordance with IAS 39 (amortized cost products only). A portfolio is considered impaired on a collective basis if there is objective evidence to suggest that it contains impaired obligations but the individual impaired items cannot yet be identified.

For further information about accounting policy for allowances and provisions for credit losses see Note 1q). For the amounts of allowance and provision for credit losses and amounts of impaired and non-performing loans, see Note 9 b), c) and d). It should be noted that allowances and provisions for collective impairment are included in the total of allowances and provisions in the table on the previous page, and in notes 9a and 9b, but that portfolios against which collective loan loss provisions have been established are not included in the totals of impaired loans in Note 9c.

The occurrence of 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 reflect the fact that future credit losses are implicit in the current portfolio, and to encourage risk-adjusted pricing for products carried at amortized cost, UBS uses the concept of 'expected loss' for management purposes. Expected loss is a forward looking, statistically based concept which is used to estimate the annual costs that will arise, on average over time, from positions in the current portfolio that become impaired. It is derived from the probability of default (given by the counterparty rating), current and likely future exposure to the counterparty and the likely severity of the loss should default occur. Note 2a includes two tables: the first shows Credit loss expense, as recorded in the Financial Statements, for each Business Group; the second reflects an 'Adjusted expected credit loss' for each Business Group, which is the expected credit loss on its portfolio, plus the difference between Credit loss expense and expected credit loss, amortized over a three-year period. The difference between the total of these Adjusted expected credit loss figures and the Credit loss expense recorded at Group level for financial reporting is reported in Corporate Functions.

Note 29 Financial Instruments Risk Position (continued)
c) Liquidity Risk

UBS's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without compromising its ability to respond quickly to strategic market opportunities. A centralized approach is adopted, based on an integrated framework incorporating the assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors. Scenarios encompass not only normal market conditions but also stressed conditions, including both UBS-specific and general market crises. The impact on both trading and client businesses is considered, taking account of potential collateral with which funds might be raised, and the possibility that customers might seek to withdraw funds or draw down unutilized credit lines.

The breakdown by contractual maturity of assets and liabilities, which is the basis of the "normal market conditions" scenario, at 31 December 2004 is shown in the table below.

Maturity analysis of assets and liabilities

CHF billion	On demand	Subject to notice [1]	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Assets							
Cash and balances with central banks	6.0						6.0
Due from banks	20.0	0.4	10.5	1.1	2.1	1.2	35.3
Cash collateral on securities borrowed	0.0	186.0	32.0	2.1	0.1	0.0	220.2
Reverse repurchase agreements	0.0	49.6	255.0	46.0	5.5	1.1	357.2
Trading portfolio assets [2]	370.3	0.0	0.0	0.0	0.0	0.0	370.3
Trading portfolio assets pledged as collateral	159.1	0.0	0.0	0.0	0.0	0.0	159.1
Positive replacement values [2]	284.6	0.0	0.0	0.0	0.0	0.0	284.6
Financial assets designated at fair value	0.7	0.0	0.0	0.0	0.0	0.0	0.7
Loans	23.1	35.8	47.3	30.2	79.6	16.4	232.4
Financial investments	4.1	0.0	0.6	0.1	0.2	0.1	5.1
Accrued income and prepaid expenses	5.9	0.0	0.0	0.0	0.0	0.0	5.9
Investments in associates	0.0	0.0	0.0	0.0	0.0	2.4	2.4
Property and equipment	0.0	0.0	0.0	0.0	0.0	8.7	8.7
Goodwill and other intangible assets	0.0	0.0	0.0	0.0	0.0	12.1	12.1
Other assets	15.6	19.2	0.0	0.0	0.0	0.0	34.8
Total 31.12.04	**889.4**	**291.0**	**345.4**	**79.5**	**87.5**	**42.0**	**1,734.8**
Total 31.12.03	832.4	260.6	271.2	82.6	72.2	31.1	1,550.1
Liabilities							
Due to banks	30.8	6.5	77.8	1.5	1.9	0.4	118.9
Cash collateral on securities lent	0.0	51.7	9.8	0.0	0.0	0.0	61.5
Repurchase agreements	0.0	20.2	363.2	37.8	1.2	0.2	422.6
Trading portfolio liabilities [2]	171.0	0.0	0.0	0.0	0.0	0.0	171.0
Negative replacement values [2]	303.7	0.0	0.0	0.0	0.0	0.0	303.7
Financial liabilities designated at fair value	0.0	0.0	2.3	9.0	46.4	8.1	65.8
Due to customers	119.1	112.0	135.4	5.2	1.5	2.9	376.1
Accrued expenses and deferred income	14.7	0.0	0.0	0.0	0.0	0.0	14.7
Debt issued	0.0	0.0	74.9	12.1	5.0	25.8	117.8
Other liabilities	20.3	22.1	0.0	0.0	0.0	0.0	42.4
Total 31.12.04	**659.6**	**212.5**	**663.4**	**65.6**	**56.0**	**37.4**	**1,694.5**
Total 31.12.03	795.0	188.0	338.5	130.4	36.5	22.3	1,510.7

1 Deposits without a fixed term, on which notice of withdrawal or termination has not been given (such funds may be withdrawn by the depositor or repaid by the borrower subject to an agreed period of notice which can be from 2 days to 6 months). **2** Trading and derivative positions are shown within 'on demand' which management believes most accurately reflects the short-term nature of trading activities. The contractual maturity of the instruments may however extend over significantly longer periods.

Note 29 Financial Instruments Risk Position (continued)
d) Capital Adequacy

The adequacy of UBS's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios"). The BIS ratios compare the amount of eligible capital (in total and Tier 1) with the total of risk-weighted assets (RWAs).

While UBS monitors and reports its capital ratios under BIS rules, it is the rules established by the Swiss regulator, the EBK, which ultimately determine the regulatory capital required to underpin its business, and these rules, on balance, result in higher RWAs than the BIS rules. As a result, UBS's ratios are lower when calculated under the EBK regulations than under the BIS rules.

BIS Eligible capital

BIS eligible capital consists of two parts. Tier 1 capital comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and minority interests less accrued dividends, net long positions in own shares and goodwill. Certain adjustments are made to IFRS-based profit and reserves, in line with BIS recommendations, as prescribed by the EBK. Tier 2 capital includes subordinated long-term debt. Tier 1 capital is required to be at least 4% and Total eligible capital at least 8% of RWAs.

BIS Risk-Weighted Assets (RWAs)

Total RWAs are made up of three elements – credit risk, other assets and market risk, each of which is described below.

The credit risk component consists of on- and off-balance sheet claims, measured according to regulatory formulae outlined below, and weighted according to type of counterparty and collateral at 0%, 20%, 50% or 100%. The least risky claims, such as claims on OECD governments and claims collateralized by cash, are weighted at 0%, meaning that no capital support is required, while the claims deemed most risky, including unsecured claims on corporates and private customers, are weighted at 100%, meaning that 8% capital support is required.

Securities not held for trading are included as claims, based on the net long position in the securities of each issuer, including both physical holdings and positions derived from other transactions such as options. UBS's investment in Motor-Columbus is treated for regulatory capital purposes as a position in a security not held for trading.

Claims arising from derivatives transactions include two components: the current positive replacement values and 'add-ons' to reflect their potential future exposure. Where UBS has entered into a master netting agreement which is accepted by the EBK as being legally enforceable in insolvency, positive and negative replacement values with individual counterparties can be netted and therefore the on-balance sheet component of RWAs for derivatives transactions shown in the table on the next page (Positive replacement values) is less than the balance sheet value of Positive replacement values. The add-ons component of the RWAs is shown in the table on the next page under Off-balance sheet exposures and other positions – Forward and swap contracts, and Purchased options.

Claims arising from contingent commitments and irrevocable facilities granted are converted to credit equivalent amounts based on specified percentages of nominal value.

There are other types of asset, most notably property and equipment and intangibles, which, while not subject to credit risk, represent a risk to the bank in respect of their potential for writedown and impairment and which therefore require capital underpinning.

Capital is required to support market risk arising in all foreign exchange, precious metals and commodity (including energy) positions, and all positions held for trading in interest rate instruments and equities, including risks on individual equities and traded debt obligations such as bonds. UBS computes this risk using a Value at Risk (VaR) model approved by the EBK, from which the market risk capital requirement is derived. Unlike the calculations for credit risk and other assets, this produces the capital requirement itself rather than the RWA amount. In order to compute a total capital ratio, the market risk capital requirement is converted to a 'RWA equivalent' (shown in the table as Market risk positions) such that the capital requirement is 8% of this RWA equivalent, i.e. the market risk capital requirement derived by VaR is multiplied by 12.5.

Note 29 Financial Instruments Risk Position (continued)
d) Capital Adequacy (continued)

Risk-weighted assets (BIS)

CHF million	**Exposure 31.12.04**	**Risk-weighted amount 31.12.04**	Exposure [1] 31.12.03	Risk-weighted amount 31.12.03
Balance sheet exposures				
Due from banks and other collateralized lendings [2]	**556,947**	**7,820**	531,098	8,565
Net positions in securities [3,4]	**8,227**	**6,914**	7,277	6,182
Positive replacement values [5]	**78,317**	**17,121**	84,334	22,324
Loans, net of allowances for credit losses and other collateralized lendings [2]	**429,186**	**164,620**	359,154	153,537
Accrued income and prepaid expenses	**5,790**	**3,573**	6,218	4,284
Property and equipment	**8,772**	**8,772**	9,611	9,611
Other assets	**32,725**	**8,949**	24,918	7,673
Off-balance sheet exposures				
Contingent liabilities	**14,894**	**7,569**	15,563	8,167
Irrevocable commitments	**53,187**	**11,764**	46,960	6,863
Forward and swap contracts [6]	**14,419,106**	**8,486**	11,746,880	4,710
Purchased options [6]	**2,306,605**	**386**	1,183,708	1,716
Market risk positions [7]		**18,151**		18,269
Total risk-weighted assets		**264,125**		251,901

1 Prior year numbers have been adjusted to conform with current year's presentation. 2 Includes gross securities borrowing and reverse repo exposures, as well as traded loans which are included in trading assets. These positions have not been included in the market risk position. 3 Includes security positions which are not included in the market risk position, including Motor-Columbus, which is not consolidated for capital adequacy purposes. 4 Excluding positions in the trading book, which are included in market risk positions. 5 Represents the mark to market values of Forward and swap contracts and Purchased options, where positive but after netting, where applicable. 6 Represents the "add-ons" for these contracts. 7 Regulatory capital adequacy requirements for market risk, calculated using the approved Value at Risk model, multiplied by 12.5 to give the "risk-weighted asset equivalent".

BIS capital ratios

	Capital CHF million 31.12.04	**Ratio % 31.12.04**	Capital CHF million 31.12.03	Ratio % 31.12.03
Tier 1	**31,051**	**11.8**	29,765	11.8
of which hybrid Tier 1	**2,963**	**1.1**	3,224	1.3
Tier 2	**4,815**	**1.8**	3,816	1.5
Total BIS	**35,866**	**13.6**	33,581	13.3

The Tier 1 capital includes CHF 2,963 million (USD 2,600 million) in trust preferred securities at 31 December 2004 and CHF 3,224 million (USD 2,600 million) at 31 December 2003.

Note 29 Financial Instruments Risk Position (continued)
e) Financial Instruments Risk Position in Motor-Columbus

The Atel Group, the operating arm of Motor-Columbus, is exposed to electricity price risk, interest rate risk, currency risk, credit risk, and other business risks.

Risk limits are allocated to individual risk categories and compliance with these limits is continuously monitored, the limits being periodically adjusted in the broad context of the company's overall risk capacity.

A risk policy has been established and is monitored by a risk committee composed of executive management. It was approved by the Board of Directors of Atel and is reviewed and ratified by them annually. The policy sets out the principles for Atel's business. It specifies requirements for entering into, measuring, managing and limiting risk in its business and the organization and responsibilities of risk management. The objective of the policy is to provide a reasonable balance between the business risks entered into and Atel's earnings and risk-bearing shareholders' equity.

A financial risk policy sets out the context of financial risk management in terms of content, organization and systems, with the objective of reducing financial risk, balancing the costs of hedging and the risks assumed. The responsible units manage their financial risks within the framework of this policy and limits defined for their area.

Energy price risk

Price risks in the energy business arise from, among others, price volatility, changing market prices and changing correlations between markets and products. Derivative financial instruments are used to hedge underlying physical transactions, subject to the risk policy.

Interest rate risk

Interest rate swaps are permitted to hedge capital markets interest rate exposure, with changes in fair value being reported in the income statement.

Currency risks

To minimize currency risk, Atel tries to offset operating income and expenses in foreign currencies. Any surplus is hedged through currency forwards and options within the framework of the financial risk policy.

Net investment in foreign subsidiaries is also subject to exchange rate movements, but differences in inflation rates tend to cancel out these changes over the longer term and for this reason Atel does not hedge investment in foreign subsidiaries.

Credit risk

Credit risk management is based on assessment of the creditworthiness of new contracting parties before entering into any transaction, giving rise to credit exposure, and continuous monitoring of creditworthiness and exposures thereafter. In the energy business, Atel only enters into transactions leading to credit exposure with counterparties that fulfill the criteria laid out in the risk policy. Concentration risk is minimized by the number of customers and their geographical distribution.

Financial assets reported in the balance sheet represent the maximum loss to Atel in the event of counterparty default at the balance sheet date.

Note 30 Fair Value of Financial Instruments
30a Fair Value of Financial Instruments

The following table presents the fair value of financial instruments, including those not reflected in the financial statements at fair value. It is accompanied by a discussion of the methods used to determine fair value for financial instruments.

CHF billion	**Carrying value 31.12.04**	**Fair value 31.12.04**	**Unrealized gain / (loss) 31.12.04**	Carrying value 31.12.03	Fair value 31.12.03	Unrealized gain / (loss) 31.12.03
Assets						
Cash and balances with central banks	**6.0**	**6.0**	**0.0**	3.6	3.6	0.0
Due from banks	**35.3**	**35.3**	**0.0**	31.7	31.7	0.0
Cash collateral on securities borrowed	**220.2**	**220.2**	**0.0**	213.9	213.9	0.0
Reverse repurchase agreements	**357.1**	**357.1**	**0.0**	320.5	320.5	0.0
Trading portfolio assets	**370.3**	**370.3**	**0.0**	341.0	341.0	0.0
Trading portfolio assets pledged as collateral	**159.1**	**159.1**	**0.0**	120.8	120.8	0.0
Positive replacement values	**284.6**	**284.6**	**0.0**	248.2	248.2	0.0
Financial assets designated at fair value	**0.7**	**0.7**	**0.0**	0.0	0.0	0.0
Loans	**232.4**	**233.8**	**1.4**	212.7	214.0	1.3
Financial investments	**5.0**	**5.0**	**0.0**	5.1	5.1	0.0
Liabilities						
Due to banks	**118.9**	**118.9**	**0.0**	127.0	127.0	0.0
Cash collateral on securities lent	**61.5**	**61.5**	**0.0**	53.3	53.3	0.0
Repurchase agreements	**422.6**	**422.6**	**0.0**	415.9	415.9	0.0
Trading portfolio liabilities	**171.0**	**171.0**	**0.0**	144.0	144.0	0.0
Negative replacement values	**303.7**	**303.7**	**0.0**	254.8	254.8	0.0
Financial liabilities designated at fair value	**65.8**	**65.8**	**0.0**	35.3	35.3	0.0
Due to customers	**376.1**	**376.1**	**0.0**	346.6	346.6	0.0
Debt issued	**117.8**	**118.9**	**(1.1)**	88.8	90.0	(1.2)
Subtotal			**0.3**			0.1
Unrealized gains and losses recorded in Shareholders' equity before tax on:						
Financial investments			**1.4**			0.8
Derivative instruments designated as cash flow hedges			**(0.4)**			(0.2)
Net unrealized gains and losses not recognized in the income statement			**1.3**			0.7

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists (such as a recognized stock exchange), as it is the best evidence of the fair value of a financial instrument.

Market prices are not, however, available for certain financial assets and liabilities held and issued by UBS. Therefore, where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet dates.

Valuation techniques are generally applied to OTC derivatives, unlisted trading portfolio assets and liabilities, and unlisted financial investments. The most frequently applied pricing models and valuation techniques include forward pricing and swap models using present value calculations, option models such as the Black-Scholes model or generalizations of it, and credit models such as default rate models or credit spread models.

The values derived from applying these techniques are significantly affected by the choice of valuation model used and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility, and credit risk.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented in the above table, both for financial instruments carried at fair value, and those carried at cost (for which fair values are provided as a comparison):

(a) trading portfolio assets and liabilities, trading portfolio assets pledged as collateral, financial assets and liabilities designated at fair value, derivatives, and other transactions

Note 30 Fair Value of Financial Instruments (continued)
30a Fair Value of Financial Instruments (continued)

undertaken for trading purposes are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or other recognized valuation techniques. Fair value is equal to the carrying amount for these items;

(b) financial investments classified as available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognized valuation techniques. Fair value is equal to the carrying amount for these items, and unrealized gains and losses, excluding impairment writedowns, are recorded in Shareholders' equity until an asset is sold, collected or otherwise disposed of;

(c) the carrying amount of liquid assets and other assets maturing within 12 months is assumed to approximate their fair value. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;

(d) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;

(e) the fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognized separately by deducting the amount of the allowance for credit losses from both carrying and fair values;

(f) the fair value of fixed rate loans and mortgages carried at amortized cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognized separately by deducting the amount of the allowance for credit losses from both carrying and fair values.

Where applicable, for the purposes of the fair value disclosure on the previous page, the interest accrued to date on financial instruments is included in the carrying value of the financial instruments.

These valuation techniques and assumptions provide a consistent measurement of fair value for UBS's assets and liabilities as shown in the table. However, because other institutions may use different methods and assumptions when estimating fair value using a valuation technique, and when estimating the fair value of financial instruments not carried at fair value, such fair value disclosures cannot necessarily be compared from one financial institution to another.

The table does not reflect the fair values of non-financial assets and liabilities such as property, equipment, goodwill, prepayments and non-interest accruals.

Substantially all of UBS's commitments to extend credit are at variable rates. Accordingly, UBS has no significant exposure to fair value fluctuations resulting from interest rate movements related to these commitments.

The fair values of UBS's fixed rate loans, long- and medium-term notes and bonds issued are predominantly hedged by derivative instruments, mainly interest rate swaps, as explained in Note 23. The interest rate risk inherent in balance sheet positions with no specific maturity is also hedged with derivative instruments based on management's view on the effective interest repricing date of the products.

Derivative instruments used for hedging are carried on the balance sheet at fair values, which are included in the Positive or Negative replacement values in the table. When the interest rate risk on a fixed rate financial instrument is hedged with a derivative in a fair value hedge, the fixed rate financial instrument (or hedged portion thereof) is reflected in the table at fair value only in relation to the interest rate risk, not the credit risk, as explained in (f). Fair value changes are recorded in net profit. The treatment of derivatives designated as cash flow hedges is explained in Note 1o). The amount shown in the table as "Derivative instruments designated as cash flow hedges" is the net change in fair values on such derivatives that is recorded in Shareholders' equity and not yet transferred to income or expense.

Note 30 Fair Value of Financial Instruments (continued)
30b Determination of Fair Values from Quoted Market Prices or Valuation Techniques

For trading portfolio securities and financial investments which are listed or otherwise traded in an active market, for exchange traded derivatives, and for other financial instruments for which quoted prices in an active market are available, fair value is determined directly from those quoted market prices.

For financial instruments which do not have directly available quoted market prices, fair values are estimated using valuation techniques, or models, based wherever possible on assumptions supported by observable market prices or rates existing at the balance sheet date. This is the case for the majority of OTC derivatives, most unlisted instruments, and other items which are not traded in active markets.

For a small portion of financial instruments, fair values cannot be obtained directly from quoted market prices, or indirectly using valuation techniques or models supported by observable market prices or rates. This is generally the case for private equity investments in unlisted securities, and for certain exotic or structured financial instruments. In these cases fair value is estimated indirectly using valuation techniques or models for which the inputs are reasonable assumptions, based on market conditions.

The following table presents the valuation methods used to determine fair values of financial instruments carried at fair value:

CHF billion	Quoted market price	Valuation technique – market observable inputs	Valuation technique – non-market observable inputs	Total
Trading portfolio assets	209.6	159.7	1.0	370.3
Trading portfolio assets pledged as collateral	156.0	3.1	0.0	159.1
Positive replacement values	6.2	265.2	13.2	284.6
Financial assets designated at fair value	0.7	0.0	0.0	0.7
Financial investments	1.1	0.4	3.5	5.0
Total assets	**373.6**	**428.4**	**17.7**	**819.7**
Trading portfolio liabilities	161.3	9.7	0.0	171.0
Negative replacement values	9.8	270.1	23.8	303.7
Financial liabilities designated at fair value	0.0	65.8	0.0	65.8
Total liabilities	**171.1**	**345.6**	**23.8**	**540.5**

30c Sensitivity of Fair Values to Changing Significant Assumptions to Reasonably Possible Alternatives

Included in the fair value of financial instruments carried at fair value on the balance sheet are those estimated in full or in part using valuation techniques based on assumptions that are not supported by observable market prices or rates. Models used in these situations undergo an internal validation process before they are certified for use. Any related model valuation uncertainty is quantified, and deducted from the fair values produced by the models. Based on the controls and procedural safeguards we employ, management believes the resulting estimated fair values recorded in the balance sheet and the changes in fair values recorded in the income statement are reasonable, and are the most appropriate at the balance sheet date.

The potential effect of using reasonably possible alternative assumptions as inputs to valuation models from which the fair values of these financial instruments are determined has been quantified as a reduction of approximately CHF 579 million using less favorable assumptions, and an increase of approximately CHF 927 million using more favorable assumptions.

The determination of reasonably possible alternative assumptions is itself subject to considerable judgment, but for this purpose was determined using the same technique as for the model valuation adjustments. This was based on increasing and decreasing the confidence level applied to determine the original model valuation adjustments. The resulting effect on fair values reflects the application of less favorable and more favorable assumptions. In changing the assumptions it was assumed that the impact of correlation between different financial instruments and models is minimal.

Note 30 Fair Value of Financial Instruments (continued)

30d Changes in Fair Value Recognized in Profit or Loss during the Period which were Estimated using Valuation Techniques

Total Net trading income for the year ended 31 December 2004 was CHF 4,972 million, which represents the net result from a range of products traded across different business activities, including the effect of foreign currency translation, and including both realized and unrealized income. Unrealized income is determined from changes in fair values, using quoted prices in active markets when available, and is otherwise estimated using valuation techniques.

Included in the unrealized portion of Net trading income are net losses from changes in fair values of CHF 7,123 million on financial instruments for which fair values were estimated using valuation techniques. These valuation techniques included models such as those described above, which range from relatively simple models with market observable inputs, to those which are more complex and require the use of assumptions or estimates based on market conditions.

Net trading income is often generated in transactions involving several financial instruments, or subject to hedging or other risk management techniques, which may result in different portions of the transaction being priced using different methods.

Consequently, the changes in fair value recognized in profit or loss during the period which were estimated using valuation techniques represent only a portion of Net trading income, and in many cases these amounts were offset by other financial instruments or transactions, which were priced in active markets using quoted market prices or rates, or which have been realized. The amount of such income in the current year, including the effect of foreign currency translation on unrealized transactions, was a gain of CHF 12,095 million.

Changes in fair value estimated using valuation techniques are also recognized in net profit, in situations of unrealized impairments on financial investments available-for-sale. The total of such impairment amounts recognized in net profit during the period was CHF 218 million.

Note 30 Fair Value of Financial Instruments (continued)
30e Continuing Involvement in Assets that have been Transferred

The following table presents details of assets which have been sold or otherwise transferred, but which continue to be recognized, either in full or to the extent of UBS's continuing involvement:

	Continued asset recognition in full	
CHF billion	Total assets	Associated liability
Nature of transaction		
Securities lending agreements	37.3	13.8
Repurchase agreements	121.8	117.6
Other collateralized securities trading	2.9	2.1
Total 31.12.04	**162.0**	**133.5**

The assets in the above table continue to be recognized to the extent shown, due to transactions which do not qualify for derecognition of the assets from the balance sheet. Derecognition criteria are discussed in more detail in Notes 1 d) and aa).

In each situation of continued recognition, whether in full, or to the extent of continuing involvement, UBS retains the risks of the relevant portions of the retained assets. These include credit risk, settlement risk, country risk, and market risk. In addition, the nature of an associated transaction which gives rise to the continued involvement may modify existing risks, or introduce risks such as credit exposure to the counterparty to the associated transaction.

The majority of retained assets relate to repurchase agreements and securities lending agreements. Repurchase agreements are nearly always concluded with debt instruments, such as bonds, notes or money market paper; the majority of securities lending agreements are concluded with shares, and the remainder typically with bonds and notes. Both types of transactions are transacted using standard agreements employed by financial market participants, and are undertaken with counterparties subject to UBS's normal credit approval processes. The resulting credit exposures are controlled by daily monitoring and collateralization of the positions. The amounts for repurchase agreements and securities lending agreements are shown in the above table.

A small portion of retained assets relate to transactions in which UBS has transferred assets, but continues to have involvement in the transferred assets, for example through providing a guarantee, writing put options, acquiring call options, or entering into a total return swap or other type of swap linked to the performance of the asset. If control is retained due to these types of associated transactions, UBS continues to recognize the transferred asset in its entirety, otherwise to the extent of its continuing involvement.

In particular, transactions involving the transfer of assets in conjunction with entering into a total rate of return swap are accounted for as secured financing transactions, instead of sales of trading portfolio assets with an accompanying swap derivative. These transactions are included in the above table within Trading portfolio assets.

Note 31 Pension and Other Post-Retirement Benefit Plans

a) Defined benefit plans

The Group has established various pension plans inside and outside of Switzerland. The major plans are located in Switzerland, the UK, the US and Germany. The pension funds of Atel Ltd. and some of its Group companies in Switzerland and Germany are included in the disclosure as of 31 December 2004. Independent actuarial valuations are performed for the plans in these locations. The measurement date of these plans is the 31 December for each year presented.

The overall investment policy and strategy for the Group's defined benefit pension plans is guided by the objective to achieve an investment return which, together with the contributions paid, is sufficient to maintain reasonable control over the various funding risks of the plans. The investment advisors appointed by plan trustees are responsible for determining the mix of asset types and target allocations which are reviewed by the plan trustees on an ongoing basis. Actual asset allocation is determined by a variety of current economic and market conditions and in consideration of specific asset class risk.

The expected long-term rates of return on plan assets are based on long-term expected inflation, interest rates, risk premiums and targeted asset class allocations. These estimates take into consideration historical asset class returns and are determined together with the plans' investment and actuarial advisors.

Swiss pension plans

The pension fund of UBS covers practically all UBS employees in Switzerland and exceeds the minimum benefit requirements under Swiss law. Contributions to the pension fund of UBS are paid for by employees and the employer. For the main plan, the employee contributions are calculated as a percentage of insured annual salary and are deducted monthly. The percentages deducted from salary for full benefit coverage (including risk benefits) depend on age and vary between 7% and 10%. The employer pays a variable contribution that ranges between 150% and 220% of the sum of employees' contributions. The computation of the benefits is based on the final covered salary. The benefits covered include retirement benefits, disability, death and survivor pensions, and employment termination benefits.

Additional employee and employer contributions are made to the other plans of the pension fund of UBS. These plans provide benefits which are based on annual contributions as a percentage of salary and accrue at a minimum interest rate annually.

The employer contributions expected to be made in 2005 to the Swiss pension plans are CHF 385 million. The accumulated benefit obligation (which is the current value of accrued benefits without allowance for future salary increases) for these pension plans was CHF 18,566 million as of 31 December 2004 (2003 CHF 16,817 million, 2002 CHF 15,853 million).

Foreign pension plans

The foreign locations of UBS operate various pension plans in accordance with local regulations and practices. Among these plans are defined contribution plans as well as defined benefit plans. The locations with defined benefit plans of a material nature are in the UK, the US and Germany. The UK and the US defined benefit plans are closed to new entrants who are covered by defined contribution plans. The amounts shown for foreign plans reflect the net funded positions of the major foreign plans.

The retirement plans provide benefits in the event of retirement, death, disability or employment termination. The plans' retirement benefits depend on age, contributions and level of compensation. The principal plans are financed in full by the Group. The employer contributions expected to be made in 2005 to these pension plans are CHF 55 million. The funding policy for these plans is consistent with local government and tax requirements.

The assumptions used in foreign plans take into account local economic conditions.

The accumulated benefit obligation for these pension plans was CHF 4,118 million as of 31 December 2004 (2003 CHF 3,609 million, 2002 CHF 3,376 million).

For pension plans with an accumulated benefit obligation in excess of plan assets, the aggregate projected benefit obligation and accumulated benefit obligation was CHF 3,755 million and CHF 3,735 million as of 31 December 2004 (2003 CHF 944 million and CHF 930 million, 2002 CHF 3,436 million and CHF 3,376 million). The fair value of plan assets for these plans was CHF 3,166 million as of 31 December 2004 (2003 CHF 677 million, 2002 CHF 2,382 million).

Note 31 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans

	Swiss			Foreign		
CHF million	**31.12.04**	31.12.03	31.12.02	**31.12.04**	31.12.03	31.12.02
Defined benefit obligation at the beginning of the year	**(18,216)**	(19,204)	(17,879)	**(3,663)**	(3,436)	(3,553)
Service cost	**(548)**	(564)	(554)	**(83)**	(91)	(108)
Interest cost	**(672)**	(703)	(699)	**(212)**	(197)	(210)
Special termination benefits	**(35)**	(70)	(209)			
Actuarial gain / (loss)	**(1,392)**	1,395	(681)	**(296)**	(201)	(177)
Benefits paid	**910**	930	818	**125**	124	111
Curtailment / settlement						74
Acquisitions	**(272)**			**(159)**		
Foreign currency translation				**146**	138	427
Defined benefit obligation at the end of the year	**(20,225)**	(18,216)	(19,204)	**(4,142)**	(3,663)	(3,436)
Fair value of plan assets at the beginning of the year	**17,619**	16,566	18,289	**3,402**	2,382	2,887
Actual return on plan assets	**980**	1,411	(1,350)	**370**	429	(240)
Employer contributions	**411**	370	236	**65**	831	164
Plan participant contributions	**203**	202	209			
Benefits paid	**(910)**	(930)	(818)	**(125)**	(124)	(111)
Acquisitions	**272**					
Foreign currency translation				**(132)**	(116)	(318)
Fair value of plan assets at the end of the year	**18,575**	17,619	16,566	**3,580**	3,402	2,382
Funded status	**(1,650)**	(597)	(2,638)	**(562)**	(261)	(1,054)
Unrecognized net actuarial (gains) / losses	**3,006**	1,716	3,892	**1,046**	970	1,126
Unrecognized prior service cost				**1**	1	1
Unrecognized asset	**(1,356)**	(1,119)	(1,221)			
(Accrued) / prepaid pension cost	**0**	0	33	**485**	710	73
Movement in the net (liability) or asset						
(Accrued) / prepaid pension cost at the beginning of the year	**0**	33	356	**710**	73	9
Net periodic pension cost	**(411)**	(403)	(559)	**(105)**	(168)	(83)
Employer contributions	**411**	370	236	**65**	831	164
Acquisitions				**(159)**		
Foreign currency translation				**(26)**	(26)	(17)
(Accrued) / prepaid pension cost	**0**	0	33	**485**	710	73
Amounts recognized in the Balance Sheet						
Prepaid pension cost			33	**805**	862	220
Accrued pension liability				**(320)**	(152)	(147)
(Accrued) / prepaid pension cost	**0**	0	33	**485**	710	73

Note 31 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans (continued)

CHF million	Swiss			Foreign		
for the year ended	**31.12.04**	31.12.03	31.12.02	**31.12.04**	31.12.03	31.12.02
Components of net periodic pension cost						
Service cost	**548**	564	554	**83**	91	108
Interest cost	**672**	703	699	**212**	197	210
Expected return on plan assets	**(878)**	(818)	(900)	**(248)**	(178)	(199)
Increase / (decrease) of unrecognized assets	**237**	(102)	206			
Special termination benefits	**35**	70	209			
Amortization of unrecognized prior service cost						1
Amortization of unrecognized net (gains) / losses		188		**58**	58	22
Curtailment / settlement						(59)
Employee contributions	**(203)**	(202)	(209)			
Net periodic pension cost	**411**	403	559	**105**	168	83
Principal weighted average actuarial assumptions used (%)						
Assumptions used to determine defined benefit obligations at the end of the year						
Discount rate	**3.3**	3.8	3.8	**5.5**	5.7	5.8
Expected rate of salary increase	**2.5**	2.5	2.5	**4.4**	4.6	4.4
Rate of pension increase	**1.0**	1.0	1.5	**1.9**	1.9	1.5
Assumptions used to determine net periodic pension cost for the year ended						
Discount rate	**3.8**	3.8	4.0	**5.7**	5.8	6.2
Expected rate of return on plan assets	**5.0**	5.0	5.0	**7.2**	7.1	7.3
Expected rate of salary increase	**2.5**	2.5	2.5	**4.6**	4.4	4.4
Rate of pension increase	**1.0**	1.5	1.5	**1.9**	1.5	1.5

CHF million						
Expected future benefit payments						
2005	**935**			**116**		
2006	**951**			**112**		
2007	**967**			**121**		
2008	**990**			**131**		
2009	**1,015**			**140**		
2010–2014	**5,252**			**864**		
Plan assets						
Actual plan asset allocation (%)						
Equity instruments	**43**	39	35	**54**	52	57
Debt instruments	**41**	43	47	**41**	30	36
Real estate	**12**	12	13	**2**	1	1
Other	**4**	6	5	**3**	17	6
Total	**100**	100	100	**100**	100	100

Note 31 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans (continued)

	Swiss			Foreign		
	31.12.04	31.12.03	31.12.02	**31.12.04**	31.12.03	31.12.02
Long-term target plan asset allocation (%)						
Equity instruments	**34–49**			**49–55**		
Debt instruments	**30–53**			**44–47**		
Real estate	**12–19**			**1–2**		
Other	**0**			**0–6**		
Actual return on plan assets (%)	**5.5**	8.6	(7.5)	**10.8**	17.8	(8.7)

CHF million			
Additional details to fair value of plan assets			
UBS financial instruments and UBS bank accounts	**1,239**	1,005	814
UBS AG shares [1]	**238**	246	206
Securities lent to UBS included in plan assets	**3,778**	2,930	2,645
Other assets used by UBS included in plan assets	**73**	84	90

1 The numbers of UBS AG shares were 2,493,173, 2,908,699 and 3,072,500 as of 31 December 2004, 31 December 2003 and 31 December 2002, respectively. The amounts of capital repayment and dividend received on UBS AG shares for the years ended 31 December 2004, 31 December 2003 and 31 December 2002 were CHF 7 million for each year.

b) Post-retirement medical and life plans

In the US and the UK the Group offers retiree medical benefits that contribute to the health care coverage of employees and beneficiaries after retirement. In addition to retiree medical benefits, the Group in the US also provides retiree life insurance benefits.

The benefit obligation in excess of fair value of plan assets for those plans amounts to CHF 166 million as of 31 December 2004 (2003 CHF 179 million, 2002 CHF 164 million) and the total accrued post-retirement cost to CHF 136 million as of 31 December 2004 (2003 CHF 137 million, 2002 CHF 130 million). The net periodic post-retirement costs for the years ended 31 December 2004, 31 December 2003 and 31 December 2002 were CHF 16 million, CHF 22 million and CHF 25 million, respectively.

The employer contributions expected to be made in 2005 to the post-retirement medical and life plans are CHF 7 million. The expected future benefit payments are CHF 7 million for each of the years 2005, 2006 and 2007, CHF 8 million for each of the years 2008 and 2009 and CHF 46 million in total for the years 2010–2014.

Note 31 Pension and Other Post-Retirement Benefit Plans (continued)

b) Post-retirement medical and life plans

CHF million	**31.12.04**	31.12.03	31.12.02
Post-retirement benefit obligation at the beginning of the year	**(179)**	(166)	(145)
Service cost	**(6)**	(11)	(8)
Interest cost	**(9)**	(10)	(9)
Plan amendments			(3)
Actuarial gain / (loss)	**8**	(14)	(31)
Benefits paid	**8**	6	4
Foreign currency translation	**12**	16	26
Post-retirement benefit obligation at the end of the year	**(166)**	(179)	(166)
Fair value of plan assets at the beginning of the year	**0**	2	3
Actual return on plan assets	**0**	0	0
Employer contributions	**8**	4	3
Benefits paid	**(8)**	(6)	(4)
Fair value of plan assets at the end of the year	**0**	0	2

The assumed average health care cost trend rate used in determining post-retirement benefit expense is assumed to be 11% for 2004 and to decrease to an ultimate trend rate of 5% in 2011. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in the assumed health care cost trend rates would change the US post-retirement benefit obligation and the service and interest cost components of the net periodic post-retirement benefit costs as follows:

CHF million	**1% increase**	**1% decrease**
Effect on total service and interest cost	**3**	**(3)**
Effect on the post-retirement benefit obligation	**22**	**(18)**

c) Defined contribution plans

The Group also sponsors a number of defined contribution plans primarily in the UK and the US. Certain plans permit employees to make contributions and earn matching or other contributions from the Group. The contributions to these plans recognized as expense for the years ended 31 December 2004, 31 December 2003 and 31 December 2002 were CHF 187 million, CHF 141 million and CHF 133 million, respectively.

Note 32 Equity Participation Plans
a) Equity Participation Plans Offered

UBS has established several equity participation plans to further align the long-term interests of executives, managers, staff and shareholders. The plans are offered to eligible employees in approximately 50 countries and are designed to meet the complex legal, tax and regulatory requirements of each country in which they are offered. The explanations below describe the most significant plans in general, but specific plan rules and investment offerings may vary by country.

Equity Plus (EP): This voluntary plan gives eligible employees the opportunity to purchase UBS shares at fair market value on the purchase date and receive at no additional cost two UBS options for each share purchased, up to a maximum annual limit. The options have a strike price equal to the fair market value of the stock on the date the option is granted. Share purchases can be made annually from bonus compensation or quarterly based on regular deductions from salary. Shares purchased under Equity Plus are restricted from sale for two years from the time of purchase, and the options granted have a two year vesting requirement and generally expire from ten years to ten and one-half years after the date of grant.

Discounted purchase plans: Selected employees in Switzerland are entitled to purchase a specified number of UBS shares at a predetermined discounted price each year. The number of shares that can be purchased depends on rank. Any such shares purchased must be held for a specified period of time. The discount is recorded as compensation expense. The last share purchase opportunity will take place in 2005.

Equity Ownership Plan (EOP): Selected personnel receive between 10% and 45% of their performance-related compensation in UBS shares or notional UBS shares instead of cash, on a mandatory basis. Up to and including 2004, participants in certain countries were eligible to receive a portion of their award in UBS shares with a matching contribution in UBS options or in Alternative Investment Vehicles (AIVs) (generally money market funds, UBS and non-UBS mutual funds and other UBS sponsored funds). In 2002 and 2003, certain employees received UBS options instead of UBS shares for a portion of their EOP award. In 2005, AIVs and options will no longer be granted as part of EOP. EOP awards vest in one-third increments over a three-year vesting period. Under certain conditions, these awards are fully forfeitable by the employee.

Key employee option plans: Under these plans, key and high potential employees are granted UBS options with a strike price not less than the fair market value of the shares on the date the option is granted. Option grants generally vest in one-third increments over a three-year period. Expiration of the options is generally from ten to ten and one-half years. One option gives the right to purchase one registered UBS share at the option's strike price.

Other deferred compensation plans: UBS sponsors other deferred compensation plans for selected eligible employees. Generally, contributions are made on a tax deferred basis, and participants are allowed to notionally invest in AIVs. No additional company match is granted, and the plan is generally not forfeitable. In addition, UBS also grants deferred compensation awards to new recruits, senior management and other key employees in the form of UBS shares or options.

Note 32 Equity Participation Plans (continued)
b) UBS Share Awards

i) Stock compensation plans
Movements in shares granted under various equity participation plans mentioned on the previous page are as follows:

Stock compensation plans	**31.12.04**	31.12.03	31.12.02
Unvested shares outstanding, at the beginning of the year	**31,383,890**	48,136,561	52,299,332
Shares awarded during the year	**11,713,406**	11,023,553	13,511,655
Vested during the year	**(17,996,498)**	(26,915,860)	(16,333,832)
Forfeited during the year	**(463,979)**	(860,364)	(1,340,594)
Unvested shares outstanding, at the end of the year	**24,636,819**	31,383,890	48,136,561
Weighted-average fair market value of shares awarded (in CHF)	**95**	61	71
Fair market value of outstanding shares at the end of the year (CHF billion)	**2.3**	2.7	3.2

ii) Stock purchase plans
The following table shows the shares awarded and the weighted-average fair value per share for the Group's stock purchase plans.

Stock purchase plans	**31.12.04**	31.12.03	31.12.02
Share quantity purchased through discounted purchase plans	**1,035,079**	1,722,492	1,339,223
Weighted-average purchase price (in CHF)	**45**	31	40
Share quantity purchased through EP at fair market value	**2,448,231**	2,593,391	2,483,684
Weighted-average purchase price (in CHF)	**93**	61	77
Weighted-average purchase price (in USD)	**73**	49	46

Note 32 Equity Participation Plans (continued)
c) UBS Option Awards

Movements in options granted under various equity participation plans mentioned on the previous page are as follows:

	Number of options 31.12.04	**Weighted-average exercise price (in CHF) 31.12.04** [1]	Number of options 31.12.03	Weighted-average exercise price (in CHF) 31.12.03 [1]	Number of options 31.12.02	Weighted-average exercise price (in CHF) 31.12.02 [1]
Outstanding, at the beginning of the year	**109,040,026**	**63**	88,164,227	67	63,286,669	66
Granted during the year	**24,113,252**	**91**	38,969,319	59	37,060,178	71
Exercised during the year	**(29,396,959)**	**58**	(14,782,471)	54	(9,595,133)	54
Forfeited during the year	**(2,692,824)**	**66**	(2,721,970)	64	(2,082,356)	71
Expired unexercised	**(156,141)**	**76**	(589,079)	76	(505,131)	77
Outstanding, at the end of the year	**100,907,354**	**69**	109,040,026	63	88,164,227	67
Exercisable, at the end of the year	**37,941,280**	**65**	34,726,720	59	21,765,482	51

1 Some of the options in this table have exercise prices denominated in US dollars which have been converted into CHF at the year-end spot exchange rate for the purposes of this table.

The following table summarizes additional information about stock options outstanding at 31 December 2004:

	Options outstanding			Options exercisable	
Range of exercise prices per share	Number of options outstanding	Weighted-average exercise price	Weighted-average remaining contractual life	Number of options exercisable	Weighted-average exercise price
CHF		**CHF**	**Years**		**CHF**
53.37–70.00	18,600,149	61.19	6.7	6,781,903	63.74
70.01–85.00	16,437,141	78.01	6.6	8,820,175	77.90
85.01–103.75	17,577,171	96.82	7.7	5,277,876	99.54
53.37–103.75	**52,614,461**	**78.35**	**7.0**	**20,879,954**	**78.77**
USD		**USD**	**Years**		**USD**
7.65–35.00	3,185,982	21.00	1.6	3,185,982	21.00
35.01–45.00	11,460,304	43.13	8.1	1,868,770	43.33
45.01–55.00	19,076,401	47.57	6.2	10,590,462	47.41
55.01–81.97	14,570,206	71.11	8.7	1,416,112	58.13
7.65–81.97	**48,292,893**	**51.86**	**7.1**	**17,061,326**	**42.92**

d) Compensation Expense

Generally under IFRS, for all equity participation instruments (shares, cash-settled warrants and other cash-settled derivatives for which the underlying is UBS shares) except options, UBS accrues expense in the performance year and determines the number of instruments granted to employees based on the instrument's market price at the grant date, which is generally in the year following the performance year. For options, the amount of expense recognized is equal to the intrinsic value at grant date (i.e. the difference between the strike price and fair market value of shares at the date of grant. This difference is generally zero, as option strike prices are generally at or above the market prices of the shares). For discounted purchase plans, the expense is equal to the difference between the fair market value and the discounted value and is accrued for in the performance year. Management's estimate of the accrued expense before tax for share-based compensation for the years ended 31 December 2004, 2003 and 2002 was CHF 1,406 million, CHF 833 million and CHF 592 million, respectively.

Note 32 Equity Participation Plans (continued)
e) Pro-Forma Net Income

The following table presents IFRS Net profit and Earnings per share for 2004, 2003 and 2002 as if UBS had applied the fair value method of accounting for its equity participation plans. The fair value method would recognize expense equal to the fair value of option awards at grant, which is higher than the intrinsic value because of the time value of options.

CHF million, except per share data	**31.12.04**	31.12.03	31.12.02
Net profit, as reported	**8,089**	6,239	3,530
Add: Equity-based employee compensation expense included in reported net income, net of tax	**1,131**	630	493
Deduct: Total equity-based employee compensation expense determined under the fair-value-based method for all awards, net of tax	**(1,639)**	(1,069)	(1,183)
Net profit, pro-forma	**7,581**	5,800	2,840
Earnings per share			
Basic, as reported	**7.68**	5.59	2.92
Basic, pro-forma	**7.20**	5.19	2.35
Diluted, as reported	**7.47**	5.48	2.87
Diluted, pro-forma	**7.00**	5.09	2.31

The fair value of options granted was determined using a proprietary option pricing model, substantially similar to the Black-Scholes model, with the following assumptions:

	31.12.04	31.12.03	31.12.02
Expected volatility	**34%**	35%	35%
Risk-free interest rate (CHF)	**2.03%**	1.70%	3.28%
Risk-free interest rate (USD)	**3.70%**	3.17%	4.65%
Expected dividend rate	**3.87%**	4.43%	3.35%
Expected life (years)	**5.6**	4.5	4.5

The weighted-average fair value of options granted in 2004, 2003 and 2002 was CHF 25, CHF 15 and CHF 20 per share, respectively.

Note 33 Related Parties

The Group defines related parties as Associated companies, private equity investees, the Board of Directors, the Group Executive Board, close family members and enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and / or CEO in those companies. This definition is based on the requirements of the "Directive on Information Relating to Corporate Governance" issued by the SWX Swiss Exchange and effective from 1 July 2002 for all listed companies in Switzerland.

a) Remuneration and equity holdings
The executive members of the Board of Directors have top-management employment contracts and receive pension benefits upon retirement. Total remuneration to the executive members of the Board of Directors and Group Executive Board recognized in the income statement including cash, shares and accrued pension benefits amounted to CHF 165.3 million in 2004, CHF 144.6 million in 2003 and CHF 131.8 million in 2002. Total compensation numbers exclude merger-related retention payments for the two ex-PaineWebber executives of CHF 21.1 million (USD 17.0 million) in 2003 and CHF 20.6 million (USD 14.9 million) in 2002. These retention payments were committed to at the time of the merger in 2000 and fully disclosed at the time. No additional payments were due in 2004.

The external members of the Board of Directors do not have employment or service contracts with UBS, and thus are not entitled to benefits upon termination of their service on the Board of Directors. Total fees paid to these individuals for their services as external board members amounted to CHF 5.7 million in 2004, CHF 5.4 million in 2003 and CHF 3.5 million in 2002.

The number of long-term stock options outstanding to the executive members of the Board of Directors and Group Executive Board from equity participation plans was 6,004,997 (equivalent to the same number of shares) at 31 December 2004, 6,218,011 options (equivalent to the same number of shares) and 120,264 warrants (equivalent to 7,214 shares) at 31 December 2003 and 5,410,172 options (equivalent to the same number of shares) and 24,558,529 warrants (equivalent to 1,473,217 UBS shares) at 31 December 2002. These plans are further explained in Note 32, Equity Participation Plans.

The total number of shares held by members of the Board of Directors, the Group Executive Board and parties closely linked to them was 3,506,610 at 31 December 2004, 3,150,217 at 31 December 2003 and 2,139,371 at 31 December 2002. No member of the Board of Directors or Group Executive Board is the beneficial owner of more than 1% of the Group's shares at 31 December 2004.

b) Loans and advances to Board of Directors and senior executives
The outstanding balance of loans to the members of the Board of Directors, the Group Executive Board and close family members amounted to CHF 15.8 million at 31 December 2004 and CHF 25.2 million at 31 December 2003. Executive members of the Board and GEB members have been granted loans, fixed advances and mortgages at the same terms and conditions that are available to other employees, based on terms and conditions granted to third parties adjusted for reduced credit risk. In 2002, a thorough review of outstanding loans to senior executives was performed to ensure compliance with the US Sarbanes-Oxley Act of 2002. Non-executive Board members are granted loans and mortgages at general market conditions.

Note 33 Related Parties (continued)

c) Loans to significant associated companies

CHF million	31.12.04	31.12.03
Balance at the beginning of the year	**63**	40
Additions	**38**	48
Reductions	**(36)**	(25)
Balance at the end of the year	**65**	63

All loans to associated companies are transacted at arm's length. At 31 December 2004 and 2003, there were commitments and contingent liabilities to significant associated companies of CHF 55 million and CHF 14 million, respectively. In addition, the Group routinely receives services from associated companies at arm's length terms. For the years ended 31 December 2004, 31 December 2003 and 31 December 2002, the amount paid to significant associates for these services was CHF 248 million, CHF 106 million and CHF 60 million, respectively. Fees received for services provided to associated companies for the years ended 31 December 2004, 31 December 2003 and 31 December 2002 was CHF 180 million, CHF 122 million and CHF 2 million, respectively.

During 2003, UBS sold its VISA acquiring business to Telekurs Holding AG, an associated company. UBS realized a CHF 90 million gain from this divestment.

Note 36 provides a list of significant associates.

d) Loans to private equity investees

CHF million	31.12.04	31.12.03
Balance at the beginning of the year	**366**	338
Additions	**46**	153
Reductions	**(222)**	(125)
Balance at the end of the year	**190**	366

At 31 December 2004 and 31 December 2003, there were commitments and contingent liabilities to private equity companies of CHF 36 million and CHF 23 million, respectively. In addition the Group purchased services from private equity companies at arm's length terms for the years ended 31 December 2004, 31 December 2003 and 31 December 2002 in the amount of CHF 0 million, CHF 14 million and CHF 116 million, respectively.

e) Other related party transactions

During 2004 and 2003, UBS entered into the following transactions at arm's length with companies whose Chairman and / or CEO is an external member of the Board of Directors of UBS or of which an external director is a controlling shareholder.

In 2004 and 2003 these companies included Bertarelli & Cie. (Switzerland), Kedge Capital Partners Ltd. (Jersey), J. Sainsbury plc. (UK), Serono Group (Switzerland), Team Alinghi (Switzerland), Unisys Corporation (USA). In addition to those mentioned, related parties in 2004 also included BMW Group (Germany) and Stadler Rail Group (Switzerland). In 2003, related parties also included Sika AG (Switzerland).

Other related party transactions

CHF million	2004	2003
Goods sold and services provided by related parties to UBS	**34**	43
Services provided to related parties by UBS (fees received)	**10**	7
Loans granted to related parties by UBS[1]	**294**	79

1 In 2004, includes loans, guarantees and contingent liabilities of CHF 32 million and unused committed facilities of CHF 262 million but excludes unused uncommitted working capital facilities and unused guarantees of CHF 110 million. In 2003, includes loans, guarantees, contingent liabilities and committed credit facilities of CHF 58.5 million, but excludes uncommitted working capital facilities of CHF 119.6 million.

As part of its sponsorship of Team Alinghi, defender for the "America's Cup 2007", UBS paid CHF 8.5 million (EUR 5.5 million) as sponsoring fee for 2004 and CHF 1.4 million (EUR 0.9 million) as sponsoring fee for the UBS Trophy in New Port, RI, USA. Team Alinghi's controlling shareholder is UBS board member Ernesto Bertarelli.

UBS also engages in trading and risk management activities (e.g. swaps, options, forwards) with related parties. These transactions may give rise to credit risk either for UBS or for a related party towards UBS. As part of its normal course of business, UBS is also a market maker in equity and debt instruments and at times may hold positions in instruments of related parties.

Note 34 Sales of Financial Assets in Securitizations

During the years ended 31 December 2004, 2003 and 2002, UBS securitized (i.e., transformed owned financial assets into securities through sales transactions) residential mortgage loans and securities, commercial mortgage loans and other financial assets, acting as lead or co-manager. UBS's continuing involvement in these transactions was primarily limited to the temporary retention of various security interests.

Proceeds received at the time of securitization were as follows:

	Proceeds received		
CHF billion	**31.12.04**	31.12.03	31.12.02
Residential mortgage securitizations	**91**	131	143
Commercial mortgage securitizations	**3**	4	4
Other financial asset securitizations	**9**	2	6

Related pre-tax gains (losses) recognized, including unrealized gains (losses) on retained interests, at the time of securitization were as follows:

	Pre-tax gains / (losses) recognized		
CHF million	**31.12.04**	31.12.03	31.12.02
Residential mortgage securitizations	**197**	338	524
Commercial mortgage securitizations	**141**	214	206
Other financial asset securitizations	**21**	2	(5)

At 31 December 2004 and 2003, UBS retained CHF 2.4 billion and CHF 3.8 billion, respectively, in agency residential mortgage securities, backed by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). The fair value of retained interests in residential mortgage securities is generally determined using observable market prices. Retained interests in other residential mortgage, commercial mortgage and other securities were not material at 31 December 2004 and 2003.

Note 35 Post-Balance Sheet Events

There have been no material post-balance sheet events which would require disclosure or adjustment to the 31 December 2004 Financial Statements.

Bond issues have increased by CHF 991 million from the balance sheet date to 3 February 2005.

On 3 February 2005, the Board of Directors reviewed the Financial Statements and authorized them for issue. These Financial Statements will be submitted to the Annual General Meeting of Shareholders to be held on 21 April 2005 for approval.

Note 36 Significant Subsidiaries and Associates

The legal entity group structure of UBS is designed to support the Group's businesses within an efficient legal, tax, regulatory and funding framework. Neither the Business Groups of UBS (namely Investment Bank, Wealth Management USA, Wealth Management & Business Banking and Global Asset Management) nor Corporate Center are replicated in their own individual legal entities but rather they generally operate out of the parent bank, UBS AG, through its Swiss and foreign branches.

The parent bank structure allows UBS to capitalize on the advantages offered by the use of one legal platform by all the Business Groups. It provides for the most cost efficient and flexible structure and facilitates efficient allocation and use of capital, comprehensive risk management and straightforward funding processes.

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

Significant subsidiaries

Company	Jurisdiction of incorporation	Business Group[1]		Share capital in millions	Equity interest accumulated in %
Banco UBS SA	Rio de Janeiro, Brazil	IB	BRL	52.9	100.0
BDL Banco di Lugano	Lugano, Switzerland	CC	CHF	50.0	100.0
BDL Banco di Lugano (Singapore) Ltd	Singapore, Singapore	CC	SGD	25.0	100.0
Brunswick UBS Ltd	George Town, Cayman Islands	IB	USD	25.0	100.0
Cantrade Private Bank Switzerland (CI) Limited	St. Helier, Jersey	CC	GBP	0.7	100.0
Crédit Industriel SA	Zurich, Switzerland	WM&BB	CHF	10.0	100.0
Ehinger & Armand von Ernst AG	Zurich, Switzerland	CC	CHF	21.0	100.0
Factors AG	Zurich, Switzerland	WM&BB	CHF	5.0	100.0
Ferrier Lullin & Cie SA	Geneva, Switzerland	CC	CHF	30.0	100.0
GAM Holding AG	Zurich, Switzerland	CC	CHF	50.0	100.0
GAM Limited	Hamilton, Bermuda	CC	USD	2.0	100.0
Giubergia UBS SIM SpA	Milan, Italy	IB	EUR	15.1	51.7
Noriba Bank BSC	Manama, Bahrain	WM&BB	USD	10.0	100.0
PaineWebber Capital Inc	Delaware, USA	WM-US	USD	25.8[2]	100.0
PT UBS Securities Indonesia	Jakarta, Indonesia	IB	IDR	50,000.0	96.7
SBC Wealth Management AG	Zug, Switzerland	CC	CHF	290.1	100.0
SBCI IB Limited	London, Great Britain	IB	GBP	100.0	100.0
SG Warburg & Co International BV	Amsterdam, the Netherlands	IB	GBP	40.5	100.0
Thesaurus Continentale Effekten-Gesellschaft in Zürich	Zurich, Switzerland	WM&BB	CHF	0.1	100.0
UBS (Bahamas) Ltd	Nassau, Bahamas	WM&BB	USD	4.0	100.0
UBS (France) SA	Paris, France	WM&BB	EUR	10.7	100.0
UBS (Italia) SpA	Milan, Italy	WM&BB	EUR	42.0	100.0
UBS (Luxembourg) SA	Luxembourg, Luxembourg	WM&BB	CHF	150.0	100.0
UBS (Monaco) SA	Monte Carlo, Monaco	WM&BB	EUR	9.2	100.0
UBS (Trust and Banking) Limited	Tokyo, Japan	Global AM	JPY	11,150.0	100.0
UBS Advisory and Capital Markets Australia Ltd	Sydney, Australia	IB	AUD	580.8[2]	100.0
UBS Alternative and Quantitative Investments LLC	Delaware, USA	Global AM	USD	0.0	100.0
UBS Americas Inc	Delaware, USA	IB	USD	4,550.8[2]	100.0
UBS Asesores SA	Panama, Panama	WM&BB	USD	0.0	100.0
UBS Australia Limited	Sydney, Australia	IB	AUD	50.0	100.0
UBS Bank (Canada)	Toronto, Canada	WM&BB	CAD	8.5	100.0
UBS Bank USA	Utah, USA	WM-US	USD	1,700.0[2]	100.0
UBS Belgium SA/NV	Brussels, Belgium	WM&BB	EUR	16.0	100.0
UBS Beteiligungs-GmbH & Co KG	Frankfurt am Main, Germany	IB	EUR	498.8	100.0
UBS Capital (Jersey) Ltd	St. Helier, Jersey	IB	GBP	226.0	100.0
UBS Capital AG	Zurich, Switzerland	IB	CHF	5.0	100.0

1 WM&BB: Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, WM-US: Wealth Management USA, CC: Corporate Center, IH: Industrial Holdings.
2 Share Capital and Share Premium.

Note 36 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business Group [1]		Share capital in millions	Equity interest accumulated in %
UBS Capital Americas Investments II LLC	Delaware, USA	IB	USD	130.0 [2]	100.0
UBS Capital Americas Investments III Ltd	George Town, Cayman Islands	IB	USD	61.1 [2]	100.0
UBS Capital Asia Pacific Limited	George Town, Cayman Islands	IB	USD	5.0	100.0
UBS Capital BV	Amsterdam, the Netherlands	IB	EUR	118.8 [2]	100.0
UBS Capital II LLC	Delaware, USA	IB	USD	2.6 [2]	100.0
UBS Capital Latin America LDC	George Town, Cayman Islands	IB	USD	113.0 [2]	100.0
UBS Capital LLC	Delaware, USA	IB	USD	378.5 [2]	100.0
UBS Capital SpA	Milan, Italy	IB	EUR	0.8	100.0
UBS Card Center AG	Glattbrugg, Switzerland	WM&BB	CHF	40.0	100.0
UBS Corporate Finance Italia SpA	Milan, Italy	IB	EUR	1.9	100.0
UBS Corporate Finance South Africa (Proprietary) Limited	Sandton, South Africa	IB	ZAR	0.0	100.0
UBS Derivatives Hong Kong Limited	Hong Kong, China	IB	HKD	60.0	100.0
UBS Employee Benefits Trust Limited	St. Helier, Jersey	CC	CHF	0.0	100.0
UBS Energy Canada Ltd.	Calgary, Canada	IB	USD	11.3	100.0
UBS Energy LLC	Delaware, USA	IB	USD	0.0	100.0
UBS Equity Research Malaysia Sdn Bhd	Kuala Lumpur, Malaysia	IB	MYR	0.5	70.0
UBS España SA	Madrid, Spain	WM&BB	EUR	54.2	100.0
UBS Fiduciaria SpA	Milan, Italy	WM&BB	EUR	0.2	100.0
UBS Fiduciary Trust Company	New Jersey, USA	WM-US	USD	4.4 [2]	99.6
UBS Finance (Cayman Islands) Ltd	George Town, Cayman Islands	CC	USD	0.5	100.0
UBS Finance (Curaçao) NV	Willemstad, Netherlands Antilles	CC	USD	0.1	100.0
UBS Finance (Delaware) LLC	Delaware, USA	IB	USD	37.3 [2]	100.0
UBS Financial Services Inc.	Delaware, USA	WM-US	USD	1,672.3 [2]	100.0
UBS Financial Services Incorporated of Puerto Rico	Hato Rey, Puerto Rico	WM-US	USD	31.0 [2]	100.0
UBS Fund Advisor LLC	Delaware, USA	WM-US	USD	0.0	100.0
UBS Fund Holding (Luxembourg) SA	Luxembourg, Luxembourg	Global AM	CHF	42.0	100.0
UBS Fund Holding (Switzerland) AG	Basel, Switzerland	Global AM	CHF	18.0	100.0
UBS Fund Management (Switzerland) AG	Basel, Switzerland	Global AM	CHF	1.0	100.0
UBS Fund Services (Cayman) Ltd	George Town, Cayman Islands	Global AM	USD	5.6	100.0
UBS Fund Services (Ireland) Limited	Dublin, Ireland	Global AM	EUR	0.5	100.0
UBS Fund Services (Luxembourg) SA	Luxembourg, Luxembourg	Global AM	CHF	2.5	100.0
UBS Global Asset Management (Americas) Inc	Delaware, USA	Global AM	USD	0.0	100.0
UBS Global Asset Management (Australia) Ltd	Sydney, Australia	Global AM	AUD	8.0	100.0
UBS Global Asset Management (Canada) Co	Toronto, Canada	Global AM	CAD	117.0	100.0
UBS Global Asset Management (France) SA	Paris, France	WM&BB	EUR	2.1	100.0
UBS Global Asset Management (Hong Kong) Limited	Hong Kong, China	Global AM	HKD	25.0	100.0
UBS Global Asset Management (Italia) SIM SpA	Milan, Italy	Global AM	EUR	2.0	100.0
UBS Global Asset Management (Japan) Ltd	Tokyo, Japan	Global AM	JPY	2,200.0	100.0
UBS Global Asset Management (Singapore) Holdings Pte Ltd	Singapore, Singapore	Global AM	SGD	4.0	100.0
UBS Global Asset Management (Taiwan) Ltd	Taipei, Taiwan	Global AM	TWD	340.0	97.1
UBS Global Asset Management (US) Inc	Delaware, USA	Global AM	USD	35.2 [2]	100.0
UBS Global Asset Management Holding Ltd	London, Great Britain	Global AM	GBP	33.0	100.0
UBS Global Life AG	Vaduz, Liechtenstein	WM&BB	CHF	5.0	100.0
UBS Global Trust Corporation	St. John, Canada	WM&BB	CAD	0.1	100.0
UBS International Holdings BV	Amsterdam, the Netherlands	CC	EUR	6.8	100.0
UBS International Inc	New York, USA	WM&BB	USD	34.3 [2]	100.0
UBS International Life Limited	Dublin, Ireland	WM&BB	EUR	1.0	100.0

1 WM&BB: Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, WM-US: Wealth Management USA, CC: Corporate Center, IH: Industrial Holdings.
2 Share Capital and Share Premium.

Note 36 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business Group[1]		Share capital in millions	Equity interest accumulated in %
UBS Invest Kapitalanlagegesellschaft mbH	Frankfurt am Main, Germany	Global AM	EUR	7.7	100.0
UBS Investment Bank AG	Frankfurt am Main, Germany	IB	EUR	155.7	100.0
UBS Investment Bank Nederland BV	Amsterdam, the Netherlands	IB	EUR	10.9	100.0
UBS Laing and Cruickshank Limited	London, Great Britain	WM&BB	GBP	2.5	100.0
UBS Leasing AG	Brugg, Switzerland	WM&BB	CHF	10.0	100.0
UBS Life AG	Zurich, Switzerland	WM&BB	CHF	25.0	100.0
UBS Limited	London, Great Britain	IB	GBP	21.2	100.0
UBS Loan Finance LLC	Delaware, USA	IB	USD	16.7	100.0
UBS Mortgage Holdings LLC	Delaware, USA	WM-US	USD	0.0	100.0
UBS New Zealand Limited	Auckland, New Zealand	IB	NZD	7.5	100.0
UBS O'Connor LLC	Delaware, USA	Global AM	USD	1.0	100.0
UBS PaineWebber Life Insurance Company	California, USA	WM-US	USD	39.3[2]	100.0
UBS Portfolio LLC	Delaware, USA	IB	USD	0.1	100.0
UBS Preferred Funding Company LLC I	Delaware, USA	CC	USD	0.0	100.0
UBS Preferred Funding Company LLC II	Delaware, USA	CC	USD	0.0	100.0
UBS Preferred Funding Company LLC III	Delaware, USA	CC	USD	0.0	100.0
UBS Preferred Funding Company LLC IV	Delaware, USA	CC	USD	0.0	100.0
UBS Principal Finance LLC	Delaware, USA	IB	USD	0.1	100.0
UBS Private Clients Australia Ltd	Melbourne, Australia	WM&BB	AUD	53.9	100.0
UBS Real Estate Investments Inc	Delaware, USA	IB	USD	0.3	100.0
UBS Real Estate Securities Inc	Delaware, USA	IB	USD	0.4	100.0
UBS Realty Investors LLC	Connecticut, USA	Global AM	USD	9.3	100.0
UBS Securities (Thailand) Ltd	Bangkok, Thailand	IB	THB	400.0	100.0
UBS Securities Asia Limited	Hong Kong, China	IB	HKD	20.0	100.0
UBS Securities Australia Ltd	Sydney, Australia	IB	AUD	209.8[2]	100.0
UBS Securities Canada Inc	Toronto, Canada	IB	CAD	10.0	50.0
UBS Securities España Sociedad de Valores SA	Madrid, Spain	IB	EUR	15.0	100.0
UBS Securities France SA	Paris, France	IB	EUR	22.9	100.0
UBS Securities Hong Kong Limited	Hong Kong, China	IB	HKD	230.0	100.0
UBS Securities India Private Limited	Mumbai, India	IB	INR	237.8	75.0
UBS Securities International Limited	London, Great Britain	IB	GBP	18.0	100.0
UBS Securities Japan Ltd	George Town, Cayman Islands	IB	JPY	60,000.0	100.0
UBS Securities Limited	London, Great Britain	IB	GBP	140.0	100.0
UBS Securities Limited Seoul Branch	Seoul, South Korea	IB	KRW	0.0	100.0
UBS Securities LLC	Delaware, USA	IB	USD	2,141.4[2]	100.0
UBS Securities Philippines Inc	Makati City, Philippines	IB	PHP	150.0	100.0
UBS Securities Singapore Pte Ltd	Singapore, Singapore	IB	SGD	55.0	100.0
UBS Services USA LLC	Delaware, USA	WM-US	USD	0.0	100.0
UBS Securities South Africa (Proprietary) Limited	Sandton, South Africa	IB	ZAR	87.1[2]	100.0
UBS Trust (Canada)	Toronto, Canada	WM&BB	CAD	12.5	100.0
UBS Trust Company National Association	New York, USA	WM-US	USD	5.0[2]	100.0
UBS Trustees (Bahamas) Ltd	Nassau, Bahamas	WM&BB	USD	2.0	100.0
UBS Trustees (Cayman) Ltd	George Town, Cayman Islands	WM&BB	USD	2.0	100.0
UBS Trustees (Jersey) Ltd	St. Helier, Jersey	WM&BB	GBP	0.0	100.0
UBS Trustees (Singapore) Limited	Singapore, Singapore	WM&BB	SGD	3.3	100.0
UBS UK Holding Limited	London, Great Britain	IB	GBP	5.0	100.0
UBS Wealth Management AG	Frankfurt, Germany	WM&BB	EUR	51.0	100.0

1 WM&BB: Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, WM-US: Wealth Management USA, CC: Corporate Center, IH: Industrial Holdings.
2 Share Capital and Share Premium.

Note 36 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business Group [1]		Share capital in millions	Equity interest accumulated in %
Motor-Columbus AG	Baden, Switzerland	IH	CHF	253.0	55.6
Aare-Tessin AG für Elektrizität [3]	Olten, Switzerland	IH	CHF	303.6	33.0
Atel Energia S. r. l. [3]	Milan, Italy	IH	EUR	20.0	32.3
Atel Installationstechnik AG [3]	Olten, Switzerland	IH	CHF	30.0	33.0
Entrade GmbH [3]	Schaffhausen, Switzerland	IH	CHF	0.4	24.7
GAH Beteiligungs AG [3]	Heidelberg, Germany	IH	EUR	25.0	33.0
Società Elettrica Sopracenerina SA [3]	Locarno, Switzerland	IH	CHF	27.5	19.6

1 WM&BB: Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, WM-US: Wealth Management USA, CC: Corporate Center, IH: Industrial Holdings. 2 Share Capital and Share Premium. 3 Not wholly owned subsidiary controlled by Motor-Columbus which itself is only 55.6% owned by UBS.

Consolidated companies: changes in 2004

Significant new companies
UBS Alternative and Quantitative Investments LLC – Delaware, USA
UBS Energy Canada Limited – Calgary, Canada
UBS Energy LLC – Delaware, USA
UBS Fund Services (Ireland) Limited – Dublin, Ireland
UBS Global Life AG – Vaduz, Liechtenstein
UBS Laing and Cruickshank Limited – London, Great Britain
UBS Securities Limited Seoul Branch – Seoul, South Korea
UBS Services USA LLC – Delaware, USA
Motor-Columbus AG – Baden, Switzerland
Aare-Tessin AG für Elektrizität – Olten, Switzerland
Atel Energia S.r.l. – Milan, Italy
Atel Installationstechnik AG – Olten, Switzerland
Entrade GmbH – Schaffhausen, Switzerland
GAH Beteiligungs AG – Heidelberg, Germany
Società Elettrica Sopracenerina SA – Locarno, Switzerland

Deconsolidated companies

Significant deconsolidated companies	Reason for deconsolidation
UBS Finanzholding AG – Zurich, Switzerland	Merged
Aventic AG – Zurich, Switzerland	Merged

Significant associates

Company	Industry	Equity interest in %		Share capital in millions
Electricité d'Emosson SA – Martigny, Switzerland	Electricity	16	CHF	140
Engadiner Kraftwerke AG – Zernez, Switzerland	Electricity	7	CHF	140
Kernkraftwerk Gösgen-Däniken AG – Däniken, Switzerland	Electricity	13	CHF	350 [1]
Kernkraftwerk Leibstadt AG – Leibstadt, Switzerland	Electricity	9	CHF	450
SIS Swiss Financial Services Group AG – Zurich, Switzerland	Financial	33	CHF	26
Telekurs Holding AG – Zurich, Switzerland	Financial	33	CHF	45
Azienda Energetica Municipale S.p.A. – Milan, Italy	Electricity	2	EUR	930
UBS Currency Portfolio Ltd – George Town, Cayman Islands	Private Investment Company	18	USD	1,831 [2]
UBS Global Equity Arbitrage Ltd – George Town, Cayman Islands	Private Investment Company	37	USD	929 [2]
O'Connor Proprietary Series – Currency and Rates, Fundamental Long / Short and Convertible Arbitrage Limited – George Town, Cayman Islands	Private Investment Company	44	USD	506 [2]
O'Connor Proprietary Series – Currency and Rates, Fundamental Long / Short and Convertible Arbitrage (EURO) Limited – George Town, Cayman Islands	Private Investment Company	51	EUR	153 [2]
Volbroker.com Limited – London, Great Britain	Financial	21	GBP	18

1 Thereof paid in CHF 290.0 millions. 2 For Hedge Funds Net Asset Value instead of share capital.

Note 37 Invested Assets and Net New Money

Invested assets include all client assets managed by or deposited with UBS for investment purposes only. They therefore exclude all assets held for purely transactional purposes. Assets included are, for example, managed fund assets, managed institutional assets, discretionary and advisory wealth management portfolios, fiduciary deposits, time deposits, savings accounts and wealth management securities or brokerage accounts. Custody-only assets and transactional cash or current accounts as well as non-bankable assets (e. g. art collections) and deposits from third-party banks for funding or trading purposes are excluded.

Discretionary assets are defined as those where the bank decides on how a client's assets are invested. Other invested assets are those where the client decides on how the assets are invested. When a single product is created in one Business Group and sold in another, it is counted in both the Business Group that does the investment management and the one that distributes it. This results in double counting within UBS total invested assets, as both Business Groups are providing a service independently to their respective clients, and both add value and generate revenue.

Net new money is the net amount of invested assets that are acquired by the bank from new clients, invested assets that are lost when clients terminate their relationship with UBS and the inflows and outflows of invested assets from existing UBS clients. Interest and dividend income from invested assets is not included in the net new money result. Market and currency movements are also excluded, as are the effects resulting from any acquisition or divestment of a UBS subsidiary or business. Interest expense on loans results in net new money outflows.

CHF billion	**31.12.04**	31.12.03
Fund assets managed by UBS	**354**	339
Discretionary assets	**570**	507
Other invested assets	**1,326**	1,287
Total invested assets	**2,250**	2,133
thereof double count	***294***	*283*
Net new money	**88.9**	69.1

Note 38 Business Combinations

During 2004, UBS completed several acquisitions that were accounted for as business combinations. Except Motor-Columbus, which is discussed separately, none of the acquisitions was individually significant to the financial statements, and therefore, they are presented aggregated per Business Group.

Wealth Management
In the first quarter of 2004, UBS acquired the private banking operations of Lloyds Bank S.A., France, and the private client business of Merrill Lynch in Germany and Austria. The two businesses together had invested assets of approximately CHF 3.3 billion at the date of acquisition. Both businesses have been integrated into the local UBS Wealth Management operations and helped to significantly increase the client base in France and Germany.

In the second quarter of 2004, UBS acquired Laing & Cruickshank and Scott Goodman Harris, both British firms. Laing & Cruickshank, acquired for a consideration of approximately CHF 363 million, provides comprehensive wealth management services to high net worth investors and charities. 75 client advisors looked after invested assets of approximately CHF 11.4 billion, which doubled the size of UBS's wealth management operations in the United Kingdom. Scott Goodman Harris provides advice on pension and retirement benefit products, serving primarily executives and company directors with 28 employees. Subsequent to the acquisition both firms have been integrated into the UBS wealth management operations in the UK.

In fourth quarter 2004, UBS acquired Sauerborn Trust AG (Sauerborn), an independent German firm providing financial advisory services to individuals in the ultra-high net worth segment. Sauerborn has approximately CHF 9.4 billion of assets under management. UBS has merged its ultra-high net worth segment within the German wealth management business with the operations of Sauerborn to provide an expanded range of services and products to its clients and reap the benefits of synergies. UBS paid a cash consideration of approximately CHF 140 million (EUR 91 million) at closing, and will pay a further CHF 65 million (EUR 42 million) in three equal installments over the next two years.

The aggregate purchase price for the five acquisitions is approximately CHF 696 million and has been allocated to acquired net assets at fair value of CHF 175 million. The difference of CHF 521 million to the purchase price has been recognized as goodwill. Details of assets and liabilities recognized are as follows:

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	162	162
Property and equipment	3	(1)	2
Financial Investments	5	0	5
Goodwill	0	521	521
All other assets	260	2	262
Total assets	**268**	**684**	**952**
Liabilities			
Provisions	5	19	24
Deferred tax liabilities	0	54	54
All other liabilities	178	0	178
Total liabilities	183	73	256
Net assets	85	611	696
Total liabilities and equity	**268**	**684**	**952**

Intangible assets recognized relate to the businesses' existing customer relationships and have been assigned useful lives of twenty years, over which they will be amortized.

Note 38 Business Combinations (continued)

Investment Bank
In fourth quarter 2004, UBS acquired Charles Schwab Sound-View Capital Markets, the capital markets division of Charles Schwab Corp. (Schwab), for an aggregate cash consideration of approximately CHF 304 million. The business comprises equities trading and sales, including a third-party execution business, along with Schwab's NASDAQ trading system. This business handles over 200 million shares a day in trade volume and makes a market in over 11,000 stocks. As part of the acquisition, UBS and Schwab have entered into multi-year execution service agreements for the handling of Schwab's equities and listed options orders. The business was integrated in the Equities business of UBS's Investment Bank.

Also in fourth quarter 2004, UBS acquired Brunswick Capital's 50% stake in Brunswick UBS, an equity brokerage and trading, investment banking and custody joint venture in Russia in which UBS and Brunswick Capital were equal partners. The total purchase price has been estimated at approximately CHF 203 million, of which UBS paid at closing a cash consideration to the sellers of CHF 113 million (USD 99 million) and will pay a further CHF 75 million (USD 66 million) at the end of 2005 plus 20% of Brunswick UBS's net profits for 2005. Formed in 1997, Brunswick UBS has developed a significant franchise in the Russian securities market, employing 120 people in Moscow. UBS has already consolidated Brunswick, so that the effects of this acquisition on the financial statements are minor.

The aggregate purchase price for the two businesses is approximately CHF 507 million, a portion of which includes a deferred component linked to future results of operations. Accordingly, a revision of the current purchase price estimate will be made, if necessary, once final payments have been determined. The purchase price has been allocated to net assets acquired of CHF 198 million, which includes a revaluation of CHF 27 million related to UBS's existing interest in Brunswick. The difference of CHF 336 million to the purchase price has been recognized as goodwill. Details of assets and liabilities recognized are as follows:

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	21	133	154
Property and equipment	20	(13)	7
Financial investments	99	(2)	97
Deferred tax assets	37	(37)	–
Goodwill	–	336	336
All other assets	361	(1)	360
Total assets	**538**	**416**	**954**
Liabilities			
Deferred tax liabilities	–	23	23
All other liabilities	364	32	396
Total liabilities	364	55	419
Minority interests	40	(39)	1
Equity	134	400	534
Total liabilities, minority interests and equity	**538**	**416**	**954**

Intangible assets recognized relate to the businesses' existing customer relationships and have been assigned useful lives of five years in the case of Brunswick and eight years in the case of Schwab over which they will be amortized.

Note 38 Business Combinations (continued)

Notz Stucki
In the first quarter of 2004, Ferrier Lullin, one of UBS's private label banks, acquired Notz Stucki & Co., a small private bank in Geneva. The activities have been integrated into the operations of Ferrier Lullin. The purchase price of CHF 42 million was allocated to net tangible assets of CHF 22 million, and Notz Stucki's customer base of CHF 21 million, less deferred taxes of CHF 5 million. The difference of CHF 4 million to the purchase price was recognized as goodwill.

Motor-Columbus
On 1 July 2004, UBS acquired from RWE, a German utilities company, its 20% ownership interest in Motor-Columbus AG (Motor-Columbus) for a cash consideration, including incidental acquisition costs, of approximately CHF 379 million. UBS now holds a 55.6% majority interest in Motor-Columbus, a Swiss holding company whose most significant asset is an approximate 59.3% ownership interest in Aare-Tessin AG für Elektrizität (Atel), a Swiss group engaged in the production, distribution and trading of electricity.

UBS now consolidates Motor-Columbus and treated the acquisition of the 20% ownership interest as a business combination. The purchase price was allocated to acquired net assets of approximately CHF 260 million and the difference of CHF 119 million to the purchase price was recognized as goodwill. In accordance with IFRS 3, the existing 35.6% interest in Motor-Columbus was revalued to the valuation basis established at 1 July 2004, resulting in a revaluation amount of approximately CHF 81 million (CHF 63 million net of deferred tax liabilities), which was recorded directly in equity. The minority interests were also revalued to the new valuation basis, so that assets acquired and liabilities assumed are carried at full fair value. Details of assets, liabilities and minority interests, for which a step-up to fair value was recognized in purchase accounting, and all other assets and liabilities recognized at carryover basis are as follows:

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	444	750	1,194
Property and equipment	1,939	144	2,083
Investments in associates	655	367	1,022
Financial investments	621	19	640
Deferred tax assets	113	67	180
All other assets	2,629	–	2,629
Total assets	**6,401**	**1,347**	**7,748**
Liabilities			
Provisions	835	75	910
Debt issued	700	27	727
Deferred tax liabilities	293	308	601
All other liabilities	3,045	–	3,045
Total liabilities	4,873	410	5,283
Minority interests	784	382	1,166
Equity	744	555	1,299
Total liabilities, minority interests and equity	**6,401**	**1,347**	**7,748**

The CHF 75 million step-up to fair value of provisions relates to contingent liabilities arising from guarantees and certain contractual obligations. UBS's share in the equity at fair value of CHF 1,299 million is CHF 723 million, while the remaining CHF 576 million is recognized as additional minority interests, bringing total minority interest as of the acquisition date to CHF 1,742 million.

Useful economic lives between 4 and 25 years have been assigned to amortizable and depreciable assets based on contractual lives, where applicable, or estimates of the period during which the assets will benefit the operations.

Note 38 Business Combinations (continued)

Pro-forma information (unaudited)
The following pro-forma information shows UBS's total operating income, net profit and basic earnings per share as if all of the above acquisitions had been made as at 1 January 2004 and 2003, respectively. Adjustments have been made to reflect additional amortization and depreciation of assets and liabilities, which have been assigned fair values different from their carryover basis in purchase accounting.

	For the year ended	
CHF million, except where indicated	**31.12.04**	31.12.03
Total operating income	**44,812**	39,536
Net profit	**8,112**	6,277
Basic earnings per share (CHF)	**7.71**	5.62

Note 39 Currency Translation Rates

The following table shows the principal rates used to translate the financial statements of foreign entities into Swiss francs:

	Spot rate As at		**Average rate** Year ended		
	31.12.04	31.12.03	**31.12.04**	31.12.03	31.12.02
1 USD	**1.14**	1.24	**1.24**	1.34	1.54
1 EUR	**1.55**	1.56	**1.54**	1.54	1.46
1 GBP	**2.19**	2.22	**2.27**	2.20	2.33
100 JPY	**1.11**	1.15	**1.15**	1.16	1.24

Note 40 Swiss Banking Law Requirements

The consolidated financial statements of UBS are prepared in accordance with International Financial Reporting Standards. Set out below are the significant differences regarding recognition and measurement between IFRS and the provisions of the Banking Ordinance and the Guidelines of the Swiss Banking Commission governing financial statement reporting pursuant to Article 23 through Article 27 of the Banking Ordinance.

1. Consolidation
Under IFRS, entities which are directly or indirectly controlled by the Group are consolidated. Temporarily controlled entities that are acquired and held with a view to their subsequent disposal, are recorded as Financial investments.

Under Swiss law, only entities that are active in the field of banking and finance as well as real estate entities are subject to consolidation. Entities which are held temporarily are recorded as Financial investments.

2. Financial investments
Under IFRS, available-for-sale financial investments are carried at fair value. Changes in fair value are recorded directly in Shareholders' equity until an investment is sold, collected or otherwise disposed of, or until an investment is determined to be impaired. At the time an available-for-sale investment is determined to be impaired, the cumulative unrealized loss previously recognized in Shareholders' equity is included in net profit or loss for the period. On disposal of a financial investment, the difference between the net disposal proceeds and the carrying amount plus any attributable unrealized gain or loss balance recognized in Shareholders' equity, is included in net profit or loss for the period.

Under Swiss law, financial investments are carried at the lower of cost or market value. Reductions to market value below cost and reversals of such reductions as well as gains and losses on disposal are included in Other income.

3. Cash flow hedges
The Group uses derivative instruments to hedge against the exposure from varying cash flows receivable and payable. Under IFRS, when hedge accounting is applied for these instruments, the unrealized gain or loss on the effective portion of the derivatives is recorded in Shareholders' equity until the hedged cash flows occur, at which time the accumulated gain or loss is realized and released to income.

Under Swiss law, the unrealized gains or losses on the effective portion of the derivative instruments used to hedge cash flow exposures are deferred on the balance sheet as assets or liabilities. The deferred amounts are released to income when the hedged cash flows occur.

4. Investment property
Under IFRS, investment properties are carried at fair value.

Under Swiss law, investment properties are carried at the lower of cost less accumulated depreciation or market value. Depreciations on investment properties are continued until a sale is executed.

5. Fair value option
Under IFRS, the Group applies the fair value option to hybrid instruments issued. As a result the embedded derivative as well as the host contract related to the hybrid instrument are marked to market.

Under Swiss law, the fair value option is not available. Hybrid instruments are bifurcated: while the embedded derivative is marked to market, the host contract is accounted for on an accrued cost basis.

6. Goodwill
Under IFRS, goodwill acquired in business combinations entered into after 31 March 2004 is not amortized, but tested annually for impairment. Intangible assets acquired in business combinations entered into after 31 March 2004 to which an indefinite useful life has been assigned, are not amortized but tested annually for impairment.

Under Swiss law, goodwill and intangible assets with indefinite useful lives must be amortized over a period not exceeding five years, unless a longer useful life, which may not exceed twenty years, can be justified.

Note 41 Reconciliation of International Financial Reporting Standards (IFRS) to United States Generally Accepted Accounting Principles (US GAAP)

Note 41.1 Valuation and Income Recognition Differences between IFRS and US GAAP

The consolidated financial statements of UBS have been prepared in accordance with IFRS. The principles of IFRS differ in certain respects from United States Generally Accepted Accounting Principles ("US GAAP"). The following is a summary of the relevant significant accounting and valuation differences between IFRS and US GAAP.

a. Purchase accounting (merger of Union Bank of Switzerland and Swiss Bank Corporation)

Under IFRS, the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation was accounted for under the uniting of interests method. The balance sheets and income statements of the banks were combined, and no adjustments were made to the carrying values of the assets and liabilities. Under US GAAP, the business combination creating UBS AG is accounted for under the purchase method with Union Bank of Switzerland being considered the acquirer. Under the purchase method, the cost of acquisition is measured at fair value and the acquirer's interests in identifiable tangible assets and liabilities of the acquiree are restated to fair values at the date of acquisition. Any excess consideration paid over the fair value of net tangible assets acquired is allocated, first to identifiable intangible assets based on their fair values, if determinable, with the remainder allocated to goodwill.

Goodwill and intangible assets
For US GAAP purposes, the excess of the consideration paid for Swiss Bank Corporation over the fair value of the net tangible assets received has been recorded as goodwill and was amortized on a straight-line basis using a weighted average life of 13 years from 29 June 1998 to 31 December 2001.

Under US GAAP until 31 December 2001, goodwill acquired before 30 June 2001 was capitalized and amortized over its estimated useful life with adjustments for any impairment.

On 1 January 2002, UBS adopted SFAS 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 requires reclassification of intangible assets to goodwill which no longer meet the recognition criteria under the new standard. SFAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized but be tested annually for impairment. Identifiable intangible assets with finite lives will continue to be amortized. Upon adoption, the amortization charges related to the 1998 business combination of Union Bank of Switzerland and Swiss Bank Corporation ceased to be recorded under US GAAP.

In 2004 and 2003, goodwill recorded under US GAAP was reduced by CHF 78 million and CHF 39 million respectively, due to recognition of deferred tax assets of Swiss Bank Corporation which had previously been subject to valuation reserves.

Other purchase accounting adjustments
The restatement of Swiss Bank Corporation's net assets to fair value in 1998 resulted in decreasing net tangible assets by CHF 1,077 million for US GAAP. This amount is being amortized over periods ranging from two years to 20 years.

b. Reversal of IFRS goodwill amortization

The adoption of SFAS 142 "Goodwill and Intangible Assets" resulted in two new reconciling items: 1) Intangible assets on the IFRS balance sheet with a book value of CHF 1.8 billion at 1 January 2002 were reclassified to Goodwill for US GAAP; 2) The amortization of IFRS Goodwill and the Intangible assets reclassified to Goodwill for US GAAP (CHF 778 million, CHF 831 million and CHF 1,017 million for the years ended 31 December 2004, 31 December 2003 and 31 December 2002, respectively) was reversed.

With the adoption of IFRS 3 Business Combinations, UBS will cease amortizing pre-existing Goodwill under IFRS beginning 1 January 2005. Goodwill will be subject to an annual impairment test as it is under US GAAP, and there will no longer be a difference between the two sets of standards regarding goodwill amortization. Goodwill from business combinations entered into on or after 31 March 2004 has already been accounted for under the provisions of IFRS 3, and no Goodwill amortization has been recorded for these transactions under IFRS or US GAAP.

c. Purchase accounting under IFRS 3 and FAS 141

With the adoption of IFRS 3 on 31 March 2004, the accounting for business combinations generally converged with US GAAP with the exception of the measurement of minority interests and the recognition of a revaluation reserve in the case of a step acquisition.

Under IFRS, minority interests are recognized at the percentage of fair value of identifiable net assets acquired at the acquisition date whereas under US GAAP they are recognized at the percentage of book value of identifiable net assets acquired at the acquisition date. In most cases, minority interests would tend to have a higher measurement value under IFRS than under US GAAP.

Furthermore, IFRS requires that in a step acquisition the existing ownership interest in an entity be revalued to the new valuation basis established at the time of acquisition. The increase in value is recorded directly in equity as a revaluation reserve. Under US GAAP, the existing ownership interest remains at its original valuation.

d. Derivative instruments

Under IAS 39, UBS hedges interest rate risk based on forecast cash inflows and outflows on a Group basis. For this purpose, UBS accumulates information about non-trading financial assets and financial liabilities, which is then used to estimate and aggregate cash flows and to schedule the future periods in which these cash flows are expected to occur. Appropriate derivative instruments are then used to hedge the estimated future cash flows against repricing risk. SFAS 133 does not permit hedge accounting for hedges of future cash flows determined by this methodology. Accordingly, for US GAAP such hedging instruments continue to be carried at fair value with changes in fair value recognized in Net trading income.

In addition, amounts deferred under hedging relationships prior to the adoption of IAS 39 on 1 January 2001 that do not qualify as hedges under current requirements under IFRS are amortized to income over the remaining life of the hedging relationship. Such amounts have been reversed for US GAAP as they have never been treated as hedges.

e. Financial investments and private equity

Financial investments available-for-sale

Three exceptions exist between IFRS and US GAAP in accounting for financial investments available-for-sale: 1) Non-marketable equity financial investments (excluding private equity investments discussed below), which are classified as available-for-sale and carried at fair value under IFRS, continue to be carried at cost less "other than temporary" impairments under US GAAP. The opening adjustment and subsequent changes in fair value recorded directly in Shareholders' equity on non-marketable equity financial instruments due to the implementation of IAS 39 have been reversed under US GAAP to reflect the difference between the two standards in measuring such investments. 2) Writedowns on impaired debt instruments can be fully or partially reversed under IFRS if the value of the impaired assets increases. Such reversals of impairment writedowns are not allowed under US GAAP. Reversals under IFRS were not significant in 2004, 2003 or 2002. 3) Private equity investments, as described in the next section.

Private equity investments

UBS accounts for private equity investments as available-for-sale securities in its primary Financial Statements under IFRS, with changes in fair value recognized in Shareholders' equity. Under US GAAP, all of these investments were accounted for at cost less "other than temporary" impairments prior to 1 January 2002.

On 1 January 2002, UBS adopted the provisions of SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" for its US GAAP Financial Statements. The statement primarily addresses financial accounting and reporting for the impairment or disposal of long-lived assets. In addition, SFAS 144 eliminated the exception to consolidation for subsidiaries for which control is likely to be temporary, as previously contained in Accounting Research Bulletin 51 "Consolidated Financial Statements" as amended by SFAS 94 "Consolidation of All Majority-Owned Subsidiaries". Therefore, on adopting SFAS 144, UBS changed its US GAAP accounting for certain private equity investments by accounting for those investments held within separate investment subsidiaries in accordance with the "AICPA Audit and Accounting Guide, Audits of Investment Companies". The effect of this change for US GAAP reporting purposes is that certain private equity investments are now recorded at fair value, with changes in fair value recognized in US GAAP net profit. The remaining private equity investments continue to be accounted for at cost less "other than temporary" impairment.

For the IFRS to US GAAP reconciliation, fair value adjustments on certain private equity investments recorded directly in Shareholders' equity under IFRS had to be shown in the income statement for US GAAP purposes. At 1 January 2002, the date of adoption of SFAS 144, the cumulative effect of this change in accounting on US GAAP net profit was an increase of CHF 639 million, after tax. For the years ended 31 December 2004, 31 December 2003 and 31 December 2002, the effect of applying the new standard on the reconciliation of IFRS net profit to US GAAP was to increase US GAAP net profit by CHF 154 million after tax, decrease US GAAP net profit by CHF 119 million, after tax and to increase US GAAP net profit by CHF 83 million, after tax, respectively.

The pro-forma Net profit assuming that the change in accounting principle were applied retroactively would be as follows:

CHF million, except for per share data For the year ended	**31.12.04**	31.12.03	Pro-forma 31.12.02
Net profit under US GAAP	**8,818**	6,513	4,907
Basic earnings per share	**8.56**	5.83	4.06
Diluted earnings per share	**8.15**	5.72	3.99

See Note 2 for information regarding impairment charges recorded for private equity investments.

f. Pension plans

Under IFRS, UBS recognizes pension expense based on a specific method of actuarial valuation used to determine the projected plan liabilities for accrued service, including future expected salary increases, and expected return on plan assets. Plan assets are recorded at fair value and are held in a separate trust to satisfy plan liabilities. Under IFRS the recognition of a prepaid asset is subject to certain limitations, and any unrecognized prepaid asset is recorded as pension expense. US GAAP does not allow a limitation on the recognition of prepaid assets recorded in the balance sheet.

Under US GAAP, pension expense is based on the same actuarial method of valuation of liabilities and assets as under IFRS. Differences in the amounts of expense and liabilities (or prepaid assets) exist due to different transition date rules, stricter provisions for recognition of a prepaid asset, and the treatment of the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation.

In addition, under US GAAP, if the fair value of plan assets falls below the accumulated benefit obligation (which is the current value of accrued benefits without allowance for future salary increases), an additional minimum liability must be shown in the balance sheet. If an additional minimum liability is recognized, an equal amount will be recognized as an intangible asset up to the amount of any unrecognized prior service cost. Any amount not recognized as an intangible asset is reported in Other comprehensive income. The additional minimum liability required under US GAAP amounts to CHF 1,125 million, CHF 306 million and CHF 1,225 million as at 31 December 2004, 2003 and 2002, respectively. The amount recognized in intangible assets was CHF 0 million, CHF 0 million and CHF 2 million and the amount recognized in Other comprehensive income before tax was CHF 1,125 million, CHF 306 million and CHF 1,223 million as at 31 December 2004, 2003 and 2002, respectively.

g. Other post-retirement benefit plans

Under IFRS, UBS has recorded expenses and liabilities for post-retirement medical and life insurance benefits, determined under a methodology similar to that described above under pension plans.

Under US GAAP, expenses and liabilities for post-retirement medical and life insurance benefits are determined under the same methodology as under IFRS. Differences in the levels of expenses and liabilities have occurred due to different transition date rules and the treatment of the merger of Union Bank of Switzerland and Swiss Bank Corporation under the purchase method.

h. Equity participation plans

As of the reporting date, IFRS does not have any standard in effect that specifically addresses the recognition and measurement requirements for equity participation plans.

US GAAP permits the recognition of compensation cost based on the grant date fair value of equity instruments issued (SFAS 123) or based on the intrinsic value of equity instruments issued (Accounting Principles Board "APB" No. 25). If an entity elects to apply the APB 25 intrinsic value method they must provide pro forma disclosures of net profit and earnings per share, as if the fair value based method described in SFAS 123 had been applied. Under IFRS, UBS recognizes the intrinsic value of equity instruments issued measured at the grant date. No subsequent changes in value are recognized. Under US GAAP, UBS applies the APB No. 25 intrinsic value method, which requires adjustments to intrinsic values subsequent to the grant date in certain circumstances.

Prior to January 2004, certain equity compensation trusts were consolidated under US GAAP. With the adoption of FIN 46-R, "Consolidation of Variable Interest Entities" on 1 January 2004, the remaining unconsolidated employee equity compensation trusts formed before 1 February 2003 were consolidated for US GAAP purposes for the first time. The effect of the trust consolidations is to increase assets by CHF 1,175 million and CHF 460 million and liabilities by CHF 1,175 million and CHF 483 million at 31 December 2004 and 31 December 2003 respectively.

With the consolidation of the additional trusts under FIN 46-R, UBS has re-evaluated its accounting for share-based compensation plans under APB 25 by taking into consideration the settlement methods and activities of the trusts. Based on this review, most share plans issued prior to 2001 are now treated as variable awards under APB 25. There were no changes to the accounting for option plans. On 1 January 2004, a CHF 6 million expense reduction was recorded as a cumulative adjustment due to a change in accounting. For the year ended 31 December 2004, CHF 67 million in expense was recorded in the US GAAP income statement for these variable plans.

In addition, prior to the adoption of FIN 46-R, certain of UBS's option awards had been determined to be variable pursuant to APB No. 25, primarily because they may be settled in cash or because UBS has offered to hedge the value of the award. The effect of applying variable accounting to these option awards in the US GAAP reconciliation for the years ended 31 December 2004, 2003 and 2002, is a CHF 10 million increase in compensation expense, CHF 28 million increase in compensation expense and CHF 51 million decrease in compensation expense, respectively. In addition, certain of UBS's share plans have been deemed variable under APB No. 25. Additional expense was also recorded related to social tax payments on equity instruments recorded directly in Shareholders' equity for IFRS. For US GAAP, the net effect of these transactions is an increase to compensation expense of CHF 27 million, an increase to compensation expense of CHF 118 million and a decrease to compensation expense of CHF 12 million, for the years ended 31 December 2004, 2003 and 2002, respectively.

i. Software capitalization

Under IFRS, effective 1 January 2000, certain costs associated with the acquisitions or development of internal-use software had to be capitalized. Once the software was ready for its intended use, the costs capitalized were amortized to the income statement over the estimated life of the software. Under US GAAP, the same principle applied, however this standard was effective 1 January 1999. For US GAAP, the costs associated with the acquisition or development of internal-use software that met the US GAAP software capitalization criteria in 1999 were reversed from Operating expenses and amortized over a life of two years from the time that the software was ready for its intended use. From 1 January 2000, the only remaining reconciliation item was the amortization of software capitalized in 1999 for US GAAP purposes. At 31 December 2002, this amount was fully utilized and there is no longer a difference between IFRS and US GAAP.

j. Consolidation of Variable Interest Entities (VIEs) and deconsolidation of trust preferred securities

IFRS and US GAAP generally require consolidation of entities on the basis of controlling a majority of voting rights. However, in certain situations, there are no voting rights, or control of a majority of voting rights is not a reliable indicator of the need to consolidate, such as when voting rights are significantly disproportionate to risks and rewards. There are differences in the approach of IFRS and US GAAP to those situations.

Under IFRS, when control is exercised through means other than controlling a majority of voting rights, the consolidation assessment is based on the substance of the relationship. Indicators of control in these situations include: predetermination of the entity's activities; the entity's activities being conducted on behalf of the enterprise; decision-making powers being held by the enterprise; the right to obtain the majority of the benefits or be exposed to the risks inherent in the activities of the entity; or retaining the majority of the residual or ownership risks related to the entity's assets in order to obtain benefits from its activities.

Under US GAAP, consolidation considerations are subject to FASB interpretation No. 46, "Consolidation of Variable Interest Entities (revised December 2003)", an interpretation of Accounting Research Bulletin No. 51 (FIN 46-R). FIN 46-R requires that when voting interests do not exist, or differ significantly from economic interests, an entity is considered to be a "Variable Interest Entity" ("VIE"). An enterprise holding variable interests that will absorb a majority of a VIE's "expected losses", receive a majority of a VIE's "expected residual returns", or both, is known as the "primary beneficiary", and must consolidate the VIE.

From 1 January 2004 UBS has fully applied FIN 46-R consolidation requirements to its US GAAP financial statements. At 31 December 2003, the consolidation requirements of the predecessor standard, FIN 46, only applied to VIEs created after 31 January 2003.

In many cases the assessment of consolidation under IFRS and US GAAP is the same, however, there are certain differences.

The entities consolidated for US GAAP purposes at 31 December 2004, which were not otherwise consolidated in UBS's primary consolidated Financial Statements under IFRS, are mostly investment fund products, securitization VIEs, and employee equity compensation trusts. These are discussed in more detail in Note 42.1.

The entities not consolidated for US GAAP purposes, which UBS consolidates under IFRS, are certain trusts which have issued trust preferred securities. Under IFRS these are equity instruments held by third parties and are treated as minority interests, with dividends paid also reported in minority interests; under US GAAP the securities are treated as debt, with interest paid reported in interest expense.

A discussion of FIN 46-R measurement requirements and disclosures is set out in Note 42.1.

k. Financial liabilities held at fair value through profit and loss

Revised IAS 39 provides the election to designate at initial recognition any financial asset or liability as held at fair value through profit and loss. UBS applies this fair value designation election to a significant portion of its issued debt. Many debt issues are in the form of hybrid instruments, consisting of a debt host with an embedded derivative. Regular debt instruments as well as hybrid instruments are carried in their entirety at fair value with all changes in fair value recorded in profit and loss. Under US GAAP, debt instruments have to be carried at amortized cost. Derivatives embedded in hybrid instruments are separated from the debt hosts and accounted for as if they were freestanding derivatives.

l. Physically settled written puts

With the adoption of revised IAS 32 and IAS 39 at 1 January 2004, the accounting for physically settled written put options on UBS shares changed. Previously, such put options were accounted for as derivatives whereas now the present value of the contractual amount is recorded as a liability, while the premium received is credited to equity. Subsequently, the liability is accreted over the life of the put option to its contractual amount recognizing interest expense in accordance with the effective interest method. Under US GAAP, physically settled written put options on UBS shares continue to be accounted for as derivative instruments. All other outstanding derivative contracts, except written put options with the UBS share as underlying, are treated as derivative instruments under both sets of accounting standards.

m. Investment properties

As at 1 January 2004, UBS changed its accounting for investment properties from the cost less depreciation method to the fair value method. Under the fair value method, changes in fair value are recognized in the income statement, and depreciation is no longer recognized. Under US GAAP, investment properties continue to be carried at cost less accumulated depreciation.

Note 41.2 Recently Issued US Accounting Standards

In December 2003, the "Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Act) was passed in the US. Commencing 1 January 2006, the Act introduces a prescription drug benefit for individuals eligible under Medicare (Medicare Part D) as well as a federal subsidy equal to 28% of certain post-65 prescription drug claims for sponsors of retiree health care plans with drug benefits that are at least actuarially equivalent to those to be offered under Medicare Part D.

Pursuant to the guidance included in FASB Staff Position FAS 106-1 (FSP 106-1), the Group chose to defer recognition of the potential effects of the Act in its 2003 Financial Statements due to the lack of authoritative accounting guidance concerning certain technical matters.

In May 2004, the FASB issued FASB Staff Position FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP 106-2) which supersedes FSP 106-1. FSP106-2 requires plan sponsors to account for the effect of the subsidy on benefits attributable to past service as an unrecognized actuarial gain and as a reduction of the service cost component of the net periodic post-retirement costs for amounts attributable to current service if prescription drug benefits available under the plan are actuarially equivalent to those under Medicare Part D for 2006. UBS believes that the US health care plans will be eligible for the subsidy and prospectively adopted FSP 106-2 on 1 July 2004. The adoption of FSP 106-2 did not have a material effect on UBS's Financial Statements.

In December 2003, the FASB issued revised SFAS 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS 132-R). SFAS 132-R retains the disclosure requirements included in SFAS 132, Employers' Disclosures about Pensions and Other Postretirement Benefits, which it replaces. SFAS 132-R requires additional disclosures to those in SFAS 132 regarding the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. Except for certain disclosures relating to foreign plans and disclosures regarding the estimated future benefit payments prescribed in SFAS 132-R, SFAS 132-R was effective for financial statements with fiscal years ending after 15 December 2003. The remaining additional disclosures regarding foreign plans and the estimated future benefit payments disclosures are effective for financial statements with fiscal years ending after 15 June 2004. UBS elected to adopt early the additional disclosures required for foreign plans as well as the prescribed SFAS 132-R disclosures in its 2003 Financial Statements. Pursuant to the transitional disclosure requirements, UBS included the disclosure of the estimated future benefit payments for the year ended 31 December 2004 in Note 31, Pension and Other Post-Retirement Benefit Plans.

In November 2003, the FASB's Emerging Issues Task Force (EITF) issued EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". The EITF reached a consensus regarding certain qualitative and quantitative disclosures for debt and marketable equity securities classified as available-for-sale or held to maturity under SFAS 115 and 124 that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. UBS provided the required EITF 03-1 disclosures in Note 12 of the 2003 Financial Statements.

In March 2004, the EITF reached a consensus on an other-than-temporary impairment model for debt and equity securities classified as available-for-sale or held to maturity under SFAS 115 and 124 and equity securities held under the cost method. This EITF consensus would have been effective for interim and annual reporting periods beginning after 15 June 2004. In September 2004, the FASB staff issued FSP 03-1-1, "Effective Date of Paragraphs 10-20 of EITF 03-1, The Meaning of Other Than Temporary Impairment", which delayed the effective date for the recognition and measurement guidance included in EITF 03-1. The EITF 03-1 disclosure requirements were not delayed and are included in Note 12.

In December 2003, the FASB issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities (revised December 2003), an Interpretation of ARB No. 51" (FIN 46-R) which addresses how an enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly wether it should consolidate the entity. This consolidation evaluation under FIN 46-R reduces the impact of a decision maker in the calculation of expected losses and expected residual returns compared to the consolidation evaluation under the original FIN 46. FIN 46-R also changed the definition of a variable interest.

As an SEC foreign registrant, UBS applied the consolidation requirements for VIEs created before 1 February 2003 for the first time on 1 January 2004. To VIEs created after 31 January 2003, the original FIN 46 was applied for the first time at 31 December 2003. Under FN 46-R, at 1 January 204, several of UBS's employee equity compensation trusts were consolidated for the first time, while trust preferred security vehicles were deconsolidated.

The adoption of FIN 46-R is discussed in more detail in Note 42.

Recently issued US accounting standards not yet adopted

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment", (SFAS 123-R) which is a revision of SFAS 123, "Accounting for Stock-Based Compensation" (SFAS 123) and supersedes APB Opinion 25, "Accounting for Stock Issued to Employees" (APB Opinion 25). SFAS 123-R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values at date of grant, eliminating the pro-forma disclosure alternative. Further, SFAS 123-R introduces the notion of a requisite service period, which indicates that the service period for awards with future vesting may not be defined as a prior period. For UBS this will result in a change in the expense attribution period for awards.

SFAS 123-R is effective for interim or annual reporting periods beginning after 15 June 2005 with earlier application permitted. UBS will adopt SFAS 123-R effective 1 January 2005 using the modified prospective method. Under this method, SFAS 123-R applies only to new awards that are granted, modified or settled after the Standard is adopted. Compensation cost for prior awards shall be based on the grant date fair value and expense attribution method used for recognition or disclosure purposes under SFAS 123. Prior periods will not be restated.

UBS currently accounts for share-based payments using the intrinsic value method under APB 25, and as such, generally recognizes no compensation cost for employee stock options. Under this approach UBS recognized the fair value of share awards granted as part of annual bonuses in the year of corresponding performance, aligning with the revenue produced. For disclosure purposes, UBS recognized the fair value of option awards on the date of grant. Thus, for recognition and disclosure purposes, expense for share and option awards issued prior to but outstanding at the date of adoption of SFAS 123-R has been fully attributed to prior periods. Further, share awards issued in 2005 as part of the 2004 performance year, have been fully recognized in 2004. Therefore under SFAS 123-R, only option awards and certain share awards granted, modified or settled after the effective date are to be recognized in the 2005 financial statements. These awards will be recognized over the requisite service period as newly defined in SFAS 123-R, which is expected to result in a ramp-up of compensation expense over the next several years as these awards move through their vesting periods. Therefore, compensation expense is expected to decrease in 2005 compared to 2004 as the ramp-up effect for the share awards will offset the first-time recognition of the fair value of option awards. However, compensation cost will increase as awards to which the new measurement and attribution requirements apply move through their vesting period. Once these initial awards are fully vested (generally three years), compensation expense under SFAS 123-R is not expected to be materially different than what would be disclosed in the pro-forma disclosures under SFAS 123.

In 2005 UBS will be introducing a new valuation model to determine the fair value of share options granted. Share options granted in 2004 and earlier will not be affected by this change in valuation model. This new valuation model better reflects the exercise behavior of employees and the specific terms and conditions under which the share options are granted. Concurrent with the introduction of the new model, UBS will use implied instead of historic volatility as input into the new model.

Note 41.3 Reconciliation of IFRS Shareholders' Equity and Net profit to US GAAP

	Note 41.1	Shareholders' equity		Net profit		
CHF million	Reference	**31.12.04**	31.12.03	**31.12.04**	31.12.03	31.12.02
Amounts determined in accordance with IFRS		**34,978**	35,310	**8,089**	6,239	3,530
Adjustments in respect of:						
SBC purchase accounting goodwill and other purchase accounting adjustments	a	**15,152**	15,196	**(44)**	(89)	(128)
Reversal of IFRS goodwill amortization	b	**2,603**	1,825	**778**	808	1,017
Purchase accounting under IFRS 3 and FAS 141	c	**(88)**	0	**3**	0	0
Derivative instruments	d	**(75)**	(94)	**(217)**	188	342
Financial investments and private equity	e	**(266)**	(84)	**304**	(159)	767
Pension plans	f	**372**	1,303	**(110)**	(235)	(156)
Other post-retirement benefit plans	g	**(1)**	(1)	**0**	0	7
Equity participation plans	h	**(80)**	(112)	**(98)**	(152)	63
Software capitalization	i	**0**	0	**0**	0	(60)
Consolidation of variable interest entities (VIEs) and deconsolidation of trust preferred securities	j	**47**	(10)	**18**	(10)	0
Financial liabilities held at fair value through profit and loss	k	**197**	117	**100**	78	39
Physically settled written puts	l	**93**	48	**9**	5	3
Investment properties	m	**(8)**	(24)	**14**	88	(23)
Other adjustments		**(50)**	0	**(50)**	0	0
Tax adjustments		**(206)**	(300)	**22**	(248)	145
Total adjustments		**17,690**	17,864	**729**	274	2,016
Amounts determined in accordance with US GAAP		**52,668**	53,174	**8,818**	6,513	5,546

Note 41.4 Earnings per Share

Under both IFRS and US GAAP, basic earnings per share ("EPS") is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding. Diluted EPS includes the determinants of basic EPS and, in addition, gives effect to dilutive potential common shares that were outstanding during the period.

The computations of basic and diluted EPS for the years ended 31 December 2004, 31 December 2003 and 31 December 2002 are presented in the following table.

	31.12.04		31.12.03		31.12.02	
For the year ended	**US GAAP**	**IFRS**	US GAAP	IFRS	US GAAP	IFRS
Net profit available for ordinary shares (CHF million)	**8,818**	**8,089**	6,513	6,239	5,546	3,530
Net profit for diluted EPS (CHF million)	**8,813**	**8,084**	6,514	6,240	5,520	3,510
Weighted average shares outstanding	**1,029,895,610**	**1,052,914,417**	1,116,602,289	1,116,953,623	1,208,055,132	1,208,586,678
Diluted weighted average shares outstanding	**1,081,961,360**	**1,081,961,360**	1,138,800,625	1,138,800,625	1,222,862,165	1,223,382,942
Basic earnings per share (CHF)	**8.56**	**7.68**	5.83	5.59	4.59	2.92
Diluted earnings per share (CHF)	**8.15**	**7.47**	5.72	5.48	4.51	2.87

Note 41.5 Presentation Differences between IFRS and US GAAP

In addition to the differences in valuation and income recognition, other differences, essentially related to presentation, exist between IFRS and US GAAP. Although there is no impact on IFRS and US GAAP reported Shareholders' equity and Net profit due to these differences, it may be useful to understand them to interpret the financial statements presented in accordance with US GAAP. The following is a summary of presentation differences that relate to the basic IFRS financial statements.

1. Settlement date vs. trade date accounting
UBS's transactions from securities activities are recorded under IFRS on the settlement date. This results in recording a forward transaction during the period between the trade date and the settlement date. Forward positions relating to trading activities are revalued to fair value and any unrealized profits and losses are recognized in Net profit.

Under US GAAP, trade date accounting is required for spot purchases and sales of securities. Therefore, all such transactions with a trade date on or before the balance sheet date with a settlement date after the balance sheet date have been recorded at trade date for US GAAP. This has resulted in receivables and payables to broker-dealers and clearing organizations recorded in Other assets and Other liabilities in the US GAAP balance sheet.

2. Financial investments
Under IFRS, UBS's private equity investments and non-marketable equity financial investments are included in Financial investments. For US GAAP presentation, non-marketable equity financial investments are reclassified to Other assets, and private equity investments are shown separately on the balance sheet.

3. Securities received as proceeds in a securities for securities lending transaction
When UBS acts as the lender in a securities lending agreement and receives securities as collateral that can be pledged or sold, it recognizes the securities received and a corresponding obligation to return them. These securities are reflected on the US GAAP balance sheet in the line "Securities received as collateral" on the asset side of the balance sheet. The offsetting liability is presented in the line "Obligation to return securities received as collateral".

4. Reverse repurchase, repurchase, securities borrowing and securities lending transactions
UBS enters into certain types of reverse repurchase, repurchase, securities borrowing and securities lending transactions that result in a difference between IFRS and US GAAP. Under IFRS, they are considered borrowing and lending transactions which are not reflected in the balance sheet except to the extent of cash collateral advanced or received. Under US GAAP, however, they are considered purchase and sale transactions due to the fact that the contracts do not meet specific collateral or margining requirements under SFAS 140. Due to the different treatment of these transactions under IFRS and US GAAP, interest income and expense recorded under IFRS must be reclassified to Net trading income for US GAAP. Additionally under US GAAP, the securities received are recognized on the balance sheet as a spot purchase (Trading portfolio assets) with a corresponding forward sale transaction (Replacement values) and a receivable (Cash collateral on securities borrowed) is reclassified, as applicable. The securities delivered are recognized as a spot sale (Trading portfolio liabilities) with a corresponding forward repurchase transaction (Replacement values) and a liability (Cash collateral on securities lent) is reclassified, as applicable.

5. Recognition/derecognition of financial assets
The guidance governing recognition and derecognition of a financial asset is considerably more complex under revised IAS 39 than previously and requires a multi-step decision process to determine whether derecognition is appropriate. UBS derecognizes financial assets for which it transfers the contractual rights to the cash flows and no longer retains any risk or reward coming from them nor maintains control over the financial assets. The provisions of this guidance were applied prospectively as at 1 January 2004. As a result of the new requirements, certain transactions are now accounted for as secured financing transactions instead of purchases or sales of trading portfolio assets with an accompanying swap derivative. Under US GAAP, these transactions continue to be shown as purchases and sales of trading portfolio assets and were reclassified accordingly.

Note 41.6 Consolidated Income Statement

The following is a Consolidated Income Statement of the Group, for the years ended 31 December 2004, 31 December 2003 and 31 December 2002, restated to reflect the impact of valuation and income recognition differences and presentation differences between IFRS and US GAAP.

CHF million		**31.12.04**		31.12.03		31.12.02	
For the year ended	Reference	**US GAAP**	**IFRS**	US GAAP	IFRS	US GAAP	IFRS
Operating income							
Interest income	a, d, j, 4, 5	**39,124**	**39,398**	39,940	40,159	39,679	39,963
Interest expense	a, j, k, 4, 5	**(27,306)**	**(27,538)**	(27,700)	(27,860)	(29,334)	(29,417)
Net interest income		**11,818**	**11,860**	12,240	12,299	10,345	10,546
Credit loss expense / (recovery)		**276**	**276**	(72)	(72)	(115)	(115)
Net interest income after credit loss expense / (recovery)		**12,094**	**12,136**	12,168	12,227	10,230	10,431
Net fee and commission income		**19,416**	**19,416**	17,345	17,345	18,221	18,221
Net trading income	d, h, j, k, l, 4, 5	**4,879**	**4,972**	4,021	3,756	5,940	5,451
Other income [1]	b, c, e, j, m	**1,188**	**897**	380	462	96	4
Income from Industrial Holdings		**3,648**	**3,648**				
Total operating income		**41,225**	**41,069**	33,914	33,790	34,487	34,107
Operating expenses							
Personnel expenses	f, g, h	**18,729**	**18,515**	17,615	17,231	18,610	18,524
General and administrative expenses	j	**6,705**	**6,703**	6,086	6,086	7,072	7,072
Depreciation of property and equipment	a, i, m	**1,385**	**1,352**	1,396	1,353	1,613	1,514
Amortization of goodwill	b	**0**	**713**	0	756	0	930
Amortization of other intangible assets	b	**186**	**251**	112	187	1,443	1,530
Goods and materials purchased		**2,861**	**2,861**	0	0	0	0
Total operating expenses		**29,866**	**30,395**	25,209	25,613	28,738	29,570
Operating profit / (loss) before tax and minority interests		**11,359**	**10,674**	8,705	8,177	5,749	4,537
Tax expense / (benefit)		**2,112**	**2,135**	1,842	1,593	511	676
Net profit / (loss) before minority interests		**9,247**	**8,539**	6,863	6,584	5,238	3,861
Minority interests	j	**(435)**	**(450)**	(350)	(345)	(331)	(331)
Change in accounting principle: cumulative effect of adoption of "AICPA Audit and Accounting Guide, Audits of Investment Companies" on certain financial investments, net of tax		**0**	**0**	0	0	639	0
Cumulative adjustment of accounting for certain equity based compensation plans as cash settled, net of tax		**6**	**0**	0	0	0	0
Net profit		**8,818**	**8,089**	6,513	6,239	5,546	3,530

1 The CHF 304 million gain, CHF 159 million loss and CHF 108 million gain included in US GAAP Other income at 31 December 2004, 31 December 2003 and 31 December 2002, respectively are due to UBS's adoption of the "AICPA Audit and Accounting Guide, Audits of Investment Companies" on certain private equity investments for its US GAAP financial statements. These amounts represent the change in fair value of these investments during 2004, 2003 and 2002.
Note: References above coincide with the discussions in Note 41.1 and Note 41.5. These references indicate which IFRS to US GAAP differences affect an individual financial statement caption. Certain prior year US GAAP amounts in 2003 and 2002 have been adjusted to conform to the current year's presentation.

Note 41.7 Condensed Consolidated Balance Sheet

The following is a Condensed Consolidated Balance Sheet of the Group, as at 31 December 2004 and 31 December 2003, restated to reflect the impact of valuation and income recognition principles and presentation differences between IFRS and US GAAP.

		31.12.04		31.12.03	
CHF million	Reference	**US GAAP**	**IFRS**	US GAAP	IFRS
Assets					
Cash and balances with central banks		**6,036**	**6,036**	3,584	3,584
Due from banks	h, j	**35,286**	**35,264**	31,758	31,740
Cash collateral on securities borrowed	4	**218,414**	**220,242**	211,058	213,932
Reverse repurchase agreements		**357,164**	**357,164**	320,499	320,499
Trading portfolio assets	c, h, j,1, 4, 5	**449,389**	**370,259**	423,733	341,013
Trading portfolio assets pledged as collateral		**159,115**	**159,115**	120,759	120,759
Positive replacement values	j, k, 1, 4, 5	**284,468**	**284,577**	248,924	248,206
Financial assets designated at fair value	c		**653**		
Loans	a, j, 5	**228,968**	**232,387**	212,729	212,679
Financial investments	e, j, 2	**1,455**	**5,049**	1,303	5,139
Securities received as collateral	3	**12,950**		13,071	
Accrued income and prepaid expenses	h, j	**5,882**	**5,876**	6,219	6,218
Investments in associates	c	**2,153**	**2,427**	1,616	1,616
Property and equipment	a, c, m	**9,045**	**8,736**	8,116	7,683
Goodwill	a, b	**26,977**	**8,847**	26,775	9,348
Other intangible assets	b, c	**1,722**	**3,302**	1,174	2,181
Private equity investments	2	**3,094**		3,308	
Other assets	c, d, f, h, j, 1, 2, 5	**101,068**	**34,850**	64,381	25,459
Total assets		**1,903,186**	**1,734,784**	1,699,007	1,550,056
Liabilities					
Due to banks	h, 1	**119,021**	**118,901**	127,385	127,012
Cash collateral on securities lent	4	**57,792**	**61,545**	51,157	53,278
Repurchase agreements	j	**423,513**	**422,587**	415,863	415,863
Trading portfolio liabilities	j, 1, 4, 5	**190,907**	**171,033**	149,380	143,957
Obligation to return securities received as collateral	3	**12,950**		13,071	
Negative replacement values	j, k, l, 1, 4, 5	**360,345**	**303,712**	326,136	254,768
Financial liabilities designated at fair value	j, k, 5		**65,756**		35,286
Due to customers	j, 5	**386,913**	**376,083**	347,358	346,633
Accrued expenses and deferred income	j	**14,830**	**14,685**	13,673	13,673
Debt issued	a, c, d, j, k, 1	**164,744**	**117,828**	123,259	88,843
Other liabilities	c, d, f, g, h, j, l, m, 1	**117,743**	**42,342**	74,044	31,360
Total liabilities		**1,848,758**	**1,694,472**	1,641,326	1,510,673
Minority interests	c ,j	**1,760**	**5,334**	4,507	4,073
Total shareholders' equity		**52,668**	**34,978**	53,174	35,310
Total liabilities, minority interests and shareholders' equity		**1,903,186**	**1,734,784**	1,699,007	1,550,056

Positive and Negative replacement values under US GAAP are presented on a gross basis for all periods presented.
Note: References above coincide with the discussions in Note 41.1 and Note 41.5. These references indicate which IFRS to US GAAP differences affect an individual financial statement caption.

Note 41.8 Comprehensive Income

Comprehensive income under US GAAP is defined as the change in shareholders' equity excluding transactions with shareholders. Comprehensive income has two major components: Net profit, as reported in the income statement, and Other comprehensive income. Other comprehensive income includes such items as foreign currency translation, unrealized gains/losses on available-for-sale securities, unrealized gains/losses on changes in fair value of derivative instruments designated as cash flow hedges and additional minimum pension liability. The components and accumulated other comprehensive income amounts on a US GAAP basis for the years ended 31 December 2004, 31 December 2003 and 31 December 2002 are as follows:

CHF million	Foreign currency translation	Unrealized gains/(losses) on available-for-sale investments	Unrealized gains/(losses) on cash flow hedges	Additional minimum pension liability	Deferred income taxes	Accumulated other comprehensive income/(loss)	Comprehensive income/(loss)
Balance at 1 January 2002	**(769)**	**469**	**9**	**(303)**	**(7)**	**(601)**	
Net profit							5,546
Other comprehensive income:							
Foreign currency translation	(80)					(80)	(80)
Net unrealized gains on available-for-sale investments		143			(34)	109	109
Impairment charges reclassified to the income statement		121			(26)	95	95
Reclassification of gains on available-for-sale investments realized in net profit		(470)			102	(368)	(368)
Net unrealized losses on cash flow hedges			(4)		3	(1)	(1)
Reclassification of gains on cash flow hedges realized in net profit			(8)		0	(8)	(8)
Additional minimum pension liability				(920)	93	(827)	(827)
Other comprehensive income/(loss)	(80)	(206)	(12)	(920)	138	(1,080)	(1,080)
Comprehensive income							4,466
Balance at 31 December 2002	**(849)**	**263**	**(3)**	**(1,223)**	**131**	**(1,681)**	
Net profit							6,513
Other comprehensive income:							
Foreign currency translation	(795)					(795)	(795)
Net unrealized losses on available-for-sale investments		(130)			49	(81)	(81)
Impairment charges reclassified to the income statement		111			(18)	93	93
Reclassification of gains on available-for-sale investments realized in net profit		(69)			11	(58)	(58)
Reclassification of losses on cash flow hedges realized in net profit			3		(1)	2	2
Additional minimum pension liability				917	(82)	835	835
Other comprehensive income/(loss)	(795)	(88)	3	917	(41)	(4)	(4)
Comprehensive income							6,509
Balance at 31 December 2003	**(1,644)**	**175**	**0**	**(306)**	**90**	**(1,685)**	
Net profit							8,818
Other comprehensive income:							
Foreign currency translation	(818)					(818)	(818)
Net unrealized gains on available-for-sale investments		32			(15)	17	17
Impairment charges reclassified to the income statement		10			(2)	8	8
Reclassification of gains on available-for-sale investments realized in net profit		(5)			1	(4)	(4)
Additional minimum pension liability				(819)	21	(798)	(798)
Other comprehensive income/(loss)	(818)	37	0	(819)	5	(1,595)	(1,595)
Comprehensive income							7,223
Balance at 31 December 2004	**(2,462)**	**212**	**0**	**(1,125)**	**95**	**(3,280)**	

Note 42 Additional Disclosures Required under US GAAP and SEC Rules

Note 42.1 Variable interest entities

Introduction

For the financial year 2004 UBS fully applied Financial Accounting Standards Board (FASB) Interpretation No. 46, "Consolidation of Variable Interest Entities (revised December 2003)", an interpretation of Accounting Research Bulletin No. 51 (FIN 46-R). At 31 December 2003 the predecessor standard, FIN 46, had application to UBS only with respect to transitional disclosure requirements, and consolidation requirements for certain VIEs created after 31 January 2003.

Identification of variable interest entities (VIEs) and measurement of variable interests

Qualifying special purpose entities (QSPEs) per Statement of Financial Accounting Standards (SFAS) No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" are excluded from the scope of FIN 46-R. In most other cases, FIN 46-R requires that control over an entity be assessed for US GAAP first based on voting interests; if voting interests do not exist, or differ significantly from economic interests, the entity is considered a VIE, and control is assessed based on its variable interests. Specifically, VIEs are entities in which no equity investors exist, or the equity investors:

– do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties; or
– do not have the characteristics of a controlling financial interest; or
– have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of investors with disproportionately small or no voting interests.

Variable interests are interests held in a VIE that change with changes in the fair value of a VIE's net assets, exclusive of variable interests. Interests of related parties (including management, employees, affiliates and agents) are included in the evaluation as if owned directly by the enterprise.

A primary beneficiary is an enterprise which absorbs a majority of a VIE's expected losses, expected residual returns, or both – it must consolidate the VIE and provide certain disclosures. The holder of a significant variable interest in a VIE is required to make disclosures only. UBS treats variable interests of more than 20% of a VIE's expected losses, expected residual returns, or both, as significant.

The FASB Emerging Issues Task Force (EITF) has summarized four different general approaches to the application of FIN 46-R in EITF issue No. 04-7. In applying FIN 46-R, UBS has adopted a quantitative approach, particularly for derivatives, which is known as "View A", and is based on variability in the fair value of the net assets in the VIE, exclusive of variable interests.

Under View A, investments or derivatives in a VIE either create (increase), or absorb (decrease) variability in the fair value of a VIE's net assets. The VIE counterparty is a risk creator (risk maker), or risk absorber (risk taker), respectively. Only risk absorption (risk taker) positions are assessed; risk creation interests are deemed not to be variable interests.

VIEs often contain multiple risk factors, such as credit, equity, foreign currency and interest rate risks, which require quantification by variable interest holders. UBS analyzes these risks into components, identifies the parties absorbing them, and uses models to quantify and compare them. These models are based on internally approved valuation models and in some cases require the use of Monte Carlo simulation techniques. They are applied when UBS first becomes involved with a VIE, or after a major restructuring.

Measurement of maximum exposure to loss

Maximum exposure to loss is disclosed for VIEs in which UBS has a significant variable interest.

UBS's maximum exposure to loss is generally measured as its net investment in the VIE, plus any additional amounts it may be obligated to invest. If UBS receives credit protection from credit derivatives it is measured as any positive replacement value of the derivatives. If UBS has provided guarantees or other types of credit protection to a VIE it is measured as the notional amount of the credit protection instruments or credit derivatives. In other derivative transactions exposing UBS to potential losses, there is no theoretical limit to the maximum loss which could be incurred before considering offsetting positions or hedges entered into outside of the VIE. However, UBS's general risk management process involves the hedging of risk exposures for VIEs, on the same basis as for non-VIE counterparties. See Note 29 for a further discussion of UBS's risk mitigation strategies.

VIEs in which UBS is the primary beneficiary

VIEs in which UBS is the primary beneficiary require consolidation, which may increase both total assets and liabilities of the US GAAP financial statements, or in other cases may result in a reclassification of existing assets or liabilities.

In certain cases, an entity not consolidated under IFRS, is consolidated under FIN 46-R because UBS is the primary beneficiary. Significant groups of these include CHF 4.3 billion of investment fund products, and CHF 1.1 billion of securitization VIEs, which includes some third-party VIEs mentioned below.

The other significant group of VIEs consolidated for US GAAP, but not under IFRS, are employee equity compensation trusts, for which UBS is the primary beneficiary because of the variable interests of employees. These trusts have a total size prior to US GAAP consolidation of approximately CHF 2.8 billion, including approximately CHF 2.0 billion in UBS shares and CHF 0.8 billion in alternative investment vehicles. Upon consolidation, the UBS shares are treated as treasury shares, which increases the weighted average number of treasury shares at 31 December 2004 by 23 million shares, and decreases the basic EPS denominator by 2%.

UBS has reviewed the population of potential third-party VIEs it is involved with. Those identified in which UBS is the primary beneficiary, and are consolidated for US GAAP purposes, have combined assets of approximately CHF 5.5 billion and are included in the table below.

Many entities consolidated under US GAAP due to FIN 46-R are already consolidated under IFRS, based on the determination of exercise of control under IFRS. The total size of this population is approximately CHF 4.7 billion, mostly comprising investment funds managed by UBS, other investment fund products, and securitization vehicles.

Certain VIEs in which UBS is the primary beneficiary, but for which UBS also holds a majority voting interest, are consolidated, but do not require disclosure in the table below. In most cases such VIEs, or their financial position and performance, are already consolidated under IFRS.

The creditors or beneficial interest holders of VIEs in which UBS is the primary beneficiary do not have any recourse to the general credit of UBS.

VIEs in which UBS is the primary beneficiary

(CHF million) **Nature, purpose and activities of VIEs**	**Total assets**	**Consolidated assets that are collateral for the VIEs' obligations** **Classification**	**Amount**
Securitizations	1,363	Loan receivables, government debt securities, corporate debt securities	1,363
Investment fund products	4,648	Investment funds	4,648
Investment funds managed by UBS	4,303	Debt, equity	4,270
Passive intermediary to a derivative transaction	174	Loan receivables, corporate debt securities	174
Trust vehicles for awards to UBS employees	2,798	UBS shares and alternative investment vehicles	2,798
Private equity investments	300	Private equity investments	152
Other miscellaneous structures	36	–	–
Total 31.12.04	**13,622**		**13,405**

Entities which are de-consolidated for US GAAP purposes

In certain cases, an entity consolidated under IFRS is not consolidated under FIN 46-R. UBS consolidates under IFRS several trusts that have issued trust preferred securities amounting to CHF 3.0 billion, which are de-consolidated for US GAAP purposes. Under IFRS the trust preferred securities are treated as minority interests, with dividends paid reported in minority interests; under US GAAP the securities are treated as debt, with interest paid reported in interest expense.

VIEs in which UBS holds a significant variable interest

VIEs in which UBS holds a significant variable interest are mostly used in securitizations, or as investment fund products, including funds managed by UBS.

UBS has reviewed the population of potential third party VIEs it is involved with. Those identified in which UBS holds a significant variable interest have combined assets of approximately CHF 11.7 billion, for which UBS has a maximum exposure to loss of approximately CHF 4.4 billion. Disclosures for these are included in the table below.

VIEs in which UBS holds a significant variable interest

(CHF million) **Nature, purpose and activities of VIEs**	**Total assets**	**Nature of involvement**	**Maximum exposure to loss**
Securitizations	7,075	UBS acts as swap counterparty	2,700
Investment fund products	4,863	UBS holds notes or units	1,744
Investment funds managed by UBS	1,978	UBS acts as investment manager	742
Credit protection vehicles	1,449	SPE used for credit protection – UBS sells credit risk on portfolios to investors	800
Other miscellaneous structures	114	UBS acts as swap counterparty	54
Total 31.12.04	**15,479**		**6,040**

Third-party VIEs not otherwise classified

FIN 46-R requires UBS to consider all VIEs for consolidation, including VIEs which UBS has not created, but in which it holds variable interests as a third-party counterparty, either through direct or indirect investment, or through derivative transactions.

UBS has identified that it holds variable interests in 56 third-party VIEs that in some cases could result in UBS being considered the primary beneficiary, but the information necessary to make this determination or perform the accounting required to consolidate the VIE, was held by third parties, and was not available to UBS. Additional disclosures for these VIEs are provided in the table below.

VIEs not originated by UBS – information unavailable from third parties

(CHF million) **Nature, purpose and activities of VIEs**	**Total assets**	**Nature of involvement**	**Net income from VIE in current period**	**Maximum exposure to loss**
Securitizations	4,083	UBS acts as swap counterparty	114	3,561
Investment fund products	480	UBS acts as swap counterparty	24	457
Total 31.12.04	**4,563**		**138**	**4,018**

Future developments

As the guidance for FIN 46-R has seen considerable continued development, it is possible UBS may be required to apply a different approach in the future, which would impact the US GAAP financial position, results, and reporting. However, it is not possible at this time to predict the impact this might have.

Note 42.2 Industrial Holdings' Income Statement[1]

Following an additional percentage acquisition of Motor-Columbus, UBS now holds a majority ownership interest in the company. As a result, UBS has fully consolidated Motor-Columbus in its financial statements, housing it within a separate segment. "Industrial Holdings" consists of Motor-Columbus, a Swiss holding company, whose most significant asset is a 59.3% interest in Atel, a Swiss-based European energy provider. The following table provides information required by Regulation S-X for commercial and industrial companies, including a condensed income statement and certain additional balance sheet information:

CHF million	**31.12.04**[2]
Operating income	
Net sales	**3,632**
Operating expenses	
Cost of products sold	**3,200**
Marketing expenses	**44**
General and administrative expenses	**131**
Other intangible assets amortization	**77**
Other operating expenses	**8**
Total operating expenses	**3,460**
Operating profit	**172**
Non-operating profit	
Interest income	**4**
Interest expense	**(38)**
Other non-operating income, net	**50**
Non-operating profit	**16**
Net profit before tax and minority interests	**188**
Income taxes	**47**
Net profit before minority interests	**141**
Equity in income of associates, net of tax	**17**
Minority interests	**(113)**
Net profit	**45**
Accounts receivables trade, gross	**1,681**
Allowance for doubtful receivables	**(18)**
Accounts receivables trade, net	**1,663**

1 Industrial Holdings consists of Motor-Columbus, a Swiss holding company, whose most significant asset is a 59.3% interest in Atel, a Swiss-based European energy provider. 2 Results shown for the six-month period beginning on 1 July 2004.

Note 42.3 Indemnifications

In the normal course of business, UBS provides representations, warranties and indemnifications to counterparties in connection with numerous transactions. These provisions are generally ancillary to the business purposes of the contracts in which they are embedded. Indemnification clauses are generally standard contractual terms related to the Group's own performance under a contract and are entered into based on an assessment that the risk of loss is remote. Indemnifications may also protect counterparties in the event that additional taxes are owed due either to a change in applicable tax laws or adverse interpretations of tax laws. The purpose of these clauses is to ensure that the terms of a contract are met at inception.

The most significant business where UBS provides representations and warranties are asset securitizations. UBS generally represents that certain securitized assets meet specific requirements, for example documentary attributes. UBS may be required to repurchase the assets and/or indemnify the purchaser of the assets against losses due to any breaches of such representations or warranties. Generally, the maximum amount of future payments the Group would be required to make under such repurchase and/or indemnification provisions would be equal to the current amount of assets held by such securitization-related SPEs as at 31 December 2004, plus, in certain circumstances, accrued and unpaid interest on such assets and certain expenses. The potential loss due to such repurchase and/or indemnity is mitigated by the due diligence UBS performs to ensure that the assets comply with the requirements set forth in the representations and warranties. UBS receives no compensation for representations and warranties, and it is not possible to determine their fair value because they rarely, if ever, result in a payment. Historically, losses incurred on such repurchases and/or indemnifications have been insignificant. Management expects the risk of material loss to be remote. No liabilities related to such representations, warranties, and indemnifications are included in the balance sheet at 31 December 2004 and 2003.

Note 42.4 Supplemental Guarantor Information

Guarantee of PaineWebber securities

Following the acquisition of Paine Webber Group Inc., UBS AG made a full and unconditional guarantee of the senior and subordinated notes and trust preferred securities ("Debt Securities") of PaineWebber. Prior to the acquisition, PaineWebber was an SEC Registrant. Upon the acquisition, Paine Webber was merged into UBS Americas Inc., a wholly owned subsidiary of UBS.

Under the guarantee, if UBS Americas Inc. fails to make any timely payment under the Debt Securities agreements, the holders of the Debt Securities or the Debt Securities trustee may demand payment from UBS without first proceeding against UBS Americas Inc. UBS's obligations under the subordinated note guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. At 31 December 2004, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,685 billion.

The information presented in this note is prepared in accordance with IFRS and should be read in conjunction with the Consolidated Financial Statements of UBS of which this information is a part. At the bottom of each column, Net profit and Shareholders' equity has been reconciled to US GAAP. See Note 41 for a detailed reconciliation of the IFRS financial statements to US GAAP for UBS on a consolidated basis.

Supplemental Guarantor Consolidating Income Statement

CHF million For the year ended 31 December 2004	UBS AG Parent Bank [1]	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	29,423	13,364	14,486	(17,875)	39,398
Interest expense	21,732	10,009	13,672	(17,875)	27,538
Net interest income	7,691	3,355	814	0	11,860
Credit loss expense	334	1	(59)	0	276
Net interest income after credit loss expense	8,025	3,356	755	0	12,136
Net fee and commission income	7,830	7,119	4,467	0	19,416
Net trading income	4,204	386	382	0	4,972
Income from subsidiaries	1,364	0	0	(1,364)	0
Other income	449	737	(289)	0	897
Income from industrial holdings	0	0	3,648	0	3,648
Total operating income	21,872	11,598	8,963	(1,364)	41,069
Operating expenses					
Personnel expenses	9,699	6,577	2,239	0	18,515
General and administrative expenses	1,994	2,719	1,990	0	6,703
Depreciation of property and equipment	769	155	428	0	1,352
Amortization of goodwill and other intangible assets	46	750	168	0	964
Goods and materials purchased	0	0	2,861	0	2,861
Total operating expenses	12,508	10,201	7,686	0	30,395
Operating profit / (loss) before tax and minority interests	9,364	1,397	1,277	(1,364)	10,674
Tax expense / (benefit)	1,275	153	707	0	2,135
Net profit / (loss) before minority interests	8,089	1,244	570	(1,364)	8,539
Minority interests	0	(35)	(415)	0	(450)
Net profit / (loss)	8,089	1,209	155	(1,364)	8,089
Net profit / (loss) US GAAP [2]	6,426	1,977	415	0	8,818

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. **2** Refer to Note 41 for a description of the differences between IFRS and US GAAP.

Supplemental Guarantor Consolidating Balance Sheet

CHF million For the year ended 31 December 2004	UBS AG Parent Bank [1]	UBS Americas Inc.	Subsidiaries	Consolidating Entries	UBS Group
Assets					
Cash and balances with central banks	4,152	7	1,877	0	6,036
Due from banks	94,881	11,194	132,730	(203,541)	35,264
Cash collateral on securities borrowed	87,198	185,741	95,334	(148,031)	220,242
Reverse repurchase agreements	213,080	171,447	229,558	(256,921)	357,164
Trading portfolio assets	205,075	138,015	27,169	0	370,259
Trading portfolio assets pledged as collateral	107,944	39,998	11,173	0	159,115
Positive replacement values	287,786	1,985	138,451	(143,645)	284,577
Financial assets designated at fair value	0	0	653	0	653
Loans	252,342	29,440	36,509	(85,904)	232,387
Financial investments	839	937	3,273	0	5,049
Accrued income and prepaid expenses	3,129	1,846	3,546	(2,645)	5,876
Investments in associates	28,915	14	1,307	(27,809)	2,427
Property and equipment	5,475	511	2,750	0	8,736
Goodwill and other intangible assets	528	9,664	1,957	0	12,149
Other assets	8,536	3,728	24,922	(2,336)	34,850
Total assets	1,299,880	594,527	711,209	(870,832)	1,734,784
Liabilities					
Due to banks	157,889	87,736	76,817	(203,541)	118,901
Cash collateral on securities lent	85,053	45,362	79,161	(148,031)	61,545
Repurchase agreements	119,826	332,513	227,169	(256,921)	422,587
Trading portfolio liabilities	98,019	59,867	13,147	0	171,033
Negative replacement values	309,809	2,105	135,443	(143,645)	303,712
Financial liabilities designated at fair value	47,116	0	18,640	0	65,756
Due to customers	366,762	47,265	47,960	(85,904)	376,083
Accrued expenses and deferred income	7,588	6,233	3,509	(2,645)	14,685
Debt issued	56,658	5,214	55,956	0	117,828
Other liabilities	9,378	2,442	32,858	(2,336)	42,342
Total liabilities	1,258,098	588,737	690,660	(843,023)	1,694,472
Minority interests	0	144	5,190	0	5,334
Total shareholders' equity	41,782	5,646	15,359	(27,809)	34,978
Total liabilities, minority interests and shareholders' equity	1,299,880	594,527	711,209	(870,832)	1,734,784
Total shareholders' equity – US GAAP [2]	29,116	7,760	15,792	0	52,668

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. 2 Refer to Note 41 for a description of the differences between IFRS and US GAAP.

Supplemental Guarantor Consolidating Cash Flow Statement

CHF million For the year ended 31 December 2004	UBS AG Parent Bank [1]	UBS Americas Inc.	Subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	(6,652)	(1,636)	(19,610)	(27,898)
Cash flow from / (used in) investing activities				
Investments in subsidiaries and associates	(2,511)	0	0	(2,511)
Disposal of subsidiaries and associates	800	0	0	800
Purchase of property and equipment	(555)	(164)	(430)	(1,149)
Disposal of property and equipment	64	249	391	704
Net (investment in) / divestment of financial investments	39	145	502	686
Net cash flow from / (used in) investing activities	(2,163)	230	463	(1,470)
Cash flow from / (used in) financing activities				
Net money market paper issued / (repaid)	5,758	199	15,422	21,379
Net movements in treasury shares and own equity derivative activity	(4,999)	0	0	(4,999)
Capital issuance	2	0	0	2
Dividends paid	(2,806)	0	0	(2,806)
Issuance of long-term debt, including financial liabilities designated at fair value	35,426	(26)	15,811	51,211
Repayment of long-term debt, including financial liabilities designated at fair value	(11,944)	(1,869)	(10,904)	(24,717)
Increase in minority interests	0	(969)	1,071	102
Dividend payments to / purchase from minority interests	0	(1)	(331)	(332)
Net activity in investments in subsidiaries	(4,799)	866	3,933	0
Net cash flow from / (used in) financing activities	16,638	(1,800)	25,002	39,840
Effects of exchange rate differences	(1,282)	401	(171)	(1,052)
Net increase / (decrease) in cash equivalents	6,541	(2,805)	5,684	9,420
Cash and cash equivalents, beginning of the year	43,309	18,811	11,236	73,356
Cash and cash equivalents, end of the year	49,850	16,006	16,920	82,776
Cash and cash equivalents comprise:				
Cash and balances with central banks	4,152	7	1,877	6,036
Money market paper [2]	31,262	13,450	697	45,409
Due from banks maturing in less than three months	14,436	2,549	14,346	31,331
Total	49,850	16,006	16,920	82,776

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. **2** Money market paper is included in the Balance sheet under Trading portfolio assets and Financial investments. CHF 13,242 million was pledged at 31 December 2004.

Guarantee of other securities

In October 2000, UBS AG, acting through a wholly owned subsidiary, issued USD 1.5 billion (CHF 2.6 billion at issuance) 8.622% UBS Trust Preferred securities. In June 2001, UBS issued an additional USD 800 million (CHF 1.3 billion at issuance) of such securities (USD 300 million at 7.25% and USD 500 million at 7.247%). In May 2003, UBS issued USD 300 million of Floating Rate Noncumulative Trust Preferred Securities (CHF 390 million at issuance) at 0.7% above one-month LIBOR of such securities. UBS AG has fully and unconditionally guaranteed these securities. UBS's obligations under the trust preferred securities guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. At 31 December 2004, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,685 billion.

Financial Statements

Income Statement

	For the year ended		% change from
CHF million	**31.12.04**	31.12.03	31.12.03
Interest and discount income	**18,902**	19,417	(3)
Interest and dividend income from trading portfolio	**10,457**	9,325	12
Interest and dividend income from financial investments	**13**	11	18
Interest expense	**(21,659)**	(20,034)	(8)
Net interest income	**7,713**	8,719	(12)
Credit-related fees and commissions	**228**	228	0
Fee and commission income from securities and investment business	**8,002**	6,998	14
Other fee and commission income	**735**	826	(11)
Fee and commission expense	**(1,135)**	(1,180)	4
Net fee and commission income	**7,830**	6,872	14
Net trading income	**3,469**	521	566
Net income from disposal of financial investments	**87**	(69)	
Income from investments in associated companies	**461**	1,914	(76)
Income from real estate holdings	**46**	43	7
Sundry income from ordinary activities	**1,418**	1,213	17
Sundry ordinary expenses	**(26)**	(96)	73
Other income from ordinary activities	**1,986**	3,005	(34)
Operating income	**20,998**	19,117	10
Personnel expenses	**9,699**	8,889	9
General and administrative expenses	**3,833**	3,943	(3)
Operating expenses	**13,532**	12,832	5
Operating profit	**7,466**	6,285	19
Depreciation and write-offs on investments in associated companies and fixed assets	**1,021**	919	11
Allowances, provisions and losses	**184**	658	(72)
Profit before extraordinary items and taxes	**6,261**	4,708	33
Extraordinary income	**1,016**	92	
Extraordinary expenses	**49**	1	
Tax expense / (benefit)	**1,282**	602	113
Profit for the period	**5,946**	4,197	42

Balance Sheet

CHF million	31.12.04	31.12.03	% change from 31.12.03
Assets			
Liquid assets	**4,152**	2,895	43
Money market paper	**31,262**	21,233	47
Due from banks	**350,055**	321,796	9
Due from customers	**159,988**	130,814	22
Mortgage loans	**132,941**	131,900	1
Trading balances in securities and precious metals	**288,170**	236,096	22
Financial investments	**4,503**	8,955	(50)
Investments in associated companies	**20,547**	14,757	39
Fixed assets	**4,212**	4,367	(4)
Accrued income and prepaid expenses	**3,129**	3,666	(15)
Positive replacement values	**128,300**	111,612	15
Other assets	**8,550**	6,585	30
Total assets	**1,135,809**	994,676	14
Total subordinated assets	***4,970***	*4,450*	*12*
Total amounts receivable from Group companies	***446,850***	*397,410*	*12*
Liabilities			
Money market paper issued	**29,637**	23,879	24
Due to banks	**428,371**	377,447	13
Due to customers on savings and deposit accounts	**83,976**	84,360	0
Other amounts due to customers	**316,467**	274,408	15
Medium-term bonds	**1,686**	2,403	(30)
Bond issues and loans from central mortgage institutions	**60,125**	45,968	31
Accruals and deferred income	**7,588**	7,060	7
Negative replacement values	**158,811**	127,885	24
Other liabilities	**5,951**	6,802	(13)
Value adjustments and provisions	**3,929**	3,894	1
Share capital	**901**	946	(5)
General statutory reserve	**7,572**	7,212	5
Reserve for own shares	**9,056**	8,024	13
Other reserves	**15,793**	20,191	(22)
Profit for the period	**5,946**	4,197	42
Total liabilities	**1,135,809**	994,676	14
Total subordinated liabilities	***12,695***	*12,471*	*2*
Total amounts payable to Group companies	***357,311***	*257,955*	*39*

Statement of Appropriation of Retained Earnings

CHF million	
The Board of Directors proposes to the Annual General Meeting the following appropriation:	
Profit for the financial year 2004 as per the Parent Bank's Income Statement	**5,946**
Appropriation to general statutory reserve	**322**
Appropriation to other reserves	**2,363**
Proposed dividends	**3,261**
Total appropriation	**5,946**

Dividend Distribution

The Board of Directors will recommend to the Annual General Meeting on 21 April 2005 that UBS should pay a dividend of CHF 3.00 per share of CHF 0.80 par value. If the dividend is approved, the payment of CHF 3.00 per share, after deduction of 35% Swiss withholding tax, would be made on 26 April 2005 for shareholders who hold UBS shares on 21 April 2005.

Notes to the Financial Statements

Accounting Principles

The Parent Bank's accounting policies are in compliance with Swiss banking law. The accounting policies are principally the same as for the Group Financial Statements outlined in Note 1, Summary of Significant Accounting Policies. Major differences between the Swiss banking law requirements and International Financial Reporting Standards are described in Note 40 to the Group Financial Statements.

In addition, the following principles are applied for the Parent Bank:

Treasury shares
Treasury shares is the term used to describe when an enterprise holds its own equity instruments. Under IFRS, treasury shares are presented in the balance sheet as a deduction from equity. No gain or loss is recognized in the income statement on the sale, issuance, acquisition, or cancellation of those shares. Consideration received or paid is presented in the financial statement as a change in equity.

Under Swiss law, treasury shares are classified in the balance sheet as trading balances or as financial assets, short positions are included in Due to banks. Realized gains and losses on the sale, issuance or acquisition of treasury shares, and unrealized gains or losses from re-measurement of treasury shares in the trading portfolio to market value are included in the income statement. Treasury shares included in Financial investments are carried at the lower of cost or market value.

Foreign currency translation
Transactions and translation of assets and liabilities denominated in foreign currencies into the Parent Bank's or a branch's reporting currency are accounted for as described in Note 1i). Assets and liabilities of foreign branches are translated into CHF at the exchange rates at the balance sheet date, while income and expense items are translated at weighted average rates for the period. Exchange differences arising on the translation of each of these foreign branches are credited to a provision account (other liabilities) in case of a gain, while any losses are firstly debited to that provision account until such provision is fully utilized, and secondly to profit and loss.

Investments in associated companies
Investments in associated companies are equity interests which are held for the purpose of the Parent Bank's business activities or for strategic reasons. They are carried at cost less valuation reserves, if needed.

Property and equipment
Bank buildings and other real estate are carried at cost less accumulated depreciation. Depreciation of computer and telecommunication equipment, other office equipment, fixtures and fittings is recognized on a straight-line basis over the estimated useful lives of the related assets. The useful lives of Property and equipment are summarized in Note 1, Summary of Significant Accounting Policies, of the Group Financial Statements.

Extraordinary income and expenses
Certain items of income and expense appear as extraordinary within the Parent Bank Financial Statements, whereas in the Group Financial Statements they are considered to be operating income or expenses and appear within the appropriate income or expense category. These items are separately identified on page 198.

Additional Income Statement Information

Net Trading Income

	For the year ended		% change from
CHF million	**31.12.04**	31.12.03	31.12.03
Equities	**2,262**	1,708	32
Fixed income [1]	**(266)**	(1,307)	80
Foreign exchange and other	**1,473**	120	
Total	**3,469**	521	566

1 Includes commodities trading income.

Extraordinary Income and Expenses

Extraordinary income contains CHF 609 million first-time adoption impact as at 1 January 2004 from changing the valuation method for treasury shares from lower of cost or market to the mark to market method. It further includes CHF 72 million (2003: CHF 33 million) from the sale of investments in associates and CHF 334 million from release of provisions (2003: CHF 59 million). Extraordinary expenses contain CHF 48 million loss from the liquidation of investments in associates in 2004.

Additional Balance Sheet Information

Value Adjustments and Provisions

CHF million	Balance at 31.12.03	Provisions applied in accordance with their specified purpose	Recoveries, doubtful interest, currency translation differences	Provisions released to income	New provisions charged to income	**Balance at 31.12.04**
Default risks (credit and country risk)	4,218	(814)	(292)	(962)	627	**2,777**
Trading portfolio risks	2,723		413		201	**3,337**
Litigation risks	392	(312)	15	(77)	215	**233**
Operational risks	1,871	(580)	164	(137)	190	**1,508**
Capital and income taxes	1,118	(819)	24		1,535	**1,858**
Total allowance for general credit losses and other provisions	**10,322**	**(2,525)**	**324**	**(1,176)**	**2,768**	**9,713**
Allowances deducted from assets	6,428					**5,784**
Total provisions as per balance sheet	**3,894**					3,929

Statement of Shareholders' Equity

CHF million	Share capital	General statutory reserves: Share premium	General statutory reserves: Retained earnings	Reserves for own shares	Other reserves	Total Shareholders' equity (before distribution of profit)
As at 31.12.02 and 1.1.03	**1,005**	**11,550**	**842**	**6,623**	**24,119**	**44,139**
Cancellation of own shares	(61)	(5,468)				**(5,529)**
Capital increase	2	59				**61**
Increase in reserves			229		(229)	
Prior year dividend					(2,298)	**(2,298)**
Profit for the period					4,197	**4,197**
Changes in reserves for own shares				1,401	(1,401)	
As at 31.12.03 and 1.1.04	**946**	**6,141**	**1,071**	**8,024**	**24,388**	**40,570**
Cancellation of own shares	(47)				(4,469)	**(4,516)**
Capital increase	2	72				**74**
Increase in reserves			288		(288)	
Prior year dividend					(2,806)	**(2,806)**
Profit for the period					5,946	**5,946**
Changes in reserves for own shares				1,032	(1,032)	
As at 31.12.04	**901**	**6,213**	**1,359**	**9,056**	**21,739**	**39,268**

Share Capital

	Par value		Ranking for dividends	
	No. of shares	Capital in CHF	No. of shares	Capital in CHF
As at 31.12.04				
Issued and paid up	1,126,858,177	**901,486,542**	1,086,923,083	**869,538,466**
Conditional share capital	3,533,012	**2,826,410**		
As at 31.12.03				
Issued and paid up	1,183,046,764	**946,437,411**	1,126,339,764	**901,071,811**
Conditional share capital	6,871,752	**5,497,402**		

Off-Balance Sheet and Other Information

Assets Pledged or Assigned as Security for Own Obligations, Assets Subject to Reservation of Title

	31.12.04		31.12.03		Change in %	
CHF million	**Book value**	**Effective liability**	Book value	Effective liability	Book value	Effective liability
Money market paper	16,022	5,063	6,225		157	
Mortgage loans	175	60	428	210	(59)	(71)
Securities	102,726	55,126	96,065	66,395	7	(17)
Total	118,923	60,249	102,718	66,605	16	(10)

Assets are pledged as collateral for securities borrowing and repo transactions, for collateralized credit lines with central banks, loans from mortgage institutions and security deposits relating to stock exchange membership.

Commitments and Contingent Liabilities

CHF million	**31.12.04**	31.12.03	% change from 31.12.03
Contingent liabilities	**123,429**	122,555	1
Irrevocable commitments	**50,552**	42,708	18
Liabilities for calls on shares and other equities	**104**	97	7
Confirmed credits	**1,820**	1,592	14

Derivative Instruments

	31.12.2004			31.12.2003		
CHF million	**PRV** [1]	**NRV** [2]	**Notional amount CHF bn**	PRV	NRV	Notional amount CHF bn
Interest rate contracts	**174,995**	**183,210**	**15,398**	141,654	149,972	10,321
Credit derivative contracts	**7,895**	**9,353**	**671**	7,085	7,679	315
Foreign exchange contracts	**81,377**	**79,046**	**3,729**	75,229	70,658	3,131
Precious metal contracts	**1,919**	**1,590**	**61**	2,382	2,176	55
Equity / index contracts	**20,487**	**44,107**	**721**	25,362	37,613	346
Commodity contracts	**1,739**	**1,616**	**41**	1,025	895	11
Total derivative instruments	**288,412**	**318,922**	**20,621**	252,737	268,993	14,179

1 PRV: Positive replacement values prior to netting. **2** NRV: Negative replacement values prior to netting.

Fiduciary Transactions

CHF million	31.12.04	31.12.03	% change from 31.12.03
Deposits:			
with other banks	**30,581**	29,549	3
with Group banks	**740**	672	10
Loans and other financial transactions	**6**	6	0
Total	**31,327**	30,227	4

Due to UBS Pension Plans, Loans to Corporate Bodies / Related Parties

CHF million	31.12.04	31.12.03	% change from 31.12.03
Due to UBS pension plans and UBS debt instruments held by pension plans	**1,329**	1,096	21
Securities borrowed from pension plans	**3,778**	2,930	29
Loans to directors, senior executives and auditors [1]	**16**	25	(36)

1 Loans to directors, senior executives and auditors are loans to members of the Board of Directors, the Group Executive Board and the Group's official auditors under Swiss company law. This also includes loans to companies which are controlled by these natural or legal persons. There are no loans to the auditors.

Headcount

Parent Bank headcount was 35,542 on 31 December 2004 and 33,949 on 31 December 2003.

ERNST & YOUNG

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 3 February 2005

Report of the statutory auditors

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes / pages 193 to 201) of UBS AG for the year ended 31 December 2004.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements referred to above and the proposed appropriation of available earnings comply with Swiss law and the company's articles of association.

We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Roger K. Perkin	Dr. Andreas Blumer
Chartered Accountant	Swiss Certified Accountant
(in charge of the audit)	(in charge of the audit)

■ Offices in Aarau, Baden, Basel, Berne, Geneva, Kreuzlingen, Lausanne, Lucerne, Lugano, Neuchâtel, St.Gallen, Zug, Zurich.
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To the Board of Directors of

UBS AG, Zurich and Basel

Basel, 2 March 2005

Confirmation in respect of conditional capital increase

As auditor of the capital increase of UBS AG, we have audited the issue of new shares based on the resolution of the general meeting as of 7 September 2000 and the satisfaction of the conditions for the adjustment of the provisions regarding the conditional capital increase in the articles of association, both related to employee stock option plans of Paine Webber Group Inc., New York, during the period between 1 January 2004 and 31 December 2004 in accordance with the provisions of Swiss law.

The issue of new shares in accordance with the provisions of the company's articles of association is the responsibility of the board of directors. Our responsibility is to express an opinion on whether the issue of new shares is in accordance with the provisions of Swiss law and the company's articles of association. In addition, the provision of evidence that the option rights have expired is also the responsibility of the board of directors. Our responsibility is to express an opinion on the accuracy of this statement, based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance as to whether the issue of new shares, and whether the conclusion as to the expired option rights, were both free of material error. We have performed the audit procedures appropriate in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the issue of 3'293'413 registered shares of a nominal value of CHF 0.80 per share was in accordance with the provisions of the Swiss law and the company's articles of association. In addition, we are of the opinion that in the reporting period option rights in the employee stock option plans of Paine Webber Group Inc., New York, relating to 45'327 registered shares of a nominal value of CHF 0.80 per share have expired.

Ernst & Young Ltd

Roger K. Perkin	Dr. Andreas Blumer
Chartered Accountant	Swiss Certified Accountant
(in charge of the audit)	(in charge of the audit)

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

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St. Helier, Basel und Zürich, im April 2005

UBS Preferred Funding (Jersey) Ltd.

St. Helier, Jersey

UBS AG

Basel und Zürich, Schweiz
(handelnd durch ihre Niederlassung Jersey)

Aufgrund des vorstehenden Börsenzulassungsprospekts sind

1.000.000 Fixed/Floating Rate Guaranteed Non-voting
Non-cumulative Perpetual Preferred Securities

mit einem Ausgabe- und Liquidationsvorzugsbetrag von jeweils Euro 1.000,-

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St. Helier, Jersey

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(handelnd durch ihre Niederlassung Jersey)

ISIN: DE000A0D1KX0

zum Handel im amtlichen Markt der Frankfurter Wertpapierbörse zugelassen worden.

London, im April 2005

UBS Limited