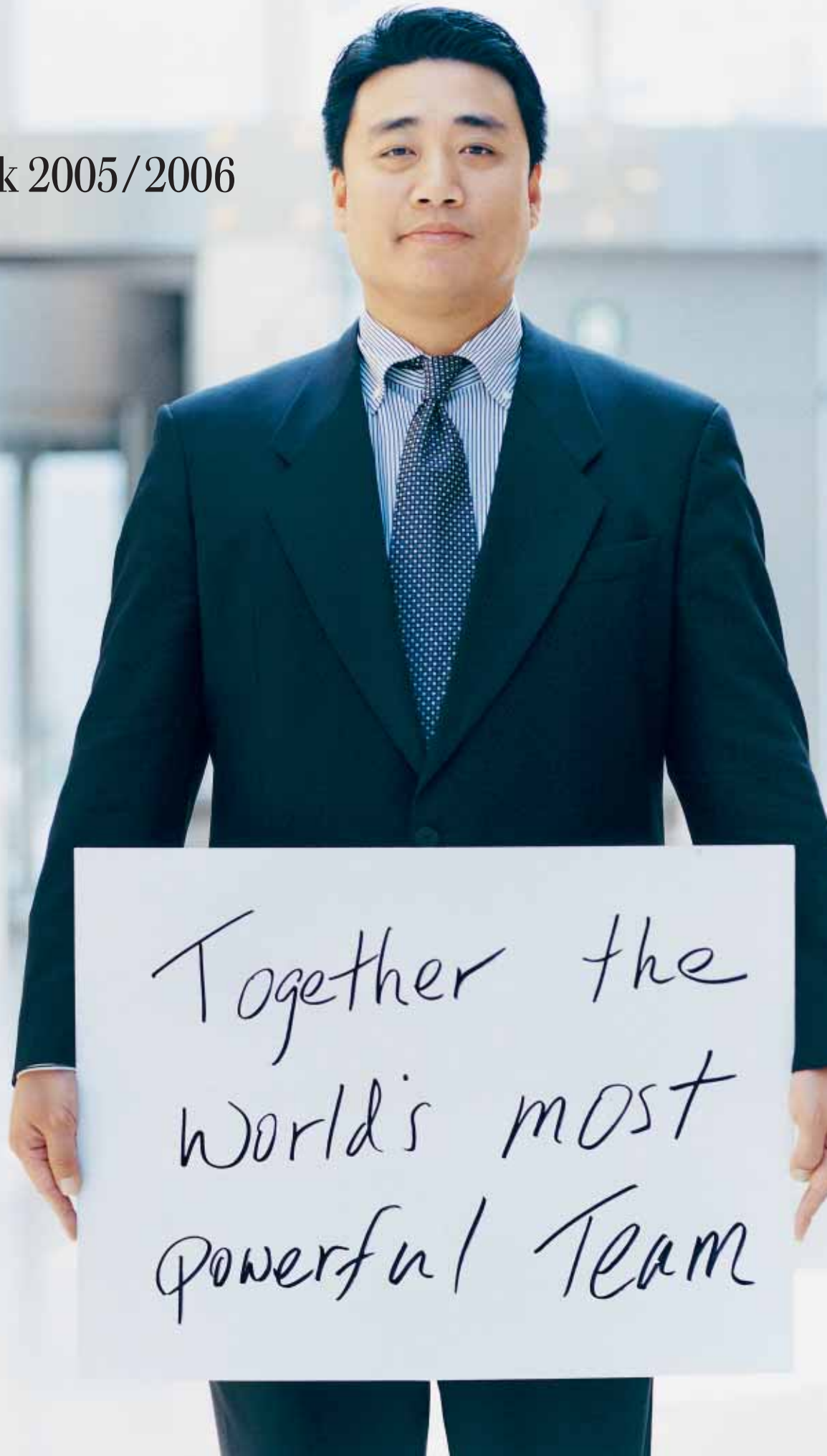


Handbook 2005/2006



Together the
world's most
powerful Team

On the cover

"Together the world's most powerful team."

What "You & Us" means to Gary Wai Bong Chan, who works for us in Tokyo.

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Introduction

This is the sixth annual edition of our Handbook.

In it, we describe ourselves – our strategy, organization, and businesses. We outline the principles by which we manage risk, and report on last year's developments in our credit risk, market risk, and treasury management areas. This year, we have added a section, starting on page 19, which describes the relationship between UBS and its employees.

As in previous years, the Handbook also discusses our corporate governance arrangements and our relationships with regulators and shareholders, and provides comprehensive information on UBS shares.

You should read the Handbook in conjunction with the other information published by UBS, as described on page 4.

We sincerely hope that you will find our publications useful and informative. We believe that UBS is one of the leaders in corporate disclosure, and we would be keen to hear your views on how we might improve the content, information or presentation of our products.

Tom Hill
Chief Communication Officer
UBS

UBS financial highlights

UBS income statement	For the year ended			% change from
<i>CHF million, except where indicated</i>	31.12.05	31.12.04	31.12.03	31.12.04
Net profit attributable to UBS shareholders	14,029	8,016	5,904	75
Basic earnings per share (CHF) ¹	13.93	7.78	5.44	79
Diluted earnings per share (CHF) ¹	13.36	7.40	5.19	81
Return on equity attributable to UBS shareholders (%) ²	39.4	25.5	17.8	
Performance indicators from continuing operations³				
Basic earnings per share (CHF) ¹	9.78	8.02	5.72	22
Return on equity attributable to UBS shareholders (%) ⁴	27.6	26.3	18.8	
Financial Businesses⁵				
Operating income	39,896	35,971	32,957	11
Operating expenses	27,704	26,149	25,397	6
Net profit attributable to UBS shareholders	13,517	7,656	5,959	77
Cost/income ratio (%) ⁶	70.1	73.2	76.8	
Net new money, wealth management businesses (CHF billion) ⁷	95.1	60.4	44.0	
Personnel (full-time equivalents)	69,569	67,407	65,879	3
Pre-goodwill earnings from continuing operations³				
Operating income	39,896	35,971	32,957	11
Operating expenses	27,704	25,503	24,720	9
Net profit attributable to UBS shareholders	9,442	8,003	6,468	18
Cost/income ratio (%) ⁶	70.1	71.4	74.8	
UBS balance sheet & capital management				
<i>CHF million, except where indicated</i>	31.12.05	31.12.04	31.12.03	% change from 31.12.04
Balance sheet key figures				
Total assets	2,060,250	1,737,118	1,553,979	19
Equity attributable to UBS shareholders	44,324	33,941	33,659	31
Market capitalization	131,949	103,638	95,401	27
BIS capital ratios				
Tier 1 (%) ⁸	12.9	11.9	12.0	
Total BIS (%)	14.1	13.8	13.5	
Risk-weighted assets	310,409	264,832	252,398	17
Invested assets (CHF billion)	2,652	2,217	2,098	20
Long-term ratings				
Fitch, London	AA+	AA+	AA+	
Moody's, New York	Aa2	Aa2	Aa2	
Standard & Poor's, New York	AA+	AA+	AA+	

¹ For the EPS calculation, see note 8 to the financial statements. ² Net profit attributable to UBS shareholders/average equity attributable to UBS shareholders less proposed distributions. ³ Excludes the amortization of goodwill in 2004 and 2003. Due to changes in accounting standards, there is no amortization of goodwill from 2005 onwards. ⁴ Net profit attributable to UBS shareholders from continuing operations/average equity attributable to UBS shareholders less proposed distributions. ⁵ Excludes results from industrial holdings. ⁶ Operating expenses/operating income less credit loss expense or recovery. ⁷ Includes Wealth Management International & Switzerland and Wealth Management US. Excludes interest and dividend income. ⁸ Includes hybrid Tier 1 capital, please refer to the BIS capital and ratios table in the capital management section and note 28 to the financial statements.

From 2005 on, all tables, charts, comments and analysis reflect the integration of Wealth Management US into the new Global Wealth Management & Business Banking Business Group, the change in treatment of the Wealth Management US cash management business and the shift of the municipal securities business to the Investment Bank. Prior years have been restated to reflect those changes. From 2005, the entire private equity portfolio started being reported as part of the Industrial Holdings segment.

Throughout this report, 2004 and 2003 results have been restated to reflect accounting changes (IAS 1, IFRS 2, IFRS 4, IAS 27, and IAS 28) effective 1 January 2005 as well as the presentation of discontinued operations.

UBS at a glance

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

UBS is present in all major financial centers worldwide, with offices in 50 countries. UBS employs more than 69,500 people, 39% in the Americas, 37% in Switzerland, 16% in the rest of Europe and 8% in the Asia Pacific time zone.

UBS is one of the best-capitalized financial institutions in the world, with a BIS Tier 1 ratio of 12.9%, invested assets of CHF 2.65 trillion, shareholders' equity of CHF 44.3 billion and market capitalization of CHF 131.9 billion on 31 December 2005.

Businesses

Wealth management

With more than 140 years of experience, an extensive global network that includes one of the largest private client businesses in the US, and more than CHF 1,700 billion in invested assets, UBS is the world's leading wealth management business, providing a comprehensive range of services customized for wealthy individuals, ranging from asset management to estate planning and from corporate finance to art banking.

Investment banking and securities

UBS is a global investment banking and securities firm with a strong institutional and corporate client franchise. Consistently placed in the top tiers of major industry rankings, it is a leading player in the global primary and secondary markets for equity, equity-linked and equity derivative products. In

fixed income, it is a first-rate global player. In foreign exchange, it places first in many key industry rankings. In investment banking, it provides premium 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 over CHF 750 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

UBS is the leading bank for Swiss corporate and individual clients. It serves around 2.6 million individual clients through more than 3 million accounts, mortgages and other financial relationships. It also offers comprehensive banking and securities services for 136,500 corporations, institutional investors, public entities and foundations as well as 3,000 financial institutions worldwide. With a total loan book of over CHF 140 billion, UBS leads the Swiss lending and retail mortgage markets.

Corporate Center

The Corporate Center works with the businesses, ensuring that the firm operates as a coherent and integrated whole with a common vision and set of values. It helps UBS's businesses grow sustainably through its financial control, risk, treasury, communication, legal, human resources and technology functions.

Sources of information about UBS

This Handbook contains a detailed description of UBS, its strategy, organization, businesses and employees and corporate governance. It comprises sections on financial management including credit, market and operational risk and treasury processes.

Publications

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

Annual Review 2005

Our Annual Review contains a description of UBS and our Business Groups, as well as a summary review of our performance in 2005. It is available in English, German, French, Italian, Spanish and Japanese. (SAP no. 80530).

Financial Report 2005

The Financial Report 2005 contains our audited financial statements for the year 2005 and related detailed analysis. It is available in English and German. (SAP no. 80531).

Quarterly reports

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

Compensation Report 2005

The Compensation Report 2005 provides detailed information on the compensation paid to the members of UBS's Board of Directors (BoD) and the Group Executive Board (GEB). The report is available in English and German. (SAP no. 82307-0501).

The same information can also be read in the Corporate Governance chapter on page 98.

The making of UBS

Our "The making of UBS" brochure outlines the series of transformational mergers and acquisitions that created today's UBS. It also includes brief profiles of the firm's antecedent companies and their historical roots. It is available in English and German. (SAP no. 82252)

How to order reports

Each of these reports is available in PDF format on the internet at www.ubs.com/investors in the reporting section. Printed copies can be ordered from the same website by accessing the order/subscribe panel on the right-hand side of the screen. Alternatively, they can be ordered by quoting the

SAP number and the language preference where applicable, from UBS AG, Information Center, P.O. Box, CH-8098 Zurich, Switzerland.

Information tools for investors

Website

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

Messaging service

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

Results presentations

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

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

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

Our Form 20-F filing is structured as a "wrap-around" document. Most sections of the filing are satisfied by referring to parts of this Handbook or to parts of the Financial Report 2005. However, there is a small amount of additional information in Form 20-F which is not presented elsewhere, and is particularly targeted at readers in the US. You are encouraged to refer to this additional disclosure.

You may read and copy any document that we file with the SEC on the SEC's website, www.sec.gov, or at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, DC, 20549. Please call the SEC at 1-800-SEC-0330 (in the US) or at +1 202 942 8088 (outside the US) for further information on the operation of its public reference room. You may also

inspect our SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, NY 10005. Much of this additional information may also be found on the UBS website at www.ubs.com/investors, and copies of documents filed with the SEC may be obtained from UBS's Investor Relations team, at the addresses shown on the next page.

Corporate information

The legal and commercial name of the company is UBS AG. The company was formed on 29 June 1998, when Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872) merged to form UBS. UBS AG is incorporated and domiciled in Switzerland and operates under Swiss Company Law and Swiss Federal

Banking Law as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors. The addresses and telephone numbers of our two registered offices are: Bahnhofstrasse 45, CH-8001 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.

Contacts

Switchboards

For all general queries.

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Hong Kong	+852-2971 8888

Investor Relations

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

www.ubs.com/investors

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Media Relations

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

www.ubs.com/media

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New York	+1-212-882 5857	mediarelations-ny@ubs.com
Hong Kong	+852-2971 8200	sh-mediarelations-ap@ubs.com

Shareholder Services

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

Hotline	+41-44-235 6202	UBS AG
Fax	+41-44-235 3154	Shareholder Services
		P.O. Box
		CH-8098 Zurich, Switzerland
		sh-shareholder-services@ubs.com

US Transfer Agent

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

www.melloninvestor.com

Calls from the US	866-541 9689	Mellon Investor Services
Calls outside the US	+1-201-680 6578	480 Washington Boulevard
Fax	+1-201-680 4675	Jersey City, NJ 07310, USA
		sh-relations@melloninvestor.com

UBS

We are determined to be the best global financial services company. We focus on wealth and asset management, and on investment banking and securities businesses. We continually earn recognition and trust from clients, shareholders, and staff through our ability to anticipate, learn and shape our future. We share a common ambition to succeed by delivering quality in what we do.

Strategy and structure

Our vision

We are determined to be the best global financial services company. We focus on wealth and asset management, and on investment banking and securities businesses. We continually earn recognition and trust from clients, shareholders, and staff through our ability to anticipate, learn and shape our future. We share a common ambition to succeed by delivering quality in what we do. Our purpose is to help our clients make financial decisions with confidence. We use our resources to develop effective solutions and services for our clients. We foster a distinctive, meritocratic culture of ambition, performance and learning as this attracts, retains and develops the best talent for our company. By growing both our client and our talent franchises, we add sustainable value for our shareholders.

Our strategy

We are, and have for many years been, a truly global firm, working with corporate, institutional and private clients around the world. Our strategy is to concentrate on wealth management, investment banking and securities and asset management, all on a global scale, as well as retail and corporate banking in Switzerland. This long-term commitment has helped us to become the successful, diversified firm we are today.

Business strategies

In the wealth management business, our services are designed for high net worth and affluent individuals around the world, whether investing internationally or in their home country. Many of our potential clients have become increasingly sophisticated in their financial needs – which we meet by providing them with premium wealth and asset management services, as they have more attractive margins than standardized services in retail or consumer finance. Individualized service and a wide range of choices are central to our client offering, with our in-house range of products enhanced by a quality-screened selection of third-party products.

In Asia Pacific, our reputation for wealth management is unmatched, helping us to capture a substantial share of the current growth in wealth. Another key region for growth is Europe. We have established a strong platform in all our five target markets – France, Germany, Italy, Spain and the UK – which we continue to develop by recruiting qualified advisory staff and making acquisitions. In the US, we continue to benefit from the strong presence of the former PaineWebber, which we acquired in 2000. In 2005, we made a key strategic step by fully integrating our international, Swiss and US-based wealth management businesses, accelerating the al-

ready significant progress we had made towards a consistent wealth management offering around the globe, making it even easier to fulfill clients' individual needs with sophisticated products and services from across the firm. Our US-based wealth management business now operates alongside our international and Swiss business as part of one global wealth management franchise.

In the investment banking and securities businesses, we will continue to solidify and enhance our position as a top-ranked firm, maintaining the growth of our three main businesses while creating an even more diversified revenue base. Our ambition is to become a leading investment bank worldwide in terms of client recognition, market share and profitability – using our existing platform to grow organically while maintaining our reputation as focused managers of risk. We will continue to invest in our technological infrastructure in order to develop new systems that facilitate growth in complex businesses. Client demands change, so a current priority is to satisfy the broadening demand for multi-product solutions required by fast-growing segments such as financial sponsors, hedge funds and wealth managers. We will continue to focus on closing gaps in our existing businesses while targeting new business growth in emerging markets by establishing full onshore presences in countries such as China, India, Russia, Brazil and the Middle East.

As one of the world's leading asset managers, we are competitively positioned in the institutional and wholesale asset management businesses. Our record of strong investment performance and our solid reputation will help us to benefit from the growth expected in institutional and wholesale markets because of the increased need for private savings to supplement public pension systems. We expect client demand to become increasingly polarized. There will be increasing pressure on fees for commoditized products, but there will also be clients willing to pay more for new or tai-

lored products. As a major global manager with a wide range of traditional and alternative capabilities, we are well placed to benefit from this.

For the Swiss retail and corporate banking business, our strategy concentrates on strengthening our position as the country's leading bank, taking advantage of business opportunities that arise in order to grow our share in selected market segments. We will continue, however, to limit our retail banking activities to the Swiss market.

Growth

Our future is one of growth, and our industry offers plenty of opportunities – some of which are set out in detail on page 14–16.

We will continue to grow, organically and through add-on acquisitions, without radically changing our strategic positioning or our competitive profile. Our strategy, focused on securing global leadership positions in selected areas with

above-average growth potential, is both successful and distinctive. As we have significant scale in our areas of focus, we are in a position to concentrate on organic development, avoiding the execution risks and disruptions that large transactions entail. “Bolt-on” acquisitions that improve the position of our core businesses quickly and efficiently will continue to be part of our strategy.

Our leading wealth management franchise shows the success of our strategy. Since 1999, we have consistently invested in improving the quality of the advice we give clients, by developing products specifically tailored and segmented according to the particular needs of our clients. We also continuously improved our processes and practices – the most recent example being the shift in mid-2005 to a global wealth management organization that now includes our US-based business. Our recent organic growth efforts were complemented by a number of acquisitions – all painstakingly eval-

Our strategy in Asia Pacific

One of UBS's main challenges in the next few years will be to deepen an already strong business footprint in the Asia Pacific region. That may sound like a prosaic matter of investing in new products and systems, and recruiting more staff. In the case of Asia Pacific, it is not. In a vast region where a flight between Mumbai and Sydney is two hours longer than it is between London and Hong Kong, global companies face numerous obstacles. The region is far from homogenous and boasts its own distinct mix of cultures. Language barriers, written and spoken, are substantial and time zones are awkward for companies with headquarters in Europe or North America. Many countries have a volatile economic and political history – with a significant number becoming democracies in the last two decades alone.

Still, the region, taken together, forms more than half the world's population – while only contributing 24% of total global Gross Domestic Product (GDP), 26% of the global equity market capitalization and 27% of the investable liquid assets of the world's affluent individuals. In short, it has massive growth potential. A clear example is China, which is expected to

remain the primary driver of Asian growth, and, in the medium term, of the global economy. According to the International Monetary Fund (IMF), China's GDP in 2000 was the seventh largest in the world – last year, it was fourth. By 2015, the IMF expects China's economy to be second only to the US. The figures speak for themselves – and it is a reasonable projection that financial services markets in Asia Pacific, and China, will continue to become a larger percentage of the global total.

Operating in 14 countries, but with major hubs in Hong Kong, Singapore, Japan and Australia, UBS is one of the largest and fastest growing financial services firms in the region. During 2005, UBS staff numbers grew by over 20%, to around 8% of the global workforce. Roughly half of Asia's billionaires are clients of UBS, and with invested assets of CHF 114 billion we are currently the leading wealth manager for high net worth individuals in the region. And we are growing fast – last year, for example, invested assets rose 45%. This reflects strong inflows of new client money, which totalled CHF 18.5 billion for the year, 78% more than a year earlier. Our Investment Bank regularly places in the

top three in the merger and acquisitions, equity capital market and debt capital market segments while having fast growing fixed income, rates, and currencies businesses as well as strongly expanding in asset management. At the end of 2005, for instance, *Dealogic* ranked us as the number one investment bank in Asia Pacific (excluding Japan), with a market share of 7.6%. Including Japan, we have the leading equities franchise in Asia Pacific.

To achieve its aims, UBS will grow organically to fill business gaps, including strategic hires, through acquisitions, where suitable, and by joint venture, where necessary. Although investment will be in all countries in the region, the strategic emphasis is on Japan, China, and India – together with plans for accelerated growth in the domestic wealth management and asset management businesses. By September 2005, a strategic cooperation agreement had been signed with the Bank of China and Beijing SASAC (State-owned Assets Supervision and Administration Commission), and UBS and The International Finance Corporation (IFC) had received State Council Approval of their plans to restructure Beijing

uated for business and cultural fit before purchase. The success of the policy is particularly evident in Europe, where assets invested by clients have grown to CHF 114 billion at the end of 2005 from CHF 16 billion in 2001. Our European wealth management business now represents 12% of our international and Swiss wealth management business – up from 2% in 2001, when we started to build it up.

In 2005, we took a key step in forming a new alternative investment management business, Dillon Read Capital Management (DRCM). Its core will be the principal finance and commercial real estate trading businesses from the fixed income, rates and currencies area of the Investment Bank, which will move to Global Asset Management. As a result, around 120 staff will be transferred during the first half of 2006, and the trading strategies managed by them will be opened up to co-investment from a limited number of clients, and then supplemented by further new investment products.

DRCM will allow us to satisfy the increasing demand from clients for long-term alternative investment opportunities provided by strong industry leaders and will create a new stream of investment management fees from what has until now been a purely in-house trading activity.

Our brand, a key differentiating factor in the industry, is another critically important component in our growth strategy – and our efforts continue to pay off. In 2005, UBS moved up to 44th place in *Business Week*'s listing of the world's top 100 brands, up one place from 2004, when we appeared in the ranking for the first time. The survey is widely regarded as the industry benchmark and is based on the methodology of *Interbrand*, a leading brand consultancy.

Growing in our areas of focus also implies that we will continue to divest non-core businesses and participations. In late August 2005, we signed agreements to sell our 55.6% stake in Motor-Columbus to a Swiss-led consortium for about

Our strategy in Asia Pacific (continued from page 9)

Securities. What at first glance appears an unusually quick implementation of a high-level strategic decision is, in fact, the result of patient investment and a long-term approach. UBS was one of the first foreign firms to gain a foothold in China with the opening of a Beijing representative office in 1989, followed by another in Shanghai four years later. Last year, we also opened a representative office in Guangzhou. Today, UBS's USD 800 million Qualified Foreign Institutional Investor (QFII) quota, which allows the firm to trade in domestic shares and bonds on behalf of non-Chinese clients, remains the largest of all QFII quotas. The Investment Bank's relationship with China dates back to 1985 and it continues to advise or execute a string of landmark transactions, while the Beijing branch, which commenced operations in August 2004, offers corporate and institutional clients in China tailor-made solutions to manage interest rate and currency risks. Japan remains a priority in all of our businesses. UBS re-launched its wealth management business in Tokyo in September 2004. In December 2005, we received approval to open a wealth management business office (sub-branch) in Osaka, Japan's second

largest city – an important step in further expanding our presence in the country. Japanese merger and acquisition activity has surged in recent years as well, with volumes rising from USD 43 billion and 1,014 deals in 2002 to USD 142 billion and 1,718 deals in 2005. Notable M&A transactions for UBS in Japan in 2005 include advisory roles for Sumitomo Trust & Banking on its acquisition of First Credit; for Sankyo on forming a joint venture company with Daiichi Pharmaceutical; to Nippon Shinpan on its merger with UFJ Card; and to Shinwa Bank on its formation of a non-performing loan workout joint venture with Orix Corporation. In India, efforts are concentrated on investment banking advisory and securities trading services via our Mumbai securities company. Established in 1990, unlike many of our competitors, it does not rely on a joint venture partner. UBS executed a number of landmark advisory transactions in India last year, including the largest M&A transaction in the country's electronics sector, the biggest acquisition by an Indian pharmaceutical company, the largest block trade, the biggest ADS (American Depositary Share) issue, as well as the largest IPO.

UBS will open the UBS Service Centre – the firm's first group-wide initiative in offshoring – in Hyderabad in 2006. Initially, the center will have a capacity for 500 employees capable of providing services to any UBS business. In Australia, UBS's business is perhaps the best example of the integrated business model. UBS is pre-eminent in investment banking and securities trading and has a growing asset management presence. The wealth management business has a strong position in a fragmented market, but plans to grow further by recruiting new employees, launching new products and upgrading technology platforms while capitalizing on the strength of the UBS brand in Australia. Although the outlook for Asia Pacific activity is positive, competition remains intense. There are entrenched rivals in certain segments; some countries remain prone to political upheavals; and the regulatory environment is radically different across jurisdictions. Despite that, UBS remains extremely confident about the region's future and the opportunities it presents. That is why UBS is doing everything possible to give its businesses in Asia Pacific the facilities, management, and resources they need to expand.

CHF 1.3 billion. This will create an opportunity to build a significant Swiss-European energy company with Swiss majority ownership. The transaction is expected to close, subject to various regulatory approvals, in 2006. In December 2005, we also finalized the sale of Private Banks & GAM to Julius Baer, following the successful financing of the transaction and after receiving the necessary regulatory approvals. In 2003, we had created the unit as a platform for our separately branded wealth management businesses – as a way of helping them to grow and to create value. We continue to hold a 20.7% stake in the new group as a pure financial investment. The transaction should enable it to play a role in the consolidation of the Swiss private banking industry.

Financial success, risk and capital management

Our policy has been to maintain a strong balance sheet, protecting our capital ratios and credit ratings, while also putting capital to work to create value for shareholders. In normal circumstances, we generate capital well in excess of our requirements. As a first priority, this is used for investment in the growth of our businesses. In the absence of attractive reinvestment opportunities, we return excess capital to our shareholders, through either direct distributions or share buybacks.

Because taking risk is an integral part of our business, our overriding goal is to achieve an appropriate balance between risk and return, limiting the scope for adverse variations in our earnings from exposure to major individual “stress” events.

Credit and market risks have long been regarded as the primary risks of any banking business. Now, however, operational risk – the consequential risk of being in business – plays an equally important role. Our operational risk framework, into which we are investing considerable management time and effort, aims to contain the levels of these risks and ensure we have sufficient information to make informed decisions about adding or adjusting controls.

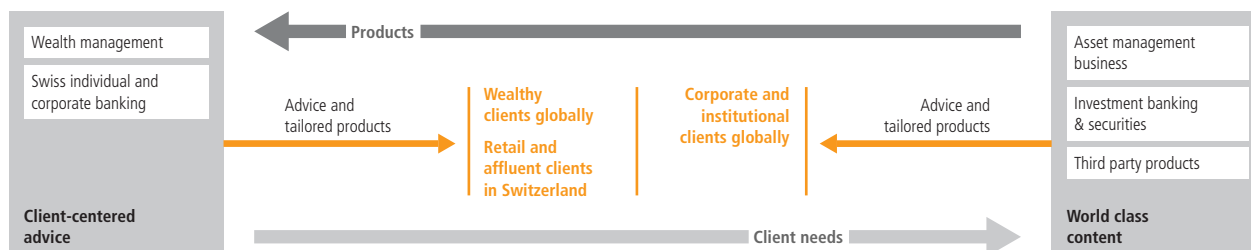
Operating as “one firm”

We firmly believe our integrated business model creates more value than our businesses would as stand-alone units because business opportunities do not respect artificial demarcation lines between Business Groups. Our clients should be able to access all the services our firm can provide, where and when they are required, and regardless of what combinations of teams lie behind the solutions. This “one firm” approach facilitates client referrals and the exchange of products and distribution services between businesses and contributes significantly to our revenue flows.

We form internal partnerships to make the best use of our intellectual capital and the proximity of content and distribution. This increases our ability to recognize trends across business segments, serve clients better – and ultimately create new revenue opportunities. An example is the research collaboration between our wealth management and asset management businesses to service ultra-high net worth clients, whose needs are often similar to those of institutional clients. Given the turbulent markets seen in the past three years, these clients are increasingly interested in preserving their capital while achieving reasonable returns at a competitive price. As a result, our asset management business started to develop products for this client segment, such as an absolute return bond fund. With such targeted products and by linking the clients’ family offices with our investment management professionals, we were able to attract significant additional invested assets.

In our US domestic wealth management business, now part of our global wealth management franchise, our “one firm” model is supporting a transformation from a traditional US brokerage firm into a comprehensive wealth management business. The expertise of our treasury unit and the sophisticated lending practices developed in our Swiss business banking unit, have been used widely, particularly for our Utah-

Integrated client-service model



based UBS Bank USA, which opened in 2003. It now offers a variety of lending products, broadening the scope of our financial relationships with our US clients. UBS Bank USA is now one of the top 50 banks in the US.

Another advantage of our “one firm” model is that it helps us to share activities between different parts of our businesses, eliminating redundant infrastructure, services, management and control functions. One example is our centralized treasury process which ensures that cash flows within UBS are pooled and netted before being funded through one access point to the money markets. At the same time, the way we embed the same approach to risk management deeply in all our businesses is one of our most important success factors. Another example is our information technology infrastructure (ITI) unit, launched successfully in 2004. This unit, housed within Corporate Center, integrates all IT infrastructure functions across UBS – data networks, telephone and other communications systems, IT security, distributed computing and servers, mainframes and data centers, market data services, user services and desktop computing.

Managing our business

Board structure

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

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

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

The dual structure establishes a system of checks and balances, ensuring that the two boards are institutionally inde-

pendent of each other. In particular, the functions of Chairman of the Board of Directors and Chief Executive Officer are conferred on two different people. No member of one board may be a member of the other. Detailed information on our corporate governance structures and principles can be read on page 98.

Organizational structure

UBS is structured into three Business Groups, a Corporate Center, and Industrial Holdings. It is managed as an integrated firm. Each Business Group is led by a member of the Group Executive Board who is responsible for the performance of their Business Group.

Changes in senior management announced in 2005 and early 2006

The continuous strengthening of our leadership and clear succession planning are among our key priorities. In that context, we were pleased to announce a number of appointments in 2005 and early 2006, as listed below:

- Effective 1 July 2005, Marcel Rohner, Chief Executive Officer (CEO) Wealth Management & Business Banking since 2002 and a member of the Group Executive Board (GEB), was appointed CEO and Chairman Global Wealth Management & Business Banking, the new Business Group that includes the former Wealth Management & Business Banking and the Wealth Management US businesses. He remains a member of the GEB. Effective 1 January 2006, he was also appointed Deputy Group CEO.
- Effective 1 January 2006, Rory Tapner, Chairman and CEO Asia Pacific, was appointed as a member of the GEB.
- Effective 1 July 2005, Raoul Weil, head of our wealth management business serving international clients, was appointed to the GEB.
- Effective 1 July 2005, Mark Sutton, previously Chairman and CEO of the Wealth Management US business and a member of the GEB, was appointed to the new position of Chairman and CEO, Americas. He remains on the GEB.
- Effective 1 July 2005, Huw Jenkins was appointed CEO of the Investment Bank and a member of the GEB. He also became Chairman of the Investment Bank from 1 January 2006.

UBS’s business structure (as of 1 January 2006)

UBS Peter A. Wuffli CEO Marcel Rohner Deputy CEO	Global Wealth Management & Business Banking Marcel Rohner Chairman and CEO	Investment Bank Huw Jenkins Chairman and CEO	Global Asset Management John A. Fraser Chairman and CEO	Corporate Center Clive Standish Head and UBS CFO
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- Effective 1 July 2005, John Costas, CEO and Chairman Investment Bank, was appointed CEO Dillon Read Capital Management. As of 1 January 2006, he relinquished his functions as Deputy Group CEO, Chairman of the Investment Bank and a member of the GEB.
- Effective 1 March 2005, Walter Stuerzinger, our Chief Risk Officer since 2001, was appointed to UBS's GEB. Walter Stuerzinger has firm-wide responsibility for market, operational and credit risk control.
- At the Annual General Meeting (AGM) on 21 April 2005,

Alberto Togni, whose term of office expired in 2005, stepped down from the Board as he reached retirement age. Shareholders elected the following new members at the same AGM: Marco Suter, formerly UBS Chief Credit Officer, as Executive Vice Chairman, and Peter R. Voser, Chief Financial Officer of the Royal Dutch/Shell Group of Companies and Managing Director of The Shell Transport and Trading Company, plc., London, as non-executive member of the Board. After their election, the Board of Directors comprised eleven members.

Industry trends

Long-term perspectives

The world economy is expected to grow at around 3.5% a year over the coming decade. There will be continued productivity gains due to global competition, the diffusion of new technologies and growing population. This effect may be somewhat dampened by slowing employment growth due to demographic shifts towards older populations in some countries.

We expect the largest growth rates to occur in the emerging world, notably in Asia, followed by Eastern Europe, Latin America and the Middle East. Although North America and Western Europe are set to grow at slower rates than Asia, the absolute GDP increases will be higher in view of their size. This underlines the importance in our industry of having a significant presence in both the US and Western Europe.

The financial services sector has been growing faster than the economy for many years. Financial innovation, closely linked to the evolution of securities markets, will continue to be the engine for further development in the financial sector. We see several specific factors driving the development of our industry over the coming decades:

- financial liberalization and deregulation
- wealth accumulation
- retirement provisioning
- securitization
- equitization
- alternative investments
- corporate activity/restructuring
- energy and raw materials

These terms, and their distinct impact on our businesses, are explained in more detail below.

Financial liberalization and deregulation

Over the past few decades, deregulation and liberalization in financial services have accelerated the industry's expansion and triggered considerable improvements in the quality and variety of new financial services. This process is now well advanced in many countries, and in some markets, for example the US, we do not expect any further notable deregulation. On the contrary, new regulations are arising in the US and some other developed countries, increasing the costs of doing business. However, further liberalization is likely in emerging economies where domestic markets are currently still relatively protected. These countries are exploring deregulation as a way to increase their competitiveness, especially compared with developed nations. The World Trade Organization's

(WTO) multilateral trade negotiations under the Doha Round are currently trying to address some of these issues, but progress remains halting.

In general, further liberalization of financial markets is expected to benefit investment banking and securities firms that are positioned to take advantage of any further opening of individual domestic capital markets. Asset managers with a global platform should benefit from the facilitation of cross-border mutual fund business.

Wealth accumulation

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

Retirement provisioning

In coming decades, most developed countries will be confronted with major demographic shifts. Thus, pension reform is on the agenda of many governments across the world. The strong reliance in Continental Europe and Japan on unfunded schemes will make reform especially urgent. Although each country will follow its own regulatory agenda, in general we see a gradual shift from public unfunded to private funded pension schemes.

Institutional asset management is the sector most significantly affected by this trend, but investment banking and wealth management also benefit. In asset management, the focus will not only be on serving clients with investment advice and assuming management of pension mandates, but also addressing other issues that current and potential clients have to deal with, particularly for underfunded corporate pension funds.

Investment banks have recently started to serve pension funds in the area of liability-led asset management advice, where derivatives and structured products are used. In wealth

management, we believe that current developments will influence the demand for retirement-specific products. Individuals go through different stages in life. While the first four to five decades of an individual's life are usually dominated by wealth accumulation, private clients usually experience a mind-set change when they enter their sixth decade; the focus shifts from wealth accumulation to wealth protection. Appropriate products and services are needed in order to prepare these individuals for their retirement, representing a substantial growth area for the financial services industry.

Securitization

The transformation of financial services over the last ten to twenty years has included the increasing de-emphasis of traditional lending activities and the increasing importance of securities trading and financial markets. Corporations are now frequently in a position to directly meet their funding needs by accessing the capital markets. This has driven the long-term expansion of corporate bond markets, replacing traditional bank lending services. At the same time, an increase in bank assets such as loans, mortgages and receivables has fuelled growth in the securitization of these assets, increasing the volume of asset-backed securities.

We expect these trends to continue. In continental Europe securitization is still catching up with the US. In many emerging markets, the corporate bond market is still underdeveloped but growing fast. The ability of financial market participants to assess counterparty risk will further improve, facilitating financing by way of the securities market. Additionally, as the number of listed companies increases, they will have to conform to the transparency standards required by

listing, and thereby meet requirements for also issuing debt securities.

Equitization

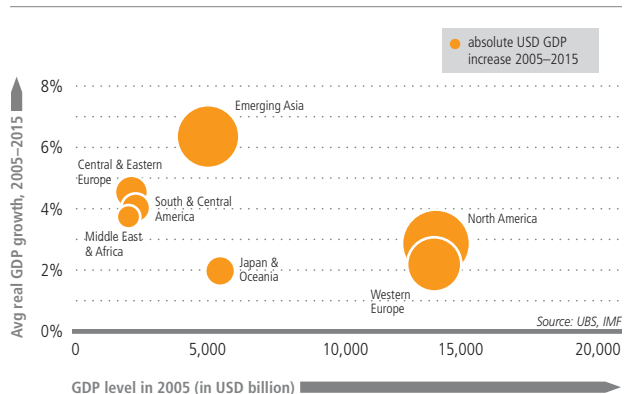
Over the past ten years, global equity market capitalization has grown at an annual rate of over 10% on a US dollar basis. Institutional and individual investors tend to allocate a greater share of their assets in equities. This reflects the transfer of ownership of assets from government and private owners to public markets. The corporate sector will also increasingly rely on public equity financing. We believe that the underlying trend towards an increasing role of equity financing and equity investments remains intact. In Western Europe, we see significant growth potential because of continued financial market integration. Growth potential is even higher in the emerging markets in view of the relatively low levels of stock market capitalization compared with GDP. Equitization is expected to provide growth opportunities not only to investment banking and securities businesses, but also to wealth and asset managers, as assets are increasingly shifted into higher margin classes. In addition, with the continued commoditization of trading services, we believe that smaller providers will start outsourcing these services to larger competitors.

Alternative investments

The last two decades have seen robust growth in the use of alternative investments – meaning investments other than cash, bonds, or public equities. North America led the way, with real estate and private equity becoming significant components of portfolios from the early 1980s, while hedge

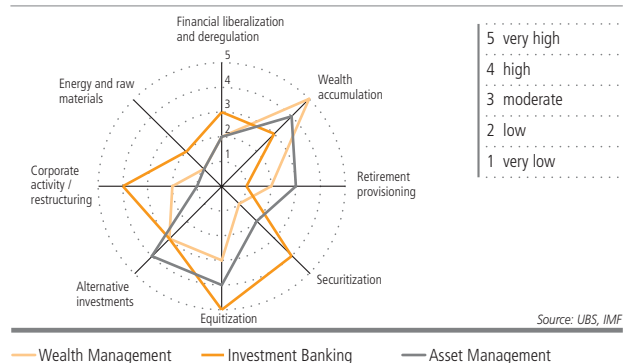
Projected growth in all of UBS's key markets

Regional GDP growth forecasts



Key drivers of revenue growth in next 5-10 years

Impact on UBS Business Groups



funds, once considered a fringe investment, continue to move into the mainstream across the globe. An increasing number of investors rely on alternative investments to boost returns and increase portfolio diversification. New alternative asset classes continue to emerge. This increases the demand for a variety of sophisticated products from the providers of these asset classes. These services range from IPOs and leveraged finance for private equity firms to prime brokerage and administrative services for hedge funds.

Corporate activity / restructuring

The search for growth, trade liberalization and technological progress will continue to increase global competition for corporations, pressuring them to concentrate on activities where they are genuinely competitive. At the same time, the complexity of doing business is increasing, for example because

of regulatory restrictions. We see long-term trends pointing towards growing demand for advice on mergers and acquisitions and restructuring.

Energy and raw materials

Production capacities for energy and raw materials currently lag behind rising global demand, particularly from emerging economies. This has shifted the focus to the efficient allocation of commodities, similar to efficient resource allocation in capital markets. Energy and raw material markets are becoming steadily more similar to financial markets. Financial firms are buying and selling futures or making private financial contracts (derivatives) with other players. With clients asking for more sophisticated products and services in the commodities area, financial firms are in an ideal position to profit from these developments, as they apply their experience of capital markets.

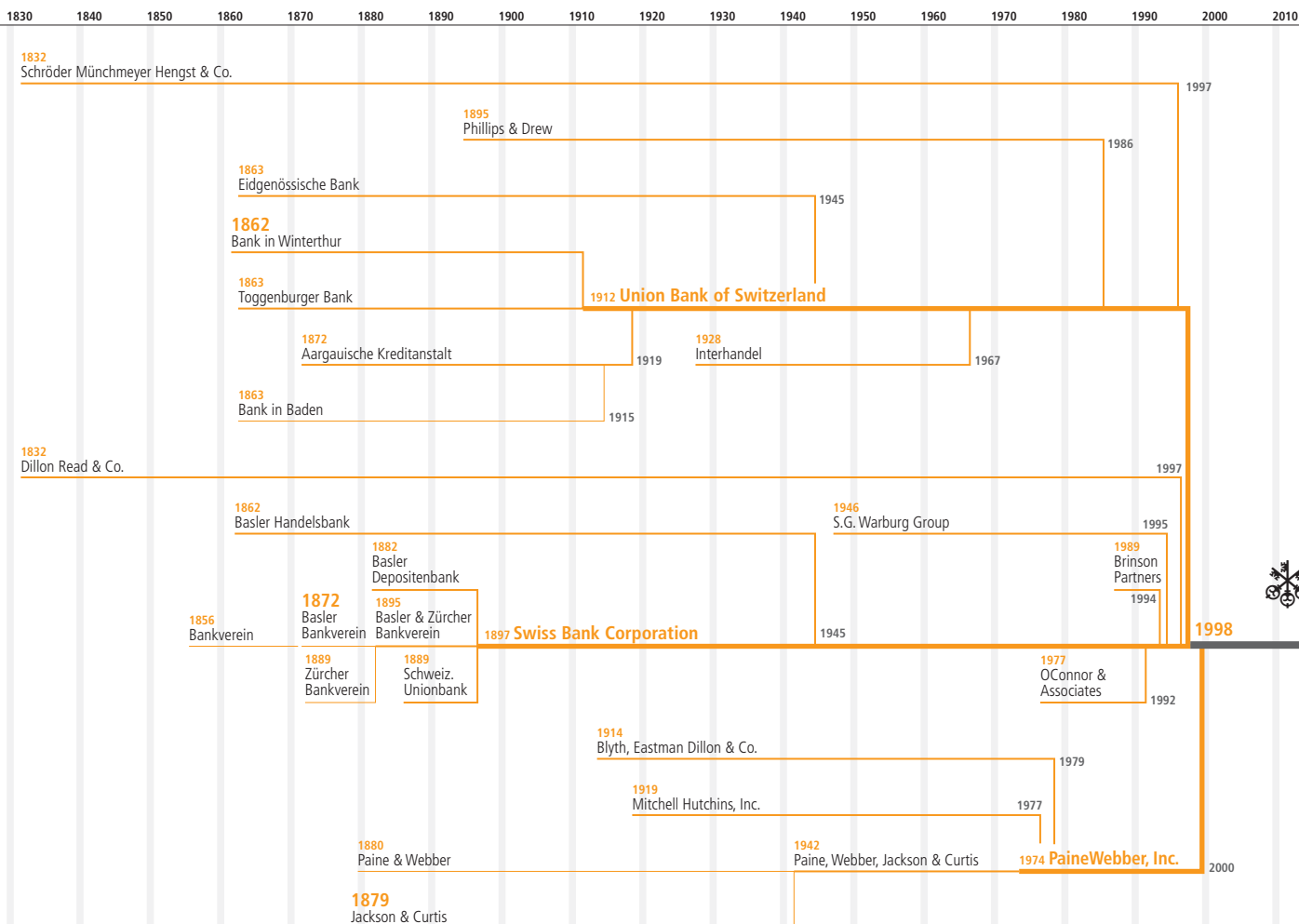
The making of UBS

All the firms that have come to make up today's UBS look back on a long and illustrious history. Both the two Swiss predecessor banks and PaineWebber came into being in the second half of the 19th century, while SG Warburg's roots go back to 1934. But it is in the 1990s that UBS's current identity began to form.

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

asset management, while remaining an important commercial and retail bank in Switzerland.

Union Bank of Switzerland, the largest and best-capitalized Swiss bank, opted to pursue a strategy of organic growth, or expansion by internal means. In contrast, SBC, then the third-largest Swiss bank, decided to take another route by starting a joint venture with O'Connor, a leading US derivatives firm that was fully acquired by SBC in 1992. O'Connor was noted for its young, dynamic and innovative culture, its meritocracy and team-orientation. It brought state-of-the-art risk management and derivatives technology to SBC. In 1994, SBC acquired Brinson Partners, one of the



leading US-based institutional asset management firms. Both the O'Connor and Brinson deals represented fundamental steps in the development of the firm.

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

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

But there was still a major item left on the firm's broader strategic agenda. It needed to establish a significant presence in the key US market to be a truly global player in investment banking and wealth management, both of which are "scale" businesses – meaning that size matters. That was achieved when PaineWebber became a part of UBS in 2000.

Following its successful integration into our business, and after a decade of transformational change, we decided that we had in place all the fundamental parts of the business that we wanted to build. The task then was to improve them and make them work together. We therefore adopted a strategy based primarily on organic growth aided by carefully chosen acquisitions.

Our determination to define the future as "one firm" was visibly demonstrated in 2003 when we introduced UBS as a single brand for all our businesses.

Our employees

Competitive strength in the financial services industry depends, more than anything else, on the expertise and talent of a firm's employees. In order for UBS to continue to succeed, we have to be capable of attracting, developing and retaining creative, highly qualified people. For employees, the strength of a firm's core business, and its culture, are fundamental to giving them the opportunity for individual success.

The UBS workforce

Developments in our workforce

The number of people employed in our financial businesses rose to 69,569, up 2,162 or 3% from 67,407 a year earlier. In Swiss and international wealth management (up 1,462), we continued to add client advisors around the world and hire staff in support functions. Our US-based wealth management business (up 65) saw the number of employees increase because of hiring in support and logistics functions. The Swiss commercial and retail banking business recorded higher personnel numbers (up 515) – with the increase partly due to the first-time inclusion of employees paid by the hour. At the Investment Bank, staff levels (up 1,204) rose mainly in the investment banking and fixed income, rates and currencies businesses. They were also up in operations, reflecting higher market activity. Hiring was also seen in general counsel functions, reflecting the more stringent regulatory environment.

The increase was also spread across regions. In Switzerland, staff levels rose by 41 individuals to 26,028. Excluding the impact from the sale of Private Banks & GAM, personnel numbers increased by 1,042. In the rest of Europe, the Middle East and Africa, they were up 256 at 11,007, while in the Americas they increased by 905 to 27,136. In Asia Pacific, UBS staff numbers rose by a strong 960 or 22% to 5,398.

Last year, UBS personnel worked in 50 countries, with 39% of them employed in the Americas, 37% in Switzerland, 16% in the rest of Europe, the Middle East and Africa, and 8% in Asia Pacific.

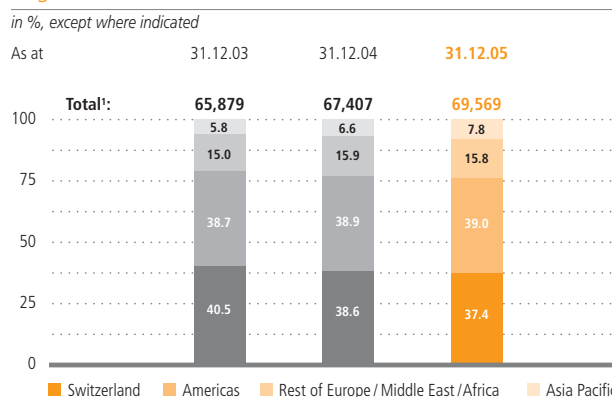
Recruitment and retention

Our business always needs talented people and our recruiting efforts in 2005 focused on supporting business growth. Last year, we hired 836 individuals with university degrees (including those with a Masters degree in Business Administration), 53% more than a year earlier.

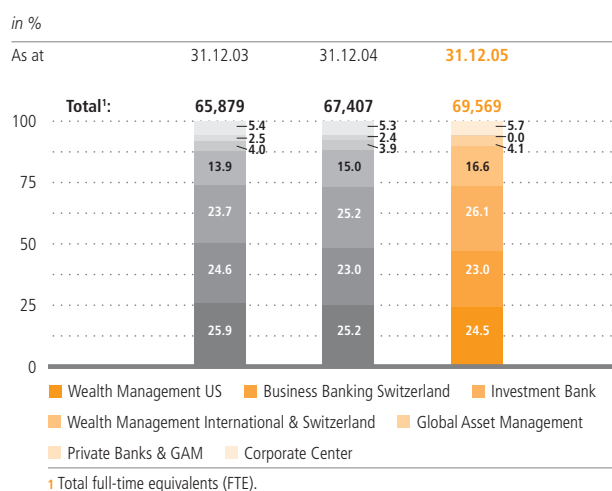
In Switzerland, we are one of the top-ranked employers for university graduates. The 2005 annual survey by *Universum*, a leading global consultancy, said we were first for business

Financial Businesses personnel¹:

Regional distribution



Business Unit distribution



¹ Total full-time equivalents (FTE).

students. We also hired 242 apprentices in banking and specialist functions such as Information Technology.

We believe our ability to retain employees is important and, as a result, we monitor senior management retention

Graduate and MBA hiring across UBS

	2005				2004			
	Europe	Americas	APAC	Total	Europe	Americas	APAC	Total
Investment Bank	158	226	72	456	134	202	42	378
Global Wealth Management & Business Banking	227	82	30	339	96	50		146
Global Asset Management	18	10	7	35	18			18
Corporate Center	6			6	5			5
Total	409	318	109	836	253	252	42	547

rates. In recent years, turnover has been moderate, with 167 of the 224 managing directors hired in 2002 and 2003 still employed at the end of 2005.

We also have well-defined succession processes. In 2005, our ability to manage senior management shifts was underlined by the formation of the Global Wealth Management & Business Banking Business Group and the creation of Dillon Read Capital Management. All required related functional appointments came from internal management teams.

Diversity

Having a diverse workforce benefits our business. Seeking variety of thought, background, skill and experience, as well as other factors, including gender, ethnicity, race and nationality, helps us understand our clients' needs and underpins an open work culture. We have a number of workplace policies in place that promote diversity. The Group Executive Board and ten Regional Diversity Boards, composed of regional senior management, set direction and regularly review how we recruit and retain a range of talent at all management, staff and employee levels. Last year, in a number of regions around the world, senior management also underwent a diversity awareness program that incorporated live actors in real-life decision-making situations.

Our 16 employee networks worldwide also support diversity, giving employee interest groups a voice in UBS's management and culture.

We integrate elements of diversity into many of our daily management processes, among them recruiting, orientation, training, and development. In 2005, for the first time, we instituted a diversity competency across all of our businesses as part of our annual performance management process. We also expanded policies that help employees with families. Maternity leave in Switzerland, for example, was extended to at least six months paid leave. In the US, Wealth Management US increased the amount it reimburses employees for adoption expenses to USD 5,000 per child, bringing maternity and adoption benefits into line with the other businesses in the US.

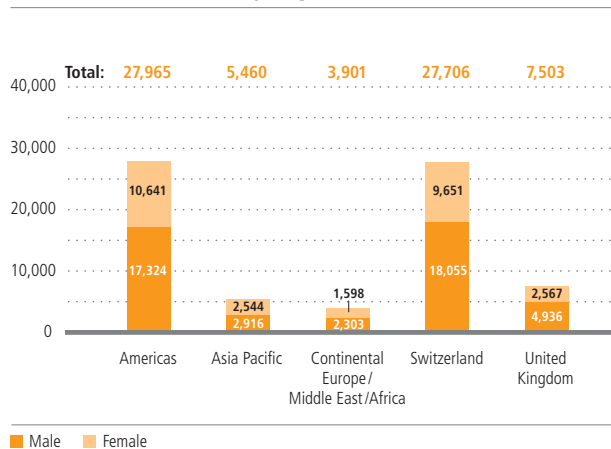
We also try to help our employees balance the demands posed by their work and personal lives. For example, we have given more than 30,000 employees online access to their computer files from their homes or other locations.

Employee networks at UBS

Employee network name	Membership (approximate)
All Bar None Americas	860
All Bar None UK	300 ¹
All Bar None Australasia	200 ¹
All Bar None Tokyo	30 ¹
Women's Business Network Germany	150 ¹
Women's Business Network Switzerland	725 ¹
Women's Network Hong Kong	80 ¹
Women's Network Seoul	40 ¹
Women's Network Singapore	120 ¹
Women's Network Taiwan	90 ¹
UBS Pride EMEA	200
UBS Pride Switzerland	150
UBS Pride US	130
Cultural Awareness Network (UK)	200
Cultural Awareness Network (US)	250
League of Employees of African Descent	150
Working Parents Group (US)	Subgroup of All Bar None Americas – no official membership
Working Parents Group (Tokyo)	Subgroup of All Bar None Tokyo – approximately 30 members
Working Parents Network (UK)	In formation

¹ Estimate based on event attendance.

Gender distribution by region



¹ Calculated on the basis that a person (working full-time or part-time) is considered one headcount in this graph only.

Gender distribution by employee category ¹

	Male		Female		Total
	Number	Percent	Number	Percent	
Officers	25,590	77.9	7,241	22.1	32,831
Non-Officers	19,944	50.2	19,760	49.8	39,704
Total	45,534	62.8	27,001	37.2	72,535

¹ Calculated on the basis that a person (working full-time or part-time) is considered one headcount in this table only. This accounts for the total UBS end-2005 employee number of 72,535 in this table. Normally, UBS expresses employee numbers in terms of full-time equivalents (FTEs), which is measured as a percentage of the standard hours normally worked by permanent full-time staff. When calculated according to FTEs, the end-2005 total is 69,569.

Composition of UBS's workforce by citizenship¹

Country	Number	Percent
USA	24,857	34.3
Switzerland	23,423	32.3
Great Britain	6,724	9.3
Germany	2,797	3.9
Italy	1,790	2.5
Australia	1,432	2.0
France	1,146	1.6
Japan	892	1.2
Singapore	890	1.2
Hong Kong	773	1.1
Spain	656	0.9
Canada	642	0.9
India	601	0.8
Russia	331	0.4
China	289	0.4
Ireland	247	0.3
Taiwan	245	0.3
Luxembourg	189	0.3
Malaysia	177	0.2
South Africa	176	0.2
Other countries	4,258	5.9
Total	72,535	100.0

¹ As measured by primary citizenship. Calculated on the basis that a person (working full-time or part-time) is considered one headcount in this table only. This accounts for the total UBS end-2005 employee number of 72,535 in this table. Normally, UBS expresses employee numbers in terms of full-time equivalents (FTEs), which is measured as a percentage of the standard hours normally worked by permanent full-time staff. When calculated according to FTEs, the end-2005 total is 69,569.

Workforce diversity

The number of women working for UBS rose in 2005. We promoted and retained more women than in previous years and the number of women leaving UBS remained stable. At the end of last year, 63% of UBS's employees were male and 37% female.

Our workforce represents 153 nationalities globally. The largest number of employees, as measured by primary citizenship, hold US or Swiss citizenship, followed by British.

Performance measurement and management

Throughout the firm, all employees are subject to a process that evaluates individual achievements against agreed objectives. Our assessment process, called Performance Measurement and Management (PMM), has been in place since 1996. At the beginning of the year, each employee agrees to his or her individual objectives for the year with the evaluating manager. These objectives encompass targets relating to people, clients, economics and technical expertise. During this process, not only is individual performance assessed against business results but UBS also considers, among other things, whether client interests were safeguarded to the standards required by the firm. UBS also looks at whether employees

demonstrated superior leadership and good teamwork and whether they conducted themselves in an ethically appropriate manner, both professionally and personally. PMM also defines expected actions around corporate values such as client focus and diversity. It thus enables the firm to reward results and behaviors and helps to shape a learning and performance-oriented culture.

Towards the end of the year, the results achieved are assessed against these defined targets – by the individual employee, by his or her line manager, and at senior levels by peers, internal clients and subordinates. The PMM result is one of the elements defining individual incentive awards. Top performers receive proportionately higher rewards. The total amount of incentive awards to be granted is determined based on the financial performance of the firm and the individual businesses.

For senior executives (the executive members of the Board of Directors (BoD), members of the Group Executive Board (GEB) and members of the Group Managing Board (GMB)), the PMM process is broadly the same as for employees. The achievement of clearly defined financial targets set for the Group and the Business Groups also plays a significant role. Additional personal key objectives are defined in the field of leadership, cross-business co-operation, and strategic thinking and contribution. The incentive award for members of the GEB and GMB working in a Business Group is based 50% or 75%, respectively, on the performance of that particular business, and 50% or 25% on the performance of the Group as a whole, ensuring that the interests of the Group are represented. Awards for GEB and GMB members employed in Corporate Center as well as the executive members of the BoD are based 100% on the performance of the Group.

Group compensation policy

UBS's compensation policy is designed to provide competitive total compensation opportunities that will enable the firm to attract, retain and motivate the talent it requires. Compensation should provide incentives that foster an entrepreneurial and performance-oriented culture and support the firm's integrated business strategy. Compensation of senior executives is closely linked to the achievement of sustainable shareholder returns and provides appropriate incentives for long-term value creation.

Four guiding principles define the compensation philosophy of UBS. Each element of compensation – base salary, incentive awards, stock option awards, benefits – is managed within a *total compensation framework*, where the effects of modifications to one element are measured against overall compensation. Total compensation levels are determined with consideration given to relevant *market pay practices*, ensuring UBS's ability to recruit and retain the best talent. UBS is committed to provide superior compensation in return for superior *performance*, both in terms of both business success and individual contribution. Through the *use of equity-based*

awards that vest or become unrestricted over time, UBS ensures that there is strong focus on the long-term implications of decisions and actions taken, thus aligning employees' interests with those of shareholders.

The firm's compensation policy is designed by the GEB, reviewed by the Compensation Committee, and approved by the BoD. It was last updated in September 2002 and describes the total compensation components as follows:

Base salaries are used to recognize the experience, skills and knowledge that individuals bring to their roles. Salary levels are determined primarily based on rank or functional role, level of responsibility and the market environment. For employees with a rank of director and above, base salary adjustments are limited to situations of significant changes in job responsibility or exceptional market competition.

Annual incentive awards reflect the performance of the firm and its various businesses as well as the individual contribution of each employee. All regular employees are eligible to receive incentive awards if individual targets are achieved. Incentive awards are discretionary and can be highly variable from year to year.

Above a certain threshold, a portion of the annual incentive award is paid in the form of UBS shares (*mandatory long-term incentive award*). These shares only vest after a certain period of time, generally three to five years, and are subject to forfeiture under certain circumstances (e.g. if the employee leaves the firm and joins a competitor or otherwise acts in a way detrimental to UBS).

The highest performing employees and those with highest potential are eligible for *discretionary stock option awards*, which are granted at a strike price set at a minimum of the market value on the date of award and at a premium strike price of 10% above market value for senior management. These options, which vest over three years after grant and are subject to stringent forfeiture rules, represent a powerful shareholder alignment incentive. Every year, the Chairman's Office agrees on the maximum number of options available for allocation. The overall number depends on the financial situ-

ation of UBS, a competitive assessment, and the ability to purchase underlying shares in the market. The number of options to be granted to employees in a given period requires approval by the Board of Directors.

Benefits are a supplemental element of total compensation, varying substantially from location to location, in line with local market practice. A benefit offered to all employees group-wide – except to senior management – is the "Equity Plus" stock option program, which allows employees to purchase UBS shares at fair market value and receive at no additional cost two UBS options for each share purchased. The program fosters employees' commitment to long-term value creation at UBS.

Employee share ownership

We are committed to the principle of employee share ownership throughout our organization. We believe it strengthens the link between employees and shareholders by fostering a culture that reinforces the entrepreneurial behavior that creates sustainable value for all shareholders.

Given each employee's implicit commitment to UBS and direct exposure to company performance through annual performance-based bonuses, the portion of total compensation delivered in UBS equity must be appropriately weighted against other aspects of employment. While participation in some programs is mandatory, overall ownership targets are not explicitly stated.

UBS offers equity-based programs in over 45 countries. For all employees in these countries, we also offer Equity Plus. For staff with annual incentive awards above a certain threshold, a mandatory component is awarded in restricted UBS shares. Additionally, select high-performing employees are granted stock options that only deliver value if the share price appreciates. We also provide the opportunity to acquire UBS shares through a number of country-specific retirement plans.

At end-December 2005, 57% of all employees held UBS shares while 36% of all employees held UBS stock options.

Measuring employee commitment

The dedication of our employees is critical to performance and retention. We assess the engagement of employees through surveys.

Global Wealth Management & Business Banking (excluding Wealth Management US), held a survey in 2005 in which more than 70% of responding employees said they were "satisfied" or "very satisfied" with their general work situation.

Moreover, 86% of them were highly confident of UBS's future, and a high proportion of employees (78%) said they would recommend UBS as an employer.

Overall results from several Investment Bank, Global Asset Management, and Corporate Center surveys also showed a high (76%) level of commitment. Satisfaction with UBS as a workplace was 74%, placing us slightly ahead

of the industry benchmark of 72%. Of those who answered the surveys, 70% felt their teams were effective and that the work environment was based on respect and mutual support, with 69% of them believing management showed a strong commitment to ethical decisions and conduct, and 67% agreeing that they were able to meet clients' needs effectively.

Business training

We have a broad range of training programs. Many are job-specific, covering topics such as financial market education, sales and client management skills, technical training, information technology, and accounting. These programs are complemented by specific business training, induction programs, professional and personal skills development, and legal and regulatory training. All are made available to employees based on their specific role. We also run major educational initiatives when a change in the firm's business or policies requires people to acquire new skills.

Key talent development

UBS's key talent development process includes leadership development programs, mentoring and coaching, and a range of other measures to teach people new skills.

The process starts with graduate-level employees. All graduates hired through our campus recruiting process benefit from structured graduate education, both in the classroom and on the job.

High-potential employees at early and mid-career are identified using consistent criteria. Development opportunities

are closely coordinated across businesses to help ensure that future senior managers have consistent knowledge of the organization and its strategy.

Employees moving into senior leadership positions, including those identified as key position holders or senior management succession candidates, become part of a leadership development process managed by the UBS Leadership Institute, a small group of 31 employees reporting to the CEO. It is supported by strategic mentoring programs under which members of the Group Executive Board mentor members of the Group Managing Board, who, in turn, mentor key talents.

Senior management attends a series of Global Leadership Experience programs focusing on UBS's key strategic objectives. Senior management is actively engaged, nominating participants and sponsoring or leading programs. Since 1999, more than 850 senior leaders have attended one or more of these learning events.

Around 70 members of UBS's senior management meet annually at the Annual Strategic Forum. A wider group of more than 500 executives meets every year at the Senior Leadership Conference to analyze UBS's strategy and recommend specific action or change to the strategic agenda, the business, or the work environment.

Our Values for Action

Our Purpose

Client Focus: Our clients' success is our success. We take the time to understand their objectives, and commit our resources to develop effective solutions helping them meet or exceed their goals.

Our Core Competencies

Entrepreneurial Leadership: Our leaders at all levels engender enthusiasm, energy and commitment. Through innovation, inspiration and operational excellence we capture opportunities, create better solutions and expand our market share. By leadership and accountability across our company we establish direction, encourage collaboration and knowledge sharing, and provide an attractive environment for our people.

Partnership: Relationships among our people as well as with our clients are driven by the power of partnership. It requires respect, contribution, trust and mutual support. We encourage the free exchange of ideas, and demand teamwork.

Meritocracy: We ask for entrepreneurial spirit and initiative from each individual. We actively strive to be the best at attracting, developing and retaining talented people. Decisions regarding recognition, reward and promotion are based on merit. We coach our people and invest in their development.

Our Ethical Beliefs

Integrity and Privacy: We expect our people to conduct themselves in a

manner that is above reproach. Our integrity is key to preserving our most valuable asset – our reputation. We respect our clients' right to privacy, and use information with appropriate discretion.

Corporate Responsibility: We are a member of the global community and behave as a responsible corporate citizen. We, both as a corporation and through our people strive to contribute positively and actively to the communities where we do business.

Diversity: Our strengths are leveraged by globally embracing diversity of skills, perspectives and backgrounds.

Business-specific senior leadership development programs complement our global efforts by focusing on refining leadership skills and behaviors, and on strengthening participants' understanding of strategy.

International experience is an important part of developing a highly qualified workforce and skilled management. We continue to see healthy levels of international mobility across our firm. In 2005, more than 1,500 staff transferred to new jobs or functions in countries outside their own. Notably, there was an increase in overseas assignments supporting activity in Asia Pacific, particularly in Hong Kong, Singapore, China and India. Programs have been instituted to recruit and develop staff in the Asia Pacific region, among them a summer school and a graduate program, both of which feature short-term assignment opportunities.

We have introduced benefits flexibility in our international assignment policies that in 2005 lowered the overall costs of some expatriate assignments. As a result, our business areas were better able to match employees and costs to the nature of the assignments. This, in turn, increased the overall number of international assignments offered in 2005, with particular increases seen among lower ranked employees. We also took steps to provide additional spouse and family support, helping assignees and their families adapt to new environments.

Selected 2005 awards

Number one in Europe for "Top Companies for Leaders 2005" by benefits consultant Hewitt Associates

100 Best Companies for Working Mothers (Working Mother Magazine; US)

10 Best Employers in Asia (Hewitt Associates, Straits Times, South China Morning Post; Singapore & Hong Kong)

Being a responsible employer

Our success depends on our staff. We support them – both during and beyond their careers with UBS. Our Employee Assistance Programs (EAPs) are a case in point. In the weeks following the December 2004 tsunami, UBS staff in the UK were able to access an independent counseling hotline under the auspices of the UK region's EAP. Provided in conjunction with an independent organization, the service gives UBS employees 24-hour confidential access to specialist information, consultants, and advisors. UBS supports EAPs in a number of locations. Usually underpinned by independent, third-party organizations, the programs offer confidential support to help employees balance their work, family and personal needs

and help resolve issues that occur in everyday life. UBS in Switzerland offers professional assistance for current and retired employees, as well as their family members, through its HR Social Counseling service. The specialized unit provides free confidential counseling for personal issues and guidance in solving business-related problems. Additional programs support employees when a business is re-organized. One example is COACH, a set of measures in Switzerland designed to help staff who lose their jobs because of restructuring. Launched early in 2003, the package extends the standard notice term of each eligible employee by two months. During this period, employees retain their full salary and benefits. They also receive counseling and support to

help them apply for new jobs, either within UBS or outside. To this end, COACH advisors work closely with UBS's human resources managers and draw on the expertise of UBS's internal social consultancy service and specialized external agencies. Financial assistance of up to CHF 6,000 per employee is also available for job-related training where this will help applicants change their career path. To date, some 1,600 staff members have enrolled with COACH. Of this total, about one-tenth has found re-employment within UBS. The EAPs and COACH are not low-cost options, but we believe we have a responsibility to our staff and to the wider society, to be a conscientious employer.

Employee representation

The UBS Employee Forum was established following the merger of UBS and SBC to exchange information between employees and management on European issues potentially affecting the performance and prospects of UBS. The forum fulfils the obligations contained in EU Directive 94/45 on the establishment of a European Works Council. A UK employee forum meets on a regular basis to discuss topics particularly relevant to employees in the UK, including health and safety issues, changes to workplace conditions, pension arrange-

ments and collective redundancies. Employee representation in Switzerland is led by the Employee Representation Committee (ERC). This group of elected, internal representatives acts as an intermediary between business and employees, representing the interests of employees whose work contracts are governed by Swiss law and the Agreement on Conditions of Employment for Bank Staff. The ERC participates in annual salary negotiations and is involved in employee matters, including health and safety issues, social security and pension issues. The ERC also monitors and encourages communication between management and employees.

Our businesses

We manage our Business Groups in a way that optimizes value for shareholders – making the whole worth more than the sum of the parts.

Global Wealth Management & Business Banking

Global Wealth Management & Business Banking is both the top provider of financial services for wealthy clients around the world and the leading bank for individual and corporate clients in Switzerland.

Business Group / Business Unit reporting

<i>CHF million, except where indicated</i>	Wealth Management International & Switzerland		Wealth Management US		Business Banking Switzerland		Global Wealth Management & Business Banking	
	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04
For the year ended or as at								
Total operating income	9,011	7,693	5,156	4,736	5,071	5,039	19,238	17,468
Total operating expenses	4,850	4,297	4,844	4,707	2,882	3,026	12,576	12,030
Business Group / Business Unit performance before tax	4,161	3,396	312	29	2,189	2,013	6,662	5,438
Net new money (CHF billion)	68.2	42.3	26.9	18.1	3.4	2.6	98.5	63.0
Invested assets (CHF billion)	982	778	752	606	153	140	1,887	1,524
Personnel (full-time equivalents)	11,555	10,093	17,034	16,969	16,023	15,508	44,612	42,570

Business

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

Organizational structure

Effective 1 July 2005, we brought our US, Swiss and international wealth management businesses along with our Swiss corporate and retail banking unit into one Business Group called Global Wealth Management & Business Banking. We also transferred the municipal finance unit, until then a part of Wealth Management US, to the Investment Bank's fixed income area.

The Business Group is managed in a fully integrated way, although results are reported for the following segments:

- Wealth Management International & Switzerland, serving wealthy and high-end affluent clients around the world except domestic clients in the United States
- Wealth Management US, serving wealthy and affluent domestic US clients
- Business Banking Switzerland, serving retail and corporate clients in Switzerland.

Businesses focusing on client needs can only fully exploit their potential if they are provided with a reliable and efficient infrastructure. In Global Wealth Management & Business Banking, our support areas provide products and services to these three business units as well as to other UBS businesses.

The services provided by support areas are allocated – based on a transfer price mechanism – to Business Banking Switzerland, Wealth Management International & Switzerland, Wealth Management US and other UBS businesses.

In 2003, our independent label private banks were integrated into a new holding company within Corporate Center. That holding company, which included specialist asset manager GAM, was sold to Julius Baer in late 2005.



Marcel Rohner | Chairman & CEO
Global Wealth Management &
Business Banking

Our vision

As the *global leader in wealth management*, we are determined to become the provider of choice for private clients worldwide. The scale and significance of our wealth management business in UBS ensures the highest levels of long-term commitment to the interests of our private clients. We will provide our clients with a consistent positive experience at every point of contact with our group, anywhere in the world. This is founded on the high quality of our advisory process through which we first take the time to listen to our clients, then develop and implement solutions for and with them, and finally monitor and learn from the results. At the center of this process is the client advisor. Careful selection, development and support of our client advisors is instrumental in providing a positive experience to our clients, thus fostering long-term personal relationships with our group.

As the *leading bank in Switzerland*, we grow by providing a complete range of top quality banking, securities and operational services, and multi-channel access for individual and corporate clients.

Leadership replacing budgeting

Cost discipline had been a key success factor for UBS in the phase following the merger of UBS and SBC in 1998. During that time, traditional targets helped management and staff to achieve the efficiency objectives defined for the post-merger integration. However, they rarely provided guidance on how to capture revenue opportunities – a feature that became important in the following cycle of Global Wealth Management & Business Banking's development – the phase of growth and market expansion. Arriving at these traditional target figures required an extensive process which was very thorough, but time-consuming for both managers and controllers. The three-year business plans as well as operational budgets with fixed targets were defined both "top down" and "bottom up". The consequence of this approach was that it tended to stand in the way of inspiring employees to search for growth opportunities. That is why, in 2004 – as part of a program to foster a more entrepreneurial culture – UBS decided to do away with the annual budgeting process in its international

wealth management and Swiss retail and corporate businesses. The new process ensures clear strategic direction by a simplified top-level five-year business plan. It focuses on strategic projects and initiatives that support the priorities of the business. Operational leadership is supported by a five-quarter rolling forecast which allows senior management to react quickly to changes in the market environment and initiate corrective measures immediately, if required. Entrepreneurial leadership involves decision-making, taking a commercial approach that balances income, cost and risk. This had a direct implication on the role of managers – and on the scope of their authorities. They decide on staffing levels for their units, on the skills required by their teams and on local marketing activities – and they are held accountable for them and, ultimately, for the unit's performance. In other words, additional investments are expected to yield additional revenues. Employees also have more responsibility. Client advisors now formulate their own business goals, and decide how best to achieve them.

This type of decision-making requires enhanced transparency and granularity in management information. As budget figures – the traditional point of reference – are no longer available, current performance is measured against actual results achieved in the previous periods and benchmarked to the performance of a defined group of peers. This encourages managers, client advisors and other employees to identify best practices and, through an active exchange of ideas, ways to learn from each other. In this context, managers increasingly take the role of coaches who encourage and support their employees to exploit their full potential and fulfill their own ambitions. The concept is innovative and has earned UBS recognition by specialist press as well as general media. Since this was not just an operational change in process, but rather a radical shift in corporate culture, it is difficult to measure its full bottom-line contribution. Experiences over the past year have been positive – and accompanied by the business' strong financial performance.

Wealth Management International & Switzerland

With more than 140 years of experience, an extensive global network, and CHF 982 billion in invested assets on 31 December 2005, our 4,154 client advisors consistently deliver high-quality, individually tailored solutions to our clients worldwide.

Business

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

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

Organizational structure

We are organized into the two business areas of:

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

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

Competitors

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

Clients

We are committed to the consistent delivery of tailored and unbiased financial solutions of the highest quality to our clients. We strive to create long-term personal relationships.

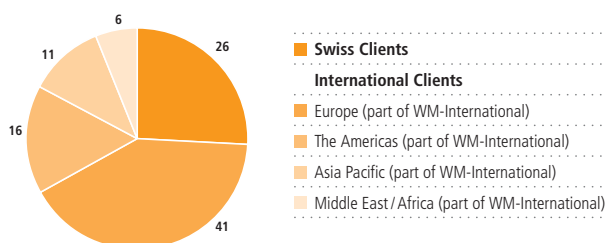
A clearly structured advisory process helps client advisors add value at each step and provides our clients with a consistent and comprehensive experience. Our approach consists of four clear, mutually enhancing steps. In the *first*, our advisors take the time to understand what it is their clients want and need, and look at all the different factors that might affect their goals and willingness to take risk. As a *second* step, the advisor formulates investment proposals crafted for that client's

Invested assets by client domicile

in %, except where indicated

As at 31.12.05

Total: CHF 982 billion

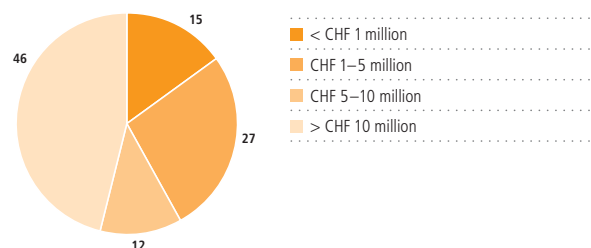


Invested assets by client wealth

in %, except where indicated

As at 31.12.05

Total: CHF 982 billion

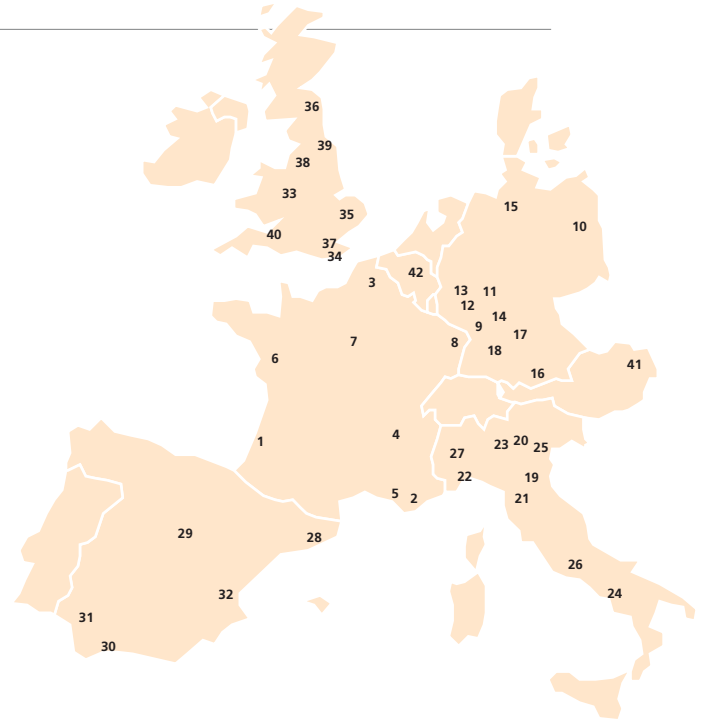


European wealth management office locations

France		Italy		United Kingdom ¹	
1	Bordeaux	19	Bologna	33	Birmingham
2	Cannes	20	Brescia	34	Brighton
3	Lille	21	Florence	35	Bury St Edmunds
4	Lyon	22	Genoa	36	Edinburgh
5	Marseille	23	Milan	37	London
6	Nantes	24	Naples	38	Manchester
7	Paris	25	Padua	39	Newcastle
8	Strasbourg	26	Rome	40	Taunton
		27	Turin		

Germany		Spain		Other countries	
9	Bad Homburg ²	28	Barcelona	41	Austria (Vienna)
10	Berlin	29	Madrid	42	Belgium (Brussels)
11	Bielefeld	30	Marbella		
12	Cologne	31	Seville		
13	Dusseldorf	32	Valencia		
14	Frankfurt				
15	Hamburg				
16	Munich				
17	Offenbach				
18	Stuttgart				

Legend	
Light Orange	Locations end-2000
Dark Orange	New locations since 2001



¹ Includes five locations from the acquisition of Laing & Cruickshank. ² Headquarters of UBS Sauerborn.

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

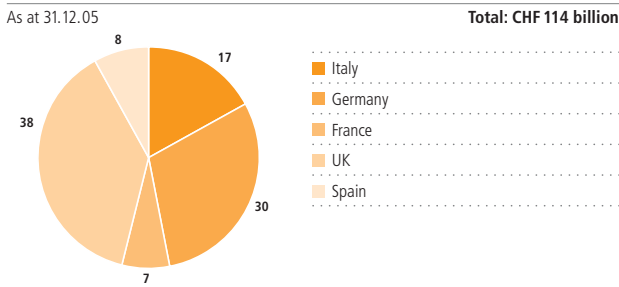
Growth initiatives

European wealth management

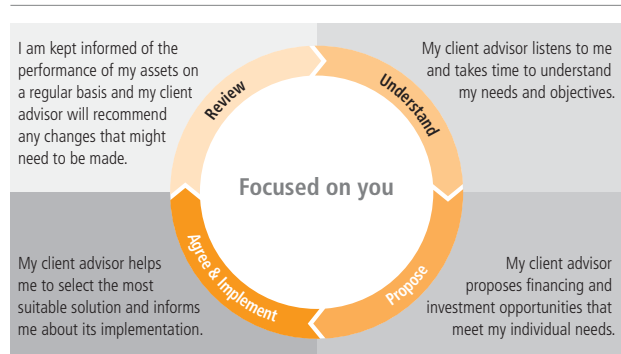
The European wealth management business was launched in early 2001, and is aimed at wealthy clients in the five target countries of France, Germany, Italy, Spain and the UK. Over the past five years, the number of European domestic branches, now 42, has nearly trebled while invested assets have risen to CHF 114 billion from CHF 16 billion in 2001, corresponding to an annual growth rate of 63%. Much of the rise in invested

European wealth management: invested assets by client domicile

in %, except where indicated

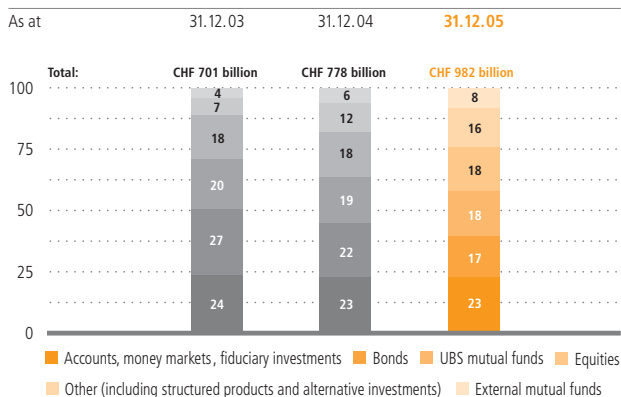


UBS Client Experience



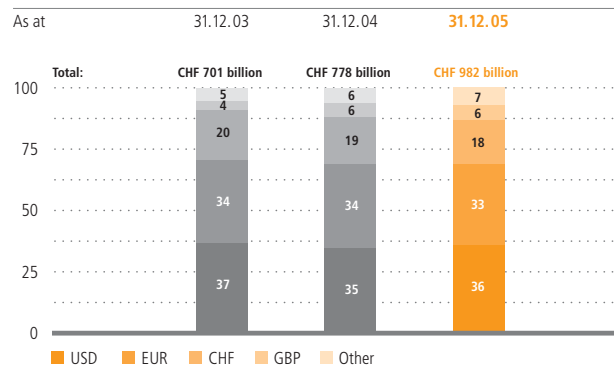
Invested assets by asset class

in %, except where indicated



Invested assets by currency

in %, except where indicated



assets was due to the CHF 60 billion in net new money we took in during the past five years.

In our European wealth management business we currently have a total of 803 client advisors, up from 177 advisors at the beginning of 2001. After having successfully established a European physical presence, our focus in the next two years will be on maintaining the momentum of our growth.

Wealth management in Asia Pacific

Asia Pacific is the fastest-growing wealth management market in the world. According to an internal UBS estimate, the liquid assets held by wealthy individuals in the region (excluding Japan) will grow by 8.9% annually between 2004 and 2008. The global growth rate will be 5.5% for the same period.

The wealth management business has a presence in six domestic Asia Pacific markets and plans to expand its network of branches and offices into further high-potential locations. By cooperating with the other Business Groups in the region, wealth management can draw on a wide array of products and services already on offer and share infrastructure, delivering significant cost savings.

At the end of last year, we also received approval to open a wealth management business office (sub-branch) in Osaka, Japan's second largest city, an important step in further expanding our presence in Japan.

Products and services

Our clients can count on the expertise of more than 2,000 professionals worldwide dedicated to developing wealth management solutions. We ensure that our private clients get access to what we judge as high-quality investments. We source internally at UBS when we believe we have the requisite expertise. Otherwise, we screen the market for the best products. By aggregating private investment flows into institutional flows, we are in a position to offer our private clients access to investments that would otherwise only be available to institutional clients.

We offer discretionary and non-discretionary mandates. Clients that opt for a discretionary mandate delegate the management of their assets – including investment decisions – to a team of professional portfolio managers who work according to an agreed investment strategy. Clients that prefer to be actively involved in the management of their assets can choose a non-discretionary mandate, where our investment professionals provide analysis and monitoring of portfolios, together with tailor-made proposals to support investment decisions. In both cases, we offer relative return programs that aim to outperform benchmarks. For discretionary mandates, we also offer absolute return programs. These focus on preserving capital, while still participating in market upturns. At the end of 2005, around 21% of assets invested with Wealth Management International & Switzerland were discretionary.

All our clients can trade in a full range of financial instruments – from single securities such as equities and bonds, to structured products and alternative investments. Over the past two years, the assets private clients have invested in alternative investment and structured products have grown from CHF 43 billion to CHF 125 billion in 2005. We also fulfill their basic banking needs with a wide range of products – ranging from cash accounts and savings accounts to credit cards, mortgages, and securities-backed lending.

Our offering includes expert financial advice supporting our clients throughout the different stages of their lives. We give wealth planning advice on topics such as education funding and gifts to children, inheritance and succession planning, tax planning, insurance, trusts and foundations, and art banking. We also offer corporate finance advice to support clients in the process of acquiring or disposing of corporate assets. Overall, our products and services offering is a comprehensive selection that covers the wide-ranging banking needs of our clients.

Distribution

Our extensive wealth management branch network comprises 4,154 client advisors, 111 offices in Switzerland and 72 offices worldwide.

Wealth Management US

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

Business

With CHF 752 billion in invested assets, our focus is on wealth management services to core affluent individuals with more than USD 500,000 to invest, high net worth individuals with more than USD 5 million to invest, and ultra high net worth clients with more than USD 10 million to invest. We have more than 7,500 financial advisors in 346 branch office locations that build and maintain consultative relationships with our clients.

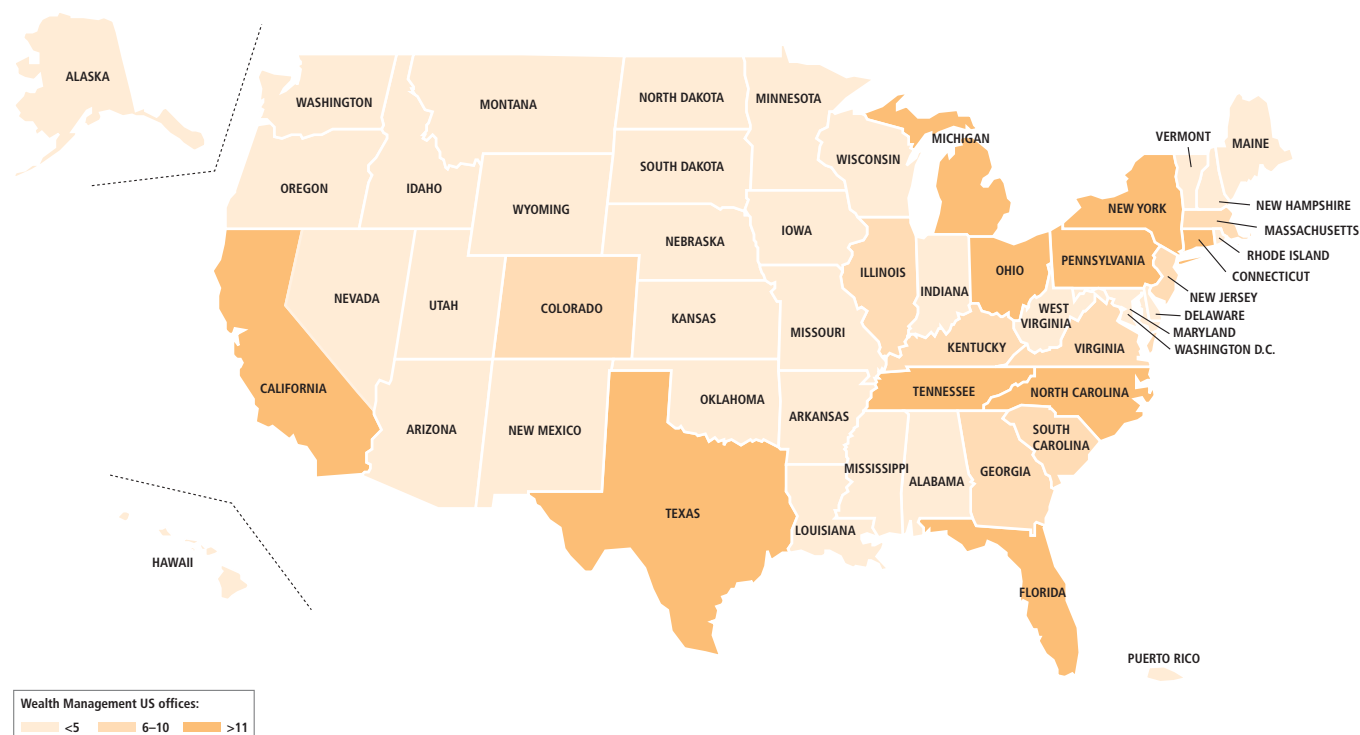
Organizational structure

PaineWebber merged with UBS in November 2000, and its US private clients business became a separate business unit

within UBS's Investment Bank. At the same time, Paine-Webber's Capital Markets Group was integrated within the Investment Banking & Securities business unit while its asset management unit (then called Mitchell Hutchins) moved into the Global Asset Management Business Group. Most non-US private client businesses became part of our Wealth Management business unit. The US private client business became an independent Business Group on 1 January 2002.

In 2003, we sold our wholly owned subsidiary Correspondent Services Corporation (CSC) to Fidelity Investments. CSC provided investment products and services (including clearance, execution, settlement, administrative and management information services) to the clients of 148 US broker-dealer firms.

Geographical presence in key markets



That same year, we launched UBS Bank USA. The bank, headquartered in Salt Lake City, Utah, offers collateralized lending products and bank deposits insured by the Federal Deposit Insurance Corporation (FDIC).

As described on page 28, Wealth Management US became part of the new Global Wealth Management & Business Banking organization in July 2005 while our municipal securities unit was transferred to the Investment Bank.

Legal structure

In the US, we operate through direct and indirect subsidiaries of UBS and securities activities are conducted through three registered broker-dealers.

Competitors

Our major competitors include Citigroup's Smith Barney business, as well as the private client group businesses of Morgan Stanley, Merrill Lynch and Wachovia.

Clients and strategy

We aim to meet the financial needs and goals of core affluent and high net worth clients in the US by providing them with wealth management services embracing both their assets and liabilities. Our private wealth management group serves ultra-high net worth clients with plan-

ning solutions, customized trust and estate planning, as well as philanthropic, stock management and tax planning services.

Our asset-gathering strategy emphasizes the importance of generating recurring fees from advice and products, as fee-based relationships provide us with a source of regular, low volatility revenues.

As a visible example of our progress, a leading industry survey based on a select sample of peers indicated that our share of the US private clients market grew to 15.8% in 2005, up from 13.2% in 2000.

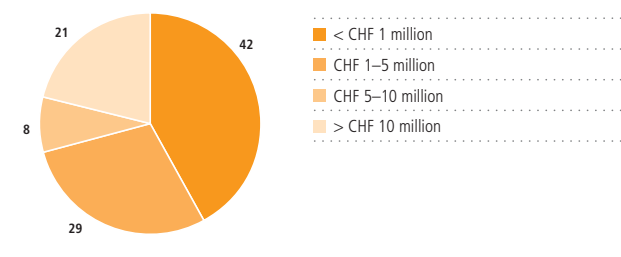
Central to helping clients pursue their financial goals is the personal relationship between our clients and their financial advisors, each of whom takes the time to understand individual client needs and goals and then provide solutions. We keep clients informed on a periodic basis and can monitor and update strategies as appropriate in response to ever-changing markets and needs.

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

Invested assets by client wealth

in %, except where indicated

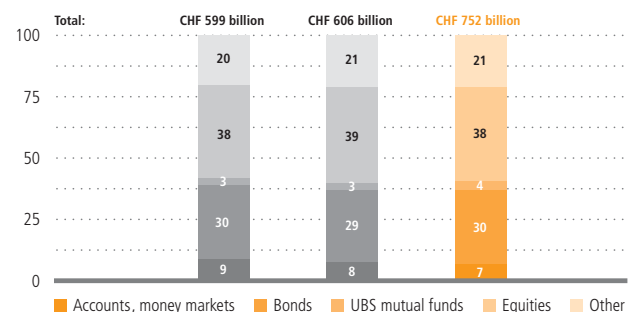
As at 31.12.05 Total: CHF 752 billion



Invested assets by asset class

in %, except where indicated

As at 31.12.03 31.12.04 31.12.05



Our emphasis on training is one of the reasons our financial advisors are among the most productive in the industry. A leading industry survey put our revenues per financial advisor 17% above the industry average in 2005.

Products and services

We offer a full array of proprietary offerings and third-party solutions, giving clients access to investments that suit their specific needs and goals. Our size means that individual clients can gain access to investments that might otherwise only be available to institutions.

Clients often have the option of transaction-based or asset-based relationships. For those choosing an asset-based approach, we offer solutions in the following categories: client-directed brokerage accounts; discretionary portfolio management, in which qualified financial advisors make investment decisions; and investment management consulting, where assets are invested in a mutual fund asset-allocation program, or managed by affiliated and/or non-affiliated investment managers.

Clients have access to a broad range of transactional products, including individual securities such as equities and fixed income instruments, structured products and alternative investments. In response to high investor interest in hedge funds and funds-of-funds, we have also strengthened our ability to create, structure and manage a range of alternative investments for qualified high net worth individuals and institutions.

We complement these services with competitive lending and cash management services, including our Resource Management Account product, credit cards, FDIC-insured deposits, securities-backed lending and mortgages.

Our offering includes comprehensive planning to support clients throughout the different stages of their lives. This includes retirement planning, education funding, estate planning strategies, charitable giving, tax management strategies, insurance, trusts and foundations. Through Corporate Employee Financial Services, we provide stock option services to many of the largest US corporations and their executives.

Industry trends

We are already one of the premier US wealth managers. In 2006, we aim to increase our market share by making use of the increased range of products and services available since the creation of Global Wealth Management & Business Banking. Further growth will depend on a continued commitment to recruiting, retaining and developing top-performing financial advisors and providing them with the resources that will lead to increased revenue.

The long-term outlook for our business remains strong. The aging of the "baby boom" generation suggests an increased need for retirement and estate planning. The line between banking and brokerage continues to blur, providing opportunities to further expand our business. We believe that we are well positioned to exploit these market trends.

Business Banking Switzerland

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

Business

We are the leading bank in Switzerland. At the end of 2005, clients had CHF 153 billion in invested assets with us. With a total loan book of CHF 141 billion on 31 December 2005, we lead the Swiss lending and retail mortgage markets.

Our aim is to provide clients with optimal levels of convenience and service. Together with our successful e-banking offering and customer service centers, our 1,260 automated teller machines (ATMs) and 301 branches across Switzerland provide a network that is wider than that of any of our domestic competitors.

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

Organizational structure

The Business Banking Switzerland unit comprises the domestic branch network for corporate and individual clients, which is organized into eight regions.

Competitors

Business Banking Switzerland's major competitors are banks active in the retail and corporate banking markets in Switzerland. This group includes Credit Suisse, the country's cantonal banks, Raiffeisen Bank, and other regional or local Swiss banks as well as foreign bank branches in Switzerland.

Clients and products

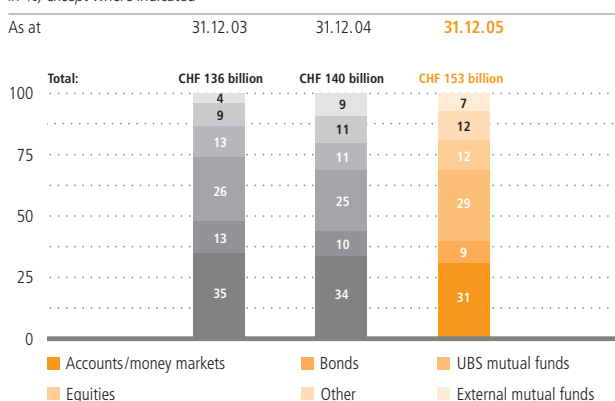
Business Banking Switzerland offers high-quality, standardized products to the retail market for individual and small company clients, as well as more complex products and advisory services for larger corporate and institutional clients and financial institutions.

Individual clients

We serve around 2.6 million individual clients in Switzerland through more than 3 million accounts, mortgages and other financial relationships. With our extensive Swiss branch network, we offer a wide range of products and services supported by a complete set of distribution channels (ATMs, phone services, e-banking). Our range of products and services for private clients includes a comprehensive selection of

Invested assets by asset class

in %, except where indicated



cash accounts, savings products, wealth management services, residential mortgages, pensions and life insurance. We have a leading position in many Swiss markets. In the mortgages segment for individual clients, we have a share of 26%, in the savings market for individuals 23%, and in the credit card business 30%.

Corporate clients

Business Banking Switzerland services around 136,500 corporate clients, including institutional investors, public entities and foundations based in Switzerland.

Of our corporate client base, around 200 are major companies, with operations that span a broad range of markets and geographical regions. These clients require our advanced financing and risk management skills and comprehensive access to the capital markets for funding needs.

Around 7,300 of our clients are large companies that utilize our expertise in handling complex financial transactions. We provide them with a wide range of financial advice, from the selection and design of investment products to assisting in complex mergers and acquisitions or providing structured financing, often working in close co-operation with specialists from other parts of UBS.

The remaining corporate clients (some 129,000) are small and medium-sized enterprises requiring local market expertise and access to our full range of products and services.

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

Our global custody services offer institutional investors the opportunity to consolidate multiple agent bank relationships into a single, cost-efficient global custodial relationship. This

simplifies their processing and administration arrangements and allows them to take advantage of other services, such as flexible consolidated performance reporting, and powerful portfolio management tools. In 2005, assets under global custody for institutional clients grew to CHF 189 billion from CHF 157 billion a year earlier.

Financial institutions

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

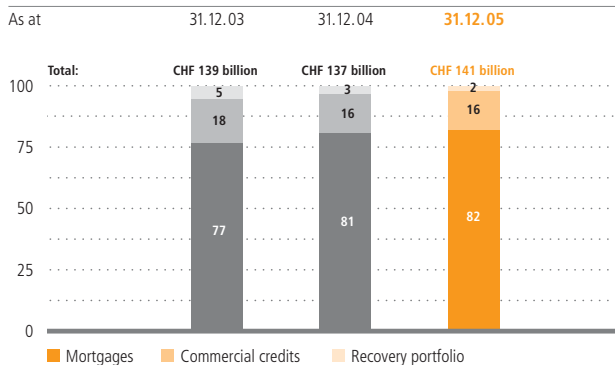
Distribution

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

To meet these needs, we pursue an integrated, multi-channel strategy. We use technology to complement, rather than replace, the traditional physical branch network. Standard transactions can be conveniently executed using one of the electronic channels, enabling client advisors to focus on providing advice and developing financial solutions. For basic products and services, technology is used to ensure around-the-clock availability. Our customer service centers in five locations provide basic information and support 24 hours a day

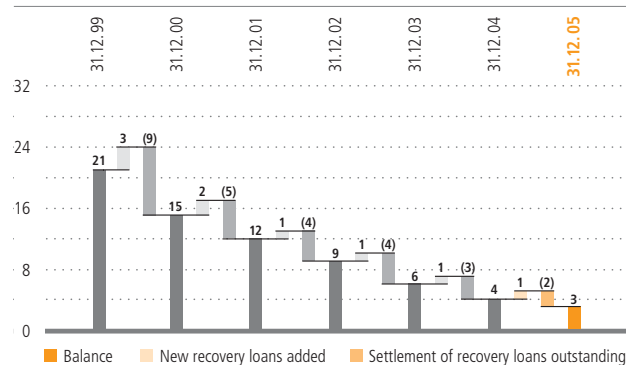
Loan portfolio by loan category

in %, except where indicated



Development of UBS's recovery portfolio, 1999–2005

CHF billion



by telephone. Additionally, in 61 of our branches in Switzerland, we have implemented a two-zone concept where standard transactions are executed via ATMs, while client advisors, sitting in an open plan desk area next to the automated tellers, focus on giving clients value-added advice. Our customers make extensive use of our e-banking channels. On 31 December 2005, more than 450,000 clients had active e-banking contracts and payment orders via electronic channels comprised 76% of all payments made.

In spring 2005, we started a special campaign in Switzerland to attract younger clients. The national drive had generated almost 25,000 new accounts by the end of last year.

Loan portfolio

On 31 December 2005, Business Banking Switzerland's loan portfolio was CHF 141 billion. Of the total, mortgages represented CHF 117 billion, around 80% of them being residential mortgages. Continued discipline in implementing our risk-adjusted pricing model has resulted in a strengthened focus

of origination efforts on higher quality exposures with an attractive risk/return relationship. Thanks to the introduction of this model, the risk profile of our portfolio has clearly improved in recent years. For more details of the UBS credit portfolio, please refer to the credit risk section of this Handbook.

Recovery portfolio

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

Our recovery portfolio amounted to CHF 3.3 billion on 31 December 2005. Since the end of 1998, this portfolio has been cut by 87% thanks to our successful recovery efforts. Over the same seven-year period, non-performing loans decreased from CHF 14.0 billion to CHF 2.5 billion, resulting in a non-performing loans to gross loans ratio of 1.6%.

Global Asset Management

The Global Asset Management Business Group is one of the world's leading asset managers, providing traditional and alternative investment solutions to private, institutional and corporate clients, and through financial intermediaries.

Our vision

Our *global asset management business* provides investment management solutions directly to our private, institutional and corporate clients and through financial intermediaries. We aim to deliver superior investment performance to clients through the management of their investments, across and within all major asset classes and through a number of investment approaches. The strength of our global asset management business lies in its globally integrated investment organization and processes, as well as in the quality of its client service.

Business Group reporting

	For the year ended or as at	
<i>CHF million, except where indicated</i>	31.12.05	31.12.04
Total operating income	2,487	2,022
Total operating expenses	1,430	1,470
Business Group performance before tax	1,057	552
Net new money – institutional (<i>CHF billion</i>)	21.3	23.7
<i>of which: money market funds – institutional (CHF billion)</i>	(3.0)	(1.2)
Invested assets – institutional (<i>CHF billion</i>)	441	344
<i>of which: money market funds – institutional (CHF billion)</i>	16	17
Net new money – wholesale intermediary (<i>CHF billion</i>)	28.2	(4.5)
<i>of which: money market funds – wholesale intermediary (CHF billion)</i>	(9.7)	(20.6)
Invested assets – wholesale intermediary (<i>CHF billion</i>)	324	257
<i>of which: money market funds – wholesale intermediary (CHF billion)</i>	62	64
Personnel (<i>full-time equivalents</i>)	2,861	2,665



John A. Fraser | Chairman and CEO
Global Asset Management

Investment capabilities and services

Traditional investments			Alternative and quantitative investments	Real estate	Fund services
Equities	Fixed income	Global investment solutions			
Core (price value)	Global	Global	Single manager hedge funds	Global	Hedge fund services
Global	Country and regional	Country and regional	Multi-manager hedge funds	Country and regional	Investment fund services
Country and regional	Sector specific	Asset allocation	Quantitative	Private strategies	
Emerging markets	Emerging markets	Currency management	Enhanced index	Real estate securities	
Systematic alpha	High yield	Return and risk targeted		Agriculture	
Long-short	Structured credit	Structured portfolios			
Socially responsible investments (SRI)	Liquidity/short duration	Risk management and advisory services			
Indexed	Indexed				
Growth investors					
Country and regional					
Global investment solutions initiative					

Business

The diverse range of our specialized investment capabilities enables us to offer innovative solutions in nearly every asset class. Our approach combines the global expertise of our investment professionals with sophisticated risk management processes and systems, helping us provide clients with products and services that meet their needs.

Invested assets totaled CHF 765 billion on 31 December 2005, making us one of the largest global institutional asset managers, the second largest mutual fund manager in Europe, and the largest mutual fund manager in Switzerland.

The *traditional investments* business offers equities and fixed income, asset allocation and currency capabilities, and risk management. The central investment approach in traditional investments is based on rigorous fundamental

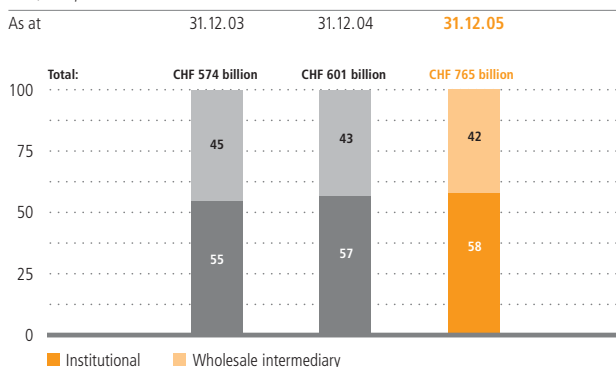
analysis to identify intrinsic value. In addition, our separate Growth Investors capability focuses on investing in securities with strong growth characteristics.

The *alternative and quantitative investments* business has two distinct offerings: a multi-manager or funds of hedge funds business and a single manager business, which operates its own hedge funds. The multi-manager business constructs portfolios of hedge funds (operated by third-party managers) to give clients diversified exposure to a range of hedge fund strategies. The single manager business includes O'Connor, a hedge fund specialist, and DSI, a provider of enhanced equity index and quantitatively-based hedge fund products.

The *real estate* business invests in properties in the US, Europe and Japan and in publicly traded real estate securities worldwide. It actively manages investments in property, in-

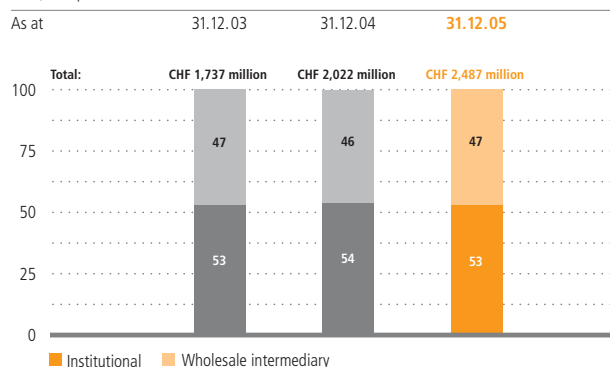
Invested assets by client type

in %, except where indicated



Institutional/wholesale intermediary fees

in %, except where indicated



cluding office, industrial, retail, multi-family residential, hotel and farmland real estate.

We also have a global fund administration business providing services to both internal and external client bases.

Reporting structure and local organization

Our main offices are in Chicago, Frankfurt, Hong Kong, London, New York, Sydney, Tokyo and Zurich. We have some 3,000 employees located in 20 countries.

We report revenues and key performance indicators according to our two principal asset management client segments of institutional and wholesale intermediary clients.

Competitors

We have a range of competitors in traditional investments that extend from firms organized on a global basis – such as Fidelity Investments, Alliance Bernstein and Merrill Lynch Investment Managers – to firms organized on a regional or local basis and those that specialize in a particular asset class. In real estate and alternative investment, our competitors tend to be far more specialized and likely to be organized on a regional or local basis.

Clients and distribution

We aim to provide our clients with the most appropriate investment solutions for their needs through our combination of investment expertise, risk management, and local delivery.

We place great importance on maintaining an ongoing dialogue with our clients. As well as the advisory and reporting aspects of our client relationships, we aim to keep clients informed of the latest investment and business issues through a range of publications, events and training.

Institutional

The institutional business has a diverse worldwide set of clients that includes:

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

In consultant-driven markets, such as the US and UK, we rely on developing and maintaining strong relationships with the major consultants that advise corporations and public pension plans. We also dedicate resources to generating new business directly with clients.

Wholesale intermediary

The wholesale intermediary business offers some 400 investment funds, exchange traded funds and other investment vehicles, across all asset classes in diverse country, regional and industry sectors.

Our investment funds are overwhelmingly distributed using financial intermediaries and selected third parties including the Global Wealth Management & Business Banking Business Group.

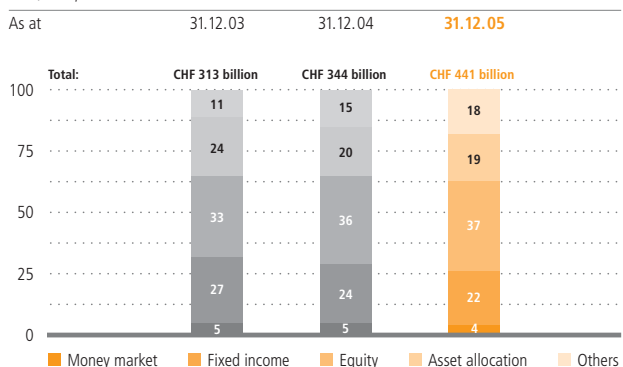
Products and services

Investment management products and services are offered in the form of segregated, pooled and advisory mandates and a range of registered investment funds.

In response to a changed investment environment featuring lowered projected returns for equities and increased market volatility, we have developed a number of innovative investment solutions to meet the needs of wholesale and institutional clients. These include value-added services such as

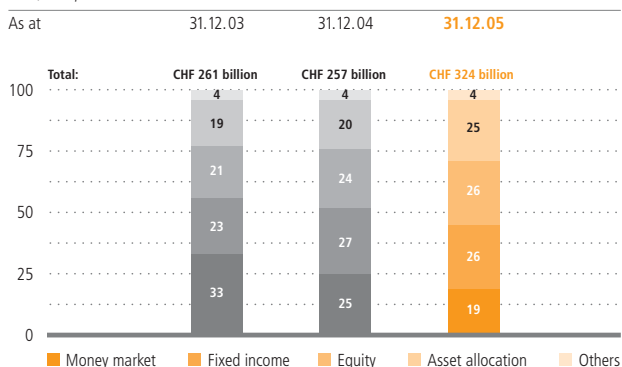
Institutional invested assets by asset class

in %, except where indicated



Wholesale intermediary invested assets by asset class

in %, except where indicated



absolute return and dynamic alpha products. We can also combine traditional and alternative investments and services into integrated packages.

With demand for outsourcing and administration services set to increase, we are well positioned to benefit by providing a range of professional services from legal fund set-up to full reporting and distribution support.

Investment performance

Equity markets rose in 2005, although progress varied by region. The US made modest gains, while Japan saw a 40% rise on increased optimism about the economic outlook. The global energy and materials sector soared on the back of rising commodity prices and robust demand from China. Our strategies that were underinvested in these areas underperformed during the year. Regional equity strategies were mostly ahead of benchmarks, with particularly strong performance in US and Asian equities, due to excellent stock selection.

In US equities, our Growth Investors team generated solid returns. In particular, the large capitalization growth strategies significantly outperformed benchmarks again in 2005. With the addition of a team specializing in mid-sized growth companies we were able to round out our investment coverage of the US growth equity market.

Global bonds performed strongly in the first half of 2005, with yields in several markets reaching record low levels. Some of this was retraced in fourth quarter when it became clear that the momentum of economic growth was proving resilient despite the rise in energy prices and tighter monetary policy in the US. Bonds with long maturity dates saw the largest declines in yield, reflecting investors' confidence about the outlook for inflation, allowing several governments to issue 50-year maturity bonds. Credit markets failed to provide the returns seen in preceding years as yield spreads diminished and due to growing concern over the deteriorating outlook in several sectors (e.g. autos). Our active interest rate strategies had mixed results in 2005.

Global balanced strategies finished above benchmarks for the year, mainly due to asset allocation decisions that favored equities.

In alternative and quantitative investments, performance was strong in 2005 despite difficult market conditions for most hedge fund strategies in the first half of the year. Overall, industry returns in the second half of the year were generally positive, resulting in good risk-adjusted returns for the year. Our core multi-strategy and proprietary hedge fund strategies produced very good relative performance, with equities performing exceptionally well. Additionally, the core

broad-based multi-manager funds generated positive returns.

Our real estate offering was strengthened this year with the launch of additional institutional private real estate funds in the euro zone and the acquisition of 51% of the Siemens Real Estate business. The global real estate securities capability continued to deliver strong investment performance and corresponding growth in assets. These developments, along with overall strong return figures and increasing investor demand for high-quality real estate, led to a significant increase in assets on a global basis in 2005.

Strategic opportunities

Our business performance in recent years has shown the soundness of our strategy of offering a wide range of investment products and solutions to various major markets and distribution channels. We remain focused on the effective execution of our strategy, ensuring that our initiatives deliver both revenue and profit growth.

Demand for alternative investments and for high value-adding products continues to grow strongly. We have a number of initiatives underway that address these client needs. The formation of Dillon Read Capital Management is one example. The transfer of the Investment Bank's Principal Finance and Commercial Real Estate business to Global Asset Management will enable a select number of long-term clients to co-invest with UBS in these trading strategies. It will provide UBS with a new stream of fees and a new alternative investment management business. The investments in our European real estate business and our Growth Investors capability are further examples of this business diversification.

Access to a wide span of investment capabilities also supports the development of holistic investment solutions that address trends such as the increasing emphasis on liability-driven investments and on retirement products.

At the same time, we aim to strengthen our distribution power and have seen very strong momentum in a number of mature markets, such as the German and UK wholesale markets. We also see great growth potential in our joint venture in China and in the various other opportunities we are exploring in emerging markets.

While business growth continues to be a priority, we recognize the importance of a robust risk and compliance culture to the sustainability of our business. Managing operational risk continues to be a key focus. In 2005, we conducted a comprehensive recruitment and training program to ensure that our people, processes and systems can deal appropriately with all types of risk.

Investment Bank

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

Our vision

Our *investment banking and securities business* provides innovative solutions, independent research and advice for our corporate, institutional, intermediary and alternative asset management clients through complete access to the world's financial markets across all product classes. We are a global leader in the services we provide and the leading risk manager in our industry.

Business Group reporting

	For the year ended or as at	
<i>CHF million, except where indicated</i>	31.12.05	31.12.04
Total operating income	17,484	16,083
Total operating expenses	12,303	11,473
Business Group performance before tax	5,181	4,610
Personnel (<i>full-time equivalents</i>)	18,174	16,970



Huw Jenkins | CEO Investment Bank
(and Chairman from 1 January 2006)



John P. Costas | Chairman Investment Bank
(until 31 December 2005)

Business

The Investment Bank is a global investment banking and securities firm. Our salespeople, research analysts and investment bankers, supported by our risk and logistics teams, deliver advice and execution to clients all over the world. In addition to serving the world's key corporate and institutional clients, governments and financial intermediaries, we work with financial sponsors and hedge funds and indirectly meet the needs of private investors, through both our own wealth management business and other private banks.

For both our corporate and institutional clients and the individual clients of other parts of UBS, the Investment Bank provides innovative products, research and advice, and comprehensive access to the world's capital markets. Client demands are always changing, so we continually adapt our range of products to remain competitive. This means that we invest in new areas, making our overall portfolio less sensitive to demand cycles in individual products and keeping control of cost and risk.

Our corporate client financing and advisory business is a market leader whose strengths lie in providing advice on cross-border mergers and acquisitions and raising capital for companies and governments. We have always been among the leaders in European corporate finance, and we have experienced very strong growth in the US and Asia Pacific in recent years.

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

We also manage cash and collateral trading and interest rate risks on behalf of UBS, while executing the majority of securities, derivatives and foreign exchange transactions for the firm's individual clients. Our risk management capabilities, treasury funding, and distribution services are among the many qualities which have enabled us to be pre-eminent in this field. We are now reinvesting in the business to expand the scope and functionality of our e-commerce platform.

To core clients and to important new clients, we offer lending products to support their financing needs, although risk/return considerations still determine balance sheet usage. We also provide them with bridge financing, in line with our strategy of further expanding our leveraged finance and high yield business.

Organizational structure

Our headquarters are in London and New York. We employ roughly 18,200 people in 34 countries around the world. Our

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

- Equities
- Fixed income, rates and currencies (FIRC)
- Investment banking.

Although we generally pursue a strategy of organic growth, we also take the opportunity to enhance our franchise with acquisitions where necessary. In 2003, we strengthened our equities business by acquiring ABN Amro's prime brokerage business in the US. In 2004, we bought Charles Schwab SoundView Capital Markets, the capital markets division of Charles Schwab. In order to expand our trading technology, we acquired Prediction Company in November 2005, a financial engineering and trading software company. This specialized group will contribute to the development of our trading infrastructure.

In July 2005, UBS's highly successful municipal securities business transferred into our fixed income area from the US-based wealth management business. We also announced a plan to transfer our principal finance and commercial real estate trading businesses, currently part of the fixed income area, into Dillon Read Capital Management, a new alternative investment management business within Global Asset Management.

Legal structure

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

Competitors

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

Products and services

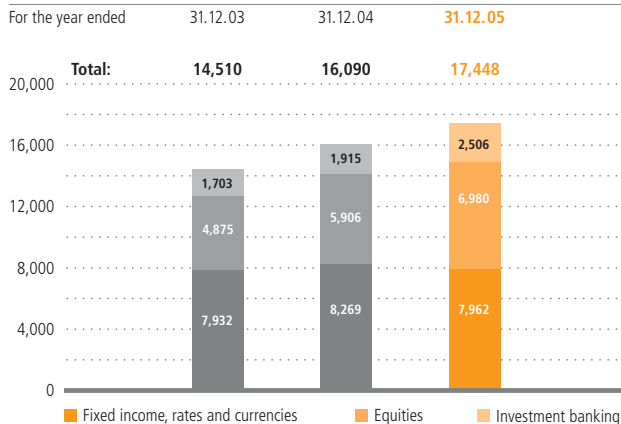
Equities

The Investment Bank is a leading participant in the global primary and secondary markets for equity, equity-linked and equity derivative products. We sell, trade, finance and clear cash equity and equity-linked products. We also structure, originate and distribute new equity and equity-linked issues and provide research on companies, industry sectors, geographic markets and macro-economic trends. We are a member of 108 stock exchanges in 35 countries. This multi-local approach allows us to deliver the advantages of our scale and global reach to clients regardless of their home market.

Our equity research supplies independent assessments of

Income by business area

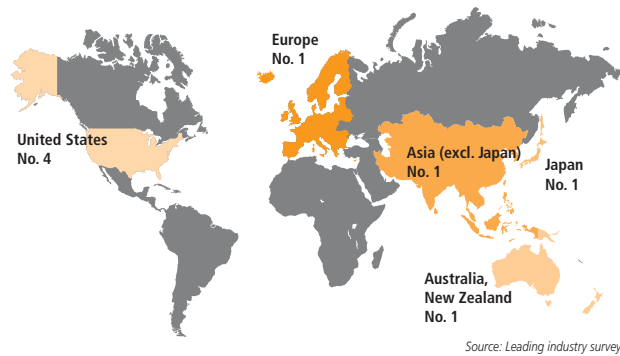
CHF million



Equities: share of secondary trading

Global market share: 11.3% (No. 1)

As of 30.9.05



the prospects for approximately 3,000 companies (corresponding to some 80% of world market capitalization) across most industry sectors, and all geographical regions, as well as economic, strategy, quantitative and derivative research. We consistently have more highly rated analysts than any other broker globally, according to *Starmine*, which measures analysts based on the return of their stock recommendations. We also ranked first in *Institutional Investor's* surveys of equity research analysts in Europe, Asia, and Latin America and are highly ranked in Japan and the US.

By carefully coordinating the efforts of our regional and product distribution teams, we have built the world's leading cash equities business. This offers liquidity and efficient completion in executing orders in every major world market. According to a leading industry survey, we have had the largest global market share in secondary cash commissions for the last 14 consecutive quarters. In fact, one in nine shares traded globally is handled by UBS.

We are also a recognized market leader in derivatives, being named the number one brokerage firm in equity derivatives in *Risk Magazine's* corporate end-user survey in 2005. Risk management products remain among the segments of our business with the fastest pace of growth, and we will continue to focus on providing innovative and customized investment solutions to institutional and corporate clients, including other parts of UBS.

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

We have made significant investments in our technology platform, and are recognized as a market leader in providing a number of electronic services, such as equity research and

trading, to our clients. Our focus on technology allows us to adapt and continuously improve our business processes and client services.

Our prime services business provides integrated global services, including stock borrowing and lending, prime brokerage and exchange-traded derivatives to our rapidly expanding roster of hedge fund clients. We have continued to invest globally in people and our technology platform to position ourselves to be a leader in the industry and strengthen our global cross-product capability. We have made significant strides in building our prime brokerage business and have now climbed to the fourth rank globally, according to published competitor research reports.

Fixed income, rates and currencies

Our fixed income, rates and currencies business delivers a broad range of products and solutions to corporate and institutional clients in all major markets. With professionals working in the Americas, Europe and Asia Pacific, we offer our clients global service in our four major business lines:

- credit fixed income, incorporating credit trading and credit derivatives
- rates, incorporating interest rate derivatives, residential mortgages, government bonds and energy trading
- municipals, incorporating origination, retail trading and distribution, derivatives, short-term trading and institutional trading
- FX/CCT, incorporating foreign exchange, cash and collateral trading as well as base and precious metals.

Our approach to products and markets varies. Where there is enough potential for risk-adjusted returns, we seek market share leadership in high-volume, liquid markets. Our global origination and distribution platforms, as well as our highly regarded research capabilities, underpin our major business lines. In research, we ranked first in European Fixed Income

Strategy in the *Thomson Financial Extel* survey for the second year running, first in European Investment Grade Research by *Institutional Investor*, and second in Fixed Income Research in Asia by *FinanceAsia*.

Our capital markets and distribution teams have also achieved high accolades, being named *Euroweek's* Best Provider of Support in the Secondary Market, and Best Lead Manager of Financial Institutions Bonds as well as ranking first in *Orion's* Emerging Markets Sales survey. We were also recently named 2005 Swiss Franc Bond House of the Year by *IFR*. Our municipals origination business is a clear market leader with a 12% market share in the United States, and it has been in the top two positions in league tables for the past nine years, according to *Thomson Financial*.

Based on our unique risk management and distribution capabilities, we are a market leader in foreign exchange and cash and collateral trading. The close integration of FX, money market, repo and metals creates significant client, processing and risk management synergies. Scale is the foundation of our business model as we run these businesses on a highly automated and integrated basis, with an award-winning suite of e-commerce tools providing direct interfaces between our sales force and clients.

Our top positions in a vast series of industry surveys and rankings show the success of our businesses and our FX research. In 2005, we were named Currency Derivatives House of the year by *Risk* magazine and were ranked first in *Euromoney's* technology awards for FX. Over the course of the last five years our volumes have outgrown the market. We are also a market leader in precious metals, trading both non-physical spot, forwards and options as well as physical precious metals. We are rapidly expanding in base metals as well, having become a member of the London Metals Exchange in summer 2005.

We are seeking to expand our fixed income business further by pursuing opportunities in credit, high yield and asset-backed securities. We will expand our leveraged finance and high yield appetite and extend our client footprint in debt capital markets. Within asset-backed securities, we will match our strength in the agency business with non-agency and sub-prime business as well as developing local currency asset-backed and mortgage-backed securities. We are also reinvest-

ing to expand our FX e-commerce platform and deliver a suite of services tailored to meet the demands of each client segment.

Investment banking

In the investment banking business, we provide first-class advice and execution capabilities to global corporate, financial sponsor and hedge fund clients. Our services include advising on mergers and acquisitions, strategic reviews and corporate restructuring solutions. In partnership with other business areas of the Investment Bank, and other Business Groups, we also arrange the execution of debt and equity issues worldwide.

Our business has grown dramatically since 2003 as we have captured the upside of the market rebound through strategic hiring and a number of fill-in investments across our regions. In 2005, we established the Alternative Capital Group to cover hedge funds, the Strategic Solutions Group to increase our penetration of Fortune 500 companies in the US and the Life and Pensions Solutions Group in Europe. In 2006, we will focus on leveraging our global platform and enhancing the scope and quality of the products and services we offer our clients.

In 2005, we assisted our clients in a range of merger and acquisition transactions and capital markets issues. Some of the more notable mandates included:

- joint financial advisor to Gillette on its USD 57 billion sale to Procter & Gamble
- lead financial advisor to Gas Natural on its USD 47 billion public tender offer for Endesa
- joint global coordinator/bookrunner on the USD 4.6 billion follow-on global offering for Central Japan Railway
- joint bookrunner on the USD 2.2 billion global primary and secondary equity offering of American Depositary Shares (ADSs) and ordinary shares in LG Philips LCD
- dealer-manager on the USD 81.8 billion debt exchange offer for the Republic of Argentina
- joint bookrunner on a EUR 3 billion two-tranche unsecured bond offering for Deutsche Telekom
- joint lead arranger and joint bookrunner on USD 2.2 billion of financing in support of the USD 2.3 billion leveraged buyout of MeadWestvaco's coated papers business and associated timberlands by Cerberus Capital Management.

UBS underwriting and fee revenues

CHF million	2005	2004	2003
Corporate finance fees	1,460	1,078	761
Equity underwriting fees	1,341	1,417	1,267
Debt underwriting fees	1,516	1,114	1,084
Other capital markets revenues ¹	436	294	471
Gross capital market and corporate finance fees	4,753	3,903	3,583
Capital market fees booked outside investment banking ²	(943)	(813)	(819)
Amounts shared with equities and FIRC	(1,182)	(991)	(1,017)
Financing, hedging and risk adjustment costs	(122)	(184)	(44)
Net investment banking area revenues	2,506	1,915	1,703

¹ Other capital markets revenues comprises equities and debt revenues with investment banking involvement that are not underwriting fees (for example, derivative or trading revenues). ² Capital market fees booked outside investment banking comprises equity and debt underwriting revenues that had no investment banking involvement (for example, municipal or mortgage-backed securities).

We participated in some of the industry's largest and most complex transactions this year, reflecting our strategic goal to expand our global client franchise. To maintain our competitive position, we will continue to invest in our growing US business and protect and enhance our strong positions in the European and Asia Pacific markets.

Companies still have strong balance sheets and cash flows, leading us to expect current M&A levels to continue. While tight credit spreads will continue to be positive for debt underwriting and trading, a slight increase in credit defaults may lead to a flat to slightly smaller fee pool in debt capital markets.

Strategic opportunities

Our industry is always competitive, but the strength of the markets and the level of client activity continue to offer attractive investment opportunities. The Investment Bank is positioned to take full advantage of market trends, and we have great ambitions for the future based on an investment program that targets our fastest growing clients and emerging asset classes.

We plan to increase business with our alternative asset management clients – hedge funds and financial sponsors –

as well as private clients, who are increasingly seeking yield from alternative asset classes that cut across products and business areas. Specifically, we aim to close the gaps to market leaders in prime brokerage, expand our investment banking franchise in Europe, and continue to grow our footprint in Asia Pacific.

We will also target new business growth in commodities and emerging markets. We are expanding our base metals and energy businesses, driven by client demand. We will capitalize on significant growth and the opening up of financial markets in areas such as China, India, Russia, Brazil, and the Middle East. We will also further expand our fixed income business by growing our credit, high yield and asset-backed securities products organically.

To support these efforts, we are increasing our investment in infrastructure. Our businesses in securities areas continue to commoditize and we must therefore further develop a scalable and convergent infrastructure that allows us to expand capacity at low marginal cost. We will also continue to invest in our employees and make further progress in our human resources strategy – from a business that seeks talent in the market to one that forges talent internally.

Corporate Center

Corporate Center works with the Business Groups to ensure that the firm operates as an effective and integrated whole with a common vision and set of values. It helps UBS's businesses grow sustainably through its risk, financial control, treasury, communication, legal, human resources strategy and technology functions.

Business Group reporting

	For the year ended or as at	
<i>CHF million, except where indicated</i>	31.12.05	31.12.04
Total operating income	687	398
Total operating expenses	1,395	1,176
Business Group performance from continuing operations before tax	(708)	(778)
Business Group performance from discontinued operations before tax	4,564	396
Personnel (<i>full-time equivalents</i>)	3,922	5,202
Personnel excluding IT Infrastructure (ITI) (<i>full-time equivalents</i>)	1,370	2,848
Personnel for ITI (<i>full-time equivalents</i>)	2,552	2,354

Aims and objectives

Our commitment to an integrated business model means that our complementary businesses must be managed together to optimize returns and control risk. Corporate Center supports UBS's businesses, enabling them to operate effectively within this framework.

It fosters the long-term financial stability of UBS by maintaining an appropriate balance between risk and reward, and establishes and controls UBS's corporate governance processes – including compliance with relevant regulations. The functional heads within the Corporate Center exercise authority across UBS's businesses for their area, including the authority to issue group-wide policies in their respective areas of responsibility and with each of their Business Group counterparts having a functional reporting line to them. They are responsible for UBS's financial, tax, and capital management

and its risk control, legal and compliance activities. The Corporate Center is responsible for communicating with all UBS stakeholders, for branding, and for positioning the firm as the employer of choice. The Corporate Center has operational responsibility for certain shared services, such as information technology infrastructure (ITI) and for Group Offshoring (including the new UBS Service Center being established in India).

Organizational structure

Until the sale of UBS's private label banks and specialist asset manager GAM, Corporate Center was reported as two separate business units: Corporate Functions and Private Banks & GAM. Starting in fourth quarter 2005, Corporate Center was again reported as one single unit.

In addition to the functional roles set out below, the CFO is head of the Corporate Center.



Clive Standish | UBS Chief Financial Officer and Head Corporate Center

Corporate Functions

Chief Financial Officer (CFO)

The CFO is responsible for transparency in the financial performance of the Group and its individual businesses, for its financial reporting, forecasting, planning, and controlling processes as well as providing advice on financial aspects of strategic plans and mergers and acquisitions transactions. He is also responsible for UBS's tax and capital management. Together with the CEO, the CFO provides external certifications under the Sarbanes-Oxley Act 2002, defines the standards for accounting, reporting and disclosure, and manages relations with investors. He coordinates working relationships with internal and external auditors.

The CFO is the GEB member responsible for ITI and Group Offshoring, and for the own-use corporate real estate portfolio across the firm.

Chief Risk Officer (CRO)

The CRO is responsible for developing UBS's risk management and control principles and for formulating and implementing its risk policies and control processes for market risk, credit risk and operational risk, ensuring that UBS's approach is consistent with best market practice and that the firm is operating within its agreed risk bearing capacity. He develops risk quantification methods and sets and monitors associated limits and controls. He ensures complete and consistent recording and aggregation of risk exposures and continuous monitoring and pro-active control of risks. The CRO exercises direct approval authority for market risk limits and exposures. In March 2005, a new Group Executive Board (GEB) position was established for the Chief Risk Officer.

Chief Credit Officer (CCO)

The CCO is responsible for formulating and implementing UBS's risk policies and control processes for credit risk. He ensures that counterparty and country risks conform to approved risk profiles, and controls exposures to individual counterparties and counterparty groups. He provides the tools required for consistent quantification of credit and country risk across UBS and sets, monitors and controls concentration risk limits, ensuring adequate risk diversification. He ensures complete and consistent recording and aggregation of credit and country exposures and continuous monitoring and pro-active control of risks. The CCO exercises direct approval authority for counterparty credit and country limits and exposures.

Group Controller

The Group Controller has UBS-wide responsibility for financial control. He is responsible for production and analysis of accurate and objective regulatory, financial and management accounts and reports. The Group Controller provides consistent and appropriate communication to the Board of Direc-

tors, Group Executive Board (GEB), Group Managing Board (GMB), the Audit Committee, internal and external auditors, and the CFOs of the Business Groups. He establishes and enforces Group-wide financial and management accounting policies, and manages relations with external auditors and accounting standard bodies. He leads the forecasting process and supports the CFO in the Group's planning process. The Group Controller coordinates and controls tax issues.

Group Treasurer

The Group Treasurer is responsible for the management of UBS's financial resources and financial infrastructure. He is responsible for Group-level governance of treasury processes and transactions which relate to UBS's corporate legal structure, regulatory capital, balance sheet, funding and liquidity, and non-trading currency and interest rate risk. His responsibility includes the issuance of policies in order to ensure proper management and efficient co-ordination of treasury processes on a Group-wide basis. The Group Treasurer manages the Group's equity, taking into account financial ratios and regulatory capital requirements, with a view to maintaining strategic flexibility, sound capitalization and strong ratings. He manages UBS's holdings of its own shares and recommends corporate actions to the Group Executive Board and the Board of Directors.

Chief Communication Officer

The Chief Communication Officer is responsible for managing UBS's communication to its various stakeholders, ensuring that a truthful, balanced, positive and powerful image of UBS is established and broadcast to all stakeholders globally. He develops strategy, content and positioning of communications of corporate importance, emphasizing transparency, consistency, speed and integrity. He presents UBS and its businesses to the media, enhancing and protecting the firm's reputation. To employees, he promotes understanding of the firm's strategies, performance and culture. He presents UBS to investors, analysts and rating agencies and is responsible for preparing and publishing quarterly and annual reporting products. He manages and promotes the UBS corporate brand via advertising, sponsorship, art, and visual design, represents UBS's interests to policy-makers, and coordinates UBS's approach to corporate responsibility.

Group General Counsel

The Group General Counsel has group-wide responsibility for legal affairs and compliance as well as for regulatory management and insurance management. He defines the strategy, the goals and the organizational structure of the legal function, and sets and monitors quality standards for handling legal affairs and compliance across UBS. He supervises the Group Head of Compliance and the General Counsels of the Business Groups, ensuring that UBS meets relevant regulatory and professional standards. He issues group-wide policies

and guidelines relating to legal, compliance, and, together with the Group CRO, on regulatory matters. He develops and formulates the Group's policies and control processes for legal and compliance risks.

Group Head Human Resources

The Group Head Human Resources has UBS-wide responsibility for the human resources function. He is responsible for shaping a meritocratic culture of ambition, performance and learning, promoting UBS's values for action. He builds UBS's capacity to attract, develop and retain the best talent and creates an environment and processes which ensure that all employees from different cultures and backgrounds and with different perspectives can develop and succeed. He supports succession planning for senior executives and designs and administers global compensation and benefits programs.

Leadership Institute

The UBS Leadership Institute facilitates the development of the Bank's current and future leadership team in direct alignment with UBS's Vision and Values. It offers a series of strategically aligned top level programs and customized forums that are designed to shape UBS's strategic agenda, address critical challenges and opportunities, leverage leadership capability across business groups and enable cross-organizational learning.

Chief Technology Officer (CTO)

The CTO is the head of the information technology infrastructure (ITI) unit. ITI encompasses all IT infrastructure teams across UBS, covering management of data networks, telephone and other communications systems, IT security, distributed computing and servers, mainframes and data centers, market data services, user services and desktop computing. The unit focuses on serving all UBS's businesses in a client-driven and cost-efficient way, as well as building

towards a consistent technical architecture across UBS through the execution of our technology infrastructure strategy.

Group Offshoring

The head of Group Offshoring leads the Group Offshoring team, established in late 2004. He is responsible for ensuring all offshoring activities of UBS on a firm-wide basis are well co-ordinated, optimally planned and executed in line with UBS's strategy and values. The Group Offshoring team is currently overseeing the building of the UBS Service Center in Hyderabad, India, that will initially be able to accommodate 500 offshored roles when it becomes operational at the end of first quarter 2006.

Private Banks & GAM

In December 2005, UBS successfully completed the sale of its Private Banks & GAM unit to Julius Baer. As a result of the transaction, UBS holds a 20.7% stake in the enlarged Julius Baer. The stake is held as a financial investment. UBS will not take a seat on Julius Baer's board of directors nor will it exercise any influence on its strategy or operational decisions, or vote the shares it holds.

Private Banks & GAM comprised the fully owned private banking subsidiaries Ehinger & Armand von Ernst, Banco di Lugano, and Ferrier Lullin and GAM, its specialist asset manager.

The Chairman's Office

Although not formally a part of Corporate Center, the costs for the Chairman's Office (which comprises the Company Secretary, Board of Directors, and Group Internal Audit) are reported in Corporate Center results.

Industrial Holdings

The Industrial Holdings segment is where our majority stakes in industrial companies and large non-financial businesses are held.

Industrial Holdings

Income statement

	For the year ended or as at	
<i>CHF million, except where indicated</i>	31.12.05	31.12.04 ¹
Continuing operations		
Total operating income	11,079	6,440
Total operating expenses	10,222	5,975
Operating profit from continuing operations before tax	857	465
Tax expense	253	120
Net profit from continuing operations	604	345
Discontinued operations		
Profit from discontinued operations before tax	124	140
Tax expense	9	32
Net profit from discontinued operations	115	108
Net profit	719	453
Net profit attributable to minority interests	207	93
from continuing operations	202	93
from discontinued operations	5	0
Net profit attributable to UBS shareholders	512	360
from continuing operations	402	252
from discontinued operations	110	108
Personnel (<i>full-time equivalents</i>)	21,636	29,453

¹ Results for Motor-Colombus include the six month period beginning on 1 July 2004.

Business and structure

On 31 December 2005, the Industrial Holdings segment consisted of UBS's private equity investments and Motor-Colombus, a financial holding company whose only significant asset is a 59.3% interest in the Atel Group, a European energy provider.

In late September 2005, UBS signed agreements to sell its 55.6% stake in Motor-Colombus to a consortium of Atel's Swiss minority shareholders, EOS Holding and Atel, as well as to French utility Electricité de France (EDF). At the end of February, the European Commission and the Swiss Competition Commission have cleared the acquisition of the participation held by

UBS. At the date of the print order of this annual report (8 March 2006), the transaction is expected to be completed as soon as all contractual conditions have been met and the boards of the buyers have passed the appropriate resolutions.

In first quarter 2005, our private equity investments, previously within the Investment Bank, were moved to the Industrial Holdings segment. This represents a further step in our strategy of de-emphasizing and reducing exposure to this asset class while capitalizing on orderly exit opportunities when they arise.

It also adds transparency to our accounts as it helps us to more clearly separate our core financial businesses from the stakes held in industrial holdings.

Financial Management

Taking risks is an integral part of our business. Our aim is to achieve an appropriate balance between risk and return based on our assessment of potential risk developments in both normal and stressed conditions.

Risk management and control

Good risk management and control lie at the heart of any business, particularly a financial services firm – they are integral parts of providing consistent, high-quality returns to shareholders. If we fail to adequately manage and control our risks we may suffer significant financial losses. Potentially more important is the resultant damage to our reputation, which could undermine our share price by reducing our client base and impairing our ability to retain talented employees. Ultimately, regulators might be forced to impose constraints upon our business.

We recognize that taking risk is core to our financial business and that operational risks are an inevitable consequence of being in business. Our aim is not, therefore, to eliminate all risks but to achieve an appropriate balance between risk and return. Thus, in our day-to-day business and in the strategic management of our balance sheet and capital, we seek to limit the scope for adverse variations in our earnings and exposure to “stress events” for all the material risks we face.

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

Business management is accountable for all the risks assumed throughout the firm and is responsible for the continuous and active management of risk exposures to ensure that risk and return are balanced. This responsibility applies not only to the traditional banking risks of credit and market risk but also to the many and varied operational risks that potentially arise from inadequate or failed internal processes, people or systems or from external causes, which may be deliberate, accidental or natural.

An *independent control process* is implemented when required by the nature of the risks, in particular to balance short-term profit incentives and the long-term interests of UBS. The control functions are responsible for providing an objective check on risk-taking activities.

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

We *protect our earnings* by controlling risk at the level of individual exposures, at a portfolio level and in aggregate, across all risk types and businesses, relative to our risk capacity – the level of risk we are capable of absorbing, based on our earnings power.

We *protect our reputation* by managing and controlling the risks incurred in the course of our business, and for this reason we avoid concentrations of exposure and limit potential stress losses, not only from credit, market and liquidity risks but also from operational risks. We avoid extreme positions in transactions that are sensitive for tax, legal, regula-

tory or accounting reasons, and adopt a cautious approach to any risks that cannot be sensibly evaluated or priced. We adopt the highest standards in protecting the confidentiality and integrity of our client information, and aim to maintain the highest ethical standards in all our business dealings.

All employees, but in particular those involved in risk decisions, must make UBS's reputation an overriding concern. Responsibility for our reputation cannot be delegated or syndicated.

Key responsibilities

Excellence in risk management is fundamentally based upon a management team that makes risk identification and control critical components of its processes and plans. Responsibility therefore flows from the top.

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

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

The *Group Executive Board (GEB)* is responsible for implementing the risk principles, including approval of core risk policies, for appointing Business Group management that demonstrates both business and control competence, and for managing the risk profile of UBS as a whole.

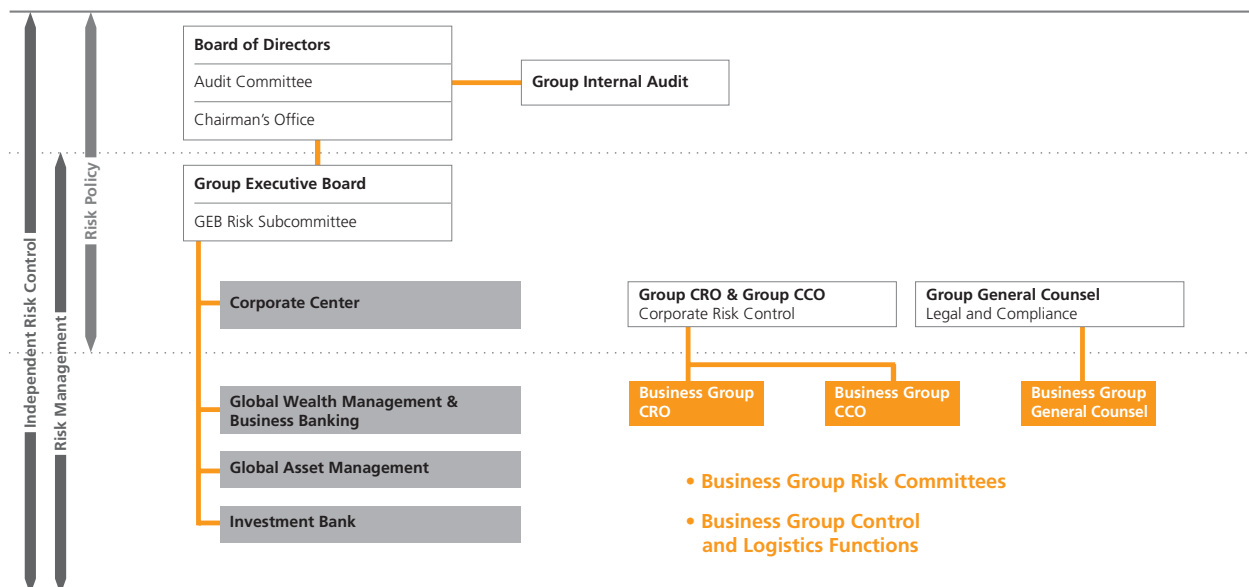
The *Group Chief Risk Officer (CRO)* has overall responsibility for the development and implementation of the Group's risk control principles, frameworks, limits and processes across market, credit and operational risk. Effective 1 March 2005, a new GEB position was established for the Group Chief Risk Officer. Together with the Group Chief Credit Officer (CCO) and the Group Head of Operational Risk, he formulates risk policies and determines methodologies for measurement and assessment of risk.

The *Group Chief Financial Officer (CFO)* is responsible for transparency in the financial performance of UBS and its Business Groups, including high-quality and timely reporting and disclosure in line with regulatory requirements, corporate governance standards and global best practice. He is responsible for implementation of the risk control principles in the areas of capital management, liquidity, funding and tax.

The *Group General Counsel* is responsible for implementation of the risk control principles in the areas of legal and compliance.

Within the Business Groups, the control functions are empowered to enforce the risk principles and are responsible for the implementation of independent control processes.

Risk management and control framework



The risk control process

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

- we *identify risk*, through the continuous monitoring of portfolios, by assessing new businesses and complex or unusual transactions, and by reviewing our own risks in the light of market developments and external events
- we *measure quantifiable risks*, using methodologies and models which have been independently validated and approved
- we establish *risk policies* to reflect our risk principles, risk capacity and risk appetite, consistent with evolving business requirements and international best practice
- we have comprehensive *risk reporting* to stakeholders, and to management at all levels, against the approved risk control framework and, where applicable, limits
- we *control risk* by monitoring and enforcing compliance with the risk principles, and with policies, limits and regulatory requirements.

Coordinated processes involving all relevant control and logistics functions are applied before commencement of any new business or significant change in business, and before the execution of any transaction which is complex or unusual in its structure or is sensitive to tax, legal, regulatory or accounting considerations. These processes, which involve the busi-

ness, risk control, legal, compliance, financial control and logistics functions, ensure that all critical elements are addressed in a comprehensive and holistic way, including the assurance that transactions can be booked in a way that will permit appropriate ongoing risk monitoring, reporting and control.

The risks we take

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

The primary and operational risks inherent in our business activities are subject to independent risk control. Primary risks are exposures deliberately entered into for business reasons, which are actively traded and managed. Operational risks arise as a consequence of business undertaken and as a consequence of internal control gaps.

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

- *credit risk* is the risk of loss resulting from client or counterparty default and arises on credit exposure in all forms, including settlement risk

- *market risk* is exposure to market variables such as interest rates, exchange rates and equity markets, and to price movements on securities and other obligations which we trade
- *liquidity and funding risk* is the risk that we are unable to meet our payment obligations when due, or that we are unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.

Operational risk can arise in a number of ways:

- *transaction processing risk* arises from errors, failures or shortcomings at any point in the transaction process, from deal execution and capture to final settlement
- *compliance risk* is the risk of financial loss due to regulatory fines or penalties, restriction or suspension of business, or mandatory corrective action. Such risks may be incurred by not adhering to applicable laws, rules, regulations, accounting standards, local or international best practice, or our own internal standards
- *legal risk* is the risk of financial loss resulting from the non-enforceability of our actual or anticipated rights arising under law, a contract or other arrangement
- *liability risk* is the risk that we, or someone acting on our behalf, fail to fulfill the obligations, responsibilities or duties imposed by law or assumed under a contract and that claims are therefore made against us
- *security risk* is the risk of loss of confidentiality, integrity or availability of our information or other assets
- *tax risk* is the risk of additional tax arising from technically incorrect positions taken on tax matters, or failure to comply with tax withholding or reporting requirements on behalf of clients or employees; and the risk of claims by clients or counterparties as a result of our involvement in tax sensitive products or transactions.

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

How we measure risk

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

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

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

Risk categories

Inherent risks		
Primary risks	Operational risks	
Credit risk	Transaction processing risk	Compliance risk
Market risk	Legal risk	Liability risk
Liquidity and funding risk	Security risk	Tax risk

Reputational risk

Stress loss is the loss that could arise from extreme events.

Our primary day-to-day quantitative controls govern normal periodic adverse results (statistical loss) and protect us from stress events. These are the limits we apply to individual risk types, to portfolios and sub-portfolios, and to specific concentrations of risk and individual exposures. The identification of stress events and scenarios to which we are vulnerable and an assessment of their potential impact, and in particular the danger of aggregated losses from a single event through concentrated exposures, is therefore a key component of the risk control process.

To complement these operating controls, we also monitor and constrain our aggregate risk exposure across all risk types and businesses, relative to our risk capacity. In this context, we define our risk exposure as the level of potential loss inherent in our business in the current economic cycle, across all business lines, and from all sources, including operational and business risks. It is measured against a severe, low probability but nevertheless plausible constellation of events. Our risk capacity is the level of risk we are capable of absorbing based on our earnings power, without unacceptable damage to our dividend paying ability, our strategic plans and, ultimately, our reputation and ongoing business viability. We refer to this measure as “Earnings-at-Risk”. It has been developed over the past three years and is now a core element of our risk management and control process.

Although measurement of risk is clearly important, quantification does not always tell the whole story, and not all risks are quantifiable. We therefore pay equal attention to “soft” risks, avoiding the temptation to ignore those that cannot be properly quantified. We also place great emphasis on qualitative controls and rigorous risk control processes to ensure that both quantifiable and unquantifiable risk is identified, assessed and reported.

Stress situations can arise from many sources and when extreme events occur, quantitative and qualitative risk assessments alone are not sufficient. The essential complements are a tried and tested process which can be invoked immediately in response to any crisis, and well prepared business continuity management processes and plans. We continue to develop and refine these processes as we learn from our own and others’ experience.

Credit risk

Credit risk is the risk of loss to UBS as a result of failure by a client or counterparty to meet its contractual obligations. It is an integral part of many of our business activities and is inherent in traditional banking products – loans, commitments to lend and contingent liabilities, such as letters of credit – and in “traded products” – derivative contracts such as forwards, swaps and options; repurchase agreements (repos and reverse repos); 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 accounted for at amortized cost, but loans which have been originated by UBS for subsequent syndication or distribution via the cash markets are carried at fair value. From second quarter 2006, UBS will also adopt the fair value option available under IAS39 for new loans and commitments where credit risk is substantially hedged with credit default swaps. Within traded products, OTC derivatives are carried at fair value, while repos and securities borrowing and lending transactions are carried at amortized cost. Regardless of the accounting treatment, all banking and traded products are governed by the same risk management and control framework – the Group Credit Policy Framework and our detailed credit policies and procedures.

Global Wealth Management & Business Banking and the Investment Bank, which take material credit risk, have independent credit risk control units, headed by Chief Credit Officers (CCOs) reporting functionally to the Group CCO. They are responsible for counterparty ratings, credit risk assessment and the continuous monitoring of counterparty and portfolio credit exposures. Credit risk authority, including authority to establish allowances, provisions and valuation adjustments for impaired claims, is vested in the Chairman’s Office and the GEB, and from there is delegated ad personam to the Group CCO and credit officers in the Business Groups. The level of credit authority delegated to holders varies according to the quality of the counterparty and any associated security, and takes into account the seniority and experience of the individual.

Credit risk measurement

Components of credit risk

Credit risk exists in every credit engagement. In measuring credit risk at a counterparty level we reflect three components – the “probability of default” by the client or counterparty on its contractual obligations; our current exposure to the counterparty and its likely future development, from which we derive the “exposure at default”; and the likely recovery ratio on the defaulted obligations to give us the “loss given default”. These components are also important parameters in

UBS internal rating scale and mapping of external ratings

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

determining portfolio risk, not only for our internal credit risk measures but also for future regulatory capital calculations, since they are the basis of the Basel II Advanced Internal Rating Based approach, which we intend to adopt when it comes into force in 2008.

We assess the likelihood of default of individual counterparties using rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients are segmented into 15 rating classes, two being reserved for cases of impairment or default. The UBS rating scale, which is shown above, reflects not only an ordinal ranking of our counterparties, but also the range of default probabilities defined for each rating class. This means that, in principle, clients migrate between rating classes as our assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. We regularly validate the performance of our rating tools and their predictive power with regard to default events. Where statistical analysis suggests that the parameters of a model require adjustment, we reflect such changes in our external reporting once the calibration is confirmed and implemented across the portfolio concerned. In the interim we estimate the impact which the future model amendments might have on our internal credit risk measures and adjust them accordingly.

The ratings of the major rating agencies shown in the table above are mapped to our rating classes based on the long-term average default rates for each external grade. We use the external ratings where available to benchmark our internal credit risk

assessment. Observed defaults per rating category vary year-on-year, especially over an economic cycle, and therefore this mapping does not imply that UBS expects this number of defaults in any given period. As we validate our own internal rating tools for their ability to predict defaults, we also monitor long-term average default rates associated with external rating classes. If our analysis suggests that the probability of default associated with external rating grades has substantially changed, we adjust their mapping to our internal rating scale. We reflect such changes in our external reporting once the calibration is confirmed.

Exposure at default is based on the amounts we expect to be owed at the time of default. For a loan this is the face value. For a commitment, we include any amount already drawn plus the further amount which may have been drawn by the time of default, should it occur. For repos and securities borrowing and lending transactions, we assess the net amount which could be owed to or by us following adverse market moves over the time it would take us to close out all transactions (“close out exposure”). Exposure on OTC derivative transactions is determined by modelling the potential evolution of the value of our portfolio of trades with each counterparty over its life (potential credit exposure), taking into account legally enforceable close-out netting agreements where applicable. From this model we can derive both an “expected future exposure” profile and a “maximum likely exposure” profile measured to a specified confidence level. The ability to call collateral and any collateral actually held are also taken into account.

Loss given default (LGD) or loss severity represents our expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim, and availability of collateral or other credit mitigation.

In line with our own internal governance standards and the requirements of the new regulatory capital framework, we subject all models developed for credit risk measurement, including the components of such measures, to independent review by a specialist team in Corporate Center prior to implementation, and to ongoing validation once they are deployed.

Portfolio risk measures

Expected loss

Credit losses must be expected as an inherent cost of doing business. But 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 today’s portfolio, we use the concept of “expected loss”.

Expected loss is a forward-looking, statistically based concept from which we 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 three components described above – probability of default, exposure at default and loss given default.

Expected loss is the basic measure for quantifying credit risk in all our credit portfolios. Not only is it an important risk indicator in itself, it is also the starting point for further portfolio analyses (statistical and stress loss). Additionally, for products carried at amortized cost, it can be used for risk adjusted pricing, and to assess credit loss for management accounting purposes, which differs from the credit loss expense reported in the financial statements.

Statistical and stress loss

Our credit portfolio is heterogeneous, varying significantly in terms of client type, sector, geographical diversity and the size of exposures. For the assessment of both statistical loss and stress loss in material credit portfolios, the starting point for these analyses is a series of sub-portfolios with more homogeneous characteristics.

We aggregate statistical loss across these portfolios using our own proprietary credit Value at Risk (credit VaR) methodology. This provides an indication of the level of risk in the portfolio and the way it changes over time. It is also a component of our Earnings-at-Risk measure (see page 56)

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

Credit risk control

Limits and controls

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

We set limits on our credit exposure to both individual counterparties and counterparty groups. Credit limits for individual counterparties are applied to all exposure types, including the close out exposure on repos and securities borrowing and lending and the maximum likely exposure on OTC derivatives. The Investment Bank also uses, as a management tool, a measure which translates all exposures into a benchmark loan equivalent, taking into account expected changes in exposure profile of traded products and credit rating migration of the counterparty, with the possibility that exposure reduction through syndication, sale or hedging may be required if maximum guidelines are exceeded.

We apply limits in a variety of forms to portfolios or sectors where we consider it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth. Typically, these situations arise in the Investment Bank.

In the Investment Bank, where it is most relevant, we differentiate between “take and hold” and “temporary” exposures, the latter being those accepted with the intention of syndicating, selling or hedging within a short period.

For take and hold exposures, the quality of the credit over the prospective term of the engagement is the primary consideration and we assess on an ongoing basis the way in which the credit risk in these portfolios (both in aggregate and in sub-portfolios) is evolving over time.

For temporary exposures, by contrast, a more critical factor is the potential for distribution. In a disciplined approach to underwriting, we make a rigorous assessment of current market conditions and the marketability of the assets, and all commitments must be agreed by the distribution function, as well as the originating business unit, and approved by both business management and risk control. Many of our temporary exposures arise from leveraged buyout (LBO) financings which are used by financial sponsors (typically private equity firms) to acquire or recapitalize entire companies. As capital has been attracted to the sector over recent years, the number and size of transactions have grown significantly, and leverage has increased, with the result that average credit ratings are lower and risk concentrations higher than the average in our lending portfolio. Given the focus on distribution in our commitment process, these large concentrations are generally brought down within a few months to a relatively modest retained exposure to individual counterparties. Any stale or sticky positions are closely monitored and the business may be required to sell or hedge them in the secondary market. There are comprehensive limits covering the portfolio, including a variety of stress loss limits, which encourage rapid distribution in order to free up capacity for further transactions, and which can be adjusted if market conditions or our own performance suggest that contraction or expansion of activity is appropriate.

Risk mitigation

In our Wealth Management business, loans to private individuals are typically secured by portfolios of marketable securities. We apply appropriate discounts (“haircuts”) to the current value of collateral in determining the amount we are prepared to lend against securities, reflecting their liquidity and volatility. Exposures and collateral positions are continuously monitored and strict margin call and close-out procedures are enforced when the market value of collateral falls below predefined levels. Collateral concentrations across client portfolios are monitored and reported. Over time the types of financial instrument that our clients ask us to accept as eligible collateral has broadened and, in line with market practice, we are now accepting more complex instruments, but the haircuts we apply reflect the additional risks and our disciplined processes continue to be strictly applied.

In Business Banking, loans to corporations may, depending on our assessment of the credit capacity and quality of the borrower, be extended on an unsecured basis, but often benefit from collateral in the form of real estate or other assets.

In addition to these lending activities, property financing is an important part of the business of Global Wealth Management & Business Banking. The majority of our exposure consists of home loans to private individuals. We are also active in financing income producing real estate, primarily apartment buildings and, to a lesser extent, commercial properties. In all cases we apply prudent loan to value ratios and consider the ability to service the debt from income.

Loans made by the Investment Bank to corporates are not typically supported by collateral or other security but over the past five years we have engaged in a substantial credit risk hedging program for our banking product take and hold exposures. For the most part, we have effected these hedges by transferring underlying credit risk to high-grade market counterparties using single name credit default swaps. We have also created a number of credit-pooling vehicles to transfer a portion of our global credit risk portfolio via credit linked notes to outside investors. We use such tools as part of our general strategy of avoiding undue concentrations of risk to individual names or sectors, or in specific portfolios.

The OTC derivatives market continues to grow and with the consolidation of financial institutions through mergers and takeovers outstanding transaction volumes with individual professional counterparties have the potential to be very large, although credit exposure is only a small fraction of these amounts. In the Investment Bank, we conduct our OTC derivatives business almost without exception under master agreements, which generally allow for the close out and netting of all transactions in the event of default by the other party. Provided such agreements are judged to be enforceable in insolvency in the jurisdiction of the counterparty, we measure our exposure after netting values in our favor against values in the counterparty's favor, permitting a much higher volume of business than would otherwise be the case. In line with general market practice we have also entered into two-way collateral agreements with market participants, under which either party can be required to provide collateral in the form of cash or marketable securities when exposure exceeds a pre-defined level. Under such two-way agreements, both sides benefit from continued flow of business without creating undue concentrations of credit risk. OTC derivatives business with lower rated counterparties is generally conducted under one-way collateral agreements under which the counterparty provides collateral to UBS. Some of the businesses of the Investment Bank, in particular our OTC derivatives and securities financing business with hedge funds, are conducted almost entirely against the provision of collateral. In the case of hedge funds, this allows us to continue expanding our client base and the business we conduct in this important and dynamic sector, while maintaining credit risk at acceptable levels and avoiding undue credit risk concentrations.

The mitigation of credit risk in this way creates operational risks because it generally requires the execution of legal agreements and, in the case of collateral agreements, daily valuations and adjustments of collateral positions. The controls

around these activities must be robust and strictly enforced, especially where the activity is on a large scale and volumes are high, as is the case with our hedge fund and OTC derivatives businesses. We have strict standards for netting and collateral agreements, including assurance that contracts are legally enforceable in insolvency in the relevant jurisdictions. The Investment Bank has rigorous systems and processes in a dedicated unit in the operations group to measure and monitor the value of both underlying credit instruments and collateral to ensure that the potential loss in the event of a counterparty default is within approved limits and tolerances on an ongoing basis. Concentrations in collateral type are also monitored where relevant.

Composition of credit risk

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

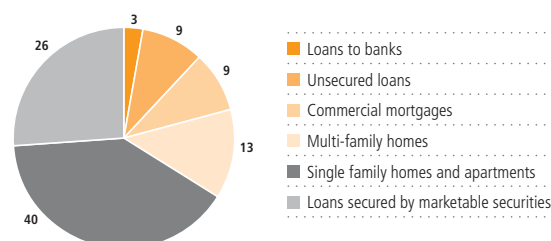
Global Wealth Management & Business Banking

Global Wealth Management & Business Banking's gross loans on 31 December 2005 amounted to CHF 217 billion, of which CHF 136 billion (62%) were secured by real estate and CHF 56 billion (26%) by marketable securities. The pie chart above shows that exposure to the real estate sector is well diversified with 40% of loans being secured on single-family homes and apartments, which, historically, have exhibited a low risk profile. The 13% of exposure secured on residential multi-family homes consists of rented apartment buildings. Loans and other credit engagements with individual clients,

Global Wealth Management & Business Banking Composition of loan book

in %

As at 31.12.05



excluding mortgages, amounted to CHF 75 billion and are predominantly extended against the pledge of marketable securities. The volume of collateralized lending to private individuals rose by CHF 14 billion or 34% from the previous year, as the low interest rate environment triggered an increase in demand for this product and as we accepted a slightly broader and more complex range of investment instruments as eligible collateral.

Unsecured loans consist predominantly of exposures to corporate clients in Switzerland. They are widely spread across rating categories and industry sectors, reflecting our position as a market-leading lender to this segment of mostly small-to medium-sized enterprises in Switzerland. During 2005 we have continued to focus on improving the quality of our

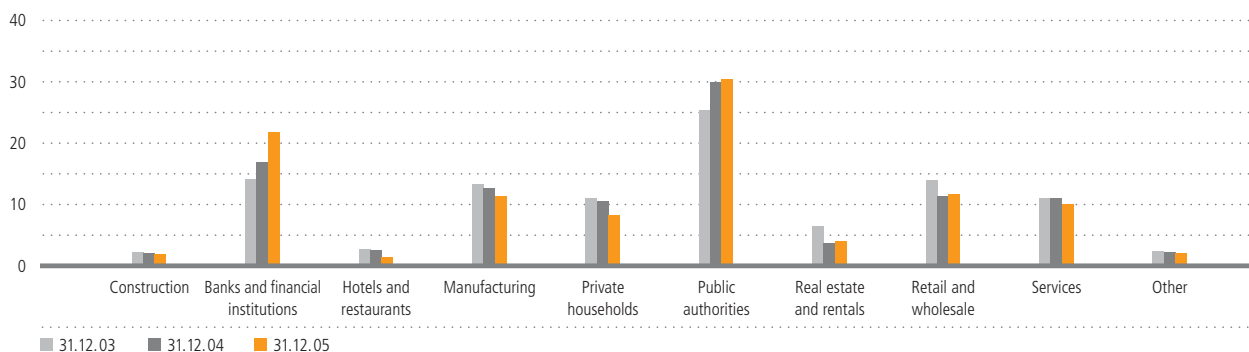
Total credit exposure

CHF million	Wealth Management International & Switzerland			Wealth Management US		
	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03
Lending portfolio, gross	58,907	43,571	36,238	17,105	14,617	13,072
Contingent claims	4,778	3,444	3,154	265	274	355
Unutilized committed lines	372	669	408	0	0	25
Total banking products	64,057	47,684	39,800	17,370	14,891	13,452
Unsecured OTC products	0	0	0	0	0	0
Other derivatives (secured or exchange-traded)	2,691	2,087	853	0	0	1
Securities lending / borrowing	0	0	0	0	0	0
Repo / reverse-repo	0	1	0	191	171	151
Total traded products ³	2,691	2,088	853	191	171	152
Total credit exposure, gross	66,748	49,772	40,653	17,561	15,062	13,604
Total credit exposure, net of allowances and provisions	66,735	49,744	40,637	17,549	15,044	13,576

¹ Includes Global Asset Management, Corporate Functions and Private Banks & GAM (sold in December 2005). ² Excludes CHF 728 million, CHF 909 million and CHF 220 million from Industrial Holdings for the years ended 31 December 2005, 31 December 2004 and 31 December 2003. ³ Traded products exposure is based on internal measurement methodology.

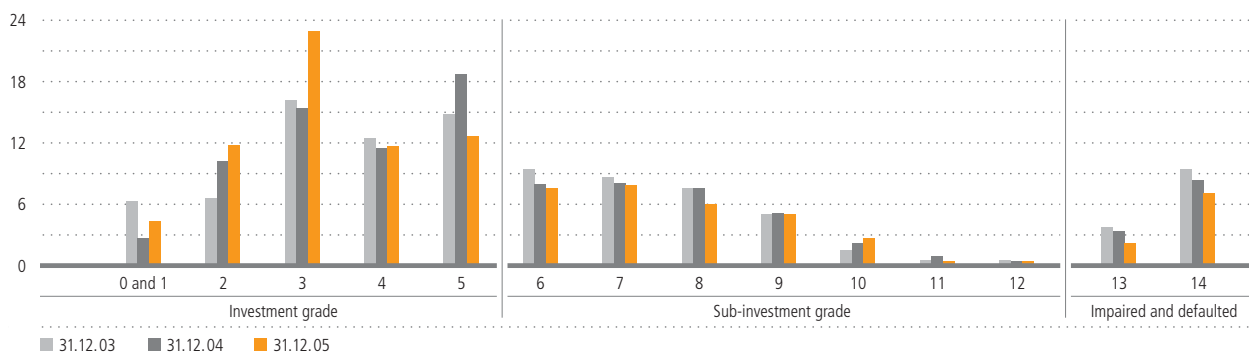
Business Banking Switzerland: gross loans (excluding mortgages) by industry sector

As a % of Business Banking Switzerland loan exposure (excluding mortgages)



Business Banking Switzerland: gross loans (excluding mortgages) by counterparty rating

As a % of Business Banking Switzerland loan exposure (excluding mortgages)



Business Banking Switzerland			Global Wealth Management & Business Banking			Investment Bank			Other ¹			UBS		
31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03
141,315	137,147	138,534	217,327	195,335	187,844	86,616	68,410	55,023	598	5,479	4,939	304,541 ²	269,224 ²	247,806 ²
6,748	7,570	8,270	11,791	11,288	11,779	4,775	3,370	3,174	0	216	583	16,566	14,874	15,536
1,252	1,275	1,392	1,624	1,944	1,825	71,281	51,224	44,733	0	0	65	72,905	53,168	46,623
149,315	145,992	148,196	230,742	208,567	201,448	162,672	123,004	102,930	598	5,695	5,587	394,012	337,266	309,965
1,749	1,226	1,385	1,749	1,226	1,385	54,361	53,372	53,649	0	329	573	56,110	54,927	55,607
454	322	337	3,145	2,409	1,191	28,282	15,741	14,535	0	0	0	31,427	18,150	15,726
7,082	3,953	1,093	7,082	3,953	1,093	27,904	27,301	22,220	0	0	0	34,986	31,254	23,313
103	37	26	294	209	177	17,726	20,305	19,546	0	0	0	18,020	20,514	19,723
9,388	5,538	2,841	12,270	7,797	3,846	128,273	116,719	109,950	0	329	573	140,543	124,845	114,369
158,703	151,530	151,037	243,012	216,364	205,294	290,945	239,723	212,880	598	6,024	6,160	534,555	462,111	424,334
157,108	149,213	147,911	241,392	214,001	202,124	290,789	239,351	212,279	598	5,962	6,156	532,779	459,314	420,559

**Global Wealth Management & Business Banking:
distribution of banking products exposure across counterparty rating and loss given default (LGD) buckets**

CHF million	Gross Exposure	Loss given default buckets (LGD)				Weighted Average LGD (%)
		0–25%	26–50%	51–75%	76–100%	
0	857	104	389	364		47
1	830	11	353	459	7	54
2	38,070	35,608	1,591	868	3	22
3	27,641	20,824	2,730	2,402	1,685	29
4	8,407	5,020	2,117	1,264	6	30
5	103,492	97,159	2,760	3,523	50	22
6	12,549	9,161	2,158	1,220	10	26
7	14,351	11,075	1,721	1,455	100	26
8	11,333	7,212	2,747	1,160	214	28
9	6,740	4,155	852	795	938	35
10	1,546	874	231	433	8	34
11	832	747	36	48	1	23
12	801	726	15	49	11	24
Total non-impaired	227,449	192,676	17,700	14,040	3,033	24
Investment grade	179,297	158,726	9,940	8,880	1,751	
Sub-investment grade	48,152	33,950	7,760	5,160	1,282	
Impaired and defaulted	3,293					
Total banking products	230,742	192,676	17,700	14,040	3,033	

credit portfolio, reducing both individual and sector concentrations.

The table above shows credit exposure across counterparty ratings and loss given default (LGD) buckets. The concentration in the rating grade 5 and LGD bucket 0–25% reflects the dominant residential mortgage business.

Investment Bank

A substantial majority of the Investment Bank's credit exposure falls into the investment grade category (internal counterparty rating grades 0 to 5), both for banking products gross (64%) and for traded products (96%). The counterparties are primarily sovereigns, financial institutions, multinational corporate clients and investment funds.

The Investment Bank's total banking products exposure on 31 December 2005 was CHF 162.7 billion, as reported in accordance with IFRS, of which CHF 86.6 billion was loans, compared with CHF 68.4 billion loans on 31 December 2004. Part of the increase of CHF 18.2 billion over the course of 2005 was the result of our expanding prime brokerage and equity finance businesses, and part reflects increased underwriting activity as we capitalized on our strengthened business franchise in advising corporate clients. Note that disclosures in this section present the credit exposure from a risk management and control perspective, which differs from disclosure under IFRS. In particular, gross banking products exposure in risk terms amounts to CHF 130.9 billion, a difference of CHF 31.8 billion to the CHF 162.7 billion reported for the Investment Bank in the table on page 61. This difference is mainly made up of cash collateral posted by UBS against negative replace-

ment values and other positions which, from a risk perspective, do not classify as loans but where the underlying credit risk is incorporated into our traded products measurement methodologies. On the other hand, in our internal risk control view we consider certain US residential mortgage financing conducted under repo- / reverse repo-like agreements as banking product exposures. The table on the next page shows a reconciliation between the IFRS and risk views of banking products exposure of the Investment Bank.

As described on page 59, the Investment Bank has engaged in a substantial credit risk hedging program through which we have hedged our banking products exposure. The table on page 64 shows that on 31 December 2005 an amount of CHF 24 billion of credit hedges was in place against our banking products exposure. To illustrate the effects of credit hedging and other risk mitigation, the rating distribution graph on page 64 shows exposures before and after application of risk mitigants. Additionally, in the matrix below right, we show the distribution of Investment Bank's take and hold banking products exposure after application of risk mitigants across rating grades and LGD buckets. LGDs in this portfolio are assigned based on benchmark LGDs which are 40% for senior secured claims, 50% for senior unsecured claims and 70% for subordinated claims. There is thus a concentration in the 26–50% bucket. The significant exposure in the sub-investment grade 0–25% bucket is mainly comprised of short term loans to US mortgage originators, secured on their mortgage portfolios, pending securitization or sale. Note that exposure distribution across counterparty ratings shown elsewhere in this section refers only to gross exposure and

Investment Bank: credit exposure banking products – risk view

	31.12.05	31.12.04
<i>CHF million</i>		
Total banking products exposure IFRS (accounting view)	162,672	123,268
less: IFRS adjustments ¹	(41,404)	(24,268)
less: traded loans	(2,388)	(501)
plus: residential and commercial real estate ²	11,520	4,250
other reconciliation items	490	(16,344)
Adjusted banking products exposure, gross	130,890	86,405

	Investment grade	Sub-investment grade	Impaired and defaulted	UBS	Investment grade	Sub-investment grade	Impaired and defaulted	UBS
Adjusted banking products exposure, gross				130,890				86,405
less: funded risk participations and cash collateral				(3,505)				(433)
risk transfers ³	1,207	(1,176)	(31)		888	(882)	(6)	
less: specific allowances for credit losses and loan loss provisions				(131)				(410)
Adjusted banking products exposure, net				127,254				85,562
less: credit protection bought (credit default swaps, credit-linked notes) ⁴				(24,121)				(19,532)
Adjusted banking products exposure, net, after application of credit hedges	59,876	43,024	233	103,133	38,050	27,589	391	66,030
Temporary exposure	(6,872)	(14,198)	(37)	(21,107)	(7,716)	(6,498)	(68)	(14,282)
Net take & hold banking products exposure (risk view)	53,004	28,826	196	82,026	30,334	21,091	323	51,748

¹ IFRS adjustments include cash collateral posted by UBS against negative replacement values on traded products and valuation differences caused by different exposure treatment between internal risk measurements and IFRS. ² Certain US mortgage financings conducted under reverse repo-like agreements. ³ Risk transfers include unfunded risk participations. Risk participations are shown as a reduction in exposure to the original borrower and corresponding increase in exposure to the participant bank. ⁴ Notional amount of credit protection bought on adjusted credit exposure positions includes credit default swaps (CDSs) and the funded portion of structured credit protection purchased through the issuance of credit-linked notes (CLNs).

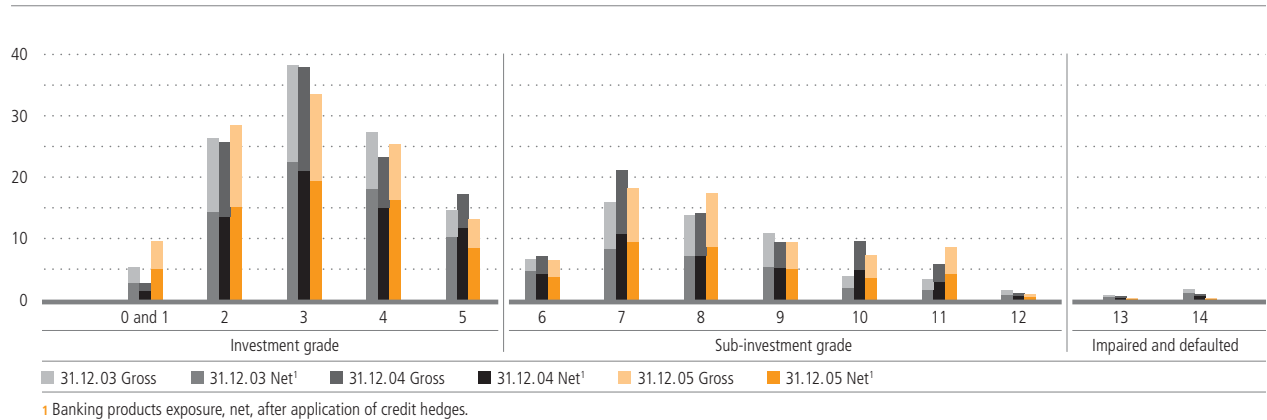
Investment Bank: distribution of net take and hold banking products exposure across counterparty rating and loss given default (LGD) buckets

<i>CHF million</i>	Exposure ¹	Loss given default buckets (LGD)				Weighted Average LGD (%)
		0–25%	26–50%	51–75%	76–100%	
0 and 1	5,897	36	5,861	0	0	49
2	16,829	495	15,148	1,094	92	50
3	16,185	2,465	12,572	492	656	44
4	9,713	2,132	7,189	378	14	40
5	4,380	963	3,200	202	15	41
6	3,374	1,156	2,188	23	7	30
7	10,889	10,144	709	36	0	8
8	7,625	5,879	1,563	67	116	15
9	2,942	1,405	1,432	105	0	26
10	2,269	659	1,528	82	0	34
11	1,399	579	730	73	17	31
12	328	270	49	9	0	13
Total non-impaired	81,830	26,183	52,169	2,561	917	34
Investment grade	53,004	6,091	43,970	2,166	777	45
Sub-investment grade	28,826	20,092	8,199	395	140	17
Impaired and defaulted	196	21	165	8	2	50
Net take and hold exposure	82,026	26,204	52,334	2,569	919	

¹ Net take and hold banking products exposure (risk view).

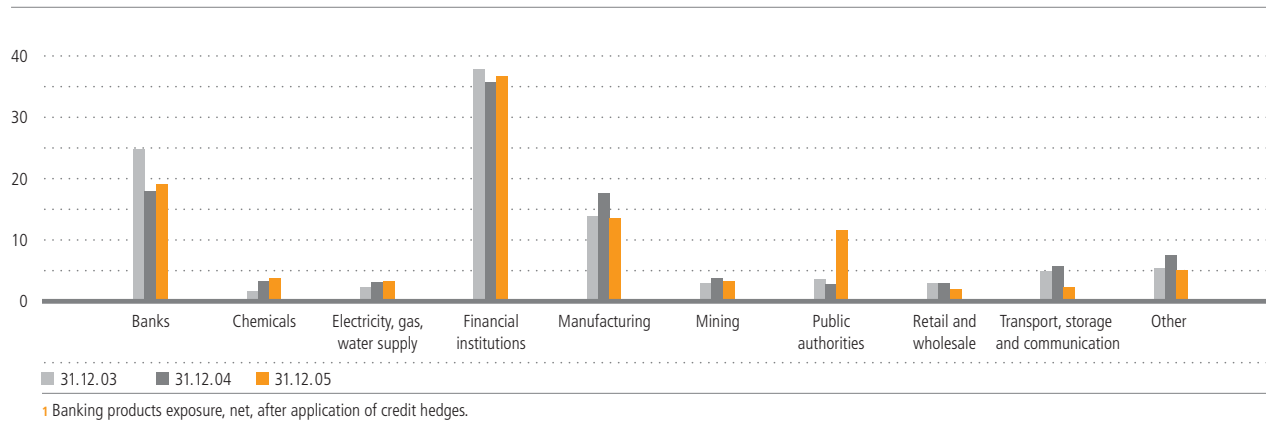
Investment Bank: banking products exposure by counterparty rating

As a % of Investment Bank banking products exposure¹



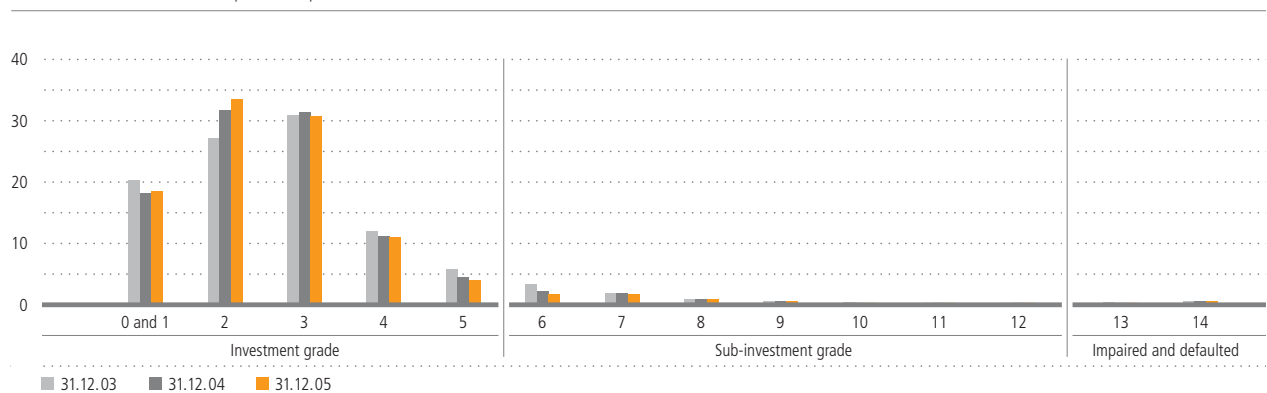
Investment Bank: banking products exposure by industry sector

As a % of Investment Bank banking products exposure¹



Investment Bank: traded products exposure by counterparty rating

As a % of Investment Bank traded products exposure



probability of default, without reference to the likely severity of loss or loss mitigation from collateral or credit hedges.

Banking products exposure after application of credit hedges continues to be widely diversified across industry sectors. At 31 December 2005, the largest exposure (37%) was to financial institutions.

A significant proportion of the Investment Bank's credit risk arises from its trading and risk management activities and from the provision of risk management solutions to clients, which includes the use of derivative products.

The graph opposite shows the Investment Bank's traded products exposure by counterparty rating on 31 December 2005. Further details of derivative instruments are provided in note 22 to the financial statements and details of securities borrowing, securities lending, repurchase and reverse repurchase activities can be found in note 10 to the financial statements.

Settlement risk

Settlement risk arises in transactions involving exchange of value when we must honor our obligation to deliver without first being able to determine that we have received the counter-value. The most significant portion of our settlement risk exposure arises from foreign exchange transactions. Through our membership of Continuous Linked Settlement (CLS), a clearing house for foreign exchange settlement which allows transactions to be settled on a delivery versus payment basis, we have significantly reduced our foreign exchange related settlement risk relative to the volume of our business. In 2005, the transaction volume settled through CLS continued to increase in absolute terms and reached 59% of overall gross volumes by fourth quarter 2005, compared to 57% in fourth quarter 2004. 76% of the CLS volume was with other CLS Settlement Members and the remainder with so-called Third Party Members, who settle their eligible trades via CLS Settlement Members. While the number of CLS Settlement Members is relatively stable, the number of Third Party Members we deal with has again nearly doubled during 2005. Overall market growth has also been significant but CLS has allowed us to increase our own volumes without our settlement risk increasing by the same proportion.

CLS does not, of course, eliminate the credit risk on foreign exchange transactions resulting from changes in exchange rates prior to settlement. We measure and control this pre-settlement risk on forward foreign exchange transactions as part of the overall credit risk on traded products, as described on page 58–59, Limits and controls.

Country risk

We assign ratings to all countries to which we have exposure. Sovereign ratings express the probability of occurrence of a country risk event that would lead to impairment of our claims. The default probabilities and the mapping to the ratings of the major rating agencies are the same as for counterparty credit risks (see table on page 57), the three lowest ratings being designated "distressed".

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

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

We measure the potential financial impact of severe emerging markets crises by stress testing. This entails identifying countries that may be subject to a potential crisis event,

Emerging markets exposure by major geographical area and product type

CHF million	Total			Banking products			Traded products			Tradable assets		
As at	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03
Emerging Europe	3,955	2,878	1,833	970	683	441	808	955	606	2,177	1,240	786
Emerging Asia	13,003	9,461	6,822	3,326	2,398	1,517	2,954	2,438	1,113	6,723	4,625	4,192
Latin America	2,000	1,646	1,849	305	193	425	378	319	568	1,317	1,134	856
Middle East/Africa	2,491	2,219	2,363	1,065	842	882	1,003	842	1,083	423	535	398
Total	21,449	16,204	12,867	5,666	4,116	3,265	5,143	4,554	3,370	10,640	7,534	6,232

making conservative assumptions about potential recovery rates depending on the types of transaction involved and their economic importance to the affected countries, and thereby determining potential loss.

Country risk exposure

Our cross-border country risk exposure to emerging markets amounted to CHF 21.4 billion on 31 December 2005, compared with CHF 16.2 billion on 31 December 2004. Of this amount, CHF 15.6 billion or 73% is to investment grade countries. The growth of CHF 5.2 billion in total emerging markets exposure arose to a large extent in Asia as we actively sought and captured market opportunities in targeted countries we consider to have long-term potential.

The graph opposite and the table on the previous page analyze the cross-border emerging market country exposures by country rating category, by major geographical area and by product type on 31 December 2005 compared to 31 December 2004 and 31 December 2003.

Impairment and provisioning policies

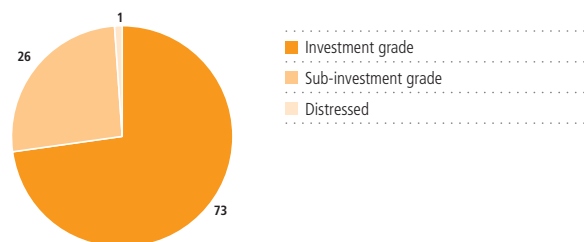
We classify a claim as impaired if we consider it probable that we will suffer a loss on that claim as a result of the obligor's inability to meet commitments (including interest payments, principal repayments or other payments due, for example, on a derivative product or under a guarantee) according to the contractual terms, and after realization of any available collateral. We classify loans carried at amortized cost 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 when 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 carried at amortized cost, impairment is recognized through the creation of an allowance or provision, which is

Emerging markets exposure by country rating category

in %

As at 31.12.05



charged to the income statement as credit loss expense. 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.

We have established policies to ensure that the carrying values of impaired claims are determined on a consistent and fair basis, especially for those impaired claims for which no market estimate or benchmark for the likely recovery value is available. The credit controls applied to valuation and workout are the same for both amortized cost and fair-valued credit products. Each case is assessed on its merits, and the workout strategy and estimation of cash flows considered recoverable are independently approved by the CCO organization.

We also assess portfolios of claims carried at amortized cost with similar credit risk characteristics for collective impairment. 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. Note that such portfolios are not included in the totals of impaired loans in the tables on page 62 / 63 or in note 9c in the financial statements.

Collective loan loss allowances and provisions also include a component for country risk. We establish country-specific scenarios, which are kept under review and updated as nec-

Credit loss (expense) / recovery versus adjusted expected credit loss charged to the Business Groups

CHF million	Wealth Management International & Switzerland			Wealth Management US		
	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03
For the year ended						
Total banking products exposure ¹	64,057	47,684	39,800	17,370	14,891	13,452
Credit loss (expense) / recovery ¹	(8)	(1)	4	0	3	(3)
– as a proportion of total banking products exposure (bps)	(1)	(0)	1	0	2	(2)
Adjusted expected credit loss charged to the Business Groups ²	(13)	(8)	(4)	(2)	(5)	(8)
– as a proportion of total banking products exposure (bps)	(2)	(2)	(1)	(1)	(3)	(6)

¹ Includes Global Asset Management, Corporate Functions and Private Banks & GAM (sold in December 2005). ² See note 2 of the 2005 Financial Report – excludes Corporate Functions.

essary, to evaluate the extent to which the value of our banking and traded product exposures would be affected by country risk incidents or country-specific systemic risks. Appropriate allowances and provisions are then determined by evaluating the type of credit exposure in the portfolio for each country and the loss severities that have been attributed to each exposure type. Where fair-valued portfolios are affected by country risk, it is recognized in the fair values of individual claims.

Credit loss expense

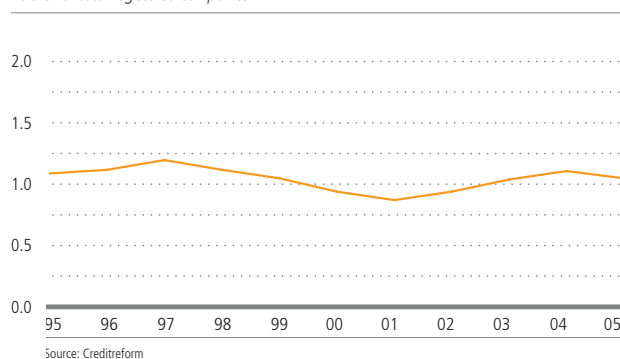
Our financial statements are prepared in accordance with IFRS, under which credit loss expense charged to the financial statements in any period is the sum of net allowances and direct write-offs minus recoveries arising in that period, i.e. the credit losses actually incurred. By contrast, in our internal management reporting and in the management discussion and analysis section of our financial report, we measure credit loss expense based on the expected loss concept described on page 58. To hold the Business Groups accountable for credit losses actually incurred, we additionally charge or refund them with the difference between actual credit loss expense and expected loss, amortized over a three-year period. The difference between the amounts charged to the Business Groups (“adjusted expected credit loss”) and the credit loss expense recorded at Group level is reported in Corporate Center (see note 2 to the financial statements).

The table below shows both credit loss expense recorded under IFRS, and the adjusted expected credit loss charged to the Business Groups. The discussion which follows covers only the credit loss expense recorded under IFRS.

In 2005, we experienced a net credit loss recovery of CHF 375 million, compared to net credit loss recovery of CHF 241 million in 2004 and net credit loss expense of CHF 102 million in 2003. Releases in country allowances and provisions of CHF 118 million reflected the generally positive macro-economic environment in key emerging markets. This favorable result was achieved in a period which saw a benign environment for credit markets globally. Economic expansion in the

Swiss corporate bankruptcy rates (1995–2005)

As a % of total registered companies



US provided a strong stimulus for growth worldwide. Almost without exception, credit spreads contracted in all the major developed and emerging capital markets, as healthy expansion of cash flows allowed the corporate sector to de-leverage and build liquidity.

Net credit loss recovery at Global Wealth Management & Business Banking amounted to CHF 223 million in 2005 compared to net credit loss recovery of CHF 94 million in 2004 and net credit loss expense of CHF 70 million in 2003. The benign credit environment in Switzerland where the corporate bankruptcy rate has receded in 2005 coupled with the measures taken in recent years to improve the quality of our credit portfolio have resulted in a continued low level of new defaults while our success in managing the impaired portfolio has resulted in a higher than anticipated level of recoveries.

The Investment Bank realized a net credit loss recovery of CHF 152 million in 2005, compared to net credit loss recovery of CHF 147 million in 2004 and credit loss expense of CHF 32 million in 2003. This continued strong performance was the result of minimal exposure to new defaults and strong recoveries of previously established allowances and provisions, as we actively sold impaired assets at better than anticipated terms.

Business Banking Switzerland			Global Wealth Management & Business Banking			Investment Bank			Other			UBS		
31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03
149,315	145,992	148,196	230,742	208,567	201,448	162,672	123,004	102,930	598	5,695	5,587	394,012	337,266	309,965
231	92	(71)	223	94	(70)	152	147	(32)	0	0	0	375	241	(102)
15	6	(5)	10	5	(3)	9	12	(3)	0	0	0	10	7	(3)
122	(25)	(127)	107	(38)	(139)	36	(7)	(55)	0	0	0	143	(45)	(194)
8	(2)	(9)	5	(2)	(7)	2	(1)	(5)	0	0	0	4	(1)	(6)

Impaired loans, allowances and provisions

As shown in the table below, allowances and provisions for credit losses decreased by 36.5%, to CHF 1,776 million on 31 December 2005 from CHF 2,797 million on 31 December 2004. Note 9b to the financial statements provides further details of the changes in allowances and provisions during the year. In accordance with IAS 39, we have assessed our portfolios of claims with similar credit risk characteristics for collective impairment. Allowances and provisions for collective impairment on 31 December 2005 amount to CHF 86 million, including CHF 48 million in allowances and provisions for country risk. Total allowances and provisions related to emerging market exposures were CHF 65 million on 31 December 2005, compared to CHF 183 million on 31 December 2004.

Impaired loans have decreased to CHF 3,434 million on 31 December 2005 from CHF 4,699 million on 31 December 2004. Over the same period, non-performing loans have also decreased, to CHF 2,363 million from CHF 3,555 million on 31 December 2004.

The ratio of impaired loans to total loans has improved continuously over the past years to 1.1% on 31 December 2005 from 1.7% on 31 December 2004 and 2.8% on 31 December 2003, while the non-performing loans to total loans ratio improved to 0.8% on 31 December 2005 from 1.3% on 31

December 2004 and 1.9% on 31 December 2003. This continuing positive trend is testament to our success in applying stringent risk management and control throughout the firm, resulting in relatively few new impaired and non-performing loans, and to our efforts to conclude proceedings and reach settlement on existing non-performing loans.

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

As explained on page 66, we subject all impaired claims, regardless of their accounting treatment, to the same workout and recovery processes. The table above right sets out our portfolio of impaired assets, comprising impaired loans, impaired off-balance sheet claims and defaulted derivatives contracts by geographical area and by aging on 31 December 2005. CHF 2.2 billion, or 59% of the gross portfolio

Allowances and provisions for credit losses

CHF million	Wealth Management International & Switzerland			Wealth Management US		
	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03
As at	31,12.05	31,12.04	31,12.03	31,12.05	31,12.04	31,12.03
Due from banks	441	300	738	1,171	1,518	1,479
Loans	58,466	43,271	35,500	15,934	13,099	11,593
Total lending portfolio, gross	58,907	43,571	36,238	17,105	14,617	13,072
Allowances for credit losses	(13)	(28)	(16)	(12)	(18)	(25)
Total lending portfolio, net	58,894	43,543	36,222	17,093	14,599	13,047
Impaired lending portfolio, gross	7	10	8	12	18	25
Estimated liquidation proceeds of collateral for impaired loans	0	(2)	0	0	0	(2)
Impaired lending portfolio, net of collateral	7	8	8	12	18	23
Allocated allowances for impaired lending portfolio	7	7	8	12	18	25
Other allowances and provisions	6	21	8	0	0	3
Total allowances and provisions for credit losses	13	28	16	12	18	28
<i>of which country allowances and provisions</i>	0	15	8	0	0	0
Non-performing loans	7	4	2	12	18	25
Allowances for non-performing loans	7	4	0	12	18	25
Ratios						
Allowances and provisions as a % of lending portfolio, gross	0.0	0.1	0.0	0.1	0.1	0.2
Impaired as a % of lending portfolio, gross	0.0	0.0	0.0	0.1	0.1	0.2
Allocated allowances as a % of impaired lending portfolio, gross	100.0	70.0	100.0	100.0	100.0	100.0
Allocated allowances as a % of impaired lending portfolio, net of collateral	100.0	87.5	100.0	100.0	100.0	108.7
Non-performing loans as a % of lending portfolio, gross	0.0	0.0	0.0	0.1	0.1	0.2
Allocated allowances as a % of non-performing loans, gross	100.0	100.0	0.0	100.0	100.0	100.0

¹ Includes Global Asset Management, Corporate Functions and Private Banks & GAM (sold in December 2005). ² Excludes Industrial Holdings.

Impaired assets¹

CHF million	Impaired since					Total
	0–90 days	91–180 days	181 days–1 year	1 year–3 years	>3 years	
Switzerland	198	92	197	812	1,916	3,215
Europe	3	6	14	111	79	213
North America	3	3	3	39	56	104
Latin America			13		34	47
Asia Pacific		1		23	27	51
Other	0			4	84	88
Total 31.12.2005	204	102	227	989	2,196	3,718
Allocated allowances, provisions and valuation reserves	(52)	(26)	(66)	(559)	(1,128)	(1,831)
Carrying value	152	76	161	430	1,068	1,887
Estimated liquidation proceeds of collateral	(118)	(58)	(99)	(281)	(810)	(1,366)
Net impaired assets	34	18	62	149	258	521

¹ Impaired assets include loans, off-balance sheet claims and defaulted derivative contracts.

of CHF 3.7 billion relates to positions that defaulted more than three years ago, reflecting the benign environment across global credit markets in recent years. Considering allocated specific allowances, provisions and valuation re-

serves of CHF 1.8 billion plus the estimated liquidation proceeds of collateral (predominantly Swiss real estate property) of CHF 1.4 billion, net impaired assets amounted to CHF 0.5 billion.

Business Banking Switzerland			Global Wealth Management & Business Banking			Investment Bank			Others ¹			UBS		
31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03	31.12.05	31.12.04	31.12.03
3,893	3,052	2,574	5,505	4,870	4,791	26,954	26,572	24,488	502	3,313	2,732	32,961	34,755	32,011
137,422	134,095	135,960	211,822	190,465	183,053	59,662	41,838	30,535	96	2,166	2,207	271,580	234,469	215,795
141,315	137,147	138,534	217,327	195,335	187,844	86,616	68,410	55,023	598	5,479	4,939	304,541 ²	269,224 ²	247,806 ²
(1,500)	(2,135)	(2,876)	(1,525)	(2,181)	(2,917)	(131)	(308)	(476)	0	(62)	(3)	(1,656)	(2,551)	(3,396)
139,815	135,012	135,658	215,802	193,154	184,927	86,485	68,102	54,547	598	5,417	4,936	302,885 ²	266,673 ²	244,410 ²
3,231	4,171	6,382	3,250	4,199	6,415	184	395	581	0	105	3	3,434	4,699	6,999
(1,335)	(1,678)	(2,460)	(1,335)	(1,680)	(2,462)	(31)	(33)	(3)	0	(45)	0	(1,366)	(1,758)	(2,465)
1,896	2,493	3,922	1,915	2,519	3,953	153	362	578	0	60	3	2,068	2,941	4,534
1,444	2,038	2,822	1,463	2,063	2,855	130	299	420	0	62	4	1,593	2,424	3,279
151	279	304	157	300	315	26	73	181	0	0	0	183	373	496
1,595	2,317	3,126	1,620	2,363	3,170	156	372	601	0	62	4	1,776	2,797	3,775
53	119	110	53	134	118	12	49	144	0	0	0	65	183	262
2,209	3,161	4,418	2,228	3,183	4,445	135	267	312	0	105	1	2,363	3,555	4,758
1,266	1,883	2,346	1,285	1,905	2,371	108	216	249	0	62	1	1,393	2,183	2,621
1.1	1.7	2.3	0.7	1.2	1.7	0.2	0.5	1.1	0.0	1.1	0.1	0.6	1.0	1.5
2.3	3.0	4.6	1.5	2.1	3.4	0.2	0.6	1.1	0.0	1.9	0.1	1.1	1.7	2.8
44.7	48.9	44.2	45.0	49.1	44.5	70.7	75.7	72.3	0.0	59.0	133.3	46.4	51.6	46.8
76.2	81.7	72.0	76.4	81.9	72.2	85.0	82.6	72.7	0.0	103.3	133.3	77.0	82.4	72.3
1.6	2.3	3.2	1.0	1.6	2.4	0.2	0.4	0.6	0.0	1.9	0.0	0.8	1.3	1.9
57.3	59.6	53.1	57.7	59.8	53.3	80.0	80.9	79.8	0.0	59.0	100.0	59.0	61.4	55.1

Market risk

Market risk is the risk of loss arising from movements in market variables, including observable variables such as interest rates, exchange rates and equity market indices, 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.

We report our market risk exposure as Value at Risk ("VaR"), which is explained on page 71, but we also apply a range of other measures and controls which are described in the sections below.

Sources of market risk

Market risk is incurred primarily through our trading activities, but also arises in some of our non-trading businesses.

Trading

Trading activities are centered in the Investment Bank, and include market-making, facilitation of client business and proprietary position taking. We are active in the cash and derivative markets for fixed income, equities, interest rate products, foreign exchange, energy and, to a lesser extent, precious metals. In 2005 we began to trade derivatives on base metals and soft commodities.

In our fixed income business we carry extensive inventory in support of market-making and client facilitation. Although inventory levels vary and the portfolio is well diversified, the credit spread exposure (a component of interest rate risk) from these positions is generally the largest contributor to VaR.

Exposure to movements in the level and shape of yield curves arises in all our activities but predominantly in the rates, FX and cash and collateral trading businesses. Our exposure to directional interest rate movements is not generally large, but it varies depending on our view of the markets. It is often these variations that drive changes in the level of Investment Bank VaR, although the impact of any switch depends on the composition of the portfolio at the time.

Equity risk is the other major contributor to Investment Bank market risk. We generally carry exposure to all major and a number of smaller equity markets, the other significant component of equity VaR being proprietary positions taken, for example, to capture arbitrage opportunities or price movements resulting from mergers and acquisitions. These positions can be relatively large and can cause significant fluctuations in the level of market risk.

We run positions in foreign exchange, and in precious metals and energy (which are reported in the risk type "other")

but their contribution to overall market risk exposure is generally relatively small. Base metals and derivatives on soft commodities are not yet included in VaR but the exposure from this business is not material.

Outside the Investment Bank, in Global Asset Management, the seed money invested by our alternative and quantitative investments platform in their funds in the start up phase contributes modestly to our reported market risk exposure. There is only very limited trading activity, in support of client business, in our Wealth Management operations.

Non-trading

Our Treasury department (part of Corporate Center) assumes market risk as a result of its balance sheet and capital management responsibilities. Interest rate risk arises from the funding of non-business items such as property and investments, from the investment of our equity, and from long-term interest rate risk transferred from other Business Groups. These are described in more detail on pages 76 to 77.

Other market risks from non-trading activities, mainly interest rate risk, arise in all Business Groups but they are not significant.

We also hold equity financial investments outside our trading activities. The majority are unlisted, and their fair values tend to be driven mainly by factors specific to the individual companies rather than movements in equity markets which have only a limited impact. For this reason, and because they are not generally liquid, they are controlled outside the market risk framework. Our private equity investments make up the largest portfolio, but they are being run down. There is a comprehensive control, monitoring and reporting process around this portfolio and the positions are included in our overall Earnings-at-Risk measure.

Risk control

There is a Chief Risk Officer (CRO) in each Business Group and a designated CRO for Treasury. The CROs report functionally to the Group CRO and are responsible for the independent control of market risk. They and their teams ensure that all market risks are identified, establish the necessary controls and limits, monitor positions and exposures, and ensure the complete capture of market risk in risk measurement and reporting systems. An important element of the CRO's role is the assessment of market risk in new businesses and products and in structured transactions.

The CRO organization in the Investment Bank provides market risk measurement and reporting support to all Business Groups and is responsible for the development and on-

going enhancement of market risk measures, in particular the VaR model.

Market risk authority is vested in the Chairman's Office and the GEB and from there is delegated ad personam to the Group CRO and market risk officers in the Business Groups. Authorities apply to measurement methodologies and portfolio limits and to individual positions and transactions where specific approval is required.

We apply market risk measures, limits and controls at the portfolio level, and we apply concentration limits and other controls, where necessary, to individual risk types, to particular books and to specific exposures. The portfolio risk measures are common to all market risks, but concentration limits and other controls are tailored to the nature of the activities and the risks they create. Such measures therefore differ significantly between, for example, the Investment Bank, where the risks are most varied and complex, and Group Treasury which carries material market risk but in a limited range of risk types and not generally in complex instruments.

Portfolio risk measures

The principal portfolio measures of market risk are Value at Risk (VaR – a statistical loss measure, as defined on page 56) and stress loss which are applied to both trading and non-trading portfolios.

Value at Risk (VaR)

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the "maximum" amount we might lose, but only to a certain level of confidence (99%) and there is therefore a specified statistical probability (1%) that actual loss could be greater than our VaR estimate. Our VaR model assumes a certain "holding period" until positions can be closed (10 days) and it assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. Our assessment of past movements is based on data for the past five years and we apply these historical changes in rates, prices, indices etc. ("risk factors") directly to our current positions, a method known as historical simulation. We also measure and report VaR on a 1-day holding period for information and for the purposes of backtesting, as explained below.

The Chairman's Office annually approves a 10-day VaR limit for UBS as a whole, covering both trading and non-trading businesses, and allocations to the Business Groups, the largest being to the Investment Bank. Within the Business Groups, limits are allocated to lower organizational levels as necessary.

Our VaR measure captures both "general" and "residual" market risk. General market risk includes directional movements in interest rates, changes in slope or shape of yield curves, widening or tightening of credit spreads by rating class, and directional movements in equity market indices, exchange rates,

and precious metal and energy prices. It also includes changes in option implied volatilities in all risk types. Residual risks are risks that cannot be explained by general market moves – broadly changes in the prices of individual debt and equity securities resulting from factors specific to individual issuers. For equity arbitrage strategies, where we are typically long in the stock of one company and short in that of another, we apply a "deal break" methodology that assesses the probability of collapse of a merger or takeover with the stock prices reverting to pre-announcement levels. This is a one-off jump move ("event risk"), generating the same potential loss for both 10-day and 1-day VaR. It is a somewhat conservative measure but there have been isolated occasions when the break up of a deal has led to large negative contributions to revenues.

The distribution of potential profits and losses produced by historical simulation provides an indication of potential trading revenue volatility, and a change in the general level of VaR would normally be expected to lead to a corresponding change in the volatility of daily trading revenues. However, the 10-day VaR measure takes no account of the mitigating action that can be, and in practice is taken in the event of adverse market moves. The absolute level of 10-day VaR should not, therefore, be interpreted as the likely range of daily trading revenues. VaR based on a 1-day holding period provides a closer estimate of the likely range of daily mark to market profit and loss we are likely to incur on the current portfolio under normal market conditions, but is still based on past events and is dependent upon the quality of available market data. The quality of the VaR model is therefore continuously monitored by backtesting the VaR results for trading books. In backtesting we compare the 1-day VaR calculated on positions at close of business each business day with the actual revenues arising on the same positions on the next business day. These revenues ("backtesting revenues") exclude non-trading revenues such as commissions and fees, and revenues from intraday trading. If the revenue is negative and exceeds the 1-day VaR, a "backtesting exception" is considered to have occurred. When VaR is measured at a 99% confidence level, a backtesting exception is expected, on average, one day in a hundred. It should be recognized, however, that neither 1-day nor 10-day VaR, nor the worst case losses in the VaR distributions, reflect the worst loss that could occur as a result of extreme, unusual or unprecedented market conditions. All backtesting exceptions and any exceptional revenues on the profit side of the VaR distribution are investigated, and all backtesting results are reported to senior business management, the Group CRO and Business Group CROs. Although we apply VaR measures to market risk positions arising in non-trading books (generally those carried at amortized cost), we do not backtest the results because the basis of risk measurement is not consistent with the basis of revenue recognition.

Our base metals and soft commodities businesses are not currently captured in VaR, but the model is being enhanced to incorporate the new business. In the meantime it is subject to volume constraints and close monitoring. We estimate that its

current impact on reported VaR for the Investment Bank as a whole would be negligible, although it may have a more material impact on the risk type “other”, where it will be reported. While an expansion of the business is planned we do not expect it to give rise to a significant increase in overall market risk, given the relatively low correlation of commodity markets with financial markets and the continuing dominance of credit spread and equity arbitrage positions in our risk profile.

Stress loss

Stress loss measures quantify our exposure to more extreme market movements than are normally reflected in VaR and are an essential complement to VaR. VaR measures market risk on a continuous and consistent basis, but it is based on observed historical movements and correlations. Stress loss measures do not have to be (and should not be) constrained by historical events – they are designed to ensure that a wide range of possible outcomes is explored and that we have a full understanding of our vulnerabilities. We therefore consider a variety of stress scenarios within a governance and control framework that is designed to be comprehensive, transparent and responsive to market conditions and developments in the world economy.

Our “standard scenarios” are forward-looking, macro-economic scenarios, bringing together various combinations of potential market events to reflect the most common types of stress scenario. They cover the conditions that might be seen in an industrial country market crash with a range of yield curve and credit spread behavior, and in an emerging market crisis, with and without currency pegs breaking. We also have a “general recovery” scenario. We run the standard scenarios continuously, and it is against these that we track the development of our stress loss exposure and make comparisons from one period to the next. We also set limits on stress loss exposure measured against these scenarios for all Business Groups. The scenarios and their components are reviewed and re-approved annually by the Chairman’s Office.

We also run ad hoc and position-centric scenarios i.e. scenarios reflecting current concerns, such as sharp movements in energy prices or the impact of increased geopolitical instability in specific regions, and scenarios that attempt to capture any particular vulnerabilities or aspects of our exposure that are not fully covered by the standard scenarios. Such scenarios, by definition, must be constantly adapted to changing circumstances and portfolios. We do not apply limits against them but the results are reported to senior management.

Inside VaR

We disclose in the tables on page 75 a separate 10-day VaR exposure for each risk type within Investment Bank and for each Business Group of UBS. In each case, the VaR exposure reported is the 99% confidence result for the risk type or Business Group looked at on a standalone basis. Generally these results are generated by a different historical period for each risk type or Business Group. The total in each table is the 99% confidence result for all risk types or Business Groups looked at as one portfolio, and generally reflects a different historical period from the results for any individual risk type or Business Group. For example, the worst 10-day losses for equities will generally result from a historical period when equities markets fell and such periods are usually accompanied by a rally in

government bond markets. If, as is often the case, we have a long position in government bonds, these historical periods will not be significant for interest rate risk, where the largest losses typically come from periods when credit spreads have widened significantly. Moreover, if the profits on government bond positions offset the losses on equities for the historical periods driving equities 99% confidence VaR, these periods will not be significant drivers of total VaR for the Investment Bank as a whole. The difference between the sum of the individual results and the result for the whole portfolio is a “diversification effect”, which is shown in the tables. It provides an indication of the extent to which we benefit from the diversity of our businesses but has no intrinsic

meaning – it cannot be tied to any particular positions or risk factors. 10-day and 1-day VaR results are calculated independently, directly from the underlying positions and historical market moves. Neither can be directly inferred from the other by a “square root of time” conversion for a number of reasons:

- this formula assumes that consecutive daily moves are uncorrelated (movements follow a “random walk”), whereas in fact markets can trend in one direction for several days or longer, especially in times of market upheaval
- there are positions and products such as options which have a non-linear sensitivity to changes in market risk factors (the change in value is not directly proportional to

While the standard scenarios are broadly based on generic elements of past market crises, there may be major stress events of the past that we consider to be of continuing relevance. Once they have dropped out of the five year historical time series used for VaR, we may therefore continue to apply them directly to our positions. The results can be used to benchmark the severity of our other stress scenarios and to ensure that we retain the memory of past events, although we would not apply limits to such scenarios.

Finally, we analyze the VaR results beyond the 99% confidence level (the “tails” of the distribution) to better understand the potential risks of the portfolio and to help identify risk concentrations. The results of this analysis are valuable in their own right but can also be used to formulate position-centric stress tests.

Most major financial institutions employ stress tests, but their approaches differ widely and there is no benchmark or industry standard in terms of stress scenarios or the way they are applied to an institution’s positions. Furthermore, the impact of a given stress scenario, even if measured in the same way across institutions, depends entirely on the make up of each institution’s portfolio, and a scenario highly applicable to one institution may have no relevance to another. Comparison of stress re-

sults between institutions can therefore be highly misleading, and for this reason we do not publish quantitative stress results.

Trading portfolios – concentration limits and other controls

The market risk VaR and stress loss limits are the principal portfolio controls on UBS’s exposure to day-to-day movements in market prices, but controls are also applied to prevent any undue risk concentrations, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk factors and to single name issuers (“issuer risk” positions).

In the Investment Bank, a comprehensive set of risk factor limits has been established. They are applied to potential losses arising from moves in a wide range of general market risk factors including exchange rates and interest rates, equity indices and credit spreads. The market moves used are broadly consistent with the basis of VaR, i.e. 10 day 99% confidence moves, and they are reviewed annually but may be amended in the interim if the need arises. Limits are set for individual risk factors or groups of highly correlated risk factors, and each limit applies to exposures arising from all

the change in the market risk factor, nor is it necessarily even in the same direction – positions can be constructed, for example, to make money for a large move in either direction) and thus even if markets follow a random walk, the relationship between the 1-day and 10-day VaR cannot be determined by a formula

- our deal break methodology for equity long-short positions is not time dependent
- the potential returns of the portfolio are not normally distributed
- and the combination of all these effects means that the correlations and consequent diversification effect between risk types are different for the 1-day and the 10-day VaR.

Thus, not only is 1-day VaR not directly measurable from 10-day VaR or vice versa, but it is also possible, and it frequently happens, that the changes in the two from one period to another are quite different in magnitude, absolutely and relatively, and even, on occasion, that they are in opposite directions.

VaR is the “industry standard” measure of market risk but VaR is a generic term within which there are many variants. Institutions may use different confidence levels or holding periods; they may use shorter or longer time series, which may result in the exclusion of earlier market upheavals (shorter time series) or dilution of the effect of more recent market events (longer time series), or they may weight their time series to give greater

prominence to more recent events. In addition, they may model the risks on a different basis, for example by approximating the changes in individual risk factors as normally distributed with given volatilities and correlations (“variance / co-variance”) or by simulating more complex distributions for the risk factors (“Monte Carlo simulation”). Furthermore, conversions between different confidence intervals typically rely on an assumption of statistical “normality”, which is generally not fully valid and, as we have already observed, conversions between 10-day and 1-day VaR based on the square root of time formula cannot be relied upon. Comparison of VaR levels between institutions can therefore be misleading and must be treated with caution.

trading businesses of the Investment Bank. Separate risk factor limits are set for other Business Groups where they are considered necessary – in our alternative and quantitative investments business in Global Asset Management, for example, a comparable set of concentration limits and guidelines is applied.

Issuer risk is the risk of loss on securities and other obligations in tradable form, arising from credit-related and other “events” and, ultimately, default and insolvency of the issuer or obligor. We take a comprehensive approach to measurement, including both debt and equity, not only in physical form but also synthetic positions arising from forwards, options, default swaps and other derivatives. Our measures of issuer risk exposure are generally based on the loss we would expect to incur following an event and therefore take account of different seniority and whether obligations are secured or unsecured. We also track the maximum amount we could lose if all securities of the issuer became worthless. Positions are controlled in the context of the depth and liquidity of the market in which they are traded, and all material positions are kept under constant scrutiny in light of changing market conditions and specific public issuer information.

Exposures arising from security underwriting commitments are subject to the same measures and controls as secondary market positions but the commitments themselves are also subject to control processes. This generally includes review by a commitment committee with representation from the origination and distribution / sales sides of the business, and from risk control and other relevant functions, as well as approval under specific delegated authorities.

As explained on page 65 under Country risk, we include in our measures of country risk all positions for issuers domiciled in countries subject to country ceilings and exposures to stress moves in the currency, interest rate and equity markets of those countries.

In addition to the standard portfolio and concentration limits, we have an array of “operational limits” – bespoke limits developed for a specific purpose where the standard portfolio and concentration limits may not provide comprehensive control. They may address concerns about, for example, market depth or liquidity, operational capacity, or exposure to complex products for which valuation parameters may not be observable with consequent difficulties in valuation and risk measurement.

We adopt prudent valuation standards, and apply valuation adjustments where appropriate to reflect expected loss. Valuation adjustments are also made for positions which rely on complex models for valuation or on models incorporating unobservable parameters – for further details see our Financial report 2005, Critical accounting policies and note 29 Fair value of financial instruments. All models used for valuation or which feed risk positions to risk control systems are subject to independent verification by specialist quantitative units within the CRO organization.

Market risk developments – trading

The year in general was one of positive investor sentiment with equity markets in particular performing strongly on the back of excellent corporate earnings. The more buoyant markets supported high trading volumes with strong new issuance and merger and acquisition activity. Despite short term rate hikes during 2005, long-term rates throughout much of the world finished the year at low levels. In currency markets, the US dollar appreciated against other major currencies, but the expectation of a slowdown in growth in 2006 halted the trend towards the end of the year. Higher energy and commodity prices and concerns in the US automotive industry in the spring, and the damage caused by the unusually severe hurricane season in the autumn resulted in periods of market volatility.

Market risk for the Investment Bank, as measured by 10-day 99% confidence VaR, ended the year at CHF 355 million and averaged CHF 346 million for 2005, a slight increase on the 2004 year-end value of CHF 332 million but slightly below the 2004 average of CHF 358 million. The rise in period-end VaR was driven by the increase in our equities risk, but it was the increased diversification between the risk types which led to the reduction in average Investment Bank VaR.

Equities risk in particular increased year on year, ending the year at CHF 235 million, compared to CHF 126 million at the end of 2004. The average, at CHF 173 million, was also up on CHF 153 million for 2004. Much of this increase was a response to good trading conditions, particularly in the latter part of the year – greater market volatility, increases in major indices, many of which reached annual highs in fourth quarter, heavy trading volumes, and strong new issuance and merger and acquisition activity. We were able to capitalize on these conditions in both client business and proprietary trading.

Credit spread exposures remained the dominant element of interest rate VaR, but fluctuations in the level of risk throughout the year were driven by our outright interest rate exposures. These exposures varied in both amount and direction over the year as we actively managed our risk in response to market conditions. Interest rate VaR ended the year at CHF 269 million, a significant decrease on the 2004 year-end VaR of CHF 361 million, reflecting uncertainty about the longer term trend of interest rates. The average of CHF 364 million was up from CHF 340 million in 2004.

Average Corporate Center VaR for 2005 was CHF 63 million, an increase on the 2004 average of CHF 47 million. This resulted from increased interest rate exposure in the Treasury book, but Corporate Center's contribution to total UBS VaR remained relatively small. Market risk positions in the other Business Groups have only a marginal impact on the total UBS VaR, as can be seen from the middle table on the right.

In third quarter this year, our Wealth Management & Business Banking and Wealth Management US businesses were combined and the municipal securities business of

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

CHF million	Year ended 31.12.05				Year ended 31.12.04			
	Min.	Max.	Average	31.12.05	Min.	Max.	Average	31.12.04
Risk type								
Equities	120	266	173	235	121	188	153	126
Interest rates ¹	223	514	364	269	244	441	340	361
Foreign exchange	11	63	30	23	5	73	30	29
Other ²	6	88	38	46	9	87	37	32
Diversification effect	³	³	(259)	(218)	³	³	(202)	(215)
Total	245	512	346	355	274	457	358	332

¹ Interest rate VaR includes the municipal securities business of Wealth Management US from 1 January 2005. The business was transferred to the Investment Bank on 1 July 2005. Figures for first and second quarter 2005 have been restated. ² Includes energy and precious metals risk. ³ As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

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

CHF million	As at 31.12.05	Year ended 31.12.05				Year ended 31.12.04			
	Limits	Min.	Max.	Average	31.12.05	Min.	Max.	Average	31.12.04
Business Groups									
Investment Bank ¹	600	245	512	346	355	274	457	358	332
Global Asset Management ²	30	3	13	10	8	5	16	11	7
Global Wealth Management & Business Banking ³	25	4	14	9	12	10	26	16	16
Corporate Center ⁴	150	32	84	63	62	35	69	47	38
Diversification effect		⁵	⁵	(62)	(64)	⁵	⁵	(67)	(61)
Total	750	255	520	366	373	274	453	365	332

¹ VaR for the Investment Bank includes the municipal securities business of Wealth Management US from 1 January 2005. The business was transferred to the Investment Bank on 1 July 2005. Figures for first and second quarter 2005 have been restated. ² Only covers UBS positions in alternative & quantitative investments. ³ VaR for Global Wealth Management & Business Banking includes all businesses of Wealth Management US up to 31 December 2004, but excludes the municipal securities business from 1 January 2005. All quarters up to second quarter 2005 have been restated. ⁴ VaR for Corporate Center includes non-trading interest rate exposures in the Treasury book. The sale of the Private Banks was completed on 2 December 2005 and their exposures are excluded from this date. ⁵ As the minimum and maximum occur on different days for different Business Groups, it is not meaningful to calculate a portfolio diversification effect.

UBS: Value at Risk (1-day 99% confidence)

CHF million	Year ended 31.12.05				Year ended 31.12.04			
	Min.	Max.	Average	31.12.05	Min.	Max.	Average	31.12.04
Investment Bank ^{2,3}	105	206	150	155	106	168	133	114
UBS	109	211	157	164	107	173	137	118

¹ 10-day and 1-day VaR results are separately calculated from the underlying positions and historical market moves. They cannot be inferred from each other. ² Positions in the Investment Bank subject to market risk regulatory capital contributed average VaR of CHF 147 million in 2005 and CHF 130 million in 2004. ³ VaR for the Investment Bank includes the municipal securities business of Wealth Management US from 1 January 2005. The business was transferred to the Investment Bank on 1 July 2005. Figures for first and second quarter 2005 have been restated.

Wealth Management US was transferred to the Investment Bank. The VaR exposures shown in the tables above have been restated to reflect these changes. The exposure for Global Wealth Management & Business Banking includes all the businesses of Wealth Management US for 2004 but for 2005 excludes the municipal securities business. This business is included in VaR for the Investment Bank from 1 January 2005, but its impact on total VaR and interest rate VaR of the Investment Bank was not material.

Stress loss for the Investment Bank, defined as the worst-case outcome from our standard scenarios, ended 2005 virtually unchanged from the end of 2004, and remained well within the approved limit throughout the year. As with VaR,

our credit spread exposures remained the dominant contributor, but fluctuations in the level of stress loss exposure during the year were significantly impacted by the varying level of option risk in the equity portfolio.

As for the seven preceding years, UBS had no regulatory backtesting exceptions in 2005. The graph on the next page shows 1-day VaR for portfolios subject to a market risk regulatory capital charge and the corresponding backtesting revenues. The 10-day VaR, which is the basis of the limits and utilizations shown above, is also provided for information. In the histogram on the next page we show backtesting revenues alongside the daily "full revenues" from all sources in the Investment Bank.

Non-trading portfolios

Management of non-trading interest rate risk

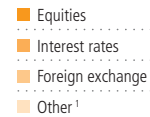
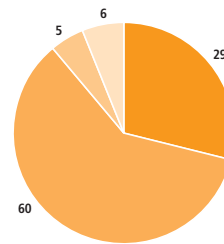
Most material non-trading interest rate risks, the largest items being those arising from the Global Wealth Management & Business Banking Business Group, are transferred from the originating business units to one of the two centralized interest rate risk management units, Treasury, which is part of Corporate Center, or the Investment Bank's Cash and Collateral Trading unit (CCT). These units manage the risks on an integrated basis to exploit the full netting potential across risks from different sources.

Risks from long-term Swiss franc transactions with fixed maturities are transferred to Treasury by individual back-to-back transactions. Risks from all fixed maturity, short-term Swiss franc and all non-Swiss franc transactions are generally transferred to CCT. Client current and savings accounts and many other products of Global Wealth Management & Business Banking have no contractual maturity date or direct

Investment Bank: average 10-day 99% confidence VaR by product type

in %

Year ended 31.12.05

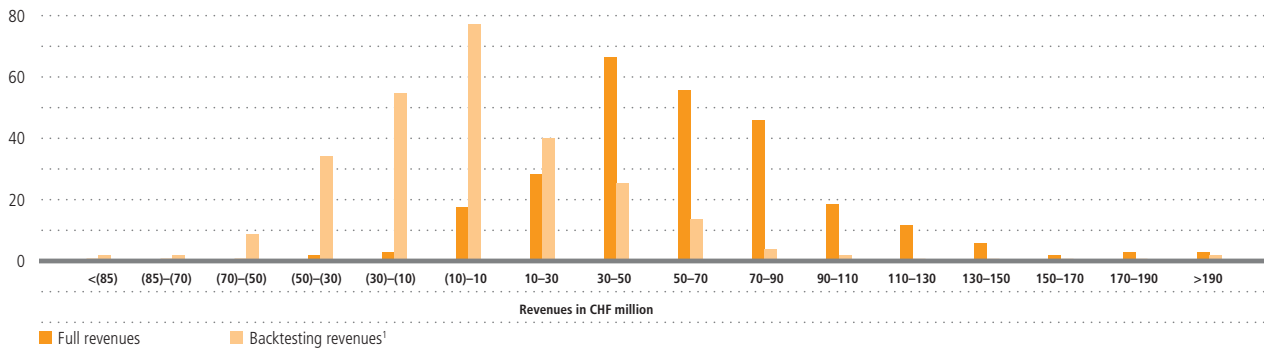


¹ Includes precious metals and energy exposures.

market-linked rate, and their interest rate risk cannot be transferred by simple back-to-back transactions. Instead, they

Investment Bank: distribution of daily revenues, 2005

Frequency in number of days



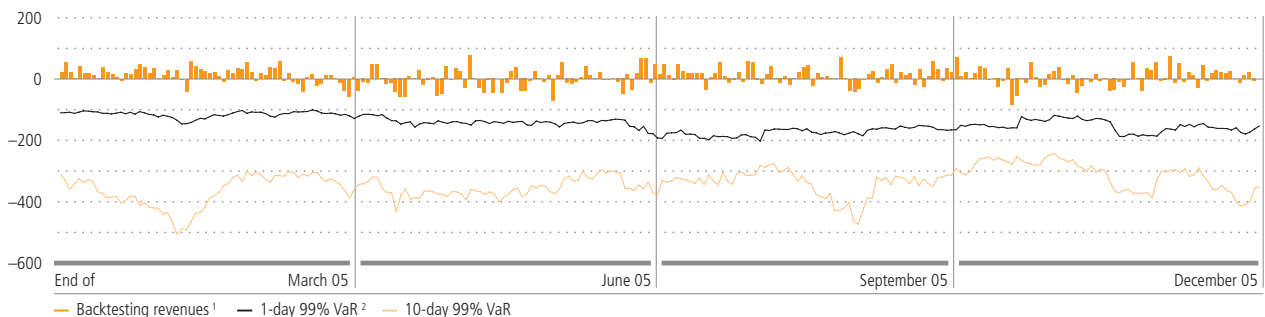
■ Full revenues ■ Backtesting revenues¹

¹ Excluding non-trading revenues such as commissions and fees, and revenues from intraday trading.

UBS Investment Bank: backtesting revenues¹ and VaR

CHF million

1 January 2005 – 31 December 2005



— Backtesting revenues¹ — 1-day 99% VaR² — 10-day 99% VaR

¹ Backtesting revenues exclude non-trading revenues such as commissions and fees, and revenues from intraday trading. ² 1-day 99% VaR includes only positions subject to market risk regulatory capital.

are transferred on a pooled basis via “replication” portfolios – portfolios of revolving transactions between the originating business unit and Treasury at market rates designed to approximate the average cash flow and re-pricing behavior of the pooled client transactions. The originating business units are thus immunized as far as possible against market interest rate movements, but retain and manage their product margins, while Treasury acquires market-based interest rate positions that can be managed within its approved limits. The structure and parameters of the replication portfolios are based on long-term market observations and client behavior and are reviewed periodically.

A significant amount of interest rate risk also arises from non-business related balance sheet items, such as the financing of bank property and equity investments in associated companies. These risks are generally transferred to Treasury through replicating portfolios, the replication in this case being designed to approximate the mandated funding profile. Similarly, our own equity is represented in the treasury book in the form of equity replicating portfolios which reflect the investment profile defined by senior management.

In addition to the standard portfolio measures (VaR and stress loss) three key risk measures are applied to the interest rate risks managed by Treasury:

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

Interest rate sensitivity is a simple unit measure of sensitivity, which does not, in itself, provide an indication of potential loss. By contrast, the economic value sensitivity and net interest income at risk measures provide different, but complementary, views of potential loss from interest rate risk. Economic value sensitivity provides a long-term view covering the whole book, since it takes into account the present value of all future cash flows generated from existing balance sheet positions. Net interest income at risk, on the other hand, considers only the re-pricing effect from positions maturing over the next twelve months, and thus provides a shorter-term view but one consistent with the accounting basis (amortized cost). In all three measures we assess the exposure both including and excluding the replication portfolio representing our equity (but always including the assets in which the equity is invested). When the replication portfolio is excluded, the exposure under all three measures is greater.

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

Non-trading interest rate risk development

The equity held by the parent bank is invested predominantly in Swiss francs, but since 2002 the investment of equity at the overall Group level has been diversified into a portfolio of major currencies, in order to reflect the significant business activities denominated in foreign currencies. Accordingly, the consolidated equity, which includes the equity of subsidiaries, is invested not only in Swiss francs but also in US dollars and, to a lesser extent, euro and UK sterling. At 31 December 2005 the Swiss franc portfolio had an average duration of approximately 3.3 years and an interest rate sensitivity of CHF 7.48 million per basis point. For the US dollar portfolio, the duration was 4.8 years and its sensitivity CHF 8.31 million per basis point. For the euro portfolio the duration was 3.3 years and its sensitivity CHF 0.52 million per basis point and for the UK sterling portfolio the duration was 3.2 years and its sensitivity CHF 0.54 million per basis point.

The interest rate sensitivity of these investments is directly related to the chosen investment duration. Investing in significantly shorter maturities would lead to a reduction in the apparent interest rate sensitivity and economic value sensitivity of our treasury positions (excluding the equity itself), but would lead to higher net interest income at risk and to higher volatility in our actual interest earnings.

The first table on the next page shows the interest rate sensitivity of the Treasury book overall interest rate risk positions on 31 December 2005. The first total is the sensitivity including the equity replicating portfolio, while the final total, which is significantly larger, excludes this portfolio.

The second table on the next page shows the change in risk under the economic value sensitivity and net interest income at risk measures between 31 December 2003 and 31 December 2005.

The net interest income at risk figure shown is the worst case among various interest rate scenarios that have been analyzed, and results from an assumed downward interest rate shock (parallel shift) of 200 basis points. On 31 December 2005, the difference in the projected outcome in this scenario from that projected in a constant market rate scenario represented a reduction of CHF 386 million in the year's total net interest income, compared with a reduction of CHF 321 million on 31 December 2004.

Economic value sensitivity shows the effect of a 100 basis point adverse interest rate shock. On 31 December 2005, a 100 basis point upward shock of interest rates would have led to a CHF 1,439 million decline in fair value, compared with an exposure of CHF 1,214 million to the same scenario on 31 December 2004.

Management of non-trading currency risk

We report our results in Swiss francs, the currency of the country in which we are incorporated, but a substantial proportion of our assets and liabilities, revenues and costs arises

Interest rate sensitivity of the Treasury book

CHF thousands per basis point increase	As at 31.12.04					Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
CHF	(202)	(12)	(61)	91	(254)	(438)
USD	69	(19)	1	182	340	573
EUR	10	(24)	31	193	1,175	1,385
GBP	2	(2)	(13)	28	537	552
JPY	0	0	0	(4)	0	(4)
Others	(1)	0	0	(1)	(3)	(5)
Total ¹	(122)	(57)	(42)	489	1,795	2,063
of which						
equity replicating portfolio (CHF)	12	12	215	4,049	3,190	7,478
equity replicating portfolio (USD)	(9)	8	158	3,086	5,068	8,311
equity replicating portfolio (EUR)	1	1	16	286	217	521
equity replicating portfolio (GBP)	1	1	17	301	217	537
Total equity replicating portfolio	5	22	406	7,722	8,692	16,847
Treasury book without replicating portfolio (total)	(127)	(79)	(448)	(7,233)	(6,897)	(14,784)

¹ Total risk position includes risk on variable-rate products transferred from replication portfolios.

Change in risk under the two measures

CHF million	As at	
	31.12.05	31.12.04
Net interest income at risk	(386)	(233)
Economic value sensitivity	(1,439)	(1,169)

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

To maintain the flexibility to divest foreign currency assets at any time without adverse currency impact, we match-fund where it is practical and efficient to do so, i.e. a US dollar asset is funded in US dollars, a euro asset in euros, etc. As noted above, at the Group level the consolidated equity is invested in a diversified portfolio, broadly reflecting the currency distribution of our risk-weighted assets, in Swiss francs, US dollars, euro and UK sterling. This creates structural foreign currency exposures, the gains or losses on which are recorded through equity in the consolidated financial statements, leading to fluctuations in our capital base in line with the fluctuations in risk-weighted assets, thereby protecting our BIS Tier 1 capital ratio. These foreign currency exposures are closely controlled by senior management but are not subject to internal market risk limits (VaR or stress) or to market risk regulatory capital requirements.

For financial accounting purposes, final profits or losses are translated each month from the original transaction currencies into Swiss francs at the prevailing rate at the end of the month. At the same time, Treasury centralizes profits or losses in foreign currencies in the parent bank, and sells them into

Swiss francs in order to reduce earnings volatility resulting from subsequent exchange rate movements. This monthly sell-down reduces the volatility in our Swiss franc results that would result from repeated re-translation, although it cannot protect the bank's earnings against a sustained downward or upward move of one of the main currencies against the Swiss franc. Where appropriate, a similar process is applied to material foreign currency profits and losses in subsidiaries.

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

Our Treasury department from time to time proactively hedges the remaining currency exposures arising on future earnings in accordance with the instructions of the Group CFO in line with policies approved by the GEB. Economic hedging strategies employed include a cost-efficient options purchase program, which provides a safety net against unfavorable currency fluctuations while preserving upside potential. We are, however, willing to accept, within clearly defined tolerances, a certain volatility in our financial results due to currency fluctuations. The hedge program has a time horizon of up to

twelve months and is not restricted to the current financial year. Although intended to hedge future earnings, these transactions are considered open currency positions and are included in VaR for internal and regulatory capital purposes.

For 2005 the net currency impact on UBS's Swiss franc financial net profit was positive and within our internally agreed volatility tolerance.

Regulatory capital treatment of market risk

Our VaR model is consistent with the regulatory measure of market risk capital and has been approved by the Swiss Federal Banking Commission (SFBC), our main regulator.

The majority of our trading activities fall under the definition of "trading book" for regulatory capital treatment. This means that both general and residual market risks in these books are subject to a market risk capital requirement. It also means that the securities and other assets in tradable form are not generally subject to "banking book" capital requirements, which are typically higher. If a trading position in an

asset ceases to be eligible for trading book treatment (for example if it becomes illiquid) it must be underpinned by capital on a banking book basis, but it remains subject to a market risk control framework for internal control purposes. Market risk regulatory capital is based on 10-day VaR while regulatory backtesting is based on 1-day VaR. As required by regulation, backtesting exceptions are notified to our internal and external auditors and relevant regulators.

Our base metals and soft commodities derivatives trading business is currently subject to the "standardized approach" for market risk capital, which is a very conservative treatment, but we are seeking SFBC approval to incorporate it in the approved VaR model.

Non-trading foreign exchange exposures other than structural positions are subject to a market risk regulatory capital charge and are included in VaR for this purpose. Other non-trading market risks are not subject to such a charge but interest rate risk in the banking book is reported to Swiss regulators.

For further explanation of regulatory capital treatment please see note 28 of our Financial Report 2005.

Non-trading currency risk VaR (10-day 99% confidence)

<i>CHF million</i>	2005	2004	2003
Minimum	3.1	2.2	0.7
Maximum	66.7	41.9	32.0
Average	26.3	17.2	12.3
End of period	29.8	3.5	28.3

Liquidity and funding management

Liquidity and funding management are critical to a financial institution. Liquidity must be continuously managed to ensure that the firm can survive a crisis, whether it is a general market event, a localized difficulty affecting a smaller number of institutions, or a problem unique to an individual firm. An institution that is unable to meet its liabilities when they fall due may collapse, even though it is not insolvent, because it is unable to borrow on an unsecured basis, or does not have sufficient good quality assets to borrow against or liquid assets to sell to raise immediate cash without severely damaging its net asset value. At UBS, we manage our liquidity position in order to be able to ride out a crisis without damaging the ongoing viability of our business. This is complemented by our funding risk management which aims to achieve the optimal liability structure to finance our businesses cost-efficiently and reliably. The long term stability and security of our funding in turn helps protect our liquidity position in the event of a UBS-specific crisis.

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

The liquidity and funding process is undertaken jointly by our Treasury department, which is part of Corporate Center, and the Investment Bank's Cash and Collateral Trading unit (CCT). Treasury establishes a comprehensive control framework, while CCT undertakes operational cash and collateral management transactions within the established parameters. This centralized cash and collateral management structure permits tight control of both our global cash position and our stock of highly liquid securities.

Our central treasury process ensures that our general access to wholesale cash markets is concentrated in CCT. As a rule, all funds raised externally are channelled into CCT including the proceeds of debt securities issued by UBS, an activity for which Treasury is responsible. CCT in turn meets all internal demands for funding by channelling funds from units generating surplus cash to those requiring finance. In this way, we minimize our external borrowing and use of available credit lines, and present a consistent and co-ordinated face to the market.

Liquidity approach

Our approach to liquidity management, which covers all branches and subsidiaries, is to ensure that we will always

have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking sustained damage to our various business franchises. Our integrated framework incorporates an assessment of all material, known and expected cash flows and the level of high-grade collateral that could be used to raise additional funding. This framework entails both careful monitoring and control of our daily liquidity position, and regular liquidity stress testing. Risk limits are set by the GEB and monitored by Treasury and contingency plans for a liquidity crisis are incorporated into our general crisis management process.

The liquidity position is assessed and managed under a variety of potential scenarios encompassing both normal market conditions and stressed conditions. We consider not only general market crises but also the possibility that our access to markets could be impacted by a stress event affecting some part of our business or, in the extreme case, if we were to suffer a severe rating downgrade.

Liquidity position

The daily liquidity position – the net cumulative funding requirement for a specific day – is projected under conservative assumptions for each business day from the current day out to one month to produce a cumulative “cash ladder”.

The starting point for these analyses is a breakdown of the contractual maturity of our assets and liabilities. This is displayed in note 28 to the financial statements, which shows the contractual profile of UBS's overall cash flow under a “business as usual” scenario on 31 December 2005. Since a liquidity crisis could have a myriad of causes, we then focus on a worst-case scenario that encompasses all potential stress effects across all markets, currencies and products.

We assess the likelihood of maturing assets and liabilities being rolled over in a UBS-specific crisis, and gauge the extent to which the potential crisis-induced shortfall could be covered by available funding. This would be raised on a secured basis against available collateral, which includes securities eligible for pledging at the major central banks, or by selling liquid inventory. In both cases we apply crisis-level discounts to the value of the assets. We assume that we would be unable to renew any of our unsecured debt, including all our maturing money market papers (outstanding volume CHF 102.7 billion on 31 December 2005) and that no contingency funding could be raised on an unsecured basis. We also factor in potential liquidity outflows from contingent liabilities, in particular those due to the drawdown of committed credit lines. Exposures to other contingent commitments, such as guarantees and letters of credit, are included in this analysis,

although they are not as vulnerable since they are generally not unconditional but, rather, are linked to other, independent conditions being fulfilled.

This scenario also assumes that the crisis would engulf UBS's source of retail deposits, thereby leading to heavy withdrawals from current accounts, savings accounts and deposits. Furthermore, access to the client collateral pool is assumed to be restricted as a result of securities lending agreements being cancelled during such a crisis.

We regularly monitor unutilized committed credit facilities and latent liquidity risks that could materialize if we were to suffer a downgrade. "Rating trigger" clauses, especially in derivative contracts, can result in an immediate cash outflow due to the unwinding of derivative positions, or the need to deliver additional collateral. Our contingent exposure arising directly from these rating triggers is judged not to be material compared to our liquidity-generation capacity, even in a crisis situation. We also analyze the potential impact on our net liquidity position of adverse movements in the replacement values of our OTC derivative transactions which are subject to bilateral collateral arrangements. Given the diversity of our derivatives business and our counterparties, there is not necessarily a direct correlation between the factors influencing net replacement values with each counterparty and a firm-specific crisis scenario. It is, nonetheless, conceivable that market volatility could substantially increase under such circumstances and exacerbate our situation.

Liquidity limits and controls

While UBS's estimated capacity to generate liquidity when required will naturally vary, we generally apply a constant limit structure, which imposes a ceiling on the projected net funding requirement along the cash ladder. We base our limits on the amount of cash we believe we could raise in a worst case scenario – a firm-specific crisis. The limits vary by time-zone since access to liquidity will depend on the time of day – at the beginning of the global trading day, during Asia-Pacific trading hours, the limits are less severe since more time is available to mobilize funding sources or, if necessary, initiate asset sales to generate additional liquidity. As the day proceeds and currency zones begin to close, the limits become tighter, with the strictest limits applied later in the day when only the US markets are available. CCT's day-to-day liquidity management is based on global books that are handed over from time-zone to time-zone, ensuring 24-hour coverage. Compliance with the risk limits and actual credit liquidity exposures are regularly reported to the GEB.

To complement and support the limit framework, regional teams monitor the markets in which UBS operates for potential threats and regularly report any findings to Treasury. We have also developed detailed contingency plans for liquidity crisis management as an integral part of our global crisis management concept, which covers all types of crisis events. The liquidity contingency plan would be implemented under

a core crisis team with representatives from Treasury, which is the liquidity risk control unit, from CCT, which is the primary liquidity manager, and from related areas including the functions responsible for payments and settlements, market and credit risk control, collateral and margin management, and IT and infrastructure. The cornerstone of our contingency plans is our access to secured funding either from the market or from the major central banks, coupled with the ability to turn sufficient liquid assets into cash within a short timeframe. Moreover, CCT's centralized global management model lends itself naturally to efficient liquidity crisis management.

We are continuing to strengthen our relationships with the major central banks, consistent with our general policy, which is to base our contingency plans on secured funding against pledges of high-quality collateral, rather than relying on third-party credit lines.

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

Funding sources and approach

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

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

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

To ensure that we preserve a well-balanced and diversified liability structure, Treasury routinely monitors UBS's funding status and reports its findings on a quarterly basis to the GEB. We employ two main analysis tools – "cash capital" and "secured funding capacity". We complement these analyses with

regular assessments of any concentration risks in our main funding portfolios.

Cash capital is the excess of our long-term funding over the total of illiquid assets. "Long-term" and "illiquid" both refer to a time horizon of one year.

The secured funding capacity concept ensures that short-term unsecured (wholesale) funding is effectively only invested in freely marketable ("unencumbered") assets. As a precautionary measure, we maintain a minimum stock of unencumbered assets and cash that exceed our outstanding short-term unsecured wholesale borrowings. The discounts we apply in assessing the surplus are more severe than those applied in the cash capital analysis since the secured funding capacity represents a stressed scenario, as it assumes we would have no access to wholesale unsecured funding markets for an entire year.

We make frequent use of asset-securitization structures, in particular in connection with the sale of corporate loans and retail mortgages. These do not, however, constitute a material portion of UBS's funding activities and our funding status would not be significantly affected if capital markets were to become inaccessible for such securitization transactions. UBS

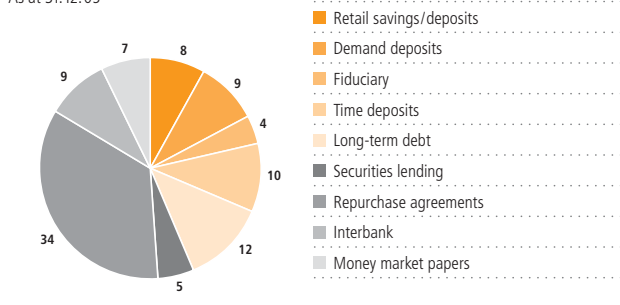
has no long-term commitments to continue to purchase the types of assets being securitized.

The charts below show a breakdown by product type and by currency of our secured and unsecured funding as at 31 December 2005. UBS has a strong secured funding base that reduces our exposure to periods of stressed market conditions when the ability to raise unsecured funding could be temporarily restricted. Of our total funding, 39% was raised on a secured basis and 61% unsecured. The unsecured funding base is well diversified, with 17% of total funding stemming from savings and demand deposits, 12% from long-term debt, 10% from time deposits, 9% from short-term interbank borrowing, 7% from money market papers and 4% from fiduciary deposits. Most of our funding is originated in US dollars, with major portions also being raised in Swiss francs and in euros, roughly mirroring the currency breakdown of our assets. Around 16% of our funding was denominated in other currencies (primarily UK sterling and Japanese yen). UBS does not rely on buying committed credit facilities from third-party banks, but instead we base our contingent funding sources on our ability to raise secured funding through the use of high-quality collateral.

UBS: funding by product type

in %

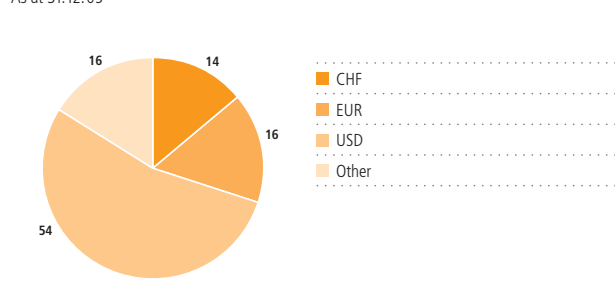
As at 31.12.05



UBS: funding by currency

in %

As at 31.12.05



Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes, whether deliberate, accidental or natural. It is inherent in all our activities, not only in the business we conduct but also from the fact that we are a business – because we are an employer, we own and occupy property, and we hold assets, including information, belonging to ourselves and to our clients. Our approach to operational risk is not designed to eliminate risk per se but, rather, to contain it within acceptable levels, as determined by senior management, and to ensure that we have sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses. The Group CRO and the Head of Operational Risk, who reports to him, are responsible for the independence, objectivity and effectiveness of our operational risk framework.

Operational risk framework

Every function, whether a front-end business or a control or logistics unit, must manage the operational risks that arise from its own activities. Because operational risk is all pervasive, with a failure in one area potentially impacting many others, our framework is based on mutual oversight across all functions. Each Business Group has therefore established cross-functional bodies as an integral part of its governance structure, to actively manage operational risk.

To ensure the integrity of risk management decisions, each Business Group also has an Operational Risk Control unit, the head of which reports functionally to the Group Head of Operational Risk. The primary remit of these units is to confirm the effective implementation of the operational risk frame-

work in the Business Group and to ensure transparent assessment and reporting of operational risks to senior management.

The foundation of the operational risk framework is the definition by all functions of their roles and responsibilities so that, collectively, they can ensure that there is adequate segregation of duties, complete coverage of risks and clear accountability. From this analysis, they develop control objectives and standards to protect our tangible and intangible assets and interests, based on the types of operational risk event that might arise, ranging from every day reconciliation problems to potentially severe events such as fraud. We recognize that we cannot eliminate all risks, because errors and accidents will always happen, and that even where it is possible it is not always cost effective to do so. We therefore adopt a risk-based approach to the design and implementation of our internal control framework.

The functions monitor compliance with their controls and assess their operating effectiveness in several ways, including self-certification by staff, and evaluation of responses by management. Additionally, they track a wide-ranging set of metrics to provide potential early warning of increased risk associated with non-attainment of control objectives. These include numbers and characteristics (severity, size, age etc.) of, for example, client complaints and claims, deal cancellations and corrections, unreconciled items on cash and customer accounts, and systems failures. We also assess the implications of internal and external audit findings and other relevant sources of information.

As major operational risk events occur, we assess their causes and the implications for our control framework, whether or not they lead to direct financial loss. This includes

Operational risk in practice

Following public disclosure of two major incidents (relating to bank notes trading and US withholding tax) in 2004, operational risk events in 2005 have been less high profile. Among the more notable was the outcome of the US investigation into market timing in the mutual funds business, which led to a financial settlement with several US regulatory authorities. A loss of client data relating to approx-

imately 9,500 accounts in Japan, reported in May 2005, highlights the continuing challenges we face in managing a complex, integrated, fast changing, global business, particularly against the backdrop of heightened regulatory and public sensitivity to shortcomings in corporate processes. At the end of 2004, the GEB started developing a number of measures that addressed areas exposed to opera-

tional risk in terms of regulatory requirements and management oversight. Those measures made significant progress in 2005. As part of the overall project, a firm-wide communication and education framework has been rolled out to all employees to raise awareness of operational risk issues and to provide specific training where necessary.

events affecting third parties that are relevant to our business if sufficient information is made public. It is important that we use all available information to test our control framework because, even if an internal event does not lead to a direct or indirect financial loss, it may indicate that our standards are not being complied with.

The totality of this information is reviewed by functional managers to assess their operational risk exposure and the actions needed to address specific issues. Regular reports are made both within the Business Groups and to the Group CRO to allow senior management to assess the overall operational risk profile.

Operational risk measurement

The specific risks that are identified by operational risk management and reported to senior management are evaluated in terms of their potential frequency of occurrence and severity of the resulting impact. These assessments are validated by the Operational Risk Control functions within the Business Groups.

We maintain a database of financial events (both profits and losses) and their underlying causes, and are developing a model to quantify our operational risk. This will ultimately form the basis of our operational risk regulatory capital requirement under Basel II, for which we intend to use an advanced measurement approach. This quantification, while useful, does not necessarily tell the whole story. A single event can impact us financially in ways other than direct costs or losses such as fines, compensation to clients or asset write-downs – we may also suffer lost revenues from business disruption, and incur costs associated with remediation. The impact of an event may also be larger than its immediate monetary cost might suggest – a publicly disclosed regulatory fine can, for example, result in withdrawal of clients or loss of business. In summary, the level of risk at any time is not directly

correlated to actual financial losses or their frequency of occurrence, which are, at best, only indicative.

As far as accounting for operational risks is concerned, many potential loss situations are identified before the probability, timing or amount of future expenditure are known with certainty. IFRS requires us to make a provision, based on the best estimate of a liability, when it is probable that a payment will be required, even if the amount to be paid has not yet been exactly determined. This requires the exercise of judgment. Once we are able to quantify any potential operational risk more accurately, the corresponding provision is revised up or down.

Operational risk developments

Regulatory compliance is a prerequisite for effective operational risk management and control and comes primarily in the form of Basel II, Sarbanes-Oxley Section 404 (SOX 404) and other related requirements (e.g. the Federal Deposit Insurance Corporation Improvement Act in the US). The Operational Risk Framework serves broadly as the backbone of the Bank's approach to internal control requirements, and thus forms a key component of the SOX 404 compliance requirement that will come into effect at the end of 2006. Because this evaluation is a specialized form of risk assessment, a specific SOX Office has been created under the Group CFO. This office liaises closely with the Group and Business Group Operational Risk Controllers to ensure an efficient flow of information.

The operational risk framework provides information that can be used in specialized risk evaluations. The operational risk assessments by the Business Groups can, for example, provide valuable information in support of legal and compliance risk assessments. This concept will be developed further for use in other specialist areas such as human resources and tax to ensure that the operational risk framework continues to help us achieve excellence in operational risk management and control.

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.

Capital Management & UBS Shares

We strive to create value for shareholders while protecting our strong capitalization and credit ratings.

Capital management

The approach we take to capital management is one of our hallmarks. We endeavour to maintain strong debt ratings and sound capital ratios (see capital strength box on the next page), as they help ensure our position as one of the best-capitalized financial services firms in the world. Being strongly capitalized allows us to invest in the growth of our businesses – whether organically or by acquisition. If we do not see opportunities to invest in growth, we return capital to our shareholders – while maintaining a high BIS Tier 1 ratio.

In managing our capital, we look at eligible and required capital and forecast their future development. Dividend payments and share buyback programs are the main tools by which we manage our capital base. That, along with the capital securities we issue, gives us the means to manage our Tier 1 and total capital ratios, helping us protect our strong capitalization and credit ratings while ensuring we continue to create sustainable value for shareholders.

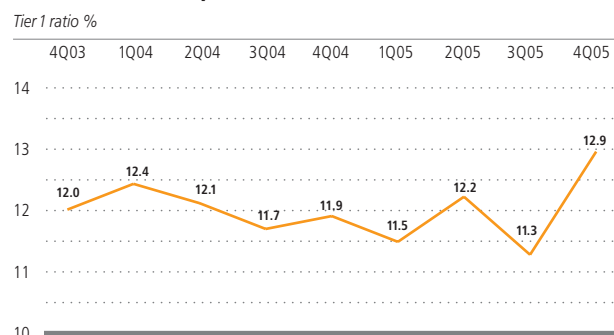
Distribution of cash to shareholders in 2005

We transferred a total of CHF 6.7 billion in equity to our shareholders in 2005. The total amount was split between our dividend payment of CHF 3.1 billion made in April 2005 and the CHF 3.6 billion in shares we repurchased during 2005 for purposes of cancellation. For more details on our dividend payments, see page 92 of this section.

Capital securities

In 2005, UBS placed CHF 1.6 billion in euro denominated preferred shares and raised CHF 2.6 billion in subordinated debt in various currencies in the capital markets. Outstanding Tier 2 capital securities accounted for CHF 7.2 billion in eligible

UBS: BIS Tier 1 capital ratio



capital on 31 December 2005. In total, UBS has CHF 5.0 billion in preferred shares (outstanding), issued through trusts or subsidiaries and qualifying as Tier 1 capital under regulatory rules.

Capital requirement

The capital we are required to hold by our regulator, the Swiss Federal Banking Commission (SFBC), is determined by our balance sheet, off-balance sheet and market risk positions – risk-weighted according to defined criteria. For instance, counterparty-related risks are weighted according to type of counterparty instrument and collateral. Market risk positions are generally risk-weighted based on VaR (for more details please refer to note 28 to the financial statements). Most of our capital requirement arises from balance sheet assets. Off-balance sheet positions and market risk positions each repre-

Capital adequacy

		As at	
<i>CHF million, except ratios</i>	31.12.05	31.12.04	32.12.03
BIS Tier 1 capital	39,943	31,629	30,189
of which hybrid Tier 1 capital ¹	4,975	2,963	3,224
BIS total capital	43,917	36,444	34,005
BIS Tier 1 capital ratio (%)	12.9	11.9	12.0
BIS total capital ratio (%)	14.1	13.8	13.5
Balance sheet assets	252,363	218,476	212,673
Off balance sheet and other positions	37,011	28,205	21,456
Market risk positions ²	21,035	18,151	18,269
Total BIS risk-weighted assets	310,409	264,832	252,398

¹ Preferred securities. ² BIS risk-weighted asset equivalent of market risk capital requirement.

sent less than 10% of risk-weighted assets and, correspondingly, of our total capital requirement. For the calculation of BIS capital adequacy, risk-weighted assets are related to capital eligible according to BIS rules.

The calculation of the capital requirement, as applicable to UBS under SFBC regulations, differs in certain respects from the calculation under the Basel Capital Accord (BIS guidelines). The most important differences are:

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

As a result of the differences in regulatory rules, UBS's risk-weighted assets are higher, and our ratios of total capital and Tier 1 capital to risk-weighted assets, are lower, when calculated under the SFBC regulations than under BIS guidelines.

On 31 December 2005, risk-weighted assets were CHF 310.4 billion, up 17% from CHF 264.8 billion a year earlier. The increase was driven by the loan portfolio of the Investment Bank, and an increase in our mortgage lending activities.

Capital ratios

The ratios we report measure capital adequacy by comparing our eligible capital (Tier 1 and total) with total risk-weighted assets. UBS has always had total capital and Tier 1 capital well in excess of the minimum requirements of both the BIS and the SFBC.

BIS Tier 1 capital increased to CHF 39.9 billion on 31 December 2005 from CHF 31.6 billion a year earlier, reflecting the extraordinary gain from the disposal of Private Banks & GAM and a strong operational profit in 2005. As a result, our BIS Tier 1 ratio increased by 1 percentage point to 12.9% at the end of 2005 from 11.9% on 31 December 2004.

Capital strength

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

In December 2005, *Moody's* affirmed UBS's Aa2 long-term, Prime-1 short-term, and B+ bank financial strength ratings and commented that "the ratings of UBS remain underpinned by its strong client franchises with leadership positions in the majority of its core businesses, resilient cross-cyclical revenue generation through diversification across products and regions, good growth prospects for most of its businesses, and strong economic and regulatory capital positions."

In February 2006, the rating agency *Standard & Poor's* affirmed UBS's AA+ long-term, and A-1+ short-term ratings and commented: "The affirmation reflects UBS' success in leveraging its strong and diverse franchise to produce robust profitability, coupled with solid capitalization and sound liquidity. UBS holds leading positions in

its chosen markets. The key strengths of its business profile are the strong cash flow, high returns, and low capital requirements of its asset-gathering businesses."

In December 2005, *Fitch Ratings* affirmed UBS's AA+ / F1+ / A/B ratings and commented: "UBS's ratings reflect its excellent private banking / wealth management franchise, diversified revenues, consistently good profitability, a cautious approach to risk, and strong capitalization."

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

cial institutions worldwide.

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

Long-term ratings

	As at		
	31.12.05	31.12.04	32.12.03
Fitch, London	AA+	AA+	AAA
Moody's, New York	Aa2	Aa2	Aa2
Standard & Poor's, New York	AA+	AA+	AA+

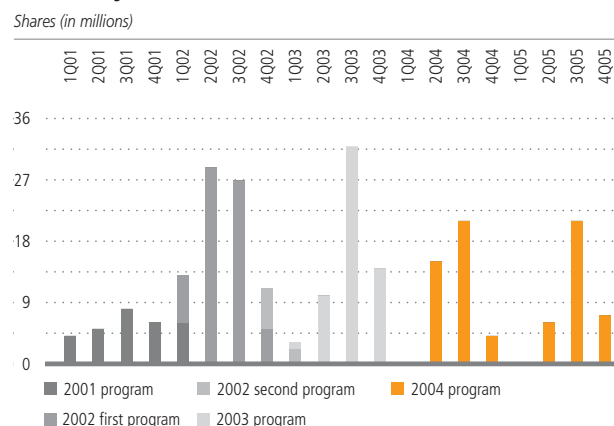
Treasury shares

Under IFRS accounting rules, UBS shares held for trading or non-trading purposes are recorded as treasury shares and deducted from shareholders' equity. Our holding of treasury shares decreased to 104,259,874 or 9.6% of shares issued on 31 December 2005, from 124,663,310 or 11.1% on the same date a year ago. Of the treasury shares held, 33,885,000 are earmarked for cancellation whereas the other 70,374,874 cover employee share and option programs and, to a limited extent, market-making activities at the Investment Bank.

Treasury shares earmarked for cancellation (share buyback program 2005/2006)

Strong earnings and careful management of our balance sheet allowed us to conduct a share buyback program for the sixth consecutive year in 2005 – giving us the opportunity to reduce the number of issued UBS shares, enhancing earnings per share. Under Swiss regulations, a company wishing to cancel shares must purchase them on the stock exchange under a special security code that clearly identifies to the market the time and quantity of shares repurchased for that specific purpose. As in previous years, we announced a maximum Swiss franc amount to be used for share purchases under the buyback program. The level of repurchases is determined by our capital management plan, which is adjusted throughout the year to reflect changes in business plans or acquisition opportunities. Our strong cash flow generation combined with our sound capitalization allows us to invest in the growth of our businesses by growing organically or making acquisitions. In the absence of such opportunities, we would return any excess capital to shareholders through share buybacks or dividends. UBS publishes the number of shares repurchased and the average price paid on a weekly basis on the internet at www.ubs.com/investors.

Share buyback



At the Annual General Meeting on 21 April 2005, shareholders gave the Board of Directors a mandate to set up a repurchase program in 2005 / 2006 for a maximum amount of CHF 5 billion. At the AGM on 19 April 2006, shareholders will be asked to approve the cancellation of 37,100,000 shares representing a total value of CHF 4.0 billion under the program that ended on 7 March 2006. The shares will be cancelled in summer 2006.

The table below shows the impact on basic earnings per share of the purchase of treasury shares through the second line buyback program.

Treasury share holdings for employee participation plans

UBS shares are also purchased and held to satisfy share delivery obligations under UBS's share and option-based participa-

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

		For the year ended	
	31.12.05	31.12.04	31.12.03
Weighted average shares for basic EPS after treasury shares	1,006,993,877	1,029,918,463	1,086,161,476
Weighted average second trading line treasury shares ¹	272,169,755	236,970,415	182,301,119
Basic EPS	13.93	7.78	5.44
Cumulative impact of treasury shares on basic EPS (CHF) ¹	2.96	1.45	0.79
Cumulative impact of treasury shares on basic EPS (%) ¹	21.2	18.6	14.5

¹ From first share buyback program in 2000.

tion plans that align the long-term interests of executives, managers, staff and shareholders. For share-based participation plans, UBS shares are purchased in the market and set aside for future distribution to employees once the holding period criteria have been met. For satisfying future share delivery obligations out of employee option plans, UBS shares are also purchased in the market and held to partially hedge the future obligations.

At year-end, a total of 90.9 million outstanding employee options at an average exercise price of CHF 84 represented potential future share delivery obligations to employees, which UBS currently mainly satisfies through the delivery of treasury shares purchased in the market. In 2005, a total of 30.7 million employee options were exercised and an additional 22.6 million new options were granted. In future, and subject to the approval by the AGM, UBS will use conditional capital to cover newly granted employee options. For more information, read page 93.

Treasury shares held by the Investment Bank

The Investment Bank, acting as liquidity provider to the equity futures market and as a market maker in UBS shares and derivatives, has issued derivatives linked to UBS stock. Most of these instruments are classified as cash-settled derivatives and are held for trading purposes only. To hedge the economic exposure, a limited number of UBS shares are held by the Investment Bank.

The presentation in the table below does not include movements in UBS share positions held by the Investment Bank.

Treasury shares – statutory limit

Under the Swiss Stock Exchange Act, treasury shares held by the company must be reported once they rise above a certain threshold. UBS's holding in its shares remained between 5% and 10% throughout 2005.

Treasury share activities

Month of purchase	Share buyback program				Treasury shares purchased for employee share and option participation plans and acquisitions ¹		Total number of shares	
	Number of shares	Average price in CHF	Remaining volume of share buyback program in CHF million		Number of shares	Average price in CHF	Number of shares	Average price in CHF
January, 2005	0	0.00	2004 / 2005 program	2,457	94,650	95.04	94,650	95.04
February, 2005	0	0.00	2004 / 2005 program	2,457	90,555	102.67	90,555	102.67
March, 2005	0	0.00	2005 / 2006 program	5,000	11,872,485	102.38	11,872,485	102.38
April, 2005	3,050,000	101.30	2005 / 2006 program	4,691	2,461,870	100.92	5,511,870	101.13
May, 2005	0	0.00	2005 / 2006 program	4,691	3,525,905	95.90	3,525,905	95.90
June, 2005	3,000,000	99.00	2005 / 2006 program	4,394	792,535	97.27	3,792,535	98.64
July, 2005	7,365,000	102.30	2005 / 2006 program	3,641	118,834	102.75	7,483,834	102.30
August, 2005	5,950,000	104.77	2005 / 2006 program	3,017	974,188	103.79	6,924,188	104.63
September, 2005	7,705,000	106.93	2005 / 2006 program	2,193	5,381,325	106.96	13,086,325	106.94
October, 2005	4,650,000	111.20	2005 / 2006 program	1,676	1,134,848	111.49	5,784,848	111.25
November, 2005	0	0.00	2005 / 2006 program	1,676	8,933,201	119.33	8,933,201	119.33
December, 2005	2,165,000	126.31	2005 / 2006 program	1,403	5,086,761	124.16	7,251,761	124.80

¹ This table excludes market-making and related hedging purchases by UBS. The table also excludes UBS shares purchased by investment funds managed by UBS for clients in accordance with specified investment strategies that are established by each fund manager acting independently of UBS; and also excludes UBS shares purchased by pension and retirement benefit plans for UBS employees, which are managed by a board of UBS management and employee representatives in accordance with Swiss law guidelines. UBS's pension and retirement benefit plans purchased 82,225 UBS shares during the year and held 1,794,576 UBS shares as at 31 December 2005.

Program	Announcement	Beginning	Expiration	Cancellation	Maximum Volume CHF billion	Amount CHF billion	Total shares purchased	Average Price CHF	Unutilised volume CHF billion
2000 / 2001	14.12.99	17.01.00	02.03.01	13.07.01	4	4.0	55,265,349 ¹	72.37	0
2001 / 2002	22.02.01	05.03.01	05.03.02	05.07.02	5	2.3	28,818,690	79.46	2.7
2002 / 2003	14.02.01	06.03.02	08.10.02	10.07.03	5	5.0	67,700,000	73.84	0
2002 / 2003	09.10.02	11.10.02	05.03.03	10.07.03	3	0.5	8,270,080	64.07	2.5
2003 / 2004	18.02.03	06.03.03	05.03.04	30.06.04	5	4.5	59,482,000	75.93	0.5
2004 / 2005	10.02.04	08.03.04	07.03.05	08.07.05	6	3.5	39,935,094	88.72	2.5
2005 / 2006 ²	08.02.05	08.03.05	07.03.06		5	3.6	33,885,000	106.16	1.4

¹ Restated for stock split. ² Status as per 31 December 2005. Program will continue until 7 March 2006.

Dividends

UBS normally pays an annual dividend to shareholders registered as of the date of the Annual General Meeting (the record date). Payment is usually scheduled three business days thereafter.

The level of our dividend is dependent on our targeted capital ratios and the cash flow generation of the company. Our dividend policy takes into account the fact that our shareholders have different preferences for receiving shareholder returns: some prefer cash dividends, some prefer share buybacks. By pursuing both avenues, we aim to attract and retain the widest, most diverse global shareholder base.

The decision on dividend payments falls under the AGM's authority and is subject to shareholder approval.

Dividend in 2005

We were able, after the approval of the Annual General Meeting of shareholders on 21 April 2005, to pay a dividend of CHF 3.00 for 2004, 15.4% higher than the previous year's CHF 2.60. Shareholders in the US received a net dividend payment of USD 1.65 per share. This excludes the 35% Swiss withholding tax that can partly be reclaimed by US investors. The ex-dividend date was 22 April 2005. Payment took place on 26 April 2005 for shareholders of record on 21 April 2005.

For details on the distribution planned in 2006 for the 2005 financial year (dividend and par value repayment), please refer to the sidebar on the next page.

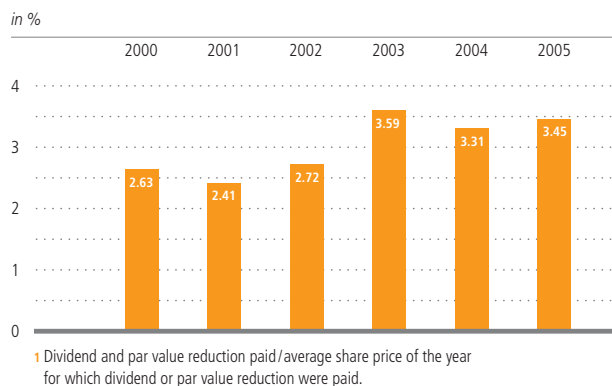
US shareholders

UBS's share registry is divided into two parts. There is a Swiss register, which is maintained by UBS acting as Swiss transfer agent, and a US register, which is maintained by Mellon Investor Services, as US transfer agent. A shareholder is entitled to hold shares registered in his / her name on either register and to transfer shares from one register to the other upon giving proper instruction to the transfer agents.

For more details on "Shareholders' participation rights" refer to page 122 in this report.

The norm in the US is to declare dividends at least ten days in advance of the applicable record date with ex-dividend trading commencing two days before the record date. To en-

Dividend yield¹



sure that shareholders on the Swiss and US registers are similarly treated in connection with dividend payments, and to avoid disparities between the two markets, NYSE trading takes place with due bills for the two-business day period preceding the dividend record date.

UBS pays dividends in Swiss francs. For UBS ordinary shares held in street name through The Depository Trust Company – a member of the US Federal Reserve System, a limited-purpose trust company under New York State banking law and a registered clearing agency with the Securities and Exchange Commission – any dividend will be converted into US dollars. Holders of UBS ordinary shares registered on the US register will receive dividend payments in US dollars unless they provide notice to Mellon Investor Services that they wish to receive dividend payments in Swiss francs.

UBS will fix the US dollar dividend and par value payment amount on the basis of the DJ Interbank Foreign Exchange rate for sale of Swiss francs against US dollars on 20 April 2006 and 10 July 2006 respectively.

Holders of UBS shares are subject to 35% withholding tax on dividends they receive from UBS. Shareholders in the US can normally reclaim part of this, bringing their tax rate down to 15%. Par value repayments are not subject to withholding tax and are distributed in full. Further disclosure relating to the taxation of US holders of UBS shares can be found in our Form 20-F, in section E of item 10.

Capital management and shareholder distribution in 2006

At the AGM on 19 April in Basel, the Board of Directors will propose a series of corporate actions impacting the capital management of UBS.

Distribution to shareholders

For the financial year 2005, the Board of Directors will recommend a total payout of CHF 3.80 per share at the AGM. The payout comprises a regular dividend of CHF 3.20, up 7% from a year earlier to be distributed in April (ex-dividend date 20 April 2006, with payment on 24 April 2006 for shareholders of record on 19 April 2006), plus a one-time par value repayment of CHF 0.60 per share. The repayment will allow UBS shareholders to benefit from the gain realized from the sale of Private Banks & GAM. The par value repayment is exempt from Swiss withholding tax and it will be paid out two months after the dividend (ex-date 10 July 2006, with payment on

12 July 2006 for shareholders of record on 7 July 2006).

Share split 2-for-1

The Board will also recommend a 2-for-1 share split. If approved by shareholders, it will become effective on 10 July 2006. Combined with the par value repayment, this will reduce the par value of each share to CHF 0.10. UBS believes this will improve trading and liquidity of its shares, and bring the price more in line with other major companies whose shares are traded on international financial markets.

Creation of conditional capital

The Board will ask the AGM to approve the creation of conditional capital of a maximum of 75 million shares (150 million after the split) to fund our employee share option programs. Currently, UBS holds treasury shares to cover the need to deliver

shares at the point when options are exercised. If approved by shareholders, the creation of conditional capital will help UBS to avoid substantial holdings of own shares over extended periods and add transparency to its capital management. Neither UBS's use of options as part of its overall compensation strategy, nor its disciplined approach to capital management, will change.

New share buyback program for 2006/2007

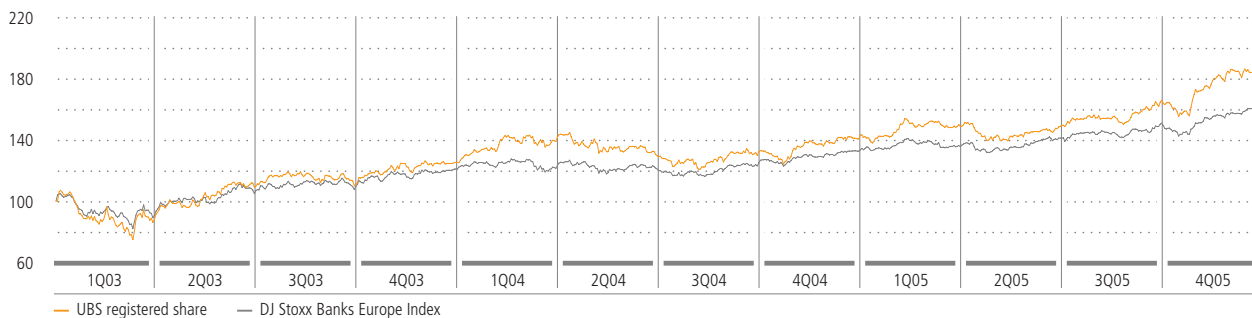
Given our continued strong cash flow generation, the Board of Director will propose a new share buyback program for capital reduction. This will be the eighth consecutive second line buyback program. It started on 8 March 2006 and will allow for a maximum of CHF 5 billion in shares to be repurchased. The program will run until 7 March 2007.

UBS shares in 2005

UBS share price chart vs DJ Stoxx banks

in %

1 January 2003 – 31 December 2005



Note: For current share price refer to: www.ubs.com/quotes

UBS shares are listed on the Swiss Exchange (where they are traded on virt-x), and on the New York and Tokyo stock exchanges. For a detailed definition of UBS shares (par value, type, rights of security), see page 99 of the Corporate Governance section.

Major equity markets, except in the US, saw significant gains in 2005. Investor sentiment was buoyed by the positive rate of economic growth around the world and the generally high level of corporate earnings. In the US, the crisis of the automobile industry sharpened in spring and was a temporary drag on market sentiment and performance, with the fall-out from Hurricane Katrina slowing US consumer sentiment in the second half of the year. Banking and financial stocks recorded strong gains in 2005, with the DJ Stoxx Banks Europe Index rising 21.2%. The DJIA eased 0.6%, the S&P 500 rose 3% and the MSCI (World) Index increased 7.6%. UBS shares outpaced the market's overall gains, closing the year 31.2%

Ticker symbols

Trading exchange	Bloomberg	Reuters
virt-x	UBSN VX	UBSN.VX
New York Stock Exchange	UBS US	UBS.N
Tokyo Stock Exchange	8657 JP	UBS.T

higher at CHF 125.10 – outstripping its main benchmark, the DJ Stoxx Banks Europe index.

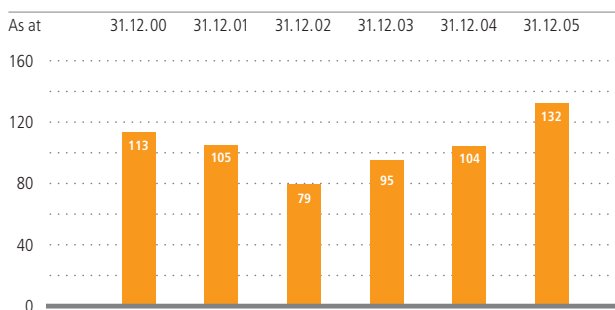
The first quarter started with mixed sentiment in the financial markets, with many investors expecting US interest rates to rise, bringing with it a flatter yield curve, wider spreads and lower market volatility. UBS shares rose 4.4% in first quarter 2005 to CHF 101 as its fourth quarter 2004 results, announced in February, beat the market consensus by 5%. It also raised its dividend for 2004 by 15% to CHF 3.00 a share.

In second quarter, markets slowed perceptibly. Credit spreads widened unexpectedly, driven by the GM and Ford credit downgrades. There were also fears that hedge fund losses would trigger massive redemptions from investors. Oil prices increased rapidly, prompting observers to forecast significantly slower economic growth, corporate activity and private consumption. Towards the end of the quarter, however, equity markets staged a strong recovery on expectations of an improvement in the credit environment and the belief that financial sector shares would benefit most. UBS shares fell 1% to CHF 100 in second quarter, tracing the overall market, and after it released first quarter results in line with the market consensus.

The third quarter saw the strong recovery in the equity markets continue as investors, taking their cue from buoyant corporate earnings and continued solid economic growth,

Market capitalization

CHF billion



UBS share data

	As at		
	31.12.05	31.12.04	31.12.03
<i>Registered shares</i>			
Total shares outstanding	1,088,632,522	1,126,858,177	1,183,046,764
Total shares ranking for dividend	1,054,747,522	1,086,923,083	1,126,339,764
Treasury shares	104,259,874	124,663,310	136,741,227
Weighted average shares (for basic EPS calculations)	1,006,993,877	1,029,918,463	1,086,161,476
Weighted average shares (for diluted EPS calculations)	1,048,595,770	1,081,961,360	1,138,800,625

CHF	For the year ended		
	31.12.05	31.12.04	31.12.03
Earnings per share			
Basic EPS	13.93	7.78	5.44
Basic EPS from continuing operations, before goodwill	9.78	8.02	5.72
Diluted EPS	13.36	7.40	5.19
Diluted EPS from continuing operations, before goodwill	9.39	7.64	5.46

UBS shares and market capitalization

	As at			% change from 31.12.04
	31.12.05	31.12.04	31.12.03	
<i>Number of shares, except where indicated</i>				
Total ordinary shares issued	1,088,632,522	1,126,858,177	1,183,046,764	(3)
Second trading line treasury shares				
2002 first program				
2002 second program				
2003 program			(56,707,000)	
2004 program		(39,935,094)		
2005 program	(33,885,000)			
Shares outstanding for market capitalization	1,054,747,522	1,086,923,083	1,126,339,764	(3)
Share price (CHF)	125.10	95.35	84.70	31
Market capitalization (CHF million)	131,949	103,638	95,401	27
<i>Total treasury shares</i>	104,259,874	124,663,310	136,741,227	(16)

Trading volumes

	For the year ended		
	31.12.05	31.12.04	31.12.03
<i>1000 shares</i>			
SWX total (virt-x)	957,896	827,064	987,743
SWX daily average (virt-x)	3,684	3,256	3,951
NYSE total	99,347	80,853	71,096
NYSE daily average	382	321	282

became increasingly active. Activity in the merger and acquisitions market was at its strongest level seen in six years. UBS shares traced those developments, rising 10% to CHF 110. Its second quarter results came in sharply above expectations, beating the market consensus by 26%.

The fourth quarter was characterized by a further strong improvement in investor sentiment. Markets believed that economies around the world would continue to grow briskly and that energy prices would soon start to decline. Corporate merger and acquisition activity remained very strong as well.

UBS shares rose to their all-time high just above CHF 125 in fourth quarter. It rose 13.7% in the quarter, significantly outpacing the S&P's 4.8% and the SMI's 9.3% gains. In early November, the firm reported third quarter earnings that were 8% above the market consensus.

Share liquidity

During 2005, daily average volume in UBS shares on virt-x was 3.7 million shares. On NYSE, it was 383,973 shares. Because

Stock exchange prices¹

	SWX Swiss Exchange			New York Stock Exchange		
	High (CHF)	Low (CHF)	Period end (CHF)	High (USD)	Low (USD)	Period end (USD)
2005						
Fourth quarter 2005	127.00	105.50	125.10	98.04	82.43	95.15
December	127.00	123.20	125.10	98.04	95.11	95.15
November	124.30	113.00	121.30	94.42	87.60	91.92
October	112.90	105.50	109.50	87.30	82.43	85.67
Third quarter 2005	112.30	100.80	110.00	86.80	77.83	85.50
September	112.30	103.00	110.00	86.80	83.25	85.50
August	106.20	102.00	102.60	83.93	80.70	82.10
July	105.90	100.80	105.90	82.43	77.83	81.96
Second quarter 2005	102.80	94.45	100.00	85.86	77.19	77.85
June	100.20	97.95	100.00	79.25	77.19	77.85
May	97.25	94.45	96.25	81.49	77.35	77.35
April	102.80	94.65	95.20	85.86	78.95	80.30
First quarter 2005	104.60	93.50	101.00	89.42	79.39	84.40
March	103.40	100.50	101.00	89.42	83.55	84.40
February	104.60	97.15	100.90	87.72	81.72	86.75
January	97.20	93.50	96.45	84.13	79.39	81.38
2004	98.35	81.60	95.35	84.37	64.94	83.84
Fourth quarter 2004	96.35	84.00	95.35	84.37	70.10	83.84
Third quarter 2004	91.00	81.60	87.90	72.38	64.94	70.33
Second quarter 2004	98.35	88.25	88.25	76.05	68.89	71.06
First quarter 2004	97.05	85.70	94.10	79.25	67.92	74.49
2003	85.40	49.80	84.70	68.16	38.00	67.99
Fourth quarter 2003	85.40	74.85	84.70	68.16	57.54	67.99
Third quarter 2003	80.50	73.50	74.10	59.25	54.38	56.23
Second quarter 2003	75.75	58.90	75.35	58.35	43.58	55.40
First quarter 2003	72.10	49.80	57.50	51.86	38.00	42.70
2002	84.30	51.05	67.20	51.99	34.54	48.12
Fourth quarter 2002	75.45	51.05	67.20	50.88	34.54	48.12
Third quarter 2002	75.15	56.80	61.30	49.94	37.86	41.00
Second quarter 2002	84.15	69.80	74.85	51.99	46.90	49.89
First quarter 2002	84.30	73.00	82.80	50.50	43.27	49.75
2001	96.83	62.10	83.80	58.49	40.12	50.00
Fourth quarter 2001	86.85	69.70	83.80	52.83	43.23	50.00
Third quarter 2001	86.33	62.10	75.60	49.73	40.12	46.15
Second quarter 2001	92.00	77.50	85.83	51.47	44.87	47.02
First quarter 2001	96.83	72.33	83.17	58.49	43.02	47.68

¹ The share prices and volumes have been adjusted for the two-for-one share split that became effective on 8 May 2000 and for the three-for-one share split effective 16 July 2001.

of the greater volume on virt-x, trading of UBS shares there is expected to remain the main factor determining the movement in our share price.

During the hours in which both virt-x and NYSE are simultaneously open for trading (currently 3:30 pm to 5:30 pm Central European Time), price differences are likely to be arbitrated away by professional market makers. The NYSE

price will therefore typically be expected to depend on both the virt-x price and the prevailing US dollar / Swiss franc exchange rate. When virt-x is closed for trading, traded volumes will typically be lower. However, the specialist firm making a market in UBS shares on the NYSE, Van der Moolen, is required to facilitate sufficient liquidity and an orderly market in UBS shares.

Corporate Governance

UBS is committed to meeting high standards of corporate governance. Our corporate and executive bodies are organized in line with leading codes of best practice. The ultimate aim of our corporate governance is to lead UBS to success.

Introduction and principles

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

UBS fully complies with the standards established in the “Swiss Code of Best Practice for Corporate Governance” and the “SWX Swiss Exchange Directive on Information Relating to Corporate Governance”, both effective since 1 July 2002. UBS also meets the New York Stock Exchange (NYSE) corporate governance standards applicable to listed foreign companies and complies with the overwhelming majority of NYSE standards for US domestic issuers. The few exceptions, mainly due to different legal systems in Switzerland and the US relating to the role, responsibilities and authorities of the Board of Directors and the Annual General Meeting (AGM), are explained on pages 132–134. UBS complies with the applicable requirements of the US Sarbanes-Oxley Act of 2002, including the certification of UBS’s Annual Report on Form 20-F by the CEO and the CFO.

SWX Swiss Exchange Reporting on Corporate Governance

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

- Group structure and shareholders
- Capital structure
- Board of Directors
- Senior management (Group Executive Board/GEB)
- Compensation, shareholdings and loans
- Shareholders’ participation rights
- Change of control and defense measures
- Auditors
- Information policy

This section summarizes the regulatory and supervisory environment of UBS in its principal locations and describes how UBS complies with the NYSE listing standards on corporate governance. In addition, it provides a list of all members of the Group Managing Board and the Vice Chairmen of the Business Groups who, together with the GEB, form the senior leadership of the firm.

The chapter on executive compensation has been further enhanced, providing a broader picture of UBS’s overall compensation philosophy. It also provides information on how executive compensation decisions are made.

Group structure and shareholders

Under Swiss company law, UBS is organized as a limited company, a corporation that has issued shares of common stock to investors. UBS AG is the parent company of the UBS Group.

UBS Group legal entity structure

The legal entity structure of UBS is designed to support its businesses within an efficient legal, tax, regulatory and funding framework. None of the Business Groups of UBS or its Corporate Center are separate legal entities. They operate out of the parent bank, UBS AG, through its branches worldwide. The goal of this structure is to capitalize on the increased business opportunities and cost efficiencies offered by the use of a single legal platform and to enable the flexible and efficient use of capital.

Where it is either not possible or not efficient to operate out of the parent bank, usually due to local legal, tax or regulatory rules or as a result of additional legal entities joining the UBS Group through acquisition, businesses operate through local subsidiaries. The significant operating subsidiary companies of the Group are listed in note 35 to the financial statements.

Operational group structure

The three Business Groups – Global Wealth Management & Business Banking (with its three business units Wealth Management International & Switzerland, Wealth Management US, and Business Banking Switzerland), Global Asset Management, and Investment Bank – together with Corporate Center – form the operational structure of the Group's financial businesses. Performance is reported according to this structure (see our Financial Report 2005). A description of the Business Groups and their strategy, structure, organization, products and services is contained in this Handbook on pages 8–13. In addition, the UBS Group accounts contain a separate reporting segment called Industrial Holdings, which was created in 2004 following the full consolidation of Motor-Columbus AG into the financial statements (and which also includes our private equity holdings). This allows UBS to maintain continuity in the presentation and analysis of the core financial businesses.

Listed and non-listed companies belonging to the Group (consolidated entities)

Motor-Columbus AG, Baden (Switzerland), listed on the SWX Swiss Exchange, share capital CHF 253 million, capitalization on 31 December 2005 CHF 2,464.2 million, UBS stake

55.6%, Valor No 212427 / ISIN CH0002124276, was fully consolidated in UBS's financial statements in third quarter 2004 following the acquisition of a majority stake on 1 July 2004. UBS announced the intended sale of Motor-Columbus AG on 30 September 2005.

The UBS Group includes a great number of other subsidiaries, none of which, however, is listed. For details of significant subsidiaries, see note 35 to the financial statements.

Significant shareholders

Chase Nominees Ltd., London, acting in its capacity as a nominee for other investors, was registered with 8.55% of all shares issued as of 31 December 2005, compared to 8.76% at year-end 2004 and 8.27% at year-end 2003. DTC (Cede & Co.), New York, "The Depository Trust Company", a US securities clearing organization, was registered as a shareholder for a great number of beneficial owners with 9.95% of all shares issued as of 31 December 2005 (5.77% as of 31 December 2004). According to UBS's Regulation on the Registration of Shares, voting rights of nominees are restricted to 5%, while clearing and settlement organizations are exempt from this restriction. No other shareholders hold more than 5% of all shares issued. Ownership of UBS shares is widely spread. The tables on the next page provide information about the distribution by category of shareholders and by geography. This information relates only to registered shareholders and cannot be assumed to be representative of the entire UBS investor base. Only registered shareholders are entitled to exercise voting rights.

Under the Swiss Stock Exchange Act, anyone holding shares in a company listed in Switzerland has to notify the company and the stock exchange if the holding attains, falls below or exceeds the following thresholds: 5, 10, 20, 33⅓, 50, or 66⅔% of the voting rights, whether they are exercisable or not. The methodology for calculating the limit is defined in the Ordinance of the Swiss Federal Banking Commission on the Stock Exchange (disclosure of shareholdings) and includes, among others, securities lending and share acquisition rights that provide entitlement for the future acquisition of shares. Since 13 September 2002, UBS's holdings of its own shares have been above the 5% threshold requiring disclosure under the Swiss Stock Exchange law. UBS's position in its own shares remained between 5 and 10% throughout 2005.

At year-end, UBS's holdings in its own shares were 8.5% of the total share capital in the form of shares. It also held a further potential 0.5% of total share capital through derivatives UBS held on its own shares.

Cross shareholdings

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

Distribution of UBS shares

As at 31.12.05 <i>Number of shares registered</i>	Shareholders registered		Shares registered	
	Number	%	Number	% of shares issued
1 – 100	45,707	24.9	2,514,038	0.2
101 – 1,000	110,138	60.0	41,234,198	3.8
1,001 – 10,000	25,641	14.0	64,654,096	5.9
10,001 – 100,000	1,896	1.0	49,471,331	4.5
100,001 – 1,000,000	252	0.1	73,679,613	6.8
1,000,001 – 5,000,000	57	0.0	111,164,245	10.2
5,000,001 – 10,886,325 (1%)	10	0.0	73,829,006	6.8
1 – 2%	2	0.0	38,631,861	3.6
2 – 3%	1	0.0	25,633,959	2.4
3 – 4%	0	0.0	0	0.0
4 – 5%	0	0.0	0	0.0
Over 5%	2 ¹	0.0	191,568,442	17.6
Total registered	183,706	100.0	672,380,789	61.8
Unregistered ²			416,251,733	38.2
Total shares issued			1,088,632,522³	100.0

¹ As at 31.12.2005, DTC (Cede & Co.), New York, the US securities clearing organization, was registered with 9.95% of all shares issued. Chase Nominees Ltd., London, was entered as a trustee/nominee holding 8.55% of all shares issued. ² Shares not entered in the share register at 31 December 2005. ³ Registered shares of 151,713,384 do not carry voting rights.

Shareholders: type and distribution

As at 31.12.05	Shareholders		Shares	
	Number	%	Number	%
Individual shareholders	176,651	96.2	128,924,931	11.8
Legal entities	6,542	3.5	145,887,707	13.5
Nominees, fiduciaries	513	0.3	397,568,151	36.5
Unregistered			416,251,733	38.2
Total	183,706	100.0	1,088,632,522	100.0
Switzerland	166,338	90.5	242,702,252	22.3
Europe	12,089	6.6	224,247,509	20.6
North America	2,441	1.3	159,272,770	14.6
Other countries	2,838	1.6	46,158,258	4.3
Unregistered			416,251,733	38.2
Total	183,706	100.0	1,088,632,522	100.0

Capital structure

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

Capital

Under Swiss company law, shareholders have to approve in a shareholders' meeting any increase in the total number of issued shares, which may be an ordinary share capital increase or the creation of conditional or authorized capital. At year-end 2005, the ordinary share capital was CHF 870,906,017.60.

At the Annual General Meeting (AGM) on 21 April 2005, shareholders gave the Board of Directors a mandate to continue a repurchase program during 2005/2006 for a maximum amount of CHF 5 billion. At the AGM on 19 April 2006, shareholders will be asked to approve the cancellation of 37,100,000 shares repurchased under this program and to reduce the ordinary share capital accordingly.

Conditional and authorized share capital

At year-end 2005, conditional share capital totaled CHF 1,458,800.80, corresponding to a maximum of 1,823,501 shares. The conditional capital was created in 2000 in connection with the acquisition of Paine Webber Group Inc. to cover option rights granted by the PaineWebber Group to its employees. The subscription ratio, time limits and further details of these options were determined by PaineWebber before the merger and were assumed by UBS. Options under these plans are exercisable at any time between their vesting and the expiry date. Shareholders' pre-emptive rights are excluded. During 2005, options with respect to 1,709,439 shares were exercised under these plans, and 72 options expired without being exercised.

UBS has currently no further approval from shareholders to issue new shares under conditional or authorized capital. However, at the 2006 AGM, shareholders will also be asked to approve conditional capital in the amount of 75,000,000 UBS shares to be used for employee option grants limited to a period of three years. For details see the Capital Management & UBS Share section on pages 88–96 of this Handbook.

Changes of shareholders' equity

Equity attributable to UBS shareholders for the Group amounted to CHF 44.3 billion on 31 December 2005. For all details on changes in shareholders equity over the last three years, please refer to pages 76–77 of the Financial Report 2005.

Shares, participation and bonus certificates, capital securities

UBS shares are issued as Global Registered Shares. Each share has a par value of CHF 0.80 and carries one vote. Voting rights may, however, only be exercised if the holder expressly declares having acquired these shares in his own name and for his own account. Global Registered Shares provide direct and equal ownership for all shareholders, irrespective of the country and stock exchange where they are traded. For details, see the Shareholders' participation rights section on pages 122–123 of this Handbook.

On 31 December 2005, 520,667,405 shares carried voting rights, 151,713,384 shares were entered in the share register without voting rights, and 416,251,733 shares were not registered. All 1,088,632,522 shares were fully paid up, and

Proposed corporate actions for the AGM 2006

- Dividend payment of CHF 3.20 per share (increase of CHF 0.20 compared to last year), to be distributed to shareholders in April 2006
- One off capital repayment of CHF 0.60 per share, leading to a par value reduction from CHF 0.80 to CHF 0.20 per share. This is due to the sale of the Private Banks & GAM to Julius Baer in 2005. The par value reduction will be paid out to the shareholders in July 2006
- A 2-for-1 share split, effective 10 July 2006, reducing the par value from CHF 0.20 to CHF 0.10
- New CHF 5 billion share repurchase program for 2006/2007 to be launched on 8 March 2006 after the 2005/2006 program ends
- Creation of conditional capital in the amount of 75,000,000 UBS shares (150,000,000 after the 2-for-1 share split) to be used for employee option grants, limited to a period of three years

Ordinary share capital

	Share capital in CHF	Number of shares	Par value in CHF
As at 31 December 2004	901,486,542	1,126,858,177	0.80
Share repurchase programs 2004/2005: Cancellation of shares upon AGM decision of 21 April 2005	(31,948,075)	(39,935,094)	0.80
Options exercised from conditional capital	1,367,551	1,709,439	0.80
As at 31 December 2005	870,906,018	1,088,632,522	0.80

1,054,747,522 shares ranked for dividends. There are no preferential rights for individual shareholders.

UBS has not issued any participation certificates or bonus certificates.

UBS raised CHF 1.6 billion hybrid Tier 1 capital in the form of preferred shares denominated in euros and raised CHF 2.6 billion in subordinated debt in various currencies in capital markets in 2005 to fund its operations with capital securities. Outstanding Tier 2 capital securities accounted for CHF 7.2 billion in eligible capital as of 31 December 2005. Additionally, UBS has CHF 5.0 billion in preferred shares outstanding which count as Tier 1 capital under regulatory rules.

Limitation on transferability and nominee registration

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

UBS has issued special provisions for the registration of fiduciaries / nominees. Fiduciaries / nominees are entered in the share register with voting rights up to a total of 5% of all shares issued, if they agree to disclose, upon request from the firm, beneficial owners holding 0.3% or more of all UBS

shares. An exception to the 5% rule exists for securities clearing organizations such as The Depository Trust Company (DTC) in New York and SIS SegalinterSettle in Switzerland.

Convertible bonds and options

UBS currently has no convertible debt on UBS shares outstanding. The only options outstanding were 90,882,545 employee options on UBS shares as reported in note 31c to the financial statements. For a total of 1,823,501 of those options, exercise will be satisfied through the creation of newly issued shares (conditional capital). Share capital would therefore be increased by a maximum of CHF 1,458,800.80. Once the proposed conditional capital is approved by the Annual General Meeting 2006, the number of options exercisable against the creation of newly issued shares will increase. For the other employee options, exercise would be satisfied by the delivery of already issued treasury shares.

The Investment Bank, acting as liquidity provider to the equity futures market and as a market maker in UBS shares and derivatives, has issued derivatives linked to UBS stock. Most of these instruments are classified as cash-settled derivatives and are held for trading purposes only. To hedge the economic exposure, a limited number of UBS shares are held by the Investment Bank.

Board of Directors

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

Members of the Board of Directors

The texts in the boxes below provide information on the composition of the Board of Directors as of 31 December 2005. It shows each member's functions in UBS, nationality, year of initial appointment to the Board and current term of office, professional history and education, date of birth, and other activities and functions such as mandates on boards of important corporations, organizations and foundations, permanent

functions for important interest groups and official functions and political mandates.

As of the AGM held on 21 April 2005, Marcel Ospel and Lawrence A. Weinbach were re-elected as their term of office expired. Alberto Togni, who had reached retirement age, did not stand for re-election. Marco Suter and Peter Voser were newly elected to the Board.

As of 31 December 2005, the Board consisted of 11 directors, of which the majority – eight members – were non-executive and independent.

Marcel Ospel

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Chairman
Nationality	Swiss
Year of initial appointment	2001
Current term of office runs until	2008

Professional history, education and date of birth

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

Other activities and functions

Mandates on boards of important corporations, organizations, and foundations:

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

Permanent functions for important interest groups:

Marcel Ospel is the treasurer of "Economiesuisse", the Swiss business federation, Zurich, and is a member of the European Financial Services Round Table, Brussels.

Stephan Haeringer

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Executive Vice Chairman Member of the Corporate Responsibility Committee
Nationality	Swiss
Year of initial appointment	2004
Current term of office runs until	2007

Professional history, education and date of birth

Before being elected to the Board of Directors in 2004, Stephan Haeringer was Deputy President of the Group Executive Board, a position he held between 2002 and 2004. Between 2000 and 2002, he was CEO of UBS Switzerland and the Private and Corporate Clients business. In 1998, following the UBS-SBC merger, he was appointed the Division Head of Private and Corporate Clients. He originally joined the former Union Bank of Switzerland in 1967, assuming a broad variety of responsibilities within the firm – among them Chief Executive Officer Region Switzerland, Division Head Private Banking and Institutional Asset Management and Head of the Financial Division. Between 1967 and 1988, Mr. Haeringer was assigned various management roles in the areas of Investment Counseling, Specialized Investments, Portfolio Management, Securities Administration, and Collateral Loans. He received professional training at Williams de Broe Hill Chaplin & Cie, London, and at Goldman Sachs & Co. and Brown Brothers Harriman in New York. Mr. Haeringer was born on 6 December 1946.

Other activities and functions

Mandates on boards of important corporations, organizations, and foundations:

Stephan Haeringer is a member of the Board of the Helmut Horten Foundation, Croglio (Ticino, Switzerland), Chairman of the Foundation Board of the UBS Pension Fund, a member of the Board Committee of the Zurich Chamber of Commerce and a member of the German-Swiss Chamber of Commerce.

Marco Suter

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Executive Vice Chairman Chairman of the Corporate Responsibility Committee
Nationality	Swiss
Year of initial appointment	2005
Current term of office runs until	2008

Professional history, education and date of birth

Marco Suter has been with UBS and its predecessor, Swiss Bank Corporation, since 1974. Between 1999 and 2005, he was Group Chief Credit Officer and a member of the Group Managing Board. From 1996 until the merger of SBC and Union Bank of Switzerland in 1998 he served as regional manager of the Zurich-Eastern Switzerland-Ticino area for the corporate and commercial banking activities of SBC. Prior to that, he held a number of different management roles in Zurich, following various assignments with SBC in St. Gallen, Nyon, Zurich, New York, and London. Mr. Suter graduated from the Commercial School in St. Gallen and the American Institute of Banking in New York. He was born on 7 May 1958.

Other activities and functions

Mandates on boards of important corporations, organizations, and foundations:

Marco Suter is a member of the Swiss Institute of International Studies, the Latin-American Chamber of Commerce (Switzerland), the Swiss-Chinese Chamber of Commerce and the IIF Special Committee on Crises Prevention and Resolution in Emerging Markets.

Peter Böckli

Address	Böckli Bodmer & Partners St. Jakobsstrasse 41 CH-4002 Basel
Functions in UBS	Non-executive Vice Chairman / Chairman of the Nominating Committee
Nationality	Swiss
Year of initial appointment	1998
Current term of office runs until	2006 (not standing for re-election)

Professional history, education and date of birth

Peter Böckli, non-executive Vice Chairman since 2002, has been a member of the Board of Directors of UBS and its predecessor Swiss Bank Corporation since 1985. He has been a partner in the law office of Böckli Bodmer & Partners since 1981 and was a part-time professor of tax and business law at the University of Basel from 1975 to 2001. From 1963 to 1981, he was an attorney-at-law in New York, Paris, and Basel. Mr. Böckli graduated as doctor iuris from the University of Basel and as an attorney-at-law and is a non-resident member of the Association of the Bar of the City of New York. He was born on 7 May 1936.

Other activities and functions

Mandates on boards of important corporations, organizations, and foundations:

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

Official functions and political mandates:

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

Ernesto Bertarelli

Address	Serono International SA Chemin des Mines 15bis CH-1211 Geneva 20
Function in UBS	Member of the Nominating Committee
Nationality	Swiss
Year of initial appointment	2002
Current term of office runs until	2006 (proposed for re-election at the AGM 2006)

Professional history, education and date of birth

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

Other activities and functions

Mandates on boards of important corporations, organizations and foundations:

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

Sir Peter Davis

Address	41 Bloomfield Terrace, UK-London SW1W 8BQ
Functions in UBS	Member of the Audit Committee / Member of the Compensation Committee
Nationality	British
Year of initial appointment	2001
Current term of office runs until	2007

Professional history, education and date of birth

Sir Peter Davis was Group Chief Executive Officer / Chairman of J Sainsbury plc, London between 2000 and 2004. He was the Group Chief Executive of Prudential plc from 1995 to 2000 and Chief Executive and Chairman of Reed International and Chairman of Reed Elsevier (following the merger of Reed International with Elsevier) from 1986 to 1995. From 1976 to 1986, he had responsibility for all buying and marketing operations at J Sainsbury plc. Prior to that, he served as Marketing Director and Managing Director for Key Markets, part of Fitch Lovell Ltd., and as Marketing and Sales manager at General Foods Ltd., Banbury (United Kingdom). He is today a company director and investor. Mr. Davis was educated at Shrewsbury School. He graduated from the Chartered Institute of Marketing and holds a Hon LL.D (Dr Law) from Exeter University. He was born on 23 December 1941.

Rolf A. Meyer

Address	Heiniweidstrasse 18 CH-8806 Bäch
Functions in UBS	Chairman of the Compensation Committee / Member of the Audit Committee
Nationality	Swiss
Year of initial appointment	1998
Current term of office runs until	2006 (proposed for re-election at the AGM 2006)

Professional history, education and date of birth

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

Other activities and functions

Mandates on boards of important corporations, organizations, and foundations:

Rolf A. Meyer is a member of the Board of DKSH AG (Diethelm Keller Siber Hegner), Zurich, and is the Chairman of its Audit and Finance Committee. He is also a member of the Board of Directors of Ascom (Switzerland) Ltd., Berne.

Helmut Panke

Address	BMW Group Knorrstrasse 147 D-80788 Munich
Function in UBS	Member of the Nominating Committee
Nationality	German
Year of initial appointment	2004
Current term of office runs until	2007

Professional history, education and date of birth

Helmut Panke has been Chairman of the Board of Management of BMW AG, Munich, since May 2002. He has been with the company since 1982, when he joined as head of Planning and Controlling in the Research and Development Division. He subsequently assumed management functions in corporate planning, organization and corporate strategy. Before his appointment as Chairman, he was a member of BMW's Board of Management from 1996. Between 1993 and 1996, he was Chairman and CEO of BMW Holding Corporation in the US. Mr. Panke graduated from the University of Munich with a doctoral degree in physics (Ph.D.) and was assigned to the University of Munich and the Swiss Institute for Nuclear Research before joining McKinsey in Düsseldorf and Munich as a consultant. He was born on 31 August 1946.

Other activities and functions

Mandates on boards of important corporations, organizations and foundations:

Helmut Panke is a member of the Board of Directors of Microsoft Corporation, Redmond, WA (USA) and is a member of the Board of Trustees of the BMW Foundation Herbert Quandt.

Permanent functions for important interest groups:

Helmut Panke is a member of the Board of Directors of ACEA, the Association des Constructeurs Européens d'Automobiles, Belgium, of VDA, the association of the German automobile industry, and of the American Chamber of Commerce in Germany.

Peter Spuhler

Address	Stadler Bussnang AG Bahnhofplatz CH-9565 Bussnang
Function in UBS	Member of the Compensation Committee
Nationality	Swiss
Year of initial appointment	2004
Current term of office runs until	2007

Professional history, education and date of birth

Peter Spuhler is the owner of Stadler Rail AG (Switzerland), which he acquired in 1989 when it was a small firm with 18 employees. Today the Stadler Rail Group has more than 1,000 staff and is an internationally successful light railway vehicle business. Since 1997, Peter Spuhler has taken over a number of companies and founded new units within the Stadler Rail Group, mainly in Switzerland and in Germany. Mr. Spuhler joined Stadler AG in 1987 as an employee after studying economics at the University of St. Gallen. He was born on 9 January 1959.

Other activities and functions

Mandates on boards of important corporations, organizations and foundations:

Peter Spuhler is Chairman of Stadler Rail AG and of Stadler Bussnang AG, as well as of various companies within the Stadler Rail Group.

Permanent functions for important interest groups:

He is Vice President of LITRA, a Swiss organization providing information services in the interests of public transport, Berne.

Official functions and political mandates:

Peter Spuhler is a member of the National Council of the Swiss Parliament (lower house).

Peter Voser

Address	Royal Dutch Shell plc. 2501 AN NL-The Hague
Function in UBS	Member of the Board
Nationality	Swiss
Year of initial appointment	2005
Current term of office runs until	2008

Professional history, education and date of birth

Peter Voser has been Chief Financial Officer of the Royal Dutch Shell plc in London since 2004. Between 2002 and 2004, he was Chief Financial Officer of Asea Brown Boveri (ABB) in Switzerland. Between 1982 and 2002, he worked for the Royal Dutch/Shell Group, holding various assignments in Switzerland, UK, Argentina and Chile. Mr. Voser graduated at the University of Applied Sciences, Zurich. He was born on 29 August 1958.

Other activities and functions

Mandates on boards of important corporations, organizations and foundations:

Peter Voser is a member of the Board of Directors and a member of the Audit Committee of Aegion N.V., The Netherlands (he will step down at its AGM in April 2006).

Lawrence A. Weinbach

Address	Unisys Corporation Unisys Way USA-Blue Bell, PA 19424
Function in UBS	Chairman of the Audit Committee
Nationality	American (US)
Year of initial appointment	2001
Current term of office runs until	2008

Professional history, education and date of birth

Lawrence A. Weinbach was the Chairman, President and CEO of Unisys Corporation from 1997 to 2004. As of 1 January 2005 he stepped down as President and CEO, concentrating on the function of Executive Chairman. From 1961 to 1997 he was with Arthur Andersen / Andersen Worldwide as Managing Partner, and was Chief Executive of Andersen Worldwide from 1989 to 1997, Chief Operating Officer from 1987 to 1989, and Managing Partner of the New York office from 1983. He was elected to partnership at Arthur Andersen in 1970 and became Managing Partner of the Stamford, Connecticut, office in 1974 and Partner in charge of the accounting and audit practice in New York from 1980 to 1983. Mr. Weinbach is a Certified Public Accountant and holds a bachelor of science in Economics from the Wharton School of the University of Pennsylvania. He was born on 8 January 1940.

Other activities and functions

Mandates on boards of important corporations, organizations and foundations:

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

Permanent functions for important interest groups:

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

Elections and term of office

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

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

The year of first appointment to the Board and the expiry of the current mandate of each Board member are listed in the table on pages 103–106.

Changes in 2006

As of the Annual General Meeting on 19 April 2006, Peter Böckli, whose term of office expires in 2006, is stepping down from the Board as he has reached retirement age. The Board of Directors will propose as non-executive directors the following new members for election: Gabrielle Kaufmann-Kohler, partner with the Swiss-based international law firm Schellenberg Wittmer and professor of private international law at the University of Geneva, and Joerg Wolle, President and CEO of DKSH Holding Ltd., a Swiss-based services group for Asia that focuses on sourcing, marketing, logistics and distribution for small and medium sized companies as well as multinationals worldwide. The Board of Directors will then consist of twelve members and hence will reach the maximum statutory limit.

The Board of Directors

The Board of Directors is the key body that shareholders rely on for the ultimate direction of the firm and the effective supervision of management. To this end, UBS relies on a Board that consists of highly qualified individuals. A Board that combines the experience of former members of UBS senior management with the diverse skills of fully independent external members is one that is best positioned to carry out the governance responsibilities given to it by shareholders.

UBS believes this approach has many inherent advantages. Former UBS executives, with the experience and

know-how of complex business activities and processes inherent to a modern global financial services provider, are often in a better position to challenge management decisions.

Moreover, as they do not have any significant business commitments outside UBS or external directorships they have the resources and time necessary to dedicate themselves to their comprehensive responsibilities as UBS Board members.

The executive members of the Board are complemented by a number of fully independent directors, who have the competence and expertise to deal

with the wide range of global strategy and business issues that UBS faces.

They are specialists from different business and industry sectors. Some are entrepreneurs who have built their own businesses; some are senior executives of global companies and some are senior legal and accounting experts. The drive, success and reputation of the companies they represent reflect many of UBS's qualities. In selecting candidates, UBS also strives for an adequate balance of nationality, mirroring our global presence. It is this blend of experience and skill that ensures successful leadership at UBS.

Organizational principles

The Board of Directors has ultimate responsibility for the mid- and long-term strategic direction of the Group, for appointments and dismissals at top management levels and the definition of the firm's risk principles and risk capacity. While the majority of the Board members are always non-executive and independent, the Chairman and at least one Vice Chairman have executive roles in line with Swiss banking laws, and assume supervisory and leadership responsibilities.

Internal Organization, Board committees and meetings in 2005

After each Annual General Meeting of Shareholders, the Board elects its Chairman and one or more Vice Chairmen and appoints its Secretary. It meets as often as business requires, but at least six times per year. In 2005, the Board held seven meetings with the members of the Group Executive Board participating, one telephone conference and a full-day strategy seminar. In addition, the Board met six times without participation of executive management. On average, 97% of Board members were present at the meetings, and 98% at the ones without executive management.

The new Board members were introduced to their new function by a tailored program, consisting of two sessions with the following main topics: the legal and regulatory environment for UBS, group strategy, risk policy, management and control, financial accounting and applicable reporting standards, corporate governance, human resources management and internal audit.

The Board is organized as follows:

Chairman's Office

The Chairman operates a Chairman's Office, including the Vice Chairmen, which meets together with the Group CEO to address fundamental issues for the firm, such as overall strategy, mid-term succession plans at GEB level, compensation systems and principles, and the risk profile of the firm. It may also hold meetings without the Group CEO. The Chairman's Office acts as Risk Committee of the Board. In this capacity it assumes ultimate approval responsibility for credit, market and other risk-related matters, approves standards, concepts and methodologies for risk control within the principles approved by the Board, and allocates the major risk limits to the Business Groups. It also acts as the supervisory body for Group Internal Audit. The Chairman's Office is responsible for shaping the corporate governance of the firm and formulates appropriate principles, which it submits to the Nominating Committee for review and subsequent submission to the full Board. It also assumes responsibility for long-term succession planning at Board level and reviews, upon proposal by the Chairman and the

Group CEO, GEB candidates for appointment or dismissal by the full Board.

The members of the Chairman's Office, as of 31 December 2005, were Marcel Ospel, Chairman, Stephan Haeringer, Marco Suter, Executive Vice Chairmen and Peter Böckli, Non-executive Vice Chairman.

The Chairman's Office held 13 meetings in 2005 and once met with the lead partners of Group Auditors Ernst & Young. It additionally met seven times as supervisory body for Group Internal Audit, with these meetings chaired by Stephan Haeringer. The Chairman's Office was also asked to take two circular decisions. Participation at the Chairman's Office meetings including the meetings relating to Group Internal Audit issues was 100%.

Audit Committee

The Board appoints an Audit Committee with three members from among the non-executive, independent directors. The Audit Committee assists the Board in monitoring the integrity of the financial statements of the firm, compliance with legal and regulatory requirements, the qualification, independence and performance of UBS's external auditors and their lead partners, and the integrity of the systems of internal controls for financial reporting. All members of the Audit Committee have been determined by the Board as being fully independent and financially literate. Lawrence A. Weinbach, chairman, and Rolf A. Meyer have accounting or financial management expertise and are therefore considered "financial experts", according to the rules established by the US Sarbanes-Oxley Act of 2002. The Audit Committee does not itself perform audits, but supervises the work of the auditors. Its primary responsibility is thereby to monitor and review the organization and efficiency of internal control procedures and the financial reporting process. The Audit Committee plays an important role in ensuring the independence of the external auditors and therefore has to authorize all mandates assigned to them. It also has responsibility for the treatment of complaints regarding accounting and auditing matters ("whistle-blowing").

As of 31 December 2005, Lawrence A. Weinbach was the chairman of the Audit Committee and Sir Peter Davis and Rolf A. Meyer its additional members. The Audit Committee met seven times in 2005, with representatives of the external auditors, the Group CFO, the Group Controller and the Head of Group Internal Audit participating. The seven meetings include regular separate sessions with these representatives. In addition, the Group General Counsel attended several meetings. A special session was organized with the Group CEO to discuss the annual financial results. In December 2005, the members of the Audit Committee met with the Committee of the Swiss Federal Banking Commission to discuss its mandate, responsibilities and working methods and regulatory developments. All three members of the Committee were present at all the meetings.

Compensation Committee

The Compensation Committee, comprising three non-executive, independent members of the Board, has responsibility for reviewing the Group compensation policy for submission to the Board and for approving the design of the compensation system for the members of the GEB and the executive members of the Board. It determines the individual salaries and incentive awards for the executive members of the Board, the Group CEO and the members of the GEB, and reviews and approves termination agreements with GEB members relinquishing their positions. For details on the decision-making procedures within the Committee, please refer to pages 116–117 of this Handbook.

As of 31 December 2005, Rolf A. Meyer chaired the Committee, with Sir Peter Davis and Peter Spuhler as its additional members. The Committee met seven times during 2005. With one exception, all the meetings were attended by all three members.

Nominating Committee

The Nominating Committee comprises three non-executive, independent directors. It assumes responsibility for defining the principles governing the selection of candidates for Board membership, reviewing possible candidates and proposing to the full Board those to be submitted for election to the Board by the AGM. The Committee supports the Chairman's Office and the full Board in evaluating Board performance. It reviews the proposals of the Chairman's Office on corporate governance principles and design for submission to the full Board.

As of 31 December 2005, Peter Bockli was the chairman, Helmut Panke and Ernesto Bertarelli the additional members of the Committee. In 2005, the Nominating Committee held three meetings; with all three members present at all the meetings. Ernesto Bertarelli, who replaced Sir Peter Davis in April 2005, was briefed on important UBS nominations as well as corporate governance philosophy, policies and procedures in a special session.

Corporate Responsibility Committee

UBS has a Corporate Responsibility Committee with the mandate to discuss and judge the relevance of current or anticipated developments in stakeholder expectations related to responsible corporate conduct and their possible consequences for UBS. The Committee suggests appropriate action to the GEB or other bodies within the organization. As of 31 December 2005, Marco Suter chaired the Committee. Additional members were Stephan Haeringer, representing the Board, Peter Wuffli, Group CEO, Peter Kurer, Group General Counsel, Clive Standish, Group CFO, Huw Jenkins, CEO Investment Bank, Raoul Weil, Head of Wealth Management International, Mark Branson, Chief Communication Officer, Bob Silver, President and COO of Wealth Management US, and Kathryn Shih, Head of Wealth Management Asia Pacific.

The Corporate Responsibility Committee met twice during 2005. For additional information on corporate responsibility, please refer to the specific chapter at the end of this Handbook.

Charters and additional information

The Charters of the Board, of the Chairman's Office and of all Board Committees are available on www.ubs.com/boards

Roles and responsibilities of executive Board members

Marcel Ospel, Stephan Haeringer and Marco Suter, the Chairman and the two Executive Vice Chairmen of the Board, have entered into employment contracts with UBS AG in connection with their services on the Board, and are entitled to receive pension benefits upon retirement. They assume clearly defined management responsibilities.

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

Stephan Haeringer is responsible for strategic planning as well as corporate governance issues on behalf of the Board and supervises financial and business planning. In addition, he chairs the Chairman's Office meetings on group internal audit issues, where the Chairman's Office acts as supervisory body for Group Internal Audit. He also assumes responsibility for supporting major client relationships.

Credit and market risk approval authorities have been delegated by the Chairman's Office to Vice Chairman Marco Suter, who brings his decisions to the Chairman's Office for ratification. He also assumes the function of Chairman's Office delegate to the GEB Risk Subcommittee, where all major risk issues (credit, market, and operational risks) are dealt with.

Non-executive Board members

The eight non-executive members of the Board have never had any management responsibility at UBS or any of its subsidiaries; neither have any of their close family members. These non-executive directors and their close family members have not been employed by UBS's principal Auditors, Ernst & Young. There are no employment or service contracts with any of them. They receive fixed fees for their Board mandate and for the special functions they assume in the various Board Committees.

Important business connections of non-executive Board members with UBS

UBS as a global financial services provider and the major bank in Switzerland typically has business relationships with most

large companies and therefore with companies in which UBS Board members assume management or non-executive board responsibilities. None of the relationships with companies represented on the Board by their chairman or chief executive is of a magnitude to jeopardize the Board members' independent judgment, and no non-executive director has personal business relationships with UBS which might infringe his independence.

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

Board of Directors and Group Executive Board: checks and balances

UBS operates under a strict dual Board structure, as mandated by Swiss banking law. The functions of Chairman of the Board of Directors (Chairman) and Group Chief Executive Officer (Group CEO) are assigned to two different people, thus providing separation of powers. This structure establishes checks and balances and creates an institutional independence of the Board of Directors from the day-to-day management of the firm, for which responsibility is delegated to the Group Executive Board. No member of one Board may be a member of the other.

The supervision and control of the executive management remains with the Board of Directors. All details as to authorities and responsibilities of the two bodies are governed by the Articles of Association and the Organization Regulations with their Appendix. Please refer to www.ubs.com/corporate-governance.

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

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

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

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

The Group Executive Board submits to the Chairman's Office for approval a quarterly Risk Report, which provides an update on all categories of risk and contains a comprehensive assessment of the risk situation of the Group. The full Board is briefed quarterly on the major developments through an executive summary of the report and an oral update. For further details on the organization of Risk Management and Control, please refer to the Financial Management chapter of this Handbook.

Group Executive Board

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

Members of the Group Executive Board

The text in the boxes below provide information on the composition of the Group Executive Board as of 31 December 2005. It shows each member's function in UBS, nationality, year of initial appointment to the GEB, professional history and education, date of birth, and other activities and functions such as mandates on boards of important corporations, organizations and foundations, permanent functions for important interest groups and official functions and political mandates.

In March 2005, a new Board position was established, that of the Group Chief Risk Officer, with Walter Stuerzinger being appointed to the GEB in this capacity. In July 2005, Huw Jenkins, former Global Head of Equities, was appointed to the GEB as CEO of the Investment Bank with John Costas remaining on the GEB as Chairman of the Investment Bank. In addition Raoul Weil, Head of Wealth Management International, was appointed to the GEB, reflecting the increased size of the new Global Wealth Management & Business Banking Business Group.

Peter A. Wuffli

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

Professional history, education and date of birth

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

Other activities and functions

Mandates on boards of important corporations, organizations and foundations:

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

Official functions and political mandates:

Peter Wuffli is the Chairman of the "Friends of the Swiss Liberal Party" (Freunde der FDP), an organization supporting the dialogue between the Swiss Liberal Party and business.

John P. Costas

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

Professional history, education and date of birth

John P. Costas has been Chairman & CEO of the Investment Bank since 2002, having been CEO since 2001. In 2004, he was additionally named Deputy Group CEO. He was President and Chief Operating Officer of UBS Warburg from the beginning of 2001, and COO and Global Head Fixed Income from 1999. Mr. Costas joined Union Bank of Switzerland in 1996 as Head of Fixed Income. From 1981 to 1996, he was with Credit Suisse First Boston, his last position being co-head of Global Fixed Income. Mr. Costas graduated from the Tuck School at Dartmouth with an MBA in Finance and holds a BA (Bachelor of Arts) in political science from the University of Delaware. He was born on 27 January 1957.

Other activities and functions

Mandates on boards of important corporations, organizations, and foundations:

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

John A. Fraser

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

Professional history, education and date of birth

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

Huw Jenkins

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Chief Executive Officer Investment Bank
Nationality	British
Year of initial appointment to the GEB	2005

Professional history, education and date of birth

Huw Jenkins was appointed CEO Investment Bank in July 2005. Prior to that, he was Global Head of Equities. Between 1998 and 2004, he held various management functions in the Equities Division Asia Pacific and the Americas. Before the UBS-SBC merger, he worked for SBC Warburg Dillon Read on various assignments in the Asian Equities Division, having previously worked with BZW (Barclays de Zoete Wedd) as Head of Asian Equities. Huw Jenkins holds a Master of Business Administration from the London Business School. He was born on 20 February 1958.

Peter Kurer

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

Professional history, education and date of birth

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

Other activities and functions

Permanent functions for important interest groups:

Peter Kurer is a member of the Visiting Committee to the Law School of The University of Chicago, and a member of the Board of Trustees of a foundation which acts as an advisory board to the University of St. Gallen Program for law and economics.

Marcel Rohner

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

Professional history, education and date of birth

Marcel Rohner was appointed CEO of Wealth Management & Business Banking in mid-2002 and additionally named Chairman in 2004. Before that, in 2001 and 2002, he was COO and Deputy CEO of the Private Banking unit of UBS Switzerland. In 1999 he was named Group Chief Risk Officer, after being appointed Head of Market Risk Control of Warburg Dillon Read in 1998. Between 1993 and 1998, Mr. Rohner was with Swiss Bank Corporation's investment banking arm and in 1995 he was appointed Head of Market Risk Control Europe. Mr. Rohner graduated with a Ph.D. in economics from the University of Zurich and was a teaching assistant at the Institute for Empirical Research in Economics at the University of Zurich from 1990 to 1992. He was born on 4 September 1964.

Other activities and functions

Permanent functions for important interest groups:

Marcel Rohner is Vice Chairman of the Swiss Bankers Association, Basel and the Vice Chairman of the Board of Trustees of the Swiss Finance Institute.

Clive Standish

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Group Chief Financial Officer
Nationality	British
Year of initial appointment to the GEB	2002

Professional history, education and date of birth

Clive Standish was named Group Chief Financial Officer on 1 April 2004, having been Chairman and CEO Asia Pacific from 2002 onwards. In 1998, he was named CEO Asia Pacific of Warburg Dillon Read. Between 1991 and 1998, Mr. Standish was with Swiss Bank Corporation (SBC). In 1997 he was appointed Deputy Chairman Asia Pacific of SBC Warburg Dillon Read. Between 1994 and 1997 he served as Managing Director and CEO of SBC Warburg Dillon Read Australia. In 1991 he was appointed Head of Capital Markets and Managing Director of SBC Dominguez Barry Limited. Between 1983 and 1991, Mr. Standish was Founding Executive Director at Dominguez Barry Samuel Montagu Limited, having been a partner with Dominguez & Barry Partners from 1979 to 1983. Mr. Standish started his professional career in 1972 with NM Rothschild & Sons Limited in London, after completing high school. He was born on 17 March 1953.

Walter Stuerzinger

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Group Chief Risk Officer
Nationality	Swiss
Year of initial appointment to the GEB	2005

Professional history, education and date of birth

Walter Stuerzinger has been the Group Chief Risk Officer since 2001. Prior to that, he was Head Group Internal Audit from 1998 until 2001. Before the merger, he was Head Group Internal Audit at UBS. Previously, he worked with Credit Suisse on various assignments in the controlling and auditing areas. Walter Stuerzinger holds a Swiss banking diploma and is a member of the Institute of Chartered Accountants. He was born on 6 July 1955.

Other activities and functions

Permanent functions for important interest groups:

Walter Stuerzinger is a member of the Foundation Board of the UBS Pension Fund.

Mark B. Sutton

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Chairman and Chief Executive Officer, Americas
Nationality	American (US)
Year of initial appointment to the GEB	2002

Professional history, education and date of birth

Mark B. Sutton was appointed CEO of Wealth Management US in January 2004. Later that year, he was also named Chairman. In 2002, he became President and Chief Operating Officer of UBS PaineWebber, having been head of the PaineWebber US Private Client Group since 2001. In 1998, he was named President of the Private Client Group. Mr. Sutton became Executive Vice President in 1995 after the acquisition of Kidder, Peabody & Co., where, between 1992 and 1994, he served as CEO of the Investment Services Division and CEO of the Brokerage Unit. Previously he was active at Mitchell Hutchins Asset Management, a subsidiary of PaineWebber. Between 1984 and 1987, he served as Division Manager at PaineWebber, Austin, Texas. Mr. Sutton first joined a predecessor company of PaineWebber, Rotan Mosle, as a financial advisor in 1980, after having assumed the same function with Merrill Lynch in Fayetteville, Arkansas from 1978 to 1980. He holds a bachelor of science in finance from the University of Arkansas, Fayetteville. Mr. Sutton was born on 19 October 1954.

Other activities and functions

Mandates on boards of important corporations, organizations and foundations:

Mark Sutton is a member of the Board of the Financial Services Forum, Washington D.C.

Raoul Weil

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Head of Wealth Management International
Nationality	Swiss
Year of initial appointment to the GEB	2005

Professional history, education and date of birth

Raoul Weil has been Head of Wealth Management International since 2002 and was appointed to the GEB in July 2005. Previous to that, he assumed different management roles in the Private Banking Division in Asia and Europe. Between 1984 and 1998, Mr. Weil was with SBC, holding various assignments within the Private Banking Division in Basel, Zurich, Monaco and New York. He graduated with a degree in economics from the University of Basel and was born on 13 November 1959.

Other activities and functions

Mandates on boards of important corporations, organizations, and foundations:

Raoul Weil is a member of the "Optimus Foundation", a charitable foundation administered by UBS.

The Group Executive Board

Only committed and effective executive teams can ensure that sustainable value is created for shareholders. The Group Executive Board (GEB) shares a common vision for UBS – to be the best global financial services company. Achieving this strategic goal requires that members of the GEB agree on a fundamental set of values – including professional respect, trust and openness – in order to pursue a common agenda.

The GEB comprises the CEOs of the three Business Groups as well as senior leaders representing major growth businesses and geographic markets. It also includes the heads of the key control functions at UBS – risk, finance and legal – reflecting their importance in the overall success of the firm. The careers of the present GEB members indicate that UBS has been successful in retaining the executive members of most of the predecessor firms it has

acquired or merged with in the last two decades. UBS believes the experience they have gathered over time is integral to their understanding and balancing of the different facets of the firm and its complex businesses. The four different nationalities of its members also represent the fact that UBS is a truly global firm. This results in a spirit of partnership that creates a candid, productive and healthy ability to debate, take and implement decisions.

Responsibilities, authorities and organizational principles

The GEB has executive management responsibility for the Group and is accountable to the Board for the firm's results. Together with the Chairman's Office, the GEB assumes overall responsibility for the development of UBS's strategies. The GEB, and in particular the CEO, is responsible for the implementation and results of the firm's business strategies, for the alignment of the Business Groups to UBS's integrated business model, and for the exploitation of synergies across the firm. Through its Risk Subcommittee, the GEB assumes responsibility for the Group's risk control standards, concepts, methodologies and limits. The GEB plays a key role in defining the human resources policy and the compensation principles of the Group. It also fosters an entrepreneurial leadership spirit throughout the firm. The authorities of the GEB are defined in the Organization Regulations, which are available on the internet at www.ubs.com/corporate-governance.

Personnel changes in 2006

On 1 January 2006, John Costas assumed responsibility for the newly created Dillon Read Capital Management unit within Global Asset Management, relinquishing his role on the Group Executive Board. Marcel Rohner, Chairman & CEO Global Wealth Management & Business Banking, assumed the additional title of Deputy Group CEO that was previously held by John Costas. On the same date, Rory Tapner, Chairman & CEO Asia Pacific, joined the Group Executive Board.

Management contracts

UBS has not entered into management contracts with any third parties.

Compensation, shareholdings and loans

UBS's compensation policy is designed to enable the firm to attract, retain and motivate the talented people it requires. Compensation should provide incentives that foster an entrepreneurial and performance-oriented culture and support the firm's integrated business strategy. Compensation of senior executives is closely linked to the achievement of sustainable shareholder returns and provides appropriate incentives for long-term value creation.

Senior executive compensation policy

For senior executives – the executive members of the Board of Directors and the members of the Group Executive Board – equity-based incentive awards play an important role within total compensation, as senior executives' influence on the firm's success is significant and their decisions should be aligned as closely as possible with the long-term interests of shareholders. In 2005 base salaries constituted on average 9% of total compensation for these individuals. The incentive component is determined on the basis of the financial performance of the firm and discretionary adjustments of up to plus or minus 25% reflecting individual performance and qualitative aspects. In aggregate, discretionary option awards in 2005 accounted for around 9% of total compensation. For details, see note 31 to the financial statements.

Total compensation levels vary considerably from year to year as incentive awards are fully performance-related. The relative weight of the base salary, which is a fixed amount, therefore varies significantly as well.

Senior executive share ownership programs and shareholding requirements

With the aim of closely aligning the interests of its senior executives with those of shareholders, UBS strongly encourages the build-up of significant levels of stock ownership among its senior executives.

- 50% of annual performance-based incentive compensation is delivered on a mandatory basis in the form of restricted or deferred UBS shares (Senior Executive Equity Ownership Plan, SEEOP). Shares normally vest in equal portions over a period of five years. Shares of Swiss-based senior executives are in addition restricted from sale for the whole five-year period for tax reasons. Prior to vesting, the shares will be forfeited under clearly defined circumstances, primarily if the executive joins a competitor.
- Discretionary stock option awards are made separately as long-term incentives, to recognize contribution to the implementation of the integrated business model and to support long-term alignment to the overall success of the firm (Senior Executive Stock Option Plan, SESOP). The strike price is

set at 10% above that of the UBS share price at grant on a defined date, thus creating a strong incentive for senior executives to build sustainable shareholder value. Options normally vest after three years and remain exercisable for a further seven years. Any unvested options will generally be forfeited if the senior executive leaves the company and joins a competitor or otherwise acts against UBS's interests.

- Senior executives may voluntarily elect to take an even greater portion of their annual performance-based incentive compensation in the form of restricted or deferred UBS shares. Executives opting to take a greater than mandatory portion of their annual incentive in UBS shares receive two stock options for each additional share. These options are granted under SESOP at the conditions described above.

Within five years of appointment, senior executives are required to accumulate – and then hold – UBS shares with an aggregate value of five times the amount of the last three years' average cash component of total compensation (base salary plus cash portion of incentive award). Holdings to be accumulated are between CHF 17 million and CHF 61 million in UBS shares per senior executive. Progress reports are provided to each senior executive annually, and missed targets may lead the Compensation Committee to deny the grant of discretionary stock option awards.

Non-executive directors' remuneration

Remuneration of non-executive directors is not dependent on the Group's financial performance. Board members receive a base fee of CHF 300,000, unchanged from last year. The chairmen and the members of the Audit, Compensation and Nominating Committees receive additional retainers between CHF 150,000 and CHF 500,000 per mandate, dependent on the workload associated with the respective mandates. Board fees are paid either 50% in cash and 50% in UBS restricted shares or 100% in restricted shares, according to the individual director's election. Shares are attributed with a price discount of 15% and are restricted from sale for four years. Directors receive no additional fees for attending meetings, but are reimbursed for air travel and hotel expenses incurred in the performance of their services.

Governance

Authorities and responsibilities

The Compensation Committee of the Board of Directors has authority to develop and approve the compensation system for all senior executives. This comprises plan design, performance measures, and the relationship between pay and performance. The approval of the level of individual senior executive compensation is subject to a rigorous process. The executive members of the Board approve the remuneration system and the respective fees for the non-executive directors. No one at UBS has any approval authority for their own compensation.

The Charter of the Compensation Committee, which is available on the company's website (www.ubs.com/corporate-governance), describes the approval process in detail.

Compensation Committee activities

The Compensation Committee of the Board of Directors consists of three independent external directors: Rolf A. Meyer, chairman, Sir Peter Davis and Peter Spuhler. For additional information – activities, mandate, meetings – see page 108 of the Handbook. For its activities the Committee relies on comprehensive background documentation provided by internal human resources specialists as well as by the Group Contoller. During 2005, the Compensation Committee did not appoint any external compensation consultants, but used internal and external compensation surveys and intelligence provided by compensation specialists. The Chairman of the Committee participates in external international seminars for compensation professionals. The Committee makes its decisions on individual compensation for the executive Vice Chairmen, the Group CEO and the members of the GEB considering individual performance and personal contributions of each member, market data of competitors, actual compensation in prior periods as well as the assessment submitted by the Chairman of the Board. It also takes into consideration the proposals made by the Group CEO when it makes compensation decisions for GEB members. For its decision on the Chairman's compensation, the Committee relies on the annual assessment performed by the full Board and its own judgement of performance and contributions as well as comparisons with pay levels for comparable functions outside UBS.

The Committee, as a basis for its decisions, performed the following activities during the year:

- Best practice review of compensation design, pay mix and disclosure: Generally, nine key competitors are considered as the most relevant labour market for senior executive compensation. The peer group comprises Bear Stearns, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan Chase, Lehman Brothers, Merrill Lynch and Morgan Stanley. For certain positions, additional peers are

taken into account, as appropriate. This review compiles publicly available data on our key competitors from US proxy statements and other filings as well as data provided by compensation consultants in order to develop a perspective on common as well as best practice amongst our key competitors. UBS's compensation systems compare favorably with these nine key competitors, and are specifically tailored to support the achievement of UBS's strategic objectives. Among other components, UBS's compensation framework includes several shareholder friendly features such as share ownership requirements, premium-priced options (at a strike price of 110%), stringent forfeiture rules and no severance packages.

- Review of competitive pay and performance: The numbers for 2004 show that UBS's senior executive compensation levels are well positioned relative to the market. The above-mentioned nine competitors paid total compensation between CHF 16 million and 32 million to their Chairmen and/or CEOs in 2004. Median pay for the Chairmen and/or CEOs of this group of competitors was CHF 24 million for 2004, the second highest value stood at CHF 30 million. These numbers normally include base salaries, cash bonus and the fair value of equity-based awards.

- Review of Compensation Plan Rules: The Compensation Committee annually performs a review of the Compensation Plan Rules for senior executives. It ensures that shareholders' interests are carefully taken into consideration and that the plan design provides appropriate incentives for long-term value creation.

The Committee also regularly reviews the individual employment contracts of senior executives. These contracts provide for a general notice period of twelve months, during which the senior executive is entitled to receive salary and pro-rata incentives, unless he has been terminated for cause. Shares and options that have not vested at the time of termination may be subject to forfeiture, mainly if the senior executive is joining a competitor.

The Compensation Committee has drawn up special employment agreements for the Chairman of the Board and the Executive Vice Chairmen, due to the fact that they are appointed by the shareholders for a three-year term of office and may be dismissed by a shareholders' vote only, but cannot otherwise be terminated. In addition, the reorganization of the Wealth Management US business also required the Compensation Committee to draw up a special employment agreement for a GEB member. These circumstances call for special provisions, mainly in respect of termination of employment. The general rule of a twelve-month notice period for senior executives, however, is maintained.

Neither the GEB employment contracts nor the contracts for the executive Board members provide for additional severance payment in case of termination.

Actual 2005 senior executive compensation

Key elements for decision-making process within the Compensation Committee

Actual process and decisions taken:

- In February 2005 the Compensation Committee defined personal incentive targets for each senior executive for 2005 based on both financial performance and qualitative indicators. The 2004 results (Group net profit attributable to UBS shareholders/Business Group profit before tax and goodwill amortization) were compared against the 2005 operational plan (budget) and the resultant percentage change applied to 2004 target incentives to derive individual target incentives for 2005. Increases or decreases to these calculated targets were applied at the discretion of the Committee, taking into account future potential, changing roles and competitive positioning.
- In early February 2006, actual 2005 results were then assessed against the operational plan and with reference to UBS's Group and Business Group financial targets as well as similar metrics of key competitors. These measurements and assessments defined a theoretical level of incentive award for each senior executive.
- This theoretical incentive award was finally measured against various additional factors: individually defined criteria, further potential, leadership qualities and contributions to overall success of UBS. This qualitative assessment led to increases or decreases from the theoretical target incentive by up to 25%.
- Long-term incentive option awards were granted in February 2005, based on the individual past performance of each senior executive, their contribution to the overall success of the firm, and their future potential.

Assessment elements for Chairman's compensation

The Compensation Committee determined the Chairman's incentive award applying the same process as for all senior executives. His defining contribution to the design and implementation of a very successful strategy, based on efficiently taking advantage of growth opportunities without compromising on a stringent risk policy, were taken into account, as well as Marcel Ospel's contributions to developing a strong and highly motivated executive management team.

Actual compensation 2005 for executive members of the Board of Directors and the Group Executive Board

At the Group level, 2005 financial results exceeded internal performance targets and outperformed those of many competitors. From continuing operations (excluding the extraordinary gain from the sale of Private Banks & GAM and its operating result), UBS achieved a return on equity of 27.6%, exceeding the target range of 15–20% in place until the end of 2005, outperforming its peers. The increase in pre-good-

will basic earnings per share of 22% is well in line with UBS's target of double-digit average annual growth. Total shareholder returns for the year under review were 35.3%, 103.3% cumulatively over a three-year period and 61.0% over a five-year period. The UBS share price outperformed the DJ Stoxx Banks Europe Index over the last three years. UBS's share price appreciation and its total shareholder returns achieved over the last one, three and five years were significantly better than the average performance recorded by the nine peers UBS compares its compensation to. At Business Group level, performance improved in all core businesses, with market share and competitiveness significantly enhanced.

In determining the total compensation of senior executives, the Compensation Committee took into account these superior results, specifically valuing the facts that EPS growth was strongly driven by profit and not by share buybacks, and that profit increased primarily through revenue growth, not only by cost cuts. Average total compensation per senior executive increased by 15.1% over 2004. This compares favorably with the increase in UBS's Group profits of 19% (and 18% for the financial businesses).

However, changes in the composition of the two corporate bodies as well as new definitions of roles impact the disclosed total compensation number and should be taken into consideration when making year-on-year comparisons. Walter Stuerzinger was appointed to the GEB in his capacity as Group Chief Risk Officer in March 2005. The combination of Wealth Management US with Wealth Management & Business Banking in July 2005 has led to Marcel Rohner assuming the role of Chairman and CEO of the newly created Global Wealth Management & Business Banking. To support Marcel Rohner in his expanded role, Raoul Weil was appointed to the GEB in his capacity as Head of Wealth Management International. Mark Sutton, formerly Chairman and CEO of Wealth Management US became Chairman and CEO, Americas. Also in July 2005, Huw Jenkins, formerly Global Head of Equities was appointed to the GEB as CEO of the Investment Bank, following John Costas' decision to focus on a new business opportunity within Global Asset Management. John Costas remained Chairman of the Investment Bank and a member of the GEB until the end of 2005. Finally, Alberto Togni did not stand for re-election to the Board of Directors as an executive member in April 2005 due to reaching the statutory age limit. However, Marco Suter, formerly Group Chief Credit Officer was elected to the Board of Directors as an executive member in April 2005.

The total of all compensation for the financial year 2005 (base salary, incentive awards, options, employer's contributions to retirement benefit plans, benefits in kind and fringe benefits) for the three executive members of the Board of Directors, the ten members of the Group Executive Board in charge as of 31 December 2005 and Alberto Togni, who retired as a member of the Board of Directors in April 2005,

was CHF 222,556,467. Details are shown in the table on page 118. Total incentive awards granted to the senior executives represent 2.1% of the overall incentive awards, distributed to the employees of UBS for 2005.

Actual remuneration 2005 for non-executive members of the Board of Directors

The eight non-executive members of the Board of Directors were paid in aggregate CHF 6,065,277 (in cash and restricted shares) for the term between the 2005 and 2006 AGMs. Fees are paid 50% in cash and 50% in restricted UBS shares. However, non-executive Board members can elect to have 100% of their remuneration paid in restricted UBS shares. These UBS shares are issued at a discount of 15% and are blocked for four years. Details are shown in the table on page 119.

Compensation details and additional information

Compensation for acting executive BoD members and members of the GEB¹

	For the year ended		
CHF, except where indicated	31.12.05	31.12.04	31.12.03
Base salaries and other cash payments	15,592,026	14,767,068	13,602,045
Incentive awards – cash	89,672,195	69,745,013	65,602,513
Employer's contributions to retirement benefit plans	1,064,640	1,050,322	1,225,543
Benefits in kind, fringe benefits (at market value)	2,582,112	1,607,166	993,719
Total (requested by SWX)	108,910,973	87,169,569	81,423,820
Incentive awards – restricted UBS shares (fair value)	92,877,243	79,723,391	64,176,428
Restricted UBS options (fair value) ²	20,768,251	23,736,337	12,752,019
Total (including shares and options)	222,556,467	190,629,297	158,352,267
Total number of shares granted	655,746	792,256	675,741
Total number of options awarded ²	1,438,763	1,094,052	1,037,000
of which CHF options	968,763	473,666	457,000
of which USD options	470,000	620,386	580,000

¹ Related parties of senior executives were not granted any shares or options. ² Includes options granted to match voluntary increases of the share portion of the incentive award.

Explanations:

– Number of senior executives:

2003: two executive BoD, ten GEB members in office as of 31 December and one executive BoD who stepped down during the year

2004: three executive BoD, seven GEB members in office as of 31 December and two who stepped down during the year

2005: three executive BoD, and ten GEB members in office as of 31 December and one executive BoD who retired during the year

– Benefits in kind: car leasing, company car allowance, staff discount on banking products and services, health and welfare benefits, general expenses allowances

– Shares valued at CHF 141.50 per share (average price of UBS shares at virt-x over the last ten trading days of February 2006), and USD 107.86 per share (average price of UBS shares at the NYSE over the last ten trading days of February 2006).

Value per share 2004: CHF 101.80/USD 86.74; 2003: CHF 95.30/USD 76.40.

– Options on UBS shares were granted at a strike price of CHF 111.50 and USD 95.50 respectively, ten percent above the average high and low price at the virt-x and the NYSE respectively on the last trading day in February 2005. Options vest three years after grant and will expire ten years from the date of grant.

Fair values per option at grant: CHF 12.46/USD 13.46 for options granted in February 2005 and CHF 20.80 for options granted to match higher share elections in February 2006. No US dollar options will be issued from now on. Fair values per option at grant 2004: CHF 23.90/USD 20.51; 2003: CHF 12.33/USD 9.90.

– Retirement benefit plans: In Switzerland, senior executives participate in UBS's general pension plans, which comprise a basic component operated on the defined benefit principle, a savings plan to bridge the income gap between UBS retirement age and the age defined for the start of social security payments, and a defined contribution plan. The cap compensation amount to be included in these plans was set at CHF 774,000 for all employees in 2005. This translates into a maximum annual pension of CHF 313,708 after retirement plus a one-off payout of accumulated capital from the savings plan in the maximum amount of CHF 297,617. There are no special pension schemes offered to senior executives.

Senior executives *outside Switzerland* participate in the relevant local pension plans. In the US there are two different plans, one operating on a cash balance basis, which entitles the participant to receive a contribution based on compensation limited to USD 250,000. This plan is available to employees of the Investment Bank only. The other plan is a defined contribution plan with compensation included up to a limit of USD 210,000. US senior executives may also participate in the UBS 401K defined contribution plan open to all employees. In the UK senior executives participate in a pension plan operated on a defined contribution basis, with compensation for pension purposes limited to the UK earnings cap of GBP 102,000.

Note 30 to the UBS Group financial statements describes the various retirement benefit plans established in Switzerland and in major foreign markets.

Compensation details and additional information (continued)

Highest total compensation for a BoD member

Total compensation of the highest paid member of the Board of Directors, Chairman Marcel Ospel, amounted to CHF 23,975,954 for the financial year 2005:

CHF, except where indicated	For the year ended		
	2005	2004	2003
Base salary	2,000,000	2,000,000	2,000,000
Incentive awards – cash	9,625,000	9,500,000	7,500,080
Employer's contributions to retirement benefit plans	98,949	82,588	82,588
Benefits in kind, fringe benefits (at market value)	197,192	190,371	150,000
Incentive award – restricted UBS shares (fair value)	9,625,113	9,500,078	7,499,920
Restricted UBS options (fair value)	2,429,700	0 ¹	1,565,910
Total	23,975,954	21,273,037	18,798,498
Number of UBS shares granted	68,022	93,321	78,698
Number of UBS options granted	195,000	0 ¹	127,000

¹ Marcel Ospel chose not to take up his entitlement under the "Senior Executive Stock Option Plan".

Additional honorariums and remuneration

No additional honorariums or remuneration were paid to any of the Board or GEB members.

Additional severance payments

UBS does not pay any additional severance in addition to the salary and bonus entitlements of a departing member of the Board or the GEB. All payments are included in the numbers reported under compensation for members of the Board and the GEB.

Compensation for former members of the Board and GEB

Six former senior executives of Union Bank of Switzerland and Swiss Bank Corporation benefited from the use of office space and administrative support, mostly in connection with mandates they are still holding on behalf of or in the interests of UBS. The total value of these benefits was CHF 1,421,565 in 2005.

Remuneration for non-executive members of the Board

CHF, except where indicated	For the period		
	AGM 2005/2006	AGM 2004/2005	AGM 2003/2004
Cash	2,292,321	2,210,130	1,889,097
Restricted UBS shares at fair value	3,772,956	3,516,681	3,513,044
Total	6,065,277	5,726,811	5,402,141
Number of UBS shares granted (15% discount)	26,664	34,545	36,863

Explanations:

- *Number of non-executive BoD members:*
 - 2003: seven acting members as of 31 December, one for nine months only
 - 2004: seven acting members as of 31 December.
 - 2005: eight acting members as of 31 December.
- *Shares valued at CHF 141.50 (average price of UBS shares at virt-x over the last ten trading days of February 2006), discount price CHF 120.30. The shares are blocked for four years. Related parties of non-executive BoD members are not granted any shares.*
 - Value per share 2004: CHF 101.80; 2003: CHF 95.30
- *Allowance for "Out of pocket" expenses (CHF 15,000) in addition.*

Additional information on equity-based compensation

Disclosure differences between IFRS and SWX requirements

Since 1 January 2005, expensing of equity-based compensation has become mandatory. IFRS requires entities to recognize the fair value of share-based payments made to employees as compensation expense, recognized over the service period, which is generally equal to the vesting period. Disclosure in the financial statements is reported on this accounting basis, while the disclosure of compensation in the Handbook will continue to relate to figures attributable to performance in the financial year under review.

Disclosure of management transactions

Since 1 July 2005, UBS has disclosed transactions by members of the Board of Directors and the GEB in the firm's own shares and options to the SWX on a no name basis. In the period from 1 July 2005 to 31 December 2005, shares and options in the value of CHF 35.6 million were sold by nine senior executives. No shares or options were bought during the reporting period. These sales have to be seen in light of the fact that senior executives receive at least 50% of their incentive pay in shares and options, and that stringent share holding requirements apply. Two non-executive Board members elected to receive 100%, rather than the mandatory minimum 50%, of their remuneration for the period AGM 2005/2006 in restricted UBS shares. This election, which was disclosed accordingly to the SWX, will be effective for 2006 only.

Share ownership

No individual BoD or GEB member holds 1% or more of all shares issued.

Executive Board members and members of the Group Executive Board ¹

Shares held as of 31 December 2005: **4,225,946**

Of which

Vested	Vesting 2006	Vesting 2007	Vesting 2008	Vesting 2009	Vesting 2010
1,949,604	665,294	733,912	414,192	298,110	164,834

¹ Includes parties closely linked to them.

Non-executive members of the Board ¹

Shares held as of 31 December 2005: **131,046**

Of which

Non-restricted	Blocked until 2006	Blocked until 2007	Blocked until 2008	Blocked until 2009
29,879	12,688	27,832	26,102	34,545

¹ Includes parties closely linked to them.

Options held

Executive Board members and members of the GEB

Senior executives held the following options on UBS shares as of 31 December 2005:

Number of options	Year of grant	Vesting date	Expiry date	Subscription ratio	Strike price
633,562	2001	20.02.2004	20.02.2009	1:1	CHF 100.00
292,322	2002	20.02.2005	31.01.2012	1:1	CHF 77.75
188,072	2002	31.01.2005	31.01.2012	1:1	USD 45.26
240,000	2002	28.06.2005	28.06.2012	1:1	CHF 80.75
12,311	2002	20.02.2005	31.07.2012	1:1	CHF 77.75
145,000	2002	28.06.2005	28.12.2012	1:1	CHF 80.75
480,000	2003	31.01.2006	31.01.2013	1:1	USD 48.00
607,000	2003	31.01.2006	31.07.2013	1:1	CHF 65.00
492,282	2004	28.02.2007	28.02.2014	1:1	CHF 103.75
608,536	2004	28.02.2007	28.02.2014	1:1	USD 81.25
1,171,654	2005	01.03.2008	28.02.2015	1:1	CHF 111.50
560,386	2005	01.03.2008	28.02.2015	1:1	USD 95.50

Parties closely linked to the executive members of the Board and the member of the GEB do not hold any options on UBS shares.

Non-executive Board members

The non-executive Board members do not hold any options, nor do parties closely linked to them.

Loans

UBS as a global financial services provider and the major bank in Switzerland typically has business relationships with most large companies and therefore with companies in which UBS Board members assume management or non-executive board responsibilities. Granting loans is part of the ordinary business of UBS. Executive members of the Board and the members of the GEB have been granted loans, fixed advances and mortgages at the same terms and conditions as other employees, based on third-party conditions adjusted for reduced credit risk. In 2002, a thorough review of outstanding loans to senior executives was performed to ensure compliance with the US Sarbanes-Oxley Act of 2002.

Loans and advances to non-executive Board members and related parties are transacted on the same terms as those prevailing at the time for comparable transactions with non-affiliated persons.

Loans granted to executive Board members and members of the GEB

As of 31 December 2005, collateralized loans and fixed advances of CHF 1,500,000 were receivable from one member of the GEB, and mortgages in the amount of CHF 18,642,750 had been granted to seven members of the group of senior executives and their close family members.

Loans granted to non-executive Board members

Individual loans and mortgages granted to one non-executive Board member amounted to CHF 480,000. Loans granted to companies related to five non-executive Board members amounted to CHF 919.5 million, including guarantees, contingent liabilities and unused committed credit facilities. For details see note 32 to the financial statements.

Shareholders' participation rights

UBS is committed to making it as easy as possible for shareholders to take part in its decision-making processes. Almost 200,000 directly registered shareholders and some 70,000 US shareholders registered via nominee companies regularly receive written information about the firm's activities and performance and are personally invited to shareholder meetings.

Relations with shareholders

UBS fully subscribes to the principle of equal treatment of all shareholders, ranging from large investment institutions to individual investors, and regularly informs them about the development of the company of which they are co-owners.

The Annual General Meeting offers shareholders the opportunity to raise any questions regarding the development of the company and the events of the year under review. The members of the Board of Directors and Group Executive Board, as well as the internal and external auditors, are present to answer these questions.

Voting rights, restrictions and representation

UBS places no restrictions on share ownership and voting rights. Nominee companies and trustees, who normally represent a great number of individual shareholders, may register an unlimited number of shares, but voting rights are limited to a maximum of 5% of outstanding UBS shares in order to avoid the risk of unknown shareholders with large stakes being entered into the share register. Securities clearing organizations such as The Depository Trust Company (DTC) in New York and SIS SegalInterSettle in Switzerland are exempt from the 5% voting limit. SIS, however, does not register its holdings with voting rights.

In order to have voting rights registered, shareholders must confirm they acquired UBS shares in their own name and for their own account. Nominee companies / trustees are required to sign an agreement with UBS, confirming their willingness to disclose to the company, upon its request, individual beneficial owners holding more than 0.3% of all issued shares.

All registered shareholders are invited to participate in shareholder meetings. If they do not wish to attend in person, they can issue instructions to accept, reject or abstain on each individual item on the meeting agenda by either giving instructions to an Independent Proxy designated by UBS (as required under Swiss company law) or by appointing UBS, another bank or another registered shareholder of their choice, to vote on their behalf. Nominee companies normally submit the proxy material to the beneficial owners and transmit the collected votes to UBS.

Statutory quorums

Shareholder resolutions, the election and re-election of Board members, and the appointment of the Group and Statutory Auditors are decided at the General Meeting of Shareholders by an absolute majority of the votes cast, excluding blank and invalid ballots. Swiss company law requires that for certain specific issues a majority of two-thirds of the votes represented at the meeting vote in favor of the resolution. These issues include the introduction of voting shares, the introduction of restrictions on the transferability of registered shares, conditional and authorized capital increases, and restrictions or exclusion of shareholders' pre-emptive rights.

UBS also requires a two-thirds majority of votes represented for any change to the provisions in the Articles of Association regarding the number of Board members as well as for any decision to remove one fourth or more of the members of the Board.

Votes and elections are normally conducted electronically to clearly ascertain the exact number of votes cast. Voting by a show of hands remains possible if a clear majority is predictable. Shareholders representing at least 3% of the votes represented may still request, however, that a vote or election take place electronically or by written ballot. In order to allow shareholders to clearly express their views on all individual topics, each item on the agenda is put to vote individually, and Board elections are made on a person-by-person basis.

Convocation of general meetings of shareholders

The Annual General Meeting of Shareholders (AGM) normally takes place in April, but in any case within six months of the close of the financial year. A personal invitation including a detailed agenda and explanation of each motion is sent to every registered shareholder at least 20 days ahead of the scheduled meeting. The meeting agenda is also published in various Swiss and international newspapers and on the internet at www.ubs.com/shareholder-meeting.

Extraordinary General Meetings may be convened whenever the Board of Directors or the statutory auditors consider it necessary. Shareholders individually or jointly representing at least 10% of the share capital may, at any time, ask in writing that an Extraordinary General Meeting be convened to

deal with a specific issue put forward by them. Such a request may also be brought forward during the AGM.

Placing of items on the agenda

Shareholders individually or jointly representing shares with an aggregate par value of CHF 250,000 may submit proposals for matters to be placed on the agenda for consideration by the shareholders' meeting.

UBS publishes the deadline for submitting such proposals in various Swiss and international newspapers and on its website (www.ubs.com/shareholder-meeting). Requests for items to be placed on the agenda must include the actual mo-

tions to be put forward, together with a short explanation, if necessary. The Board of Directors formulates an opinion on the proposals, which is published together with the motions.

Registrations in share register

The general rules for being entered with voting rights in the Swiss or US Share Register of UBS also apply before General Meetings of Shareholders (for details see previous page). There is no "closing of the share register" in the days ahead of the meeting. Registrations including the transfer of voting rights are processed for as long as technically possible, normally until two days before the meeting.

Change of control and defense measures

UBS refrains from restrictions that would hinder developments initiated in or supported by the financial markets. It also does not have any specific defenses in place to prevent hostile takeovers.

Duty to make an offer

An investor who acquires 33⅓% of all voting rights, whether they are exercisable or not, has to submit a takeover offer for all shares outstanding, according to Swiss stock exchange law. UBS has not elected to change or opt out of this rule.

Clauses on changes of control

The service agreements and employment contracts of the executive Board members, of the members of the Group Ex-

ecutive Board and of the Group Managing Board do not contain clauses triggered by a change of control. UBS does not offer “golden parachutes” to its senior executives. Employment contracts contain notice of termination periods of twelve months for GEB members and six to twelve months for GMB members, depending on local market practice. During this notice period they are entitled to salary and bonuses.

The Compensation Committee of the Board may, however, accelerate the vesting of options and the lapse date for restricted shares in case of a change of control.

Auditors

Audit plays an important role in corporate governance. While putting high priority on remaining independent, the external auditors and Group Internal Audit closely coordinate their work, thereby ensuring the most effective performance of their responsibilities. The Chairman's Office, the Audit Committee and ultimately the Board of Directors supervise the functioning of audit work.

External, independent auditors

Ernst & Young Ltd., Basel, have been assigned the mandate to serve as global auditors for the UBS Group. They assume all auditing functions according to laws, regulatory requests, and the UBS Articles of Association (see also the paragraph about auditors responsibilities in the regulation and supervision section on page 129–131). The Audit Committee of the Board annually assesses the independence of Ernst & Young and has determined that they meet all independence requirements established by the US Securities and Exchange Commission (SEC). Authority for pre-approval of all additional audit, audit-related and non-audit mandates to the principal auditors lies with the Audit Committee, ensuring that independence of the auditors is not jeopardized by conflicts of interests through additional mandates. Ernst & Young Ltd. inform the Audit Committee annually of the measures they are taking to ensure their own and their employees' independence from UBS. The Audit Committee assesses this information on behalf of the Board and informs the Board accordingly.

At the Extraordinary General Meeting on 7 September 2000, UBS shareholders appointed Deloitte & Touche AG, Basel, as special auditors. The special auditors provide audit opinions in connection with capital increases, independently from the Group auditors. They were re-appointed at the AGM in 2003 for another three-year term of office. At the 2006 AGM, BDO Visura, Zurich, is proposed for election for a three-year term of office.

Duration of the mandate and term of office of the lead partners

After the UBS-SBC merger, Ernst & Young Ltd., Basel were first appointed as UBS's principal external auditor for the audit of the 1998 financial statements. Following a comprehensive evaluation process during 1999, they were proposed for re-election at the 2000 AGM. The AGMs through 2005 annually confirmed their mandate, and they will be proposed for re-election at the 2006 AGM.

Due to the seven-year rotation requirement established by the Swiss Chamber of Auditors and declared mandatory for banks by the Swiss Federal Banking Commission, the lead partners in charge of the UBS audit, Roger K. Perkin and Peter Heckendorn, had to be replaced. Andreas Blumer took over from Peter Heckendorn over the course of 2004, and Roger K. Perkin has been replaced by Andrew McIntyre at the beginning of 2005, after completion of the audit for the 2004 financial year.

Fees paid to principal external auditors

UBS paid the fees (including expenses) listed in the table below to its principal external auditors Ernst & Young Ltd.

Audit work includes all services necessary to perform the audit in accordance with applicable generally accepted auditing principles as well as other assurance services that generally only the Principal Auditor can provide, including comfort letters, statutory and regulatory audits, attest services, con-

Fees paid to external auditors

UBS paid the following fees (including expenses) to its principal external auditors Ernst & Young Ltd.:

	For the year ended	
<i>in CHF thousand</i>	31.12.05	31.12.04
Audit		
Global audit fees	39,802	33,465
Additional services classified as audit (services required by law or statute, including work of non-recurring nature mandated by regulators)	9,984	3,094
Total audit	49,786	36,559
Non-audit		
Audit-related fees	10,870	9,513
Tax advisory	2,511	3,451
Other	3,076	3,282
Total non-audit	16,457	16,246

sents, and reviews of documents filed with regulatory bodies under applicable law.

Audit-related work consists primarily of additional attest services, such as retirement and compensation plan audits, agreed upon procedures reports required by contract and audits performed at the request of management. It also includes due diligence work on acquisitions and initial work relating to the eventual attestation as to UBS's compliance with section 404 of the Sarbanes-Oxley Act of 2002.

Tax work are services performed by professional staff in Ernst & Young's tax division, other than audit work, and includes tax compliance, tax consultation and tax planning in respect of UBS's own affairs. Ernst & Young may not provide tax consulting to members of UBS management who serve in a financial reporting oversight role.

"Other" services are only approved on an exceptional basis. In 2004 and 2005, they mainly comprised on-call advisory services and selected transaction-related operational reviews.

In addition to the fees listed in the table, Ernst & Young were paid CHF 20,575,000 (CHF 14,876,000 in 2004) for audit and tax work performed on behalf of UBS Investment Funds, many of which have independent fund boards or trustees.

Pre-approval procedures and policies

All services provided by Ernst & Young have to be pre-approved by the Audit Committee of the Board. A pre-approval may be granted either for a specific mandate or in the form of a general pre-approval authorizing a limited and well-defined type and amount of services. The Audit Committee has delegated pre-approval authority to its chairman. After endorsement by the Group CFO, requests for mandates are routed to the Company Secretary, who submits them to the chairman of the Audit Committee for approval. At each quarterly meeting, the Audit Committee is informed on the approvals granted by its chairman.

The SEC prohibits independent auditors from providing a number of specific services. Ernst & Young have not provided any such services during the year.

Group Internal Audit

With 275 staff members worldwide at 31 December 2005, Group Internal Audit provides an independent review of the effectiveness of UBS's system of internal controls and compliance with key rules and regulations. It specifically verifies or assesses whether the internal controls are commensurate with the corresponding risks and are working effectively, whether activities within the firm are being conducted and recorded properly, correctly and fully, and whether the organization of operations, including information technology, is efficient and information is reliable. All key issues raised by Group Internal Audit are communicated to the management responsible, to the Group CEO and to the executive members of the Board of Directors via formal Audit Reports. The Chair-

man's Office and the Audit Committee of the Board are regularly informed of important findings. Group Internal Audit closely cooperates with internal and external legal advisors and risk control units on investigations into major control issues.

To maximize its independence from management, the head of Group Internal Audit, Markus Ronner, reports directly to the Chairman of the Board. Group Internal Audit has unrestricted access to all accounts, books and records and must be provided with all information and data needed to fulfill its auditing duties. Group Internal Audit addresses any reports with major issues to the Chairman of the Board. The Chairman's Office may order special audits to be conducted, and the Group Executive Board, with the agreement of the Chairman, may also instruct Group Internal Audit to conduct such audits.

Coordination and close co-operation with the external auditors enhance the efficiency of Group Internal Audit's work.

Supervisory and control instruments vis-à-vis the external auditors

The Audit Committee, on behalf of the Board of Directors, monitors the qualification, independence and performance of the Group Auditors and their lead partners. It prepares proposals for appointment or removal of the external auditors for review by the full Board, which then submits the proposal to the AGM.

The Audit Committee reviews the annual written statement submitted by the external auditors as to their independence. It also reviews the engagement letter between UBS and the external auditors and the fees and terms of the planned audit work. Mandates to the Group auditors for additional audit, audit-related and permitted non-audit work are subject to pre-approval by the Audit Committee. For details see preceding paragraph on external, independent Auditors.

The external auditors provide timely reports to the Audit Committee on critical accounting policies and practices used, on alternative treatments of financial information discussed with management, and other material written communication between external auditors and management.

The Audit Committee regularly meets with the lead partners of the external auditors, at least four times per year. It also regularly meets with the Head of Group Internal Audit.

At least once per year, the Chairman's Office discusses with the lead partners of Ernst & Young Ltd. the audit work performed, the main findings and critical issues that arose during the audit.

The Audit Committee and the Chairman's Office report back to the Board of Directors about their contacts and discussions with the external auditors. Once per year, the lead partners take part in a Board meeting, normally to present the Long-form Report of the External Auditors, as required by the Swiss Federal Banking Commission.

Information policy

Our financial disclosure policies aim at achieving a fair market value for UBS shares through open, transparent and consistent communication with investors and financial markets.

UBS provides regular information to its shareholders and to the financial community.

Financial results will be published as follows:

First Quarter	4 May 2006
Second Quarter	15 August 2006
Third Quarter	31 October 2006
Fourth Quarter	13 February 2007

The Annual General Meeting of Shareholders will take place as follows:

2006	19 April 2006
2007	18 April 2007

UBS meets regularly with institutional investors throughout the year, holding results presentations, specialist investor seminars, roadshows and one-to-one or group meetings across the world. Where possible, these events involve UBS senior management as well as the UBS Investor Relations team. As a means of further widening our audience and maintaining contact with our shareholders around the world, we also make use of diverse technologies such as webcasting, audio links and cross-location video-conferencing.

Our website (www.ubs.com/investors) includes comprehensive information about UBS, including a complete set of our published reporting documents, on-demand access to recent webcast presentations and copies of presentations that senior management have given at industry conferences.

Once a year, registered shareholders receive our Annual Review (unless they chose not to). It provides an overview of the firm and its activities during the year as well as key financial information. Each quarter, they are also mailed an update about our ongoing initiatives as well as information on our quarterly financial performance. If they want more detailed information, shareholders can request our complete financial reports, produced on a quarterly and annual basis, free of charge.

To ensure fair access to and dissemination of our financial information, we make our publications available to all shareholders at the same time.

A complete list of all sources of information about UBS and contact details for shareholders as well as other interested parties are included in this Handbook on pages 4–6.

Financial disclosure principles

Based on our discussions with analysts and investors, we believe that the market rewards companies that provide clear, consistent and informative disclosure about their business. Our aim therefore is to communicate UBS's strategy and results in such a way that shareholders and investors can gain a full and accurate understanding of how the company works, what its growth prospects are and what risks they might entail.

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

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

Financial reporting policies

We report UBS's results after the end of every quarter, and include a breakdown of results by Business Groups and business units and extensive disclosures relating to credit and market risk.

We prepare UBS's financial statements according to International Financial Reporting Standards (IFRS), and provide additional information in our Financial Report to reconcile the UBS accounts to US Generally Accepted Accounting Principles (US GAAP). A detailed explanation of the basis of UBS's accounting is given in note 1 to the financial statements, which are published in the Financial Report 2005. An explanation of the critical accounting policies applied in the preparation of our financial statements is provided in a specific section in our Financial Report 2005.

We are committed to maintaining the transparency of UBS's reported results and to ensuring that analysts and investors can make meaningful comparisons with previous periods. If there is a major reorganization of our business units or if changes to accounting standards or interpretations lead to a material change in the Group's reported results, we restate UBS's results for previous periods to show how they would have been reported according to the new basis, and provide clear explanations of all changes.

US regulatory disclosure requirements

As a Swiss company listed on the New York Stock Exchange (NYSE), we comply with the disclosure requirements of the Securities and Exchange Commission (SEC) and the NYSE for private foreign issuers. These include the requirement to make certain filings with the SEC. As a private foreign issuer, some of the SEC's regulations and requirements which apply to domestic issuers are not applicable to UBS. We provide

UBS's regular quarterly reports to the SEC under cover of Form 6-K, and file an annual report on Form 20-F. We also provide additional disclosure at half-year to meet specific SEC requirements, which again is provided under cover of Form 6-K. These reports, as well as materials sent to shareholders in connection with annual and special meetings, are all available on our website, at www.ubs.com/investors. As of the end of the period covered by this Annual Report, an evaluation was carried out under the supervision of our management, including the Group CEO and Group CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15e) under the US Securities Exchange Act of 1934. Based upon that evaluation, the Group CEO and Group CFO concluded that these disclosure controls and procedures were effective as of the end of the period covered by this Annual Report. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Regulation and supervision

We aim to comply with all applicable provisions and to work closely and maintain good relations with regulators in all jurisdictions where we conduct business.

As a Swiss-registered company, UBS's home country regulator is the Swiss Federal Banking Commission (SFBC).

UBS's operations throughout the world are regulated and supervised by the relevant authorities in each of the jurisdictions in which we conduct business.

The following sections describe the regulation and supervision of UBS's business in Switzerland, our home market. They also describe the regulatory and supervisory environment in the United States and the United Kingdom, our next two largest areas of operations.

Regulation and supervision in Switzerland

General

UBS is regulated in Switzerland under a system established by the Swiss Federal Law relating to Banks and Savings Banks of 8 November 1934, as amended, and the related Implementing Ordinance of 17 May 1972, as amended, which are together known as the Federal Banking Law. Under this law, banks in Switzerland are permitted to engage in a full range of financial services activities, including commercial banking, investment banking and fund management. Banking groups may also engage in insurance activities, but these must be undertaken through a separate subsidiary. The Federal Banking Law establishes a framework for supervision by the SFBC.

The Federal Act of 10 October 1997 on the Prevention of Money Laundering in the Financial Sector (Money Laundering Act, MLA) lays down a common standard for due diligence obligations for the whole financial sector, which must be met in order to prevent money laundering.

In its capacity as a securities broker, UBS is governed by the Swiss Federal Law on Stock Exchanges and Trading in Securities of 24 March 1995, as amended, under which the SFBC is appointed as prime regulator for these activities.

Regulatory policy

Swiss regulatory policies are formulated on three levels. The first two are the statutory levels of primary and secondary legislation issued by Parliament and the Swiss Federal Council. The SFBC has substantial influence on the drafting of these regulatory statutes (for example, the specific ordinance concerning the prevention of money laundering of 18 December 2002, amended in 2003). On a more technical level, the SFBC is empowered to issue so-called circulars, 27 of which are presently effective. These include a circular ruling the super-

vision of large banking groups issued on 21 April 2004. The latter directly applies to UBS and prescribes what information we are required to provide the SFBC, the structure of our regular interaction with them, and the scope of on-site reviews (prudential independent controls) as well as extended audits by the SFBC. In certain fields, the SFBC officially endorses self-regulatory guidelines issued by the banking industry (through the Swiss Bankers' Association), making them an integral part of banking regulation. Examples are:

- Allocation Directives for the New Issues Market, 2004
- Agreement on Swiss banks' code of conduct with regard to the exercise of due diligence (CDB 03), 2003
- Directives on the Independence of Financial Research, 2003
- Portfolio Management Guidelines, 2003
- Guidelines on Internal Control, 2002
- Guidelines on the handling of dormant accounts, custody accounts and safe-deposit boxes held in Swiss banks, 2000

Certain aspects of securities broking, such as the organization of trading, are subject to self-regulation through the SWX Swiss Exchange (for example, the Listing regulation of 24 January 1996) and the Swiss Bankers' Association, under the overall supervision of the SFBC. As a means of improving information flows to investors, the SWX Swiss Exchange on 1 July 2005 enacted an amendment requiring the disclosure of management transactions.

Role of external auditors and direct supervision of large banking groups

The Swiss supervisory system relies on banks' external auditors, who are licensed and supervised by the SFBC, and carry out official duties on behalf of and subject to sanctions imposed by the SFBC. The responsibility of external auditors not only encompasses the audit of financial statements but also entails the review of banks' compliance with all prudential requirements.

The SFBC has direct responsibility for supervision in two areas: capital requirements for market risk (which will be further expanded to cover the advanced credit and operational risk models under Basel II), and the supervision of the two large Swiss banking groups, including UBS. The supervisory strategy entails direct supervision in the form of regular meetings with bank management, supervisory visits to our operations, on-site reviews, direct reporting, both routine and ad hoc, and regular meetings with the host regulators of our

overseas activities. Close co-operation, including regular tri-lateral meetings, has been established between the SFBC and UBS's US and UK regulators, and further links are being established by the SFBC with other relevant regulators.

Reporting requirements and capital requirements

UBS reports financial, capital, legal and risk information to the SFBC. The SFBC also reviews the bank's risk management and control principles and procedures in all areas of risk, including Know Your Customer rules and anti-money laundering practices.

Switzerland applies the internationally agreed capital adequacy rules of the Basel Capital Accord, but the SFBC implementation imposes a more differentiated and tighter regime than the internationally agreed rules, including a more stringent definition of capital (see Capital management on page 88). Switzerland has drafted national laws to implement Basel II following a period of consultation that ended on 31 December 2005.

Disclosures to the Swiss National Bank

Switzerland's banks, according to Swiss banking law, are primarily supervised by the SFBC while compliance with liquidity rules, in particular, is monitored by the Swiss National Bank (SNB). UBS sends the SNB detailed monthly interim balance sheets, capital adequacy and liquidity statements. UBS also submits an annual statement of condition and quarterly stress testing results and co-operates with the Financial Stability and Oversight unit of the SNB whenever required. The SNB can also require UBS to make additional disclosures of financial condition and other information relevant to its regulatory oversight.

Regulation and supervision in the US

Banking regulation

UBS's operations in the United States are subject to a variety of regulatory regimes. It maintains branches in California, Connecticut, Illinois, New York and Florida. UBS's branches located in California, New York and Florida are federally licensed by the Office of the Comptroller of the Currency. US branches located in Connecticut and Illinois are licensed by the state banking authority of the state in which the branch is located. Each US branch is subject to regulation and examination by its licensing authority. In addition, the Board of Governors of the Federal Reserve System exercises examination and regulatory authority over our state-licensed US branches. We also maintain state and federally chartered trust companies and other limited purpose banks, which are regulated by state regulators or the Office of the Comptroller of the Currency. Only the deposits of UBS's subsidiary bank located in the state of Utah are insured by the Federal Deposit Insurance Corporation. The regulation of our US branches and subsidiaries imposes restrictions on the activities of those branches and subsidiaries, as well as prudential restrictions, such as limits on extensions of credit to a single borrower, including UBS subsidiaries and affiliates.

The licensing authority of each US branch has the authority to take possession of the business and property of UBS located in the state of the office it licenses in certain circumstances. Such circumstances generally include violations of law, unsafe business practices and insolvency. As long as UBS maintains one or more federal branches, the Office of the Comptroller of the Currency also has the authority to take possession of the US operations of UBS AG under similar circumstances, and this federal power may preempt the state insolvency regimes that would otherwise be applicable to our state-licensed branches. As a result, if the Office of the Comptroller of the Currency exercised its authority over the US branches of UBS AG pursuant to federal law in the event of a UBS insolvency, all of UBS's US assets would most likely be applied first to satisfy creditors of our US branches as a group, and then made available for application pursuant to any Swiss insolvency proceeding.

In addition to the direct regulation of our US banking offices, operating US branches subjects UBS to regulation by the Board of Governors of the Federal Reserve System under various laws, including the International Banking Act of 1978 and the Bank Holding Company Act of 1956. On 10 April 2000, UBS AG was designated a "financial holding company" under the Bank Holding Company Act of 1956. Financial holding companies may engage in a broader spectrum of activities, including underwriting and dealing in securities. To maintain its financial holding company status, UBS, its US subsidiary federally chartered trust company, and its US subsidiary bank located in Utah are required to meet or exceed certain capital ratios and UBS's US branches, its US subsidiary federally chartered trust company, and its US subsidiary bank located in Utah are required to meet or exceed certain examination ratings.

A major focus of US governmental policy relating to financial institutions in recent years has been aimed at combating money laundering and terrorist financing. Regulations applicable to UBS and its subsidiaries impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious legal and reputational consequences for the institution.

US regulation of other US operations

In the United States, UBS Securities LLC and UBS Financial Services Inc., as well as UBS's other US registered broker-dealer entities, are subject to regulations that cover all aspects of the securities business, including:

- Sales methods
- Trade practices among broker-dealers
- Use and safekeeping of customers' funds and securities
- Capital structure
- Record-keeping
- The financing of customers' purchases
- The conduct of directors, officers and employees.

These entities are regulated by a number of different government agencies and self-regulatory organizations, including the Securities and Exchange Commission and the National Association of Securities Dealers. Depending upon the specific nature of a broker-dealer's business, it may also be regulated by some or all of the New York Stock Exchange, the Municipal Securities Rulemaking Board, the US Department of the Treasury, the Commodities Futures Trading Commission, and other exchanges of which it may be a member. These regulators have available a variety of sanctions, including the authority to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of the broker-dealer or its directors, officers or employees.

UBS subsidiaries in the United States are also subject to regulation by applicable federal and state regulators of their activities in the investment advisory, mutual fund, trust company, mortgage lending and insurance businesses.

Regulation and supervision in the United Kingdom

UBS's operations in the United Kingdom are regulated by the Financial Services Authority (FSA), as the UK's single regulator, which establishes a regime of rules and guidance governing all relevant aspects of financial services business.

The FSA has established a risk-based approach to supervision and has a wide variety of supervisory tools available to it, including on-site inspections (which may relate to an industry-wide theme or be firm-specific) and the ability to commission reports by skilled persons (who may be the firm's auditors, IT specialists, lawyers or other consultants as appropriate). The FSA also has an extremely wide set of sanctions which it may impose under the Financial Services and Markets Act, broadly similar to those available to US regulators.

Some of our subsidiaries and affiliates are also regulated by the London Stock Exchange and other UK securities and commodities exchanges of which UBS is a member. Our business can also be subject to the requirements of the UK Panel on Takeovers and Mergers where relevant.

Financial services regulation in the UK is conducted in accordance with European Union directives which require, among other things, compliance with certain capital adequacy standards, customer protection requirements and conduct of business rules. These directives apply throughout the European Union and are reflected in the regulatory regimes in other member states. The standards, rules and requirements established under these directives are broadly comparable in scope and purpose to the regulatory capital and customer protection requirements imposed under applicable US law.

Compliance with NYSE listing standards on corporate governance

UBS aims to comply with all relevant standards on corporate governance. As a foreign company, listed on the New York Stock Exchange (NYSE), we are only required to comply with the rules relating to audit committees and annual certifications. UBS, however, has voluntarily adopted the overwhelming majority of the NYSE rules for US companies.

Introduction

On 4 November 2003, the Securities and Exchange Commission (SEC) approved the revised New York Stock Exchange corporate governance rules. Foreign private issuers – such as UBS – were required to comply with the rules on Audit Committees by 31 July 2005 and had to also disclose significant differences and material non-compliance with all other NYSE standards by the first annual shareholders meeting after 15 January 2004. UBS fully complies with the SEC requirements relating to Audit Committees and fulfills the overwhelming majority of the NYSE listing standards on corporate governance. The few exceptions are mainly due to the different legal system in Switzerland and are explained in detail in this chapter.

Independence of directors

The Board of Directors, based on the listing standards of the NYSE, approved “Criteria for defining external Board members’ independence”, which are published on the firm’s website under www.ubs.com/corporate-governance. Each external director has to personally confirm his compliance with the criteria. The Board, at its meeting of 9 February 2006, affirmatively determined that Ernesto Bertarelli, Peter Böckli, Sir Peter Davis, Rolf A. Meyer, Helmut Panke, Peter Spuhler, Peter Voser and Lawrence A. Weinbach have no material relationship with UBS, either directly or as a partner, controlling shareholder or executive officer of a company that has a relationship with UBS. Each of them also met all the other requirements of the Board and of the New York Stock Exchange with respect to independence, with the exception of Ernesto Bertarelli. Mr. Bertarelli does not satisfy one of the independence requirements because UBS is the main sponsor to Team Alinghi, the defender of the “America’s Cup 2007”. Mr. Bertarelli is the owner of Team Alinghi SA. Otherwise Ernesto Bertarelli fully satisfies the New York Stock Exchange independence requirements. The Board of Directors does not believe that UBS’s sponsorship of Team Alinghi impairs Mr. Bertarelli’s independence in any way.

The Board of Directors has also determined that Lawrence A. Weinbach, Sir Peter Davis and Rolf A. Meyer meet the more stringent independence requirements for Audit Committee

members. They do not receive directly or indirectly any consulting, advisory or other compensatory fees from UBS other than in their capacity as directors. They do not hold directly or indirectly UBS shares in excess of 5% of the outstanding capital, and none of them serves on the audit committees of more than two other public companies. The Board determined that all three Audit Committee members are financially literate and that Lawrence A. Weinbach and Rolf A. Meyer are “financial experts” according to the definitions established by the Sarbanes-Oxley Act of 2002, Lawrence A. Weinbach being a certified public accountant and having been in the audit and accounting business during most of his professional career, and Rolf A. Meyer through his former responsibility as Chief Financial Officer of a large listed company.

UBS operates under a strict dual Board structure mandated by Swiss banking law. No member of the Group Executive Board may also be a member of the Board of Directors and vice versa. This structure ensures an institutional independence of the entire Board of Directors from the day-to-day management. Therefore all Board members are considered non-management directors, although the three executive members of the Chairman’s Office are former members of the executive management and are performing their mandate on a full-time basis. The Board meets regularly without executive management, but including the executive members of the Board.

Board committees

UBS has established audit, compensation and nominating committees. The charters for all Board Committees are published on www.ubs.com/corporate-governance. Additional information on the Board Committees’ mandates, responsibilities and authorities and their activities during 2005 can be found on pages 107–108 of this section.

In addition to these three committees, the Chairman of the Board and the Vice Chairmen form a “Chairman’s Office”, which has clearly defined authorities and duties. It also has responsibility for oversight of the internal audit function (as defined in the Swiss Federal Banking Commission’s Circular Letter on Internal Audit) and acts as Risk Committee of the Board. For more details see page 107 of this section, the UBS

Organization Regulations with its Appendix, and the Charter for the Chairman's Office (www.ubs.com/corporate-governance).

Differences from NYSE standards

According to Rule 303A.11 of the NYSE Corporate Governance listing standards, foreign private issuers have to disclose any significant ways in which their corporate governance practices differ from those to be followed by domestic companies. The UBS Board of Directors has determined the following differences:

For US listed companies the NYSE rules require:

- *Responsibility of the Audit Committee for appointment, compensation, retention and oversight of the Independent Auditors.*

UBS's Audit Committee has been assigned all these responsibilities, except for appointment of the Independent Auditors, which – according to Swiss Company Law – is required to be voted upon by shareholders. The Audit Committee assesses the performance and qualification of the External Auditors and submits its proposal for appointment, re-appointment or removal to the full Board, which brings this proposal to the shareholders for vote at the Annual General Meeting (AGM).

- *Discussion of risk assessment and risk management policies by Audit Committee.*

UBS, as a global financial services firm, has a sophisticated and complex system of risk management and control. Risk management and control is the clear responsibility of the business. The Board of Directors, of which the Audit Committee members are part, has authority to define the firm's risk principles and its risk capacity. The Chairman's Office, acting as Risk Committee on behalf of the full Board, is responsible for monitoring the adherence to the defined risk principles and for reviewing whether the business and control units run appropriate systems for the management and control of risks. The Audit Committee is regularly updated by Group Internal Audit on specific risk issues.

- *Assistance by Audit Committee of the internal audit function.*

In accordance with the Swiss Federal Banking Commission's Circular Letter on Internal Audit, dated 14 December 1995, UBS gave the Chairman's Office responsibility and authority for supervising the internal audit function. The complexity of the financial services industry requires in-depth knowledge to allow for an effective supervision of the internal audit function. The Chairman's Office reports back to the full Board on all important findings, and the Audit Committee is regularly updated directly by the head of Group Internal Audit.

- *Responsibility of the Nominating Committee for oversight of management and Board evaluation.*

Management evaluation (performance of the Group CEO

and the members of the Group Executive Board) is done by the Chairman's Office and reported to the full Board. All Board Committees perform a self-assessment of their activities and report back to the full Board. The Board has direct responsibility and authority to evaluate its own performance, without preparation by a Board Committee.

- *Proxy statement reports of the Audit and Compensation Committees.*

Under Swiss Company Law, all reports addressed to shareholders are provided and signed by the full Board, which has ultimate responsibility vis-à-vis shareholders. The Committees submit their reports to the full Board.

- *Shareholders' votes on equity compensation plans.*

Under Swiss Company Law, the approval of compensation plans is not within the authority of the AGM, but of the Board of Directors. The reason for this approach is the fact that the capital of a Swiss company is determined in the Articles of Association and, therefore, each increase of capital has to be submitted for shareholders' approval. If equity-based compensation plans result in a need for a capital increase, AGM approval is mandatory. If, however, shares for such plans are purchased in the market, shareholders do not have the authority to vote on their approval.

- *Non-management directors to meet at least once per year separately, without any directors participating who are not independent because of their employment by the company.*

Under Swiss Banking Laws Board members are not allowed to assume any day-to-day management responsibility. UBS therefore considers all its Board members as "non-management directors", despite the fact that three "executive" Board members perform their mandate on a full-time basis and are remunerated by the company for their services. The Board meets regularly without executive management, but including the three executive Board members.

The New York Stock Exchange has published new forms for the annual and interim written affirmation required under Section 303A.12 (c) of the NYSE Corporate Governance listing standards. NYSE-listed foreign private issuers are required to submit an annual written affirmation and accompanying exhibits to the NYSE, certifying that it is in compliance with the NYSE corporate governance requirements applicable to foreign private issuers – specifically the audit committee requirements and the requirement to provide a statement of significant corporate governance differences. NYSE-listed foreign private issuers have become subject to these requirements as of 31 July 2005. UBS filed the requested affirmation forms and exhibits in mid-July 2005.

From now on, the annual written affirmation will have to be submitted no later than 30 days after filing the annual report on Form 20-F with the SEC.

Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Whistleblowing Protection

The Board of Directors has adopted corporate governance guidelines, which are published on the UBS website at www.ubs.com/corporate-governance.

The Board of Directors has also adopted a Code of Business Conduct and Ethics with an Addendum for principal executive, financial and accounting officers or controllers, as re-

quired by the Sarbanes-Oxley Act. The code is available on the UBS website at www.ubs.com/corporate-governance.

The Audit Committee of the Board has established rules for the handling of complaints related to accounting and auditing matters in addition to the internal policies on Whistleblowing Protection for Employees and on Compliance with Attorney Standards of Professional Conduct. The Audit Committee Procedures are available on the UBS website (www.ubs.com/corporate-governance).

Senior leadership

The senior leadership of UBS, in addition to the Group Executive Board, includes the members of the Group Managing Board (GMB) and the Vice Chairmen of the Business Groups.

Group Managing Board

The members of the GMB are drawn from the management teams of the Business Groups and the Corporate Center or assume special Group functions. The GMB plays a crucial role in achieving UBS's one-firm vision and promoting the UBS agenda. Its role is to understand, challenge and contribute to further developing the firm's direction, values and principles and to promote and communicate its culture.

Members as of 31 December 2005 and announced changes.

Global Wealth Management & Business Banking

Michel Adjadj	Head of Wealth Management Eastern Mediterranean, Middle East & Africa
Robert J. (Bob) Chersi	Deputy Chief Financial Officer
Michael A. Davis	Head of Western Division of Wealth Management US (to retire as of 1 January 2006)
Arthur Decurtins	Head of Wealth Management Benelux, Germany & Central Europe
Jürg Haller	Head of Products & Services
Marten Hoekstra	Head Wealth Management US
Dieter Kiefer	Head of Wealth Management Western Europe
Martin Liechti	Head of Wealth Management Americas
Hans-Ulrich Meister	Head of Business Banking
Francesco Morra	Head of Wealth Management Italy
Tom Naratil	Head of Market, Strategy and Development
Jeremy Palmer	Head of Wealth Management UK, Northern & Eastern Europe
Werner H. Peyer	Head of Wealth Management for Zurich region
James M. Pierce	Head Western Division, Wealth Management US
James D. Price	Head Eastern Division, Wealth Management US
Joe Rickenbacher	Chief Credit Officer
Alain Robert	Head of Wealth Management Switzerland
Kathryn Shih	Head of Wealth Management Asia Pacific
Jean Francis Sierro	Head of Resources
Timothy Sennatt	Head of Eastern Division Wealth Management US (to retire as of 1 January 2006)
Robert H. Silver	Managing Director (to retire as of 1 January 2006)
Anton Stadelmann	Chief Financial Officer
Michael A. Weisberg	Head of Investment Solutions / Products and Services
Stephan Zimmermann	Chief Operations Officer
David Zoll	Head of Marketing Strategy and Development, Wealth Management US

Global Wealth Management & Business Banking (continued)

New members as of 1 March 2006:

Bernhard Buchs	Chief Risk Officer
Diane Frimmel	Director of Operations and Services, Wealth Management US
Rolf Olmesdahl	Head Information Technology
Felix B. Ronner	Global Head of Transaction Products and Head of Products & Services Europe
Klaus W. Wellershoff	Global Head Wealth Management Research

Investment Bank

Andy Amschwand	Head of Investment Bank Switzerland Global Head of Foreign Exchange / Cash and Collateral Trading
David Aufhauser	Global General Counsel
Michael Bolin	Chief Administrative Officer
Gary Bullock	Global Head of Infrastructure Logistics (to step down as of 1 March 2006)
Simon C. Bunce	Global Head of Fixed Income and Rates
Regina A. Dolan	Chief Financial Officer
Robert Gillespie	CEO EMEA and Vice Chairman
Thomas R. Hill	Global Head of Equity Research (as of 1 January 2006) Chief Communication Officer
Stephan Keller	Chief Risk Officer
Ken Moelis	President of Investment Bank
Rory Tapner	Chairman and CEO Asia Pacific (Member of the GEB as of 1 January 2006)
Robert Wolf	Chief Operating Officer

New members as of 1 March 2006:

David A. Bawden	Chief Credit Officer
Maria Bentley	Global Head of Human Resources
Daniel Coleman	Joint Global Head of Equities
J. Richard Leaman III	Joint Global Head Investment Banking Department
Jeffrey A. McDermott	Joint Global Head Investment Banking Department
Brad Orgill	CEO and Chairman, Australasia
John Pius Wall	Joint Global Head of Equities
Alexander Wilmot-Sitwell	Joint Head Investment Banking Department

Global Asset Management

Gabriel Herrera	Head of Europe, Middle East & Africa
Thomas Madsen	Global Head of Equities
Joe Scoby	Head of Alternative and Quantitative Investments
Brian Singer	Global Head of Global Investment Solutions
Kai Sotorp	Head of Americas
Mark Wallace	Chief Operating Officer
Paul Yates	Global Head of Strategic Client Development

Global Asset Management (continued)

New members as of 1 March 2006:

Mario Cueni	Global Head of Legal, Compliance & Risk Control
Christof Kutscher	Head of Asia Pacific
John A. Penicook Jr.	Global Head of Fixed Income

Corporate Center

Scott G. Abbey	Chief Technology Officer
Mark Branson	Chief Communication Officer (as of 1 January 2006 Chief Executive Officer and President of UBS Securities Japan Limited)
Rolf Enderli	Group Treasurer (to retire as of 1 July 2006)
Thomas Hammer	Group Head of Human Resources
Philip J. Lofts	Group Chief Credit Officer
Robert W. Mann	Head of Leadership Institute
Hugo Schaub	Group Controller (retiring as of 1 July 2006)
Neil R. Stocks	Head of Group Compliance

New members as of 1 March 2006:

Charles Nicholas Bolton	Group Head Operational Risk
Peter Thurneysen	Head Group Controlling & Accounting
William Widdowson	Head of Group Accounting Policy

Chairman's Office

Luzius Cameron	Company Secretary
Markus Ronner	Head of Group Internal Audit

Business Group Vice Chairmen

Business Group Vice Chairmen are appointed to support the businesses in their relationships with key clients. They strongly contribute to the success of UBS and work closely together with the members of the Group Managing Board.

Members as of 31 December 2005 and announced changes

Global Wealth Management & Business Banking

Thomas K. Escher	Wealth Management
Carlo Grigioni	Wealth Management
Eugen Haltiner	Business Banking

Investment Bank

Ken Costa	
Lord Brittan of Spennithorne, QC	
Senator Phil Gramm	
Blair Effron (as of 1 March 2006)	

Corporate Responsibility

We make responsible behavior an important part of our culture, identity and business practice. As a leading global financial services firm, we want to provide our clients with value-added products and services, promote a corporate culture that adheres to the highest ethical standards, and generate superior but sustainable returns for our shareholders. We are committed to being an equal opportunity employer, protecting the environment, adhering to high social standards, and contributing to the communities that we are a part of.

Behaving responsibly can sometimes mean moving beyond solely profit-oriented considerations and legal requirements when doing business. For us, that translates into four broad fields of action:

- we aim to provide a working environment that is based on the values of equal opportunity, diversity and meritocracy
- we uphold high ethical standards when dealing with our clients and suppliers
- we have a global environmental management process in place to make sure that in all our business dealings we act in an environmentally responsible manner
- we support the communities we are a part of both through

donations and by giving our employees the opportunity to engage in volunteer work.

Since 2000, UBS has been a participating member of the UN Global Compact, a United Nations platform that encourages and promotes good corporate practice in the areas of human rights, labor, and the environment. By adhering to its principles, we contribute to the betterment of the communities and societies we work and live in – while also creating sustainable value for our shareholders.

We were also one of the first parties to sign the United Nations Environment Program's Bank Declaration (UNEP bank declaration) in 1992, which committed us to integrating appropriate environmental measures in our activities. Beyond that, our internal professional environmental management system is regularly certified to the ISO 14001 standard.

Our efforts are widely recognized. We have been a component of the Dow Jones Sustainability Indexes since their inception in 1999. The indexes track the financial performance of the leading sustainability-driven companies worldwide. We are also included in the FTSE4Good Index, which meas-

Corporate responsibility in UBS guidelines and policies

The importance we attach to responsible corporate behavior is reflected in the various documents and policies defining the rules and principles that we apply to UBS employees globally.

Our **Vision and Values** state that we are a member of the global community and should behave as a responsible corporate citizen. Our firm and its employees should conduct themselves in a manner that is above reproach, as preserving our integrity is vital to our most valuable asset – our reputation.

The **Code of Business Conduct and Ethics of UBS** sets forth the policies and practices which we expect all

employees of UBS to follow. It outlines the required standards of fairness, honesty, and integrity in a general manner. It is the basis for all UBS policies.

Employment of staff

UBS provides equal employment and advancement opportunities for all our employees, regardless of gender, ethnicity, race, nationality, age, disability, sexual orientation, or religion.

Whistleblowing protection

We have a whistleblowing policy to encourage employees to report any breach of law, regulations or codes of ethics to the appropriate senior manager without fear of retaliation.

Conflicts of interest

UBS is committed to ensuring fair treatment of all its stakeholders, whilst recognizing that conflicts of interest cannot always be avoided. We have therefore established guiding principles that outline our approach in properly identifying and managing conflicts of interest. In addition, various other policies address situations in which a conflict of interest might potentially arise, such as personal account dealing, or the providing and receiving of gifts. UBS's Investment Bank also has specific conflict of interest policies for its research activities.

ures the performance of global companies in the areas of environmental sustainability, stakeholder relations and support for human rights.

Our corporate responsibility processes

In 2001, we created a Corporate Responsibility Committee (CRC). It assesses how to meet the evolving expectations of our stakeholders related to our corporate conduct. If the committee concludes that there is a gap between what stakeholders expect and what we practice – and that this gap represents either a risk or an opportunity to the firm – the CRC suggests appropriate measures to management.

The committee is chaired by Marco Suter, Executive Vice-Chairman of UBS and Group Environmental Representative, and includes one other member of the Board of Directors and eight senior UBS executives representing our businesses, as well as a number of corporate functions, including legal and communication.

The committee's work is supported by a working group that comprises representatives from all our Business Groups, as well as functional experts. It evaluates any new issues potentially related to corporate conduct, and ensures that all are brought to the attention of the committee.

Neither the committee nor the working group runs ongoing operational processes related to corporate responsibility;

rather they ensure that UBS aligns business practices with changing societal expectations.

Contributing to society – preventing money laundering

Extensive and constant efforts to prevent money laundering and terrorist financing are important contributions to society. The integrity of the financial system is the responsibility of all those involved in it. We take our duties extremely seriously – in protecting both the system at large and our own operations. Our stakeholders expect us to be at the forefront of developing strategies and implementing measures necessary to achieve these objectives. The threats posed by money laundering and terrorism are real, and we all have a role in contributing to the fight against them as effectively as possible.

The Group Money Laundering Prevention Unit leads our efforts to fight money laundering, corruption, and the financing of terrorism. Its key task is to help employees to recognize, and then manage and report suspicious activities – in a way that neither treats all clients as criminals nor unduly hinders our normal banking business. While doing so, we remain completely committed to the respect and protection of our clients' privacy, a cornerstone of our firm's philosophy, which

Anti money laundering and bribery of public officials

We have committed ourselves to fighting money laundering, corruption and terrorist finance. To do that, we have a number of policies in place, an effective risk management framework, and an anti-money laundering unit. We aim to prevent bribery of public officials by requiring the pre-approval of any transfer of assets to a public official.

Memberships and donations

We have a policy governing the handling and uniform treatment of memberships and donations by UBS and its employees globally. It specifies that donations are goodwill payments

made to organizations whose activities serve (among others) non-profit, charitable, cultural and educational purposes.

New business initiatives

We have a control and governance structure across UBS and its businesses defining a process to ensure that new business initiatives and, where relevant, individual transactions are in line with our environmental, social and ethical standards.

Information security

UBS adheres to the highest standards of information security. It meets legal and regulatory requirements related to

information security, satisfying the obligations it has to customers, employees, and shareholders.

Environmental management

UBS is committed to integrating environmental considerations into all its business activities. Our environmental policy has put the practices prescribed by UNEP into operation in the areas of banking and in-house operations.

we integrate into our money laundering prevention structure to the best of our abilities.

The best way to achieve our goals is through a real spirit of partnership across the firm – between those who manage client relationships and the risk managers and controllers who support them. Our employees should be focused on really getting to know clients, understanding their needs – and then questioning things that do not make sense. In order to assist our employees in staying ahead of the curve in respect of their “know your customer” (KYC) skills and the identification of new trends in suspicious behavior, we ensure that they undertake regular training courses, both in the form of on-line training and seminars. In fact, we believe that one reason clients choose UBS is because they are confident of our first-class reputation for integrity.

To prevent money laundering, we take a risk-oriented approach that is tailored to our different business lines and their specific risks and exposures. This includes establishing, where applicable, consistent criteria by which a business relationship should be judged “higher-risk”. We utilize advanced technology to assist us in the identification of transaction patterns or unusual dealings.

We are also strongly committed to promoting stringent anti-money laundering standards for the financial industry as a whole. As a prime example of this, UBS was one of the driving forces behind the launch of the Wolfsberg Group and its issuance of global anti-money laundering principles in 2000. In subsequent years, we also strongly supported its efforts to suppress terrorism finance, its monitoring, screening, and searching guidelines, and its correspondent banking principles.

As part of the group, and at the request of Russian and Chinese banking authorities, we have held seminars in both countries on how to prevent money laundering. In addition

to the training programs accomplished within the context of the Wolfsberg Group, UBS frequently conducts, at the request of the Swiss Ministry of Foreign Affairs, training seminars for countries still developing anti money laundering or contra terrorist financing legislation. In 2005, we held training seminars in Morocco, Tunisia, Algeria, Uzbekistan, Tajikistan, Azerbaijan, and China.

Investing in our communities

The “raison d’être” behind our well-established program of community investment is the recognition that our success depends not only on the skills and resources of our people and the relationships we foster with clients, but also on the health and prosperity of the communities we work in. UBS supports communities in various ways: we make direct cash donations to selected organizations, match donations from our employees to most charities, and promote employee volunteering. Dedicated teams worldwide work closely with staff at all levels to build partnerships with organizations in the communities where we operate, focusing on education, regeneration and environmental projects.

Overall, in 2005, UBS donated more than CHF 46 million to support charitable causes and immediate disaster relief. Our employees, through their donations and volunteer efforts, make further significant contributions to the communities they live in, and, depending on location, UBS supports their commitment by offering up to two days per year for volunteering.

UBS has expanded its community affairs program around the globe. In 2005, a new community affairs coordination function for Switzerland was established. This recently created function coordinates all charitable activities by UBS and its staff

Disaster relief support

In the past year, we have witnessed a number of major natural catastrophes – the tsunami that hit Southeast Asia at the end of 2004, Hurricane Katrina in the US, and the Pakistani earthquake – all of which called for immediate disaster relief. In these cases, as well as others, UBS and its employees stepped in and supported the communities affected in several ways.

UBS responded to the tsunami with a USD 3 million donation for immediate relief. It also established the UBS Tsunami Relief Fund to provide long-term assistance. Amounting

to over CHF 4 million the fund comprises employee donations and matched givings by UBS. With these contributions UBS supports 14 projects in the disaster-struck regions.

We are confident that the projects we have chosen are both legitimate and genuinely in need of funds, and we have conducted extensive due diligence to ensure that our employees’ donations reach the communities most in need. By focusing on medium to long-term relief, we have ensured that selected projects complement our ongoing programs in the region and that, consequently,

the partnerships will be managed closely throughout their duration. Detailed information on the UBS Tsunami Relief Fund is available on the web at www.ubs.com/tsunamirelief

In addition, we donated CHF 1 million for Hurricane Katrina relief work, CHF 1 million for reconstruction in areas damaged or destroyed by last summer’s floods in Switzerland. We also supported relief efforts following the Pakistani earthquake by matching the donations made by employees in the UK and APAC.

across all Business Groups in Switzerland and is also responsible for the newly introduced employee volunteering program as well as the matched giving program in Switzerland.

Besides the engagement of the firm and its employees, we also give our clients the opportunity to contribute to charitable causes. The UBS Optimus Foundation invests donations from our clients into a number of programs and organizations that focus on children and medical and biological research. The projects involve close collaboration with respected partner organizations and are selected by a team of specialists within the foundation, who also closely monitor their implementation. The costs of managing and administering the UBS Optimus Foundation are borne in full by UBS, so that the full contribution from our clients reaches the projects. In December 2005, we started issuing a new credit card, the UBS Optimus Foundation Charity Card, to give clients the benefits of a normal credit card while allowing them to make charitable contributions in a simple and effective way. Every year, UBS will donate 0.5 % of the combined turnover and a portion of the annual fees received from all Charity Cards to the UBS Optimus Foundation.

A glimpse of what we do

Despite the significant donations to disaster relief efforts in 2005, we also continued to support our ongoing, well-established community affairs programs around the world. The following provides a brief glance at some of our activities:

In the UK, we are the first financial firm to sponsor a new secondary school under the UK government's 'Academy' program in Hackney, London. We are making a financial contribution of GBP 2 million to the project – half of which is being provided by a private client – but expect to make an even more valuable long-term investment through the skills and commitment of our employee school volunteers. The school will educate 1,150 students when completed and specialize in maths and music.

In the Americas, the Junior Achievement program explains the role of business and economics in society from elementary school level through to high school. To complement the financial contributions we make, employees engage in unique volunteer initiatives and offer "real-world" experience to the subjects that are taught. Examples include so-called "Job Shadow" days, teaching classes, and the "Company Program", a three-month evening program for high school students in which employees work with a team of students to start a business, and develop and market a product. In 2005, nine employees served on the boards of JA Chapters in the US.

In Asia Pacific, UBS is continuously expanding its community affairs program. In the Philippines, UBS launched its community affairs efforts in 2005 with a project coordinated with the Association of Mouth and Foot Painting Artists (AMFPA), an organization that supports severely disabled artists. With the assistance of the sales, presentation and marketing ex-

pertise of all employees of the UBS Securities Philippines office, AMFPA organized an exhibition where artists could display and promote their work. Through this event, the organization was able to sell paintings, hundreds of Christmas cards, children's books and puzzles.

With the launch of a community affairs program *in Switzerland* last year, UBS intensified its charitable activities. In Zurich, UBS employees joined mentally handicapped persons in baking and selling Christmas cookies. Proceeds benefited the organization "Insieme", which organizes among other things, recreational activities for disabled people. In Basel, we started a mentoring program for young adults together with public teachers. UBS employees helped students find a workplace or a position as an apprentice.

Moreover, besides direct donations from our business, UBS has established a number of independent foundations and associations that donate money to worthy causes in Switzerland. One, called "A Helping Hand from UBS Employees", assists disabled and disadvantaged people to lead active, independent lives. We encourage employee involvement by matching some of the funds raised. We also have endowed two independent charities with our money. The first, called the UBS Cultural Foundation, fosters creativity, appreciation of different cultural expression, and contact between artists and society. The foundation financially supports fine arts, film, literature, music, preservation of historic buildings, archaeological projects and studies in history and philosophy in Switzerland.

In similar fashion, the purpose of the second, the UBS Foundation for Social Issues and Education, is to support deprived communities in Switzerland in various forms. Non-profit, charitable organizations, projects and initiatives aiming at improving social welfare receive monetary assistance from these funds.

Socially Responsible Investments

UBS has strong expertise in incorporating environmental and social aspects into its research and advisory activities. In addition to financial considerations, socially responsible investments (SRI) put special focus on environmental, social, or ethical criteria.

Our Global Asset Management business offers a wide range of SRI products to both private and institutional investors. In Switzerland and Japan, we use an approach that actively selects the best performers in each industry on environmental and social criteria. A new SRI Responsibility Fund umbrella was created last year composed of a global SRI fund, a European SRI fund, and a Global Innovators fund. The latter mainly invests in small companies with products that have significant potential in the areas of renewable energy, water management, food, healthcare and mobility. The newly launched European SRI fund uses both our SRI and mainstream research platforms to construct a concentrated port-

SRI invested assets

CHF billion, except where indicated	GRI ¹	For the year ended			% change from
		31.12.05	31.12.04	31.12.03	
UBS		2,652	2,217	2,098	20
Socially Responsible Investments					
Positive criteria	F9	1.05	0.78	0.71	34
Engagement ²	F9	38.90	31.60		23
Exclusion criteria	F9	10.73	7.32	8.95	47
Third-party ²	F9	0.61	0.29		109
Total SRI assets	F9	51.29	39.99		28
Proportion of invested assets (%) ³		1.93	1.80		
Performance of UBS's SRI Funds (%)					
Absolute performance Eco Performance ⁴		21.79	4.66	15.90	
Relative performance Eco Performance vs. MSCI ⁵		(5.72)	(1.30)	(3.74)	

¹ Global Reporting Initiative (see also www.globalreporting.org). F stands for the Environmental Performance Indicators defined in the GRI Financial Services Sector Supplement ² Figures for 2003 not available due to revised definition. ³ Total socially responsible investments / invested assets. ⁴ Eco Performance = UBS (Lux) Equity Fund-Eco Performance B. ⁵ Benchmark: MSCI World (r).

Positive criteria: applies to the active selection of companies, focusing on how a company's strategies, processes and products impact its financial success, the environment and society.

Engagement: investors enter into a dialogue with boards or management of companies with the aim of influencing corporate behavior and policies, if appropriate, in relation to environmental, social or ethical issues.

Exclusion criteria: companies or sectors are excluded based on environmental, social or ethical criteria, e.g. companies involved in weapons, tobacco, gambling, or with high negative environmental impacts.

Third-party: UBS's open product platform gives clients access to SRI products from third-party providers.

folio of leading SRI stocks. We are currently able to offer global, European, and Japanese equity products; all benchmarked against MSCI or Topix indices. In the US, Global Asset Management manages various institutional accounts that exclude certain companies or sectors using "negative" screening criteria. In the UK, Global Asset Management seeks to influence corporate responsibility and corporate governance performance of the companies it invests in. UBS also offers SRI products from third party providers.

In the Investment Bank, UBS has established a Socially Responsible Investment (SRI) research team to produce original research on areas of increasing or diminishing risk. It also monitors ratings provided by external SRI agencies, organizes collaborative research by analysts about emerging SRI themes, and writes about and advises on quantifying the effects on share prices of companies with exposure to such issues. A Socially Responsible Investment page is now available to UBS's institutional clients on UBS's Research Web. The Global Wealth Management & Business Banking Business Group decided to increase the awareness of SRI initiatives and products internally following interviews with client advisors and detailed market research that showed increased interest and sensitivity in applying social responsibility criteria when planning investment decisions. As a result, an awareness campaign was launched in Switzerland in 2005 to sensitize client advisors to SRI and to support them in the analysis and understanding of the respective client needs.

Environmental management

Our commitment to the environment is underpinned by a global environmental management system certified under the ISO 14001 standard. The system covers both banking activities and in-house operations and was successfully re-certified in 2005 by our auditors SGS.

We remain committed to integrating environmental considerations into all our business activities. Our environmental policy is based on five principles:

- we seek to consider environmental risks in all our businesses, especially in lending, investment banking, advisory and research, and in our own investments.
- we seek to pursue opportunities in the financial market for environmentally friendly products and services, such as Socially Responsible Investments.
- we are committed to actively seeking ways to reduce our direct environmental impact on air, soil and water from in-house operations, with a primary focus on reducing greenhouse gas emissions. We will also seek to assess the environmental impact of our suppliers' products and services.
- we ensure efficient implementation of our policy through a global environmental management system certified according to ISO 14001 – the international environmental management standard.
- we invest in know how and integrate environmental considerations into internal communications and training.

The Group Executive Board is responsible for approving UBS's environmental policy and for nominating a Group environmental representative to guide UBS's environmental strategy and raise relevant environmental concerns with the Corporate Responsibility Committee. The primary responsibility for implementing environmental policy as stipulated by ISO 14001 lies within the Business Groups.

Environmental performance indicators

Every year, we provide a detailed description of our environmental performance using key performance indicators (KPIs), which allow for annual comparisons. They are based on in-

Management indicators for environmental performance

Full-time equivalent, except where indicated	GRI ¹	For the year ended			% change from 31.12.04
		31.12.05	31.12.04	31.12.03	
Personnel financial businesses²		69,569	67,407	65,879	3
In specialized environmental units ³		25.3	22.0	16.4	15
Environmental awareness raising					
Employees trained	F5	2,251	1,664	1,377	35
Training time (hours)	F5	1,214	2,124	1,857	(43)
Specialized environmental training					
Employees trained	F5	1,010	602	1,106	68
Training time (hours)	F5	2,066	1,932	2,548	7
External environmental audits⁴					
Employees audited	F6	147	11	26	1,236
Auditing time (days)	F6	17	2	3	750
Internal environmental audits⁵					
Employees audited	F6	216	148	171	46
Auditing time (days)	F6	39	29	37	34

¹ Global Reporting Initiative (see also www.globalreporting.org). F stands for the environmental performance indicators defined in the GRI Financial Services Supplement ² All employment figures represent the state as of 31 December 2005. ³ 2005: 21.8 UBS and 3.5 external employees (FTE) ⁴ Audits carried out by SGS Société Générale de Surveillance SA. Surveillance audits took place in 2003 and 2004. The more comprehensive re-certification audit was done in 2005. ⁵ Audits/reviews carried out by specialized environmental units. The implementation of environmental risk policies is also audited by Group Internal Audit.

dustry standards such as the Global Reporting Initiative (GRI) and VfU (both include environmental performance indicators tailored to financial institutions).

The management indicators above provide an overview of our environmental management system at Group level.

Managing environmental risks in our business transactions

For UBS, it is key to identify, manage, or control environmental risks in our business transactions. An example of such risks might be when a counterparty's cash flow or assets are impaired by environmental factors such as inefficient production processes, or polluted or contaminated property. Another is liability risk, such as when a bank takes over collateral onto its own books.

Investment Bank

Our Investment Bank has a global environmental risk policy which applies to all transactions, services and activities it performs. The depth of an environmental analysis is based in part on risk classification, on UBS's familiarity with the counterparty, and on comfort with the contents of any prospectus provided by the client. In the initial due diligence phase, environmental factors are screened by Investment Bank staff. If there are indications of significant environmental risk, an internal environmental competence center may be contacted to provide a more detailed environmental assessment. In 2005, 36 such detailed assessments were completed by the competence center.

Global Wealth Management & Business Banking

The environmental risk policy of Global Wealth Management & Business Banking applies to all credit transactions of this Business Group. The policy ensures, firstly, that portfolios with significant exposure to environmental risk are identified and monitored. Secondly, the policy specifies a generic procedure for managing environmental risk in the credit process. The actual environmental assessments are integrated into these processes and tailored to client segments, transaction size and risk exposure. This generic environmental risk assessment involves a three-step procedure. The responsible client advisor carries out a first screening, covering financial risks linked to environmental aspects such as compliance with environmental legislation, workplace safety, contaminated sites and natural hazards. If the risks cannot be fully ruled out during the first screening, a credit officer initiates a second screening and decides whether the risks identified are transparent enough for the credit decision to be taken. Transactions entailing significant environmental risk undergo a third step, a detailed environmental assessment – a service provided by the Business Group's environmental risk unit. In 2005, 34 such detailed assessments took place. If a transaction poses substantial environmental risks, the bank can take several courses of action. It can adapt the terms of the loan contract, it may engage the client in a dialogue about possible remedial action, or it may decline the transaction altogether.

Global Asset Management

In 2004, Global Asset Management introduced a formal environmental risk matrix that assesses the reputation and

environmental risks that its investments might imply. In this review, investments were reviewed according to business areas and the results of the audit were presented to the ISO 14001 re-certification auditors. This risk matrix now forms part of the environmental management system employed within Global Asset Management.

Environmental and CO₂ footprints

We directly impact the environment in a number of ways. Our businesses consume electricity, employees travel for business purposes, they use paper and generate waste in the course of their work, and offices require heating and cooling systems. Improving our use of these resources can boost our operating margins and enhance environmental performance and we have a series of measures that manage our environmental impact efficiently.

Therefore, every year, we analyze our environmental and CO₂ footprints. The graph below shows the relative environmental and CO₂ footprints of our energy consumption, business travel, paper consumption and waste. It also breaks down our energy consumption according to source, and displays their related environmental and CO₂ footprints. This shows that the type of energy mix we purchase has a strong

Ratio Indicators per FTE

	Unit	2005	Trend	2004	2003
Total direct energy	kWh /FTE	13,891	→	13,924	14,706
Total indirect energy	kWh /FTE	27,907	→	25,970	29,723
Total business travel	Pkm/FTE	11,704	↗	10,563	7,831
Total paper consumption	kg/FTE	203	→	198	218
Total water consumption	m ³ /FTE	25.8	→	28.9	28.3
Total waste	kg/FTE	316	→	363	395
Total environmental footprint	kWh /FTE	43,251	↗	39,130	43,154
Total CO ₂ ¹	t/FTE	3.84	→	3.77	4.78
CO ₂ footprint ²	t/FTE	7.64	→	7.26	7.89

¹ Greenhouse gas scope 1 and 2. ² Greenhouse gas scope 1, 2 and 3.

influence on our overall environmental and CO₂ footprint. In 2005, 25% of the energy we consumed came from renewable energy sources and district heating.

Overall, our energy consumption in 2005 increased by 3% from a year earlier, which is roughly in line with our 3.2% headcount increase over the same period. CO₂ emissions directly and indirectly released by UBS (see CO₂ footprints in the table on page 146) increased by 8.6%. There are several reasons for this trend: UBS's strong growth in the Asia Pacific region and, to a

Addressing climate change

UBS acknowledges that climate change represents one of the most significant environmental challenges of our times. It will have wide-ranging effects on ecosystems, on societies and on economies worldwide. Business will be shaping innovative strategies in response to new regulations as well as emerging market risks and opportunities. So, how are we responding?

Reducing our direct impact

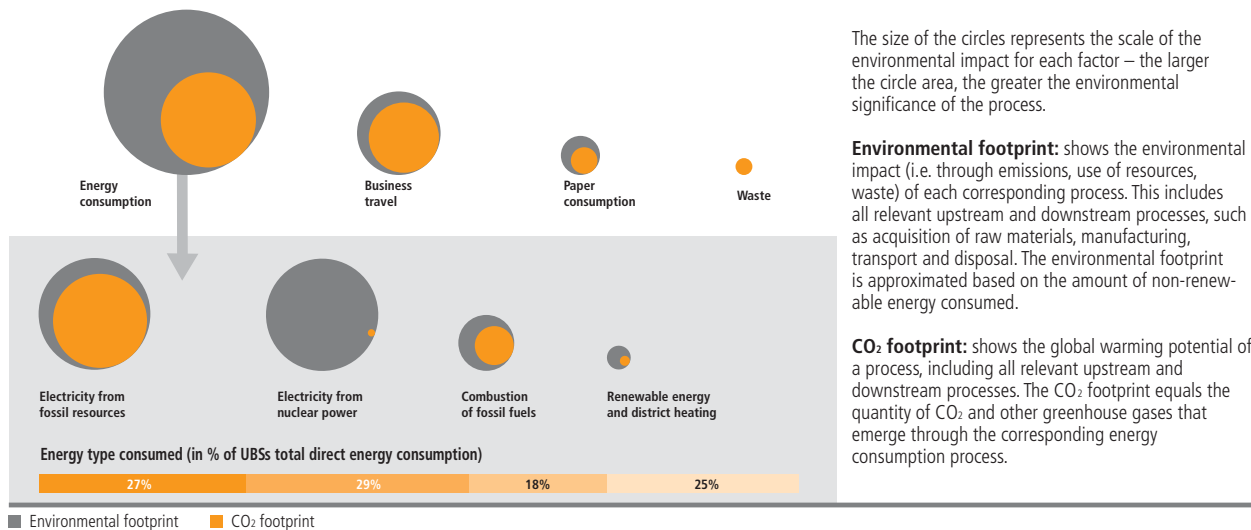
Although our direct contribution to climate change as a financial institution is rather small compared to other industries, UBS considers the efficient and sustainable management of energy and the reduction of its carbon emissions to be an important aspect of our corporate responsibility. UBS is determined to be ambitious in reduc-

ing this direct impact. The Group Executive Board has decided in February 2006 to set a group-wide carbon emission reduction target of 40% below 2004 levels by 2012. We will seek to achieve this target by increasing in-house energy efficiency whenever possible, by purchasing more green energy, and by offsetting emissions, including those caused by our business-related air travel.

Our past efforts in this area have already been highly recognized. For instance, *BusinessWeek*, in cooperation with 'The Climate Group' ranked UBS third on their 'Single-Year Percentage Leader' list for reductions in carbon emissions in 2004. Some examples of measures to that effect were:

- Our 'On Floor Control System' installed in London buildings detects the presence of people with sensors, eliminating wastage and delivering significant savings on the energy required for lighting and cooling.
- In order to reduce carbon emissions from air travel, UBS has implemented extensive video conference facilities in all major buildings worldwide. These range from boardroom videoconferences to desktop videos for individual interaction.
- In London, UBS purchases CCL-Free Electricity (Climate Change Levy exempt electricity) which is guaranteed to be generated from either renewable energy or good-quality combined heat and power.
- In Zurich, the renovation of a major building resulted in yearly savings of

Environmental and CO₂ footprints



lesser extent, in the US, where the electricity country mixes have higher carbon content than the cleaner energy mixes purchased in Switzerland and London. Our business growth in 2005 also led to more air travel, another major source of in-

creasing carbon emissions. UBS has recognized this trend, which is closely tied to its growth strategy, and has decided to address its CO₂ emissions in a systematic and comprehensive way. Our planned carbon strategy is detailed on page 144.

More detailed information on UBS's environmental management system is available on the internet: www.ubs.com/environment

3.5 GWh, which is 41% of its total annual energy consumption. The building's heating, cooling and lighting systems were entirely upgraded using state-of-the-art technology and operations.

UBS also supports climate change initiatives promoted by governmental authorities: in Japan, UBS Tokyo became part of the Tokyo metropolitan Government "CO₂ Emission Reduction Program" based on targeting business sites consuming large volumes of energy. Tokyo carried out an audit of their building and submitted a report. In Switzerland, UBS is a member of the Zurich Energy Model, an initiative launched in 1987 by twelve major energy consumers – among them UBS. Initially launched in the city of Zurich,

it now applies across Switzerland. Firms involved in the Model voluntarily commit to energy efficiency increases, and communicate innovative solutions to the general public.

Engaging investors and markets

UBS is a founding member of the Carbon Disclosure Project, through which it collaborates with other institutional investors to write to the 500 largest quoted companies in the world asking for information concerning their greenhouse gas emissions. The project asks companies to identify the business implications of their exposure to climate-related risks and explain what they are doing to address these risks. In 2005, over 90% of responding companies flagged climate change as posing commercial risks or opportunities to their

business, and 51% said they had implemented emission reduction programs.

UBS's dedicated SRI equity research team produces research that investigates the effects of climate change on certain companies and sectors. In 2005, the team was instrumental in organizing a UBS Climate Change Conference to discuss and assess climate change related risks for investors, with Sir David King, Chief Scientific Advisor to the UK Government, as the keynote speaker.

UBS is also a member of the Intercontinental Exchange (ICE), an electronic marketplace for energy and emissions trading in conjunction with the European Climate Exchange (ECX). UBS trades ECX carbon financial instruments on behalf of clients.

Absolute Indicators

Environmental Performance Indicators ¹	GRI ²	2005			2004	2003
		Absolute Normalized ³	Data Quality ⁴	Trend ⁵	Absolute Normalized ³	Absolute Normalized ³
Total direct energy⁶	EN3	966 GWh	**	→	939 GWh	970 GWh
Direct intermediate energy purchased⁷	EN3	790 GWh	**	→	751 GWh	771 GWh
electricity from gas-fired power stations		10%	**	↓	13%	19%
electricity from oil-fired power stations		5.8%	**	→	5.5%	5.5%
electricity from coal-fired power stations		18%	**	→	16%	20%
electricity from nuclear power stations		36%	**	↗	31%	30%
electricity from hydroelectric power stations		10%	**	↓	16%	17%
electricity from biomass and waste power stations		2.3%	**	↑	1.7%	1.3%
electricity from wind power stations		11.4%	**	↑	7.6%	1.5%
electricity from other renewable resources		2.9%	**	↓	4.6%	2.6%
district heating		3.8%	**	↘	4.6%	3.3%
Direct primary energy consumption⁸		177 GWh	**	→	188 GWh	199 GWh
natural gas	EN3	81%	**	→	83%	81%
heating oil	EN3	16%	**	↗	14%	15%
fuels (petrol, diesel, gas)	EN3	2.5%	**	→	2.6%	3.1%
renewable energy (solar power, bioorganic, etc.)		0.03%	***	↓	0.04%	0.10%
Total indirect energy⁹	EN4	1,941 GWh	**	↗	1,751 GWh	1,960 GWh
Total business travel	EN34	814 m Pkm	**	↗	712 m Pkm	516 m Pkm
rail travel		3.4%	*	↘	4.6%	5.0%
road travel		0.7%	*	↘	1.0%	1.5%
air travel		96%	***	→	94%	94%
Number of flights (segments)		373,950	***	↗	342,458	267,530
Total paper consumption	EN1	14,139 t	**	→	13,378 t	14,393 t
post-consumer recycled	(EN2) ¹⁰	6.9%	**	↘	8.3%	8.4%
new fibres ECF + TCF ¹¹		92.6%	**	→	91.5%	91.5%
new fibres chlorine bleached		0.4%	**	↑	0.2%	0.1%
Total water consumption	EN5	1.80 m m³	*	→	1.95 m m ³	1.86 m m ³
drinking water		100%	n.a.	→	100%	100%
Total waste	EN11	21,999 t	*	→	24,462 t	26,053 t
valuable materials separated and recycled		65%	*	→	70%	59%
incinerated		13.4%	*	↑	9.8%	7.8%
landfilled		21%	*	→	20%	33%
Total environmental footprint¹²		3,009 GWh	**	↗	2,638 GWh	2,845 GWh
Total CO₂ (GHG scope 1 and 2)¹³	EN8	267,159 t	**	→	254,273 t	315,188 t
Direct CO ₂ (GHG scope 1)	EN8	14%	**	→	16%	13%
Indirect CO ₂ (GHG scope 2)	EN8	86%	**	→	84%	87%
CO₂ footprint (GHG scope 1, 2 and 3)¹⁴		531,462 t	**	→	489,500 t	520,405 t

Legend: GWh = giga watt hour; Pkm = person kilometers; t = tons; m³ = cubic meters; m = million.

¹ All figures are based on the level of knowledge as of the end of February 2006. ² Global Reporting Initiative (see also www.globalreporting.org). EN stands for the Environmental Performance Indicators defined in the GRI. EN in brackets indicates a minor deviation from GRI that is commented. ³ Non-significant discrepancies from 100% are possible due to rounding errors. ⁴ Specifies the estimated reliability of the aggregated data and corresponds approximately to the following uncertainty: up to 5% - ***, up to 15% - **, up to 30% - *. Uncertainty is the likely difference between a reported value and a real value. ⁵ Trend: at a ***/**/* data quality, the respective trend is stable (→) if the variance equals 5/10/15%, low decreasing/increasing (↘/↗) if it equals 10/20/30% and decreasing/increasing if the variance is bigger than 10/20/30% (↑/↓). ⁶ Refers to energy consumed within the operational boundaries of UBS. ⁷ Refers to energy purchased that is produced by converting primary energy and consumed within the operational boundaries of UBS (electricity and district heating). ⁸ Refers to primary energy purchased which is consumed within the operational boundaries of UBS (oil, gas, fuels). ⁹ Refers to primary energy, which is consumed to produce the electricity and district heating consumed by UBS. ¹⁰ Differing from the GRI Guidelines, pre-consumer recycled paper is counted as paper coming from new fibers as a worst case approach. ¹¹ Paper produced from new fiber, which is ECF (Elementary Chlorine Free) or TCF (Totally Chlorine Free) bleached. ¹² Shows the environmental impact (through emissions, use of resources, waste) by a process including all relevant upstream and downstream processes. The environmental footprint is approximated using the equivalent of nonrenewable energy consumed. ¹³ Refers to the "GHG (greenhouse gas) protocol initiative" (www.ghgprotocol.org), an international standard for CO₂ reporting. Scope 1 accounts for direct greenhouse gas emissions by UBS. Scope 2 accounts for indirect greenhouse gas emissions associated with the generation of imported/purchased electricity, heat or steam. ¹⁴ Represents the total global warming potential from all linked relevant upstream and downstream processes. It equals total CO₂ emissions according to the GHG standard (scope 1, 2 and 3).

Validation by SGS Société Générale de Surveillance SA

"We have verified the correctness of the statements in the 2005 Environmental Report of UBS AG and, where necessary, have requested that proof be presented. We hereby confirm that the report has been prepared with the necessary care, that its contents are correct with

regard to environmental performance, that it describes the essential aspects of the environmental management system at UBS AG and that it reflects the actual practices and procedures at UBS AG."

Elvira Bieri and Dr. Erhard Hug, Zurich, February 2006

Global Reporting Initiative Content Index

This content index refers to the 2002 Global Reporting Initiative (GRI) Guidelines and the Financial Services Sector Supplements. At UBS, we cover this information in this Handbook, the Financial Report 2005 and on the web.

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¹ UBS used the guidelines provided by the Global Reporting Initiative (www.globalreporting.org) for reference.

FR = UBS Financial Report 2005, HB = UBS Handbook 2005/2006

Cautionary statement regarding forward-looking statements | This communication contains statements that constitute “forward-looking statements”, including, but not limited to, statements relating to the implementation of strategic initiatives, such as the European wealth management business, and other statements relating to our future business development and economic performance. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to, (1) general market, macro-economic, governmental and regulatory trends, (2) movements in local and international securities markets, currency exchange rates and interest rates, (3) competitive pressures, (4) technological developments, (5) changes in the financial position or creditworthiness of our customers, obligors and counterparties and developments in the markets in which they operate, (6) legislative developments, (7) management changes and changes to our Business Group structure and (8) other key factors that we have indicated could adversely affect our business and financial performance which are contained in other parts of this document and in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth elsewhere in this document and in documents furnished by UBS and filings made by UBS with the SEC, including UBS’s Annual Report on Form 20-F for the year ended 31 December 2005. UBS is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.



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