



# Compensation Report 2005

Excerpt from the "Handbook 2005/2006" – Corporate Governance reporting

# Introduction

Under the SWX Swiss Exchange “Directive on Information relating to Corporate Governance”, listed companies are required to disclose information on compensation for the members of the Board of Directors and Senior Management, their share and option holdings as well as loans granted to them.

A year ago, the UBS Board of Directors and its Compensation Committee decided to publish a separate, significantly enhanced report, providing shareholders and the public at large with a comprehensive picture of UBS’s overall compensation philosophy and its procedures and processes in place. This report, which explains who has authority for shaping the overall compensation systems and how executive compensation decisions are arrived at, has now been further enhanced to include e.g. details on the peers used by the Compensation Committee.

Senior Executives in this report include the three executive members of the Board of Directors (Marcel Ospel, Chairman, Stephan Haeringer and Marco Suter, Vice Chairmen), and the members of the Group Executive Board (Peter Wuffli, CEO, John Costas, John Fraser, Huw Jenkins, Peter Kurer, Marcel Rohner, Clive Standish, Walter Stuerzinger, Mark Sutton and Raoul Weil).

Non-executive members of the Board of Directors included in this report are Ernesto Bertarelli, Peter Böckli, Sir Peter Davis, Rolf A. Meyer, Helmut Panke, Peter Spuhler, Peter Voser and Lawrence A. Weinbach.

Board of Directors  
Chairman

# Compensation, shareholdings and loans

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

## Group compensation policy

Four guiding principles define the compensation philosophy of UBS. Each element of compensation – base salary, incentive awards, stock option awards, benefits – is managed within a *total compensation framework*, where the effects of modifications to one element are measured against overall compensation. Total compensation levels are determined with consideration given to relevant *market pay practices*, ensuring UBS's ability to recruit and retain the best talent. UBS is committed to provide superior compensation in return for superior *performance*, both in terms of both business success and individual contribution. Through the *use of equity-based awards* that vest or become unrestricted over time, UBS ensures that there is strong focus on the long-term implications of decisions and actions taken, thus aligning employees' interests with those of shareholders.

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

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

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

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

The highest performing employees and those with highest potential are eligible for *discretionary stock option awards*,

which are granted at a strike price set at a minimum of the market value on the date of award and at a premium strike price of 10% above market value for senior management. These options, which vest over three years after grant and are subject to stringent forfeiture rules, represent a powerful shareholder alignment incentive. Every year, the Chairman's Office agrees on the maximum number of options available for allocation. The overall number depends on the financial situation of UBS, a competitive assessment, and the ability to purchase underlying shares in the market. The number of options to be granted to employees in a given period requires approval by the Board of Directors.

*Benefits* are a supplemental element of total compensation, varying substantially from location to location, in line with local market practice. A benefit offered to all employees group-wide – except to senior management<sup>1</sup> – is the "Equity Plus" stock option program, which allows employees to purchase UBS shares at fair market value and receive at no additional cost two UBS options for each share purchased. The program fosters employees' commitment to long-term value creation at UBS.

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

## Performance measurement and management

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

<sup>1</sup> Executive members of the Board of Directors (BoD), members of the Group Executive Board (GEB) and members of the Group Managing Board (GMB).

ed actions around corporate values such as client focus and diversity. It thus enables the firm to reward results and behaviors and helps to shape a learning and performance-oriented culture.

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

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

### Senior executive compensation policy

For senior executives' equity-based incentive awards play an important role within total compensation, as senior executives' influence on the firm's success is significant and their decisions should be aligned as closely as possible with the long-term interests of shareholders. In 2005 base salaries constituted on average 9% of total compensation for these individuals. The incentive component is determined on the basis of the financial performance of the firm and discretionary adjustments of up to plus or minus 25% reflecting individual performance and qualitative aspects. In aggregate, discretionary option awards in 2005 accounted for around 9% of total compensation. For details, see note 31 to the financial statements.

Total compensation levels vary considerably from year to year as incentive awards are fully performance-related. The relative weight of the base salary, which is a fixed amount, therefore varies significantly as well.

### Senior executive share ownership programs and shareholding requirements

With the aim of closely aligning the interests of its senior executives with those of shareholders, UBS strongly encourages the build-up of significant levels of stock ownership among its senior executives.

- 50% of annual performance-based incentive compensation is delivered on a mandatory basis in the form of restricted or deferred UBS shares (Senior Executive Equity Ownership Plan, SEEOP). Shares normally vest in equal portions over a period of five years. Shares of Swiss-based senior executives are in addition restricted from sale for the whole five-year period for tax reasons. Prior to vesting, the shares will be forfeited under clearly defined circumstances, primarily if the executive joins a competitor.
- Discretionary stock option awards are made separately as long-term incentives, to recognize contribution to the implementation of the integrated business model and to support long-term alignment to the overall success of the firm (Senior Executive Stock Option Plan, SESOP). The strike price is set at 10% above that of the UBS share price at grant on a defined date, thus creating a strong incentive for senior executives to build sustainable shareholder value. Options normally vest after three years and remain exercisable for a further seven years. Any unvested options will generally be forfeited if the senior executive leaves the company and joins a competitor or otherwise acts against UBS's interests.
- Senior executives may voluntarily elect to take an even greater portion of their annual performance-based incentive compensation in the form of restricted or deferred UBS shares. Executives opting to take a greater than mandatory portion of their annual incentive in UBS shares receive two stock options for each additional share. These options are granted under SESOP at the conditions described above.

Within five years of appointment, senior executives are required to accumulate – and then hold – UBS shares with an aggregate value of five times the amount of the last three years' average cash component of total compensation (base salary plus cash portion of incentive award). Holdings to be accumulated are between CHF 17 million and CHF 61 million in UBS shares per senior executive. Progress reports are provided to each senior executive annually, and missed targets may lead the Compensation Committee to deny the grant of discretionary stock option awards.

### Non-executive directors' remuneration

Remuneration of non-executive directors is not dependent on the Group's financial performance. Board members receive a base fee of CHF 300,000, unchanged from last year. The chairmen and the members of the Audit, Compensation and Nominating Committees receive additional retainers between CHF 150,000 and CHF 500,000 per mandate, dependent on the workload associated with the respective mandates. Board fees are paid either 50% in cash and 50% in UBS restricted shares or 100% in restricted shares, according to the individual director's election. Shares are attributed with a price discount of 15% and are restricted from sale for four years. Directors receive no additional fees for attending meetings, but

<sup>1</sup> The executive members of the Board of Directors (BoD) and the members of the Group Executive Board (GEB).

are reimbursed for air travel and hotel expenses incurred in the performance of their services.

## Governance

### Authorities and responsibilities

The Compensation Committee of the Board of Directors has authority to develop and approve the compensation system for all senior executives. This comprises plan design, performance measures, and the relationship between pay and performance. The approval of the level of individual senior executive compensation is subject to a rigorous process. The executive members of the Board approve the remuneration system and the respective fees for the non-executive directors. No one at UBS has any approval authority for their own compensation.

The Charter of the Compensation Committee, which is available on the company's website ([www.ubs.com/corporate-governance](http://www.ubs.com/corporate-governance)), describes the approval process in detail.

### Compensation Committee activities

The Compensation Committee of the Board of Directors consists of three independent external directors: Rolf A. Meyer, chairman, Sir Peter Davis and Peter Spuhler. For additional information – activities, mandate, meetings – see page 108 of the Handbook. For its activities the Committee relies on comprehensive background documentation provided by internal human resources specialists as well as by the Group Controller. During 2005, the Compensation Committee did not appoint any external compensation consultants, but used internal and external compensation surveys and intelligence provided by compensation specialists. The Chairman of the Committee participates in external international seminars for compensation professionals. The Committee makes its decisions on individual compensation for the executive Vice Chairmen, the Group CEO and the members of the GEB considering individual performance and personal contributions of each member, market data of competitors, actual compensation in prior periods as well as the assessment submitted by the Chairman of the Board. It also takes into consideration the proposals made by the Group CEO when it makes compensation decisions for GEB members. For its decision on the Chairman's compensation, the Committee relies on the annual assessment performed by the full Board and its own judgement of performance and contributions as well as comparisons with pay levels for comparable functions outside UBS.

The Committee, as a basis for its decisions, performed the following activities during the year:

- Best practice review of compensation design, pay mix and disclosure: Generally, nine key competitors are considered as the most relevant labour market for senior executive compensation. The peer group comprises Bear Stearns, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP

Morgan Chase, Lehman Brothers, Merrill Lynch and Morgan Stanley. For certain positions, additional peers are taken into account, as appropriate. This review compiles publicly available data on our key competitors from US proxy statements and other filings as well as data provided by compensation consultants in order to develop a perspective on common as well as best practice amongst our key competitors. UBS's compensation systems compare favorably with these nine key competitors, and are specifically tailored to support the achievement of UBS's strategic objectives. Among other components, UBS's compensation framework includes several shareholder friendly features such as share ownership requirements, premium-priced options (at a strike price of 110%), stringent forfeiture rules and no severance packages.

- Review of competitive pay and performance: The numbers for 2004 show that UBS's senior executive compensation levels are well positioned relative to the market. The above-mentioned nine competitors paid total compensation between CHF 16 million and 32 million to their Chairmen and/or CEOs in 2004. Median pay for the Chairmen and/or CEOs of this group of competitors was CHF 24 million for 2004, the second highest value stood at CHF 30 million. These numbers normally include base salaries, cash bonus and the fair value of equity-based awards.
- Review of Compensation Plan Rules: The Compensation Committee annually performs a review of the Compensation Plan Rules for senior executives. It ensures that shareholders' interests are carefully taken into consideration and that the plan design provides appropriate incentives for long-term value creation.

The Committee also regularly reviews the individual employment contracts of senior executives. These contracts provide for a general notice period of twelve months, during which the senior executive is entitled to receive salary and pro-rata incentives, unless he has been terminated for cause. Shares and options that have not vested at the time of termination may be subject to forfeiture, mainly if the senior executive is joining a competitor.

The Compensation Committee has drawn up special employment agreements for the Chairman of the Board and the Executive Vice Chairmen, due to the fact that they are appointed by the shareholders for a three-year term of office and may be dismissed by a shareholders' vote only, but cannot otherwise be terminated. In addition, the reorganization of the Wealth Management US business also required the Compensation Committee to draw up a special employment agreement for a GEB member. These circumstances call for special provisions, mainly in respect of termination of employment. The general rule of a twelve-month notice period for senior executives, however, is maintained.

Neither the GEB employment contracts nor the contracts for the executive Board members provide for additional severance payment in case of termination.

### Actual 2005 senior executive compensation

#### Key elements for decision-making process within the Compensation Committee

##### *Actual process and decisions taken:*

- In February 2005 the Compensation Committee defined personal incentive targets for each senior executive for 2005 based on both financial performance and qualitative indicators. The 2004 results (Group net profit attributable to UBS shareholders/Business Group profit before tax and goodwill amortization) were compared against the 2005 operational plan (budget) and the resultant percentage change applied to 2004 target incentives to derive individual target incentives for 2005. Increases or decreases to these calculated targets were applied at the discretion of the Committee, taking into account future potential, changing roles and competitive positioning.
- In early February 2006, actual 2005 results were then assessed against the operational plan and with reference to UBS's Group and Business Group financial targets as well as similar metrics of key competitors. These measurements and assessments defined a theoretical level of incentive award for each senior executive.
- This theoretical incentive award was finally measured against various additional factors: individually defined criteria, further potential, leadership qualities and contributions to overall success of UBS. This qualitative assessment led to increases or decreases from the theoretical target incentive by up to 25%.
- Long-term incentive option awards were granted in February 2005, based on the individual past performance of each senior executive, their contribution to the overall success of the firm, and their future potential.

##### *Assessment elements for Chairman's compensation*

The Compensation Committee determined the Chairman's incentive award applying the same process as for all senior executives. His defining contribution to the design and implementation of a very successful strategy, based on efficiently taking advantage of growth opportunities without compro-

missing on a stringent risk policy, were taken into account, as well as Marcel Ospel's contributions to developing a strong and highly motivated executive management team.

#### Actual compensation 2005 for executive members of the Board of Directors and the Group Executive Board

At the Group level, 2005 financial results exceeded internal performance targets and outperformed those of many competitors. From continuing operations (excluding the extraordinary gain from the sale of Private Banks & GAM and its operating result), UBS achieved a return on equity of 27.6%, exceeding the target range of 15–20% in place until the end of 2005, outperforming its peers. The increase in pre-goodwill basic earnings per share of 22% is well in line with UBS's target of double-digit average annual growth. Total shareholder returns for the year under review were 35.3%, 103.3% cumulatively over a three-year period and 61.0% over a five-year period. The UBS share price outperformed the DJ Stoxx Banks Europe Index over the last three years. UBS's share price appreciation and its total shareholder returns achieved over the last one, three and five years were significantly better than the average performance recorded by the nine peers UBS compares its compensation to. At Business Group level, performance improved in all core businesses, with market share and competitiveness significantly enhanced.

In determining the total compensation of senior executives, the Compensation Committee took into account these superior results, specifically valuing the facts that EPS growth was strongly driven by profit and not by share buybacks, and that profit increased primarily through revenue growth, not only by cost cuts. Average total compensation per senior executive increased by 15.1% over 2004. This compares favorably with the increase in UBS's Group profits of 19% (and 18% for the financial businesses).

However, changes in the composition of the two corporate bodies as well as new definitions of roles impact the disclosed total compensation number and should be taken into consideration when making year-on-year comparisons. Walter Stuerzinger was appointed to the GEB in his capacity as Group Chief Risk Officer in March 2005. The combination of Wealth Management US with Wealth Management & Business Bank-

ing in July 2005 has led to Marcel Rohner assuming the role of Chairman and CEO of the newly created Global Wealth Management & Business Banking. To support Marcel Rohner in his expanded role, Raoul Weil was appointed to the GEB in his capacity as Head of Wealth Management International. Mark Sutton, formerly Chairman and CEO of Wealth Management US became Chairman and CEO, Americas. Also in July 2005, Huw Jenkins, formerly Global Head of Equities was appointed to the GEB as CEO of the Investment Bank, following John Costas' decision to focus on a new business opportunity within Global Asset Management. John Costas remained Chairman of the Investment Bank and a member of the GEB until the end of 2005. Finally, Alberto Togni did not stand for re-election to the Board of Directors as an executive member in April 2005 due to reaching the statutory age limit. However, Marco Suter, formerly Group Chief Credit Officer was elected to the Board of Directors as an executive member in April 2005.

The total of all compensation for the financial year 2005 (base salary, incentive awards, options, employer's contributions to retirement benefit plans, benefits in kind and fringe benefits) for the three executive members of the Board of Directors, the ten members of the Group Executive Board in charge as of 31 December 2005 and Alberto Togni, who retired as a member of the Board of Directors in April 2005, was CHF 222,556,467. Details are shown in the table on page 8. Total incentive awards granted to the senior executives represent 2.1% of the overall incentive awards, distributed to the employees of UBS for 2005.

#### **Actual remuneration 2005 for non-executive members of the Board of Directors**

The eight non-executive members of the Board of Directors were paid in aggregate CHF 6,065,277 (in cash and restricted shares) for the term between the 2005 and 2006 AGMs. Fees are paid 50% in cash and 50% in restricted UBS shares. However, non-executive Board members can elect to have 100% of their remuneration paid in restricted UBS shares. These UBS shares are issued at a discount of 15% and are blocked for four years. Details are shown in the table on page 9.

## Compensation details and additional information

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

CHF, except where indicated	For the year ended		
	31.12.05	31.12.04	31.12.03
Base salaries and other cash payments	15,592,026	14,767,068	13,602,045
Incentive awards – cash	89,672,195	69,745,013	65,602,513
Employer's contributions to retirement benefit plans	1,064,640	1,050,322	1,225,543
Benefits in kind, fringe benefits (at market value)	2,582,112	1,607,166	993,719
<b>Total (requested by SWX)</b>	<b>108,910,973</b>	<b>87,169,569</b>	<b>81,423,820</b>
Incentive awards – restricted UBS shares (fair value)	92,877,243	79,723,391	64,176,428
Restricted UBS options (fair value) <sup>2</sup>	20,768,251	23,736,337	12,752,019
<b>Total (including shares and options)</b>	<b>222,556,467</b>	<b>190,629,297</b>	<b>158,352,267</b>
Total number of shares granted	655,746	792,256	675,741
Total number of options awarded <sup>2</sup>	1,438,763	1,094,052	1,037,000
of which CHF options	968,763	473,666	457,000
of which USD options	470,000	620,386	580,000

<sup>1</sup> Related parties of senior executives were not granted any shares or options. <sup>2</sup> Includes options granted to match voluntary increases of the share portion of the incentive award.

#### Explanations:

- *Number of senior executives:*
  - 2003: two executive BoD, ten GEB members in office as of 31 December and one executive BoD who stepped down during the year
  - 2004: three executive BoD, seven GEB members in office as of 31 December and two who stepped down during the year
  - 2005: three executive BoD, and ten GEB members in office as of 31 December and one executive BoD who retired during the year
- *Benefits in kind:* car leasing, company car allowance, staff discount on banking products and services, health and welfare benefits, general expenses allowances
- *Shares* valued at CHF 141.50 per share (average price of UBS shares at virt-x over the last ten trading days of February 2006), and USD 107.86 per share (average price of UBS shares at the NYSE over the last ten trading days of February 2006).  
Value per share 2004: CHF 101.80/USD 86.74; 2003: CHF 95.30/USD 76.40.
- *Options* on UBS shares were granted at a strike price of CHF 111.50 and USD 95.50 respectively, ten percent above the average high and low price at the virt-x and the NYSE respectively on the last trading day in February 2005. Options vest three years after grant and will expire ten years from the date of grant.  
Fair values per option at grant: CHF 12.46/USD 13.46 for options granted in February 2005 and CHF 20.80 for options granted to match higher share elections in February 2006. No US dollar options will be issued from now on.  
Fair values per option at grant 2004: CHF 23.90/USD 20.51; 2003: CHF 12.33/USD 9.90.
- *Retirement benefit plans:* In Switzerland, senior executives participate in UBS's general pension plans, which comprise a basic component operated on the defined benefit principle, a savings plan to bridge the income gap between UBS retirement age and the age defined for the start of social security payments, and a defined contribution plan. The cap compensation amount to be included in these plans was set at CHF 774,000 for all employees in 2005. This translates into a maximum annual pension of CHF 313,708 after retirement plus a one-off payout of accumulated capital from the savings plan in the maximum amount of CHF 297,617. There are no special pension schemes offered to senior executives.  
Senior executives *outside Switzerland* participate in the relevant local pension plans. In the US there are two different plans, one operating on a cash balance basis, which entitles the participant to receive a contribution based on compensation limited to USD 250,000. This plan is available to employees of the Investment Bank only. The other plan is a defined contribution plan with compensation included up to a limit of USD 210,000. US senior executives may also participate in the UBS 401K defined contribution plan open to all employees. In the UK senior executives participate in a pension plan operated on a defined contribution basis, with compensation for pension purposes limited to the UK earnings cap of GBP 102,000.  
Note 30 to the UBS Group financial statements describes the various retirement benefit plans established in Switzerland and in major foreign markets.

## Compensation details and additional information (continued)

### Highest total compensation for a BoD member

Total compensation of the highest paid member of the Board of Directors, Chairman Marcel Ospel, amounted to CHF 23,975,954 for the financial year 2005:

CHF, except where indicated	For the year ended		
	2005	2004	2003
CHF, except where indicated	31.12.05	31.12.04	31.12.03
Base salary	2,000,000	2,000,000	2,000,000
Incentive awards – cash	9,625,000	9,500,000	7,500,080
Employer's contributions to retirement benefit plans	98,949	82,588	82,588
Benefits in kind, fringe benefits (at market value)	197,192	190,371	150,000
Incentive award – restricted UBS shares (fair value)	9,625,113	9,500,078	7,499,920
Restricted UBS options (fair value)	2,429,700	0 <sup>1</sup>	1,565,910
<b>Total</b>	<b>23,975,954</b>	<b>21,273,037</b>	<b>18,798,498</b>
Number of UBS shares granted	68,022	93,321	78,698
Number of UBS options granted	195,000	0 <sup>1</sup>	127,000

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

### Additional honorariums and remuneration

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

### Additional severance payments

UBS does not pay any additional severance in addition to the salary and bonus entitlements of a departing member of the Board or the GEB. All payments are included in the numbers reported under compensation for members of the Board and the GEB.

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

Six former senior executives of Union Bank of Switzerland and Swiss Bank Corporation benefited from the use of office space and administrative support, mostly in connection with mandates they are still holding on behalf of or in the interests of UBS. The total value of these benefits was CHF 1,421,565 in 2005.

### Remuneration for non-executive members of the Board

CHF, except where indicated	AGM 2005/2006	For the period	
		AGM 2004/2005	AGM 2003/2004
Cash	2,292,321	2,210,130	1,889,097
Restricted UBS shares at fair value	3,772,956	3,516,681	3,513,044
<b>Total</b>	<b>6,065,277</b>	<b>5,726,811</b>	<b>5,402,141</b>
Number of UBS shares granted (15% discount)	26,664	34,545	36,863

#### Explanations:

##### – Number of non-executive BoD members:

2003: seven acting members as of 31 December, one for nine months only

2004: seven acting members as of 31 December.

2005: eight acting members as of 31 December.

- Shares valued at CHF 141.50 (average price of UBS shares at virt-x over the last ten trading days of February 2006), discount price CHF 120.30. The shares are blocked for four years. Related parties of non-executive BoD members are not granted any shares.  
Value per share 2004: CHF 101.80; 2003: CHF 95.30
- Allowance for "Out of pocket" expenses (CHF 15,000) in addition.

## Additional information on equity-based compensation

### Disclosure differences between IFRS and SWX requirements

Since 1 January 2005, expensing of equity-based compensation has become mandatory. IFRS requires entities to recognize the fair value of share-based payments made to employees as compensation expense, recognized over the service period, which is generally equal to the vesting period. Disclosure in the financial statements is reported on this accounting basis, while the disclosure of compensation in the Handbook will continue to relate to figures attributable to performance in the financial year under review.

### Disclosure of management transactions

Since 1 July 2005, UBS has disclosed transactions by members of the Board of Directors and the GEB in the firm's own shares and options to the SWX on a no name basis. In the period from 1 July 2005 to 31 December 2005, shares and options in the value of CHF 35.6 million were sold by nine senior executives. No shares or options were bought during the reporting period. These sales have to be seen in light of the fact that senior executives receive at least 50% of their incentive pay in shares and options, and that stringent share holding requirements apply. Two non-executive Board members elected to receive 100%, rather than the mandatory minimum 50%, of their remuneration for the period AGM 2005/2006 in restricted UBS shares. This election, which was disclosed accordingly to the SWX, will be effective for 2006 only.

## Share ownership

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

### Executive Board members and members of the Group Executive Board<sup>1</sup>

Shares held as of 31 December 2005: **4,225,946**

Of which

Vested	Vesting 2006	Vesting 2007	Vesting 2008	Vesting 2009	Vesting 2010
1,949,604	665,294	733,912	414,192	298,110	164,834

<sup>1</sup> Includes parties closely linked to them.

### Non-executive members of the Board<sup>1</sup>

Shares held as of 31 December 2005: **131,046**

Of which

Non-restricted	Blocked until 2006	Blocked until 2007	Blocked until 2008	Blocked until 2009
29,879	12,688	27,832	26,102	34,545

<sup>1</sup> Includes parties closely linked to them.

## Options held

### Executive Board members and members of the GEB

Senior executives held the following options on UBS shares as of 31 December 2005:

Number of options	Year of grant	Vesting date	Expiry date	Subscription ratio	Strike price
633,562	2001	20.02.2004	20.02.2009	1:1	CHF 100.00
292,322	2002	20.02.2005	31.01.2012	1:1	CHF 77.75
188,072	2002	31.01.2005	31.01.2012	1:1	USD 45.26
240,000	2002	28.06.2005	28.06.2012	1:1	CHF 80.75
12,311	2002	20.02.2005	31.07.2012	1:1	CHF 77.75
145,000	2002	28.06.2005	28.12.2012	1:1	CHF 80.75
480,000	2003	31.01.2006	31.01.2013	1:1	USD 48.00
607,000	2003	31.01.2006	31.07.2013	1:1	CHF 65.00
492,282	2004	28.02.2007	28.02.2014	1:1	CHF 103.75
608,536	2004	28.02.2007	28.02.2014	1:1	USD 81.25
1,171,654	2005	01.03.2008	28.02.2015	1:1	CHF 111.50
560,386	2005	01.03.2008	28.02.2015	1:1	USD 95.50

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

### Non-executive Board members

The non-executive Board members do not hold any options, nor do parties closely linked to them.

## Loans

UBS as a global financial services provider and the major bank in Switzerland typically has business relationships with most large companies and therefore with companies in which UBS Board members assume management or non-executive board responsibilities. Granting loans is part of the ordinary business of UBS. Executive members of the Board and the members of the GEB have been granted loans, fixed advances and mortgages at the same terms and conditions as other employees, based on third-party conditions adjusted for reduced credit risk. In 2002, a thorough review of outstanding loans to senior executives was performed to ensure compliance with the US Sarbanes-Oxley Act of 2002.

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

### Loans granted to executive Board members and members of the GEB

As of 31 December 2005, collateralized loans and fixed advances of CHF 1,500,000 were receivable from one member of the GEB, and mortgages in the amount of CHF 18,642,750 had been granted to seven members of the group of senior executives and their close family members.

### Loans granted to non-executive Board members

Individual loans and mortgages granted to one non-executive Board member amounted to CHF 480,000. Loans granted to companies related to five non-executive Board members amounted to CHF 919.5 million, including guarantees, contingent liabilities and unused committed credit facilities. For details see note 32 to the financial statements.

**Cautionary statement regarding forward-looking statements** | This communication contains statements that constitute “forward-looking statements”, including, but not limited to, statements relating to the implementation of strategic initiatives, such as the European wealth management business, and other statements relating to our future business development and economic performance. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to, (1) general market, macro-economic, governmental and regulatory trends, (2) movements in local and international securities markets, currency exchange rates and interest rates, (3) competitive pressures, (4) technological developments, (5) changes in the financial position or creditworthiness of our customers, obligors and counterparties and developments in the markets in which they operate, (6) legislative developments, (7) management changes and changes to our Business Group structure and (8) other key factors that we have indicated could adversely affect our business and financial performance which are contained in other parts of this document and in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth elsewhere in this document and in documents furnished by UBS and filings made by UBS with the SEC, including UBS’s Annual Report on Form 20-F for the year ended 31 December 2005. UBS is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

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