UBS

Handbook 2006/2007

Introduction

This is the seventh 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 credit risk, market risk, and treasury management.

As in previous years, we also discuss our corporate governance and our relationships with regulators and shareholders, and provide comprehensive information on UBS shares. We describe demographic trends in our workforce and the way people are trained and managed.

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

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

Tom Hill
Chief Communication Officer
UBS

UBS key facts

	As of or for the year ended			% change from
	31.12.06	31.12.05	31.12.04	31.12.05
Financials				
Operating income (CHF million)[1]	47,171	39,896	35,971	18
Net profit attributable to UBS shareholders (CHF million)[1]	11,249	9,442	7,357	19
Invested assets (CHF billion)[2]	2,989	2,652	2,125	13
Tier 1 ratio (%)[3]	11.9	12.8	11.8	
Economic				
Tax expense (CHF million)[4]	2,751	2,785	2,201	(1)
Distribution to shareholders (dividends & buybacks) (CHF million)	5,889	6,702	6,600	(12)
Salaries & bonuses (CHF million)	19,076	15,930	14,254	20
Social & environmental				
Personnel (FTE)[4]	78,140	69,569	67,407	12
Women in ranked positions (% of total officer population)	25.5	22.1	N/A	18
Corporate charitable donations (incl. disaster relief efforts) (CHF million)	38	45	28	(16)
Volunteering hours spent by employees	53,679	N/A	N/A	
CO_2 emissions (tons)	293,169	372,184	360,502	(21)
Long-term ratings and benchmarks				
Fitch, London	AA+	AA+	AA+	
Moody's, New York	Aa2	Aa2	Aa2	
Standard & Poor's, New York	AA+	AA+	AA+	
Dow Jones Sustainability Index[5]	✓	✓	✓	
FTSE4Good[5]	✓	✓	✓	
Climate Leadership index[5]	✓	✓	✓	
Interbrand: rank among 100 most valuable global brands	42	44	45	

1 Financial Businesses results from continuing operations. 2 Excludes Private Banks & GAM 3 Includes hybrid Tier 1 capital. Please refer to the BIS capital and ratios table in the capital management section and note 29 to the financial statements. 4 Excludes Industrial Holdings. 5 ✓ Indicates UBS is included in the index.

All share and earnings per share figures throughout the report reflect the 2-for-1 share split made on 10 July 2006.

Who we are

We are one of the world's leading financial firms, serving a discerning international client base. Our business, global in scale, is focused on growth. As an integrated firm, we create more value for clients by drawing on the combined resources and expertise of all our businesses.

We are present in all major financial centers, with offices in more than 50 countries. We employ around 78,000 people, with 39% in the Americas, 35% in Switzerland, 16% in the rest of Europe and 10% in Asia Pacific.

We are one of the best-capitalized financial institutions in the world, with a BIS Tier 1 ratio of 11.9%, invested assets of CHF 3.0 trillion, shareholders' equity of around CHF 50 billion and market capitalization of roughly CHF 154 billion (on 31 December 2006).

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.

More about us

This Handbook contains a detailed description of UBS, its strategy, organization, businesses, employees, corporate governance and responsibility. The risk management chapter includes detailed information on credit, market and operational risk and a separate chapter explains Treasury's interest rate, currency, liquidity and funding management activities. This Handbook is available in English and German (SAP no. 80532). You can find out more about UBS from the sources below.

Publications

Annual Review 2006
Our Annual Review this year looks at some major global economic and financial trends, and the part we play in them. It also briefly reviews our financial performance in 2006, corporate governance, and approach to corporate responsibility. It is available in English, German, French, Italian, Chinese and Japanese. (SAP no. 80530).

Financial Report 2006
The Financial Report 2006 contains our audited financial statements for the year 2006 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 2006
The Compensation Report 2006 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).

The same information can also be read in the Corporate Governance chapter of this Handbook.

The making of UBS
Our brochure, "The making of UBS", 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
These reports are 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. 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 Analysts and Investors 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 can be satisfied by referring to parts of this Handbook or to parts of the Financial Report 2006. 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 by dialing 1-800-SEC-0330 (in the US) or +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 address 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, phone +41-44-234 11 11; and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, phone +41-61-288 20 20.

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

Contacts

Switchboards

For all general queries.

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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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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
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		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 the 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

UBS is, and has been for many years, a truly global firm, working with corporate, institutional and private clients. Our strategy is to concentrate on three global core businesses – wealth management, asset management and investment banking and securities trading – as well as retail and corporate banking in Switzerland. We operate as one firm, with an integrated business model that ensures we add value to our clients by drawing on the combined resources and expertise of all our businesses.

Our businesses

In *wealth management*, our services are designed for high net worth and affluent individuals around the world, whether investing internationally or in their home country. We provide them with tailored, unbiased advice and investment services – ranging from asset management to estate planning and from corporate finance to art banking.

As an *asset manager*, we offer innovative investment management solutions in nearly every asset class to private, institutional and corporate clients, and through financial intermediaries. Our investment capabilities comprise traditional assets (for instance equities, fixed income and asset allocation), alternative and quantitative investments (multi-manager funds, funds of hedge funds, hedge funds) and real estate.

In the *investment banking and securities* businesses, we provide securities products and research (in the areas of equities, fixed income, rates, foreign exchange, energy and metals) as well as advice and access to the world's capital markets to corporate, institutional, intermediary and alternative asset management clients.

Our *Swiss retail and corporate banking business* provides a complete set of banking and securities services for domestic individual and corporate clients.

Our competitive profile

A global and focused strategy

Our vision and consistent focus has led to the current business mix. Since 1998, we have progressively divested non-core businesses and participations, helping us to invest in growing our core businesses, creating the individual business profile that we now have. We believe our mix makes us an attractive alternative to global consumer banks, conglomerates or niche players for clients, employees and shareholders.

This balance and focus is consistently reflected in our revenues. On average, through the entirety of the economic cycle, our global core businesses – the Investment Bank and the combined wealth and asset management business – each contribute 40% to 45% to total income, with another 10% coming from our Swiss-based retail and corporate banking business.

Operating as "one firm"

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 combination of teams work on the solutions. This "one firm" approach facilitates client referrals and the exchange of products and distribution services between businesses, contributing significantly to our revenue flows. We form internal partnerships to make the best use of our intellectual capital, execution technology and distribution. This sharpens our ability to recognize trends across business segments, serve clients better and, ultimately, create new revenue opportunities. One example of the success of such co-operation involving the asset and wealth management units as well as the Investment Bank is the growth in structured products and alternative investments. Their share of total invested assets in the Wealth Management International & Switzerland business went from 10% in 2004 to 16% in 2006.

In 2006, our wealth management and investment banking businesses launched a joint initiative focused on the ultra-high net worth segment. They identified senior partners in each of the two businesses to focus on the delivery of investment banking capabilities and advice alongside the wealth management offerings while systematically cross-referring clients. A partnership among the senior managers of the two businesses was created in all main wealth management locations – with explicit targets for each region. Since its inception, this cooperation has resulted in an inflow of CHF 5.5 billion of net new money into our wealth management business and resulted in 23 new

UBS is the leading global wealth manager – the market leader in Europe and Asia Pacific and fourth in the US. In M&A and equity underwriting, we are among the top five firms globally – and the only global bulge bracket investment bank with roots outside the US. Our asset management business is one of the leading active asset managers globally and the second largest mutual fund manager in Europe.

This, combined with an international management team who work throughout the business and share the same vision and common values, provides us with balanced reach worldwide.

The leading bank in Switzerland

In Switzerland, we are and have been since 1998 the leading bank for retail and commercial banking, serving around 2.7 million individual clients and 137,000 corporations, institutional investors, public entities and foundations. We have chosen to limit this business to the Swiss market, concentrating on domestic opportunities and growing selected market segments.

Sustainable, attractive growth opportunities

Our business is focused on areas with above-average growth rates, derived from sustainable societal and economic trends – such as aging societies, new wealth creation and growing financial markets. Structural developments in various countries are creating broad client demand for new financial advice, solutions, execution, and risk intermediation.

We will continue to grow, without radically changing our strategic positioning or our competitive profile, by:

– *expanding market share in our existing businesses*, by attracting new clients in fast growing segments (for example, high net worth private clients or hedge funds) and increasing business volume through improved client segmentation and targeted solutions customized to client needs
– *quality and innovation,* by continuously raising the quality of our advice, by improving our practices and processes and by developing new products
– *geographical expansion*, by focusing on regions with rapid economic and wealth growth, such as China, Brazil, Russia and India.

Long-term client needs define the composition and structure of our businesses. As we have significant scale in our areas of focus, our main priority is to develop and grow UBS's business organically. Acquisitions should accelerate and complement our growth, and they must have an obvious strategic and cultural fit, while being financially attractive to shareholders.

>> Details on industry trends can be found in the dedicated section of this chapter.

Distinct business model

We firmly believe our integrated business model creates more value than our businesses would as stand-alone units.

In the financial services industry, we are the only firm with a market capitalization of over USD 100 billion focusing on wealth management as a core business, providing services targeted to wealthy clients on a wide, global scale. This gives us unmatched credibility with clients and employees.

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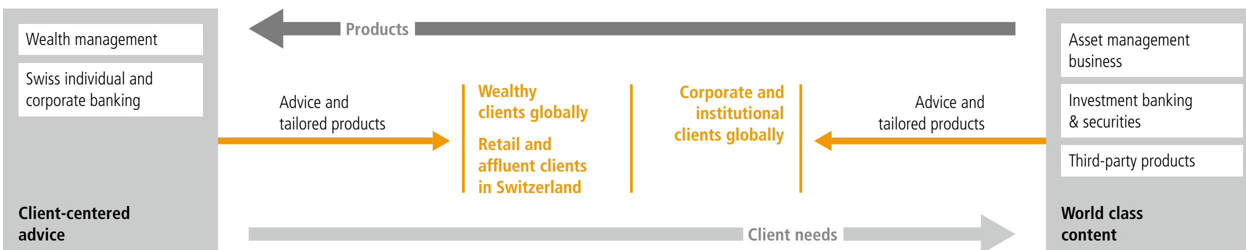
mandates for the Investment Bank, generating CHF 57 million in fees. At the end of 2006, our asset management and investment banking businesses started a collaboration that saw the launch of the iBoxx US Pension Liability Indices, a set of three index benchmarks designed to reflect pension liability profiles and mimic liability performance. The indices are aimed at helping pension plan sponsors, consultants and investment managers structure their investment strategies.

In our US domestic wealth management business, which has been part of the global wealth management business since 2005, our "one firm" model is supporting a transformation from a traditional US brokerage firm into a comprehensive wealth management business.

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 channelled through one access point to the money markets. The way we embed the same approach to risk management deeply in all our businesses is also 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.

Integrated client-service model



At the same time, both our investment bank and asset management businesses help accelerate wealth management growth in a way that would not be possible if wealth management stood alone. Teamwork and cooperation across our businesses is essential.

Operating as "one firm" allows us to capture material synergies in areas such as capital usage and cash flow netting, shared services, talent mobility, branding and marketing.

Client focus and brand

Serving clients is our purpose as an organization. Whether we serve individual, corporate or institutional clients, we put their success first and strive to truly understand their goals. Client needs develop continuously, along with the industry. We ensure that we systematically capture our clients' feedback in order to identify potential for improving our processes, and then adapting our products and services accordingly.

Branding, a key differentiating factor in the industry, is another critically important component in our growth strategy. Our brand equates to a promise we make in giving clients confidence in their financial decisions. It provides reassurance, familiarity and a clear sense of what we can do for them. Our efforts to strengthen our brand continue to pay off. In 2006, UBS moved up to 42nd place in *BusinessWeek's* listing of the world's top 100 brands, up two places from 2005. The survey is widely regarded as the industry benchmark and is based on the methodology of *Interbrand*, a leading brand consultancy.

Capital management discipline

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 the requirements of our existing business. As a first priority, it is used for investment in the growth of our businesses. In the absence of sufficiently attractive reinvestment opportunities, we return excess capital to our shareholders, through either direct distributions or share buybacks. Cumulatively, over the last six years, we have returned about 60% of all our cash flow to shareholders.

>> More details of this are in the "Capital management and UBS shares" chapter of this Handbook.

Sound risk management

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. The primary focus in our risk-taking activities is to ensure an adequate diversification of risk and to restrict illiquid and concentrated positions, while ensuring that we are rewarded for the risks we take. In recent years, we have transferred resources from businesses in illiquid markets into more liquid ones, and have actively pursued risk distribution strategies. Portfolios with poor returns on risk have been cut back and the quality of other portfolios has been enhanced. As a result, UBS's average risk-weighted assets are today at a similar level to 1998, just after the UBS-SBC merger, but our underlying risk profile is not.

>> More details on risk management can be found in the dedicated chapter of this Handbook.

Accountability for value creation

Our market position and the scale of our businesses imply a great deal of responsibility to our clients, employees, and shareholders. We also believe long-term value creation depends on what UBS does above and beyond what laws and regulations require. This is why we attach great emphasis to behaving conscientiously towards stakeholders, the environment and society and make it an important part of our culture, identity and business practice.

>> Corporate responsibility at UBS is described in a dedicated chapter of this Handbook.

>> Value creation for our shareholders is measured by financial performance indicators that are discussed in detail in our Financial Report 2006.

Growth highlights in 2006 and early 2007

Emerging markets

Emerging economies are a promising growth area and we made significant progress in entering key markets in 2006.

Latin America – Brazil and Mexico

In May 2006, we announced the acquisition of Brazilian financial services firm, Banco Pactual. Pactual was a leading independent investment bank and asset management firm in Brazil – with a fast-growing wealth management business. The acquisition closed in December 2006 and the integration of Pactual into UBS's investment banking, wealth management and asset management units is proceeding smoothly. We now have offices in São Paulo, Rio de Janeiro, Belo Horizonte and Recife. In the Investment Bank, the combined businesses have already joined forces for several transactions. In December 2006, the first month it was included in UBS's results, Pactual contributed especially high revenues of CHF 102 million. Pactual contributed a total of approximately CHF 21 billion invested assets to our wealth and asset management businesses. The newly combined UBS-Pactual asset management business, with invested assets of around CHF 24 billion, is currently the country's sixth largest asset manager.

With Pactual, we secured a starting point for further expansion into Latin America. In early January 2007, we also received approval from the Mexican Ministry of Finance to offer domestic banking services. We plan to begin operations in first quarter 2007 by offering cash, foreign exchange and debt products to institutional investors. Additional products and services may be offered in the future to institutional and individual clients.

China

On 8 December 2006, China's securities regulator granted us business commencement approval for UBS Securities following the approval of the restructuring of Beijing Securities. The business should see UBS becoming the first foreign firm to invest directly in, and manage, a full-service domestic Chinese securities firm. UBS was one of the first foreign firms to gain a foothold in China with the opening of a Beijing representative office in 1989. This was followed by another in Shanghai in 1993 and in Guangzhou in 2004. Today, the Investment Bank has a 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, and remains the largest of all QFII quotas given to a single QFII. The asset management business has a separate QFII quota of USD 200 million. In our Beijing Branch, opened in August 2004, we offer corporate and institutional clients in China tailor-made solutions to manage interest rate and currency risks.

India

In late January 2007, we signed an agreement to acquire Standard Chartered's mutual funds management business in India. The transaction is still subject to regulatory approval. The business manages 16 mutual funds, ten of which are fixed income, two asset allocation and four in equities. The business is the ninth largest mutual fund manager in India with a 4% share of the domestic market. It is headquartered in Mumbai and has offices in 27 other cities, including Bangalore, Chennai, Kolkata and New Delhi.

The mutual fund management market in India has an approximate size of CHF 91 billion and has grown by around 26% annually since 2001. The growth rate surged to more than 62% in 2006. The continuing liberalization of the country's pension market, relatively low penetration levels and the increasing sophistication of investors, provide significant potential for further growth. The purchase provides UBS with a strong investment team and a broad, local distribution network throughout India.

UBS has a well established, growing presence in India, and is one of the top brokers for international investors investing in Indian equities. UBS India Securities Private Ltd's brokerage and advisory services have been available through the Mumbai office since 1990.

The UBS India Service Centre, which provides knowledge services (research and analytics), business process offshoring (transaction and data processing) and IT infrastructure support, was opened in Hyderabad in June 2006 and employed 264 people on 31 December 2006.

Russia

In June 2006, we received a banking license from the Central Bank of Russia, enabling us to expand our local fixed income business and foreign exchange trading alongside our existing Russian operations in equities and investment banking. UBS has been committed to the Russian market for more than ten years. We opened a Moscow representative office in 1996, and entered into a joint venture with Brunswick in 1997. Brunswick UBS, as the business was called, managed to capture a sizeable position in the Russian securities market. In 2004, UBS purchased the remaining stake in the joint venture, re-branding it as UBS in 2005.

Developed markets

USA

The US Wealth Management business in 2006 acquired the private client branch office network of Piper Jaffray (the transaction successfully closed in August 2006) and McDonald Investments' branch network (completed in February 2007). Also in June 2006, the US-based bank branches of UBS AG became part of Wealth Management US, giving clients the option of receiving services from both financial advisors and private bankers. The integration will enhance our product offering while strengthening and broadening client services, enabling us to better penetrate the ultra-high net worth market. In 2004, when we began emphasizing this segment of individuals with more than USD 10 million to invest, invested assets from such clients were just CHF 48 billion. At the end of 2006, they had more than doubled, reaching USD 106 billion.

Europe

It has been six years since UBS launched its European wealth management business. The business, well established and profitable, is a strong platform from which we intend to capture further growth opportunities in the ultra-high net worth client, core affluent and financial intermediary markets. The move to build an onshore presence in Europe has been a significant achievement for UBS. It has also provided UBS with the lessons, processes and skills necessary to expand its wealth management business globally.

In our most mature European market, Switzerland, we have seen significant momentum this year. By focusing on developing our relationship with affluent clients from retail services to a more sophisticated wealth management offering, Business Banking has transferred a total of CHF 8.2 billion in assets to the wealth management unit.

Growth initiatives in the Investment Bank

With the acquisition of the Brazilian financial services firm Banco Pactual, we became the leading investment bank in the already large and growing Brazilian market. Also in 2006, we acquired ABN AMRO's global futures and options business in order to exploit product commoditization and globalization in exchange-traded derivatives. The transaction closed on 30 September. Following its integration, fee revenues from exchange-traded derivatives in fourth quarter 2006 doubled from a year earlier.

In 2006, the Investment Bank also made progress on a number of organic growth initiatives.

Our commodities business – which we started to expand in the latter half of 2005 – has widened its geographical scope and product offering, making our services more attractive to clients and resulting in a more balanced mix of trading and client revenues.

In structured credit, we have also broadened the product range and our geographical reach. This was complemented by a new risk management and reporting platform. Even at this early stage, we recorded a substantial rise in 2006 revenues.

In 2006, we started to build a real estate finance business, with presences in the US, Europe and Japan. It is fully integrated with all of UBS's other real estate infrastructure businesses within and outside the Investment Bank to provide clients with "one-stop shop" services. Results in 2006 exceeded initial expectations.

The Investment Bank also re-engineered its processes to become a more powerful and effective partner in leveraged finance transactions. As a result, we completed some important and profitable deals without compromising our disciplined approach to risk.

We continued to invest in our technology platform, as we build capacity, increase efficiency, and, at the same time, reduce the complexity of our IT infrastructure. Over the long-term, this will allow us to scale our platform and reduce unit costs.

>> For more details on the strategy and the latest developments in our different businesses, please see the business group chapters of this Handbook

Outlook for growth

Our strategy is geared for the long term, focused on areas that are expected to grow faster than the economy as a whole. As we have shown with our European wealth management and US investment banking expansion drives, returns on strategic investments will materialize – even if it takes time. Those that require considerable infrastructure are broad and extensive commitments that do not allow for shortcuts. We are certain of the fundamental strategy behind these initiatives and will continue to pursue them.

Beyond the most immediate challenges, talent management – recruiting the right people, developing and retaining talent within UBS – remains critical to our long-term organic growth ambitions.

>> Our efforts in managing and developing talents are outlined in the "Our employees" chapter of the Handbook.

With a global presence that is balanced across the Americas, Europe and Asia Pacific, the building blocks of our growth strategy are firmly in place. In 2006, we made a concentrated number of acquisitions while investing heavily in organic growth. In 2007, our focus will be on integrating our new areas of activity.

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, 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 independent of each other. In particular, the functions of Chairman of the Board of Directors and Chief Executive Officer are performed by 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 in the Corporate Governance chapter.

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.

UBS's business structure (as of 1 January 2007)

UBS
Peter A. Wuffli CEO
Marcel Rohner Deputy CEO

Global Wealth Management & Business Banking	Investment Bank	Global Asset Management	Corporate Center
Marcel Rohner Chairman and CEO	**Huw Jenkins** Chairman and CEO	**John A. Fraser** Chairman and CEO	**Clive Standish** Head and UBS CFO

Industry trends

Long-term perspectives

The world economy is expected to grow around 3.1% a year in the next ten years. There will be continued productivity gains as a result of global competition and the diffusion of new technologies. Worldwide population and therefore economic activity will also grow, although employment may increase at a slower pace, reflecting demographic shifts towards older populations in some countries.

Growth will be highest in Asia, followed by Eastern Europe, Middle East and Latin America. Asia will represent the largest increase in Gross Domestic Product (GDP) in absolute terms, closely followed by North America and Western Europe. This is why it is important for global financial service providers, such as UBS, to have significant positions both in growth markets and large, mature markets, such as 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 restructuring and internationalization
– commodities

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, we do not expect any further notable deregulation. On the contrary, in the last few years the regulatory pendulum has shifted towards more regulation in some developed countries, particularly in the US, where the cost of doing business has increased. We expect the regulatory pendulum to shift back towards more efficient regulatory approaches, which achieve regulatory objectives with less market interference.

Further liberalization is likely in emerging economies where domestic markets are still relatively protected, with many of these countries seeing deregulation as a way to increase competitiveness. However, the pace of liberalization will vary across regions. The suspension of the Doha Round of multilateral trade negotiations in June last year, however, was a major setback for continued liberalization – although we believe many of the related issues will be addressed by strengthened regional and bilateral trade agreements.

In general, all further liberalization of financial markets is expected to benefit investment banking and securities firms that are positioned to take advantage of further openings in individual domestic capital markets. Asset managers with global platforms should also 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, 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 countries with established, mature economies will face a major demographic shift related to declining birth rates. This means that the number of retired citizens will rise while there are fewer younger people available to replace them – and fund their retirement. 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 unfunded public pension schemes to privately funded ones.

Institutional asset management is the sector most significantly affected by this trend, but investment banking and wealth management should also benefit. In asset management, the focus will be not only on serving clients with investment advice and assuming management of pension mandates, but also on addressing other issues that current and potential clients have to deal with, particularly for underfunded defined benefit corporate pension funds. We expect the ongoing shift from corporate defined benefit to defined contribution schemes to continue at the current pace as corporations protect their balance sheets from the negative effects of aging.

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

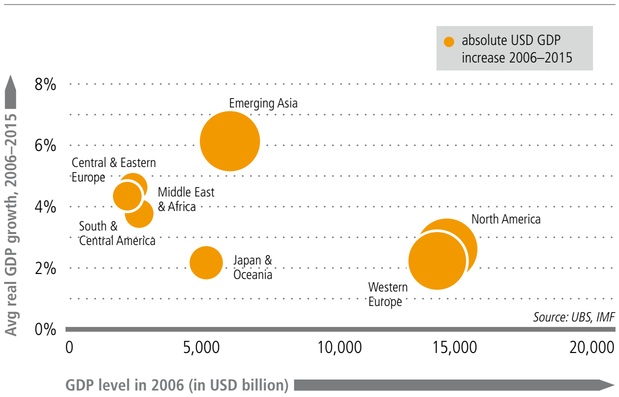
We expect these trends to continue. In continental Europe, securitization is still catching up with the US. In many emerging markets, the corporate bond market is still underdeveloped, but it is growing quickly. The ability of financial market participants to assess counterparty risk will further improve, 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 their listing, and thereby meet requirements for issuing debt securities as well.

Equitization

Over the past ten years, global equity market capitalization has grown at an annual rate of around 10%. According to recent estimates, equity accounts for nearly half of the growth in global financial assets as more institutional and individual investors tend to allocate a greater share of their assets into equities. The rising share of equity in global financial assets reflects the transfer of ownership of productive assets from government and private owners to public markets and the increasing reliance of corporations on public equity financing to fund their operation. We believe that the underlying trend towards an increasing role of equity financing and equity investments remains intact, even though the private equity industry is also growing fast. 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.

Projected growth in all of UBS's key markets

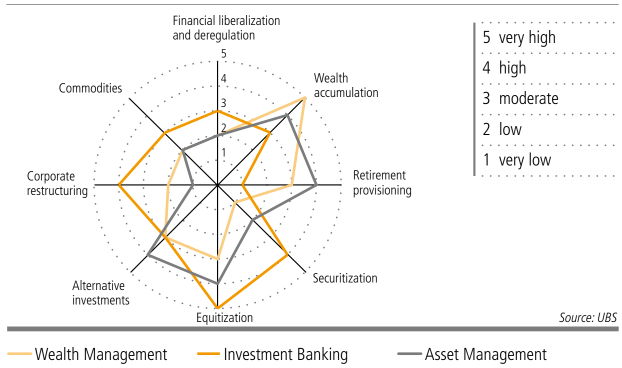
Regional GDP growth forecasts



Source: UBS, IMF

Key drivers of revenue growth in next 5–10 years

Impact on UBS Business Groups



Source: UBS

Alternative investments

The last two decades have seen robust growth in 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 funds, once considered a fringe investment, continue to move into the mainstream across the globe. An increasing number of investors use alternative investments to boost expected 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 restructuring and internationalization

In the last few years, many businesses have benefited from strong global economic growth, low levels of nominal interest rates and abundant global liquidity. As a result, the global default rate has touched a historical minimum and profits have grown significantly. With rising interest rates and global liquidity levels easing, the credit cycle is likely to reverse gradually and move the default rate back towards its long-term average. This is likely to trigger continued corporate restructuring which will – in turn – become business opportunities for our investment banking business.

At the same time, the internationalization of business will continue, particularly in Asia, where thanks to strong economic growth, local businesses are gradually becoming net buyers of assets abroad, particularly in the US and in Europe as well as the commodity-rich countries of Africa and Latin America. This will provide business opportunities for UBS advisory experts to assist businesses interested in making acquisitions around the world.

Commodities

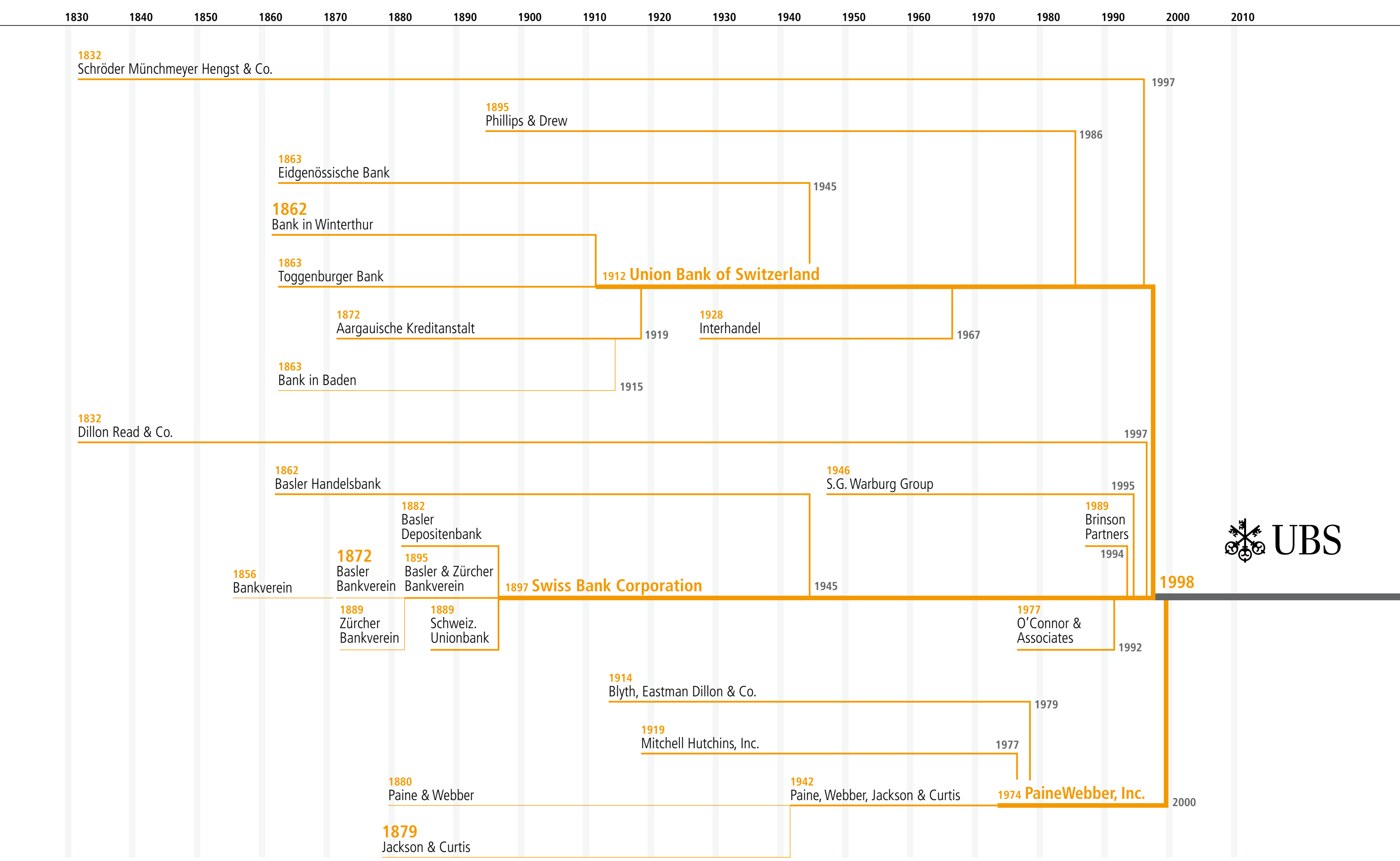
Production capacities for energy and raw materials currently lag behind rising global demand, particularly from emerging economies. This has shifted the focus to the efficient allocation of commodities, similar to efficient resource allocation in capital markets. Energy and raw material markets are becoming increasingly similar to financial markets. Financial firms are buying and selling futures or making private financial contracts (derivatives) with other participants. 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 (SBC) 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 crucial to 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 in order 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.

Since its acquisition, our strategy has successfully focused on organic growth aided by carefully chosen "bolt-on" acquisitions. In Europe, the domestic wealth management initiative, launched in 2001, made a number of acquisitions, most notably in Germany (Sauerborn, Merrill Lynch International), the UK (Laing & Cruickshank, Scott Goodman Harris) and France (Lloyds Bank SA). In the US, we strengthened our wealth management business through the acquisition of the private client branch network of Piper Jaffray, advancing UBS's presence in the Midwest and western United States, and of McDonald Investments, present in the Northeast, Midwest, Rocky Mountain and Northwestern states. The Investment Bank has seen important additions in the Americas through the acquisition of Banco Pactual in Brazil, Charles Schwab Capital Markets and two ABN Amro businesses (Prime Brokerage and Global Futures and Options). Global Asset Management bolstered its position in the important German market with the integration of Siemens Real Estate in 2005.

Our asset management business established a joint venture fund management company in China – UBS SDIC Fund Management Co Ltd – after the purchase of a 49% stake in Shenzen-based China Dragon Fund Management Co Ltd. In India, at the end of January 2007, we announced the purchase of Standard Chartered's mutual funds management business, the country's ninth largest domestic mutual fund manager.

These acquisitions have helped us to accelerate growth and rounded out gaps in our offering across Business Groups and regions. In incorporating these firms, UBS remains focused on building an integrated business and a joint culture – both essential ingredients for the continued success of our firm.

Our employees

Competitive strength in the financial services industry depends, more than anything else, on the expertise, talent and commitment of a firm's employees. For UBS to continue to succeed, we must be able to attract, develop and retain highly qualified people. Our employees should be able to benefit from our strong core businesses, our open and entrepreneurial culture, and the breadth of opportunity for individual success.

The UBS workforce

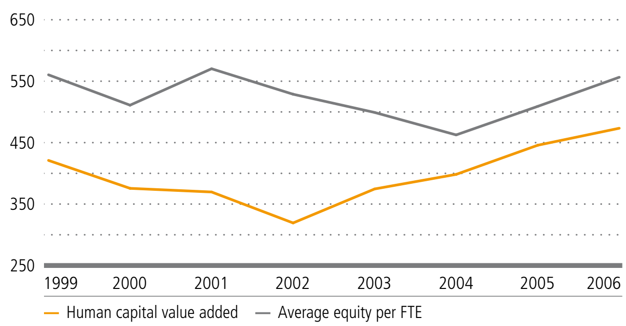
Investing in our employees

In our industry, competitiveness and service quality depend on the expertise and talent of each individual member of staff. Since 2002, the effectiveness of our staff, as measured by "human capital value added", has increased steadily. By comparison, the amount of shareholders' equity deployed per person is largely unchanged from 2002. While the increase in "human capital value added" is to a certain extent attributable to the favorable market conditions seen in the past four years, we do believe that this also shows that our people are becoming steadily more skilled and, therefore, more productive.

We believe this is the result of investing in the quality of our people. The diagram below gives an overview of what we believe are the most important factors driving the value created by our personnel. They are outlined in more detail in the following pages of this chapter.

Value added per head since 1999

CHF thousand



Note: Human capital value added is defined as:
(Income–(operating expenses–personnel expenses excluding contractors)) / personnel

Staffing

Our workforce

The number of people employed in our financial businesses at the end of 2006 was 78,140, up 8,571 or 12% from 69,569 on 31 December 2005. Staff levels increased in all businesses over the course of the year.

In our Swiss and international wealth management business (up 2,009), we continued to invest in growing markets in Asia Pacific, Europe, the Middle East and Africa. We also strengthened our domestic advisory capability in Switzerland. The US-based wealth management business (up 1,523) saw staff level increases related to the acquisition of Piper Jaffray in August 2006, which added 1,156 employees. We also recruited specialists in support and logistics functions in order to implement strategic initiatives. The Swiss commercial and retail banking business recorded lower personnel numbers (down 110). The decrease stemmed from the sale of Swiss facility management activities in first quarter 2006, which was partly offset by the higher level of IT staff needed to support growing business volumes and new hires in our Swiss domestic banking business. The asset management business (up 575) saw increases in all areas, reflecting strong business growth. The launch of Dillon Read Capital Management (DRCM) on 5 June 2006 added 175 people, including all those transferred from

Investing in our people

the Investment Bank. Our Investment Bank's staff levels (up 3,725) rose in IT, operations and finance due to higher business volumes and also because of new initiatives in the investment banking and fixed income, rates and currencies businesses. Hiring was also seen in legal and compliance functions, reflecting the more stringent regulatory environment. Some of the increase in personnel was also due to the inclusion of employees from Pactual and ABN AMRO. In Corporate Center, personnel numbers were up by 849, mainly in the IT infrastructure unit, as the demand for its services grew in line with the expansion of our core businesses. Demand for offshoring services increased as well, driving up staff levels in the UBS Service Center in Hyderabad.

In 2006, UBS personnel worked in more than 50 countries, with around 39% of our staff employed in the Americas, 35% in Switzerland, 16% in Europe, the Middle East and Africa, and 10% in Asia Pacific. Growth was strongest in Asia Pacific, where staff levels rose 41%.

Excluding the effect of acquisitions and disposals, staff levels increased by 10.1% in 2006. We hired 18,465 people, while 11,406 people left UBS.

The opportunity for staff to move from one role to another, across businesses, Business Groups or regions, is an important driver of growth. Our "one-firm" approach benefits from a constant exchange of knowledge and experience, continuous learning, and an employee population with a wide breadth of experience, background and opinion. In 2006, 1,075 employees moved to jobs in another region. The largest transfer of employees was from Switzerland, with 122 going to the Americas, 98 to APAC, 82 to the UK and 45 to EMEA locations. Additionally, 105 UK-based staff moved to roles based in the Americas, 107 to Switzerland, 74 to APAC and 17 to EMEA. Smaller transfers were observed among Americas, APAC and EMEA staff.

Corporate Center had the highest level of mobility, with 4.1% transferring into and 3.5% transferring out of Corporate Center functions. Career mobility is one step in our internal talent development efforts.

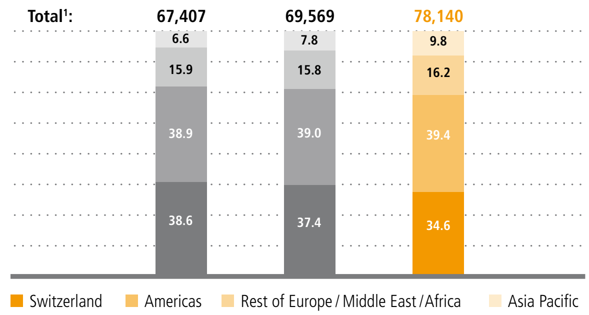
An example is Group Internal Audit which reports to the Board of Directors and provides an independent review of the effectiveness of UBS's system of internal controls and compliance with key rules and regulations. The importance of internal audit has increased in the last few years, making the recruitment of professionals with an excellent educational background at the level of associate director or director more competitive. Vacancies within Group Internal Audit at the senior partnership level are almost exclusively filled internally. Talent development within Group Internal Audit focuses on improving individual business knowledge as well as project management and leadership skills. The required skills and in-depth knowledge of our firm are also prized by many other internal functions, making Group Internal Audit an attractive starting point for a career at UBS. While mobility to and from the Business Groups and Corporate Center is ac-

Financial Businesses personnel

Regional distribution

in %, except where indicated

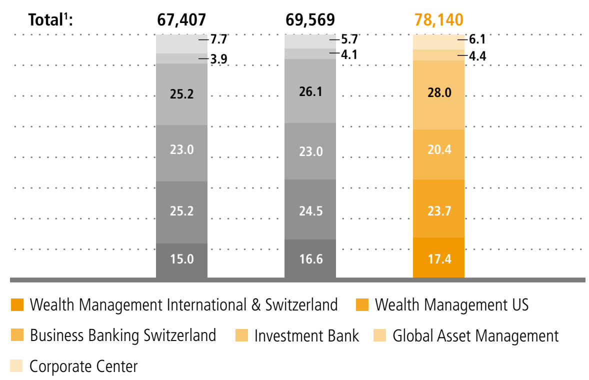
As of 31.12.04 31.12.05 31.12.06



Business Unit distribution

in %, except when indicated

As of 31.12.04 31.12.05 31.12.06



1 Total full-time equivalents (FTE).

Graduate and MBA hiring across UBS

	2006				2005			
	Europe	Americas	APAC	Total	Europe	Americas	APAC	Total
Investment Bank	245	274	97	616	158	226	72	456
Global Wealth Management & Business Banking	181	109	8	298	227	82	30	339
Global Asset Management	7	3	1	11	18	10	7	35
Corporate Center (incl. ITI)	16	15	0	31	6			6
Total	449	401	106	956	409	318	109	836

tively encouraged, the process is managed carefully to ensure no conflicts arise between the supervisory role of Group Internal Audit and the interests of our businesses.

Recruiting and retaining staff

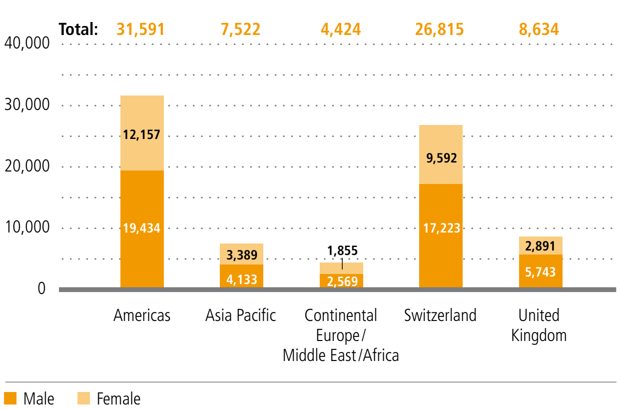
Recruiting efforts in 2006 focused primarily on supporting business growth. In 2006, we hired 956 university graduates into one of our graduate or MBA training programs, up 12.5% from 2005.

We continue to be one of the top-ranked employers for university graduates in Switzerland. Leading global consultant *Universum* ranked UBS number one for business students in Switzerland for the second straight year. Overall, UBS ranked number 26 among the UK's top employers for all university disciplines, up from 41st a year earlier.

Graduate, vocational training

In Switzerland, UBS offers an apprenticeship program for students in secondary school wishing to specialize in banking or IT. A three-year commercial training program prepares students for banking-related jobs, while an IT apprenticeship teaches application development and systems technology in 18-month theoretical and 30-month practical sessions. IT trainees from other companies, including Swiss Re and the Swiss National Bank, complete the theoretical part of their training at UBS. In 2006,

Gender distribution by region[1]



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

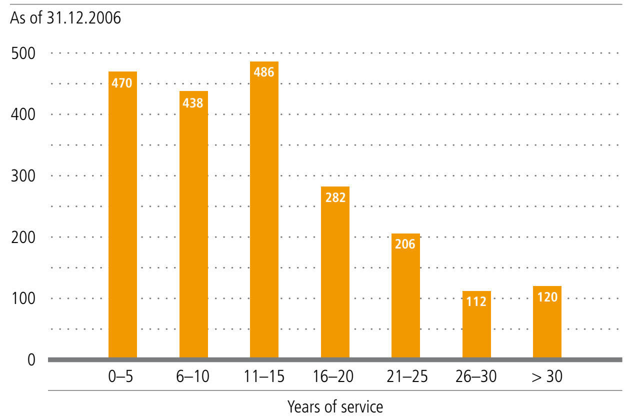
Gender distribution by employee category[1]

	Officers		Non-Officers		Total	
	Number	%	Number	%		
Male	32,425	74.5	16,677	47.0	49,102	62.2
Female	11,089	25.5	18,795	53.0	29,884	37.8
Total	43,514	100.0	35,472	100.0	78,986	100.0

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-2006 employee number of 78,986 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-2006 total is 78,140.

Senior leadership years of service with UBS and predecessor firms (MDs, GMB/GEB members)

Number of people



we hired 260 apprentices, and in total, around 1,600 young people participated in vocational training. These programs targeted apprentices, apprenticeship graduates, all-round interns and university graduates in our Graduate Training Program.

Employee retention

Retaining staff is influenced by a number of factors, including performance management, compensation and incentives, and training and development. We direct and monitor these activities at corporate level. We also track retention among key staff, as knowledge of the firm and professional experience are important to keep within UBS. Among our Group Executive Board, Group Managing Board and Managing Director populations, 86.2% have been with the firm three years or more, with 20.7% having worked here between six and 10 years, 36.3% between 11 and 20 years, and 20.7% having been with the firm more than 20 years.

Developing and sustaining a diverse workforce

Teams comprised of people with diverse backgrounds, skills and experiences are better able to understand and address our clients' needs. We therefore seek to cultivate an open and inclusive culture, where employees are able to maximize their potential.

Citizens from 147 countries are in the UBS workforce. The largest number of employees, as measured by primary citizenship, hold US or Swiss citizenship, followed by British citizenship.

We believe that having a broad range of age and experience in our workforce helps us meet the varied needs of our clients around the world. This is reflected in the structure of our workforce. The largest proportion of our global employee population is in the 30–44 age range. The median age of UBS employees is 37.

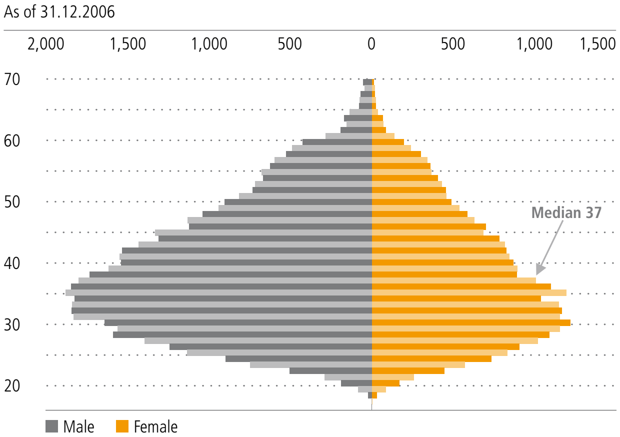
Recruiting and retaining diverse talent is the responsibility of line management. The human resources function is an important partner in supporting our business leaders in achieving this. Since increasing the focus on diversity in 2002, we have built a firm-wide infrastructure, including 10 Regional Diversity Boards. Policies were put in place where needed to address fair treatment, professional behavior, maternal/parental leave, harassment prevention and most recently, internal entertainment.

More recently, our efforts have been focused on integrating diversity into daily management processes such as recruiting, talent development, and our performance management process. We initiated a Global Executive Search Firm Breakfast series in New York, London, Zurich, Hong Kong and Sydney at which hiring managers, human resources firms and search firm partners identified creative solutions for diversifying our pool of potential candidates. As a result, the range, type and background of candidates we interview at the managing director and executive director levels has increased. In March 2007, UBS and The Wharton School of the University of Pennsylvania launched Career Comeback, an executive education program for women returning to work after a career break of two to seven years, which 50 participants attended. Additionally, more than 3,000 senior UBS leaders have attended a training program using actors to portray management situations that involve diversity issues. Diversity has also been integrated into leadership development programs.

Heightened focus on the commercial value of diversity included a number of initiatives, such as:
- an inaugural UBS Women's Leadership Conference in Zurich that attracted nearly 1,000 women and men from the financial services industry
- events for high net worth women in Mexico, Brazil, Argentina, Germany and Switzerland
- "All Bar None" client events in the US and UK for female corporate and institutional clients.

Age distribution at UBS

As of 31.12.2006



Note: x-axis: number of employees; y-axis: age.

Composition of UBS's workforce by citizenship[1]

Country	Number	%
US	27,894	35.4
Switzerland	22,881	29.0
United Kingdom	7,587	9.6
Germany	3,158	4.0
Australia	1,722	2.2
Italy	1,657	2.1
India	1,333	1.7
Singapore	1,247	1.6
France	1,216	1.5
Hong Kong	1,046	1.3
Japan	1,024	1.3
Canada	696	0.9
Brazil	692	0.9
Spain	629	0.8
China	434	0.5
Russia	423	0.5
Taiwan	340	0.4
Ireland	301	0.4
Austria	270	0.3
Malaysia	214	0.3
Other Countries	4,222	5.3
Total	78,986	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-2006 employee number of 78,986 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-2006 total is 78,140.

Managing our staff

Effectively managing and developing our employees are core activities for us, supporting our strategic growth ambitions and our corporate values. Sustaining elements are regular performance management and individual development discussions, a culture of meritocracy and diversity, an open internal labor market and a broad range of learning and development opportunities.

All employees are part of a performance management process that assesses individual achievements against agreed objectives. This process, called Performance Measurement and Management (PMM), has been in place since 1996. PMM is closely linked to our corporate values. It puts specific expectations on the behavior and actions laid out in our values, and those expectations rise with experience and rank.

At the beginning of the year, each employee agrees to specific individual objectives with the evaluating manager. Targets are set in four areas – clients, people/team, economics and professional expertise. During the year, targets can be updated and additional targets may be set and recorded in PMM.

Towards the end of the year, an employee's achievements are assessed against these defined targets – by the individual employee, by the line manager, and in many cases by peers, internal clients and direct reports. The PMM assessment 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 the executive members of the Board of Directors, members of the Group Executive Board and members of the Group Managing Board, the PMM process is broadly the same. Achieving the clearly defined financial targets set for the Group and the Business Groups plays a significant role. Leadership, cross-business cooperation, and strategic thinking and contribution are also assessed.

Compensation and incentives

UBS's compensation policy aims to provide competitive total compensation opportunities that 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. Senior executive compensation is closely linked to the achievement of sustainable shareholder returns, and it provides appropriate incentives for long-term value creation.

The firm's compensation policy is designed by the Group Executive Board and approved by the Board of Directors.

>> A discussion of UBS's senior executive compensation policy is available in the Corporate Governance section.

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 a voluntary equity-based program for employees called Equity Plus in over 45 countries. The program allows employees to buy UBS shares at their own cost and generally receive two free UBS stock options for each share purchased. The employee has full ownership of the shares as soon as they have been purchased, although they generally are restricted for two years after the purchase date. Options vest after two years and expire ten years after the grant date, provided the employee remains employed at UBS. In 2006, over 27,000 UBS employees elected to participate in Equity Plus. This was a 35% increase over 2005, and up 47% over 2004. Participation by Swiss staff increased nearly 30% from a year earlier, in the UK it was up 49% while enrolments doubled in Hong Kong and Singapore. In total, approximately 32,000 employees are enrolled in the plan.

For staff with annual incentive awards above a certain threshold, a mandatory component is awarded in restricted UBS shares. 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.

As of 31 December 2006, current UBS employees held an estimated 6% of shares outstanding, (including approximately 3% through unvested/blocked shares) based on all known share holdings from employee participation plans, personal holdings and individual retirement plans. An additional 2.5-3.0% could be imputed for stock options (based on the options' intrinsic value), for a total of 8-9%.

At end-December 2006, an estimated 53% of all employees held UBS shares while 38% of all employees held UBS stock options.

Training and development

Talent and leadership development

For many years, UBS has invested in developing current and potential leaders. Leadership development is based on the ongoing identification of key position holders, their succession candidates and high potential employees across all Business Groups, regions and functions. Supported by the UBS Leadership Institute, we have implemented group-wide processes that allow us to identify key talent across the company, based on a common set of specific criteria.

Leadership development at a firm-wide level starts with the "Accelerated Leadership Experience", an 18 month development process designed to enhance the leadership capabilities of mid-level managers identified as having exceptional leadership potential. Since its inception in 2004, nearly 300 potential leaders have participated.

More senior leaders are nominated by senior management to participate in the Global Leadership Experience family of programs, where participants learn how to build and lead a client-focused organization and strengthen their personal leadership capabilities. This is supplemented by a cross-Business Group mentoring program in which Group Executive Board members mentor Group Managing Board members, who, in turn, mentor key talents. Since its inception in 1999, approximately 1,600 senior leaders have participated in a GLE program and/or an associated developmental process.

Strategic events allow select members of senior key talent groups to focus on issues critical to UBS's ongoing success. Most notable are the Senior Leadership Conference, an annual event at which more than 700 senior executives meet to analyze and adjust UBS's strategy and/or strategic agenda, and the Annual Strategic Forum, where the top 93 leaders in the firm assess the strengths, opportunities, challenges, values and aspirations that shape the firm's strategy.

Business Group leadership programs also play a key role in developing our talent. ASCENT, the Investment Bank's 18 month early career program, has exposed 450 high-potential employees to specific business challenges, talent and client management skills development, and cross-firm networks since it was launched in 2005. Global Wealth Management & Business Banking's "Leading for Growth" program targets executive and managing directors, and is taught by the most senior managers of that Business Group. Participants strengthen their leadership practices and learn how to create and foster a culture of innovation and active mutual support within their teams. To date, 1,500 senior leaders have attended. Global Asset Management's AMSLE program helps "managers of managers" strengthen their strategic leadership skills by focusing on both leadership and core technical skills. Over 70 managers have participated since 2005.

Business training

All employees have access to professional, personal, management and business-specific skill development opportunities through an ongoing series of educational offerings.

Large-scale core education initiatives address areas of critical importance to the firm, especially in the areas of risk management and compliance. Two firm-wide training initiatives focusing on operational risk mitigation and conflict of interest management were completed in 2006. Additionally, a new six-month "Essential Management Skills" development program launched in late 2006 will train over 1,350 people annually in basic people management skills, knowledge of employment law and a deeper understanding of the firm's strategic agenda.

In the US, financial advisor education provides basic and advanced advisory and sales skills training, as well as technical, risk and compliance training, to both established and newly hired financial advisors and their teams, as well as branch managers.

Responding to increasing demand for UBS's wealth management services in Asia Pacific, UBS in September announced that it will open a new wealth management training facility in Singapore in early 2007. In addition to providing training for employees new to the wealth management industry and ongoing professional development for existing employees, the campus should enable the Asia Pacific wealth management business to increase client advisor numbers by 20% annually.

Commitment

Our corporate values are the foundation of what we do, and how we do it. Entrepreneurial leadership, partnership and meritocracy are the three core competencies that help UBS succeed in a competitive environment. Our ethical beliefs – diversity, integrity and privacy, and corporate responsibility – are the foundation for successfully implementing our vision. And focusing on meeting the needs of our clients is our ultimate purpose. These values are integrated into how we make commercial decisions, how we manage our people, and how we interact with each other in the daily course of business.

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.

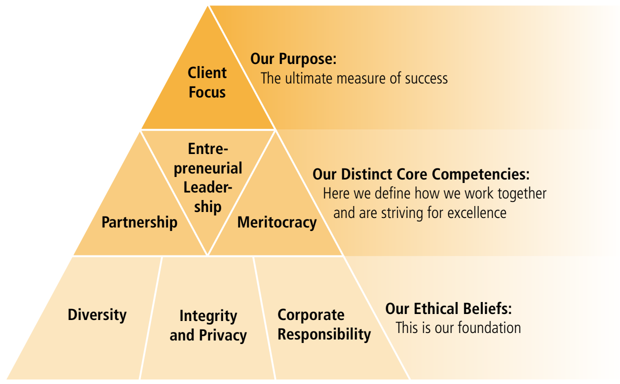
Meritocracy: We ask for entrepreneurial spirit and initiative from each individual. We actively strive to be the best at attracting, developing and retaining talented people. Decisions regarding recognition, reward and promotion are based on merit. We coach our people and invest in their development.

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.



Selected 2006 awards

100 Best Companies 2006 (Working Mother Magazine; US)

One of top 50 Banking Employers (Vault.com; US)

No.1 employer of choice for business graduates in Switzerland in 2006 (Universum Switzerland)

Measuring employee satisfaction

The commitment level of our employees is central to retention and performance. One way we assess engagement and the understanding of our core values is through regular employee surveys.

In recent years, our Business Groups have conducted employee surveys at least annually. In 2006, for the first time, all employees across the company were asked to participate at the same time. In addition, a core set of questions and themes was defined that allow a consolidated view of employee responses across the whole firm. The questions focused on employee commitment, partnership and teamwork, compensation and incentives, UBS values and entrepreneurial leadership.

Across the firm, satisfaction with UBS as a workplace was higher than the industry average. Additionally, most respondents agreed they were highly motivated to contribute to the success of the firm beyond what was expected, and a large majority planned to be working for UBS in a year's time. Also positive, most employees surveyed said that diverse perspectives were valued in their team and described their team as fun and supportive. A majority of responding employees felt they received the training they needed to do their job effectively and many agreed that "in UBS people are rewarded according to their job performance".

Each Business Group, and the individual businesses within them, takes this feedback seriously. Specific actions address employee feedback, and the impact is measured in successive surveys. In the Investment Bank, positive statements relating to meritocracy have risen by 14% overall since it first conducted this particular staff survey in March 2004. Increased communication regarding performance, promotion and compensation and the implementation of mid-year performance reviews, along with continuous management focus, have contributed to this improvement. Responses from operations and IT staff in Global Asset Management highlighted significant staffing pressures that are now being addressed.

Employee assistance

UBS is committed to being a conscientious employer. We support our employees during all stages of their careers. Our Employee Assistance Programs (EAPs) and our COACH program in Switzerland are examples of this commitment.

UBS supports EAPs in a number of locations. These programs offer confidential support to help employees balance work, family and personal needs and help resolve issues that occur in everyday life. In the US, for example, our EAP program offers free assessment, counseling and referrals for stress, family and marital problems, substance abuse, legal and financial matters, and workplace issues.

In Switzerland, UBS offers professional assistance for current and retired employees, as well as their family members, through its HR Social Counseling service. It provides free confidential counseling and guidance in solving business-related problems, including conflicts in the workplace.

COACH was launched in early 2003 to help staff in Switzerland who lose their jobs in a restructuring that requires redundancies. The package extends the standard notice term of each eligible employee by two months in addition to the period stipulated in the employment contract. During this time, employees may look for a new position while retaining full salary and benefits. They also receive counseling and support to help them apply. Financial assistance of up to CHF 6,000 per employee is available for job-related training, if applicable. To date, more than 1,840 staff have enrolled in COACH.

Employee representation

The UBS Employee Forum was established in 2002 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 health and safety issues, changes to workplace conditions, pension arrangements and collective redundancies.

Employee representation in Switzerland is led by the Employee Representation Committee (ERC). This group of elected, internal representatives look after the interests of employees whose work contracts are governed by Swiss law and the Agreement on Conditions of Employment for Bank Staff. The ERC is a partner in annual salary negotiations and is involved in employee matters, including health and safety, social security and pensions. 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 leading global provider of financial services for wealthy clients and the top bank for individual and corporate clients in Switzerland.

Business Group / Business Unit reporting

CHF million, except where indicated	Wealth Management International & Switzerland		Wealth Management US		Business Banking Switzerland		Global Wealth Management and Business Banking	
For the year ended or as of	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
Total operating income	10,798	9,011	5,863	5,156	5,270	5,071	21,931	19,238
Total operating expenses	5,595	4,850	5,281	4,844	2,914	2,882	13,790	12,576
Business Group / Business Unit performance before tax	5,203	4,161	582	312	2,356	2,189	8,141	6,662
Net new money (CHF billion)	97.6	68.2	15.7	26.9	1.2	3.4	114.5	98.5
Invested assets (CHF billion)	1,138	982	824	752	161	153	2,123	1,887
Personnel (full-time equivalents)	13,564	11,555	18,557	17,034	15,913	16,023	48,034	44,612

Marcel Rohner | Chairman and 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.

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

Our US, Swiss and international wealth management businesses, along with our Swiss corporate and retail banking unit, have formed one Business Group called Global Wealth Management & Business Banking since 1 July 2005. On the same date, 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 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 pricing 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.

Wealth Management International & Switzerland

With more than 140 years of experience, an extensive global network, and CHF 1,138 billion in invested assets on 31 December 2006, our 4,742 client advisors consistently deliver high-quality, individually tailored solutions to 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 and financial intermediaries domiciled in Switzerland, and organized into eight geographical regions (managing invested assets of CHF 276 billion).
- Wealth Management – International Clients, serving clients domiciled outside Switzerland (managing invested assets of CHF 862 billion). This area is organized into the seven regions of: *Americas International; Asia Pacific; Benelux (Belgium, Netherlands, and Luxembourg), Germany and Central Europe; Eastern Mediterranean, Middle East, and Africa; Italy; UK, North, and Eastern Europe; and Western Europe.*

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 and markets

Wealth management is a fast-growing market. According to an internal UBS estimate, the global growth rate of liquid assets held by wealthy individuals is expected to grow by 5.8% annually between 2005 and 2009.

The wealth management market is very fragmented and UBS's global market share, including the US wealth management business, is estimated at 3.5%.

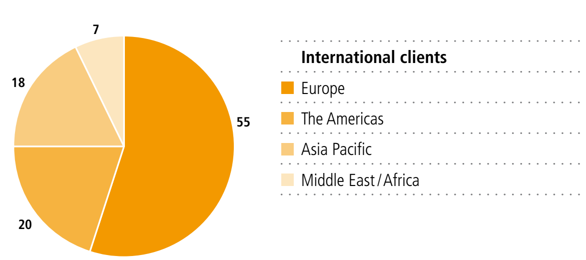
A clearly structured advisory process helps client advisors add value at each step and provides our clients with a consistent and comprehensive experience. Our approach consists of four clear, mutually enhancing steps, which are shown in the UBS Client Experience diagram on the next page.

We offer sophisticated products and services specifically designed to address the needs of:
- core affluent clients with investable assets of CHF 250,000 to CHF 1–2 million

Invested assets by client domicile, International Clients

in %, except where indicated

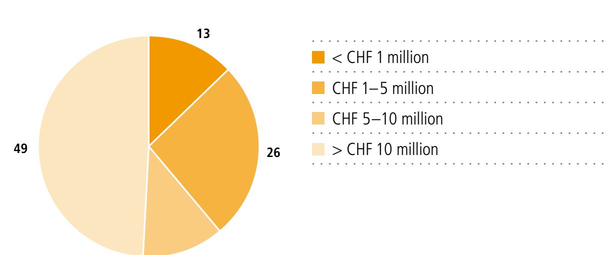
As of 31.12.06 **Total: CHF 862 billion**



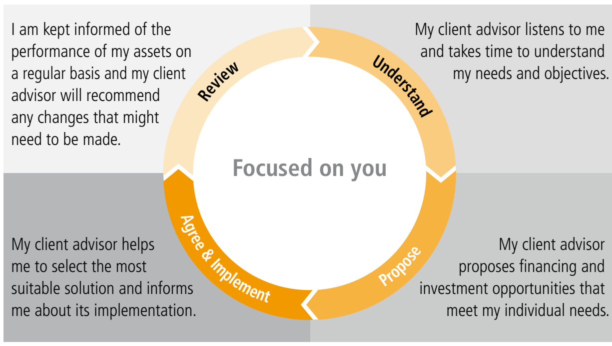
Invested assets by client wealth

in %, except where indicated

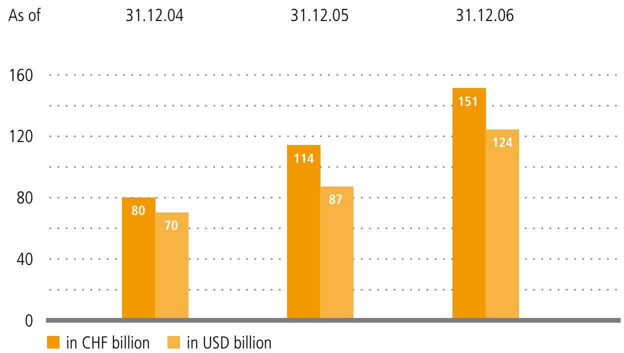
As of 31.12.06 **Total: CHF 1,138 billion**



UBS Client Experience



Invested assets development, APAC region



– high net worth clients with investable assets of CHF 1–2 million to CHF 50 million
– ultra-high net worth clients with investable assets of more than CHF 50 million.

We also provide financial intermediaries, both inside and outside Switzerland, with UBS's wealth management solutions, products and services.

Growth initiatives

Wealth management in Asia Pacific

One of the main challenges for the wealth management business in the next few years will be to enhance its already strong business footprint in the Asia Pacific region. The region is very heterogeneous and, taken together, accounts for more than half the world's population – while only contributing a quarter of total global Gross Domestic Product (GDP).

Our 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.

In March 2006, we opened a wealth management business office (sub-branch) in Osaka, an important step in further expanding our presence in Japan.

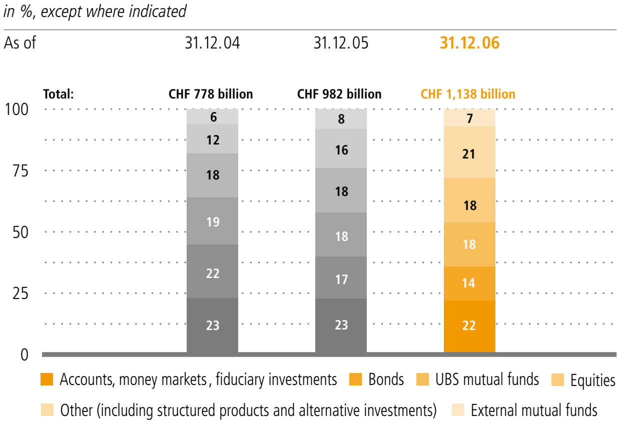
Given the strong demand for wealth management services in the region, UBS decided in September 2006 to create a regional training center for employees in Singapore, which is scheduled to open in 2007. Clients will also be able to take courses at the facility.

Products and services

Our clients can count on the expertise of more than 3,600 professionals worldwide dedicated to developing wealth management solutions. We ensure that our private clients have access to what we judge to be 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

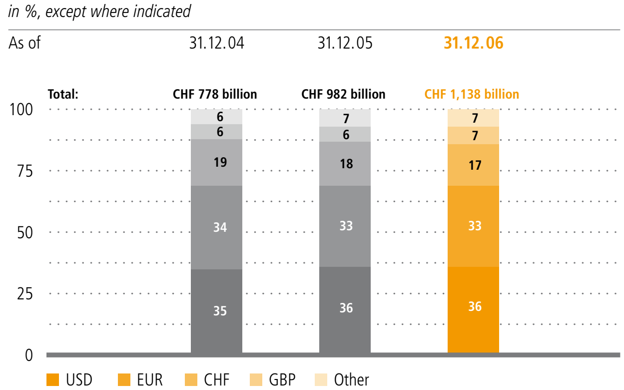
Invested assets by asset class

in %, except where indicated



Invested assets by currency

in %, except where indicated



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 2006, around 22% 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 81 billion to CHF 185 billion in 2006. We also fulfill the basic banking needs of private clients with a wide variety 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. Our product and service offering covers the wide-ranging banking needs of our clients.

Distribution

Our extensive wealth management branch network comprises 4,742 client advisors, 107 offices in Switzerland and 77 offices worldwide.

The success of European wealth management

It is six years since UBS launched its European wealth management business. What was then a major strategic effort aimed at carving out a domestic wealth management presence has grown to become a full and integral part of the international wealth management business.

The number of European domestic branches, now 45, has more than tripled since 2001. UBS now has 870 client advisors in the business, up from 370 then. Invested assets have risen to CHF 144 billion from CHF 16 billion, with a significant portion of the increase due to the CHF 72 billion in net new money UBS has taken in since end-2001.

In 2006, UBS's main focus was to stabilize the European wealth management business after a phase of strong growth. The business, now well established and profitable, is a strong platform from which we intend to capture further growth opportunities in the ultra-high net worth client, core affluent and financial intermediary markets. In Germany, for example, the business will soon be opening three additional offices, raising the total number of wealth management locations in that country to 13. The new offices will move the business closer to clients while increasing the number of transactions processed through the German business platform, allowing for further economies of scale. Italy and the UK have been targeted for similar expansion. The increase in office locations, together with the advanced product offering, is expected to accelerate net new money growth in the near future.

European wealth management office locations

France	
1 Bordeaux	New locations since 2001
2 Cannes	New locations since 2001
3 Lille	New locations since 2001
4 Lyon	New locations since 2001
5 Marseille	New locations since 2001
6 Nantes	New locations since 2001
7 Paris	Locations end-2000
8 Strasbourg	New locations since 2001

Italy	
20 Bologna	Locations end-2000
21 Brescia	New locations since 2001
22 Florence	New locations since 2001
23 Genoa	New locations since 2001
24 Milan	Locations end-2000
25 Naples	New locations since 2001
26 Padua	New locations since 2001
27 Rome	Locations end-2000
28 Turin	New locations since 2001

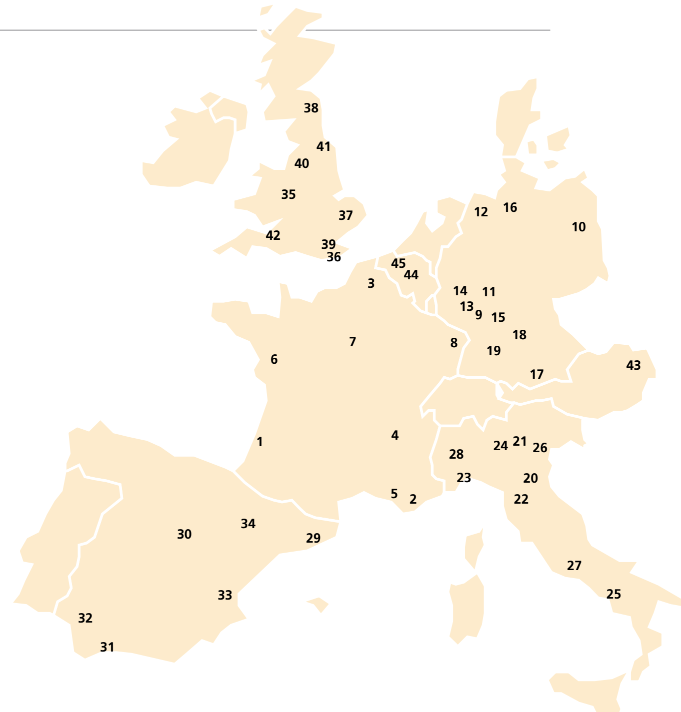
United Kingdom[1]	
35 Birmingham	New locations since 2001
36 Brighton	New locations since 2001
37 Bury St Edmunds	New locations since 2001
38 Edinburgh	New locations since 2001
39 London	Locations end-2000
40 Manchester	New locations since 2001
41 Newcastle	New locations since 2001
42 Taunton	New locations since 2001

Germany	
9 Bad Homburg[2]	New locations since 2001
10 Berlin	Locations end-2000
11 Bielefeld	New locations since 2001
12 Bremen	New locations since 2001
13 Cologne	New locations since 2001
14 Dusseldorf	Locations end-2000
15 Frankfurt	Locations end-2000
16 Hamburg	Locations end-2000
17 Munich	Locations end-2000
18 Offenbach[3]	Locations end-2000
19 Stuttgart	Locations end-2000

Spain	
29 Barcelona	Locations end-2000
30 Madrid	Locations end-2000
31 Marbella	Locations end-2000
32 Seville	New locations since 2001
33 Valencia	New locations since 2001
34 Zargoza	New locations since 2001

Other countries	
43 Austria (Vienna)	New locations since 2001
44 Belgium (Brussels)	New locations since 2001
45 Belgium (Antwerp)	New locations since 2001

Locations end-2000
New locations since 2001



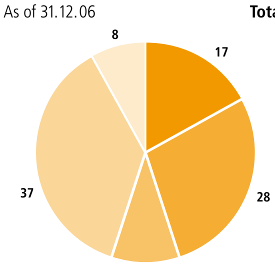
1 Includes five locations from the acquisition of Laing & Cruickshank. 2 Headquarters of UBS Sauerborn. 3 No front-office staff.

The move to build an onshore presence in Europe has been a significant achievement for UBS. What was originally a strategic initiative has become, in effect, a large-scale thrust into the domestic financial markets of France, Germany, Italy, Spain and the UK with a tailored, individualized offering and structured client experience for wealthy clients. It has also provided UBS with the lessons, processes and skills necessary to expand its wealth management business globally.

European wealth management: invested assets by client domicile

in %, except where indicated

As of 31.12.06 **Total: CHF 144 billion**



Italy
Germany
France
UK
Spain

Wealth Management US

As one of the leading wealth managers in the US, we provide a complete set of sophisticated wealth management services to private clients.

Business

With CHF 824 billion in invested assets, our focus is on providing wealth management services to private clients. We offer sophisticated products and services specifically designed to address the needs of core affluent clients (more than USD 500,000 in investable assets), high net worth clients (more than USD 5 million in investable assets) and ultra-high net worth clients (more than USD 10 million in investable assets or USD 25 million net worth). More than 7,800 financial advisors in 440 branch office locations develop, 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. 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.

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).

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.

In August 2006, Wealth Management US acquired the private client branch office network of Piper Jaffray. In February 2007, we bought McDonald Investments' branch network.

In June 2006, the US-based bank branches of UBS AG became part of Wealth Management US, giving clients the option of receiving services from both financial advisors and private bankers. The integration will enhance our product offering while strengthening and broadening client services, enabling us to better penetrate the ultra-high net worth market.

Legal structure

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

Competitors

Our major broker-dealer competitors include Citigroup's Smith Barney business, and the private client group businesses of Morgan Stanley, Merrill Lynch and Wachovia. In addition, we compete with domestic and global private banks, commercial banks, trust companies, and other financial services firms offering wealth management services to US private clients.

Clients and strategy

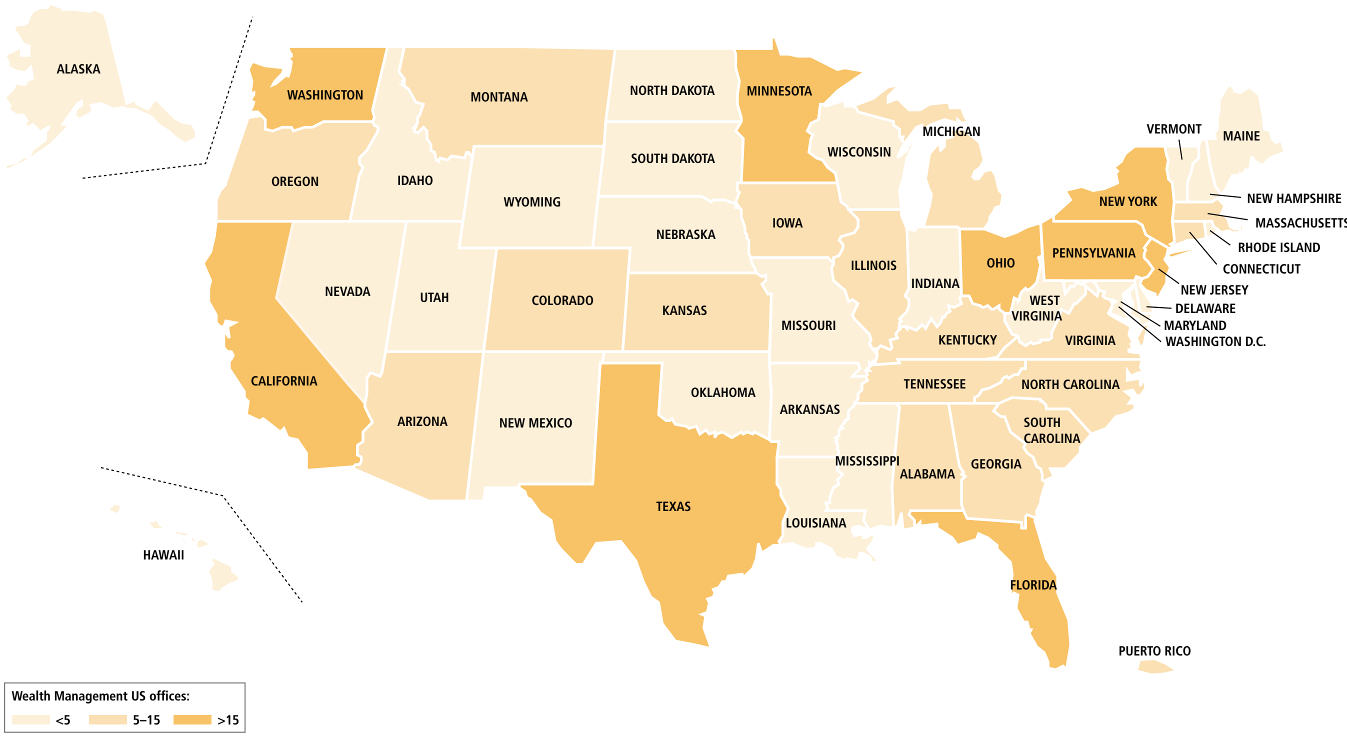
Changing legislation and basic market forces have steadily eroded the long entrenched boundaries separating trust, banking, and brokerage in the US, creating an opportunity to deliver a seamless set of services to affluent and wealthy private clients. With 38% of the world's wealth located in the US, the growth prospects are substantial.

We believe we are in a position to capture this strategic opportunity with a unique approach – within the current regulatory framework and the prevailing competitive landscape. Following our successful shift into the firm's global wealth management business, we have now embarked on a long-term strategy that focuses on the delivery of a client experience that sets us apart from competitors.

The strategy comprises a number of organic growth initiatives and infrastructure enhancements aimed at fundamentally improving the way financial advisors approach and service individual clients. It will also allow for targeted strategic investments while making more use of the global wealth management support platform, bringing scale efficiencies. We will also closely look at any suitable acquisition opportunity that potentially complements our organic growth drive.

Internally, asset-gathering efforts benefit from our established strategy of treating client feedback systematically and seriously. Extensive proprietary survey data sampled annually is used to create an index for every individual financial advisor. The index is the base by which each financial advi-

Geographical presence in key markets



sor gets specific feedback in terms of the four consultative steps of UBS's client experience – understanding the client's needs, proposing solutions, agreeing and implementing them with the client, and, finally, reviewing performance on a continuous basis. This will help to generate an accurate, overall picture of what clients think about the advice they receive.

Our business has also aligned its strategy with regard to advisor compensation. Specifically, financial advisor compensation now incorporates net new money growth as a key component.

At the same time, there is a large-scale effort to collaborate more closely with UBS's other businesses. With the help of the global wealth and asset management businesses, and by pursuing an open architecture framework, we will enhance the number of structured products and hedge funds we offer in the US – and expand in-house research capabilities for private clients.

The other strategic investments focus on enhancing internal infrastructure and technology – while evaluating the opportunity for potential acquisitions, such as the Piper Jaffray and McDonald Investments branch networks. Such acquisitions enable us to expand our financial advisor network while leveraging our existing product platform, gaining access and increased representation in important client markets. As always, potential acquisitions must meet UBS's financial and cultural criteria.

We are also expanding our ability to address the specific needs of ultra-high net worth clients. We opened the first of a series of dedicated offices for such clients in New York City in July 2006. There, specialized financial advisors who have completed a specific accreditation program giving them the skill and knowledge to deal with wealthy clients, work together with private bankers, trust officers and multidisciplinary product experts. We believe the pilot office has a particularly promising future as we have a very high share of the market in New York, and we are taking advantage of the fact that no other major firm delivers trust, banking and brokerage comprehensively and effectively from a single source.

Products and services

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

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

Clients have access to a broad range of transactional products, including individual securities such as equities and fixed income instruments. We have robust offerings in structured products and alternative investments that can be leveraged to enhance portfolio strategies. 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 (RMA) 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, such as retirement planning, education funding planning, estate planning strategies, charitable giving, tax management strategies, insurance, trusts and foundations. Our financial advisors can draw upon the knowledge and experience of our products and services consulting group, which includes subject matter experts across our product and service offerings.

Through Corporate Employee Financial Services, we provide stock option and other related services to many of the largest US corporations and their executives.

Industry trends

We are already one of the premier US wealth managers. In 2007, we aim to increase our market share by further improving the delivery of our client experience, making use of the increased range of products and services available from our integration into 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 asset growth. We believe our various strategic initiatives, including our focus on the high net worth segment and the development of dedicated offices for wealthy private clients, will provide us with a competitive, individual profile in the market.

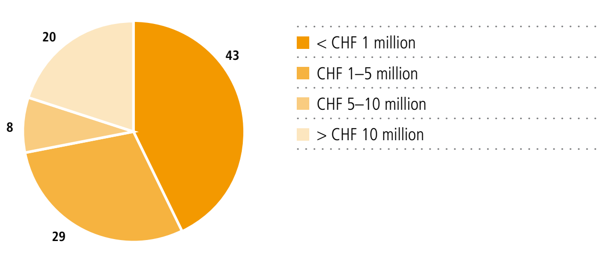
The long-term outlook for our business remains strong. The aging of the "baby boom" generation suggests an increased need for retirement and estate planning. The line between banking and brokerage continues to blur, providing opportunities to further expand our business. We believe that we are well positioned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

By 2020, people aged over 55 will own 67% of the assets in the US, or 20% of the world's investable assets. Historical patterns indicate that clients who tend to use banking and brokerage services in their younger years increasingly turn to trusts when they get older as the preferred method for wealthy clients to transfer their assets to younger members of their family, an institution, or a company. It is therefore a vital imperative for UBS to continue to build its capabilities and deliver those services effectively, easily and comprehensively to wealthy clients in the US – helping to ensure UBS perfects its client experience and maintains its leading global market position in the long term.

Invested assets by client wealth

in %, except where indicated

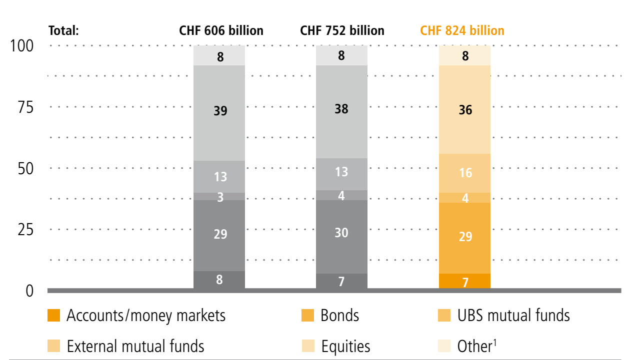
As of 31.12.06 **Total: CHF 824 billion**



Invested assets by asset class

in %, except where indicated

As of 31.12.04 31.12.05 31.12.06



[1] Includes structured products and alternative investments.

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 2006, clients had CHF 161 billion in invested assets with us. With a total loan book of CHF 143 billion on 31 December 2006, 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 1,253 automated teller machines (ATMs) and 301 branches across Switzerland, we provide a network that is larger than that of any of our domestic competitors.

One of our key objectives is to increase profitability by continuously improving efficiency and revenues through the consistent 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.

UBS market share as of 31 December 2006

Mortgages for individual clients:	26%
Savings for individuals:	22%
Credit card business:	28%

Source: Swiss National Bank

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 2.7 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 individual clients includes a comprehensive selection of cash accounts, savings products, wealth management services, residential mortgages, pensions and life insurance.

Corporate clients

Business Banking Switzerland services around 137,000 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 7,500 of our clients are large companies that utilize our expertise in handling complex financial transactions. We provide them with a wide range of financial advice, from the selection and design of investment products to assisting in complex mergers and acquisitions or providing structured financing, often working in close cooperation with specialists from other parts of UBS.

The remaining corporate clients (some 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 2006, assets under global custody for institutional clients grew to CHF 223 billion from CHF 191 billion a year earlier.

Financial institutions

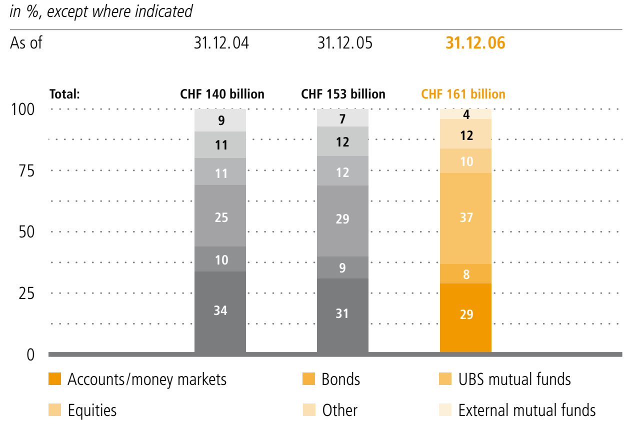
We also offer payments, securities, and custodial services to more than 3,000 financial institutions worldwide and play a leading role, together with the Investment Bank, in the firm's "Bank for Banks" strategy. This focuses on offering state-of-the-art services to other banks, allowing us to put more 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

Invested assets by asset class

in %, except where indicated



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, multichannel 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 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 2006, around 525,000 clients had active e-banking contracts and 78% of all payment orders were made by electronic channels.

In spring 2005, we started a special campaign in Switzerland to attract younger clients. Following on from the campaign's initial success, the continued national drive had generated almost 50,000 new accounts by the end of 2006.

In June 2006, we launched "UBS Welcome", a comprehensive retail package aimed at attracting new clients. By the end of 2006, we had sold more than 12,000 packages.

Also in summer 2006, we launched a national marketing campaign underlining our ability to make binding financial decisions on personal mortgage applications within 24 hours of submission.

Total lending portfolio, gross

On 31 December 2006, Business Banking Switzerland's total lending portfolio was CHF 143 billion, gross. Of the total, mortgages represented CHF 118 billion, almost 85%, 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 in the Risk Management chapter of this Handbook.

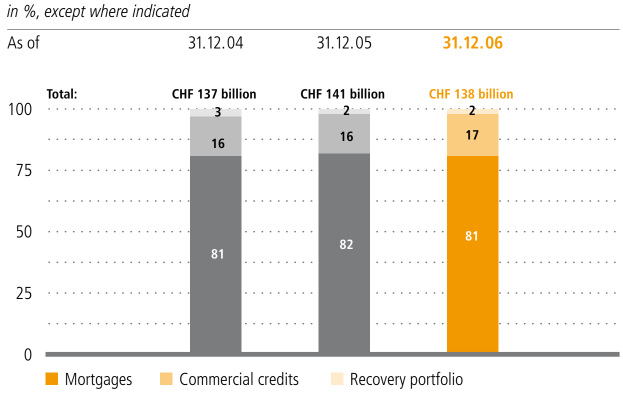
Recovery portfolio

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 the financial loss on the loan.

Our recovery portfolio amounted to CHF 2.6 billion on 31 December 2006. Since the end of 1998, this portfolio has been cut by 90% thanks to our successful recovery efforts. Over the same eight-year period, non-performing loans decreased from CHF 14.0 billion to CHF 1.8 billion, resulting in a ratio of non-performing loans to total lending portfolio of 1.3%.

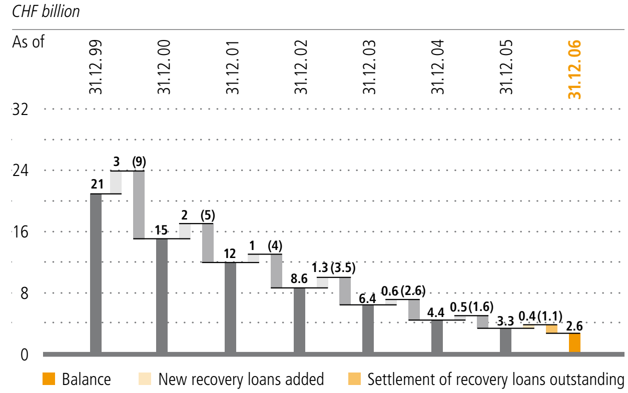
Total lending portfolio by category, gross

in %, except where indicated



Development of UBS's recovery portfolio, 1999–2006

CHF billion



Global Asset Management

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

Business Group reporting

	For the year ended or as of	
CHF million, except where indicated	**31.12.06**	31.12.05
Total operating income	**3,220**	2,487
Total operating expenses	**1,828**	1,430
Business Group performance before tax	**1,392**	1,057
Net new money – institutional (CHF billion)	**29.8**	21.3
of which: money market funds – institutional (CHF billion)	***11.0***	*(3.0)*
Invested assets – institutional (CHF billion)	**519**	441
of which: money market funds – institutional (CHF billion)	***28***	*16*
Net new money – wholesale intermediary (CHF billion)	**7.4**	28.2
of which: money market funds – wholesale intermediary (CHF billion)	***(2.5)***	*(9.7)*
Invested assets – wholesale intermediary (CHF billion)	**347**	324
of which: money market funds – wholesale intermediary (CHF billion)	***59***	*62*
Personnel (full-time equivalents)	**3,436**	2,861

Business

We offer a wide range of innovative investment products and services delivered through a global structure. Our approach combines the 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 866 billion on 31 December 2006, making us one of the largest global institutional asset managers. We are the second largest mutual fund manager in Europe and the largest in Switzerland.

Our business is organized around our investment areas, services, regions and business support functions. The investment areas comprise equities, fixed income, alternative and quantitative investments, global real estate, global investment solutions and infrastructure.

The equities investment area covers a range of styles and capabilities that meet a wide spectrum of client risk and return requirements. Styles include actively managed core portfolios as well as growth, quantitative and passive strategies.

The fixed income area offers a diverse spectrum of global and local market-based investment strategies.

The basis of our actively managed equity and fixed income strategies is proprietary fundamental research, carried out by our team of nearly 150 equity and credit analysts around the globe, who analyze more than 1,700 companies each year. Our quantitative strategies utilize proprietary models. All portfolios employ our sophisticated in-house risk management tools and processes.

John A. Fraser | Chairman and CEO
Global Asset Management

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.

Alternative and quantitative investments has two primary business lines – a multi-manager (or fund of hedge funds) business and a single manager business. 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 is run by O'Connor, a key hedge fund specialist with global reach.

The global real estate business invests in properties in Europe, Japan and the US and in publicly traded real estate securities worldwide. It actively manages investments in property, including office, industrial, retail, multi-family residential, hotel and farmland real estate.

Our global investment solutions team covers asset allocation, currency and risk management. It manages a wide array of domestic, regional and global balanced portfolios, currency mandates, structured portfolios and absolute return strategies. It aims to deliver portfolios that manage risk exposures in three dynamic dimensions: market, currency, and security selection. In addition, the team supplies risk management and portfolio construction tools to our portfolio managers.

In 2006, we established an infrastructure asset management business that will originate and manage both listed infrastructure securities and direct investment funds when fully operational. Examples of infrastructure assets are toll roads, airports, utilities, water, power generation, gas networks, fuel storage facilities, transmission towers, schools, leisure and healthcare facilities.

We also have a global fund administration business providing a number of professional services, including legal set up and reporting, for retail and institutional investment funds as well as for hedge funds.

In 2006 we established Dillon Read Capital Management (DRCM), UBS's new alternative investment management business within Global Asset Management. The core of DRCM's business was formed over the past eight years by the principal finance and credit arbitrage and commercial real estate businesses that had previously been part of the fixed income, rates and currencies area of the Investment Bank. DRCM launched its first outside investor fund in November 2006.

Organizational structure

Our main offices are in Basel, Chicago, Frankfurt, Grand Cayman, Hartford, Hong Kong, London, Luxembourg, New York, Rio de Janeiro, Sydney, Tokyo, Toronto and Zurich. We have just under 3,500 employees located in 23 countries.

Investment capabilities and services

Equities	Fixed income	Alternative and quantitative investments	Global real estate	Global investment solutions	Infrastructure	Fund services	Dillon Read Capital Management
Global	Global	Single manager hedge funds	Global	Global	Direct investment and listed securities	Hedge funds	
Country and regional	Country and regional		Country and regional	Country and regional		Investment funds	
Emerging markets	Sector specific	Multi-manager hedge funds	Private strategies	Asset allocation	Global and regional		
Systematic alpha	Emerging markets		Real estate securities	Currency management	Transportation, utilities, social and communication		
Long-short	High yield	Quantitative	Agriculture	Return and risk targeted			
Socially responsible investments (SRI)	Structured credit						
	Liquidity/short duration			Structured portfolios			
Indexed	Indexed			Risk management and advisory services			
Quantitative							
Growth investors							
Country and regional							

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

Significant recent acquisitions and business transfers

In January 2005, we signed an agreement with Siemens in which UBS acquired a majority stake (51%) in the real estate funds business of Siemens Kapitalanlagegesellschaft mbH (SKAG). The transaction was closed in April 2005 and the business is now part of European real estate.

In April 2005, the China Securities Regulatory Commission granted approval to UBS and the State Development Investment Corporation (SDIC) to form a joint venture fund management company. The new company was established in June 2005 and is known as UBS SDIC Fund Management Co. Ltd (UBS SDIC). It was formed as a result of UBS's purchase of a 49% stake in Shenzhen-based China Dragon Fund Management Co. Ltd (China Dragon). The joint venture is the first to allow the new maximum 49% foreign partner holding in a Chinese fund management company. The first fund was successfully launched in April 2006.

On 30 June 2005, UBS announced the formation of Dillon Read Capital Management. As detailed above, the business was launched on 5 June 2006, with principal trading locations in London, New York, Singapore and Tokyo. DRCM had been solely managing UBS money until November 2006, when the first outside investor fund was launched.

On 1 December 2006, UBS completed its acquisition of Banco Pactual. The acquisition is a key element in our growth strategy to expand in emerging markets, as the renamed UBS Pactual Asset Management is currently the sixth largest asset manager in Brazil, with invested assets of approximately CHF 24 billion on 31 December 2006.

In late January 2007, we signed an agreement to acquire Standard Chartered's mutual funds management business in India. The transaction is structured as an acquisition of a 100% interest in Standard Chartered Asset Management Company Private Ltd, as well as Standard Chartered Trustee Company Private Ltd, the manager and trustee, respectively, of the mutual funds offered by the company. The transaction remains subject to regulatory approval as well as to a price adjustment linked to assets under management at closing.

Competitors

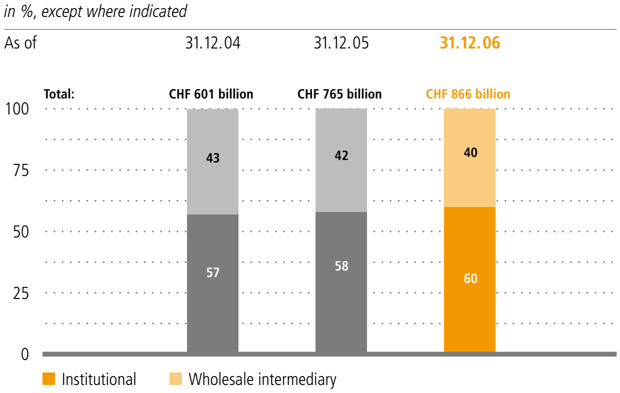
We have a range of competitors in active investments that extend from firms organized on a global basis – such as Fidelity Investments, AllianceBernstein Investments, BlackRock, Merrill Lynch Investment Managers and Goldman Sachs – to firms managed on a regional or local basis and those that specialize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

Clients and distribution

We combine investment expertise and sophisticated risk management with a clear commitment to providing clients with appropriate investment solutions. Our extensive range of investment capabilities is delivered through our integrated distribution model, based on our regions of the Americas, Asia Pacific and Europe, Middle East and Africa.

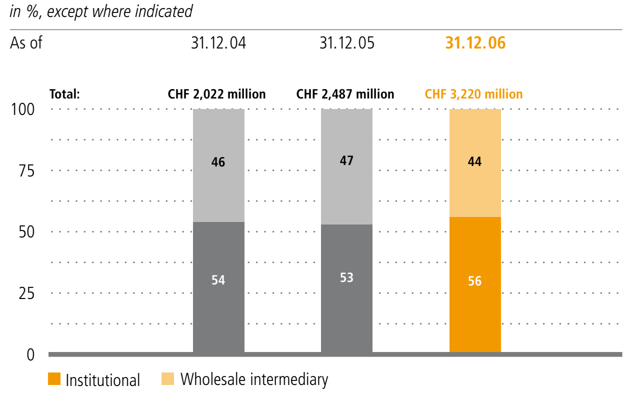
Invested assets by client type

in %, except where indicated



Institutional / wholesale intermediary fees

in %, except where indicated



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 500 investment funds, exchange-traded funds and other investment vehicles, across all asset classes in diverse country, regional and industry sectors.

Our investment funds are mainly distributed using financial intermediaries and selected third parties, among them 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 changing investment environment, which puts greater emphasis on risk management, increased focus on income generation as compared to wealth accumulation, and market volatility, we are developing a number of innovative investment solutions to meet the needs of wholesale and institutional clients. These include value-added services such as absolute return and dynamic alpha products. We are also combining traditional, alternative and real estate investments and services into integrated offerings.

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

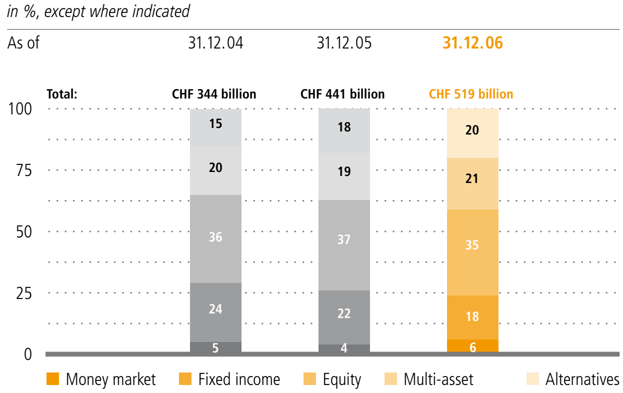
Investment performance

Performance in some of the core equity capabilities is presenting challenges, although the issues are broadly confined to European, Japanese and global equity portfolios. Other regional and domestic as well as emerging market capabilities remain strong, as do our expanding growth equity capabilities. Beyond that, the strengthening of our business in recent years has been driven by the need to reduce dependence on any one investment capability or market. Consequently, the strong growth in alternative, real estate, fixed income and multi-asset businesses has more than compensated for the challenges in the core equities capabilities in question.

Equity markets rose in 2006 for the fourth year in succession, fully recovering from a correction in second quarter and supported by record levels of M&A activity. The Global Equity strategy lagged its benchmark, largely due to its underweight position and stock selection in the strongly performing materials and utilities sectors. Poor stock selection in

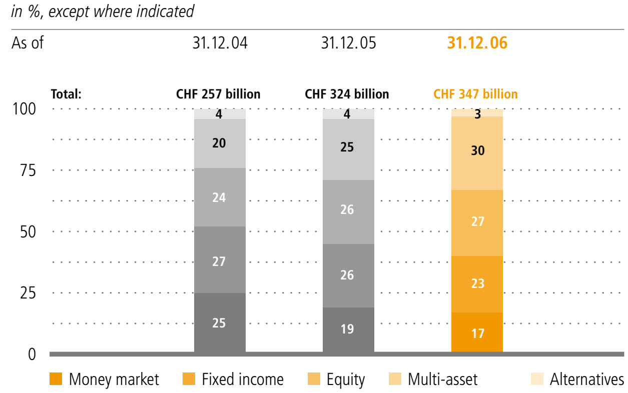
Institutional invested assets by asset class

in %, except where indicated



Wholesale intermediary invested assets by asset class

in %, except where indicated



industrials and an overweighting of the underperforming healthcare sector also detracted from performance. This was partly offset by positive contributions from the software and services sectors and, to a lesser extent, financials and consumer staples.

Regional equity strategy performance varied. The US Large Cap equity and European (including UK) equity portfolios were behind their benchmarks for the year. The US Large Cap equity portfolio modestly underperformed due largely to the underweighting of real estate securities and overweighting of globally diversified banks. The US 130/30 long-short equity strategy outperformed as strong stock selection more than offset a negative contribution from industry selection. European (including UK) equity was negatively affected by underweight exposure to cyclicals, which continued to lead the European market and overweight exposure to large caps, which lagged small- and mid-caps in relative terms.

For 2006, our growth equity capabilities posted strong absolute returns. However, the US Large Cap Growth and US Small Cap Growth capabilities trailed their benchmarks for the year, primarily due to a negative contribution from stock selection in the information technology and healthcare sectors. The US Mid-Cap Growth capability ended the year ahead of its benchmark, continuing its long-term outperformance. The primary positive contribution to the mid-cap performance was stock selection in the information technology and energy sectors.

Apart from a rally in the third quarter, yields for bonds in mature economies trended upwards for most of 2006. Resilient economic growth gave central banks scope to tighten monetary policy while the different levels of official rate hikes proved to be the main factor driving relative returns across fixed income markets. In particular, European bonds came under pressure and returns lagged behind those seen in the Japanese and Canadian markets. Demand for higher yielding assets produced strong performances by riskier sectors such as emerging market debt and structured credit markets. Our fixed income strategies benefited from their interest rate positioning during a period of rising yields and most produced returns in excess of their performance benchmarks, especially those individual country fixed income portfolios that also gained from effective sector and security selection. The strategies that did not perform well were the global ones, where added value from interest rate management was offset by the active currency positions.

Asset allocation generally contributed positively to balanced strategies over the year. The main contributor to positive performance was the overweight to equities and underweight to fixed income. Absolute return strategies were broadly in line with their performance objectives.

The currency strategy performed well in unconstrained portfolios and was broadly flat for the year elsewhere. The main positive contributors to performance were our overweight positions in the Swedish kronor, Thai baht and Swiss franc as well as our underweight position in the New Zealand dollar. Our positions in euro and UK sterling detracted from performance.

In alternative and quantitative investments, performance in 2006 was strong, with consistently positive returns throughout the year. The O'Connor core multi-strategy and proprietary hedge fund strategies produced very strong performance, with attractive volatility, correlation and liquidity attributes. On the multi-manager side, our core, broad-based multi-manager funds also generated strong, consistent positive returns for the year. Our market share shows signs of increasing following a 29% rise in invested assets. Our broader product offering and wider range of clients has diversified our earnings base.

Our global real estate product range was again extended this year with the successful launch of additional private real estate funds in Europe and the US. We strengthened our existing securities offering with the launch of a European and global institutional real estate security fund as well as European and Asian real estate securities certificates for private investors. Return figures for our UK and US private real estate funds remained strong with 2006 reflecting excellent absolute performance for global real estate securities products, which also outperformed their benchmarks in most cases.

Strategic opportunities

The industry in which we operate is becoming more complex and client demands are changing. Key industry trends vary for each location, capability and client segment. Among major trends, we see a continuing shift in the pension industry from defined benefit to defined contribution plans – although the speed of the shift varies in each country. Access to wholesale distribution channels is increasingly becoming important. As baby boomers move into retirement, the focus is shifting from wealth accumulation to income generation and capital protection, providing attractive new opportunities. Investors are increasingly looking to standardize their core or central portfolios and adding actively managed areas or satellites, with a particular focus on alternatives and real estate. We also remain optimistic about the growth potential in emerging markets.

We intend to further diversify our investment capabilities, expand our alternative and real estate investment offering, and focus on high value-adding products. Highly innovative products like dynamic alpha and absolute return will continue to drive asset and net new money growth. Investments in our global real estate business in Europe, infrastructure and growth equities capability are examples of further business diversification.

In parallel to this, we aim to strengthen our distribution both through our own channels as well as through third parties. The acquisition of Banco Pactual in Brazil by UBS and our recently announced acquisition of Standard Chartered's mutual funds management business in India are key elements in our growth strategy to expand in emerging markets. We also see growth potential in our joint venture in China (UBS SDIC) and are seeking to build a discretionary asset management business in the restructured Beijing Securities. Opportunities in global real estate and infrastructure are being considered. We are examining options for entry into other emerging markets such as South Korea in order to gain access to these long-term growth opportunities.

We recognize the crucial importance of a robust risk and compliance culture to the sustainability of our business. Managing operational risk continues to be a key focus. We also remain committed to the effective execution of our strategy, ensuring that our initiatives deliver profit growth.

Investment Bank

UBS is one of the world's leading investment banking and securities firms, providing a full range of products and services to our corporate and institutional clients, governments, financial intermediaries and alternative asset managers.

Business Group reporting

	For the year ended or as of	
CHF million, except where indicated	**31.12.06**	31.12.05
Total operating income	**21,787**	17,484
Total operating expenses	**15,844**	12,303
Business Group performance before tax	**5,943**	5,181
Personnel (full-time equivalents)	**21,899**	18,174

Business

The Investment Bank is a global investment banking and securities firm. Our investment bankers, salespeople and research analysts, 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 clients of other parts of UBS, the Investment Bank provides products, research and advice, and comprehensive access to the world's capital markets.

Our corporate client financing and advisory business is a market leader whose strength lies in providing advice on cross-border mergers and acquisitions and raising capital for companies and governments. We have traditionally been one of 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, foreign exchange, and structuring and distributing fixed income derivatives. 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 the Group, 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 that have enabled us to be a leader in this field.

Huw Jenkins | Chairman and CEO
Investment Bank

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.

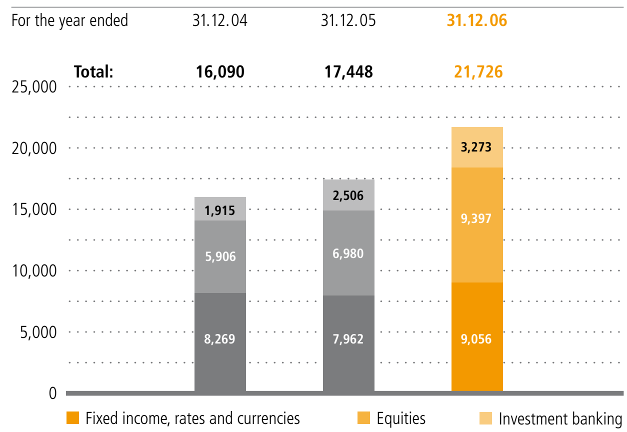
To both existing and new clients, we offer lending products to support their financing needs, although risk / return considerations are integral in determining how and whether we approve new loans. We also provide them with bridge financing – in line with our strategy of further expanding our leveraged finance and high yield business.

Organizational structure

Our headquarters are in London and New York. We employ roughly 21,900 people in 36 countries. 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.

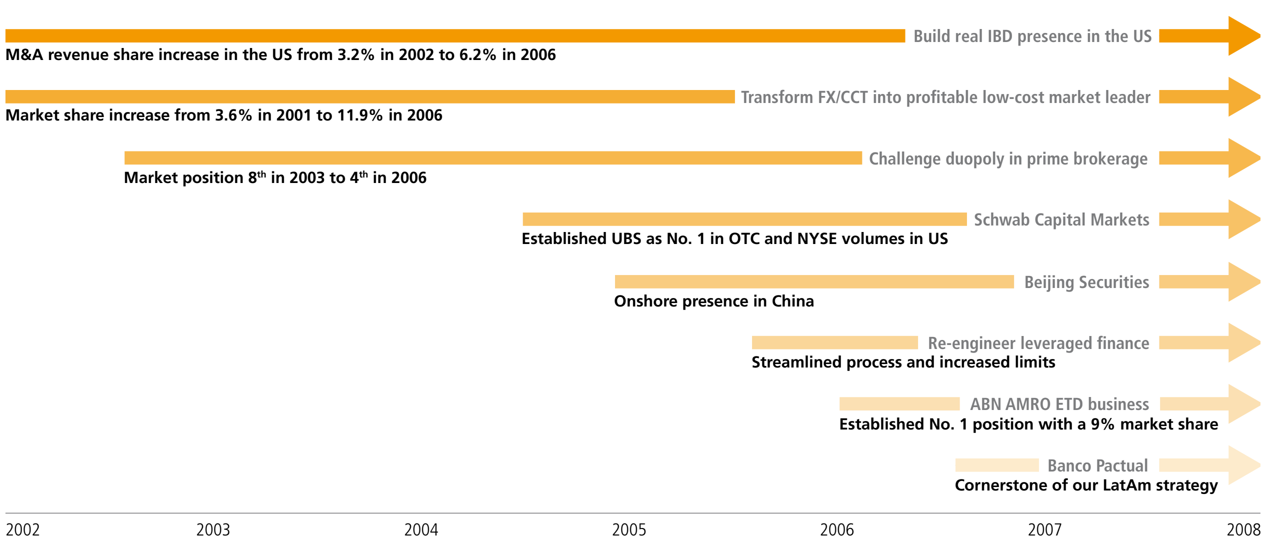
Income by business area

CHF million



Although we mostly pursue a strategy of organic growth, we also take the opportunity to enhance our franchise with acquisitions where appropriate. In 2004, we bought Charles Schwab SoundView Capital Markets, the capital markets division of Charles Schwab. In 2005, the US wealth management business's municipal securities business was transferred into our fixed income area. We also expanded our trading technology by acquiring the remaining assets in Prediction Company, a financial engineering and trading software company. With the acquisition of the Brazilian financial services firm Banco Pactual, which was successfully completed in December 2006, we became a leading investment bank in the significant and growing Brazilian market. In September 2006, we closed the acquisition of ABN AMRO's global futures and options business,

Managing execution risk – proven track record



which is helping us to exploit product commoditization and globalization in exchange-traded derivatives. In June 2006, our principal finance, credit arbitrage and commercial real estate trading businesses transferred from the fixed income area into Dillon Read Capital Management (DRCM), the 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.

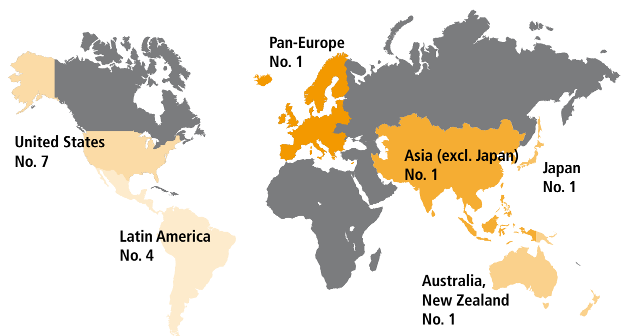
Competitors

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.

Equities: share of secondary trading

Global market share: 11.2% (No. 1)

As of 30.9.06



Source: Leading industry survey

Products and services

Equities

We are a leading participant in the global primary and secondary markets for equity, equity-linked and equity derivative products. Our business sells, trades, finances and clears 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, geographical markets and macro-economic trends.

Our equity research supplies independent assessments of the prospects for over 3,200 companies (corresponding to some 87% of world market capitalization) across most industry sectors, and all geographical regions, as well as economic, strategy, quantitative and derivative research.

We house the world's leading cash equities franchise and offer our clients a full range of execution services: direct market access, algorithmic trading solutions, single stock, portfolio, capital commitment and block trading. Our institutional, hedge fund and intermediary client bases have access to one of the deepest liquidity pools globally through our presence in every major world market, delivering best execution to our clients.

Derivative risk management products remain among the segments of our business with the fastest pace of growth, and we will continue to focus on providing innovative and customized investment solutions to institutional and corporate clients as well as private clients in the wealth management business. In addition to products with returns linked to equities or equity indices, we also offer derivative products linked to hedge funds, mutual funds, real estate and commodity indices.

Our equity capital markets team manages large and 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.

Our prime services business provides integrated global services, including stock borrowing and lending, prime brokerage and exchange-traded derivatives to our rapidly expanding list of hedge fund, asset management, and commodity trading clients. In 2006, we took a key step in expanding our offering in the exchange-traded derivative markets by purchasing ABN AMRO's global futures and options business.

We have made significant investments in our technology platform, including direct market access, prime brokerage, derivatives, research and customer relationship platforms. We 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.

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 five major business lines of credit fixed income, rates, commodities, municipal securities and foreign exchange and cash and collateral trading.

Credit fixed income delivers credit-related products and services to our clients. We are active in the origination, underwriting, structuring and distribution of primary cash and synthetic transactions. Credit fixed income also includes our activities in high yield, investment grade, syndicated loan and emerging markets trading, credit derivatives, structured credit trading and collateralized loan obligations. We identify trading opportunities and execute transactions for our clients across all of these areas and all major financial centers.

The rates business covers all rate-driven products and services, including interest rate derivatives trading, mortgage origination, underwriting and trading of government and agency securities, and structuring of exotic LIBOR (London Interbank Offered Rate) products to our broad client base. Supported by sophisticated electronic platforms, we also trade and underwrite a broad range of mortgage-backed securities and other asset-backed securities. Additionally, we have established a global real estate finance group that services clients who have finance needs in the commercial and multifamily markets.

Our commodities business is an active participant in the cash and derivative markets for power and gas, crude oil, and coal and emissions, executing hundreds of trades daily on the major energy trading exchanges. We also arrange transactions on behalf of clients and manage portfolios of energy contracts for future physical delivery. In 2006, we announced the launch of Sharia-compliant structured commodities products which employ financial contracts that adhere to Islamic law.

The municipal securities business underwrites debt sold by state or local governments and carries an inventory of secondary market municipal bonds for retail and institutional sale. We also provide secondary market liquidity through regional trading desks and offer a broad range of structured solutions to our clients through our active role in the municipal derivatives markets.

Client focus continues to be a hallmark of our services. Our global origination and distribution platforms provide investors with superior client relationship management and value-added services across the full spectrum of fixed income products. Our market-leading research group provides clients with superior analysis across a broad range of issuers, products, markets and industries. We are widely recognized for our commitment to published credit research and sector strategy in all major financial markets – as evidenced by our significant number of industry-ranked analysts.

Our foreign exchange and cash and collateral trading business combines our currency, money market, collateral and metals-trading businesses in order to provide a full range of treasury and liquidity management products to corporations, banks, asset managers, hedge funds, insurers and internal clients. In cooperation with UBS's wealth management business, we also provide private individuals and family offices direct access to our sales force. While our trading activities are centered in the four major hubs of Singapore, Zurich, London and Stamford, our sales force is present in all

Selected deals

Mergers & Acquisitions

Financial advisor to the special strategic review committee of *Harrah's Entertainment* in the USD 27.8 billion sale of the company to Apollo and TPG

Joint financial adviser and joint corporate broker to *BAA* on the recommended GBP 15.9 billion cash offer from a consortium led by Grupo Ferrovial

Equity Capital Markets

Joint bookrunner on the USD 11.2 billion IPO of *Bank of China*

Joint bookrunner on the USD 15.5 billion secondary offering for *Telstra*

Debt Capital Markets

Joint bookrunner on a USD 5.5 billion multi-tranche offering for *Anadarko* in support of the acquisition of Kerr-McGee Corporation and Western Gas. UBS also provided a USD 24 billion bridge loan to finance the transaction and acted as financial advisor to *Anadarko* on the acquisition

Joint bookrunner on *J. Sainsbury's* GBP 2.1 billion issue of commercial mortgage-backed securities and its GBP 1.7 billion tender for outstanding unsecured bonds

Global Syndicated Finance

Sole underwriter of AUD 4.1 billion of debt facilities in relation to the AUD 5.5 billion recapitalization and establishment of *PBL Media.* UBS also acted as joint financial advisor to *PBL*

Joint lead arranger on USD 2.6 billion of debt facilities and joint bookrunner on USD 1.4 billion of high yield notes in support of *Blackstone's* USD 4.3 billion acquisition of Travelport

Selected awards

Investment Bank

Best Investment Bank, Asia – Euromoney 2006

Fixed Income

EuroWeek Borrowers' Poll 2006:
"Most Impressive" bank
Best Provider of Support in the Secondary Market

FXCCT

Best Bank Overall for FX – FX Week 2006

Equities

Equities House of the Decade – Financial News 2006

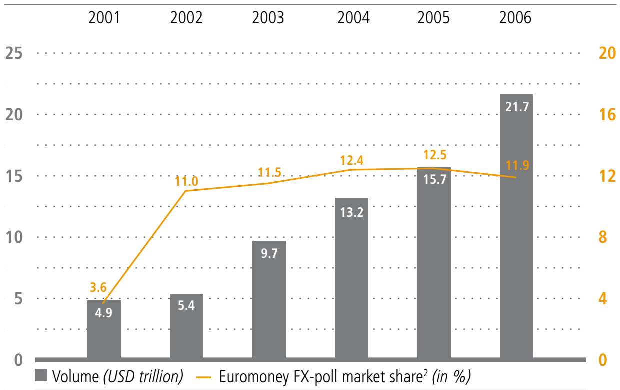
No. 1 Institutional Investor All-Europe Research Team 2007

IBD

Corporate Broker of the Year – Acquisitions Monthly 2006

Foreign exchange: Euromoney-eligible volumes[1]

Cash, CCT swap, derivatives, PB rolls



1 Eligible volumes not equal to reported UBS volumes.
2 FX-poll results are based on the previous year's volume.

major financial centers and most emerging markets across the globe.

In foreign exchange, we make two-way prices in more than 300 currency pairs. Our money market team trades the short end of the interest rate curves (less than two years) for ten main currencies while our emerging markets business is active in a wider range of currencies, depending on the liquidity of the respective markets. Collateral trading focuses on fixed income securities lending and borrowing. We trade all precious metals and base metals such as copper and aluminium. In addition to these products, we offer bespoke structured products and add-on services, such as research, prime brokerage for our hedge fund clients and connectivity services which link our trading systems directly to client systems. We also offer white labeling services, enabling our financial institution clients to offer UBS front-end infrastructure under their own brand.

Currency market volumes have seen very high growth over the last five years and our volumes have grown at an even faster rate. Therefore, scale has become the foundation of our business model and we run these businesses on a highly automated and integrated basis, with a suite of e-commerce tools providing direct interfaces between our sales force and our clients.

Investment banking

In the investment banking business, we provide a range of first-class advice and execution services to corporations, financial sponsors and hedge funds. Our advisory group assists both public and private companies in multiple aspects of a transaction including negotiations, structuring, coordination of due diligence process, company valuations and drafting of both internal and external communication materials. These services also include advising on strategic reviews and corporate restructuring solutions. Our capital markets and leveraged finance teams in the equities and fixed income businesses arrange the execution of primary and secondary equity as well as investment grade and subordinated debt issues worldwide.

With over 1,900 client-facing professionals, the investment banking business has a presence in all major financial and economic markets. To meet our clients' needs, coverage is based on a comprehensive matrix of country, sector and product banking professionals.

Our competitors generally include all of the major globally active investment banking firms, and there has been little change in that landscape over the last few years. In certain developed markets and in the increasingly important emerging market segment, we also face competition from locally-based investment banking firms. We do not just compete on quality of advice and execution. We also face intensifying competition with regard to the recruitment and retention of bankers and balance sheet deployment continues to be a key competitive factor. Over the last year, we have re-engineered our processes to become a powerful and effective partner in leveraged finance transactions and we have already completed some important and profitable deals without compromising our disciplined approach to risk. We therefore continue to believe that our global presence, experience and breadth of product offering provide us with competitive advantages.

UBS underwriting and fee revenues

CHF million	2006	2005	2004
Corporate finance fees	1,852	1,460	1,078
Equity underwriting fees	1,834	1,341	1,417
Debt underwriting fees	1,704	1,516	1,114
Other capital market revenues[1]	594	436	294
Gross capital market and corporate finance fees	**5,984**	**4,753**	**3,903**
Capital market fees booked outside investment banking[2]	856	943	813
Amount shared with Equities and FIRC (Fixed Income, Rates and Currencies)	1,689	1,182	991
Financing, hedging and risk adjustment costs	166	122	184
Net investment banking area revenues	**3,273**	**2,506**	**1,915**

1 Other capital market revenues comprise equity 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 comprise equity and debt underwriting revenues that have no investment banking department involvement (for example, municipal or mortgage-backed securities).

A number of steps have been taken to expand in areas where we have identified opportunities in the market. In 2005, we introduced the financial institutions solutions group in the US – in order to respond to the increasingly sophisticated demands of our financial institutions clients. This strategic solution coverage strategy was launched globally in 2006 with the introduction of both the European advisory group and the Asian hybrid capital group focused on the development of alternative capital products for financial institution, corporate and financial sponsor clients. UBS has also invested in key emerging markets over the last year. We recently opened a branch in Dubai which will enable us to intensify our coverage effort in the region. The integration of Pactual will help us broaden our reach in Latin America. We have also made significant progress in China, India and Russia by recruiting key personnel to enhance our presence in these markets.

Strategic opportunities

The financial industry will remain very competitive but the strength of the markets and the level of client activity continue to offer attractive investment opportunities. The Investment Bank's growth agenda is derived from the needs of our clients and is based on four pillars: focusing on high growth client segments, capturing new business growth through product innovation, building a scalable and convergent infrastructure and developing employees.

We have already made significant progress in our plan to expand our offering to high growth clients such as hedge funds and financial sponsors as well as private clients, who are increasingly seeking yield from alternative asset classes. Specifically, we have continued to build our prime brokerage platform for hedge fund clients. To better meet financial sponsor needs, we have re-engineered our leveraged finance processes and adapted our risk levels accordingly. We have also reviewed our structured derivatives businesses and grown our range of commodities products which provide private clients with exposure to these rapidly growing asset classes, through both our own wealth management business and other private banks.

In capturing new business growth through product innovation, fixed income continues to be an area of major focus. We are expanding our commodities business globally and have already seen meaningful growth in revenues. We have established a securitized product group to take advantage of this growing asset class. Our investment grade structured credit and trading business has been rebuilt under new management.

The strategy of the Investment Bank

Our growth agenda is derived from the needs of our clients

In emerging markets, we are positioned to take part in future growth with the acquisition of Banco Pactual in Brazil, which will be a platform for expansion in Latin America, and we have acquired certain assets, licenses, and staff from Beijing Securities in China to be incorporated in UBS Securities. We have also received a banking license from the Central Bank in Russia and have been granted a license in Dubai to service both international and domestic clients. In Turkey, we became a member of the Istanbul Stock Exchange through an acquisition of a small broker dealer.

As our businesses in securities areas continue to commoditize, we are building a scalable and convergent infrastructure. To maintain cost leadership, we are replacing and consolidating legacy systems, enabling us to drive down the incremental cost of trades. This will allow us to expand capacity at low marginal cost, innovate more complex products and services and put in place the backbone for further growth.

We will keep investing in attracting qualified employees, giving them the support to realize their potential in an inclusive environment. We continue to demonstrate our ability to manage and retain staff, including the successful integration of employees in acquisitions, and through development programs such as those for junior high-potential professionals.

By working to deliver all of UBS's services and products to our clients, the Investment Bank is well positioned to take full advantage of market trends and generate sustainable levels of growth.

Corporate Center

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

Business Group reporting

	For the year ended or as of	
CHF million, except where indicated	**31.12.06**	31.12.05
Total operating income	**233**	687
Total operating expenses	**1,320**	1,395
Business Group performance from continuing operations before tax	**(1,087)**	(708)
Business Group performance from discontinued operations before tax	**4**	4,564
Personnel (full-time equivalents)	**4,771**	3,922
Personnel excluding IT Infrastructure (ITI) (full-time equivalents)	**1,716**	1,370
Personnel for ITI (full-time equivalents)	**3,055**	2,552

Aims and objectives

Our commitment to a strongly 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 assumes operational responsibility for certain business units that provide shared services to the Business Groups – among them the information technology infrastructure and offshoring units (including the service center in India).

Organizational structure

The Corporate Center is made up of one unit comprising its operational functions, plus the information technology infrastructure (ITI) and offshoring units.

The Corporate Center is led by the Group Chief Financial Officer (CFO). The operational functions of Corporate Center are managed by the Corporate Center Executive Committee.

Corporate Center started to be reported as a single unit in fourth quarter 2005, following the sale of UBS's private label banks and specialist asset manager GAM to Julius Baer in December 2005. Previous to this, Corporate Center had two separate business units: Corporate Functions and Private Banks & GAM, following the latter's shift out of the

Clive Standish | UBS Group Chief Financial Officer and Head of the Corporate Center wealth and asset management businesses into a holding company on 25 April 2003.

The ITI business became part of Corporate Center on 1 April 2004, while the offshoring unit was launched on 17 June 2005.

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 the Financial Statements under Corporate Center.

Group Chief Financial Officer

The Group Chief Financial Officer is responsible for transparency in the financial performance of the Group and its individual businesses, and for the Group's financial reporting, planning, forecasting 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. In coordination with the Group General Counsel and Chief Communication Officer, he defines the standards for accounting, reporting and disclosure and, together with the CEO, provides external certifications under sections 302 and 404 of the Sarbanes-Oxley Act of 2002. He manages relations with investors and coordinates working relationships with internal and external auditors.

The Group Chief Financial Officer is the GEB member responsible for ITI and Group Offshoring, and for the own-use corporate real estate portfolio across the firm. In addition to his functional roles set out above, the CFO is head of the Corporate Center.

Group Chief Risk Officer

The Group Chief Risk Officer (CRO) is responsible for developing UBS's risk management and control principles and for the independent risk control processes for credit, market and operational risks. Together with the Chief Credit Officer, the Head of Market Risk and the Head of Operational Risk, who report to him, he formulates and implements risk policies and control processes, develops risk quantification methods and sets and monitors associated limits and controls. They ensure that risks are completely and consistently recorded and aggregated, that risk concentrations are identified, and that exposures are continuously monitored, pro-actively controlled and remain within approved risk profiles. They ensure that UBS's approach is consistent with best market practice and that the firm is operating within its agreed risk bearing capacity. They exercise specific risk control authorities.

Group General Counsel

The Group General Counsel has group-wide responsibility for legal and compliance matters and for legal and compliance policies and processes, supported by the Head of Group Compliance. He defines the strategy, goals and organizational structure of the legal function, and sets and monitors group-wide quality standards for handling the legal affairs of the Group. Supported by the Head of Group Compliance, the Group General Counsel is responsible for ensuring that UBS meets relevant regulatory and professional standards in the conduct of its business. He supervises the General Counsels of the Business Groups, working closely with the Group CRO with regard to the operational risk aspects of legal and liability risk. He establishes a group-wide management and control process for the Group's relationship with regulators, in close cooperation with the Group CRO and Group CFO as appropriate.

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 responsi-

UBS's offshoring strategy

The transfer of business processes to locations such as UBS's India Service Center (ISC) in Hyderabad – commonly known as offshoring – is part of the firm's global growth strategy. Offshoring helps the firm optimize and re-engineer business processes, and gives it access to a large and diverse workforce of highly educated people who can be trained relatively quickly, helping UBS remain competitive internationally.

UBS's offshoring strategy, however, is not a centralized initiative run solely by the Group Offshoring team. As the individual Business Groups have detailed knowledge of their own processes, they ultimately decide whether offshoring makes sense for their business.

UBS's approach to offshoring is evolutionary – meaning it will continue to develop its strategy in stages. The ISC, which will have a capacity for 1,500 employees by June 2007, has to be seen in the context of UBS's total workforce of over 78,000.

The firm's experience with its center in India has been positive. This center, along with other potential future offshoring centers, are expected to become increasingly important. They help UBS tap into talent otherwise not available, avoid concentrations of risk, and prevent the firm from becoming overly dependent on individual locations – while allowing it to better balance revenues and costs across global markets.

bility 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.

Head of Group Controlling & Accounting

The Head of Group Controlling & Accounting has UBS-wide responsibility for financial control. He is responsible for the production and analysis of accurate and objective regulatory, financial and management accounts and reports. The Head of Group Controlling & Accounting provides consistent and appropriate communication to the Board of Directors, Group Executive Board (GEB), Group Managing Board (GMB), the Audit Committee, internal and external auditors, and the CFOs of the Business Groups. He supports the Group CFO in the Group's planning and forecasting process.

Head of Group Accounting Policy

The Head of Group Accounting Policy establishes group-wide financial accounting policies and ensures compliance by the Business Groups and Corporate Center. He manages relations with external auditors and accounting standards bodies.

Chief Communication Officer

The Chief Communication Officer is responsible for managing UBS's communication to its various stakeholders, ensuring that a positive and powerful image of UBS is established and broadcast to all stakeholders globally. He develops the 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 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 and performance, and promoting UBS's values for action. He builds UBS's capacity to attract and retain the best talent and creates an innovative and flexible environment ensuring that all employees from different cultures and backgrounds 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 contributes to the development of leadership capabilities at senior management levels by providing a systematic approach to talent development and alignment. Its main responsibility is the design, development and delivery of leadership development programs targeted at current and future senior leaders. It also organizes forums that enable UBS leaders to shape UBS group strategy, organization and culture and to discuss issues critical to the firm's growth.

Chief Technology Officer (CTO)

The Chief Technology Officer (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 Group Offshoring is responsible for delivering offshoring services to the Business Groups at appropriate, competitive prices, with its service center(s) ensuring that physical and technical features meet UBS risk and quality standards and comply with the operational risk framework. The India Service Center in Hyderabad is the first such service center and is a dedicated offshoring facility operated by UBS employees.

Industrial Holdings

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

Industrial Holdings

Income Statement

CHF million, except where indicated	For the year ended or as of 31.12.06	31.12.05
Continuing operations		
Total operating income	994	1,236
Total operating expenses	716	751
Operating profit from continuing operations before tax	278	485
Tax expense	35	175
Net profit from continuing operations	243	310
Discontinued operations		
Operating profit from discontinued operations before tax	852	496
Tax expense / (benefit)	(13)	87
Net profit from discontinued operations	865	409
Net profit	1,108	719
Net profit attributable to minority interests	104	207
from continuing operations	1	(24)
from discontinued operations	103	231
Net profit attributable to UBS shareholders	1,004	512
from continuing operations	242	334
from discontinued operations	762	178
Personnel (full-time equivalents)	4,241	21,636

Business

The Industrial Holdings segment comprises UBS's private equity investments, which were, until early 2005, held within the Investment Bank. Our strategy is to de-emphasize and reduce exposure to this asset class while capitalizing on orderly exit opportunities as they arise.

Organizational changes

On 23 March 2006, we sold UBS's 55.6% stake in Motor-Columbus to a consortium of Atel's Swiss minority shareholders, EOS Holding and Atel, as well as to French utility Electricité de France (EDF). The stake was sold for CHF 1,295 million, which resulted in a pre-tax gain of CHF 364 million for UBS. Motor-Columbus is a financial holding company whose only significant asset is a 59.3% interest in the Atel Group, a European energy provider.

Risk 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 growth 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" from 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 areas of credit, market, liquidity and funding risks 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 to provide an objective check on risk-taking activities when required by the nature of the risks, in particular to balance short-term profit incentives and the long-term interests of UBS.

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 endeavor to avoid concentrations of exposure and to limit potential stress losses from all types of risks. We avoid extreme positions in transactions that are sensitive for tax, legal, regulatory or accounting reasons, and adopt a cautious approach to any risks that cannot be sensibly evaluated or priced. We strive to achieve the highest standards in protecting the confidentiality and integrity of our client information, and in the ethical approach we apply 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),* together with its *Risk Sub-Committee,* 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.

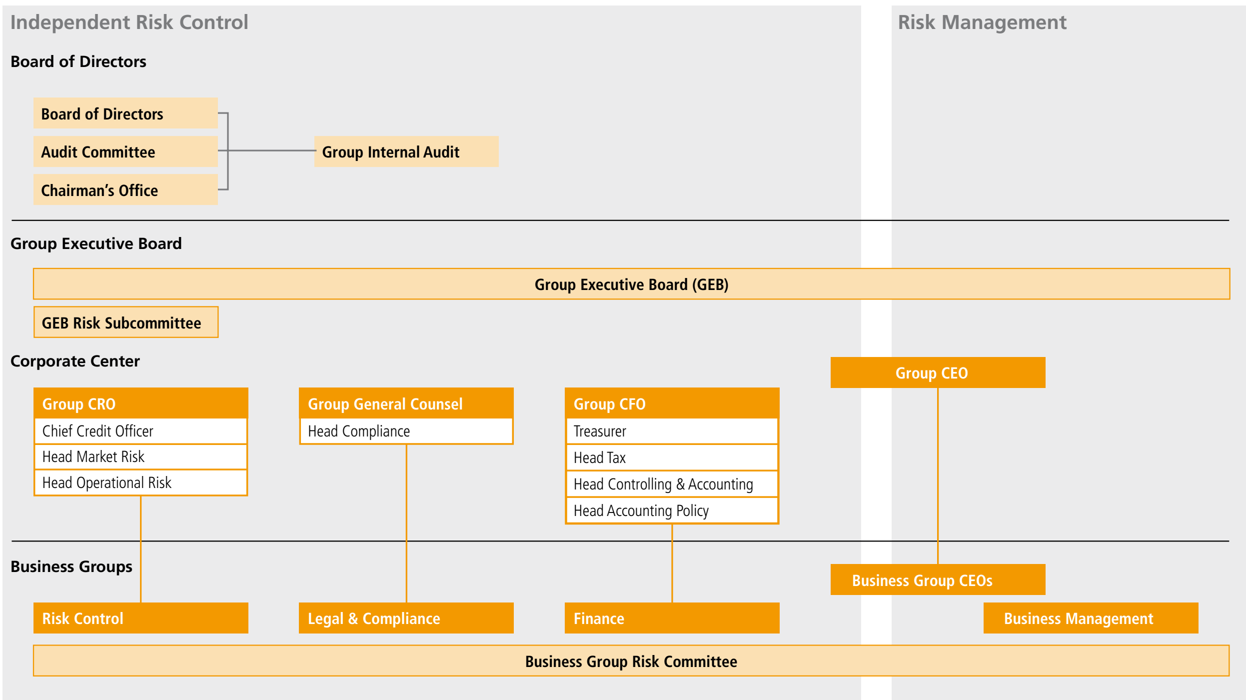
The *Group Chief Risk Officer (CRO)* has overall responsibility for the development and implementation of the Group's risk control principles, frameworks, limits and processes across credit, market and operational risk. Together with the Group Chief Credit Officer (CCO), the Group Head of Market Risk (newly appointed in 2006) 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 risk profile in the light of market developments and external events
– we *measure quantifiable risks,* using methodologies and models which have been independently verified 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, our policies and limits, and regulatory requirements.

Our risk policies are principle-based, specifying minimum requirements, high level controls and standards, and broad authorities and responsibilities. They are never a substitute for the exercise of common sense and good business judgment but, rather, guide and determine actions and decisions to ensure the safe and sound conduct and control of our business. Our risk policies have widespread application, cover ongoing activities, and are developed in close consultation between the business and control functions.

Before starting any new business, making a significant change to an existing business or the way it is conducted, or executing any transaction which is complex or unusual in its structure or is sensitive to tax, legal, regulatory or accounting considerations, we thoroughly review and assess all the implications. The process involves the business, risk control, legal, compliance, treasury, finance, tax and logistics functions as necessary, and ensures that all critical elements are comprehensively addressed across disciplines, 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 including general market risk factors such as interest rates, exchange rates, equity market indices and commodity prices, and factors specific to individual names affecting the values of securities and other obligations in tradable form, and derivatives referenced to those names
- *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 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 can arise in many ways, for example:
- from errors, failures or shortcomings at any point in the transaction process, from deal execution and capture to final settlement
- by not complying with rules, regulations, laws, accounting standards, local or international best practice, or our own internal standards, which can result in regulatory fines or penalties, restriction or suspension of business, or mandatory corrective action
- if we are unable to enforce our actual or anticipated rights under law, a contract or other arrangement
- if we, or someone acting on our behalf, fail to fulfill the obligations, responsibilities or duties imposed by law or assumed under a contract, which can lead to claims against us
- through loss of confidentiality, integrity or availability of our information or other assets
- by taking technically incorrect positions on tax matters, or failing to comply with tax withholding or reporting requirements on behalf of clients or employees, or 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. Reputational risk is not directly quantifiable and cannot be managed and controlled independently of other risks.

Risk categories

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

How we measure risk

Expected loss, statistical loss and stress loss

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).

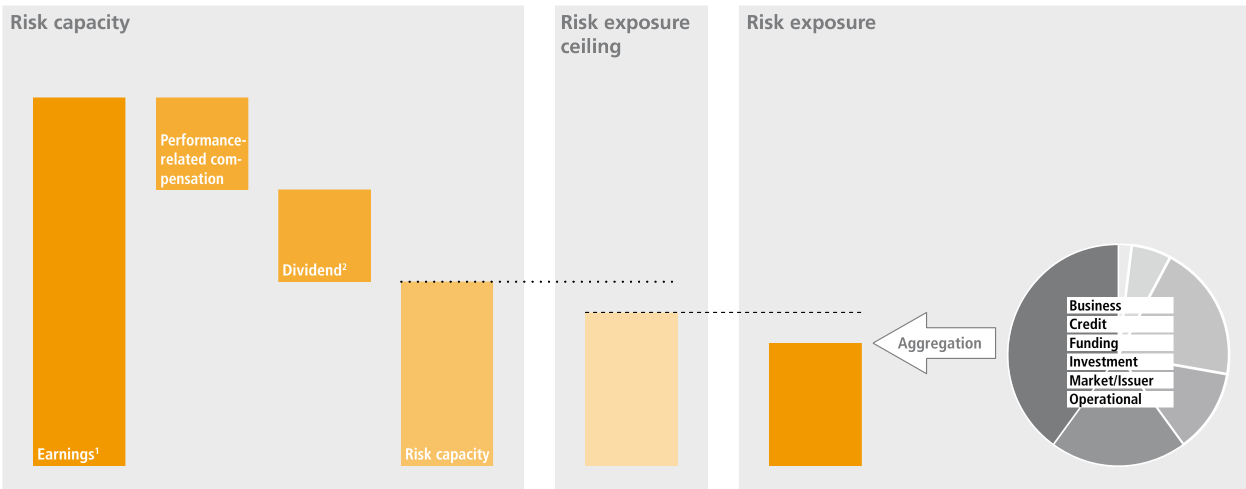
Stress loss is the loss that could arise from extreme events.

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 – in particular the danger of aggregated losses from a single event through concentrated exposures – is therefore a key component of the risk control process.

"Earnings at risk"

To complement these operating controls, we apply a measure of aggregate risk exposure across all risk types and businesses, which we call "earnings-at-risk". Earnings-at-risk is an assessment of the potential loss inherent in our business in the current economic cycle, across all business lines, and from all sources, including primary risks, operational risks and business risks. It is measured against a severe, low probability, but nevertheless plausible constellation of events over a one year time horizon. It builds off the statistical loss measures used in our day to day operating controls as far as possible, extending the time horizon where necessary, and combines the results to reflect correlations between the various risk categories. Against this, we set our risk capacity – the level of risk we consider 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. Risk capacity is based on a combi-

Risk measurement



1 From forecast and historical revenues and costs, before tax and performance-related compensation.
2 Including tax on earnings necessary for payment of dividend.

nation of budgeted/forecast and historical revenues and costs, adjusted for performance related compensation, and dividends and related taxes. The Board of Directors annually reviews the historical evolution and forecast development of risk capacity and risk exposure and sets a ceiling on risk exposure – effectively, an upper bound on aggregate utilization of the portfolio operating limits. The GEB and the Chairman's Office monitor current and projected risk capacity and risk exposure as part of the regular quarterly risk reporting cycle. In the event of any significant adverse development in risk capacity or disproportionate growth in risk exposure, the risk exposure ceiling would be revisited and underlying operating limits adjusted if necessary.

Qualitative controls

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.

Development of our risk profile

UBS's average risk-weighted assets (as measured for regulatory capital purposes) are, today, at a similar level to 1998, just after the UBS-SBC merger, but the underlying risk profile is very different. Today, we are a more integrated firm, our business model has evolved, and the way we view, manage and control our risks has changed.

The primary focus in our risk-taking activities is to ensure adequate diversification of risk, and to restrict illiquid and concentrated positions, while ensuring that we are rewarded for the risks we take. We have transferred resources from businesses in illiquid markets into more liquid ones and have actively pursued risk distribution strategies. Portfolios with poor returns on risk have been cut back and the quality of other portfolios has been enhanced – we have, for example, wound down the Investment Bank's non-core loan portfolio, repositioned our private equity business and introduced risk-adjusted pricing in our Swiss lending business.

These have been key factors in containing the level of our risk – in terms of both risk-weighted assets and risk as we measure it internally – despite our business expansion. Our leveraged finance business, for example, has seen rapid growth in the number and size of transactions we are involved in, but we have been successful in achieving our distribution targets and are actively managing the residual portfolio of risk from this business. We have also securitized loans and derivatives, and now manage much of our credit exposure in the Investment Bank using the credit derivatives market where product innovation continues to provide new hedging opportunities.

Trading assets contribute substantially to our balance sheet but they are very liquid and the major part of the inventory consists of highly rated securities – we have eliminated pockets of low quality, low liquidity exposure, and continuously monitor the portfolio to identify stale and problem positions.

It is largely as a result of these efforts that we have, in the last couple of years, been in a position to speed up our entry into new markets and assume the related risk. But while we are willing to expand into new and potentially higher risk areas such as emerging markets, we will continue to exercise caution where this might involve illiquid and concentrated exposures.

Credit risk

Credit risk is the risk of loss 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.

All banking and traded products are governed by a comprehensive risk management and control framework, which includes detailed credit policies and procedures. The control processes applied to these products are the same, regardless of their accounting treatment which varies – they are carried at amortized cost or fair value, depending on the type of instrument and, in some cases, the nature of the exposure.

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. The Business Group CCOs are responsible for counterparty ratings, credit risk assessment and the continuous monitoring of counterparty exposures and portfolio risks. Credit risk authority, including authority to establish allowances, provisions and valuation adjustments for impaired claims, is vested in the Chairman's Office and is further delegated to the GEB and ad personam to the Group CCO and credit officers in the Business Groups. The level of credit authority delegated to holders depends on their seniority and experience and varies according to the quality of the counterparty and any associated security.

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"*, which is an estimate of the likelihood of the client or counterparty defaulting on its contractual obligations
– the 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 claims, based on which we derive the *"loss given default"*.

These components are the common basis for internal measurement of credit risk in all our portfolios. They are also the basis for the regulatory capital calculation under the Advanced Internal Rating Based approach of the new Basel Capital Accord, which we intend to adopt when it comes

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

into force in 2008. 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 verification by a specialist team in Corporate Center prior to implementation. The model owners in the Business Groups are responsible for monitoring performance once the models are deployed.

Probability of default

We assess the likelihood of default of individual counterparties using rating tools tailored to the various categories of counterparty. At the Investment Bank, rating tools are differentiated by broad segments. Our Swiss banking portfolio includes exposures to both larger and small- and medium-sized enterprises, and the rating tools vary accordingly. All rating tools have been developed internally and combine statistical analysis with credit officer judgment. 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. 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 recalibration of the rating tool is confirmed and implemented. In the interim, we account for the impact of such changes in our internal credit risk measures.

We use external ratings, where available, to benchmark our internal credit risk assessment. The ratings of the major rating agencies shown in the table above are linked to our rating classes based on the long-term average default rates for each external grade. Observed defaults per agency rating category vary year-on-year, especially over an economic cycle, and therefore UBS does not expect the actual number of defaults in its equivalent rating band in any given period to equal the rating agency average. 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 we observe that these long-term averages have changed, we adjust the mapping of the external ratings to our rating scale, and reflect them in our external reporting once our analysis proves that the changes are material and permanent.

Exposure at default

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 modeling 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. These profiles reflect potential changes in exposure over time resulting from market movements and from maturing contracts, and take into account the ability to call collateral and any collateral actually held.

Loss given default

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.

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 statistically based concept from which we estimate the annual costs that will arise, on average, 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. 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. For fair valued products, it provides a basis for determining credit valuation adjustments, which are required both for financial reporting and for the planning process. It is also the starting point for further portfolio analyses – statistical loss and stress loss.

Statistical and stress loss

Our credit portfolio is heterogeneous, varying significantly in terms of client type, sector, geographical diversity and the size of exposures. For the assessment of both statistical loss and stress loss in material credit portfolios, we start our analysis at the level 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 described in the "Risk Management and Control" section of this chapter.

Modeling stress losses is complex because they are only partially driven by systematic factors. 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

The Business Groups and Corporate Center apply disciplined approaches 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. These limits 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.

In our OTC derivatives business, we operate almost exclusively under bilateral master agreements allowing 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, we measure our exposure after netting values in our favor against values in the counterparty's favor. We can then set limits on the basis of net exposure, permitting higher volumes of business than would be possible without the benefit of netting. The measurement of potential credit exposure (the future evolution of replacement values over time) reflects the step changes that can occur – which can be both increases and decreases – as market risk factors change and as individual transactions or cash flows roll off.

We additionally 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.

Temporary versus take and hold exposures

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

For temporary exposures, the critical factor is the potential for distribution, which is rigorously assessed as part of any transaction approval. 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. With continued high flows of capital into funds raised by financial sponsors, we have seen further increases in the number, size and leverage of buy-out transactions, which are the source of many of our temporary exposures. As a result, the portfolio has lower average credit ratings and higher risk concentrations than our other lending businesses but exposures are generally reduced to modest levels within a short time by syndication or secondary market hedging or sale. 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.

For take and hold exposures, by contrast, the quality of the credit over the prospective term of the engagement is the primary credit risk consideration and we assess, on an ongoing basis, the way the credit risk (both in aggregate and in sub-portfolios) is evolving over time. We actively manage this portfolio, which includes the retained portions of loans which we have originated primarily for distribution.

Risk mitigation

We employ risk mitigation techniques for most of our credit portfolios, typically by taking security in the form of financial collateral (cash or marketable securities) or other assets, or through risk transfers or the purchase of credit protection. Credit risk mitigation is reflected – depending on the product and type of mitigation – by recognizing its existence in determining the exposure we are prepared to carry or by directly reflecting its risk-reducing effect in reported credit exposure.

Taking security is the most common form of risk mitigation. Some of our businesses, such as Lombard and mortgage lending, are – by definition – conducted only on a secured basis, but in other businesses we often, as a matter of policy, ask for sufficient security to cover our claims, in particular where we deal with lower rated counterparties. In assessing the mitigating effect of security we always adopt prudent valuation standards.

Where we take financial collateral in the form of marketable securities, we generally apply discounts ("haircuts") to the market value, reflecting the quality, liquidity, volatility – and in some cases complexity – of the individual instruments. Exposures and collateral positions are continuously monitored, and margin calls and close-out procedures are enforced when the market value of collateral falls below predefined levels. Collateral concentrations within individual client portfolios and across clients are also monitored where relevant.

In the Investment Bank's OTC derivative business, we enter into two-way collateral agreements with major market participants, in line with general market practice. Under such agreements, either party can be required to provide financial collateral when exposure exceeds a pre-defined level. Both sides thus benefit from continued flow of business without creating undue concentrations of credit risk. The Investment Bank's traded products business with lower rated counterparties, including hedge funds, is conducted almost entirely against the provision of financial collateral by the counterparty.

Financial collateral is the main form of security for Lombard loans to private individuals by our Wealth Management business units, but the largest secured business of Global Wealth Management & Business Banking is property financing, where we take a mortgage over the property we finance to secure our claim. The majority of our exposure consists of home loans to private individuals, but we also finance 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. In Business Banking Switzerland, where we lend to corporations of all sizes, we may, depending on our assessment of their creditworthiness, also require our claim to be secured.

The Investment Bank uses risk transfers, purchase of credit protection and securitization as part of its active management of credit risk to avoid concentrations of exposure to individual names or sectors or in specific portfolios. Most of this credit hedging is achieved by transferring underlying credit risk to high-grade market counterparties using single name credit default swaps, executed under bilateral netting agreements and generally also under collateral agreements. We also use credit-pooling vehicles to transfer risk to outside investors via credit linked notes.

Most forms of credit risk mitigation create operational risks. To control these risks, we apply strict standards on legal documentation, including collateral and netting agreements, and robust controls around the large-scale and high volume processes of daily valuation and adjustment of collateral positions.

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.

UBS's total gross lending portfolio of CHF 364 billion is widely diversified across industry sectors, with no significant concentrations of credit risk. CHF 153 billion (42% of the total) consists of loans to thousands of private households, predominantly in Switzerland, and mostly secured by mortgages, financial collateral or other assets. Exposure to banks and financial institutions amounts to CHF 138 billion (38% of the total). This includes cash posted as collateral by UBS against negative replacement values on derivatives or other positions, which is not considered lending from a risk perspective but is a key component of our measurement of the counterparty risk we take in connection with the underlying products. Exposure to banks includes money market deposits with highly rated institutions. Excluding financial institutions, the largest industry exposure is CHF 25 billion (7% of the total) to the services sector.

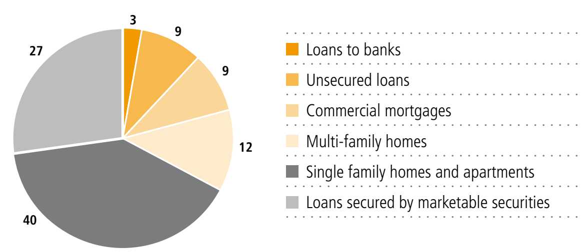
Global Wealth Management & Business Banking

Global Wealth Management & Business Banking's gross lending portfolio on 31 December 2006 amounted to CHF 229 billion, of which CHF 140 billion (61%) was secured by real estate and CHF 63 billion (27%) by marketable securities. The pie chart below shows that exposure to real estate is well diversified with 40% of the gross lending portfolio being secured on single-family homes and apartments, which, historically, have exhibited a low risk profile. The 12% of exposure secured by residential multi-family homes consists of rented apartment buildings. Loans and other credit

Global Wealth Management & Business Banking
Composition of lending portfolio, gross

in %

As of 31.12.06



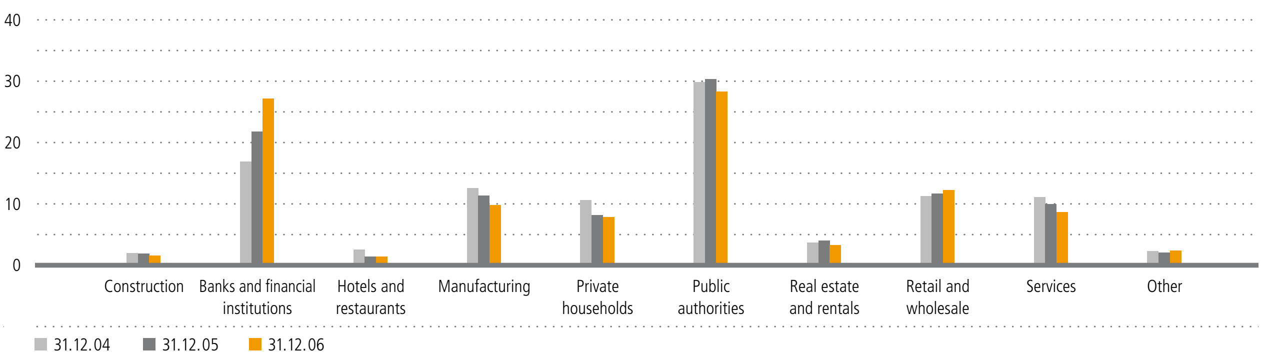
Total credit exposure

	Wealth Management International & Switzerland			Wealth Management US		
CHF million	**31.12.06**	31.12.05	31.12.04	**31.12.06**	31.12.05	31.12.04
Lending portfolio, gross[3]	**67,982**	58,907	43,571	**17,645**	17,105	14,617
Contingent claims	**5,336**	4,778	3,444	**336**	265	274
Unutilized committed lines[3]	**834**	372	669	**16**	0	0
Total banking products[3]	**74,152**	64,057	47,684	**17,997**	17,370	14,891
Unsecured OTC products	**0**	0	0	**0**	0	0
Other derivatives (secured or exchange-traded)	**6,462**	5,480	3,207	**0**	0	0
Securities lending / borrowing	**0**	0	0	**0**	0	0
Repo / Reverse-Repo	**0**	0	1	**102**	191	171
Total traded products[5]	**6,462**	5,480	3,208	**102**	191	171
Total credit exposure, gross	**80,614**	69,537	50,892	**18,099**	17,561	15,062
Total credit exposure, net of allowances and provisions	**80,604**	69,524	50,864	**18,089**	17,549	15,044

1 Figures reflect the prime brokerage re-classification as explained in note 1 to the financial statements. 2 Includes Global Asset Management and Corporate Center. 3 Excludes loans designated at fair value for an amount of CHF 2,252 million (December 2005: CHF 966 million) but includes unutilized committed lines designated at fair value for an amount of CHF 11,816 million. 4 Excludes CHF 93 million, CHF 728 million and CHF 909 million gross loans from Industrial Holdings for the years ended 31 December 2006, 31 December 2005 and 31 December 2004. 5 Traded products exposure is based on internal measurement methodology and includes Wealth Management International exposures of CHF 3,870 million, CHF 2,789 million and CHF 1,120 million for the years ended 31 December 2006, 31 December 2005 and 31 December 2004.

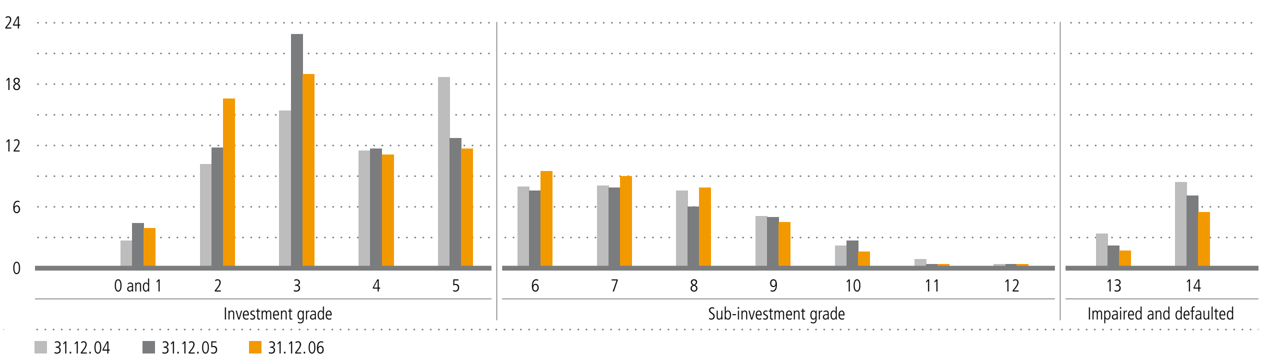
Business Banking Switzerland: lending portfolio, gross (excluding mortgages) by industry sector

As a % of Business Banking Switzerland lending portfolio, gross (excluding mortgages)



Business Banking Switzerland: lending portfolio, gross (excluding mortgages) by counterparty rating

As a % of Business Banking Switzerland lending portfolio, gross (excluding mortgages)



	Business Banking Switzerland			Global Wealth Management & Business Banking			Investment Bank[1]			Other[2]			UBS[1]		
	31.12.06	31.12.05	31.12.04	31.12.06	31.12.05	31.12.04	31.12.06	31.12.05	31.12.04	31.12.06	31.12.05	31.12.04	31.12.06	31.12.05	31.12.04
	143,394	141,315	137,147	229,021	217,327	195,335	134,479	96,557	78,046	610	598	5,479	364,110[4]	314,482[4]	278,860[4]
	7,466	6,748	7,570	13,138	11,791	11,288	4,770	4,775	3,370	0	0	216	17,908	16,566	14,874
	1,213	1,252	1,275	2,063	1,624	1,944	95,224	71,281	51,224	0	0	0	97,287	72,905	53,168
	152,073	149,315	145,992	244,222	230,742	208,567	234,473	172,613	132,640	610	598	5,695	479,305	403,953	346,902
	1,264	1,749	1,226	1,264	1,749	1,226	51,992	54,361	53,372	0	0	329	53,256	56,110	54,927
	1,054	454	322	7,516	5,934	3,529	27,586	28,282	15,741	0	0	0	35,102	34,216	19,270
	7,284	7,082	3,953	7,284	7,082	3,953	32,975	27,904	27,301	0	0	0	40,259	34,986	31,254
	99	103	37	201	294	209	18,780	17,726	20,305	0	0	0	18,981	18,020	20,514
	9,701	9,388	5,538	16,265	15,059	8,917	131,333	128,273	116,719	0	0	329	147,598	143,332	125,965
	161,774	158,703	151,530	260,487	245,801	217,484	365,806	300,886	249,359	610	598	6,024	626,903	547,285	472,867
	160,563	157,108	149,213	259,256	244,181	215,121	365,705	300,730	248,987	610	598	5,962	625,571	545,509	470,070

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

		Loss given default (LGD) buckets				Weighted
CHF million	Gross Exposure	0–25%	26–50%	51–75%	76–100%	Average LGD (%)
0	800	68	727	5	0	29
1	668	9	397	262	0	46
2	48,407	44,977	3,245	185	0	20
3	37,369	32,058	3,512	503	1,296	21
4	22,000	18,897	2,900	203	0	18
5	57,029	51,800	3,506	1,718	5	17
6	27,454	24,086	3,234	133	1	19
7	18,827	16,159	2,138	526	4	22
8	15,836	10,964	4,106	740	26	25
9	8,803	6,629	825	281	1,068	29
10	2,291	1,782	443	62	4	24
11	1,085	950	103	32	0	23
12	1,101	1,083	13	5	0	23
Total non-impaired	**241,670**	**209,462**	**25,149**	**4,655**	**2,404**	**20**
Investment grade	166,273	147,809	14,287	2,876	1,301	
Sub-investment grade	75,397	61,653	10,862	1,779	1,103	
Impaired and defaulted [1]	2,552					
Total banking products	**244,222**	**209,462**	**25,149**	**4,655**	**2,404**	

1 Includes CHF 45 million of off-balance sheet items.

engagements with individual clients, excluding mortgages, amounted to CHF 83 billion and are predominantly extended against the pledge of marketable securities. The volume of collateralized lending to private individuals rose by CHF 6.6 billion or 12% from the previous year. The increasing demand for this product, as in 2005, reflects the continuing low interest rate environment.

Unsecured lending consists predominantly of exposures to public authorities, banks and financial institutions. The remainder is to corporate clients in Switzerland, 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. During 2006 we have continued to focus on improving the quality of this portfolio.

The table above shows credit exposure across counterparty ratings and loss given default (LGD) buckets. As part of the ongoing validation of our risk parameters, we have adjusted LGDs to reflect the positive development of our credit losses in recent years. As a result, exposures in the table have shifted to lower LGDs, in particular the 26-50% bucket. We have also improved rating differentiation in the residential mortgage business, so that the previous concentration of exposures in rating class 5 is now more widely dispersed across ratings. The average rating of the portfolio is unchanged.

Investment Bank

A substantial majority of the Investment Bank's credit exposure falls into the investment grade category (internal counterparty rating classes 0 to 5), both for gross banking products (62%) and for traded products (94%). The counterparties are primarily sovereigns, financial institutions, multinational corporate clients and investment funds.

Banking products exposure

The Investment Bank's total banking products exposure on 31 December 2006, reported in accordance with IFRS, was CHF 234 billion of which CHF 91 billion was loans, compared with CHF 70 billion on 31 December 2005. Part of the CHF 21 billion increase over the course of 2006 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.

Disclosures in the remainder of 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 161 billion (excluding loans designated at fair value), a difference of CHF 73 billion from the CHF 234 billion reported for the Investment Bank in the table on page 66/67. This difference is mainly made up of cash collateral posted by UBS against negative replacement values and other positions which, as noted above, are not considered loans from a risk perspective. On the other hand, in our internal risk control view we consider certain US residential mortgage financing conducted under repo-/reverse repo-like agreements to be banking product exposures. The table on the next page shows a reconciliation between the IFRS and risk views.

As described under "Risk mitigation", the Investment Bank has engaged in a substantial credit risk hedging program.

Investment Bank: banking products

CHF million	31.12.06	31.12.05
Total banking products exposure IFRS (accounting view)	234,473	172,613
less: IFRS adjustments[1]	(82,829)	(51,345)
less: traded loans	(2,383)	(2,388)
plus: residential and commercial real estate[2]	9,959	11,520
other reconciliation items	1,535	490
Adjusted banking products exposure, gross	160,756	130,890

	31.12.06 Investment grade	31.12.06 Sub-investment grade	31.12.06 Impaired and defaulted	31.12.06 Total	31.12.05 Investment grade	31.12.05 Sub-investment grade	31.12.05 Impaired and defaulted	31.12.05 Total
Adjusted banking products exposure, gross				160,756				130,890
less: funded risk participations and cash collateral				(1,201)				(3,505)
risk transfers[3]	2,576	(2,551)	(25)		1,207	(1,176)	(31)	
less: specific allowances for credit losses and loan loss provisions				(101)				(131)
Adjusted banking products exposure, net	101,377	57,952	125	159,454				127,254
less: credit protection bought (credit default swaps, credit-linked notes)[4]				(32,656)				(24,121)
Adjusted banking products exposure, net, after application of credit hedges	73,132	53,542	124	126,798	59,876	43,024	233	103,133
Temporary exposure	(6,833)	(21,354)		(28,187)	(6,872)	(14,198)	(37)	(21,107)
Net take & hold banking products exposure (risk view)	66,299	32,188	124	98,611	53,004	28,826	196	82,026

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 banking products exposure includes credit default swaps (CDSs) and the funded portion of structured credit protection purchased through the issuance of credit-linked notes (CLNs).

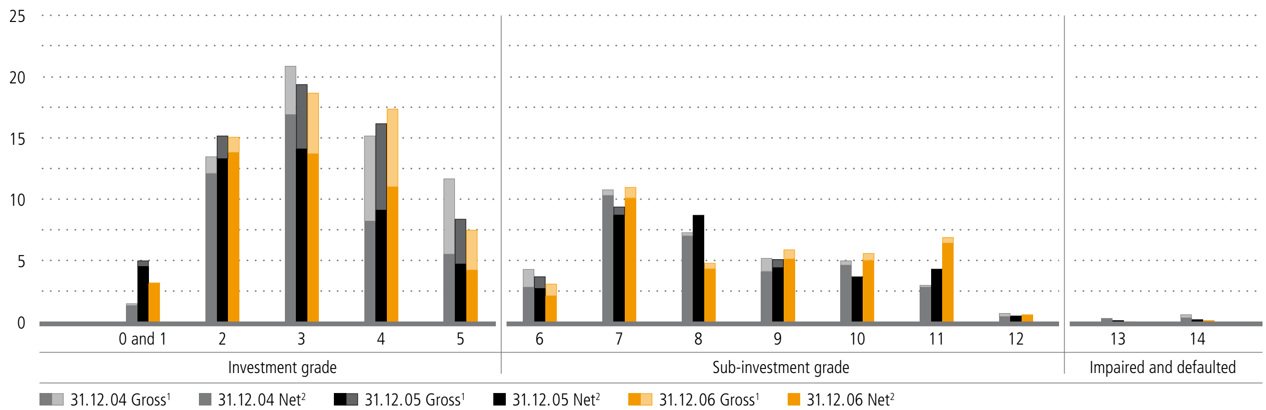
Investment Bank: distribution of net take and hold banking products exposure across counterparty rating and loss given default (LGD) buckets

		Loss given default (LGD) buckets				
CHF million	Exposure[1]	0–25%	26–50%	51–75%	76–100%	Weighted Average LGD (%)
0 and 1	4,812	15	4,688	48	61	49
2	21,063	1,118	18,220	1,519	206	48
3	20,465	811	17,327	1,561	766	49
4	13,927	2,009	9,547	1,992	379	44
5	6,108	1,920	2,821	1,299	68	39
6	1,744	85	1,403	225	31	48
7	15,645	14,438	972	210	25	7
8	5,484	3,161	1,790	273	260	25
9	3,410	1,395	1,468	456	91	31
10	2,637	1,069	1,430	138	0	31
11	2,599	1,121	1,178	284	16	30
12	593	411	121	52	9	24
Total non-impaired	**98,487**	**27,553**	**60,965**	**8,057**	**1,912**	**38**
Investment grade	66,375	5,873	52,603	6,419	1,480	46
Sub-investment grade	32,112	21,680	8,362	1,638	432	19
Impaired and defaulted[2]	124	12	111	1	0	38
Net take and hold exposure	**98,611**	**27,565**	**61,076**	**8,058**	**1,912**	

1 Net take and hold banking products exposure (risk view). 2 Includes Other Real Estate Owned (OREOs) positions classified in the balance sheet under "Other assets" for an amount of CHF 91 million.

Investment Bank: banking products exposure by counterparty rating

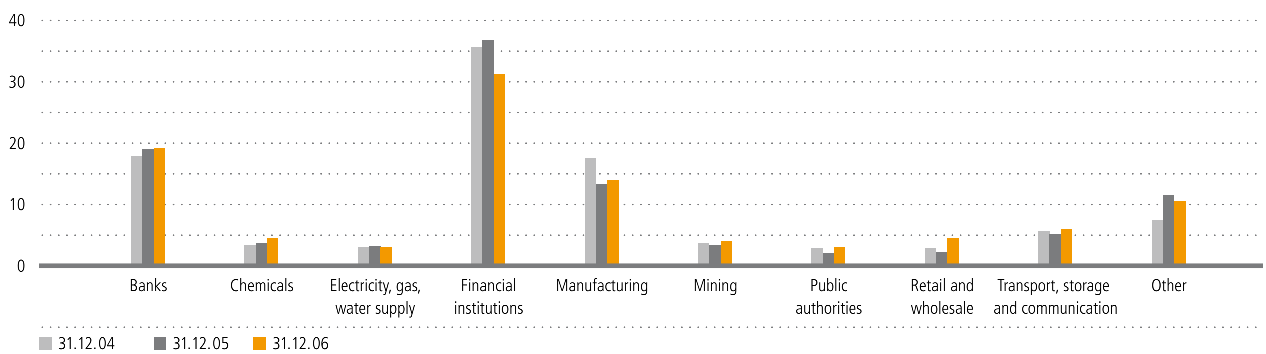
As a % of Investment Bank banking products exposure



1 Adjusted banking products exposure. 2 Adjusted banking products exposure, net, after application of credit hedges.

Investment Bank: banking products exposure[1] by industry sector

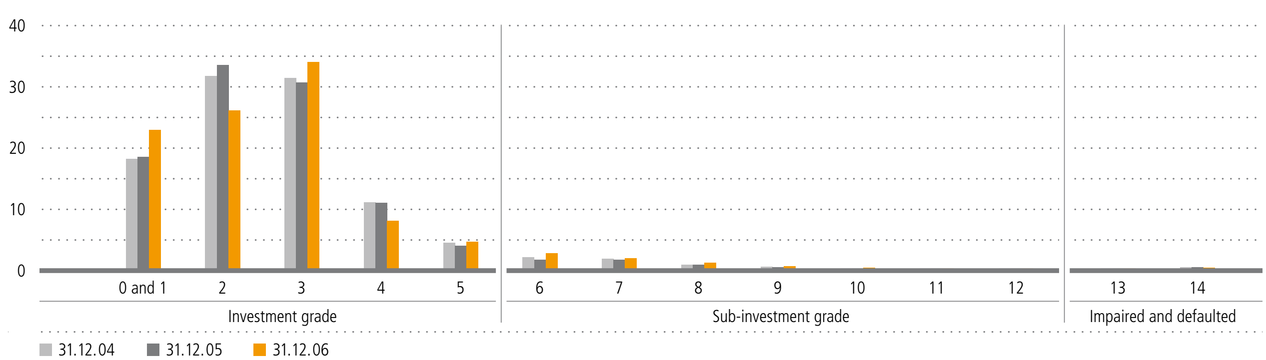
As a % of Investment Bank banking products exposure[1]



1 Adjusted banking products exposure, net, after application of credit hedges.

Investment Bank: traded products exposure by counterparty rating

As a % of Investment Bank traded products exposure



On 31 December 2006 we had a total of CHF 33 billion in credit hedges in place against our banking products exposure.

To illustrate the effects of credit hedging and other risk mitigation, we show in the graph opposite the exposures by counterparty ratings before and after application of risk mitigation. Additionally, the matrix on page 69 shows the distribution of the Investment Bank's take and hold banking products exposure after application of risk mitigants across rating classes 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 sub-investment grade exposure in the 0–25% LGD bucket is mainly comprised of short-term loans to US mortgage originators, both prime and subprime, secured on their mortgage portfolios, pending securitization or sale. The low LGD assigned reflects our assessment of both the quality of the collateral held and the structure of the financing agreements. Note that exposure distribution across counterparty ratings shown elsewhere in this section refers only to gross exposure and probability of default, without reference to the likely severity of loss or loss mitigation from collateral or credit hedges.

Banking products exposure after application of credit hedges continues to be widely diversified across industry sectors. At 31 December 2006, the largest exposure (31%) was to financial institutions.

Traded products exposure

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 2006. Further details of derivative instruments are provided in note 23 to the financial statements and details of securities borrowing, securities lending, repurchase and reverse repurchase activities can be found in note 11 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. Market volumes have continued to rise year on year. We have expanded our own transaction volume without increasing settlement risk by the same proportion, through the use of multilateral and bilateral arrangements, and in fourth quarter 2006, settlement exposure was reduced to 22% of gross volumes.

The most significant portion of our settlement risk exposure arises from foreign exchange transactions. Our membership in CLS (Continuous Linked Settlement), a foreign exchange clearing house which allows transactions to be settled on a delivery versus payment basis, has significantly reduced our foreign exchange-related settlement risk relative to the volume of our business. In 2006, the transaction volume settled through CLS continued to increase, although the proportion of our overall gross settlement volumes settled through CLS fell to 55% in fourth quarter 2006 from 59% in fourth quarter 2005. Of our CLS volume, 72% 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, in 2006 the number of Third Party Members we deal with has again increased considerably.

Risk reduction by other means – primarily account-account settlement and payment netting – increased to 23% of gross volumes in fourth quarter 2006 from 17% a year earlier.

The avoidance of settlement risk through CLS and other means 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 OTC derivatives, as described under "Credit risk control".

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 rating classes (as described under "Probability of default"). In the case of country rating, the three lowest classes (12 to 14) are 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 exposures which we may have to a client, counterparty or issuer of securities in the country, and to financial investments in that country. Our country risk measures are comprehensive and cover both cross border transactions and investments, and local operations by our branches and by subsidiaries in countries where the risk is material. In determining the size of a country risk ceiling we also take into account goodwill resulting from acquisitions. Extension of credit, transactions in traded products and positions in securities may be denied on the basis of a country ceiling, even if exposure to the name is otherwise acceptable. 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 on the next page cover only country risk exposures to emerging market countries.

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, 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 exposure to emerging market countries amounted to CHF 30.6 billion on 31 December 2006, compared with CHF 21.4 billion on 31 December 2005. Of this amount, CHF 19.9 billion or 65% is to investment grade countries. The growth of CHF 9.2 billion in total emerging markets exposure arose to a large extent in Latin America following the integration of Pactual on 1 December 2006.

The pie chart opposite shows our emerging market country exposures (excluding those which are of a temporary nature) on 31 December 2006, based on our main country rating categories. The table below analyzes emerging market country exposures by major geographical area and product type on 31 December 2006 compared with 31 December 2005 and 31 December 2004. Given the increasing importance of temporary exposures arising from loan underwriting in these markets, they are shown in the table on a separate line.

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 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.

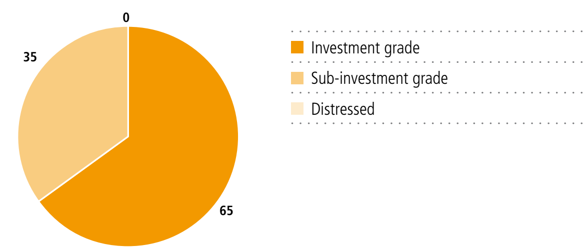
We have policies and processes to ensure that the carrying values of impaired claims are determined on a consistent and fair basis, especially for those impaired claims for which no market estimate or benchmark for the likely recovery value is available. The credit controls applied to valuation and workout 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 credit risk control 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

Emerging markets exposure by country rating category

in %

As of 31.12.06



Emerging markets exposure by major geographical area and product type

CHF million	Total			Banking products			Traded products			Tradable assets		
As of	**31.12.06**	31.12.05	31.12.04	**31.12.06**	31.12.05	31.12.04	**31.12.06**	31.12.05	31.12.04	**31.12.06**	31.12.05	31.12.04
Emerging Europe	**4,663**	3,955	2,878	**1,476**	970	683	**1,110**	808	955	**2,077**	2,177	1,240
Emerging Asia	**15,904**	13,003	9,461	**4,266**	3,326	2,398	**3,401**	2,954	2,438	**8,236**	6,723	4,625
Latin America	**7,282**	2,000	1,646	**1,024**	305	193	**2,267**	378	319	**3,991**	1,317	1,134
Middle East / Africa	**2,768**	2,491	2,219	**1,145**	1,065	842	**892**	1,003	842	**732**	423	535
Total	**30,617**	21,449	16,204	**7,911**	5,666	4,116	**7,670**	5,143	4,554	**15,036**	10,640	7,534
Temporary exposures[1]	**2,160**	25										

1 Temporary exposures are loan underwritings, which are held short-term, pending syndication, sale or hedging. They are not included in the regional subtotals or overall total.

yet be identified. Note that such portfolios are not included in the totals of impaired loans in the tables on pages 68, 69 and 74/75 or in note 10c in the financial statements.

The assessment of collective impairment differs by sub-portfolio. In our retail businesses, where we routinely see delayed payments, we typically review individual positions for impairment only after they have been in arrears for a certain time. To cover the time lag between the occurrence of the impairment event and its identification, we establish collective loan loss allowances based on the expected loss measured for the portfolio over the average period between the trigger event and identification of the individual impairment. Collective loan loss allowances of this kind are not required for our corporate and investment banking businesses because counterparties and exposures are constantly monitored and impairment events are identified at an early stage.

Additionally, for all sub-portfolios we assess each quarter – or on an ad hoc basis if necessary – whether there has been any unforeseen development possibly resulting in impairments which we cannot immediately identify individually. Such events could be stress situations such as a natural disaster or a country crisis, or they could result from structural changes in, for example, the legal or regulatory environment. To determine whether an event-driven collective impairment exists, we regularly assess a set of global economic drivers and the most vulnerable countries and, on a case by case basis, review the impact of specific potential impairment events since the last assessment. Again, we use the expected loss parameters of the affected sub-portfolios as the starting point for determining the collective impairment, adjusting them as necessary to reflect the severity of the event in question.

Credit loss expense

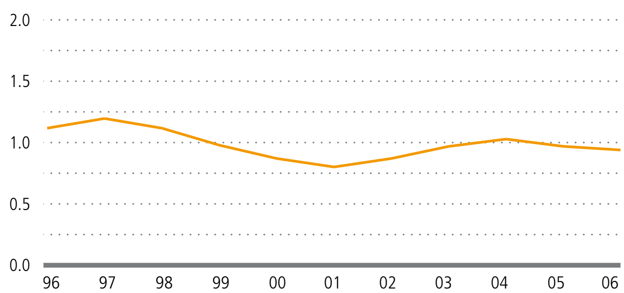
Our financial statements are prepared in accordance with IFRS, under which credit loss expense charged to the financial statements in any period is the sum of net allowances and direct write-offs minus recoveries arising in that period, i.e. the credit losses actually incurred. By contrast, in our internal 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 under "Portfolio risk measures". 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 on page 74/75 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.

Swiss corporate bankruptcy rates (1996–2006)

As a % of total registered companies

Source: Creditreform



In 2006, we experienced a net credit loss recovery of CHF 156 million, compared to a net credit loss recovery of CHF 375 million in 2005. This result reflects the favorable credit market environment that has prevailed over a prolonged period. World economic growth continued to be robust, despite a moderate slowdown in the US. Credit spreads remained very tight in almost all major developed and emerging capital markets, as healthy expansion of cash flows allowed the corporate sector to reduce leverage and build liquidity. The ongoing positive macro-economic environment in key emerging markets allowed the release of CHF 48 million of collective loan loss provisions for country risk.

Net credit loss recovery at Global Wealth Management & Business Banking amounted to CHF 109 million in 2006 compared to net credit loss recovery of CHF 223 million in 2005. The benign credit environment in Switzerland, where the corporate bankruptcy rate continued to fall in 2006, coupled with the measures taken in recent years to improve the quality of our credit portfolio has again resulted in a low level of new defaults. The management of our impaired portfolio, which continues to shrink, has also contributed to this result.

The Investment Bank realized a net credit loss recovery of CHF 47 million in 2006, compared to a net credit loss recovery of CHF 152 million in 2005. This continued strong performance was the result of further recoveries of previously established allowances and provisions from the workout of the impaired portfolio, and no new defaults in 2006.

Impaired loans, allowances and provisions

As shown in the table on page 74/75, allowances and provisions for credit losses decreased by 25%, to CHF 1,332 million on 31 December 2006 from CHF 1,776 million on 31 December 2005. Note 10b to the financial statements provides further details of the changes in allowances and provisions for credit losses 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 2006 amount to CHF 38 million.

Impaired loans have decreased to CHF 2,628 million on 31 December 2006 from CHF 3,434 million on 31 December 2005.

The ratio of the impaired lending portfolio to the total lending portfolio (both measured gross) has improved continuously over recent years to 0.7% on 31 December 2006 from 1.1% on 31 December 2005 and 1.7% on 31 December 2004. This continuing positive trend is testament to our success in applying stringent risk management and control throughout the firm, resulting in relatively few new impairments, and to our efforts to conclude proceedings and reach settlement on existing impaired 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 allowances 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.

The table above right shows the geographical breakdown and aging of our impaired assets portfolio on 31 December 2006. This portfolio includes not only impaired loans, but also impaired off-balance sheet claims and defaulted derivatives contracts, which are subject to the same workout and recovery processes. CHF 1.9 billion, or 66% of the gross portfolio of CHF 2.9 billion, relates to positions that defaulted more than three years ago, reflecting the benign environment across global credit markets in recent years. After deducting allocated specific allowances, provisions and valuation reserves of CHF 1.4 billion and the estimated liquidation proceeds of collateral (predominantly Swiss real estate) of CHF 1.1 billion, net impaired assets amounted to CHF 0.4 billion.

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

CHF million	Wealth Management International & Switzerland			Wealth Management US		
For the year ended	**31.12.06**	31.12.05	31.12.04	**31.12.06**	31.12.05	31.12.04
Total banking products exposure	**74,152**	64,057	47,684	**17,997**	17,370	14,891
Credit loss (expense) / recovery	**1**	(8)	(1)	**(1)**	0	3
– as a proportion of total banking products exposure (bps)	**0**	(1)	(0)	**(1)**	0	2
Adjusted expected credit loss charged to the Business Groups[2]	**(29)**	(13)	(8)	**(0)**	(2)	(5)
– as a proportion of total banking products exposure (bps)	**(4)**	(2)	(2)	**(0)**	(1)	(3)

1 Includes Global Asset Management and Corporate Center. 2 See note 2 to the financial statements of the 2006 Financial Report.

Allowances and provisions for credit losses

CHF million	Wealth Management International & Switzerland			Wealth Management US		
As of	**31.12.06**	31.12.05	31.12.04	**31.12.06**	31.12.05	31.12.04
Due from banks	**160**	441	300	**1,096**	1,171	1,518
Loans	**67,822**	58,466	43,271	**16,549**	15,934	13,099
Total lending portfolio, gross[3]	**67,982**	58,907	43,571	**17,645**	17,105	14,617
Allowances for credit losses	**(10)**	(13)	(28)	**(10)**	(12)	(18)
Total lending portfolio, net	**67,972**	58,894	43,543	**17,635**	17,093	14,599
Impaired lending portfolio, gross	**4**	7	10	**10**	12	18
Estimated liquidation proceeds of collateral for impaired loans	**0**	0	(2)	**0**	0	0
Impaired lending portfolio, net of collateral	**4**	7	8	**10**	12	18
Allocated allowances for impaired lending portfolio	**4**	7	7	**10**	12	18
Other allowances and provisions	**6**	6	21	**0**	0	0
Total allowances and provisions for credit losses	**10**	13	28	**10**	12	18
of which country allowances and provisions	**0**	0	15	**0**	0	0
Ratios						
Allowances and provisions as a % of total lending portfolio, gross	**0.0**	0.0	0.1	**0.1**	0.1	0.1
Impaired lending portfolio as a % of total lending portfolio, gross	**0.0**	0.0	0.0	**0.1**	0.1	0.1
Allocated allowances as a % of impaired lending portfolio, gross	**100.0**	100.0	70.0	**100.0**	100.0	100.0
Allocated allowances as a % of impaired lending portfolio, net of collateral	**100.0**	100.0	87.5	**100.0**	100.0	100.0

1 Figures reflect the prime brokerage re-classification as explained in note 1 to the financial statements. 2 Includes Global Asset Management and Corporate Center. 3 Excludes CHF 2 252 million and CHF 966 million loans designated at fair value for the years ended 31 December 2006 and 31 December 2005. 4 Excludes CHF 93 million, CHF 728 million and CHF 909 million gross loans from Industrial Holdings for the years ended 31 December 2006, 31 December 2005 and 31 December 2004.

Impaired assets[1]

	Impaired since					
CHF million	0–90 days	91–180 days	181 days–1 year	1 year–3 years	> 3 years	Total
Switzerland	85	96	112	452	1,806	2,551
Europe	13	2	6	90	48	159
North America	1	1	2	9	37	50
Latin America	1	0	1	14	29	45
Asia Pacific	0	1		23	18	42
Other			0	0	23	23
Total 31.12.2006	100	100	121	588	1,961	2,870
Allocated allowances, provisions and valuation reserves	(24)	(40)	(49)	(199)	(1,087)	(1,399)
Carrying value	76	60	72	389	874	1,471
Estimated liquidation proceeds of collateral	(61)	(47)	(62)	(224)	(665)	(1,059)
Net impaired assets	15	13	10	165	209	412

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

	Business Banking Switzerland			Global Wealth Management & Business Banking			Investment Bank			Other[1]			UBS		
	31.12.06	31.12.05	31.12.04	31.12.06	31.12.05	31.12.04	31.12.06	31.12.05	31.12.04	31.12.06	31.12.05	31.12.04	31.12.06	31.12.05	31.12.04
	152,073	149,315	145,992	244,222	230,742	208,567	234,473	172,613	132,640	610	598	5,695	479,305	403,953	346,902
	109	231	92	109	223	94	47	152	147	0	0	0	156	375	241
	7	15	6	4	10	5	2	9	11	0	0	0	3	9	7
	185	122	(25)	156	107	(38)	61	36	(7)	0	0	0	217	143	(45)
	12	8	(2)	6	5	(2)	3	2	(1)	0	0	0	5	4	(1)

	Business Banking Switzerland			Global Wealth Management & Business Banking			Investment Bank[1]			Others[2]			UBS[1]		
	31.12.06	31.12.05	31.12.04	31.12.06	31.12.05	31.12.04	31.12.06	31.12.05	31.12.04	31.12.06	31.12.05	31.12.04	31.12.06	31.12.05	31.12.04
	4,989	3,893	3,052	6,245	5,505	4,870	43,612	26,954	26,572	506	502	3,313	50,363	32,961	34,755
	138,405	137,422	134,095	222,776	211,822	190,465	90,867	69,603	51,474	104	96	2,166	313,747	281,521	244,105
	143,394	141,315	137,147	229,021	217,327	195,335	134,479	96,557	78,046	610	598	5,479	364,110[4]	314,482[4]	278,860[4]
	(1,139)	(1,500)	(2,135)	(1,159)	(1,525)	(2,181)	(97)	(131)	(308)	0	0	(62)	(1,256)	(1,656)	(2,551)
	142,255	139,815	135,012	227,862	215,802	193,154	134,382	96,426	77,738	610	598	5,417	362,854[4]	312,826[4]	276,309[4]
	2,493	3,231	4,171	2,507	3,250	4,199	121	184	395	0	0	105	2,628	3,434	4,699
	(1,034)	(1,335)	(1,678)	(1,034)	(1,335)	(1,680)	(25)	(31)	(33)	0	0	(45)	(1,059)	(1,366)	(1,758)
	1,459	1,896	2,493	1,473	1,915	2,519	96	153	362	0	0	60	1,569	2,068	2,941
	1,107	1,444	2,038	1,121	1,463	2,063	97	130	299	0	0	62	1,218	1,593	2,424
	104	151	279	110	157	300	4	26	73	0	0	0	114	183	373
	1,211	1,595	2,317	1,231	1,620	2,363	101	156	372	0	0	62	1,332	1,776	2,797
	0	53	119	0	53	134	0	12	49	0	0	0	0	65	183
	0.8	1.1	1.7	0.5	0.7	1.2	0.1	0.2	0.5	0.0	0.0	1.1	0.4	0.6	1.0
	1.7	2.3	3.0	1.1	1.5	2.1	0.1	0.2	0.5	0.0	0.0	1.9	0.7	1.1	1.7
	44.4	44.7	48.9	44.7	45.0	49.1	80.2	70.7	75.7	na	na	59.0	46.3	46.4	51.6
	75.9	76.2	81.7	76.1	76.4	81.9	101.0	85.0	82.6	na	na	103.3	77.6	77.0	82.4

Risk management

Market risk

Market risk is exposure to market variables, including general market risk factors such as interest rates, exchange rates, equity market indices and commodity prices, and factors specific to individual names affecting the values of securities and other obligations in tradable form, and derivatives referenced to those names.

We report our market risk in terms of Value at Risk ("VaR") but we also apply a range of other measures and controls which are described in the sections below.

Sources of market risk

There are two broad categories of market variables – general market risk factors and idiosyncratic components. General market risk factors are variables which are driven by macroeconomic, geopolitical and other market-wide considerations, independent of any instrument or single name. They include changes in the level, slope or shape of yield curves (interest rates), widening or tightening of general spread levels, and directional movements in equity market indices, exchange rates, and energy, metal and commodity prices. Changes in associated volatilities, and correlations between risks factors – which may be unobservable or only indirectly observable – are also general market risks. Idiosyncratic components are those that cannot be explained by general market moves – broadly, changes in the prices of debt and equity instruments and derivatives linked to them, resulting from factors and events specific to individual names.

We take market risk primarily in our trading activities, but some of our non-trading businesses also create market risks.

Trading

Most of our trading activity is in the Investment Bank. It includes market-making, facilitation of client business and proprietary position taking in the cash and derivative markets for fixed income, equities, interest rate products, foreign exchange, energy, metals and commodities.

In our fixed income business we carry 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 trading activities but predominantly in the Rates, FX and Cash and Collateral Trading businesses. Our exposure to directional interest rate movements 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 whole portfolio at the time.

Equity risk is the other major contributor to Investment Bank market risk. We generally have exposure to all major equity markets and an increasing number of newer markets, partly from index-based transactions but also from individual stocks, giving rise to idiosyncratic as well as general market risk. A significant component of equity VaR is event risk from proprietary positions, which we take, for example, to capture arbitrage opportunities or price movements resulting from mergers and acquisitions.

We are active in the currency, energy, metals and commodities markets, but while trading volumes are substantial, their contribution to overall market risk is generally relatively small.

Outside the Investment Bank, in Global Asset Management, investments in support of our alternative and quantitative investments platform in the start up phase of new funds contribute modestly to our reported market risk. Our Wealth Management operations carry only small positions, to support client activity.

Non-trading

Within the Investment Bank, material non-trading interest rate and all foreign exchange risks are captured, controlled and reported in the same risk management and control framework as trading risk.

In the other Business Groups, exposures to general market risk factors – primarily interest rates and exchange rates – also arise from non-trading activities, the largest items being the interest rate risks in Global Wealth Management & Business Banking. These, and most other material risks, are transferred to Treasury (part of the Corporate Center) or the Investment Bank, where they are managed as part of the overall portfolios of these units. Risks that are retained by the other Business Groups are not significant relative to UBS's overall risk, but all market risks are subject to controls, and all foreign exchange positions are captured in VaR.

Treasury assumes market risk as a result of its balance sheet and capital management activities. It manages interest rate risk transferred from other Business Groups and from the funding of items such as property and investments. Treasury is also responsible for managing UBS's consolidated equity in order to protect our capital ratios and generate a stable interest income stream.

>> These activities are described in more detail in the chapter "Treasury management"

Investment positions

We hold equity investments for a variety of business purposes other than trading. Private equity investments were, in the past, the major component but exposure has been reduced in line with our strategy to de-emphasize this asset class. We have a significant investment in Bank of China, acquired as part of a major strategy initiative. We also took a non-strategic stake in Julius Baer when they acquired Private Banks & GAM from UBS at the end of 2005. Most seed money and co-investments in UBS funds are classified as investment positions and we have equity holdings, such as exchange and clearing house memberships and stakes in trading platforms, to support other business activities.

Many of these investments are unlisted and therefore illiquid. Others are intended to be – or required to be – held medium- to long-term and not all the associated risks can be hedged or closed out. The fair values of equity investments are often driven more by idiosyncratic factors than by movements in equity markets. For these reasons, equity investments are controlled outside the market risk framework. They are, however, subject to independent risk controls and both business management and risk control pre-approval is required for new investments. Where they are made as part of an ongoing business they are also subject to portfolio and concentration limits.

Risk control

In 2006, we appointed a Group Head of Market Risk, reporting to the Group Chief Risk Officer (CRO). There is a CRO in each Business Group and a designated CRO for Treasury. The Group Head of Market Risk, the CROs and their teams are responsible for the independent control of market risk. They ensure that all market risks are identified and captured in risk systems. They establish the necessary controls, including limits, and monitor positions and exposures. An important element of the Business Group CRO's role is the assessment of market risk in new businesses and products and in structured transactions.

The Investment Bank CRO organization provides market risk measurement and reporting support to all Business Groups and, in close cooperation with the Group Head of Market Risk, is responsible for the development and ongoing enhancement of market risk measures, including the models used to measure VaR, stress loss and risk on single name exposures.

Market risk authority is vested in the Chairman's Office and is further delegated to the GEB and ad personam to the Group CRO, the Group Head of Market Risk and the Business Group CROs and market risk officers. 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 Business Groups, 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 Treasury which carries market risk in a limited range of risk types and not generally in complex instruments.

Portfolio risk measures

The principal portfolio measures of market risk are VaR and stress loss. Certain risks may be controlled outside VaR in the start-up phase but the level of risk is deliberately kept small – this was, for example, the case for our commodities and base metals derivatives trading business until March 2006. There are very few market risk positions that are not included in VaR. They are not material to UBS and they are subject to other controls and reporting.

Value at Risk (VaR)

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse movements in both general and idiosyncratic market risk factors. We use the same VaR model for internal risk control (including limits) and for determining market risk regulatory capital requirements.

VaR expresses the 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 measures risk over a certain time horizon. For internal risk measurement and control, and for determining regulatory capital, we use a 10-day horizon. We also measure and report VaR with a 1-day horizon for information and for backtesting, as explained below.

We assume that market moves occurring over these periods will follow a similar pattern to those that have occurred over 10-day and 1-day periods in the past. For general market risk, this look-back period is five years – a period which captures the cyclical nature of financial markets and is likely to include periods of both high and low volatility (see Sidebar – "VaRiations on a theme"). These historical changes are applied directly to our current positions, a method known as historical simulation.

We measure idiosyncratic risk arising not only from directly held debt and equity positions but also from derivatives (forwards, options, default swaps and other derivatives) on the same name. For equity instruments, the measure is based on the Capital Asset Pricing Model ("CAPM") supplemented by a "deal break" methodology for equity arbitrage positions, where we are typically long in the stock of one company and short in that of another. The deal break measure assesses the probability of collapse of a merger or takeover, and its impact on the two stock prices – a one-off jump move generating the same potential loss for both 10-day and 1-day VaR. For debt positions, our VaR model includes potential rating migration.

The Chairman's Office annually approves a 10-day VaR limit for UBS as a whole 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.

Backtesting

The distribution of potential profits and losses from our VaR model 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. The 10-day VaR measure assumes that positions are not changed over this time horizon, and 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 horizon provides a closer estimate of the range of daily mark to market profit and loss we are likely to incur on the current portfolio under normal market conditions, but it is based on past events and is dependent upon the quality of available market data.

The predictive power 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 components such as commissions and fees, and estimated revenues from intraday trading. If the result 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.

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.

As required by regulations, backtesting exceptions are also notified to our internal and external auditors and relevant regulators.

Although we apply VaR measures to general market risks arising in non-trading books, we do not backtest the results because the basis of risk measurement is not consistent with the basis of revenue recognition.

Stress loss

Neither 1-day nor 10-day VaR, nor the worst case losses in the VaR distributions, reflects the worst loss that could occur as a result of extreme, unusual or unprecedented market conditions. Stress loss measures quantify our exposure to these more extreme market movements and are an essential complement to VaR. Our VaR measure is based on observed historical movements and correlations. Stress loss measures do not have to be (and should not be) constrained by historical events. Our approach is designed to ensure that a wide range of possible outcomes is explored, that we understand our vulnerabilities and that the governance and control framework is comprehensive, transparent and responsive to market conditions and developments in the world economy.

We run macro stress scenarios bringing together various combinations of potential market moves to reflect the most common types of stress event. These include an industrial country market crash with a range of yield curve and credit spread behavior, and emerging market crises, with and without currency pegs breaking. We also model a general recovery scenario. The standard scenarios are run daily, 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 by the Chairman's Office at least annually.

The macro scenarios are supplemented, as and when necessary, by specific scenarios targeting current concerns, such as sharp movements in energy prices or the impact of increased geopolitical instability in specific regions, and position-centric scenarios that attempt to capture any particular vulnerabilities or aspects of our exposure that may not be fully covered by the standard scenarios. Such scenarios, by definition, must be constantly adapted to changing circumstances and portfolios.

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. Although the macro scenarios incorporate generic elements of past market crises, we may continue to use the more granular detail of specific historical events which have previously generated the VaR tails when they are no longer included in the VaR historical time series, to supplement the results and benchmark the severity of our macro scenarios, or to provide a basis for ad hoc and position-centric scenarios.

Most major financial institutions employ stress tests, but their approaches differ widely and there is no benchmark or industry standard in terms of 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 results between institutions can therefore be highly misleading, and for this reason we do not publish quantitative stress results.

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 measures are also applied to control risk concentrations, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to general market risk factors and to single names.

In the Investment Bank, a comprehensive set of risk factor limits has been established. They are applied to individual general market risk factors or groups of highly correlated factors based on market moves broadly consistent with the basis of VaR, i.e. 10-day 99% confidence moves. Each limit applies to exposures arising from all instrument types in all trading businesses of the Investment Bank. Both the market moves and the limits are reviewed annually or as necessary to reflect market conditions.

The Investment Bank carries exposure to single names, and therefore to event – including default – risk. We measure this risk across all relevant instruments (debt and equity, in physical form and from forwards, options, default swaps and other derivatives) as the aggregate change in value resulting from an event affecting a single name or group. We also track the maximum amount we could lose if all underlying debt and equity of each name became worthless. Positions are controlled in the context of the 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, publicly available information on individual names.

Exposures arising from security underwriting commitments are subject to the same measures and controls as secondary market positions. The commitments themselves are also subject to targeted processes, which generally include review by a commitment committee with representation from both the business and the control functions. All commitments are approved under specific delegated authorities.

As explained in the Credit Risk section under Country risk, our country ceilings limit concentrated exposure to all but the best-rated countries and cover market as well as credit risks.

In addition to the standard portfolio and concentration limits, we have an array of limits developed for specific purposes where the standard limits may not provide comprehensive control. They address concerns about, for example, market 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, consistent with accounting requirements. 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 2006, Critical accounting policies and note 30, 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.

Other applications of market risk measures

Our portfolio and concentration risk measures are generally applied to trading activities and general market risks in non-trading activities to set and monitor utilization of limits, or to determine approval authorities.

We may also selectively apply these measurement tools to portfolios for which the primary controls are in other forms. VaR can, for example, provide additional insight into the sensitivity of investment positions to market risk factors, even though some of the assumptions of VaR – in particular the relatively short time horizon – may not be representative of their full risk. The results can be used by business management and risk controllers for information or to trigger action or review.

VaR is also the primary measure for determining our market risk regulatory capital requirement.

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 idiosyncratic market risks in these books are subject to a market risk capital requirement. It also means that the securities and other exposures to single names in tradable form are not generally subject to "banking book" capital requirements, which are typically higher. If a trading position in such 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 the market risk control framework for internal control purposes.

In first quarter 2006, the SFBC approved the inclusion of our base metals and soft commodities derivatives trading business in VaR for regulatory capital purposes. It was included in both our external disclosure and our market risk regulatory capital from 15 March 2006, but its incremental impact was minimal.

All non-trading foreign exchange exposures (other than structural positions – see "Treasury Management" chapter) are included in VaR for regulatory capital purposes. There are some non-material legacy commodities positions in the form of warrants for which the market risk capital requirement is calculated using the "standardized method" prescribed by regulation. Other non-trading general market risks (interest rate and equity) are not subject to a market risk capital charge but interest rate risk which is not included in VaR for regulatory capital purposes is reported to Swiss regulators.

Further explanation of regulatory capital treatment is provided in note 29 of our Financial Report 2006.

Market risk in 2006

The movements in the S&P 500 Composite and FTSE 100 and the historical volatility of these indices, which are shown in the charts below, reflect the variations in market conditions in general over the course of 2006.

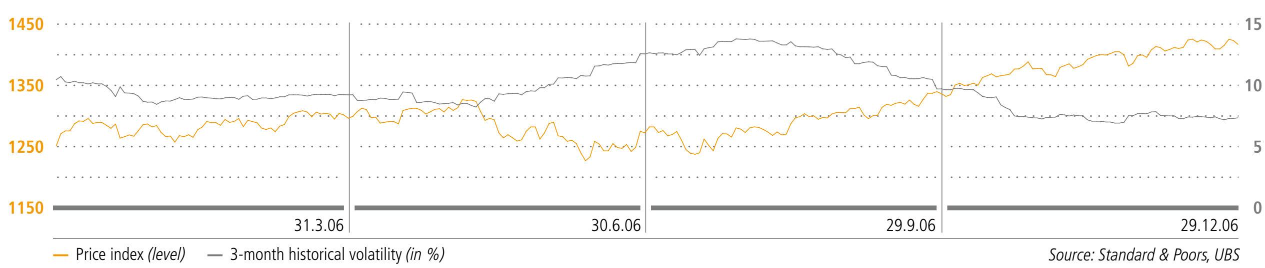
The year started with active, buoyant markets and heavy trading volumes – equity indices rose, spreads tightened, new issuance was strong and there was considerable merger and acquisition activity. Inflation fears surfaced in May, and volatility increased, followed by a period of uncertainty and challenging market conditions. As market sentiment picked up in fourth quarter, equity markets resumed their upward trend, which continued to the end of the year when many reached all-time highs, and credit spreads tightened once more.

Value at Risk

In mid-2006 we reported that some of our strategic initiatives would naturally lead to an increase in our risk profile, especially in emerging markets where our exposure had been too low in recent years. The impact of these initiatives – combined with the excellent trading conditions in first and fourth quarters – can be seen in the Investment Bank's market risk. For 2006 as a whole, average VaR (10-day, 99% confidence, 5 years of historical data), increased to CHF 420 million, up from CHF 346 million in 2005. Both interest rate and equities VaR were higher than in the preceding year. The integration of Pactual from 1 December 2006 contributed to this increase – without Pactual, 2006 year-end VaR for the investment Bank would have been CHF 445 million, rather than CHF 473 million.

S&P 500 Composite 2006

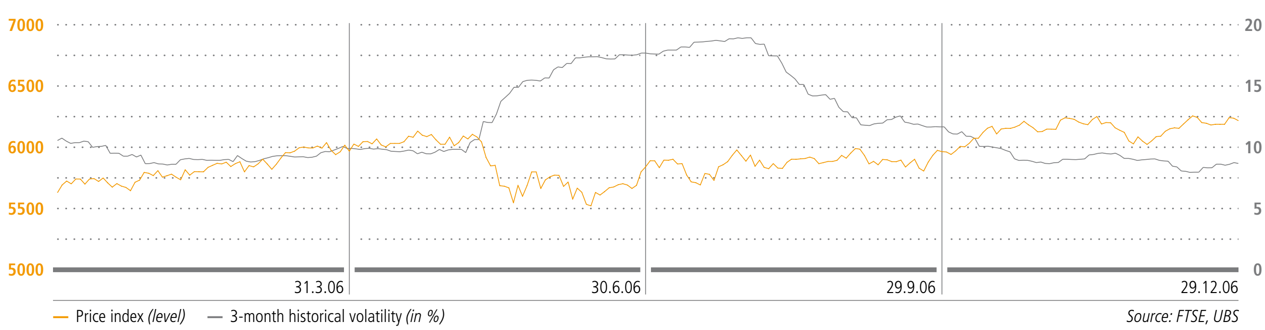
2 January 2006 – 29 December 2006



Source: Standard & Poors, UBS

FTSE 100 2006

2 January 2006 – 29 December 2006



Source: FTSE, UBS

Interest rate risk was, as usual, the largest contributor to overall Investment Bank VaR averaging CHF 417 million, an increase from the 2005 average of CHF 364 million. Credit spread exposure remained the dominant element of interest rate VaR and the main driver of both the fluctuations over the period and the year-on-year increase, but changes in directional interest rate positions also contributed to the variations

Average equities VaR, at CHF 203 million, was higher than the 2005 average of CHF 173 million. Much of this increase was a response to good trading conditions, particularly in the first and fourth quarters.

Average Corporate Center VaR for 2006 was CHF 43 million, a decrease on the 2005 average of CHF 63 million, with reductions in both interest rate and foreign exchange risk. At year end, UBS VaR was lower than Investment Bank VaR as Corporate Center exposures provided some offset to Investment Bank positions. Market risk exposure in the other Business Groups have only a marginal impact on the total UBS VaR.

Changes in VaR limits in 2006

Following the annual limits review in early 2006, the Investment Bank VaR limit was increased and the Corporate Center limit decreased, within an unchanged limit for UBS. The VaR limits for UBS as a whole and for the Investment Bank were increased from 1 December reflecting the integration of Pactual and expected business growth in 2007. The Corporate Center limit was further reduced. The limits in force at year end are shown in the table.

Investment Bank: Value at Risk (10-day, 99% confidence, 5 years of historical data)

	Year ended 31.12.06				Year ended 31.12.05			
CHF million	**Min.**	**Max.**	**Average**	**31.12.06**	Min.	Max.	Average	31.12.05
Risk type								
Equities	**144**	**360**	**203**	**232**	120	266	173	235
Interest rates	**237**	**607**	**417**	**405**	223	514	364	269
Foreign exchange	**16**	**65**	**31**	**40**	11	63	30	23
Energy, metals and commodities[1]	**26**	**102**	**49**	**44**	6	88	38	46
Diversification effect	[2]	[2]	**(280)**	**(248)**	[2]	[2]	(259)	(218)
Total	**331**	**559**	**420**	**473**	245	512	346	355

1 Includes base metals and soft commodities risk from 15 March 2006. 2 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, 5 years of historical data)

	As of 31.12.06	Year ended 31.12.06				Year ended 31.12.05			
CHF million	Limits	**Min.**	**Max.**	**Average**	**31.12.06**	Min.	Max.	Average	31.12.05
Business Groups									
Investment Bank[1, 2]	775	**331**	**559**	**420**	**473**	245	512	346	355
Global Asset Management[3]	30	**4**	**16**	**9**	**10**	3	13	10	8
Global Wealth Management & Business Banking	25	**4**	**14**	**10**	**5**	4	14	9	12
Corporate Center[4]	100	**25**	**69**	**43**	**27**	32	84	63	62
Diversification effect		[5]	[5]	**(54)**	**(52)**	[5]	[5]	(62)	(64)
Total	850	**336**	**565**	**429**	**464**	255	520	366	373

1 Includes risk managed by Dillon Read Captial Management. 2 Includes Pactual from 1 December 2006. 3 Only covers UBS positions in alternative & quantitative investments. 4 VaR for Corporate Center includes non-trading interest rate exposure in the Treasury book. The sale of Private Banks & GAM 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, 5 years of historical data)[1]

	Year ended 31.12.06				Year ended 31.12.05			
CHF million	**Min.**	**Max.**	**Average**	**31.12.06**	Min.	Max.	Average	31.12.05
Investment Bank[2]	**129**	**230**	**172**	**160**	105	206	150	155
UBS	**131**	**233**	**173**	**162**	109	211	157	164

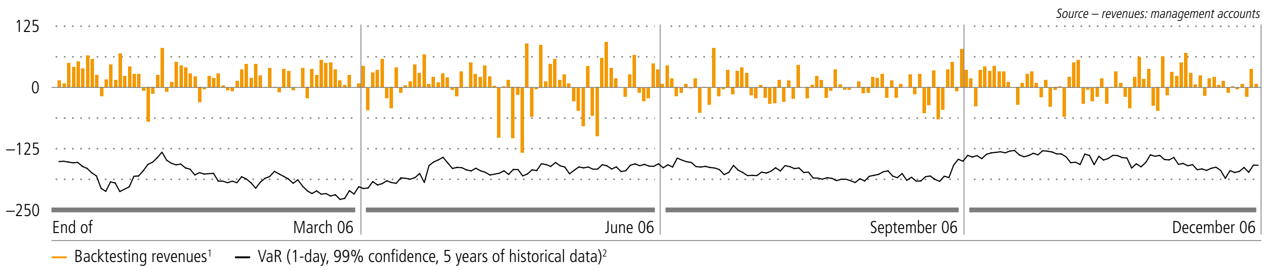
1 10-day and 1-day VaR results are separately calculated from underlying positions and historical market moves. They cannot be inferred from each other. 2 Positions in Investment Bank subject to market risk regulatory capital contributed average VaR of CHF 169 million in 2006 and CHF 147 million in 2005.

Backtesting
Despite the increased market volatility in May and June 2006, and the resulting fluctuations in backtesting revenues, we had no regulatory backtesting exceptions in 2006. The graph below shows 1-day VaR for Investment Bank portfolios subject to market risk regulatory capital and the corresponding backtesting profits and losses. In the accompanying histogram we show the backtesting revenues alongside the daily "full revenues" – all revenues from business areas which have trading activities.

Stress loss
Stress loss for the Investment Bank, defined as the worst-case outcome from our macro scenarios, was also higher in 2006 than in 2005. As with VaR, credit spread exposures remained the dominant contributor. Stress loss exposure increased towards the end of the year following the integration of Pactual.

Investment Bank: backtesting

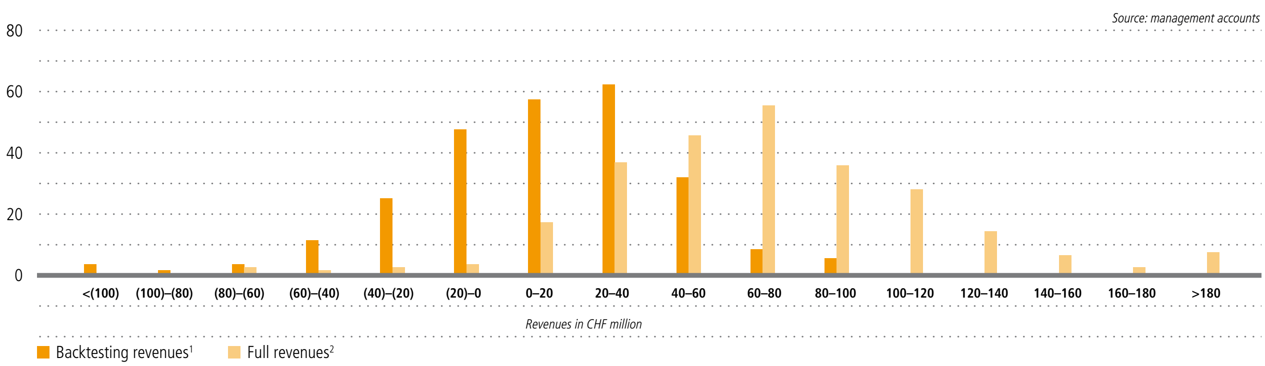
CHF million *2 January 2006–29 December 2006*



1 Excludes non-trading revenues, such as commissions and fees, and revenues from intraday trading. 2 Only includes positions subject to market risk regulatory capital.

Investment Bank: revenue distribution 2006

Frequency in number of days



1 Excludes non-trading revenues, such as commissions and fees, and revenues from intraday trading. 2 Includes all revenues from business areas which have trading activities.

VaRiations on a theme

Financial institutions commonly use Value at Risk – VaR – to measure market risk as part of their internal risk control framework, to determine market risk regulatory capital requirements and for external disclosure of their market risk. But there is no industry-standard VaR – the term describes a family of measures and models with different statistical bases and parameters, and capturing different types of market risk events. Firms apply their VaR models to positions arising from different activities, and their external disclosures are not necessarily on the same basis as their internal risk controls or their regulatory capital calculations. All these factors affect the level of reported VaR and can make comparisons between firms difficult.

To aid comparison, the chart below shows the Investment Bank's average VaR based on a variety of parameters. It clearly shows that the time horizon, the historical look-back period and the confidence interval have a significant impact on reported VaR.

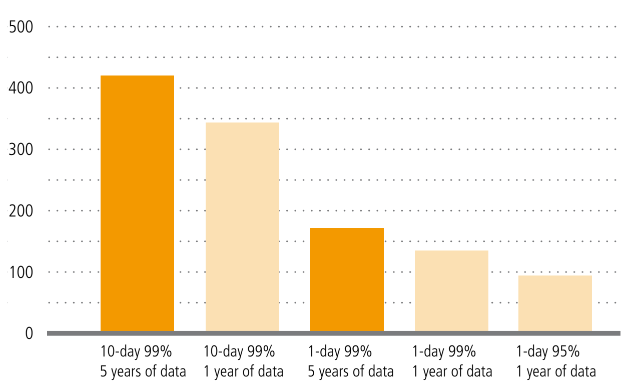
UBS uses the same VaR model for internal risk control (including limits), for regulatory capital calculation, and for detailed external disclosure, using a 10-day horizon and five years of historical data, as explained under "Value at Risk". 1-day VaR, separately generated by the same models from the same historical data, is used for backtesting and is also included in our external disclosures. Our 1-day VaR has always been lower than our 10-day VaR but not in a constant ratio – the relationship depends on both the composition of the portfolio and the pattern of the historical data (in particular trending markets or sharp reversals of earlier moves).

The length of the historical time series affects VaR results but not in a systematic way. A longer time series tends to produce a more stable VaR over time because it is less influenced by short-term trends. Because we use a five year look-back period, our VaR in the last two years has continued to reflect the extreme market moves of 2001 and 2002. It has thus been higher than it would have been using a one year time series.

The chosen confidence interval also affects the result – a higher confidence interval always produces a higher VaR but not according to a statistical formula.

Investment Bank: Average VaR on various bases, 2006

CHF million



■ As disclosed by UBS in regular reporting.
■ VaR on alternative bases. Results have, for the most part, been separately calculated from underlying positions and historical data but some small components have been approximated.

Risk management

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 Group 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 these risks are 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 framework in the Business Group, to ensure transparent assessment and reporting of risks to senior management, and to coordinate with their counterparts in other Business Groups and with the Group Head of Operational Risk on cross-Business Group matters.

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 everyday 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. Our internal control framework differentiates potential events depending on their likely frequency and impact. Our mitigation and avoidance efforts are focused on areas where we believe we are most exposed to severe events – including both those that are reasonably foreseeable and those that, while not predictable, are thought to be reasonably possible. For lower impact risks we concentrate on management and monitoring.

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 range 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 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 the likely severity of the resulting impact. These assessments are validated by the Operational Risk Control units within the Business Groups.

We maintain a database of financial events (both profits and direct losses) that result from operational failures, and use this loss data, and scenarios that represent potential future losses, as inputs to a model that quantifies our operational risk exposure. The output from this model 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 writedowns – 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. The outstanding provision balances, which are included in Note 21 to our Financial Statements, are used as the best estimate of current loss for the purposes of operational risk quantification.

Operational risk developments

We use the operational risk framework as the basis for specialist internal control assessments in areas such as legal, compliance, tax and human resources and to assist in meeting internal control-related regulatory requirements including Basel II and Sarbanes-Oxley Section 404 (SOX 404).

UBS was required to comply with SOX 404 for the first time at the end of 2006. The Group SOX Office (GSO), formed last year and reporting to the Group Chief Financial Officer, has coordinated a specialist assessment of the effectiveness of internal controls over financial reporting, starting with the Business Groups' own assessments. GSO analyzed these results and made recommendations to the SOX 404 Assessment Committee and the Group Executive Board which in turn made a group-level assessment.

>> This assessment, together with the associated report of our external auditors, appears in our Financial Report 2006.

Following the precedent of the approach to SOX 404, we have continued to work during the past year to leverage the operational risk framework to assist with assessments of policy implementation, regulatory reporting, and legal entity governance. A key focus over the coming year will be alignment of the framework with a group-wide approach for business continuity and crisis management.

Finally, continued business expansion during 2006 has also led to efforts to extend the framework to new areas including the "India Service Center", a dedicated internal shared service center for offshoring, Dillon Read Capital Management, the new alternative investment management business in Global Asset Management, and Pactual, one of Brazil's top wealth managers, investment banks, and asset managers, which we acquired during 2006. We continue to ensure that our framework is sufficiently scalable and flexible to extend its scope to new activities and businesses as they are created or acquired.

Operational risk in practice

The total of operational risk financial losses in 2006 was broadly comparable with those in 2004 and 2005, but a significant portion of the total in 2006 was accounted for by one single event – the settlement of a longstanding litigation with Sumitomo Corporation. The litigation, pending since 1999, related to copper-linked transactions undertaken with the Japanese trading company by the former Union Bank of Switzerland from 1995 to 1996. UBS settled the case without admission of wrongdoing but this case clearly illustrates the "long-tail" that exists for certain operational risk events where the financial loss crystallizes many years after the activities that led to it.

Treasury management

Treasury, which is part of the Corporate Center, is responsible for the management of UBS's financial resources.

Introduction

Our treasury department assumes market risk as a result of its balance sheet and capital management responsibilities. Treasury manages the interest rate risk arising from the funding of non-business items and the transfer of long-term interest rate risk from other Business Groups. It is also responsible for the foreign exchange risk resulting from the multi-currency nature of our business.

Treasury manages UBS's consolidated equity in order to protect our capital ratios and to generate a stable interest income stream.

Treasury: Value at Risk (10-day, 99% confidence, 5 years of historical data)[1]

	Year ended 31.12.06				Year ended 31.12.05			
CHF million	Min.	Max.	Average	31.12.06	Min.	Max.	Average	31.12.05
Interest rates	19	72	36	19	31	84	65	62
Foreign exchange	4	51	30	20	3	67	26	30
Diversification effect	[2]	[2]	(23)	(12)	[2]	[2]	(26)	(30)
Total	25	69	43	27	33	86	65	62

1 For 2005, Treasury VaR differs from Corporate Center VaR, which also included Private Banks up to their sale on 5 December 2005. For 2006, Treasury is the only contributor to Corporate Center VaR.
2 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

Interest rate and currency management

Management of non-trading interest rate risk

UBS's largest non-trading interest rate exposures arise in our wealth management and Swiss-based banking business. These risks are transferred from the originating businesses into one of the two centralized interest rate risk management units – Treasury or the Investment Bank's Cash and Collateral Trading unit (CCT). They manage the risks on an integrated basis to exploit the full netting potential across risks from different sources.

Risks from all fixed-maturity, short-term Swiss franc and all non-Swiss franc transactions are generally transferred to CCT where they are managed within the market risk framework described in the Risk Management chapter under "Market risk".

Risks from Swiss franc transactions with fixed maturities greater than one year are transferred to Treasury by individual back-to-back transactions. Current and saving accounts and many other retail products of Global Wealth Management & Business Banking have no contractual maturity date or direct market-linked rate, and therefore their interest rate risk cannot be transferred by simple back-to-back transactions. Instead, they are transferred on a pooled basis via "replicating" portfolios. A replicating portfolio is a series of loans or deposits at market rates and fixed terms between the originating business unit and Treasury, structured to approximate – on average – the interest-rate cash flow and re-pricing behavior of the pooled client transactions. The portfolios are rebalanced monthly. Their structure and parameters are based on long-term market observations and client behavior, and are regularly reviewed and adjusted as necessary. The originating business units are thus immunized as far as possible against market interest rate movements, but retain and manage their product margin.

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 which, in this case, are designed to approximate the funding profile mandated by senior management.

Treasury manages its residual open interest rate exposures – taking advantage of any offsets that arise between positions from different sources – within its approved market risk limits (VaR and stress loss limits). The preferred risk management instrument is interest rate swaps, for which there is a liquid and flexible market. All transactions are executed via the Investment Bank – Treasury does not directly access the external market. Retained interest rate risk is included in the VaR shown in the table "Treasury: Value at Risk".

Market risk arising from management of consolidated capital

We are required, by international banking regulation (BIS regulations), to hold a minimum level of capital against assets and other exposures (risk-weighted assets). The relationship between our capital and our risk-weighted assets – the BIS Tier 1 ratio – is monitored by regulators and analysts and is a key indicator of our financial strength.

UBS's capital and many of its assets are denominated in Swiss francs, but the Group also holds risk-weighted assets in many other currencies, primarily US dollar, euro and UK sterling. Following the integration of Pactual in December 2006, we now also have material risk-weighted assets in Brazilian real. Any significant depreciation of the Swiss franc against these currencies would adversely impact the Group's BIS Tier 1 ratio. Treasury's mandate is therefore to protect this ratio against adverse currency movements and to generate a stable income flow from the capital. This mandate determines a currency, tenor and product mix – a target profile – against which Treasury manages the Group's capital.

The capital of the parent bank and its subsidiaries is placed in the form of interest bearing cash deposits internally within the Group – primarily with the Investment Bank's CCT unit. Where necessary Treasury also executes derivatives (mainly interest rate swaps) with the Investment Bank's trading desks to achieve the target profile. CCT and the derivative trading units manage the resultant cash and market risk positions as part of their normal business under the framework and limits described in the Risk Management chapter under "Market risk" and, in the case of CCT, within the liquidity framework described below under "Liquidity and funding management".

On an overall Group basis, Treasury's target profile is based on a currency mix which broadly reflects the currency distribution of the consolidated risk-weighted assets, using products and tenors which generate the desired income stream. As the Swiss franc depreciates (or appreciates) against these currencies, the consolidated risk-weighted assets increase (or decrease) relative to our capital. These currency fluctuations also lead to translation gains (or losses) on consolidation, which are recorded through equity. Thus our consolidated equity rises or falls in line with the fluctuations in the risk-weighted assets, protecting the Group's BIS Tier 1 ratio. The capital of the parent bank itself is held predominantly in Swiss francs in order to avoid any significant effects of currency fluctuations on its standalone financial results.

For the purposes of measuring and managing Treasury's market risk position, the Group's consolidated equity is represented in the Treasury book by replicating portfolios (liabilities) with the target currency and interest rate profile. The interest rate positions created by Treasury's deposits with CCT or other units, and the associated derivatives, generally offset the interest rate risk of the replicating portfolios but any mismatches between the two are managed, together with other non-trading interest rate risk positions within Treasury's market risk limits (VaR and stress), and are reflected in the table "Treasury: Value at Risk".

The structural foreign currency exposures are closely controlled by senior management but are not subject to internal market risk limits and are not included in Treasury's reported VaR.

Treasury interest rate risk development

In measuring Treasury's interest rate risk – expressed as VaR and shown in the table "Treasury: Value at Risk" – both the representation of the consolidated equity (replicating portfolios) and the deployment of the equity described above are included in the calculations. At 31 December 2006, UBS consolidated equity was deployed as follows: in Swiss francs (including most of the capital of the parent bank) with an average duration of approximately 3 years and an interest rate sensitivity of CHF 7.4 million per basis point; in US dollar with an average duration of approximately 4 years and sensitivity of CHF 8.4 million per basis point; in euro with an average duration of approximately 3 years and a sensitivity

IAS39 Hedge Accounting

The bulk of the interest rate exposure managed by Treasury stems from retail lending and deposit transactions. Given the nature of the Swiss retail business, the overwhelming part of the lending business has a long-term and fixed-rate contractual maturity while the liability business is rather of a short-term nature. Consequently, Treasury regularly enters into derivative transactions to actively manage the resultant interest rate risk. Most of these derivatives receive hedge accounting treatment according to IAS39 under the "Cash Flow Hedge" model, which means that income recognition on the swaps is symmetrical with income recognition on the underlying assets and liabilities.

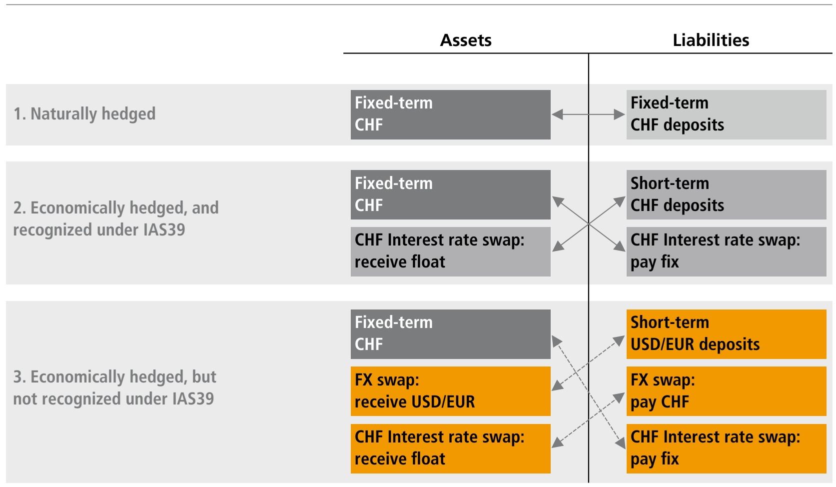
In order to qualify as an "effective" hedge, a derivative, such as a swap, has to meet certain criteria, one being that UBS must be able to demonstrate that it is hedging future expected cash flows, and another that the hedging derivative is denominated in the same currency as the hedged item. The second criterion may conflict with a globally diversified funding approach, which is, by nature, based on a variety of currencies. UBS optimizes its funding needs by raising cash through the most efficient products and currencies. This may lead to an external funding transaction in a foreign currency, followed by an FX-swap transaction to convert the foreign-currency borrowings into Swiss franc liabilities, which are then used to fund a Swiss franc asset.

The following diagram illustrates this multi-stage process.

Although in this example we achieve an economic hedge of all relevant market risks in the most efficient way, we may not necessarily be permitted to apply full hedge accounting under the Cash Flow Hedge model. As a consequence, the fair value gains or losses on the derivative transactions (block 3 in the diagram) are recognized in profit and loss. These gains and losses are reported in Corporate Center and lead to volatility in reported quarterly earnings.

At Group level, changes in long-term Swiss franc interest rates led to immaterial income volatility during 2006 on derivative transactions for which hedge accounting was not applied. While interest rates moving higher had a positive impact on most of the Corporate Center's quarterly results, the sharp decline of interest rates during the third quarter resulted in a negative impact.

Interest rate risk hedging in the Swiss franc Treasury book



CHF 0.7 million per basis point; and in UK sterling with a duration of approximately 3 years and a sensitivity CHF 0.5 million per basis point. The interest rate sensitivity of these positions is directly related to the chosen duration – targeting significantly shorter maturities would reduce the apparent interest rate sensitivity but would lead to greater fluctuation in interest income.

Corporate currency management

Our corporate currency management activities are designed to limit and control the impact of adverse currency fluctuations on our reported financial results and on our ability to continue operations, given regulatory constraints. We specifically focus on three principal areas of currency risk management: match funding / investment of non-Swiss franc assets / liabilities; sell-down of non-Swiss franc profit and loss; and selective hedging of anticipated non-Swiss franc profit and loss.

Match funding and investment of non-Swiss franc assets and liabilities

As far as it is practical and efficient to do so, we follow the principle of matching the currency of our assets with the currency of the liabilities which fund them – thus a US dollar asset is typically funded in US dollars, a euro liability is offset by an asset in euros, etc. This avoids profits and losses arising from retranslation at the prevailing exchange rates to the Swiss franc at each quarter end.

Sell-down of reported profits and losses

For accounting purposes, reported profits and losses are translated each month from the original transaction currencies into Swiss francs at the exchange rate prevailing at the end of the month. Treasury centralizes profits (or losses) in foreign currencies that arise in the parent bank, and sells (or buys) them for Swiss francs in order to eliminate earnings volatility which would arise from retranslation at different exchange rates of previously reported non-Swiss franc profits and losses. Other UBS operating entities follow a similar monthly sell-down process into their own reporting currencies. Profits retained in operating entities with a reporting currency other than Swiss franc are managed as part of our consolidated equity, as described earlier in this section.

Hedging of anticipated future reported profits

The monthly sell-down process cannot protect UBS's earnings from swings caused by a sustained depreciation against the Swiss franc of one of the main currencies in which we earn net revenues or by an appreciation of one in which we incur significant net costs.

Our corporate currency management seeks to mitigate the potential adverse impact of any such development by executing a dynamic and cost-efficient hedge strategy on a portion of our anticipated future profits without losing the upside potential from a weakening Swiss franc.

The hedging program is developed and executed in the context of the risk tolerance defined by the Group Executive Board (GEB) and our view of likely currency movements, and is overseen and approved by the Group Chief Financial Officer. Although intended to hedge future earnings, these transactions are considered open currency positions. They are therefore subject to internal market risk VaR and stress loss limits and are included in the VaR shown in the table "Treasury: Value at Risk".

In our public segmental reporting, the profits and losses arising from the hedge strategy are shown as Corporate Center items, while the Business Group results are fully exposed to exchange rate fluctuations. For 2006, the net currency impact on UBS's Swiss franc financial net profit was slightly negative, but well within our agreed tolerances.

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 local disruption 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 are due may collapse, even though it is not insolvent, because it is unable to borrow on an unsecured basis, or does not have sufficient assets of adequate quality 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 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 placed with 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 and stressed market 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. This provides us with a cumulative "cash ladder".

The starting point for these analyses is a breakdown of the contractual maturity of our assets and liabilities, showing the contractual profile of UBS's overall cash flow under a "business as usual" scenario. This is displayed – for 31 December 2006 – in note 29 to the financial statements. 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 collateral, which includes securities eligible to be pledged 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 119.6 billion on 31 December 2006) 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, 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 derivatives master agreements, 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 timezone 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 passed from time-zone to time-zone, ensuring 24-hour coverage. Compliance with the risk limits and actual 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.

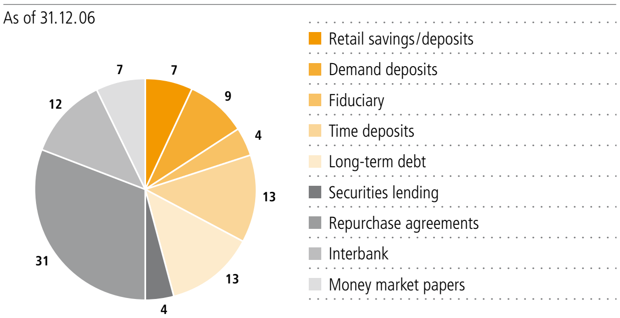
In this context, UBS's strong domestic retail business is a very valuable, cost-efficient and reliable source of funding. Furthermore, through the establishment of funding programs in Europe, the US and Asia to facilitate the issuance of short-, medium- and long-term securities, we can provide specialized 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

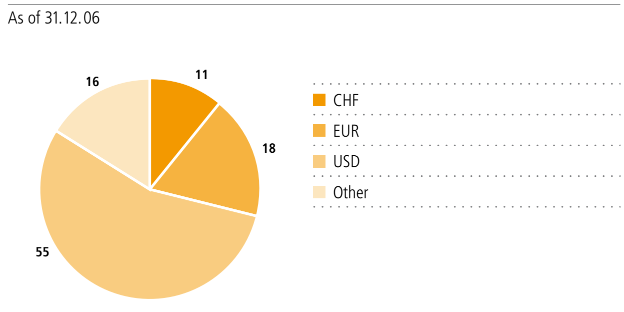
UBS: funding by product type

in %



UBS: funding by currency

in %



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 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 concept of secured funding capacity is relevant primarily in 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. The primary motivation for such structures is credit risk management, not funding. They do not 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 above show a breakdown by product type and by currency of our secured and unsecured funding on 31 December 2006. 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, 35% was raised on a secured basis and 65% unsecured. The unsecured funding base is well diversified, with 16% of total funding stemming from savings and demand deposits, 13% from long-term debt, 13% from time deposits, 12% from short-term interbank borrowing, 7% from money market papers and 4% from fiduciary deposits. Around half of our funding is originated in US dollars, with substantial portions in Swiss francs and 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.

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 endeavor to maintain strong debt ratings and sound capital ratios (see capital strength box below), to reinforce 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.

In managing our capital, we look at both required capital (the minimum amount of capital required to underpin our risks according to regulatory requirements) and our available eligible capital (our capital measured according to the regulators' criteria) 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 capital ratios, helping us protect our strong capitalization and credit ratings while ensuring we continue to create sustainable value for shareholders.

Capital requirement

The capital we are required, by banking regulation, to hold is determined by our risk-weighted assets – our balance sheet, off-balance sheet and market risk positions, measured and risk-weighted according to criteria defined by our lead regulator, the Swiss Federal Banking Commission (SFBC). For instance, credit exposures to third parties are measured according to the type of instrument (and collateral, if any) and risk-weighted according to the type of counterparty. Market risk positions are generally measured using a Value at Risk (VaR) model. For more detail on these calculations please refer to note 29 to the financial statements. Most of our capital requirement arises from balance sheet assets. Off-balance sheet positions contributed 14% and market risk positions 6% of total risk-weighted assets and, correspondingly, of our total capital requirement on 31 December 2006.

The capital available to support these risks – eligible capital – consists of two elements – Tier 1 capital which is pri-

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 March 2006, *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 AG reflect the bank's leadership positions in the majority of its core businesses, its ability to deliver predictable and rising profits, its better cost control, its very low risk profile and strong economic and regulatory capital positions."

In June 2006, the rating agency *Standard & Poor's* affirmed UBS's AA+ long-term, and A-1+ short-term ratings and commented: "The ratings on Swiss-incorporated UBS AG reflect its strong and diverse franchise, which supports good profitability, solid capitalization and sound liquidity. UBS holds leading positions in its chosen markets. It is the world's largest wealth manager, a major global asset manager and investment bank, and the largest commercial bank in Switzerland. The key strengths of this business profile are the strong cash flow, high returns, and low capital requirements of its asset-gathering businesses."

In October 2006, *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. Funding and liquidity remain particular strengths, and UBS remains one of the better capitalized global banks."

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 of		
	31.12.06	31.12.05	31.12.04
Fitch, London	AA+	AA+	AA+
Moody's, New York	Aa2	Aa2	Aa2
Standard & Poor's, New York	AA+	AA+	AA+

marily shareholders' equity with certain adjustments defined by regulation, and Tier 2 capital which consists of long-term subordinated debt. Tier 1 capital is required to be at least 4% and total capital (Tier 1 plus Tier 2) at least 8% of risk-weighted assets.

Our published risk-weighted assets and capital ratios are determined according to the Basel Capital Accord (BIS guidelines). The calculation of UBS's capital requirement under the regulations of the SFBC differs in certain respects from the calculation under 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.

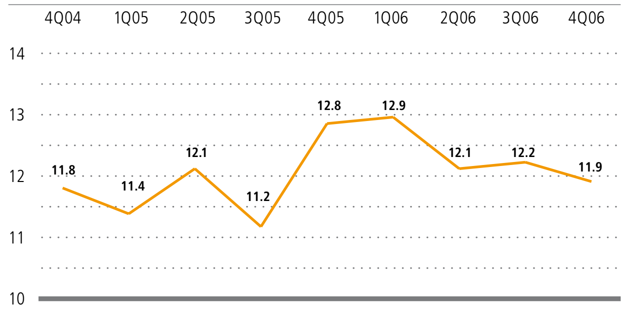
As a result of the differences in regulatory rules, UBS's risk-weighted assets are higher, and our capital ratios (total and Tier 1), are lower, when calculated under SFBC regulations than under BIS guidelines. UBS has always had total capital and Tier 1 capital well in excess of the minimum requirements of both the BIS and the SFBC.

Capital ratios

On 31 December 2006, risk-weighted assets were CHF 341.9 billion, up 10% from CHF 310.4 billion a year earlier. Roughly 75% of the increase was driven by our Investment Bank activities (including acquisitions in 2006) and the remainder was contributed by our lending business in Global Wealth Management & Business Banking. On 31 December 2006, BIS Tier 1 capital was CHF 40.5 billion, up from CHF 39.8 billion a year earlier, reflecting a strong operational profit in 2006, partially offset by various acquisitions in 2006, negative currency fluctuations and higher dividend accruals. The

UBS: BIS Tier 1 capital ratio

Tier 1 ratio (in %)



combination of the 10% risk-weighted assets increase and the 2% growth in BIS Tier 1 capital resulted in a decrease of our BIS Tier 1 ratio by 0.9 percentage point to 11.9% at the end of 2006 from 12.8% on 31 December 2005. Our total BIS ratio at 31 December 2006 was 14.7%, up from 14.1% a year earlier, due to the issuance of additional lower Tier 2 capital (subordinated debt) in 2006.

For details of UBS's issuance of capital securities during 2006, including preferred shares and subordinated debt, please see the Capital Structure section of the Corporate Governance chapter.

Introduction of Basel II

Upon implementation of Basel II on 1 January 2008, we expect the overall impact on our BIS Tier 1 ratio to be slightly negative, depending on the further development of our business mix, in particular the profile of our loan book. This expectation is based on a direct comparison between our capital requirements under current regulations at 31 December 2006, and the corresponding requirements for the same date but using the Basel II rules, generated using the IT systems and processes we plan to use when Basel II comes into effect.

Capital adequacy

	As of		
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04
BIS Tier 1 capital	**40,528**	39,834	31,320
of which hybrid Tier 1 capital[1]	**5,633**	4,975	2,963
BIS total capital	**50,364**	43,808	36,135
BIS Tier 1 capital ratio (%)	**11.9**	12.8	11.8
BIS total capital ratio (%)	**14.7**	14.1	13.6
Balance sheet assets	**273,588**	252,364	218,476
Off balance sheet and other positions	**48,444**	37,010	28,205
Market risk positions[2]	**19,860**	21,035	18,151
Total BIS risk-weighted assets	**341,892**	310,409	264,832

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

Treasury shares

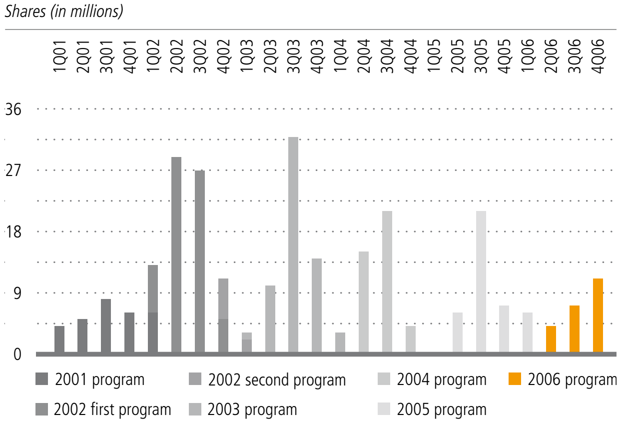
Under IFRS accounting rules, UBS's holdings of its own shares for trading or non-trading purposes are recorded as treasury shares and deducted from shareholders' equity. Our holding of treasury shares decreased to 164,475,699 or 7.8% of shares issued on 31 December 2006, from 208,519,748 or 9.6% on the same date a year ago. Of the treasury shares held, 22,600,000 are earmarked for cancellation whereas the other 141,875,699 cover employee share and option programs and, to a limited extent, market-making activities at the Investment Bank.

Share buyback programs

Our strong cash flow generation combined with our sound capitalization and careful management of our balance sheet allows us to invest in the growth of our businesses by growing organically or making acquisitions. In the absence of such opportunities, we return excess capital to shareholders through share buybacks or dividends. In recent years we have been able to buy back shares on a regular basis, reducing the number of issued UBS shares and thereby 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 (the so-called second trading line). For each buyback program to date, UBS has announced a maximum Swiss franc amount to be used for share purchases. The level of actual repurchases is determined by our capital management plan, which is adjusted throughout the year to reflect changes in business plans or acquisition opportunities. 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

Shares (in millions)



Treasury shares earmarked for cancellation (share buyback program 2006/2007)

At the Annual General Meeting (AGM) on 19 April 2006, shareholders gave the Board of Directors a mandate to set up a repurchase program in 2006/2007 for a maximum amount of CHF 5 billion. At the AGM on 18 April 2007, shareholders will be asked to approve the cancellation of 33,020,000 shares representing a total value of CHF 2.4 billion under the program that ended on 7 March 2007. The shares will be cancelled in summer 2007.

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 par-

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

	For the year ended		
	31.12.06	31.12.05	31.12.04
Weighted average shares for basic EPS after treasury shares	1,976,405,800	2,013,987,754	2,059,836,926
Weighted average second trading line treasury shares[1]	598,982,426	544,339,510	473,940,830
Basic EPS (CHF)	6.20	6.97	3.89
Cumulative impact of treasury shares on basic EPS (CHF)[1]	1.44	1.49	0.73
Cumulative impact of treasury shares on basic EPS (%)[1]	23.2	21.4	18.8

1 From first share buyback program in 2000.

ticipation 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.

Share delivery obligations under its option-based participation plans are satisfied either by purchasing UBS shares in the market on grant date or shortly thereafter or through the issuance of new shares from conditional capital. At exercise, shares held in treasury or newly issued shares are delivered to the employee against receipt of the strike price. In 2006, a total of 47.2 million employee options were exercised and an additional 45.5 million new options were granted. As of 31 December 2006, UBS was holding approximately 115 million shares in treasury and an additional 150 million unissued shares in conditional share capital that can be used for future employee option exercises. The shares available cover all exercisable employee options.

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 own shares remained between 5% and 10% throughout 2006.

Treasury share activities

	Share buyback program				Treasury shares for employee share and option plans and acquisitions[1]		Total number of shares	
Month of purchase	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, 2006	6,130,000	66.65	2005/2006 program	994	84,790	66.69	6,214,790	66.65
February, 2006	300,000	69.14	2005/2006 program	974	97,578	69.70	397,578	69.28
March, 2006			2006/2007 program	5,000	16,768,792	70.47	16,768,792	70.47
April, 2006			2006/2007 program	5,000	816,604	70.78	816,604	70.78
May, 2006	3,520,000	71.00	2006/2007 program	4,750	9,214,808	69.80	12,734,808	70.13
June, 2006	800,000	64.06	2006/2007 program	4,699	12,128,854	66.29	12,928,854	66.15
July, 2006	1,400,000	63.05	2006/2007 program	4,611	88,000	65.10	1,488,000	63.18
August, 2006	1,800,000	67.63	2006/2007 program	4,489	608,403	69.31	2,408,403	68.05
September, 2006	3,745,000	71.31	2006/2007 program	4,222	2,179,473	71.02	5,924,473	71.20
October, 2006	685,000	73.79	2006/2007 program	4,171	40,591	78.38	725,591	74.05
November, 2006	6,050,000	74.85	2006/2007 program	3,718	18,269,837	75.41	24,319,837	75.27
December, 2006	4,600,000	72.45	2006/2007 program	3,385	11,155,302	73.01	15,755,302	72.85

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 173,431 UBS shares during the year and held 2,600,417 UBS shares as on December 31, 2006.

Program	Announcement	Beginning	Expiration	Cancellation	Maximum volume (CHF billion)	Amount (CHF billion)	Total shares purchased	Average price (CHF)	Unutilized volume (CHF billion)
2000/2001	14.12.1999	17.01.2000	02.03.2001	13.07.2001	4.0	4.0	110,530,698[1]	36.18[1]	0
2001/2002	22.02.2001	05.03.2001	05.03.2002	05.07.2002	5.0	2.3	57,637,380	39.73	2.7
2002/2003	14.02.2001	06.03.2002	08.10.2002	10.07.2003	5.0	5.0	135,400,000	36.92	0
2002/2003	09.10.2002	11.10.2002	05.03.2003	10.07.2003	3.0	0.5	16,540,160	32.04	2.5
2003/2004	18.02.2003	06.03.2003	05.03.2004	30.06.2004	5.0	4.5	118,964,000	37.97	0.5
2004/2005	10.02.2004	08.03.2004	07.03.2005	08.07.2005	6.0	3.5	79,870,188	44.36	2.5
2005/2006	08.02.2005	08.03.2005	07.03.2006	13.07.2006	5.0	4.0	74,200,000	54.26	1.0
2006/2007[2]	14.02.2006	08.03.2006	07.03.2007		5.0	1.6	22,600,000	71.46	3.4

1 Restated to reflect the 3-for-1 stock split on 16 July 2001. 2 Status as of 31 December 2006. Program will continue until 7 March 2007.

Distributions to shareholders

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.

Total distributions in 2006

From the results of our ordinary business we transferred a total of CHF 5.8 billion in equity to our shareholders in 2006. This included CHF 2.0 billion in shares we repurchased during 2006 for purposes of cancellation and a total payout to shareholders for the 2005 financial year of CHF 3.8 billion or CHF 1.90 per share (after the 2-for-1 share split). The payout comprised a regular dividend of CHF 1.60, up 7% from a year earlier, with payment on 24 April 2006, plus an additional one-time par value repayment of CHF 0.30 per share on 12 July 2006.

Shareholders in the US received a net dividend payment of USD 0.82 (rounded) per share on 24 April 2006. This excludes the 35% Swiss withholding tax that can partly be reclaimed by US investors. The par value of CHF 0.30, which was not subject to Swiss withholding tax, translated into USD 0.25 (rounded) per share and was paid on 12 July 2006.

Proposed distributions to shareholders in 2007

Dividend in 2007

For the financial year 2006, the Board of Directors will propose to the Annual General Meeting of shareholders a regular dividend of CHF 2.20 per share to be distributed in April (ex-dividend date 19 April 2007, with payment on 23 April 2007 for shareholders of record on 18 April 2007). Subject to the AGM's approval, this is a 16% increase from the total payout last year (including the par value repayment) and 38% higher than last year's regular dividend.

Share buyback program 2007-2010

After the 2006/2007 buyback program ended, we launched a new three-year second-line repurchase program for a maximum repurchase of 10% of shares issued (on 31 December 2006, the total of UBS shares issued was 2,105,273,286). At the share price level in March 2007, the new program would represent a maximum total amount of approximately CHF 15 billion. As in all past programs, the shares bought in this program will be cancelled as and when approved by shareholders. The extended three-year commitment underlines our disciplined approach to capital management while maintaining flexibility to achieve our main strategic priority, which is to invest in growth.

US shareholders

UBS's share registry has 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.

The norm in the US is to declare dividends at least ten days in advance of the applicable record date with ex-dividend trading commencing two days before the record date. To ensure that shareholders on the Swiss and US registers are similarly treated in connection with dividend payments, and to avoid disparities between the two markets, NYSE trading takes place with due bills for the two-business day period preceding the dividend record date.

UBS pays dividends in Swiss francs. For UBS ordinary shares held in street name through The Depository Trust Company – 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 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.

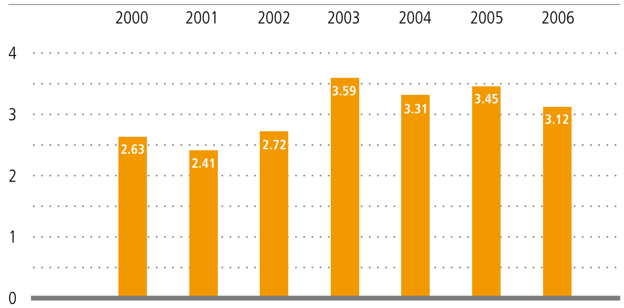
UBS will fix the US dollar dividend amount on the basis of the DJ Interbank Foreign Exchange rate for sale of Swiss francs against US dollars on 19 April 2006.

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%. 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.

>> For more details on "Shareholders' participation rights", see Corporate Governance.

Dividend yield[1]

in %

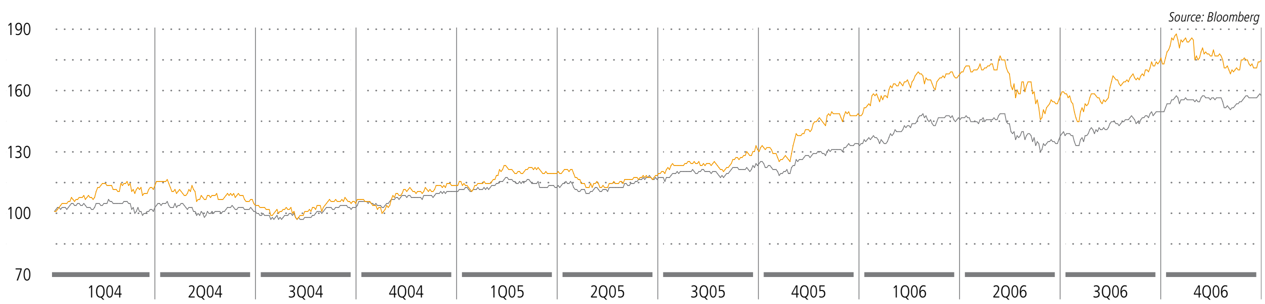


1 Dividend and par value reduction paid / average share price of the year for which dividend or par value reduction were paid.

UBS shares in 2006

UBS share price chart vs DJ Stoxx banks

in % *1 January 2004 – 31 December 2006*



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

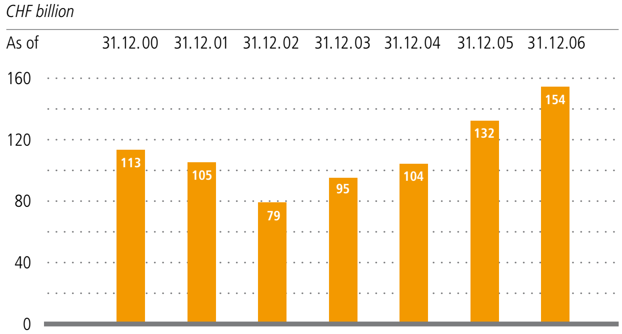
UBS shares are listed on the Swiss Exchange (where they are traded on virt-x), and on the New York and Tokyo stock exchanges. For a detailed definition of UBS shares (par value, type, rights of security), see the Capital Structure section of the Corporate Governance chapter.

In 2006, major equity markets saw significant gains on 2005 against a backdrop of continued strength in corporate earnings and high levels of corporate merger and acquisition activity. Buoyant investor confidence at the outset of the year, however, was quickly dampened by concerns over growth and inflation – leading to a sharp pull back in global markets in May that was exacerbated by a reduction in very high levels of liquidity, almost reversing the year's gains. Global market performance remained subdued over the summer months as geopolitical tension increased in the Middle East and commodity prices peaked. The autumn saw market performance return – spurred by a raft of significant corporate actions and moderating oil prices.

In the US, the Federal Reserve continued to raise interest rates. By the end of the year, the effect of the rate increases had become evident as house prices started to fall, mortgage default rates increased and economic growth slowed. Weakness in the US economy, combined with a growing trade deficit, were factors in the considerable decline of the dollar against major currencies. Despite this, US markets remained robust, with the DJIA up 14.9% in the year, driven by record profits in the energy sector and continued strength in banking and financials, particularly for investment banks. The MSCI (World) Index showed stronger gains, rising 17.8%, benefiting from strong Asian economic growth as well as the buoyant performance in the energy and banking sectors. The DJ Stoxx Banks Index reported similar gains, up 18.3%. UBS shares traded broadly in line with the index, closing 17.5% higher on the year.

Market capitalization

CHF billion



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

Security identification codes

ISIN	**CH0024899483**
Valoren	**2.489.948**
Cusip	**CINS H89231 33 8**

UBS share data

	As of		
Registered shares	**31.12.06**	31.12.05	31.12.04
Total shares outstanding	**1,940,797,587**	1,968,745,296	2,004,389,734
Total shares ranking for dividend	**2,082,673,286**	2,109,495,044	2,173,846,166
Treasury shares	**164,475,699**	208,519,748	249,326,620
Weighted average shares (for basic EPS calculations)	**1,976,405,800**	2,013,987,754	2,059,836,926
Weighted average shares (for diluted EPS calculations)	**2,058,834,812**	2,097,191,540	2,163,922,720

	For the year ended		
CHF	**31.12.06**	31.12.05	31.12.04
Earnings per share			
Basic EPS	**6.20**	6.97	3.89
Basic EPS from continuing operations	**5.81**	4.85	3.66
Diluted EPS	**5.95**	6.68	3.70
Diluted EPS from continuing operations	**5.58**	4.66	3.49

UBS shares and market capitalization

	As of			% change from
Number of shares, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.05
Total ordinary shares issued	**2,105,273,286**	2,177,265,044	2,253,716,354	(3)
Second trading line treasury shares				
2004 program			(79,870,188)	
2005 program		(67,770,000)		
2006 program	**(22,600,000)**			
Shares outstanding for market capitalization	**2,082,673,286**	**2,109,495,044**	**2,173,846,166**	(1)
Share price (CHF)	**74.05**	62.55	47.68	18
Market capitalization (CHF million)	**154,222**	131,949	103,638	17
Total treasury shares	***164,475,699***	*208,519,748*	*249,326,620*	*(21)*

Trading volumes

	For the year ended		
1,000 shares	**31.12.06**	31.12.05	31.12.04
SWX total (virt-x)	**2,731,841**	2,568,531	2,454,468
SWX daily average (virt-x)	**10,884**	10,073	9,663
NYSE total	**214,912**	167,231	147,987
NYSE daily average	**853**	664	587

Source: Reuters

First quarter 2006

A record performance by US investment banks at the close of 2005, growing merger and acquisition deal pipelines, high levels of market liquidity and relatively low interest rates left investors upbeat at the outset of 2006. UBS shares rose 13.1% in the first quarter of the year, supported by its record fourth quarter performance, which closed its then best-ever year. The Board of Directors recommended a 7% increase in the dividend to CHF 3.20, plus a one time par value repayment of CHF 0.60, reflecting the gain realized from the sale of Private Banks & GAM to Julius Baer (both figures before the 2-for-1 share split).

Second quarter 2006

Market sentiment remained buoyant well into the second quarter, although the market rally that had started in early 2003 came to an abrupt end in May 2006. Rising interest rates, high commodity prices, which fed inflation, and geopolitical concerns in the Middle East led to a sharp and sudden decline in world equity markets in late May. The financials sector bore the brunt of the decline, as deal flows dried up and higher interest rates prompted investors to shift into cash and defensive stocks. While the DJIA remained flat, supported by energy stocks, the MSCI fell 1.7%. Despite reporting a record first quarter result, UBS shares declined by 7.1%, marginally underperforming the DJ Stoxx Banks index, which fell 6.2%.

Third quarter 2006

Geopolitical concerns deepened in summer on the Israeli-Lebanese conflict, driving oil prices to record highs. Many investors chose to remain on the sidelines of the market, resulting in a sharp drop in trading activity. September heralded a return to rising markets and active trading as commodity prices eased. UBS shares gained 10.6% in the third quarter, supported by robust second quarter results. The DJ Stoxx banks index also delivered a strong performance, up 8.3% in the quarter. The broader indices showed more muted performance, with the Dow Jones up 3.7% and the MSCI flat.

Fourth quarter 2006

The fourth quarter of 2006 saw many world markets reach all-time highs buoyed by vigorous M&A activity and growing support for a soft landing in the US. The MSCI and Dow Jones indices showed very strong performance up 8.6% and 8.7% respectively. UBS shares closed the quarter up 5.1%, but performance lagged that of its wider peer group, with the DJ Stoxx banks up 8.7%, reflecting the market's disappointment with third quarter results.

Share liquidity

During 2006, daily average volume in UBS shares on virt-x was 10.9 million shares. On NYSE, it was 0.85 million shares.

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

During the hours in which both virt-x and NYSE are simultaneously open for trading (currently 3:30 pm to 5.30 pm Central European Time), price differences are likely to be arbitraged 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.

Stock exchange prices

	SWX Swiss Exchange			New York Stock Exchange		
	High *(CHF)*	Low *(CHF)*	Period end *(CHF)*	High *(USD)*	Low *(USD)*	Period end *(USD)*
2006	**79.90**	**59.85**	**74.05**	**63.39**	**48.34**	**60.33**
Fourth quarter 2006	**79.90**	**70.70**	**74.05**	**63.39**	**58.50**	**60.33**
December	75.05	70.70	74.05	61.95	59.04	60.33
November	76.70	71.55	72.05	61.63	59.23	60.22
October	79.90	72.80	74.30	63.39	58.50	59.84
Third quarter 2006	**74.80**	**59.85**	**74.80**	**59.77**	**48.34**	**59.31**
September	74.80	69.25	74.80	59.77	55.83	59.31
August	71.75	63.95	69.65	58.30	52.63	56.77
July	68.15	59.85	66.95	55.73	48.34	54.40
Second quarter 2006	**75.65**	**61.35**	**67.00**	**61.70**	**49.36**	**54.85**
June	70.85	61.35	67.00	58.16	49.36	54.85
May	75.65	66.10	68.90	61.70	54.69	56.61
April	73.90	71.55	73.50	59.34	54.80	58.43
First quarter 2006	**72.35**	**62.80**	**71.60**	**55.55**	**48.66**	**54.99**
March	72.20	67.55	71.60	55.55	51.66	54.99
February	72.35	68.15	69.65	55.13	52.41	53.12
January	69.70	62.80	69.50	54.62	48.66	54.40
2005	**63.50**	**46.75**	**62.55**	**49.02**	**38.60**	**47.58**
Fourth quarter 2005	63.50	52.75	62.55	49.02	41.22	47.58
Third quarter 2005	56.15	50.40	55.00	43.40	38.92	42.75
Second quarter 2005	51.40	47.23	50.00	42.93	38.60	38.93
First quarter 2005	52.30	46.75	50.50	44.71	39.70	42.20
2004	**49.18**	**40.80**	**47.68**	**42.19**	**32.47**	**41.92**
Fourth quarter 2004	48.17	42.00	47.68	42.19	35.05	41.92
Third quarter 2004	45.50	40.80	43.95	36.19	32.47	35.17
Second quarter 2004	49.17	44.12	44.13	38.03	34.45	35.53
First quarter 2004	48.52	42.85	47.05	39.63	33.96	37.25
2003	**42.70**	**24.90**	**42.35**	**34.08**	**19.00**	**34.00**
Fourth quarter 2003	42.70	37.43	42.35	34.08	28.77	34.00
Third quarter 2003	40.25	36.75	37.05	29.63	27.19	28.12
Second quarter 2003	37.88	29.45	37.68	29.18	21.79	27.70
First quarter 2003	36.05	24.90	28.75	25.93	19.00	21.35
2002	**42.15**	**25.53**	**33.60**	**26.00**	**17.27**	**24.06**
Fourth quarter 2002	37.73	25.53	33.60	25.44	17.27	24.06
Third quarter 2002	37.58	28.40	30.65	24.97	18.93	20.50
Second quarter 2002	42.08	34.90	37.43	26.00	23.45	24.95
First quarter 2002	42.15	36.50	41.40	25.25	21.64	24.88

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 113–119. 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 re-written this year to enhance readability, transparency and the understanding of the processes leading to compensation decisions.

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 2006). In addition, the UBS Group accounts contain a separate reporting segment called Industrial Holdings which includes our private equity holdings. This allows UBS to maintain continuity in the presentation and analysis of the core financial businesses.

>> See the "Our Businesses" chapter for detailed descriptions of the Business Groups and their strategy, structure, organization, products and services.

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

The UBS Group includes a great number of 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 8.81% of all shares issued as of 31 December 2006, compared to 8.55% at year-end 2005 and 8.76% at year-end 2004. 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 13.21% of all shares issued as of 31 December 2006 (9.95% as of 31 December 2005). 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 2006.

At year-end, UBS's holdings in its own shares were 7.4% of the total share capital in the form of shares. It also held a further potential 0.2% 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 of 31.12.06	Shareholders registered		Shares registered	
Number of shares registered	Number	%	Number	% of shares issued
1–100	24,449	13.4	1,357,538	0.1
101–1,000	108,784	59.6	46,079,603	2.2
1,001–10,000	45,424	24.8	120,980,866	5.8
10,001–100,000	3,700	2.0	90,392,786	4.3
100,001–1,000,000	383	0.2	109,700,004	5.2
1,000,001–5,000,000	73	0.0	156,758,747	7.5
5,000,001–21,052,732 (1%)	23	0.0	217,887,253	10.3
1–2%	2	0.0	74,643,418	3.5
2–3%	1	0.0	43,941,400	2.1
3–4%	0	0.0	0	0.0
4–5%	0	0.0	0	0.0
Over 5%	2[1]	0.0	463,590,138	22.1
Total registered	182,841	100.00	1,325,331,753	63.0
Unregistered[2]			779,941,533	37.0
Total shares issued			**2,105,273,286[3]**	**100.0**

1 As of 31.12.2006, DTC (Cede & Co.), New York, the US securities clearing organization, was registered with 13.21% of all shares issued. Chase Nominees Ltd., London, was entered as a trustee/nominee holding 8.81% of all shares issued. 2 Shares not entered in the share register at 31 December 2006. 3 Registered shares of 265,631,846 do not carry voting rights.

Shareholders: type and distribution

	Shareholders		Shares	
As of 31.12.06	Number	%	Number	%
Individual shareholders	176,061	96.3	235,514,218	11.2
Legal entities	6,353	3.5	262,262,939	12.5
Nominees, fiduciaries	427	0.2	827,554,596	39.3
Unregistered			779,941,533	37.0
Total	**182,841**	**100.0**	**2,105,273,286**	**100.0**
Switzerland	164,012	89.7	445,735,841	21.2
Europe	13,448	7.3	468,341,140	22.2
North America	1,739	1.0	384,784,813	18.3
Other countries	3,642	2.0	26,469,959	1.3
Unregistered			779,941,533	37.0
Total	**182,841**	**100.0**	**2,105,273,286**	**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 2006, the ordinary share capital was CHF 210,527,328.60.

At the Annual General Meeting (AGM) on 19 April 2006, shareholders gave the Board of Directors a mandate to continue a repurchase program during 2006/2007 for a maximum amount of CHF 5 billion. At the AGM on 18 April 2007, shareholders will be asked to approve the cancellation of 33,020,000 shares repurchased under this program and to reduce the ordinary share capital accordingly.

Conditional and authorized share capital

At year-end 2006, total conditional share capital amounted to CHF 15,143,741.00, corresponding to a maximum of 151,437,410 shares. Conditional capital was created in 2000 in connection with the acquisition of PaineWebber Group Inc. to cover option rights granted by the PaineWebber Group to its employees. In addition, at the 2006 AGM, shareholders approved conditional capital in the amount of 150 million UBS shares to be used for employee option grants limited to a period of three years. Options under both plans are exercisable at any time between their vesting and the expiry date. Shareholders' pre-emptive rights are excluded. In 2006 options with respect to 2,208,242 shares were exercised under the PaineWebber option plans, and 1,350 options expired without being exercised. No new shares using conditional capital were issued relating to the UBS employee stock option plans.

Changes of shareholders' equity

Equity attributable to UBS shareholders for the Group amounted to CHF 49.7 billion on 31 December 2006.

>> For all details on changes in shareholders equity over the last three years, please refer to the Financial Report 2006.

Shares, participation and bonus certificates, capital securities

UBS shares are issued as Global Registered Shares. Each share has a par value of CHF 0.10 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 in this chapter.

On 31 December 2006, 1,059,699,907 shares carried voting rights, 265,631,846 shares were entered in the share register without voting rights, and 779,941,533 shares were not registered. All 2,105,273,286 shares were fully paid up, and 2,082,673,286 shares ranked for dividends. There are no preferential rights for individual shareholders.

UBS has not issued any participation certificates or bonus certificates.

In 2006, UBS raised USD 1 billion hybrid Tier 1 capital in the form of trust preferred shares. Additionally, UBS tapped the capital markets seven times and raised USD 3.0 billion, EUR 750 million, CHF 800 million and GBP 300 million in subordinated debt to fund its operations with capital securities. At year-end UBS had CHF 5.6 billion in preferred shares outstanding which count as Tier 1 capital under regulatory rules. Outstanding Tier 2 capital securities accounted for CHF 13.1 billion in eligible capital as of 31 December 2006.

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.

Ordinary share capital

	Share capital in CHF	Number of shares	Par value in CHF
As of 31 December 2005	217,726,504	2,177,265,044	0.10
Share repurchase programs 2005/2006: Cancellation of shares upon AGM decision of 19 April 2006	(7,420,000)	(74,200,000)	0.10
Options excercised from conditional capital	220,824	2,208,242	0.10
As of 31 December 2006	**210,527,329**	**2,105,273,286**	**0.10**

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 SegaInterSettle in Switzerland.

Convertible bonds and options

UBS currently has no convertible debt on UBS shares outstanding. Employee options outstanding amounted to 176,779,087, of which a total of 80,312,503 were exercisable. UBS satisfies share delivery obligations under its option based participation plans either by purchasing UBS shares in the market on grant date or shortly thereafter or through the issuance of new shares. At exercise, shares held in treasury or newly issued shares are delivered to the employee against receipt of the strike price. As of 31 December 2006, UBS was holding approximately 118 million shares in treasury and an additional 150 million shares in conditional share capital which are available and can be used for future employee option exercises. The shares available cover all vested employee options.

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 2006. 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 19 April 2006, Ernesto Bertarelli and Rolf A. Meyer were re-elected as their term of office expired. Peter Böckli, who had reached the retirement age limit, did not stand for re-election. Gabrielle Kaufmann-Kohler and Joerg Wolle were newly elected to the Board.

As of 31 December 2006, the Board consisted of 12 directors, of which the majority – nine 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 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 (proposed for re-election at the AGM 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, a member of the German-Swiss Chamber of Commerce, a member of the "Institut International D'Etudes Bancaires" and a member of the Board of Trustees of the Goethe Business School, Frankfurt.

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.

Ernesto Bertarelli

Address	Bemido SA 2, chemin des Mines 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	2009

Professional history, education and date of birth
Since 1996, Ernesto Bertarelli has been the Chief Executive Officer of Serono International SA, Geneva. The company was sold to Merck KGaA, Germany, on 5 January 2007. 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 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 was the Vice Chairman of the Board of Serono S.A., Coinsins (Switzerland) and the Chairman of SeroMer Biotech SA, Chéserex (Switzerland), until 5 January 2007. He is the Chairman 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 Compensation Committee
Nationality	British
Year of initial appointment	2001
Current term of office runs until	2007 (not standing for re-election)

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). Today, he holds several board memberships. Mr. Davis was educated at Shrewsbury School. He graduated from the Chartered Institute of Marketing and holds a Hon LL.D (Doctor of Law) from Exeter University. He was born on 23 December 1941.

Other activities and functions
Mandates on boards of important corporations, organizations, and foundations:
Sir Peter Davis is the Chairman of the Marie Curie Cancer Care, London.

Gabrielle Kaufmann-Kohler

Address	Schellenberg Wittmer 15bis, rue des Alpes CH-1201 Geneva 1
Functions in UBS	Member of the Corporate Responsibility Committee
Nationality	Swiss
Year of initial appointment	2006
Current term of office runs until	2009

Professional history, education and date of birth
Gabrielle Kaufmann-Kohler has been a partner at the Schellenberg Wittmer law firm and a professor of international private law at the University of Geneva since 1996. From 1985 to 1995 she was a partner at the Baker & McKenzie law firm. She is a member of the Geneva Bar (since 1976) and of the New York State Bar (since 1981) and is known worldwide for her expertise in international arbitration. Ms. Kaufmann-Kohler completed her legal studies at the University of Basel in 1977 and received her doctorate from the same institution in 1979. She was born on 3 November 1952.

Other activities and functions
Mandates on boards of important corporations, organizations, and foundations:
Gabrielle Kaufmann-Kohler is a member of the American Arbitration Association.

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	2009

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. Today, he holds several board memberships. 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. 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 AG Petuelring 130 D-80788 Munich
Function in UBS	Chairman of the Nominating Committee
Nationality	German
Year of initial appointment	2004
Current term of office runs until	2007 (proposed for re-election at the AGM 2007)

Professional history, education and date of birth
Helmut Panke was Chairman of the Board of Management of BMW AG, Munich, between 2002 and September 2006. 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. Today, he holds several board memberships. 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).
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 (proposed for re-election at the AGM 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 2,500 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. In addition, he is a member of the Board of Directors of Kühne Holding, Switzerland, and Walo Bertschinger Central AG, Switzerland.
Permanent functions for important interest groups:
He is Vice President of LITRA, a Swiss organization based in Berne that provides informational services in the interests of public transport.
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 Audit Committee
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 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 board member of the Federal Auditor Oversight Authority.

Lawrence A. Weinbach

Address	Yankee Hill Capital Management 300 East 42nd Street USA-New York, NY 10017
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 is a partner of the Yankee Hill Capital Management LLC, a private equity firm based in Southport, CT (USA). He was Executive Chairman of Unisys Corporation until January 2006. From 1997 to 2004 he was Chairman, President and CEO of Unisys Corporation. 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 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, New York.
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.

Joerg Wolle

Address	DKSH Holding AG Wiesenstrasse 8
	CH-8034 Zurich
Functions in UBS	Member of the Nominating Committee
Nationality	German
Year of initial appointment	2006
Current term of office runs until	2009

Professional history, education and date of birth
Since 2002, Joerg Wolle has been President and CEO of DKSH Holding Ltd. From 2000 until the merger with Diethelm Keller in 2002, he was President and CEO of SiberHegner Holding AG. He completed his studies in engineering in 1983 and received his doctorate in 1987 from the Technical University of Chemnitz in Germany. Joerg Wolle was born on 19 April 1957.

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. 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.

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 or 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 113–116.

Changes in 2007

As of the Annual General Meeting on 18 April 2007, Sir Peter Davis, whose term of office expires in 2007, is stepping down from the Board as he has reached retirement age. The Board of Directors will propose as non-executive director the following new member for election: Sergio Marchionne, CEO of Fiat S.p.A., Turin. The Board of Directors will still consist of twelve members.

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 2006

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 2006, 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, 92% of Board members were present at the meetings, and 93% at the Private Board Meeting (i.e. without executive management). The Board, without executive management, was also asked to take one decision by written consent (circular decision).

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 2006, were Marcel Ospel, Chairman, Stephan Haeringer and Marco Suter, Executive Vice Chairmen.

The Chairman's Office held ten meetings in 2006 and once met with the lead partners of Group Auditors Ernst & Young Ltd. 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 four circular decisions. All Executive Vice Chairmen attended the 10 Chairman's Office meetings, including the one related to Group Internal Audit issues.

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, Rolf A. Meyer and Peter Voser 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 ("whistleblowing").

As of 31 December 2006, Lawrence A. Weinbach was the chairman of the Audit Committee and Rolf A. Meyer and Peter Voser its additional members. The Audit Committee met six times in 2006, with representatives of the external auditors, the Group CFO, the Head of Group Controlling & Accounting, Head of Group Accounting Policies and the Head of Group Internal Audit participating. The six meetings include regular separate sessions with these representatives. In addition, the Group General Counsel attended one meeting. A special session was organized with the Group CEO to discuss the annual financial results. With one exception, 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 (senior executives). 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.

As of 31 December 2006, Rolf A. Meyer chaired the Committee, with Sir Peter Davis and Peter Spuhler as its additional members. The Committee met four times during 2006. With one exception, all the meetings were attended by all three members. The Committee was also asked to take one circular decision.

>> For details on the decision-making procedures within the Committee, please refer to pages 130–132 of this Handbook.

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 2006, Helmut Panke was the chairman, and Ernesto Bertarelli and Joerg Wolle the additional members of the Committee. In 2006, the Nominating Committee held four meetings with all three members present at all the meetings. The Committee was also asked to take one circular decision. Joerg Wolle, who replaced Peter Böckli in April 2006, 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 2006, Marco Suter chaired the Committee. Additional members were Stephan Haeringer and Gabrielle Kaufmann-Kohler, representing the Board, Peter Wuffli, Group CEO, Peter Kurer, Group General Counsel, Clive Standish, Group CFO, Mark Sutton, Chairman and CEO Americas (retired as of 1 January 2007), Maria Bentley, Global Head of Human Resources, Investment Bank, Thomas Hill, Chief Communication Officer, Kathryn Shih, Head of Wealth Management Asia Pacific, and Paul Yates, Global Head of Strategic Client Development, Global Asset Management (stepped down as of 1 March 2007). The Corporate Responsibility Committee met twice during 2006 with all members participating.

>> For additional information on corporate responsibility, please refer to the specific chapter at the end of this Handbook.

>> 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 nine 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 Ltd. 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 has business relationships with many large companies, including those 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 that jeopardizes the Board members' independent judgment, and no non-executive director has personal business relationships with UBS that could infringe on his or her 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 for more information.

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

The Board of Directors is kept informed of the activities of the GEB in various ways. The Chairman of the Board or one of the Executive Vice Chairmen participates 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 Risk 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 texts in the boxes below provide information on the composition of the Group Executive Board as of 31 December 2006. 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 January 2006, a new Board position was established, that of the Chairman and CEO Asia Pacific, with Rory Tapner being appointed to the GEB in this capacity. Mark Sutton, Chairman and Chief Executive Officer, Americas, retired as of 1 January 2007.

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. Before joining McKinsey, he was a freelance economics reporter for Neue Zürcher Zeitung, a major Swiss daily newspaper. Mr. Wuffli graduated in economics and social sciences from the University of St. Gallen and holds a doctorate 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 dialog between the Swiss Liberal Party and business, and a member of the board of trustees of the "Elea Foundation for Ethics in Globalization".

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	Chairman and 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 and additionally named Chairman in 2006. 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, 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, and a member of the Committee of Continuing Education, Executive School of Management, Technology and Law, University of St. Gallen.

Marcel Rohner

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Deputy Group CEO and Chairman & CEO Global Wealth Management & Business Banking
Nationality	Swiss
Year of initial appointment to the GEB	2002

Professional history, education and date of birth
Marcel Rohner has been Chairman and CEO of Global Wealth Management & Business Banking since 2004, having been CEO since 2002. In January 2006 he was additionally named Deputy Group CEO. 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 the former Union Bank of Switzerland. 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 (retired as of 1 January 2007)
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.

Rory Tapner

Address	UBS AG Bahnhofstrasse 45 CH-8098 Zurich
Function in UBS	Chairman and Chief Executive Officer Asia Pacific
Nationality	British
Year of initial appointment to the GEB	2006

Professional history, education and date of birth
Rory Tapner became a member of the Group Executive Board in January 2006. He was appointed Chairman and CEO Asia Pacific in May 2004. Previously, he was Joint Global Head of Investment Banking. From 1983 to 1998, he was with S.G. Warburg and Warburg Dillon Read as Global Head of Equity Capital Markets, Joint Head of UK Corporate Finance and Head of UK Capital Markets Team. He also was a member of the Warburg Dillon Read Executive Board. Mr. Tapner was born on 30 September 1959.

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 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.

Regional coordination

As a result of the increasingly integrated nature of UBS's business, the GEB's regional coordination and governance processes have been strengthened and formalized. As publicly announced in November 2006, a number of GEB members were appointed as regional sponsors. In addition, at the Group Managing Board (GMB) level, a regional coordinator role was established.

For more information on the GMB, see pages 151/152 of this section.

Huw Jenkins was appointed GEB regional sponsor for the US, Canada and Latin America, with Robert Wolf named GMB coordinator for Canada and the US. Andre Esteves was appointed GMB coordinator for Latin America.

Raoul Weil was named GEB regional sponsor for Europe and Switzerland, with Jeremy Palmer and Alain Robert as GMB coordinators for Europe and Switzerland, respectively.

In the Middle East, John Fraser continues to be the regional sponsor, with Peter Burnett newly named as the region's GMB coordinator.

The Asia Pacific governance framework remained unchanged.

Regional sponsors and coordinators are responsible for overall regional strategic planning, the escalation of issues (particularly in the case of conflicts with Business Group agendas), as well as advocacy of priorities and resource commitments that affect their region.

Regional sponsors and coordinators will also establish country facilitator teams within the region to be responsible for client relations and hospitality platforms, regulatory coordination, legal structure development, community affairs, advertising, branding, sponsorship, recruiting and retention.

In addition, they will be responsible for the oversight, enhancement and protection of UBS's reputation in their respective regions.

It is important to note that this does not affect the global business structure we have in place. The move was made to facilitate and support cross-business decisions regionally. GMB sponsors and coordinators do, however, have veto and escalation rights regarding actions and initiatives that could threaten UBS's reputation in a region or in a country.

Management contracts

UBS has not entered into management contracts with any third parties.

Compensation, shareholdings and loans

Our competitive strength depends on our ability to attract, retain and motivate the most talented people in financial services. The policies established by the Board of Directors Compensation Committee create incentives to promote an entrepreneurial, performance-driven culture and to support the firm's integrated business strategy. By linking the compensation of senior executives to sustainable shareholder returns while adhering to our ethical values, the Compensation Committee aims to establish a framework for long-term value creation.

Compensation Committee

The Compensation Committee is made up of three non-executive, independent members of the Board. As of 31 December 2006, these were Rolf A. Meyer (chair), Sir Peter Davis and Peter Spuhler.

Governance, authorities and responsibilities

UBS has long been committed to the highest standards of corporate governance. The approval of senior executive compensation follows a rigorous process designed to ensure that no one participates in any decision affecting his or her own compensation.

The Compensation Committee is responsible for reviewing the Group Compensation Policy for submission to the Board.

Additionally – for executive members of the Board of Directors and members of the Group Executive Board (senior executives) – it has responsibilities in five key areas:
1. Reviewing and approving the design of the compensation system, including compensation programs and plans;
2. Determining the relationship between pay and performance;
3. Approving salaries and incentive awards for senior executives;
4. Reviewing and approving individual employment contracts; and
5. Reviewing and approving the terms and conditions for GEB members relinquishing their positions.

Authority for compensation-related decisions is governed by the appendix to UBS's Organization Regulations and by the charter of the Compensation Committee. The structure is as follows:

Compensation authorities

Recipients	Compensation recommendations developed by	Approved by	Communicated by
Chairman of the Board	Chairman of the Compensation Committee	Compensation Committee	Chairman of the Compensation Committee
Executive BoD members	Chairman of the Board	Compensation Committee	Chairman of the Board
Group CEO	Chairman of the Board	Compensation Committee	Chairman of the Board
Members of the GEB	Chairman of the Board and Group CEO	Compensation Committee	Group CEO
Non-executive BoD members (Remuneration system and fees)[1]	Executive members of the BoD	Executive members of the BoD	Chairman of the Board

1 The decision process for the remuneration of non-executive BoD members is fully independent and is not driven by company results..

>> The full Charter of the Compensation Committee and the appendix to UBS's Organization Regulations containing the authorities for compensation related decisions, are available on the firm's website www.ubs.com/corporate-governance.

Activities

During 2006, the Compensation Committee carried out:
- A review of best practice in compensation governance, design, pay mix and disclosure. This combined publicly-available data on key competitors with information provided by compensation consultants;
- A review of pay and performance to ensure that senior executive compensation levels were appropriate compared with counterparts of competitors;
- A review of the compensation plan rules for senior executives to ensure they clearly reflected shareholders' interests and provided appropriate incentives for long-term value creation.

The Compensation Committee did not appoint any external compensation consultants during 2006. Rather, it relied on detailed background documentation – internal and external compensation surveys and other intelligence – provided by internal human resources specialists as well as on data from Group Controlling and Accounting. The Committee Chairman also made use of information obtained through his participation in various international seminars for compensation professionals.

Senior executive compensation policy

Principles

Two related principles govern our senior executive compensation programs (and, indeed, the compensation of all UBS employees): creation of shareholder value and pay for performance. Specifically:
- All elements of compensation are managed in a globally consistent and integrated fashion, with clear recognition of pay for performance;
- Compensation levels and practices are benchmarked against competitors; and
- Significant exposure to UBS shares serves to align senior executive and shareholder interests.

Annual total compensation is competitively positioned and we place a strong emphasis on the variable components of compensation, with the understanding that only superior performance will be rewarded with superior compensation. Such incentives provide the motivation to excel in the entrepreneurial, performance-oriented culture that is required to execute our integrated business strategy. In addition, the Compensation Committee verifies whether the senior executive fulfilled their objectives, in particular with regard to the importance of maintaining and spreading UBS's ethical values throughout the firm.

Shareholder Alignment

The Compensation Committee structures senior executive compensation to ensure alignment with shareholder interests and long-term value creation. Specifically:
- It rewards the achievement of personal and business objectives that balance individual performance and long-term business growth;
- A minimum of half of the annual incentive compensation awarded to senior executives takes the form of UBS shares that vest or become unrestricted over five years, ensuring focus on long-term decisions and actions, and aiding retention of executive talent.
- In addition to this significant mandatory deferral of compensation, all senior executives are required to accumulate and hold five times their cash compensation in UBS shares after five years in their position;
- The strike price of stock options is set at 110% of the average high and low sale price of UBS shares on the grant date resulting in a 10% performance hurdle; significant share price growth is thus required before the exercise price becomes meaningful;
- In certain circumstances, share and stock option plans are forfeited at termination or thereafter;
- No additional severance payments are offered in instances of termination, although obligations earned up to and including the notice period are honoured in line with the contractual arrangements; and
- All senior executives are offered the opportunity to invest voluntarily in additional UBS shares from their cash compensation.

All these mechanisms help focus senior leadership on the long-term interests of UBS shareholders and minimize the cost of any future terminations.

Shareholder-friendly compensation structure

Shareholder value creation	Mandatory deferral of 50% of total incentive into UBS shares
	Share ownership requirements five times cash compensation
	Bonus only gets increased after results increased by at least 5%
Business performance	Total compensation based on achievement of demanding business and personal objectives
	Five year vesting period focuses on long-term decisions and executive retention
Share price performance	Performance hurdle of 10% for stock options
Cost of termination	No severance payments
	Vesting conditions with forfeiture risk
	No special pension scheme contributions
	No additional payments for change of control instances
	No lifelong perquisites

"UBS strives for direct shareholder alignment. We believe that stringent share ownership requirements are more meaningful than the complex performance hurdles of many equity-based compensation programs since a significant part of individual wealth is directly "at risk" in relation to the long-term performance of UBS shares."
Peter A. Wuffli, CEO, 2006

Pay for performance

UBS is committed to providing superior compensation only in return for superior performance, and continually strives to improve the benchmarks and processes that support informed compensation decision-making.

At the beginning of the year, each UBS senior executive agrees individual objectives and Key Performance Indicators (KPIs). Individual objectives focus on clients, economics, technical expertise, leadership, cross-business co-operation, strategic impact and personal contribution. KPIs vary by business and by individual; they typically include such measures as revenue growth, net profit, return on equity, return on assets, cost/income ratio, net new money, progress on strategic initiatives and adherence to UBS values.

Financial performance targets are clearly defined at UBS Group and Business Group levels.

As the year draws to a close, a senior executive's performance against each objective and KPI is rigorously evaluated, not only by his or her immediate superior but also by peers and subordinates. This 360-degree assessment is both qualitative and quantitative – comprising financial and operational results for the year, as well as indicators of future performance. Performance against key competitors and performance trends over time are likewise reviewed, to the extent data is available.

To the extent that a senior executive's business and individual performance exceeds – or falls short – of his or her agreed expectations, total compensation mirrors the outcome. In consequence, compensation levels can (and often do) vary widely from year to year.

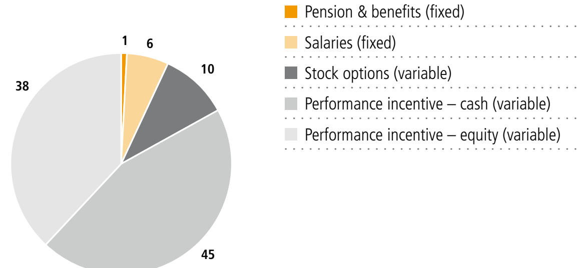
Elements of compensation

Total compensation for senior executives comprises four elements: base salary, incentive awards, stock option awards and benefits.

Relative weight of fixed and variable elements of 2006 compensation for acting executive BoD members and members of the GEB

in %

As of 31.12.06



Retiring senior executives receive their financial incentive awards in cash only.

Senior executive compensation plans

Senior Executive Equity Ownership Plan (SEEOP)

Under SEEOP, senior executives typically receive a minimum of 50% of their annual incentive award in the form of UBS shares. (This amount is subject to the discretion of the Compensation Committee.) Unless prohibited by local law, senior executives receive actual UBS shares with the same rights as ordinary shareholders. Shares are denominated either in CHF or USD depending on the currency of the executive's incentive.

Shares normally vest in equal portions over a period of five years. For tax reasons, shares of Swiss-based senior executives are additionally restricted from sale for the duration of the five-year period.

Shares that have not vested at the time of termination are subject to forfeiture under certain circumstances; these include voluntary termination to join a competitor, termination for cause, or in connection with activities detrimental to the interests of UBS.

Senior Executive Stock Option Plan (SESOP)

Discretionary stock option awards are a long-term incentive, based on the individual past performance of each senior executive, their contribution to the overall success of the firm and their future potential.

All senior executives may be granted discretionary stock options under SESOP and are eligible to receive two matching stock options for each share they voluntarily purchase from cash compensation granted under the additional SEEOP program.

The strike price for senior executive stock options is set at 10% above the UBS share price on the grant date. This performance hurdle creates a strong incentive for senior executives to build sustainable shareholder value over the longer term.

Options normally vest after three years and remain exercisable for seven further years. Any unvested options will generally be forfeited should the executive leave voluntarily, join a competitor, be terminated for cause or act against the firm's interests.

Base salaries

Base salary levels are established in a manner consistent with the role of each senior executive. Base salary adjustments are limited to significant changes in job responsibility.
Due to the variability of annual incentive awards, the ratio of base salary – a fixed amount – to total compensation can vary significantly year to year. In 2006, base salaries for senior executives constituted, on average, some 6.5% of total compensation.

Annual incentive awards

Each annual incentive award is assessed according to the individual's achievement of his or her business goals and personal objectives. All senior executives are considered for an annual incentive award provided performance targets are achieved, but with a few rare exceptions (e.g., competitive practice or business strategy), annual incentives are completely discretionary and vary considerably, both from individual to individual and from year to year.
Exceptional individual performance is reflected in the annual incentive award rather than in an adjustment to base salary. The maximum annual incentive award is limited to double the senior executive's target.
50% of the annual incentive award is granted in the form of mandatory restricted or deferred UBS shares; senior executives also have the opportunity to invest a further portion of their annual incentive in UBS shares, which attract a "two for one" stock option match. In certain jurisdictions, senior executives may also be offered the opportunity to invest a portion of their cash incentive in vehicles not related to UBS shares, provided such investment does not jeopardize their individual shareholding requirement.

Discretionary stock option awards

Stock options help align executive performance with long-term shareholder interests, since they deliver value only to the degree the share price appreciates more than 10% after the grant.
At UBS, discretionary stock option awards reward the individual's contribution to the overall success of the firm. They do not form part of the annual incentive award but are a reflection of the success of our integrated business model.
The Board of Directors approves an annual option quantity for a three-year period. Within this limit, the Chairman's Office annually allocates option quantities to the Business Groups and Corporate Center.

Benefits

UBS provides benefits to help attract and retain the best employees in each local market. Changes, terminations and the introduction of new benefits are governed by the procedures contained in the firm's Organization Regulations. Benefits are a supplemental element of total compensation and vary substantially from location to location.
In Switzerland, for example, senior executives participate in a general pension plan made up of three elements: (1) a basic component operated on the defined benefit principle (defined contribution principle as of 1.1.2007); (2) a savings plan to bridge the income gap between UBS retirement age and the age defined for the start of social security payments; and (3) a defined contribution bonus plan. No special pension schemes are offered to senior executives.
Outside Switzerland, senior executives participate in appropriately designed local pension plans. In the US, the firm offers two plans – one operating on a cash-balance basis, the other on defined contributions. US senior executives may also participate in a 401K defined contribution plan open to all employees. In the UK, senior executives participate in a pension plan operated on a defined contribution basis. (Note 31 to the UBS Group financial statements details the various retirement benefit plans established in Switzerland and in major foreign markets.)

Senior executive share ownership policy

With a view to aligning the interests of its management with those of its shareholders, UBS strongly encourages significant levels of stock ownership on the part of its senior executives.

- As previously noted, a substantial part of the annual incentive award for senior executives is delivered in the form of mandatory restricted or deferred UBS shares.
- Senior executives, moreover, who voluntarily elect to take an even greater proportion of their annual incentive award in the form of restricted or deferred UBS shares receive two additional UBS stock options for each additional share. The options are granted under SESOP in accordance with the conditions described before.

Five years after 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 in UBS shares to be accumulated range from CHF 19 million to CHF 71 million per senior executive and thus constitute a substantial part of their personal wealth. Progress reports are provided to each senior executive annually, and executives will be expected to make steady progress towards their targets. Missed targets may lead the Compensation Committee to deny the grant of discretionary stock option awards.

In view of the SEEOP program, the employee "Equity Plus" program is not offered to senior executives.

Contracts of employment and severance payments

The Compensation Committee regularly reviews the individual employment contracts of senior executives. These contracts provide for a general notice period of twelve months, during which time the senior executive is entitled to receive salary and a pro rata incentive, unless he has been terminated for cause.

Shares held by executive members of the Board and members of the Group Executive Board [1]

Shares held as of 31 December 2006		**7,774,048**			
Of which					
Vested	vesting 2007	vesting 2008	vesting 2009	vesting 2010	vesting 2011
3,760,905	1,385,229	989,902	782,131	570,492	285,389

1 Includes parties closely linked to them.

No individual BoD or GEB member holds 1% or more of all shares issued.

Options held by executive members of the Board and members of the GEB, as of 31 December 2006

Number of options	Year of grant	Vesting date	Expiry date	Subscription ratio	Strike price
585,192	2001	20.02.2004	20.02.2009	1:1	CHF 50.00
648,886	2002	20.02.2005	31.01.2012	1:1	CHF 38.88
376,144	2002	31.01.2005	31.01.2012	1:1	USD 22.63
680,000	2002	28.06.2005	28.06.2012	1:1	CHF 40.38
120,000	2002	28.06.2005	28.12.2012	1:1	CHF 40.38
360,000	2003	31.01.2006	31.01.2013	1:1	USD 24.00
690,000	2003	31.01.2006	31.07.2013	1:1	CHF 32.50
1,144,564	2004	28.02.2007	28.02.2014	1:1	CHF 51.88
717,072	2004	28.02.2007	28.02.2014	1:1	USD 40.63
2,493,308	2005	01.03.2008	28.02.2015	1:1	CHF 55.75
560,772	2005	01.03.2008	28.02.2015	1:1	USD 47.75
2,510,860	2006	01.03.2009	28.02.2016	1:1	CHF 77.33

Parties closely linked to the executive members of the Board and members of the GEB do not hold any options on UBS shares.

The Compensation Committee has drawn up special employment agreements for the Chairman of the Board and the Executive Vice Chairmen. These agreements reflect the fact that these officers are appointed by UBS shareholders to a three-year term and may be terminated only by means of a shareholders' vote.

Neither the GEB employment contracts nor the contracts for executive members of the BoD provide for any additional severance payment in case of termination apart from the normal salary and bonus entitlements. All payments are included in the numbers reported under the compensation for members of the Board and the GEB.

Key elements for decision-making process within the Compensation Committee

Key competitors

Compensation and benefit levels are primarily result-driven and further benchmarked against appropriate key competitors. These companies are selected for the similarity of their core business to that of UBS, as well as for comparable size, geographic distribution, business strategy and performance. Typically, these are also the companies from which UBS is most likely to hire and to which it is most likely to lose senior employees. Competitive compensation at a senior level is therefore a vital element in preventing the loss of leadership talent and experience from UBS to its competitors. Generally nine key competitors are considered to represent the most relevant labor market for senior executive compensation: Bear Stearns, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JPMorgan Chase, Lehman Brothers, Merrill Lynch and Morgan Stanley. In the view of the Compensation Committee, UBS's compensation systems compare favorably with these nine key competitors. For certain positions and for purposes of other analysis (including the best practice review), additional competitors may be taken into account (such as the large Swiss private banks, private equity firms and hedge funds, which are increasingly becoming attractive alternatives for our employees).

Comparison by business activity (key peers)

		Key competitors									Others			
	UBS	BS	Citi	CS	DB	GS	JPM	LB	ML	MS	HSBC	RBS	ING	BofA
Global Wealth Management & Business Banking														
WM CH	✓		✓	✓	✓	✓	✓		✓	✓				
WM Int.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
WM US	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				✓
BB/Retail CH	✓		✓	✓	✓					✓				
Investment Bank														
Equities	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Fixed Income	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓		✓
Foreign Exchange	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓			
Corporate Finance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Global Asset Management														
Core	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			
Alternatives	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			✓	

Actual process and decisions taken

The Compensation Committee makes decisions on individual senior executive compensation based on: (1) the individual performance and personal contributions of each member; (2) market data of competitors; (3) actual UBS compensation in prior periods; and (4) an assessment submitted by the Chairman of the Board. It also takes into consideration the proposals made by the Group CEO when making compensation decisions for GEB members.

Determination of 2006 incentive targets

In February 2006, the Compensation Committee defined personal incentive targets for each senior executive. Beginning with the individual incentive award for 2005, the Committee then applied the following steps:

i. a *fixed* % (increase or decrease) representing the difference between the 2006 financial forecast, and the 2005 actual results. The 2005 results used were net profit attributable to UBS shareholders at the UBS Group level, and, where applicable, profit before tax adjusted for goodwill funding and impairment charges at the Business Group level.

ii. a *fixed* reduction averaging 5% of the amount resulting from step i, being a productivity gain to shareholders. This means that an overall increase of 5% in 2006 business performance would be required relative to 2005 in order to achieve the same level of compensation in both years. If 2006 business results had remained at the same level as 2005, the target incentive awards to senior executives would have been on average 5% lower, before the application of the final discretionary adjustment.

iii. An individual discretionary increase or decrease, taking into account future potential, any change in role, and competitive positioning.

Determination of 2006 actual incentives

In early February 2007, actual 2006 results were assessed against the 2006 forecast (UBS's Group and Business Group financial targets) as well as against similar metrics of key competitors. These measurements and assessments resulted in a *fixed theoretical* incentive award for each senior executive.

Finally, this theoretical incentive award was measured against various additional factors: personal performance based on individually defined criteria, future potential, leadership qualities and contributions to the overall success of UBS. This qualitative assessment led to *discretionary* increases or decreases from the theoretical incentive by up to +/– 25%.

Long-term incentive option awards for 2006 were granted in February of the same year, based on the individual past performance of each senior executive, their contribution to the overall success of the firm and their future potential.

Decision-making factors for 2006 senior executive compensation

At the Group level, 2006 financial results exceeded internal targets and outperformed those of many competitors. UBS achieved a return on equity from continuing operations of 26.5%. This return exceeded the internal target of >20% as well as that of all but one of the firm's peers. The 20% increase in diluted earnings per share from continuing operations is

Decision-making process for 2006 senior executive compensation

				Example (illustrative)		
February 2006:	**Definition of target incentive award**		2005 actual results compared with 2006 financial forecast			
					Actual bonus 2005	10.0
		+/– %	Difference between 2005 actual results and 2006 forecast	–7%	Delta 2006 forecast vs. 2005 actual	– 0.7
		– 5%	Productivity gain (for shareholders)	– 5%	Productivity gain	– 0.5
		+/– %	Due to individual potential, change in role and market	+3%	Individual role adjustment	+ 0.3
		=	**Individual target for 2006**	=	**Target 2006**	**= 9.1**
February 2007:	**Definition of actual incentive award**		2006 actual results compared with 2006 forecast and competitor results			
		+/– %	Theoretical bonus for senior executives	+8%	Diff. 2006 actual vs. 2006 forecast	+ 0.8
		+/–25%	Discretionary performance and market adjustment	–2%	Personal KPI adjustment	– 0.2
		=	**Individual bonus for 2006**	=	**Actual bonus 2006**	**= 9.7**

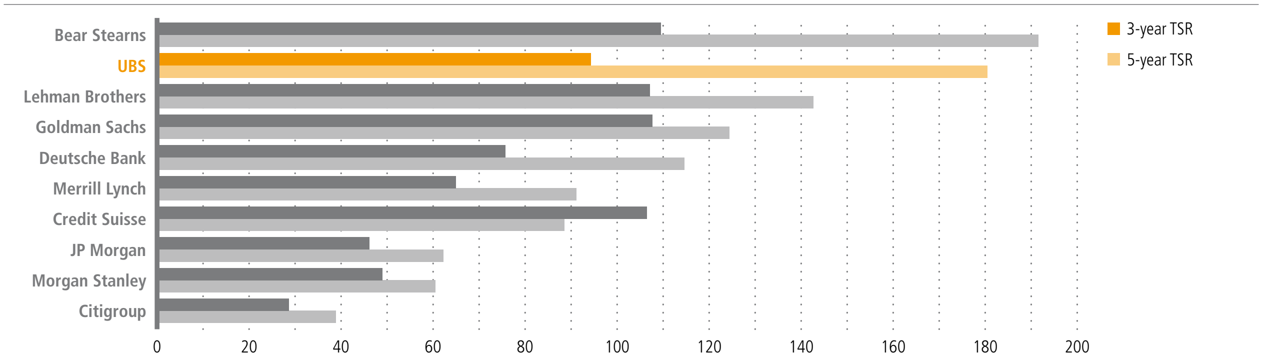
well in line with UBS's target of double-digit average annual growth. Total shareholder returns for the year under review were 21.5%. Cumulatively over a three-year period, they were 90.3%, and 104.4% over a five-year period. The UBS share price, moreover, has outperformed the DJ Stoxx Banks Europe Index over the recent three-year period by 15.4%.

While UBS's share price appreciation and total shareholder returns – achieved over the most recent three- and five-year periods – are significantly better than the average performance of the peer group, it underperformed the average of its peers over the 2006 period. At the Business Group level, financial performance improved in all the firm's core businesses, with a commensurate rise in both market share and competitiveness.

In determining the total compensation of senior executives, the Compensation Committee took into account three key factors behind the firm's 2006 performance: (1) that EPS growth was strongly driven by profit (as opposed to share buybacks); (2) that this increased profit was derived primarily from revenue growth (not simply cost reduction); and (3) that the firm is successfully executing major strategic investment initiatives.

3 and 5 year total shareholder return (TSR); UBS vs. key competitors

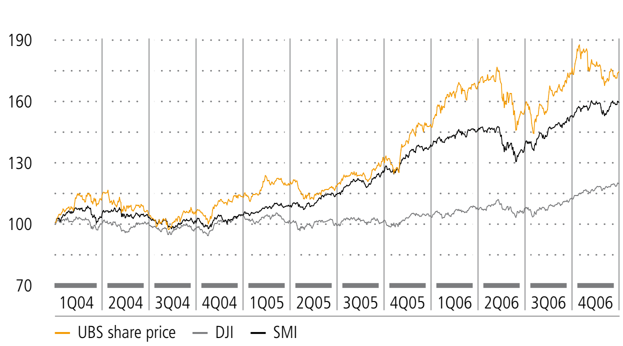
in %[1]

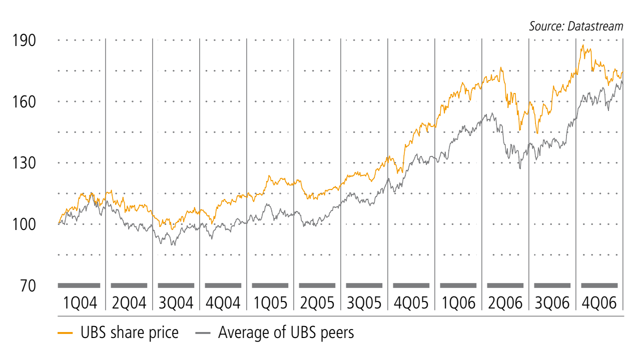


1 Calculation based on US dollar numbers.

UBS share price chart compared to SMI/DJ and peer firms

in % *1 January 2004 – 31 December 2006*





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

Actual 2006 compensation for executive members of the Board of Directors and the Group Executive Board

Total compensation for the financial year 2006 (base salary, incentive awards, stock 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 2006, was CHF 246,832,740. The increase of 10.9% over last year's compensation figures compares favorably with the increase in Group profits of 18% (and 19% for the financial businesses). Total incentive awards for 2006 granted to senior executives represented 1.85% of the overall incentive awards distributed to UBS employees as a whole. The ratio of total compensation of all senior executives to UBS's net profit before tax in 2006 was 1.51% excluding stock options and amounted to 1.68% including stock options based on fair market value. The corresponding ratios in 2005 were 1.55% and 1.71%.

Changes in the composition of the two corporate bodies – as well as an ongoing redefinition of executive roles – clearly impact the disclosed total compensation number and should be taken into consideration in any year-on-year comparison. While no changes took place in the two bodies during all of 2006, John Costas retired from the GEB at the end of 2005 and Rory Tapner joined the GEB as of 1 January 2006 as Chairman and CEO of Asia Pacific. Mark Sutton retired as of 1 January 2007. Due to obligations following a special contract in light of the reorganization in the US, a GEB member is entitled to receive USD 11 million for 2007 payable in 2008 and USD 5.5 million for 2008 payable in 2009. The full amount for the three-year contract has been accrued against the 2005 income statement.

Compensation for acting executive BoD members and members of the GEB[1]

Compensation details and additional information

	For the year ended		
CHF, except where indicated	**31.12.06**	31.12.05	31.12.04
Base salaries and other cash payments	**16,199,045**	15,592,026	14,767,068
Incentive awards – cash	**107,253,962**	89,672,195	69,745,013
Employer's contributions to retirement benefit plans	**873,239**	1,064,640	1,050,322
Benefits in kind, fringe benefits (at market value)	**1,809,429**	2,582,112	1,607,166
Total (requested by SWX)	**126,135,675**	108,910,973	87,169,569
Incentive awards – UBS shares (fair value)	**95,340,402**	92,877,243	79,723,391
Restricted UBS options (fair value)[2]	**25,356,663**	20,768,251	23,736,337
Total (including shares and options)	**246,832,740**	222,556,467	190,629,297
Total number of shares granted	**1,258,370**	1,311,492	1,584,510
Total number of options awarded[2]	**2,439,776**	2,877,526	2,188,104
of which CHF options	**2,439,776**	1,937,526	947,332
of which USD options	**0**	940,000	1,240,772

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 and distribution of senior executives:
- 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.
- 2006: three executive BoD, and ten GEB members in office as of 31 December.
- Benefits in kind: car leasing, company car allowance, staff discount on banking products and services, health and welfare benefits, general expense allowances.
- Shares for 2006 are valued at CHF 75.85 per share (average price of UBS shares at virt-x over the last ten trading days of February 2007), and USD 61.49 per share (average price of UBS shares at the NYSE over the last ten trading days of February 2007). 2005 values per share: CHF 70.75/USD 53.93. 2004 values per share: CHF 50.90/USD 43.37.
- Options on UBS shares were granted at a strike price of CHF 77.33. This represents ten percent above the average high and low price at the virt-x on the last trading day of February 2006. Options vest three years after grant and expire ten years after the date of grant.
- Fair values per option at grant: CHF 10.40 for options granted in February 2006; CHF 6.23/USD 6.73 for options granted in February 2005 and CHF 9.54 for options granted to match higher share elections in February 2007. No US dollar options have been issued since February 2005. 2004 fair values per option at grant: CHF 11.95/USD 10.26.
- Retirement plan benefits: In Switzerland, UBS senior executives participate in the firm's general pension plans. These comprise: (1) a basic component operated on the defined benefit principle (defined contribution principle as of 1.1.2007); (2) a savings plan to bridge the income gap between UBS retirement age and the age defined for the start of social security payments; and (3) a defined contribution principle bonus plan. In 2006, the cap compensation amount included in these plans (for all employees) was set at CHF 774,000. 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 a maximum amount of CHF 297,617. 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. The other plan is a defined contribution plan with compensation included up to a limit of USD 220,000. US senior executives may also participate in the UBS 401K defined contribution plan open to all employees. In the UK, the pension plan for senior executives is limited to an earnings cap of GBP 100,000.

Additional honorariums and remuneration
All income from business mandates must be paid or reimbursed to UBS. Senior executives have no entitlement to any compensation received by them due to any mandate-related roles undertaken on behalf of UBS, its subsidiaries or its clients.

No additional honorariums or remuneration were paid to any of the Board or GEB members.

Loans granted to executive Board members and members of the GEB
UBS – as a global financial services provider as well as the major bank in Switzerland – typically has business relationships with most large companies. In many of these, UBS Board members often assume management or non-executive board responsibilities. Moreover granting loans – both to individuals and to companies – is part of the ordinary business of UBS. Executive members of the Board and the members of the GEB are 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.

As of 31 December 2006, mortgages in the amount of CHF 17,559,250 had been granted to six members of the group of senior executives and their close family members. Loans granted to a private investment company related to one GEB member amounted to CHF 6,500,000.

Highest total remuneration for a BoD member
Total compensation for the highest-paid member of the Board of Directors, Chairman Marcel Ospel, amounted to CHF 26,591,803 for the financial year 2006. The increase of 10.9% over his 2005 total compensation compares favorably to the Group's profit increase for financial businesses of 19%.

Compensation of the Chairman
Assessment elements for the Chairman's compensation
For its decision on the Chairman's compensation, the Committee relies on an annual assessment performed by the full Board and on its own judgment of his performance and contributions, taking into account pay levels for comparable functions outside UBS.

The Chairman's compensation also reflects other significant accomplishments such as his decisive role in shaping UBS as a global leading financial services firm and his contribution to the creation of a strong leadership team. In addition, the Chairman worked with the Nominating Committee to recruit two new qualified directors to the Board, further strengthening the composition of the UBS Board.

UBS's key competitors paid total annual compensation of between CHF 18 million and CHF 48 million to their Chairman and/or CEOs in 2005. Median pay for the Chairman and/or CEO of this group was CHF 30 million; the second highest value stood at CHF 44 million. These numbers include base salaries, cash bonus and the fair value of equity-based awards.

Compensation for former members of the Board and GEB
Six former senior executives of UBS and its predecessor banks benefited from the use of office space and administrative support, mostly in connection with mandates they continue to hold on behalf, or in the interests, of UBS. The total value of these benefits amounted to CHF 2,075,199 in 2006.

Highest total compensation for a BoD member

Compensation details and additional information

Total compensation of the highest paid member of the Board of Directors, Chairman Marcel Ospel, amounted to CHF 26,591,803 for the financial year 2006:

	For the year ended		
CHF, except where indicated	**31.12.06**	31.12.05	31.12.04
Base salary	**2,000,000**	2,000,000	2,000,000
Incentive awards – cash	**10,550,000**	9,625,000	9,500,000
Employer's contributions to retirement benefit plans	**98,949**	98,949	82,588
Benefits in kind, fringe benefits (at market value)	**272,802**	197,192	190,371
Incentive award – UBS shares (fair value)	**10,550,052**	9,625,113	9,500,078
Restricted UBS options (fair value)	**3,120,000**	2,429,700	0[1]
Total	**26,591,803**	23,975,954	21,273,037
Number of UBS shares granted	**139,091**	136,044	186,642
Number of UBS options granted	**300,000**	390,000	0[1]

1 Marcel Ospel chose not to take up his entitlement under the "Senior Executive Stock Option Plan".

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. International Financial Reporting Standards (IFRS) require entities to recognise the fair value of share-based payments to employees as a compensation expense, recognised over the service period (typically equivalent to the vesting period). Disclosure of share-based compensation in UBS financial statements is, therefore, reported on this accounting basis. The disclosure of compensation in this report, however, is based solely on share and option valuation at fair value for the grant period.

Disclosure of management transactions

Since 1 July 2005, UBS has disclosed to the SWX on a no-name basis all transactions in the firm's shares and options by members of its Board of Directors and GEB. In 2006, shares and options worth CHF 100.6 million were sold by ten members of the Board of Directors and GEB. During the reporting period, shares worth CHF 1 million were bought by four members of the Board of Directors. The predominately sales-driven transactions have to be viewed in the light of the fact that senior executives receive at least 50% of their incentive pay in shares and options, and that stringent shareholding requirements apply.

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. This excludes a CHF 15,000 reimbursement of business expenses incurred in the performance of their duties.
- The chairmen and members of the Audit, Compensation, Nominating and Corporate Responsibility Committees receive additional retainers between CHF 100,000 and CHF 600,000 per mandate, commensurate with the workload associated.
- 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. For the period between the 2006 and 2007 AGMs, four non-executive Board members elected to receive 100% – rather than the mandatory minimum 50% – of their remuneration in restricted UBS shares. This preference, disclosed in accordance with the management transaction requirements of the SWX, will be effective for 2007 only.

  Shares are attributed with a price discount of 15% and are restricted from sale for four years.

Actual remuneration 2006 for non-executive members of the Board of Directors

The aggregate compensation paid to non-executive members of the Board of Directors for the period between the 2006 and 2007 AGMs, under the arrangements outlined above, was CHF 5,983,753 as described in the following table:

Remuneration for non-executive members of the Board

	For the period		
CHF, except where indicated	AGM 2006/2007	AGM 2005/2006	AGM 2004/2005
Cash	**1,688,802**	2,292,321	2,210,130
Restricted UBS shares at fair value	**4,249,951**	3,772,956	3,516,681
Total	**5,938,753**	6,065,277	5,726,811
Number of UBS shares granted (15% discount)	**56,031**	53,328	69,090

Explanations:

- Number of non-executive BoD members:
  2004: seven acting members as of 31 December.
  2005: eight acting members as of 31 December.
  2006: nine acting members as of 31 December.
- Shares valued at CHF 75.85 (average price of UBS shares at virt-x over the last ten trading days of February 2007), discount price CHF 64.45. The shares are blocked for four years. Related parties of non-executive BoD members are not granted any shares.
  Value per share 2005: CHF 70.75; 2004: CHF 50.90
- Allowance for "out of pocket" expenses (CHF 15,000) are in addition.

Memberships on Board committees for non-executive members of the Board

For the AGM period 2006/2007

Name	Audit Committee	Compensation Committee	Nominating Committee	Corporate Responsibility Committee
Ernesto Bertarelli			✓	
Sir Peter Davis		✓		
Gabrielle Kaufmann-Kohler				✓
Rolf A. Meyer	✓	Chair		
Helmut Panke			Chair	
Peter Spuhler		✓		
Peter Voser	✓			
Lawrence A. Weinbach	Chair			
Joerg Wolle			✓	

✓ = Member; Chair = Chairman of the respective committee

Share and option ownership
Non-executive Board members hold no options, nor do parties closely linked to them.

Loans granted to non-executive Board members
Individual loans and mortgages granted to two non-executive Board member amounted to CHF 1,673,670. Loans granted to companies related to six non-executive Board members amounted to CHF 865.5 million, including guarantees, contingent liabilities and unused committed credit facilities. For details see note 33 to the financial statements.

Loans and advances to non-executive Board members and related parties are made on terms comparable to those prevailing at the time for transactions with non-affiliated persons.

Shares held by non-executive members of the Board [1]

Shares held as of 31 December 2006:		**200,676**		
Of which				
Non-restricted	Blocked until 2007	Blocked until 2008	Blocked until 2009	Blocked until 2010
23,668	42,164	39,242	53,494	42,108

1 Includes parties closely linked to them.

No individual board member holds 1% or more of all shares issued.

Corporate Governance

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 (AGM) 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 SegaInterSettle 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' preemptive 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 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 62,500 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 motions to be put forward, together with a short explanation, if necessary. The Board of Directors formulates an opinion on the proposals, which is published together with the motions.

Registrations in share register

The general rules for being entered with voting rights in the Swiss or US Share Register of UBS also apply before General Meetings of Shareholders (for details see previous page). 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 33 ⅓% 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 Executive 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 145–147). The Audit Committee of the Board annually assesses the independence of Ernst & Young Ltd. 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 2006 AGM, BDO Visura, Zurich, was appointed as special auditor for a three-year term of office. The special auditors provide audit opinions in connection with capital increases, independently from the Group auditors.

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 2006 annually confirmed their mandate, and they will be proposed for re-election at the 2007 AGM.

The lead partners in charge of the UBS audit are Andrew McIntyre and Andreas Blumer since 2005 and 2004, respectively.

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, consents, 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,

Fees paid to external auditors

UBS paid the following fees (including expenses) to its principal external auditors Ernst & Young Ltd.:

	For the year ended	
in CHF thousand	**31.12.06**	31.12.05
Audit		
Global audit fees	**48,925**	39,802
Additional services classified as audit (services required by law or statute, including work of non-recurring nature mandated by regulators)	**14,766**	9,984
Total audit	**63,691**	49,786
Non-audit		
Audit-related fees	**7,843**	10,870
Tax advisory	**1,249**	2,511
Other	**3,043**	3,076
Total non-audit	**12,135**	16,457

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 US Sarbanes-Oxley Act of 2002.

Tax work means 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 Ltd. 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 2005 and 2006, 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 22,080,000 in 2006 (CHF 20,575,000 in 2005) 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 Ltd. 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 Ltd. have not provided any such services during the year.

Group Internal Audit

With 300 staff members worldwide at 31 December 2006, Group Internal Audit supports the Board of Directors and its Committees by independently assessing the effectiveness of UBS's system of internal controls and compliance of the Firm with statutory, legal and regulatory requirements. All key issues raised by Group Internal Audit are communicated to the management responsible, to the Group CEO and to the executive members of the Board of Directors via formal Audit Reports. The Chairman's Office and the Audit Committee of the Board are regularly informed of important findings. 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 fulfil its auditing duties. 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 cooperation with the external auditors enhance the efficiency of Group Internal Audit's work.

Supervisory and control instruments vis-à-vis the external auditors

The Audit Committee, on behalf of the Board of Directors, monitors the qualification, independence and performance of the Group Auditors and 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, and 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	3 May 2007
Second Quarter	14 August 2007
Third Quarter	30 October 2007
Fourth Quarter	14 February 2008

The Annual General Meeting of Shareholders will take place as follows:

2007	18 April 2007
2008	23 April 2008
2009	15 April 2009

UBS meets with institutional investors worldwide throughout the year. We regularly hold results presentations, specialist investor seminars, roadshows, individual and group meetings. Where possible, meetings involve senior management as well as members of our Investor Relations team. We make use of diverse technologies such as webcasting, audio links and cross-location video-conferencing to widen our audience and maintain contact with shareholders around the world.

Our website (www.ubs.com/investors) has comprehensive information on UBS, including a complete set of published reporting documents, on-demand access to recent webcasts and a selection of senior management industry conference presentations.

Once a year, unless they explicitly choose not to, registered shareholders receive our Annual Review. It provides an overview of the firm and its activities during the year as well as key financial information. Each quarter, they are mailed a brief update on our quarterly financial performance. Shareholders can also 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 page 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, 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 2006. 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 2006.

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.

In accordance with Section 404 of the United States Sarbanes-Oxley Act of 2002, the management of UBS is responsible for establishing and maintaining adequate internal control over financial reporting. Management's assessment of the effectiveness of internal control over financial reporting as of the end of the period covered by the Annual Report, together with our external auditors' report on such assessment, appears in our Financial Report 2006.

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, 28 of which are presently effective. These include a circular ruling on the supervision and internal controls at banks, issued on 27 September 2006, and a circular ruling on the supervision of large banking groups, issued on 21 April 2004. The latter prescribes what information we are required to provide to 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 an effort to streamline regulation, the SFBC decided on 1 December 2006, in consultation with the industry, to rescind five circulars. 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:

- Guidelines on the simplified prospectus for structured products (forthcoming)
- Agreement of Swiss Banks on Deposit Insurance, 2005
- 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
- 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, as amended) and the Swiss Bankers' Association (for example, the Code of Conduct for securities brokers), 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 and Pillar 3 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. There is close cooperation, including regular meetings 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 96). On 18 October 2006, the SFBC issued a national law implementing Basel II, which will enter into force on 1 January 2008.

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 oversight 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 fighting 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 (NASD). 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 (NYSE), 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. In addition, the US states, provinces and territories have local securities commissions that regulate and monitor activities in the interest of investor protection. These regulators have a variety of sanctions available, 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.

In the second quarter of 2007, the NASD and NYSE regulatory functions will be combined into a new private sector self-regulatory organization with one set of broker-dealer rules. Examinations will then be conducted out of a single entity using a single rulebook. Exchange monitoring will continue to be conducted separately by each exchange.

Regulation and supervision in the United Kingdom

UBS's operations in the United Kingdom are regulated by the Financial Services Authority (FSA), 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 8 February 2007, affirmatively determined that Ernesto Bertarelli, Sir Peter Davis, Gabrielle Kaufmann-Kohler, Rolf A. Meyer, Helmut Panke, Peter Spuhler, Peter Voser, Lawrence A. Weinbach and Joerg Wolle 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 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, Rolf A. Meyer and Peter Voser 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, Rolf A. Meyer and Peter Voser are "financial experts" according to the definitions established by the US 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, Rolf A. Meyer through his former responsibility as Chief Financial Officer of a large listed company, and Peter Voser being the Chief Financial Officer of Royal Dutch Shell plc.

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 2006 can be found on pages 113–119 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 117 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 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 required by the US 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 2006 and announced changes.

Global Wealth Management & Business Banking

Michel Adjadj	Head of Wealth Management Eastern Mediterranean, Middle East & Africa
Bernhard Buchs	Chief Risk Officer
Robert J. (Bob) Chersi	Deputy Chief Financial Officer
Arthur Decurtins	Head of Wealth Management Benelux, Germany & Central Europe (stepped down on 1 March 2007)
Diane Frimmel	Director of Operations and Services, Wealth Management US
Marten Hoekstra	Head of 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
Rolf Olmesdahl	Head Information Technology
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
Felix B. Ronner	Global Head of Transaction Products and Head of Products & Services Europe
Kathryn Shih	Head of Wealth Management Asia Pacific
Jean Francis Sierro	Head of Resources (retired on 1 February 2007)
Anton Stadelmann	Chief Financial Officer
Michael A. Weisberg	Global Head of Products & Services
Klaus W. Wellershoff	Global Head Wealth Management Research
Stephan Zimmermann	Chief Operations Officer

Global Wealth Management & Business Banking (continued)

New members as of 1 March 2007:

Matthew J. Brumsen	Head Business Unit UK, Northern and Eastern Europe
Gabriela Payer Fruithof	Global Head Human Resources
Niklaus Pfau	Head Advisory & Sales Management WM International
Michael Strobaek	Global Head Investment Solutions
Juerg Zeltner	CEO of UBS Deutschland AG

Investment Bank

Andy Amschwand	Head of Investment Bank Switzerland Global Head of Foreign Exchange / Cash and Collateral Trading
David Aufhauser	Global General Counsel
David A. Bawden	Chief Credit Officer
Maria Bentley	Global Head of Human Resources
Michael Bolin	Chief Administrative Officer (stepped down on 1 March 2007)
Mark Branson	CEO and President of UBS Securities Japan Ltd.
Simon C. Bunce	Global Head of Fixed Income and Rates
Daniel Coleman	Joint Global Head of Equities
Regina A. Dolan	Chief Financial Officer
André Esteves	Chairman and CEO UBS Latin America
Juerg Haller	Chief Operating Officer UBS Latin America, Investment Bank
J. Richard Leaman III	Joint Global Head Investment Banking Department
Jeffrey A. McDermott	Joint Global Head Investment Banking Department
Ken Moelis	President of Investment Bank
Brad Orgill	CEO and Chairman, Australasia
Jeremy Palmer	CEO of the Investment Bank in Europe, Middle East and Africa (EMEA)
John Pius Wall	Joint Global Head of Equities
Alexander Wilmot-Sitwell	Joint Head Investment Banking Department
Robert Wolf	Chief Operating Officer UBS Investment Bank and Chairman of UBS Investment Bank Americas

New members as of 1 March 2007:

Peter W. Burnett	Executive Chairman, Middle East
Suneel Kamlani	Chief of Staff, Investment Bank
Richard B. Metcalf	Chief Risk Officer

Global Asset Management

Mario Cueni	Global Head of Legal, Compliance & Risk Control
Gabriel Herrera	Head of Europe, Middle East & Africa
Christof Kutscher	Head of Asia Pacific

Global Asset Management (continued)

Thomas Madsen	Global Head of Equities
John A. Penicook Jr.	Global Head of Fixed Income
Joe Scoby	Head of Alternative and Quantitative Investments
Brian Singer	Head of Global Investment Solutions
Kai Sotorp	Head of the Americas
Paul Yates	Global Head of Strategic Client Development (stepped down on 1 March 2007)

New members as of 1 March 2007:

Paresh Sodha	Chief Financial Officer

Corporate Center

Scott G. Abbey	Chief Technology Officer
Charles Nicholas Bolton	Group Head of Operational Risk
Thomas Hammer	Group Head of Human Resources (to step down on 1 April 2007)
Tom Hill	Chief Communication Officer
Stephan Keller	Group Treasurer
Philip J. Lofts	Group Chief Credit Officer
Robert W. Mann	Head of Leadership Institute
Neil R. Stocks	Head of Group Compliance
M. Andrew Threadgold	Group Head of Market Risk
Peter Thurneysen	Head of Group Controlling & Accounting
William Widdowson	Head of Group Accounting Policy

New members as of 1 March 2007:

Gerhard Bruederlin	Group Head of Human Resources
Seth F. Cohen	Head of Group Offshoring

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 2006 and announced changes

Global Wealth Management & Business Banking

Thomas K. Escher	Wealth Management
Carlo Grigioni	Wealth Management

New members as of 1 March 2007:

Arthur Decurtins	Wealth Management

Investment Bank

Ken Costa
Lord Brittan of Spennithorne, QC
Robert Gillespie
Phil Gramm

New members as of 1 March 2007:

Chris Brodie

Corporate Responsibility

Responsible behavior is an important part of our culture, identity and business practice.

Corporate Responsibility

As a leading financial services firm, one of our main purposes is to create long-term value. We achieve this by providing our clients with value-added products and services, promoting a corporate culture that adheres to high ethical standards, and by generating superior and sustainable returns for our shareholders. We firmly believe that sustainable growth and investment for any business is also dependent on what it does above and beyond what laws and regulations require. It is why we are committed to creating a working environment based on the values of equal opportunity, diversity and meritocracy. We have also adopted measures to protect the environment, we adhere to high social standards and contribute to the communities we are a part of. All our activities are underpinned by our governance structure, which complies with the leading codes of best practices.

>> For more on our workforce, see the employees section.

>> For more on governance, see the corporate governance section.

Adherence to the UN Global Compact initiative

In 2000, UBS was one of the first companies to join the UN Global Compact initiative. Since then, the Global Compact has expanded its scope, and it now comprises ten principles covering the areas of human rights, labor standards, environment and corruption. Its geographic reach is now global, with over 2,900 business participants from 100 countries adhering to it at the end of 2006. Although it is an important component in any discussion with the public about the role of business in society, it is ultimately aimed at concrete action. Key among these, from our point of view, is the "Who Cares Wins" initiative which, initiated by 20 financial institutions in June 2004, maps the progress made by different actors in integrating environmental, social and governance issues into mainstream investment decisions. UBS has been involved in this initiative since its inception and we also participate in other Global Compact-related endeavors, including its Swiss network, which was established in 2006.

Human rights

In the area of human rights, UBS in November 2006 adopted a statement in support of basic human rights, signaling to employees, clients and society that we recognize the significance of promoting and respecting human rights within our sphere of influence.

The statement does not, of course, mean that we only became aware of human rights issues in November 2006.

UBS Statement on Human Rights

The international human rights norms are a call upon governments to respect these rights of their citizens to the largest extent possible. Although international human rights are not directly enforceable upon the private sector, it is our view that private companies such as UBS can and should support governments in implementing human rights.

In this spirit, the UBS Statement on Human Rights sets out our approach to promote and respect human rights standards within our sphere of influence. This is in line with our endorsement of the UN Global Compact and its underlying principles.

Our ability to promote and respect human rights standards depends on the nature of our relationship with the various stakeholders with which we engage: as an employer, we act in line with the principles underlying human rights; with suppliers, our level of influence is lower, but we can act to a certain extent through the contractual agreements we have with them; our level of influence is limited with our clients.

The human rights principles below describe our aspirations. We endeavor to embed the principles in our culture by integrating them into our business practices and internal communications.

Employees

We respect and support human rights standards through our human resources policies and practices.

Suppliers and Contractors

We strive to assess the business practices of significant suppliers in light of human rights standards and integrate relevant aspects into our contractual relationships with them.

Clients

We aim to promote the responsible use of our products and services by taking human rights standards into account when vetting prospective clients and executing transactions.

We regularly report on our progress in implementing this Statement as part of UBS's annual reporting.

Financial institutions have been dealing with human rights issues for years, but have frequently employed different descriptions for the issue. For example, human resources and diversity policies for equal opportunity and anti-discrimination programs can address human rights issues, as can employment and health and safety policies. The UBS Statement on Human Rights both sets out our position and embraces the key issues in a single document.

Labor standards

UBS possesses well-established human resources policies and practices that any responsible company would be expected to have and we continually review policies and practices to ensure that labor standards are respected.

>> For more on our labor standards, see the employee section.

Environment

We were one of the first signatories of the United Nations Environment Program's Bank Declaration (UNEP) in 1992, which committed us to integrating appropriate environmental measures in our activities. Today, our efforts to protect the environment, which started in the 1970s, have grown into a well-developed, global environmental management system certified to the ISO 14001 standard covering banking and in-house operations. We consider efficient and sustainable management of our energy requirements, and the measures we have taken to reduce our carbon emissions, as an important factor in being a responsible corporation. In February 2006, we set a target to reduce our carbon emissions in 2012 by 40% from 2004 levels.

>> For more information on the environment, see the end of this section.

Fighting corruption

UBS has long been committed to assisting in the fight against money laundering, corruption and terrorist financing by operating an effective and dynamic risk-based approach to its internal anti-money laundering (AML) process.

>> For more information on our AML activities, see next page.

Our corporate responsibility efforts are widely recognized. We have been a component of the Dow Jones Sustainability indices since their inception in 1999. The indices track the financial performance of the leading sustainability-driven companies worldwide. We are also included in the FTSE-4Good Index, which measures the performance of global companies in the areas of environmental sustainability, stakeholder relations and support for human rights. We have been a member of the Climate Leadership Index (CLI) since its launch in 2004. The CLI discloses to investors which FT500 companies have the most comprehensive climate-change disclosure practices in place, judged on the basis of each company's individual response to the Carbon Disclosure Project (CDP) questionnaire.

Our corporate responsibility processes

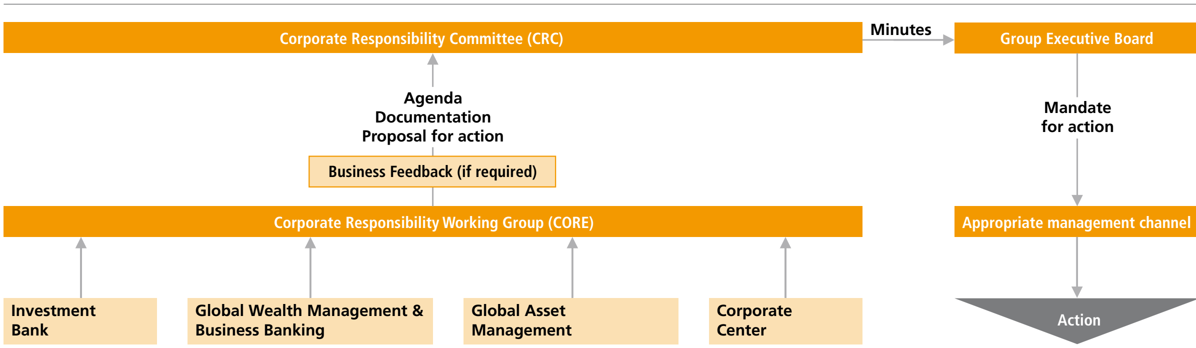
In 2001, we created a Corporate Responsibility Committee (CRC). It assesses how to meet the evolving expectations of our stakeholders related to our corporate conduct. If the committee concludes that there is a gap between what stakeholders expect and what we practice – and that this gap represents either a risk or an opportunity to the firm – the CRC suggests appropriate actions to management.

The committee is chaired by Marco Suter, Executive Vice-Chairman of UBS and Group Environmental Representative, and includes two other members 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 meets two to three times a year.

The committee's work is supported by a working group that comprises 17 functional experts from all our Business Groups. It monitors and evaluates any new issues potentially related to corporate conduct, and ensures that all are brought to the attention of the CRC.

Neither the CRC nor the working group runs operational processes related to corporate responsibility; rather they ensure that UBS considers changing societal expectations in its business practices.

UBS Corporate Responsibility Governance Structure



CR training and awareness raising

It is important that our employees are aware of UBS's corporate responsibility efforts and processes. Apart from the general information published on our intranet and internet, in 2006 we directly provided nearly 3,000 employees in all businesses with information on the approach UBS takes towards corporate responsibility through a range of training sessions.

They extended from short presentations, in particular at new employee induction events, to longer presentations and workshops. In Global Wealth Management & Business Banking, for example, a module on ethics and corporate and personal responsibility forms part of the Business Group's management training program.

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 potential 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 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, in the form of both 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. In 2006, the shift from the traditional "rule based" approach to AML regula-

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 the behavior of UBS employees. Our guidelines define the way we do business and we regularly monitor compliance.

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, while 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

tion to "principle based" regulation (including the so called "risk based" approach) continued. This requires UBS to continue to reassess its own policies and procedures, focusing on our particular risks, further develop our own risk based model and ensure we continue to differentiate with external stakeholders on what is possible regarding terrorism and money laundering prevention. For these reasons, risk based AML policies were updated during the year both at Group level and in each Business Group. This allowed us to streamline and increase consistency between Business Groups in their AML / KYC policies and procedures using consistent methodologies and tools (for example the creation of a consistent country risk framework for identifying sensitive countries) while allowing divergence where this made sense.

Last year, we launched the "Look Again" campaign around money laundering prevention to build awareness among personnel with a simple, clear message. We are confident that this will help to ensure that employees continue to focus on this key issue. In addition, we continue to work to enhance the effectiveness of our existing transaction monitoring systems and, as important, the effectiveness of their usage.

We remain 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 monitoring, screening, and searching guidelines, its correspondent banking principles, and its efforts to suppress terrorism finance. Most recently, we have collaborated on AML guidance for mutual funds and investment and commercial banking and in a statement against corruption.

As part of Wolfsberg 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 Wolfsberg Group's context, UBS frequently conducts, at the request of the Swiss Ministry of Foreign Affairs, training sem-

GRI

See www.ubs.com/corporateresponsibility for the GRI content index. The GRI content index refers to the GRI 3 Guidelines and the Financial Services Sector Supplements which form together a voluntary reporting framework that provides guidance on how organizations can disclose their sustainability performance.

account dealing, or the providing and receiving of gifts. UBS's Investment Bank also has specific conflict of interest policies for its research activities.

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 a dedicated money laundering prevention unit. We aim to prevent bribery of public officials by requiring the pre-approval of any transfer of value by UBS or any employee to a public official.

Memberships and donations
We have a policy governing the handling and uniform treatment of memberships and donations by UBS globally. It specifies that donations are goodwill payments made to organizations whose activities serve (among others) non-profit, charitable, cultural and educational purposes.

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.

Human rights
The UBS Statement on Human Rights sets out our approach to promote and respect human rights standards within our sphere of influence.

inars for countries still developing anti-money laundering and/or contra terrorist financing legislation.

Investing in our communities

The "raison d'être" behind our well-established community affairs program is the recognition that in addition to the economic impact generated through our business activities, UBS seeks to have a positive influence on the social and environmental well being of local communities in which it is active.

This encompasses activities such as matched-giving schemes, direct cash donations to selected organizations, employee volunteering, in-kind donations, disaster relief efforts, and/or partnerships with community groups. Dedicated teams around the world work closely with staff at all levels to build partnerships with organizations in the communities, focusing on the key themes of empowerment through education, building a stronger community and the environment.

Overall, in 2006, UBS and its affiliated foundations donated more than CHF 38 million to support charitable causes. Our employees, through their donations and volunteer efforts, make further significant contributions to the communities they live in. Last year, more than 3,800 employees spent over 50,000 hours volunteering. UBS supports their commitment by matching their donations and offering, depending on location, up to two working days a year for volunteering efforts.

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. The association "A Helping Hand from UBS Employees" assists disabled and disadvantaged people to lead active, independent lives. UBS encourages this employee involvement by matching the funds raised in 2006. The UBS Cultural Foundation fosters creativity, appreciation of different forms of art, and contact between artists and society. The foundation financially supports fine arts, film, literature, music, preservation of historic buildings, archeological projects and studies in history and philosophy in Switzerland. In similar fashion, the purpose of 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.

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, focusing on the key themes of 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 by UBS, so that the full contribution from our clients reaches the projects. In 2006, UBS Optimus Foundation spent more than CHF 9 million supporting 53 projects in Africa, Asia Pacific, Europe, North and South America.

Some examples of our global community affairs activities

In the **UK,** we have had a partnership with Deptford Green, a secondary school in south-east London, for more than 12 years. Through the partnership, we introduced the UK's first adult-to-pupil mentoring scheme, and have since given many of the school's students work experience. A study by Roots & Wings, a charity, has shown that pupils mentored by UBS employees are 20% more likely to find work. The program has also had a significant positive impact in the wider community. Some of this is attributable to the 7,000 hours which UBS employees have contributed to the school in the last three years alone. Our partnership with Deptford Green received national recognition with the UK Charity Award in 2006.

In **Switzerland**, among other projects, we support the "Lukas house", a facility for the handicapped. Located in Grabs, it provides a home and workplace for about 50 handicapped adults. In autumn 2006, UBS employee volunteers built, together with the handicapped residents, a path called "the school of walking". Through a series of exercises, the path helps to raise the self-esteem for the adults living and working in the "Lukas house" while improving their cognitive ability.

In the **Asia Pacific** region, UBS assists the Education Development Fund of Thailand's (EDF) "Barter between Brothers" project in northeastern Thailand, a rural area frequently ravaged by drought. A substantial number of students still lack proper food to eat, stunting their growth. EDF, realizing the importance of lunch meals and the need for agricultural skills training, teaches them how to grow oyster mushrooms, breed frogs

SRI invested assets

		For the year ended			% change from
CHF billion, except where indicated	GRI[1]	31.12.06	31.12.05	31.12.04	31.12.05
UBS		2,989	2,652	2,217	13
Socially Responsible Investments (SRI)					
Positive criteria	F9	1.84	1.05	0.78	75
Engagement	F9	55.81	38.90	31.60	43
Exclusion criteria	F9	16.17	10.73	7.32	51
Total SRI assets	F9	73.82	50.68	39.70	46
Proportion of invested assets (%)[2]		2.47%	1.91%	1.79%	
Performance of UBS's SRI Funds (%)					
Absolute performance Eco Performance[3]		10.82	21.79	4.66	
Relative performance Eco Perf. vs. MSCI[4]		(0.41)	(5.72)	(1.30)	

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 Total socially responsible investments / UBS's invested assets. 3 Eco Performance = UBS (Lux) Equity Fund – Eco Performance B. 4 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 dialog 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.

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. The SRI equity product offering includes a Global fund, a European fund, a Japanese 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 and energy efficiency, mobility, water management, food and healthcare. The SRI funds use both our SRI and mainstream research platforms to construct a portfolio of leading SRI stocks. 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's open architecture also allows clients to invest in SRI products from third-party providers.

and catfish – which not only provide food for the lunches but also allow them to barter with other schools. UBS also underwrites a series of scholarships that enable students to continue on to junior high school. In November 2006, UBS employees from Tokyo, Seoul, Hong Kong, Bangkok and Singapore spent two days helping students, their teachers and families in various activities.

In the **Americas,** one of our top priorities is to support the development of children and youth by working with the public education system by assisting elementary and secondary schools in UBS's main business locations. In New York, for example, UBS helps foster environments conducive to learning by funding the YMCA's after-school literacy programs and by building an information technology network to link charter public schools. In Connecticut, the focus extends to higher education, as exemplified by the new "UBS Student Success Center" at Norwalk Community College. In Chicago, contributions fund the "Boys & Girls Club" and the "After School Matters" programs, both of which complement the curriculum of the public school system. In addition, UBS employees volunteer to help the schools by hosting museum field trips, painting classrooms and murals, reading and tutoring, donating supplies and serving on the boards of various educational organizations.

>> For more information on our Community Affairs program, see www.ubs.com/corporateresponsibility.

In the Investment Bank, UBS has a well-established SRI research team that produces original research on areas of increasing or diminishing risk and hosts conferences on timely topics. 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 SRI page is available to UBS's institutional clients on UBS's Research Web. In 2006, the Investment Bank launched the world's first biofuel index – the UBS Diapason Global Biofuel Index and the world's first emissions index – the UBS World Emissions Index. Index-linked products offered by the Investment Bank allow clients to participate in the indices' performance.

At Global Wealth Management & Business Banking, the key focus of activities in the last two years has been making client advisors aware of SRI-related issues. In 2006, senior executive management launched a strategy aiming to fully integrate SRI into the UBS Client Experience framework. The UBS Climate Change Strategy Certificate, an actively managed basket of around 20-25 stocks, was launched in February 2007 from the cooperation of existing capabilities in the investment banking and asset management businesses. The certificate gives investors access to innovative companies that develop solutions to fight climate change. The investment areas are energy production (renewable energy and cleaner energy) and energy efficiency (in buildings, in transport and in industrial processes and products).

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 CO_2 emissions to be an important aspect of our corporate responsibility. The Group Executive Board decided in February 2006 to set a group-wide CO_2 emission reduction target of 40% below 2004 levels by 2012. We 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.

We have started to roll out ambitious programs to help us achieve this target. As an immediate measure, we decided to offset all CO_2 emissions that resulted from our entire 2006 business air travel, i.e. over 100,000 tons of CO_2, representing about a quarter of our total CO_2 emissions. Offsetting means that we indirectly neutralize our business air travel emissions by investing in third party projects that reduce an equivalent amount of greenhouse gas emissions. We selected four projects in Brazil, Russia, India, and China, on the basis of their adherence to international quality standards, of their additional environmental and social benefits, and of their geographical proximity with important emerging markets. We purchased offsets from the following projects: in Brazil, local farmer cooperatives built small scale hydro power plants in an isolated region of the State of Rio Grande do Sul; in North West Russia, a wood producer replaced coal boilers with a biomass heating plant fueled by locally available wood waste; in Andhra Pradesh, India, a sugar cane factory captures methane from its waste waters and uses it as biofuel for clean power generation; in the Shandong Province of China, 15 wind turbines were built, thereby providing a cleaner source of energy in a region dominated by coal power production. All four projects also boast significant social benefits such as local jobs, education, health and rural empowerment.

In parallel, we also continued our efforts to improve in-house energy efficiency and green energy purchasing. Some examples of measures taken in 2006 to that effect were:

- UBS signed a new agreement in Zurich, under which all the electricity supply for our buildings there now comes from renewable sources (roughly 100 GWh per year). As a result, more than three quarters of the total energy we consume in Switzerland now comes from renewable energy sources and district heating.
- In Stamford, Connecticut, the location of one of our main trading floors and one of our largest buildings globally, we are beginning to see the benefits of a major retrofitting project that included infrastructure upgrades and improved energy monitoring. Our 2006 electricity consumption decreased by 5% despite significant business growth and higher occupancy density. The estimated

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. The current certificate is valid until 2008.

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.

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annual energy saving of 2.3 GWh lowered costs by over USD 270,000 and cut indirect CO_2 emissions by 740 metric tons . Additionally, the measures helped reduce the building's draw on the local electricity grid, helping to mitigate some of the increased demand in the city of Stamford itself.

– A new functionality for PC workstations was introduced in Switzerland. Called Wake on LAN, this functionality allows PCs to be 'shut off' after work, and be 'woken up' for software upgrades during the night. It was rolled out for over 30,000 workstations and notebooks in Switzerland in 2006, and is expected to result in annual power savings of 8 GWh, and worth CHF 1 million.

Combined with our air travel offsetting, such measures allowed us to reduce our CO_2 emissions by 19% compared to 2004, an important step toward achieving our 40% target by 2012.

Engaging investors and markets
UBS is a founding member of the Carbon Disclosure Project. It collaborates with other institutional investors by writing to the 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 2006, 87% of responding companies flagged climate change as posing commercial risks or opportunities to their business, but less than half of them said they had implemented emission reduction programs.

At the end of January 2007, Wealth Management Research published a report examining the scientific, technological, and economic effects of climate change. Its authors argue that climate change will have far-reaching implications for the global economy and the worldwide investment climate, and conclude that measures to combat global warming will increasingly influence people's behavior, the risk profiles of certain industries, and prospects for investment. The analysis suggests that products and processes that improve energy efficiency, as well as the development of renewable or low-CO_2 energy sources, have great potential to slow climate change.

UBS Investment Bank's SRI research team also continues to see climate change as a critical risk issue for firms, markets and investors. The UBS Climate Change conference of 2005 was followed by a further climate change event in February 2006 with Professor Sir David King, Chief Scientific Adviser to the UK government, once again the keynote speaker. Later in the year the annual SRI conference focused on "Water Scarcity – the defining crisis of the 21st century", extending the team's consideration of climate change-related issues to some of its physical effects. The UK government's Stern Review on the economics of climate change noted that the impact of climate change would be felt most strongly by changes in water availability around the world.

UBS trades carbon financial instruments on behalf of clients and is a member of the Intercontinental Exchange (ICE), an electronic marketplace for energy and emissions trading in conjunction with the European Climate Exchange (ECX).

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 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 reporting standards such as the Global Reporting Initiative (GRI) and include environmental performance indicators tailored to financial institutions.

The management indicators below 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. This policy is supported by an environmental risk framework that is integrated into the Investment Bank's due diligence and approval processes. Investment Bank staff identify potential environmental risks in the initial due diligence phase and alert the Business Group's Environmental Risk Group of significant potential risks. Assessments by lawyers and/or external consultants are routinely sought for certain sectors and products. The Environmental Risk Group works with the relevant business and control functions to assess the risks, determine any mitigating measures and direct further due diligence, as required, so that the relevant senior business committee may fully consider the potential environmental risk in the course of its review of the transaction and/or client. In 2006, 48 such internal assessments were carried out.

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 or a specialized business unit assisting the 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

Environmental management indicators

		For the year ended			% change from
Full-time equivalent, except where indicated	GRI[1]	31.12.06	31.12.05	31.12.04	31.12.05
Personnel financial businesses[2]		78,140	69,569	67,407	12
In specialized environmental units[3]		30	25	22	18
Environmental awareness raising					
Employees trained	F5	2,489	2,251	1,664	11
Training time (hours)	F5	1,498	1,214	2,124	23
Specialized environmental training					
Employees trained	F5	977	1,010	602	(3)
Training time (hours)	F5	1,758	2,066	1,932	(15)
External environmental audits[4]					
Employees audited	F6	30	147	11	(80)
Auditing time (days)	F6	6	17	2	(67)
Internal environmental audits[5]					
Employees audited	F6	154	216	148	(29)
Auditing time (days)	F6	44	39	29	13

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 All employment figures represent the state as of 31 December 2006. 3 2006: 25 UBS and 5 external employees (FTE). 4 Audits carried out by SGS Société Générale de Surveillance SA. Surveillance audits took place in 2004 and 2006. 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.

Group's environmental risk unit. In 2006, 25 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

The formal environmental risk matrix introduced in 2004 within Global Asset Management, which assesses the reputation and environmental risks that its investments might imply, is reviewed annually for applicability and comprehensiveness. It continues to form part of the environmental management system employed within the Business Group.

Environmental and CO_2 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, therefore, we have a series of measures that manage our environmental impact efficiently.

Every year, we analyze our environmental and CO_2 footprints. The graph below shows the relative environmental and CO_2 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 CO_2 footprints. This shows that the type of energy mix we purchase has a strong influence on our overall environmental and CO_2 footprint.

In 2006 we reviewed our entire CO_2 monitoring and reporting system in order to externally verify our CO_2 emissions according to ISO 14064, the new international standard for quantification and reporting of greenhouse gas emissions (see verification statement on page 164). The review showed we had overstated our reported CO_2 emissions in the past by applying overly conservative assumptions. By applying the latest internationally accepted standards for converting air travel and electricity consumption into CO_2 emissions, our reported emissions decreased significantly.

In 2006, UBS's sustained growth led to significant increases in electricity consumption (+6%) and business travel (+24%). Pursuant to our climate change strategy, we decided to mitigate this trend by purchasing more renewable energy, and by offsetting our air travel. The percentage of renewable energy we source rose from 23% in 2005, to 34% in 2006. Combined with the purchasing of offsets (see climate change article on page 160), this cleaner energy mix enabled us to decrease our total CO_2 footprint by 21% compared with 2005 (see CO_2 footprints in the table below).

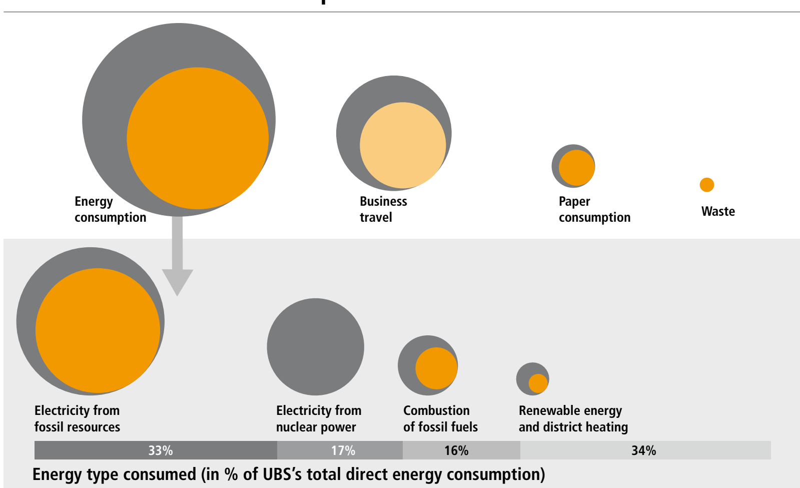
>> More detailed information on UBS's environmental management system is available on the internet: www.ubs.com/environment.

Environmental indicators per FTE

	Unit	2006	Trend	2005	2004
Total direct and intermediate energy	kWh / FTE	12,736	→	12,925	13,095
Total indirect energy	kWh / FTE	23,974	↘	26,024	24,699
Total business travel	Pkm / FTE	12,544	↑	10,659	9,617
Total paper consumption	kg / FTE	188	→	197	198
Total waste	kg / FTE	303	↘	325	363
Total water consumption	m^3 / FTE	26.0	→	26.0	25.9
Total environmental footprint	kWh / FTE	38,148	↘	41,129	38,868
CO_2 footprint	t / FTE	3.93	↓	5.24	5.27

Legend: kWh = kilowatt hour; Pkm = person kilometer; kg = kilogram; m^3 = cubic meter; t = ton

Environmental and CO_2 footprints



The size of the circles represents the scale of the environmental impact for each factor – the larger the circle area, the greater the environmental significance of the process.

- **Environmental footprint:** shows the environmental impact (i.e. through emissions, use of resources, waste) of each corresponding process. This includes all relevant upstream and downstream processes, such as acquisition of raw materials, manufacturing, transport and disposal. The environmental footprint is approximated based on the amount of non-renewable energy consumed.
- **CO_2 footprint:** equals the quantity of CO_2 that emerges through the corresponding energy consumption process.
- **CO_2 offsets:** shows the CO_2 footprint that has been offset by investing in third-party CO_2 reduction projects.

Environmental indicators[1]

		2006[2]			2005[2]	2004[2]
	GRI[3]	Absolute normalized[4]	Data quality[5]	Trend[6]	Absolute normalized[4]	Absolute normalized[4]
Total direct and intermediate energy consumption[7]		951 GWh	***	→	918 GWh	895 GWh
Total direct energy consumption[8]	**EN3**	154 GWh	***	↘	169 GWh	203 GWh
natural gas		85.5%	***	→	86.0%	84.3%
heating oil		11.8%	***	↗	11.0%	11.4%
fuels (petrol, diesel, gas)		2.7%	***	↘	3.0%	4.3%
renewable energy (solar power, etc.)		0.03%	***	↑	0.02%	0.02%
Total intermediate energy purchased[9]	**EN4**	797 GWh	***	↗	749 GWh	692 GWh
electricity from gas-fired power stations		13.2%	***	↘	14.3%	15.5%
electricity from oil-fired power stations		4.5%	***	→	4.3%	4.4%
electricity from coal-fired power stations		21.7%	**	→	22.9%	23.8%
electricity from nuclear power stations		20.5%	***	↓	29.9%	24.9%
electricity from hydroelectric power stations		21.4%	***	↑	12.1%	16.3%
electricity from biomass and waste power stations		0.5%	**	→	0.5%	0.5%
electricity from wind power stations		2.0%	***	↑	1.3%	1.6%
electricity from other renewable resources		10.3%	***	↑	9.3%	8.0%
district heating		6.0%	**	↗	5.4%	5.1%
Total indirect energy consumption[10]	**EN4**	1,790 GWh	***	→	1,849 GWh	1,689 GWh
Total business travel	**EN29**	936 m Pkm	***	↑	757 m Pkm	658 m Pkm
rail travel[11]		4.1%	**	↗	3.7%	5.0%
road travel[11]		0.6%	**	↘	0.7%	0.8%
air travel		95.3%	***	→	95.6%	94.2%
Number of flights (segments)		402,629	***	↑	358,992	323,467
Total paper consumption	**EN1**	14,013 t	***	→	14,020 t	13,551 t
post-consumer recycled	EN2	6.2%	***	↓	7.1%	8.1%
new fibers ECF + TCF[12]		93.8%	***	→	92.9%	91.9%
new fibers chlorine bleached		0.0%	***	→	0.0%	0.0%
Total waste	**EN22**	22,631 t	***	→	23,073 t	24,852 t
valuable materials separated and recycled		58.2%	***	↓	64.8%	64.4%
incinerated		12.7%	***	↑	9.3%	8.0%
landfilled		29.1%	**	↗	25.9%	27.6%
Total water consumption	**EN8**	1.94 m m^3	**	→	1.84 m m^3	1.77 m m^3
Total environmental footprint[13]		2,848 GWh	**	→	2,922 GWh	2,658 GWh
Total CO_2 footprint[14]		293,169 t	***	↓	372,184 t	360,502 t
Total direct CO_2 (GHG scope 1)[15]	EN16	31,519 t	***	↘	34,556 t	41,858 t
Total indirect CO_2 (GHG scope 2)[15]	EN16	230,015 t	**	→	225,854 t	219,727 t
Total other indirect CO_2 (GHG scope 3)[15]	EN17	132,635 t	***	↑	111,773 t	98,918 t
Total CO_2e offsets (business air travel)[16]		101,000 t	***	↑	-	-

Legend: GWh = gigawatt hour; Pkm = person kilometer; t = ton; m^3 = cubic meter; m = million

1 All figures are based on the level of knowledge as of January 2007. 2 Reporting period: 2006 (1 July 2005–30 June 2006), 2005 (1 July 2004–30 June 2005), 2004 (1 July 2003–30 June 2004) 3 Global Reporting Initiative (see also www.globalreporting.org). EN stands for the Environmental Performance Indicators as defined in the GRI. 4 Non-significant discrepancies from 100% are possible due to roundings. 5 Specifies the estimated reliability of the aggregated data and corresponds approximately to the following uncertainty (confidence level 95%): up to 5% – ***, up to 15% – **, up to 30% – *. Uncertainty is the likely difference between a reported value and a real value. 6 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% (↓ ↑). 7 Refers to energy consumed within the operational boundaries of UBS. 8 Refers to primary energy purchased which is consumed within the operational boundaries of UBS (oil, gas, fuels). 9 Refers to energy purchased that is produced by converting primary energy and consumed within the operational boundaries of UBS (electricity and district heating). 10 Refers to primary energy, which is consumed to produce the electricity and district heating consumed by UBS. 11 Rail and road travel: Switzerland only. 12 Paper produced from new fibers, which is ECF (Elementary Chlorine Free) or TCF (Totally Chlorine Free) bleached. 13 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 non-renewable energy consumed. 14 CO_2 footprint equals total CO_2 emissions (GHG scope 1, 2 and 3) minus CO_2e offsets. 15 Refers to ISO 14064 and the "GHG (greenhouse gas) protocol initiative" (www.ghgprotocol.org), the international standards for CO_2 reporting: direct CO_2 (Scope 1) accounts for direct CO_2 emissions by UBS; indirect CO_2 (Scope 2) accounts for indirect CO_2 emissions associated with the generation of imported/purchased electricity, heat or steam; other indirect CO_2 (Scope 3) accounts for indirect CO_2 emissions associated with business travel, paper consumption and waste disposal. 16 Offsets from third-party GHG reduction projects measured in CO_2 equivalents (CO_2e). These offsets neutralize CO_2 emissions from our business air travel.

Verification by SGS Société Générale de Surveillance SA

"We have verified the correctness of the statements in the 2006 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.

We have also conducted a third party verification of the CO_2 emissions in the years 2004, 2005 and 2006 against the principles of ISO 14064-I (2006). In our opinion, the reported CO_2 emissions are fair, accurate, transparent and free from material errors or misstatements and meet the materiality threshold."

Elvira Bieri, Dr. Erhard Hug and Dr. Jochen Gross, Zurich, February 2007

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 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 and macro-economic trends, (2) legislative developments, governmental and regulatory trends, (3) movements in local and international securities markets, currency exchange rates and interest rates, (4) competitive pressures, (5) technological developments, (6) changes in the financial position or creditworthiness of our customers, obligors and counterparties and developments in the markets in which they operate, (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 2006. UBS is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

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