BASE LISTING DOCUMENT

If you are in any doubt about this document you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional advisers.

The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and Hong Kong Securities Clearing Company Limited ("**HKSCC**") take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Base Listing Document relating to Offers of Structured Products to be issued by

UBS

UBS AG

(incorporated with limited liability in Switzerland)

acting through its London Branch

Sponsor

UBS SECURITIES ASIA LIMITED

This document (the "**Base Listing Document**") is published for the purposes of obtaining a listing of warrants over single equities, warrants over a basket of equities, warrants over single unit trusts and warrants over indices (together the "**Warrants**" or as the case may be a "**series of Warrants**") and any other structured products (Warrants and such other structured products shall collectively be known as the "**Structured Products**") to be issued from time to time by UBS AG (the "**Issuer**"), acting through its London branch or any of its branches outside Switzerland as it may specify from time to time and listed on the Stock Exchange and includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "**Rules**") for the purpose of giving information with regard to the Issuer and the Structured Products. This document may be updated or amended from time to time by way of addenda. References to this document include references to this document as amended by such addenda. The additional terms relating to each series of Structured Products will be set out in the supplemental listing document for the relevant Structured Product (each a "**Supplemental Listing Document**") which will be supplemental to, and should be read in conjunction with, this document.

Each Structured Product issued pursuant to this document is issued by the Issuer. Any other parties distributing any Structured Product are only doing so as a distributor for the Issuer. UBS Securities Asia Limited is the Sponsor pursuant to the terms of this document and provides various administrative services to the Issuer.

This document does not constitute or form part of any offer or invitation to subscribe for or to sell or solicitation of any offer to purchase Structured Products or other securities of the Issuer or any other company, nor is it calculated to invite persons to subscribe for, or purchase for cash, or other consideration Structured Products or other securities of the Issuer or any other company.

Subject to the granting of listing of, and permission to deal in a series of Structured Products on the Stock Exchange as well as their compliance with the stock admission requirements of HKSCC, the Structured Products of each series will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in the Central Clearing and Settlement System ("**CCASS**") with effect from the date of commencement of dealings in that series of Structured Products on the Stock Exchange, or such other date as determined by HKSCC. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**"). All necessary arrangements have been made to enable the Structured Products of each series to be admitted into CCASS.

Following the launch of a series of Structured Products, the Issuer may place all Structured Products comprising such series with a related party. It is possible that Structured Products may also be sold to investors in the period between the date of launch and dealings commencing on the Stock Exchange (the "**Grey Market**"). To the extent there has been any dealings in the Structured Products by the Issuer and/or any of its subsidiaries (the "**UBS Group**") in the Grey Market, these will be reported to the Stock Exchange on the first day of dealing on the Stock Exchange and released over the website of Hong Kong Exchanges and Clearing Limited, *www.hkex.com.hk* (the "**HKEx website**"). Following the listing of the Structured Products on the Stock Exchange, UBS Securities Hong Kong Limited will act as the Liquidity Provider (see the relevant Supplemental Listing Document to each series of Structured Products for further details).

The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement in this document misleading.

Investors are warned that the price of Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective investors should therefore ensure that they understand the nature of the Structured Products and carefully study the "Risk Factors" sections of this document and of the relevant Supplemental Listing Document and, where necessary, seek professional advice before they invest in the Structured Products.

The Structured Products constitute general unsecured contractual obligations of the Issuer and of no other person and if you purchase Structured Products you are relying upon the creditworthiness of the Issuer and have no rights under any series of Structured Products against (i) the company which has issued the underlying securities; (ii) the trustee or the manager of the underlying unit trust; or (iii) any companies comprising any underlying indices.

As at 12 April 2006 the Issuer's long term debt ratings are Aa2 by Moody's Investors Service, Inc., New York, AA+ by Standard and Poor's Ratings Services, a division of the McGraw-Hill Companies Inc., New York and AA+ by Fitch Ratings Ltd., London.

Other than the Issuer being a licensed bank regulated by the Hong Kong Monetary Authority, the Issuer is not regulated by any of the bodies referred to in Rule 15A.13(3) of the Rules. The Issuer is also regulated by, among others, the Swiss Federal Banking Commission and the Financial Services Authority of United Kingdom.

18 April 2006

Neither the delivery of this document nor any sale of any Structured Products shall under any circumstances create any implication that there has been no change in the affairs of the Issuer since the date hereof. No person has been authorised to give any information or to make any representations not contained in or not consistent with this document and in the relevant Supplemental Listing Document in connection with the offering of each series of Structured Products, and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Manager(s) (if any) (as defined in the relevant Supplemental Listing Document). This document may from time to time be updated or amended by way of addenda. Prospective investors in the Structured Products should ask the Sponsor if any addendum to this document or any subsequent base listing document has been issued. Any addendum to this document or any subsequent base listing document will be available for inspection at the office of the Sponsor stated below.

This document does not constitute an offer or invitation by or on behalf of the Issuer to purchase or subscribe for any of the Structured Products. The distribution of this document and the offering of the Structured Products may, in certain jurisdictions, be restricted by law. The Issuer requires persons into whose possession this document comes to inform themselves of and observe all such restrictions. In particular, the Structured Products have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or the securities law of any State in the United States and the Structured Products may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. In this document, the term "**U.S. person**" has the meaning ascribed to it in either Regulation S under the Securities Act or the United States of America Internal Revenue Code of 1986, as amended. No Structured Products may be exercised or held by or on behalf of any U.S. person. A further description of certain restrictions on offering and sale of Structured Products and distribution of this document is provided under the "Placing and Sale" on page 13 of this document.

Any offer of the Structured Products, any announcement thereof and all offer notices, publications, advertisements and other documents in which an offer of the Structured Products is made or a forthcoming offer is announced, will comply with all applicable laws and regulations of the jurisdictions in which such an offer is made from time to time.

The Issuer has undertaken, in respect of each series of Structured Products, from the Dealing Commencement Date (as defined in the relevant Supplemental Listing Document) until the Expiry Date or Exercise Date, as the case may be (each as defined in the relevant Supplemental Listing Document) to make available for inspection by investors in Structured Products at the office of the Sponsor, which is presently at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, a copy of its latest publicly available annual report and interim report (if any), a copy of this document, any addendum to this document, the relevant Supplemental Listing Document and a Chinese translation of each of this document, any addendum to this document and the relevant Supplemental Listing Document together with the other documents listed under paragraph 8 of the "General Information" section on page 16 of this document.

發行人已發出有關各系列結構性產品之承諾，由交易開始日（定義見有關之補充上市文件）至到期日或行使日（視乎情況而定）（各定義見有關之補充上市文件），結構性產品投資者可前往保薦人的辦事處（現為香港中環金融街8號國際金融中心二期52樓）查閱發行人最新刊發之年度報告及中期報告（如有）、本文件、本文件之任何增編、有關之補充上市文件、本文件、本文件之任何增編及有關之補充上市文件之中文譯本以及本文件第十六頁「一般資料」一節第8點所列明之其他文件。

Additional information regarding the Issuer and other companies of the UBS Group may be available through the life of a particular series of Structured Products on the Issuer's website www.ubs.com/hkwarrants. Holders of Structured Products are cautioned that this information (if available) will be of a general nature and cannot be relied upon as accurate and/or correct and will not have been prepared exclusively for the purposes of any particular financial instrument issued by the Issuer, including Structured Products. Investors in Structured Products are advised to study the "Risk Factors" sections on page 5 of this document and of the relevant Supplemental Listing Document and consult their own independent advisers, before investing, dealing, exercising, or holding any Structured Products.

The Stock Exchange and HKSCC have made no assessment of, nor taken any responsibility for, the financial soundness of the Issuer or the merits of investing in Structured Products, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

The Issuer or any of its affiliates may repurchase the Structured Products at any time including in the Grey Market and any Structured Product which is repurchased may be offered from time to time in one or more transactions in the over-the counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer. Investors should not therefore make any assumptions as to the number of Structured Products in issue at any time.

All references in this document to "**Hong Kong Dollars**" and to "**HK$**" are to the lawful currency of Hong Kong, to "**US Dollars**" and "**US$**" are to the lawful currency of the United States, to "**Swiss Francs**" and "**CHF**" are to the lawful currency of Switzerland, to "**euro**" and to "**€**" are to currency introduced at the start of the third stage of European economic and monetary union pursuant to the treaty establishing the European Community, as amended by the Treaty on European Union, and to "**RMB**" are to the lawful currency of the People's Republic of China. All references herein to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China.

All references to time are to Hong Kong time, unless otherwise stated herein or in the relevant Supplemental Listing Document. Capitalised terms not defined shall have the meanings set out in the terms and conditions of the relevant series of Structured Products ("**Conditions**") or the relevant Supplemental Listing Document.

Reference to any website in this document is intended to assist prospective investors to access further information relating to the subject as indicated. Prospective investors in the Structured Products should conduct their own web searches to ensure that they are viewing the most up-to-date information. Information appearing on such websites does not form part of this document or any Supplemental Listing Document (as the case may be). The Issuer accepts no responsibility whatsoever that such information, if available, is accurate and/or up-to-date, and no responsibility is accepted in relation to any such information by any person responsible for this document or any Supplemental Listing Document.

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RISK FACTORS

Dealing in Structured Products involves risks, and the responsibility for ensuring that you fully understand the contractual terms of such transactions rests with you. In choosing to deal in Structured Products, you should consider carefully whether these instruments are suitable for you in light of your experience, objectives, financial position and other relevant circumstances. You should, if applicable, consult your own legal, tax, accounting and such other advisers as you deem appropriate to help you fully understand the nature of the investment you will be making and the extent of your exposure to risks and potential financial loss.

Risk factors relevant to Structured Products generally include the following:

(a) Structured Products involve a high degree of risk, and are subject to a number of risks which may include interest, foreign exchange, time value, market, and/or political risks. Prospective investors in Structured Products should recognise that certain Structured Products may expire worthless.

The price of Structured Products generally may fall in value as rapidly as they may rise and investors should be prepared to sustain a significant or total loss of the purchase price of their Structured Products. Assuming all other factors are held constant, the more the underlying share price, unit price or index level of a Structured Product moves in a direction against an investor and the shorter its remaining term to expiration, the greater the risk that the investor will lose all or part of his investment.

"**European Style**" Warrants are only exercisable on their respective Expiry Dates and may not be exercised by the Warrantholders prior to the relevant Expiry Date. Accordingly, if on such Expiry Date the Cash Settlement Amount is zero or negative, an investor will lose the value of his investment.

The risk of losing all or any part of the purchase price of a Structured Product upon expiration means that, in order to recover and realise a return on investment, an investor in Structured Products must generally anticipate correctly the direction, timing and magnitude of any change in the value of the relevant reference share(s), units, index or such other reference basis (the "**Underlying Assets**") as may be specified in the relevant Supplemental Listing Document.

Changes in the price or level of an Underlying Asset can be unpredictable, sudden and large and such changes may result in the price or level of the Underlying Asset moving in a direction which will negatively impact upon the return on an investment. Investors in Structured Products therefore risk losing their entire investment if the price or level of the relevant Underlying Asset does not move in the anticipated direction.

An investment in Structured Products is not the same as owning the Underlying Assets or having a direct investment in the Underlying Asset. The market values of Structured Products are linked to the relevant Underlying Assets and will be influenced (positively or negatively) by it or them but any change may not be comparable and may be disproportionate. It is possible that while the Underlying Assets are increasing in value, the value of the Structured Product is falling.

Prospective investors in Structured Products should be aware that an investment in Structured Products may involve valuation risk as regards the Underlying Assets to which the particular series of Structured Products relate. The value of the Underlying Asset may vary over time and may increase or decrease by reference to a variety of factors which may include corporate actions, macro economic factors and speculation. Where the Underlying Assets are components of a basket comprised of various securities, indices or other assets, instruments or prices, basis fluctuations in the value of any one component item in such basket may be offset or intensified by fluctuations in the value of the other component items which comprise the relevant basket.

Prospective investors of any series of Structured Product should be experienced with dealing in these types of transactions and should understand the risks associated with dealing in such products. Prospective investors should reach an investment decision only after careful consideration, with their advisers, of the suitability of any Structured Product in light of their particular financial circumstances, the information regarding the relevant Structured Product and the particular Underlying Asset to which the value of the Structured Products may relate.

(b) Each series of Structured Products will constitute general unsecured contractual obligations of the Issuer and of no other person and will rank on a parity with the Issuer's other unsecured contractual obligations and with the Issuer's unsecured and unsubordinated debt. At any given time, the number of Structured Products outstanding may be substantial. Options, warrants and equity linked instruments are priced primarily on the basis of the value of the Underlying Asset, the volatility of the Underlying Asset's price and the time remaining to expiry of the Structured Product.

(c) If you purchase Structured Products you are relying upon the creditworthiness of the Issuer and have no rights under these products against (i) any company which issues the underlying shares; (ii) the trustee or the manager of the underlying trust; or (iii) any companies comprising any indices to which a series of Structured Product may relate. As the Issuer's obligations under the Structured Products are unsecured, the Issuer does not guarantee the repayment of capital invested in any Structured Product.

(d) Prior to the Expiry Date or Exercise Date (as the case may be), if trading in the Underlying Assets or any component part of the Underlying Assets is suspended on the Stock Exchange or any other relevant stock exchange, trading in the relevant series of Structured Product may be suspended for a similar period.

(e) The settlement amount of certain series of Structured Products at any time prior to expiration may be less than the trading price of such Structured Products at that time. The difference between the trading price and the settlement amount will reflect, among other things, a "time value" of the Structured Products. The "time value" of the Structured Products will depend partly upon the length of the period remaining to expiration and expectations concerning the value of the Underlying Assets.

(f) If so indicated in the relevant Supplemental Listing Document, the Issuer will have the option to limit the number of Structured Products exercisable or being closed out on any Exercise Date or Expiry Date to the maximum number specified therein and, in conjunction with such limitation, to limit the number of Structured Products exercisable or being closed out by any holder on such day. In the event that the total number of Structured Products being exercised or being closed out exceeds such specified maximum number, a holder may not be able to realise the value of his investment in all the Structured Products on that day.

(g) Unless otherwise specified in the relevant Conditions, in the case of any exercise or expiry, as the case may be, of Structured Products, there may be a time lag between the date on which the Structured Products are exercised or expire, and the time the applicable settlement amount relating to such event is determined. Any such delay between the time of exercise or expiry and the determination of the settlement amount will be specified in the relevant Conditions. However, such delay could be significantly longer, particularly in the case of a delay in the exercise or expiry of such Structured Products arising from a determination by the Issuer that a Market Disruption Event, Settlement Disruption Event or Delisting of a company or a trust has occurred at any relevant time or that adjustments are required in accordance with the Conditions. That applicable settlement amount may change significantly during any such period, and such movement or movements could decrease or modify the settlement amount of the Structured Products.

(h) Prospective investors intending to purchase any series of Structured Products to hedge against the market risk associated with investing in the Underlying Asset which may be specified in the relevant Supplemental Listing Document should recognise the complexities of utilising Structured Products in this manner. For example, the value of the Structured Products may not exactly correlate with the value of the Underlying Asset. Due to fluctuations in supply and demand for Structured Products, there is no assurance that their value will correlate with movements of the Underlying Asset.

(i) Investors should note that in the event of there being a Settlement Disruption Event or a Market Disruption Event, delivery of certificates for the Underlying Assets, electronic settlement of the Underlying Assets through CCASS or payment of the Cash Settlement Amount, as the case may be, may be delayed, all as more fully described in the Conditions.

(j) Certain events relating to the Underlying Asset permit the Issuer to make certain adjustments or amendments to the Conditions. An investor of any series of Structured Products has limited anti-dilution protection under the Conditions of the Structured Products. The Issuer may, in its sole discretion adjust, among other things, the entitlement and the exercise price upon exercise or valuation of any series of Structured Product for events such as stock splits and stock dividends, however the Issuer is not required to make an adjustment for every event that may affect an Underlying Asset.

(k) In the case of Structured Products which relate to an Index ("**Index Linked Structured Products**"), the level of the Index may be published by the Index Compiler at a time when one or more shares comprising in the Index are not trading. If this occurs on the Valuation Date and there is no Market Disruption Event called under the Conditions of the relevant Index Linked Structured Products then the value of such share(s) may not be included in the level of the Index. In addition, certain events relating to the Index (including a material change in the formula or the method of calculating the Index or a failure to publish the Index) permits the Issuer to determine the level of the Index on the basis of the formula or method last in effect prior to such change in formula or method.

(l) "**Average Return**" Warrants are exotic warrants with different terms and risk profiles to ordinary warrants. Prospective investors should carefully review the Conditions before deciding to invest in the Warrants. The description "Average Return" refers to the calculation of the return on the Warrants only; the return of the Average Return Warrants is calculated by reference to the average of the Periodic Reference Prices, that is, by reference to the sum of the Periodic Reference Prices divided by the number of the Periodic Fixing Dates; if (in the case of a series of call Warrants) the average of the Periodic Reference Prices is less than the Exercise Price on the Expiry Date or (in the case of a series of put Warrants) the average of the Periodic Reference Prices is greater than the Exercise Price on the Expiry Date, the Warrants will expire worthless and the holders of the Warrants will lose all their investment.

(m) In the case of Structured Products which relate to units of a trust, investors should note that:

   (i) neither the Issuer nor any of its affiliates have the ability to control or predict the actions of the trustee or the manager of the relevant trust. Neither the trustee nor the manager of the relevant trust (i) is involved in the offer of any Structured Product in any way, or (ii) has any obligation to consider the interest of the holders of any Structured Product in taking any corporate actions that might affect the value of any Structured Product; and

   (ii) the Issuer has no role in the relevant trust. The manager of the relevant trust is responsible for making strategic, investment and other trading decisions with respect to the management of the relevant trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the relevant trust. The manner in which the relevant trust is managed and the timing of actions may have a significant impact on the performance of the relevant trust. Hence, the market price of the relevant units is also subject to these risks.

(n) It is not possible to predict if and to what extent a secondary market may develop in any series of Structured Products and at what price such series of Structured Products will trade in the secondary market and whether such market will be liquid or illiquid. The fact that the Structured Products is listed does not necessarily lead to greater liquidity than if they were not listed.

If any series of Structured Products are not listed or traded on any exchange, pricing information for such series of Structured Products may be difficult to obtain and the liquidity of that series of Structured Products may be adversely affected.

The liquidity of any series of Structured Products may also be affected by restrictions on offers and sales of the Structured Products in some jurisdictions. Transactions in off-exchange Structured Products may be subject to greater risks than dealing in exchange-traded Structured Products. To the extent that any Structured Products of a series is exercised or closed out, the number of Structured Products outstanding to that series will decrease, which may result in a lessening of the liquidity of Structured Products. A lessening of the liquidity of the affected series of Structured Products may cause, in turn, an increase in the volatility associated with the price of such Structured Products.

(o) The Issuer and any of its subsidiaries and affiliates are a diversified financial institution with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and investment and other activities for their own account or the account of others. In addition, the Issuer and any of its subsidiaries and affiliates, in connection with their other business activities, may possess or acquire material information about the Underlying Assets or may issue or update research reports on the Underlying Assets. Such activities, information and/or research reports may involve or otherwise affect the Underlying Assets in a manner that may cause consequences adverse to the Warrantholders or otherwise create conflicts of interests in connection with the issue of Warrants by the Issuer. Such actions and conflicts may include, without limitation, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. The Issuer and any of its subsidiaries and affiliates have no obligation to disclose such information about the Underlying Assets or such activities. The Issuer and any of its subsidiaries and affiliates and their officers and directors may engage in any such activities without regard to the issue of Warrants by the Issuer or the effect that such activities may directly or indirectly have on any Warrant.

The Issuer, and its subsidiaries or affiliates may from time to time engage in transactions involving the Underlying Assets for their proprietary accounts and/or for accounts under their management and/or to hedge against the market risk associated with issuing the Structured Products. Such transactions may have a positive or negative effect on the value of the Underlying Assets and consequently upon the value of the relevant series of Structured Products. In addition, the Issuer, and its subsidiaries or affiliates may from time to time act in other capacities with regard to the Structured Products, such as in an agency capacity and/or as the liquidity provider. Furthermore, the Issuer, and its subsidiaries or affiliates may also issue other derivative instruments in respect of the Underlying Assets and the introduction of such competing products into the market place may affect the value of the relevant series of Structured Products. The Issuer, and its subsidiaries or affiliates may also act as underwriter in connection with future offerings of shares, units or other securities or may act as financial adviser to the issuer, or sponsor, as the case may be, of any such share or other security or in a commercial banking capacity for the issuer of any share, units or other security or the trustee or the manager of the trust. Such activities could present certain conflicts of interest and may affect the value of the Structured Products.

(p) While the Issuer has or will appoint a liquidity provider for the purposes of making a market for each series of Structured Products, there may be circumstances outside the control of the Issuer or the appointed liquidity provider where the appointed liquidity provider's ability to make a market in some or all series of Structured Products is limited, restricted, and/or without limitation, frustrated. In such circumstances the Issuer will use its best endeavours to appoint an alternate liquidity provider.

(q) Investors should note that there may be an exchange rate risk in the case of Structured Products where the Cash Settlement Amount will be converted from a foreign currency into Hong Kong dollars. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation. Fluctuations in foreign exchange rates, foreign political and economic developments and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Structured Products. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies. There can be no assurance that rates of exchange between any relevant currencies which are current rates at the date of issue of any Structured Products will be representative of the relevant rates of exchange used in computing the value of the relevant Structured Products at any time thereafter. Where Structured Products are described as being "quantoed", the value of the Underlying Assets will be converted from one currency (the "**Original Currency**") into a new currency (the "**New Currency**") on the date and in the manner specified in, or implied by, the Conditions using a fixed exchange rate. The cost to the Issuer of maintaining such a fixing between the Original Currency and the New Currency will have an implication on the value of the Structured Products. The implication will vary during the term of the Structured Products. No assurance can be given as to whether or not, taking into account relative exchange rate and interest rate fluctuations between the Original Currency and the New Currency, a quanto feature in a Structured Product would at any time enhance the return on the Structured Product over a level of a similar structured product issued without such a quanto feature.

(r) Any downgrading of the Issuer's rating by rating agencies such as Moody's Investors Service, Inc., New York, Standard and Poor's Rating Services, a division of the McGraw-Hill Companies Inc., New York or Fitch Ratings Ltd., London, could result in a reduction in the value of the Structured Products.

(s) The Issuer may enter into discount, commission or fee arrangements with brokers and/or any of its affiliates with respect to the primary or secondary market in the Structured Products. The Issuer may enter into arrangements where it will agree to pay commission to certain brokers on transactions in a particular series of Structured Products on behalf of the clients of those relevant brokers. The arrangements may result in a benefit to investors in Structured Products buying and selling Structured Products through nominated brokers by reducing the commission that was paid directly by those investors of Structured Products.

Investors in Structured Products should note that any brokers with whom the Issuer has a commission arrangement does not, and cannot be expected to deal, exclusively in the Structured Products, therefore any broker and/or its subsidiaries or affiliates may from time to time engage in transactions involving the Underlying Assets and/or the structured products of other issuers over the same Underlying Assets to which the particular series of Structured Products may relate, or other underlying assets as the case may be, for their proprietary accounts and/or for the accounts of their clients. The fact that the same broker may deal simultaneously for different clients in competing products in the market place may affect the value of the Structured Products and present certain conflicts of interests.

(t) The Issuer has the obligation to deliver to investors in accordance with the Conditions of each series of Structured Product either the Underlying Asset or the Cash Settlement Amount upon expiry or exercise, as the case may be. It is not the intention of the Issuer by the issue of any Structured Product (expressed, implicit or otherwise) to create a deposit liability of the Issuer or a debt obligation of any kind.

(u) An investor in Structured Products will not be entitled to voting rights or rights to receive dividends or other distributions or any other rights that a holder of the Underlying Asset would normally be entitled to unless specifically indicated in the Conditions to such series of Structured Product.

(v) Prospective investors in the Structured Products should be aware that they may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the Structured Products are transferred. Prospective investors who are in any doubt as to their tax position should consult their own independent tax advisers. In addition, prospective investors should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time.

(w) Each Structured Product will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS). Investors should note that a risk of investing in a security that is issued in global registered form and held on his behalf within a clearing system effectively means that evidence of title to his interest, as well as the efficiency of ultimate delivery of the Cash Settlement Amount, will be subject to the CCASS Rules. Amongst the risks an investor should be aware of are:

- an investor will not receive definitive certificates where the Structured Products remain in the name of HKSCC Nominees Limited for the entire life of the Structured Products;

- any register that is maintained by the Issuer or on behalf of the Issuer, whilst available for inspection by any investor, will not be capable of registering any interests other than that of the legal title owner, in other words, it will record at all times that the Structured Products are being held by HKSCC Nominees Limited;

- an investor will have to rely solely upon his broker/custodians and the statements he receives from such party as evidence of his interest in the investment;

- notices or announcements will be published on the HKEx website and/or released by HKSCC to its participants via CCASS. Investors will need to check the HKEx website regularly and/or rely on their brokers/custodians to obtain such notices/announcements; and

- following the Expiry Date or the Exercise Date, as the case may be, and the determination by the Issuer as to the Cash Settlement Amount, the Issuer's obligations to an investor will be duly performed by payment of the Cash Settlement Amount in accordance with the Conditions to HKSCC Nominees Limited as the "**holder**" of the Structured Products. HKSCC or HKSCC Nominees Limited will then distribute the received Cash Settlement Amount to the respective CCASS participants in accordance with the CCASS Rules.

(x) Investors should note that an investment in Index Linked Structured Products involves valuation risks in relation to the Index. The value of the Index may vary over time and may increase or decrease by reference to various factors which may include changes in the formula for or the method of calculating the Index. Certain (but not all) events relating to the Index underlying the Structured Products require or, as the case may be, permit the Issuer to make certain adjustments or amendments to the Conditions (including, but not limited to, determining the Closing Level). However, the Issuer is not required to make an adjustment for every event that can affect the Index. If an event occurs that does not require the Issuer to adjust the Conditions, the market price of the Structured Products and the return upon the exercise or expiry of the Structured Products may be affected.

TAXATION

The comments below are of a general nature and are not intended to provide guidance, potential investors in Structured Products are strongly advised to consult their own tax advisers as to their respective tax position on purchase, ownership, transfer, holding or exercise of any Structured Products.

GENERAL

Investors in Structured Products may be required to pay stamp duties, taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price of each Structured Product.

TAXATION IN HONG KONG

The following paragraph, which is intended as a general guide only, is based on current law and practice in Hong Kong. It summarises certain aspects of taxation in Hong Kong only which may be applicable to the Structured Products but does not purport to be a comprehensive description of all tax considerations which may be of relevance.

Profits Tax

No tax is payable in Hong Kong by way of withholding or otherwise in respect of dividends of any company which has issued the underlying shares, distributions of any trust which has issued the underlying units or in respect of any capital gains arising on the sale of the underlying assets or Structured Products, except that Hong Kong profits tax may be chargeable on any such gains in the case of certain persons carrying on a trade, profession or business in Hong Kong.

Stamp Duty

No stamp duty liability should attach to either the transfer or the exercise of purely cash settled Structured Products.

Where Hong Kong stock is to be delivered to an investor pursuant to the Conditions, stamp duty will normally be payable since any person who effects a sale or purchase of "Hong Kong Stock", as defined in the Stamp Duty Ordinance (Cap 117, Laws of Hong Kong, as may be amended from time to time), whether as principal or as agent and whether such transaction is effected in Hong Kong or elsewhere, is required to execute a contract note evidencing such sale or purchase and have such contract note stamped with Hong Kong stamp duty.

As at the date of this document, contract notes will attract stamp duty at the rate of HK$2 per HK$1,000 or part thereof (of which HK$1 per HK$1,000 is payable by the seller and HK$1 per HK$1,000 is payable by the purchaser) by reference to the value of the consideration or market value, whichever is the greater. If, in the case of a sale or purchase to be settled by physical settlement by a person who is not resident in Hong Kong, the stamp duty on either or both of the contract notes is not paid, the transferee will be liable to pay stamp duty on the instrument of transfer in an amount equal to all the unpaid duty. In addition, if the stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days thereafter if effected elsewhere), a penalty of up to ten times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of any Hong Kong Stock to which any Structured Product relates.

TAXATION IN SWITZERLAND

The following paragraph, which is intended as a general guide only, is based on current law and practice in Switzerland. It summarises certain aspects of taxation in Switzerland only which may be applicable to the Structured Products but does not purport to be a comprehensive description of all tax considerations which may be of relevance.

Income tax

Under present Swiss law, a holder of Structured Products who is a non-resident of Switzerland and who during the taxable year has not engaged in trade or business through a permanent establishment within Switzerland, will not be subject to any Swiss Federal, Cantonal or Municipal income or other tax on gains realised during the year on the sale or redemption of the Structured Products.

Securities Transfer Stamp Tax

There is no tax liability in Switzerland in connection with the issue of the Structured Products. However, Structured Products transferred or redeemed through a bank or other dealer resident in Switzerland or Liechtenstein may be subject to securities transfer tax.

PLACING AND SALE

GENERAL

No action has been or will be taken by the Issuer that would permit a public offering of any series of Structured Products or possession or distribution of any offering material in relation to any Structured Products in any jurisdiction (other than Hong Kong) where action for the purpose is required. No offers, sales, re-sales, transfers or deliveries of any Structured Products, or distribution of any offering material relating to the Structured Products may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and which will not impose any obligation on the Issuer.

UNITED STATES OF AMERICA

Each series of Structured Products has not been, and will not be, registered under the Securities Act. Subject to certain exceptions, Structured Products or interests therein, may not at any time be offered, sold, resold, transferred or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of Structured Products, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. No person will offer, sell, re-sell, transfer or deliver any Structured Products within the United States or to U.S. persons, except as permitted by the Base Placing Agreement between the Issuer and the Sponsor, acting as manager. As used herein, "**United States**" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and "**U.S. person**" means any national or resident of the United States, including any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other U.S. person as such term is defined in Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer, sale, re-sale, transfer or delivery of Structured Products within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), no offer of Structured Products to the public in that Relevant Member State has been, or will be, made except for an offer of Structured Products to the public in that Relevant Member State:

(a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Structured Products which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

(b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Structured Products to the public**" in relation to any Structured Products in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Structured Products to be offered so as to enable an investor to decide to purchase or subscribe the Structured Products, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

UNITED KINGDOM

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (as amended) the United Kingdom ("**FSMA**")) in connection with the issue or sale of the Structured Products has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in circumstances in which section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer. All applicable provisions of the FSMA with respect to any Structured Products have been complied, and will be complied, with in, from or otherwise involving the United Kingdom.

SWITZERLAND

Each series of Structured Products denominated in Swiss Francs will comply with any laws, regulations or guidelines in Switzerland from time to time (including, but not limited to, any made by the Swiss National Bank) in relation to the offer, sale, delivery or transfer of Swiss Francs denominated Structured Products or the distribution of any offering material in respect of Swiss Francs denominated Structured Products.

GENERAL INFORMATION

1 Dealings in securities on the Stock Exchange are required to be settled within two trading days from the transaction date. Such settlement can either be effected by physical delivery of the share certificates and executed instruments of transfer or, if the securities are admitted for deposit, clearing and settlement in CCASS, through CCASS. Dealings in the Structured Products will take place in the relevant Board Lots in Hong Kong Dollars or US Dollars. For further details on transfers of Structured Products and their exercise or settlement, see the Conditions of the relevant series of Structured Products.

2 The Securities and Futures Commission of Hong Kong charges a transaction levy of 0.005% (or such other rate as specified from time to time in the Securities and Futures Commission (Levy) (Securities) Order) in respect of each transaction effected on the Stock Exchange payable by each of the seller and the buyer and calculated on the total consideration for the relevant securities. In addition, the Stock Exchange charges a trading fee on every purchase and sale of listed securities calculated at a rate of 0.005% (or such other rate as determined by the Stock Exchange from time to time) of the amount of the consideration of the relevant securities, which is payable by each of the buyer and seller. Under the Conditions of the Structured Products, investors in Structured Products may be required to pay all the charges arising on the transfer of shares or units following the exercise or expiry of the Structured Products. See the Conditions of the relevant series of Structured Products.

3 Contingent liabilities exist in respect of claims and potential claims against the Issuer and its subsidiaries. Where necessary, appropriate provisions have been made in the Issuer's financial statements. The Issuer does not consider that the outcome of any such claims known to exist at the date of this document, either individually or in aggregate, are likely to have a material adverse effect on its operations or financial position.

4 There are no litigation or arbitration proceedings against or affecting the Issuer or any of its subsidiaries or any of their respective assets, nor is the Issuer aware of any pending or threatened proceedings which are having or might have a material adverse effect on the financial position of the Issuer or the UBS Group as a whole.

5 Save as disclosed herein there has been no material adverse change in the financial position of the Issuer since 31 December 2005.

6 The auditors of the Issuer, Ernst & Young Ltd (the "**Auditors**"), have given and have not withdrawn their written consent to the inclusion of their report dated 2 March 2006 and/or the references to their name, included herein, in the form and context in which they are included. However it is important to note the following:

(A) their report was not prepared exclusively for incorporation into this document.

(B) the Auditors do not have any shareholding in the Issuer or any of its subsidiaries, nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the Issuer or any of its subsidiaries.

7 The authorised representatives of the Issuer are Dinesh Sadarangani and Christopher Fai Man Lee of 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

8 Copies of the following documents will be available for inspection (requests for photocopies will be subject to the payment of a reasonable price) during usual business hours on any business day by the investors in the Structured Products at the offices of the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong:

(A) the Articles of Association of the Issuer;

(B) the 2004 and 2005 annual reports of the Issuer;

(C) the consent letter from the Auditors to the Issuer referred to in paragraph 6 above;

(D) this document (including any addenda to this document), the relevant Supplemental Listing Document and a Chinese translation of each document; and

(E) the Instrument dated as of 10 April 2006.

9 The expenses in connection with any issue of Structured Products, including printing and legal charges, will be payable by the Issuer.

TERMS AND CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE EQUITIES

These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.

1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) relating to the Shares of the Company are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

2. Warrant Rights, Exercise Price and Exercise Expenses

(A) Every Board Lot initially entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 4(F).

(C) For the purposes of these Conditions:

"**Average Price**" shall be the arithmetic mean of the closing prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any rights issue, bonus issue, subdivision, consolidation, restructuring event or the like) for each Valuation Date;

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means:

(i) In the case of a series of Call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(ii) In the case of a series of Put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**Company**" means the company specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material, (2) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Share**" means the share specified as such in the relevant Supplemental Listing Document;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Valuation Date**" means, with respect to the exercise of Warrants, and subject as provided below in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Exercise Date or the Expiry Date, as the case may be, relating to such exercise.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Shares on the first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than five closing prices to determine the Average Price.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate (as defined below).

3. Exercise Period

(A) The Warrants may be exercised by valid delivery of an Exercise Notice (as defined below), in accordance with Condition 4 at any time during the Exercise Period. In the case of an exercise of American Style Warrants the Exercise Period shall be the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the Expiry Date, subject to prior termination of the Warrants as provided for in Condition 11. If the Expiry Date is not a Business Day, the immediately succeeding Business Day shall be deemed to be the Expiry Date for the purposes of this Condition 3(A). Warrants may not be exercised at any other time.

Subject to Condition 4(B)(iii), in the case of an exercise of European Style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Subject to Conditions 4(B)(iii) and 4(G), any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

4. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Delivery of an Exercise Notice:

(i) In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Warrantholders shall deliver to the Sponsor a duly completed exercise notice obtainable from the Sponsor (an "**Exercise Notice**"), such delivery to be made at any time during the Exercise Period.

In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and Warrants will be automatically exercised (if in the money) in accordance with Conditions 4B(iii) and 4(G).

(ii) In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised (an "**Exercise Date**") shall be the Business Day on which an Exercise Notice is delivered to the Sponsor and in respect of which there is a valid exercise of Warrants in accordance with the requirements of these Conditions, provided that any Exercise Notice received by the Sponsor after 10:00 a.m. (Hong Kong time) on any Business Day shall be deemed to have been delivered on the next following Business Day.

(iii) Any Warrant with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(F).

(C) Any Exercise Expenses which are not determined by the Issuer on the Exercise Date and/or the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 4, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholders to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to a valid exercise or deemed exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of each Warrantholder from the register of Warrantholders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate (as defined below).

(F) Upon a valid exercise or deemed exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three Business Days following the Exercise Date or Expiry Date, as the case may be ("**Settlement Date**"), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by each Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that is already or is deemed to be a Valuation Date, provided that if there is a Market Disruption Event on each of the five days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date, then: (i) that fifth day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event, and (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on that fifth day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Exercise Date or the Expiry Date, then (i) the day immediately preceding the Exercise Date or the Expiry Date, as the case may be, (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event and (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**day**" means for the purposes of this Condition 4(F) a day on which (excluding, Saturday) banks and the Stock Exchange are normally open for business in Hong Kong.

(G) Any Warrants which have not been exercised in the manner set out in Condition 4(B) before the Expiry Date shall be automatically exercised on that date, without notice to the Warrantholders or the requirement of the delivery of an Exercise Notice, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) will be positive. In respect of each Board Lot the Cash Settlement Amount shall be paid in the manner set out in Condition 4(F).

(H) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(F).

5. Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 10.

6. Adjustments

Adjustments may be made by the Issuer to the number of Shares to which the Warrants relate on the basis of the following provisions:

(A) *Rights Issues.* If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing bid price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues.* If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

Adjustment Component = (1 + N)

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) in the same ratio as the Subdivision or Consolidation (as the case may be) on the day on which the Subdivision or Consolidation takes effect. Such adjusted Entitlement is called "**Adjusted Entitlement**" and "**Adjustment Component**" means the Adjusted Entitlement divided by the Entitlement in effect immediately prior to the relevant adjustment. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component. The "**reciprocal of the Adjustment Component**" means one divided by the Adjustment Component. The adjustment to the Exercise Price shall take effect on the same date on which the Subdivision or Consolidation (as the case may be) takes effect.

(D) Restructuring Events. If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Other Adjustments.* Except as provided in this Condition 6 and in Conditions 9 and 13, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer not to be materially prejudicial to the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(F) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

7. Purchase

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Global Certificate

A global warrant certificate (the "**Global Certificate**") representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

9. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders.* The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of American Style Warrants, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in the quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholders; (ii) of a formal, minor or technical nature; (iii) made to correct an obvious error; or (iv) necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below). Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10. Notices

(A) *Website publication.* All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

(B) *Request for copies.* If so requested by the Warrantholders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to Condition 10(A) by post addressed to such Warrantholders at the address recorded in the register of Warrantholders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this Condition shall be sent or delivered at the risk of such Warrantholders.

11. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

13. Delisting

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 13(A), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

14. Governing Law

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

16. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Exercise Date or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

Sponsor:
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

TERMS AND CONDITIONS OF CASH SETTLED AVERAGE RETURN WARRANTS OVER SINGLE EQUITIES

These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.

1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) relating to the Shares of the Company are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

2. Warrant Rights, Exercise Price and Exercise Expenses

(A) Every Board Lot initially entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 4(F).

(C) For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means:

(i) In the case of a series of Call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \text{Entitlement} \times \left(\frac{\text{Sum of the Periodic Reference Prices}}{\text{Number of Periodic Fixing Dates}} - \text{Exercise Price} \right) \times \frac{\text{One Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(ii) In the case of a series of Put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \text{Entitlement} \times \left(\text{Exercise Price} - \frac{\text{Sum of the Periodic Reference Prices}}{\text{Number of Periodic Fixing Dates}} \right) \times \frac{\text{One Board Lot}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**Company**" means the company specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material, (2) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Periodic Reference Price**" means, in respect of each Periodic Fixing Date, the arithmetic mean of the closing prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with the Conditions) to such closing prices as may be necessary to reflect any rights issue, bonus issue, subdivision, consolidation, restructuring event or the like) for each Valuation Date;

"**Periodic Fixing Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Share**" means the share specified as such in the relevant Supplemental Listing Document;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Valuation Date**" means, with respect to the exercise of Warrants and each Periodic Fixing Date, and subject as provided below in relation to a Market Disruption Event, each of the five Business Days immediately preceding such Periodic Fixing Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Shares on the first succeeding Business Day will be referenced more than once in the determination of the relevant Periodic Reference Price, so that in no event shall there be less than five closing prices to determine the relevant Periodic Reference Price.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate (as defined below).

3. Exercise Period

(A) The Warrants may be exercised by valid delivery of an Exercise Notice (as defined below), in accordance with Condition 4 at any time during the Exercise Period. In the case of an exercise of American Style Warrants the Exercise Period shall be the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the Expiry Date, subject to prior termination of the Warrants as provided for in Condition 11. If the Expiry Date is not a Business Day, the immediately succeeding Business Day shall be deemed to be the Expiry Date for the purposes of this Condition 3(A). Warrants may not be exercised at any other time.

Subject to Condition 4(B)(iii), in the case of an exercise of European Style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Subject to Conditions 4(B)(iii) and 4(G), any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

4. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Delivery of an Exercise Notice:

(i) In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Warrantholders shall deliver to the Sponsor a duly completed exercise notice obtainable from the Sponsor (an "**Exercise Notice**"), such delivery to be made at any time during the Exercise Period.

In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and Warrants will be automatically exercised (if in the money) in accordance with Conditions 4B(iii) and 4(G).

(ii) In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised (an "**Exercise Date**") shall be the Business Day on which an Exercise Notice is delivered to the Sponsor and in respect of which there is a valid exercise of Warrants in accordance with the requirements of these Conditions, provided that any Exercise Notice received by the Sponsor after 10:00 a.m. (Hong Kong time) on any Business Day shall be deemed to have been delivered on the next following Business Day.

(iii) Any Warrant with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(F).

(C) Any Exercise Expenses which are not determined by the Issuer on the Exercise Date and/or the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 4, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholders to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to a valid exercise or deemed exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of each Warrantholder from the register of Warrantholders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate (as defined below).

(F) Upon a valid exercise or deemed exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three Business Days following the Exercise Date or the Expiry Date, as the case may be ("**Settlement Date**"), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by a Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that is already or is deemed to be a Valuation Date, provided that if there is a Market Disruption Event on each of the five days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date, then: (i) that fifth day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event, and (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on that fifth day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the relevant Periodic Fixing Date, then (i) the day immediately preceding the relevant Periodic Fixing Date, (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event and (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**day**" means for the purposes of this Condition 4(F) a day on which (excluding, Saturday) banks and the Stock Exchange are normally open for business in Hong Kong.

(G) Any Warrants which have not been exercised in the manner set out in Condition 4(B) before the Expiry Date shall be automatically exercised on that date, without notice to the Warrantholders or the requirement of the delivery of an Exercise Notice, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) will be positive. In respect of each Board Lot the Cash Settlement Amount shall be paid in the manner set out in Condition 4(F).

(H) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(F).

5. Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 10.

6. Adjustments

Adjustments may be made by the Issuer to the number of Shares to which the Warrants relate on the basis of the following provisions:

(A) *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing bid price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price and any Periodic Reference Price which has or have been determined on a date prior to the Rights Issue Adjustment Date (each of which shall be rounded to the nearest Hong Kong dollar 0.001), by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price and any Periodic Reference Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

Adjustment Component = (1 + N)

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price and any Periodic Reference Price which has or have been determined on a date prior to the Bonus Issue Adjustment Date (each of which shall be rounded to the nearest Hong Kong dollar 0.001), by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price and any Periodic Reference Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) in the same ratio as the Subdivision or Consolidation (as the case may be) on the day on which the Subdivision or Consolidation takes effect. Such adjusted Entitlement is called "**Adjusted Entitlement**" and "**Adjustment Component**" means the Adjusted Entitlement divided by the Entitlement in effect immediately prior to the relevant adjustment. In addition, the Issuer shall adjust the Exercise Price and any Periodic Reference Price which has or have been determined on a date prior to the date on which the Subdivision or Consolidation (as the case may be) takes effect (each of which shall be rounded to the nearest Hong Kong dollar 0.001), by the reciprocal of the Adjustment Component. The "**reciprocal of the Adjustment Component**" means one divided by the Adjustment Component. The adjustment to the Exercise Price and any Periodic Reference Price shall take effect on the same date on which the Subdivision or Consolidation (as the case may be) takes effect.

(D) *Restructuring Events*. If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Other Adjustments*. Except as provided in this Condition 6 and in Conditions 9 and 13, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer not to be materially prejudicial to the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(F) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

7. Purchase

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Global Certificate

A global warrant certificate (the "**Global Certificate**") representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

9. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders*. The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of American Style Warrants, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in the quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholders; (ii) of a formal, minor or technical nature; (iii) made to correct an obvious error; or (iv) necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below). Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10. Notices

(A) *Website publication*. All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

(B) *Request for copies*. If so requested by the Warrantholders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to Condition 10(A) by post addressed to such Warrantholder at the address recorded in the register of Warrantholders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this Condition shall be sent or delivered at the risk of such Warrantholders.

11. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

13. Delisting

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 13(A), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

14. Governing Law

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

16. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Exercise Date or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

Sponsor:
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

TERMS AND CONDITIONS OF CASH SETTLED BASKET WARRANTS

These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.

1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) relating to the Basket comprising Shares of each of the Companies are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

2. Warrant Rights, Exercise Price and Exercise Expenses

(A) Every Exercise Amount initially entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 4(F).

(C) For the purposes of these Conditions:

"**Average Price**" shall be the arithmetic mean of the closing prices of the relevant Share to which each Basket Component relates (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any rights issue, bonus issue, subdivision, consolidation, restructuring event or the like) for each Valuation Date;

"**Basket**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Basket Component**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means in respect of each Exercise Amount, an amount in Hong Kong dollars calculated by the Issuer as follows:

(i) In the case of a series of Call Warrants:

(1) the sum of each of the Basket Components comprising the Basket (subject to adjustment as provided in Condition 6) multiplied by the Average Price of the relevant Share to which each Basket Component relates less (2) the Exercise Price; or

(ii) In the case of a series of Put Warrants:

(1) the Exercise Price less (2) the sum of each of the Basket Components comprising the Basket (subject to adjustment as provided in Condition 6) multiplied by the Average Price of the relevant Share to which each Basket Component relates.

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**Company**" means each company included in the Basket, specified as such in the relevant Supplemental Listing Document;

"**Exercise Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) any Share; or (b) any options or futures contracts relating to any Share if, in any such case, such suspension or limitation is, in the determination of the Issuer, material; (2) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Shares**" means the shares of the Companies or, as the context requires, the shares of a particular Company, specified as such in the relevant Supplemental Listing Document;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Valuation Date**" means, with respect to the exercise of Warrants, and subject as provided below in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Exercise Date or the Expiry Date, as the case may be, relating to such exercise.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the relevant Shares on the first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than five closing prices to determine the Average Price of the Shares comprising a Basket Component.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate (as defined below).

3. Exercise Period

(A) The Warrants may be exercised by valid delivery of an Exercise Notice (as defined below), in accordance with Condition 4 at any time during the Exercise Period. In the case of an exercise of American Style Warrants the Exercise Period shall be the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the Expiry Date, subject to prior termination of the Warrants as provided for in Condition 11. If the Expiry Date is not a Business Day, the immediately succeeding Business Day shall be deemed to be the Expiry Date for the purposes of this Condition 3(A). Warrants may not be exercised at any other time.

Subject to Condition 4(B)(iii), in the case of an exercise of European Style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Subject to Conditions 4(B)(iii) and 4(G), any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

4. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Delivery of an Exercise Notice:

(i) In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Warrantholders shall deliver to the Sponsor a duly completed exercise notice obtainable from the Sponsor (an "**Exercise Notice**"), such delivery to be made at any time during the Exercise Period.

In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and Warrants will be automatically exercised (if in the money) in accordance with Conditions 4B(iii) and 4(G).

(ii) In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised (an "**Exercise Date**") shall be the Business Day on which an Exercise Notice is delivered to the Sponsor and in respect of which there is a valid exercise of Warrants in accordance with the requirements of these Conditions, provided that any Exercise Notice received by the Sponsor after 10:00 a.m. (Hong Kong time) on any Business Day shall be deemed to have been delivered on the next following Business Day.

(iii) Any Warrant with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(F).

(C) Any Exercise Expenses which are not determined by the Issuer on the Exercise Date and/or the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 4, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholders to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to a valid exercise or deemed exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of each Warrantholder from the register of Warrantholders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate (as defined below).

(F) Upon a valid exercise or deemed exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three Business Days following the Exercise Date or Expiry Date, as the case may be ("**Settlement Date**"), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by a Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that is already or is deemed to be a Valuation Date, provided that if there is a Market Disruption Event on each of the five days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date, then: (i) that fifth day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event, and (ii) the Issuer shall determine the closing price of each Share on the basis of its good faith estimate of the bid price that would have prevailed on that fifth day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Exercise Date or the Expiry Date, then (i) the day immediately preceding the Exercise Date or the Expiry Date, as the case may be, (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event and (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**day**" means for the purposes of this Condition 4(F) a day on which (excluding, Saturday) banks and the Stock Exchange are normally open for business in Hong Kong.

(G) Any Warrants which have not been exercised in the manner set out in Condition 4(B) before the Expiry Date shall be automatically exercised on that date, without notice to the Warrantholders or the requirement of the delivery of an Exercise Notice, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) will be positive. In respect of each Exercise Amount the Cash Settlement Amount shall be paid in the manner set out in Condition 4(F).

(H) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(F).

5. Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 10.

6. Adjustments

Adjustments may be made by the Issuer to the Basket Components on the basis of the following provisions:

(A) *Rights Issues*. If and whenever any of the Companies shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of its existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Basket Component relating to the Share(s) of the Company making the Rights Offer shall be adjusted to take effect on the Business Day on which trading in those Share(s) becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Rights Offer} = \frac{1 + M}{1 + (R/S) \text{ x } M} \text{ x E}$$

Where:

E: Existing Basket Component insofar as it relates to the Share(s) of the Company making the Rights Offer immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing bid price of an existing Share of the Company making the Rights Offer as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which shares are traded on a Cum-Rights basis

R: Subscription price per Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: In respect of the Company making the Rights Offer, the number of new Share(s) (whether a whole or fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Basket Component relating to the Share(s) of the Company making the Rights Offer of less than one per cent. of the Basket Component immediately prior to the adjustment, then no adjustment will be made to that Basket Component.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever any of the Companies shall make an issue of Shares credited as fully paid to the holders of its Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the relevant Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Basket Component relating to the Share(s) of the Company making the Bonus Issue shall be adjusted to take effect on the Business Day on which trading in those Share(s) becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Bonus Issue} = (1 + N) \text{ x E}$$

Where:

E: Existing Basket Component insofar as it relates to the Share(s) of the Company making the Bonus Issue immediately prior to the Bonus Issue

N: In respect of the Company making the Bonus Issue, the number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each existing Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Basket Component relating to the Share(s) of the Company making the Bonus Issue of less than one per cent. of the Basket Component immediately prior to the adjustment, then no adjustment will be made to that Basket Component.

(C) *Subdivisions and Consolidations*. If and whenever any of the Companies shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the relevant Basket Component, insofar as it relates to the Share(s) of the Company making the Subdivision or Consolidation (as the case may be) in effect immediately prior thereto shall be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) in the same ratio as the Subdivision or Consolidation (as the case may be) on the day on which the relevant Subdivision or Consolidation takes effect.

(D) *Restructuring Events*. If it is announced that any of the Companies is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where that Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Other Adjustments*. Except as provided in this Condition 6 and in Conditions 9 and 13, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment (i) is considered by the Issuer not to be materially prejudicial to the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(F) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

7. Purchase

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Global Certificate

A global warrant certificate (the "**Global Certificate**") representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

9. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders*. The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of American Style Warrants, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in the quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholders; (ii) of a formal, minor or technical nature; (iii) made to correct an obvious error; or (iv) necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below). Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10. Notices

(A) *Website publication*. All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

(B) *Request for copies*. If so requested by the Warrantholders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to Condition 10(A) by post addressed to such Warrantholders at the address recorded in the register of Warrantholders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this Condition shall be sent or delivered at the risk of such Warrantholders.

11. Liquidation

In the event of a liquidation or dissolution of all of the Companies or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of their undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation of the last Company to be so affected, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution of the last Company to be so affected, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

13. Delisting

(A) If at any time any of the Shares ceases to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 13(A), where any of the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustments or amendments and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

14. Governing Law

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

16. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Exercise Date or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

Sponsor:
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

TERMS AND CONDITIONS OF CASH SETTLED INDEX WARRANTS

These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.

1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) relating to the Index are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expressions "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

2. Warrant Rights and Exercise Expenses

(A) Every Board Lot initially entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 4(F).

(C) For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(i) In the case of a series of Call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{(Closing Level - Strike Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(ii) In the case of a series of Put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{(Strike Level - Closing Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**Closing Level**" means the level specified as such in the relevant Supplemental Listing Document subject to any adjustment in accordance with Condition 6;

"**Divisor**" means the number specified as such in the relevant Supplemental Listing Document;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**First Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Index**" means the index specified as such in the relevant Supplemental Listing Document;

"**Index Compiler**" means the index compiler specified as such in the relevant Supplemental Listing Document;

"**Index Business Day**" means a day on which the Index is published by the Index Compiler or, as the case may be, the Successor Index Compiler (as defined below);

"**Index Currency Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Exchange**" means the index exchange specified as such in the relevant Supplemental Listing Document;

"**Interim Currency**" means the currency specified in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means:

(i) the occurrence or existence, on a Valuation Date during the one-half hour period that ends at the close of trading, of any of:

(1) the suspension or material limitation of the trading of a material number of securities that comprise the Index; or

(2) the suspension or material limitation of the trading of securities/commodities (a) on the Index Exchange; or (b) generally; or

(3) the suspension or material limitation of the trading of (a) options or futures contracts relating to the Index on any exchanges or (b) options or futures generally on any options and/or futures exchanges on which options or futures contracts relating to the Index are traded; or

(4) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this definition, (a) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange, and (b) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(ii) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(iii) a limitation or closure of the Index Exchange or the Stock Exchange due to any unforeseen circumstances.

"**Second Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the date specified in the relevant Supplemental Listing Document.

Trading in Warrants on the Stock Exchange shall ceased prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalised terms shall, unless otherwise defined herein, bear the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate (as defined below).

3. Exercise Period

(A) The Warrants may be exercised by valid delivery of an Exercise Notice (as defined below), in accordance with Condition 4 at any time during the Exercise Period. In the case of an exercise of American Style Warrants the Exercise Period shall be the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending on the Expiry Date. If the Expiry Date is not a Business Day, the immediately succeeding Business Day shall be deemed to be the Expiry Date for the purposes of this Condition 3(A). Warrants may not be exercised at any other time.

Subject to Condition 4(B)(iii), in the case of an exercise of European Style Warrants, a reference to Exercise Period shall mean the Expiry Date only.

(B) Subject to Conditions 4(B)(iii) and 4(G), any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

4. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Delivery of an Exercise Notice:

(i) In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Warrantholders shall deliver to the Sponsor a duly completed exercise notice obtainable from the Sponsor (an "**Exercise Notice**"), such delivery to be made at any time during the Exercise Period.

In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and Warrants will be automatically exercised (if in the money) in accordance with Conditions 4B(iii) and 4(G).

(ii) In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised (an "**Exercise Date**") shall be the Business Day on which an Exercise Notice is delivered to the Sponsor and in respect of which there is a valid exercise of Warrants in accordance with the requirements of these Conditions, provided that any Exercise Notice received by the Sponsor after 10:00 a.m. (Hong Kong time) on any Business Day shall be deemed to have been delivered on the next following Business Day.

(iii) Any Warrant with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(F).

(C) Any Exercise Expenses which are not determined by the Issuer on the Exercise Date and/or the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 4, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholders to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to a valid exercise or deemed exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of each Warrantholder from the register of Warrantholders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate (as defined below).

(F) Upon a valid exercise or deemed exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three Business Days following the Exercise Date or the Expiry Date, as the case may be ("**Settlement Date**"), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by a Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of a Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, but will not be obliged to, determine such Closing Level by having regard to the manner in which the Index Compiler, or the relevant body or entity, as the case may be, calculates the Closing Level.

(G) Any Warrants which have not been exercised in the manner set out in Condition 4(B) before the Expiry Date shall be automatically exercised on that date without notice to the Warrantholders or the requirement of the delivery of an Exercise Notice, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) will be positive. In respect of each Board Lot the Cash Settlement Amount shall be paid in the manner set out in Condition 4(F).

(H) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(F).

5. Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another agent provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 10.

6. Adjustments to the Index

(A) *Successor Index Compiler Calculates and Reports Index*. If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(B) *Modification and Cessation of Calculation of Index*. If (i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts or commodities and other routine events), or (ii) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts or commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) *Other Adjustments*. Except as provided in this Condition 6 and in Condition 9, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment (i) is considered by the Issuer not to be materially prejudicial to the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(D) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

7. Purchase

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Global Certificate

A global warrant certificate (the "**Global Certificate**") representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised officer(s) or attorney(s) of the Issuer.

9. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders*. The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of American Style Warrants, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in the quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholders; (ii) of a formal, minor or technical nature; (iii) made to correct an obvious error; or (iv) necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below). Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10. Notices

(A) *Website publication*. All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

(B) *Request for copies*. If so requested by the Warrantholders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to Condition 10(A) by post addressed to such Warrantholders at the address recorded in the register of Warrantholders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this Condition shall be sent or delivered at the risk of such Warrantholders.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. Governing Law

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholders (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

13. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong . In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

14. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Exercise Date or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

Sponsor:
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

TERMS AND CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE UNIT TRUSTS

These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.

1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) relating to the Units of the Trust are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

2. Warrant Rights, Exercise Price and Exercise Expenses

(A) Every Board Lot initially entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 4(F).

(C) For the purposes of these Conditions:

"**Average Price**" shall be the arithmetic mean of the closing prices of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any rights issue, bonus issue, consolidation or subdivision, restructuring event or the like) for each Valuation Date;

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means:

(i) In the case of a series of Call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(ii) In the case of a series of Put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Units; or (b) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material, (2) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Trust**" means the trust specified as such in the relevant Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means, with respect to the exercise of Warrants, and subject as provided below in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Exercise Date or the Expiry Date, as the case may be, relating to such exercise.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Units on the first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than five closing prices to determine the Average Price.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate (as defined below).

3. Exercise Period

(A) The Warrants may be exercised by valid delivery of an Exercise Notice (as defined below), in accordance with Condition 4 at any time during the Exercise Period. In the case of an exercise of American Style Warrants the Exercise Period shall be the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the Expiry Date, subject to prior termination of the Warrants as provided for in Condition 11. If the Expiry Date is not a Business Day, the immediately succeeding Business Day shall be deemed to be the Expiry Date for the purposes of this Condition 3(A). Warrants may not be exercised at any other time.

Subject to Condition 4(B)(iii), in the case of an exercise of European Style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Subject to Conditions 4(B)(iii) and 4(G), any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

4. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Delivery of an Exercise Notice:

(i) In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Warrantholders shall deliver to the Sponsor a duly completed exercise notice obtainable from the Sponsor (an "**Exercise Notice**"), such delivery to be made at any time during the Exercise Period.

In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and Warrants will be automatically exercised (if in the money) in accordance with Conditions 4B(iii) and 4(G).

(ii) In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised (an "**Exercise Date**") shall be the Business Day on which an Exercise Notice is delivered to the Sponsor and in respect of which there is a valid exercise of Warrants in accordance with the requirements of these Conditions, provided that any Exercise Notice received by the Sponsor after 10:00 a.m. (Hong Kong time) on any Business Day shall be deemed to have been delivered on the next following Business Day.

(iii) Any Warrant with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(F).

(C) Any Exercise Expenses which are not determined by the Issuer on the Exercise Date and/or the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 4, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholders to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to a valid exercise or deemed exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of each Warrantholder from the register of Warrantholders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate (as defined below).

(F) Upon a valid exercise or deemed exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three Business Days following the Exercise Date or Expiry Date, as the case may be (**"Settlement Date"**), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by each Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that is already or is deemed to be a Valuation Date, provided that if there is a Market Disruption Event on each of the five days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date, then: (i) that fifth day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event, and (ii) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the bid price that would have prevailed on that fifth day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Exercise Date or the Expiry Date, then (i) the day immediately preceding the Exercise Date or the Expiry Date, as the case may be, (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event and (ii) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**day**" means for the purposes of this Condition 4(F) a day on which (excluding, Saturday) banks and the Stock Exchange are normally open for business in Hong Kong.

(G) Any Warrants which have not been exercised in the manner set out in Condition 4(B) before the Expiry Date shall be automatically exercised on that date, without notice to the Warrantholders or the requirement of the delivery of an Exercise Notice, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) will be positive. In respect of each Board Lot the Cash Settlement Amount shall be paid in the manner set out in Condition 4(F).

(H) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(F).

5. Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 10.

6. Adjustments

Adjustments may be made by the Issuer to the number of Units to which the Warrants relate on the basis of the following provisions:

(A) *Rights Issues*. If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer S:Cum-Rights Unit price being the closing bid price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a Cum-Rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Right

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = (1 + N)$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Units held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) in the same ratio as the Subdivision or Consolidation (as the case may be) on the day on which the Subdivision or Consolidation takes effect. Such adjusted Entitlement is called "**Adjusted Entitlement**" and "**Adjustment Component**" means the Adjusted Entitlement divided by the Entitlement in effect immediately prior to the relevant adjustment. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component. The "**reciprocal of the Adjustment Component**" means one divided by the Adjustment Component. The adjustment to the Exercise Price shall take effect on the same date on which the Subdivision or Consolidation (as the case may be) takes effect.

(D) *Restructuring Events*. If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to, or may, sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this paragraph and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

(E) *Other Adjustments*. Except as provided in this Condition 6 and in Conditions 9 and 13, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer not to be materially prejudicial to the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(F) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

7. Purchase

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Global Certificate

A global warrant certificate (the "**Global Certificate**") representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

9. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders*. The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of American Style Warrants, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in the quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholders; (ii) of a formal, minor or technical nature; (iii) made to correct an obvious error; or (iv) necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below). Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10. Notices

(A) *Website publication*. All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

(B) *Request for copies*. If so requested by the Warrantholders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to Condition 10(A) by post addressed to such Warrantholders at the address recorded in the register of Warrantholders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this Condition shall be sent or delivered at the risk of such Warrantholders.

11. Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 11, "**Termination**" means (i) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (ii) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (iv) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

13. Delisting

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 13(A), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

14. Governing Law

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

16. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Exercise Date or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

Sponsor:
UBS Securities Asia Limited
52nd Floor
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Hong Kong

INFORMATION IN RELATION TO THE ISSUER

OVERVIEW

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

UBS is the world's leading wealth management business, a global investment banking and securities firm with a strong institutional and corporate client franchise, a key asset manager and, with roughly a quarter of the Swiss lending market, the market leader in Swiss corporate and individual client banking.

On 31 December 2005, UBS employed more than 69,500 people. With headquarters in Zurich and Basel, Switzerland, UBS operates in over 50 countries and from all major international centers.

UBS is managed through three Business Groups and its Corporate Center, each of which is described below:

Global Wealth Management & Business Banking

With more than 140 years of experience, our global wealth management business provides a comprehensive range of products and services individually tailored for wealthy clients around the world. With roughly 11,500 client advisors and more than CHF 1.6 trillion in invested assets, the business consistently delivers high-quality, individually tailored solutions through a global network of 110 offices in Switzerland and 67 offices worldwide. In the US, it is one of the top wealth managers.

Business Banking Switzerland is the market leader in Switzerland, providing a complete set of banking and securities services for individual and corporate clients. It also has relationships institutional investors, public entities and foundations based in Switzerland, as well as 3,000 financial institutions worldwide.

Global Asset Management

The Global Asset Management business is one of the world's leading asset managers, providing traditional and alternative investment solutions to financial intermediaries and institutional investors. The breadth, depth and scope of its varied investment capabilities enable it to offer innovative solutions in nearly every asset class. Invested assets totaled CHF 765 billion on 31 December 2005, making it one of the largest global institutional asset managers, the second largest mutual fund manager in Europe, and the largest mutual fund manager in Switzerland.

Investment Bank

UBS's Investment Bank is one of the world's leading firms in the investment banking and securities business, providing a full spectrum of services to institutional and corporate clients, governments and financial intermediaries. Its salespeople, research analysts and investment bankers provide products and services to the world's key institutional investors, intermediaries, banks, insurance companies, corporations, sovereign governments, supranational organizations and private investors. For both its own corporate and institutional clients and the individual clients of other parts of UBS, the Investment Bank provides product innovation, research and advice, and comprehensive access to the world's capital markets.

Corporate Center

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

Industrial Holdings

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

In late September 2005, UBS signed agreements to sell its 55.6% stake in Motor-Columbus to a consortium of Atel's Swiss minority shareholders, EOS Holding and Atel, as well as to French utility Electricité de France (EDF). At the end of February, the European Commission and the Swiss Competition Commission have cleared the acquisition of the participation held by UBS. The transaction was executed on 23 March 2006. The sale encompassed 281,535 bearer shares of Motor-Columbus for a price of CHF 4,600 per share. The sale price is approximately CHF 1.3 billion and UBS expects a profit before tax of approximately CHF 370 million which will be recognized in the first quarter as part of the result of Industrial Holdings.

Corporation Information

The legal and commercial name of the company is UBS AG. The company was incorporated under the name SBC AG on 28 February 1978 for an unlimited duration and entered in the Commercial Register of Canton Basle-City on that day. On 8 December 1997, the company changed its name to UBS AG. The company in its present form was created on 29 June 1998 by the merger of Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872).

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.

BOARD OF DIRECTORS

The Board of Directors shall consist of at least six and no more than twelve members. The term in office for members of the Board of Directors is three years. The Directors of UBS as at 12 April 2006 are as follows:

Name	Title	Position outside UBS
Marcel Ospel	Chairman	—
Stephen Haeringer	Executive Vice Chairman	—
Marco Suter	Executive Vice-Chairman	—
Peter Böckli	Non-executive Vice Chairman	Partner in the law firm Böckli Bodmer & Partner, Basel
Ernesto Bertarelli	Member	Chief Executive Officer of Serono International SA, Geneva
Sir Peter Davis	Member	—
Rolf A. Meyer	Member	Consultant, Bach
Helmut Panke	Member	Chairman of the Board of Management of BMW AG
Peter Spuhler	Member	Owner of Stadler Rail AG
Peter R. Voser	Member	Chief Financial Officer of The Royal Dutch/Shell Group of Companies and Managing Director of Shell Transport and Trading Company in London
Lawrence A. Weinbach	Member	Chairman, President and Chief Executive Officer of Unisys Corporation, Blue Bell, PA, USA

GROUP EXECUTIVE BOARD

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

The GEB is composed of 10 members, none of whom has significant business interests outside UBS AG.

The members of the GEB as of 12 April 2006 are as follows:

N ame	Title
Peter A. Wuffli	Group Chief Executive Officer
John A. Fraser	Chairman and CEO, Global Asset Management
Huw Jenkins	CEO, Investment Bank
Peter Kurer	Group General Counsel
Marcel Rohner	Deputy Group CEO and Chairman & CEO, Global Wealth Management & Business Banking
Clive Standish	Group CFO
Walter H. Stuerzinger	Group Chief Risk Officer
Mark B. Sutton	Chairman and CEO, Americas
Rory Tapner	Chairman and CEO, Asia Pacific
Raoul Weil	Head of Wealth Management International

LITIGATION

UBS and other companies within the UBS Group are subject to various claims, disputes and legal proceedings, as part of the normal course of business. UBS makes provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by UBS, and the amount can be reasonably estimated.

STATUTORY AUDITORS

UBS's financial year end is 31 December. UBS is required by Swiss law to have statutory auditors. Ernst & Young Ltd act as the auditors of the financial statements of UBS.

AUTHORISATION

The issue of the Structured Products by the Issuer has been duly authorised by the GEB.

USE OF PROCEEDS

The Issuer intends to use the net proceeds from the sale of the Structured Products for its general corporate purposes outside Switzerland.

APPENDIX A

AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF UBS AG AS AT AND FOR THE YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005

The information in this Appendix A has been extracted from the Annual Report 2005 of UBS AG as at and for the year ended 31 December 2005. The page numbers of such document appear on the bottom left or right hand side of the pages in this Appendix A.

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 2 March 2006

Report of the group auditors

As auditors of the group we have audited the consolidated balance sheets of UBS AG as of 31 December 2005 and 2004, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended 31 December 2005, and notes thereto on pages 74 to 190. These consolidated financial statements are the responsibility of the company's management and the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements in Switzerland concerning professional qualification and independence.

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

In our opinion, based on our audit, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UBS AG as of 31 December 2005 and 2004, and the consolidated results of operations and cash flows for each of the three years in the period ended 31 December 2005, in conformity with International Financial Reporting Standards, and they comply with Swiss Law.

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

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States of America would have affected shareholders' equity as of 31 December 2005 and 2004 and the results of operations for each of the three years in the period ended 31 December 2005 to the extent summarized in note 41 of the notes to the consolidated financial statements.

Ernst & Young Ltd

Andrew McIntyre	Dr. Andreas Blumer
Chartered Accountant	Swiss Certified Accountant
(in charge of the audit)	(in charge of the audit)

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

Financial Statements

Income Statement

		For the year ended			% change from
CHF million, except per share data	Note	**31.12.05**	31.12.04	31.12.03	31.12.04
Continuing operations					
Interest income	3	**59,286**	39,228	40,045	51
Interest expense	3	**(49,758)**	(27,484)	(27,784)	81
Net interest income	3	**9,528**	11,744	12,261	(19)
Credit loss (expense) / recovery		**375**	241	(102)	56
Net interest income after credit loss expense		**9,903**	11,985	12,159	(17)
Net fee and commission income	4	**21,436**	18,506	16,673	16
Net trading income	3	**7,996**	4,902	3,670	63
Other income	5	**1,125**	932	225	21
Revenues from industrial holdings		**10,515**	6,086	2,900	73
Total operating income		**50,975**	42,411	35,627	20
Personnel expenses	6	**21,049**	18,612	18,218	13
General and administrative expenses	7	**7,047**	7,160	6,630	(2)
Depreciation of property and equipment	14	**1,493**	1,477	1,498	1
Amortization of goodwill	15	**0**	653	703	(100)
Amortization of other intangible assets	15	**334**	337	193	(1)
Goods and materials purchased		**8,003**	3,885	1,113	106
Total operating expenses		**37,926**	32,124	28,355	18
Operating profit from continuing operations before tax		**13,049**	10,287	7,272	27
Tax expense	21	**2,549**	2,224	1,419	15
Net profit from continuing operations		**10,500**	8,063	5,853	30
Discontinued operations					
Profit from discontinued operations before tax	38	**4,688**	536	479	775
Tax expense	21	**498**	129	79	286
Net profit from discontinued operations		**4,190**	407	400	929
Net profit		**14,690**	8,470	6,253	73
Net profit attributable to minority interests		**661**	454	349	46
from continuing operations		**656**	454	343	44
from discontinued operations		**5**	0	6	
Net profit attributable to UBS shareholders		**14,029**	8,016	5,904	75
from continuing operations		**9,844**	7,609	5,510	29
from discontinued operations		**4,185**	407	394	928
Earnings per share					
Basic earnings per share (CHF)	8	**13.93**	7.78	5.44	79
from continuing operations		**9.78**	7.39	5.07	32
from discontinued operations		**4.15**	0.39	0.37	964
Diluted earnings per share (CHF)	8	**13.36**	7.40	5.19	81
from continuing operations		**9.39**	7.04	4.84	33
from discontinued operations		**3.97**	0.36	0.35	

Balance Sheet

CHF million	Note	31.12.05	31.12.04	% change from 31.12.04
Assets				
Cash and balances with central banks		**5,359**	6,036	(11)
Due from banks	9	**33,644**	35,419	(5)
Cash collateral on securities borrowed	10	**300,331**	220,242	36
Reverse repurchase agreements	10	**404,432**	357,164	13
Trading portfolio assets	11	**499,297**	389,487	28
Trading portfolio assets pledged as collateral	11	**154,759**	159,115	(3)
Positive replacement values	22	**333,782**	284,577	17
Financial assets designated at fair value		**1,153**	653	77
Loans	9	**269,969**	232,167	16
Financial investments	12	**6,551**	4,188	56
Accrued income and prepaid expenses		**8,918**	6,309	41
Investments in associates	13	**2,956**	2,675	11
Property and equipment	14	**9,423**	9,510	(1)
Goodwill and other intangible assets	15	**13,486**	12,201	11
Other assets	16, 21	**16,190**	17,375	(7)
Total assets		**2,060,250**	1,737,118	19
Liabilities				
Due to banks	17	**124,328**	120,026	4
Cash collateral on securities lent	10	**77,267**	61,545	26
Repurchase agreements	10	**478,508**	422,587	13
Trading portfolio liabilities	11	**188,631**	171,033	10
Negative replacement values	22	**337,663**	303,712	11
Financial liabilities designated at fair value	18	**117,401**	65,756	79
Due to customers	17	**451,533**	376,076	20
Accrued expenses and deferred income		**18,392**	15,040	22
Debt issued	18	**160,710**	117,856	36
Other liabilities	19, 20, 21	**53,874**	44,120	22
Total liabilities		**2,008,307**	1,697,751	18
Equity				
Share capital		**871**	901	(3)
Share premium		**9,992**	9,231	8
Net gains/(losses) not recognized in the income statement, net of tax		**(182)**	(2,081)	91
Revaluation reserve from step acquisitions, net of tax		**101**	90	12
Retained earnings		**44,414**	37,001	20
Equity classified as obligation to purchase own shares		**(133)**	(96)	(39)
Treasury shares		**(10,739)**	(11,105)	3
Equity attributable to UBS shareholders		**44,324**	33,941	31
Equity attributable to minority interests		**7,619**	5,426	40
Total equity		**51,943**	39,367	32
Total liabilities and equity		**2,060,250**	1,737,118	19

Statement of Changes in Equity

	For the year ended		
CHF million	**31.12.05**	31.12.04	31.12.03
Share capital			
Balance at the beginning of the year	**901**	946	1,005
Issue of share capital	**2**	2	2
Cancellation of second trading line treasury shares (2002 program)			(61)
Cancellation of second trading line treasury shares (2003 program)		(47)	
Cancellation of second trading line treasury shares (2004 program)	**(32)**		
Balance at the end of the year	**871**	901	946
Share premium			
Balance at the beginning of the year	**9,231**	7,595	12,641
Change in accounting policy			660
Premium on shares issued and warrants exercised	**295**	325	103
Net premium / (discount) on treasury share and own equity derivative activity	**(302)**	(20)	(130)
Employee share and share option plans	**768**	1,331	(211)
Cancellation of second trading line treasury shares (2002 program) [1]			(5,468)
Balance at the end of the year	**9,992**	9,231	7,595
Net gains / (losses) not recognized in the income statement, net of tax			
Foreign currency translation			
Balance at the beginning of the year	**(2,520)**	(1,694)	(849)
Change in accounting policy			(50)
Movements during the year	**2,088**	(826)	(795)
Subtotal – balance at the end of the year [2]	**(432)**	(2,520)	(1,694)
Net unrealized gains / (losses) on available-for-sale investments, net of tax			
Balance at the beginning of the year	**761**	399	946
Change in accounting policy			(406)
Net unrealized gains / (losses) on available-for-sale investments	**463**	501	(108)
Impairment charges reclassified to the income statement	**96**	192	285
Realized gains reclassified to the income statement	**(396)**	(353)	(340)
Realized losses reclassified to the income statement	**7**	22	22
Subtotal – balance at the end of the year	**931**	761	399
Change in fair value of derivative instruments designated as cash flow hedges, net of tax			
Balance at the beginning of the year	**(322)**	(144)	(256)
Net unrealized gains / (losses) on the revaluation of cash flow hedges	**(474)**	(223)	116
Net realized (gains) / losses reclassified to the income statement	**115**	45	(4)
Subtotal – balance at the end of the year	**(681)**	(322)	(144)
Balance at the end of the year	**(182)**	(2,081)	(1,439)
Revaluation reserve from step acquisitions, net of taxes			
Balance at the beginning of the year	**90**		
Movements during the year	**11**	90	
Balance at the end of the year	**101**	90	
Retained earnings			
Balance at the beginning of the year	**37,001**	36,260	32,700
Change in accounting policy			(46)
Net profit attributable to UBS shareholders for the year	**14,029**	8,016	5,904
Dividends paid [3]	**(3,105)**	(2,806)	(2,298)
Cancellation of second trading line treasury shares (2003 program) [1]		(4,469)	
Cancellation of second trading line treasury shares (2004 program) [1]	**(3,511)**		
Balance at the end of the year	**44,414**	37,001	36,260

1 In 2004 and 2005 the cancellation of second trading line treasury shares is made against retained earnings. In 2003 it was made against the share premium account. 2 Net of CHF (292) million, CHF 236 million and CHF 121 million of related taxes for the years ended 2005, 2004 and 2003, respectively. 3 Dividends of CHF 2.00 per share, CHF 2.60 per share and CHF 3.00 were paid on 23 April 2003, 20 April 2004 and 26 April 2005, respectively.

Statement of Changes in Equity (continued)

	For the year ended		
CHF million	**31.12.05**	31.12.04	31.12.03
Equity classified as obligation to purchase own shares			
Balance at the beginning of the year	**(96)**	(49)	(104)
Movements during the year	**(37)**	(47)	55
Balance at the end of the year	**(133)**	(96)	(49)
Treasury shares			
Balance at the beginning of the year	**(11,105)**	(9,654)	(7,131)
Change in accounting policy			(1,474)
Acquisitions	**(8,375)**	(9,368)	(8,424)
Disposals	**5,198**	3,401	1,846
Cancellation of second trading line treasury shares (2002 program)			5,529
Cancellation of second trading line treasury shares (2003 program)		4,516	
Cancellation of second trading line treasury shares (2004 program)	**3,543**		
Balance at the end of the year	**(10,739)**	(11,105)	(9,654)
Equity attributable to UBS shareholders	**44,324**	33,941	33,659
Equity attributable to minority interests			
Balance at the beginning of the year	**5,426**	3,879	3,529
Change in accounting policy			143
Issuance of preferred securities	**1,539**		372
Other increases	**44**	1,922	247
Decreases and dividend payments	**(595)**	(523)	(357)
Foreign currency translation	**544**	(306)	(404)
Minority interest in net profit	**661**	454	349
Balance at the end of the year	**7,619**	5,426	3,879
Total equity	**51,943**	39,367	37,538

Shares issued

	For the year ended			% change from
Number of shares	**31.12.05**	31.12.04	31.12.03	31.12.04
Balance at the beginning of the year	**1,126,858,177**	1,183,046,764	1,256,297,678	(5)
Issue of share capital	**1,709,439**	3,293,413	2,719,166	(48)
Cancellation of second trading line treasury shares (2002 program)			(75,970,080)	
Cancellation of second trading line treasury shares (2003 program)		(59,482,000)		
Cancellation of second trading line treasury shares (2004 program)	**(39,935,094)**			
Balance at the end of the year	**1,088,632,522**	1,126,858,177	1,183,046,764	(3)

Treasury shares

	For the year ended			% change from
Number of shares	**31.12.05**	31.12.04	31.12.03	31.12.04
Balance at the beginning of the year	**124,663,310**	136,741,227	97,181,094	(9)
Change accounting policy			25,380,535	
Acquisitions	**78,218,035**	96,139,004	116,080,976	(19)
Disposals	**(58,686,377)**	(48,734,921)	(25,931,298)	(20)
Cancellation of second trading line treasury shares (2002 program)			(75,970,080)	
Cancellation of second trading line treasury shares (2003 program)		(59,482,000)		
Cancellation of second trading line treasury shares (2004 program)	**(39,935,094)**			
Balance at the end of the year	**104,259,874**	124,663,310	136,741,227	(16)

During the year a total of 39,935,094 shares acquired under the second trading line buyback program 2004 were cancelled. On 31 December 2005, a maximum of 1,823,501 shares can be issued against the future exercise of options from former PaineWebber employee option plans. These shares are shown as conditional share capital in the UBS AG (Parent Bank) disclosure. Out of the total number of 104,259,874 treasury shares, 33,885,000 shares (CHF 3,597 million) have been repurchased for cancellation. The Board of Directors will propose to the Annual General Meeting on 19 April 2006 to reduce the outstanding number of shares and the share capital by the number of shares purchased for cancellation. All issued shares are fully paid.

Statement of Cash Flows

	For the year ended		
CHF million	**31.12.05**	31.12.04	31.12.03
Cash flow from / (used in) operating activities			
Net profit	**14,690**	8,470	6,253
Adjustments to reconcile net profit to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation of property and equipment	**1,556**	1,576	1,570
Amortization of goodwill and other intangible assets	**340**	1,066	980
Credit loss expense / (recovery)	**(374)**	(241)	102
Equity in income of associates	**(152)**	(67)	(138)
Deferred tax expense / (benefit)	**(382)**	171	360
Net loss / (gain) from investing activities	**(5,062)**	(1,008)	(301)
Net loss / (gain) from financing activities	**4,025**	1,203	115
Net (increase) / decrease in operating assets:			
Net due from / to banks	**(1,690)**	(7,471)	42,916
Reverse repurchase agreements and cash collateral on securities borrowed	**(127,357)**	(42,975)	(101,381)
Trading portfolio and net replacement values	**(74,799)**	(19,733)	(52,193)
Loans / due to customers	**42,440**	10,093	38,636
Accrued income, prepaid expenses and other assets	**(1,227)**	(10,809)	(20,296)
Net increase / (decrease) in operating liabilities:			
Repurchase agreements and cash collateral on securities lent	**71,643**	14,991	65,413
Accrued expenses and other liabilities	**15,536**	22,019	22,420
Income taxes paid	**(2,394)**	(1,345)	(1,117)
Net cash flow from / (used in) operating activities	**(63,207)**	(24,060)	3,339
Cash flow from / (used in) investing activities			
Investments in subsidiaries and associates	**(1,540)**	(2,511)	(428)
Disposal of subsidiaries and associates	**3,240**	1,277	1,234
Purchase of property and equipment	**(1,892)**	(1,149)	(1,376)
Disposal of property and equipment	**270**	704	123
Net (investment in) / divestment of financial investments	**(2,487)**	703	2,317
Net cash flow from / (used in) investing activities	**(2,409)**	(976)	1,870

Statement of Cash Flows (continued)

	For the year ended		
CHF million	**31.12.05**	31.12.04	31.12.03
Cash flow from / (used in) financing activities			
Net money market paper issued / (repaid)	**23,221**	21,379	(14,737)
Net movements in treasury shares and own equity derivative activity	**(2,416)**	(4,999)	(6,810)
Capital issuance	**2**	2	2
Dividends paid	**(3,105)**	(2,806)	(2,298)
Issuance of long-term debt, including financial liabilities designated at fair value	**76,307**	51,211	23,644
Repayment of long-term debt, including financial liabilities designated at fair value	**(30,457)**	(24,717)	(13,615)
Increase in minority interests [1]	**1,572**	85	419
Dividend payments to / purchase from minority interests	**(575)**	(332)	(278)
Net cash flow from / (used in) financing activities	**64,549**	39,823	(13,673)
Effects of exchange rate differences	**5,018**	(1,052)	(524)
Net increase / (decrease) in cash and cash equivalents	**3,951**	13,735	(8,988)
Cash and cash equivalents, beginning of the year	**87,091**	73,356	82,344
Cash and cash equivalents, end of the year	**91,042**	87,091	73,356
Cash and cash equivalents comprise:			
Cash and balances with central banks	**5,359**	6,036	3,584
Money market paper [2]	**57,826**	45,523	40,599
Due from banks with original maturity of less than three months	**27,857**	35,532	29,173
Total	**91,042**	87,091	73,356

Significant non-cash investing and financing activities			
Provisions for reinstatement costs			
Property and equipment			137
Motor-Columbus, Baden, from valuation at equity to full consolidation			
Financial investments		644	
Investments in associates		261	
Property and equipment		2,083	
Goodwill and other intangible assets		1,194	
Debt issued		727	
Minority interests		1,742	
Investment funds transferred to other liabilities according to IAS 32			
Minority interests		336	
Private Banks and GAM, deconsolidation			
Financial investments	**60**		
Property and equipment	**180**		
Goodwill and other intangible assets	**362**		
Debt issued	**5**		
Private equity investments, deconsolidation			
Property and equipment	**248**		
Goodwill and other intangible assets	**3**		
Minority interests	**27**		
Acquisitions of businesses			
Financial investments	**35**		
Property and equipment	**112**		
Goodwill and other intangible assets	**377**		
Minority interests	**6**		

1 Includes issuance of preferred securities of CHF 1,539 million for the year ended 31 December 2005 and CHF 372 million for the year ended 31 December 2003. 2 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments. CHF 4,744 million, CHF 5,289 million and CHF 6,430 million were pledged at 31 December 2005, 31 December 2004 and 31 December 2003, respectively.

Cash paid for interest was CHF 44,392 million and CHF 24,192 million for 2005 and 2004 respectively.

Notes to the Financial Statements

Note 1 Summary of Significant Accounting Policies

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

The consolidated financial statements of UBS (the "Financial Statements") are prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and stated in Swiss francs (CHF), the currency of the country in which UBS AG is incorporated. On 2 March 2006, the Board of Directors approved them for issue.

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

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

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

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

Investments in associates in which UBS has a significant influence are accounted for under the equity method of accounting. Significant influence is normally evidenced when UBS owns 20% or more of a company's voting rights. Investments in associates are initially recorded at cost, and the carrying amount is increased or decreased to recognize the Group's share of the investee's profits or losses after the date of acquisition.

Assets and liabilities of subsidiaries and investments in associates are classified as "held for sale" if UBS has entered into an agreement for their disposal within a period of 12 months. Major lines of business and subsidiaries that were acquired exclusively with the intent for resale are presented as discontinued operations in the income statement in the period where the sale occurred or it becomes clear that a sale will occur within 12 months. Discontinued operations are presented in the income statement as a single amount comprising the total of profit after tax from operations and net gain or loss on sale.

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

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

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

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

e) Securitizations

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

f) Securities borrowing and lending

Securities borrowing and securities lending transactions are generally entered into on a collateralized basis, predominantly with securities delivered or received as collateral. Transfer of the securities themselves, whether in a borrowing/lending transaction or as collateral, is not reflected on the balance sheet unless the risks and rewards of ownership are also transferred. In such transactions where UBS transfers owned securities and where the borrower is granted the right to sell or re-pledge them, the securities are reclassified on the balance sheet to Trading portfolio assets pledged as collateral.

Cash collateral received is recognized with a corresponding obligation to return it (Cash collateral on securities lent). Cash collateral delivered is derecognized with a corresponding receivable reflecting UBS's right to receive it back (Cash collateral on securities borrowed).

Securities received in a lending or borrowing transaction are disclosed as off-balance sheet items if UBS has the right to resell or re-pledge them, with securities that UBS has actually resold or re-pledged also disclosed separately.

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

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

g) Repurchase and reverse repurchase transactions

Securities purchased under agreements to resell (Reverse repurchase agreements) and securities sold under agreements to repurchase (Repurchase agreements) are generally treated as collateralized financing transactions. In reverse repurchase agreements, the cash delivered is derecognized and a corresponding receivable, including accrued interest, is recorded, recognizing UBS's right to receive it back (Reverse repurchase agreements). In repurchase agreements, the cash received, including accrued interest, is recognized on the balance sheet with a corresponding obligation to return it (Repurchase agreements).

Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognized on or derecognized from the balance sheet, unless the risks and rewards of ownership are obtained or relinquished.

UBS monitors the market value of the securities received or delivered on a daily basis and provides or requests additional collateral or recalls or returns surplus collateral in accordance with the underlying agreements.

In repurchase agreements where UBS transfers owned securities and where the recipient is granted the right to resell or re-pledge them, the securities are reclassified in the balance sheet to Trading portfolio assets pledged as collateral. Securities received in a reverse repurchase agreement are disclosed as off-balance sheet items if UBS has the right to resell or re-pledge them, with securities that UBS has actually resold or re-pledged also disclosed separately.

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

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

h) Segment reporting

UBS's financial businesses are organized on a worldwide basis into four Business Groups and the Corporate Center. Global Wealth Management & Business Banking is segregated into three segments, Wealth Management International & Switzerland, Wealth Management US and Business Banking Switzerland. The Corporate Center also consists of two segments, Private Banks & GAM and Corporate Functions. Private Banks & GAM was sold on 2 December 2005 and are presented as a discontinued operation in these Financial Statements. The Industrial Holdings segment holds all industrial operations controlled by the Group. In total, UBS reports eight business segments.

Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Such transfers are conducted either at internally agreed transfer prices or, where possible, at arm's length.

i) Foreign currency translation

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

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

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

j) Cash and cash equivalents

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

k) Fee income

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

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

l) Determination of fair value

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

For more complex instruments, UBS uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Some of the inputs to these models may not be market-observable and are therefore estimated based on assumptions. When entering into a transaction where any model input is unobservable, the financial instrument is initially recognized at the transaction price, which is the best indicator of fair value. This may differ from the value obtained from the valuation model. The timing of the recognition in income of this initial difference in fair value depends on the individual facts and circumstances of each transaction but is never later than when the market data become observable.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions UBS holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value on the balance sheet.

m) Trading portfolio

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

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

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

n) Financial instruments designated as held at fair value through profit and loss

UBS has designated almost all of its issued compound debt instruments as financial liabilities held at fair value through profit and loss. These liabilities are presented in a separate line on the face of the balance sheet. In addition, a small amount of financial assets has been designated as financial assets held at fair value through profit and loss, and they are likewise presented in a separate line. A financial instrument may only be designated at inception as held at fair value through profit and loss and cannot subsequently be changed. When adopting revised IAS 39 on 1 January 2004, the Group designated approximately CHF 35.3 billion of existing issued compound debt instruments as held at fair value through profit and loss in accordance with the revised standard's transition guidance. All fair value changes related to financial instruments held at fair value through profit and loss are recognized in Net trading income.

o) Derivative instruments and hedging

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

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

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

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

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

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

If a cash flow hedge for a forecast transaction is deemed to be no longer effective, or if the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in Equity attributable to UBS shareholders remains there until the committed or forecast transaction occurs or is no longer probable of occurring, at which point it is transferred to the income statement.

Derivative instruments transacted as economic hedges but not qualifying for hedge accounting are treated in the same way as derivative instruments used for trading purposes, i.e. realized and unrealized gains and losses are recognized in Net trading income. In particular, the Group has entered into economic hedges of credit risk within the loan portfolio using credit default swaps to which it cannot apply hedge accounting. In the event that the Group recognizes an impairment on a loan that is economically hedged in this way, the impairment is recognized in Credit loss expense, whereas any gain on the credit default swap is recorded in Net trading income, see Note 22 for additional information.

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

p) Loans

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

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

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

q) Allowance and provision for credit losses

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

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

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

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

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

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

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

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

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

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

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

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

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

r) Financial investments

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

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

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

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

s) Property and equipment

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

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

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

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

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

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

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

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

Property formerly own-used or leased to third parties under an operating lease and equipment the Group has decided to sell are classified as assets held for sale and recorded in Other assets. Upon classification as held for sale, they are no longer depreciated and are carried at the lower of book value or fair value less costs to sell. Foreclosed property is defined as Properties held for resale and recorded in Other assets. They are carried at the lower of cost and recoverable value.

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

t) Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entity at the date of acquisition. Goodwill is not amortized but tested annually for impairment. Until 31 December 2004, goodwill acquired in business combinations entered into prior to 31 March 2004 was amortized over its estimated useful economic life, not exceeding 20 years, using the straight-line method. The impairment test is conducted at the segment level as reported in Note 2a. The segment has been determined as the cash generating unit for impairment testing purposes as this is the level at which the performance of investments is reviewed and assessed by management.

Other intangible assets comprise separately identifiable intangible items arising from acquisitions and certain purchased trademarks and similar items. Other intangible assets are recognized on the balance sheet at cost determined at the date of acquisition and are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. At each balance sheet date, other intangible assets are reviewed for indications of impairment or changes in estimated future benefits. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount.

Intangible assets are classified into two categories: Infrastructure, and Customer relationships, contractual rights and other. Infrastructure includes one intangible asset recognized in connection with the acquisition of PaineWebber Group, Inc. Customer relationships, contractual rights and other include customer relationship intangibles from the acquisition of financial services businesses as well as from the acquisition of Motor-Columbus, where other contractual rights from delivery and supply contracts were identified. These contractual rights are amortized over the remaining contract terms, which are up to 24 years at 31 December 2005. The most significant contract, however, is amortized over its remaining contract life of six years at 31 December 2005, which is the shortest useful life of all contractual rights recognized.

u) Income taxes

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

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

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

Current as well as deferred tax assets and liabilities are offset when they arise from the same tax reporting group, relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realized simultaneously.

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

v) Debt issued

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

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

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

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

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

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

w) Treasury shares and contracts on UBS shares

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

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

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

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

x) Retirement benefits

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

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

The principal actuarial assumptions used by the actuary are set out in Note 30.

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

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

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

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

y) Equity participation plans

UBS provides various equity participation plans in the form of stock plans and stock option plans. UBS recognizes the fair value of stock and stock option awards determined at the date of grant as compensation expense over the required service period, which generally is equal to the vesting period. The fair value of stock awards is equal to the market price at the date of grant. For stock options, fair value is determined using a proprietary option valuation model that reflects employees' exercise behavior and the specific terms and conditions under which the options are granted. Equity-settled awards are classified as equity instruments and are not remeasured subsequent to the grant date, unless an award is modified such that its fair value immediately after modification exceeds its fair value immediately prior to modification. Any increase in fair value resulting from a modification is recognized as compensation expense, either over the remaining service period or immediately for vested awards.

Cash settled awards are classified as liabilities and re-measured to fair value at each balance sheet date as long as they are outstanding. Decreases in fair value reduce compensation expense, and no compensation expense, on a cumulative basis, is recognized for awards that expire worthless or remain unexercised. Plans where participants have the option to roll stock-based awards into alternative investments are treated as cash settled.

z) Earnings per share (EPS)

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

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

aa) Changes in accounting policies and comparability

Private equity investments

On 1 January 2005, UBS adopted revised IAS 27 *Consolidated and Separate Financial Statements* and revised IAS 28 *Investments in Associates.*

IAS 27 was amended to eliminate the exemption from consolidating a subsidiary where control is exercised temporarily. UBS has several private equity investments where it owns a controlling interest that used to be classified and accounted for as Financial investments available-for-sale. UBS adopted IAS 27 on 1 January 2005 retrospectively and restated comparative prior years 2004 and 2003. The effect of the adoption and consolidating these investments was as follows: at 1 January 2003, equity including minority interests was reduced by CHF 723 million, representing the difference between the carrying value as Financial investments available-for-sale and the book value on a consolidated basis. Consolidation led to recognition of total assets in the amount of CHF 1.7 billion and CHF 2.9 billion at 31 December 2004 and 2003 respectively. Significant balance sheets line items affected include Property and equipment, Intangible assets, Goodwill and Other assets. These investments generated additional operating income of CHF 2.5 billion and CHF 2.7 billion in 2004 and 2003 respectively and additional Net profit attributable to UBS shareholders of CHF 142 million and CHF 74 million in 2004 and 2003 respectively.

IAS 28 was likewise amended to eliminate the exemption from equity method accounting for investments that are held exclusively for disposal. Private equity investments where UBS has significant influence are now accounted for using the equity method whereas they were previously classified as Financial investments available-for-sale. The adoption was made retrospectively from 1 January 2003 and prior periods were restated. Application of the equity method of accounting for these investments had the following effects: on 1 January 2003, opening equity was debited by CHF 266 million, representing the difference between the carrying value as Financial investments available-for-sale and the book value on an equity method basis. The carrying value of these equity method investments was CHF 248 million and CHF 393 million at 31 December 2004 and 2003 respectively, which includes equity in losses of CHF 55 million and gains of CHF 10 million recognized in the income statement in 2004 and 2003 respectively. Gains on sale recognized in 2004 and 2003 were CHF 1 million and zero respectively. When accounted for as Financial investments available-for-sale, gains on sale recognized were CHF 70 million in 2004 and CHF 34 million in 2003.

These entities, along with all other investments made by the private equity business unit, were reclassified from the Investment Bank segment to the Industrial Holdings segment effective 1 January 2005. In addition, nine of the newly consolidated investments held at 1 January 2003 were sold after that date and are presented as Discontinued operations in the restated comparative prior periods in accordance with IFRS 5 which is discussed below. Gain on sale in the amount of CHF 90 million and CHF 194 million were reported in 2004 and 2003 in connection with private equity investments sold after 1 January 2003. On a restated basis, the Net profit from discontinued operations related to these entities was CHF 145 million and CHF 186 million in 2004 and 2003 respectively.

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

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

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

Goodwill and Intangible Assets
On 31 March 2004, the IASB issued IFRS 3 *Business Combinations,* revised IAS 36 Impairment of Assets and revised IAS 38 Intangible Assets. UBS prospectively adopted the standards for goodwill and intangible assets existing at 31 March 2004 on 1 January 2005, whereas goodwill and intangible assets recognized from business combinations entered into after 31 March 2004 were accounted for immediately in accordance with IFRS 3. Goodwill is no longer amortized, but instead reviewed annually for impairment. UBS recorded goodwill amortization expense of CHF 722 million in 2004 and CHF 784 million in 2003.

Intangible assets acquired in a business combination must be recognized separately from goodwill if they meet defined recognition criteria. Existing intangible assets that do not meet the recognition criteria under the new standards have to be reclassified to goodwill. On 1 January 2005, UBS reclassified the trained workforce intangible asset recognized in connection with the acquisition of PaineWebber with a book value of CHF 1.0 billion to goodwill.

Insurance Contracts
On 31 March 2004, the IASB issued IFRS 4 *Insurance Contracts.* The standard applies to all insurance contracts written and to reinsurance contracts held. The majority of insurance products issued by UBS is considered to be investment contracts and is accounted for as financial liabilities and not as insurance contracts under IFRS 4. The related assets of CHF 19 billion were reclassified from Other assets to Trading portfolio assets in 2004. UBS adopted the new standard as of 1 January 2005 and applies it to its insurance contracts. The new standard did not have a material effect on the Financial Statements.

Non-current Assets Held for Sale and Discontinued Operations
On 31 March 2004, the IASB issued IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The standard requires that non-current assets or disposal groups be classified

as held for sale if their carrying amount is recovered principally through a sale transaction rather than through continuing use. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are classified separately from other assets in the balance sheet. Netting of assets and liabilities is not permitted. Discontinued operations are presented on the face of the income statement as a single amount comprising the total of the Net profit and loss from discontinued operations and the gain or loss after tax recognized on the sale or the measurement to fair value less costs to sell of the net assets constituting the discontinued operations. In the period where an operation is presented for the first time as discontinued, the income statements for all comparative prior periods presented are restated to present that operation as discontinued.

IFRS 5 provides certain criteria to be met for a component of an entity to be defined as a discontinued operation. Certain private equity investments meet this definition and will be reclassified to Discontinued operations. UBS adopted the new standard on 1 January 2005 and restated comparative prior years 2004 and 2003. The income statement is now divided into two sections: Net profit from continuing operations and Net profit from discontinued operations.

Presentation of minority interests and earnings per share
With the adoption of revised IAS 1 *Presentation of Financial Statements* on 1 January 2005, Net profit and Equity are presented including minority interests. Net profit is split into Net profit attributable to UBS shareholders and Net profit attributable to minority interests. Earnings per share continue to be calculated based on Net profit attributable to UBS shareholders, but they are split into Earnings per share from continuing operations and from discontinued operations. Minority interests and Earnings per share are presented on the face of the income statement.

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

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

Revised IAS 39 permits any financial instrument to be designated at inception, or at adoption of revised IAS 39, as carried at fair value through profit and loss. Upon adoption of revised IAS 39, UBS made that designation for the majority of its compound instruments issued. Previously, UBS separated the embedded derivative from the host contract and accounted for the separated derivative as a trading instrument. The amounts are now included on the balance sheet within the line item Financial liabilities designated at fair value, with amounts of CHF 117,401 million and CHF 65,756 million at 31 December 2005 and 2004 being reported in that line. Also, at 31 December 2005 and 2004 assets in the amount of CHF 1,153 million and CHF 653 million are reported in the line Financial assets designated at fair value.

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

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

Investment properties
Effective 1 January 2004, UBS changed its accounting policy for investment property from historical cost less accumulated depreciation to the fair value model. All changes in the fair value of investment property are now recognized in the income statement, and depreciation expense is no longer recorded. Investment property is defined as property held exclusively to earn rental income and/or benefit from appreciation in value. Fair value of investment property is determined by appropriate valuation techniques employed in the real estate industry, taking into account the specific circumstances for each item. Comparative prior periods were restated and resulted in a reduction of Net profit by CHF 64 million in 2003.

Credit losses incurred on OTC derivatives
Effective 1 January 2004, the method of accounting for credit losses incurred on over-the-counter (OTC) derivatives was

changed. All such credit losses are now reported in Net trading income and are no longer reported in Credit loss expense. This change did not affect Net profit or Earnings per share. It did, however, affect segment reporting, since losses reported as Credit loss expense were previously deferred over a three-year period in the Business Group segment reporting, whereas, under the changed method of accounting, losses in trading income are not subject to such a deferral. In the segment report, therefore, losses on OTC derivatives are now reported as they are incurred. The changed method of accounting had the following impact on the performance before tax of the Business Groups: in 2003, it reduced Business Banking's pre-tax performance by CHF 8 million, it raised the Investment Bank's by CHF 37 million and it caused Corporate Functions' result to fall by CHF 29 million.

Segment reporting

On July 1 2005, UBS integrated its two wealth management businesses into one Business Group, Global Wealth Management & Business Banking. As part of the integration, the municipal securities unit within the former Wealth Management US was transferred into the Investment Bank. The integration had no effect on the presentation of segments in Note 2a, and Wealth Management US continues to be reported as a separate segment. The comparative prior period information for the Wealth Management US and Investment Bank segments has been restated to reflect the transfer of the municipal securities unit. In the past two years, the municipal securities unit contributed between 7% and 9% to Wealth Management US revenues and a substantial portion to performance before tax.

On 1 July 2004, UBS purchased an additional 20% interest in Motor-Columbus AG, increasing its overall ownership stake to 55.6%. Motor-Columbus has been consolidated since 1 July 2004, when UBS gained control over the company. Due to its size and the nature of its business (production, distribution and trading of electricity) a new business segment, Industrial Holdings, was added in which Motor-Columbus is reported. Also included in that segment are also all private equity investments, which comprise businesses of a predominantly industrial nature.

As at 1 January 2003, the five private label banks (three of which were subsequently merged into one bank) owned by UBS were transferred out of Wealth Management & Business Banking into the Corporate Center. At the same time, GAM was transferred out of Global Asset Management into the Corporate Center. The two businesses formed the Private Banks & GAM segment, whereas the remainder of the Corporate Center is reported as the Corporate Functions segment. On 2 December 2005, PB & GAM was sold to Julius Baer.

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

Business combinations

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

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

ab) International Financial Reporting Standards to be adopted in 2006 and later

IAS 39 Amendment to the fair value option

In June 2005, The IASB issued amendments to IAS 39 *Financial Instruments: Recognition and Measurement* in relation to the fair value option. UBS will adopt the revised fair value option for financial instruments on a prospective basis at 1 January 2006. In the past, UBS applied the fair value option predominantly to hybrid debt instruments issued, and will continue to make use of the fair value option for this class of financial instruments. It is planned to apply the fair value option also to certain new loans and loan commitments within the Investment Bank's Credit Exposure Management business starting in second quarter 2006. These loans and loan commitments will be hedged with credit derivatives and designated, at inception, as at fair value through profit and loss to achieve offset of the accounting mismatch with the credit derivatives that currently exist. UBS will not apply the fair value option to positions in the existing loan portfolio.

IFRS 7 Financial Instruments: Disclosures
In August 2005, the IASB issued IFRS 7. The new standard is a pure disclosure standard and does not change the recognition and measurement of financial instruments. Accordingly, it will have no effect on Net profit and Equity attributable to UBS shareholders. The new standard requires entities to make enhanced quantitative and qualitative risk disclosures for all major categories of financial instruments in their financial statements. UBS will adopt the new standard on 1 January 2007.

Amendments to existing standards
Minor amendments have been made to three existing International Accounting Standards, which will be effective and adopted by UBS at 1 January 2006.

IAS 19 *Employee Benefits* has been amended to allow a choice of whether to recognize actuarial gains and losses in a defined post-retirement benefit plan immediately in equity or to apply the corridor approach. UBS decided to continue to apply the corridor approach as described in section x) above. Other amendments made to IAS 19 have no impact on UBS.

IAS 39 *Financial Instruments: Measurement and Recognition* and IFRS 4 *Insurance Contracts* have been amended in relation to financial guarantee contracts to clarify when a financial guarantee is within the scope of IAS 39 and when it is considered an insurance contract within the scope of IFRS 4. This amendment will not have a significant impact on UBS's Financial Statements.

IAS 21 *The Effects of Changes in Foreign Exchange Rates* has been amended to require that exchange differences arising in consolidation on loan financings that form part of a net investment in a foreign operation and are denominated in another currency than the functional currencies of both the reporting entity and the foreign operation, are reclassified to equity in the consolidated financial statements of the reporting entity. This amendment has no significant impact on UBS's Financial Statements.

IFRIC 4 Leases: Determining Whether an Arrangement Contains a Lease
IFRIC 4 was issued in December 2004 and provides guidance on (a) how to determine whether an arrangement is, or contains, a lease as defined in IAS 17; (b) when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and (c) if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement. If an arrangement contains a lease element, the interpretation requires that the payments for the lease element are accounted for in accordance with IAS 17 Leases. UBS will adopt the interpretation at 1 January 2006, its effective date. The interpretation will not have a significant effect on UBS's Financial Statements .

IFRIC 5 Provisions: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 5 was issued in December 2004 and provides guidance on the accounting for contributions into a decommissioning fund and rights to receive reimbursements from the fund. The interpretation is effective from 1 January 2006 and will be adopted by UBS's subsidiary Motor-Columbus. It is not expected to have a significant impact on UBS's Financial Statements.

Note 2a Segment Reporting by Business Group

UBS's financial businesses are organized on a worldwide basis into three Business Groups and the Corporate Center. Global Wealth Management & Business Banking consists of three segments, Wealth Management International & Switzerland, Wealth Management US and Business Banking Switzerland. The Corporate Center consists of two segments, Corporate Functions and Private Banks & GAM, which was sold on 2 December 2005. The Industrial Holdings segment holds all industrial operations controlled by the Group. In total, UBS reports eight business segments.

Global Wealth Management & Business Banking

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

Global Asset Management

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

Investment Bank

The Investment Bank operates globally as a client-driven investment banking and securities firm providing innovative products, research, advice and complete access to the world's capital markets for intermediaries, governments, corporate and institutional clients and other parts of UBS.

Corporate Center

Corporate Center comprises two segments. Corporate Functions ensures that the Business Groups operate as a coherent and effective whole with a common set of values and principles in such areas as risk management and control, financial reporting, marketing and communications, funding, capital and balance sheet management, management of foreign exchange earnings and information technology infrastructure. Private Banks & GAM, the second segment, was sold on 2 December 2005.

Industrial Holdings

The Industrial Holdings segment includes the non-financial businesses of UBS. The most significant business in this segment is Motor-Columbus, a financial holding company whose only significant asset is a 59.3% interest in the Atel Group. Atel is a European energy provider focused on domestic and international power generation, electricity transmission, energy services as well as electricity trading and marketing. The private equity business investing UBS and third-party funds, primarily in unlisted companies, is reported in Industrial Holdings.

Note 2a Reporting by Business Group (continued)

For the year ended 31 December 2005

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

CHF million
Income [1]
Credit loss (expense) / recovery
Total operating income
Personnel expenses
General and administrative expenses
Services to / from other business units
Depreciation of property and equipment
Amortization of other intangible assets [2]
Goods and materials purchased
Total operating expenses
Business Group performance from continuing operations before tax
Business Group performance from discontinued operations before tax
Business Group performance before tax
Tax expense on continuing operations
Tax expense on discontinued operations
Net profit
Additional information [3]
Total assets
Total liabilities
Capital expenditure

Management reporting based on expected credit loss

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

Income [1]
Adjusted expected credit loss
Total operating income
Personnel expenses
General and administrative expenses
Services to / from other business units
Depreciation of property and equipment
Amortization of other intangible assets [2]
Goods and materials purchased
Total operating expenses
Business Group performance from continuing operations before tax
Business Group performance from discontinued operations before tax
Business Group performance before tax
Tax expense on continuing operations
Tax expense on discontinued operations
Net profit

Financial Businesses							Industrial Holdings	UBS
Global Wealth Management & Business Banking			Global Asset Management	Investment Bank	Corporate Center			
Wealth Management International & Switzerland	Wealth Management US	Business Banking Switzerland			Private Banks & GAM	Corporate Functions		
9,024	5,158	4,949	2,487	17,448		455	11,079	50,600
(8)	0	231	0	152		0	0	375
9,016	5,158	5,180	2,487	17,600		455	11,079	50,975
2,579	3,460	2,450	988	9,259		1,167	1,146	21,049
804	1,047	994	304	2,215		1,084	599	7,047
1,371	223	(634)	116	640		(1,730)	14	0
89	65	72	21	136		857	253	1,493
7	49	0	1	53		17	207	334
							8,003	8,003
4,850	4,844	2,882	1,430	12,303		1,395	10,222	37,926
4,166	**314**	**2,298**	**1,057**	**5,297**		**(940)**	**857**	**13,049**
					4,556	8	124	4,688
4,166	**314**	**2,298**	**1,057**	**5,297**	**4,556**	**(932)**	**981**	**17,737**
								2,549
								498
								14,690
223,719	64,896	176,713	40,782	1,768,391		(225,800)	11,549	**2,060,250**
219,069	59,567	170,544	39,191	1,750,762		(242,640)	11,814	**2,008,307**
81	84	58	16	138	25	1,264	299	**1,965**

9,024	5,158	4,949	2,487	17,448		455	11,079	50,600
(13)	(2)	122	0	36		232	0	375
9,011	5,156	5,071	2,487	17,484		687	11,079	50,975
2,579	3,460	2,450	988	9,259		1,167	1,146	21,049
804	1,047	994	304	2,215		1,084	599	7,047
1,371	223	(634)	116	640		(1,730)	14	0
89	65	72	21	136		857	253	1,493
7	49	0	1	53		17	207	334
							8,003	8,003
4,850	4,844	2,882	1,430	12,303		1,395	10,222	37,926
4,161	**312**	**2,189**	**1,057**	**5,181**		**(708)**	**857**	**13,049**
					4,508	56	124	4,688
4,161	**312**	**2,189**	**1,057**	**5,181**	**4,508**	**(652)**	**981**	**17,737**
								2,549
								498
								14,690

1 Impairments of financial investments for the year ended 31 December 2005 were as follows: Global Wealth Management & Business Banking CHF 10 million; Global Asset Management CHF 0 million; Investment Bank CHF 0 million; Corporate Center CHF 16 million and Industrial Holdings CHF 81 million. 2 For further information regarding goodwill and other intangible assets by Business Group, please see Note 15: Goodwill and Other Intangible Assets. 3 The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

Note 2a Reporting by Business Group (continued)

For the year ended 31 December 2004

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

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

Management reporting based on expected credit loss

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

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

Financial Businesses: Global Wealth Management & Business Banking: Wealth Management International & Switzerland	Financial Businesses: Global Wealth Management & Business Banking: Wealth Management US	Financial Businesses: Global Wealth Management & Business Banking: Business Banking Switzerland	Financial Businesses: Global Asset Management	Financial Businesses: Investment Bank	Financial Businesses: Corporate Center: Private Banks & GAM	Financial Businesses: Corporate Center: Corporate Functions	Industrial Holdings[1]	UBS
7,701	4,741	5,064	2,022	16,090		112	6,440	42,170
(1)	3	92	0	147		0	0	241
7,700	4,744	5,156	2,022	16,237		112	6,440	42,411
2,119	3,320	2,426	893	8,152		796	906	18,612
642	767	1,064	299	2,538		1,077	773	7,160
1,395	275	(533)	126	226		(1,509)	20	0
66	67	69	23	243		794	215	1,477
67	171	0	129	278		1	7	653
8	107	0	0	36		17	169	337
							3,885	3,885
4,297	4,707	3,026	1,470	11,473		1,176	5,975	32,124
3,403	**37**	**2,130**	**552**	**4,764**		**(1,064)**	**465**	**10,287**
					386	10	140	536
3,403	**37**	**2,130**	**552**	**4,764**	**386**	**(1,054)**	**605**	**10,823**
								2,224
								129
								8,470
164,716	48,026	210,133	29,698	1,477,275	8,043	(210,167)	9,394	**1,737,118**
161,042	43,847	204,479	28,311	1,463,469	7,480	(220,843)	9,966	**1,697,751**
304	48	212	8	415	19	599	1,484	**3,089**

Wealth Management International & Switzerland	Wealth Management US	Business Banking Switzerland	Global Asset Management	Investment Bank	Private Banks & GAM	Corporate Functions	Industrial Holdings	UBS
7,701	4,741	5,064	2,022	16,090		112	6,440	42,170
(8)	(5)	(25)	0	(7)		286	0	241
7,693	4,736	5,039	2,022	16,083		398	6,440	42,411
2,119	3,320	2,426	893	8,152		796	906	18,612
642	767	1,064	299	2,538		1,077	773	7,160
1,395	275	(533)	126	226		(1,509)	20	0
66	67	69	23	243		794	215	1,477
67	171	0	129	278		1	7	653
8	107	0	0	36		17	169	337
							3,885	3,885
4,297	4,707	3,026	1,470	11,473		1,176	5,975	32,124
3,396	**29**	**2,013**	**552**	**4,610**		**(778)**	**465**	**10,287**
					438	(42)	140	536
3,396	**29**	**2,013**	**552**	**4,610**	**438**	**(820)**	**605**	**10,823**
								2,224
								129
								8,470

1 Results for Motor-Columbus include the six month period beginning on 1 July 2004. 2 Impairments of financial investments for the year ended 31 December 2004 were as follows: Global Wealth Management & Business Banking CHF 47 million; Global Asset Management CHF 4 million; Investment Bank CHF (17) million; Corporate Center CHF 0 million and Industrial Holdings CHF 57 million. 3 For further information regarding goodwill and other intangible assets by Business Group, please see Note 15: Goodwill and Other Intangible Assets. 4 The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

Note 2a Reporting by Business Group (continued)

For the year ended 31 December 2003

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

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

Management reporting based on expected credit loss

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

Income [1]
Adjusted expected credit loss
Total operating income
Personnel expenses
General and administrative expenses
Services to / from other business units
Depreciation of property and equipment
Amortization of goodwill [2]
Amortization of other intangible assets [2]
Goods and materials purchased
Total operating expenses
Business Group performance from continuing operations before tax
Business Group performance from discontinued operations before tax
Business Group performance before tax
Tax expense on continuing operations
Tax expense on discontinued operations
Net profit

		Financial Businesses					Industrial Holdings	UBS
Global Wealth Management & Business Banking			Global Asset Management	Investment Bank	Corporate Center			
Wealth Management International & Switzerland	Wealth Management US	Business Banking Switzerland			Private Banks & GAM	Corporate Functions		
6,797	4,748	5,247	1,737	14,510		20	2,670	35,729
4	(3)	(71)	0	(32)		0	0	(102)
6,801	4,745	5,176	1,737	14,478		20	2,670	35,627
1,996	3,555	2,448	835	7,737		785	862	18,218
604	689	1,090	265	2,068		1,166	748	6,630
1,479	415	(609)	156	175		(1,639)	23	0
82	66	88	25	248		811	178	1,498
54	192	0	152	279		0	26	703
21	116	0	1	27		20	8	193
							1,113	1,113
4,236	5,033	3,017	1,434	10,534		1,143	2,958	28,355
2,565	**(288)**	**2,159**	**303**	**3,944**		**(1,123)**	**(288)**	**7,272**
					209	11	259	479
2,565	**(288)**	**2,159**	**303**	**3,944**	**209**	**(1,112)**	**(29)**	**7,751**
								1,419
								79
								6,253
150,282	44,972	192,517	22,584	1,318,752	9,084	(186,867)	2,655	**1,553,979**
147,476	40,346	186,185	20,912	1,305,025	8,406	(197,442)	5,533	**1,516,441**
173	68	261	18	500	17	420	371	**1,828**

6,797	4,748	5,247	1,737	14,510		20	2,670	35,729
(4)	(8)	(127)	0	(55)		92	0	(102)
6,793	4,740	5,120	1,737	14,455		112	2,670	35,627
1,996	3,555	2,448	835	7,737		785	862	18,218
604	689	1,090	265	2,068		1,166	748	6,630
1,479	415	(609)	156	175		(1,639)	23	0
82	66	88	25	248		811	178	1,498
54	192	0	152	279		0	26	703
21	116	0	1	27		20	8	193
							1,113	1,113
4,236	5,033	3,017	1,434	10,534		1,143	2,958	28,355
2,557	**(293)**	**2,103**	**303**	**3,921**		**(1,031)**	**(288)**	**7,272**
					205	15	259	479
2,557	**(293)**	**2,103**	**303**	**3,921**	**205**	**(1,016)**	**(29)**	**7,751**
								1,419
								79
								6,253

1 Impairments of financial investments for the year ended 31 December 2003 were as follows: Global Wealth Management & Business Banking CHF 19 million; Global Asset Management CHF 2 million; Investment Bank CHF 14 million; Corporate Center CHF 149 million and Industrial Holdings CHF 178 million. 2 For further information regarding goodwill and other intangible assets by Business Group, please see Note 15: Goodwill and Other Intangible Assets. 3 The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

Note 2b Segment Reporting by Geographic Location

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

For the year ended 31 December 2005

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	15,042	29	203,854	10	973	49
Rest of Europe / Middle East / Africa	17,680	35	687,963	33	467	24
Americas	15,293	30	1,006,185	49	386	20
Asia Pacific	2,960	6	162,248	8	139	7
Total	**50,975**	**100**	**2,060,250**	**100**	**1,965**	**100**

For the year ended 31 December 2004

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	13,863	33	193,411	11	1,993	65
Rest of Europe / Middle East / Africa	12,240	29	561,390	32	556	18
Americas	14,048	33	830,350	48	376	12
Asia Pacific	2,260	5	151,967	9	164	5
Total	**42,411**	**100**	**1,737,118**	**100**	**3,089**	**100**

For the year ended 31 December 2003

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	12,294	35	182,225	12	683	37
Rest of Europe / Middle East / Africa	8,373	23	538,305	35	562	31
Americas	13,160	37	739,021	47	530	29
Asia Pacific	1,800	5	94,428	6	53	3
Total	**35,627**	**100**	**1,553,979**	**100**	**1,828**	**100**

Income Statement

Note 3 Net Interest and Trading Income

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

Net interest and trading income

	For the year ended			% change from
CHF million	**31.12.05**	31.12.04	31.12.03	31.12.04
Net interest income	**9,528**	11,744	12,261	(19)
Net trading income	**7,996**	4,902	3,670	63
Total net interest and trading income	**17,524**	16,646	15,931	5

Breakdown by business activity

	For the year ended			% change from
CHF million	**31.12.05**	31.12.04	31.12.03	31.12.04
Equities	**3,928**	3,098	2,445	27
Fixed income	**5,741**	6,264	6,474	(8)
Foreign exchange	**1,458**	1,467	1,436	(1)
Other	**292**	203	258	44
Net income from trading activities	**11,419**	11,032	10,613	4
Net income from interest margin products	**5,355**	5,070	5,000	6
Net income from treasury and other activities	**750**	544	318	38
Total net interest and trading income	**17,524**	16,646	15,931	5

Net interest income

	For the year ended			% change from
CHF million	**31.12.05**	31.12.04	31.12.03	31.12.04
Interest income				
Interest earned on loans and advances	**11,414**	8,907	10,449	28
Interest earned on securities borrowed and reverse repurchase agreements	**23,641**	11,006	11,148	115
Interest and dividend income from financial investments	**86**	38	57	126
Interest and dividend income from trading portfolio	**24,145**	19,277	18,391	25
Total	**59,286**	39,228	40,045	51
Interest expense				
Interest on amounts due to banks and customers	**11,080**	5,475	4,996	102
Interest on securities lent and repurchase agreements	**20,626**	10,014	9,623	106
Interest and dividend expense from trading portfolio	**10,736**	7,993	9,925	34
Interest on financial liabilities designated at fair value	**2,390**	1,168	751	105
Interest on debt issued	**4,926**	2,834	2,489	74
Total	**49,758**	27,484	27,784	81
Net interest income	**9,528**	11,744	12,261	(19)

Note 3 Net Interest and Trading Income (continued)

Interest includes forward points on foreign exchange swaps used to manage short-term interest rate risk on foreign currency loans and deposits.

Net trading income [1]

	For the year ended			% change from
CHF million	**31.12.05**	31.12.04	31.12.03	31.12.04
Equities	**3,900**	2,254	1,660	73
Fixed income [2]	**1,256**	131	369	859
Foreign exchange and other	**2,840**	2,517	1,614	13
Net trading income	**7,996**	4,902	3,670	63

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

Included in the Net trading income table are fair value changes of CHF (4,024) million for the year ended 31 December 2005, CHF (1,203) million for the year ended 31 December 2004, and CHF (115) million for the year ended 31 December 2003 related to financial liabilities designated as held at fair value through profit and loss. For 2005, CHF (4,277) million of the total fair value change was attributable to changes in fair value of embedded derivatives, while CHF 253 million was attributable to changes in LIBOR. For 2004, CHF (801) million of the total fair value change was attributable to changes in fair value of embedded derivatives, while CHF (402) million was attributable to changes in LIBOR. The exposure from embedded derivatives is economically hedged with derivatives whose change in fair value is also reported in Net trading income, offsetting the fair value changes related to financial liabilities designated as held at fair value.

Note 4 Net Fee and Commission Income

	For the year ended			% change from
CHF million	**31.12.05**	31.12.04	31.12.03	31.12.04
Equity underwriting fees	**1,341**	1,417	1,267	(5)
Bond underwriting fees	**1,516**	1,114	1,084	36
Total underwriting fees	**2,857**	2,531	2,351	13
Corporate finance fees	**1,460**	1,078	761	35
Brokerage fees	**6,718**	5,794	5,477	16
Investment fund fees	**4,750**	3,948	3,500	20
Fiduciary fees	**212**	197	216	8
Custodian fees	**1,176**	1,143	1,097	3
Portfolio and other management and advisory fees	**5,310**	4,488	3,718	18
Insurance-related and other fees	**372**	343	356	8
Total securities trading and investment activity fees	**22,855**	19,522	17,476	17
Credit-related fees and commissions	**306**	264	244	16
Commission income from other services	**1,027**	977	1,082	5
Total fee and commission income	**24,188**	20,763	18,802	16
Brokerage fees paid	**1,631**	1,387	1,473	18
Other	**1,121**	870	656	29
Total fee and commission expense	**2,752**	2,257	2,129	22
Net fee and commission income	**21,436**	18,506	16,673	16

Note 5 Other Income

CHF million	For the year ended 31.12.05	31.12.04	31.12.03	% change from 31.12.04
Associates and subsidiaries				
Net gains from disposals of consolidated subsidiaries	**1**	83	168	(99)
Net gains from disposals of investments in associates	**26**	1	2	
Total	**27**	84	170	(68)
Financial investments available-for-sale				
Net gains from disposals	**231**	132	90	75
Impairment charges	**(26)**	(34)	(184)	24
Total	**205**	98	(94)	109
Net income from investments in property [1]	**42**	65	75	(35)
Equity in income of associates	**57**	43	123	33
Net gains / (losses) from investment properties [2]	**12**	11	(42)	9
Other	**218**	277	223	(21)
Total other income from Financial Businesses	**561**	578	455	(3)
Other income from Industrial Holdings	**564**	354	(230)	59
Total other income	**1,125**	932	225	21

1 Includes net rent received from third parties and net operating expenses. 2 Includes unrealized and realized gains / (losses) from investment properties at fair value.

Note 6 Personnel Expenses

CHF million	For the year ended 31.12.05	31.12.04	31.12.03	% change from 31.12.04
Salaries and bonuses	**16,646**	14,807	14,206	12
Contractors	**834**	580	539	44
Insurance and social security contributions	**1,351**	1,069	960	26
Contribution to retirement plans	**736**	670	685	10
Other personnel expenses	**1,482**	1,486	1,828	0
Total personnel expenses	**21,049**	18,612	18,218	13

Note 7 General and Administrative Expenses

CHF million	For the year ended 31.12.05	31.12.04	31.12.03	% change from 31.12.04
Occupancy	**1,276**	1,259	1,300	1
Rent and maintenance of IT and other equipment	**675**	722	748	(7)
Telecommunications and postage	**853**	822	847	4
Administration	**998**	1,036	1,048	(4)
Marketing and public relations	**609**	527	459	16
Travel and entertainment	**777**	639	522	22
Professional fees	**689**	718	599	(4)
Outsourcing of IT and other services	**872**	924	826	(6)
Other	**298**	513	281	(42)
Total general and administrative expenses	**7,047**	7,160	6,630	(2)

Note 8 Earnings per Share (EPS) and Shares Outstanding

	For the year ended			% change from
	31.12.05	31.12.04	31.12.03	31.12.04
Basic earnings (CHF million)				
Net profit attributable to UBS shareholders	**14,029**	8,016	5,904	75
from continuing operations	**9,844**	7,609	5,510	29
from discontinued operations	**4,185**	407	394	928
Diluted earnings (CHF million)				
Net profit attributable to UBS shareholders	**14,029**	8,016	5,904	75
Less: (Profit)/loss on equity derivative contracts	**(22)**	(5)	1	(340)
Net profit attributable to UBS shareholders for diluted EPS	**14,007**	8,011	5,905	75
from continuing operations	**9,845**	7,612	5,511	29
from discontinued operations	**4,162**	399	394	943
Weighted average shares outstanding				
Weighted average shares outstanding	**1,006,993,877**	1,029,918,463	1,086,161,476	(2)
Potentially dilutive ordinary shares resulting from options and warrants outstanding [1]	**41,601,893**	52,042,897	52,639,149	(20)
Weighted average shares outstanding for diluted EPS	**1,048,595,770**	1,081,961,360	1,138,800,625	(3)
Earnings per share (CHF)				
Basic	**13.93**	7.78	5.44	79
from continuing operations	**9.78**	7.39	5.07	32
from discontinued operations	**4.15**	0.39	0.37	964
Diluted	**13.36**	7.40	5.19	81
from continuing operations	**9.39**	7.04	4.84	33
from discontinued operations	**3.97**	0.36	0.35	

1 Total equivalent shares outstanding on options that were not dilutive for the respective periods but could potentially dilute earnings per share in the future were 14,558,875, 18,978,199 and 37,234,538 for the years ended 31 December 2005, 31 December 2004 and 31 December 2003, respectively.

	As at			% change from
	31.12.05	31.12.04	31.12.03	31.12.04
Shares outstanding				
Total ordinary shares issued	**1,088,632,522**	1,126,858,177	1,183,046,764	(3)
Second trading line treasury shares				
2003 program			56,707,000	
2004 program		39,935,094		
2005 program	**33,885,000**			
Other treasury shares	**70,374,874**	84,728,216	80,034,227	(17)
Total treasury shares	**104,259,874**	124,663,310	136,741,227	(16)
Shares outstanding	**984,372,648**	1,002,194,867	1,046,305,537	(2)

Balance Sheet: Assets

Note 9a Due from Banks and Loans

By type of exposure

CHF million	31.12.05	31.12.04
Banks [1]	33,689	35,675
Allowance for credit losses	(45)	(256)
Net due from banks	33,644	35,419
Loans [1]		
Residential mortgages	127,990	117,731
Commercial mortgages	18,509	18,950
Other loans	125,081	97,777
Subtotal	271,580	234,458
Allowance for credit losses	(1,611)	(2,291)
Net loans	269,969	232,167
Net due from banks and loans	303,613	267,586

1 Includes Due from banks and loans from Industrial Holdings in the amount of CHF 728 million and 909 million for 2005 and 2004, respectively.

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

CHF million	31.12.05	31.12.04
Switzerland	158,465	152,130
Rest of Europe / Middle East / Africa	50,669	45,840
Americas	83,514	61,751
Asia Pacific	12,621	10,412
Subtotal	305,269	270,133
Allowance for credit losses	(1,656)	(2,547)
Net due from banks and loans	303,613	267,586

By type of collateral

CHF million	31.12.05	31.12.04
Secured by real estate	148,412	138,692
Collateralized by securities	45,393	38,872
Guarantees and other collateral	24,338	18,973
Unsecured	87,126	73,596
Subtotal	305,269	270,133
Allowance for credit losses	(1,656)	(2,547)
Net due from banks and loans	303,613	267,586

Note 9b Allowances and Provisions for Credit Losses

CHF million	Specific allowances and provisions	Collective loan loss provision	Total 31.12.05	Total 31.12.04
Balance at the beginning of the year	2,641	161	2,802	3,775
Write-offs	(647)	(4)	(651)	(856)
Recoveries	63	0	63	59
Increase / (decrease) in credit loss allowance and provision	(298)	(76)	(374)[2]	(241)
Disposal of subsidiaries	(61)	0	(61)	0
Foreign currency translation and other adjustments	(8)	5	(3)	65
Balance at the end of the year [1]	1,690	86	1,776	2,802

CHF million	31.12.05	31.12.04
As a reduction of Due from banks	45	256
As a reduction of Loans	1,611	2,291
As a reduction of other balance sheet positions	11	41
Subtotal	1,667	2,588
Included in Other liabilities related to provisions for contingent claims	109	214
Total allowances and provisions for credit losses	1,776	2,802

1 Includes country provisions of CHF 65 million and CHF 183 million at 31 December 2005 and 31 December 2004, respectively. 2 Credit loss expense of CHF 1 million relates to discontinued operations.

Note 9c Impaired Due from Banks and Loans

CHF million	31.12.05	31.12.04
Total gross impaired due from banks and loans [1,2]	3,434	4,699
Allowance for impaired due from banks	32	239
Allowance for impaired loans	1,561	2,185
Total allowances for credit losses related to impaired due from banks and loans	1,593	2,424
Average total gross impaired due from banks and loans [3]	4,089	5,858

1 All impaired due from banks and loans have a specific allowance for credit losses. 2 Interest income on impaired due from banks and loans was CHF 123 million for 2005, CHF 172 million for 2004 and CHF 279 million for 2003. 3 Average balances were calculated from quarterly data.

CHF million	31.12.05	31.12.04
Total gross impaired due from banks and loans	3,434	4,699
Estimated liquidation proceeds of collateral	(1,366)	(1,758)
Net impaired due from banks and loans	2,068	2,941
Total allowances for credit losses related to impaired due from banks and loans	1,593	2,424

Note 9d Non-Performing Due from Banks and Loans

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

Note 9d Non-Performing Due from Banks and Loans (continued)

CHF million	31.12.05	31.12.04
Total gross non-performing due from banks and loans	2,363	3,555
Total allowances for credit losses related to non-performing due from banks and loans	1,393	2,183
Average total gross non-performing due from banks and loans [1]	3,082	4,197

1 Average balances are calculated from quarterly data.

CHF million	31.12.05	31.12.04
Non-performing due from banks and loans at the beginning of the year	3,555	4,758
Net additions / (reductions)	(515)	(496)
Write-offs and disposals	(677)	(707)
Non-performing due from banks and loans at the end of the year	2,363	3,555

By type of exposure

CHF million	31.12.05	31.12.04
Banks	27	242
Loans		
Mortgages	621	1,011
Other	1,715	2,302
Total loans	2,336	3,313
Total non-performing due from banks and loans	2,363	3,555

By geographical region (based on the location of borrower)

CHF million	31.12.05	31.12.04
Switzerland	2,106	2,772
Rest of Europe / Middle East / Africa	155	466
Americas	94	220
Asia Pacific	8	97
Total non-performing due from banks and loans	2,363	3,555

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

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

Balance sheet assets

CHF million	Cash collateral on securities borrowed 31.12.05	Reverse repurchase agreements 31.12.05	Cash collateral on securities borrowed 31.12.04	Reverse repurchase agreements 31.12.04
By counterparty				
Banks	236,286	259,608	167,567	243,890
Customers	64,045	144,824	52,675	113,274
Total	300,331	404,432	220,242	357,164

Balance sheet liabilities

CHF million	Cash collateral on securities lent 31.12.05	Repurchase agreements 31.12.05	Cash collateral on securities lent 31.12.04	Repurchase agreements 31.12.04
By counterparty				
Banks	46,766	278,287	40,580	252,151
Customers	30,501	200,221	20,965	170,436
Total	77,267	478,508	61,545	422,587

Note 11 Trading Portfolio

The Group trades in debt instruments (including money market paper and tradeable loans), equity instruments, precious metals, commodities and derivatives to meet the financial needs of its customers and to generate revenue. Note 22 provides a description of the various classes of derivatives together with the related notional amounts.

CHF million	31.12.05	31.12.04
Trading portfolio assets		
Money market paper	57,685	44,956
thereof pledged as collateral with central banks	*11,717*	*4,706*
thereof pledged as collateral (excluding central banks)	*16,307*	*17,869*
thereof pledged as collateral and can be repledged or resold by counterparty	*11,563*	*12,580*
Debt instruments		
Swiss government and government agencies	589	776
US Treasury and government agencies	77,569	92,330
Other government agencies	64,823	80,539
Corporate listed	169,841	144,684
Other unlisted	74,253	35,650
Total	387,075	353,979
thereof pledged as collateral	*146,035*	*147,525*
thereof can be repledged or resold by counterparty	*110,857*	*120,317*
Equity instruments		
Listed	139,101	103,924
Unlisted	20,958	18,516
Total	160,059	122,440
thereof pledged as collateral	*33,559*	*27,140*
thereof can be repledged or resold by counterparty	*32,339*	*26,218*
Traded loans	*36,212*	16,077
Precious metals, commodities [1]	13,025	11,150
Total trading portfolio assets	654,056	548,602
Trading portfolio liabilities		
Debt instruments		
Swiss government and government agencies	407	511
US Treasury and government agencies	74,758	54,848
Other government agencies	52,833	49,512
Corporate listed	19,885	27,413
Other unlisted	1,224	2,600
Total	149,107	134,884
Equity instruments	39,524	36,149
Total trading portfolio liabilities	188,631	171,033

1 Commodities predominantly consist of energy.

Note 12 Financial Investments (available-for-sale)

CHF million	31.12.05	31.12.04
Money market paper	141	567
Other debt instruments		
Listed	587	261
Unlisted	91	28
Total	678	289
Equity instruments		
Listed	2,548	504
Unlisted	1,738	689
Total	4,286	1,193
Private equity investments	1,446	2,139
Total financial investments	6,551	4,188
thereof eligible for discount at central banks	*40*	*86*

The following tables show the unrealized gains and losses not recognized in the income statement for the years ended 2005 and 2004:

		Unrealized gains / losses not recognized in the income statement				
CHF million	Fair value	Gross gains	Gross losses	Net, before tax	Tax effect	Net, after tax
31 December 2005						
Money market paper	141	0	0	0	0	0
Debt securities issued by Swiss national government and agencies	3	0	0	0	0	0
Debt securities issued by Swiss local governments	0	0	0	0	0	0
Debt securities issued by US Treasury and agencies	64	0	(1)	(1)	0	(1)
Debt securities issued by foreign governments and official institutions	47	0	0	0	0	0
Corporate debt securities	421	7	(11)	(4)	0	(4)
Mortgage-backed securities	143	0	(3)	(3)	0	(3)
Other debt securities	0	0	0	0	0	0
Equity investments	4,286	738	(16)	722	(133)	589
Private equity investments	1,446	405	(15)	390	(31)	359
Total	**6,551**	**1,150**	**(46)**	**1,104**	**(164)**	**940**

		Unrealized gains / losses not recognized in the income statement				
CHF million	Fair value	Gross gains	Gross losses	Net, before tax	Tax effect	Net, after tax
31 December 2004						
Money market paper	567	0	0	0	0	0
Debt securities issued by Swiss national government and agencies	10	1	0	1	0	1
Debt securities issued by Swiss local governments	20	1	0	1	0	1
Debt securities issued by US Treasury and agencies	0	0	0	0	0	0
Debt securities issued by foreign governments and official institutions	40	0	0	0	0	0
Corporate debt securities	147	7	(4)	3	0	3
Mortgage-backed securities	72	0	0	0	0	0
Other debt securities	0	0	0	0	0	0
Equity investments	1,193	455	(5)	450	(83)	367
Private equity investments	2,139	577	(22)	555	(88)	467
Total	**4,188**	**1,041**	**(31)**	**1,010**	**(171)**	**839**

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

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

The following table shows the duration of unrealized losses not recognized in the income statement for the year ended 2005:

	Fair value			Unrealized losses		
CHF million	Investments with unrealized loss less than 12 months	Investments with unrealized loss more than 12 months	Total	Investments with unrealized loss less than 12 months	Investments with unrealized loss more than 12 months	Total
31 December 2005						
Money market paper	0	0	0	0	0	0
Debt securities issued by the Swiss national government and agencies	0	0	0	0	0	0
Debt securities issued by Swiss local governments	0	0	0	0	0	0
Debt securities issued by US Treasury and agencies	55	0	55	(1)	0	(1)
Debt securities issued by foreign governments and official institutions	0	0	0	0	0	0
Corporate debt securities	272	0	272	(11)	0	(11)
Mortgage-backed securities	0	143	143	0	(3)	(3)
Other debt securities	0	0	0	0	0	0
Equity investments	2,032	16	2,048	(13)	(3)	(16)
Private equity investments	117	34	151	(10)	(5)	(15)
Total	**2,476**	**193**	**2,669**	**(35)**	**(11)**	**(46)**

Contractual maturities of the investments in debt instruments[1]

	Within 1 year		1–5 years		5–10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2005								
Swiss national government and agencies	0	0.00	2	4.36	0	0.00	1	4.00
Swiss local governments	0	0.00	0	0.00	0	0.00	0	0.00
US Treasury and agencies	0	0.00	42	5.51	10	5.77	12	6.03
Foreign governments and official institutions	38	1.91	2	1.90	5	5.64	2	6.17
Corporate debt securities	13	3.20	239	4.25	66	5.38	103	5.66
Mortgage-backed securities	0	0.00	0	0.00	14	3.92	129	4.80
Other debt securities	0	0.00	0	0.00	0	0.00	0	0.00
Total fair value	**51**		**285**		**95**		**247**	

1 Money market paper has a contractual maturity of less than one year.

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

CHF million	**31.12.05**	31.12.04
Proceeds	**298**	277
Gross realized gains	**60**	58
Gross realized losses	**1**	45

Note 13 Investments in Associates

CHF million	**31.12.05**	31.12.04
Carrying amount at the beginning of the year	**2,675**	2,009
Additions	**938**	1,919[1]
Disposals	**(935)**	(823)
Transfers	**(13)**	(378)
Income[2]	**152**	67
Dividend paid	**(59)**	(42)
Foreign currency translation	**198**	(77)
Carrying amount at the end of the year	**2,956**	**2,675**

1 Additions of CHF 1,022 million due to the consolidation of Motor-Columbus. 2 Income of CHF 95 million and CHF 24 million is related to Industrial Holdings for 2005 and 2004, respectively.

Note 14 Property and Equipment

At historical cost less accumulated depreciation

CHF million	Own-used properties	Leasehold improvements	IT, software and communication	Other machines and equipment	Plant and manufacturing equipment	Projects in progress	**31.12.05**	31.12.04
Historical cost								
Balance at the beginning of the year	9,752	2,592	3,979	1,835	3,031	239	**21,428**	20,346
Additions	178	132	841	194	127	393	**1,865**	1,462
Additions from acquired companies	3	1	2	0	110	0	**116**	2,093
Disposals / write-offs[1]	(490)	(98)	(880)	(393)	(494)	(8)	**(2,363)**	(2,020)
Reclassifications	(26)	232	108	(118)	71	(217)	**50**	(186)
Foreign currency translation	29	191	211	78	59	6	**574**	(267)
Balance at the end of the year	9,446	3,050	4,261	1,596	2,904	413	**21,670**	21,428
Accumulated depreciation								
Balance at the beginning of the year	4,701	1,659	3,375	1,503	760	0	**11,998**	11,867
Depreciation[2]	276	216	716	115	233	0	**1,556**	1,576
Disposals / write-offs[1]	(158)	(61)	(811)	(318)	(354)	0	**(1,702)**	(1,182)
Reclassifications	(42)	71	0	3	0	0	**32**	(43)
Foreign currency translation	4	114	194	46	33	0	**391**	(220)
Balance at the end of the year	4,781	1,999	3,474	1,349	672	0	**12,275**	11,998
Net book value at the end of the year[3]	4,665	1,051	787	247	2,232	413	**9,395**	9,430

1 Includes write-offs of fully depreciated assets. 2 Depreciation expense of CHF 63 million and CHF 99 millon is related to Discontinued operations for 2005 and 2004 respectively. 3 Fire insurance value of property and equipment is CHF 16,050 million (2004: CHF 16,031 million).

At fair value

CHF million	Investment properties	Projects in progress	**31.12.05**	31.12.04
Balance at the beginning of the year	41	39	**80**	236
Additions	26	0	**26**	91
Additions from acquired companies	0	0	**0**	1
Sales	(25)	0	**(25)**	(241)
Reclassifications	(16)	(39)	**(55)**	0
Foreign currency translation	2	0	**2**	(7)
Balance at the end of the year	28	0	**28**	80

Note 15 Goodwill and Other Intangible Assets

Six out of eight segments carry goodwill, of which Industrial Holdings and Private Banks & GAM (at 31 December 2004 only) each have less than 5% of the total balance. Business Banking Switzerland and Corporate Functions carry no goodwill. For the purpose of testing goodwill for impairment, UBS determines the recoverable amount of its segments on the basis of value in use. The recoverable amount is determined using a proprietary model based on the discounted cash flow method, which has been adapted to give effect to the special features of the banking business and its regulatory environment. The recoverable amount is determined by estimating streams of earnings available to shareholders in the next four quarters based on a rolling forecast process, discounted to their presented values. The terminal value reflecting the second and subsequent years is calculated using the first-year profit multiplied by the individual price-earnings multiple per segment, and discounted to present value. The recoverable amount of the segments is the sum of earnings available to shareholders in the first year and the terminal value.

The model is most sensitive to changes in the estimated earnings available to shareholders in year one and to the price-earnings multiple. Earnings available to shareholders are estimated based on forecast results, business initiatives and planned capital investments and returns to shareholders. Price-earnings multiples are determined internally, taking into account the forecast return on equity, the cost of equity and the long-term growth rate. Applied values are also validated against UBS's most recent share price development to ensure that the applied values are reasonably in line with market development. Discount rates applied range from 8.5% for Wealth Management International & Switzerland and Wealth Management US to 10.5% for Investment Bank.

Management believes that reasonable changes in key assumptions used to determine the recoverable amounts of segments will not result in an impairment situation.

	Goodwill	Other intangible assets				
CHF million	Total	Infrastructure	Customer relationships, contractual rights and other	Total	**31.12.05**	31.12.04
Historical cost						
Balance at the beginning of the year	8,865	880	3,351	4,231	**13,096**	15,741
Additions and reallocations	1,518	0	(1,426)	(1,426)	**92**	2,503
Disposals	(354)	0	(41)	(41)	**(395)**	(407)
Write-offs [1]	0	0	(112)	(112)	**(112)**	(524)
Foreign currency translation	1,284	136	284	420	**1,704**	(1,203)
Balance at the end of the year	11,313	1,016	2,056	3,072	**14,385**	16,110
Accumulated amortization [2]						
Balance at the beginning of the year		184	711	895	**895**	3,872
Amortization [3]		49	291	340	**340**	1,066
Reallocations		0	(307)	(307)	**(307)**	0
Disposals		0	(30)	(30)	**(30)**	(188)
Write-offs [1]		0	(112)	(112)	**(112)**	(524)
Foreign currency translation		30	83	113	**113**	(317)
Balance at the end of the year		263	636	899	**899**	3,909
Net book value at the end of the year	11,313	753	1,420	2,173	**13,486**	12,201

1 Represents write-offs of fully amortized other intangible assets. 2 Goodwill amortization ceased to be recorded on 1 January 2005 due to the adoption of IFRS 3, Business Combinations. The standard requires that accumulated goodwill amortization be netted against the historical cost. 3 In 2005, amortization expense of CHF 6 million for other intangible assets relates to discontinued operations, in 2004, amortization expense of CHF 69 million for goodwill and CHF 7 million for other intangible assets is related to discontinued operations.

Note 15 Goodwill and Other Intangible Assets (continued)

The following table presents the disclosure of goodwill and other intangible assets by business segment for the year ended 31 December 2005.

CHF million	Balance at the beginning of the year	Additions and reallocations	Disposals	Amortization	Foreign currency translation	Balance at the end of the year
Goodwill						
Wealth Management International & Switzerland	1,176	263	0	0	127	1,566
Wealth Management US	2,472	996	0	0	373	3,841
Business Banking Switzerland	0	0	0	0	0	0
Global Asset Management	1,189	57	0	0	192	1,438
Investment Bank	3,579	184	0	0	546	4,309
Private Banks & GAM	311	0	(353)	0	42	0
Corporate Functions	0	0	0	0	0	0
Industrial Holdings	138	18	(1)	0	4	159
UBS	**8,865**	**1,518**	**(354)**	**0**	**1,284**	**11,313**
Other intangible assets						
Wealth Management International & Switzerland	159	(15)	0	(7)	4	141
Wealth Management US	1,560	(996)	0	(49)	238	753
Business Banking Switzerland	0	0	0	0	0	0
Global Asset Management	0	10	0	(1)	(1)	8
Investment Bank	418	(132)	0	(53)	63	296
Private Banks & GAM	14	0	(9)	(5)	0	0
Corporate Functions	24	0	0	(18)	3	9
Industrial Holdings	1,161	14	(2)	(207)	0	966
UBS	**3,336**	**(1,119)**	**(11)**	**(340)**	**307**	**2,173**

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

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

CHF million	Other intangible assets
Estimated, aggregated amortization expenses for:	
2006	297
2007	283
2008	269
2009	238
2010	219
2011 and thereafter	867
Total	2,173

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

Note 16 Other Assets

CHF million	Note	**31.12.05**	31.12.04
Deferred tax assets	21	**2,758**	2,554
Settlement and clearing accounts		**3,528**	4,747
VAT and other tax receivables		**312**	358
Prepaid pension costs		**832**	804
Properties held for resale		**578**	535
Accounts receivable trade		**364**	387
Inventory – Industrial Holdings		**2,007**	2,045
Other receivables		**5,811**	5,945
Total other assets		**16,190**	17,375

Balance Sheet: Liabilities

Note 17 Due to Banks and Customers

CHF million	**31.12.05**	31.12.04
Due to banks	**124,328**	120,026
Due to customers in savings and investment accounts	**113,889**	101,081
Other amounts due to customers	**337,644**	274,995
Total due to customers	**451,533**	376,076
Total due to banks and customers	**575,861**	496,102

Note 18 Financial Liabilities Designated at Fair Value and Debt Issued

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

Subordinated debt securities are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group. At 31 December 2005 and 31 December 2004, the Group had CHF 10,001 million and CHF 8,605 million, respectively, in subordinated debt. Subordinated debt usually pays interest annually and provides for single principal payments upon maturity.

At 31 December 2005 and 31 December 2004, the Group had CHF 157,771 million and CHF 91,455 million, respectively, in unsubordinated debt (excluding money market paper). Equity Linked Notes, a class of compound instruments issued by UBS totalling approximately CHF 39 billion, had to be reclassified in the balance sheet from negative replacement values to financial liabilities designated at fair value during 2005.

The Group issues debt with returns linked to equity, interest rates, foreign exchange and credit instruments or indices. As described in Note 1n), most of these debt instruments have been designated as held at fair value through profit and loss and are presented in a separate line in the balance sheet. At 31 December 2005 and 31 December 2004, the Group had CHF 0 million and CHF 148 million, respectively, in bonds with attached warrants on UBS shares outstanding. All warrants related to those bonds issued in prior years have expired.

In addition, the Group uses interest rate and foreign exchange derivatives to manage the risks inherent in certain debt issues (held at amortized cost). In the case of interest rate risk management, the Group applies hedge accounting as discussed in Note 1o) and Note 22 – Derivative Instruments. As a result of applying hedge accounting, at 31 December 2005 and 31 December 2004, the carrying value of debt issued was CHF 294 million higher and CHF 349 million higher, respectively, reflecting changes in fair value due to interest rate movements.

The contractual redemption amount at maturity of financial liabilities designated at fair value approximates the carrying value at 31 December 2005 and 31 December 2004.

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

Financial liabilities designated at fair value

CHF million	31.12.05	31.12.04
Bonds and compound debt instruments issued	109,724	61,646
Compound debt instruments – OTC	7,677	4,110
Total	117,401	65,756

Debt issued (held at amortized cost)

CHF million	31.12.05	31.12.04
Short-term debt: Money market paper issued	102,662	79,442
Long-term debt:		
Bonds		
Senior	46,545	28,063
Subordinated	10,001	8,605
Shares in bond issues of the Swiss regional or cantonal banks' central bond institutions	38	60
Medium-term notes	1,464	1,686
Subtotal long-term debt	58,048	38,414
Total	160,710	117,856

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

Contractual maturity dates

CHF million, except where indicated	2006	2007	2008	2009	2010	2011–2015	Thereafter	Total 31.12.05	Total 31.12.04
UBS AG (Parent Bank)									
Senior debt									
Fixed rate	90,714	8,597	5,982	7,988	6,754	7,687	782	128,504	69,413
Interest rates (range in %)	0–16.5	0–12.25	0–20	0–13.5	0–19.4	0–12	0–10		
Floating rate	9,296	560	32	226	386	1,176	13,624	25,300	22,585
Subordinated debt									
Fixed rate	1,637	1,385	0	518	0	3,112	1,006	7,658	8,247
Interest rates (range in %)	4.25–7.25	5.75–8	0	5.875	0	2.375–7.375	7.247–8.75		
Floating rate	0	0	0	0	0	1,931	395	2,326	342
Subtotal	101,647	10,542	6,014	8,732	7,140	13,906	15,807	163,788	100,587
Subsidiaries									
Senior debt									
Fixed rate	53,878	960	5,955	7,688	3,420	4,180	17,251	93,332	71,018
Interest rates (range in %)	0–10	0–10	0–10	0–18.5	0–10	0–35	0–35		
Floating rate	263	678	1,499	1,367	1,182	3,804	4,504	13,297	7,881
Subordinated debt									
Fixed rate	0	0	0	0	0	0	17	17	16
Interest rates (range in %)							9		
Floating rate	0	0	0	0	0	0	0	0	0
Subtotal	54,141	1,638	7,454	9,055	4,602	7,984	21,772	106,646	78,915
Total	155,788	12,180	13,468	17,787	11,742	21,890	37,579	270,434	179,502

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

Note 19 Other Liabilities

CHF million	Note	31.12.05	31.12.04
Provisions	20	**2,072**	2,020
Provisions for contingent claims	9b	**109**	214
Current tax liabilities		**3,592**	2,318
Deferred tax liabilities	21	**2,633**	3,146
VAT and other tax payables		**712**	520
Settlement and clearing accounts		**2,707**	2,185
Amounts due under unit-linked investment contracts		**30,224**	22,057
Accounts payable		**1,425**	1,597
Other payables		**10,400**	10,063
Total other liabilities		**53,874**	44,120

Note 20 Provisions

CHF million	Operational	Litigation	Other[1]	Total 31.12.05	Total 31.12.04
Balance at the beginning of the year	299	485	1,236	**2,020**	1,490
Additions from acquired companies	0	0	1	**1**	700
New provisions charged to income	117	317	86	**520**	587
Capitalized reinstatement costs	0	0	3	**3**	66
Recoveries	3	17	5	**25**	34
Provisions applied	(102)	(269)	(217)	**(588)**	(772)
Disposal of subsidaries	(4)	(7)	0	**(11)**	(11)
Foreign currency translation	21	49	32	**102**	(74)
Balance at the end of the year	334	592	1,146	**2,072**	2,020

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

Note 21 Income Taxes

	For the year ended		
CHF million	**31.12.05**	31.12.04	31.12.03
Tax expense from continuing operations			
Domestic			
Current	**1,490**	1,225	795
Deferred	**64**	13	99
Foreign			
Current	**1,441**	828	264
Deferred	**(446)**	158	261
Total income tax expense from continuing operations	**2,549**	2,224	1,419
Tax expense from discontinued operations			
Domestic	**489**	108	66
Foreign	**9**	21	13
Total income tax expense from discontinued operations	**498**	129	79
Total income tax expense	**3,047**	2,353	1,498

The Group made net tax payments, including domestic and foreign taxes, of CHF 2,394 million, CHF 1,345 million and CHF 1,117 million for the full years of 2005, 2004 and 2003 respectively.

Note 21 Income Taxes (continued)

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

	For the year ended		
CHF million	**31.12.05**	31.12.04	31.12.03
Operating profit from continuing operations before tax	**13,049**	10,287	7,272
Domestic	**6,241**	5,882	4,996
Foreign	**6,808**	4,405	2,276
Income taxes at Swiss statutory rate of 22% for 2005 and 24% for 2004 and 2003	**2,871**	2,469	1,745
Increase / (decrease) resulting from:			
Applicable tax rates differing from Swiss statutory rate	**436**	137	(233)
Tax losses not recognized	**75**	103	85
Previously unrecorded tax losses now recognized	**(100)**	(249)	(291)
Lower taxed income	**(603)**	(660)	(366)
Non-deductible goodwill and other intangible asset amortization	**22**	262	386
Other non-deductible expenses	**223**	219	186
Adjustments related to prior years and other	**(219)**	(296)	(191)
Change in deferred tax valuation allowance	**(156)**	239	98
Income tax expense from continuing operations	**2,549**	2,224	1,419

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

CHF million	**31.12.05**	31.12.04
Deferred tax assets		
Compensation and benefits	**1,851**	1,582
Net operating loss carry-forwards	**2,235**	2,251
Trading assets	**586**	483
Other	**804**	906
Total	**5,476**	5,222
Valuation allowance	**(2,718)**	(2,668)
Net deferred tax assets	**2,758**	2,554
Deferred tax liabilities		
Compensation and benefits	**55**	119
Property and equipment	**515**	542
Investments	**468**	343
Provisions	**0**	313
Trading assets	**448**	408
Intangible assets	**264**	272
Other	**883**	1,149
Total deferred tax liabilities	**2,633**	3,146

The change in the balance of net deferred tax assets and deferred tax liabilities does not equal the deferred tax expense in those years. This is mainly due to the impact of the effects of foreign currency rate changes on tax assets and liabilities denominated in currencies other than CHF, as well as the booking of some of the tax benefits related to deferred compensation through Equity. In 2004, the acquisition of Motor-Columbus also had a significant impact.

Note 21 Income Taxes (continued)

Certain foreign branches and subsidiaries of the Group have deferred tax assets related to net operating loss carry-forwards and other items. Because realization of these assets is uncertain, the Group has established valuation allowances of CHF 2,718 million (CHF 2,668 million at 31 December 2004). For companies that suffered tax losses in either the current or preceding year, an amount of CHF 442 million (CHF 436 million at 31 December 2004) has been recognized as deferred tax assets based on expectations that sufficient taxable income will be generated in future years to utilize the tax loss carry-forwards.

The Group provides deferred income taxes on undistributed earnings of non-Swiss subsidiaries except to the extent that such earnings are indefinitely invested. In the event these earnings were distributed, additional taxes of approximately CHF 20 million would be due.

At 31 December 2005 net operating loss carry-forwards totaling CHF 5,553 million (not recognized as a deferred tax asset) are available to reduce taxable income of certain branches and subsidiaries.

The carry forwards expire as follows:	31.12.05
Within 1 year	8
From 2 to 4 years	211
After 4 years	5,334
Total	**5,553**

Note 22 Derivative Instruments

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

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

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

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

Types of derivative instruments

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

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

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

- Interest rate swap contracts generally entail the contractual exchange of fixed-rate and floating-rate interest payments in a single currency, based on a notional amount and a reference interest rate, e.g. LIBOR.
- Cross currency swaps involve the exchange of interest payments based on two different currency principal balances and reference interest rates and generally also entail exchange of principal amounts at the start and/or end of the contract.
- Credit default swaps (CDSs) are the most common form of credit derivative, under which the party buying protection makes one or more payments to the party selling pro-

Note 22 Derivative Instruments (continued)

tection in exchange for an undertaking by the seller to make a payment to the buyer following a credit event (as defined in the contract) with respect to a third-party credit entity (as defined in the contract). Settlement following a credit event may be a net cash amount or cash in return for physical delivery of one or more obligations of the credit entity and is made regardless of whether the protection buyer has actually suffered a loss. After a credit event and settlement, the contract is terminated.

– Total rate of return swaps give the total return receiver exposure to all of the cash flows and economic benefits and risks of an underlying asset, without having to own the asset, in exchange for a series of payments, often based on a reference interest rate, e.g. LIBOR. The total return payer has an equal and opposite position.

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

Derivatives transacted for trading purposes

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

Derivatives transacted for hedging purposes

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

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

The Group also enters into CDSs that provide economic hedges for credit risk exposures in the loan and traded product portfolios but do not meet the requirements for hedge accounting treatment.

Starting in fourth quarter 2005, the Group also entered into interest rate swaps for day-to-day economic interest rate risk management purposes, but without applying hedge accounting. The fair value changes of such swaps are booked to Net trading income. The Group is limiting the resultant income volatility by selecting short-term to medium term swaps only. Longer term swaps continue to be supported by the cash flow hedging model explained below.

Fair value hedges

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. For the year ended 31 December 2005, the Group recognized a net loss of CHF 22 million and in 2004 a net gain of CHF 22 million, representing the ineffective portions, as defined in Note 1o), of fair value hedges. The fair values of outstanding derivatives designated as fair value hedges were a CHF 380 million net positive replacement value at 31 December 2005 and a CHF 438 million net positive replacement value at 31 December 2004.

Fair value hedge of portfolio of interest rate risk

The Group has decided to apply the new hedge method introduced by IFRS to a specific portfolio of mortgage loans from the end of September 2005. In the months of November and December, the hedge relations were ineffective, and the hedges have therefore been de-designated. The Group recognized a net loss of CHF 1 million as hedge ineffectiveness on the hedges in fourth quarter 2005. The change in fair value of the hedged items up to the point of de-designation of the hedges is recorded separately from the hedged item on the balance sheet and is amortized to Interest income or expense as applicable over the remaining life of the de-designated hedge contracts. A CHF 0.4 million gain was recorded in Interest income as a result of such amortization in fourth quarter 2005. There were no derivative contracts designated as hedges under this hedge method at 31 December 2005.

Cash flow hedges of forecast transactions

The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected

Note 22 Derivative Instruments (continued)

for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying the non-trading interest rate risk of the Group, which is hedged with interest rate swaps, the maximum maturity of which is 22 years.

The schedule of forecast principal balances on which the expected interest cash flows arise as at 31 December 2005 is shown below.

CHF billion	< 1 year	1–3 years	3–5 years	5–10 years	over 10 years
Cash inflows (assets)	212	391	270	263	8
Cash outflows (liabilities)	93	117	28	182	60
Net cash flows	**119**	**274**	**242**	**81**	**(52)**

Gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions are initially recorded in Shareholders' equity as gains/losses not recognized in the income statement and are transferred to current period earnings when the forecast cash flows affect net profit or loss. The gains and losses on ineffective portions of such derivatives are recognized immediately in the income statement. A CHF 35 million gain and a CHF 13 million gain were recognized in 2005 and 2004, respectively, due to hedge ineffectiveness.

As at 31 December 2005 and 2004, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were a CHF 1,124 million net negative replacement value and a CHF 818 million net negative replacement value, respectively. Swiss franc hedging interest rate swaps terminated during 2005 had a positive replacement value of CHF 80 million, but no interest rate swaps designated as cash flow hedges were terminated during 2004. At the end of 2005, unrecognized income of CHF 346 million associated with these swaps has remained deferred in Equity. It will be removed from equity when the hedged cash flows have an impact on net profit or loss. Amounts reclassified from Realized gains/losses not recognized in the income statement to current period earnings due to discontinuation of hedge accounting were a CHF 243 million net gain in 2005 and a CHF 304 million net gain in 2004. These amounts were recorded in Net interest income.

Risks of derivative instruments

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is managed and controlled as an integral part of the market risk of these portfolios. The Group's approach to market risk is described in Note 28, Financial Instruments Risk Position, part a) Market risk.

Derivative instruments are transacted with many different counterparties, most of whom are also counterparties for other types of business. The credit risk of derivatives is managed and controlled in the context of the Group's overall credit exposure to each counterparty. The Group's approach to credit risk is described in Note 28, Financial Instruments Risk Position, part b) Credit risk. It should be noted that, although the positive replacement values shown on the balance sheet can be an important component of the Group's credit exposure, the positive replacement values for any one counterparty are rarely an adequate reflection of the Group's credit exposure on its derivatives business with that counterparty. This is because, on the one hand, replacement values can increase over time ("potential future exposure"), while on the other hand, exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements with counterparties. Both the exposure measures used by the Group internally to control credit risk and the capital requirements imposed by regulators reflect these additional factors. In Note 28, part b) Credit risk, the Derivatives positive replacement values shown under Traded products, and in Note 28 part d) Capital adequacy, the Positive replacement values shown under Balance sheet assets are lower than those shown in the balance sheet and in the tables on the next two pages because they reflect legally enforceable close-out netting arrangements. Conversely, there are additional capital requirements shown in Note 28 part d) Capital adequacy under Off-balance sheet and other positions as Forward and swap contracts and Purchased options, which reflect the additional potential future exposure.

Note 22 Derivative Instruments (continued)

As at 31 December 2005	Term to maturity										Total notional amount
	Within 3 months		3–12 months		1–5 years		Over 5 years		Total	Total	
CHF million	PRV[1]	NRV[2]	PRV	NRV	PRV	NRV	PRV	NRV	PRV	NRV	CHF bn
Interest rate contracts											
Over-the-counter (OTC) contracts											
Forward contracts	652	607	154	96	97	32	86	179	989	914	1,345.7
Swaps	5,953	4,701	12,630	13,156	77,445	75,523	105,029	101,256	201,057	194,636	15,680.4
Options	832	690	1,750	2,163	9,600	10,701	6,738	9,247	18,920	22,801	1,273.1
Exchange-traded contracts[3]											
Futures											2,418.3
Options	59	55	118	123	6	6			183	184	26.6
Total	**7,496**	**6,053**	**14,652**	**15,538**	**87,148**	**86,262**	**111,853**	**110,682**	**221,149**	**218,535**	**20,744.1**
Credit derivative contracts											
Over-the-counter (OTC) contracts											
Credit default swaps	13	21	290	195	7,911	10,691	4,247	2,472	12,461	13,379	1,481.0
Total rate of return swaps	50	74	30	143	757	778	713	820	1,550	1,815	44.4
Total	**63**	**95**	**320**	**338**	**8,668**	**11,469**	**4,960**	**3,292**	**14,011**	**15,194**	**1,525.4**
Foreign exchange contracts											
Over-the-counter (OTC) contracts											
Forward contracts	2,905	2,470	962	806	643	499	54	96	4,564	3,871	502.9
Interest and currency swaps	20,162	22,092	10,239	9,256	12,102	12,252	5,875	6,242	48,378	49,842	3,592.6
Options	1,910	1,800	1,855	1,600	386	637	5	2	4,156	4,039	659.6
Exchange-traded contracts[3]											
Futures											4.7
Options	6	6	1	1					7	7	0.1
Total	**24,983**	**26,368**	**13,057**	**11,663**	**13,131**	**13,388**	**5,934**	**6,340**	**57,105**	**57,759**	**4,759.9**
Precious metals contracts											
Over-the-counter (OTC) contracts											
Forward contracts	444	365	407	366	558	284	85	91	1,494	1,106	17.4
Options	276	431	607	521	1,128	1,050	99	55	2,110	2,057	56.9
Exchange-traded contracts[3]											
Futures											1.6
Options	1,179	1,143	1,498	1,512	1,288	1,312			3,965	3,967	4.4
Total	**1,899**	**1,939**	**2,512**	**2,399**	**2,974**	**2,646**	**184**	**146**	**7,569**	**7,130**	**80.3**
Equity / index contracts											
Over-the-counter (OTC) contracts											
Forward contracts	859	627	747	769	1,410	499	2	13	3,018	1,908	101.8
Options	270	1,058	3,017	4,621	7,154	8,635	2,237	4,487	12,678	18,801	204.7
Exchange-traded contracts[3]											
Futures											59.5
Options	1,997	1,827	2,396	2,473	3,787	4,277	178	206	8,358	8,783	345.3
Total	**3,126**	**3,512**	**6,160**	**7,863**	**12,351**	**13,411**	**2,417**	**4,706**	**24,054**	**29,492**	**711.3**
Commodity contracts											
Over-the-counter (OTC) contracts											
Forward contracts	2,146	2,099	4,208	3,908	2,301	2,488	3		8,658	8,495	70.7
Options	164	185	354	300	599	457	1	4	1,118	946	6.8
Exchange-traded contracts[3]											
Futures											105.4
Options	28	42	64	47	26	23			118	112	12.2
Total	**2,338**	**2,326**	**4,626**	**4,255**	**2,926**	**2,968**	**4**	**4**	**9,894**	**9,553**	**195.1**
Total derivative instruments	**39,905**	**40,293**	**41,327**	**42,056**	**127,198**	**130,144**	**125,352**	**125,170**	**333,782**	**337,663**	

1 PRV: positive replacement value. 2 NRV: negative replacement value. 3 Exchange-traded products include own account trades only.

Note 22 Derivative Instruments (continued)

As at 31 December 2004	Term to maturity										Total notional amount
	Within 3 months		3–12 months		1–5 years		Over 5 years				
CHF million	PRV[1]	NRV[2]	PRV	NRV	PRV	NRV	PRV	NRV	**Total PRV**	**Total NRV**	CHF bn
Interest rate contracts											
Over-the-counter (OTC) contracts											
Forward contracts	440	495	112	144	58	34	90	166	**700**	**839**	843.6
Swaps	4,305	4,002	11,015	11,921	65,419	64,487	76,470	75,287	**157,209**	**155,697**	9,871.0
Options	806	722	1,845	2,239	6,553	8,292	5,942	6,479	**15,146**	**17,732**	1,181.4
Exchange-traded contracts[3]											
Futures											2,073.0
Options	86	87	133	103	5	5			**224**	**195**	817.9
Total	**5,637**	**5,306**	**13,105**	**14,407**	**72,035**	**72,818**	**82,502**	**81,932**	**173,279**	**174,463**	**14,786.9**
Credit derivative contracts											
Over-the-counter (OTC) contracts											
Credit default swaps	7	10	51	99	3,819	5,409	2,401	1,501	**6,278**	**7,019**	639.2
Total rate of return swaps	31	15	57	69	433	1,076	376	272	**897**	**1,432**	27.1
Total	**38**	**25**	**108**	**168**	**4,252**	**6,485**	**2,777**	**1,773**	**7,175**	**8,451**	**666.3**
Foreign exchange contracts											
Over-the-counter (OTC) contracts											
Forward contracts	3,496	4,585	807	1,316	186	449	68	240	**4,557**	**6,590**	355.6
Interest and currency swaps	27,587	28,094	15,101	14,907	20,897	15,484	7,189	7,240	**70,774**	**65,725**	2,811.4
Options	2,224	2,202	2,809	2,553	508	503	4	4	**5,545**	**5,262**	559.2
Exchange-traded contracts[3]											
Futures											2.9
Options	9	9	81	79	11	10			**101**	**98**	5.9
Total	**33,316**	**34,890**	**18,798**	**18,855**	**21,602**	**16,446**	**7,261**	**7,484**	**80,977**	**77,675**	**3,735.0**
Precious metals contracts											
Over-the-counter (OTC) contracts											
Forward contracts	130	113	150	201	447	192	9	24	**736**	**530**	13.5
Options	156	115	281	251	683	615	34	28	**1,154**	**1,009**	43.4
Exchange-traded contracts[3]											
Futures											0.8
Options	215	237	195	259	18	33			**428**	**529**	2.5
Total	**501**	**465**	**626**	**711**	**1,148**	**840**	**43**	**52**	**2,318**	**2,068**	**60.2**
Equity / index contracts											
Over-the-counter (OTC) contracts											
Forward contracts	795	506	572	419	1,912	928	129	24	**3,408**	**1,877**	103.6
Options	2,017	7,807	2,057	7,245	7,367	16,290	455	2,144	**11,896**	**33,486**	223.6
Exchange-traded contracts[3]											
Futures											8.1
Options	1,212	1,040	947	1,142	1,711	1,979	98	109	**3,968**	**4,270**	401.6
Total	**4,024**	**9,353**	**3,576**	**8,806**	**10,990**	**19,197**	**682**	**2,277**	**19,272**	**39,633**	**736.9**
Commodity contracts											
Over-the-counter (OTC) contracts											
Forward contracts	338	343	519	491	420	379			**1,277**	**1,213**	35.4
Options	74	67	85	77	118	57			**277**	**201**	3.6
Exchange-traded contracts[3]											
Futures											1.0
Options	2	6		2					**2**	**8**	1.2
Total	**414**	**416**	**604**	**570**	**538**	**436**	**0**	**0**	**1,556**	**1,422**	**41.2**
Total derivative instruments	**43,930**	**50,455**	**36,817**	**43,517**	**110,565**	**116,222**	**93,265**	**93,518**	**284,577**	**303,712**	

1 PRV: positive replacement value. 2 NRV: negative replacement value. 3 Exchange-traded products include own account trades only.

Off-Balance Sheet Information

Note 23 Fiduciary Transactions

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

CHF million	**31.12.05**	31.12.04
Placements with third parties	**40,603**	39,588
Fiduciary credits and other fiduciary financial transactions	**0**	57
Total fiduciary transactions	**40,603**	39,645

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

Note 24 Commitments and Contingent Liabilities

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

The contractual amount of these instruments is the maximum amount at risk for the Group if the customer fails to meet its obligations. The risk is similar to the risk involved in extending loan facilities and is subject to the same risk management and control framework. For the years ended 31 December 2005, 2004 and 2003 the Group recognized credit loss recoveries of CHF 39 million, CHF 31 million and CHF 23 million respectively, related to obligations incurred for contingencies and commitments.

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

Note 24 Commitments and Contingent Liabilities (continued)

CHF million	**31.12.05**	31.12.04
Contingent liabilities		
Credit guarantees and similar instruments [1]	**11,526**	10,252
Sub-participations	**(719)**	(621)
Total	**10,807**	9,631
Performance guarantees and similar instruments [2]	**2,805**	2,536
Sub-participations	**(335)**	(415)
Total	**2,470**	2,121
Documentary credits	**2,235**	2,106
Sub-participations	**(207)**	(272)
Total	**2,028**	1,834
Gross contingent liabilities	**16,566**	14,894
Sub-participations	**(1,261)**	(1,308)
Net contingent liabilities	**15,305**	13,586
Irrevocable commitments		
Undrawn irrevocable credit facilities	**72,905**	53,168
Sub-participations	**(2)**	(7)
Total	**72,903**	53,161
Liabilities for calls on shares and other equities	**20**	19
Gross irrevocable commitments	**72,925**	53,187
Sub-participations	**(2)**	(7)
Net irrevocable commitments	**72,923**	53,180
Gross commitments and contingent liabilities	**89,491**	68,081
Sub-participations	**(1,263)**	(1,315)
Net commitments and contingent liabilities	**88,228**	66,766
Market value guarantees in form of written put options	**317,973**	352,509

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

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

Note 24 Commitments and Contingent Liabilities (continued)

CHF million	Mortgage collateral	Other collateral	Unsecured	Total
Overview of collateral				
Gross contingent liabilities	355	9,558	6,653	**16,566**
Gross irrevocable commitments	3,333	33,722	35,850	**72,905**
Liabilities for calls on shares and other equities			20	**20**
Total 31.12.05	**3,688**	**43,280**	**42,523**	**89,491**
Total 31.12.04	3,599	30,045	34,437	68,081

Other commitments

The Group enters into commitments to fund external private equity funds and investments, which typically expire within five years. The commitments themselves do not involve credit or market risk as the funds purchase investments at market value at the time the commitments are drawn. The maximum amount available to fund these investments at 31 December 2005 and 31 December 2004 was CHF 933 million and CHF 1,019 million respectively.

Note 25 Operating Lease Commitments

At 31 December 2005, UBS was obligated under a number of non-cancellable operating leases for premises and equipment used primarily for banking purposes. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions as well as rent adjustments based on price indices. However, the lease agreements do not contain contingent rent payment clauses and purchase options. The leases also do not impose any restrictions on UBS's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

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

CHF million	31.12.05
Operating leases due	
2006	**963**
2007	**908**
2008	**844**
2009	**783**
2010	**672**
2011 and thereafter	**3,973**
Subtotal commitments for minimum payments under operating leases	**8,143**
Less: Sublease rentals under non-cancellable leases	**821**
Net commitments for minimum payments under operating leases	**7,322**

CHF million	31.12.05	31.12.04	31.12.03
Gross operating lease expense	**1,232**	1,309	1,354
from continuing operations	**1,157**	1,236	1,263
from discontinued operations	**75**	73	91
Sublease rental income from continuing operations	**51**	43	43
Net operating lease expense	**1,181**	1,266	1,311
from continuing operations	**1,106**	1,193	1,220
from discontinued operations	**75**	73	91

Additional Information

Note 26 Pledged Assets and Pledgeable Off-Balance Sheet Securities

Assets are pledged from the Group's balance sheet as collateral or for other purposes. Additionally, the Group receives pledgeable securities in various types of transactions. These securities are not recognized on the balance sheet.

Pledged Assets

Assets are pledged as collateral for collateralized credit lines with central banks, loans from central mortgage institutions, deposit guarantees for savings banks, security deposits relating to stock exchange membership and mortgages on the Group's property. No financial assets are pledged for contingent liabilities. The following table shows additional information about assets pledged or assigned as security for liabilities and assets subject to reservation of title for the years ended 31 December 2005 and 31 December 2004.

CHF million	**Carrying amount 31.12.05**	**Related liability 31.12.05**	Carrying amount 31.12.04	Related liability 31.12.04
Mortgage loans	**64**	**38**	175	60
Securities	**115,580**	**88,596**	92,440	87,113
Property and equipment	**520**	**683**	320	0
Other	**474**	**0**	0	0
Total pledged assets	**116,638**	**89,317**	92,935	87,173

Pledgeable Off-Balance Sheet Securities

The Group also obtains off-balance sheet securities with the right to sell or repledge them as shown in the table below.

CHF million	**31.12.05**	31.12.04
Fair value of securities received which can be sold or repledged	**1,255,176**	968,737
as collateral under reverse repurchase, securities borrowing and lending arrangements, derivative transactions and other transactions	***1,183,238***	*921,067*
in unsecured borrowings which can be sold or repledged	***71,938***	*47,670*
thereof sold or repledged	**1,002,423**	818,151
in connection with financing activities	***918,802***	*737,805*
to satisfy commitments under short sale transactions	***70,174***	*57,903*
in connection with derivative transactions	***9,205***	*6,714*
in connection with other transactions	***4,242***	*15,729*

Note 27 Litigation

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

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

Note 28 Financial Instruments Risk Position

This section presents information about UBS's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

- market risk (part a) is exposure to market variables such as interest rates, exchange rates and equity markets
- credit risk (part b) is the risk of loss resulting from client or counterparty default and arises on credit exposure in all forms, including settlement risk
- liquidity risk (part c) is the risk that UBS is unable to meet its payment obligations when due.

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

Part e) covers the financial instruments risk position of the industrial holding Motor-Columbus through its operating subsidiary Atel.

Sections a) to d) generally refer only to UBS's financial businesses, and the tables in this note which are based on risk information include only the financial businesses of the Group. Those which present an analysis of the whole balance sheet include the positions of the Industrial Holdings segment, including Motor-Columbus.

Any representation of risk at a specific date offers only a snapshot of the risks taken, since both trading and non-trading positions can vary significantly on a daily basis, because they are actively managed. As such, it may not be representative of the level of risk at other times.

a) Market Risk

(i) Overview

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

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

Trading activities are centered in the Investment Bank and include market making, facilitation of client business and proprietary position taking. UBS is active in the cash and derivative markets for equities, fixed income and interest and rate products, foreign exchange and, to a lesser extent, precious metals and energy. In 2005, trading in derivatives on commodities (base metals and soft commodities) commenced, but the market risk from this business is not currently material.

Non-trading market risk arises primarily in Treasury (part of the Corporate Center) as a result of its balance sheet and capital management responsibilities. Interest rate risk arises from the funding of non-business items such as property and investments, from the investment of equity, and from long-term interest rate risk transferred from other Business Groups.

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

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

Market risk authority is vested in the Chairman's Office and the GEB and is delegated *ad personam* to the Group CRO and market risk officers in the Business Groups.

Market risk measures and controls are applied at the portfolio level, and concentration limits and other controls are applied where necessary to individual risk types, to particular books and to specific exposures. Portfolio risk measures are common to all market risks, but concentration limits and other controls are tailored to the nature of the activities and the risks they create.

The principal portfolio risk measures and limits on market risk are Value at Risk (VaR) and stress loss.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses maximum potential loss, 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 the VaR estimate. UBS's VaR model assumes a certain holding period until positions can be closed (10 days) and it assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The assessment of past movements is based on data for the past five years, and these are applied directly to current positions, a method known as historical simulation.

The VaR measure captures both 'general' and 'residual' market risk. General market risk includes movements in interest rates, changes in credit spreads by rating class, directional movements in equity market indices, exchange rates, and precious metal and energy prices and associated option volatilities. Residual risks are risks that cannot be explained by general market moves – broadly

Note 28 Financial Instruments Risk Position (contimued)
a) Market Risk (continued)

changes in the prices of individual debt and equity securities resulting from factors specific to individual issuers.

Stress loss measures quantify exposure to more extreme market movements than are normally reflected in VaR, under a variety of scenarios, and are an essential complement to VaR.

Controls are also applied to prevent any undue risk concentrations in trading books, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk variables, such as individual interest or exchange rates ('risk factors'), and on positions in the securities of individual issuers ('issuer risk') – see (a)(v) below.

(ii) Interest Rate Risk

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

The table sets out the extent to which UBS was exposed to interest rate risk at 31 December 2005 and 2004. It shows the net impact of a one basis point (0.01%) increase in market interest rates across all time bands on the fair values of interest rate sensitive positions, both on- and off-balance sheet. The impact of such an increase in interest rates depends on UBS's net asset or net liability position in each category, currency and time band in the table. A negative amount in the table reflects a potential reduction in fair value, while a positive amount reflects a potential increase in fair value.

Positions shown as 'trading' are those which contribute to market risk regulatory capital, i.e. those considered 'trading book' for regulatory capital purposes (see section d). 'Non-

Interest rate sensitivity position[1]

		Interest rate sensitivity by time bands at 31.12.05					
CHF thousand gain / (loss) per basis point increase		Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	**Total**
CHF	Trading	167	(526)	120	213	(322)	**(349)**
	Non-trading	(258)	(57)	(883)	(6,514)	(287)	**(7,998)**
USD	Trading	(306)	(103)	122	(3,238)	3,329	**(196)**
	Non-trading	70	(159)	(546)	(7,847)	35	**(8,447)**
EUR	Trading	536	(344)	(302)	(2,792)	2,725	**(178)**
	Non-trading	(2)	(33)	(18)	(271)	1,174	**850**
GBP	Trading	169	(652)	131	(310)	(9)	**(672)**
	Non-trading	(1)	(8)	(78)	(437)	536	**12**
JPY	Trading	194	367	(435)	406	(704)	**(172)**
	Non-trading	(0)	(0)	(3)	(4)	0	**(7)**
Other	Trading	2	(48)	69	(125)	(371)	**(473)**
	Non-trading	(3)	(1)	(0)	(1)	(3)	**(8)**

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

1 Positions in Industrial Holdings are excluded.

Note 28 Financial Instruments Risk Position (continued)
a) Market Risk (continued)

trading' includes all other interest rate sensitive assets and liabilities including derivatives designated as hedges for accounting purposes (as explained in Note 22) and off-balance sheet commitments on which an interest rate has been fixed. This distinction differs somewhat from the accounting classification of trading and non-trading assets and liabilities.

Details of money market paper and debt instruments defined as trading portfolio for accounting purposes are included in Note 11 and of debt instruments defined as financial investments for accounting purposes in Note 12. Details of derivatives are shown in Note 22. It should be noted that interest rate risk arises not only on interest rate contracts but also on other forwards, swaps and options, in particular on forward foreign exchange contracts. Off-balance sheet commitments on which an interest rate has been fixed are primarily forward starting fixed-term loans.

Trading

The major part of this risk arises in the Investment Bank business area Fixed Income, Rates and Currencies, which includes the Cash and Collateral Trading unit.

Non-trading

Interest rate risk is inherent in many of UBS's businesses and arises from factors such as differences in timing between contractual maturity or re-pricing of assets, liabilities and derivative instruments. Most material non-trading interest rate risks, the largest items being those arising in the Global Wealth Management & Business Banking Business Group, are transferred from the originating business units to one of the two centralized interest rate risk management units, Treasury, which is part of Corporate Center, and the Investment Bank's Cash and Collateral Trading unit. The risks are then managed within the market risk limits and controls described in (a)(i). The margin risks embedded in retail products remain with, and are subject to additional analysis and control by, the originating business units.

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

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. The risk on these items is also transferred to Treasury, through replicating portfolios designed to approximate the mandated funding profile.

The Group's equity is represented in the Treasury book in the form of equity replicating portfolios which reflect the strategic investment targets set by senior management. Based on these portfolios, the Group's equity is invested at longer-term fixed interest rates in CHF, USD, EUR and GBP with an average duration of between three and four years. These investments account for CHF 16.9 million of the non-trading interest rate sensitivity shown in the table on the previous page, with CHF 7.5 million arising in CHF, CHF 8.3 million in USD and the remainder in EUR and GBP. The interest rate sensitivity of these investments is directly related to the chosen investment duration, and although investing in significantly shorter maturities would lead to a reduction in apparent interest rate sensitivity, it would lead to higher volatility in interest earnings.

(iii) Currency Risk

Currency risk is the risk of loss resulting from changes in exchange rates.

Trading

UBS is an active participant in currency markets and carries currency risk from these trading activities, conducted primarily in the Investment Bank. These trading exposures are subject to the VaR, stress and concentration limits described in (a)(i). Details of foreign exchange contracts, most of which arise from trading activities and contribute to currency risk, are shown in Note 22.

Non-Trading

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

Reported profits or losses are exchanged monthly into CHF, reducing volatility in the Group's earnings from subsequent changes in exchange rates. Treasury also, from time to time, proactively hedges significant expected foreign currency earnings/costs (mainly USD, EUR and GBP) within a time horizon up to one year, in accordance with the instructions of the GEB and subject to its VaR limit. Economic hedging strategies employed include a cost-efficient options purchase program, which provides a safety net against unfavorable currency fluctuations while preserving some upside potential. Within clearly defined tolerances, a certain volatility in financial results due to currency fluctuations is accepted. The hedge program has a time horizon of up to twelve months and is not restricted to the current financial year. Although intended to economically hedge future earnings, these transactions are considered open currency positions and are included in VaR for internal and regulatory capital purposes.

Note 28 Financial Instruments Risk Position (continued)
a) Market Risk (continued)

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

At 31 December 2005, the largest combined trading and non-trading currency exposures against the Swiss franc were in USD (short USD 695 million), EUR (short EUR 36 million) and GBP (long GBP 6 million). At 31 December 2004, the largest exposures were in USD (short USD 224 million), EUR (short EUR 664 million) and GBP (long GBP 221 million).

(iv) Equity Risk

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

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

Details of equities defined as trading portfolio for accounting purposes are given in Note 11. Details of equity derivatives contracts (on indices and individual equities), which arise primarily from the Investment Bank's trading activities, are shown in Note 22.

(v) Issuer Risk

Issuer risk is the risk of loss on securities and other obligations in tradable form (including traded loans), arising from credit-related and other events and, ultimately, default and insolvency of the issuer or obligor.

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

Exposures arising from security underwriting commitments are, additionally, subject to control processes and specific approvals prior to commitment, generally including review by both origination and sales units within the business, and by risk control and other relevant functions.

(vi) Financial Investments

UBS holds financial investments for a variety of purposes. Some are held for revenue generation, while others are held in support of other businesses (for example exchange seats and clearing house memberships). The majority of holdings are unlisted and fair values tend to be driven predominantly by factors specific to the individual companies rather than movements in equity markets, which have only a limited impact. For this reason and because they are not generally liquid, they are controlled outside the market risk measures and controls described in (a)(i) to (v). Private equity positions make up the largest portfolio, which is subject to a comprehensive control and reporting process, but is being run down.

Debt financial investments, including money market paper, are included in the measures of interest rate risk described in (a)(ii).

b) Credit Risk

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

Global Wealth Management & Business Banking and the Investment Bank, which take material credit risk, have independent credit risk control units, headed by Chief Credit Officers (CCOs) reporting functionally to the Group CCO. They are responsible for counterparty ratings, credit risk assessment and the continuous monitoring of counterparty and portfolio credit exposures. Credit risk authority, including authority to establish allowances, provisions and credit valuation adjustments for impaired claims, is vested in the Chairman's Office and the GEB and is delegated *ad personam* to the Group CCO and to credit officers within the Business Groups.

Note 28 Financial Instruments Risk Position
b) Credit Risk (continued)

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

In the table, the amounts shown as credit exposure differ somewhat from the internal credit view. For banking products, they are based on the accounting view, which, for example, does not reflect risk reduction resulting from credit hedges and collateral received, but does include cash collateral posted by UBS against negative replacement values on derivatives. For traded products, positive and negative replacement values are shown net where permitted for regulatory capital purposes (consistent with the table in part d) Capital Adequacy), and potential future exposure is not included. This in turn differs from the accounting treatment of traded products in several respects. OTC derivatives are represented on the balance sheet by positive and negative replacement values, which are netted only if the cash flows will actually be settled net, which is not generally the case – for details see Note 22. Securities borrowing and lending transactions are represented on the balance sheet by the gross values of cash collateral placed with or received from counterparties while repos / reverse repos are represented by the gross amounts of the forward commitments – for details see Note 10 – but the credit exposure is generally only a small percentage of these balance sheet amounts.

UBS manages, limits and controls concentrations of credit risk wherever they are identified, in particular to individual counterparties and groups, and to industries and countries where appropriate. Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. UBS sets limits on its credit exposure to both individual counterparties and counterparty groups. Limits are also applied in a variety of forms to portfolios or sectors where UBS considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

Stress measures are applied to assess the impact of variations in default rates and asset values, taking into account risk concentrations in each portfolio. Stress loss limits are applied where considered necessary, including limits on credit exposure to all but the best-rated countries. With the exceptions of Private households (CHF 149,829 million), Banks and financial institutions (CHF 90,267 million) and Real estate and rentals in Switzerland (CHF 11,792 million), there are no material concentrations of loans at 31 December 2005, and the vast majority of those to Private households and to Real estate and rentals are secured. Derivatives exposure is predom-

Breakdown of credit exposure [1]

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

CHF million	**31.12.05**	31.12.04
Banking products		
Due from banks and loans [2]	**304,541**	269,224
Contingent liabilities (gross – before participations) [3]	**16,566**	14,894
Undrawn irrevocable credit facilities (gross – before participations) [3]	**72,905**	53,168
Traded products [4]		
Derivatives positive replacement values (before collateral but after netting) [5]	**86,950**	78,317
Securities borrowing and lending, repos and reverse repos [6, 7]	**40,765**	24,768
Allowances and provisions [8]	**(1,776)**	(2,802)
Total credit exposure net of allowances and provisions	**519,951**	437,569

1 Positions in Industrial Holdings are excluded. 2 See Note 9a – Due from Banks and Loans for further information. 3 See Note 24 – Commitments and Contingent Liabilities for further information. 4 Does not include potential future credit exposure arising from changes in value of products with variable value. Potential future credit exposure is, however, included in internal measures of credit exposure for risk management and control purposes. 5 Replacement values are shown net where netting is permitted for regulatory capital purposes. See also Note 28 d) – Capital Adequacy. 6 This figure represents the difference in value between the cash or securities lent or given as collateral to counterparties, and the value of cash or securities borrowed or taken as collateral from the same counterparties under stock borrow / lend and repo / reverse repo transactions. 7 See Note 10 – Securities Borrowing, Securities Lending, Repurchase and Reverse Repurchase Agreements for further information about these types of transactions. 8 See Note 9b – Allowances and Provisons for Credit Losses for further informaion.

inantly to investment grade banks and financial institutions, and much of it is collateralized.

Impaired claims

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

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

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

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

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

c) Liquidity Risk

UBS's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage to business franchises. A centralized approach is adopted, based on an integrated framework incorporating an assessment of all material known and expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required. The framework entails careful monitoring and control of the daily liquidity position, and regular liquidity stress testing under a variety of scenarios. Scenarios encompass both normal and stressed market conditions, including general market crises and the possibility that access to markets could be impacted by a stress event affecting some part of UBS's business or, in the extreme case, if UBS suffered a severe rating downgrade.

The breakdown by contractual maturity of assets and liabilities at 31 December 2005, which is the starting point for the liquidity analyses, is shown in the table on the next page.

Note 28 Financial Instruments Risk Position (continued)
c) Liquidity Risk (continued)

Maturity analysis of assets and liabilities

CHF billion	On demand	Subject to notice[1]	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Assets							
Cash and balances with central banks	5.4						5.4
Due from banks	21.9	0.1	6.0	2.1	1.8	1.7	33.6
Cash collateral on securities borrowed	0.0	202.6	90.4	7.3	0.0	0.0	300.3
Reverse repurchase agreements	0.0	59.3	281.0	57.3	5.7	1.1	404.4
Trading portfolio assets[2]	499.3	0.0	0.0	0.0	0.0	0.0	499.3
Trading portfolio assets pledged as collateral[2]	154.7	0.0	0.0	0.0	0.0	0.0	154.7
Positive replacement values[2]	333.8	0.0	0.0	0.0	0.0	0.0	333.8
Financial assets designated at fair value	1.2	0.0	0.0	0.0	0.0	0.0	1.2
Loans	27.1	39.7	73.6	31.5	80.1	18.0	270.0
Financial investments	5.7	0.0	0.1	0.1	0.3	0.4	6.6
Accrued income and prepaid expenses	8.9	0.0	0.0	0.0	0.0	0.0	8.9
Investments in associates	0.0	0.0	0.0	0.0	0.0	3.0	3.0
Property and equipment	0.0	0.0	0.0	0.0	0.0	9.4	9.4
Goodwill and other intangible assets	0.0	0.0	0.0	0.0	0.0	13.5	13.5
Other assets	16.2	0.0	0.0	0.0	0.0	0.0	16.2
Total 31.12.05	**1,074.2**	**301.7**	**451.1**	**98.3**	**87.9**	**47.1**	**2,060.3**
Total 31.12.04	910.0	271.8	345.2	79.4	87.3	43.4	1,737.1
Liabilities							
Due to banks	32.0	5.6	83.5	2.7	0.1	0.4	124.3
Cash collateral on securities lent	0.0	66.2	10.5	0.6	0.0	0.0	77.3
Repurchase agreements	0.0	21.5	406.2	50.8	0.0	0.0	478.5
Trading portfolio liabilities[2]	188.6	0.0	0.0	0.0	0.0	0.0	188.6
Negative replacement values[2]	337.7	0.0	0.0	0.0	0.0	0.0	337.7
Financial liabilities designated at fair value	0.0	0.0	6.7	18.2	66.3	26.2	117.4
Due to customers	132.0	123.1	189.1	6.8	0.4	0.1	451.5
Accrued expenses and deferred income	18.4	0.0	0.0	0.0	0.0	0.0	18.4
Debt issued	0.0	0.0	95.5	11.0	8.0	46.2	160.7
Other liabilities	23.7	30.2	0.0	0.0	0.0	0.0	53.9
Total 31.12.05	**732.4**	**246.6**	**791.5**	**90.1**	**74.8**	**72.9**	**2,008.3**
Total 31.12.04	662.8	212.5	663.4	65.6	56.1	37.4	1,697.8

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

Note 28 Financial Instruments Risk Position (continued)
d) Capital Adequacy

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

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

BIS eligible capital

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

BIS risk-weighted assets (RWAs)

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

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

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

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

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

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

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

Note 28 Financial Instruments Risk Position (continued)
d) Capital Adequacy (continued)

Risk-weighted assets (BIS)

CHF million	**Exposure 31.12.05**	**Risk-weighted amount 31.12.05**	Exposure 31.12.04	Risk-weighted amount 31.12.04
Balance sheet exposures				
Due from banks and other collateralized lendings [1]	**665,932**	**6,991**	556,947	7,820
Net positions in securities [2,3]	**8,079**	**6,849**	8,227	6,914
Positive replacement values [4]	**86,950**	**20,546**	78,317	17,121
Loans, net of allowances for credit losses and other collateralized lendings [1]	**540,051**	**196,091**	429,186	164,620
Accrued income and prepaid expenses	**9,081**	**4,815**	5,790	3,573
Property and equipment	**7,957**	**7,957**	8,772	8,772
Other assets	**13,292**	**9,115**	33,432	9,656
Off-balance sheet exposures				
Contingent liabilities	**16,595**	**7,474**	14,894	7,569
Irrevocable commitments	**73,220**	**18,487**	53,187	11,764
Forward and swap contracts [5]	**22,365,432**	**10,738**	14,419,106	8,486
Purchased options [5]	**1,629,260**	**311**	2,306,605	386
Market risk positions [6]		**21,035**		18,151
Total risk-weighted assets		**310,409**		264,832

1 Includes gross securities borrowing and reverse repo exposures, and those traded loans in trading portfolio assets originated by the Group for syndication or distribution. These financial instruments are excluded from Market risk positions. 2 Security positions which are not in the trading book, including Motor-Colombus and other industrial holdings, which are not consolidated for capital adequacy. 3 Excluding positions in the trading book, which are included in Market risk positions. 4 Represents the mark to market values of Forward and swap contracts and Purchased options, where positive but after netting, where applicable. 5 Represents the add-ons for these contracts. 6 Regulatory capital adequacy requirements for market risk, calculated using the approved Value at Risk model, or the standardized method, multiplied by 12.5. This results in the risk-weighted asset equivalent.

BIS capital ratios

	Capital CHF million 31.12.05	**Ratio % 31.12.05**	Capital CHF million 31.12.04	Ratio % 31.12.04
Tier 1	**39,943**	**12.9**	31,629	11.9
of which hybrid Tier 1	**4,975**	**1.6**	2,963	1.1
Tier 2	**3,974**	**1.3**	4,815	1.8
Total BIS	**43,917**	**14.1**	36,444	13.8

The Tier 1 capital includes preferred securities of CHF 4,975 million (USD 2,600 million and EUR 1,000 million) at 31 December 2005 and CHF 2,963 million (USD 2,600 million) at 31 December 2004.

Note 28 Financial Instruments Risk Position (continued)
e) Financial Instruments Risk Position in Motor-Columbus

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

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

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

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

Energy price risk

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

Interest rate risk

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

Currency risks

To minimize currency risk, Atel tries to offset operating income and expenses in foreign currencies. Any surplus is hedged through currency forwards and options within the framework of the financial risk policy. Net investment in foreign subsidiaries is also subject to exchange rate movements, but differences in inflation rates tend to cancel out these changes over the longer term, and for this reason Atel does not hedge investment in foreign subsidiaries.

Credit risk

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

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

Note 29 Fair Value of Financial Instruments
29a Fair Value of Financial Instruments

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

CHF billion	**Carrying value 31.12.05**	**Fair value 31.12.05**	**Unrealized gain / (loss) 31.12.05**	Carrying value 31.12.04	Fair value 31.12.04	Unrealized gain / (loss) 31.12.04
Assets						
Cash and balances with central banks	**5.4**	**5.4**	**0.0**	6.0	6.0	0.0
Due from banks	**33.6**	**33.6**	**0.0**	35.4	35.4	0.0
Cash collateral on securities borrowed	**300.3**	**300.2**	**(0.1)**	220.2	220.2	0.0
Reverse repurchase agreements	**404.4**	**404.5**	**0.1**	357.1	357.1	0.0
Trading portfolio assets	**499.3**	**499.3**	**0.0**	389.5	389.5	0.0
Trading portfolio assets pledged as collateral	**154.8**	**154.8**	**0.0**	159.1	159.1	0.0
Positive replacement values	**333.8**	**333.8**	**0.0**	284.6	284.6	0.0
Financial assets designated at fair value	**1.2**	**1.2**	**0.0**	0.7	0.7	0.0
Loans	**270.0**	**270.6**	**0.6**	232.2	233.6	1.4
Financial investments	**6.6**	**6.6**	**0.0**	4.2	4.2	0.0
Liabilities						
Due to banks	**124.3**	**124.3**	**0.0**	120.0	120.0	0.0
Cash collateral on securities lent	**77.3**	**77.3**	**0.0**	61.5	61.5	0.0
Repurchase agreements	**478.5**	**478.5**	**0.0**	422.6	422.6	0.0
Trading portfolio liabilities	**188.6**	**188.6**	**0.0**	171.0	171.0	0.0
Negative replacement values	**337.7**	**337.7**	**0.0**	303.7	303.7	0.0
Financial liabilities designated at fair value	**117.4**	**117.4**	**0.0**	65.8	65.8	0.0
Due to customers	**451.5**	**451.5**	**0.0**	376.1	376.1	0.0
Debt issued	**160.7**	**162.0**	**(1.3)**	117.8	118.9	(1.1)
Subtotal			**(0.7)**			0.3
Unrealized gains and losses recorded in equity before tax on:						
Financial investments			**1.1**			1.0
Derivative instruments designated as cash flow hedges			**(0.9)**			(0.4)
Net unrealized gains and losses not recognized in the income statement			**(0.5)**			0.9

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

Market prices and rates are not, however, available for certain financial assets and liabilities held and issued by UBS. In these cases, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet dates.

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

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

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

(a) trading portfolio assets and liabilities, trading portfolio assets pledged as collateral, financial assets and liabilities designated at fair value, derivatives, and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or other recognized valuation techniques. Fair value is equal to the carrying amount for these items;

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

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

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

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

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

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

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

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

The fair values of UBS's fixed-rate loans, long- and medium-term notes and bonds issued are predominantly hedged by derivative instruments, mainly interest rate swaps, as explained in Note 22. The interest rate risk inherent in balance sheet positions with no specific maturity is also hedged with derivative instruments based on management's view on their average cash flow and re-pricing behavior.

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

Note 29 Fair Value of Financial Instruments (continued)
29b Determination of Fair Values from Quoted Market Prices or Valuation Techniques

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

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

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

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

	31.12.05				31.12.04			
CHF billion	**Quoted market price**	**Valuation technique – market observable inputs**	**Valuation technique – non-market observable inputs**	**Total**	Quoted market price	Valuation technique – market observable inputs	Valuation technique – non-market observable inputs	Total
Trading portfolio assets	**273.2**	**225.2**	**0.9**	**499.3**	228.4	160.1	1.0	389.5
Trading portfolio assets pledged as collateral	**147.6**	**7.2**	**0.0**	**154.8**	156.0	3.1	0.0	159.1
Positive replacement values	**13.6**	**313.4**	**6.8**	**333.8**	6.2	265.2	13.2	284.6
Financial assets designated at fair value	**0.2**	**1.0**	**0.0**	**1.2**	0.7	0.0	0.0	0.7
Financial investments	**3.0**	**1.1**	**2.5**	**6.6**	1.1	0.4	2.7	4.2
Total assets	**437.6**	**547.9**	**10.2**	**995.7**	392.4	428.8	16.9	838.1
Trading portfolio liabilities	**171.2**	**17.4**	**0.0**	**188.6**	161.3	9.7	0.0	171.0
Negative replacement values	**15.9**	**311.1**	**10.7**	**337.7**	9.8	270.1	23.8	303.7
Financial liabilities designated at fair value	**0.0**	**92.5**	**24.9**	**117.4**	0.0	65.8	0.0	65.8
Total liabilities	**187.1**	**421.0**	**35.6**	**643.7**	171.1	345.6	23.8	540.5

Note 29 Fair Value of Financial Instruments (continued)

29c Sensitivity of Fair Values to Changing Significant Assumptions to Reasonably Possible Alternatives

Included in the fair value of financial instruments carried at fair value on the balance sheet are those estimated in full or in part using valuation techniques based on assumptions that are not supported by market observable prices or rates. Models used in these situations undergo an internal validation process before they are certified for use.

There may be uncertainty about a valuation, resulting from the choice of model used, the deep in the model parameters it employs, and the extent to which inputs are not market observable, or as a result of other elements affecting the valuation, for example liquidity. Valuation adjustments are made to reflect such uncertainty and deducted from the fair values produced by the models or other valuation techniques.

Based on the controls and procedural safeguards the Group employs, management believes the resulting estimated fair values recorded in the balance sheet and the changes in fair values recorded in the income statement are reasonable and are the most appropriate at the balance sheet date.

The potential effect of using reasonably possible alternative assumptions as inputs to valuation techniques from which the fair values of these financial instruments are determined has been quantified as a reduction of approximately CHF 1,094 million using less favorable assumptions and an increase of approximately CHF 1,176 million using more favorable assumptions at 31 December 2005; and approximately CHF 579 million using less favorable assumptions and an increase of approximately CHF 927 million using more favorable assumptions at 31 December 2004.

The determination of reasonably possible alternative assumptions is itself subject to considerable judgment. For valuations based on models, reasonably possible alternatives have been estimated using the same techniques as are used to determine model valuation adjustments, by increasing (for less favorable assumptions) and decreasing (for more favorable assumptions) the confidence level applied. In changing the assumptions it was assumed that the impact of correlation between different financial instruments and models is minimal. A similar approach was used for valuation techniques other than those based on models at 31 December 2005, but the assessment applied at 31 December 2004 was based on estimates.

29d Changes in Fair Value Recognized in Profit or Loss during the Period which were Estimated using Valuation Techniques

Total Net trading income for the years ended 31 December 2005 and 31 December 2004 was CHF 7,996 million and CHF 4,902 million, respectively, which represents the net result from a range of products traded across different business activities, including the effect of foreign currency translation and including both realized and unrealized income. Unrealized income is determined from changes in fair values, using quoted prices in active markets when available, and is otherwise estimated using valuation techniques.

Included in the unrealized portion of Net trading income are net losses from changes in fair values of CHF 2,286 million for the year ended 31 December 2005 on financial instruments for which fair values were estimated using valuation techniques. These valuation techniques included models such as those described in the previous section, which range from relatively simple models with market observable inputs, to those which are more complex and require the use of assumptions or estimates based on market conditions.

Net losses from changes in fair values on financial instruments for which fair values were estimated using valuation techniques were CHF 7,123 million for the year ended 31 December 2004. This amount was determined using methods which have been subsequently refined for the year ended 31 December 2005. The amount for the year ended 31 December 2004 has not been restated to conform to presentation in the current year.

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

Consequently, the changes in fair value recognized in profit or loss during the period which were estimated using valuation techniques represent only a portion of Net trading income. In many cases these amounts were offset by changes in fair value of other financial instruments or transactions, which were priced in active markets using quoted market prices or rates, or which have been realized. The amount of such income, including the effect of foreign currency translation on unrealized transactions, was a gain of CHF 10,282 million for the year ended 31 December 2005 and CHF 12,025 million for the year ended 31 December 2004.

Changes in fair value estimated using valuation techniques are also recognized in net profit in situations of unrealized impairments on financial investments available-for-sale. The total of such impairment amounts recognized in Net profit was CHF 3 million for the year ended 31 December 2005 and CHF 218 million for the year ended 31 December 2004.

Note 29 Fair Value of Financial Instruments (continued)
29e Continuing Involvement with Transferred Assets

The following table presents details of assets which have been sold or otherwise transferred, but which continue to be recognized, either in full or to the extent of UBS's continuing involvement:

	31.12.05 Continued asset recognition in full		31.12.04 Continued asset recognition in full	
CHF billion	**Total assets**	**Associated liability**	Total assets	Associated liability
Nature of transaction				
Securities lending agreements	50.5	10.0	37.3	13.8
Repurchase agreements	100.0	78.6	121.8	117.6
Property and equipment	0.5	0.7	0.4[1]	0.0
Other collateralized securities trading	60.6	3.0	35.6[1]	2.1
Total	**211.6**	**92.3**	195.1	133.5

1 Comparatives have been restated to conform to presentation in the current year.

The assets in the above table continue to be recognized to the extent shown, because the transactions by which they have been transferred do not meet the qualifying criteria for derecognition of the assets from the balance sheet. Derecognition criteria are discussed in more detail in Note 1d).

In each situation of continued recognition, whether in full or to the extent of continuing involvement, UBS retains the risks of the relevant portions of the retained assets. These include credit risk, settlement risk, country risk, and market risk. In addition, the nature of an associated transaction which gives rise to the continued involvement may modify existing risks, or introduce risks such as credit exposure to the counterparty to the associated transaction.

The majority of retained assets relate to repurchase agreements and securities lending agreements. Nearly all repurchase agreements relate to debt instruments, such as bonds, notes or money market paper; the majority of securities lending agreements involve shares, and the remainder typically relate to bonds and notes. Both types of transactions are conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. The resulting credit exposures are controlled by daily monitoring and collateralization of the positions. The amounts for repurchase agreements and securities lending agreements are shown in the above table.

A portion of retained assets relate to transactions in which UBS has transferred assets, but continues to have involvement in the transferred assets, for example through providing a guarantee, writing put options, acquiring call options, or entering into a total return swap or other type of swap linked to the performance of the asset. If control is retained through these types of associated transactions, UBS continues to recognize the transferred asset in its entirety, otherwise to the extent of its continuing involvement.

In particular, transactions involving the transfer of assets in conjunction with entering into a total rate of return swap are accounted for as secured financing transactions, instead of sales of trading portfolio assets with an accompanying swap derivative. The securities underlying these transactions are included in the above table within Other collateralized securities trading.

a) Defined benefit plans

The Group has established various pension plans inside and outside of Switzerland. The major plans are located in Switzerland, the UK, the US and Germany. Independent actuarial valuations are performed for the plans in these locations. The measurement date of these plans is 31 December for each year presented.

The pension funds of Atel Ltd. and some of its group companies in Switzerland and Germany are included in the disclosure as at 31 December 2005 and 31 December 2004.The pension plans of the three private banks, Banco di Lugano, Ehinger & Armand von Ernst and Ferrier Lullin are no longer included in the disclosure as at 31 December 2005.

The overall investment policy and strategy for the Group's defined benefit pension plans is guided by the objective of achieving an investment return which, together with the contributions paid, is sufficient to maintain reasonable control over the various funding risks of the plans. The investment advisors appointed by plan trustees are responsible for determining the mix of asset types and target allocations which are reviewed by the plan trustees on an ongoing basis. Actual asset allocation is determined by a variety of current economic and market conditions and in consideration of specific asset class risk.

The expected long-term rates of return on plan assets are based on long-term expected inflation, interest rates, risk premiums and targeted asset class allocations. These estimates take into consideration historical asset class returns and are determined together with the plans' investment and actuarial advisors.

Swiss pension plans

The pension fund of UBS covers practically all UBS employees in Switzerland and exceeds the minimum benefit requirements under Swiss law. Contributions to the pension fund of UBS are paid for by employees and the employer. For the main plan, the employee contributions are calculated as a percentage of insured annual salary and are deducted monthly. The percentages deducted from salary for full benefit coverage (including risk benefits) depend on age and vary between 7% and 10%. The employer pays a variable contribution that ranges between 150% and 220% of the sum of employees' contributions. The computation of the benefits is based on the final covered salary. The benefits covered include retirement benefits, disability, death and survivor pensions, and employment termination benefits.

Additional employee and employer contributions are made to the other plans of the pension fund of UBS. These plans provide benefits which are based on annual contributions as a percentage of salary and accrue at a minimum interest rate annually.

The employer contributions expected to be made in 2006 to the Swiss pension plans are CHF 416 million. The accumulated benefit obligation (which is the current value of accrued benefits without allowance for future salary increases) for these pension plans was CHF 18,863 million as at 31 December 2005 (2004: CHF 18,566 million, 2003: CHF 16,817 million).

Foreign pension plans

The foreign locations of UBS operate various pension plans in accordance with local regulations and practices. Among these plans are defined contribution plans as well as defined benefit plans. The locations with defined benefit plans of a material nature are in the UK, the US and Germany. The UK and the US defined benefit plans are closed to new entrants who are covered by defined contribution plans. The amounts shown for foreign plans reflect the net funded positions of the major foreign plans.

The retirement plans provide benefits in the event of retirement, death, disability or employment termination. The plans' retirement benefits depend on age, contributions and level of compensation. The principal plans are financed in full by the Group. The employer contributions expected to be made in 2006 to these pension plans are CHF 75 million. The funding policy for these plans is consistent with local government and tax requirements.

The assumptions used in foreign plans take into account local economic conditions.

The accumulated benefit obligation for these pension plans was CHF 4,992 million as at 31 December 2005 (2004: CHF 4,118 million, 2003: CHF 3,609 million). For pension plans with an accumulated benefit obligation in excess of plan assets, the aggregate projected benefit obligation and accumulated benefit obligation was CHF 4,521 million and CHF 4,497 million as at 31 December 2005 (2004: CHF 3,755 million and CHF 3,735 million, 2003: CHF 944 million and CHF 930 million). The fair value of plan assets for these plans was CHF 3,789 million as at 31 December 2005 (2004: CHF 3,166 million, 2003: CHF 677 million).

Note 30 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans

	Swiss			Foreign		
CHF million	**31.12.05**	31.12.04	31.12.03	**31.12.05**	31.12.04	31.12.03
Defined benefit obligation at the beginning of the year	**(20,225)**	(18,216)	(19,204)	**(4,142)**	(3,663)	(3,436)
Service cost	**(353)**	(345)	(362)	**(82)**	(83)	(91)
Interest cost	**(660)**	(672)	(703)	**(236)**	(212)	(197)
Plan participant contributions	**(219)**	(203)	(202)			
Actuarial gain / (loss)	**(713)**	(1,392)	1,395	**(416)**	(296)	(201)
Foreign currency translation				**(280)**	146	138
Benefits paid	**866**	910	930	**144**	125	124
Special termination benefits	**(37)**	(35)	(70)	**(2)**		
Acquisitions		(272)		**(6)**	(159)	
Settlements	**369**					
Defined benefit obligation at the end of the year	**(20,972)**	(20,225)	(18,216)	**(5,020)**	(4,142)	(3,663)
Fair value of plan assets at the beginning of the year	**18,575**	17,619	16,566	**3,580**	3,402	2,382
Expected return on plan assets	**925**	878	818	**263**	248	178
Actuarial gain / (loss)	**1,284**	102	593	**247**	122	251
Foreign currency translation				**253**	(132)	(116)
Employer contributions	**468**	411	370	**89**	65	831
Plan participant contributions	**219**	203	202			
Benefits paid	**(866)**	(910)	(930)	**(144)**	(125)	(124)
Acquisitions		272				
Settlements	**(376)**					
Fair value of plan assets at the end of the year	**20,229**	18,575	17,619	**4,288**	3,580	3,402
Funded status	**(743)**	(1,650)	(597)	**(732)**	(562)	(261)
Unrecognized net actuarial (gains) / losses	**2,334**	3,006	1,716	**1,222**	1,046	970
Unrecognized prior service cost				**1**	1	1
Unrecognized asset	**(1,591)**	(1,356)	(1,119)			
(Accrued) / prepaid pension cost	**0**	0	0	**491**	485	710
Movement in the net (liability or) asset						
(Accrued) / prepaid pension cost at the beginning of the year			33	**485**	710	73
Net periodic pension cost	**(468)**	(411)	(403)	**(125)**	(105)	(168)
Employer contributions	**468**	411	370	**89**	65	831
Acquisitions				**(6)**	(159)	
Foreign currency translation				**48**	(26)	(26)
(Accrued) / prepaid pension cost	**0**	0	0	**491**	485	710
Amounts recognized in the Balance Sheet						
Prepaid pension cost				**832**	805	862
Accrued pension liability				**(341)**	(320)	(152)
(Accrued) / prepaid pension cost	**0**	0	0	**491**	485	710

Note 30 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans (continued)

CHF million	Swiss			Foreign		
For the year ended	**31.12.05**	31.12.04	31.12.03	**31.12.05**	31.12.04	31.12.03
Components of net periodic pension cost						
Service cost	**353**	345	362	**82**	83	91
Interest cost	**660**	672	703	**236**	212	197
Expected return on plan assets	**(925)**	(878)	(818)	**(263)**	(248)	(178)
Amortization of unrecognized past service cost	**(3)**					
Amortization of unrecognized net (gains) / losses	**101**		188	**68**	58	58
Special termination benefits	**37**	35	70	**2**		
Settlements	**10**					
Increase / (decrease) of unrecognized asset	**235**	237	(102)			
Net periodic pension cost	**468**	411	403	**125**	105	168

Funded and unfunded plans	Swiss				
CHF million	**31.12.05**	31.12.04	31.12.03	31.12.02	31.12.01
Defined benefit obligation from funded plans	**(20,972)**	(20,225)	(18,216)	(19,204)	(17,879)
Plan assets	**20,229**	18,575	17,619	16,566	18,289
Surplus / (deficit)	**(743)**	(1,650)	(597)	(2,638)	410
Experience gains / (losses) on plan liabilities	**(77)**				
Experience gains / (losses) on plan assets	**1,284**				

	Foreign				
CHF million	**31.12.05**	31.12.04	31.12.03	31.12.02	31.12.01
Defined benefit obligation from funded plans	**(4,635)**	(3,815)	(3,509)	(3,295)	(3,402)
Defined benefit obligation from unfunded plans	**(385)**	(327)	(154)	(141)	(151)
Plan assets	**4,288**	3,580	3,402	2,382	2,887
Surplus / (deficit)	**(732)**	(562)	(261)	(1,054)	(666)
Experience gains / (losses) on plan liabilities	**7**				
Experience gains / (losses) on plan assets	**247**				

	Swiss			Foreign		
	31.12.05	31.12.04	31.12.03	**31.12.05**	31.12.04	31.12.03
Principal weighted average actuarial assumptions used (%)						
Assumptions used to determine defined benefit obligations at the end of the year						
Discount rate	**3.0**	3.3	3.8	**5.0**	5.5	5.7
Expected rate of salary increase	**2.5**	2.5	2.5	**4.4**	4.4	4.6
Rate of pension increase	**0.8**	1.0	1.0	**1.9**	1.9	1.9
Assumptions used to determine net periodic pension cost for the year ended						
Discount rate	**3.3**	3.8	3.8	**5.5**	5.7	5.8
Expected rate of return on plan assets	**5.0**	5.0	5.0	**7.0**	7.2	7.1
Expected rate of salary increase	**2.5**	2.5	2.5	**4.4**	4.6	4.4
Rate of pension increase	**1.0**	1.0	1.5	**1.9**	1.9	1.5

Note 30 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans (continued)

	Swiss			Foreign		
CHF million, except where indicated	**31.12.05**	31.12.04	31.12.03	**31.12.05**	31.12.04	31.12.03
Expected future benefit payments						
2006	**922**			**150**		
2007	**931**			**147**		
2008	**949**			**158**		
2009	**965**			**168**		
2010	**968**			**180**		
2011–2015	**5,063**			**1,272**		
Plan assets (weighted average)						
Actual plan asset allocation (%)						
Equity instruments	**43**	43	39	**52**	54	52
Debt instruments	**43**	41	43	**39**	41	30
Real estate	**12**	12	12	**4**	2	1
Other	**2**	4	6	**5**	3	17
Total	**100**	100	100	**100**	100	100
Long-term target plan asset allocation (%)						
Equity instruments	**34–46**	34–49		**52–55**	49–55	
Debt instruments	**30–53**	30–53		**44–45**	44–47	
Real estate	**11–19**	12–19		**0–3**	1–2	
Other	**0**	0		**1–2**	0–6	
Actual return on plan assets (%)	**12.0**	5.5	8.6	**13.6**	10.8	17.8
Additional details to fair value of plan assets						
UBS financial instruments and UBS bank accounts	**613**	1,239	1,005			
UBS AG shares [1]	**225**	238	246			
Securities lent to UBS included in plan assets	**2,222**	3,778	2,930			
Other assets used by UBS included in plan assets	**69**	73	84			

1 The number of UBS AG shares was 1,794,576, 2,493,173 and 2,908,699 as at 31 December 2005, 31 December 2004 and 31 December 2003, respectively.

Note 30 Pension and Other Post-Retirement Benefit Plans (continued)

b) Post-retirement medical and life plans

In the US and the UK, the Group offers retiree medical benefits that contribute to the health care coverage of employees and beneficiaries after retirement. In addition to retiree medical benefits, the Group in the US also provides retiree life insurance benefits.

The benefit obligation in excess of fair value of plan assets for those plans amounts to CHF 216 million as at 31 December 2005 (2004: CHF 166 million, 2003: CHF 179 million) and the total accrued post-retirement cost amounts to CHF 168 million as at 31 December 2005 (2004: CHF 136 million, 2003: CHF 137 million). The net periodic post-retirement costs for the years ended 31 December 2005, 31 December 2004 and 31 December 2003 were CHF 21 million, CHF 16 million and CHF 22 million, respectively.

The employer contributions expected to be made in 2006 to the post-retirement medical and life plans are CHF 8 million. The expected future benefit payments are CHF 8 million for the year 2006, CHF 9 million for each of the years 2007 and 2008, CHF 10 million for the year 2009, CHF 11 million for the year 2010 and CHF 63 million in total for the years 2011–2015.

b) Post-retirement medical and life plans

CHF million	**31.12.05**	31.12.04	31.12.03
Post-retirement benefit obligation at the beginning of the year	**(166)**	(179)	(166)
Service cost	**(8)**	(6)	(11)
Interest cost	**(11)**	(9)	(10)
Actuarial gain/(loss)	**(17)**	8	(14)
Foreign currency translation	**(22)**	12	16
Benefits paid	**8**	8	6
Post-retirement benefit obligation at the end of the year	**(216)**	(166)	(179)
Fair value of plan assets at the beginning of the year	**0**	0	2
Employer contributions	**8**	8	4
Benefits paid	**(8)**	(8)	(6)
Fair value of plan assets at the end of the year	**0**	0	0

	31.12.05	31.12.04	31.12.03	31.12.02	31.12.01
Defined benefit obligation	**(216)**	(166)	(179)	(166)	(145)
Plan asset	**0**	0	0	2	3
Surplus/(deficit)	**(216)**	(166)	(179)	(164)	(142)
Experience gains/(losses) on plan liabilities	**(3)**				

The assumed average health care cost trend rate used in determining post-retirement benefit expense is assumed to be 11% for 2005 and to decrease to an ultimate trend rate of 5% in 2012. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one percentage point change in the assumed health care cost trend rates would change the US post-retirement benefit obligation and the service and interest cost components of the net periodic post-retirement benefit costs as follows:

CHF million	**1% increase**	**1% decrease**
Effect on total service and interest cost	**4**	**(3)**
Effect on the post-retirement benefit obligation	**28**	**(23)**

Note 30 Pension and Other Post-Retirement Benefit Plans (continued)

c) Defined contribution plans

The Group also sponsors a number of defined contribution plans primarily in the UK and the US. Certain plans permit employees to make contributions and earn matching or other contributions from the Group. The contributions to these plans recognized as expense for the years ended 31 December 2005, 31 December 2004 and 31 December 2003 were CHF 184 million, CHF 187 million and CHF 141 million, respectively.

d) Related party disclosure

UBS is the principal bank for the pension fund of UBS in Switzerland. In this function, UBS is engaged to execute most of the pension fund's banking activities. These activities also include, but are not limited to, trading and securities lending and borrowing. All transactions have been executed at arm's length conditions.

The following fees and interest have been received or paid by UBS related to these banking activities:

	For the year ended		
CHF million	**31.12.05**	31.12.04	31.12.03
Received by UBS			
Fees	**48**	42	33
Paid by UBS			
Interest	**4**	4	3
Dividends and capital repayments	**7**	7	7

The foreign UBS pension funds do not have a similar banking relationship with UBS, but they may hold and trade UBS shares and/or securities.

The transaction volumes in UBS shares and other UBS securities are as follows (all pension funds):

	For the year ended		
	31.12.05	31.12.04	31.12.03
Financial instruments bought by pension funds			
UBS AG shares (in thousands of shares)	**1,387**	2,822	4,987
UBS financial instruments (nominal values in CHF million)	**0**	47	34
Financial instruments sold by pension funds or matured			
UBS AG shares (in thousands of shares)	**2,263**	3,713	5,760
UBS financial instruments (nominal values in CHF million)	**45**	18	36

UBS has also leased buildings from the Swiss pension fund. The rent paid by UBS under these leases amounted to CHF 4 million in 2005, CHF 5 million in 2004 and CHF 5 million in 2003.

There were financial instruments in the amount of CHF 163 million due from UBS pension plans outstanding as at 31 December 2005 (2004: CHF 0 million, 2003: CHF 0 million). The amounts due to UBS defined benefit pension plans are contained in the additional details to the fair value of plan assets. Furthermore, UBS defined contribution plans hold 7,064,279 UBS shares with a market value of CHF 885 million as at 31 December 2005 (2004: 7,230,314 shares with a market value of CHF 691 million, 2003: 7,733,881 shares with a market value of CHF 652 million).

Note 31 Equity Participation and Other Compensation Plans

a) Plans Offered

UBS has established several equity participation plans to further align the long-term interests of executives, managers, staff and shareholders. The plans are offered to eligible employees in approximately 50 countries and are designed to meet the complex legal, tax and regulatory requirements of each country in which they are offered. The explanations below describe the most significant plans in general, but specific plan rules and investment offerings may vary by country.

Equity Plus (EP): This voluntary plan gives eligible employees the opportunity to purchase UBS shares at fair market value on the purchase date and receive at no additional cost two UBS options for each share purchased, up to a maximum annual limit. The options have a strike price equal to the fair market value of the stock on the date the option is granted. Share purchases can be made annually from bonus compensation or quarterly based on regular deductions from salary. Shares purchased under Equity Plus are restricted from sale for two years from the time of purchase, and the options granted have a two-year vesting requirement and generally expire from ten years to ten and one-half years after the date of grant.

Discounted purchase plans: Up to and including 2005, selected employees in Switzerland were entitled to purchase a specified number of UBS shares at a predetermined discounted price each year. The number of shares that could be purchased depended on rank. Any such shares purchased must be held for a specified period of time. The discount is recorded as compensation expense. No new awards will be made under this plan.

Equity Ownership Plan (EOP): Selected personnel receive between 10% and 45% of their performance-related compensation in UBS shares or notional UBS shares instead of cash, on a mandatory basis. Up to and including 2004, participants in certain countries were eligible to receive a portion of their award in UBS shares (with a matching contribution in UBS options) or in Alternative Investment Vehicles (AIVs) (generally money market funds, UBS and non-UBS mutual funds and other UBS sponsored funds). In 2002 and 2003, certain employees received UBS options instead of UBS shares for a portion of their EOP award. In 2005, options were not granted as part of EOP and awards were generally made in UBS shares. EOP awards vest in one-third increments over a three-year vesting period. Under certain conditions, these awards are fully forfeitable by the employee.

Key employee option plans: Under these plans, key and high potential employees are granted UBS options with a strike price not less than the fair market value of the shares on the date the option is granted. Option grants generally vest in one-third increments over a three-year vesting period and generally expire from ten years to ten and one-half years after the grant date. One option gives the right to purchase one registered UBS share at the option's strike price.

Other plans: UBS sponsors a deferred compensation plan for selected eligible employees. Generally, contributions are made on a voluntary and tax deferred basis, and participants are allowed to notionally invest in AIVs. No additional company match is granted, and the plan is generally not forfeitable. In addition, UBS also grants other compensation awards to new recruits and key employees, generally in the form of UBS shares or options.

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 are delivered, or alternatively newly issued, to the employee against receipt of the strike price. As at 31 December 2005, UBS was holding approximately 56 million shares in treasury which is expected to be sufficient for anticipated employee exercises in the next year.

Note 31 Equity Participation and Other Compensation Plans (continued)
b) UBS share awards

Movements in shares granted under various equity participation plans described in Note 31a) are as follows:

UBS share awards

Share compensation plans	Number of shares 31.12.05	Weighted-average grant date fair value (CHF)	Number of shares 31.12.04	Weighted-average grant date fair value (CHF)	Number of shares 31.12.03	Weighted-average grant date fair value (CHF)
Unvested, at the beginning of the year	24,636,819	79	31,383,890	75	48,136,561	78
Shares awarded during the year	13,626,050	101	11,713,406	95	11,023,553	61
Vested during the year	(10,995,880)	78	(17,996,498)	79	(26,915,860)	75
Forfeited during the year	(404,396)	89	(463,979)	77	(860,364)	79
Unvested, at the end of the year	26,862,593	92	24,636,819	79	31,383,890	75

UBS estimates the grant date fair value of shares awarded during the year by using the average UBS share price on the grant date as quoted on the virtX.

The market value of shares vested was CHF 1,083 million, CHF 1,922 million and CHF 1,677 million for the years ended 31 December 2005, 31 December 2004 and and 31 December 2003, respectively.

c) UBS option awards

Movements in options granted under various equity participation plans described in Note 31a) are as follows:

UBS option awards

	Number of options 31.12.05	Weighted-average grant date fair value [1] (CHF)	Number of options 31.12.04	Weighted-average grant date fair value [1] (CHF)	Number of options 31.12.03	Weighted-average grant date fair value [1] (CHF)
Outstanding, at the beginning of the year	100,907,354	69	109,040,026	63	88,164,227	67
Granted during the year	22,601,427	109	24,113,252	91	38,969,319	59
Exercised during the year	(30,651,709)	68	(29,396,959)	58	(14,782,471)	54
Forfeited during the year	(1,905,053)	90	(2,692,824)	66	(2,721,970)	64
Expired unexercised	(69,474)	68	(156,141)	76	(589,079)	76
Outstanding, at the end of the year	90,882,545	84	100,907,354	69	109,040,026	63
Exercisable, at the end of the year	37,394,419	70	37,941,280	65	34,726,720	59

1 Some of the options in this table have exercise prices denominated in USD which have been converted into CHF at the year-end spot exchange rates for the purposes of this table.

The weighted average share price of options exercised during the year was CHF 106, CHF 93 and CHF 77 for the years ended 31 December 2005, 31 December 2004 and 31 December 2003, respectively.

The following table provides additional information about option awards:

	31.12.05	31.12.04	31.12.03
Intrinsic value of options exercised during the year (CHF million)	1,224	960	326
Weighted-average grant date fair value of options granted (CHF)	16	25	15

In addition, UBS received cash of CHF 2,018 million and an income tax benefit of CHF 217 million from the exercise of share options for the year ended 31 December 2005.

The intrinsic value of share-based liabilities (shares and options) paid for the years ended 31 December 2005, 31 December 2004 and 31 December 2003 was CHF 87 million, CHF 669 million and CHF 1,092 million, respectively.

Note 31 Equity Participation and Other Compensation Plans (continued)
c) UBS option awards (continued)

The following tables summarize additional information about options outstanding and options exercisable at 31 December 2005:

as at 31.12.05

	Options outstanding				Options exercisable			
Range of exercise price per share	Number of options outstanding	Weighted-average exercise price (CHF/USD)	Aggregate intrinsic value (CHF million)	Weighted-average remaining contractual term (years)	Number of options exercisable	Weighted-average exercise price (CHF/USD)	Aggregate intrinsic value (CHF million)	Weighted-average remaining contractual term (years)
CHF								
53.37–70.00	11,419,873	60.44	738	6.8	5,374,311	59.77	351	6.4
70.01–85.00	9,663,720	77.90	456	6.3	9,110,432	77.82	431	6.3
85.01–100.00	12,146,701	95.31	362	7.2	4,179,263	96.83	118	5.6
100.01–126.45	14,458,375	104.08	304	9.1	9,459	102.93	0	9.3
53.37–126.45	**47,688,669**	**86.09**	**1,860**	**7.5**	**18,673,465**	**76.89**	**900**	**6.2**
USD								
9.48–35.00	1,610,614	25.23	113	1.0	1,610,614	25.23	113	1.0
35.01–45.00	7,739,569	43.15	402	7.1	3,967,147	42.92	207	7.1
45.01–55.00	12,192,501	47.81	577	5.0	10,336,354	47.75	490	4.6
55.01–80.00	10,127,640	71.02	244	7.8	2,745,506	66.61	78	6.3
80.01–96.52	11,523,552	87.38	91	9.1	61,333	83.58	1	9.0
9.48–96.52	**43,193,876**	**62.13**	**1,427**	**7.0**	**18,720,954**	**47.67**	**889**	**5.1**

d) Valuation

Upon adoption of IFRS 2 and SFAS 123-R, both titled *Share-based Payment,* on 1 January 2005, UBS conducted a review of its option valuation inputs to ensure they were in line with the guidance included in the two standards. As a result of that review, UBS now uses a mix of implied and historic volatility instead of solely historic volatility and specific employee exercise behavior patterns based on statistical data instead of a single expected life input to determine the fair value of the options. A more sophisticated option valuation model was concurrently introduced to better model the UBS-specific employee exercise behavior patterns. The overall change in fair value of the options in 2005 versus 2004 is primarily attributable to using implied instead of historic volatility. The use of market-implied volatility decreased the fair value of the option by approximately CHF 7 or 29% compared to using historic volatility. The remaining reduction in fair value of approximately CHF 2 is attributable to the introduction of the new valuation model which uses UBS-specific employee exercise behavior patterns rather than an expected life input, as well as all other input changes based on observable market factors.

The fair value of options granted during 2005 was determined using the following assumptions:

	31.12.05					
	CHF awards	range low	range high	USD awards	range low	range high
Expected volatility (%)	23.20	12.39	27.03	23.36	15.21	27.21
Risk-free interest rate (%)	2.00	0.62	2.34	4.11	1.91	4.63
Expected dividend (CHF/USD)	4.59	3.00	7.78	3.77	2.43	8.24
Strike price (CHF/USD)	104.16	96.45	126.45	88.21	78.49	96.52
Share price (CHF/USD)	102.65	96.45	126.45	86.79	78.49	96.52

Note 31 Equity Participation and Other Compensation Plans (continued)
d) Valuation (continued)

The valuation technique takes into account the specific terms and conditions under which the share options are granted such as the vesting period, forced exercises during the lifetime, and gain- and time-dependent exercise behavior. The expected term of each option is calculated, by means of Monte Carlo simulation, as the probability-weighted average of the time of exercise.

The term structure of volatility is derived from the implied volatilities of traded UBS options in combination with the observed long-term historic share price volatility. Dividends are assumed to grow at a 10% yearly rate over the term of the option.

The fair value of options granted during 2004 and 2003 was determined using a proprietary option pricing model, similar to an American-style binomial model, with the following assumptions:

	31.12.04		31.12.03	
	CHF awards	USD awards	CHF awards	USD awards
Expected volatility (%)	33.66	33.45	35.20	34.74
Risk-free interest rate (%)	2.03	3.70	1.70	3.17
Expected dividend rate (%)	3.86	3.88	4.58	4.35
Strike price (CHF/USD)	95.59	75.12	60.84	46.44
Share price (CHF/USD)	94.17	74.06	59.32	46.25
Expected life (years)	5.6	5.6	4.5	4.5

The expected life was estimated on the basis of observed employee option exercise patterns. Volatility was derived from the observed long-term historic share price volatility aligned to the expected life of the option. Dividends were assumed to grow at a 10% yearly rate over the expected life of the option.

e) Compensation expense

Generally, under IFRS, for all employee share and option awards for which the underlying is UBS shares, UBS recognizes compensation expense over the requisite service period which is generally equal to the vesting period. Share and option awards typically have a three-year tiered vesting structure which means awards vest in one-third increments over that period. The total share-based compensation expense recognized for the years ended 31 December 2005, 31 December 2004 and 31 December 2003 was CHF 1,662 million, CHF 1,406 million and CHF 1,474 million, respectively. The total income taxes recognized in the Income statement in relation to these expenses were a benefit of CHF 431 million, CHF 64 million and CHF 197 million for the years ended 31 December 2005, 31 December 2004 and 31 December 2003, respectively.

For the years ended 31 December 2005 and 31 December 2004, virtually all of the expense recorded for share-based payments was related to equity settled plans. For the year ended 31 December 2003, the expense recorded for equity-settled plans was CHF 1,247 million. At 31 December 2005 and 31 December 2004, the total liability related to vested and unvested cash-settled share-based plans was insignificant.

At 31 December 2005, total compensation cost related to non-vested awards not yet recognized in the Income statement is CHF 1,252 million, which is expected to be recognized in Personnel expenses over a weighted average period of 1.87 years.

Note 32 Related Parties

The Group defines related parties as associated companies, post-employment benefit plans for the benefit of UBS employees, key management personnel, close family members of key management personnel and enterprises which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by or in which significant voting power resides with key management personnel or their close family members. Key management personnel is defined as members of the Board of Directors (BoD) and Group Executive Board (GEB). This definition is based on the requirements of revised IAS 24 *Related Party Disclosures* adopted by UBS on 1 January 2005 and the "Directive on Information Relating to Corporate Governance" issued by the SWX Swiss Exchange and effective from 1 July 2002 for all listed companies in Switzerland.

Where applicable, prior comparative periods have been restated.

a) Remuneration of key management personnel

The executive members of the BoD have top management employment contracts and receive pension benefits upon retirement. Total remuneration of the executive members of the BoD and GEB is as follows:

	For the year ended		
CHF million	**31.12.05**	31.12.04	31.12.03
Base salaries and other cash payments	**15**	15	14
Incentive awards - cash	**90**	70	65
Employer's contributions to retirement benefit plans	**1**	1	1
Benefits in kind, fringe benefits (at market value)	**3**	2	1
Equity compensation benefits [1]	**114**	103	77
Total	**223**	**191**	**158**

1 Expense for shares and options granted is measured at grant date and allocated over the vesting period, generally 3 years for options and 5 years for shares.

Total compensation numbers exclude merger-related retention payments for two ex-PaineWebber executives of CHF 21.1 million (USD 17.0 million) in 2003. These retention payments were committed to at the time of the merger in 2000 and fully disclosed at the time.

The external members of the BoD do not have employment or service contracts with UBS, and thus are not entitled to benefits upon termination of their service on the BoD. Payments to these individuals for their services as external board members amounted to CHF 6.1 million in 2005, CHF 5.7 million in 2004 and CHF 5.4 million in 2003.

b) Equity holdings

	As at		
	31.12.05	31.12.04	31.12.03
Number of stock options from equity participation plans held by executive members of the BoD and the GEB	**5,431,125**	6,004,997	6,218,011
Number of shares held by members of the BoD, GEB and parties closely linked to them	**4,356,992**	3,506,610	3,150,217

Of the share totals above, at 31 December 2005, 3,269 shares were held by close family members of key management personnel and 1,243,030 shares were held by enterprises which are directly or indirectly controlled by, jointly controlled by or significantly influenced by or in which significant voting power resides with key management personnel or their close family members.

In addition, at 31 December 2003, executive members of the BoD and GEB held 120,264 warrants (equal to 7,214 shares) from equity participation plans. Further information about UBS's equity participation plans can be found in Note 31. No member of the BoD or GEB is the beneficial owner of more than 1% of the Group's shares at 31 December 2005.

Note 32 Related Parties (continued)

c) Loans, advances and mortgages to key management personnel
Executive members of the BoD and GEB members have been granted loans, fixed advances and mortgages on the same terms and conditions that are available to other employees, based on terms and conditions granted to third parties adjusted for reduced credit risk. Non-executive BoD members are granted loans and mortgages at general market conditions.

Movements in the loan, advances and mortgage balances are as follows:

CHF million	**31.12.05**	31.12.04
Balance at the beginning of the year	**16**	25
Additions	**7**	2
Reductions	**(2)**	(11)
Balance at the end of the year	**21**	16

No unsecured loans were granted to key management personnel as at 31 December 2005 and 31 December 2004.

d) Associated companies
Movements in loans to associated companies are as follows:

CHF million	**31.12.05**	31.12.04
Balance at the beginning of the year	**83**	81
Additions	**267**	38
Reductions	**(26)**	(36)
Credit loss (expense) / recovery	**(3)**	0
Balance at the end of the year	**321**	83

All loans to associated companies are transacted at arm’s length. Of the balances above, the amount of unsecured loans amounted to CHF 82 million and CHF 61 million at 31 December 2005 and 31 December 2004, respectively.

Other transactions with associated companies transacted at arm's length are as follows:

	For the year ended or as at		
CHF million	**31.12.05**	31.12.04	31.12.03
Payments to associates for goods and services received	**397**	248	120
Fees received for services provided to associates	**258**	180	122
Commitments and contingent liabilities to associates	**39**	83	

During 2003, UBS sold its VISA acquiring business to Telekurs Holding AG, an associated company. UBS realized a CHF 90 million gain from this divestment. Note 35 provides a list of significant associates.

Note 32 Related Parties (continued)

e) Other related party transactions

During 2005 and 2004, UBS entered into transactions at arm's length with enterprises which are directly or indirectly controlled by, jointly controlled by or significantly influenced by or in which significant voting power resides with key management personnel or their close family members. In 2005 and 2004 these companies included Bertarelli Biotech SA (Switzerland, previously Bertarelli & Cie.), BMW Group (Germany), Kedge Capital Funds Ltd. (Jersey), Serono Group (Switzerland), Stadler Rail Group (Switzerland), Team Alinghi (Switzerland), and Unisys Corporation (USA). Related parties in 2005 also included Löwenfeld AG (Switzerland) and Royal Dutch Shell plc (UK). In 2004, related parties also included J. Sainsbury plc. (UK).

Movements in loans to other related parties are as follows:

CHF million	**31.12.05**	31.12.04
Balance at the beginning of the year	**294**	79
Additions	**628**	275
Reductions	**3**	60
Loans at the end of the year [1]	**919**	294

1 In 2005 includes loans, guarantees and contingent liabilities of CHF 116 million and unused committed facilities of CHF 804 million but excludes unused uncommitted working capital facilities and unused guarantees of CHF 52 million. In 2004 includes loans, guarantees and contingent liabilities of CHF 32 million and unused committed facilities of CHF 262 million but excludes unused uncommitted working capital facilities and unused guarantees of CHF 110 million.

No unsecured loans were entered into as at 31 December 2005 and 31 December 2004.

Other transactions with these related parties include:

	For the year ended		
CHF million	**31.12.05**	31.12.04	31.12.03
Goods sold and services provided to UBS	**15**	34	43
Fees received for services provided by UBS	**1**	10	7

As part of its sponsorship of Team Alinghi, defender for the "America's Cup 2007", UBS paid CHF 8.4 million (EUR 5.4 million) as sponsoring fee for 2005. Team Alinghi's controlling shareholder is UBS board member Ernesto Bertarelli.

f) Additional information

UBS also engages in trading and risk management activities (e.g. swaps, options, forwards) with various related parties mentioned in previous sections. These transactions may give rise to credit risk either for UBS or for a related party towards UBS. As part of its normal course of business, UBS is also a market maker in equity and debt instruments and at times may hold positions in instruments of related parties.

Note 33 Securitizations

During the years ended 31 December 2005, 2004 and 2003, UBS securitized (i.e. transformed owned financial assets into securities) residential mortgage loans and securities, commercial mortgage loans and other financial assets, acting as lead or co-manager. UBS's continuing involvement in these transactions was primarily limited to the temporary retention of various security interests.

Proceeds received at the time of securitization were as follows:

	Proceeds received		
CHF billion	**31.12.05**	31.12.04	31.12.03
Residential mortgage securitizations	**66**	91	131
Commercial mortgage securitizations	**5**	3	4
Other financial asset securitizations	**9**	9	2

Related pre-tax gains (losses) recognized, including unrealized gains (losses) on retained interests, at the time of securitization were as follows:

	Pre-tax gains / (losses) recognized		
CHF million	**31.12.05**	31.12.04	31.12.03
Residential mortgage securitizations	**107**	197	338
Commercial mortgage securitizations	**125**	141	214
Other financial asset securitizations	**17**	21	2

At 31 December 2005 and 2004, UBS retained CHF 1.7 billion and CHF 2.4 billion, respectively, in agency residential mortgage securities, backed by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). The fair value of retained interests in residential mortgage securities is generally determined using observable market prices. Retained non-investment grade interests in other residential mortgage, commercial mortgage and other securities were not material at 31 December 2005 and 2004.

Note 34 Post-Balance Sheet Events

There have been no material post-balance sheet events which would require disclosure or adjustment to the 31 December 2005 Financial Statements.

On 2 March 2006, the Board of Directors reviewed the Financial Statements and authorized them for issue. These Financial Statements will be submitted to the Annual General Meeting of Shareholders to be held on 19 April 2006 for approval.

Note 35 Significant Subsidiaries and Associates

The legal entity group structure of UBS is designed to support the Group's businesses within an efficient legal, tax, regulatory and funding framework. Neither the Business Groups of UBS (namely Investment Bank, Global Wealth Management & Business Banking and Global Asset Management) nor Corporate Center are replicated in their own individual legal entities, but rather they generally operate out of UBS AG (Parent Bank) through its Swiss and foreign branches.

The parent bank structure allows UBS to capitalize on the advantages offered by the use of one legal platform by all the Business Groups. It provides for the most cost efficient and flexible structure and facilitates efficient allocation and use of capital, comprehensive risk management and control and straightforward funding processes.

Where, usually due to local legal, tax or regulatory rules or due to additional legal entities joining the UBS Group via acquisition, it is either not possible or not efficient to operate out of the parent bank, then local subsidiary companies host the businesses. The significant operating subsidiary companies in the Group are listed below:

Significant subsidiaries

Company	Jurisdiction of incorporation	Business Group [1]		Share capital in millions	Equity interest accumulated in %
Banco UBS SA	Rio de Janeiro, Brazil	IB	BRL	52.9	100.0
Crédit Industriel SA	Zurich, Switzerland	Global WM&BB	CHF	0.1	100.0
Etra SIM SpA	Milan, Italy	Global WM&BB	EUR	7.6	100.0
Factors AG	Zurich, Switzerland	Global WM&BB	CHF	5.0	100.0
Noriba Bank BSC	Manama, Bahrain	Global WM&BB	USD	10.0	100.0
PaineWebber Capital Inc	Delaware, USA	IB	USD	25.8	100.0
PT UBS Securities Indonesia	Jakarta, Indonesia	IB	IDR	100,000.0	98.4
Thesaurus Continentale Effekten-Gesellschaft in Zürich	Zurich, Switzerland	Global WM&BB	CHF	0.1	100.0
UBS (Bahamas) Ltd	Nassau, Bahamas	Global WM&BB	USD	4.0	100.0
UBS (France) SA	Paris, France	Global WM&BB	EUR	10.7	100.0
UBS (Grand Cayman) Limited	George Town, Cayman Islands	IB	USD	25.0	100.0
UBS (Italia) SpA	Milan, Italy	Global WM&BB	EUR	60.0	100.0
UBS (Luxembourg) SA	Luxembourg, Luxembourg	Global WM&BB	CHF	150.0	100.0
UBS (Monaco) SA	Monte Carlo, Monaco	Global WM&BB	EUR	9.2	100.0
UBS (Trust and Banking) Limited	Tokyo, Japan	Global AM	JPY	11,150.0	100.0
UBS Advisory and Capital Markets Australia Ltd	Sydney, Australia	IB	AUD	580.8 [2]	100.0
UBS Alternative and Quantitative Investments LLC	Delaware, USA	Global AM	USD	0.0	100.0
UBS Americas Inc	Delaware, USA	IB	USD	4,550.8	100.0
UBS Asesores SA	Panama, Panama	Global WM&BB	USD	0.0	100.0
UBS Australia Limited	Sydney, Australia	IB	AUD	50.0	100.0
UBS Bank (Canada)	Toronto, Canada	Global WM&BB	CAD	8.5	100.0
UBS Bank USA	Utah, USA	Global WM&BB	USD	1,700.0	100.0
UBS Belgium SA/NV	Brussels, Belgium	Global WM&BB	EUR	17.0	100.0
UBS Capital (Jersey) Ltd	St. Helier, Jersey	IB	GBP	226.0	100.0
UBS Capital AG	Zurich, Switzerland	IB	CHF	5.0	100.0
UBS Capital Americas Investments II LLC	Delaware, USA	IB	USD	130.0 [2]	100.0
UBS Capital Americas Investments III Ltd	George Town, Cayman Islands	IB	USD	61.1 [2]	100.0
UBS Capital Asia Pacific Limited	George Town, Cayman Islands	IB	USD	5.0	100.0
UBS Capital BV	Amsterdam, the Netherlands	IB	EUR	118.8 [2]	100.0
UBS Capital II LLC	Delaware, USA	IB	USD	2.6 [2]	100.0
UBS Capital Latin America LDC	George Town, Cayman Islands	IB	USD	113.0 [2]	100.0
UBS Capital LLC	Delaware, USA	IB	USD	378.5 [2]	100.0
UBS Card Center AG	Glattbrugg, Switzerland	Global WM&BB	CHF	0.1	100.0
UBS Commodities Canada Ltd.	Toronto, Canada	IB	USD	11.3	100.0
UBS Corporate Finance Italia SpA	Milan, Italy	IB	EUR	1.9	100.0
UBS Derivatives Hong Kong Limited	Hong Kong, China	IB	HKD	60.0	100.0
UBS Deutschland AG	Frankfurt am Main, Germany	Global WM&BB	EUR	176.0	100.0

1 Global WM&BB: Global Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, CC: Corporate Center. 2 Share capital and share premium.

Note 35 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business Group [1]		Share capital in millions	Equity interest accumulated in %
UBS Employee Benefits Trust Limited	St. Helier, Jersey	CC	CHF	0.0	100.0
UBS Energy LLC	Delaware, USA	IB	USD	0.0	100.0
UBS España SA	Madrid, Spain	Global WM&BB	EUR	62.2	100.0
UBS Fiduciaria SpA	Milan, Italy	Global WM&BB	EUR	0.2	100.0
UBS Fiduciary Trust Company	New Jersey, USA	Global WM&BB	USD	4.4 [2]	99.6
UBS Finance (Cayman Islands) Ltd	George Town, Cayman Islands	CC	USD	0.5	100.0
UBS Finance (Curaçao) NV	Willemstad, Netherlands Antilles	CC	USD	0.1	100.0
UBS Finance (Delaware) LLC	Delaware, USA	IB	USD	37.3 [2]	100.0
UBS Financial Services Inc	Delaware, USA	Global WM&BB	USD	1,672.3 [2]	100.0
UBS Financial Services Incorporated of Puerto Rico	Hato Rey, Puerto Rico	Global WM&BB	USD	31.0 [2]	100.0
UBS Fund Advisor LLC	Delaware, USA	Global WM&BB	USD	0.0	100.0
UBS Fund Holding (Luxembourg) SA	Luxembourg, Luxembourg	Global AM	CHF	42.0	100.0
UBS Fund Holding (Switzerland) AG	Basel, Switzerland	Global AM	CHF	18.0	100.0
UBS Fund Management (Switzerland) AG	Basel, Switzerland	Global AM	CHF	1.0	100.0
UBS Fund Services (Cayman) Ltd	George Town, Cayman Islands	Global AM	USD	5.6	100.0
UBS Fund Services (Ireland) Limited	Dublin, Ireland	Global AM	EUR	1.3	100.0
UBS Fund Services (Luxembourg) SA	Luxembourg, Luxembourg	Global AM	CHF	2.5	100.0
UBS Global Asset Management (Americas) Inc	Delaware, USA	Global AM	USD	0.0	100.0
UBS Global Asset Management (Australia) Ltd	Sydney, Australia	Global AM	AUD	8.0	100.0
UBS Global Asset Management (Canada) Co	Toronto, Canada	Global AM	CAD	117.0	100.0
UBS Global Asset Management (Deutschland) GmbH	Frankfurt am Main, Germany	Global AM	EUR	7.7	100.0
UBS Global Asset Management (France) SA	Paris, France	Global WM&BB	EUR	2.1	100.0
UBS Global Asset Management (Hong Kong) Limited	Hong Kong, China	Global AM	HKD	25.0	100.0
UBS Global Asset Management (Italia) SIM SpA	Milan, Italy	Global AM	EUR	2.0	100.0
UBS Global Asset Management (Japan) Ltd	Tokyo, Japan	Global AM	JPY	2,200.0	100.0
UBS Global Asset Management (Singapore) Ltd	Singapore, Singapore	Global AM	SGD	4.0	100.0
UBS Global Asset Management (Taiwan) Ltd	Taipei, Taiwan	Global AM	TWD	340.0	100.0
UBS Global Asset Management (US) Inc	Delaware, USA	Global AM	USD	35.2 [2]	100.0
UBS Global Asset Management Holding Ltd	London, Great Britain	Global AM	GBP	33.0	100.0
UBS Global Life AG	Vaduz, Liechtenstein	Global WM&BB	CHF	5.0	100.0
UBS Global Trust Corporation	St. John, Canada	Global WM&BB	CAD	0.1	100.0
UBS International Holdings BV	Amsterdam, the Netherlands	CC	EUR	6.8	100.0
UBS International Inc	New York, USA	Global WM&BB	USD	34.3 [2]	100.0
UBS International Life Limited	Dublin, Ireland	Global WM&BB	EUR	1.0	100.0
UBS Investment Bank Nederland BV	Amsterdam, the Netherlands	IB	EUR	10.8	100.0
UBS Investment Management Canada Inc	Toronto, Canada	Global WM&BB	CAD	0.0	100.0
UBS Italia SIM SpA	Milan, Italy	IB	EUR	15.1	100.0
UBS Leasing AG	Zurich, Switzerland	Global WM&BB	CHF	10.0	100.0
UBS Life AG	Zurich, Switzerland	Global WM&BB	CHF	25.0	100.0
UBS Life Insurance Company (USA)	California, USA	Global WM&BB	USD	39.3 [2]	100.0
UBS Limited	London, Great Britain	IB	GBP	29.4	100.0
UBS Loan Finance LLC	Delaware, USA	IB	USD	16.7	100.0
UBS Mortgage Holdings LLC	Delaware, USA	Global WM&BB	USD	0.0	100.0
UBS New Zealand Limited	Auckland, New Zealand	IB	NZD	7.5	100.0
UBS O'Connor LLC	Delaware, USA	Global AM	USD	1.0	100.0
UBS Portfolio LLC	Delaware, USA	IB	USD	0.1	100.0
UBS Preferred Funding Company LLC I	Delaware, USA	CC	USD	0.0	100.0
UBS Preferred Funding Company LLC II	Delaware, USA	CC	USD	0.0	100.0

1 Global WM&BB: Global Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, CC: Corporate Center. 2 Share capital and share premium.

Note 35 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business Group [1]		Share capital in millions	Equity interest accumulated in %
UBS Preferred Funding Company LLC III	Delaware, USA	CC	USD	0.0	100.0
UBS Preferred Funding Company LLC IV	Delaware, USA	CC	USD	0.0	100.0
UBS Principal Finance LLC	Delaware, USA	IB	USD	0.1	100.0
UBS Private Clients Australia Ltd	Melbourne, Australia	Global WM&BB	AUD	53.9	100.0
UBS Real Estate Investments Inc	Delaware, USA	IB	USD	0.3	100.0
UBS Real Estate Kapitalanlagegesellschaft mbH	Munich, Germany	Global AM	EUR	7.5	51.0
UBS Real Estate Securities Inc	Delaware, USA	IB	USD	0.4	100.0
UBS Realty Investors LLC	Massachusetts, USA	Global AM	USD	9.3	100.0
UBS Securities (Thailand) Ltd	Bangkok, Thailand	IB	THB	400.0	100.0
UBS Securities Asia Limited	Hong Kong, China	IB	HKD	20.0	100.0
UBS Securities Australia Ltd	Sydney, Australia	IB	AUD	209.8 [2]	100.0
UBS Securities Canada Inc	Toronto, Canada	IB	CAD	10.0	50.0
UBS Securities España Sociedad de Valores SA	Madrid, Spain	IB	EUR	15.0	100.0
UBS Securities France SA	Paris, France	IB	EUR	22.9	100.0
UBS Securities Hong Kong Limited	Hong Kong, China	IB	HKD	230.0	100.0
UBS Securities India Private Limited	Mumbai, India	IB	INR	237.8	75.0
UBS Securities International Limited	London, Great Britain	IB	GBP	18.0	100.0
UBS Securities Japan Ltd	George Town, Cayman Islands	IB	JPY	60,000.0	100.0
UBS Securities Limited	London, Great Britain	IB	GBP	140.0	100.0
UBS Securities Limited Seoul Branch	Seoul, South Korea	IB	KRW	0.0	100.0
UBS Securities LLC	Delaware, USA	IB	USD	2,141.4 [2]	100.0
UBS Securities Malaysia Sdn Bdn	Kuala Lumpur, Malaysia	IB	MYR	75.0	100.0
UBS Securities Philippines Inc	Makati City, Philippines	IB	PHP	150.0	100.0
UBS Securities Pte. Ltd.	Singapore, Singapore	IB	SGD	90.0	100.0
UBS Services USA LLC	Delaware, USA	Global WM&BB	USD	0.0	100.0
UBS South Africa (Proprietary) Limited	Sandton, South Africa	IB	ZAR	87.1 [2]	100.0
UBS Swiss Financial Advisers AG	Zurich, Switzerland	Global WM&BB	CHF	1.5	100.0
UBS Trust Company National Association	New York, USA	Global WM&BB	USD	5.0 [2]	100.0
UBS Trustees (Bahamas) Ltd	Nassau, Bahamas	Global WM&BB	USD	2.0	100.0
UBS Trustees (Cayman) Ltd	George Town, Cayman Islands	Global WM&BB	USD	2.0	100.0
UBS Trustees (Jersey) Ltd	St. Helier, Jersey	Global WM&BB	GBP	0.0	100.0
UBS Trustees (Singapore) Ltd	Singapore, Singapore	Global WM&BB	SGD	3.3	100.0
UBS UK Holding Limited	London, Great Britain	IB	GBP	5.0	100.0
UBS UK Properties Limited	London, Great Britain	IB	GBP	100.0	100.0
UBS Wealth Management (UK) Ltd	London, Great Britain	Global WM&BB	GBP	2.5	100.0
Motor-Columbus AG	Baden, Switzerland	CC	CHF	253.0	55.6
Aare-Tessin AG für Elektrizität [3]	Olten, Switzerland	CC	CHF	303.6	33.0
Atel Energia S.r.l. [3]	Milan, Italy	CC	EUR	20.0	32.3
Atel Installationstechnik AG [3]	Olten, Switzerland	CC	CHF	30.0	33.0
Entrade GmbH [3]	Schaffhausen, Switzerland	CC	CHF	0.4	24.7
GAH Beteiligungs AG [3]	Heidelberg, Germany	CC	EUR	25.0	33.0
Società Elettrica Sopracenerina SA [3]	Locarno, Switzerland	CC	CHF	27.5	19.6

1 Global WM&BB: Global Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, CC: Corporate Center. 2 Share capital and share premium. 3 Not wholly owned subsidiary controlled by Motor-Columbus which itself is only 55.6% owned by UBS.

Note 35 Significant Subsidiaries and Associates (continued)

Consolidated companies: changes in 2005

Significant new companies
Etra SIM SpA – Milan, Italy
UBS Real Estate Kapitalanlagegesellschaft mbH – Munich, Germany
UBS Swiss Financial Advisers AG – Zurich, Switzerland

Deconsolidated companies

Significant deconsolidated companies	Reason for deconsolidation
Ehinger & Armand von Ernst AG – Zurich, Switzerland	Sold
Ferrier Lullin & Cie SA – Geneva, Switzerland	Sold
BDL Banco di Lugano – Lugano, Switzerland	Sold
GAM Holding AG – Zurich, Switzerland	Sold
UBS Investment Bank AG – Frankfurt am Main, Germany	Merged
UBS Capital SpA – Milan, Italy	Sold
Cantrade Private Bank Switzerland (CI) Limited – St. Helier, Jersey	Sold
GAM Limited – Hamilton, Bermuda	Sold
BDL Banco di Lugano (Singapore) Ltd – Singapore, Singapore	Sold
SBC Wealth Management AG – Zug, Switzerland	Merged

Significant associates

Company	Industry	Equity interest in %		Share capital in millions
Electricité d'Emosson SA - Martigny, Switzerland	Electricity	16	CHF	140
Engadiner Kraftwerke AG - Zernez, Switzerland	Electricity	7	CHF	140
Kernkraftwerk Gösgen-Däniken AG - Däniken, Switzerland	Electricity	13	CHF	350[1]
Kernkraftwerk Leibstadt AG - Leibstadt, Switzerland	Electricity	9	CHF	450
SIS Swiss Financial Services Group AG - Zurich, Switzerland	Financial	33	CHF	26
Telekurs Holding AG - Zurich, Switzerland	Financial	33	CHF	45
UBS Alpha Select - George Town, Cayman Islands	Private Investment Company	32	USD	295[2]
UBS Alpha Hedge Fund - George Town, Cayman Islands	Private Investment Company	23	USD	345[2]
UBS Currency Portfolio Ltd - George Town, Cayman Islands	Private Investment Company	25	USD	957[2]
UBS Global Equity Arbitrage Ltd - George Town, Cayman Islands	Private Investment Company	21	USD	613[2]
Azienda Energetica Municipale S.p.A. - Milan, Italy	Electricity	2	EUR	930
Chou Mitsui Private Equity Partners Investment Limited Partnership V - Tokyo, Japan	Private Investment Company	47	JPY	10,490
ATR Acquisition LLC - Texas, USA	Manufacturing	28	USD	273
Waterside Plaza Holdings LLC - Delaware, USA	Real Estate	50	USD	119

1 Thereof paid in CHF 290 million. 2 For hedge funds net asset value instead of share capital.

None of the above investments carries voting rights that are significantly different from the proportion of shares held.

Note 36 Invested Assets and Net New Money

Invested assets include all client assets managed by or deposited with UBS for investment purposes only. Assets included are, for example, managed fund assets, managed institutional assets, discretionary and advisory wealth management portfolios, fiduciary deposits, time deposits, savings accounts and wealth management securities or brokerage accounts. All assets held for purely transactional purposes and custody-only including corporate client assets held for cash management and transactional purposes are excluded, as the bank only administers the assets and does not offer advice on how the assets should be invested. Also excluded are non-bankable assets (e. g. art collections) and deposits from third-party banks for funding or trading purposes.

Discretionary assets are defined as those where the bank decides on how a client's assets are invested. Other invested assets are those where the client decides on how the assets are invested. When a single product is created in one Business Group and sold in another, it is counted in both the Business Group that does the investment management and the one that distributes it. This results in double counting within UBS total invested assets, as both Business Groups are providing a service independently to their respective clients, and both add value and generate revenue.

Net new money is the net amount of invested assets that are acquired by the bank from new clients, invested assets that are lost when clients terminate their relationship with UBS and the inflows and outflows of invested assets from existing UBS clients. Net new money is calculated with the direct method, which is based on transaction level in- and outflows to/from invested assets at client level. Interest and dividend income from invested assets is not included in the net new money result. Market and currency movements as well as fees and commissions are also excluded, as are the effects resulting from any acquisition or divestment of a UBS subsidiary or business. Interest expense on loans to clients results in net new money outflows. Reclassifications between invested assets and client assets as a result of a change in the service level delivered are treated as net new money flow.

Private Banks & GAM was sold on 2 December 2005.

CHF billion	**31.12.05**	31.12.04
Fund assets managed by UBS	**390**	354
Discretionary assets	**716**	570
Other invested assets	**1,546**	1,293
Total invested assets	**2,652**	2,217
thereof double count	***332***	*294*
Net new money	**148.5**	89.9

Note 37 Business Combinations

During 2005, UBS completed several acquisitions that were accounted for as business combinations. None of the acquisitions was individually significant to the financial statements, and therefore they are presented in aggregate for each of Financial Businesses and Industrial Holdings.

Financial Businesses

In 2005, Wealth Management completed the acquisitions of Julius Baer North America, Etra SIM S.p.A. (Etra) and Dresdner Bank Lateinamerika (DBLA).

Julius Baer North America

On 1 April 2005, UBS acquired the assets of Julius Baer's wealth management operations in North America, which also include certain related assets in Switzerland, for an aggregate consideration of approximately CHF 76 million. The business manages over USD 4 billion of client assets, including custodial assets, and employs approximately 50 staff in four locations. These operations have been integrated to further strengthen UBS's wealth management operations.

Etra

Effective 31 May 2005, UBS acquired Etra, an independent Italian financial intermediary firm, for an aggregate consideration of approximately CHF 26 million. Etra serves wealthy private and institutional clients in Italy and manages approximately EUR 400 million of client assets with 20 staff. The operations have subsequently been integrated into UBS's Italian wealth management unit.

Dresdner Bank Lateinamerika

On 29 April 2005, UBS acquired wealth management operations from Dresdner Bank Lateinamerika (DBLA) located in Hamburg, New York, Miami, Zurich and the Bahamas. The Hamburg activities represent approximately two thirds of DBLA's acquired business, while the remainder is spread over the other four locations. The cost of the acquisition was approximately CHF 136 million, and resulted in the recognition of goodwill of approximately CHF 133 million. The acquired business managed invested assets from private clients of approximately EUR 3.7 billion. The acquired business covers all important Latin American markets and strengthens UBS's position as a provider of wealth management services for clients in that region.

Global Asset Management – Siemens Real Estate Funds

Effective 1 April 2005, UBS expanded its asset management activities in Germany by acquiring a 51% stake in the real estate investment management business of Siemens Kapitalanlagegesellschaft mbH (SKAG), a subsidiary of Siemens AG, the German engineering conglomerate. The purchase price was CHF 67 million, allocated to identified net assets at fair value of approximately CHF 10 million and goodwill of approximately CHF 57 million. The business comprises three open-end real estate funds with a total fund volume of approximately EUR 2 billion (as at 31 December 2004) and has been integrated into the global real estate business, giving it access to Global Asset Management's established distribution network. The business was renamed UBS Real Estate Kapitalanlagegesellschaft mbH.

Investment Bank – Prediction

On 11 November 2005, UBS acquired the remaining 68.3% of Prediction LLC (Prediction), a financial engineering and trading software company located in Santa Fe, New Mexico, USA. UBS has owned a 31.7% minority stake in the company since 2000. The purchase is in line with UBS's focus on technology and allows continuous operation and development of Prediction's automated trading systems. Furthermore, UBS secures the know-how available at Prediction and the opportunity to leverage it across UBS. The purchase price of approximately CHF 84 million was primarily allocated to intangible assets valued at approximately CHF 26 million and goodwill of approximately CHF 51 million.

Details of assets and liabilities recognized from the acquisitions above are as follows:

Note 37 Business Combinations (continued)

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	2	43	45
Property and equipment	2	0	2
Financial investments	35	0	35
Goodwill	0	327	327
All other assets	1,092	0	1,092
Total assets	**1,131**	**370**	**1,501**
Liabilities			
Provisions	18	0	18
Deferred tax liabilities	0	6	6
All other liabilities	1,022	2	1,024
Total liabilities	1,040	8	1,048
Net assets	91	362	453
Total liabilities and equity	**1,131**	**370**	**1,501**

Industrial Holdings

On 1 July 2005, Motor-Columbus acquired Elektroline a.s., a service company active in the electricity business in the Czech Republic. The operations are small and are an entry base in the energy service market in that country.

On 20 December 2005, Motor-Columbus acquired Moravske Teplarny a.s., a power generator in the Czech Republic, for a consideration of approximately CHF 108 million. The purchase price was predominantly allocated to the power station and fair value of net assets acquired was equal to the purchase price. No goodwill was recognized in this acquisition. The acquisition is a further step in expanding Motor-Columbus's operations in Eastern Europe.

Details of assets and liabilities recognized from the two acquisitions above are as follows:

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Property and equipment	97	14	111
Deferred tax assets	0	2	2
Goodwill	0	4	4
All other assets	15	0	15
Total assets	**112**	**20**	**132**
Liabilities			
Provisions	1	0	1
Deferred tax liabilities	6	5	11
All other liabilities	6	(4)	2
Total liabilities	13	1	14
Net assets	99	19	118
Total liabilities and equity	**112**	**20**	**132**

Note 37 Business Combinations (continued)

Business combinations completed in 2004
During 2004, UBS completed several acquisitions that were accounted for as business combinations. Except Motor-Columbus, which is discussed separately, none of the acquisitions was individually significant to the financial statements, and therefore, they are presented in aggregate per business group.

Wealth Management
In the first quarter of 2004, UBS acquired the private banking operations of Lloyds Bank S.A., France, and the private client business of Merrill Lynch in Germany and Austria. The two businesses together had invested assets of approximately CHF 3.3 billion at the date of acquisition. Both businesses have been integrated into the local UBS Wealth Management operations and have helped to significantly increase the client base in France and Germany.

In the second quarter of 2004, UBS acquired Laing & Cruickshank and Scott Goodman Harris, both British firms. Laing & Cruickshank, acquired for a consideration of approximately CHF 363 million, provides comprehensive wealth management services to high net worth investors and charities. 75 client advisors looked after invested assets of approximately CHF 11.4 billion, which doubled the size of UBS's wealth management operations in the United Kingdom. Scott Goodman Harris, with 28 employees, provides advice on pension and retirement benefit products, serving primarily executives and company directors. Subsequent to the acquisition both firms have been integrated into the UBS wealth management operations in the UK.

In fourth quarter 2004, UBS acquired Sauerborn Trust AG (Sauerborn), an independent German firm providing financial advisory services to individuals in the ultra-high net worth segment. Sauerborn has approximately CHF 9.4 billion of assets under management. UBS has merged its ultra-high net worth segment within the German wealth management business with the operations of Sauerborn to provide an expanded range of services and products to its clients and reap the benefits of synergies. UBS paid a cash consideration of approximately CHF 140 million (EUR 91 million) at closing, and will pay a further CHF 65 million (EUR 42 million) in three equal installments over two years.

The aggregate purchase price for the five acquisitions is approximately CHF 696 million and has been allocated to acquired net assets at fair value of CHF 175 million. The difference of CHF 521 million from the purchase price has been recognized as goodwill.

Details of assets and liabilities recognized are as follows:

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	162	162
Property and equipment	3	(1)	2
Financial investments	5	0	5
Goodwill	0	521	521
All other assets	260	2	262
Total assets	**268**	**684**	**952**
Liabilities			
Provisions	5	19	24
Deferred tax liabilities	0	54	54
All other liabilities	178	0	178
Total liabilities	183	73	256
Net assets	85	611	696
Total liabilities and equity	**268**	**684**	**952**

Intangible assets recognized relate to the existing customer relationships of the businesses and have been assigned useful lives of twenty years, over which they will be amortized.

Note 37 Business Combinations (continued)

Investment Bank

In fourth quarter 2004, UBS acquired Charles Schwab SoundView Capital Markets, the Capital Markets Division of Charles Schwab Corp. (Schwab), for an aggregate cash consideration of approximately CHF 304 million. The business comprises equities trading and sales, including a third-party execution business, along with Schwab's NASDAQ trading system. This business handles over 200 million shares a day in trade volume and makes a market in over 11,000 stocks. As part of the acquisition, UBS and Schwab have entered into multi-year execution service agreements for the handling of Schwab's equities and listed options orders. The business was integrated in the Equities business of the Investment Bank.

Also in fourth quarter 2004, UBS acquired from Brunswick Capital their 50% stake in the equal partnership joint venture Brunswick UBS, an equity brokerage and trading, investment banking and custody joint venture in Russia. The total purchase price has been estimated at approximately CHF 203 million, of which UBS paid at closing a cash consideration to the sellers of CHF 113 million (USD 99 million), while the balance, which includes 20% of Brunswick UBS's net profits for 2005, is payable in 2005 and 2006. Formed in 1997, Brunswick UBS has developed a significant franchise in the Russian securities market, employing 120 people in Moscow. UBS already consolidated Brunswick, so that the effects of this acquisition on the financial statements are minor.

The aggregate purchase price for the two businesses is approximately CHF 507 million, a portion of which includes a deferred component linked to future results of operations. Accordingly, a revision of the current purchase price estimate will be made, if necessary, once final payments have been determined. The purchase price has been allocated to net assets acquired of CHF 198 million, which includes a revaluation of CHF 27 million related to UBS's existing interest in Brunswick. The difference of CHF 336 million from the purchase price has been recognized as goodwill.

Details of assets and liabilities recognized are as follows:

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	21	133	154
Property and equipment	20	(13)	7
Financial investments	99	(2)	97
Deferred tax assets	37	(37)	0
Goodwill	0	336	336
All other assets	361	(1)	360
Total assets	**538**	**416**	**954**
Liabilities			
Deferred tax liabilities	0	23	23
All other liabilities	364	32	396
Total liabilities	364	55	419
Equity attributable to minority interests	40	(39)	1
Equity attributable to shareholders	134	400	534
Total liabilities and equity	**538**	**416**	**954**

Intangible assets recognized relate to the businesses' existing customer relationships and have been assigned useful lives of five years, in the case of Brunswick, and eight years, in the case of Schwab, over which they will be amortized.

Note 37 Business Combinations (continued)

Notz Stucki

In first quarter 2004, Ferrier Lullin, one of UBS's private label banks, acquired Notz Stucki & Co., a small private bank in Geneva. The activities have been integrated into the operations of Ferrier Lullin. The purchase price of CHF 42 million was allocated to net tangible assets of CHF 22 million, and Notz Stucki's customer base of CHF 21 million, less deferred taxes of CHF 5 million. The difference of CHF 4 million from the purchase price was recognized as goodwill. On 2 December 2005, the business was sold as part of Private Banks & GAM to Julius Baer.

Motor-Columbus

On 1 July 2004, UBS acquired from RWE, a German utilities company, its 20% ownership interest in Motor-Columbus AG (Motor-Columbus) for a cash consideration, including incidental acquisition costs, of approximately CHF 379 million. UBS now holds a 55.6% majority interest in Motor-Columbus, a Swiss holding company whose most significant asset is an approximate 59.3% ownership interest in Aare-Tessin AG für Elektrizität (Atel), a Swiss group engaged in the production, distribution and trading of electricity.
UBS now consolidates Motor-Columbus and treated the acquisition of the 20% ownership interest as a business combination. The purchase price was allocated to acquired net assets of approximately CHF 260 million and the difference of CHF 119 million from the purchase price was recognized as goodwill. In accordance with IFRS 3, the existing 35.6% interest in Motor-Columbus was revalued to the valuation basis established at 1 July 2004, resulting in a revaluation amount of approximately CHF 81 million (CHF 63 million net of deferred tax liabilities), which was recorded directly in equity. The minority interests were also revalued to the new valuation basis, so that assets acquired and liabilities assumed are carried at full fair value. Details of assets, liabilities and minority interests, for which a step-up to fair value was recognized in purchase accounting, and all other assets and liabilities recognized at carryover basis are as follows:

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	444	750	1,194
Property and equipment	1,939	144	2,083
Investments in associates	655	367	1,022
Financial investments	621	19	640
Deferred tax assets	113	67	180
All other assets	2,629	0	2,629
Total assets	**6,401**	**1,347**	**7,748**
Liabilities			
Provisions	835	75	910
Debt issued	700	27	727
Deferred tax liabilities	293	308	601
All other liabilities	3,045	0	3,045
Total liabilities	4,873	410	5,283
Equity attributable to minority interests	784	382	1,166
Equity attributable to shareholders	744	555	1,299
Total liabilities and equity	**6,401**	**1,347**	**7,748**

The CHF 75 million step-up to fair value of provision relates to contingent liabilities arising from guarantees and certain contractual obligations. UBS's share in the equity at fair value of CHF 1,299 million is CHF 723 million, while the remaining CHF 576 million is additional minority interests, bringing the total minority interest as of the acquisition date to CHF 1,742 million.

Useful economic lives of between 4 and 25 years have been assigned to amortizable and depreciable assets based on contractual lives, where applicable, or estimates of the period during which the assets will benefit the operations.

Note 37 Business Combinations (continued)

Pro-forma information (unaudited)
The following pro-forma information shows UBS's total operating income, net profit and basic earnings per share as if all of the acquisitions completed in 2005 had been made as at 1 January 2005 and 2004, and all acquisitions completed in 2004 had been made as at 1 January 2004 and 2003. Adjustments have been made to reflect additional amortization and depreciation of assets and liabilities, which have been assigned fair values different from their carryover basis in purchase accounting.

	For the year ended		
CHF million, except where indicated	**31.12.05**	31.12.04	31.12.03
Total operating income	**51,069**	46,336	39,536
Net profit	**14,043**	8,044	6,277
Basic earnings per share (CHF)	**13.95**	7.81	5.62

Acquisitions announced in 2006

UBS Bunting Limited
On 19 January 2006, UBS announced the proposed acquisition of the 50% minority interest in its Canadian institutional securities subsidiary, UBS Bunting Limited. The purchase price will consist of a combination of cash and UBS stock totaling CAD 144 million (approximately CHF 157 million) plus up to an additional CAD 29 million (approximately CHF 32 million) depending on the performance of the acquired business post-closing in 2006 and 2007. The transaction is expected to close during the first quarter of 2006 and is subject to shareholder and regulatory approvals. UBS currently owns a controlling stake of 50% in UBS Bunting Limited, with the remaining shares held by employees of its wholly owned operating subsidiary.

Note 38 Discontinued Operations

Private Banks & GAM
On 2 December 2005, UBS sold its Private Banks & GAM unit to Julius Baer for an aggregate consideration of CHF 5,683 million, of which CHF 3,375 million was received in cash, CHF 225 million in the form of hybrid Tier 1 instruments, and the remaining CHF 2,083 million representing a 21.5% stake in the enlarged Julius Baer. As part of the sales agreement, CHF 200 million of cash was retained within UBS. The gain on sale after taxes from this transaction amounts to CHF 3,705 million.

As part of the agreement, UBS agreed to a lock-up period of 18 months for 19.9% of the stake and of three months for the remaining 1.6%. The value of the Julius Baer stake is based on a price of CHF 86.20 per share at the date of closing, which is a discount of 8.4% to the market price to take into account the 18-month lock-up period to which 19.9% of the stake is subject. Shortly after closing, UBS reduced its 21.5% stake to approximately 20.7% by settling call options that were outstanding on the shares of the former holding company of the Private Banks & GAM businesses.

UBS has agreed not to take a seat on Julius Baer's board of directors or exercise any control or influence on its strategy or on its operational business decisions, and has no right to register its shares with voting rights for a period of 3 years, unless specifically defined events occur that could materially dilute or otherwise affect UBS's position as an investor in Julius Baer. In such an event, UBS has the option to register its shares with voting rights and thus obtain the possibility to vote them at shareholders' meetings. Given the fact that the shares are not entered into Julius Baer's share register with voting rights, UBS classified the stake as a financial investment available-for-sale.

Private Banks & GAM is presented as a discontinued operation in these financial statements. Private Banks & GAM comprised the three private banks Banco di Lugano, Ehinger & Armand von Ernst and Ferrier Lullin as well as specialist asset manager GAM and was presented as a separate business segment.

Industrial Holdings
In 2005, UBS sold four of its consolidated private equity investments for an aggregate cash consideration of CHF 179 million. In 2004, UBS sold five of its consolidated private equity investments for an aggregate cash consideration of CHF 141 million, while in 2003 one consolidated private equity investment was sold for an aggregate cash consideration of CHF 456 million. These private equity investments were all held within the Industrial Holdings segment and were sold in line with UBS's strategy to exit the private equity business. These investments are presented as discontinued operations in these Financial Statements.

Note 38 Discontinued Operations (continued)

CHF million	For the year ended 31.12.05	
	Private Banks & GAM	Industrial Holdings
Operating income	1,102	975
Operating expenses	633	967
Profit from operations before tax	469	8
Pre-tax gain on sale	4,095	116
Profit from discontinued operations before tax	4,564	124
Tax expense on profit from operations	99	9
Tax expense on gain on sale	390	0
Tax expense from discontinued operations	489	9
Net profit from discontinued operations	4,075	115
Net cash flows from		
operating activities	(143)	41
investing activities	(22)	(14)
financing activities	0	1

CHF million	For the year ended 31.12.04	
	Private Banks & GAM	Industrial Holdings
Operating income	1,086	1,890
Operating expenses	690	1,818
Profit from operations before tax	396	72
Pre-tax gain on sale	0	68
Profit from discontinued operations before tax	396	140
Tax expense on profit from operations	97	32
Tax expense on gain on sale	0	0
Tax expense from discontinued operations	97	32
Net profit from discontinued operations	299	108
Net cash flows from		
operating activities	(725)	5
investing activities	30	(34)
financing activities	3	44

CHF million	For the year ended 31.12.03	
	Private Banks & GAM	Industrial Holdings
Operating income	882	2,136
Operating expenses	662	2,071
Profit from operations before tax	220	65
Pre-tax gain on sale	0	194
Profit from discontinued operations before tax	220	259
Tax expense on profit from operations	52	27
Tax expense on gain on sale	0	0
Tax expense from discontinued operations	52	27
Net profit from discontinued operations	168	232
Net cash flows from		
operating activities	2,348	103
investing activities	135	(118)
financing activities	(1)	(3)

Note 38 Discontinued Operations (continued)

Motor-Columbus

On 30 September 2005, UBS announced that it had signed agreements to sell its 55.6% stake in Motor-Columbus to a consortium of Atel's Swiss minority shareholders, EOS Holding and Atel, as well as to the French utility Electricité de France (EDF). The sale price has been set at CHF 1.3 billion, resulting in an estimated pre-tax gain for UBS of around CHF 350 million. The transaction must be approved by various national and international authorities.

Motor-Columbus continues to be presented as a continuing operation until it is highly probable that the conditions precedent, to which the sale is subject, will be met. At that time, Motor-Columbus will be presented as a discontinued operation in the Financial Statements.

Note 39 Currency Translation Rates

The following table shows the principal rates used to translate the financial statements of foreign entities into Swiss francs:

	Spot rate As at		Average rate Year ended		
	31.12.05	31.12.04	**31.12.05**	31.12.04	31.12.03
1 USD	**1.31**	1.14	**1.25**	1.24	1.34
1 EUR	**1.56**	1.55	**1.55**	1.54	1.54
1 GBP	**2.26**	2.19	**2.27**	2.27	2.20
100 JPY	**1.11**	1.11	**1.13**	1.15	1.16

Note 40 Swiss Banking Law Requirements

The consolidated Financial Statements of UBS are prepared in accordance with International Financial Reporting Standards. Set out below are the significant differences regarding recognition and measurement between IFRS and the provisions of the Banking Ordinance and the Guidelines of the Swiss Banking Commission governing financial statement reporting pursuant to Article 23 through Article 27 of the Banking Ordinance.

1. Consolidation

Under IFRS, all entities which are directly or indirectly controlled by the Group are consolidated.

Under Swiss law, only entities that are active in the field of banking and finance as well as real estate entities are subject to consolidation. Entities which are held temporarily are recorded as Financial investments.

2. Financial investments

Under IFRS, available-for-sale financial investments are carried at fair value. Changes in fair value are recorded directly in Equity until an investment is sold, collected or otherwise disposed of, or until an investment is determined to be impaired. At the time an available-for-sale investment is determined to be impaired, the cumulative unrealized loss previously recognized in Equity is included in net profit or loss for the period. On disposal of a financial investment, the difference between the net disposal proceeds and the carrying amount plus any attributable unrealized gain or loss balance recognized in Equity, is included in net profit or loss for the period.

Under Swiss law, financial investments are carried at the lower of cost or market value. Reductions to market value below cost and reversals of such reductions as well as gains and losses on disposal are included in Other income.

3. Cash flow hedges

The Group uses derivative instruments to hedge against the exposure from varying cash flows receivable and payable. Under IFRS, when hedge accounting is applied for these instruments, the unrealized gain or loss on the effective portion of the derivatives is recorded in Equity until the hedged cash flows occur, at which time the accumulated gain or loss is realized and released to income.

Under Swiss law, the unrealized gains or losses on the effective portion of the derivative instruments used to hedge cash flow exposures are deferred on the balance sheet as assets or liabilities. The deferred amounts are released to income when the hedged cash flows occur.

4. Investment property

Under IFRS, investment properties are carried at fair value.

Under Swiss law, investment properties are carried at the lower of cost less accumulated depreciation or market value. Depreciation on investment properties is continued until a sale is executed.

5. Fair value option

Under IFRS, the Group applies the fair value option to compound instruments issued. As a result the embedded derivative as well as the host contract related to the compound instrument are marked to market.

Under Swiss law, the fair value option is not available. Compound instruments are bifurcated: while the embedded derivative is marked to market, the host contract is accounted for on an accrued cost basis.

6. Goodwill and intangible assets

Under IFRS, goodwill acquired in business combinations entered into after 31 March 2004 is not amortized, but tested annually for impairment. Intangible assets acquired in business combinations entered into after 31 March 2004 to which an indefinite useful life has been assigned, are not amortized but tested annually for impairment.

Under Swiss law, goodwill and intangible assets with indefinite useful lives must be amortized over a period not exceeding five years, unless a longer useful life, which may not exceed twenty years, can be justified.

7. Discontinued operations

Under certain conditions, IFRS requires that non-current assets or disposal groups are classified as held for sale. Disposal groups that meet the criteria of discontinued operations are presented in the income statement in a single line as net income from discontinued operations.

Under Swiss law, no such reclassifications take place.

Note 41 Reconciliation of International Financial Reporting Standards (IFRS) to United States Generally Accepted Accounting Principles (US GAAP)

Note 41.1 Valuation and Income Recognition Differences between IFRS and US GAAP

The consolidated financial statements of UBS have been prepared in accordance with IFRS. The principles of IFRS differ in certain respects from United States Generally Accepted Accounting Principles ("US GAAP"). The following is a summary of the relevant significant accounting and valuation differences between IFRS and US GAAP.

a. Purchase accounting (merger of Union Bank of Switzerland and Swiss Bank Corporation)

Under IFRS, the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation was accounted for under the uniting of interests method. The balance sheets and income statements of the banks were combined, and no adjustments were made to the carrying values of the assets and liabilities. Under US GAAP, the business combination creating UBS AG is accounted for under the purchase method with Union Bank of Switzerland being considered the acquirer. Under the purchase method, the cost of acquisition is measured at fair value and the acquirer's interests in identifiable tangible assets and liabilities of the acquiree are restated to fair values at the date of acquisition. Any excess consideration paid over the fair value of net tangible assets acquired is allocated, first to identifiable intangible assets based on their fair values, if determinable, with the remainder allocated to goodwill.

Goodwill and intangible assets

For US GAAP purposes, the excess of the consideration paid for Swiss Bank Corporation over the fair value of the net tangible assets received has been recorded as goodwill and was amortized on a straight-line basis using a weighted average life of 13 years from 29 June 1998 to 31 December 2001.

Under US GAAP until 31 December 2001, goodwill acquired before 30 June 2001 was capitalized and amortized over its estimated useful life with adjustments for any impairment.

On 1 January 2002, UBS adopted SFAS 141, *Business Combinations* and SFAS 142, *Goodwill and Other Intangible Assets*. SFAS 141 requires reclassification of intangible assets to goodwill which no longer meet the recognition criteria under the new standard. SFAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized but be tested annually for impairment. Identifiable intangible assets with finite lives will continue to be amortized. Upon adoption, the amortization charges related to the 1998 business combination of Union Bank of Switzerland and Swiss Bank Corporation ceased to be recorded under US GAAP.

In 2005 and 2004, goodwill recorded under US GAAP was reduced by CHF 67 million and CHF 78 million respectively, due to recognition of deferred tax assets of Swiss Bank Corporation which had previously been subject to valuation reserves.

Other purchase accounting adjustments

The restatement of Swiss Bank Corporation's net assets to fair value in 1998 resulted in decreasing net tangible assets by CHF 1,077 million for US GAAP. This amount is being amortized over periods ranging from two years to 20 years.

b. Goodwill

With the adoption of IFRS 3 *Business Combinations* on 31 March 2004, UBS ceased amortizing goodwill on 1 January 2005 for all goodwill existing before 31 March 2004. Goodwill is now subject to an annual impairment test as it is under US GAAP and is no longer amortized under both sets of standards. Goodwill from business combinations entered into on or after 31 March 2004 was already accounted for under the provisions of IFRS 3, and no goodwill amortization was recorded for these transactions under IFRS or US GAAP. An IFRS to US GAAP difference remains on the balance sheet due to the fact that US GAAP goodwill amortization ceased on 1 January 2002 and IFRS goodwill amortization ceased on 31 December 2004. This difference was reduced during 2005 due to the sale of GAM on 2 December 2005.

In addition on 31 March 2004, UBS adopted revised IAS 38 *Intangible Assets.* Under the revised standard, intangible assets acquired in a business combination must be recognized separately from goodwill if they meet defined recognition criteria. Existing intangible assets that do not meet the recognition criteria have to be reclassified to goodwill. On 1 January 2005, UBS reclassified the trained workforce intangible asset recognized in connection with the acquisition of PaineWebber with a book value of CHF 1.0 billion to Goodwill. Under US GAAP, this asset was reclassified from Intangible assets to Goodwill on 1 January 2002 with the adoption of SFAS 142 *Goodwill and Other Intangible Assets.*

c. Purchase accounting under IFRS 3 and FAS 141

With the adoption of IFRS 3 on 31 March 2004, the accounting for business combinations generally converged with US GAAP with the exception of the measurement of minority interests and the recognition of a revaluation reserve in the case of a step acquisition.

Under IFRS, minority interests are recognized at the percentage of fair value of identifiable net assets acquired at the acquisition date whereas under US GAAP they are recognized at the percentage of book value of identifiable net assets acquired at the acquisition date. In most cases, minority in-

Note 41 Reconciliation of International Financial Reporting Standards (IFRS) to United States Generally Accepted Accounting Principles (US GAAP) (continued)
Note 41.1 Valuation and Income Recognition Differences between IFRS and US GAAP (continued)

terests would tend to have a higher measurement value under IFRS than under US GAAP.

Furthermore, IFRS requires that in a step acquisition the existing ownership interest in an entity be revalued to the new valuation basis established at the time of acquisition. The increase in value is recorded directly in equity as a revaluation reserve. Under US GAAP, the existing ownership interest remains at its original valuation.

d. Derivative instruments

Under IAS 39, UBS hedges interest rate risk based on forecast cash inflows and outflows on a Group basis. For this purpose, UBS accumulates information about non-trading financial assets and financial liabilities, which is then used to estimate and aggregate cash flows and to schedule the future periods in which these cash flows are expected to occur. Appropriate derivative instruments are then used to hedge the estimated future cash flows against repricing risk. SFAS 133 does not permit hedge accounting for hedges of future cash flows determined by this methodology. Accordingly, for US GAAP such hedging instruments continue to be carried at fair value with changes in fair value recognized in Net trading income.

In addition to the above, a new hedge methodology, fair value hedge of portfolio interest rate risk, has been implemented for a specific portfolio of mortgage loans. This new hedging method is not recognized under US GAAP and therefore, the fair value change of hedged items recorded separately from the hedged items on the balance sheet under IFRS is reversed to Net trading income under US GAAP.

Amounts deferred under hedging relationships prior to the adoption of IAS 39 on 1 January 2001 that do not qualify as hedges under current requirements under IFRS are amortized to income over the remaining life of the hedging relationship. Such amounts have been reversed for US GAAP as they have never been treated as hedges.

e. Financial investments and private equity

Financial investments available-for-sale

Three exceptions exist between IFRS and US GAAP in accounting for financial investments available-for-sale: 1) Non-marketable equity financial investments (excluding private equity investments discussed in the next section), which are classified as available-for-sale and carried at fair value under IFRS, continue to be carried at cost less "other than temporary" impairments under US GAAP. The opening adjustment and subsequent changes in fair value recorded directly in Equity on non-marketable equity financial instruments due to the implementation of IAS 39 have been reversed under US GAAP to reflect the difference between the two standards in measuring such investments. 2) Writedowns on impaired debt instruments can be fully or partially reversed through profit under IFRS if the value of the impaired assets increases. Such reversals of impairment writedowns are not allowed under US GAAP. Reversals under IFRS were not significant in 2005, 2004 or 2003. 3) Private equity investments, as described in the next section.

Private equity investments

On 1 January 2005, UBS adopted revised IAS 27 *Consolidated and Separate Financial Statements* and revised IAS 28 *Investments in Associates.* The comparative periods for 2004 and 2003 were restated. The adoption of these standards had an impact on the accounting for private equity investments. Previously under IFRS, such investments were classified as Financial investments available-for-sale with changes in fair value recorded directly in Equity. The effect of adopting these standards is that private equity investments in which UBS owns a controlling interest are now consolidated and those where UBS has significant influence are accounted for as associated companies using the equity method of accounting. The remaining private equity investments continue to be accounted for as Financial investments available-for-sale.

Under US GAAP, private equity investments held within separate investment subsidiaries are accounted for in accordance with the *AICPA Audit and Accounting Guide, Audits of Investment Companies.* They are recorded on a separate line on the US GAAP Balance sheet and are accounted for at fair value with changes in fair value recorded in Net profit. The remaining private equity investments held by UBS are accounted for at cost less "other than temporary" impairment.

The effects on the IFRS to US GAAP reconciliation are as follows: 1) Private equity investments consolidated under IFRS are de-consolidated under US GAAP and are either recorded at fair value or at cost less "other than temporary" impairment as described in the previous paragraph. 2) The equity method accounting adjustment for those private equity investments accounted for as associated companies under IFRS is reversed for US GAAP. The asset on the US GAAP Balance sheet is reclassified from Investments in associates accounted for under the equity method to Private equity investments accounted for at fair value through net profit or at cost less "other than temporary" impairment as described in the previous paragraph. 3) Those remaining private equity investments still accounted for as Financial investments available-for-sale with changes in fair value recorded directly in Equity are reclassified to the line Private equity investments on the US GAAP balance sheet and are recorded either at fair value through net profit or cost less "other than temporary" impairment as described in the previous paragraph.

See Note 2 for information regarding impairment charges recorded for financial investments.

f. Pension plans

Under IFRS, UBS recognizes pension expense based on a specific method of actuarial valuation used to determine the projected plan liabilities for accrued service, including future expected salary increases, and expected return on plan assets. Plan assets are recorded at fair value and are held in a separate trust to satisfy plan liabilities. Under IFRS the recognition of a prepaid asset is subject to certain limitations, and any unrecognized prepaid asset is recorded as pension expense. US GAAP does not allow a limitation on the recognition of prepaid assets recorded in the balance sheet.

Under US GAAP, pension expense is based on the same actuarial method of valuation of liabilities and assets as under IFRS. Differences in the amounts of expense and liabilities (or prepaid assets) exist due to different transition date rules, stricter provisions for recognition of a prepaid asset, and the treatment of the 1998 merger of Union Bank of Switzerland and Swiss Bank Corporation.

In addition, under US GAAP, if the fair value of plan assets falls below the accumulated benefit obligation (which is the current value of accrued benefits without allowance for future salary increases), an additional minimum liability must be shown in the balance sheet. If an additional minimum liability is recognized, an equal amount will be recognized as an intangible asset up to the amount of any unrecognized prior service cost. Any amount not recognized as an intangible asset is reported in Other comprehensive income. The additional minimum liability required under US GAAP amounts to CHF 1,252 million, CHF 1,125 million and CHF 306 million as at 31 December 2005, 2004 and 2003, respectively. The amount recognized in Other comprehensive income before tax was CHF 1,252 million, CHF 1,125 million and CHF 306 million as at 31 December 2005, 2004 and 2003, respectively.

g. Other post-retirement benefit plans

Under IFRS, UBS has recorded expenses and liabilities for post-retirement medical and life insurance benefits, determined under a methodology similar to that described above under pension plans.

Under US GAAP, expenses and liabilities for post-retirement medical and life insurance benefits are determined under the same methodology as under IFRS. Differences in the levels of expenses and liabilities have occurred due to different transition date rules and the treatment of the merger of Union Bank of Switzerland and Swiss Bank Corporation under the purchase method.

h. Equity participation plans

On 1 January 2005, UBS adopted IFRS 2 *Share-based payment* which requires that the fair value of all share-based payments made to employees be recognized as compensation expense from the date of grant over the service period, which is generally equal to the vesting period. UBS applied IFRS 2 on a retrospective application basis and restated its 2003 and 2004 comparative prior periods for all awards that impact income statements commencing 2003. UBS recorded an opening retained earnings adjustment on 1 January 2003 to reflect the cumulative income statement effects of prior periods. See Note 1aa) for details. Previously under IFRS, option awards were expensed at their intrinsic value which is generally zero as options are normally granted at or out of the money. Shares were recognized as compensation expense in full in the performance year, which is generally the year prior to grant.

On 1 January 2005, UBS also adopted SFAS 123 (revised 2004), *Share-Based Payment,* (SFAS 123-R). SFAS 123-R, like IFRS 2, also requires that share-based payments to employees be recognized in the income statement over the requisite service period based on their fair values at the date of grant. The requisite service period is defined as the period that the employee is required to provide active employment in order to earn their award. This may be different from the service period under IFRS, which is generally equal to the vesting period.

UBS adopted SFAS 123-R using the modified prospective method. Prior periods were not restated. Under this method, compensation cost for the portion of awards for which the service period has not been rendered and that are outstanding (unvested) as of the effective date shall be recognized as the service is rendered on or after the effective date. As such, to the extent that the grant date fair value of shares or options has been previously recognized in the income statement or disclosed in the notes to the financial statements, it should not be re-recognized upon adoption of SFAS 123-R. Prior to the adoption of SFAS 123-R, UBS recognized the fair value of share awards granted as part of annual bonuses in the year of corresponding performance, in alignment with the revenue produced. For disclosure purposes, UBS recognized the fair value of option awards on the date of grant. Thus, for recog-

Note 41 Reconciliation of International Financial Reporting Standards (IFRS) to United States Generally Accepted Accounting Principles (US GAAP) (continued)
Note 41.1 Valuation and Income Recognition Differences between IFRS and US GAAP (continued)

nition and disclosure purposes, expense for share and option awards issued prior to but outstanding at the date of adoption of SFAS 123-R has been fully attributed to prior periods.

Prior to 1 January 2005, UBS applied the intrinsic value method under APB 25 which was similar to the previous IFRS treatment except that certain share and option plans were deemed variable under US GAAP. Changes in intrinsic value for these variable plans were recorded in US GAAP Net profit. Due to the fact that IFRS 2 was applied on a retrospective basis and SFAS 123-R was applied on a modified prospective basis, for the IFRS to US GAAP reconciliation, the opening IFRS retained earnings adjustment on 1 January 2003 and subsequent IFRS 2 restatement adjustments were reversed and only the awards required to be expensed were recorded in the 2005 US GAAP Financial Statements. Future awards will be recognized over the requisite service periods, which are determined by the terms of the award.

In addition, under the transition provisions of SFAS 123-R, a cumulative adjustment of CHF 38 million expense reversal, net of tax, was recorded in US GAAP Net profit on 1 January 2005. The adjustment mainly relates to the required recognition of estimated forfeitures of share-based compensation awards under SFAS 123-R. The standard requires that expense be recognized only for those instruments where the requisite service is performed. During the service period, compensation cost recognized is based on the estimated number of instruments for which the requisite service is expected to be rendered. That estimate is revised if subsequent information indicates that the actual number is likely to differ from previous estimates.

Under SFAS 123-R, entities are required to continue to provide pro-forma disclosures for the periods in which the fair value method of accounting for share-based compensation was not applied. See Note 42.5 for further information.

Certain UBS awards contain provisions that permit the employee to leave the bank and continue to vest in the award provided they do not perform certain harmful acts against the bank. These are generally referred to as non-compete provisions. Under SFAS 123R, awards with non-compete provisions generally do not impose a requisite service period, and therefore expense should be recognized upon grant. UBS has determined that the appropriate expense recognition period for such awards is the performance year, which is generally the period prior to grant. This is consistent with the approach applied under APB 25. Compensation expense for awards with non-compete provisions is generally recognized over the vesting period under IFRS.

Certain UBS awards contain provisions that permit the employee to retire, provided they meet certain eligibility conditions and continue to vest in their award. Under US GAAP, compensation expense for such awards must be recognized over the period from grant until the employee reaches retirement eligibility. Under IFRS 2 such awards are generally recognized over the vesting period, with an acceleration of expense at the actual retirement date.

UBS also has employee benefit trusts that are used in connection with share-based payment arrangements and deferred compensation plans. In connection with the issuance of IFRS 2, the IFRIC amended SIC 12 *Consolidation – Special Purpose Entities,* an interpretation of IAS 27, to eliminate the scope exclusion for equity compensation plans. Therefore, pursuant to the criteria set out in SIC 12, an entity that controls an employee benefit trust (or similar entity) set up for the purposes of share-based payment arrangements will be required to consolidate that trust. UBS consolidated such employee benefit trusts retrospectively to 1 January 2003. For further details on the restatement, see Note 1aa). Under US GAAP prior to 1 January 2004, certain equity compensation trusts were already consolidated under US GAAP under the provisions of EITF-97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested.* With the adoption of FASB Interpretation No. 46 *Consolidation of Variable Interest Entities* (revised December 2003), an interpretation of Accounting Research Bulletin No. 51 (FIN 46-R), on 1 January 2004, the remaining unconsolidated employee equity compensation trusts formed before 1 February 2003 were consolidated for US GAAP purposes for the first time. Thus, from 1 January 2004 onwards, there is no difference between IFRS and US GAAP in regard to these trust consolidations. For 2003, the trust consolidations under IFRS only are shown in Note 41.3 in line i – Consolidation of Variable Interest Entities (VIEs) and deconsolidation of entities issuing preferred securities.

With the consolidation of the additional trusts under FIN 46-R from 1 January 2004, UBS re-evaluated its accounting for share-based compensation plans under APB 25 by taking into consideration the settlement methods and activities of the trusts. Based on this review, most share plans issued prior to 2001 were treated as variable awards under APB 25. There were no changes to the accounting for option plans. On 1 January 2004, a CHF 6 million expense reduction was recorded as a cumulative adjustment due to a change in accounting.

Under IFRS, UBS recognizes an obligation and related expense for payroll taxes related to share-based payment transactions over the period that the related compensation expense is recognized. This is generally the vesting period. US GAAP requires recognition of the liability on the date that the measurement of any payment of the tax to the taxing authority is triggered. This is generally the distribution date for share awards and the exercise date of options.

i. Consolidation of Variable Interest Entities (VIEs) and deconsolidation of entities issuing preferred securities

IFRS and US GAAP generally require consolidation of entities on the basis of controlling a majority of voting rights. However, in certain situations, there are no voting rights, or control of a majority of voting rights is not a reliable indicator of the need to consolidate, such as when voting rights are significantly disproportionate to risks and rewards. There are differences in the approach of IFRS and US GAAP to those situations.

Under IFRS, when control is exercised through means other than controlling a majority of voting rights, the consolidation assessment is based on the substance of the relationship. Indicators of control in these situations include: predetermination of the entity's activities; the entity's activities being conducted on behalf of the enterprise; decision-making powers being held by the enterprise; the right to obtain the majority of the benefits or be exposed to the risks inherent in the activities of the entity; or retaining the majority of the residual or ownership risks related to the entity's assets in order to obtain benefits from its activities.

Under US GAAP, consolidation considerations are subject to FASB interpretation No. 46 *Consolidation of Variable Interest Entities* (revised December 2003), an interpretation of Accounting Research Bulletin No. 51 (FIN 46-R). FIN 46-R requires that when voting interests do not exist, or differ significantly from economic interests, an entity is considered to be a "Variable Interest Entity" ("VIE"). An enterprise holding variable interests that will absorb a majority of a VIE's "expected losses", receive a majority of a VIE's "expected residual returns", or both, is known as the "primary beneficiary", and must consolidate the VIE.

Since 1 January 2004 UBS has fully applied FIN 46-R consolidation requirements to its US GAAP Financial Statements. Until 31 December 2003, the consolidation requirements of the predecessor standard, FIN 46, only applied to VIEs created after 31 January 2003.

In many cases the assessment of consolidation under IFRS and US GAAP is the same; however, there are certain differences.

The entities consolidated for US GAAP purposes at 31 December 2005, which were not otherwise consolidated in UBS's primary consolidated Financial Statements under IFRS, are mostly investment fund products and securitization VIEs. These are discussed in more detail in Note 42.1.

The entities not consolidated for US GAAP purposes at 31 December 2005, which UBS consolidates under IFRS, are certain entities which have issued preferred securities. Under IFRS these are equity instruments held by third parties and are treated as minority interests, with dividends paid also reported in Equity attributable to minority interests; the UBS-issued debt held by these entities and the respective interest amounts are eliminated in the UBS Group Financial Statements. Under US GAAP, these entities are not consolidated, and the UBS-issued debt is recognized as a liability in the UBS Group Financial Statements, with interest paid reported in interest expense.

A discussion of FIN 46-R measurement requirements and disclosures is set out in Note 42.1.

j. Financial assets and liabilities designated at fair value through profit and loss

Revised IAS 39 provides the election to designate at initial recognition any financial asset or liability as held at fair value through profit and loss. UBS applies this fair value designation election to a significant portion of its issued debt. Many debt issues are in the form of compound instruments, consisting of a debt host with an embedded derivative. Regular debt instruments as well as compound instruments are carried in their entirety at fair value with all changes in fair value recorded in profit and loss. Under US GAAP, debt instruments have to be carried at amortized cost. Derivatives embedded in compound instruments are separated from the debt hosts and accounted for as if they were freestanding derivatives.

k. Physically settled written puts

With the adoption of revised IAS 32 and IAS 39 at 1 January 2004, the accounting for physically settled written put options on UBS shares changed. Previously, such put options were accounted for as derivatives whereas now the present value of the contractual amount is recorded as a liability, while the premium received is credited to equity. Subsequently, the liability is accreted over the life of the put option to its contractual amount recognizing interest expense in accordance with the effective interest method. Under US GAAP, physically settled written put options on UBS shares continue to be accounted for as derivative instruments. All other outstanding derivative contracts, except written put options with the UBS share as underlying, are treated as derivative instruments under both sets of accounting standards.

l. Investment properties

From 1 January 2004, UBS changed its accounting for investment properties from the cost less depreciation method to the fair value method. Under the fair value method, changes in fair value are recognized in the income statement, and depreciation is no longer recognized. Under US GAAP, investment properties continue to be carried at cost less accumulated depreciation.

Note 41 Reconciliation of International Financial Reporting Standards (IFRS) to United States Generally Accepted Accounting Principles (US GAAP) (continued)
Note 41.2 Recently Issued US Accounting Standards

In December 2004, the FASB issued SFAS 123 (revised 2004), *Share-Based Payment* (SFAS 123-R), which is a revision of SFAS 123, *Accounting for Stock-Based Compensation* (SFAS 123), and supersedes APB Opinion 25, *Accounting for Stock Issued to Employees* (APB Opinion 25). Further information on the impact of the adoption of SFAS 123-R can be found in Note 41.1. h.

In March 2005, the SEC Staff issued Staff Accounting Bulletin No. 107, *Share-Based Payment* (SAB 107). SAB 107 expresses the SEC Staff's views on certain aspects of SFAS 123-R and certain SEC rules and regulations including the types of valuation methods and associated inputs. SAB 107 outlines that a valuation technique should be applied in a manner consistent with the fair value measurement objectives and other requirements of SFAS 123-R, based on established principles of financial economic theory, and reflect all substantive characteristics of the instrument. SAB 107 did not have a material impact on UBS's Financial Statements. Further information on the impact of the adoption of SFAS 123-R can be found in Note 41.1. h.

In June 2005, the FASB ratified the consensus on EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (EITF 04-5), which provides guidance in determining whether a general partner controls a limited partnership. EITF 04-5 provides that the general partner in a limited partnership is presumed to control that limited partnership unless the limited partners have either substantive kick-out rights or substantive participating rights. EITF 04-5 is effective after 29 June 2005 for new limited partnership agreements and for pre-existing limited partnership agreements that are modified; otherwise, effective no later than the beginning of the first reporting period in fiscal years beginning after 15 December 2005. The adoption of EITF 04-05 is not expected to have a material impact on UBS's Financial Statements.

Recently issued US accounting standards not yet adopted

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections – a Replacement of APB Opinion No. 20 and FASB Statement No. 3* (Statement 154), which changes the requirements for the accounting and reporting of a change in accounting principle. Statement 154 applies to all voluntary changes in accounting principle as well as to changes required by an accounting pronouncement that does not include specific transition provisions. Statement 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable, whereas Opinion 20 previously required that the cumulative effect of most voluntary changes in accounting principle be recognized in the net income of the period of the change. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after 15 December 2005. Statement 154 is not expected to have a material impact on UBS's Financial Statements.

In February 2006, the FASB issued *Statement of Financial Accounting Standard No. 155, Accounting for Certain Hybrid Instruments* (Statement 155), an amendment of FASB Statements No. 133 and 140. Statement 155 permits UBS to elect to measure any hybrid financial instrument at fair value, with changes in fair value recognized in Net profit, if the hybrid instrument contains an embedded derivative that would otherwise require bifurcation under Statement 133. The election to measure the hybrid instrument at fair value is made on an instrument by instrument basis and is irreversible.

Statement 155 is effective after the beginning of an entity's first fiscal year that begins after 15 September 2006, unless it is applied as at the beginning of an entity's fiscal year a year earlier. UBS has not yet decided whether it will early adopt Statement 155 as at 1 January 2006 nor whether it will make use of the fair value option for hybrid financial instruments where it currently applies the fair value option provided in IAS 39. UBS is still assessing the impact of Statement 155.

Note 41.3 Reconciliation of IFRS Equity Attributable to UBS Shareholders to US GAAP Shareholders' Equity and IFRS Net Profit Attributable to UBS Shareholders to US GAAP Net Profit

	Note 41.1	Equity attributable to UBS shareholders (IFRS) / Shareholders' equity (US GAAP) as at		Net profit attributable to UBS shareholders (IFRS) / Net profit (US GAAP) for the year ended		
CHF million	Reference	**31.12.05**	31.12.04	**31.12.05**	31.12.04	31.12.03
Amounts determined in accordance with IFRS		**44,324**	33,941	**14,029**	8,016	5,904
Adjustments in respect of:						
SBC purchase accounting goodwill and other purchase accounting adjustments	a	**15,116**	15,152	**(36)**	(44)	(89)
Goodwill	b	**2,373**	2,603	**0**	778	808
Purchase accounting under IFRS 3 and FAS 141	c	**(86)**	(88)	**35**	3	0
Derivative instruments	d	**(40)**	(75)	**(455)**	(217)	188
Financial investments and private equity	e	**325**	605	**(486)**	217	(243)
Pension plans	f	**230**	372	**(18)**	(110)	(235)
Other post-retirement benefit plans	g	**(1)**	(1)	**0**	0	0
Equity participation plans	h	**(792)**	86	**358**	62	267
Consolidation of variable interest entities (VIEs) and deconsolidation of entities issuing preferred securities	i	**(98)**	47	**0**	18	(10)
Financial assets and liabilities designated at fair value through profit and loss	j	**(197)**	197	**(436)**	100	78
Physically settled written puts	k	**131**	93	**8**	9	5
Investment properties	l	**(8)**	(8)	**0**	14	88
Other adjustments		**74**	(50)	**(118)**	(50)	0
Tax adjustments		**(876)**	(206)	**(529)**	22	(248)
Total adjustments		**16,151**	18,727	**(1,677)**	802	609
Amounts determined in accordance with US GAAP		**60,475**	52,668	**12,352**	8,818	6,513

Note 41.4 Earnings per Share

Under both IFRS and US GAAP, basic earnings per share ("EPS") is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS includes the determinants of basic EPS and, in addition, gives effect to dilutive potential common shares that were outstanding during the period.

The computations of basic and diluted EPS for the years ended 31 December 2005, 31 December 2004 and 31 December 2003 are presented in the following table.

For the year ended	**31.12.05**		31.12.04		31.12.03	
	US GAAP	**IFRS**	US GAAP	IFRS	US GAAP	IFRS
Net profit (US GAAP) / Net profit attributable to UBS shareholders (IFRS) – available for ordinary shares (CHF million)	**12,352**	**14,029**	8,818	8,016	6,513	5,904
from continuing operations	**8,499**	**9,844**	8,446	7,609	6,263	5,510
from discontinued operations	**3,853**	**4,185**	372	407	250	394
Net profit (US GAAP) / Net profit attributable to UBS shareholders – for diluted EPS (CHF million)	**12,330**	**14,007**	8,813	8,011	6,514	5,905
from continuing operations	**8,500**	**9,845**	8,449	7,612	6,264	5,511
from discontinued operations	**3,830**	**4,162**	364	399	250	394
Weighted-average shares outstanding	**1,006,929,991**	**1,006,993,877**	1,029,895,610	1,029,918,463	1,116,602,289	1,086,161,476
Diluted weighted-average shares outstanding	**1,048,595,770**	**1,048,595,770**	1,081,961,360	1,081,961,360	1,138,800,625	1,138,800,625
Basic earnings per share (CHF)	**12.27**	**13.93**	8.56	7.78	5.83	5.44
from continuing operations	**8.44**	**9.78**	8.20	7.39	5.61	5.07
from discontinued operations	**3.83**	**4.15**	0.36	0.39	0.22	0.37
Diluted earnings per share (CHF)	**11.76**	**13.36**	8.15	7.40	5.72	5.19
from continuing operations	**8.11**	**9.39**	7.81	7.04	5.50	4.84
from discontinued operations	**3.65**	**3.97**	0.34	0.36	0.22	0.35

Note 41.5 Presentation Differences between IFRS and US GAAP

In addition to the differences in valuation and income recognition, other differences, essentially related to presentation, exist between IFRS and US GAAP. Although there is no impact on US GAAP reported Shareholders' equity and Net profit due to these differences, it may be useful to understand them to interpret the Financial Statements presented in accordance with US GAAP. The following is a summary of presentation differences that relate to the basic IFRS Financial Statements.

1. Settlement date vs. trade date accounting

UBS's transactions from securities activities are recorded under IFRS on the settlement date. This results in recording a forward transaction during the period between the trade date and the settlement date. Forward positions relating to trading activities are revalued to fair value and any unrealized profits and losses are recognized in Net profit.

Under US GAAP, trade date accounting is required for spot purchases and sales of securities. Therefore, all such transactions with a trade date on or before the balance sheet date with a settlement date after the balance sheet date have been recorded at trade date for US GAAP. This has resulted in receivables and payables to broker-dealers and clearing organizations recorded in Other assets and Other liabilities in the US GAAP balance sheet.

2. Financial investments

Under IFRS, UBS's private equity investments and non-marketable equity financial investments are included in Financial investments available-for-sale. For US GAAP presentation, non-marketable equity financial investments are reclassified to Other assets, and private equity investments accounted for under the *AICPA Audit and Accounting Guide, Audits of Investment Companies* or accounted for at cost less "other than temporary" impairment are shown separately on the balance sheet.

3. Securities received as collateral in a securities-for-securities lending transaction

When UBS acts as the lender in a securities lending agreement and receives securities as collateral that can be pledged or sold, it recognizes the securities received and a corresponding obligation to return them. These securities are reflected on the US GAAP balance sheet in the line Securities received as collateral on the asset side of the balance sheet. The offsetting liability is presented in the line Obligation to return securities received as collateral.

4. Reverse repurchase, repurchase, securities borrowing and securities lending transactions

UBS enters into certain types of reverse repurchase, repurchase, securities borrowing and securities lending transactions that result in a difference between IFRS and US GAAP. Under IFRS, they are considered financing transactions which do not result in the recognition of the borrowed financial assets or derecognition of the financial assets lent. The cash collateral received or delivered in such transactions is reflected in the balance sheet with a corresponding receivable or obligation to return it. Under US GAAP, however, certain transactions are considered purchase and sale transactions due to the fact that the contracts do not meet specific collateral or margining requirements or the repurchase of the transferred securities is not before maturity of these securities. Due to the different treatment of these transactions under IFRS and US GAAP, interest income and expense recorded under IFRS must be reclassified to Net trading income for US GAAP. Additionally under US GAAP, the securities received are recognized on the balance sheet as a spot purchase (Trading portfolio assets or Trading portfolio assets pledged as collateral) with a corresponding forward sale transaction (Replacement values) and a receivable (Cash collateral on securities borrowed) is reclassified, as applicable. The securities delivered are recorded as a spot sale, which means that the securities are derecognized if they are on-balance sheet securities or recorded as a short sale if the delivered securities are off-balance sheet securities (Trading portfolio liabilities). Additionally, a corresponding forward repurchase transaction (Replacement values) and a liability (Cash collateral on securities lent) is reclassified, as applicable.

5. Recognition / derecognition of financial assets

The guidance governing recognition and derecognition of a financial asset is considerably more complex under revised IAS 39 than previously and requires a multi-step decision process to determine whether derecognition is appropriate. UBS derecognizes financial assets for which it transfers the contractual rights to the cash flows and no longer retains any risk or reward coming from them nor maintains control over the financial assets. The provisions of this guidance were applied prospectively from 1 January 2004. As a result of the new requirements, certain transactions are now accounted for as secured financing transactions instead of purchases or sales of trading portfolio assets with an accompanying swap derivative. Under US GAAP, these transactions continue to be shown as purchases and sales of trading portfolio assets and were reclassified accordingly.

Note 41.6 Consolidated Income Statement

The following is a Consolidated Income Statement of the Group, for the years ended 31 December 2005, 31 December 2004 and 31 December 2003, restated to reflect the impact of valuation and income recognition differences and presentation differences between IFRS and US GAAP.

CHF million, for the year ended		31.12.05		31.12.04		31.12.03	
	Reference	**US GAAP**	**IFRS**	US GAAP	IFRS	US GAAP	IFRS
Operating income							
Interest income	a, d, e, i, j, 1, 4, 5	**59,039**	**59,286**	38,991	39,228	39,802	40,045
Interest expense	a, c, d,e, i, j, k,1, 4, 5	**(49,588)**	**(49,758)**	(27,245)	(27,484)	(27,628)	(27,784)
Net interest income		**9,451**	**9,528**	11,746	11,744	12,174	12,261
Credit loss (expense) / recovery	e	**375**	**375**	334	241	(74)	(102)
Net interest income after credit loss (expense) / recovery		**9,826**	**9,903**	12,080	11,985	12,100	12,159
Net fee and commission income	e	**21,436**	**21,436**	18,435	18,506	16,606	16,673
Net trading income	d, e, i, j, k, 4	**6,864**	**7,996**	4,795	4,902	3,944	3,670
Other income	c, e, i	**793**	**1,125**	1,180	932	382	225
Revenues from Industrial Holdings	e	**8,674**	**10,515**	3,648	6,086		2,900
Total operating income		**47,593**	**50,975**	40,138	42,411	33,032	35,627
Operating expenses							
Personnel expenses	e, f, g, h	**20,220**	**21,049**	18,297	18,612	17,234	18,218
General and administrative expenses	c, e	**6,667**	**7,047**	6,545	7,160	5,917	6,630
Depreciation of property and equipment	a, c, e	**1,414**	**1,493**	1,365	1,477	1,368	1,498
Amortization of goodwill	b	**0**	**0**	0	653	0	703
Amortization of other intangible assets	b, c, e	**201**	**334**	180	337	110	193
Goods and materials purchased	e	**7,142**	**8,003**	2,861	3,885	0	1,113
Total operating expenses		**35,644**	**37,926**	29,248	32,124	24,629	28,355
Operating profit from continuing operations before tax		**11,949**	**13,049**	10,890	10,287	8,403	7,272
Tax expense		**3,078**	**2,549**	2,015	2,224	1,790	1,419
Minority interests (US GAAP)	c, e, i	**(410)**		(435)		(350)	
Net profit from continuing operations		**8,461**	**10,500**	8,440	8,063	6,263	5,853
Net profit from discontinued operations		**3,853**	**4,190**	372	407	250	400
Net profit (IFRS)			**14,690**		8,470		6,253
Net profit attributable to minority interests (IFRS)	c, e, i		**(661)**		(454)		(349)
Cumulative adjustment due to the adoption of SFAS 123 (revised 2004), "Share-Based Payment" on 1 January 2005, net of tax	h	**38**					
Cumulative adjustment of accounting for certain equity-based compensation plans as cash settled, net of tax	h			6			
Net profit (US GAAP) / Net profit attributable to UBS shareholders (IFRS)		**12,352**	**14,029**	8,818	8,016	6,513	5,904

Note: References above coincide with the discussions in Note 41.1 and Note 41.5. These references indicate which IFRS to US GAAP differences affect an individual financial statement caption.

Note 41.7 Condensed Consolidated Balance Sheet

The following is a Condensed Consolidated Balance Sheet of the Group, as at 31 December 2005 and 31 December 2004, restated to reflect the impact of valuation and income recognition principles and presentation differences between IFRS and US GAAP.

		31.12.05		31.12.04	
CHF million	Reference	US GAAP	IFRS	US GAAP	IFRS
Assets					
Cash and balances with central banks		5,359	5,359	6,036	6,036
Due from banks	e, i, j, 1, 5	33,427	33,644	35,286	35,419
Cash collateral on securities borrowed	4	274,099	300,331	218,414	220,242
Reverse repurchase agreements		404,432	404,432	357,164	357,164
Trading portfolio assets	e, i, j, 1, 4, 5	607,432	499,297	449,389	389,487
Trading portfolio assets pledged as collateral	5	152,237	154,759	159,115	159,115
Positive replacement values	i, j, 1, 4, 5	337,409	333,782	284,468	284,577
Financial assets designated at fair value	j		1,153		653
Loans	a, e, j, 1, 5	267,530	269,969	228,968	232,167
Financial investments	e, j, 2	3,407	6,551	1,455	4,188
Securities received as collateral	3	67,430		12,950	
Accrued income and prepaid expenses	e, i, j	8,853	8,918	5,882	6,309
Investments in associates	c, e	2,554	2,956	2,153	2,675
Property and equipment	a, c, e, l	9,282	9,423	9,045	9,510
Goodwill	a, b, e	28,104	11,313	26,977	8,865
Other intangible assets	b, c, e	1,665	2,173	1,722	3,336
Private equity investments	e, 2	2,210		3,094	
Other assets	c, d, e, f, h, i, j, 1, 2, 5	116,831	16,190	101,068	17,375
Total assets		2,322,261	2,060,250	1,903,186	1,737,118
Liabilities					
Due to banks	e, j, 1, 5	127,252	124,328	119,021	120,026
Cash collateral on securities lent	4	66,916	77,267	57,792	61,545
Repurchase agreements	i, 4	482,843	478,508	423,513	422,587
Trading portfolio liabilities	i, j, 1, 4	193,965	188,631	190,907	171,033
Obligation to return securities received as collateral	3	67,430		12,950	
Negative replacement values	i, j, k, 1, 4	432,171	337,663	360,345	303,712
Financial liabilities designated at fair value	i, j		117,401		65,756
Due to customers	e, i, j, 1, 5	466,410	451,533	386,913	376,076
Accrued expenses and deferred income	e, i, j	18,707	18,392	14,830	15,040
Debt issued	a, c, e, i, 1	240,212	160,710	164,744	117,856
Other liabilities	c, d, e, f, g, h, i, j, k, 1	163,872	53,874	117,743	44,120
Total liabilities		2,259,778	2,008,307	1,848,758	1,697,751
Minority interests	c, e, i	2,008	7,619	1,760	5,426
Total shareholders' equity (US GAAP) / Equity attributable to UBS shareholders (IFRS)		60,475	44,324	52,668	33,941
Total equity (IFRS)			51,943		39,367
Total liabilities, minority interests and shareholders' equity		2,322,261	2,060,250	1,903,186	1,737,118

Note: References above coincide with the discussions in Note 41.1 and Note 41.5. These references indicate which IFRS to US GAAP differences affect an individual financial statement caption.

Note 41.8 Comprehensive Income

Comprehensive income under US GAAP is defined as the change in shareholders' equity excluding transactions with shareholders. Comprehensive income has two major components: Net profit, as reported in the income statement, and Other comprehensive income. Other comprehensive income includes such items as foreign currency translation, unrealized gains / losses on available-for-sale securities, unrealized gains / losses on changes in fair value of derivative instruments designated as cash flow hedges and additional minimum pension liability. The components and accumulated other comprehensive income amounts on a US GAAP basis for the years ended 31 December 2005, 31 December 2004 and 31 December 2003 are as follows:

CHF million	Foreign currency translation	Unrealized gains / (losses) on available-for-sale investments	Unrealized gains / (losses) on cash flow hedges	Additional minimum pension liability	Deferred income taxes	Accumulated other comprehensive income / (loss)	Comprehensive income / (loss)
Balance at 1 January 2003	**(849)**	**263**	**(3)**	**(1,223)**	**131**	**(1,681)**	
Net profit							6,513
Other comprehensive income:							
Foreign currency translation	(966)				121	(845)	(845)
Net unrealized gains / (losses) on available-for-sale investments		(130)			49	(81)	(81)
Impairment charges reclassified to the income statement		111			(18)	93	93
Reclassification of (gains) / losses on available-for-sale investments realized in net profit		(69)			11	(58)	(58)
Reclassification of (gains) / losses on cash flow hedges realized in net profit			3		(1)	2	2
Additional minimum pension liability				917	(82)	835	835
Other comprehensive income / (loss)	(966)	(88)	3	917	(80)	(54)	(54)
Comprehensive income							6,459
Balance at 31 December 2003	**(1,815)**	**175**	**0**	**(306)**	**211**	**(1,735)**	
Net profit							8,818
Other comprehensive income:							
Foreign currency translation	(1,062)				236	(826)	(826)
Net unrealized gains / (losses) on available-for-sale investments		32			(15)	17	17
Impairment charges reclassified to the income statement		10			(2)	8	8
Reclassification of (gains) / losses on available-for-sale investments realized in net profit		(5)			1	(4)	(4)
Additional minimum pension liability				(819)	21	(798)	(798)
Other comprehensive income / (loss)	(1,062)	37	0	(819)	241	(1,603)	(1,603)
Comprehensive income							7,215
Balance at 31 December 2004	**(2,877)**	**212**	**0**	**(1,125)**	**452**	**(3,338)**	
Net profit							12,352
Other comprehensive income:							
Foreign currency translation	2,380				(292)	2,088	2,088
Net unrealized gains / (losses) on available-for-sale investments		130			(6)	124	124
Impairment charges reclassified to the income statement		19			(3)	16	16
Reclassification of (gains) / losses on available-for-sale investments realized in net profit		(19)			3	(16)	(16)
Additional minimum pension liability				(127)	18	(109)	(109)
Other comprehensive income / (loss)	2,380	130	0	(127)	(280)	2,103	2,103
Comprehensive income							14,455
Balance at 31 December 2005	**(497)**	**342**	**0**	**(1,252)**	**172**	**(1,235)**	

Note 42 Additional Disclosures Required under US GAAP and SEC Rules
Note 42.1 Variable Interest Entities

Introduction

Since 1 January 2004, UBS has fully applied Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities* (revised December 2003), an interpretation of Accounting Research Bulletin No. 51 (FIN 46-R). Until 31 December 2003 the predecessor standard, FIN 46, had application to UBS only with respect to transitional disclosure requirements, and consolidation requirements for certain VIEs created after 31 January 2003.

Identification of variable interest entities (VIEs) and measurement of variable interests

Qualifying special purpose entities (QSPEs) per Statement of Financial Accounting Standards (SFAS) No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* are excluded from the scope of FIN 46-R. In most other cases, US GAAP requires that control over an entity be assessed first based on voting interests; if voting interests do not exist, or differ significantly from economic interests, the entity is considered a VIE under FIN 46-R, and control is assessed based on its variable interests. Specifically, VIEs are entities in which no equity investors exist, or the equity investors:

- do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties; or
- do not have the characteristics of a controlling financial interest; or
- have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of investors with disproportionately small or no voting interests.

Variable interests are interests held in a VIE that change with changes in the fair value of a VIE's net assets, exclusive of variable interests. Interests of related parties (including management, employees, affiliates and agents) are included in the evaluation as if owned directly by the enterprise.

A primary beneficiary is an enterprise which absorbs a majority of a VIE's expected losses, expected residual returns, or both – it must consolidate the VIE and provide certain disclosures. The holder of a significant variable interest in a VIE is required to make disclosures only. UBS treats variable interests of more than 20% of a VIE's expected losses, expected residual returns, or both, as significant.

The FASB Emerging Issues Task Force (EITF) has summarized four different general approaches to the application of FIN 46-R in EITF issue No. 04-7. In applying FIN 46-R, UBS has adopted a quantitative approach, particularly for derivatives, which is known as "View A", and is based on variability in the fair value of the net assets in the VIE, exclusive of variable interests.

Under View A, investments or derivatives in a VIE either create (increase), or absorb (decrease) variability in the fair value of a VIE's net assets. The VIE counterparty is a risk creator (risk maker), or risk absorber (risk taker), respectively. Only risk absorption (risk taker) positions are assessed; risk creation interests are deemed not to be variable interests.

VIEs often contain multiple risk factors, such as credit, equity, foreign currency and interest rate risks, which require quantification by variable interest holders. UBS analyzes these risks into components, identifies the parties absorbing them, and uses models to quantify and compare them. These models are based on internally approved valuation models and in some cases require the use of Monte Carlo simulation techniques.

They are applied when UBS first becomes involved with a VIE, or after a major restructuring.

Measurement of maximum exposure to loss

Maximum exposure to loss is disclosed for VIEs in which UBS has a significant variable interest.

UBS's maximum exposure to loss is generally measured as its net investment in the VIE, plus any additional amounts it may be obligated to invest. If UBS receives credit protection from credit derivatives it is measured as any positive replacement value of the derivatives. If UBS has provided guarantees or other types of credit protection to a VIE it is measured as the notional amount of the credit protection instruments or credit derivatives. In other derivative transactions exposing UBS to potential losses, there is no theoretical limit to the maximum loss which could be incurred before considering offsetting positions or hedges entered into outside of the VIE. However, UBS's general risk management process involves the hedging of risk exposures for VIEs, on the same basis as for non-VIE counterparties. See Note 28 for a further discussion of UBS's risk mitigation strategies.

VIEs in which UBS is the primary beneficiary

VIEs in which UBS is the primary beneficiary require consolidation, which may increase both total assets and liabilities of the US GAAP Financial Statements, or in other cases may result in a reclassification of existing assets or liabilities.

In certain cases, an entity not consolidated under IFRS is consolidated under FIN 46-R because UBS is the primary beneficiary. Significant groups of these include CHF 0.7 billion of investment fund products, and CHF 1.1 billion of securitization VIEs, which includes some third-party VIEs mentioned below.

The other significant group of VIEs which have previously been consolidated for US GAAP but not under IFRS were employee equity compensation trusts, for which UBS is the primary beneficiary because of the variable interests of employees. For US GAAP purposes, these trusts have been consolidated since 1 January 2004. For IFRS purposes, on 1 January 2005, these trusts were retrospectively consolidated from 1 January 2003. See Note 41.1h) Equity Participation Plans for further details.

UBS has reviewed the population of potential third-party VIEs it is involved with. Those identified in which UBS is the primary beneficiary, and which are consolidated for US GAAP purposes, have combined assets of approximately CHF 3.5 billion and are included in the table below.

Many entities consolidated under US GAAP due to FIN 46-R are already consolidated under IFRS, based on the determination of exercise of control under IFRS. The total size of this population is approximately CHF 13.9 billion, mostly comprising investment funds managed by UBS, other investment fund products, employee equity compensation trusts mentioned previously, and private equity investments.

Certain VIEs in which UBS is the primary beneficiary, but for which UBS also holds a majority voting interest, are consolidated, but do not require disclosure in the table below. In most cases such VIEs, or their financial position and performance, are already consolidated under IFRS.

The creditors or beneficial interest holders of VIEs in which UBS is the primary beneficiary do not have any recourse to the general credit of UBS.

VIEs in which UBS is the primary beneficiary

(CHF million) **Nature, purpose and activities of VIEs**	**Total assets**	**Consolidated assets that are collateral for the VIEs' obligations** **Classification**	**Amount**
Securitizations	1,140	Loan receivables, government debt securities, corporate debt securities	1,140
Investment fund products	4,079	Investment funds	4,079
Investment funds managed by UBS	5,290	Debt, equity	5,015
Credit protection vehicles	220	Corporate debt securities	220
Passive intermediary to a derivative transaction	157	Loan receivables, corporate debt securities	47
Trust vehicles for awards to UBS employees	2,882	UBS shares and derivatives thereon	2,882
Private equity investments	500	Private equity investments	242
Other miscellaneous structures	1,521	Equity, derivatives, investment funds	1,488
Total 31.12.05	**15,789**		**15,113**

Entities which are de-consolidated for US GAAP purposes

In certain cases, an entity consolidated under IFRS is not consolidated under FIN 46-R. UBS consolidates under IFRS several entities that have issued preferred securities amounting to CHF 5.1 billion, which are de-consolidated for US GAAP purposes. Under IFRS the preferred securities are equity instruments held by third parties and are treated as minority interests, with dividends paid also reported in minority interests; the UBS-issued debt held by these entities and the respective interest amounts are eliminated in consolidation. Under US GAAP, these entities are not consolidated and the UBS-issued debt is recognized as a liability in the UBS Group Financial Statements, with interest paid reported in interest expense.

VIEs in which UBS holds a significant variable interest

VIEs in which UBS holds a significant variable interest are mostly used in securitizations, or as investment fund products, including funds managed by UBS.

UBS has reviewed the population of potential third-party VIEs it is involved with. Those identified in which UBS holds a significant variable interest have combined assets of approximately CHF 3.3 billion, for which UBS has a maximum exposure to loss of approximately CHF 1.9 billion. Disclosures for these are included in the table below.

VIEs in which UBS holds a significant variable interest

(CHF million) **Nature, purpose and activities of VIEs**	**Total assets**	**Nature of involvement**	**Maximum exposure to loss**
Securitizations	1,162	UBS acts as swap counterparty	1,056
Investment fund products	1,476	UBS holds notes or units	633
Investment funds managed by UBS	3,425	UBS acts as investment manager	936
Credit protection vehicles	894	SPE used for credit protection – UBS sells credit risk on portfolios to investors	633
Other miscellaneous structures	778	UBS acts as swap counterparty	186
Total 31.12.05	**7,735**		**3,444**

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)
Note 42.1 Variable Interest Entities (continued)

Third-party VIEs not otherwise classified

FIN 46-R requires UBS to consider all VIEs for consolidation, including VIEs which UBS has not created, but in which it holds variable interests as a third-party counterparty, either through direct or indirect investment, or through derivative transactions.

UBS has identified that it holds variable interests in 88 third party VIEs that in some cases could result in UBS being considered the primary beneficiary, but the information necessary to make this determination, or perform the accounting required to consolidate the VIE was held by third parties, and was not available to UBS. Additional disclosures for these VIEs are provided in the table below.

VIEs not originated by UBS – information determining VIE status unavailable from third parties

(CHF million) **Nature, purpose and activities of VIEs**	**Total assets**	**Nature of involvement**	**Net income from VIE in current period**	**Maximum exposure to loss**
Securitizations	1,917	UBS acts as swap counterparty	(1)	1,917
Investment fund products	4,730	UBS acts as swap counterparty	200	4,711
Total 31.12.05	**6,647**		**199**	**6,628**

Future developments

As the guidance for FIN 46-R has seen considerable continued development, it is possible UBS may be required to apply a different approach in the future, which would impact the US GAAP financial position, results, and reporting. However, it is not possible at this time to predict the impact this might have.

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)

Note 42.2 Industrial Holdings' Income Statement

In 2004, following the acquisition of an additional 20% stake in Motor-Columbus, a Swiss holding company whose most significant asset is a 59.3% interest in Atel, a Swiss-based European energy provider, UBS now holds a majority ownership interest in the company. As a result, UBS has fully consolidated Motor-Columbus in its Financial Statements since 1 July 2004. In addition, due to the adoption of IAS 27 *Consolidated and Separate Financial Statements* which is further described in Note 1aa), UBS retrospectively consolidated certain private equity investments to 1 January 2003. The following table provides information required by Regulation S-X for commercial and industrial companies, including a condensed income statement and certain additional balance sheet information:

Note 42.2 Industrial Holdings' Income Statement

	For the year ended or as at		
CHF million	**31.12.05**	31.12.04[1]	31.12.03
Operating income			
Net sales	**10,515**	6,086	2,900
Operating expenses			
Cost of products sold	**9,044**	5,028	2,161
Marketing expenses	**283**	144	77
General and administrative expenses	**478**	553	610
Amortization of goodwill	**0**	7	26
Amortization of other intangible assets	**207**	169	8
Other operating expenses	**210**	74	76
Total operating expenses	**10,222**	5,975	2,958
Operating profit / (loss)	**293**	111	(58)
Non-operating profit			
Interest income	**26**	40	7
Interest expense	**(138)**	(141)	(113)
Other non-operating income, net	**582**	430	(138)
Non-operating profit / (loss)	**470**	329	(244)
Net profit / (loss) from continuing operations before tax	**763**	440	(302)
Income taxes	**247**	117	11
Equity in income of associates, net of tax	**88**	22	15
Net profit / (loss) from continuing operations	**604**	345	(298)
Net profit from discontinued operations	**115**	108	232
Net profit / (loss)	**719**	453	(66)
Net profit / (loss) attributable to minority interests	**207**	93	(11)
Net profit / (loss) attributable to UBS shareholders	**512**	360	(55)
Accounts receivables trade, gross	**2,068**	2,084	
Allowance for doubtful receivables	**(62)**	(39)	
Accounts receivables trade, net	**2,006**	2,045	

1 Includes results for the six-month period beginning on 1 July 2004 for Motor-Columbus.

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)
Note 42.3 Indemnifications

In the normal course of business, UBS provides representations, warranties and indemnifications to counterparties in connection with numerous transactions. These provisions are generally ancillary to the business purposes of the contracts in which they are embedded. Indemnification clauses are generally standard contractual terms related to the Group's own performance under a contract and are entered into based on an assessment that the risk of loss is remote. Indemnifications may also protect counterparties in the event that additional taxes are owed due either to a change in applicable tax laws or to adverse interpretations of tax laws. The purpose of these clauses is to ensure that the terms of a contract are met at inception.

The most significant business where UBS provides representations and warranties is asset securitizations. UBS generally represents that certain securitized assets meet specific requirements, for example documentary attributes. UBS may be required to repurchase the assets and/or indemnify the purchaser of the assets against losses due to any breaches of such representations or warranties. Generally, the maximum amount of future payments the Group would be required to make under such repurchase and/or indemnification provisions would be equal to the current amount of assets held by such securitization-related SPEs as at 31 December 2005, plus, in certain circumstances, accrued and unpaid interest on such assets and certain expenses. The potential loss due to such repurchase and/or indemnity is mitigated by the due diligence UBS performs to ensure that the assets comply with the requirements set forth in the representations and warranties. UBS receives no compensation for representations and warranties, and it is not possible to determine their fair value because they rarely, if ever, result in a payment. Historically, losses incurred on such repurchases and / or indemnifications have been insignificant. Management expects the risk of material loss to be remote. No liabilities related to such representations, warranties, and indemnifications are included in the balance sheet at 31 December 2005 and 2004.

Note 42.4 Supplemental Guarantor Information

Guarantee of PaineWebber securities

Following the acquisition of Paine Webber Group Inc., UBS AG made a full and unconditional guarantee of the senior and subordinated notes and trust preferred securities ("Debt Securities") of PaineWebber. Prior to the acquisition, PaineWebber was an SEC Registrant. Upon the acquisition, PaineWebber was merged into UBS Americas Inc., a wholly owned subsidiary of UBS.

Under the guarantee, if UBS Americas Inc. fails to make any timely payment under the Debt Securities agreements, the holders of the Debt Securities or the Debt Securities trustee may demand payment from UBS without first proceeding against UBS Americas Inc. UBS's obligations under the subordinated note guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. At 31 December 2005, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,997 billion.

The information presented in this note is prepared in accordance with IFRS and should be read in conjunction with the Consolidated Financial Statements of UBS of which this information is a part. At the bottom of each column, Net profit and Shareholders' equity has been reconciled to US GAAP. See Note 41 for a detailed reconciliation of the IFRS Financial Statements to US GAAP for UBS on a consolidated basis.

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)
Note 42.4 Supplemental Guarantor Information (continued)

Supplemental Guarantor Consolidating Income Statement

CHF million For the year ended 31 December 2005	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	39,779	27,782	20,729	(29,004)	59,286
Interest expense	(33,892)	(24,803)	(20,067)	29,004	(49,758)
Net interest income	5,887	2,979	662	0	9,528
Credit loss (expense)/recovery	370	(3)	8	0	375
Net interest income after credit loss expense	6,257	2,976	670	0	9,903
Net fee and commission income	9,670	7,420	4,346	0	21,436
Net trading income	7,453	(123)	666	0	7,996
Income from subsidiaries	(675)	0	0	675	0
Other income	2,635	476	(1,986)	0	1,125
Revenues from industrial holdings	0	0	10,515	0	10,515
Total operating income	25,340	10,749	14,211	675	50,975
Operating expenses					
Personnel expenses	9,962	6,587	4,500	0	21,049
General and administrative expenses	2,330	2,667	2,050	0	7,047
Depreciation of property and equipment	988	140	365	0	1,493
Amortization of other intangible assets	24	70	240	0	334
Goods and materials purchased	0	0	8,003	0	8,003
Total operating expenses	13,304	9,464	15,158	0	37,926
Operating profit from continuing operations before tax	12,036	1,285	(947)	675	13,049
Tax expense/(benefit)	1,712	1,079	(242)	0	2,549
Net profit/(loss) from continuing operations	10,324	206	(705)	675	10,500
Net profit/(loss) from discontinued operations	3,705	0	485	0	4,190
Net profit/(loss)	14,029	206	(220)	675	14,690
Net profit/(loss) attributable to minority interests	0	122	539	0	661
Net profit/(loss) attributable to UBS shareholders	14,029	84	(759)	675	14,029
Net profit/(loss) US GAAP[2]	14,490	(891)	(1,247)	0	12,352

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss Banking Law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. 2 Refer to Note 41 for a description of the differences between IFRS and US GAAP.

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)
Note 42.4 Supplemental Guarantor Information (continued)

Supplemental Guarantor Consolidating Balance Sheet

CHF million For the year ended 31 December 2005	UBS AG Parent Bank [1]	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	2,712	5	2,642	0	5,359
Due from banks	127,321	14,684	156,999	(265,360)	33,644
Cash collateral on securities borrowed	110,001	257,943	118,415	(186,028)	300,331
Reverse repurchase agreements	240,762	162,069	284,360	(282,759)	404,432
Trading portfolio assets	299,750	174,707	24,840	0	499,297
Trading portfolio assets pledged as collateral	79,333	36,956	38,470	0	154,759
Positive replacement values	330,894	6,656	158,514	(162,282)	333,782
Financial assets designated at fair value	2,186	737	(1,770)	0	1,153
Loans	289,577	41,901	33,987	(95,496)	269,969
Financial investments	3,198	910	2,443	0	6,551
Accrued income and prepaid expenses	5,720	3,135	4,877	(4,814)	8,918
Investments in associates	31,250	173	1,974	(30,441)	2,956
Property and equipment	5,462	592	3,369	0	9,423
Goodwill and other intangible assets	641	11,095	1,750	0	13,486
Other assets	7,456	3,758	7,468	(2,492)	16,190
Total assets	1,536,263	715,321	838,338	(1,029,672)	2,060,250
Liabilities					
Due to banks	181,592	126,834	81,262	(265,360)	124,328
Cash collateral on securities lent	102,698	50,395	110,202	(186,028)	77,267
Repurchase agreements	132,073	360,932	268,262	(282,759)	478,508
Trading portfolio liabilities	113,171	69,460	6,000	0	188,631
Negative replacement values	337,172	7,274	155,499	(162,282)	337,663
Financial liabilities designated at fair value	93,207	0	24,194	0	117,401
Due to customers	419,301	63,243	64,485	(95,496)	451,533
Accrued expenses and deferred income	10,090	7,494	5,622	(4,814)	18,392
Debt issued	87,267	19,496	53,947	0	160,710
Other liabilities	10,431	3,594	42,341	(2,492)	53,874
Total liabilities	1,487,002	708,722	811,814	(999,231)	2,008,307
Equity attributable to UBS shareholders	49,261	6,485	19,019	(30,441)	44,324
Equity attributable to minority interests	0	114	7,505	0	7,619
Total equity	49,261	6,599	26,524	(30,441)	51,943
Total liabilities and equity	1,536,263	715,321	838,338	(1,029,672)	2,060,250
Total shareholders' equity – US GAAP [2]	32,577	7,893	20,005	0	60,475

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss Banking Law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. 2 Refer to Note 41 for a description of the differences between IFRS and US GAAP.

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)
Note 42.4 Supplemental Guarantor Information (continued)

Supplemental Guarantor Consolidating Cash Flow Statement

CHF million For the year ended 31 December 2005	UBS AG Parent Bank [1]	UBS Americas Inc.	Subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	(29,118)	(15,771)	(18,318)	(63,207)
Cash flow from / (used in) investing activities				
Investments in subsidiaries and associates	(1,540)	0	0	(1,540)
Disposal of subsidiaries and associates	3,240	0	0	3,240
Purchase of property and equipment	(1,153)	(155)	(584)	(1,892)
Disposal of property and equipment	71	6	193	270
Net (investment in) / divestment of financial investments	(4,667)	(40)	2,220	(2,487)
Net cash flow from / (used in) investing activities	(4,049)	(189)	1,829	(2,409)
Cash flow from / (used in) financing activities				
Net money market paper issued / (repaid)	22,698	615	(92)	23,221
Net movements in treasury shares and own equity derivative activity	(2,416)	0	0	(2,416)
Capital issuance	2	0	0	2
Dividends paid	(3,105)	0	0	(3,105)
Issuance of long-term debt, including financial liabilities designated at fair value	50,587	14,635	11,085	76,307
Repayment of long-term debt, including financial liabilities designated at fair value	(17,780)	(753)	(11,924)	(30,457)
Increase in minority interests	0	8	1,564	1,572
Dividend payments to / purchase from minority interests	0	(175)	(400)	(575)
Net activity in investments in subsidiaries	(1,591)	(214)	1,805	0
Net cash flow from / (used in) financing activities	48,395	14,116	2,038	64,549
Effects of exchange rate differences	3,283	(720)	2,455	5,018
Net increase / (decrease) in cash equivalents	18,511	(2,564)	(11,996)	3,951
Cash and cash equivalents, beginning of the year	50,037	16,095	20,959	87,091
Cash and cash equivalents, end of the year	68,548	13,531	8,963	91,042
Cash and cash equivalents comprise:				
Cash and balances with central banks	2,712	5	2,642	5,359
Money market paper [2]	47,838	8,991	997	57,826
Due from banks with original maturity of less than three months	17,998	4,535	5,324	27,857
Total	68,548	13,531	8,963	91,042

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. 2 Money market paper is included in the Balance sheet under Trading portfolio assets and Financial investments. CHF 4,744 million was pledged at 31 December 2005.

Guarantee of other securities

In October 2000, UBS AG, acting through a wholly owned subsidiary, issued USD 1.5 billion of 8.622% UBS Trust Preferred Securities. In June 2001, UBS issued an additional USD 800 million of such securities (USD 300 million at 7.25% and USD 500 million at 7.247%). In May 2003, UBS issued USD 300 million of Floating Rate Non-Cumulative Trust Preferred Securities at 0.7% above one-month LIBOR of such securities.

UBS AG has fully and unconditionally guaranteed these securities. UBS's obligations under the trust preferred securities guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. At 31 December 2005, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,997 billion.

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)
Note 42.5 Pro-Forma Effect of the Fair Value Method of Accounting on US GAAP Net Profit

The following table presents US GAAP Net profit and earnings per share for the years ended 31 December 2004 and 31 December 2003 as if UBS had applied the fair value method of accounting for its share-based compensation plans in that period. With the adoption of SFAS 123-R on 1 January 2005, UBS adopted the fair value method of accounting for its share-based compensation plans using the modified prospective method. See Note 41.1 h) for details.

CHF million, except per share data	31.12.04	31.12.03
Net profit under US GAAP, as reported	8,818	6,513
Add: Equity-based employee compensation expense included in reported net income, net of tax	1,209	752
Deduct: Total equity-based employee compensation expense determined under the fair-value-based method for all awards, net of tax	(1,717)	(1,191)
Net profit, pro-forma	8,310	6,074
Earnings per share		
Basic, as reported	8.56	5.83
Basic, pro-forma	8.07	5.44
Diluted, as reported	8.15	5.72
Diluted, pro-forma	7.68	5.33

APPENDIX B

RISK MANAGEMENT AND CONTROL

The information in this Appendix B describes the risk management and control process of UBS AG and references herein to "**UBS**" or the "**Group**" are to UBS AG and its subsidiaries.

The information in this Appendix B has been extracted from the Handbook 2005/2006 of UBS AG. Reference to page numbers in this Appendix B are to pages of such document. The page numbers of such document appear on the bottom left or right hand side of the pages in this Appendix B.

Risk management and control

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

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

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

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

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

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

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

We *protect our reputation* by managing and controlling the risks incurred in the course of our business, and for this reason we avoid concentrations of exposure and limit potential stress losses, not only from credit, market and liquidity risks but also from operational risks. We avoid extreme positions in transactions that are sensitive for tax, legal, regulatory or accounting reasons, and adopt a cautious approach to any risks that cannot be sensibly evaluated or priced. We adopt the highest standards in protecting the confidentiality and integrity of our client information, and aim to maintain the highest ethical standards in all our business dealings.

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

Key responsibilities

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

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

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

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

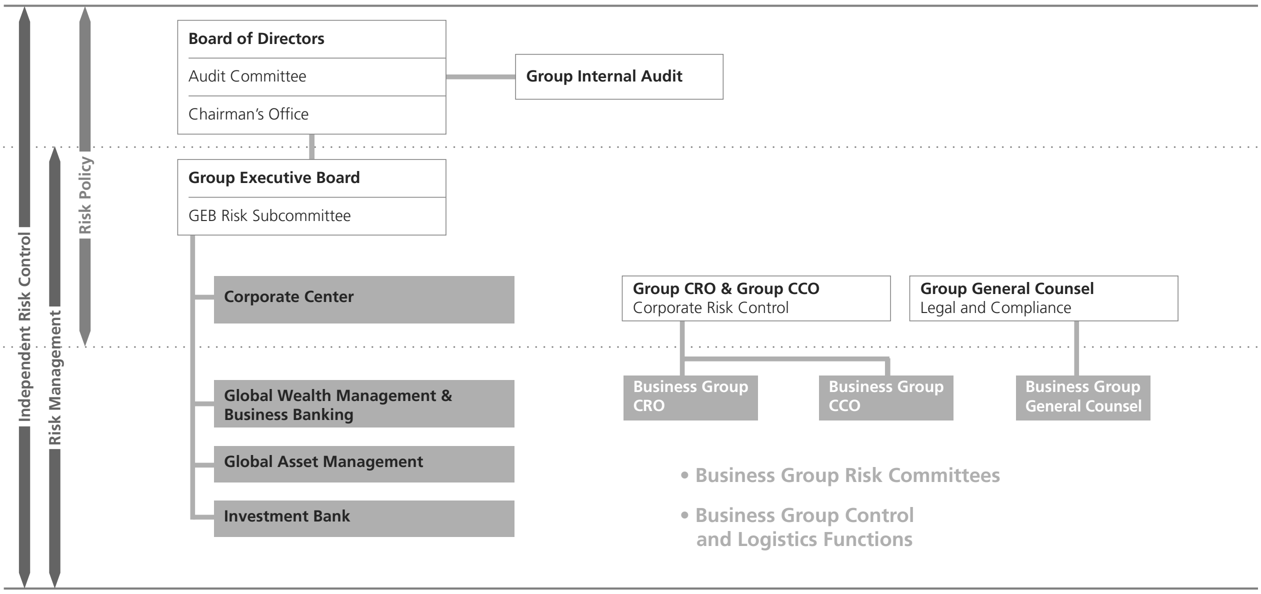
The *Group Chief Risk Officer (CRO)* has overall responsibility for the development and implementation of the Group's risk control principles, frameworks, limits and processes across market, credit and operational risk. Effective 1 March 2005, a new GEB position was established for the Group Chief Risk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

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

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

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

Risk management and control framework



The risk control process

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

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

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

The risks we take

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

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

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

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

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

Operational risk can arise in a number of ways:

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

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

How we measure risk

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

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

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

Risk categories

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

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

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

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

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

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

Credit risk

Credit risk is the risk of loss to UBS as a result of failure by a client or counterparty to meet its contractual obligations. It is an integral part of many of our business activities and is inherent in traditional banking products – loans, commitments to lend and contingent liabilities, such as letters of credit – and in "traded products" – derivative contracts such as forwards, swaps and options; repurchase agreements (repos and reverse repos); and securities borrowing and lending transactions.

Some of these products are accounted for on an amortized cost basis while others are recorded in the financial statements at fair value. Banking products are generally accounted for at amortized cost, but loans which have been originated by UBS for subsequent syndication or distribution via the cash markets are carried at fair value. From second quarter 2006, UBS will also adopt the fair value option available under IAS39 for new loans and commitments where credit risk is substantially hedged with credit default swaps. Within traded products, OTC derivatives are carried at fair value, while repos and securities borrowing and lending transactions are carried at amortized cost. Regardless of the accounting treatment, all banking and traded products are governed by the same risk management and control framework – the Group Credit Policy Framework and our detailed credit policies and procedures.

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

Credit risk measurement

Components of credit risk

Credit risk exists in every credit engagement. In measuring credit risk at a counterparty level we reflect three components – the "probability of default" by the client or counterparty on its contractual obligations; our current exposure to the counterparty and its likely future development, from which we derive the "exposure at default"; and the likely recovery ratio on the defaulted obligations to give us the "loss given default". These components are also important parameters in determining portfolio risk, not only for our internal credit risk measures but also for future regulatory capital calculations, since they are the basis of the Basel II Advanced Internal Rating Based approach, which we intend to adopt when it comes into force in 2008.

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

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

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

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

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

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

Portfolio risk measures

Expected loss

Credit losses must be expected as an inherent cost of doing business. But the occurrence of credit losses is erratic in both timing and amount and those that arise usually relate to transactions entered into in previous accounting periods. In order to reflect the fact that future credit losses are implicit in today's portfolio, we use the concept of "expected loss".

Expected loss is a forward-looking, statistically based concept from which we estimate the annual costs that will arise, on average over time, from positions in the current portfolio that become impaired. It is derived from the three components described above – probability of default, exposure at default and loss given default.

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

Statistical and stress loss

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

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

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

Credit risk control

Limits and controls

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

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

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

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

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

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

Risk mitigation

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

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

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

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

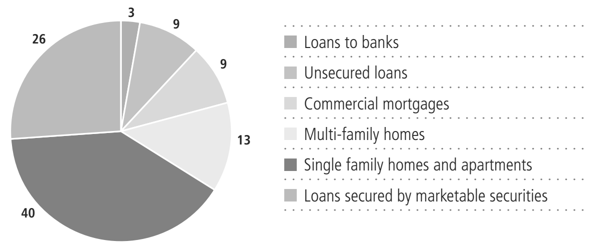
The OTC derivatives market continues to grow and with the consolidation of financial institutions through mergers and takeovers outstanding transaction volumes with individual professional counterparties have the potential to be very large, although credit exposure is only a small fraction of these amounts.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

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

Global Wealth Management & Business Banking Composition of loan book

in %

As at 31.12.05



Composition of credit risk

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

Global Wealth Management & Business Banking

Global Wealth Management & Business Banking's gross loans on 31 December 2005 amounted to CHF 217 billion, of which CHF 136 billion (62%) were secured by real estate and CHF 56 billion (26%) by marketable securities. The pie chart above shows that exposure to the real estate sector is well diversified with 40% of loans being secured on single-family homes and apartments, which, historically, have exhibited a low risk profile. The 13% of exposure secured on residential multi-family homes consists of rented apartment buildings. Loans and other credit engagements with individual clients, excluding mortgages, amounted to CHF 75 billion and are predominantly extended against the pledge of marketable securities. The volume of collateralized lending to private individuals rose by CHF 14 billion or 34% from the previous year, as the low interest rate environment triggered an increase in demand for this product and as we accepted a slightly broader and more complex range of investment instruments as eligible collateral.

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

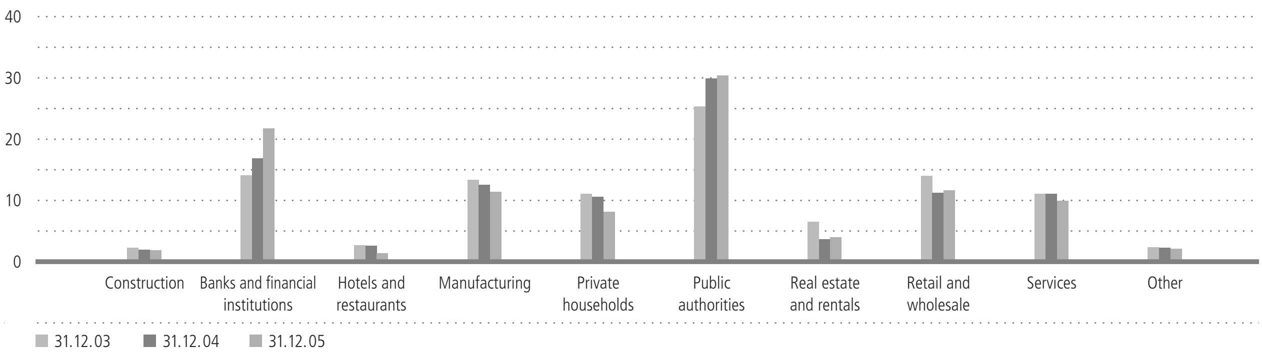
Total credit exposure

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

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

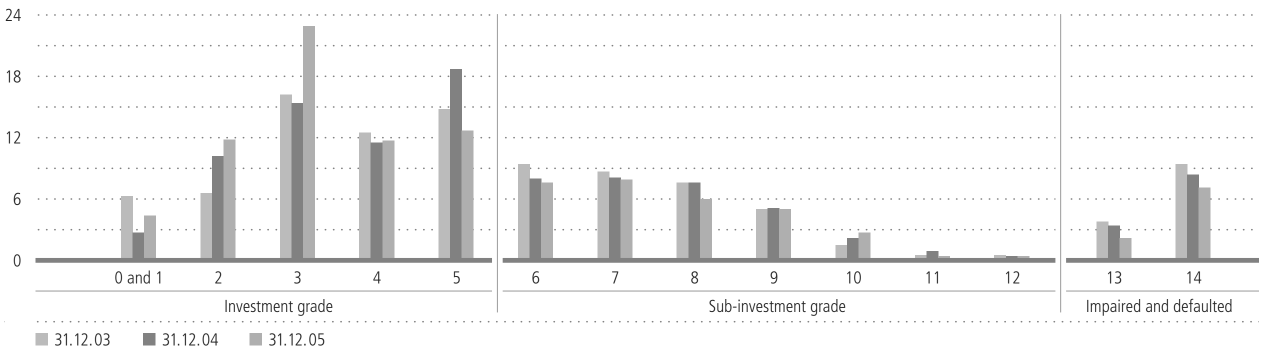
Business Banking Switzerland: gross loans (excluding mortgages) by industry sector

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



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

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



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

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

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

credit portfolio, reducing both individual and sector concentrations.

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

Investment Bank

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

The Investment Bank's total banking products exposure on 31 December 2005 was CHF 162.7 billion, as reported in accordance with IFRS, of which CHF 86.6 billion was loans, compared with CHF 68.4 billion loans on 31 December 2004. Part of the increase of CHF 18.2 billion over the course of 2005 was the result of our expanding prime brokerage and equity finance businesses, and part reflects increased underwriting activity as we capitalized on our strengthened business franchise in advising corporate clients. Note that disclosures in this section present the credit exposure from a risk management and control perspective, which differs from disclosure under IFRS. In particular, gross banking products exposure in risk terms amounts to CHF 130.9 billion, a difference of CHF 31.8 billion to the CHF 162.7 billion reported for the Investment Bank in the table on page 61. This difference is mainly made up of cash collateral posted by UBS against negative replacement values and other positions which, from a risk perspective, do not classify as loans but where the underlying credit risk is incorporated into our traded products measurement methodologies. On the other hand, in our internal risk control view we consider certain US residential mortgage financing conducted under repo- / reverse repo-like agreements as banking product exposures. The table on the next page shows a reconciliation between the IFRS and risk views of banking products exposure of the Investment Bank.

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

Investment Bank: credit hedging, banking products

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

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

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

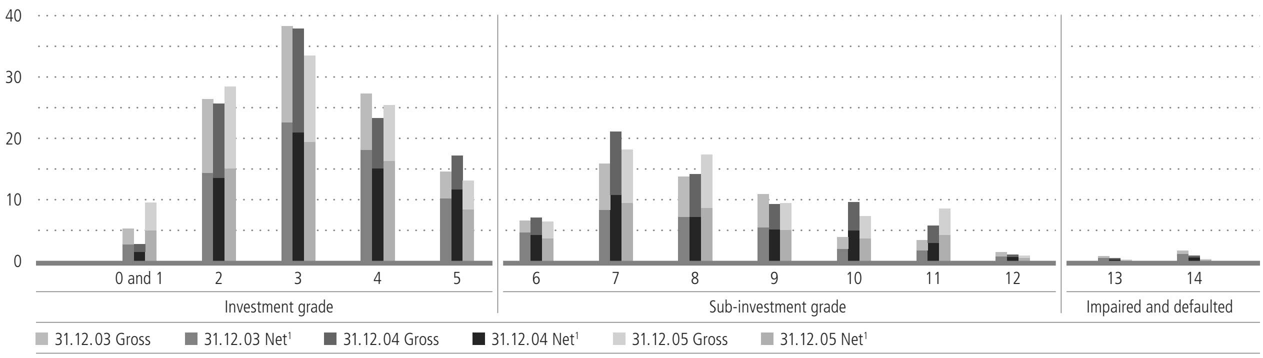
Investment Bank: distribution of net take and hold banking products exposure across counterparty rating and loss given default (LGD) buckets

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

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

Investment Bank: banking products exposure by counterparty rating

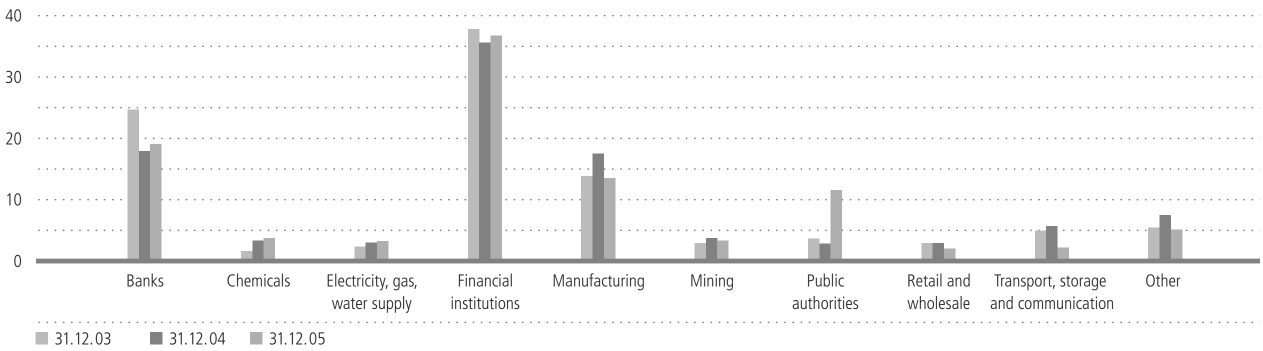
As a % of Investment Bank banking products exposure [1]



1 Banking products exposure, net, after application of credit hedges.

Investment Bank: banking products exposure by industry sector

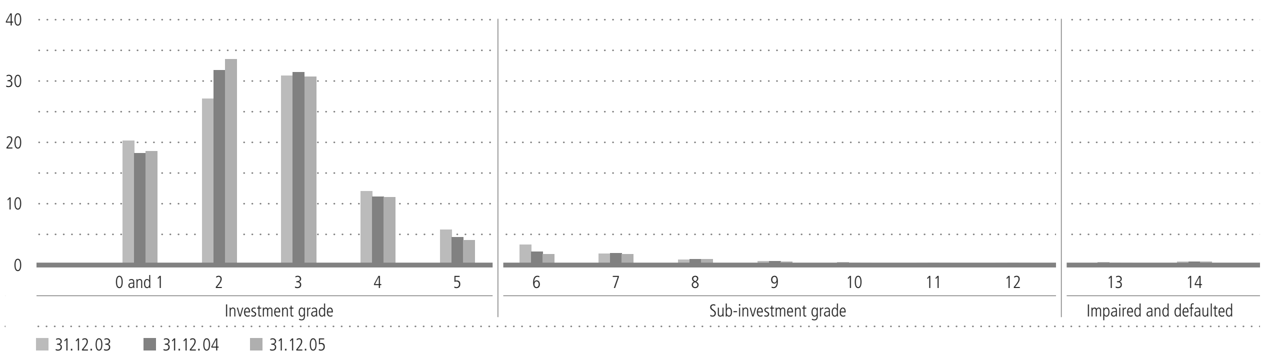
As a % of Investment Bank banking products exposure [1]



1 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



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

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

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

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

Settlement risk

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

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

Country risk

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

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

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

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

Emerging markets exposure by major geographical area and product type

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

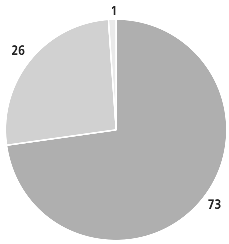
making conservative assumptions about potential recovery rates depending on the types of transaction involved and their economic importance to the affected countries, and thereby determining potential loss.

Country risk exposure

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

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

Emerging markets exposure by country rating category
in %
As at 31.12.05



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

We also assess portfolios of claims carried at amortized cost with similar credit risk characteristics for collective impairment. A portfolio is considered impaired on a collective basis if there is objective evidence to suggest that it contains impaired obligations but the individual impaired items cannot yet be identified. Note that such portfolios are not included in the totals of impaired loans in the tables on page 62/63 or in note 9c in the financial statements.

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

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

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

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

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

Credit loss expense

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

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

In 2005, we experienced a net credit loss recovery of CHF 375 million, compared to net credit loss recovery of CHF 241 million in 2004 and net credit loss expense of CHF 102 million in 2003. Releases in country allowances and provisions of CHF 118 million reflected the generally positive macro-economic environment in key emerging markets. This favorable result was achieved in a period which saw a benign environment for credit markets globally. Economic expansion in the US provided a strong stimulus for growth worldwide. Almost without exception, credit spreads contracted in all the major developed and emerging capital markets, as healthy expansion of cash flows allowed the corporate sector to de-leverage and build liquidity.

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

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

Swiss corporate bankruptcy rates (1995–2005)

As a % of total registered companies

Source: Creditreform

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

Impaired loans, allowances and provisions

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

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

The ratio of impaired loans to total loans has improved continuously over the past years to 1.1% on 31 December 2005 from 1.7% on 31 December 2004 and 2.8% on 31 December 2003, while the non-performing loans to total loans ratio improved to 0.8% on 31 December 2005 from 1.3% on 31 December 2004 and 1.9% on 31 December 2003. This continuing positive trend is testament to our success in applying stringent risk management and control throughout the firm, resulting in relatively few new impaired and non-performing loans, and to our efforts to conclude proceedings and reach settlement on existing non-performing loans.

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

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

Allowances and provisions for credit losses

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

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

Impaired assets[1]

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

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

of CHF 3.7 billion relates to positions that defaulted more than three years ago, reflecting the benign environment across global credit markets in recent years. Considering allocated specific allowances, provisions and valuation reserves of CHF 1.8 billion plus the estimated liquidation proceeds of collateral (predominantly Swiss real estate property) of CHF 1.4 billion, net impaired assets amounted to CHF 0.5 billion.

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

Market risk

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

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

Sources of market risk

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

Trading

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

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

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

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

We run positions in foreign exchange, and in precious metals and energy (which are reported in the risk type "other") but their contribution to overall market risk exposure is generally relatively small. Base metals and soft commodities are not yet included in VaR but the exposure from this business is not material.

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

Non-trading

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

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

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

Risk control

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

The CRO organization in the Investment Bank provides market risk measurement and reporting support to all Business Groups and is responsible for the development and ongoing enhancement of market risk measures, in particular the VaR model.

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

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

Portfolio risk measures

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

Value at Risk (VaR)

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

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

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

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

Our base metals and soft commodities businesses are not currently captured in VaR, but the model is being enhanced to incorporate the new business. In the meantime it is subject to volume constraints and close monitoring. We estimate that its current impact on reported VaR for the Investment Bank as a whole would be negligible, although it may have a more material impact on the risk type "other", where it will be reported. While an expansion of the business is planned we do not expect it to give rise to a significant increase in overall market risk, given the relatively low correlation of commodity markets with financial markets and the continuing dominance of credit spread and equity arbitrage positions in our risk profile.

Stress loss

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

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

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

Inside VaR

We disclose in the tables on page 75 a separate 10-day VaR exposure for each risk type within Investment Bank and for each Business Group of UBS. In each case, the VaR exposure reported is the 99% confidence result for the risk type or Business Group looked at on a standalone basis. Generally these results are generated by a different historical period for each risk type or Business Group. The total in each table is the 99% confidence result for all risk types or Business Groups looked at as one portfolio, and generally reflects a different historical period from the results for any individual risk type or Business Group. For example, the worst 10-day losses for equities will generally result from a historical period when equities markets fell and such periods are usually accompanied by a rally in government bond markets. If, as is often the case, we have a long position in government bonds, these historical periods will not be significant for interest rate risk, where the largest losses typically come from periods when credit spreads have widened significantly. Moreover, if the profits on government bond positions offset the losses on equities for the historical periods driving equities 99% confidence VaR, these periods will not be significant drivers of total VaR for the Investment Bank as a whole. The difference between the sum of the individual results and the result for the whole portfolio is a "diversification effect", which is shown in the tables. It provides an indication of the extent to which we benefit from the diversity of our businesses but has no intrinsic meaning – it cannot be tied to any particular positions or risk factors.
10-day and 1-day VaR results are calculated independently, directly from the underlying positions and historical market moves. Neither can be directly inferred from the other by a "square root of time" conversion for a number of reasons:
– this formula assumes that consecutive daily moves are uncorrelated (movements follow a "random walk"), whereas in fact markets can trend in one direction for several days or longer, especially in times of market upheaval
– there are positions and products such as options which have a nonlinear sensitivity to changes in market risk factors (the change in value is not directly proportional to

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

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

Most major financial institutions employ stress tests, but their approaches differ widely and there is no benchmark or industry standard in terms of stress scenarios or the way they are applied to an institution's positions. Furthermore, the impact of a given stress scenario, even if measured in the same way across institutions, depends entirely on the make up of each institution's portfolio, and a scenario highly applicable to one institution may have no relevance to another. Comparison of stress results between institutions can therefore be highly misleading, and for this reason we do not publish quantitative stress results.

Trading portfolios – concentration limits and other controls

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

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

the change in the market risk factor, nor is it necessarily even in the same direction – positions can be constructed, for example, to make money for a large move in either direction) and thus even if markets follow a random walk, the relationship between the 1-day and 10-day VaR cannot be determined by a formula
– our deal break methodology for equity long-short positions is not time dependent
– the potential returns of the portfolio are not normally distributed
– and the combination of all these effects means that the correlations and consequent diversification effect between risk types are different for the 1-day and the 10-day VaR.

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

VaR is the "industry standard" measure of market risk but VaR is a generic term within which there are many variants. Institutions may use different confidence levels or holding periods; they may use shorter or longer time series, which may result in the exclusion of earlier market upheavals (shorter time series) or dilution of the effect of more recent market events (longer time series), or they may weight their time series to give greater prominence to more recent events. In addition, they may model the risks on a different basis, for example by approximating the changes in individual risk factors as normally distributed with given volatilities and correlations ("variance / co-variance") or by simulating more complex distributions for the risk factors ("Monte Carlo simulation"). Furthermore, conversions between different confidence intervals typically rely on an assumption of statistical "normality", which is generally not fully valid and, as we have already observed, conversions between 10-day and 1-day VaR based on the square root of time formula cannot be relied upon. Comparison of VaR levels between institutions can therefore be misleading and must be treated with caution.

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

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

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

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

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

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

Market risk developments – trading

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Stress loss for the Investment Bank, defined as the worst-case outcome from our standard scenarios, ended 2005 virtually unchanged from the end of 2004, and remained well within the approved limit throughout the year. As with VaR, our credit spread exposures remained the dominant contributor, but fluctuations in the level of stress loss exposure during the year were significantly impacted by the varying level of option risk in the equity portfolio.

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

Non-trading portfolios

Management of non-trading interest rate risk

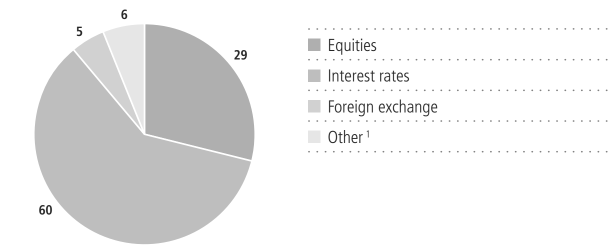
Most material non-trading interest rate risks, the largest items being those arising from the Global Wealth Management & Business Banking Business Group, are transferred from the originating business units to one of the two centralized interest rate risk management units, Treasury, which is part of Corporate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

Risks from long-term Swiss franc transactions with fixed maturities are transferred to Treasury by individual back-to-back transactions. Risks from all fixed maturity, short-term Swiss franc and all non-Swiss franc transactions are generally transferred to CCT. Client current and savings accounts and many other products of Global Wealth Management & Business Banking have no contractual maturity date or direct market-linked rate, and their interest rate risk cannot be transferred by simple back-to-back transactions. Instead, they

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

in %

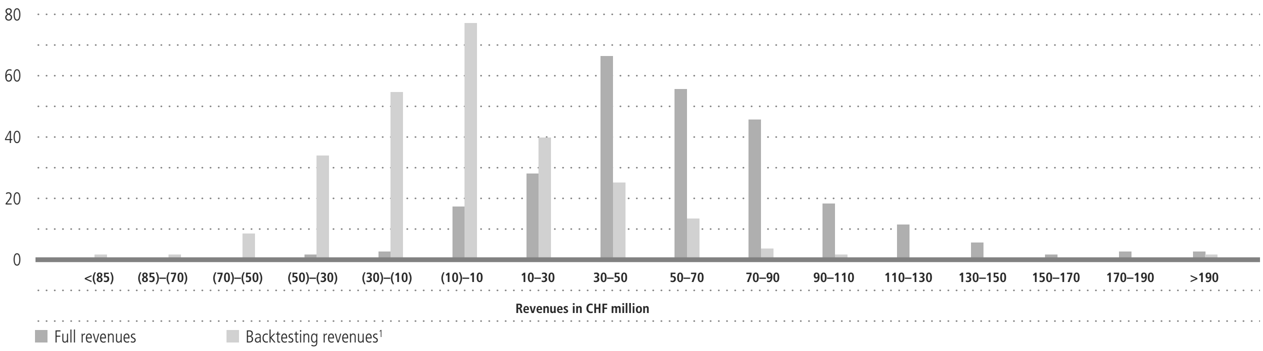
Year ended 31.12.05



1 Includes precious metals and energy exposures.

Investment Bank: distribution of daily revenues, 2005

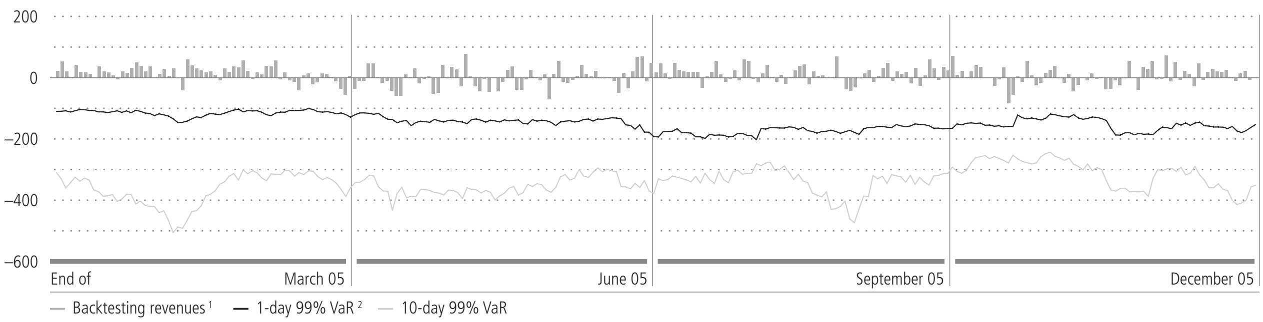
Frequency in number of days



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

UBS Investment Bank: backtesting revenues[1] and VaR

CHF million *1 January 2005 – 31 December 2005*



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

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

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

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

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

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

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

Non-trading interest rate risk development

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

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

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

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

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

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

Management of non-trading currency risk

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

Interest rate sensitivity of the Treasury book

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

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

Change in risk under the two measures

	As at		
CHF million	31.12.05	31.12.04	31.12.03
Net interest income at risk	(386)	(321)	(233)
Economic value sensitivity	(1,439)	(1,214)	(1,169)

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

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

For financial accounting purposes, final profits or losses are translated each month from the original transaction currencies into Swiss francs at the prevailing rate at the end of the month. At the same time, Treasury centralizes profits or losses in foreign currencies in the parent bank, and sells them into Swiss francs in order to reduce earnings volatility resulting from subsequent exchange rate movements. This monthly sell-down reduces the volatility in our Swiss franc results that would result from repeated re-translation, although it cannot protect the bank's earnings against a sustained downward or upward move of one of the main currencies against the Swiss franc. Where appropriate, a similar process is applied to material foreign currency profits and losses in subsidiaries.

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

Our Treasury department from time to time proactively hedges the remaining currency exposures arising on future earnings in accordance with the instructions of the Group CFO in line with policies approved by the GEB. Economic hedging strategies employed include a cost-efficient options purchase program, which provides a safety net against unfavorable currency fluctuations while preserving upside potential. We are, however, willing to accept, within clearly defined tolerances, a certain volatility in our financial results due to currency fluctuations. The hedge program has a time horizon of up to twelve months and is not restricted to the current financial year. Although intended to hedge future earnings, these transactions are considered open currency positions and are included in VaR for internal and regulatory capital purposes.

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

Regulatory capital treatment of market risk

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

The majority of our trading activities fall under the definition of "trading book" for regulatory capital treatment. This means that both general and residual market risks in these books are subject to a market risk capital requirement. It also means that the securities and other assets in tradable form are not generally subject to "banking book" capital requirements, which are typically higher. If a trading position in an asset ceases to be eligible for trading book treatment (for example if it becomes illiquid) it must be underpinned by capital on a banking book basis, but it remains subject to a market risk control framework for internal control purposes. Market risk regulatory capital is based on 10-day VaR while regulatory backtesting is based on 1-day VaR. As required by regulation, backtesting exceptions are notified to our internal and external auditors and relevant regulators.

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

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

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

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

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

Liquidity and funding management

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

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

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

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

Liquidity approach

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

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

Liquidity position

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

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

We assess the likelihood of maturing assets and liabilities being rolled over in a UBS-specific crisis, and gauge the extent to which the potential crisis-induced shortfall could be covered by available funding. This would be raised on a secured basis against available collateral, which includes securities eligible for pledging at the major central banks, or by selling liquid inventory. In both cases we apply crisis-level discounts to the value of the assets. We assume that we would be unable to renew any of our unsecured debt, including all our maturing money market papers (outstanding volume CHF 102.7 billion on 31 December 2005) and that no contingency funding could be raised on an unsecured basis. We also factor in potential liquidity outflows from contingent liabilities, in particular those due to the drawdown of committed credit lines. Exposures to other contingent commitments, such as guarantees and letters of credit, are included in this analysis, although they are not as vulnerable since they are generally not unconditional but, rather, are linked to other, independent conditions being fulfilled.

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

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

Liquidity limits and controls

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

To complement and support the limit framework, regional teams monitor the markets in which UBS operates for potential threats and regularly report any findings to Treasury. We have also developed detailed contingency plans for liquidity crisis management as an integral part of our global crisis management concept, which covers all types of crisis events. The liquidity contingency plan would be implemented under a core crisis team with representatives from Treasury, which is the liquidity risk control unit, from CCT, which is the primary liquidity manager, and from related areas including the functions responsible for payments and settlements, market and credit risk control, collateral and margin management, and IT and infrastructure. The cornerstone of our contingency plans is our access to secured funding either from the market or from the major central banks, coupled with the ability to turn sufficient liquid assets into cash within a short timeframe. Moreover, CCT's centralized global management model lends itself naturally to efficient liquidity crisis management.

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

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

Funding sources and approach

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

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

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

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

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

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

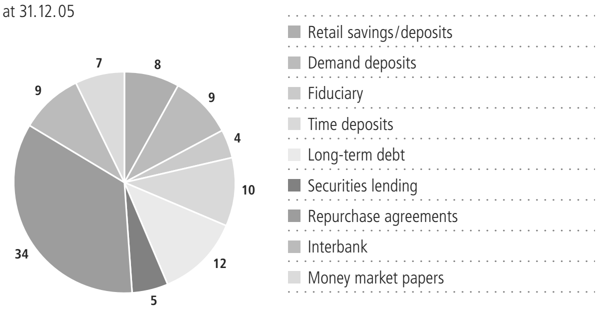
We make frequent use of asset-securitization structures, in particular in connection with the sale of corporate loans and retail mortgages. These do not, however, constitute a material portion of UBS's funding activities and our funding status would not be significantly affected if capital markets were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

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

UBS: funding by product type

in %

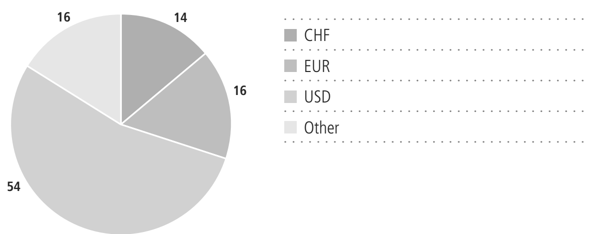
As at 31.12.05



UBS: funding by currency

in %

As at 31.12.05



Operational risk

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

Operational risk framework

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

To ensure the integrity of risk management decisions, each Business Group also has an Operational Risk Control unit, the head of which reports functionally to the Group Head of Operational Risk. The primary remit of these units is to confirm the effective implementation of the operational risk framework in the Business Group and to ensure transparent assessment and reporting of operational risks to senior management.

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

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

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

Operational risk in practice

Following public disclosure of two major incidents (relating to bank notes trading and US withholding tax) in 2004, operational risk events in 2005 have been less high profile. Among the more notable was the outcome of the US investigation into market timing in the mutual funds business, which led to a financial settlement with several US regulatory authorities. A loss of client data relating to approximately 9,500 accounts in Japan, reported in May 2005, highlights the continuing challenges we face in managing a complex, integrated, fast changing, global business, particularly against the backdrop of heightened regulatory and public sensitivity to shortcomings in corporate processes. At the end of 2004, the GEB started developing a number of measures that addressed areas exposed to operational risk in terms of regulatory requirements and management oversight. Those measures made significant progress in 2005. As part of the overall project, a firm-wide communication and education framework has been rolled out to all employees to raise awareness of operational risk issues and to provide specific training where necessary.

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

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

Operational risk measurement

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

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

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

Operational risk developments

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

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

Motor-Columbus

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

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

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

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

Energy price risk

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

Interest rate risk

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

Currency risks

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

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

Credit risk

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

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

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