UBS

Financial Report 2006

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Introduction

Our Financial Report comprises the audited financial statements of UBS for 2006, 2005 and 2004, prepared according to International Financial Reporting Standards (IFRS) and reconciled to the United States Generally Accepted Accounting Principles (US GAAP). It includes the audited financial statements of UBS AG (the "Parent Bank") for 2006 and 2005, prepared according to Swiss banking law. Our Financial Report also discusses the financial and business performance of UBS and its Business Groups, and provides additional disclosure required by Swiss and US regulations.

The Financial Report should be read together with the other publications set out on page 4.

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

Tom Hill
Chief Communication Officer
UBS

UBS financial highlights

UBS income statement

	As of or for the year ended			% change from
CHF million, except where indicated	31.12.06	31.12.05	31.12.04	31.12.05
Net profit attributable to UBS shareholders	12,257	14,029	8,016	(13)
Diluted earnings per share (CHF)[1]	5.95	6.68	3.70	(11)
Basic earnings per share (CHF)[1]	6.20	6.97	3.89	(11)
Return on equity attributable to UBS shareholders (%)[2,3]	28.2	39.7	25.8	
Performance indicators from continuing operations				
Diluted earnings per share (CHF)[1]	5.58	4.66	3.49	20
Return on equity attributable to UBS shareholders (%)[3,4]	26.5	27.7	24.3	
Financial Businesses[5]				
Operating income	47,171	39,896	35,971	18
Operating expenses	32,782	27,704	26,149	18
Net profit attributable to UBS shareholders	11,253	13,517	7,656	(17)
Net profit attributable to UBS shareholders from continuing operations	11,249	9,442	7,357	19
Cost/income ratio (%)[6]	69.7	70.1	73.2	
Net new money (CHF billion)[7]	151.7	148.5	89.9	
Personnel (full-time equivalents)	78,140	69,569	67,407	12
UBS balance sheet & capital management				
Total assets	2,396,511	2,058,348	1,737,171	16
Equity attributable to UBS shareholders[3]	49,686	44,015	33,632	13
Market capitalization	154,222	131,949	103,649	
BIS capital ratios				
Tier 1 (%)[8]	11.9	12.8	11.8	
Total BIS (%)	14.7	14.1	13.6	
Risk-weighted assets	341,892	310,409	264,832	10
Invested assets (CHF billion)	2,989	2,652	2,217	13
Long-term ratings				
Fitch, London	AA+	AA+	AA+	
Moody's, New York	Aa2	Aa2	Aa2	
Standard & Poor's, New York	AA+	AA+	AA+	

1 For the EPS calculation, see note 8 to the financial statements. 2 Net profit attributable to UBS shareholders / average equity attributable to UBS shareholders less proposed distributions. 3 Equity attributable to UBS shareholders has been adjusted for the full-year periods ending 31 December 2006, 2005 and 2004 and is now different from the figure published in the Fourth Quarter 2006 Report. For more information, please refer to note 1 to the financial statements. 4 Net profit attributable to UBS shareholders from continuing operations / average equity attributable to UBS shareholders less proposed distributions. 5 Excludes results from Industrial Holdings. 6 Operating expenses / operating income less credit loss expense or recovery. 7 Excludes interest and dividend income. 8 Includes hybrid Tier 1 capital. Please refer to the BIS capital and ratios table in the capital management section and note 29 to the financial statements.

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

Who we are

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

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

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

What we do

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

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

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

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

Our vision

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

More about us

This Financial Report contains UBS's audited financial statements for the year 2006 and related detailed analysis. This Financial Report is available in English and German. (SAP no. 80531). You can find out more about UBS from the sources shown below.

Publications

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

Handbook 2006/2007
The Handbook contains a detailed description of UBS, its strategy, organization, businesses, employees, corporate governance and responsibility, as well as risk and treasury management. (SAP no. 80532).

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

Compensation Report 2006
The Compensation Report 2006 provides detailed information on the compensation paid to the members of UBS's Board of Directors (BoD) and the Group Executive Board (GEB). The report is available in English and German. (SAP no. 82307). The same information can also be read in the Corporate Governance chapter of the Handbook 2006/2007.

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

How to order reports
These reports are available in PDF format on the internet at www.ubs.com/investors in the reporting section. Printed copies can be ordered from the same website by accessing the order/subscribe panel on the right-hand side of the screen. Alternatively, they can be ordered by quoting the SAP number and the language preference where applicable, from UBS AG, Information Center, P.O. Box, CH-8098 Zurich, Switzerland.

Information tools for investors

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

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

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

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

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

Our Form 20-F filing is structured as a "wrap-around" document. Most sections of the filing are satisfied by referring to parts of the Handbook 2006/2007 or to parts of this Financial Report 2006. However, there is a small amount of additional information in Form 20-F which is not presented elsewhere, and is particularly targeted at readers in the US. You are encouraged to refer to this additional disclosure.

You may read and copy any document that we file with the SEC on the SEC's website, www.sec.gov, or at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, DC 20549. Please call the SEC by dialling +1-800-SEC-0330 (in the US) or +1 202 942 8088 (outside the US) for further information on the operation of its public reference room. You may also inspect our SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, NY 10005. Much of this additional information may also be found on the UBS website at www.ubs.com/investors, and copies of documents filed with the SEC may be obtained from UBS's Investor Relations team at the address shown on the contacts page.

Corporate information

The legal and commercial name of the company is UBS AG. The company was formed on 29 June 1998, when Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872) merged to form UBS. UBS AG is incorporated and domiciled in Switzerland and operates under Swiss Company Law and Swiss Federal Banking Law as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors.
The addresses and telephone numbers of our two registered offices are: Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, phone +41-44-234 11 11; and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, phone +41-61-288 20 20.

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

Contacts

Switchboards

For all general queries.

Zurich	+41-44-234 1111
London	+44-20-7568 0000
New York	+1-212-821 3000
Hong Kong	+852-2971 8888

Investor Relations

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

www.ubs.com/investors

Hotline	**+41-44-234 4100**	UBS AG
New York	+1-212-882 5734	Investor Relations
Fax (Zurich)	+44-44-234 3415	P.O. Box
		CH-8098 Zurich, Switzerland
		sh-investorrelations@ubs.com

Media Relations

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

www.ubs.com/media

Zurich	+41-44-234 8500	mediarelations@ubs.com
London	+44-20-7567 4714	ubs-media-relations@ubs.com
New York	+1-212-882 5857	mediarelations-ny@ubs.com
Hong Kong	+852-2971 8200	sh-mediarelations-ap@ubs.com

Shareholder Services

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

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

US Transfer Agent

For all Global Registered share-related queries in the US, www.melloninvestor.com

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

Presentation of Financial Information

UBS reporting structure

Changes to reporting structure and presentation in 2006 and other adjustments

Dillon Read Capital Management (DRCM)

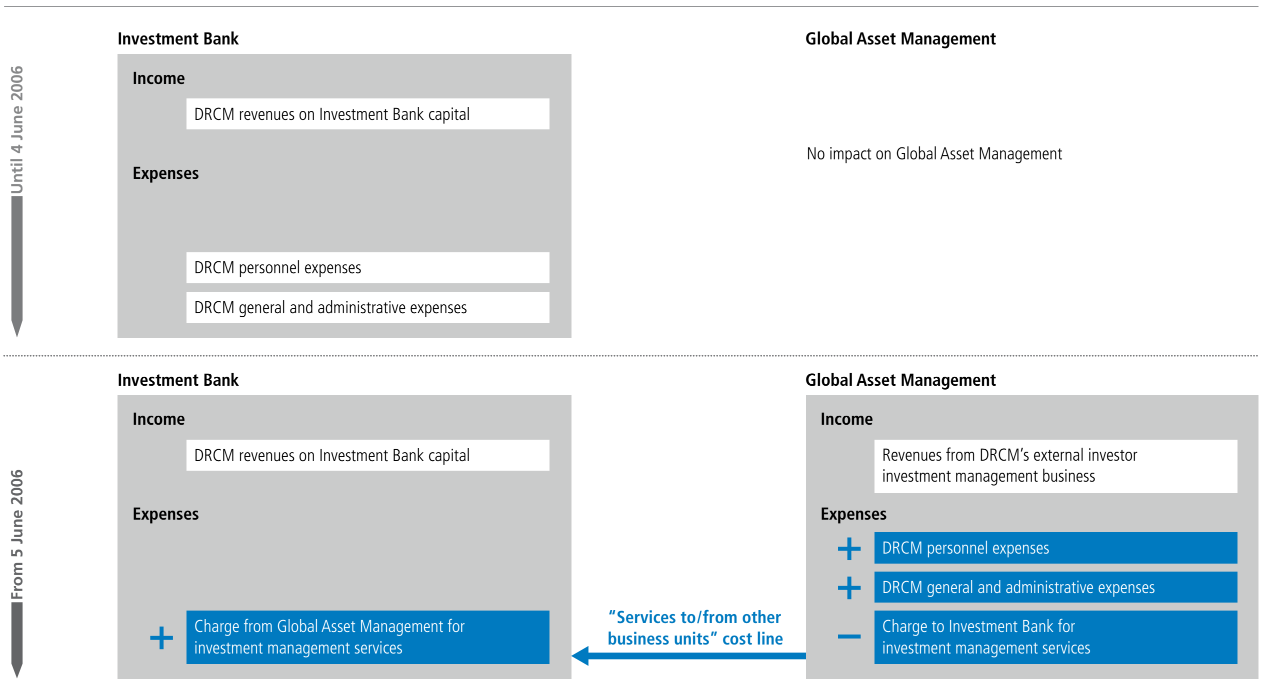
On 5 June 2006, we transferred the principal finance and credit arbitrage and commercial real estate businesses in the fixed income, rates and currencies area of the Investment Bank to Global Asset Management. The business, now called Dillon Read Capital Management (DRCM), manages alternative investment vehicles on behalf of the Investment Bank. Towards the end of 2006, it launched its first outside investor fund. The Investment Bank continues to record the trading revenues generated by the assets managed by DRCM on its fixed income, rates and currencies revenues line. DRCM personnel and general and administrative expenses are booked in Global Asset Management. DRCM charges the Investment Bank for providing investment management services. Those charges and expenses are reported in the "Services to/from other business units" line. This arrangement, also shown in the diagram below, has no impact on UBS's consolidated financial results.

Prime Brokerage

Our prime brokerage activities have, until now, been treated differently in the United Kingdom than they have in the United States. Transactions in the US prime brokerage business were booked as a secured loan balance in the Due to/from customer line, whereas in the United Kingdom they were treated as a securities borrowing/lending activity. Even though there is no regulatory guidance on how to present this particular business activity, we have decided to start reporting it consistently in all locations. In the future, we will report all of the transactions in the prime brokerage business as a secured loan in the Due to/from customer line in our balance sheet. This treatment best reflects most of the business activity in prime brokerage and the market's understanding of the business – which is to provide financing facilities to clients from which they can obtain custody and brokerage facilities, exposure to credit and interest rate derivatives and exposure to other financial instruments that the Investment Bank can provide.

To reflect the changes, we have restated our consolidated financial statements and the segment reporting of business

Reporting of Dillon Read Capital Management



UBS Reporting Structure

Financial Businesses				Industrial Holdings
Global Wealth Management & Business Banking	Global Asset Management	Investment Bank	Corporate Center	Private Equity
Wealth Management International & Switzerland				
Wealth Management US				
Business Banking Switzerland				

units affected for all prior periods. The figures and results presented in this report are based on restated numbers. While the restatement affected certain interest income and interest expense components, it did not have an impact on UBS's income statement, its internal measures of credit exposure, or its regulatory capital.

Obligations to employees

UBS has adjusted its opening balance sheet per 1 January 2002 to reflect obligations for untaken holidays of employees, sabbatical leave and service anniversary awards. The retained earnings for each full-year and interim period from 2002 to 2006 are affected by the same adjustment, which reduces the equity attributable to UBS shareholders by CHF 309 million. This has led to a recalculation of return on equity, which is reflected in the current ratio and all past ones published since 2002. Additional information is available in note 1 to the financial statements.

Changes to accounting

At the start of 2006, we implemented accounting changes based on the revised *IAS 39 Financial Instruments: Recognition and Measurement; Amendment to the Fair Value Option.* All financial instruments designated at fair value through profit or loss on 31 December 2005 continued to qualify for the use of the fair value option under the revised fair value option and we did not apply the fair value option to any previously recognized financial asset or financial liability for which the fair value option was not adopted under former guidance. Because of this, the adoption of the revised standard did not have any effect on our financial statements on the transition date, 1 January 2006.

Until the beginning of 2006, we had mainly applied the fair value option to hybrid debt instruments. Starting in second quarter, in line with the revised fair value option, we also applied the fair value option to certain new loans and loan commitments made by the Investment Bank, which are substantially hedged with credit derivatives. By adopting this option, we reduce temporary profits and losses caused by the previous and different accounting treatments of the loans and loan commitments and the hedging credit derivatives (refer to Notes 1, 9 and 19 in the Financial Statements section). In second half 2006, we additionally applied the fair value option to certain hybrid instruments resulting from structured repurchase and reverse repurchase agreements and to a hedge fund investment which is part of a portfolio managed on a fair value basis.

Changes in presentation in our credit risk disclosure

We have stopped reporting non-performing loans as a key performance indicator for the Investment Bank and Business Banking Switzerland in our 2006 Financial Report. We will also stop disclosing them in quarterly reports from first quarter 2007. The disclosure and discussion of the impaired lending portfolio, which is a key component of our internal credit risk management and control processes, will continue. As in previous years, non-performing loans, as defined under Swiss Federal Banking Commission (SFBC) regulation, will be reported in the notes to the annual financial statements.

Other new disclosures

We have made some minor enhancements to our disclosure in 2006 as part of our continuing effort to improve the transparency of our financial reporting and provide the best possible understanding of our business.

In first quarter 2006, we changed the name of our adjusted regulatory capital performance indicator to "allocated regulatory capital". The new term more accurately reflects the fact that capital is actually allocated to the Business Groups based on risk-weighted assets, goodwill and excess intangible assets.

In our US wealth management business, the calculation of revenues includes net goodwill funding as acquisition costs are no longer disclosed separately when discussing results.

Measurement and analysis of performance

UBS's performance is reported in accordance with International Financial Reporting Standards (IFRS). Our results discussion and analysis comments on the underlying operational performance of our business, focusing on continuing operations. As discontinued activities are no longer relevant to our management of the company, we do not consider them to be indicative of our future potential performance. They are therefore not included in our business planning decisions. This helps to better assess our performance against peers and to estimate future growth potential.

In the last three years, two discontinued operations had a significant impact on our consolidated financial statements:

- In fourth quarter 2005, we sold our Private Banks & GAM unit to Julius Baer at a gain of CHF 3,705 million after tax (pre-tax CHF 4,095 million). The unit comprised the Banco di Lugano, Ehinger & Armand von Ernst and Ferrier Lullin private banks as well as specialist asset manager GAM. After the sale, we retained a stake of 20.7% in the new Julius Baer.
- On 23 March 2006, UBS sold its 55.6% stake in Motor-Columbus to a consortium representing Atel's Swiss minority shareholders, EOS Holding and Atel, as well as to French utility Electricité de France (EDF) for a sale price of approximately CHF 1,295 million, leading to an after-tax gain on sale of CHF 387 million.

Up to and including 2005, we provided comments and analysis on an adjusted basis that also excluded the amortization of goodwill and other acquired intangible assets. With the introduction of IFRS 3 *Business Combinations* at the beginning of 2005, we ceased amortizing goodwill, which was by far the largest adjustment made to our results. In this Financial Report, comments related to 2004 include goodwill amortization.

Seasonal characteristics

Our main businesses do not generally show significant seasonal patterns, except for the Investment Bank, where revenues are impacted by the seasonal characteristics of general financial market activity and deal flows in investment banking.

When discussing quarterly performance, we therefore compare the Investment Bank's financial results of the reported quarter with those achieved in the same period of the previous year. Similarly, when considering the impact of the Investment Bank's performance on UBS's financial statements, we discuss our overall quarterly performance on a year-on-year basis – comparing the actual quarter with the same quarter in the previous year. Because of the volatile nature of market movements and the resulting business and trading opportunities, the market risk and balance sheet items in our Investment Bank are compared on a present quarter to previous quarter basis. For all other Business Groups and Units, recent quarterly results are compared with the previous quarter's, as they are only slightly impacted by seasonal components such as asset withdrawals in fourth quarter and lower client activity levels related to the end-of-year holiday season.

Performance measures

UBS performance indicators

For the last seven years, we have consistently assessed our performance against a set of four measures that were designed to ensure the delivery of continuously improving returns to our shareholders. In that time, UBS has evolved, and its business and client base have grown. By late 2005 we had arrived at a point where we were steadily exceeding the original targets.

That is why, starting in first quarter 2006, we modified our measures. On average through periods of varying market conditions, we:

- seek to increase the value of UBS by achieving a sustainable, after-tax return on equity of a minimum of 20% (we previously targeted a range of 15–20%).
- aim to achieve a clear growth trend in net new money for all our financial businesses, including Global Asset Management and Business Banking Switzerland (this measure was previously only applied to our wealth management units).
- use diluted earnings per share (EPS) instead of basic EPS as a reference for our EPS growth target that remains, as before, annual double-digit percentage growth.
- continue our unchanged objective to manage our Business Group / Business Unit cost / income ratios at levels that compare well with our competitors. Our cost / income ratio target is limited to our financial businesses.

Business Group Key Performance Indicators

At the Business Group or Business Unit level, our performance is measured by carefully chosen Key Performance Indicators (KPIs). They indicate the Business Group's or Business Unit's success in creating value for shareholders but do not disclose explicit targets. The KPIs show the key drivers of each unit's core business activities and include financial metrics, such as cost / income ratios and invested assets, along with non-financial metrics, such as the number of client advisors.

Key performance indicators

Business	Key performance indicators	Definition
Business groups (excluding Corporate Center) and business units within Financial Businesses	Cost / income ratio (%)	Total operating expenses / total operating income before adjusted expected credit loss.
Wealth & Asset Management businesses and Business Banking Switzerland	Invested assets (CHF billion)	Client assets managed by or deposited with UBS for investment purposes only (for further details please see below).
	Net new money (CHF billion)	Inflow of invested assets from new clients + inflows from existing clients – outflows from existing clients – outflows due to client defection
Wealth & Asset Management businesses	Gross margin on invested assets (bps)	Operating income before adjusted expected credit loss / average invested assets.
Wealth Management International & Switzerland	Client advisors	Expressed in full-time equivalents.
Wealth Management US	Recurring income (CHF million)	Interest, asset-based revenues for portfolio management and fund distribution, account-based and advisory fees (as opposed to transactional revenues).
	Revenues per advisor (CHF thousand)	Income (including net goodwill funding) / average number of financial advisors. Net goodwill funding is defined as goodwill and intangible asset-related funding, net of risk-free return on the corresponding capital allocated.
Business Banking Switzerland	Impaired lending portfolio, as a % of total lending portfolio, gross	Impaired lending portfolio, gross / total lending portfolio, gross.
	Return on allocated regulatory capital (%)	Business Unit performance before tax / average allocated regulatory capital.
Investment Bank	Compensation ratio (%)	Personnel expenses / operating income before adjusted expected credit loss.
	Impaired lending portfolio, as a % of total lending portfolio, gross	Impaired lending portfolio, gross / total lending portfolio, gross.
	Return on allocated regulatory capital (%)	Business Group performance before tax / average allocated regulatory capital.
	Average VaR (10-day, 99% confidence, 5 years of historical data)	Value at Risk (VaR) expresses the potential loss on a trading portfolio over a 10-day time horizon, and measured to a 99% level of confidence, based on 5 years of historical data.
Corporate Center	IT infrastructure (ITI) cost per Financial Businesses full-time employee	ITI costs / average number of Financial Businesses employees.

These Business Group KPIs are used for internal performance measurement and planning as well as external reporting. This ensures management accountability for performance by senior executives and consistency in external and internal performance measurement.

Client / invested assets reporting

Since 2001, we have reported two distinct metrics for client funds:

– *Client assets* are all client assets managed by or deposited with UBS including custody-only assets and assets held for purely transactional purposes.
– *Invested assets* is a more restrictive term and includes all client assets managed by or deposited with UBS for investment purposes.

Invested assets is our central measure and includes, for example, discretionary and advisory wealth management portfolios, managed institutional assets, managed fund assets and wealth management securities or brokerage accounts. It excludes all assets held for purely transactional and custody-only purposes as UBS only administers the assets and does not offer advice on how these assets should be invested. Since 1 January 2004, corporate client assets (other than pension funds) deposited with the Business Banking Switzerland unit have been excluded from invested assets, as we have a minimal advisory role for such clients and as asset flows are driven more by liquidity requirements than investment reasons. The same holds true for the corporate cash management business of the Wealth Management US unit, which we excluded from invested assets towards the end of 2005. Non-bankable assets (for example art collections) and deposits from third-party banks for funding or trading purposes are excluded from both measures.

Net new money in a reported period is the net amount of invested assets that are entrusted to the bank by new and existing clients less those withdrawn by existing clients and clients who terminate their relationship with UBS. Net new money is calculated using the direct method, by which in- and outflows to and from invested assets are determined at the client level based on transactions. Interest expenses clients pay on their loans are treated as net new money outflows. Interest and dividend income from invested assets is not counted as net new money inflow. Market and currency movements as well as fees and commissions are excluded from net new money, as are the effects resulting from any acquisition or divestment of a UBS subsidiary or business. 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.

When products are managed in one Business Group and sold in another, they are counted in both the investment management unit and the distribution unit. This results in double counting in UBS's total invested assets as both units provide an independent service to their respective client, add value and generate revenues. Most double counting arises where mutual funds are managed by the Global Asset Management business and sold by Global Wealth Management & Business Banking. Both businesses involved count these funds as invested assets. This approach is in line with industry practice and our open architecture strategy and allows us to accurately reflect the performance of each individual business. Overall, CHF 371 billion of invested assets were double counted in 2006 (CHF 332 billion in 2005).

Changes in accounting and presentation in 2007

IFRS 7 *Financial Instruments: Disclosures*

Effective 2007, we will adopt the disclosure requirements for financial instruments under IFRS 7. The new standard has no impact on recognition, measurement and presentation of financial instruments. Rather, it requires entities to provide disclosures in their financial statements that enable users to evaluate: a) the significance of financial instruments for the entity's financial position and performance; and b) the nature and extent of the credit, market and liquidity risks arising from financial instruments during the period and at the reporting date, and how the entity manages those risks. The principles of IFRS 7 complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*.

UBS has entered into transactions for which fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such financial instruments are initially recognized in UBS's financial statements at the transaction price, which is generally the best indicator of fair value, although the value obtained from the relevant valuation model may differ. Where such differences arise, UBS will be required by IFRS 7 to disclose, by class of financial instrument: (a) its accounting policy for recognizing that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price, and (b) the aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

UBS

Results

2006

In 2006, attributable profit was CHF 12,257 million, down 13% from CHF 14,029 million a year earlier, which included a net gain of CHF 3,705 million from the sale of Private Banks & GAM.

Our financial businesses contributed CHF 11,253 million to attributable profit, of which CHF 11,249 million was from continuing operations. This was an improvement of 19% from CHF 9,442 million in 2005. Discontinued operations contributed CHF 4 million net profit to financial businesses. Industrial Holdings added CHF 1,004 million to attributable profit, with CHF 242 million stemming from continuing operations.

Dividend

The Board of Directors will propose to the shareholders at the Annual General Meeting (AGM) that we raise the payout to CHF 2.20 a share in order to match our strong 2006 result. Subject to approval, this is a 16% increase from the total payout last year, which included a par value repayment of CHF 0.30 a share for the gain realized from the sale of Private Banks & GAM. It is also 38% higher than last year's regular dividend of CHF 1.60 a share (after the 2-for-1 share split). Our dividend for the 2004 financial year (paid in 2005) was CHF 1.50 a share (after the 2-for-1 share split).

If the dividend is approved, the ex-dividend date will be 19 April 2007, with payment on 23 April 2007 for shareholders of record on 18 April 2007.

2005

In 2005, attributable profit was CHF 14,029 million, including a net gain of CHF 3,705 million from the sale of Private Banks & GAM.

Our financial businesses contributed CHF 13,517 million to attributable profit, of which CHF 9,442 million was from continuing operations. This was an improvement of 28% from CHF 7,357 million in 2004. Discontinued operations contributed CHF 4,075 million. Industrial Holdings added CHF 512 million to attributable profit, with CHF 334 million stemming from continuing operations.

Risk factors

Certain risk factors, including those described below, can impact our ability to carry out our business strategies and can directly affect our earnings. As a consequence, our revenues and operating profit have varied – and are likely to continue to vary – from period to period and revenues and operating profit for any particular period may not be indicative of sustainable results.

Performance in our industry depends on the economic climate – negative developments can adversely affect our business activities

The financial services industry prospers in conditions of economic growth, market liquidity and buoyancy and positive investor sentiment. An economic downturn, inflation or a severe financial crisis could negatively affect our revenues, and we would be unable to immediately adjust all our costs to the resulting deterioration in market or business conditions.
A market downturn can be precipitated by geopolitical events, changes in monetary or fiscal policy, development of trade imbalances, natural disasters, pandemics and civil unrest, and war or terrorism. Because financial markets are global and highly interconnected, even local and regional events can have widespread impact well beyond their sources.
A crisis could develop, regionally or globally, as a result of disruption in emerging markets, which are particularly susceptible to macro-economic and geopolitical developments, or as a result of the failure of a major market participant. As our presence and business in emerging markets increases, we may become more exposed to these risks.
Adverse and extreme developments of this kind could affect our businesses in a number of ways:

- a general reduction in business activity and market volumes affects fees, commissions and margins from market-making and customer-driven transactions and activities. A market downturn may reduce the volume and valuations of assets we manage on behalf of clients, reducing our asset- and performance-based fees
- reduced market liquidity may limit trading and arbitrage opportunities or impede our ability to manage risks, impacting both trading income and performance-based fees

– the assets we hold for our own account as investments or trading positions may fall in value
– impairments and defaults on credit exposures and on trading and investment positions may increase. Losses may be exacerbated by falling collateral values
– if individual countries impose restrictions on cross-border payments or other exchange or capital controls we may suffer losses from enforced default by counterparties, we may be unable to access our own assets, or we may be impeded in – or prevented from – managing our risks.

We might be unable to identify or capture competitive opportunities

The financial services industry is characterized by intense competition, continuous innovation, detailed – and sometimes fragmented – regulation and ongoing consolidation. We face competition at the level of local markets and individual business lines, and from global financial institutions comparable to UBS in their size and breadth. Barriers to entry in individual markets are being eroded by new technology. We expect these trends to continue and competition to increase in the future.

If we are unable to identify market trends and developments, do not respond to them by devising and implementing adequate business strategies, or are unable to attract or retain the qualified people to carry them out, our competitive strength and market position might be eroded.

Our risk management and control processes may not always protect us from loss

Risk-taking is a major part of the business of a financial services firm. We derive a substantial part of our revenue from market making and proprietary trading in cash and derivatives markets and credit is an integral part of many of our retail and investment bank activities. Interest rates, equity prices, foreign exchange levels and other market fluctuations can adversely affect our earnings. Some losses from risk-taking activities are inevitable but to be successful over time we must balance the risks we take with the returns we generate. We must therefore diligently identify, assess, manage and control our risks, not only in normal market conditions but also as they might develop under more extreme – "stressed" – conditions, when concentrations of exposure can lead to severe losses.

Our risk management and control culture, tools and processes for market and credit risk, including country risk, are described in the Risk Management chapter of our Handbook 2006/2007.

We could, however, suffer losses if:
– we do not fully identify the risks in our portfolio, in particular risk concentrations and correlated risks
– our assessment of the risks we have identified, or our response to negative trends proves to be inadequate or incorrect
– markets move in ways that are unexpected in terms of their speed, direction, severity or correlation and our ability to manage risks in the resultant environment is restricted
– third parties to whom we have credit exposure or whose securities we hold for our own account or as collateral are severely affected by unexpected events and we suffer defaults and impairments beyond the level implied by our risk assessment
–– collateral or other security provided by our counterparties proves inadequate to cover their obligations at the time of their default.

We also manage risk on behalf of our clients in our asset and wealth management businesses, and our performance in these activities could be harmed by the same factors. If clients suffer losses or our performance does not match that of our competitors, we may suffer reduced fee income and a decline in assets under management or withdrawal of mandates.

Liquidity and funding management are critical to our ongoing performance

A substantial part of our funding requirement is met using short-term unsecured funding sources, including wholesale and retail deposits and the regular issuance of money market paper. The volume of these funding sources is largely stable. If this situation were to change, we could be forced to liquidate assets, in particular from our trading portfolio, to meet maturing liabilities or deposit withdrawals. We might be forced to sell them at discounts that could adversely affect our profitability and our business franchises.

A reduction in our credit rating could adversely affect our cost of borrowing, in particular from wholesale unsecured sources, and reduce our access to capital markets. It could also result in our having to make additional cash payments or post collateral, or in the premature termination of contracts with rating trigger clauses.

Our approach to liquidity and funding management is described in the Treasury Management chapter of our Handbook 2006/2007.

Operational risks may affect our business

All our businesses are dependent on our ability to process a large number of complex transactions across many and diverse markets in different currencies and subject to many different legal and regulatory regimes. Our operational risk management and control systems and processes, which are described in the Risk Management chapter of our Handbook 2006/2007

Risk factors (continued)

under "Operational Risk", are designed to ensure that the risks associated with our activities, including those arising from process error, failed execution, fraud, systems failure, and failure of security and physical protection, are appropriately controlled. If these internal controls fail or prove ineffective in identifying and remedying such risks, we could suffer operational failures that might result in losses.

Legal claims may arise in the conduct of our business

In the ordinary course of our business we are involved in a variety of claims, disputes and legal proceedings in Switzerland and other jurisdictions where we are active, including the United States. Such legal proceedings may expose us to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil penalties.

Our global presence exposes us to other risks

We operate in more than 50 countries, earn income and hold assets and liabilities in many different currencies and are subject to many different legal, tax and regulatory regimes. Changes in local tax laws or regulations may affect our clients' ability or willingness to do business with us or the viability of our strategies and business model.

Because we prepare our accounts in Swiss francs while a substantial part of our assets, liabilities, revenues and expenses are denominated in other currencies, changes in foreign exchange rates – particularly between the Swiss franc and the US dollar (US dollar income representing the major part of our non-Swiss franc income) – may have an effect on our reported earnings. Our approach to management of this currency risk is explained in the Treasury Management chapter of our Handbook 2006/2007 under "Corporate currency management".

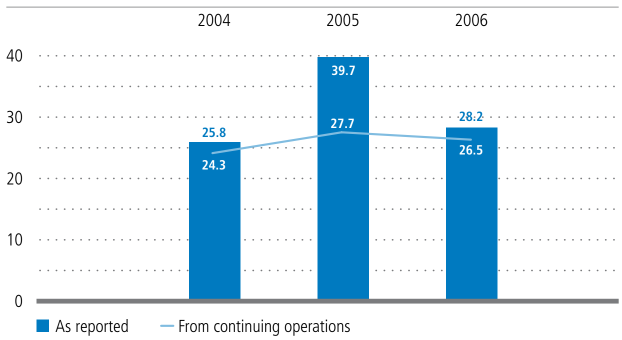
UBS Performance Indicators

UBS Performance Indicators

	For the year ended		
	31.12.06	31.12.05	31.12.04
RoE (%)[1,2]			
as reported	**28.2**	39.7	25.8
from continuing operations	**26.5**	27.7	24.3
Diluted EPS (CHF)[3]			
as reported	**5.95**	6.68	3.70
from continuing operations	**5.58**	4.66	3.49
Cost / income ratio of the financial businesses (%)[4,5]	**69.7**	70.1	73.2
Net new money, financial businesses (CHF billion)[6]	**151.7**	148.5	89.9

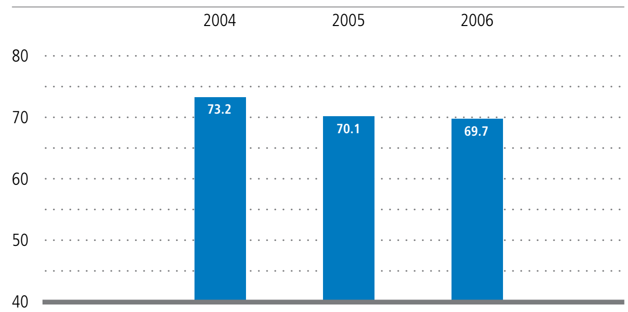
RoE [1, 2]

in %



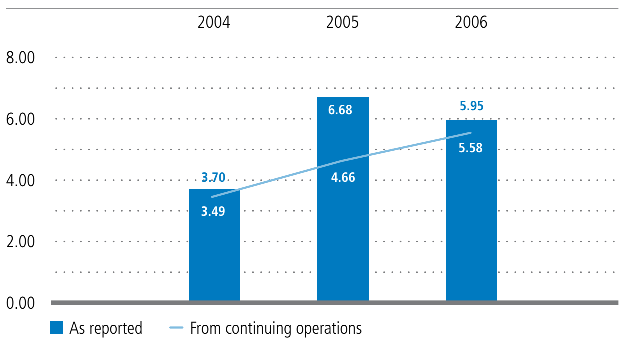
Cost / income ratio of the financial businesses [4, 5]

in %



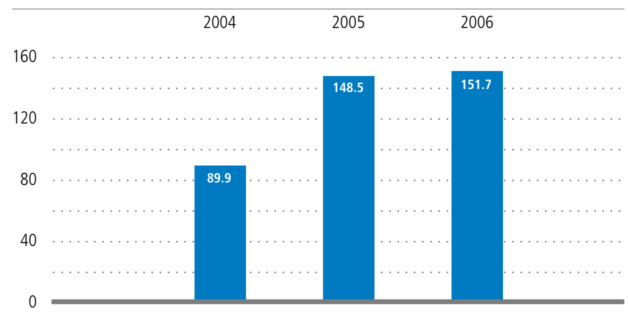
Diluted EPS [3]

CHF



Net new money, financial businesses [6]

CHF billion



1 Net profit attributable to UBS shareholders / average equity attributable to UBS shareholders less proposed distributions. 2 RoE as reported and from continuing operations reflects the adjusted equity attributable to UBS shareholders. See note 1 to the financial statements for more information. 3 Details of the EPS calculation can be found in note 8 to the financial statements. 4 Excludes results from Industrial Holdings. 5 Operating expenses / operating income less credit loss expense or recovery. 6 Excludes interest and dividend income.

2006

For the last seven years, we have consistently focused on four performance indicators designed to ensure we deliver continually improving returns to our shareholders. We modified some of them in 2006 to reflect the evolution of our business (see page 10). All are calculated based on results from continuing operations. The first two, return on equity and diluted earnings per share, are based on the results of the entire firm. The cost/income ratio and net new money indicators are limited to our financial businesses. On this basis, performance indicators 2006 show:

– return on equity in full-year 2006 at 26.5%, down from 27.7% in 2005, but well above our target of 20% minimum over the cycle. Higher attributable profit was offset by an increase in average equity following strong retained earnings.
– diluted earnings per share in 2006 at CHF 5.58, up 20% from CHF 4.66 a year ago, reflecting increased earnings and a slight reduction in the average number of shares outstanding (–2%) following share repurchases.
– a cost/income ratio for our financial businesses of 69.7% in 2006, down 0.4 percentage points from 70.1% a year ago. This reflects the increase in net trading income and net fee and commission income, partly offset by higher personnel and general and administrative expenses. We have added over 8,500 employees during the last year in areas where we see long-term strategic opportunities.
– net new money at a record CHF 151.7 billion, up from CHF 148.0 billion a year earlier (excluding Private Banks & GAM), corresponding to an annual growth rate of 5.7% of the asset base at the end of 2005. Inflows remained strong worldwide. Wealth Management International & Switzerland

Net new money[1]

	For the year ended		
CHF billion	**31.12.06**	31.12.05	31.12.04
Wealth Management International & Switzerland	**97.6**	68.2	42.3
Wealth Management US	**15.7**	26.9	18.1
Business Banking Switzerland	**1.2**	3.4	2.6
Global Wealth Management & Business Banking	**114.5**	98.5	63.0
Institutional	**29.8**	21.3	23.7
Wholesale Intermediary	**7.4**	28.2	(4.5)
Global Asset Management	**37.2**	49.5	19.2
UBS excluding Private Banks & GAM	**151.7**	148.0	82.2
Corporate Center			
Private Banks & GAM[2]		0.5	7.7
UBS	**151.7**	148.5	89.9

1 Excludes interest and dividend income. 2 Private Banks & GAM was sold on 2 December 2005.

Invested assets

	As of			% change from
CHF billion	**31.12.06**	31.12.05	31.12.04	31.12.05
Wealth Management International & Switzerland	**1,138**	982	778	16
Wealth Management US	**824**	752	606	10
Business Banking Switzerland	**161**	153	140	5
Global Wealth Management & Business Banking	**2,123**	1,887	1,524	13
Institutional	**519**	441	344	18
Wholesale Intermediary	**347**	324	257	7
Global Asset Management	**866**	765	601	13
UBS excluding Private Banks & GAM	**2,989**	2,652	2,125	13
Corporate Center				
Private Banks & GAM[1]	**0**	0	92	
UBS	**2,989**	2,652	2,217	13

1 Private Banks & GAM was sold on 2 December 2005.

recorded inflows of CHF 97.6 billion, driven by consistently high inflows during the year, particularly in Asia Pacific and Europe, both a result of our growth strategy. Our US business contributed CHF 15.7 billion in net new money, CHF 11.2 billion below 2005 levels. Global Asset Management inflows fell to CHF 37.2 billion, down from the strong CHF 49.5 billion result a year earlier. The Swiss retail business recorded net new money inflows of CHF 1.2 billion.

2005

From our continuing operations, performance indicators show:
- return on equity in full-year 2005 at 27.7%, up from 24.3% in 2004. The increase was driven by higher attributable profit, but was partially offset by an increase in average equity levels, reflecting the growth in retained earnings.
- diluted earnings per share in 2005 at CHF 4.66, up 34% from CHF 3.49 a year earlier, reflecting increased earnings and a slight reduction in the average number of shares outstanding (–3%) following share repurchases.
- a cost / income ratio for our financial businesses of 70.1% in 2005, down 3.1 percentage points from 73.2% a year earlier. This reflects the increase in net fee and commission income and net income from trading activities and the absence of goodwill amortization, partly offset by higher costs related to personnel – all related to the expansion of business volumes.
- for the whole of 2005, net new money of CHF 148.0 billion, up 80% from CHF 82.2 billion a year earlier. This amounts to an annual growth rate of 7.0% of the asset base at the end of 2004. All the figures above exclude Private Banks & GAM.

Financial Businesses

Results

Income statement[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.05
Continuing operations				
Interest income	**87,401**	59,286	39,228	47
Interest expense	**(80,880)**	(49,758)	(27,484)	63
Net interest income	**6,521**	9,528	11,744	(32)
Credit loss (expense) / recovery	**156**	375	241	(58)
Net interest income after credit loss expense	**6,677**	9,903	11,985	(33)
Net fee and commission income	**25,881**	21,436	18,506	21
Net trading income	**13,318**	7,996	4,902	67
Other income	**1,295**	561	578	131
Total operating income	**47,171**	39,896	35,971	18
Cash components	**21,282**	18,275	16,310	16
Share-based components[2]	**2,187**	1,628	1,396	34
Total personnel expenses	**23,469**	19,903	17,706	18
General and administrative expenses	**7,929**	6,448	6,387	23
Services (to) / from other business units	**(9)**	(14)	(20)	36
Depreciation of property and equipment	**1,245**	1,240	1,262	0
Amortization of goodwill	**0**	0	646	
Amortization of intangible assets	**148**	127	168	17
Total operating expenses	**32,782**	27,704	26,149	18
Operating profit from continuing operations before tax	**14,389**	12,192	9,822	18
Tax expense	**2,751**	2,296	2,104	20
Net profit from continuing operations	**11,638**	9,896	7,718	18
Discontinued operations				
Profit from discontinued operations before tax	**4**	4,564	396[3]	(100)
Tax expense	**0**	489	97	(100)
Net profit from discontinued operations	**4**	4,075	299	(100)
Net profit	**11,642**	13,971	8,017	(17)
Net profit attributable to minority interests	**389**	454	361	(14)
from continuing operations	**389**	454	361	(14)
from discontinued operations	**0**	0	0	
Net profit attributable to UBS shareholders	**11,253**	13,517	7,656	(17)
from continuing operations	**11,249**	9,442	7,357	19
from discontinued operations	**4**	4,075	299	(100)
Additional information				
Personnel (full-time equivalents)	**78,140**	69,569	67,407	12

1 Excludes results from Industrial Holdings. 2 Additionally includes social security contributions and expenses related to alternative investment awards. 3 Includes goodwill amortization of CHF 68 million for the year ended 31 December 2004.

2006

Results

On a continuing basis, 2006 was another record year for UBS, with all businesses reporting a stronger performance in 2006 compared with a year earlier. Attributable net profit in 2006 was CHF 11,253 million. Discontinued operations contributed CHF 4 million, compared with CHF 4,075 million in 2005, when we sold Private Banks & GAM. Net profit from continuing operations was CHF 11,249 million, up 19% from CHF 9,442 million in 2005. It was at the highest level ever, fueled by a 19% increase in income, which rose to CHF 47,015 million. Asset-based revenues showed particular strength, reflecting rising market levels as well as strong inflows into our wealth and asset management businesses. Brokerage fees were up, reflecting brisk client activity. Corporate finance and underwriting fees rose, not just because of buoyant capital market conditions, but also as a result of our efforts to grow our market share in key sectors, such as large cap deals, emerging markets, technology and as a partner of financial sponsors. Overall, net fee and commission income now contributes 55% to total operating income in 2006. Income from trading activities reached a record high as well, mainly driven by higher gains from equity derivatives, prime brokerage and equity proprietary trading. Fixed income activities saw stronger results driven by positive market conditions and improved performances in derivatives, mortgage-backed securities and commodities. Revenues from interest margin products increased to the highest level ever, reflecting the success and growth of lending activities to wealthy private clients worldwide. They also reflected an increase in spreads for US dollar, euro and Swiss franc deposits and higher Swiss mortgage volumes. The wealth management business in the US saw the level of deposits rise and benefited from higher spreads. In 2006, we continued to record credit loss recoveries, although they were lower than a year earlier.

Expenses continued to increase in the context of our strategic expansion. In 2006, they rose 18% or CHF 5,078 million from 2005. Personnel expenses were up 18%, reflecting the 12% increase in personnel numbers across our businesses. Performance-related payments rose with revenues. For 2006, 53% of personnel expenses took the form of bonus or other variable compensation, up from 50% a year earlier. Average variable compensation per head in 2006 was 16% higher than in 2005.

General and administrative expenses were up 23% from a year earlier. Provision expenses rose, mainly as a result of the settlement agreement with Sumitomo Corporation and the sublease of unused office space in New Jersey. Although we needed less office space than expected in New Jersey, we expanded our presence in other regions, leading to overall higher occupancy costs. Activity levels and business volumes increased worldwide, resulting in higher spending for IT outsourcing, communication and travel. Investment in growth initiatives resulted in higher costs for IT and strategic projects, in particular at the Investment Bank.

The rise in costs was outpaced by the improvement in revenues, driving our cost/income ratio down to 69.7% – the lowest level ever recorded.

Operating income

Total operating income was CHF 47,171 million in 2006, up 18% from CHF 39,896 million in 2005. This was the highest level ever.

Net interest income was CHF 6,521 million in 2006, down from CHF 9,528 million a year earlier. *Net trading income* was CHF 13,318 million, up from CHF 7,996 million in 2005.

As well as income from interest margin-based activities (loans and deposits), net interest income includes income earned as a result of trading activities (for example, coupon and dividend income). This component is volatile from period to period, depending on the composition of the trading portfolio. In order to provide a better explanation of the movements in net interest income and net trading income, we analyze the total according to the business activities that give rise to the income, rather than by the type of income generated.

Net income from trading activities increased by 15% or CHF 1,700 million from CHF 11,419 million in 2005 to CHF 13,119 million in 2006. At CHF 4,759 million, equities trading income in 2006 was up 21% or CHF 831 million from CHF 3,928 million in 2005. Last year saw a large increase in derivatives trading, mainly in Asia Pacific and in the US, as we experienced growing market demand in these regions. Our prime brokerage services continued to grow around the globe as we were able to further expand our client base. Additionally, our proprietary business recorded higher results. These gains were partially offset by lower revenues in our cash equity business, partly due to increased client facilitation requirements by clients in the US and Europe. Fixed income trading revenues, at CHF 6,204 million in 2006, were up 8% or CHF 463 million from CHF 5,741 million in 2005. Our rates business recorded significant increases with business expansion in energy trading and in mortgage backed securities driven by higher client activity and favorable market conditions. This was partially offset by lower derivatives income due to declining customer flows. The metals business was positively affected by active markets, with the precious metals business benefiting from rising gold prices. Revenues from our credit fixed income business were up slightly compared with last year. We recorded a loss of CHF 245 million relating to Credit Default Swaps (CDSs) hedging existing credit exposure in the loan book, against a gain of CHF 103 million a year earlier. At CHF 1,745 million, revenues from our foreign exchange business were up in 2006 compared with CHF 1,458 million recorded a year earlier. Foreign exchange trading revenues rose due to higher volumes.

Net income from interest margin products was CHF 5,829 million in 2006, up 9% from CHF 5,355 million in 2005, reflecting the growth in collateralized lending to wealthy clients worldwide. It also reflected an increase in spreads for US dollar, euro and Swiss franc deposits and higher volumes of mortgages to Swiss clients. The wealth management business in the US achieved higher levels of deposits, and benefited from higher spreads on them. This increase was partially offset by lower income from our shrinking Swiss recovery portfolio, which dropped by CHF 0.7 billion compared to year-end 2005.

At CHF 891 million, *net income from treasury and other activities* in 2006 was CHF 141 million or 19% higher than CHF 750 million in 2005. Interest income increased due to a higher consolidated capital base, partially offset by lower interest rate spreads. Compared with last year, income benefited from mark-to-market gains on USD foreign exchange options used to hedge the currency exposure arising from future earnings. The US dollar fell against the Swiss franc in 2006 while it increased in 2005. During 2005 treasury revenues were negatively affected by the accounting treatment of interest rate swaps, as these hedges were not fully effective.

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

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

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

>> For further details on our risk management approach, how we measure credit risk and the development of our credit risk exposures, please see the "Risk Management" chapter of our Handbook 2006/2007.

In 2006, *net fee and commission income* was CHF 25,881 million, up 21% from CHF 21,436 million a year earlier. The increase was driven by a strong contribution from recurring asset-based fees, higher investment fund fees and net brokerage fees, rising underwriting fees as well as corporate finance fees. Underwriting fees, at their highest level ever, were CHF 3,538 million in 2006, up 24% from CHF 2,857 million in 2005. Equity underwriting fees, at CHF 1,834 million, increased by CHF 493 million or 37% in all regions, especially in Asia. This was partially due to our role in the initial public offering of the Bank of China during second quarter 2006, where we acted as joint coordinator and bookrunner. Fixed income underwriting fees, at CHF 1,704 million, were up 12% or CHF 188 million, which reflects the strong market conditions and our enhanced competitive position in the leveraged finance business. At CHF 1,852 million, corpo-

Net interest and trading income

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Net interest income	**6,521**	9,528	11,744	(32)
Net trading income	**13,318**	7,996	4,902	67
Total net interest and trading income	**19,839**	17,524	16,646	13
Breakdown by business activity				
Equities	**4,759**	3,928	3,098	21
Fixed income	**6,204**	5,741	6,264	8
Foreign exchange	**1,745**	1,458	1,467	20
Other	**411**	292	203	41
Net income from trading activities	**13,119**	11,419	11,032	15
Net income from interest margin products	**5,829**	5,355	5,070	9
Net income from treasury and other activities	**891**	750	544	19
Total net interest and trading income	**19,839**	17,524	16,646	13

Credit loss (expense) / recovery

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Global Wealth Management & Business Banking	**109**	223	94	(51)
Investment Bank	**47**	152	147	(69)
UBS	**156**	375	241	(58)

rate finance fees in 2006 were up 27% from CHF 1,460 million a year earlier. Advisory gross revenues increased during 2006, as clients took advantage of strategic opportunities in the brisk merger and acquisition environment and our growing franchise in this area. Net brokerage fees were CHF 6,149 million in 2006, up 21% or CHF 1,062 million from CHF 5,087 million in 2005, reflecting the improved markets and the resulting higher confidence of institutional and individual clients – especially in the first half and at the end of 2006. Additionally, higher income from exchange-traded derivatives was driven by the acquisition of ABN AMRO's global futures and options business. Investment fund fees, at their highest level ever, were CHF 5,858 million in 2006, up 23% from CHF 4,750 million in 2005, mainly reflecting higher asset-based fees for our wealth and asset management businesses, driven by strong client money inflows and favorable market conditions. Fiduciary fees were slightly higher in 2006, increasing from CHF 212 million in 2005 to CHF 252 million, reflecting an increase in the underlying asset base. At CHF 1,266 million, custodian fees in 2006 were up 8% from CHF 1,176 million in 2005. This increase was due to an enlarged asset base. Portfolio and other management and advisory fees increased by 25% to CHF 6,622 million in 2006 from CHF 5,310 million in 2005. The increase is again the result of rising invested asset levels driven by market valuations and strong net new money inflows and to a lesser extent due to higher performance fees. Insurance-related and other fees, at CHF 449 million in 2006, increased by 21% from a year earlier, due to higher commissions from insurance related products. Credit-related fees and commissions decreased by 12% to CHF 269 million in 2006 from CHF 306 million in 2005, reflecting declining business volumes and lower income from loans.

Commission income from other services increased by 4% from CHF 1,027 million in 2005 to CHF 1,064 million in 2006, mainly driven by equity derivative products and higher fees for credit cards.

Other income increased by 131% to CHF 1,295 million in 2006 from CHF 561 million in 2005. This was driven by gains on our New York Stock Exchange membership seats, which were exchanged into shares when it went public in March 2006. In addition we sold our stakes in the London Stock Exchange, Babcock & Brown and EBS group.

Operating expenses

Total operating expenses increased by 18% to CHF 32,782 million in 2006 from CHF 27,704 million in 2005.

Net fee and commission income

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Equity underwriting fees	**1,834**	1,341	1,417	37
Debt underwriting fees	**1,704**	1,516	1,114	12
Total underwriting fees	**3,538**	2,857	2,531	24
Corporate finance fees	**1,852**	1,460	1,078	27
Brokerage fees	**8,053**	6,718	5,794	20
Investment fund fees	**5,858**	4,750	3,948	23
Fiduciary fees	**252**	212	197	19
Custodian fees	**1,266**	1,176	1,143	8
Portfolio and other management and advisory fees	**6,622**	5,310	4,488	25
Insurance-related and other fees	**449**	372	343	21
Total securities trading and investment activity fees	**27,890**	22,855	19,522	22
Credit-related fees and commissions	**269**	306	264	(12)
Commission income from other services	**1,064**	1,027	977	4
Total fee and commission income	**29,223**	24,188	20,763	21
Brokerage fees paid	**1,904**	1,631	1,387	17
Other	**1,438**	1,121	870	28
Total fee and commission expense	**3,342**	2,752	2,257	21
Net fee and commission income	**25,881**	21,436	18,506	21

Personnel expenses increased CHF 3,566 million or 18% to CHF 23,469 million in 2006 from CHF 19,903 million in 2005. The rise was driven by higher performance-related compensation reflecting the better performance in all our businesses. Personnel expenses are managed on a full-year basis with final fixing of annual performance-related payments in fourth quarter. Salary expenses rose due to the 12% increase in personnel over the year, exemplifying the continuous expansion of our business as well as annual pay rises. Share-based components were up 34% or CHF 559 million to CHF 2,187 million from CHF 1,628 million, mainly reflecting more share awards granted in 2006 and the higher fair value of options, driven by the rise in the share price. Contractors' expenses, at CHF 822 million, were CHF 1 million below 2005's. Insurance and social security contributions rose by 9% to CHF 1,374 million in 2006 compared with CHF 1,256 million in 2005, reflecting higher salary and bonus payments. Contributions to retirement benefit plans rose 13% or CHF 90 million to CHF 802 million in 2006 as a result of both higher salaries paid and the increased staff levels. At CHF 1,564 million in 2006, other personnel expenses increased CHF 174 million from 2005, mainly driven by increased headcount.

At CHF 7,929 million in 2006, *general and administrative expenses* increased CHF 1,481 million from CHF 6,448 million a year ago. The increase was driven by a number of provisions, mainly for the Sumitomo settlement and the long term lease on an office building in New Jersey. Professional fees rose for projects that support our growth strategy. IT and other outsourcing costs, marketing and public relations as well as expenses for market data services were driven up by increased business volume. Higher staff levels resulted in increased costs for occupancy and for travel.

Depreciation was CHF 1,245 million in 2006, almost unchanged from CHF 1,240 million in 2005. Higher depreciation on real estate was partially offset by falling IT-related charges.

There was no goodwill amortization in either 2006 or 2005.

At CHF 148 million, *amortization of intangible assets* was up 17% from CHF 127 million a year earlier, related to acquisitions made during 2006.

Tax

Tax expense for 2006 was CHF 2,751 million, resulting in an effective tax rate of 19.1%, compared with the full-year 2005 tax rate of 18.8%. The tax rate for 2006 as a whole, and particularly in fourth quarter, was positively influenced by the release of deferred tax valuation allowances, mainly reflecting improved forecast earnings in certain group companies and branches. We believe that a tax rate of about 22% is a reasonable initial estimate for 2007.

Business Group tax rates

Indicative Business Group and Business Unit tax rates are calculated on an annual basis based on the results and statutory tax rates of the financial year. These rates are approximate calculations, based upon the application to the year's adjusted earnings of statutory tax rates for the locations in which the Business Groups operated. These tax rates, therefore, give guidance on the tax cost of each Business Group doing business during 2006 on a stand-alone basis, without the benefit of tax losses brought forward from earlier years.

The indicative tax rates for 2004 are presented pre-goodwill. They give an indication of what the tax rate would have been if goodwill had not been charged for accounting purposes. It is the sum of the tax expense payable on net profit before tax and goodwill in each location, calculated on the above basis, divided by the total net profit before tax and goodwill. Tax rates post-goodwill are higher than the pre-goodwill rates, because in some jurisdictions there are limitations on the tax deductibility of amortization costs.

Please note that these tax rates are not necessarily indicative of future tax rates for the businesses or UBS as a whole.

Fair value disclosure of shares and options

The fair value of shares granted in 2006 rose to CHF 1,858 million, up CHF 477 million or 35% from CHF 1,381 million a year earlier. The increase compared with 2005 is primarily driven by higher performance-based compensation and a rise in the proportion of bonuses being delivered in restricted shares.

Indicative tax rates for financial businesses

	For the year ended		
in %	**31.12.06**	31.12.05	31.12.04[1]
Global Wealth Management & Business Banking	**20**	19	18
Wealth Management International & Switzerland	**19**	18	18
Wealth Management US	**42**	40	37
Business Banking Switzerland	**20**	17	19
Global Asset Management	**24**	24	21
Investment Bank	**31**	29	30

1 The tax rates for 2004 are calculated based on pre-goodwill profits.

The fair value of options granted as of 31 December 2006 was CHF 564 million, up CHF 202 million or 56% from CHF 362 million in 2005. The increase reflects a higher fair value per option, primarily due to a higher UBS share price.

Most share-based compensation is granted in the first quarter of the year, with any further grants mainly under the Equity Plus program, a continuing employee participation program under which voluntary investments in UBS shares each quarter are matched with option awards.

These amounts, net of forfeited awards, will be recognized as compensation expense over the service period, which is generally equal to the vesting period. Most UBS share and option awards vest incrementally over a three-year period.

Outlook

Our group combines global scale and focus on growth in a unique way. Our businesses occupy strong market positions in those segments of the financial industry that are expected to grow significantly faster than the economy as a whole over the long term.

When we wrote to you on 13 February, we said that in the short term, as the economic cycle matures, investors might become more sensitive to any disappointing political or economic developments, so our top-class risk control remains paramount. Recent market developments appear to confirm this hightened level of sensitivity. However, for UBS, 2007 has started on a positive note, with a strong deal pipeline and continued investor confidence and activity. With a global presence that is balanced across the Americas, Europe and Asia Pacific, the building blocks of our growth strategy are firmly in place. Last year we made a highly concentrated number of acquisitions while investing heavily in organic growth. In 2007, our focus will be on integrating our new areas of activity and we expect to start seeing the benefits from them materializing for our clients and shareholders.

2005

Results

Attributable profit in 2005 was CHF 13,517 million, of which discontinued operations contributed CHF 4,075 million, reflecting the impact of the sale of Private Banks & GAM. Net profit from continuing operations was CHF 9,442 million, up 28% from CHF 7,357 million in 2004. Higher revenues in practically all businesses drove the increase, clearly outpacing growth in costs. Asset-based revenues showed particular strength, reflecting rising market levels as well as strong inflows into the wealth and asset management businesses. We also saw a strong increase in brokerage, corporate finance and underwriting fees. Income from trading activities was fueled by improved market opportunities, particularly in second half 2005. Revenues from interest margin products increased, reflecting the success and growth of lending activities to wealthy private clients worldwide. We also reported record credit loss recoveries. Personnel expenses were up 12% from a year earlier; performance-related payments rose with revenues and there was a general increase in staff numbers. For 2005, 50% of personnel expenses took the form of bonus or other variable compensation, up from 49% a year earlier. General and administrative expenses were up just 1% in 2005 from a year earlier. Because of the strength of revenue growth and due to the cessation of goodwill amortization in 2005, our cost/income ratio was 70.1% in 2005.

Operating income

Total operating income was CHF 39,896 million in 2005, up 11% from CHF 35,971 million in 2004.

Net interest income was CHF 9,528 million in 2005, down from CHF 11,744 million in the same period a year earlier. *Net trading income* was CHF 7,996 million, up from CHF 4,902 million in 2004.

Business Group performance from continuing operations before tax

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Wealth Management International & Switzerland	**5,203**	4,161	3,396	25
Wealth Management US	**582**	312	29	87
Business Banking Switzerland	**2,356**	2,189	2,013	8
Global Wealth Management & Business Banking	**8,141**	6,662	5,438	22
Global Asset Management	**1,392**	1,057	552	32
Investment Bank	**5,943**	5,181	4,610	15
Corporate Center	**(1,087)**	(708)	(778)	(54)
Financial Businesses	**14,389**	12,192	9,822	18

Net income from trading activities increased by 4% or CHF 387 million from CHF 11,032 million in 2004 to CHF 11,419 million in 2005. At CHF 3,928 million, equities trading income in 2005 was up 27% or CHF 830 million from CHF 3,098 million in 2004. These gains were partially offset by lower revenues in our equity cash business. Fixed income trading revenues, at CHF 5,741 million in 2005, were down 8% or CHF 523 million from CHF 6,264 million in 2004. The drop was driven by declines in credit fixed income and fixed income, partially offset by increased revenues in our rates, principal finance and commercial real estate business. Credit fixed income saw large revenue decreases in structured credit. Revenues in our rates business were up, driven mainly by structured LIBOR derivatives, European interest rates and US energy trading. We recorded revenues of CHF 103 million relating to Credit Default Swaps (CDSs) hedging existing credit exposure in the loan book, against losses of CHF 62 million a year earlier. At CHF 1,458 million, revenues from our foreign exchange business were stable in 2005 compared with CHF 1,467 million recorded a year earlier. While derivatives trading was negatively impacted by historically low volatility levels, foreign exchange trading revenues rose due to higher volumes.

Net income from interest margin products increased by 6% to CHF 5,355 million in 2005 from CHF 5,070 million in 2004. The increase was driven by the growth in lending to wealthy US clients through our US bank, UBS Bank USA. Our domestic Swiss mortgage business and wealth management collateralized lending business also grew during the year. In addition, revenues rose due to a rise in interest rates for client liabilities. They also rose because of the appreciation of the US dollar against the Swiss franc, which helped revenues from US dollar cash accounts. This increase was partially offset by lower income from our shrinking Swiss recovery portfolio, which dropped by CHF 1.1 billion compared with year-end 2004.

At CHF 750 million, *net income from treasury and other activities* in 2005 was CHF 206 million or 38% higher than CHF 544 million in 2004. The increase reflects the benefits of the diversification of our capital base into currencies other than the Swiss franc in a way that matches the currency mix of our risk-weighted assets. The higher equity base had a positive impact on treasury income as well, as did a positive timing effect related to cash flow hedging.

In 2005, we experienced a *net credit loss recovery* of CHF 375 million, compared with a net credit loss recovery of CHF 241 million in 2004. Releases in country allowances and provisions of CHF 118 million reflected the generally positive macro-economic environment in key emerging markets.

The net credit loss recovery at Global Wealth Management & Business Banking was CHF 223 million in 2005 compared with a net credit loss recovery of CHF 94 million in 2004. The benign credit environment in Switzerland, where the corporate bankruptcy rate receded in 2005, coupled with the measures taken in the years before to improve the quality of our credit portfolio, resulted in a continued low level of new defaults. The success we had in managing our impaired portfolio also resulted in a higher than anticipated level of recoveries.

The Investment Bank experienced a net credit loss recovery of CHF 152 million in 2005, compared with a net credit loss recovery of CHF 147 million in 2004. 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.

In 2005, *net fee and commission income* was CHF 21,436 million, up 16% from CHF 18,506 million a year earlier. Underwriting fees were CHF 2,857 million in 2005, up 13% from CHF 2,531 million in 2004. Fixed income underwriting fees increased due to significantly improved market conditions and our enhanced competitive position, but were slightly offset by lower equity underwriting fees. Fixed income underwriting was CHF 1,516 million in 2005, up 36% from CHF 1,114 million in 2004. Equity underwriting slightly decreased by 5% to CHF 1,341 million in the same period. At CHF 1,460 million, corporate finance fees in 2005 were up 35% from CHF 1,078 million a year earlier. Advisory gross revenues increased notably during 2005, signalling the continued strength of merger and acquisition markets, and our growing franchise in this area. Net brokerage fees were CHF 5,087 million in 2005, up 15% or CHF 680 million from CHF 4,407 million in 2004, reflecting improved markets and the resulting higher confidence of institutional and individual clients – especially in the second half of 2005. Investment fund fees were CHF 4,750 million in 2005, up 20% from CHF 3,948 million in 2004, mainly reflecting higher asset-based fees for our wealth and asset management businesses, driven by strong client money inflows and strong market conditions. Fiduciary fees were slightly higher in 2005, increasing from CHF 197 million in 2004 to CHF 212 million, reflecting an increased number of mandates. At CHF 1,176 million, custodian fees in 2005 were up 3% from CHF 1,143 million in 2004. This increase was entirely due to an enlarged asset base. Portfolio and other management and advisory fees increased by 18% to CHF 5,310 million in 2005 from CHF 4,488 million in 2004. The increase is again the result of rising invested asset levels driven by market valuations and strong net new money inflows. Insurance-related and other fees, at CHF 372 million in 2005, increased by 8% from a year earlier, due to higher commissions from insurance related products. Credit-related fees and commissions increased by 16% to CHF 306 million in 2005 from CHF 264 million in 2004, reflecting improved market conditions which brought higher volumes.

Commission income from other services increased by 5% from CHF 977 million in 2004 to CHF 1,027 million in 2005, mainly driven by equity derivative products distributed in Switzerland.

Other income decreased by 3% to CHF 561 million in 2005 from CHF 578 million in 2004, mainly due to lower net gains from both disposals of associates and subsidiaries and from investments in property. This was partially offset by higher net gains from disposal of investments in financial assets available-for-sale.

Operating expenses

Total operating expenses increased by 6% to CHF 27,704 million in 2005 from CHF 26,149 million in 2004.

Personnel expenses increased by CHF 2,197 million or 12% to CHF 19,903 million in 2005 from CHF 17,706 million in 2004. The rise was driven by higher performance-related compensation reflecting the better performance in all our businesses. Salary expenses rose due to the 6% increase in personnel over the year (excluding the staff of Private Banks & GAM), showing the continuous expansion of our business as well as annual pay rises. Share-based components increased by 17% or CHF 232 million to CHF 1,628 million from CHF 1,396 million. This was due to an increase in the UBS share price and the higher proportion of stock in bonuses granted in 2005, partially offset by lower option expenses. Contractors' expenses increased to CHF 823 million in 2005, up 45% from CHF 567 million in 2004, mainly related to the integration of former Perot employees into our central ITI function. They also reflects higher usage, mainly in our Investment Bank in support of increased business flows. Insurance and social security contributions rose by 23% to CHF 1,256 million in 2005 compared with CHF 1,024 million in 2004. Contributions to retirement benefit plans were up 9% or CHF 61 million from CHF 651 million in 2004 to CHF 712 million in 2005. At CHF 1,390 million in 2005, other personnel expenses increased CHF 25 million from CHF 1,365 million in 2004, mainly driven by increased headcount, partially offset by the end of retention payments in the Wealth Management US business and lower severance payments.

At CHF 6,448 million in 2005, *general and administrative expenses* increased CHF 61 million from CHF 6,387 million a year ago. The increase was driven by travel and entertainment expenses, and additional administration costs, reflecting higher employee levels and further increases in business activity. Marketing costs increased due to continued investment in our brand. This was partially offset by lower provisions (2004 included the civil penalty levied by the Federal Reserve Board relating to our banknote trading business) and reduced expenses for IT outsourcing and professional fees, as well as lower rent and maintenance of machines and equipment.

Depreciation was CHF 1,240 million in 2005, down 2% from CHF 1,262 million in 2004. This was the lowest level ever, reflecting falling IT-related charges, partially offset by higher depreciation on real estate.

There was no *amortization of goodwill* in 2005 as we were required to cease this so at the start of the year. In 2004, amortization of goodwill was CHF 646 million.

At CHF 127 million, *amortization of intangible assets* was down 24% from CHF 168 million a year earlier, due to the reclassification of the Wealth Management US workforce to goodwill.

Tax

Tax expense for 2005 was CHF 2,296 million, resulting in an effective tax rate of 18.8%, down from the full-year 2004 tax rate of 21.4%. The tax rate for full-year 2005 was positively influenced by the absence of goodwill amortization and the successful conclusion of tax audits in the third and fourth quarters.

Fair value disclosure of shares and options

The fair value of shares granted in 2005 rose to CHF 1,381 million, 25% higher than CHF 1,109 million a year earlier. The increase compared with 2004 was primarily driven by an increased proportion of bonuses being delivered in restricted shares.

The fair value of options granted as of 31 December 2005 was CHF 362 million, down 29% from CHF 508 million in 2004. The decrease reflected a lower fair value per option, primarily due to a change in the valuation model, and a drop in the number of options granted.

Global Wealth Management & Business Banking

Pre-tax profit for our international and Swiss wealth management businesses was CHF 5,203 million, up 25% from the result achieved in 2005. In the US, pre-tax profit rose to CHF 582 million from CHF 312 million a year earlier. Business Banking Switzerland's pre-tax profit was CHF 2,356 million, up 8% from 2005.

Business Group reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.05
Income	**21,775**	19,131	17,506	14
Adjusted expected credit loss[1]	**156**	107	(38)	46
Total operating income	**21,931**	19,238	17,468	14
Cash components	**9,043**	8,252	7,630	10
Share-based components[2]	**306**	237	235	29
Total personnel expenses	**9,349**	8,489	7,865	10
General and administrative expenses	**3,028**	2,845	2,473	6
Services (to)/from other business units	**1,118**	960	1,137	16
Depreciation of property and equipment	**232**	226	202	3
Amortization of goodwill	**0**	0	238	
Amortization of intangible assets	**63**	56	115	13
Total operating expenses	**13,790**	12,576	12,030	10
Business Group performance before tax	**8,141**	6,662	5,438	22
KPIs				
Cost/income ratio (%)[3]	**63.3**	65.7	68.7	
Capital return and BIS data				
Return on allocated regulatory capital (%)[4]	**39.3**	34.7	31.3	
BIS risk-weighted assets	**155,158**	147,348	134,004	5
Goodwill and excess intangible assets[5]	**5,978**	5,407	3,648	11
Allocated regulatory capital[6]	**21,494**	20,142	17,048	7
Additional information				
Invested assets (CHF billion)	**2,123**	1,887	1,524	13
Net new money (CHF billion)	**114.5**	98.5	63.0	
Client assets (CHF billion)	**3,337**	2,895	2,306	15
Personnel (full-time equivalents)	**48,034**	44,612	42,570	8

1 In management accounts, adjusted expected credit loss rather than credit loss expense or recovery is reported for the business groups (see note 2 to the financial statements). 2 Additionally includes social security contributions and expenses related to alternative investment awards. 3 Operating expenses/income. 4 Business Group performance before tax/average allocated regulatory capital. 5 Goodwill and intangible assets in excess of 4% of BIS Tier 1 Capital. 6 10% of BIS risk-weighted assets plus goodwill and excess intangible assets.

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

Wealth Management International & Switzerland

Business Unit reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.05
Income	**10,827**	9,024	7,701	20
Adjusted expected credit loss[1]	**(29)**	(13)	(8)	123
Total operating income	**10,798**	9,011	7,693	20
Cash components	**2,999**	2,491	2,047	20
Share-based components[2]	**138**	88	72	57
Total personnel expenses	**3,137**	2,579	2,119	22
General and administrative expenses	**885**	804	642	10
Services (to)/from other business units	**1,479**	1,371	1,395	8
Depreciation of property and equipment	**84**	89	66	(6)
Amortization of goodwill	**0**	0	67	
Amortization of intangible assets	**10**	7	8	43
Total operating expenses	**5,595**	4,850	4,297	15
Business Unit performance before tax	**5,203**	4,161	3,396	25
KPIs				
Invested assets (CHF billion)	**1,138**	982	778	16
Net new money (CHF billion)[3]	**97.6**	68.2	42.3	
Gross margin on invested assets (bps)[4]	**103**	102	103	1
Cost/income ratio (%)[5]	**51.7**	53.7	55.8	
Cost/income ratio excluding the European wealth management business (%)[5]	**47.5**	47.7	47.9	
Client advisors (full-time equivalents)	**4,742**	4,154	3,744	14
International clients				
Income	**7,907**	6,476	5,429	22
Invested assets (CHF billion)	**862**	729	562	18
Net new money (CHF billion)[3]	**90.8**	64.2	40.4	
Gross margin on invested assets (bps)[4]	**101**	100	102	1
European wealth management (part of international clients)				
Income	**1,010**	722	437	40
Invested assets (CHF billion)	**144**	114	82	26
Net new money (CHF billion)[3]	**18.2**	21.8	13.7	
Client advisors (full-time equivalents)	**870**	803	838	8

1 In management accounts, adjusted expected credit loss rather than credit loss expense or recovery is reported for the business groups (see note 2 to the financial statements). 2 Additionally includes social security contributions and expenses related to alternative investment awards. 3 Excludes interest and dividend income. 4 Income/average invested assets. 5 Operating expenses/income.

Business Unit reporting (continued)

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.05
Swiss clients				
Income	**2,920**	2,548	2,272	15
Invested assets (CHF billion)	**276**	253	216	9
Net new money (CHF billion)[1]	**6.8**	4.0	1.9	
Gross margin on invested assets (bps)[2]	**110**	109	106	1
Capital return and BIS data				
Return on allocated regulatory capital (%)[3]	**81.2**	78.9	82.5	
BIS risk-weighted assets	**51,485**	43,369	31,903	19
Goodwill and excess intangible assets[4]	**1,740**	1,566	1,176	11
Allocated regulatory capital[5]	**6,889**	5,903	4,366	17
Additional information				
Recurring income[6]	**8,143**	6,635	5,679	23
Client assets (CHF billion)	**1,436**	1,235	972	16
Personnel (full-time equivalents)	**13,564**	11,555	10,093	17

1 Excludes interest and dividend income. 2 Income / average invested assets. 3 Business Unit performance before tax / average allocated regulatory capital. 4 Goodwill and intangible assets in excess of 4% of BIS Tier 1 Capital. 5 10% of BIS risk-weighted assets plus goodwill and excess intangible assets. 6 Interest, asset-based revenues for portfolio management and fund distribution, account-based and advisory fees.

Components of operating income

Wealth Management International & Switzerland derives its operating income principally from:
– fees for financial planning and wealth management services;
– fees for investment management services;
– transaction-related fees; and
– interest income from client loans.

These revenues are based on the market value of invested assets, the level of transaction-related activity and the size of the loan book. As a result, operating income is affected by factors such as fluctuations in invested assets, changes in market conditions, investment performance, inflows and outflows of client funds, and investor activity levels.

2006

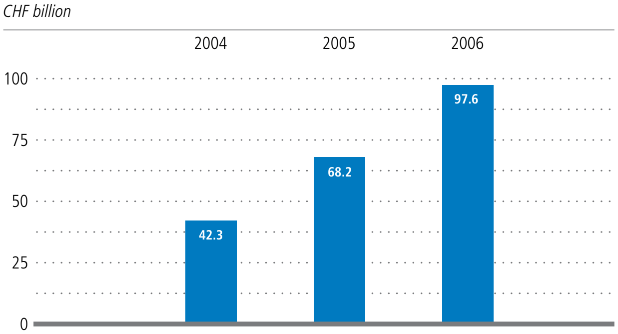
Key performance indicators

In 2006, net new money was a record CHF 97.6 billion, compared with CHF 68.2 billion in 2005, representing an annual growth rate of 10% of the underlying invested asset base at end-2005. This outstanding result reflected increases in all geographical regions throughout the year, particularly in Asia Pacific and Europe, both a result of our growth strategy.

Invested assets, at CHF 1,138 billion on 31 December 2006, were up 16% from CHF 982 billion a year earlier, mainly reflecting the strong inflow of net new money and

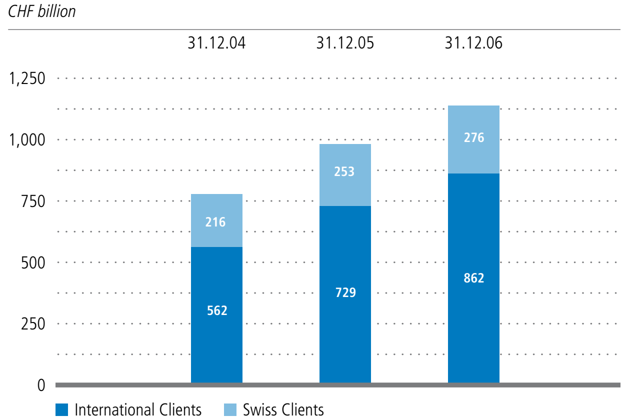
Net new money

CHF billion



Invested assets

CHF billion

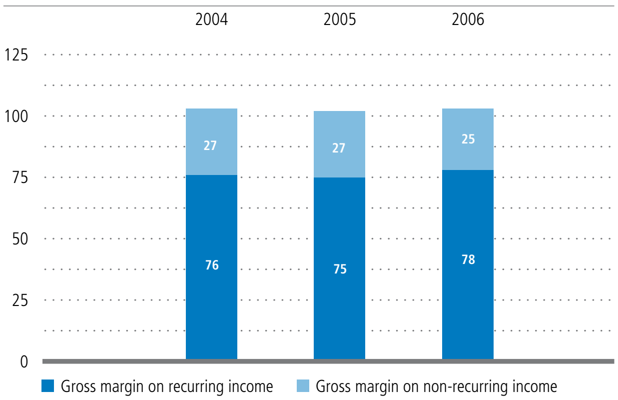


rising financial markets, with CHF 4.8 billion coming from new assets gained from acquisitions we integrated in 2006. This increase was partially offset by negative currency effects. The 7% fall of the US dollar against the Swiss franc contributed to this decrease – approximately 36% of invested assets were denominated in US dollars at the end of 2006.

The gross margin on invested assets was 103 basis points in 2006, up 1 basis point from 102 basis points a year earlier, as the increase in recurring margin due to higher fee income and increased Lombard lending was partly offset by a lower non-recurring margin. Overall, recurring income made up 78 basis points of the margin in 2006, up from 75 basis points in 2005. Non-recurring income comprised 25 basis points of the margin in 2006, down 2 basis points from 2005.

Gross margin on invested assets

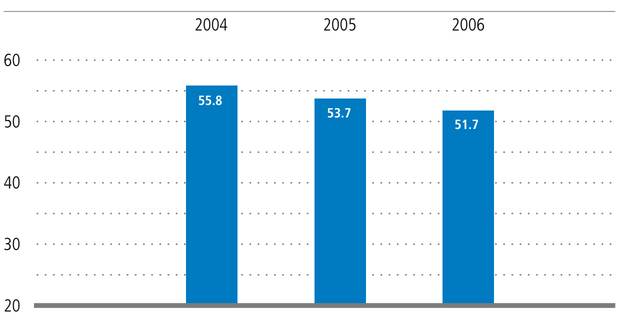
bps



The cost/income ratio improved to 51.7% in 2006 from 53.7% a year earlier. The cost/income ratio has improved for the fourth consecutive year despite the rise in costs in pursuit of our global expansion strategy. This improvement reflects the strong rise in income due to a higher asset base and higher volumes in Lombard lending, which more than offset the increase in personnel expenses (mainly headcount increase and performance-related compensation) and higher general and administrative costs.

Cost / income ratio

in %



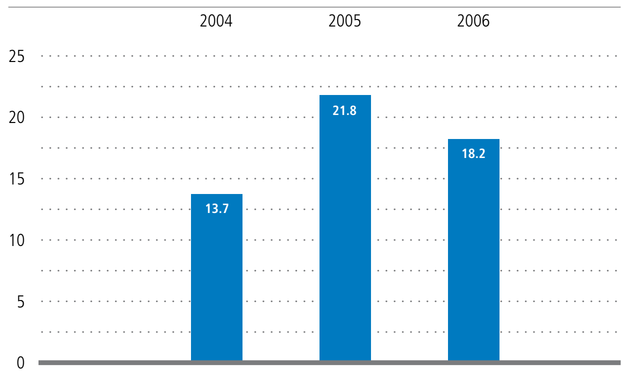
Excluding the European wealth management business, the 2006 cost/income ratio fell to 47.5% from 47.7% a year earlier.

European wealth management

Our European wealth management business continued to make good progress. With a good performance in the UK and Germany, particularly in the first half of the year, the inflow of net new money in 2006 was CHF 18.2 billion, down 17% from the 2005 intake of CHF 21.8 billion. The result reflects an annual net new money growth rate of 16% of the underlying asset base at year-end 2005, with positive contributions from all five target markets.

Net new money European wealth management

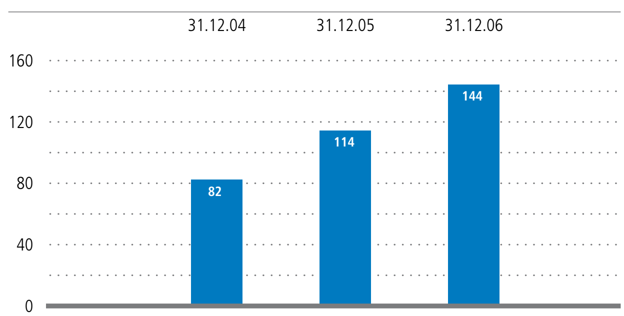
CHF billion



The level of invested assets was a record CHF 144 billion on 31 December 2006, a 26% increase compared with CHF 114 billion a year earlier. This reflected rising equity markets and new inflows across Europe, particularly in the first half of the year.

Invested assets European wealth management

CHF billion



In 2006, income from our European wealth management business was CHF 1,010 million, up 40% from a year earlier, reflecting our growing asset and client base. The business was profitable in all quarters of 2006 and all five markets made a positive contribution.

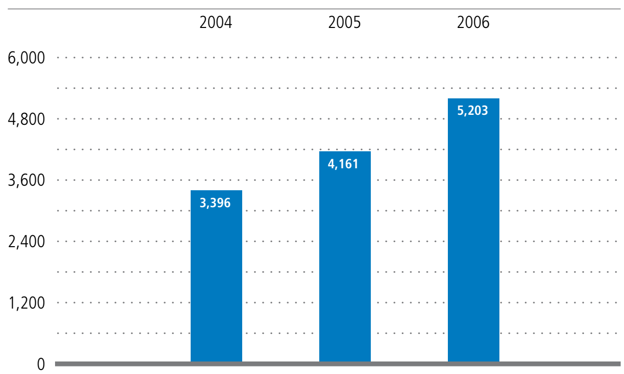
In 2006, the number of client advisors increased by 67. The increase in client advisors was mainly in Italy and France. We remain committed to growing our presence in our European target markets and will continue to invest in qualified advisory staff.

Results

In 2006, pre-tax profit, at a record CHF 5,203 million, was up 25% compared with 2005. This increase reflects higher asset-based fees as well as rising interest income, a reflection of higher volumes in our Lombard lending business. Operating expenses, up 15% in 2006 from 2005, also rose as our business expanded. Personnel expenses rose 22% due to the hiring of an additional 2,009 employees.

Performance before tax

CHF million



Operating income
Total operating income in 2006 was CHF 10,798 million, up 20% from CHF 9,011 million a year earlier. This was the highest level ever, reflecting a rise in recurring as well as in non-recurring revenues. Recurring income increased 23% on rising asset-based fees, benefiting from a buoyant market and net new money inflows. This was accentuated by higher interest income due to the expansion of our margin lending activities. Non-recurring income rose due to higher brokerage fees, reflecting high client activity levels. These positive effects were offset by the depreciation of the US dollar against the Swiss franc.

Operating expenses
At CHF 5,595 million, operating expenses in 2006 were up 15% from CHF 4,850 million a year earlier, reflecting higher personnel expenses and general and administrative expenses as well as the ongoing investment in our growth initiatives. Personnel expenses rose 22% to CHF 3,137 million in 2006 compared with CHF 2,579 million a year earlier, reflecting the increase in salaries from the expansion of our business as well as higher performance-related compensation. Share-based expenses in 2006 increased due to higher share awards and the increased fair value of options. General and administrative expenses, at CHF 885 million, were up 10% in 2006 from CHF 804 million a year earlier due to investments in our physical and IT infrastructure, as well as travel and entertainment and marketing costs – all a consequence of our continuous business expansion. Expenses for services from other business units, at CHF 1,479 million in 2006, were up 8% from CHF 1,371 million the previous year, mainly due to higher information technology charges. Depreciation was CHF 84 million in 2006, down 6% from CHF 89 million a year earlier because of lower charges for information technology equipment. Amortization of intangible assets was CHF 10 million, practically unchanged from CHF 7 million in 2005.

2005

Key performance indicators

In 2005, net new money inflows totaled CHF 68.2 billion, up 61% from CHF 42.3 billion in 2004. This increase was driven by gains in all geographical areas, especially from Asian clients, and a particularly strong inflow into our European wealth management business.

Invested assets, at CHF 982 billion on 31 December 2005, were up 26% from CHF 778 billion a year earlier, mainly reflecting the strong inflow of net new money and the positive market performance during the second half of the year, with CHF 11.1 billion coming from new assets gained from acquisitions we integrated in 2005. The 15% rise of the US dollar against the Swiss franc contributed to the increase. Approximately 36% of invested assets were denominated in US dollars at the end of 2005.

The gross margin on invested assets was 102 basis points in 2005, down 1 basis point from 103 basis points a year earlier, as the asset base was boosted by the record inflows of net new money. Overall, recurring income made up 75 basis points of the margin in 2005, down from 76 basis points in 2004. Non-recurring income comprised 27 basis points of the margin in 2005, unchanged from 2004.

The cost/income ratio improved to 53.7% in 2005 from 55.8% a year earlier, reflecting the strong rise in income, which more than offset the increase in personnel expenses (mainly performance-related compensation) and higher general and administrative costs. Excluding the European wealth management business, the 2005 cost/income ratio fell to 47.7% from 47.9% a year earlier.

European wealth management

In 2005, our European wealth management business made significant progress. With a particularly good performance in the UK and Germany, the inflow of net new money in 2005 was CHF 21.8 billion, up 59% from the previous year's intake of CHF 13.7 billion. The result reflects an annual net new money inflow rate of 27% of the underlying asset base at year-end 2004.

The level of invested assets was CHF 114 billion on 31 December 2005, a 39% increase compared to the CHF 82 billion a year earlier. As well as new inflows, this reflected rising equity market levels and a 15% appreciation of the US dollar against the Swiss franc.

In 2005, income from our European wealth management business was CHF 722 million, up 65% from a year earlier, reflecting our growing asset and client base.

In 2005, the number of client advisors decreased by 35. The decline was due to the reclassification of some former Sauerborn Trust employees, and the departure of less productive client advisors.

Results

Wealth Management International and Switzerland's 2005 pre-tax profit, at CHF 4,161 million, increased 23% from 2004, mainly due to higher asset-based fees, and strengthening client activity. Rising interest income, a reflection of the expansion of our margin lending activities, also bolstered revenues. At the same time, our expenses, up 13% in 2005 from 2004, reflect our ongoing growth strategy.

Operating income

Total operating income in 2005 was CHF 9,011 million, up 17% from CHF 7,693 million in 2004. Recurring income increased 17% on rising asset-based fees, benefiting from gains in asset levels. This was accentuated by higher interest income due to the expansion of our margin lending activities. Non-recurring income rose due to higher brokerage fees and commissions for sales of investment funds, reflecting an increase in client activity levels. These positive effects were supported by the appreciation of the US dollar against the Swiss franc.

Operating expenses

At CHF 4,850 million, operating expenses in 2005 were up 13% from CHF 4,297 million a year earlier, reflecting higher personnel expenses as well as the ongoing investment in our growth initiatives. Personnel expenses rose 22% to CHF 2,579 million in 2005 compared to CHF 2,119 million a year earlier, reflecting the increase in salaries from the expansion of our business as well as higher performance-related compensation. General and administrative expenses, at CHF 804 million, were up 25% in 2005 from CHF 642 million a year earlier due to ongoing business expansion as well as investments in our physical and IT infrastructure. Expenses for services from other business units, at CHF 1,371 million in 2005, were down 2% from CHF 1,395 million the previous year, mainly due to lower charges for insurance. Depreciation was CHF 89 million in 2005, up 35% from CHF 66 million a year earlier because of higher charges for information technology equipment. There was no amortization of goodwill in 2005, due to a change in accounting. In 2004, amortization of goodwill totaled CHF 67 million. Amortization of intangible assets was CHF 7 million, practically unchanged from CHF 8 million in 2004.

Wealth Management US

Business Unit reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.05
Income	**5,863**	5,158	4,741	14
Adjusted expected credit loss[1]	**0**	(2)	(5)	(100)
Total operating income	**5,863**	5,156	4,736	14
Cash components	**3,683**	3,353	3,206	10
Share-based components[2]	**117**	107	114	9
Total personnel expenses	**3,800**	3,460	3,320	10
General and administrative expenses	**1,073**	1,047	767	2
Services (to)/from other business units	**281**	223	275	26
Depreciation of property and equipment	**74**	65	67	14
Amortization of goodwill	**0**	0	171	
Amortization of intangible assets	**53**	49	107	8
Total operating expenses	**5,281**	4,844	4,707	9
Business Unit performance before tax	**582**	312	29	87
KPIs				
Invested assets (CHF billion)	**824**	752	606	10
Net new money (CHF billion)[3]	**15.7**	26.9	18.1	
Interest and dividend income (CHF billion)[4]	**22.2**	18.3	15.3	21
Gross margin on invested assets (bps)[5]	**76**	75	77	1
Cost/income ratio (%)[6]	**90.1**	93.9	99.3	
Recurring income[7]	**3,488**	2,834	2,343	23
Revenues per advisor (CHF thousand)[8]	**776**	690	633	12
Capital return and BIS data				
Return on allocated regulatory capital (%)[9]	**10.2**	5.8	0.6	
BIS risk-weighted assets	**18,308**	18,928	17,664	(3)
Goodwill and excess intangible assets[10]	**4,238**	3,841	2,472	10
Allocated regulatory capital[11]	**6,069**	5,734	4,238	6
Additional information				
Client assets (CHF billion)	**909**	826	679	10
Personnel (full-time equivalents)	**18,557**	17,034	16,969	9
Financial advisors (full-time equivalents)	**7,880**	7,520	7,519	5

1 In management accounts, adjusted expected credit loss rather than credit loss expense or recovery is reported for the Business Groups (see note 2 to the financial statements). 2 Additionally includes social security contributions and expenses related to alternative investment awards. 3 Excludes interest and dividend income. 4 For purposes of comparison with US peers. 5 Income/average invested assets. 6 Operating expenses/income. 7 Interest, asset-based revenues for portfolio management and fund distribution, account-based and advisory fees. 8 Income (includes net goodwill funding)/average number of financial advisors. 9 Business Unit performance before tax/average allocated regulatory capital. 10 Goodwill and intangible assets in excess of 4% of BIS Tier 1 Capital. 11 10% of BIS risk-weighted assets plus goodwill and excess intangible assets.

Components of operating income

Wealth Management US principally derives its operating income from:
- fees for financial planning and wealth management services;
- fees for investment management services;
- transaction-related fees; and
- interest income from client loans.

These revenues are based on the market value of invested assets, the level of transaction-related activity and the size of the loan book. As a result, operating income is affected by such factors as fluctuations in invested assets, changes in market conditions, investment performance, inflows and outflows of client funds, and investor activity levels.

2006

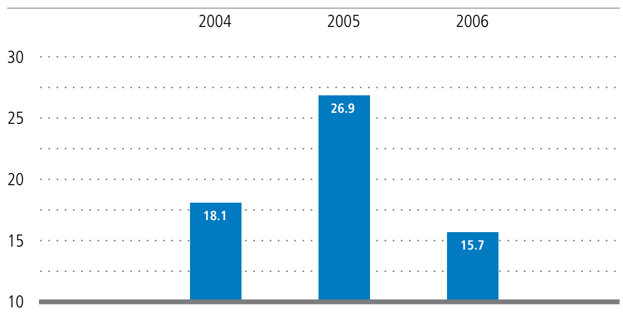
Key performance indicators

The inflow of net new money in 2006 was CHF 15.7 billion, down 42% from CHF 26.9 billion in 2005. Although the result was lower, the inflow of net new money compared favorably with peers in terms of growth rate relative to the asset base.

Including interest and dividends, net new money in 2006 was CHF 37.9 billion, down from CHF 45.2 billion a year earlier.

Net new money

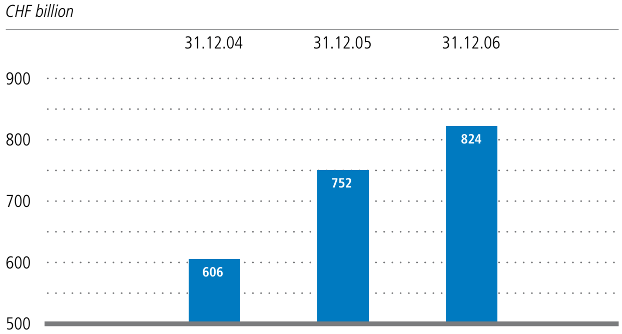
CHF billion



Wealth Management US had CHF 824 billion in invested assets on 31 December 2006, up 10% from CHF 752 billion on 31 December 2005. The increase was due to the strong market performance in 2006 as well as to the inclusion of the private client branch network of Piper Jaffray in the third quarter, adding CHF 54 billion of invested assets on a net basis. In US dollar terms, invested assets were 18% higher on 31 December 2006 than they were on the same date in 2005.

Invested assets

CHF billion

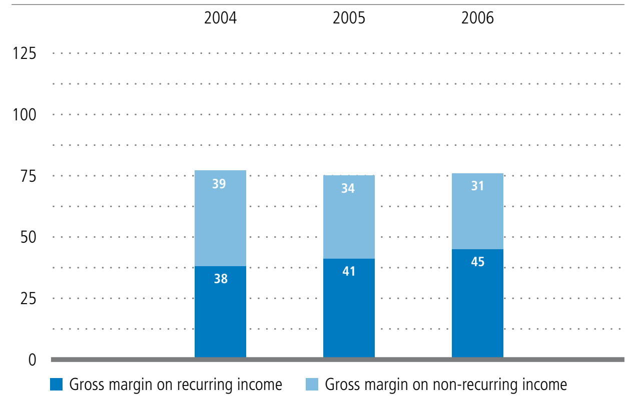


The gross margin on invested assets was 76 basis points in 2006, up from 75 basis points in 2005. The increase is mainly a result of the gain in revenues outpacing the increase in average invested asset levels over the year.

The cost/income ratio was 90.1% for 2006, compared to 93.9% in 2005. The decrease in the cost/income ratio reflects higher operating income due to strong growth in recurring income, partially offset by a rise in expenses mainly reflecting higher personnel expenses in support of growth initiatives and the integration of the Piper Jaffray private client branch network.

Gross margin on invested assets[1]

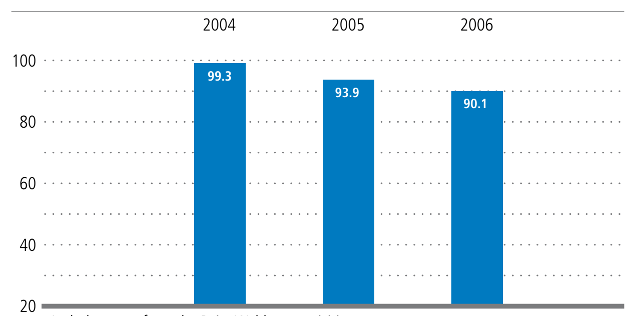
bps



1 Includes costs from the PaineWebber acquisition.

Cost / income ratio[1]

in %

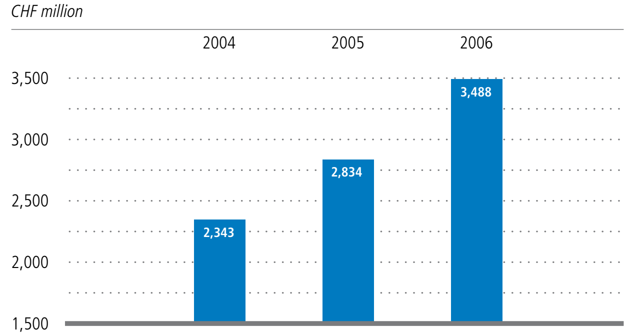


1 Includes costs from the PaineWebber acquisition.

In 2006, recurring income was a record CHF 3,488 million, up 23% from CHF 2,834 million a year earlier. Excluding the impact of currency fluctuations, recurring income was also up 23% in 2006 from 2005. This increase mainly reflects

Recurring income

CHF million

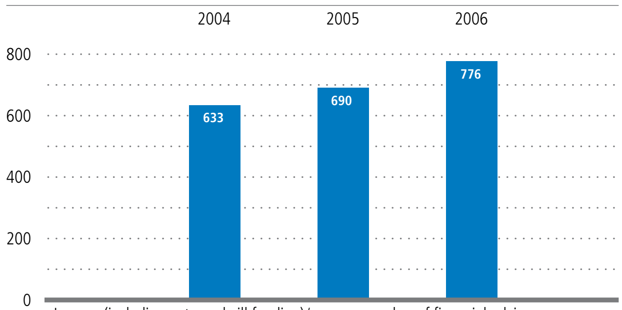


higher levels of managed account fees on a record level of invested assets, higher investment advisory fees and higher net interest income. Recurring income represented 59% of income in 2006 compared with 55% in 2005.

Revenue per advisor increased in 2006 to CHF 776,000 from CHF 690,000 in 2005 as a slightly higher average number of financial advisors was able to produce significantly higher recurring income than a year earlier. The number of financial advisors rose by 5% compared to 2005, increasing by 360 advisors to 7,880 at the end of 2006. The increase was due to the Piper Jaffray private client group branch network acquisition in third quarter.

Revenues per advisor[1]

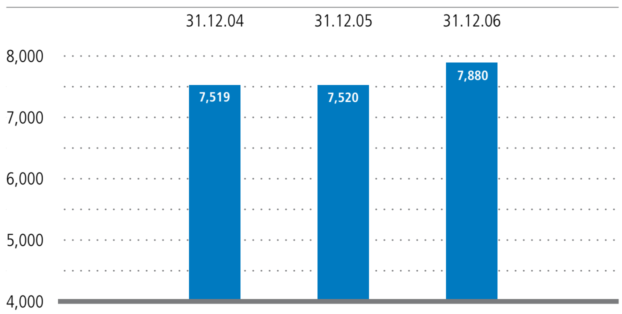
CHF thousand



1 Income (including net goodwill funding)/average number of financial advisors.

Financial advisors

full-time equivalents

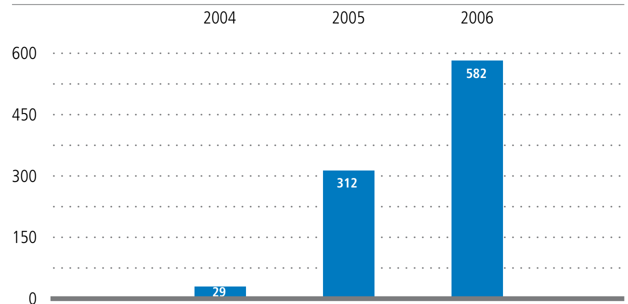


Results

In 2006, we reported a pre-tax profit of CHF 582 million compared to CHF 312 million in 2005. Because this business is almost entirely conducted in US dollars, comparisons of results with prior periods are affected by the movements of the US dollar against the Swiss franc. In US dollar terms, performance in 2006 was up 86% from 2005. Performance in 2006 benefited from record levels of recurring income, and lower litigation provisions.

Performance before tax[1]

CHF million



1 Includes costs from the PaineWebber acquisition.

Operating income

In 2006, total operating income was CHF 5,863 million, up 14% compared to CHF 5,156 million in 2005. Excluding currency effects, operating income also increased by 14% from 2005. The increase in operating income is primarily due to strong growth in recurring income based on higher levels of assets.

Operating expenses

Total operating expenses rose 9% to CHF 5,281 million in 2006 from CHF 4,844 million in 2005. Excluding currency effects, operating expenses were also 9% higher. This reflects higher personnel costs and general and administrative expenses, both also related to strategic growth initiatives in support of our business and the Piper Jaffray private client branch network inclusion and the New Jersey office provision that was made after the decision to sublet unused office space instead of occupying it ourselves. This was offset by a lower impact of litigation provisions compared to 2005.

Personnel expenses increased by CHF 340 million or 10%, with higher salaries as well as share-based compensation reflecting rising headcount and more financial advisor compensation related to higher compensable revenue. General and administrative expenses increased 2% to CHF 1,073 million in 2006 from CHF 1,047 million in 2005. In US dollar terms, they also rose 2%, reflecting higher occupancy and marketing expenses, partially offset by lower litigation provisions compared to 2005. Services from other business units increased by 26% from CHF 223 million in 2005 to CHF 281 million in 2006. Depreciation was also higher due to leasehold improvement. The amortization of intangibles was CHF 53 million in 2006, up 8% from CHF 49 million, mainly due to the acquisition of the Piper Jaffray private client branch network.

2005

Key performance indicators

In 2005, inflows of net new money were CHF 26.9 billion, up 49% from CHF 18.1 billion in 2004. Including interest and dividends, net new money in 2005 was CHF 45.2 billion, up from CHF 33.4 billion a year earlier.

Wealth Management US had CHF 752 billion in invested assets on 31 December 2005, up 24% from CHF 606 billion on 31 December 2004. The increase was due to the strong appreciation of the year-end US dollar spot rate against the Swiss franc, the inflows of net new money as well as positive market movements. In US dollar terms, invested assets were 8% higher on 31 December 2005 than they were on the same date in 2004.

The gross margin on invested assets was 75 basis points in 2005, down from 77 basis points in 2004.

The cost/income ratio was 93.9% for 2005, compared to 99.3% in 2004. The decrease in the cost/income ratio reflects higher income which was slightly offset by higher expenses.

In 2005, recurring income was CHF 2,834 million, up 21% from CHF 2,343 million a year earlier. Excluding the impact of currency fluctuations, recurring income was up 20% in 2005 from 2004, mainly due to higher levels of managed account fees on invested assets, and increased net interest income from the lending business. Flows into managed account products were USD 16.7 billion in full-year 2005, comparing favorably to the USD 12.7 billion flow for full-year 2004.

Revenues per advisor increased in 2005 to CHF 690,000 from CHF 633,000 in 2004 as practically the same number of financial advisors were able to produce higher recurring income than a year earlier. The number of financial advisors increased by 1 to 7,520 at the end of 2005. Increases in highly efficient financial advisors and trainees were offset by attrition among less productive advisors.

Results

In 2005, we reported a pre-tax profit of CHF 312 million compared to CHF 29 million in 2004. This increase reflects mainly higher recurring income which was slightly offset by increased expenses.

Operating income

In 2005, total operating income was CHF 5,156 million, up 9% compared to CHF 4,736 million in 2004. Excluding currency effects, operating income increased by 8% from 2004. The increase in operating income is primarily due to higher recurring income based on higher levels of assets and rising net interest income in UBS Bank USA, which was slightly offset by lower transactional revenues.

Operating expenses

Total operating expenses rose 3% to CHF 4,844 million in 2005 from CHF 4,707 million in 2004. Excluding currency effects, operating expenses were 2% higher primarily due to the impact of increased litigation provisions in second half 2005.

Personnel expenses increased by CHF 140 million due to higher variable compensation. Excluding the currency translation effect, the increase in personnel expenses amounted to 3%. General and administrative expenses increased 37% to CHF 1,047 million in 2005 from CHF 767 million in 2004. In US dollar terms, they actually rose 35%, reflecting higher litigation provisions. Services from other business units decreased mainly due to lower charges-in from ITI. Depreciation was also lower due to a drop in infrastructure charges (down CHF 2 million). There was no goodwill amortization in 2005 due to accounting changes. In 2004, amortization of goodwill totaled CHF 171 million. The amortization of intangibles was CHF 49 million in 2005, down 54% due to the reclassification of certain intangible assets. Under the new accounting rules, these assets are classified as goodwill, which is no longer amortized.

Business Banking Switzerland

Business Unit reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.05
Interest income	**3,339**	3,317	3,390	1
Non-interest income	**1,746**	1,632	1,674	7
Income	**5,085**	4,949	5,064	3
Adjusted expected credit loss[1]	**185**	122	(25)	52
Total operating income	**5,270**	5,071	5,039	4
Cash components	**2,361**	2,408	2,377	(2)
Share-based components[2]	**51**	42	49	21
Total personnel expenses	**2,412**	2,450	2,426	(2)
General and administrative expenses	**1,070**	994	1,064	8
Services (to)/from other business units	**(642)**	(634)	(533)	(1)
Depreciation of property and equipment	**74**	72	69	3
Amortization of goodwill	**0**	0	0	
Amortization of intangible assets	**0**	0	0	
Total operating expenses	**2,914**	2,882	3,026	1
Business Unit performance before tax	**2,356**	2,189	2,013	8
KPIs				
Invested assets (CHF billion)	**161**	153	140	5
Net new money (CHF billion)[3]	**1.2**	3.4	2.6	
Cost/income ratio (%)[4]	**57.3**	58.2	59.8	
Impaired lending portfolio as a % of total lending portfolio, gross	**1.7**	2.3	3.0	
Capital return and BIS data				
Return on allocated regulatory capital (%)[5]	**27.5**	25.6	23.2	
BIS risk-weighted assets	**85,365**	85,051	84,437	0
Goodwill and excess intangible assets[6]	**0**	0	0	
Allocated regulatory capital[7]	**8,537**	8,505	8,444	0
Additional information				
Deferral (included in adjusted expected credit loss)	**512**	485	411	6
Client assets (CHF billion)	**992**	834	655	19
Personnel (full-time equivalents)	**15,913**	16,023	15,508	(1)

1 In management accounts, adjusted expected credit loss rather than credit loss expense or recovery is reported for the Business Groups (see note 2 to the financial statements). 2 Additionally includes social security contributions and expenses related to alternative investment awards. 3 Excludes interest and dividend income. 4 Operating expenses/income. 5 Business Unit performance before tax/average allocated regulatory capital. 6 Goodwill and intangible assets in excess of 4% of BIS Tier 1 Capital. 7 10% of BIS risk-weighted assets plus goodwill and excess intangible assets.

Components of operating income

Business Banking Switzerland derives its operating income principally from:
- net interest income from its lending portfolio and customer deposits;
- fees for investment management services; and
- transaction fees.

As a result, operating income is affected by movements in interest rates, fluctuations in invested assets, client activity levels, investment performance, changes in market conditions and the credit environment.

2006

Key performance indicators

Net new money was CHF 1.2 billion in 2006, CHF 2.2 billion lower than the inflow of CHF 3.4 billion in 2005. This was due to a decrease in inflows from existing clients, combined with transfers of client assets from discretionary to custody mandates.

Invested assets rose to CHF 161 billion in 2006 from CHF 153 billion a year earlier, driven by positive market developments and net new money inflows. This was slightly offset by the transfer of assets to Wealth Management International & Switzerland. Over the course of 2006, we transferred CHF 8.2 billion in client assets from the Business Banking Switzerland unit to the Wealth Management International & Switzerland unit, reflecting the development of client relationships. In 2005, we transferred CHF 8.6 billion in client assets for the same reason.

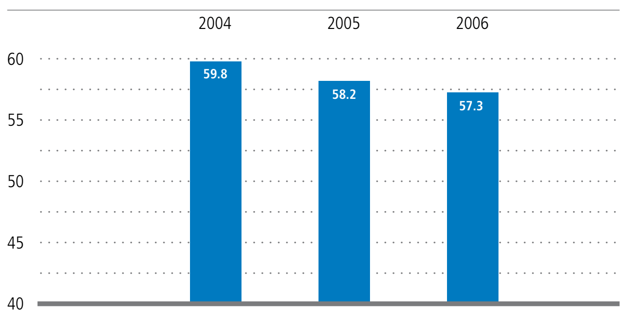
In 2006 the cost/income ratio stood at 57.3%, 0.9 percentage points lower than the previous year's ratio of 58.2%, as the rise in income outpaced the increase in expenses.

Business Banking Switzerland's gross lending portfolio was CHF 143.4 billion on 31 December 2006, up 1% from the previous year, due to an increase in volumes of private client mortgages, which more than offset the ongoing reduction of our recovery portfolio, which fell to CHF 2.6 billion from CHF 3.3 billion a year earlier. This positive development was also reflected in the key credit quality ratio of the impaired lending portfolio, gross, to the total lending portfolio, gross, which was 1.7% compared to 2.3% in 2005.

The return on allocated regulatory capital was 27.5% for 2006, up 1.9 percentage points from 25.6% a year earlier. This reflects the increased profitability of the business unit, outpacing the increase in risk-weighted assets.

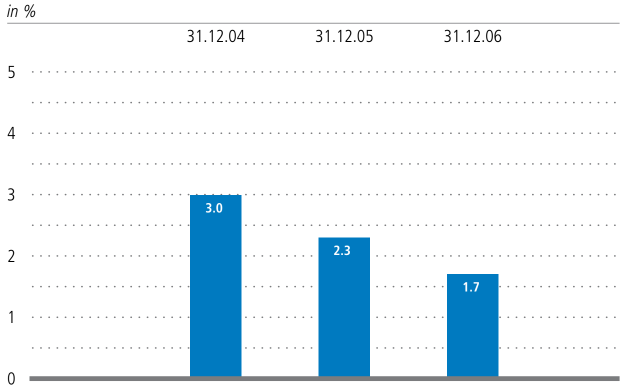
Cost / income ratio

in %



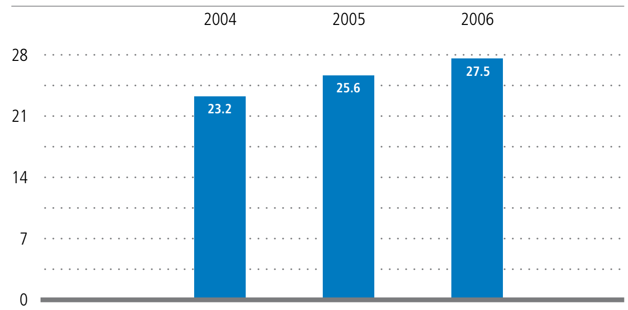
Impaired lending portfolio, gross / total lending portfolio, gross

in %



Return on allocated regulatory capital

in %

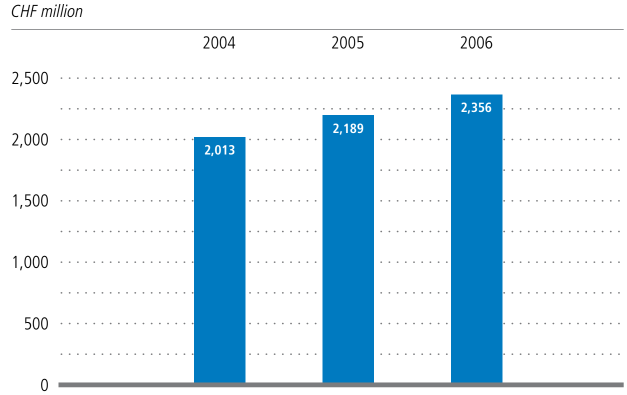


Results

Pre-tax profit in 2006, at a record level of CHF 2,356 million, was CHF 167 million or 8% above the result achieved in 2005. This was mainly due to income growth. In 2006 non-interest income rose due to higher asset-based and brokerage fees. The result also shows the continued tight management of our cost base, and an adjusted expected credit loss recovery of CHF 185 million. While personnel costs were at their lowest levels, general and administrative expenses increased, reflecting the outsourcing of Edelweiss facility management.

Performance before tax

CHF million



Operating income

Total operating income in 2006 was CHF 5,270 million, up slightly from 2005's level of CHF 5,071 million. Interest income increased by 1% to CHF 3,339 million in 2006 from CHF 3,317 million in 2005. The slight increase reflects the expansion of our loan portfolio as well as higher investment interest rates on our variable rate accounts, offset by lower revenues from our reduced recovery portfolio. Non-interest income increased by CHF 114 million to CHF 1,746 million in 2006 from CHF 1,632 million in 2005, reflecting a higher asset base as well as valuation gains from equity participations and divestment proceeds. Adjusted expected credit loss recoveries, at CHF 185 million in 2006, increased from recoveries of CHF 122 million in 2005. This positive result reflects the deferred benefit of the structural improvement in our loan portfolio in recent years.

Operating expenses

Operating expenses in 2006 were CHF 2,914 million, up 1% from CHF 2,882 million in 2005. Personnel expenses, at CHF 2,412 million, were down 2% from CHF 2,450 million in 2006, due to lower salary costs reflecting the outsourcing of Edelweiss, partly offset by higher share-based expenses, mainly reflecting higher share awards and the higher fair value of options in 2006. General and administrative expenses, at CHF 1,070 million in 2006, rose and were 8% higher than the CHF 994 million recorded in 2005, mainly due to the outsourcing of Edelweiss facility management at the end of 2005. Net charges to other business units continued to rise to CHF 642 million in 2006 from CHF 634 million in 2005 because of lower charges-in for IT services. Depreciation in 2006 slightly increased to CHF 74 million from CHF 72 million in 2005 due to higher expenses for information technology equipment.

2005

Key performance indicators

Net new money was CHF 3.4 billion in 2005, CHF 0.8 billion higher than the inflow of CHF 2.6 billion in 2004.

Invested assets rose to CHF 153 billion in 2005 from CHF 140 billion a year earlier, driven by positive market developments, net new money inflows as well as favorable currency translation effects. This was partially offset by the transfer of assets to Wealth Management International & Switzerland. During the course of 2005, we transferred CHF 8.6 billion of assets from the Business Banking Switzerland unit to Wealth Management International & Switzerland, reflecting the systematic development of client relationships.

The cost/income ratio was 58.2%, 1.6 percentage points below the ratio of 59.8% in 2004, mainly because of tight cost control.

Business Banking Switzerland's gross lending portfolio was CHF 141.3 billion on 31 December 2005, up CHF 4.2 billion from the previous year. An increase in volumes of private client mortgages and higher credit demand from corporate clients were partially offset by a further reduction in the recovery portfolio, which fell to CHF 3.3 billion on 31 December 2005 from CHF 4.4 billion a year earlier. The ratio of the gross impaired lending portfolio to gross lending portfolio was 2.3% compared to 3.0% in 2004.

The return on allocated regulatory capital was 25.6% for 2005, up 2.4 percentage points from 23.2% a year earlier. This reflects the increased profitability of the business unit, outpacing the increase in risk-weighted assets.

Results

Pre-tax profit in 2005 was CHF 2,189 million, CHF 176 million or 9% higher than the result achieved in 2004. It was achieved despite a CHF 115 million fall in income, driven mainly by lower interest income. The result shows the continued tight management of our cost base, with an adjusted expected credit loss recovery of CHF 122 million reflecting the structural improvement in our loan portfolio in recent years. While general and administrative costs were at their lowest levels, personnel expenses increased slightly, reflecting an increase in staff levels.

Operating income

Total operating income in 2005 was CHF 5,071 million, up slightly from 2004's level of CHF 5,039 million. Interest income declined by 2% to CHF 3,317 million in 2005 from CHF 3,390 million in 2004. The decline reflects lower revenues from our reduced recovery portfolio, as well as lower interest margins in our mortgage business. This was partially offset by higher private client mortgage volumes. Non-interest income dropped by CHF 42 million to CHF 1,632 million in 2005 from CHF 1,674 million in 2004, reflecting the gain from the sale of a participation in the Noga Hilton hotel in 2004, partially offset by higher asset-based fees and higher client activity levels. Adjusted expected credit loss recoveries, at CHF 122 million in 2005, increased from an adjusted expected credit loss expense of CHF 25 million in 2004. This positive result reflects the deferred benefit of the structural improvement in our loan portfolio in recent years.

Operating expenses

Operating expenses in 2005 were CHF 2,882 million, down 5% from CHF 3,026 million in 2004. Personnel expenses, at CHF 2,450 million, were up 1% from CHF 2,426 million in 2004, as higher salary costs reflected the 3% increase in personnel, partly offset by lower share-based expenses as less share awards have been granted. General and administrative expenses, at CHF 994 million in 2005, continued to drop and were 7% lower than the CHF 1,064 million recorded in 2004, reflecting our continuing tight cost controls. Net charges to other business units rose to CHF 634 million in 2005 from CHF 533 million in 2004 because of lower charges-in for IT services and insurance. Depreciation in 2005 slightly increased to CHF 72 million from CHF 69 million in 2004 due to higher expenses for information technology equipment.

Global Asset Management

Pre-tax profit was CHF 1,392 million in 2006, an increase of 32% from the 2005 profit of CHF 1,057 million. Compared with 2005, the increase reflects higher management fees in all businesses and alternative and quantitative investment performance fees. The result was partly offset by higher operating expenses, reflecting increased staffing, performance-related compensation and investments in strategic initiatives and IT projects.

Business Group reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.05
Institutional fees	**1,803**	1,330	1,085	36
Wholesale Intermediary fees	**1,417**	1,157	937	22
Total operating income	**3,220**	2,487	2,022	29
Cash components	**1,305**	899	822	45
Share-based components[1]	**198**	89	71	122
Total personnel expenses	**1,503**	988	893	52
General and administrative expenses	**399**	304	299	31
Services (to)/from other business units	**(105)**	116	126	
Depreciation of property and equipment	**27**	21	23	29
Amortization of goodwill	**0**	0	129	
Amortization of intangible assets	**4**	1	0	300
Total operating expenses	**1,828**	1,430	1,470	28
Business Group performance before tax	**1,392**	1,057	552	32
KPI				
Cost/income ratio (%)[2]	**56.8**	57.5	72.7	
Institutional				
Invested assets (CHF billion)	**519**	441	344	18
of which: money market funds	***28***	*16*	*17*	*75*
Net new money (CHF billion)[3]	**29.8**	21.3	23.7	
of which: money market funds	***11.0***	*(3.0)*	*(1.2)*	
Gross margin on invested assets (bps)[4]	**38**	34	32	12

1 Additionally includes social security contributions and expenses related to alternative investment awards. 2 Operating expenses/operating income. 3 Excludes interest and dividend income. 4 Operating income/average invested assets.

John A. Fraser | Chairman and CEO
Global Asset Management

Business Group reporting (continued)

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.05
Wholesale Intermediary				
Invested assets (CHF billion)	**347**	324	257	7
of which: money market funds	***59***	*62*	*64*	*(5)*
Net new money (CHF billion)[1]	**7.4**	28.2	(4.5)	
of which: money market funds	***(2.5)***	*(9.7)*	*(20.6)*	
Gross margin on invested assets (bps)[2]	**43**	40	36	8
Capital return and BIS data				
Return on allocated regulatory capital (%)[3]	**84.8**	69.9	36.4	
BIS risk-weighted assets	**2,723**	1,570	1,702	73
Goodwill and excess intangible assets[4]	**1,677**	1,438	1,189	17
Allocated regulatory capital[5]	**1,949**	1,595	1,359	22
Additional information				
Invested assets (CHF billion)	**866**	765	601	13
Net new money (CHF billion)	**37.2**	49.5	19.2	
Personnel (full-time equivalents)	**3,436**	2,861	2,665	20

1 Excludes interest and dividend income. 2 Operating income / average invested assets. 3 Business Group performance before tax / average allocated regulatory capital. 4 Goodwill and intangible assets in excess of 4% of BIS Tier 1 Capital. 5 10% of BIS risk-weighted assets plus goodwill and excess intangible assets.

Components of operating income

Global Asset Management generates its revenue from the asset management and fund administration services it provides to financial intermediaries and institutional investors. Fees charged to institutional clients and wholesale intermediary clients are based on the market value of invested assets and on successful investment performance. As a result, revenues are affected by changes in market and currency valuation levels, as well as flows of client funds, and relative investment performance.

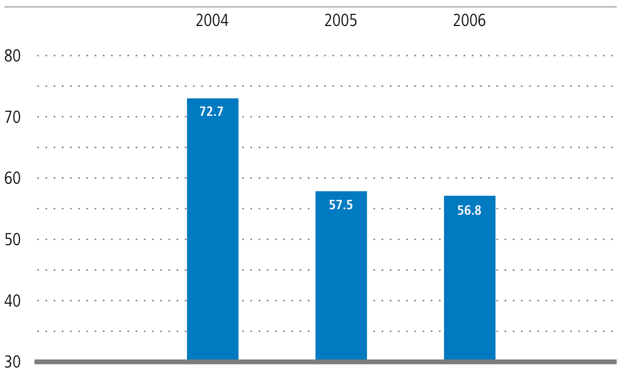
2006

Key performance indicators

For 2006, the cost/income ratio was 56.8%, a decrease of 0.7 percentage points from 2005. This was a result of improving operating income, representing higher management fees across all businesses, combined with significantly higher performance fees in alternative and quantitative investments. This was partly offset by increased operating expenses from increased staff levels and higher variable personnel expenses, in line with business growth.

Cost/income ratio

in %



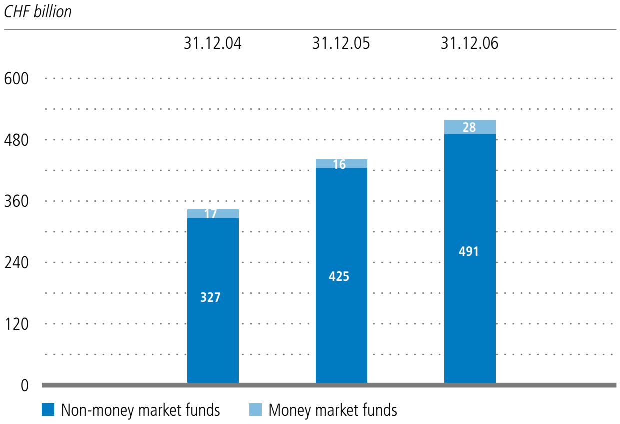
Institutional

Institutional invested assets were CHF 519 billion on 31 December 2006 – up 18% from CHF 441 billion on 31 December 2005, reflecting positive market performance (mainly in equities), strong net new money inflow and the inclusion of Pactual.

In 2006, net new money inflows were CHF 29.8 billion, up from the CHF 21.3 billion recorded in 2005. Strong inflows were reported in most asset classes, partly offset by outflows from equity mandates.

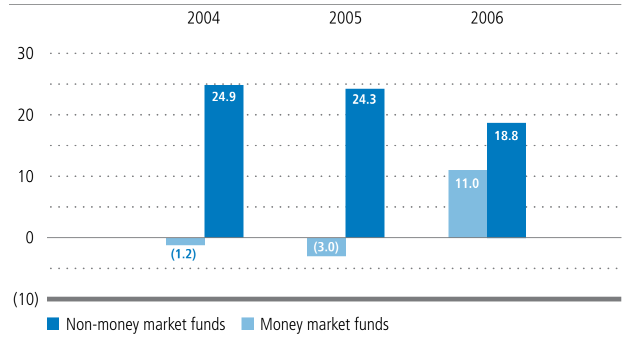
Invested assets, institutional

CHF billion



Net new money, institutional

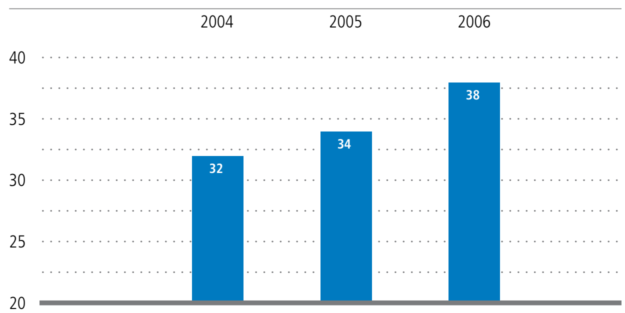
CHF billion



The gross margin on invested assets for 2006 was 38 basis points, up 4 basis points from 2005. The increase is due to income growth, mainly driven by strong performance fees and Dillon Read Capital Management (DRCM) revenues from outside clients, which outpaced the growth in average invested assets.

Gross margin on invested assets, institutional

bps

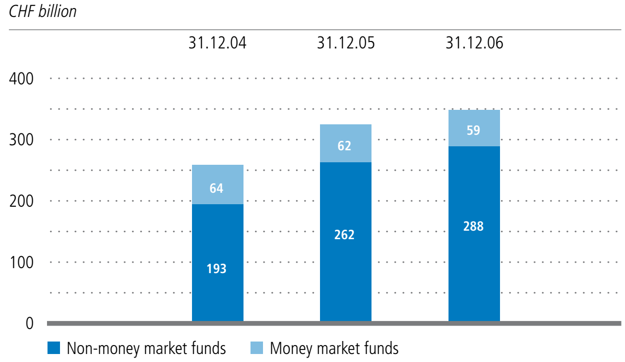


Wholesale intermediary

Invested assets were CHF 347 billion on 31 December 2006, up by CHF 23 billion from 31 December 2005, reflecting positive market performance, net new money inflows and the inclusion of Pactual.

Invested assets, wholesale intermediary

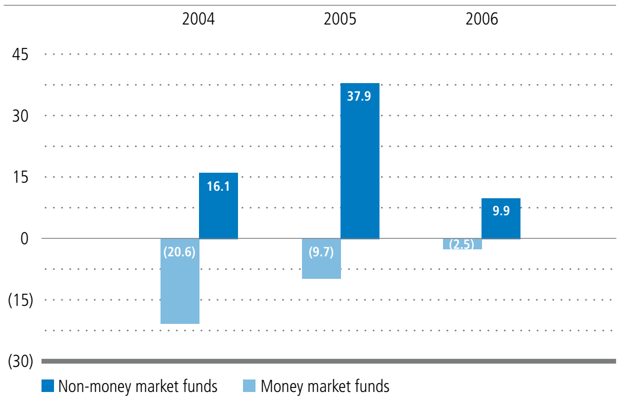
CHF billion



In 2006, net new money was CHF 7.4 billion, down from CHF 28.2 billion a year earlier. In 2005, net new money inflows resulted from the large number of product launches across all major asset classes. In 2006 we experienced outflows in fixed income and equities while continuing to experience inflows into multi-asset funds.

Net new money, wholesale intermediary

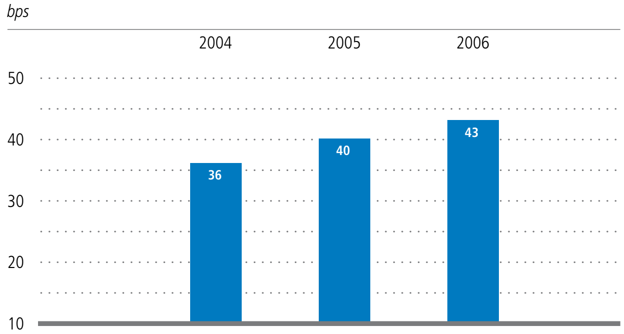
CHF billion



The 2006 gross margin on invested assets was 43 basis points, up by 3 basis points from a year earlier, largely driven by increased management fees.

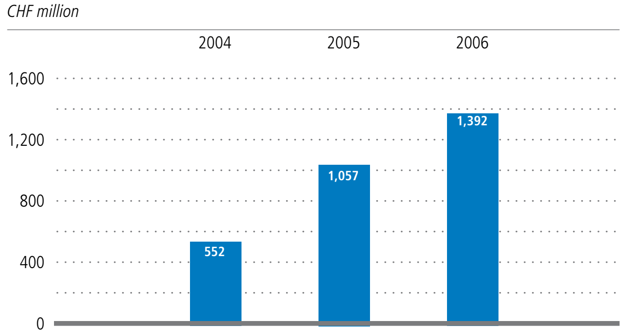
Gross margin on invested assets, wholesale intermediary

bps



Performance before tax

CHF million



Results

We had a very strong full-year result in 2006. Pre-tax profit was CHF 1,392 million, up from CHF 1,057 million a year earlier. The increase reflects higher management fees in all businesses and alternative and quantitative investment performance fees. The result was partly offset by higher operating expenses, reflecting increased staffing, performance-related compensation and investments in strategic initiatives and IT projects.

Operating income

In 2006, operating income was CHF 3,220 million, up 29% from CHF 2,487 million a year earlier. Institutional revenues increased by 36% to CHF 1,803 million in 2006 from CHF 1,330 million in 2005, reflecting higher management fees in most investment areas, the result of net new money inflows and higher financial market valuations, combined with significantly higher performance fees in alternative and quantitative investments. Wholesale intermediary revenues rose by 22% to CHF 1,417 million in 2006 from CHF 1,157 million in 2005, reflecting higher management fees in most areas due to net new money inflows and higher market valuations.

Operating expenses

In 2006, operating expenses increased to CHF 1,828 million from CHF 1,430 million in 2005, due to higher staff levels and performance-related compensation. Personnel expenses were CHF 1,503 million in 2006, 52% above 2005, mainly due to the inclusion of DRCM. General and administrative expenses increased by 31% to CHF 399 million in 2006 from CHF 304 million in 2005 mainly due to investments in strategic initiatives. Other business units were charged CHF 105 million compared to the net charges from other business units of CHF 116 million a year earlier, mainly reflecting higher net charges-out to the Investment Bank for investment management services provided by DRCM. Over the same period, depreciation increased by CHF 6 million to CHF 27 million. Amortization of intangible assets slightly increased to CHF 4 million in 2006.

2005

Key performance indicators

For 2005, the cost/income ratio was 57.5%, a decrease of 15.2 percentage points from 2004. This was a result of improving operating income across all businesses, mainly induced by higher asset-based fees. This was also helped by declining operating expenses, mainly the result of the discontinuation of goodwill amortization in 2005.

Institutional

Institutional invested assets were CHF 441 billion on 31 December 2005 – up 28% from CHF 344 billion on 31 December 2004, reflecting positive market performance, strong net new money and favorable currency translation effects.

For full-year 2005, net new money inflows were CHF 21.3 billion, down slightly from the CHF 23.7 billion recorded in 2004. Although inflows in traditional investments continued to grow, alternative and quantitative investments did not reach the same level as a year earlier.

The gross margin on invested assets for full-year 2005 was 34 basis points, slightly above the 32 basis points of full-year 2004.

Wholesale intermediary

Invested assets were CHF 324 billion on 31 December 2005, up by CHF 67 billion from 31 December 2004. For full-year 2005, the net new money inflow was CHF 28.2 billion compared with a CHF 4.5 billion outflow in 2004.

The money market outflow in 2005 was CHF 9.7 billion, compared with CHF 20.6 billion a year earlier. In 2005, this outflow was offset by positive inflows of CHF 37.9 billion, recorded across all traditional asset classes (equities, fixed income, asset allocation).

The 2005 gross margin on invested assets was 40 basis points, up by 4 basis points from a year earlier, reflecting shifts into higher margin asset classes.

Results

Pre-tax profit was CHF 1,057 million, an increase of 91% from 2004. The increase was driven by higher operating income, which rose 23%, reflecting strong net new money inflows and a positive market environment that resulted in higher asset valuations. In addition, performance fees, particularly in alternative and quantitative investments, increased. Operating expenses decreased, mainly as a result of the discontinuation of goodwill amortization in 2005, which was partially offset by higher personnel expenses, which rose with the growth of the business.

Operating income

In 2005, operating income was CHF 2,487 million, up 23% from CHF 2,022 million a year earlier. The increase reflects strong net new money inflows and a positive market environment resulting in higher asset valuations and consequently higher asset-based income across all businesses. In addition, performance fees, particularly in alternative and quantitative investments, increased significantly. Institutional revenues increased by 23% to CHF 1,330 million in 2005 from CHF 1,085 million in 2004, reflecting higher management fees in all areas, and higher performance fees, mainly in alternative and quantitative investments. Wholesale intermediary revenues rose by 23% to CHF 1,157 million in 2005 from CHF 937 million in 2004, reflecting higher management fees in all areas due to net new money inflows and higher market valuations.

Operating expenses

In 2005, operating expenses decreased to CHF 1,430 million from CHF 1,470 million in 2004, primarily due to the discontinuation of goodwill amortization and partially offset by higher personnel costs, which rose with the growth of the business. Personnel expenses were CHF 988 million in 2005, 11% above 2004. General and administrative expenses increased by 2% to CHF 304 million in 2005 from CHF 299 million in 2004. Net charges from other business units decreased by CHF 10 million to CHF 116 million in 2005 from CHF 126 million in 2004, partly due to higher charges-out to the wealth management businesses reflecting the higher demand for specialized investment research. Over the same period, depreciation remained virtually unchanged at CHF 21 million, down by only CHF 2 million. There was no amortization of goodwill in 2005 due to a change in accounting. In 2004, amortization of goodwill totaled CHF 129 million. Amortization of intangible assets increased slightly to CHF 1 million due to the acquisition of Siemens' real estate business.

Investment Bank

In 2006, the Investment Bank's pre-tax profit was CHF 5,943 million, up 15% from a year earlier. Revenues increased in all three business areas, particularly in equities and investment banking. This was matched by higher costs, for both personnel and general and administrative expenses, as we continued to expand our range of products and services.

Business Group reporting

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Equities	**9,397**	6,980	5,906	35
Fixed income, rates and currencies	**9,056**	7,962	8,269	14
Investment banking	**3,273**	2,506	1,915	31
Income	**21,726**	17,448	16,090	25
Adjusted expected credit loss[1]	**61**	36	(7)	69
Total operating income	**21,787**	17,484	16,083	25
Cash components	**9,801**	8,065	7,130	22
Share-based components[2]	**1,552**	1,194	1,022	30
Total personnel expenses	**11,353**	9,259	8,152	23
General and administrative expenses	**3,260**	2,215	2,538	47
Services (to)/from other business units	**956**	640	226	49
Depreciation of property and equipment	**203**	136	243	49
Amortization of goodwill	**0**	0	278	
Amortization of intangible assets	**72**	53	36	36
Total operating expenses	**15,844**	12,303	11,473	29
Business Group performance before tax	**5,943**	5,181	4,610	15

1 In management accounts, adjusted expected credit loss rather than credit loss expense or recovery is reported for the Business Groups (see note 2 to the financial statements). 2 Additionally includes social security contributions and expenses related to alternative investment awards.

Huw Jenkins | Chairman and CEO
Investment Bank

Business Group reporting (continued)

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.05
KPIs				
Compensation ratio (%)[1]	**52.3**	53.1	50.7	
Cost/income ratio (%)[2]	**72.9**	70.5	71.3	
Impaired lending portfolio as a % of total lending portfolio, gross[3]	**0.1**	0.2	0.5	
Average VaR (10-day 99% confidence, 5 years of historical data)	**420.5**	346.4	358.0	21
Capital return and BIS data				
Return on allocated regulatory capital (%)[4]	**29.4**	28.6	30.5	
BIS risk-weighted assets	**174,599**	151,313	116,512	15
Goodwill and excess intangible assets[5]	**5,465**	4,309	3,579	27
Allocated regulatory capital[6]	**22,925**	19,440	15,230	18
Additional information				
Deferral (included in adjusted expected credit loss)	**232**	155	85	50
Client assets (CHF billion)	**174**	164	147	6
Personnel (full-time equivalents)	**21,899**	18,174	16,970	20

1 Personnel expenses/income. 2 Operating expenses/income. 3 Figures reflect the prime brokerage reclassification as explained in note 1 to the financial statements. 4 Business Group performance before tax/average allocated regulatory capital. 5 Goodwill and intangible assets in excess of 4% of BIS Tier 1 Capital. 6 10% of BIS risk-weighted assets plus goodwill and excess intangible assets.

Components of operating income

The Investment Bank generates operating income from:
- commissions on agency transactions and spreads or markups on principal transactions;
- fees from debt and equity capital markets transactions, leveraged finance, and the structuring of derivatives and complex transactions;
- mergers and acquisitions and other advisory fees;
- interest income on principal transactions and from the loan portfolio; and
- gains and losses on market making, proprietary, and arbitrage positions.

As a result, operating income is affected by movements in market conditions, interest rate swings, the level of trading activity in primary and secondary markets and the extent of merger and acquisition activity. These and other factors have had, and may in the future have, a significant impact on results of operations from year to year.

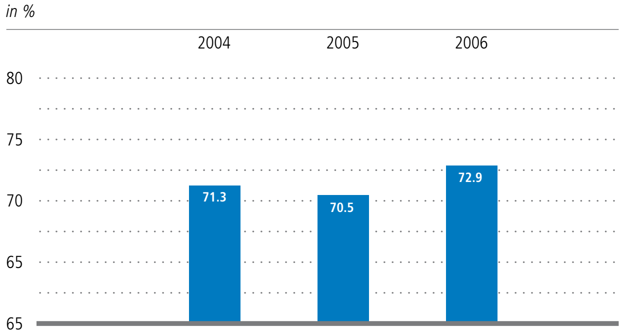
2006

Key performance indicators

The cost/income ratio rose to 72.9% in 2006 from 70.5% a year earlier. The increase in performance-related personnel expenses and higher general and administrative expenses was only partly offset by revenue growth in all of our three businesses.

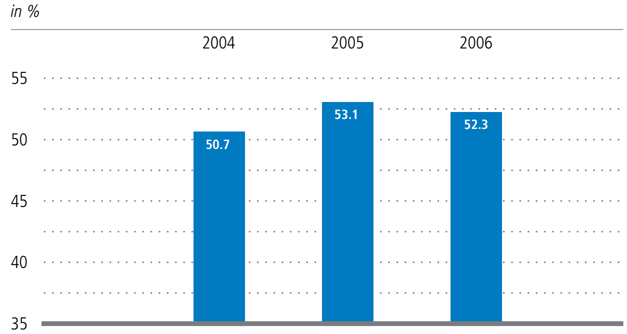
Cost/income ratio

in %



Compensation ratio

in %

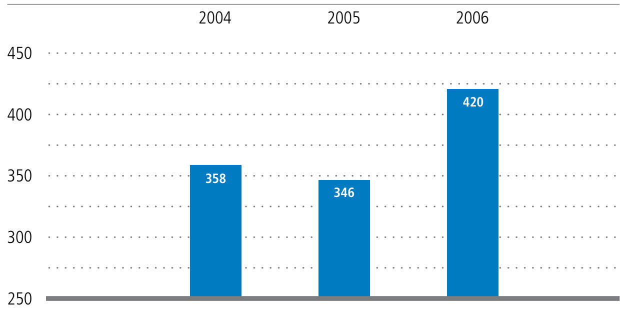


The full-year compensation ratio, at 52.3%, fell 0.8 percentage points between 2005 and 2006. Higher revenues more than offset higher performance-related compensation and increased staff levels.

Average Value at Risk (VaR – 10-day, 99% confidence, 5 years of historical data) increased to CHF 420 million, up from CHF 346 million in 2005. Year-end VaR was also higher at CHF 473 million, up from CHF 355 million a year earlier, following the integration of Pactual from 1 December 2006.

Average VaR (10-day, 99% confidence, 5 years of historical data)

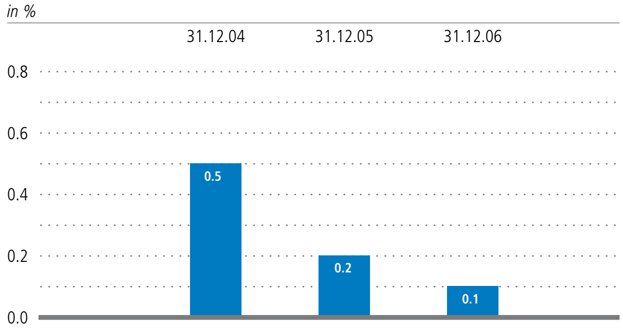
CHF million



Total gross lending portfolio at the Investment Bank was CHF 134 billion on 31 December 2006 compared with CHF 97 billion on 31 December 2005, reflecting our expanding prime brokerage and exchange traded derivatives businesses. The gross impaired lending portfolio to total gross lending portfolio ratio fell to 0.1% from 0.2% in the same period.

Impaired lending portfolio, gross/ total lending portfolio, gross[1]

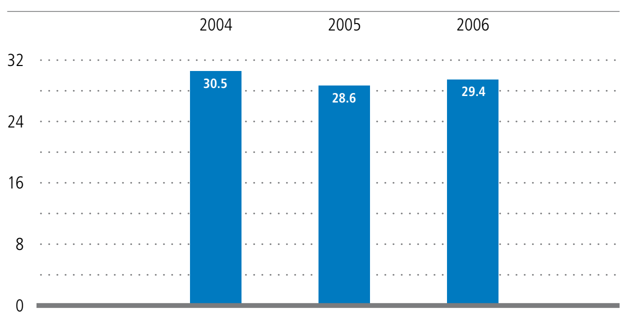
in %



1 Figures reflect the prime brokerage reclassification as explained in Note 1 to the financial statements.

Return on allocated regulatory capital

in %



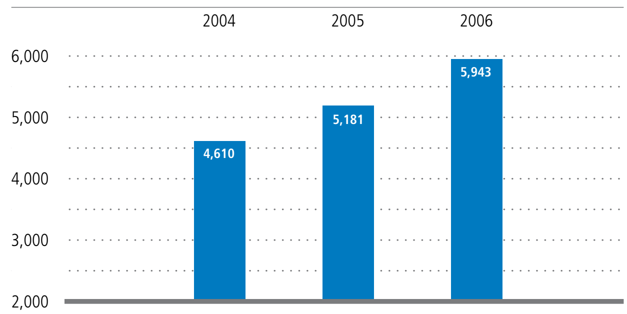
The return on allocated regulatory capital was 29.4% in 2006, up from 28.6% a year earlier, reflecting the increase in profit. Risk-weighted assets grew, mainly driven by higher credit exposures from OTC derivatives, collateral trading and the leveraged finance portfolio, in line with the rise in business activity. Goodwill and excess intangible assets rose compared with last year due to the acquisitions of ABN AMRO's futures and options business and Pactual.

Results

This was our most profitable year ever. Pre-tax profit in 2006 was CHF 5,943 million, up 15% from 2005. This result was driven by strong revenues in equities (up 35%), due to the improved market conditions starting in second half 2005 and continuing throughout 2006. It was also helped by our investment banking business (up 31%), which saw strong performances across all regions. The increase in fixed income, rates and currencies (up 14%) reflects progress in our plan to expand our global syndicated finance, mortgage-backed securities, structured credit and commodities businesses as well as strong revenues in foreign exchange and cash and collateral trading. DRCM's business activities managed on behalf of the Investment Bank achieved revenues at a level consistent with 2005. We also invested in our IT infrastructure and incurred more professional fees.

Performance before tax

CHF million



Operating income

Total operating income in 2006 was CHF 21,787 million, up 25% from CHF 17,484 million a year earlier.

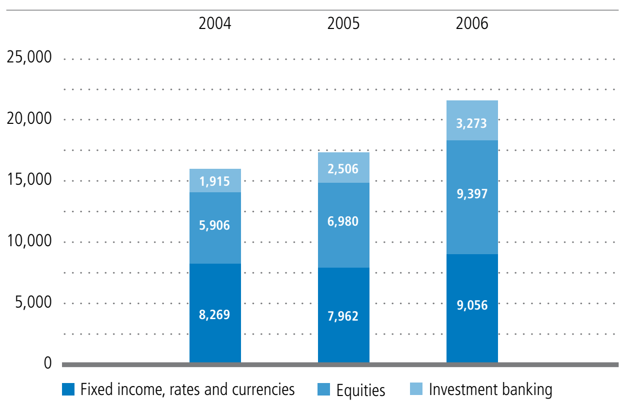
Equities revenues, at CHF 9,397 million in 2006, were up 35% from CHF 6,980 million in 2005. Overall, cash equity revenues were higher, with results benefiting from positive market conditions generating strong revenues in emerging markets. Increased cash commissions were partially offset by greater facilitation requirements from our clients. Revenues in our derivatives business increased globally due to higher business demand. Equity capital markets revenues rose with increased capital raising activities. Prime brokerage services continued to grow as client numbers and balances increased. Exchange-traded derivatives revenues rose, boosted by the impact of the acquisition of ABN AMRO's global futures and options business towards the end of the year. Our proprietary as well as our equity-linked businesses contributed also higher returns compared to the previous year.

Fixed income, rates and currencies revenues were CHF 9,056 million, up 14% from CHF 7,962 million a year earlier. Revenues in the rates business were up against the prior year as a result of higher revenues in energy trading and mortgage backed securities, partially offset by lower income from derivatives. Credit fixed income saw strong growth in structured credit and secondary loan activity. Syndicated finance also recorded higher income as the business benefited from increased market activity. Credit default swaps hedging loan exposures recorded a loss of CHF 245 million compared with gains of CHF 103 million a year earlier. While municipal securities revenues were lower in 2006, the foreign exchange and cash collateral trading business, especially the metals business, saw a significant increase in revenues.

Investment banking revenues, at CHF 3,273 million in 2006, increased 31% from CHF 2,506 million a year earlier. This reflected growth in each region, especially in Asia. The debt and equity capital markets groups reported significant gains over the prior year. Our leveraged finance franchise continued to grow, demonstrating our strengthened commitment to this part of the business. Revenues from the advisory business also increased compared with last year, as clients took advantage of strategic opportunities.

Income by business area

CHF million



Operating expenses

Operating expenses rose by CHF 3,541 million to CHF 15,844 million in 2006, a 29% increase from CHF 12,303 million a year earlier.

Personnel expenses, at CHF 11,353 million in 2006, increased 23% from a year earlier, reflecting an increase in the bonus accrual and additional salaries due to higher staff levels. Share-based compensation rose 30% from prior year as a result of higher share awards in 2006, and the increased fair value of options granted in 2006 – driven by the rise in UBS's share price.

General and administrative expenses were CHF 3,260 million in 2006, up 47% from 2005's CHF 2,215 million. In 2006 we recorded a number of new provisions. IT and other outsourcing costs as well as professional fees rose, driven by higher project spending in support of future business growth in fixed income, prime brokerage and emerging markets. Administration, travel and entertainment and, to a lesser extent, occupancy expenses, increased as well. Provision levels in 2006 rose from 2005.

Charges from other business units increased to CHF 956 million in 2006 from CHF 640 million in 2005. The rise reflects the charges by Global Asset Management for managing the Investment Bank's funds invested in DRCM as well as higher charges from ITI (IT infrastructure unit) as a result of the increased levels of staff.

Depreciation rose by 49% to CHF 203 million in 2006 from CHF 136 million in 2005 due to higher IT write-offs, office expansion and renewal costs.

The amortization of intangible assets, at CHF 72 million in 2006, was up 36% from CHF 53 million a year earlier due to the two acquisitions – ABN AMRO's futures and options business and Pactual.

2005

Key performance indicators

The cost/income ratio fell to 70.5% in 2005 from 71.3% a year earlier. Revenue growth, driven by strong performances in investment banking and equities, was partly offset by higher personnel expenses.

The full-year compensation ratio, at 53.1%, rose 2.4 percentage points between 2004 and 2005. This reflects higher performance-related compensation and increased staff levels. Share-based compensation was also higher, since awards made in 2005 for the 2004 financial year contained an increased proportion of stock.

Market risk for the Investment Bank, as measured by the 10-day 99% Value at Risk (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 below the 2004 average of CHF 358 million.

The total gross lending portfolio was CHF 97 billion on 31 December 2005 compared with CHF 78 billion on 31 December 2004, reflecting our expanding prime brokerage and equity finance businesses as well as increased underwriting activity. The gross impaired lending portfolio to total gross lending portfolio ratio fell to 0.2% at the end of 2005 from 0.5% on 31 December 2004.

The return on allocated regulatory capital in 2005 was 28.6%, down 1.9 percentage points from the return of

30.5% a year earlier, despite the growth in pre-tax profit. This reflects the 30% increase in risk-weighted assets which rose due to currency movements and in line with increased lending activity to the Investment Bank's growing client base.

Results

Pre-tax profit was CHF 5,181 million, up 12% from 2004. The result was driven by strong revenues in investment banking (up 31%) and in equities (up 18%), reflecting our successful expansion in significant growth areas such as M&A, in particular in Asia Pacific, equity derivatives and prime brokerage. Results in the fixed income, rates and currencies business were slightly lower than last year. Lower revenues in structured credit – mainly driven by lower volumes and following the turmoil in the automotive sector in second quarter 2005 – were offset by an increase in the rates business. At the same time, costs increased as our business continued to expand, partially offset by the cessation of goodwill amortization.

Operating income

Total operating income in 2005 was CHF 17,484 million, up 9% from CHF 16,083 million a year earlier.

Equities revenues, at CHF 6,980 million in 2005, were up 18% from CHF 5,906 million in 2004. Significant drivers of the increase were the derivatives business in the Asia Pacific region and Europe as well as prime brokerage, where we saw an impressive revenue gain in the US. Our proprietary and equity-linked businesses contributed slightly lower returns than the previous year.

Fixed income, rates and currencies revenues were CHF 7,962 million, down 4% from CHF 8,269 million a year earlier. Revenues in the rates business were up against the prior year as a result of rising revenues in energy trading and derivatives. Credit fixed income saw lower revenues in structured credit, notably in the US and in credit trading as well as in the high-yield sector. Credit default swaps hedging loan exposures recorded gains of CHF 103 million compared with losses of CHF 62 million a year earlier.

The foreign exchange business decreased as derivatives trading was negatively impacted by historically low volatility levels. This was partially offset by rising cash and collateral trading revenues due to higher market share and volumes.

Investment banking revenues, at CHF 2,506 million in 2005, increased 31% from CHF 1,915 million a year earlier. This reflected growth in each region. Advisory revenues grew significantly, in line with the strong momentum in the M&A business and our increased presence in important transactions. During 2005, our Investment Bank advised on a total of 343 transactions with a deal volume of USD 496 billion, more than doubling from a year earlier. Revenues in the capital markets business rose as well, mainly in debt underwriting and in global syndicated finance, reflecting improved market conditions and our strengthened competitive position.

Operating expenses

Higher personnel costs and increased allocated costs prompted total operating expenses in 2005 to rise to CHF 12,303 million, a 7% increase from CHF 11,473 million a year earlier.

Personnel expenses, at CHF 9,259 million in 2005, increased 14% from a year earlier, reflecting an increase in the bonus accrual and additional salaries from higher staff levels. Share-based compensation rose 17% from prior year due to an increase in share-based awards and the higher UBS share price in 2005 compared with 2004.

General and administrative expenses were CHF 2,215 million in 2005, down 13% from 2004's CHF 2,538 million. Provisions were lower than in 2004, when we recorded a civil penalty levied by the Federal Reserve Board relating to our banknote trading business. This was partially offset by an increase in IT and other outsourcing costs. Services from other business units increased to CHF 640 million in 2005 from CHF 226 million in 2004. Depreciation eased 44% to CHF 136 million in 2005 from CHF 243 million in 2004 due to the transfer of further IT infrastructure functions into our central ITI unit in Corporate Center. There was no amortization of goodwill in 2005, following a change in accounting. In 2004, amortization of goodwill totaled CHF 278 million. Amortization of intangible assets was CHF 53 million in 2005, up 47% from CHF 36 million a year earlier due to the inclusion of the rest of Brunswick and the capital markets division of Charles Schwab, acquired in third quarter 2004, and the purchase of our remaining stake in Prediction, which became part of UBS in 2005.

Corporate Center

In 2006 Corporate Center recorded a pre-tax loss of CHF 1,083 million, compared with the pre-tax gain of CHF 3,856 million in 2005. The swing between 2005 and 2006 was due to the sale of Private Banks & GAM at the end of 2005. The continuing operations of Corporate Center reported a pre-tax loss of CHF 1,087 million, compared with a loss of CHF 708 million in 2005.

Business Group reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.05
Income	**294**	455	112	(35)
Credit loss (expense) / recovery[1]	**(61)**	232	286	
Total operating income	**233**	687	398	(66)
Cash components	**1,133**	1,059	728	7
Share-based components[2]	**131**	108	68	21
Total personnel expenses	**1,264**	1,167	796	8
General and administrative expenses	**1,242**	1,084	1,077	15
Services (to) / from other business units	**(1,978)**	(1,730)	(1,509)	(14)
Depreciation of property and equipment	**783**	857	794	(9)
Amortization of goodwill	**0**	0	1	
Amortization of intangible assets	**9**	17	17	(47)
Total operating expenses[3]	**1,320**	1,395	1,176	(5)
Business Group performance from continuing operations before tax	**(1,087)**	(708)	(778)	(54)
Business Group performance from discontinued operations before tax	**4**	4,564	396	(100)
Business Group performance before tax	**(1,083)**	3,856	(382)	
Additional information				
BIS risk-weighted assets	**8,969**	8,143	9,841	10
Personnel (full-time equivalents)	**4,771**	3,922	5,202	22
Personnel excluding ITI (full-time equivalents)	**1,716**	1,370	2,848	25
Personnel for ITI (full-time equivalents)	**3,055**	2,552	2,354	20

1 In order to show the relevant Business Group performance over time, the adjusted expected credit loss rather than credit loss expense or recovery is reported for all Business Groups. The difference between the adjusted expected credit loss and the credit loss expense or recovery recorded at Group level is reported in the Corporate Center (see note 2 to the financial statements). 2 Additionally includes social security contributions and expenses related to alternative investment awards. 3 Includes expenses for the Chairman's Office (comprising the Company Secretary, Board of Directors and Group Internal Audit).

Clive Standish | UBS Group Chief Financial Officer and Head of the Corporate Center

2006

Results

Corporate Center recorded a pre-tax loss from continuing operations of CHF 1,087 million in full-year 2006, compared with a loss of CHF 708 million a year earlier. The increase was mainly driven by a CHF 454 million decline in operating income. The main reason for the decrease was the credit loss expense for 2006, which contrasts with the recovery we recorded in 2005. Additionally, 2006 was negatively impacted by losses from cash flow hedges that were not fully effective.

Operating income

Total operating income decreased to CHF 233 million in 2006 from CHF 687 million in 2005. This reflects the credit loss expense recorded this year, which contrasts with the credit recovery we reported a year earlier. It is also a result of lower income from treasury activities.

The credit loss result booked in Corporate Center represents the difference between the adjusted expected credit loss result recorded in the business units and the credit loss expense or recovery recognized in the UBS financial statements. In 2006, UBS recorded a credit loss recovery of CHF 156 million, compared to a recovery of CHF 375 million in 2005. In 2006, the adjusted expected credit loss recoveries of CHF 217 million credited to the Business Units exceeded UBS's credit loss recovery. The difference of CHF 61 million was recorded in Corporate Center as a credit loss expense compared with the recovery of CHF 232 million recorded in 2005.

Income decreased by CHF 161 million to CHF 294 million in 2006 compared to CHF 455 million in 2005, mainly due to lower real estate gains and losses related to cash flow hedging (that were gains in 2005). This was slightly offset by gains from FX options in 2006.

Operating expenses

Total operating expenses were CHF 1,320 million in 2006, down CHF 75 million from CHF 1,395 million in 2005. At CHF 1,264 million in 2006, personnel expenses were up 8% from CHF 1,167 million in 2005, mainly reflecting the higher personnel numbers in ITI driven by higher business demand and hiring of people to address the growing complexity of regulatory requirements. Personnel costs increased due to higher performance-related compensation as well as higher expenses for share-based components as the UBS share price increased compared with 2005. In the same period, general and administrative expenses increased 15% to CHF 1,242 million from CHF 1,084 million. In ITI, expenses for rent and maintenance of IT equipment, occupancy and communications increased with higher staff levels. Costs also increased as a small portion of the provision for subleasing office space in the US was booked in Corporate Center. Other businesses were charged CHF 1,978 million compared to CHF 1,730 million, reflecting the business driven cost increases of UBS's IT infrastructure. Depreciation of property and equipment decreased to CHF 783 million by CHF 74 million or 9%, as several software components came to the end of their depreciation cycle. Amortization of intangible assets was CHF 9 million in 2006, CHF 8 million below the level a year earlier.

IT infrastructure

In 2006, the information technology infrastructure cost per average number of financial business employees was CHF 28,072, up CHF 1,341 from CHF 26,731 in 2005, reflecting the impact of supporting businesses in their growth plans. This was partially offset by cost savings from managing our information technology infrastructure centrally.

2005

Results

Corporate Center's result from continuing operations was a loss of CHF 708 million in full-year 2005, compared to a loss of CHF 778 million a year earlier. The improvement was driven by a CHF 343 million increase in income.

Private Banks & GAM (discontinued operations)

The sale of Private Banks & GAM to Julius Baer was completed on 2 December 2005. The disposal gain and the operating result realized during the year before the deal closed is reported as pre-tax profit from discontinued operations of CHF 4,564 million in 2005.

Operating income

Total operating income increased to CHF 687 million in 2005 from CHF 398 million in 2004. The result was driven by higher revenues, partially offset by lower credit loss recoveries.

In 2005, the credit loss recovery was CHF 375 million. The adjusted expected credit loss recovery at the Business Unit level was CHF 143 million. This resulted in a credit loss recovery in Corporate Center of CHF 232 million.

In 2004, the Group credit loss recovery was CHF 241 million. The adjusted expected credit loss expense at Business Unit level was CHF 45 million in the same year, resulting in a Corporate Center credit loss recovery of CHF 286 million.

Income increased by CHF 343 million to CHF 455 million in 2005 mainly due to the diversification of capital into US dollars. The higher average equity base produced a positive impact on treasury income, as did a timing effect related to cash flow hedging.

Operating expenses

Total operating expenses were CHF 1,395 million in 2005, up CHF 219 million from CHF 1,176 million in 2004. At CHF 1,167 million in 2005, personnel expenses were up 47% from CHF 796 million in 2004, mainly reflecting the further integration of UBS's IT infrastructure into ITI. The figure was also due to additional hiring and accruals for performance-related compensation. In the same period, general and administrative expenses increased 1% to CHF 1,084 million from CHF 1,077 million. Lower costs for rent and maintenance of IT equipment in ITI and a release of capital tax accruals were offset by costs incurred for the implementation of new accounting standards and regulatory requirements. Additionally, we saw higher expenses for our brand initiative and corporate real estate. Other businesses were charged CHF 1,730 million compared to CHF 1,509 million, reflecting the further integration of UBS's IT infrastructure into ITI. Amortization of intangible assets was CHF 17 million in 2005, at the same level as in 2004.

IT infrastructure

In 2005 the information technology infrastructure cost per average number of financial business employees was CHF 26,731, down CHF 1,600 from CHF 28,331 in 2004, showing the positive effects of managing our information technology infrastructure centrally.

Industrial Holdings

Industrial Holdings

Income statement

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.05
Continuing operations				
Revenues from Industrial Holdings	**693**	675	640	3
Other income	**301**	561	275	(46)
Total operating income	**994**	1,236	915	(20)
Personnel expenses	**202**	245	185	(18)
General and administrative expenses	**187**	184	176	2
Services (to)/from other business units	**9**	14	20	(36)
Depreciation of property and equipment	**18**	21	22	(14)
Amortization of goodwill	**0**	0	27	
Amortization of intangible assets	**5**	4	2	25
Goods and materials purchased	**295**	283	263	4
Total operating expenses	**716**	751	695	(5)
Operating profit from continuing operations before tax	**278**	485	220	(43)
Tax expense	**35**	175	51	(80)
Net profit from continuing operations	**243**	310	169	(22)
Discontinued operations				
Profit from discontinued operations before tax	**852**	496	385	72
Tax expense / (benefit)	**(13)**	87	101	
Net profit from discontinued operations	**865**	409	284	111
Net profit	**1,108**	719	453	54
Net profit / (loss) attributable to minority interests	**104**	207	93	(50)
from continuing operations	**1**	(24)	(21)	
from discontinued operations	**103**	231	114	(55)
Net profit attributable to UBS shareholders	**1,004**	512	360	96
from continuing operations	**242**	334	190	(28)
from discontinued operations	**762**	178	170	328
Additional information				
Private Equity[1]				
Investments, at cost[2]	**344**	744	1,219	(54)
Unrecognized gains	**517**	264	467	96
Portfolio fair value	**861**	1,008	1,686	(15)
Cost / income ratio (%)[3]	**72.0**	60.8	76.0	
BIS risk-weighted assets	**443**	2,035	2,773	(78)
Personnel (full-time equivalents)	**4,241**	21,636	29,453	(80)

1 Only comprises financial investments available-for-sale. 2 Historical cost of investments made, less divestments and impairments. 3 Operating expenses / operating income.

Major participations

Our private equity investments were moved to our Industrial Holdings segment in first quarter 2005, matching our strategy of de-emphasizing and reducing exposure to this asset class while capitalizing on orderly exit opportunities as they arise.

The sale of UBS's 55.6% stake of 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), which was included in this segment, was successfully completed on 23 March 2006. The sale price was set at approximately CHF 1,295 million. The disposal gain of CHF 387 million and the operating result of CHF 71 million realized during the quarter before the deal closed are reported as discontinued operations after tax. All prior periods have been restated accordingly.

2006

In 2006, the Industrial Holdings segment reported a net profit of CHF 1,108 million, of which CHF 1,004 million was attributable to UBS shareholders.

In 2006, we completed the sale of four fully consolidated investments. The realized divestment gains are presented as discontinued operations for Industrial Holdings. Previous income statements have also been restated to reflect these divestments.

In 2006, unconsolidated private equity investments, including those accounted for under the equity method, recorded total divestment gains of CHF 391 million. The level of financial investments available-for-sale fell to CHF 344 million on 31 December 2006 from CHF 744 million a year earlier due to a number of exits which were partially offset by the funding of existing commitments. The fair value of this part of the portfolio decreased to CHF 861 million in 2006 from CHF 1,008 million in 2005 reflecting revaluations and successful divestments. Unfunded commitments on 31 December 2006 were CHF 227 million, down from CHF 367 million at the end of December 2005.

2005

In 2005, the Industrial Holdings segment reported a net profit attributable to UBS shareholders of CHF 512 million. In 2005, it completed the sale of four fully consolidated investments. The operating profit or loss and gains on disposal are presented as discontinued operations for Industrial Holdings.

In 2005, unconsolidated private equity investments, including those accounted for under the equity method, recorded total divestment gains of CHF 684 million. The level of financial investments available-for-sale fell to CHF 744 million on 31 December 2005 from CHF 1,219 million a year earlier due to a number of exits which were partially offset by the funding of existing commitments. The fair value of this part of the portfolio decreased to CHF 1,008 million in 2005 from CHF 1,686 million in 2004. Unfunded commitments on 31 December 2005 were CHF 367 million, down from CHF 769 million at the end of December 2004, primarily due to the exit from one investment.

Balance Sheet and Cash Flows

Balance sheet and off-balance sheet

UBS's total assets stood at CHF 2,396.5 billion on 31 December 2006, up from CHF 2,058.3 billion on 31 December 2005. The increase was driven by the growth in the trading portfolio (up CHF 225 billion), collateral trading (up CHF 65 billion) and the loan portfolios (up CHF 33 billion), while positive and negative replacement values each were down CHF 5 billion. Currency movements against the Swiss franc (mainly the 7% depreciation of the US dollar) partially offset the rise. Total liabilities rose due to higher borrowing (up CHF 241 billion), collateral trading liabilities (up CHF 70 billion) and trading liabilities (up CHF 16 billion).

Lending and borrowing

Lending

Cash was CHF 3.5 billion on 31 December 2006, down CHF 1.9 billion from a year earlier, mainly from lower sight deposit balances held with central banks. At CHF 50.4 billion on 31 December 2006, the Due from banks line increased by CHF 16.8 billion, largely related to the integration of ABN AMRO's futures and options business, and higher lending by the cash and collateral trading business, which is the central funding instance of the bank. The increase was partially offset by lower current account balances in Industrial Holdings relating to the divestment of Motor-Columbus at the beginning of 2006. Our loans to customers stood at CHF 312.5 billion on 31 December 2006, up by CHF 32.6 billion from a year earlier, reflecting higher mortgage volumes in Switzerland and increased secured lending, mainly in our international wealth management businesses. This was further accentuated by a substantial increase in the Investment Bank's secured lending to prime brokerage clients and to a lesser extent by the integration of ABN AMRO's futures and options business. This was partially offset by lower secured lending balances to US mortgage originators.

Borrowing

The Due to banks line rose by CHF 79.4 billion mainly due to increased time deposits. Major movements in the Investment Bank's cash and collateral trading activities were related to a shift from repos to uncollateralized borrowing in connection with the funding of Dillon Read Capital Management (DRCM) assets and the accommodation of the firm's general growth. Further growth was driven by the integration of ABN AMRO's futures and options business. Total debt issued (including financial liabilities designated at fair value) increased to CHF 335.8 billion on 31 December 2006, up CHF 57.7 billion from a year earlier. Money market paper issuance increased by CHF 16.9 billion, mainly in Europe and the US. The amount of long-term debt issued (including financial liabilities designated at fair value) grew by CHF 40.9 billion to CHF 216.3 billion.

The Due to customers line was up CHF 103.7 billion, mainly reflecting larger time deposits from private clients in our wealth management franchise around the globe and in Switzerland for our retail banking business. Growth from our Investment Bank's prime brokerage and exchange traded derivative business related to the integration of ABN AMRO's futures and options business.

Repo and securities borrowing / lending

In 2006, cash collateral on securities borrowed and reverse repurchase agreements increased by CHF 65 billion or 9% to CHF 757 billion, while the sum of securities lent and repos grew by CHF 70 billion or 13% to CHF 609 billion. The increase stems primarily from the Investment Bank's matched book (a repo portfolio comprised of assets and liabilities with equal maturities and equal value, so that the risks substantially cancel each other out), and equity securities borrowing activities. Securities lending and repos rose, largely to finance the growth in trading inventory.

Trading portfolio

Trading assets increased by CHF 225 billion to CHF 879 billion on 31 December 2006 from CHF 654 billion on 31 December 2005. Increases were registered in debt instruments (up CHF 124 billion), mainly in asset-backed securities in our mortgage trading and securitized products business and in government securities (within the rates business). Assets in cash and collateral proprietary trading increased and were mostly pledged to central banks. Equity instruments were up by CHF 52 billion, largely driven by the derivatives business on the back of rising equity markets. Money market paper inventories rose in our fixed income, rates and currencies business by CHF 29 billion. Traded loans rose by CHF 11 billion, mainly in the securitization business, while precious metals grew by CHF 8 billion. Over the same period, short trading positions increased by CHF 16 billion to CHF 205 billion.

Replacement values

In 2006 positive and negative replacement values declined by CHF 5 billion to CHF 328 billion and CHF 333 billion respectively. This was the net result of increases in the Equities business from the integration of ABN Amro's futures and options business and movements in exchange rates in major currencies, slightly outweighed by the decline in replacement values driven by movements in interest rates.

Other assets/liabilities

Investments in associates decreased by 48%, to CHF 1.5 billion on 31 December 2006, mainly due to the sale of UBS's stake in Motor-Columbus. Property and equipment was down 27% to CHF 6.9 billion, mainly driven by write-offs, partially offset by new investments. Goodwill and other intangible assets, at CHF 14.8 billion on 31 December 2006, rose 10% from a year earlier, reflecting the acquisitions of several businesses during 2006, partially offset by a negative currency impact and the disposal of Motor-Columbus.

Equity

At CHF 49.7 billion on 31 December 2006, equity attributable to UBS shareholders increased by CHF 5.7 billion from 2005. The increase reflects the attributable profit of CHF 12.3 billion, partially offset by dividend payments and share repurchases.

Equity attributable to minority interests decreased by 20% to CHF 6.1 billion on 31 December 2006 from CHF 7.6 billion on the same date a year ago, mainly reflecting the new issuance of preferred securities and the sale of Motor-Columbus.

Contractual obligations

The table below summarizes our contractual obligations as of 31 December 2006. All contracts, with the exception of purchase obligations (those where we are committed to purchasing determined volumes of goods and services), are either recognized as liabilities on our balance sheet or, in the case of operating leases, disclosed in note 27 to the Financial Statements.

The following liabilities recognized on the balance sheet are excluded from the table because we do not consider these obligations to be contractual: provisions, current and deferred tax liabilities, liabilities to employees for equity participation plans, settlement and clearing accounts and amounts due to banks and customers.

Within purchase obligations, we have excluded our obligation to employees under the mandatory notice period, during which we are required to pay employees contractually agreed salaries.

UBS has entered into firm commitments for the acquisition of certain businesses. The terms and conditions of these agreements are disclosed in Note 37 to the Financial Statements – Business Combinations.

Off-balance sheet arrangements

In the normal course of business, UBS enters into arrangements that, under IFRS, are not recognized on the balance sheet and do not affect the income statement. These types of arrangements are kept off-balance sheet as long as they do not become onerous, UBS does not incur an obligation from them or become entitled to a specific asset. As soon as such an obligation is incurred, it is recognized on the balance sheet, with the resulting loss recorded in the income statement. It should be noted, however, that the amount recognized on the balance sheet does not, in many instances, represent the full loss potential inherent in such arrangements.

For the most part, the arrangements discussed below either meet the financial needs of customers or offer investment opportunities through entities that are not controlled by UBS. The importance of such arrangements to us, with respect to liquidity, capital resources or market and credit risk support, is minimal. We do not rely on such arrangements as a major source of revenue. They have also not resulted in significant expenses for UBS and we do not expect them to do so in the future. The following paragraphs discuss three distinct areas of off-balance sheet arrangements and any potential obligations that may arise from them as of 31 December 2006.

Guarantees

In the normal course of business, we issue various forms of guarantees to support our customers. With the exception of related premiums, these guarantees are kept off-balance sheet unless a provision is needed to cover probable losses. The maximum claim subject to credit risk arising from these guarantees is disclosed in Note 26 to the Financial Statements. On 31 December 2006 the amount is slightly above the level of a year earlier. Fee income from issuing guarantees is not material to our total revenues. Losses incurred under guarantees and income from the release of related provisions were insignificant for each of the last three years.

Contractual obligations

	Payment due by period			
CHF million	Less than 1 year	1–3 years	3–5 years	More than 5 years
Long-term debt	37,086	52,263	32,435	84,421
Capital lease obligations	154	324	115	0
Operating leases	1,003	1,919	1,561	4,280
Purchase obligations	712	528	279	103
Other long-term liabilities	419	2,079	39	1,775
Total	**39,374**	**57,113**	**34,429**	**90,579**

Retained interests

UBS sponsors the creation of Special Purpose Entities (SPEs) that facilitate the securitization of acquired residential and commercial mortgage loans and related securities. We also securitize customers' debt obligations in transactions that involve SPEs which issue collateralized debt obligations. A typical securitization transaction of this kind would involve the transfer of assets into a trust or corporation in return for beneficial interests in the form of securities. Generally, the beneficial interests are sold to third parties shortly after securitization. We do not provide guarantees or other forms of credit support to these SPEs. Financial assets are no longer reported in our consolidated financial statements once their risks and rewards are transferred to a third party. For further discussion of our securitization activities, see Note 42.2 to the Financial Statements.

Derivative instruments recorded in equity

We have no derivative contracts linked to our own shares that are accounted for as equity instruments. With the exception of physically settled written put options (see Note 1 to the Financial Statements), derivative contracts linked to our 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.

Cash flows

2006

At end-2006, the level of cash and cash equivalents rose to CHF 136.1 billion, up CHF 45.1 billion from CHF 91.0 billion at end-2005.

Operating activities

Net cash flow used in operating activities was CHF 4.7 billion in 2006 compared to a cash outflow of CHF 63.2 billion in 2005. Operating cash inflows (before changes in operating assets and liabilities and income taxes paid) totaled CHF 15.3 billion in 2006, an increase of CHF 0.7 billion from 2005. Our net profit decreased by CHF 1.9 billion compared to 2005.

Cash of CHF 98.7 billion was used to fund the net increase in operating assets, while a net increase in operating liabilities generated cash inflows of CHF 81.3 billion. The increase in cash was used to fund operating assets – in line with the expansion of our business. Payments to tax authorities were CHF 2.6 billion in 2006, up CHF 0.2 billion from a year earlier.

Investing activities

Investing activities generated a cash inflow of CHF 4.4 billion. The net cash inflow for investments in associates and subsidiaries was CHF 2.9 billion. This reflected cash outflows of CHF 3.5 billion for acquisitions, which were more than offset by cash inflows of CHF 6.4 billion relating to them. Purchases of property and equipment totaled CHF 1.8 billion and the net divestment of financial investments available-for-sale was CHF 1.7 billion. Disposals of subsidiaries and associates in 2006 generated a cash inflow of CHF 1.2 billion, mainly due to the sale of Motor-Columbus. In 2005, we saw a net cash outflow from investing activities of CHF 2.4 billion. This was because we acquired new businesses worth CHF 1.5 billion and made CHF 1.6 billion in net purchases of property and equipment. This was only partially offset by disposals of subsidiaries and associates.

Financing activities

In 2006, financing activities generated cash flow of CHF 47.4 billion, which were used to finance the expansion of our business activities. This reflected the net issuance of money market paper of CHF 16.9 billion and the issuance of CHF 97.7 billion in long-term debt – the latter significantly outpacing long-term debt repayments, which totaled CHF 60.0 billion. That inflow was partly offset by outflows attributable to net movements in treasury shares and own equity derivative activity (CHF 3.6 billion), and dividend payments (CHF 3.2 billion). In 2005, we also had a net cash inflow of CHF 64.5 billion from our financing activities. The difference between the two years was mainly due to a net decrease in issuance of long-term debt and money market paper by CHF 14.4 billion in 2006.

2005

At end-2005, the level of cash and cash equivalents rose to CHF 91.0 billion, up CHF 3.9 billion from CHF 87.1 billion at end-2004.

Operating activities

Net cash flow used in operating activities was CHF 63.2 billion in 2005 compared to CHF 24.1 billion in 2004. Operating cash inflows (before changes in operating assets and liabilities and income taxes paid) totaled CHF 14.6 billion in 2005, an increase of CHF 3.4 billion from 2004. Our net profit rose by CHF 6.2 billion compared to 2004. Discontinued operations contributed CHF 3.8 billion which had to be reclassified to cash flow from investing activities.

Cash of CHF 155.5 billion was used to fund the net increase in operating assets, while a net increase in operating liabilities generated cash inflows of CHF 80.1 billion. The increase in cash was used to fund operating assets – in line with the expansion of our business. The comparative amounts in 2004 and 2003 were smaller, primarily due to the continuing recovery seen in the financial markets. Payments to tax authorities were CHF 2.4 billion in 2005, up CHF 1.1 billion from a year earlier, reflecting the increase in net profit between 2004 and 2003.

Investing activities

Investing activities generated a cash outflow of CHF 2.4 billion, due to our acquisition of new businesses totaling CHF 1.5 billion, increase of purchase of property and equipment of CHF 1.9 billion and net increase of financial investments of CHF 2.5 billion. Disposals of subsidiaries and associates in 2005 generated a cash inflow of CHF 3.2 billion, mainly due to the sale of Private Banks & GAM of CHF 1.9 billion. By contrast, in 2004 we saw a net cash outflow from investing activities of CHF 1.0 billion mainly due to the acquisitions of new businesses of CHF 2.5 billion and a net purchase of property and equipment of CHF 0.5 billion. This was only partially offset by disposals of subsidiaries and associates and net sales of financial investments.

Financing activities

In 2005, financing activities generated cash flow of CHF 64.5 billion, which was used to finance the expansion of our business activities. This reflected the net issuance of money market paper of CHF 23.2 billion and the issuance of CHF 76.3 billion in long-term debt – the latter significantly outpacing long-term debt repayments, which totaled CHF 30.5 billion. That inflow was partly offset by outflows attributable to net movements in treasury shares and own equity derivative activity (CHF 2.4 billion), and dividend payments (CHF 3.1 billion). In contrast, in 2004, we also had a net cash inflow of CHF 39.8 billion from our financing activities. The difference between the two years was mainly due to the fact that long-term debt issuance increased by CHF 25.1 billion in 2005.

Accounting Standards and Policies

Accounting principles

The UBS Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). As a US listed company, we also provide a description in Note 42 to the Financial Statements of the significant differences which would arise were our accounts to be presented under the United States Generally Accepted Accounting Principles (US GAAP), and a detailed reconciliation of equity attributable to shareholders under IFRS and net profit to US GAAP.

Except where clearly identified, all of UBS's financial information presented in this document is presented on a consolidated basis under IFRS.

Pages 215 to 228 contain the financial statements for the UBS AG Parent Bank – the Swiss company, including branches worldwide, which owns all the UBS companies, directly or indirectly. The Parent Bank's financial statements are prepared in order to meet Swiss regulatory requirements and in compliance with Swiss Banking Law. Except in those pages, or where otherwise explicitly stated, all references to "UBS" refer to the UBS Group and not to the Parent Bank.

All references to 2006, 2005 and 2004 refer to the UBS Group and the Parent Bank's fiscal years ended 31 December 2006, 2005 and 2004. The Financial Statements for the UBS Group and the Parent Bank have been audited by Ernst & Young Ltd.

An explanation of the critical accounting policies applied in the preparation of our financial statements is provided below. The basis of our accounting is given in Note 1 to the Financial Statements.

Standards for management accounting

Our management reporting systems and policies determine the revenues and expenses directly attributable to each business unit. The presentation of the business segments reflects UBS's organizational structure and management responsibilities. Internal charges and transfer pricing adjustments are reflected in the performance of each business unit.

Inter-business unit revenues and expenses. Revenue-sharing agreements are used to allocate external customer revenues to business units on a reasonable basis. Inter-business unit charges are reported in the line "Services to / from other Business Units" for both Business Units concerned. Transactions between Business Units are conducted at internally agreed transfer prices or at arm's length. Corporate Center expenses are allocated to the operating Business Units to the extent appropriate.

Net interest income is allocated to the Business Units based on their balance sheet positions. Assets and liabilities of the financial businesses are funded through and invested with the central treasury departments, with the net margin reflected in the results of each Business Unit. To complete the allocation, the financial businesses are credited with a risk-free return on their regulatory capital requirements adding goodwill and excess intangible assets (see below).

Commissions are credited to the Business Unit with the corresponding customer relationship, with revenue-sharing agreements for the allocation of customer revenues where several business units are involved in value creation.

For internal management reporting purposes and in the results discussion, we measure *credit loss* using an expected loss concept. 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 (shown as 'deferral' in the table). The difference between the sum of these adjusted expected credit loss figures, which are charged to the Business Groups or Units, and the credit loss expense recorded at Group level for financial reporting purposes is reported in Corporate Center. The table on the next page shows the adjusted expected credit loss charged to the Business Groups.

Regulatory capital requirements for the Business Units are defined as 10% of BIS risk-weighted assets. To measure capital consumption of the Business Units, we adjust regulatory capital for the goodwill and excess intangible assets allocated. Return on allocated regulatory capital is a key performance indicator for the Investment Bank and the Business Banking Switzerland unit.

The levels of *personnel* are expressed in terms of full-time equivalents (FTE) and measured as a percentage of the standard hours normally worked by permanent full-time staff. The FTE level cannot exceed 1.0 for any individual. Personnel includes all staff and trainees other than contractors.

Credit loss result recorded at Business Group / Unit level

CHF million	Global Wealth Management & Business Banking			Investment Bank	**UBS total**
For the year ended 31.12.06	Wealth Management International & Switzerland	Wealth Management US	Business Banking Switzerland		
Expected credit loss	(78)	(8)	(327)	(171)	**(584)**
Deferral	49	8	512	232	**801**
Adjusted expected credit loss	**(29)**	**0**	**185**	**61**	**217**
Credit loss (expense) / recovery	**1**	**(1)**	**109**	**47**	**156**
Balancing item recorded as credit loss (expense) / recovery in Corporate Center					(61)

Critical accounting policies

Basis of preparation and selection of policies

We prepare our Financial Statements in accordance with IFRS, and provide a reconciliation to generally accepted accounting principles in the United States (US GAAP). The application of certain of these accounting principles requires considerable judgment based upon estimates and assumptions that involve significant uncertainty at the time they are made. Changes in assumptions may have a significant impact on the Financial Statements in the periods where assumptions are changed. Accounting treatments where significant assumptions and estimates are used are discussed in this section, as a guide to understanding how their application affects our reported results. A broader and more detailed description of the accounting policies we employ is shown in Note 1 to the Financial Statements.

The application of assumptions and estimates means that any selection of different assumptions would cause our reported results to differ. We believe that the assumptions we have made are appropriate, and that our Financial Statements therefore present our financial position and results fairly, in all material respects. The alternative outcomes discussed below are presented solely to assist the reader in understanding our Financial Statements, and are not intended to suggest that other assumptions would be more appropriate.

Many of the judgements we make when applying accounting principles depend on an assumption, which we believe to be correct, that UBS maintains sufficient liquidity to hold positions or investments until a particular trading strategy matures – i.e. that we do not need to realize positions at unfavorable prices in order to fund immediate cash needs. Liquidity is discussed in more detail in the Treasury Management chapter of the Handbook 2006/2007.

Fair value of financial instruments

Financial assets and financial liabilities in our trading portfolio, financial assets and liabilities designated at fair value and derivative instruments are recorded at fair value on the balance sheet, with changes in fair value recorded in net trading income in the income statement. Key judgments affecting this accounting policy relate to how we determine fair value for such assets and liabilities.

Where no active market exists, or where quoted prices are not otherwise available, we determine fair value using a variety of valuation techniques. These include present value methods, models based on observable input parameters, and models where some of the input parameters are unobservable.

Valuation models are used primarily to value derivatives transacted in the over-the-counter market, including credit derivatives, and unlisted securities with embedded derivatives. All valuation models are validated before they are used as a basis for financial reporting, and periodically reviewed thereafter, by qualified personnel independent of the area that created the model. Wherever possible, we compare valuations derived from models with quoted prices of similar financial instruments, and with actual values when realized, in order to further validate and calibrate our models.

A variety of factors are incorporated into our models, including actual or estimated market prices and rates, such as time value and volatility, and market depth and liquidity. Where available, we use market observable prices and rates derived from market verifiable data. Where such factors are not market observable, changes in assumptions could affect the reported fair value of financial instruments. We apply our models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. Management therefore establishes valuation adjustments to cover the risks associated with the estimation of unobservable input parameters and the assumptions within the models themselves. Valuation adjustments are also made to reflect such elements as deteriorating creditworthiness (including country-specific risks), concentrations in specific types of instruments and market risk factors (interest rates, currencies etc), and market depth and liquidity. Although a significant degree of judgment is, in some cases, required in establishing fair values, management believes that the fair values recorded in the balance sheet and the changes in fair values recorded in the income statement are prudent and reflective of the underlying economics, based on our established fair value and model governance policies and the related controls and procedural safeguards we employ. Nevertheless, for valuations derived from models we have estimated the effect that a change in assumptions to reasonably possible alternatives could have on fair values where inputs are not market observable. To estimate that effect on the Financial Statements, we recalculated the model valuation adjustments at higher and lower confidence levels than originally applied. A similar approach was used for valuations other than those based on models. For all financial instruments carried at fair value which rely on assumptions for their valuation, we estimate that fair value could lie in a range from CHF 1,038 million lower to CHF 955 million higher than the fair values recognized in the Financial Statements. In 2005 the estimate of that range was CHF 1,094 million lower to CHF 1,176 million higher than the amounts recognized on the balance sheet.

Recognition of deferred Day 1 profit and loss

A closely related issue to determining fair value of financial instruments is the recognition of deferred Day 1 profit and loss. We have entered into transactions, some of which will mature in the long term, where we determine fair value using valuation models for which not all inputs are market observable prices or rates. We initially recognize such a financial instrument at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. Such a difference between the transaction price and the model value is commonly referred to as "Day 1 P/L". We do not immediately recognize that initial difference, usually a gain, in profit and loss because the applicable accounting literature prohibits immediate recognition of Day 1 profit. The accounting literature does not, however, address its subsequent recognition prior to the time when fair value can be determined using market observable inputs or by reference to prices for similar instruments in active markets. It also does not address subsequent measurement of these instruments and recognition of subsequent fair value changes indicated by the model.

Our decisions regarding recognizing deferred Day 1 profit are made after careful consideration of facts and circumstances to ensure we do not prematurely release a portion of the deferred profit to income. For each transaction, we determine, individually, the appropriate method of recognizing the Day 1 profit amount in the income statement. It may be amortized over the life of the transaction, or deferred until fair value can be determined using market observable inputs, or realized through settlement. In all instances, any unrecognized Day-1 profit is immediately released to income if fair value of the financial instrument in question can be determined either by using market observable model inputs or by reference to a quoted price for the same product in an active market.

Changes in fair value after Day 1 resulting from changes in observable parameters or otherwise indicated by the model are recognized immediately in the income statement independently of the release of deferred Day 1 profits.

Special Purpose Entities and securitizations

UBS sponsors the formation of Special Purpose Entities (SPEs) primarily to allow clients to hold investments in separate legal entities, to allow clients to jointly invest in alternative assets, for asset securitization transactions, and for buying or selling credit protection. In accordance with IFRS we do not consolidate SPEs that we do not control. In order to determine whether we control an SPE or not, we have to make judgments about risks and rewards and assess our ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. When assessing whether we have to consolidate an SPE we evaluate a range of factors, including whether (a) the activities of the SPE are being conducted on our behalf according to our specific business needs so that we obtain the benefits from the SPE's operations, or (b) we have decision-making powers to obtain the majority of the benefits of the activities of the SPE, or UBS has delegated these decision-making powers by setting up an autopilot mechanism, or (c) we have the rights to obtain the majority of the benefits of the activities of an SPE and therefore may be exposed to risks arising from the activities of the SPE, or (d) we retain the majority of the residual or ownership risks related to the SPE or its assets in order to obtain the benefits from its activities. We consolidate an SPE if our assessment of the relevant factors indicates that we control the SPE.

SPEs used to allow clients to hold investments are structures that allow one or more clients to invest in an asset or set of assets, which are generally purchased by the SPE in the open market and not transferred from UBS. The risks and rewards of the assets held by the SPE reside with the clients. Typically, UBS will receive service and commission fees for creation of the SPE, or because it acts as investment manager, custodian or in some other function. Many of these SPEs are single-investor or family trusts while others allow a broad number of investors to invest in a diversified asset base through a single share or certificate. These latter SPEs range from mutual funds to trusts investing in real estate. The majority of our SPEs are created for client investment purposes and are not consolidated.

SPEs used to allow clients to jointly invest in alternative assets, e.g. feeder funds, for which generally no active markets exist, are often in the form of limited partnerships. Investors are the limited partners and contribute all or the majority of the capital, whereas UBS serves as the general partner. In that capacity, UBS is the investment manager and has sole discretion about investment and other administrative decisions, but has no or only a nominal amount of capital invested. UBS typically receives service and commission fees for its services as general partner, but does not, or only to a minor extent, participate in the risks and rewards of the vehicle, which reside with the limited partners. In most instances, limited partnerships are not consolidated under IFRS because UBS's legal and contractual rights and obligations indicate that UBS does not have the power to govern the financial and operating policies of these entities and concurrently does not have the objective of obtaining benefits from its activities through such power.

SPEs used for securitization. SPEs for securitization are created when UBS has assets (for example a portfolio of loans) which it sells to an SPE, and the SPE in turn sells interests in the assets as securities to investors. Consolidation of these SPEs depends mainly on whether UBS retains the majority of the benefits or risks of the assets in the SPE.

We do not consolidate SPEs for securitization if UBS has no control over the assets and no longer retains any significant exposure (for gain or loss) to the income or investment returns on the assets sold to the SPE or the proceeds of their liquidation. This type of SPE is a bankruptcy remote entity – if UBS were to go bankrupt the holders of the securities would clearly be owners of the asset, while if the SPE were to go bankrupt the securities holders would have no recourse to UBS.

SPEs for credit protection are set up to allow UBS to sell the credit risk on portfolios, which may or may not be held by UBS, to investors. They exist primarily to allow UBS to have a single counterparty (the SPE), which sells credit protection to UBS. The SPE in turn has investors who provide it with capital and participate in the risks and rewards of the credit events that it insures. SPEs used for credit protection are generally consolidated.

Allowances and provisions for credit losses

Financial assets accounted for at amortized cost are assessed for objective evidence of impairment and required allowances are estimated in accordance with IAS 39. Impairment exists if the book value of a claim or a portfolio of claims exceeds the present value of the cash flows actually expected in future periods. These cash flows include scheduled interest payments, principal repayments, or other payments due (for example from guarantees), including liquidation of collateral where available.

The total allowance for recognized financial assets and credit loss provision for off-balance sheet obligations consists of two components: specific counterparty allowances and provisions, and collectively assessed allowances and provisions. The specific counterparty component applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows which are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realizable value of any underlying collateral or guarantees in our favor. Each impaired financial asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Control function. Collectively assessed credit loss allowances and provisions cover credit losses inherent in portfolios of claims with similar economic characteristics where there is objective evidence to suggest that they contain impaired claims but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances and provisions, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance or provision, we make assumptions both to define the way we model inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances and provisions we make depends on how well we estimate future cash flows for specific counterparty allowances and provisions and the model assumptions and parameters used in determining collective allowances and provisions. While this necessarily involves judgment, we believe that our allowances and provisions are reasonable and supportable.

Further details on this subject are given in Note 1a10) to the Financial Statements and in the Risk Management chapter of the Handbook 2006/2007.

Equity compensation

IFRS 2, Share-based Payments, addresses the accounting for share-based employee compensation and was adopted by UBS on 1 January 2005 on a fully retrospective basis. The effect of applying IFRS 2 is disclosed in Note 1b) to the Financial Statements, and further information on UBS equity compensation plans, including inputs used to determine the fair value of options, is disclosed in Note 32.

IFRS 2 requires that share options awarded to employees are recognized as compensation expense based on their fair value at grant date. The share options we issue to our employees have features that make them incomparable to options on our shares traded in active markets. Accordingly, we cannot determine fair value by reference to a quoted market price, but we rather estimate it using an option valuation model. The model, a Monte Carlo simulation, requires inputs such as interest rates, expected dividends, volatility measures and specific employee exercise behavior patterns based on statistical data.

Some of the model inputs we use are not market-observable and have to be estimated or derived from available data. Use of different estimates would produce different option values, which in turn would result in higher or lower compensation expense recognized.

Several recognized models for the valuation of options exist but none can be singled out as the best or most correct. The model we apply has been selected because it is able to handle some of the specific features included in the options granted to our employees. If we were to use a different model, the option values produced would be different, even if we used the same inputs.

Using both different inputs and a different valuation model could have a significant impact on the fair value of employee share options, which could be either higher or lower than the values produced by the model we apply and the inputs we have used.

Financial Statements

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Management's report on internal control over financial reporting

The Board of Directors and management of UBS AG (UBS) are responsible for establishing and maintaining adequate internal control over financial reporting. UBS's internal control over financial reporting is designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with International Financial Reporting Standards (IFRS) including a reconciliation of net profit and equity attributable to UBS shareholders to US Generally Accepted Accounting Principles (US GAAP).

UBS's internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation and fair presentation of financial statements, and that receipts and expenditures of the company are being made only in accordance with authorizations of UBS management; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

UBS management assessed the effectiveness of UBS's internal control over financial reporting as of December 31, 2006 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that, as of December 31, 2006, UBS's internal control over financial reporting was effective.

The audited consolidated financial statements of UBS include the results of Banco UBS Pactual S.A. but management's assessment does not include an assessment of the internal control over financial reporting of this entity because it was acquired on December 1, 2006**.** This approach is consistent with published SEC guidance on the permissible scope of management's internal control report. The financial statements for this entity reflect total assets and operating income constituting less than 1% of the related consolidated financial statement amounts as of and for the year ended December 31, 2006.

Management's assessment of the effectiveness of UBS's internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young Ltd, UBS's independent registered public accounting firm, as stated in their report appearing on page 78, which expressed unqualified opinions on management's assessment and on the effectiveness of UBS's internal control over financial reporting as of December 31, 2006.

ERNST & YOUNG

Ernst & Young Ltd
Aeschengraben 9
P.O. Box
CH-4002 Basel

Phone +41 58 286 86 86
Fax +41 58 286 86 00
www.ey.com/ch

To the General Meeting of

UBS AG, Zurich and Basel

Basel, 10 March 2007

Report of the group auditors – Independent Registered Public Accounting Firm Internal Control Over Financial Reporting

As auditors of the group we have audited management's assessment, included in the *Management's Report on Internal Control Over Financial Reporting on page* 77, that UBS AG maintained effective internal control over financial reporting as of 31 December 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). UBS AG's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying *Management's Report on Internal Control over Financial Reporting*, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Banco UBS Pactual S.A., which is included in the 2006 consolidated financial statements of UBS AG and constituted less than 1% of total assets as of 31 December 2006 and less than 1% of operating income for the year then ended. Our audit of internal control over financial reporting of UBS AG also did not include an evaluation of the internal control over financial reporting of Banco UBS Pactual S.A.

In our opinion, management's assessment that UBS AG maintained effective internal control over financial reporting as of 31 December 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, UBS AG maintained, in all material respects, effective internal control over financial reporting as of 31 December 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America) as well as Swiss Auditing Standards, the 2006 consolidated balance sheets of UBS AG as of 31 December 2006 and 2005, 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 2006 and notes thereto, of UBS AG and our report dated 10 March 2007 expressed an unqualified opinion thereon.

Ernst & Young Ltd

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

ERNST & YOUNG

Ernst & Young Ltd
Aeschengraben 9
P.O. Box
CH-4002 Basel

Phone +41 58 286 86 86
Fax +41 58 286 86 00
www.ey.com/ch

To the General Meeting of

UBS AG, Zurich and Basel

Basel, 10 March 2007

**Report of the group auditors - Independent Registered Public Accounting Firm
Consolidated Financial Statements**

As auditors of the group we have audited the consolidated balance sheets of UBS AG as of 31 December 2006 and 2005, 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 2006, and notes thereto on pages 82 to 214. 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 Swiss Auditing Standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes 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 2006 and 2005, and the consolidated results of operations and cash flows for each of the three years in the period ended 31 December 2006, 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.

As described in Note 1 b) to the financial statements, effective December 2006, UBS AG changed its method of evaluating the effect of unrecorded adjustments.

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 2006 and 2005 and the results of operations for each of the three years in the period ended 31 December 2006 to the extent summarized in note 41 of the notes to the consolidated financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the effectiveness of UBS AG's internal control over financial reporting as of 31 December 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated 10 March 2007 expressed an unqualified opinion thereon.

Ernst & Young Ltd

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

Financial Statements

Income Statement

CHF million, except per share data	Note	For the year ended 31.12.06	31.12.05	31.12.04	% change from 31.12.05
Continuing operations					
Interest income	3	87,401	59,286	39,228	47
Interest expense	3	(80,880)	(49,758)	(27,484)	63
Net interest income	3	6,521	9,528	11,744	(32)
Credit loss (expense)/recovery		156	375	241	(58)
Net interest income after credit loss expense		6,677	9,903	11,985	(33)
Net fee and commission income	4	25,881	21,436	18,506	21
Net trading income	3	13,318	7,996	4,902	67
Other income	5	1,596	1,122	853	42
Revenues from industrial holdings		693	675	640	3
Total operating income		48,165	41,132	36,886	17
Personnel expenses	6	23,671	20,148	17,891	17
General and administrative expenses	7	8,116	6,632	6,563	22
Depreciation of property and equipment	15	1,263	1,261	1,284	0
Amortization of goodwill	16	0	0	673	
Amortization of other intangible assets	16	153	131	170	17
Goods and materials purchased		295	283	263	4
Total operating expenses		33,498	28,455	26,844	18
Operating profit from continuing operations before tax		14,667	12,677	10,042	16
Tax expense	22	2,786	2,471	2,155	13
Net profit from continuing operations		11,881	10,206	7,887	16
Discontinued operations					
Operating profit from discontinued operations before tax	38	856	5,060	781	(83)
Tax expense/(benefit)	22	(13)	576	198	
Net profit from discontinued operations		869	4,484	583	(81)
Net profit		12,750	14,690	8,470	(13)
Net profit attributable to minority interests		493	661	454	(25)
from continuing operations		390	430	340	(9)
from discontinued operations		103	231	114	(55)
Net profit attributable to UBS shareholders		12,257	14,029	8,016	(13)
from continuing operations		11,491	9,776	7,547	18
from discontinued operations		766	4,253	469	(82)
Earnings per share					
Basic earnings per share (CHF)	8	6.20	6.97	3.89	(11)
from continuing operations		5.81	4.85	3.66	20
from discontinued operations		0.39	2.12	0.23	(82)
Diluted earnings per share (CHF)	8	5.95	6.68	3.70	(11)
from continuing operations		5.58	4.66	3.49	20
from discontinued operations		0.37	2.02	0.21	(82)

Balance Sheet

CHF million	Note	31.12.06	31.12.05	% change from 31.12.05
Assets				
Cash and balances with central banks		**3,495**	5,359	(35)
Due from banks	10	**50,426**	33,644	50
Cash collateral on securities borrowed	11	**351,590**	288,435	22
Reverse repurchase agreements	11	**405,834**	404,432	0
Trading portfolio assets	12	**627,036**	499,297	26
Trading portfolio assets pledged as collateral	12	**251,478**	154,759	62
Positive replacement values	23	**328,445**	333,782	(2)
Financial assets designated at fair value	9	**5,930**	1,153	414
Loans	10	**312,521**	279,910	12
Financial investments available-for-sale	13	**8,937**	6,551	36
Accrued income and prepaid expenses		**10,361**	8,918	16
Investments in associates	14	**1,523**	2,956	(48)
Property and equipment	15	**6,913**	9,423	(27)
Goodwill and other intangible assets	16	**14,773**	13,486	10
Other assets	17, 22	**17,249**	16,243	6
Total assets		**2,396,511**	2,058,348	16
Liabilities				
Due to banks	18	**203,689**	124,328	64
Cash collateral on securities lent	11	**63,088**	59,938	5
Repurchase agreements	11	**545,480**	478,508	14
Trading portfolio liabilities	12	**204,773**	188,631	9
Negative replacement values	23	**332,533**	337,663	(2)
Financial liabilities designated at fair value	19	**145,687**	117,401	24
Due to customers	18	**570,565**	466,907	22
Accrued expenses and deferred income		**21,527**	18,791	15
Debt issued	19	**190,143**	160,710	18
Other liabilities	20, 21, 22	**63,251**	53,837	17
Total liabilities		**2,340,736**	2,006,714	17
Equity				
Share capital		**211**	871	(76)
Share premium		**9,870**	9,992	(1)
Net income recognized directly in equity, net of tax		**815**	(182)	
Revaluation reserve from step acquisitions, net of tax		**38**	101	(62)
Retained earnings		**49,151**	44,105	11
Equity classified as obligation to purchase own shares		**(185)**	(133)	(39)
Treasury shares		**(10,214)**	(10,739)	5
Equity attributable to UBS shareholders		**49,686**	44,015	13
Equity attributable to minority interests		**6,089**	7,619	(20)
Total equity		**55,775**	51,634	8
Total liabilities and equity		**2,396,511**	2,058,348	16

Statement of Changes in Equity

	For the year ended		
CHF million	**31.12.06**	31.12.05	31.12.04
Share capital			
Balance at the beginning of the year	**871**	901	946
Issue of share capital	**1**	2	2
Capital repayment by par value reduction	**(631)**		
Cancellation of second trading line treasury shares	**(30)**	(32)	(47)
Balance at the end of the year	**211**	871	901
Share premium			
Balance at the beginning of the year	**9,992**	9,231	7,595
Premium on shares issued and warrants exercised	**46**	36	70
Net premium / (discount) on treasury share and own equity derivative activity	**(271)**	(309)	(20)
Employee share and share options plans	**(508)**	768	1,244
Tax benefits from exercise of employee share options	**611**	266	342
Balance at the end of the year	**9,870**	9,992	9,231
Net income recognized directly in equity, net of tax			
Foreign currency translation			
Balance at the beginning of the year	**(432)**	(2,520)	(1,694)
Movements during the year	**(1,186)**	2,088	(826)
Subtotal – balance at the end of the year[1]	**(1,618)**	(432)	(2,520)
Net unrealized gains / (losses) on financial investments available-for-sale, net of tax			
Balance at the beginning of the year	**931**	761	399
Net unrealized gains / (losses) on financial investments available-for-sale	**2,574**	463	501
Impairment charges reclassified to the income statement	**19**	96	192
Realized gains reclassified to the income statement	**(649)**	(396)	(353)
Realized losses reclassified to the income statement	**1**	7	22
Subtotal – balance at the end of the year	**2,876**	931	761
Changes in fair value of derivative instruments designated as cash flow hedges, net of tax			
Balance at the beginning of the year	**(681)**	(322)	(144)
Net unrealized gains / (losses) on the revaluation of cash flow hedges	**1**	(474)	(223)
Net unrealized (gains) / losses reclassified to the income statement	**237**	115	45
Subtotal – balance at the end of the year	**(443)**	(681)	(322)
Balance at the end of the year	**815**	(182)	(2,081)
Revaluation reserve from step acquisitions, net of tax			
Balance at the beginning of the year	**101**	90	
Movements during the year	**(63)**	11	90
Balance at the end of the year	**38**	101	90
Retained earnings			
Balance at the beginning of the year	**44,105**	36,692	35,951
Net profit attributable to UBS shareholders for the year	**12,257**	14,029	8,016
Dividends paid[2]	**(3,214)**	(3,105)	(2,806)
Cancellation of second trading line treasury shares	**(3,997)**	(3,511)	(4,469)
Balance at the end of the year	**49,151**	44,105	36,692
Equity classified as obligation to purchase own shares			
Balance at the beginning of the year	**(133)**	(96)	(49)
Movements during the year	**(52)**	(37)	(47)
Balance at the end of the year	**(185)**	(133)	(96)
Treasury shares			
Balance at the beginning of the year	**(10,739)**	(11,105)	(9,654)
Acquisitions	**(8,314)**	(8,375)	(9,368)
Disposals	**4,812**	5,198	3,401
Cancellation of second trading line treasury shares	**4,027**	3,543	4,516
Balance at the end of the year	**(10,214)**	(10,739)	(11,105)
Equity attributable to UBS shareholders	**49,686**	44,015	33,632

1 Net of CHF 83 million, CHF (292) million and CHF 236 million of related taxes for the years ended 2006, 2005 and 2004 respectively. 2 Dividends of CHF 1.60 per share, CHF 1.50 per share and CHF 1.30 per share were paid on 24 April 2006, 26 April 2005 and 20 April 2004, respectively.

Statement of Changes in Equity (continued)

	For the year ended		
CHF million	**31.12.06**	31.12.05	31.12.04
Equity attributable to minority interests			
Balance at the beginning of the year	**7,619**	5,426	3,879
Issuance of preferred securities	**1,219**	1,539	
Other increases	**131**	44	1,922
Decreases and dividend payments	**(3,191)**	(595)	(523)
Foreign currency translation	**(182)**	544	(306)
Minority interest in net profit	**493**	661	454
Balance at the end of the year	**6,089**	7,619	5,426
Total equity	**55,775**	51,634	39,058

Shares issued

	For the year ended			% change from
Number of shares	**31.12.06**	31.12.05	31.12.04	31.12.05
Balance at the beginning of the year	**2,177,265,044**	2,253,716,354	2,366,093,528	(3)
Issue of share capital	**2,208,242**	3,418,878	6,586,826	(35)
Cancellation of second trading line treasury shares	**(74,200,000)**	(79,870,188)	(118,964,000)	7
Balance at the end of the year	**2,105,273,286**	2,177,265,044	2,253,716,354	(3)

Treasury shares

	For the year ended			% change from
Number of shares	**31.12.06**	31.12.05	31.12.04	31.12.05
Balance at the beginning of the year	**208,519,748**	249,326,620	273,482,454	(16)
Acquisitions	**117,160,339**	156,436,070	192,278,008	(25)
Disposals	**(87,004,388)**	(117,372,754)	(97,469,842)	26
Cancellation of second trading line treasury shares	**(74,200,000)**	(79,870,188)	(118,964,000)	7
Balance at the end of the year	**164,475,699**	208,519,748	249,326,620	(21)

In July 2006, UBS made a distribution of CHF 0.60 per share to shareholders which reduced the par value of UBS shares from CHF 0.80 to CHF 0.20 per share. At the same time, UBS split its share 2-for-1, resulting in a new par value of CHF 0.10 per share.

During the year a total of 74,200,000 shares acquired under the second trading line buyback program 2005 were cancelled. Out of the total number of 164,475,699 treasury shares, 22,600,000 shares (CHF 1,615 million) have been repurchased for cancellation. The Board of Directors will propose to the Annual General Meeting on 18 April 2007 to reduce the outstanding number of shares and the share capital by the number of shares purchased for cancellation.

On 31 December 2006, a maximum of 1,437,410 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. In addition, during 2006, shareholders approved the creation of conditional capital of up to a maximum of 150 million shares to fund UBS's employee share option programs. As of 31 December 2006, no shares have been issued under this program.

All issued shares are fully paid.

Statement of Recognized Income and Expense

For the year ended	**31.12.06**			31.12.05			31.12.04		
	Attributable to			Attributable to			Attributable to		
CHF million	**UBS shareholders**	**minority interests**	**Total**	UBS shareholders	minority interests	Total	UBS shareholders	minority interests	Total
Net unrealized gains/(losses) on financial investments available-for-sale, before tax	**2,610**	**9**	**2,619**	152	(58)	94	444	79	523
Change in fair value of derivative instruments designated as cash flow hedges, before tax	**332**	**0**	**332**	(479)	0	(479)	(238)	0	(238)
Foreign currency translation	**(1,186)**	**(21)**	**(1,207)**	2,088	62	2,150	(826)	(184)	(1,010)
Tax on items transferred to/(from) equity	**(759)**	**0**	**(759)**	138	0	138	(50)	0	(50)
Net income recognized directly in equity	**997**	**(12)**	**985**	1,899	4	1,903	(670)	(105)	(775)
Net income recognized in the income statement	**12,257**	**493**	**12,750**	14,029	661	14,690	8,016	454	8,470
Total recognized income and expense	**13,254**	**481**	**13,735**	15,928	665	16,593	7,346	349	7,695

Statement of Cash Flows

	For the year ended		
CHF million	**31.12.06**	31.12.05	31.12.04
Cash flow from / (used in) operating activities			
Net profit	**12,750**	14,690	8,470
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	**1,325**	1,556	1,576
Amortization of goodwill and other intangible assets	**196**	340	1,066
Credit loss expense / (recovery)	**(156)**	(374)	(241)
Equity in income of associates	**(117)**	(152)	(67)
Deferred tax expense / (benefit)	**(517)**	(382)	171
Net loss / (gain) from investing activities	**(2,092)**	(5,062)	(1,008)
Net loss / (gain) from financing activities	**3,870**	4,025	1,203
Net (increase) / decrease in operating assets:			
Net due from / to banks	**80,269**	(1,690)	(7,471)
Reverse repurchase agreements and cash collateral on securities borrowed	**(61,382)**	(125,097)	(40,752)
Trading portfolio, net replacement values and financial assets designated at fair value	**(177,087)**	(74,799)	(19,733)
Loans / due to customers	**64,029**	47,265	13,108
Accrued income, prepaid expenses and other assets	**(4,536)**	(1,227)	(10,809)
Net increase / (decrease) in operating liabilities:			
Repurchase agreements, cash collateral on securities lent	**66,370**	64,558	9,753
Accrued expenses and other liabilities	**14,975**	15,536	22,019
Income taxes paid	**(2,607)**	(2,394)	(1,345)
Net cash flow from / (used in) operating activities	**(4,710)**	(63,207)	(24,060)
Cash flow from / (used in) investing activities			
Investments in subsidiaries and associates	**2,856**	(1,540)	(2,511)
Disposal of subsidiaries and associates	**1,154**	3,240	1,277
Purchase of property and equipment	**(1,793)**	(1,892)	(1,149)
Disposal of property and equipment	**499**	270	704
Net (investment in) / divestment of financial investments available-for-sale	**1,723**	(2,487)	703
Net cash flow from / (used in) investing activities	**4,439**	(2,409)	(976)
Cash flow from / (used in) financing activities			
Net money market paper issued / (repaid)	**16,921**	23,221	21,379
Net movements in treasury shares and own equity derivative activity	**(3,624)**	(2,416)	(4,999)
Capital issuance	**1**	2	2
Capital repayment by par value reduction	**(631)**	0	0
Dividends paid	**(3,214)**	(3,105)	(2,806)
Issuance of long-term debt, including financial liabilities designated at fair value	**97,675**	76,307	51,211
Repayment of long-term debt, including financial liabilities designated at fair value	**(59,951)**	(30,457)	(24,717)
Increase in minority interests [1]	**1,331**	1,572	85
Dividend payments to / purchase from minority interests	**(1,072)**	(575)	(332)
Net cash flow from / (used in) financing activities	**47,436**	64,549	39,823
Effects of exchange rate differences	**(2,117)**	5,018	(1,052)
Net increase / (decrease) in cash and cash equivalents	**45,048**	3,951	13,735
Cash and cash equivalents, beginning of the year	**91,042**	87,091	73,356
Cash and cash equivalents, at the end of the year	**136,090**	91,042	87,091
Cash and cash equivalents comprise:			
Cash and balances with central banks	**3,495**	5,359	6,036
Money market paper [2]	**87,144**	57,826	45,523
Due from banks with original maturity of less than three months	**45,451**	27,857	35,532
Total	**136,090**	91,042	87,091

1 Includes issuance of preferred securities of CHF 1,219 million and CHF 1,539 million for the years ended 31 December 2006 and 31 December 2005, respectively. 2 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. CHF 7,183 million, CHF 4,744 million and CHF 5,289 million were pledged at 31 December 2006, 31 December 2005 and 31 December 2004, respectively.

Statement of Cash Flows (continued)

	For the year ended		
CHF million	**31.12.06**	31.12.05	31.12.04
Additional information			
Cash received as interest	**79,805**	53,117	36,063
Cash paid as interest	**76,109**	44,392	24,192
Cash received as dividends on equities (incl. Associates, see Note 14)	**4,839**	3,869	2,934
Significant non-cash investing and financing activities			
Motor-Columbus, Baden, from valuation at equity to full consolidation			
Financial investments available-for-sale			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 available-for-sale		60	
Property and equipment		180	
Goodwill and other intangible assets		362	
Debt issued		5	
Private equity investments, deconsolidation			
Property and equipment	264	248	
Goodwill and other intangible assets		3	
Minority interests	62	27	
Acquisitions of businesses			
Financial investments available-for-sale		35	
Property and equipment		112	
Goodwill and other intangible assets		377	
Minority interests		6	
Motor-Columbus, deconsolidation			
Financial investments available-for-sale	178		
Property and equipment	2,229		
Goodwill and other intangible assets	951		
Debt issued	718		
Minority interests	2,057		
Acquisition of ABN AMRO's Global Futures and Options Business			
Property and equipment	13		
Goodwill and other intangible assets	428		
Acquisition of Banco Pactual			
Financial investments available-for-sale	36		
Property and equipment	9		
Goodwill and other intangible assets	2,218		
Debt issued	1,496		
Acquisition of Piper Jaffray			
Goodwill and other intangible assets	605		

Notes to the Financial Statements

Note 1 Summary of Significant Accounting Policies

a) Significant Accounting Policies

1) 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 8 March 2007, the Board of Directors approved them for issue.

2) 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.

3) Subsidiaries and associates

The Financial Statements comprise those of the parent company (UBS AG) and its subsidiaries including certain special purpose entities, presented as a single economic entity. The effects of intra-group transactions are eliminated in preparing the Financial Statements. Subsidiaries including 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 (i.e. loss of control).

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 net profit or loss (including net profit or loss recognized directly in equity) 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 or loss 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 part 4).

4) Recognition and derecognition of financial instruments

UBS recognizes financial instruments on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

UBS enters into transactions where it transfers financial assets recognized on its balance sheet but retains either all risks and rewards of the transferred financial assets or a portion of them. If all or substantially all risks and rewards are retained, the transferred financial assets are not derecognized from the balance sheet. Transfers of financial assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions described under parts 12) and 13). They further include transactions where financial 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 of the risks and rewards of ownership of a financial asset are neither retained nor transferred, UBS derecognizes the financial 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 financial 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. Examples of such transactions are transfers of financial assets involving guarantees, writing put options, acquiring call options, or specific types of swaps linked to the performance of the asset.

UBS removes a financial liability from its balance sheet when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

5) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. 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 values 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 model inputs are unobservable, the financial instrument is initially recognized at the transaction price, which is generally 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. Refer to Note 30 Fair Value of Financial Instruments for further details.

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. Based on the established fair value and model governance policies and related controls and procedures applied, 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.

6) Trading portfolio

Trading portfolio assets consist of money market paper, other debt instruments, including traded loans, equity instruments, precious metals and other commodities owned by the Group ("long" positions). Trading portfolio liabilities consist of obligations to deliver financial instruments 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 and 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 financial asset transactions. From the date the transaction is entered into (trade date), UBS recognizes any unrealized profits and losses arising from revaluing that contract to fair value in Net trading income. The corresponding receivable or payable is presented on the balance sheet as a positive or negative replacement value. When the transaction is consummated (settlement date), a resulting financial asset is recognized on or derecognized from 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 (settlement date).

Trading portfolio assets transferred to external parties that do not qualify for derecognition (see part 4)) are reclassified on UBS's balance sheet from Trading portfolio assets to Trading portfolio assets pledged as collateral, if the transferee has received the right to sell or repledge them.

7) Financial assets and Financial liabilities designated at fair value through profit or loss ("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 ("Revised Fair Value Option"). UBS adopted the Revised Fair Value Option for financial instruments on a prospective basis on 1 January 2006.

Prior to 1 January 2006, UBS designated almost all of its issued hybrid debt instruments as Financial liabilities designated at fair value through profit or loss. These liabilities are presented in a separate line on the face of the balance sheet. A small amount of financial assets was also designated as Financial assets designated at fair value through profit or loss, and they are likewise presented in a separate line. A financial instrument may only be designated at fair value through profit or loss at inception and this designation cannot subsequently be changed.

Under the revised accounting standard, UBS continues to apply the fair value option for these existing financial instruments. The conditions for such designation are still met either on the basis that they are hybrid instruments which would otherwise have to be bifurcated into debt host contracts and embedded derivatives or because they are items that are part of a portfolio which is risk managed on a fair value basis and reported to senior management as such. In 2006, UBS started applying the fair value option to certain new loans and loan commitments which are substantially hedged with credit derivatives, to certain hybrid instruments resulting from structured repurchase and reverse repurchase agreements and to a hedge fund investment which is part of a portfolio managed on a fair value basis. All fair value changes related to financial instruments designated at fair value through profit or loss are recognized in Net trading income.

Interest and dividend income and interest expense on financial assets and liabilities designated at fair value through profit or loss are included in Interest income or Interest expense.

UBS applies the same recognition and derecognition principles to financial instruments designated at fair value as for financial instruments held for trading (refer to parts 4) and 6)).

8) Financial investments available-for-sale

Financial investments available-for-sale are non-derivative financial assets that are not classified as held for trading, designated at fair value through profit or loss, or loans and receivables. They are recognized on a settlement date basis. Financial investments available-for-sale 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 available-for-sale consist mainly of equity instruments, including certain private equity investments. In addition, certain debt instruments are classified as financial investments available-for-sale.

Financial investments available-for-sale are carried at fair value. Unrealized gains or losses are reported in Equity, net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until any such investment is determined to be impaired. On disposal of an investment, the accumulated unrealized gain or loss included in Equity 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 financial investments available-for-sale are included in Interest and dividend income from financial investments available-for-sale.

If a financial investment available-for-sale is determined to be impaired, the cumulative unrealized loss previously recognized in Equity is included in Net profit and loss for the period and reported in Other income. UBS assesses at each balance sheet date whether there is objective evidence that a financial investment available-for-sale is impaired. In case of such evidence, it is considered impaired if its cost exceeds the recoverable amount. For a quoted financial investment available-for-sale, the recoverable amount is determined by reference to the market price. It is considered impaired if objective evidence indicates that the decline in market price has reached such a level that recovery of the cost value cannot be reasonably expected within the foreseeable future. For non-quoted financial instruments (debt and equity instruments), the recoverable amount is determined by applying recognized valuation techniques. The standard method applied for non-quoted equity investments available-for-sale 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 non-quoted debt instruments, UBS typically determines the recoverable amount by applying the discounted cash flow method.

After the recognition of impairment on a financial investment available-for-sale, a) increases in fair value of equity instruments are reported in Equity and b) increases in fair value of debt instruments up to original cost are recognized in Other income, provided the fair value increase has been triggered by a specific event (as defined by IFRS).

9) 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 generally 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.

10) 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, or a commitment such as a letter of credit, a guarantee, a commitment to extend credit or other credit products.

An allowance for credit losses is reported as a reduction of the carrying value of a claim on the balance sheet. For an off-balance sheet item, such as a commitment, a provision for credit loss is reported in Other liabilities. Additions to 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, including amounts that may result from restructuring or the liquidation of collateral. 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 or equivalent value.

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 it 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 sub-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 aggregated loan position. As the allowance cannot be allocated to individual loans, the loans are not considered to be impaired and interest is accrued on each loan according to its contractual terms.

11) 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 are recorded in Net trading income.

12) Securities borrowing and lending

Securities borrowing and securities lending transactions are generally entered into on a collateralized basis. In such transactions, UBS typically lends or borrows securities in exchange for securities or cash collateral. Additionally, UBS borrows securities from its clients' custody accounts in exchange for a fee. The majority of securities lending and borrowing agreements involve shares, and the remainder typically involve bonds and notes. The 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. UBS monitors the market value of the securities received or delivered on a daily basis and requests or provides additional collateral or returns or recalls surplus collateral in accordance with the underlying agreements.

The securities which have been transferred, whether in a borrowing/lending transaction or as collateral, are not recognized on or derecognized from 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 from Trading portfolio assets 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 repledged also disclosed separately (see Note 24). Additionally, the sale of securities received in a borrowing or lending transaction triggers the recognition of a trading liability (short sale).

Consideration exchanged (i.e. interest received or paid) is recognized on an accrual basis and recorded as Interest income or Interest expense.

13) 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. Nearly all repurchase and reverse repurchase agreements involve debt instruments, such as bonds, notes or money market paper. The 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. UBS monitors the market value of the securities received or delivered on a daily basis and requests or provides additional collateral or returns or recalls surplus collateral in accordance with the underlying agreements.

In reverse repurchase agreements, the cash delivered is derecognized and a corresponding receivable, including accrued interest, is recorded under the balance sheet line Reverse repurchase agreements, recognizing UBS's right to receive it back. 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. 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 from Trading portfolio assets 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 repledge them, with securities that UBS has actually resold or repledged also disclosed separately (see Note 24). Additionally, the sale of securities received in reverse repurchase transactions triggers the recognition of a trading liability (short sale).

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.

14) Derivative instruments and hedge accounting

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. UBS regards a hedge as highly effective only if the following criteria are met: a) at inception of the hedge and throughout its life, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, and b) actual results of the hedge 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, 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 present value of cash flows of the hedging derivative differ from changes (or expected changes) in the present value of cash flows of the hedged item. Such ineffectiveness is 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 the income statement. 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 the income statement. 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 the income statement 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 the income statement.

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. 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 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 remains there until the committed or forecast transaction occurs or is no longer expected to occur, at which point it is transferred to the income statement.

Derivative instruments which are transacted as economic hedges but do not qualify 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 except that, in certain cases, the forward points on short duration foreign exchange contracts are presented in Net interest 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 23 for additional information. Where UBS designates an economically hedged item at fair value through profit or loss, all fair value changes, including impairments, on both the hedged item and the hedging instrument are reflected in Net trading income (refer to part 7)).

A derivative may be embedded in a 'host contract'. Such combinations are known as hybrid 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 the income statement, the embedded derivative is generally required to be separated from the host contract and accounted for as a standalone 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. Typically, UBS applies the fair value option to hybrid instruments (see part 7)), so that bifurcation of an embedded derivative component is not required.

15) 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 available-for-sale.

16) Physical commodities

Physical commodities (precious metals, base metals, energy and other commodities) held by UBS as a result of its broker-trader activities are accounted for at fair value less costs to sell and presented within the Trading portfolio. Changes in fair value less costs to sell are reflected in Net trading income.

17) 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 separately 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 Group is minor. The classification of property is reviewed on a regular basis to account for major changes in its usage.

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

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

With the exception of investment properties, Property and equipment is carried at cost less accumulated depreciation and accumulated impairment losses, and is periodically reviewed for impairment. The useful life of property and equipment is estimated on the basis of the economic utilization of the asset.

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

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 properties are included in Properties held for sale and recorded in Other assets. They are carried at the lower of cost and net realizable 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 to 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.

18) 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. 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. Since 31 December 2004, goodwill has not been amortized but is tested annually for impairment. 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 acquired in business combinations are recognized on the balance sheet with their fair value at the date of acquisition and, if they have a definite useful life, 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: a) infrastructure, and b) customer relationships, contractual rights and other. Infrastructure consists of an intangible asset recognized in connection with the acquisition of PaineWebber Group, Inc. Customer relationships, contractual rights and other includes mainly intangible assets for client relationships, non-compete agreements, favorable contracts, proprietary software, trademarks and trade names acquired in business combinations.

19) 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.

Tax assets and liabilities of the same type (current or deferred) are offset when they arise from the same tax reporting group, they 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, (ii) unrealized gains or losses on financial investments available-for-sale and changes in fair value of derivative instruments designated as cash flow hedges, and (iii) certain tax benefits on deferred compensation awards. Items (ii) and (iii) are recorded in Net income recognized directly in equity.

20) 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.

Hybrid 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 or 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 at fair value through profit or loss – see part 7).

The fair value option is not applied to certain hybrid instruments which contain bifurcatable embedded derivatives with references to foreign exchange rates and precious metal prices and which are not hedged by derivative instruments. Those hybrids are still subject to bifurcation of the embedded derivative.

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. When the hybrid debt instrument is issued, a portion of the net proceeds 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 debt component is subsequently measured at amortized cost. The remaining amount of the net proceeds 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 hybrid instrument or the embedded derivative related to UBS AG shares is to be 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 Net trading income unless the entire hybrid debt instrument is designated at fair value through profit or loss with changes in fair value of the entire hybrid instrument also reflected in Net trading income (see part 7)).

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 23), and to apply fair value hedge accounting, if the fair value option is not applied to such financial instruments – see part 7). 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 – refer to part 14). Derivative instruments and hedge accounting for further discussion.

Bonds issued by UBS 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 is 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.

21) Retirement benefits

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

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

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

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

22) Equity participation plans

UBS provides various equity participation plans in the form of share plans and share option plans. UBS recognizes the fair value of share and share 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 share awards is equal to the market price at the date of grant. For share options, fair value is determined using a Monte Carlo valuation model which takes into account the specific terms and conditions under which the share options are granted. Equity settled awards are classified as equity instruments and are not re-measured 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 remeasured 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. Up to and including 2004, certain plans gave participants the ability to roll their share-based awards into alternative investments. These plans are treated as cash-settled. UBS no longer provides this roll-over option to its employees.

23) Equity, treasury shares and contracts on UBS shares

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

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

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

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

UBS has issued trust preferred securities through consolidated preferred funding trusts, which hold debt issued by UBS. UBS AG has fully and unconditionally guaranteed all of these securities. UBS's obligations under these guarantees are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. The trust preferred securities represent equity instruments which are owned by third parties. They are presented as minority interests in UBS's consolidated financial statements with dividends paid also reported under Equity attributable to minority interests. UBS bonds held by preferred funding trusts are eliminated in consolidation.

24) Discontinued operations and non-current assets held for sale

UBS classifies non-current non-financial assets (or disposal groups) as held for sale, e.g. properties, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use – see part 17). Such assets (or disposal groups) are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets (or disposal groups) and their sale is considered highly probable. These assets are measured at the lower of their carrying amount and fair value less costs to sell.

UBS presents discontinued operations under a separate line in the income statement if an entity or a component of an entity has been disposed of or is classified as held for sale and a) represents a separate major line of business or geographical area of operations, or b) is a subsidiary acquired exclusively with a view to resale (e.g. certain private equity investments). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of UBS's operations and cash flows. If an entity or a component of an entity is classified as a discontinued operation, UBS restates prior periods in the income statement – see part 3).

25) Leasing

UBS enters into lease contracts, predominately of premises and equipment, as a lessor as well as a lessee. The terms and conditions of these contracts are assessed and the leases are classified as operating leases or finance leases according to their economic substance. When making such an assessment, the Group focuses on the following aspects: a) Is ownership of the asset transferred to the lessee by the end of the lease term?; b) Is a bargain purchase option held by the lessee?; c) Is the lease term for the major part of the economic life of the asset?; d) Does the present value of the minimum lease payments amount to at least substantially all of the fair value of the leased asset at inception of the lease term? The existence of such conditions, individually or in combination with others, normally leads to a lease being classified as a finance lease, while the non-existence normally leads to a lease being classified as an operating lease.

Lease contracts classified as operating leases where UBS is the lessee are disclosed in Note 27 Operating Lease Commitments. These contracts include non-cancellable long-term leases of office buildings in most UBS locations. Lease contracts classified as operating leases where UBS is the lessor, and finance lease contracts where UBS is the lessor or the lessee, are not material.

26) 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 recognition 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.

27) 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 held for trading and for non-monetary financial assets designated at fair value through profit or loss, unrealized exchange differences are recognized in the income statement. For non-monetary financial investments 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 net asset balance at the closing rate are recognized directly in Foreign currency translation within Equity.

28) 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.

29) Segment reporting

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 Business Groups Investment Bank and Global Asset Management constitute one segment each. The Corporate Center represents one segment in 2006, as Private Banks & GAM was sold on 2 December 2005. Additionally, the Industrial Holdings segment holds all industrial operations controlled by the Group. In total, UBS reports seven 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.

30) Revenues from Industrial Holdings and Goods and materials purchased

Revenues from Industrial Holdings include sales of goods and services from three consolidated entities and are derived from various businesses. Revenue is generally recognized upon customer acceptance of goods delivered and when services have been rendered. Expenses from Goods and materials purchased include costs for raw materials, parts and finished goods purchased from third-party suppliers to produce the goods and services sold.

b) Changes in accounting policies, comparability and other adjustments

Effective in 2006

IAS 39 Financial Instruments: Recognition and Measurement – Amendment to the fair value option

In June 2005, the IASB issued amendments to IAS 39 *Financial Instruments: Recognition and Measurement* in regard to the fair value option. UBS adopted the revised IAS 39 fair value option on 1 January 2006. Under the amended guidance, the use of the fair value option requires that at least one of three defined criteria is satisfied, which is more restrictive than the previous guidance. All financial instruments designated at fair value through profit or loss at 31 December 2005 continued to qualify for the use of the fair value option under the revised fair value option. On transition date of the revised standard, 1 January 2006, UBS did not apply the fair value option to any previously recognized financial asset or financial liability, for which the fair value option had not been used under the previous fair value option guidance. Therefore, the initial adoption of the revised standard did not have an impact on UBS's financial statements. See part 7) for details on the use of the revised fair value option during the year 2006. In addition, effective 1 January 2006, the disclosure requirements for financial instruments designated at fair value through profit or loss have been amended due to the revision of IAS 32 *Financial Instruments: Presentation*.

Prime Brokerage

UBS has reclassified certain receivables and payables resulting from its Prime Brokerage business for the years ended 2002 through 2006 to ensure consistent presentation of identical items throughout UBS. See the next page for reclassifications that have been made to previously disclosed amounts.

The adjustments had no effect on Net profit, Basic earnings per share and Diluted earnings per share in all years presented. UBS's internal measures of credit exposure and regulatory capital are unaffected by the reclassification.

Cash collateral on securities borrowed

Counterparty information on receivables resulting from cash paid as collateral in securities borrowing transactions is disclosed in Note 11. For comparability reasons, UBS reclassified CHF 183 billion from receivables against banks to receivables against customers on 31 December 2005.

Staff Accounting Bulletin (SAB) 108

In response to the release of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements,* UBS elected to adopt a modified quantitative framework for assessing whether the financial statement effect of a misstatement is material because it renders a better evaluation of those effects. The new method, which UBS adopted in December 2006, uses a dual approach for quantifying the effect of a misstatement. Prior to 2006, UBS applied only one of those methods, the "roll-over" method, which focused on the current-year income-statement impact of a misstatement. Under the new policy, UBS applies a dual approach that considers both the carryover and reversing effects of prior year misstatements. As a result of the new policy, the opening balance of Accrued expenses and deferred income at 1 January 2002 was increased by CHF 399 million, Retained earnings were reduced by CHF 309 million and Deferred taxes of CHF 90 million were recognized on balance sheet. The adjustments relate to the under-accrual of unused vacation, sabbatical leave and service anniversary awards. The restatement impact of adopting this new policy is immaterial to all quarterly and annual income statements, earnings per share amounts, and balance sheets since 1 January 2002.

Amendments to existing standards and new interpretations

Minor amendments have been made to the following existing International Accounting Standards, which were effective and have been adopted by UBS at 1 January 2006.

Prime Brokerage Reclassification

Balance sheet

CHF million	31.12.05	31.12.04	31.12.03	31.12.02
Assets				
Cash collateral on securities borrowed	(11,896)	(9,636)	(7,413)	0
Loans	9,941	9,636	7,413	0
Total	**(1,955)**	**0**	**0**	**0**
Liabilities				
Cash collateral on securities lent	(17,329)	(10,244)	(5,006)	0
Due to customers	15,374	10,244	5,006	0
Total	**(1,955)**	**0**	**0**	**0**

Off-Balance Sheet

CHF million	31.12.05	31.12.04	31.12.03	31.12.02
Fair value of securities sold or repledged in connection with financing activities, disclosed in Note 24	20,769	14,338	0	0

In addition, the following reclassifications have been made within interest income and expense:

Income statement

CHF million	31.12.05	31.12.04	31.12.03	31.12.02
Interest income				
Interest earned on loans and advances	290	313	30	120
Interest earned on securities borrowed and reverse repurchase agreements	(279)	(307)	(25)	(115)
Interest and dividend income from trading portfolio	(11)	(6)	(5)	(5)
Total	**0**	**0**	**0**	**0**
Interest expense				
Interest on amounts due to banks and customers	146	108	(1)	92
Interest on securities lent and repurchase agreements	(146)	(108)	1	(92)
Total	**0**	**0**	**0**	**0**

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 part a 21). 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 did not have a material 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 a currency other 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 adopted the interpretation on 1 January 2006, its effective date. The interpretation had no material effect on UBS's Financial Statements.

Effective in 2005 and earlier

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 sheet 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 additional Net profit attributable to UBS shareholders of CHF 142 million in 2004.

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 recognized in the income statement in 2004. Gains on sale recognized in 2004 were CHF 1 million. When accounted for as Financial investments available-for-sale, gains on sale recognized were CHF 70 million in 2004.

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 (but before 1 January 2006) and are presented as Discontinued operations in the restated comparative prior periods in accordance with IFRS 5, which is discussed on the next page. Gains on sale of CHF 90 million were reported in 2004 in connection with private equity investments sold. On a restated basis, the Net profit from discontinued operations related to these entities was CHF145 million in 2004.

IFRS 2 Share-based Payment

In February 2004, the IASB issued IFRS 2 S*hare-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 was recognized in 2004. 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 CHF1.3 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 45,991,908 in 2004, 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.

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. Private Banks & GAM, Motor-Columbus and certain private equity investments meet this definition and were reclassified to Discontinued operations. UBS adopted the new standard on 1 January 2005 and restated the comparative prior year 2004. The income statement is now divided into two sections: Net profit from continuing operations and Net profit from discontinued operations. Refer to Note 38 Discontinued Operations for details.

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 part a 23). 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 put 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 or 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 part a 4) 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.

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.

Segment reporting

On 1 July 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 2005 and 2004, 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 was consolidated on 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 was reported. Motor-Columbus is presented as a discontinued operation in these Financial Statements due to the sale on 23 March 2006. Also included in the Industrial Holdings segment are all private equity investments, which comprise businesses of a predominantly industrial nature.

c) International Financial Reporting Standards and Interpretations to be adopted in 2007 and later

IFRS 7 Financial Instruments: Disclosures

Effective 1 January 2007, UBS will adopt the disclosure requirements for financial instruments under IFRS 7. The new standard has no impact on recognition, measurement and presentation of financial instruments. Accordingly, it will have no effect on Net profit and Equity. Rather, it requires entities to provide disclosures in their financial statements that enable users to evaluate: a) the significance of financial instruments for the entity's financial position and performance; and b) the nature and extent of the credit, market and liquidity risks arising from financial instruments during the period and at the reporting date, and how the entity manages those risks. The principles of IFRS 7 complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*.

UBS has entered into transactions for which fair value is determined using valuation models for which not all inputs are market-observable prices or rates. Such financial instruments are initially recognized in UBS's Financial Statements at the transaction price, which is generally the best indicator of fair value, although the value obtained from the relevant valuation model may differ. Where such differences arise, UBS will be required by IFRS 7 to disclose, by class of financial instrument: (a) its accounting policy for recognizing that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price, and (b) the aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

IFRS 8 Operating Segments
The new standard on segment reporting, IFRS 8 *Operating Segments,* comes into force on 1 January 2009, replacing IAS 14 *Segment Reporting*. It sets out requirements for disclosure of information about a firm's operating segments, its products and services, the geographical areas in which it operates, and its major customers. The new standard introduces changes to previous requirements for identification of segments, measurement of segment information and disclosures. Specifically, it requires a firm to provide financial and descriptive information about its reportable segments – the operating segments or aggregations of operating segments based on which the senior management of the firm (the "chief operating decision maker") regularly evaluates separate financial information in deciding how to allocate resources and how to assess performance. Generally, under IFRS 8, the information to be reported will be the same information that is used internally, which might differ from amounts reported in the financial statements. The new standard therefore requires an explanation of the basis on which the segment information is prepared, and reconciliations to the amounts presented in the income statement and the balance sheet. UBS is currently assessing the impact of IFRS 8 on the structure and content of the segment reporting in its financial statements, and whether, as permitted by the standard, to apply it from 1 January 2008.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies will be applied on 1 January 2007. This Interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity (this could be a subsidiary) identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with IAS 29. It is not expected that this guidance will have an impact on UBS's Financial Statements.

IFRIC 8 Scope of IFRS 2
IFRIC 8 was issued in January 2006. This IFRIC addresses whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. The Interpretation requires that IFRS 2 be applied to transactions in which goods or services are received, such as transactions in which an entity receives goods or services as consideration for equity instruments of the entity. This includes transactions in which the entity cannot identify specifically some or all of the goods or services received. The unidentifiable goods or services received (or to be received) should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received). Measurement of the unidentifiable goods or services received should take place at the grant date. However, for cash-settled transactions, the liability should be re-measured at each reporting date until it is settled. UBS will adopt the Interpretation on 1 January 2007. This Interpretation will have no significant impact on UBS's Financial Statements.

IFRIC 9 Reassessment of Embedded Derivatives
The Interpretation clarifies that an entity should not reassess whether an embedded derivative needs to be separated from the host contract after the initial hybrid contract is recognized, unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. UBS will adopt this Interpretation of IAS 39 on 1 January 2007. It is not expected that this Interpretation will have a significant impact on UBS's Financial Statements.

IFRIC 10, Interim Financial Reporting and Impairment
The new Interpretation of IAS 39 requires that impairment losses recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost must not be reversed at a subsequent balance sheet date. UBS will adopt this Interpretation from 1 January 2007 onwards. It is not expected that this interpretation will have a significant impact on UBS's Financial Statements.

IFRIC 11, IFRS 2: Group and Treasury Share Transactions
IFRIC 11 was issued in November 2006 and provides guidance on (a) how to account for share-based payment arrangements between entities within the same group; (b) determining whether a transaction should be accounted for as equity-settled or cash-settled when an entity either chooses or is required to buy equity instruments (i.e. treasury shares) from another party, to satisfy its obligations to its employees; and (c) determining whether a transaction should be accounted for as equity-settled or cash-settled when an entity's

employees are granted rights to equity instruments of the entity (e.g. share options), either by the entity itself or by its shareholders, and the shareholders of the entity provide the equity instruments needed. The Interpretation requires that share-based payment transactions in which an entity receives services as consideration for its own equity instruments be accounted for as an equity-settled transaction. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. UBS will adopt the interpretation on 1 January 2007. 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 Business Groups Investment Bank and Global Asset Management constitute one segment each. The Corporate Center is now comprised of only one segment, after the sale of Private Banks & GAM on 2 December 2005. Prior to this, Corporate Center consisted of two segments, Corporate Functions and Private Banks & GAM. In addition, the Industrial Holdings segment holds all industrial operations controlled by the Group. In total, UBS now reports seven 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 and operates 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, 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, 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 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 currency earnings, information technology infrastructure and service centers. Private Banks & GAM, which was shown as a separate segment within Corporate Center in prior years, was sold on 2 December 2005 and is presented as discontinued operations.

Industrial Holdings

The Industrial Holdings segment comprises the non-financial businesses of UBS, including the private equity business which primarily invests UBS and third-party funds in unlisted companies. The most significant business in this segment, Motor-Columbus, was sold on 23 March 2006 and is presented as discontinued operations. Additionally, certain private equity investments sold in 2006 and prior years are presented as discontinued operations.

Note 2a Reporting by Business Group (continued)

For the year ended 31 December 2006

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 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, credit loss is measured using an expected loss concept. This table shows Business Group performance consistent with the way the 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 Center as Adjusted expected credit loss.

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 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					
	10,827	5,863	5,085	3,220	21,726	294	994	48,009
	1	(1)	109	0	47	0	0	156
	10,828	5,862	5,194	3,220	21,773	294	994	48,165
	3,137	3,800	2,412	1,503	11,353	1,264	202	23,671
	885	1,073	1,070	399	3,260	1,242	187	8,116
	1,479	281	(642)	(105)	956	(1,978)	9	0
	84	74	74	27	203[4]	783	18	1,263
	10	53	0	4	72	9	5	153
							295	295
	5,595	5,281	2,914	1,828	15,844	1,320	716	33,498
	5,233	**581**	**2,280**	**1,392**	**5,929**	**(1,026)**	**278**	**14,667**
						4	852	856
	5,233	**581**	**2,280**	**1,392**	**5,929**	**(1,022)**	**1,130**	**15,523**
								2,786
								(13)
								12,750
	286,241	63,249	211,123	48,616	2,108,828	(323,434)	1,888	**2,396,511**
	281,327	57,681	205,747	46,589	2,089,140	(343,152)	3,404	**2,340,736**
	257	273	14	498	593	1,385	97	**3,117**
	10,827	5,863	5,085	3,220	21,726	294	994	48,009
	(29)	0	185	0	61	(61)	0	156
	10,798	5,863	5,270	3,220	21,787	233	994	48,165
	3,137	3,800	2,412	1,503	11,353	1,264	202	23,671
	885	1,073	1,070	399	3,260	1,242	187	8,116
	1,479	281	(642)	(105)	956	(1,978)	9	0
	84	74	74	27	203[4]	783	18	1,263
	10	53	0	4	72	9	5	153
							295	295
	5,595	5,281	2,914	1,828	15,844	1,320	716	33,498
	5,203	**582**	**2,356**	**1,392**	**5,943**	**(1,087)**	**278**	**14,667**
						4	852	856
	5,203	**582**	**2,356**	**1,392**	**5,943**	**(1,083)**	**1,130**	**15,523**
								2,786
								(13)
								12,750

1 Impairments of financial investments available-for-sale for the year ended 31 December 2006 were as follows: Global Wealth Management & Business Banking CHF 8 million; Global Asset Management CHF 1 million; Investment Bank CHF 5 million; Corporate Center CHF (2) million and Industrial Holdings CHF 23 million. 2 For further information regarding goodwill and other intangible assets by Business Group, please see Note 16: Goodwill and Other Intangible Assets. 3 The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center. 4 Includes a CHF 34 million software impairment.

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 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, credit loss is measured using an expected loss concept. This table shows Business Group performance consistent with the way the 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 as Adjusted expected credit loss.

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 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	1,236	40,757
(8)	0	231	0	152		0	0	375
9,016	5,158	5,180	2,487	17,600		455	1,236	41,132
2,579	3,460	2,450	988	9,259		1,167	245	20,148
804	1,047	994	304	2,215		1,084	184	6,632
1,371	223	(634)	116	640		(1,730)	14	0
89	65	72	21	136		857	21	1,261
7	49	0	1	53		17	4	131
							283	283
4,850	4,844	2,882	1,430	12,303		1,395	751	28,455
4,166	**314**	**2,298**	**1,057**	**5,297**		**(940)**	**485**	**12,677**
					4,556	8	496	5,060
4,166	**314**	**2,298**	**1,057**	**5,297**	**4,556**	**(932)**	**981**	**17,737**
								2,471
								576
								14,690
223,790	64,896	176,837	40,782	1,766,563		(226,069)	11,549	2,058,348
219,140	59,567	170,668	39,191	1,748,934		(242,600)	11,814	2,006,714
81	84	58	16	138	25	1,264	299	1,965
9,024	5,158	4,949	2,487	17,448		455	1,236	40,757
(13)	(2)	122	0	36		232	0	375
9,011	5,156	5,071	2,487	17,484		687	1,236	41,132
2,579	3,460	2,450	988	9,259		1,167	245	20,148
804	1,047	994	304	2,215		1,084	184	6,632
1,371	223	(634)	116	640		(1,730)	14	0
89	65	72	21	136		857	21	1,261
7	49	0	1	53		17	4	131
							283	283
4,850	4,844	2,882	1,430	12,303		1,395	751	28,455
4,161	**312**	**2,189**	**1,057**	**5,181**		**(708)**	**485**	**12,677**
					4,508	56	496	5,060
4,161	**312**	**2,189**	**1,057**	**5,181**	**4,508**	**(652)**	**981**	**17,737**
								2,471
								576
								14,690

1 Impairments of financial investments available-for-sale 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 16: 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 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, credit loss is measured using an expected loss concept. This table shows Business Group performance consistent with the way the 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 as Adjusted expected credit loss.

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 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							Industrial Holdings[1]	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		
7,701	4,741	5,064	2,022	16,090		112	915	36,645
(1)	3	92	0	147		0	0	241
7,700	4,744	5,156	2,022	16,237		112	915	36,886
2,119	3,320	2,426	893	8,152		796	185	17,891
642	767	1,064	299	2,538		1,077	176	6,563
1,395	275	(533)	126	226		(1,509)	20	0
66	67	69	23	243		794	22	1,284
67	171	0	129	278		1	27	673
8	107	0	0	36		17	2	170
							263	263
4,297	4,707	3,026	1,470	11,473		1,176	695	26,844
3,403	**37**	**2,130**	**552**	**4,764**		**(1,064)**	**220**	**10,042**
					386	10	385	781
3,403	**37**	**2,130**	**552**	**4,764**	**386**	**(1,054)**	**605**	**10,823**
								2,155
								198
								8,470
164,716	48,058	210,223	29,698	1,477,402	8,043	(210,363)	9,394	1,737,171
161,042	43,879	204,569	28,311	1,463,596	7,480	(220,730)	9,966	1,698,113
304	48	212	8	415	19	599	1,484	3,089

7,701	4,741	5,064	2,022	16,090		112	915	36,645
(8)	(5)	(25)	0	(7)		286	0	241
7,693	4,736	5,039	2,022	16,083		398	915	36,886
2,119	3,320	2,426	893	8,152		796	185	17,891
642	767	1,064	299	2,538		1,077	176	6,563
1,395	275	(533)	126	226		(1,509)	20	0
66	67	69	23	243		794	22	1,284
67	171	0	129	278		1	27	673
8	107	0	0	36		17	2	170
							263	263
4,297	4,707	3,026	1,470	11,473		1,176	695	26,844
3,396	**29**	**2,013**	**552**	**4,610**		**(778)**	**220**	**10,042**
					438	(42)	385	781
3,396	**29**	**2,013**	**552**	**4,610**	**438**	**(820)**	**605**	**10,823**
								2,155
								198
								8,470

1 Results for Motor-Columbus include the six month period beginning on 1 July 2004. 2 Impairments of financial investments available-for-sale 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 16: Goodwill and Other Intangible Assets. 4 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, is a more meaningful representation of the way in which the Group is managed.

For the year ended 31 December 2006

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	12,987	27	211,565	9	650	21
Rest of Europe / Middle East / Africa	12,771	27	734,986	31	385	12
Americas	18,367	38	1,243,933	51	1,754	56
Asia Pacific	4,040	8	206,027	9	328	11
Total	**48,165**	**100**	**2,396,511**	**100**	**3,117**	**100**

For the year ended 31 December 2005

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	13,793	34	203,907	10	973	49
Rest of Europe / Middle East / Africa	9,236	22	687,963	33	467	24
Americas	15,293	37	1,004,230	49	386	20
Asia Pacific	2,810	7	162,248	8	139	7
Total	**41,132**	**100**	**2,058,348**	**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	13,438	37	193,464	11	1,993	65
Rest of Europe / Middle East / Africa	7,535	20	561,390	32	556	18
Americas	13,787	37	830,350	48	376	12
Asia Pacific	2,126	6	151,967	9	164	5
Total	**36,886**	**100**	**1,737,171**	**100**	**3,089**	**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 tables below and on the next page). 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 second 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 with the breakdown provided in the third table below and the table on the next page.

Net interest and trading income

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Net interest income	**6,521**	9,528	11,744	(32)
Net trading income	**13,318**	7,996	4,902	67
Total net interest and trading income	**19,839**	17,524	16,646	13

Breakdown by business activity

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Equities	**4,759**	3,928	3,098	21
Fixed income	**6,204**	5,741	6,264	8
Foreign exchange	**1,745**	1,458	1,467	20
Other	**411**	292	203	41
Net income from trading activities	**13,119**	11,419	11,032	15
Net income from interest margin products	**5,829**	5,355	5,070	9
Net income from treasury and other activities	**891**	750	544	19
Total net interest and trading income	**19,839**	17,524	16,646	13

Net interest income[1]

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Interest income				
Interest earned on loans and advances[2]	**15,266**	11,678	9,220	31
Interest earned on securities borrowed and reverse repurchase agreements	**39,771**	23,362	10,699	70
Interest and dividend income from trading portfolio	**32,211**	24,134	19,271	33
Interest income on financial assets designated at fair value	**25**	26	0	(4)
Interest and dividend income from financial investments available-for-sale	**128**	86	38	49
Total	**87,401**	59,286	39,228	47
Interest expense				
Interest on amounts due to banks and customers	**20,024**	11,226	5,583	78
Interest on securities lent and repurchase agreements	**34,021**	20,480	9,906	66
Interest and dividend expense from trading portfolio	**14,533**	10,736	7,993	35
Interest on financial liabilities designated at fair value	**4,757**	2,390	1,168	99
Interest on debt issued	**7,545**	4,926	2,834	53
Total	**80,880**	49,758	27,484	63
Net interest income	**6,521**	9,528	11,744	(32)

1 Figures in comparative periods reflect the prime brokerage reclassification as explained in Note 1. 2 Includes interest income on impaired loans and advances of CHF 158 million for 2006, CHF 123 million for 2005 and CHF 172 million for 2004.

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

Note 3 Net Interest and Trading Income (continued)

Net trading income[1]

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Equities	**7,064**	3,900	2,254	81
Fixed income[2]	**2,945**	1,256	131	134
Foreign exchange and other	**3,309**	2,840	2,517	17
Net trading income	**13,318**	7,996	4,902	67
Thereof:				
Net gains / (losses) from financial assets designated at fair value	**(397)**	70	0	
Net gains / (losses) from financial liabilities designated at fair value	**(3,869)**	(4,024)	(1,203)	

1 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.

Financial liabilities designated at fair value include the impact of UBS's own credit where market information indicates that it is reflected in the price at which UBS transacts with third parties. Products with UBS's own credit as a valuation input include certain structured debt instruments where either at inception or over their life, UBS receives cash flows that provide funding and thereby expose the counterparty to UBS credit risk. In all periods presented, for counterparties entering into products which are financial liabilities from UBS's perspective, the perception of UBS's credit risk has remained stable.

Note 4 Net Fee and Commission Income

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Equity underwriting fees	**1,834**	1,341	1,417	37
Debt underwriting fees	**1,704**	1,516	1,114	12
Total underwriting fees	**3,538**	2,857	2,531	24
Corporate finance fees	**1,852**	1,460	1,078	27
Brokerage fees	**8,053**	6,718	5,794	20
Investment fund fees	**5,858**	4,750	3,948	23
Fiduciary fees	**252**	212	197	19
Custodian fees	**1,266**	1,176	1,143	8
Portfolio and other management and advisory fees	**6,622**	5,310	4,488	25
Insurance-related and other fees	**449**	372	343	21
Total securities trading and investment activity fees	**27,890**	22,855	19,522	22
Credit-related fees and commissions	**269**	306	264	(12)
Commission income from other services	**1,064**	1,027	977	4
Total fee and commission income	**29,223**	24,188	20,763	21
Brokerage fees paid	**1,904**	1,631	1,387	17
Other	**1,438**	1,121	870	28
Total fee and commission expense	**3,342**	2,752	2,257	21
Net fee and commission income	**25,881**	21,436	18,506	21

Note 5 Other Income

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Associates and subsidiaries				
Net gains / (losses) from disposals of consolidated subsidiaries	**(11)**	1	83	
Net gains from disposals of investments in associates	**21**	26	1	(19)
Total	**10**	27	84	(63)
Financial investments available-for-sale				
Net gains from disposals	**921**	231	132	299
Impairment charges	**(12)**	(26)	(34)	54
Total	**909**	205	98	343
Net income from investments in property[1]	**61**	42	65	45
Equity in income of associates	**106**	57	43	86
Net gains / (losses) from investment properties[2]	**5**	12	11	(58)
Other	**204**	218	277	(6)
Total other income from Financial Businesses	**1,295**	561	578	131
Other income from Industrial Holdings	**301**	561	275	(46)
Total other income	**1,596**	1,122	853	42

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

Note 6 Personnel Expenses

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Salaries and bonuses	**19,076**	15,930	14,254	20
Contractors	**822**	823	567	0
Insurance and social security contributions	**1,376**	1,257	1,025	9
Contribution to retirement plans	**802**	713	652	12
Other personnel expenses	**1,595**	1,425	1,393	12
Total personnel expenses	**23,671**	20,148	17,891	17

Note 7 General and Administrative Expenses

	For the year ended			% change from
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.05
Occupancy	**1,435**	1,278	1,256	12
Rent and maintenance of IT and other equipment	**653**	602	653	8
Telecommunications and postage	**907**	840	812	8
Administration	**861**	758	634	14
Marketing and public relations	**653**	576	488	13
Travel and entertainment	**937**	737	614	27
Professional fees	**924**	625	683	48
Outsourcing of IT and other services	**1,095**	871	919	26
Other	**651**	345	504	89
Total general and administrative expenses	**8,116**	6,632	6,563	22

Note 8 Earnings per Share (EPS) and Shares Outstanding

	For the year ended			% change from
	31.12.06	31.12.05	31.12.04	31.12.05
Basic earnings (CHF million)				
Net profit attributable to UBS shareholders	**12,257**	14,029	8,016	(13)
from continuing operations	**11,491**	9,776	7,547	18
from discontinued operations	**766**	4,253	469	(82)
Diluted earnings (CHF million)				
Net profit attributable to UBS shareholders	**12,257**	14,029	8,016	(13)
Less: (Profit)/loss on equity derivative contracts	**(8)**	(22)	(5)	64
Net profit attributable to UBS shareholders for diluted EPS	**12,249**	14,007	8,011	(13)
from continuing operations	**11,483**	9,777	7,550	17
from discontinued operations	**766**	4,230	461	(82)
Weighted average shares outstanding				
Weighted average shares outstanding[1]	**1,976,405,800**	2,013,987,754	2,059,836,926	(2)
Potentially dilutive ordinary shares resulting from unvested exchangeable shares, options and warrants outstanding[2]	**82,429,012**	83,203,786	104,085,794	(1)
Weighted average shares outstanding for diluted EPS	**2,058,834,812**	2,097,191,540	2,163,922,720	(2)
Earnings per share (CHF)				
Basic	**6.20**	6.97	3.89	(11)
from continuing operations	**5.81**	4.85	3.66	20
from discontinued operations	**0.39**	2.12	0.23	(82)
Diluted	**5.95**	6.68	3.70	(11)
from continuing operations	**5.58**	4.66	3.49	20
from discontinued operations	**0.37**	2.02	0.21	(82)

1 Includes an average of 143,809 exchangeable shares for the year ended 31 December 2006 that can be exchanged into the same number of UBS shares. 2 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 37,229,136; 29,117,750; and 37,956,398 for the years ended 31 December 2006, 31 December 2005 and 31 December 2004 respectively.

Shares outstanding

	As of			% change from
	31.12.06	31.12.05	31.12.04	31.12.05
Total ordinary shares issued	**2,105,273,286**	2,177,265,044	2,253,716,354	(3)
Second trading line treasury shares				
2004 program			79,870,188	
2005 program		67,770,000		
2006 program	**22,600,000**			
Other treasury shares	**141,875,699**	140,749,748	169,456,432	1
Total treasury shares	**164,475,699**	208,519,748	249,326,620	(21)
Shares outstanding	**1,940,797,587**	1,968,745,296	2,004,389,734	(1)

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

Balance Sheet: Assets

Note 9 Financial Assets Designated at Fair Value

CHF million	31.12.06	31.12.05
Loans	2,104	737
Structured loans	148	229
Reverse repurchase agreements		
Banks	2,942	0
Customers	307	0
Other financial assets	429	187
Total financial assets designated at fair value	5,930	1,153

The maximum exposure to credit loss of all items in the above table except for Other financial assets is equal to the fair value (CHF 5,501 million at 31 December 2006). Other financial assets are generally comprised of equity investments and are not directly exposed to credit risk. The maximum exposure to credit loss at 31 December 2006 is mitigated by collateral of CHF 3,712 million.

The amount by which credit derivatives or similar instruments mitigate the maximum exposure to credit loss of loans and structured loans designated at fair value is as follows:

CHF million	31.12.06
Notional amount of loans and structured loans	2,348
Credit derivatives related to loans and structured loans – notional amounts[1]	663
Credit derivatives related to loans and structured loans – fair value[1]	2

Additional information

	For the year ended
CHF million	31.12.06[2]
Change in fair value of loans and structured loans designated at fair value, attributable to changes in credit risk[3]	(8)
Change in fair value of credit derivatives and similar instruments which mitigate the maximum exposure to credit loss of loans and structured loans designated at fair value[3]	2

1 Credit derivatives and similar instruments include credit default swaps, credit linked notes, total return swaps, put options, and similar instruments. These are generally used to manage credit risk when UBS has a direct credit exposure to the counterparty, which has not otherwise been collateralized. 2 Also equals the cumulative amount from inception for the year ended 31 December 2006. 3 Current and cumulative changes in the fair value of loans attributable to changes in their credit risk are only calculated for those loans oustanding at balance sheet date. Current and cumulative changes in the fair value of credit derivatives hedging such loans include all the derivatives which have been used to mitigate credit risk of these loans since designation at fair value. For loans reported under the fair value option, changes in fair value due to changes in the credit standing of the borrower are calculated using counterparty credit information obtained from independent market sources.

Note 10a Due from Banks and Loans (Held at Amortized Cost)

By type of exposure

CHF million	31.12.06	31.12.05
Banks[1]	50,456	33,689
Allowance for credit losses	(30)	(45)
Net due from banks	50,426	33,644
Loans[1]		
Residential mortgages	124,548	127,990
Commercial mortgages	19,989	18,509
Other loans	169,210	135,022
Subtotal	313,747	281,521
Allowance for credit losses	(1,226)	(1,611)
Net loans	312,521	279,910
Net due from banks and loans (held at amortized cost)	362,947	313,554

1 Includes due from banks and loans from Industrial Holdings in the amount of CHF 93 and CHF 728 million for 2006 and 2005 respectively.

Additional information about due from banks, loans (held at amortized cost) and loans designated at fair value

CHF million	31.12.06	31.12.05
Net due from banks and loans (held at amortized cost)	362,947	313,554
Loans designated at fair value[2]	2,252	966
Total	365,199	314,520

2 Equals the sum of Loans and Structured loans in Note 9.

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

CHF million	31.12.06	31.12.05
Switzerland	163,090	158,465
Rest of Europe / Middle East / Africa	67,584	50,898
Americas	117,447	94,192
Asia Pacific	18,334	12,621
Subtotal	366,455	316,176
Allowance for credit losses	(1,256)	(1,656)
Net due from banks, loans (held at amortized cost) and loans designated at fair value	365,199	314,520

By type of collateral

CHF million	31.12.06	31.12.05
Secured by real estate	146,518	148,412
Collateralized by securities	99,879	55,334
Guarantees and other collateral	27,000	24,567
Unsecured	93,058	87,863
Subtotal	366,455	316,176
Allowance for credit losses	(1,256)	(1,656)
Net due from banks, loans (held at amortized cost) and loans designated at fair value	365,199	314,520

Note 10b Allowances and Provisions for Credit Losses

CHF million	Specific allowances and provisions	Collective loan loss allowances and provisions	Total 31.12.06	Total 31.12.05
Balance at the beginning of the year	1,690	86	1,776	2,802
Write-offs	(363)	0	(363)	(651)
Recoveries	62	0	62	63
Increase / (decrease) in credit loss allowances and provisions	(108)	(48)	(156)	(374)
Acquisitions	3	0	3	(61)
Foreign currency translation and other adjustments	10	0	10	(3)
Balance at the end of the year[1]	1,294	38	1,332	1,776

1 Includes country provisions of CHF 65 million at 31 December 2005. During 2006, all country provisions were released.

CHF million	Specific allowances and provisions	Collective loan loss allowances and provisions	Total 31.12.06	Total 31.12.05
As a reduction of Due from banks	30	0	30	45
As a reduction of Loans	1,188	38	1,226	1,611
As a reduction of other balance sheet positions	0	0	0	11
Subtotal	1,218	38	1,256	1,667
Included in Other liabilities related to provisions for contingent claims	76	0	76	109
Total allowances and provisions for credit losses	1,294	38	1,332	1,776

Note 10c Impaired Due from Banks and Loans

CHF million	31.12.06	31.12.05
Total gross impaired due from banks and loans[1]	2,628	3,434
Allowance for impaired due from banks	30	32
Allowance for impaired loans	1,188	1,561
Total allowances for credit losses related to impaired due from banks and loans	1,218	1,593
Average total gross impaired due from banks and loans[2]	3,003	4,089

1 All impaired due from banks and loans have a specific allowance for credit losses. 2 Average balances are calculated from quarterly data.

CHF million	31.12.06	31.12.05
Total gross impaired due from banks and loans	2,628	3,434
Estimated liquidation proceeds of collateral	(1,059)	(1,366)
Net impaired due from banks and loans	1,569	2,068
Total allowances for credit losses related to impaired due from banks and loans	1,218	1,593

Note 10d 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 it will be made good by later payments or the liquidation of collateral; or 2) when insolvency proceedings have commenced; or 3) when obligations have been restructured on concessionary terms.

CHF million	31.12.06	31.12.05
Total gross non-performing due from banks and loans	1,918	2,363
Total allowances for credit losses related to non-performing due from banks and loans	1,112	1,393
Average total gross non-performing due from banks and loans[1]	2,135	3,082

1 Average balances are calculated from quarterly data.

CHF million	31.12.06	31.12.05
Non-performing due from banks and loans at the beginning of the year	2,363	3,555
Net additions / (reductions)	(157)	(515)
Write-offs and disposals	(288)	(677)
Non-performing due from banks and loans at the end of the year	**1,918**	**2,363**

By type of exposure

CHF million	31.12.06	31.12.05
Banks	29	27
Loans		
Secured by real estate	561	621
Other	1,328	1,715
Total loans	1,889	2,336
Total non-performing due from banks and loans	**1,918**	**2,363**

By geographical region (based on the location of borrower)

CHF million	31.12.06	31.12.05
Switzerland	1,744	2,106
Rest of Europe / Middle East / Africa	106	155
Americas	62	94
Asia Pacific	6	8
Total non-performing due from banks and loans	**1,918**	**2,363**

Note 11 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 31.12.06	Reverse repurchase agreements 31.12.06	Cash collateral on securities borrowed 31.12.05	Reverse repurchase agreements 31.12.05
By counterparty				
Banks	53,538	209,606	52,814	259,608
Customers	298,052	196,228	235,621	144,824
Total	**351,590**	**405,834**	**288,435**	**404,432**

Note 11 Securities Borrowing, Securities Lending, Repurchase and Reverse Repurchase Agreements (continued)

Balance sheet liabilities

CHF million	Cash collateral on securities lent 31.12.06	Repurchase agreements 31.12.06	Cash collateral on securities lent 31.12.05	Repurchase agreements 31.12.05
By counterparty				
Banks	44,118	274,910	46,766	278,287
Customers	18,970	270,570	13,172	200,221
Total	63,088	545,480	59,938	478,508

Note 12 Trading Portfolio

The Group trades in debt instruments (including money market paper and tradable loans), equity instruments, precious metals, other commodities and derivatives to meet the financial needs of its customers and to generate revenue. Note 23 provides a description of the various classes of derivative instruments.

CHF million	31.12.06	31.12.05
Trading portfolio assets		
Money market paper	86,790	57,685
thereof pledged as collateral with central banks[1]	*20,053*	*11,717*
thereof pledged as collateral (excluding central banks)[1]	*45,356*	*16,307*
thereof pledged as collateral and can be repledged or resold by counterparty[2]	*38,173*	*11,563*
Debt instruments		
Swiss government and government agencies	340	589
US Treasury and government agencies	114,714	77,569
Other government agencies	71,170	64,823
Corporate listed	214,129	169,841
Other – unlisted	111,001	74,253
Total	511,354	387,075
thereof pledged as collateral[1]	*190,153*	*170,917*
thereof can be repledged or resold by counterparty[2]	*158,549*	*110,857*
Equity instruments		
Listed	183,731	139,101
Unlisted	27,938	20,958
Total	211,669	160,059
thereof pledged as collateral[1]	*56,760*	*33,559*
thereof can be repledged or resold by counterparty[2]	*54,756*	*32,339*
Traded loans	47,630	36,212
Precious metals and other commodities[3]	21,071	13,025
Total trading portfolio assets	878,514	654,056
Trading portfolio liabilities		
Debt instruments		
Swiss government and government agencies	129	407
US Treasury and government agencies	81,385	74,758
Other government agencies	58,538	52,833
Corporate listed	21,788	19,885
Other – unlisted	2,101	1,224
Total	163,941	149,107
Equity instruments	40,832	39,524
Total trading portfolio liabilities	204,773	188,631

1 Financial assets pledged to third parties for liabilities with and without the right of rehypothecation are CHF 312 billion at 31 December 2006 and CHF 233 billion at 31 December 2005. 2 Financial assets pledged to third parties with right of rehypothecation of CHF 251 billion at 31 December 2006 and CHF 155 billion at 31 December 2005 are presented on the balance sheet in the line Trading portfolio assets pledged as collateral. 3 Other commodities predominantly consist of energy.

Note 13 Financial Investments Available-for-Sale

CHF million	**31.12.06**	31.12.05
Money market paper	**354**	141
Other debt instruments		
Listed	**260**	587
Unlisted	**261**	91
Total	**521**	678
Equity instruments		
Listed	**5,880**	2,548
Unlisted	**819**	1,738
Total	**6,699**	4,286
Private equity investments	**1,363**	1,446
Total financial investments available-for-sale	**8,937**	6,551
thereof eligible for discount at central banks	***41***	*40*

The following tables show the unrealized gains and losses recognized directly in Equity in 2006 and 2005:

		Unrealized gains / (losses) recognized directly in Equity				
CHF million	Fair value	Gross gains	Gross losses	Net, before tax	Tax effect	Net, after tax
31 December 2006						
Money market paper	354	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	0	0	0	0	0	0
Debt securities issued by foreign governments and official institutions	97	0	0	0	0	0
Corporate debt securities	28	0	0	0	0	0
Mortgage-backed securities	160	0	(3)	(3)	0	(3)
Other debt instruments	233	5	0	5	0	5
Equity instruments	6,699	3,102	(2)	3,100	(636)	2,464
Private equity investments	1,363	634	(13)	621	(182)	439
Total	**8,937**	**3,741**	**(18)**	**3,723**	**(818)**	**2,905**

		Unrealized gains / (losses) recognized directly in Equity				
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 instruments	0	0	0	0	0	0
Equity instruments	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**

Note 13 Financial Investments Available-for-Sale (continued)

The unrealized losses recognized directly in Equity 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. Factors considered include the nature of the investments, valuations and research undertaken by UBS, the current outlook for each investment, offers under negotiation at favorable prices and the duration of the unrealized losses.

The following table shows the duration of unrealized losses recognized directly in Equity in 2006 and 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 2006						
Money market paper	0	0	0	0	0	0
Debt securities issued by Swiss national government and agencies	0	0	0	0	0	0
Debt securities issued by Swiss local governments	0	0	0	0	0	0
Debt securities issued by US Treasury and agencies	0	0	0	0	0	0
Debt securities issued by foreign governments and official institutions	0	0	0	0	0	0
Corporate debt securities	0	0	0	0	0	0
Mortgage-backed securities	28	132	160	0	(3)	(3)
Other debt instruments	0	0	0	0	0	0
Equity instruments	2	25	27	0	(2)	(2)
Private equity investments	74	123	197	(3)	(10)	(13)
Total	**104**	**280**	**384**	**(3)**	**(15)**	**(18)**

	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 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 instruments	0	0	0	0	0	0
Equity instruments	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)**

Note 13 Financial Investments Available-for-Sale (continued)

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 2006								
Swiss national government and agencies	2	2.22	0	0.00	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	0	0.00	0	0.00	0	0.00
Foreign governments and official institutions	38	1.48	2	1.89	57	4.47	0	0.00
Corporate debt securities	26	7.00	0	0.00	2	0.00	0	0.00
Mortgage-backed securities	0	0.00	0	0.00	10	4.48	150	5.10
Other debt instruments	0	0.00	233	9.28	0	0.00	0	0.00
Total fair value	**66**		**235**		**69**		**151**	

1 Money market paper has a contractual maturity of less than one year.

Proceeds from sales of Financial investments available-for-sale, excluding private equity, were as follows:

CHF million	**31.12.06**	31.12.05
Proceeds	**1,380**	298
Gross realized gains	**832**	60
Gross realized losses	**5**	1

Note 14 Investments in Associates

CHF million	**31.12.06**	31.12.05
Carrying amount at the beginning of the year	**2,956**	2,675
Additions	**542**	938
Disposals	**(2,043)**	(935)
Transfers	**13**	(13)
Income[1]	**156**	156
Impairments[2]	**(27)**	(4)
Dividend paid	**(33)**	(59)
Foreign currency translation	**(41)**	198
Carrying amount at the end of the year	**1,523**	2,956

1 Income of CHF 50 million and CHF 99 million is related to Industrial Holdings for 2006 and 2005 respectively, of which CHF 11 million and CHF 70 million is related to discontinued operations for 2006 and 2005 respectively. 2 Impairments of CHF 27 million and CHF 4 million are related to Industrial Holdings for 2006 and 2005 respectively.

At 31 December 2006, significant associated companies of the Group had the following balance sheet and income statement totals on an aggregated basis, not adjusted for the Group's proportionate interest: assets CHF 27 billion; liabilities CHF 23 billion; revenues CHF 1.9 billion; and net profit CHF 318 million. See Note 35 for a list of significant associates.

Note 15 Property and Equipment

At historical cost less accumulated depreciation

CHF million	Own-used properties	Leasehold improve-ments	IT, software and com-munication	Other machines and equipment	Plant and manu-facturing equipment	Projects in progress	**31.12.06**	31.12.05
Historical cost								
Balance at the beginning of the year	9,446	3,050	4,261	1,596	2,904	413	**21,670**	21,428
Additions	140	206	662	240	36	509	**1,793**	1,865
Additions from acquired companies	0	5	19	4	1	0	**29**	116
Disposals / write-offs[1]	(407)	(110)	(539)	(817)	(2,960)	(82)	**(4,915)**	(2,363)
Reclassifications	102	119	116	(97)	18	(284)	**(26)**	50
Foreign currency translation	5	(60)	(42)	(33)	54	2	**(74)**	574
Balance at the end of the year	9,286	3,210	4,477	893	53	558	**18,477**	21,670
Accumulated depreciation								
Balance at the beginning of the year	4,781	1,999	3,474	1,349	672	0	**12,275**	11,998
Depreciation[2]	244	237	676[4]	103	65	0	**1,325**	1,556
Disposals / write-offs[1]	(108)	(86)	(225)	(807)	(716)	0	**(1,942)**	(1,702)
Reclassifications	11	(18)	0	(3)	0	0	**(10)**	32
Foreign currency translation	2	(36)	(38)	(19)	21	0	**(70)**	391
Balance at the end of the year	4,930	2,096	3,887	623	42	0	**11,578**	12,275
Net book value at the end of the year[3]	4,356	1,114	590	270	11	558	**6,899**	9,395

1 Includes write-offs of fully depreciated assets. 2 Depreciation expense of CHF 62 million and CHF 295 million is related to discontinued operations for 2006 and 2005 respectively. 3 Fire insurance value of property and equipment is CHF 13,596 million (2005: CHF 16,050 million). 4 Includes a CHF 34 million software impairment.

At fair value

CHF million	**31.12.06**	31.12.05
Balance at the beginning of the year	**28**	80
Additions	**0**	26
Sales	**(14)**	(25)
Revaluations	**0**	0
Reclassifications	**0**	(55)
Foreign currency translation	**0**	2
Balance at the end of the year	**14**	28

Note 16 Goodwill and Other Intangible Assets

At year-end 2006, five out of seven segments carry goodwill, of which Industrial Holdings has less than 1% of the total balance. Business Banking Switzerland and Corporate Center 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 present values. The terminal value reflecting all periods beyond the first year is calculated on the basis of the estimated individual return on equity for each segment, which is derived from the forecast first-year profit, the underlying equity, the cost of equity and the long-term growth rate. The recoverable amount of the segments is the sum of earnings available to shareholders from the first year and the terminal value. The model is most sensitive to changes in the forecast earnings available to shareholders in year one, the estimated return on equity, the underlying equity, the cost of equity and to changes in the long-term growth rate. The applied long-term growth rate is based on long-term risk free interest rates. Earnings available to shareholders are estimated based on forecast results, business initiatives and planned capital investments and returns to shareholders. Validation parameters used within the Group's impairment test model are linked to external market information, where applicable. Discount rates applied range from 8% for Wealth Management International & Switzerland and for Business Banking Switzerland 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	**31.12.06**	31.12.05
Historical cost						
Balance at the beginning of the year	11,313	1,016	2,056	3,072	**14,385**	13,096
Additions and reallocations	2,015	0	1,321	1,321	**3,336**	92
Disposals	(142)	0	(1,231)	(1,231)	**(1,373)**	(395)
Write-offs[1]	0	0	(28)	(28)	**(28)**	(112)
Foreign currency translation	(722)	(74)	(31)	(105)	**(827)**	1,704
Balance at the end of the year	12,464	942	2,087	3,029	**15,493**	14,385
Accumulated amortization						
Balance at the beginning of the year		263	636	899	**899**	895
Amortization[2]		48	148	196	**196**	340
Reallocations		0	0	0	**0**	(307)
Disposals		0	(301)	(301)	**(301)**	(30)
Write-offs[1]		0	(28)	(28)	**(28)**	(112)
Foreign currency translation		(20)	(26)	(46)	**(46)**	113
Balance at the end of the year		291	429	720	**720**	899
Net book value at the end of the year	12,464	651	1,658	2,309	**14,773**	13,486

1 Represents write-offs of fully amortized other intangible assets. 2 Amortization expense of CHF 43 million and CHF 209 million is related to discontinued operations for 2006 and 2005, respectively.

Note 16 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 2006.

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	1,566	116	0		(37)	1,645
Wealth Management US	3,841	444	0		(279)	4,006
Business Banking Switzerland	0	0	0		0	0
Global Asset Management	1,438	190	0		(97)	1,531
Investment Bank	4,309	1,260	0		(307)	5,262
Corporate Center	0	0	0		0	0
Industrial Holdings	159	5	(142)		(2)	20
UBS	**11,313**	**2,015**	**(142)**		**(722)**	**12,464**
Other intangible assets						
Wealth Management International & Switzerland	141	184	0	(10)	10	325
Wealth Management US	753	148	0	(53)	(55)	793
Business Banking Switzerland	0	0	0	0	0	0
Global Asset Management	8	488	0	(4)	6	498
Investment Bank	296	483	0	(72)	(19)	688
Corporate Center	9	0	0	(9)	0	0
Industrial Holdings	966	18	(930)	(48)	(1)	5
UBS	**2,173**	**1,321**	**(930)**	**(196)**	**(59)**	**2,309**

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

CHF million	Other intangible assets
Estimated, aggregated amortization expenses for:	
2007	334
2008	238
2009	238
2010	219
2011	187
2012 and thereafter	1,093
Total	2,309

Note 17 Other Assets

CHF million	Note	31.12.06	31.12.05
Deferred tax assets	22	**3,686**	2,811
Settlement and clearing accounts		**3,159**	3,528
VAT and other tax receivables		**318**	312
Prepaid pension costs		**814**	832
Properties held for sale		**1,254**	578
Accounts receivable trade		**114**	364
Inventory – Industrial Holdings		**68**	2,007
Other receivables		**7,836**	5,811
Total other assets		**17,249**	16,243

Balance Sheet: Liabilities

Note 18 Due to Banks and Customers

CHF million	**31.12.06**	31.12.05
Due to banks	**203,689**	124,328
Due to customers in savings and investment accounts	**114,264**	113,889
Other amounts due to customers	**456,301**	353,018
Total due to customers	**570,565**	466,907
Total due to banks and customers	**774,254**	591,235

Note 19 Financial Liabilities Designated at Fair Value and Debt Issued

The Group issues both CHF and non-CHF denominated fixed-rate and floating-rate debt.

Subordinated debt securities are unsecured obligations of the Group that are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group. At 31 December 2006 and 31 December 2005, the Group had CHF 14,774 million and CHF 10,001 million, respectively, in subordinated debt. Subordinated debt usually pays fixed interest annually or floating rate interest based on three-month or six-month London Interbank Offered Rate (LIBOR) and provides for single principal payments upon maturity.

At 31 December 2006 and 31 December 2005, the Group had CHF 191,431 million and CHF 157,771 million, respectively, in unsubordinated debt (excluding money market paper, compound debt instruments – OTC and loan commitments designated at fair value).

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 1 a14) and Note 23 – Derivative Instruments and Hedge Accounting. As a result of applying hedge accounting, at 31 December 2006 and 31 December 2005, the carrying value of debt issued was CHF 256 million higher and CHF 294 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 through profit or loss approximates the carrying value at 31 December 2006 and 31 December 2005.

Note 19 Financial Liabilities Designated at Fair Value and Debt Issued (continued)

Financial liabilities designated at fair value

CHF million	31.12.06	31.12.05
Bonds and compound debt instruments issued	135,646	109,724
Compound debt instruments – OTC	9,967	7,677
Loan commitments[1]	74	0
Total	**145,687**	117,401

1 Loan commitments recognized as Financial liabilities designated at fair value, until drawn down and recognized as loans. See Note 1 a7) for additional information.

Debt issued (held at amortized cost)

CHF million	31.12.06	31.12.05
Short-term debt: Money market paper issued	119,584	102,662
Long-term debt:		
Bonds		
Senior	53,509	46,545
Subordinated	14,774	10,001
Shares in bond issues of the Swiss regional or cantonal banks' central bond institutions	38	38
Medium-term notes	2,238	1,464
Subtotal long-term debt	70,559	58,048
Total	**190,143**	160,710

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[1]

CHF million, except where indicated	2007	2008	2009	2010	2011	2012–2016	Thereafter	Total 31.12.06	Total 31.12.05
UBS AG (Parent Bank)									
Senior debt									
Fixed rate	64,379	8,307	9,279	6,173	6,277	7,391	1,894	103,700	128,504
Interest rates (range in %)	0–27	0–20	0–13.5	0–13.25	0–10.25	0–12	0–10		
Floating rate	38,947	17,589	6,717	4,835	2,444	6,139	14,513	91,184	25,300
Subordinated debt									
Fixed rate	1,402	0	511	0	0	4,946	2,555	9,414	7,658
Interest rates (range in %)	0–8		5.875			0–7.375	4.125–8.75		
Floating rate	0	0	0	0	0	5,360	0	5,360	2,326
Subtotal	104,728	25,896	16,507	11,008	8,721	23,836	18,962	209,658	163,788
Subsidiaries									
Senior debt									
Fixed rate	48,728	1,265	1,696	1,946	494	2,037	29,662	85,828	93,332
Interest rates (range in %)	0–15	0–8.5	0–18.5	0–8	0–20	0–35	0–35		
Floating rate	2,666	3,655	3,785	5,822	4,449	4,745	5,181	30,303	13,297
Subordinated debt									
Fixed rate	0	0	0	0	0	0	0	0	17
Interest rates (range in %)									
Subtotal	51,394	4,920	5,481	7,768	4,943	6,782	34,843	116,131	106,646
Total	**156,122**	**30,816**	**21,988**	**18,776**	**13,664**	**30,618**	**53,805**	**325,789**	270,434

1 Compound debt instruments – OTC designated at fair value and loan commitments designated at fair value are excluded from the table.

The table above indicates fixed interest rate coupons ranging from 0 up to 35% on the Group's bonds. The 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 20 Other Liabilities

CHF million	Note	31.12.06	31.12.05
Provisions	21	1,672	2,072
Provisions for contingent claims	10b	76	109
Current tax liabilities		4,258	3,592
Deferred tax liabilities	22	2,674	2,596
VAT and other tax payables		931	712
Settlement and clearing accounts		3,715	2,707
Amounts due under unit-linked investment contracts		33,645	30,224
Accounts payable		91	1,425
Other payables		16,189	10,400
Total other liabilities		63,251	53,837

Note 21 Provisions

CHF million	Operational	Litigation	Other[1]	Total 31.12.06	Total 31.12.05[2]
Balance at the beginning of the year	334	592	1,146	2,072	2,020
Additions from acquired companies	0	25	1	26	1
New provisions charged to income	(7)	404	233	630	520
Capitalized reinstatement costs	0	0	22	22	3
Recoveries	3	2	0	5	25
Provisions applied	(63)	(290)	(113)	(466)	(588)
Disposal of subsidiaries	0	0	(607)[2]	(607)	(11)
Reclassifications	(72)	0	108	36	0
Foreign currency translation	(10)	(34)	(2)	(46)	102
Balance at the end of the year	185	699	788	1,672	2,072

1 In 2006, in connection, with a strategy review of its business and a review of its office space planning, Wealth Management US decided not to use office space rented by UBS under a long-term contract in a new building in New Jersey. Senior management approved a proposal to enter into a 10-year sublease contract with an external party for the unused office space. Under the terms of this contract, the sublease income is not sufficient to cover the rent UBS pays under its original contract and costs incurred for arranging the sublease. UBS recorded a provision to cover the shortfall of this onerous lease contract which amounted to CHF 185 million on 31 December 2006. 2 Comprises provisions mainly for annual cost liabilities related to power purchases from joint venture companies where production costs exceed market prices; reinstatement costs; subleases.

Legal Proceedings

UBS Group operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. As a result, UBS is involved in various disputes and legal proceedings, including litigation, arbitration, and regulatory and criminal investigations. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, particularly in the earlier stages of a case. In certain circumstances, to avoid the expense and distraction of legal proceedings, UBS may, based on a cost benefit analysis, enter a settlement even though UBS denies any wrongdoing. The Group makes provisions for cases brought against it only when after seeking legal advice, in the opinion of management, it is probable that a liability exists, and the amount can be reasonably estimated (see table above). No provision is made for claims asserted against the Group that in the opinion of management are without merit and where it is not likely that UBS will be found liable.

At 31 December 2006, UBS is involved in the following legal proceedings which could be material to the Group in a given reporting period:

(a) InsightOne: In December 2006, the New York State Attorney General (NYAG) filed a civil complaint regarding InsightOne, the Firm's fee-based brokerage program for private clients in the United States. The InsightOne program is a fee-based brokerage program, in which clients pay an asset-based fee for trading activity rather than commissions on a per trade basis and was designed to align more closely the interests of financial advisors and clients. UBS denies that the program was part of a scheme to disadvantage clients and intends to defend itself vigorously in this matter.

(b) Tax Shelter: In connection with a criminal investigation of tax shelters, the United States Attorney's Office for the Southern District of New York (U.S. Attorney's Office) is examining UBS's conduct in relation to certain tax-oriented transactions in which UBS and others engaged during the years 1996–2000. Some of these transactions were a subject of the Deferred Prosecution Agreement which the accounting firm KPMG LLP entered into with the U.S. Attorney's Office in August 2005, and are at issue in United States v. Stein, S1 05 Cr.

Note 21 Provisions (continued)

888 (LAK). UBS is cooperating with the government's investigation.

(c) Municipal Bonds: In November 2006, UBS and others received subpoenas from the U.S. Department of Justice, Antitrust Division, and the U.S. Securities and Exchange Commission. These subpoenas concern UBS's conduct relating to derivative transactions entered into with municipal bond issuers, and to the investment of proceeds of municipal bond issuances. UBS is cooperating with these investigations.

(d) HealthSouth: UBS is defending itself in two purported securities class actions brought in the U.S. District Court of the Northern District of Alabama by holders of stock and bonds in HealthSouth Corp. UBS also is a defendant in HealthSouth derivative litigation in Alabama state court and has responded to an SEC investigation relating to UBS's role as a banker for HealthSouth.

(e) Bankruptcy Estate of Enron: In November 2003, Enron brought adversarial proceedings against UBS and others in the U.S. Bankruptcy Court for the Southern District of New York seeking avoidance and recovery of payments that Enron made prior to filing for bankruptcy in connection with equity forward and swap transactions The Bankruptcy Court dismissed UBS's motion for summary judgment in August 2005. Discovery is ongoing.

(f) Parmalat: UBS is involved in a number of proceedings in Italy related to the bankruptcy of Parmalat. These proceedings include, inter alia, clawback proceedings against UBS Limited in connection with a structured finance transaction. Further, UBS is a defendant in two civil damages claims brought by Parmalat, of which one relates to the same structured finance transaction against UBS Limited, while the other against UBS AG relates to certain derivative transactions. In addition, UBS Limited and two UBS employees are the subject of criminal proceedings in Milan. Finally, UBS is a defendant in civil actions brought by individual investors in those criminal proceedings. All proceedings still are in an early stage. UBS denies the allegations made against itself and against its employees in these matters, and is defending itself vigorously.

Note 22 Income Taxes

	For the year ended		
CHF million	**31.12.06**	31.12.05	31.12.04
Tax expense from continuing operations			
Domestic			
Current	**1,758**	1,403	1,184
Deferred	**(87)**	87	5
Foreign			
Current	**1,545**	1,428	815
Deferred	**(430)**	(447)	151
Total income tax expense from continuing operations	**2,786**	2,471	2,155
Tax expense from discontinued operations			
Domestic	**(12)**	554	156
Foreign	**(1)**	22	42
Total income tax expense from discontinued operations	**(13)**	576	198
Total income tax expense	**2,773**	3,047	2,353

The Group made net tax payments, including domestic and foreign taxes, of CHF 2,607 million, CHF 2,394 million and CHF 1,345 million for the full years 2006, 2005 and 2004 respectively.

Note 22 Income Taxes (continued)

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

	For the year ended		
CHF million	**31.12.06**	31.12.05	31.12.04
Operating profit from continuing operations before tax	**14,667**	12,677	10,042
Domestic	**5,564**	5,854	5,675
Foreign	**9,103**	6,823	4,367
Income taxes at Swiss statutory rate of 22% for 2006 and 2005 and 24% for 2004	**3,227**	2,789	2,410
Increase / (decrease) resulting from:			
Applicable tax rates differing from Swiss statutory rate	**829**	388	128
Tax losses not recognized	**21**	71	103
Previously unrecorded tax losses now recognized	**(680)**	(97)	(249)
Lower taxed income	**(941)**	(555)	(657)
Non-deductible goodwill and other intangible asset amortization	**21**	22	262
Other non-deductible expenses	**183**	212	215
Adjustments related to prior years	**316**	(283)	(98)
Change in deferred tax valuation allowance	**(548)**	(156)	239
Other items	**358**	80	(198)
Income tax expense from continuing operations	**2,786**	2,471	2,155

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

CHF million	**31.12.06**	31.12.05
Deferred tax assets		
Compensation and benefits	**2,611**	1,904
Net operating loss carry-forwards	**1,508**	2,235
Trading assets	**768**	586
Other	**598**	804
Total	**5,485**	5,529
Valuation allowance	**(1,799)**	(2,718)
Net deferred tax assets	**3,686**	2,811
Deferred tax liabilities		
Compensation and benefits	**122**	55
Property and equipment	**201**	515
Financial investments and associates	**1,221**	633
Trading assets	**684**	448
Intangible assets	**55**	264
Other	**391**	681
Total deferred tax liabilities	**2,674**	2,596

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 effects of exchange rate changes on tax assets and liabilities denominated in currencies other than CHF and the booking of some of the tax benefits related to deferred compensation through Equity. For the above purposes, the valuation allowance represents amounts that are not expected to provide future benefits, either because they are offset against tax contingencies or due to insufficiency of future taxable income.

Note 22 Income Taxes (continued)

Certain 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 1,799 million (CHF 2,718 million at 31 December 2005). For companies that suffered tax losses in either the current or preceding years, an amount of CHF 212 million (CHF 442 million at 31 December 2005) 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 that these earnings were distributed, additional taxes of approximately CHF 18 million would be due.

At 31 December 2006, net operating loss carry-forwards totaling CHF 4,140 million (not recognized as a deferred tax asset) are available to be offset against tax contingencies or future taxable income.

The carry-forwards expire as follows:	31.12.06
Within 1 year	3
From 2 to 4 years	181
After 4 years	3,956
Total	**4,140**

Note 23 Derivative Instruments and Hedge Accounting

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 the income statement unless they meet the criteria for certain hedge accounting relationships, as explained in Note 1a14) Derivative instruments and hedge accounting.

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

Note 23 Derivative Instruments and Hedge Accounting (continued)

entail exchange of principal amounts at the start and/or end of the contract.
- Credit default swaps (CDSs) are the most common form of credit derivative, under which the party buying protection makes one or more payments to the party selling protection in exchange for an undertaking by the seller to make a payment to the buyer following a credit event (as defined in the contract) with respect to a third-party 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. These are described under the corresponding headings in this note. The Group's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 1a14) Derivative instruments and hedge accounting, 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 limits the resultant income volatility by selecting short- to medium-term swaps only. Longer term swaps continue to be supported by the cash flow hedging model explained in a subsequent section of this note.

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 2006, the Group recognized a net loss of CHF 18 million, for the year ended 31 December 2005 a net loss of CHF 22 million and for the year ended 31 December 2004 a net gain of CHF 22 million, representing the ineffective portions, as defined in Note 1a14), of fair value hedges. The fair values of outstanding derivatives designated as fair value hedges were a CHF 222 million net positive replacement value at 31 December 2006 and a CHF 380 million net positive replacement value at 31 December 2005.

In addition, the Group has entered into a fair value hedge accounting relationship to protect a certain portion of available-for-sale equity investments from foreign currency exposure using FX derivatives. For the year ended 31 December 2006, the Group recognized a net gain of CHF 5 million as hedge ineffectiveness. The time value associated with the FX derivatives is excluded from the evaluation of hedge ineffectiveness. The fair value of outstanding FX derivatives designated as fair value hedges was a CHF 1 million net positive replacement value at 31 December 2006.

Fair value hedge of portfolio of interest rate risk

The Group has applied fair value hedge accounting of portfolio interest rate risk since September 2005. For the year ended 31 December 2006, the Group recognized a net loss of CHF 8 million and for the year ended 31 December 2005 a net loss of CHF 22 million, representing the ineffective portions of fair value hedges. The change in fair value of the hedged items is recorded separately from the hedged item on the balance sheet. The fair value of derivatives designated for this hedge method at 31 December 2006 was a CHF 8 million net positive replacement value. There were no derivative contracts designated as hedges under this method at 31 December 2005, as all the hedges had become ineffective and the hedge relationships were de-designated at the end of 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 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 of 31 December 2006 is shown below.

CHF billion	< 1 year	1–3 years	3–5 years	5–10 years	over 10 years
Cash inflows (assets)	228	420	294	267	7
Cash outflows (liabilities)	88	156	109	151	41
Net cash flows	**140**	**264**	**185**	**116**	**(34)**

Gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions are initially recorded in Equity as Net income recognized directly in equity 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 36 million loss, CHF 35 million gain and a CHF 13 million gain were recognized in 2006, 2005 and 2004, respectively, due to hedge ineffectiveness.

As of 31 December 2006 and 2005, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were a CHF 462 million net negative replacement value and a CHF 1,124 million net negative replacement value, respectively. Swiss franc hedging interest rate swaps terminated during 2006 and 2005 had a replacement value of CHF 0 million and a positive replacement value of CHF 80 million, respectively. At the end of 2006 and 2005, unrecognized income of CHF 214 million and CHF 346 million associated with terminated swaps 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 Net income recognized directly in Equity to current period earnings due to discontinuation of hedge accounting were a CHF 132 million net gain in 2006, 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 29, Financial Instruments Risk Position, part b) Market Risk.

Derivative instruments are transacted with many different counterparties, most of whom are also counterparties for other types of business. The credit risk of derivatives is managed and controlled in the context of the Group's overall credit exposure to each counterparty. The Group's approach to credit risk is described in Note 29, Financial Instruments Risk Position, part c) 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. There are additional capital requirements shown in Note 29 e) Capital Adequacy under Off-balance sheet and other positions as Forward and swap contracts and Purchased options, which reflect the additional potential future exposure. In Note 29 c) Credit Risk, the Derivatives positive replacement values shown under Traded products, and in Note 29 part e) Capital Adequacy, the Positive replacement values shown under balance sheet assets are lower than those shown in the balance sheet because they reflect close-out netting arrangements accepted by the Swiss Federal Banking Commission (SFBC) as being enforceable in insolvency. The impact of such netting agreements on the gross replacement values shown in the tables on the next two pages is to reduce both positive and negative replacement values by CHF 219,820 million and CHF 252,192 million at 31 December 2006 and 2005 respectively. As a result, positive replacement values after netting for UBS Group were CHF 108,625 million at 31 December 2006 and CHF 81,590 million at 31 December 2005. These figures differ from those shown in Note 29 e) because they cover the whole UBS Group, whereas the relevant tables in Note 29 cover only those entities which are subject to consolidation for regulatory capital purposes.

Note 23 Derivative Instruments and Hedge Accounting (continued)

As of 31 December 2006	Term to maturity										
	within 3 months		3-12 months		1-5 years		over 5 years		**Total**	**Total**	Total notional
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	1,001	764	172	177	38	34			**1,211**	**975**	1,848.0
Swaps	5,629	4,784	9,891	10,134	46,690	47,128	87,079	81,719	**149,289**	**143,765**	22,643.4
Options	273	308	127	440	2,252	3,563	13,529	15,148	**16,181**	**19,459**	1,432.5
Exchange-traded contracts[3]											
Futures											2,904.4
Options	406	438	474	485	96	96			**976**	**1,019**	34.7
Total	**7,309**	**6,294**	**10,664**	**11,236**	**49,076**	**50,821**	**100,608**	**96,867**	**167,657**	**165,218**	**28,863.0**
Credit derivative contracts											
Over-the-counter (OTC) contracts											
Credit default swaps	35	54	363	673	12,874	14,035	7,425	7,953	**20,697**	**22,715**	2,536.6
Total rate of return swaps	54	63	100	74	583	1,606	4,284	3,512	**5,021**	**5,255**	103.0
Total	**89**	**117**	**463**	**747**	**13,457**	**15,641**	**11,709**	**11,465**	**25,718**	**27,970**	**2,639.6**
Foreign exchange contracts											
Over-the-counter (OTC) contracts											
Forward contracts	4,565	4,322	1,765	1,968	827	531	17	103	**7,174**	**6,924**	784.0
Interest and currency swaps	24,724	22,977	10,363	10,599	14,641	12,366	12,821	11,831	**62,549**	**57,773**	4,064.6
Options	2,877	2,624	2,987	3,042	828	1,041	51	49	**6,743**	**6,756**	1,276.2
Exchange-traded contracts[3]											
Futures											20.8
Options	12	16	2	2					**14**	**18**	0.1
Total	**32,178**	**29,939**	**15,117**	**15,611**	**16,296**	**13,938**	**12,889**	**11,983**	**76,480**	**71,471**	**6,145.7**
Precious metals contracts											
Over-the-counter (OTC) contracts											
Forward contracts	348	339	573	355	757	371	37	48	**1,715**	**1,113**	25.6
Options	293	580	676	784	1,554	1,281	118	68	**2,641**	**2,713**	70.6
Exchange-traded contracts[3]											
Futures											1.0
Options	333	400	427	381	1,050	1,087			**1,810**	**1,868**	23.9
Total	**974**	**1,319**	**1,676**	**1,520**	**3,361**	**2,739**	**155**	**116**	**6,166**	**5,694**	**121.1**
Equity / index contracts											
Over-the-counter (OTC) contracts											
Forward contracts	1,179	1,464	386	1,217	506	8	14	103	**2,085**	**2,792**	107.8
Options	1,073	3,485	3,702	5,655	6,121	8,821	1,605	2,795	**12,501**	**20,756**	258.0
Exchange-traded contracts[3]											
Futures											72.4
Options	4,277	4,602	8,238	8,396	9,978	10,458	453	433	**22,946**	**23,889**	270.7
Total	**6,529**	**9,551**	**12,326**	**15,268**	**16,605**	**19,287**	**2,072**	**3,331**	**37,532**	**47,437**	**708.9**
Commodities contracts, excluding precious metals contracts											
Over-the-counter (OTC) contracts											
Forward contracts	3,254	3,223	2,894	3,155	1,724	1,579	766	840	**8,638**	**8,797**	86.3
Options	221	236	447	368	595	654	1	27	**1,264**	**1,285**	13.0
Exchange-traded contracts[3]											
Futures											236.7
Options	1,626	1,637	2,164	1,967	1,200	1,057			**4,990**	**4,661**	67.1
Total	**5,101**	**5,096**	**5,505**	**5,490**	**3,519**	**3,290**	**767**	**867**	**14,892**	**14,743**	**403.1**
Total derivative instruments	**52,180**	**52,316**	**45,751**	**49,872**	**102,314**	**105,716**	**128,200**	**124,629**	**328,445**[4]	**332,533**[5]	

1 PRV: Positive replacement value. 2 NRV: Negative replacement value. 3 Exchange-traded products include own account trades only. 4 The impact of netting agreements accepted by the Swiss Federal Banking Commission (SFBC) for capital adequacy calculations is to reduce positive replacement values to CHF 108,625 million. 5 The impact of netting agreements accepted by the SFBC for capital adequacy calculations is to reduce negative replacement values to CHF 112,713 million.

Note 23 Derivative Instruments and Hedge Accounting (continued)

As of 31 December 2005	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	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**
Commodities contracts, excluding precious metals contracts											
Over-the-counter (OTC) contracts											
Forward contracts	2,146	2,099	4,208	3,908	2,301	2,488	3	0	**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[4]**	**337,663[5]**	

1 PRV: Positive replacement value. 2 NRV: Negative replacement value. 3 Exchange-traded products include own account trades only. 4 The impact of netting agreements accepted by the Swiss Federal Banking Commission (SFBC) for capital adequacy calculations is to reduce positive replacement values to CHF 81,590 million. 5 The impact of netting agreements accepted by the SFBC for capital adequacy calculations is to reduce negative replacement values to CHF 85,471 million.

Off-Balance Sheet Information

Note 24 Pledgeable Off-Balance Sheet Securities

The Group obtains securities which are not recorded on the balance sheet with the right to sell or repledge them as shown in the table below.

CHF million	**31.12.06**	31.12.05
Fair value of securities received which can be sold or repledged	**1,436,827**	1,255,176
as collateral under reverse repurchase, securities borrowing and lending arrangements, derivative transactions and other transactions	***1,342,733***	*1,183,238*
in unsecured borrowings	***94,094***	*71,938*
thereof sold or repledged	**1,069,795**	1,023,192
in connection with financing activities	***969,608***	*939,571*
to satisfy commitments under short sale transactions	***87,288***	*70,174*
in connection with derivative and other transactions	***12,899***	*13,447*

Note 25 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	**31.12.06**	31.12.05
Placements with third parties	**43,366**	40,603
Total fiduciary transactions	**43,366**	40,603

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 26 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 customers fail to fulfill their obligations 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 maximum amount at risk for the Group if customers fail to meet their obligations is the contractual amount of these instruments. 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 2006, 2005 and 2004 the Group recognized net credit loss recoveries of CHF 10 million, CHF 39 million and CHF 31 million respectively, related to obligations incurred for contingencies and commitments. Provisions recognized for guarantees, documentary credits and similar instruments were CHF 76 million at 31 December 2006 and CHF 109 million at 31 December 2005. See also Note 21 Provisions.

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 obligation is not fulfilled by the obligor and, where applicable, to fund a part of the credit facility. The Group retains the contractual relationship with the obligor, and the sub-participant has only an indirect relationship. The Group will only enter into sub-participation agreements with banks to which UBS ascribes a credit rating equal to or better than that of the obligor.

Effective 1 January 2006, Swiss Banking Law and the newly established deposit insurance system require Swiss banks and securities dealers to jointly guarantee an amount of up to CHF 4 billion for privileged client deposits in the event that another Swiss bank or securities dealer becomes insolvent. For the period from 1 January 2006 to 30 June 2007, the Swiss Federal Banking Commission estimates UBS´s share in the deposit insurance system to be CHF 953 million. The deposit insurance is a guarantee and exposes UBS to additional credit risk which is not reflected in the table on the next page. UBS considers the probability of a loss due to this contingency to be remote.

UBS is a member of numerous securities and futures exchanges and clearinghouses. Associated with some of those memberships, UBS may be required to pay a share of the financial obligations of, or otherwise be exposed to additional financial obligations as a result of, another member who defaults. While the membership rules vary, obligations generally would arise only if the exchange or clearinghouse had exhausted its resources. The maximum exposure to credit loss is not reflected in the table on the next page. UBS considers the probability of a material loss due to such obligations to be remote.

As part of its trading and market making activities, UBS writes put options on a broad range of underlyings. The writing of put options is subject to UBS's risk control framework. For writing put options, UBS receives a premium, representing the fair value of the option at inception, which is recognized as negative replacement value on the balance sheet. A written put option 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 contract volume, which is the number of units of the underlying multiplied by the exercise price per unit, therefore represents the maximum potential payment UBS could be required to make upon exercise of the puts. The total negative replacement value of written put options is significantly lower than the underlying total contract volume. It changes over time with changes in market parameters. Accordingly, neither the underlying total contract volume nor the negative replacement value is indicative of the actual risk exposure arising from written put options. The market value of guarantees in the form of written put options and other forms of market value guarantees amounted to CHF 481,656 million at 31 December 2006 and CHF 317,973 million at 31 December 2005.

Note 26 Commitments and Contingent Liabilities (continued)

CHF million	31.12.06	31.12.05
Contingent liabilities		
	Guaranteed amounts	
Credit guarantees and similar instruments[1]	12,142	11,526
Sub-participations	(813)	(719)
Total	11,329	10,807
Performance guarantees and similar instruments[2]	3,199	2,805
Sub-participations	(333)	(335)
Total	2,866	2,470
Documentary credits	2,567	2,235
Sub-participations	(238)	(207)
Total	2,329	2,028
Gross contingent liabilities	17,908	16,566
Sub-participations	(1,384)	(1,261)
Net contingent liabilities	16,524	15,305
Irrevocable commitments		
	Committed amounts	
Undrawn irrevocable credit facilities	97,287	72,905
Sub-participations	(2)	(2)
Total	97,285	72,903
Liabilities for calls on shares and other equities	20	20
Gross irrevocable commitments	97,307	72,925
Sub-participations	(2)	(2)
Net irrevocable commitments	97,305	72,923
Contingent liabilities and irrevocable commitments		
Gross contingent liabilities and irrevocable commitments	115,215	89,491
Sub-participations	(1,386)	(1,263)
Net contingent liabilities and irrevocable commitments	113,829[3]	88,228

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. 3 Includes CHF 11,816 million of loan commitments designated at fair value. The fair value of CHF 74 million is shown as Financial liabilities designated at fair value until drawn down. See Note 19 for details.

CHF million	Mortgage collateral	Other collateral	Unsecured	Total
Overview of collateral				
Gross contingent liabilities	318	10,257	7,333	17,908
Gross irrevocable commitments	6,817	43,412	47,058	97,287
Liabilities for calls on shares and other equities	0	0	20	20
Total 31.12.06	7,135	53,669	54,411	115,215
Total 31.12.05	3,688	43,280	42,523	89,491

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 committed to fund these investments at 31 December 2006 and 31 December 2005 was CHF 766 million and CHF 884 million respectively.

Note 27 Operating Lease Commitments

At 31 December 2006, 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	**31.12.06**
Operating leases due	
2007	**1,003**
2008	**995**
2009	**924**
2010	**839**
2011	**722**
2012 and thereafter	**4,280**
Subtotal commitments for minimum payments under operating leases	**8,763**
Less: Sublease rentals under non-cancellable leases	**849**
Net commitments for minimum payments under operating leases	**7,914**

CHF million	**31.12.06**	31.12.05	31.12.04
Gross operating lease expense	**1,178**	1,232	1,309
from continuing operations	**1,165**	1,092	1,197
from discontinued operations	**13**	140	112
Sublease rental income from continuing operations	**56**	51	43
Net operating lease expense	**1,122**	1,181	1,266
from continuing operations	**1,109**	1,041	1,154
from discontinued operations	**13**	140	112

Operating lease contracts include non-cancellable long-term leases of office buildings in most UBS locations. At 31 December 2006, the minimum lease commitments for sixteen office locations each exceeded CHF 100 million. Non-cancellable minimum lease commitments for four office locations in New Jersey, London, Zurich and New York each exceeded CHF 500 million.

Additional Information

Note 28 Pledged Assets

Financial assets are pledged in securities borrowing and lending transactions, in repurchase and reverse repurchase transactions, under collateralized credit lines with central banks, against loans from mortgage institutions and for security deposits relating to stock exchange and clearinghouse memberships.

	Carrying amount	
CHF million	**31.12.06**	31.12.05
Financial assets pledged[1]		
Mortgage loans	**81**	64
Other financial assets	**0**	474
Total financial assets pledged	**81**	538
Other assets pledged		
Property and equipment	**0**	520

1 Securities pledged to third parties with and without the right of rehypothecation are disclosed in footnote 1 of Note 12 and are not included in the table above.

Note 29 Financial Instruments Risk Position

This Note presents information about UBS's management and control of risks from financial instruments.

Part a) presents an overview of UBS's risk management and control objectives.

Parts b) to d) provide more detailed explanations of the primary risks associated with UBS's use of financial instruments:

– market risk – part b) – is exposure to market variables including general market risk factors such as interest rates, exchange rates, equity market indices and commodity prices, and factors specific to individual names affecting the values of securities and other obligations in tradable form, and derivatives referenced to these names
– credit risk – part c) – is the risk of loss as a result of failure by a client or counterparty to meet its contractual obligations
– liquidity risk – part d) – is the risk that UBS is unable to meet its payment obligations when due.

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

This Note generally refers only to UBS's Financial Businesses, and those tables which are based on risk information include only the Financial Businesses of the Group. Those which present an analysis of the whole balance sheet also cover the positions of the Industrial Holdings segment which, for the 2005 tables, includes 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, for a variety of reasons, including active risk management. As such, it may not be representative of the level of risk at other times.

a) Risk Management & Control Objectives

Taking risk is core to a financial services business. UBS's risk management and control objective is not, therefore, to eliminate all risks but to achieve an appropriate balance between risk and return. In day-to-day business and in the strategic management of the balance sheet and capital position, UBS seeks, through its risk management and control framework, to limit the scope for adverse variations in earnings and exposure to "stress" events.

The underlying objective is the creation and protection of shareholder value and the framework is built around the following principles:

– business management is accountable for all risks assumed and is responsible for their continuous and active management
– an independent control process is implemented to provide an objective check on risk-taking activities when required by the nature of the risks, in particular to balance short term profit incentives and the long term interests of UBS. All exposures are independently monitored and reviewed and, depending on the nature of the risks, may also require pre-approval

Note 29 Financial Instruments Risk Position (continued)
a) Risk Management & Control Objectives (continued)

- comprehensive, transparent and objective risk disclosure to senior management, the Board of Directors, shareholders, regulators, rating agencies and other stakeholders is the cornerstone of the risk control process
- risks are controlled at the level of individual exposures, at a portfolio level, and in aggregate across all businesses and risk types to protect the Group's earnings
- managing and controlling risks, and in particular avoiding undue concentrations of exposure, limiting potential losses from stress events, and restricting significant positions in less quantifiable risk areas, are essential elements of the risk management and control framework and the protection of UBS's reputation.

Excellence in risk management is fundamentally based upon a management team that makes risk identification and control critical components of its processes and plans.

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, including formulation of risk policies and risk measurement and assessment methodologies.

b) Market Risk

(i) Overview

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

Market risk arises primarily in UBS's trading activities, which are mainly in the Investment Bank, with limited activity in wealth management to facilitate private client business, and in asset management in support of the alternative and quantitative investments area. Additionally the Treasury department (part of Corporate Center) assumes market risk through its balance sheet and capital management activities.

The trading activities of the Investment Bank include market making, facilitation of client business and proprietary position taking. UBS is active in cash and derivatives markets for equities, fixed income and interest rate products, and for foreign exchange, energy, metals and commodities. Treasury assumes non-trading market risks. Interest rate risk arises from the funding of non-business items such as property and investments and from long-term interest rate risk transferred from other Business Groups. Foreign exchange risk arises from the management of foreign currency profits and losses. Treasury also manages the Group's consolidated equity in such a way as to protect UBS's capital ratios and to generate a stable interest income flow. Other market risks from non-trading activities, predominantly interest rate risk, arise in all Business Groups, but they are not significant.

The Group Head of Market Risk, reporting to the Group CRO, has overall responsibility for formulating the Group's market risk control framework. There is a CRO in each Business Group and a designated CRO for Treasury. The Group Head of Market Risk, the Business Group CROs and their teams are responsible for the independent control of market risk. They ensure that all market risks are identified and captured in risk systems. They establish the necessary controls, including limits, and monitor positions and exposures. An important element of the 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 is further delegated to the GEB and *ad personam* to the Group CRO, the Group Head of Market Risk and CROs 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. The VaR measure captures both "general" and "idiosyncratic" market risks. General market risk factors are variables which are driven by macroeconomic, geopolitical and other market-wide considerations, independent of any instrument or single name. They include movements in interest rates, widening or tightening of general spread levels and directional movements in equity market indices, exchange rates, and energy, metal and commodity prices. Changes in associated volatilities, and correlations between these risk factors – some of which may be unobservable or only indirectly observable – are also general market risks. Idiosyncratic components are those that cannot be explained by general market moves – broadly, changes in the prices of debt and equity instruments and derivatives linked to them, resulting from factors and events specific to individual names.

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

VaR expresses 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 measures risk over a 10-day time horizon and it assumes that market moves occurring over this horizon will follow a similar pattern to those that have occurred over 10-day periods in the past. For general market risk, 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. For idiosyncratic risk, including event risk, the methods and time horizons are adjusted to most appropriately capture the risks.

Stress loss measures are run daily. They 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 and restrictions are placed on risk concentrations in trading books, taking into account variations in price volatility and market liquidity. They include measures of exposure to individual market risk variables, such as the exchange rates and interest rates of particular currencies ("market risk factors"), and on positions in the securities and other tradable obligations of individual names or groups, or derivatives referenced to such names ("issuer risk" – see section b)(v)).

(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 section b)(i). Interest rate sensitivity is one of the key inputs to VaR. One way of expressing this sensitivity for all interest rate sensitive positions, whether marked to market or subject to amortized cost accounting, is 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 in the table below.

Interest rate sensitivity position[1]

		Interest rate sensitivity by time band at 31.12.06					
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	183	(256)	(377)	202	(116)	**(364)**
	Non-trading	(47)	(16)	(206)	(3,677)	(3,524)	**(7,470)**
USD	Trading	13	(202)	(716)	(602)	(1,663)	**(3,170)**
	Non-trading	68	30	(208)	(2,896)	(5,452)	**(8,458)**
EUR	Trading	(261)	648	(409)	(6,707)	5,756	**(973)**
	Non-trading	(16)	(5)	(31)	(359)	(333)	**(744)**
GBP	Trading	123	(93)	(272)	(194)	141	**(295)**
	Non-trading	0	(7)	(142)	(266)	256	**(159)**
JPY	Trading	46	386	(117)	(118)	4	**201**
	Non-trading	1	1	2	(7)	0	**(3)**
Other	Trading	47	469	(209)	(708)	(10)	**(411)**
	Non-trading	(3)	1	1	(1)	(4)	**(6)**

		Interest rate sensitivity by time band 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	(653)	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)**

1 Positions in Industrial Holdings are excluded.

**Note 29 Financial Instruments Risk Position (continued)
b) Market Risk (continued)**

The table sets out the extent to which UBS was exposed to interest rate risk at 31 December 2006 and 2005. 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 part e). "Non-trading" includes all other interest rate sensitive assets and liabilities including derivatives designated as hedges for accounting purposes (as explained in Note 23) and off-balance sheet commitments on which an interest rate has been fixed. The regulatory capital definition of the trading book is broadly consistent with, but not identical to, the accounting definition of the trading portfolio. Most notably, loans originated by UBS for distribution in the cash markets are classified as held for trading for accounting purposes, but are risk controlled under the credit risk framework – see part c) – and are not eligible for trading book regulatory capital treatment.

Information about money market paper and debt instruments classified as trading portfolio for accounting purposes is included in Note 12 and of debt instruments defined as financial investments available-for-sale for accounting purposes in Note 13. Information about derivatives is shown in Note 23. 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 in particular in the Fixed Income, Rates and Currencies business area, which includes the Cash and Collateral Trading unit (CCT).

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 are transferred from the originating business units to one of the two core interest rate risk management units – Treasury and CCT. The risks are then managed within the market risk limits and controls described in section b)(i).

The largest non-trading interest rate exposures arise in the Global Wealth Management & Business Banking Business Group. Many of their retail banking products have no contractual maturity date or directly market-linked rate. Their interest rate risk is transferred on a pooled basis through "replicating" portfolios. A replicating portfolio is a series of loans or deposits at market rates and fixed terms between the originating business unit and Treasury, structured to approximate – on average – the interest rate cash flow and re-pricing behaviour of the pooled client transactions. The portfolios are rebalanced monthly. Their structure and parameters are based on long-term market observations and client behavior, and are reviewed periodically. Product margin remains with, and is subject to additional analysis and control by the originating business units.

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 transferred to Treasury through replicating portfolios which, in this case, are designed to approximate the mandated funding profile.

The Group's consolidated equity is managed in accordance with strategic targets set by senior management and is placed at fixed interest rates in Swiss franc, US dollar, euro and UK sterling with an average duration of between three and four years. These positions account for CHF 17.1 million of the non-trading interest rate sensitivity shown in the table on the previous page, with CHF 7.4 million arising in Swiss franc, CHF 8.4 million in US dollar and the remainder in euro and UK sterling. The interest rate sensitivity of the positions is directly related to the chosen duration, and although adopting significantly shorter maturities would lead to a reduction in apparent interest rate sensitivity, it would lead to higher volatility in interest earnings.

The economic value sensitivity of non-trading interest rate positions is defined as the impact of a large (100 basis point) instantaneous rise in interest rates across all currencies, on the net present value of all future cashflows from these positions. At 31 December 2006 the economic value sensitivity was a loss of CHF 1,771 million.

(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 section b)(i). Information about foreign exchange contracts, most of which arise from trading activities and contribute to currency risk, is provided in Note 23.

Non-trading

UBS's reporting currency is the Swiss franc, but its assets, liabilities, income and expense are denominated in many currencies, with significant amounts in US dollar, euro and UK sterling, as well as Swiss franc.

Reported profits or losses are exchanged monthly, and in some cases more frequently, into Swiss francs, 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 US dollar, euro and UK sterling) in accordance with the instructions of the Group Executive Board. Economic hedging strategies employed include a cost-efficient options purchase program, which provides protection against unfavorable currency fluctuations while preserving some upside potential. Although these positions are intended to economically hedge future earnings, they can cause volatility in financial results because they are marked to market. Within clearly defined tolerances, such fluctuations are accepted. The positions are, however, treated as currency exposure, are subject to Treasury's VaR limit and are included in VaR for regulatory capital purposes. The hedge program has a time horizon of up to twelve months and is not restricted to the current financial year.

The Group's consolidated equity is managed – as described in section b)(ii) – in such a way as to protect UBS's capital ratios from exchange rate movements, based on a target profile that broadly reflects the currency distribution of its risk-weighted assets. This creates structural foreign currency exposures. Exchange rate movements lead to increases or decreases in the Swiss franc value of the Group's risk-weighted assets. They also generate translation gains or losses on the structural foreign currency exposures. These are recorded in Equity in the Group's Financial Statements, thereby protecting the BIS Tier 1 capital ratio – see part e).

At 31 December 2006, the largest combined trading and non-trading currency exposures against the Swiss franc were short USD 436 million, short EUR 195 million and long AUD 128 million. At 31 December 2005, the largest exposures were short USD 695 million, short EUR 36 million and long GBP 6 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 is increasingly active in the newer markets. It carries equity risk from these activities. These exposures are subject to the VaR, stress and concentration limits described in section b)(i) and, in the case of individual stocks, to the issuer risk controls described in section b)(v).

Information about equities held for trading for accounting purposes is given in Note 12. Information about equity derivatives contracts (on indices and individual equities), which arise primarily from the Investment Bank's trading activities, is provided in Note 23.

(v) Issuer risk

Issuer risk is the risk of loss on securities and other obligations in tradable form (including traded loans), and on derivatives based on such assets. It arises from credit-related and other events and, ultimately, default of the issuer, obligor or reference name.

As an active trader and market maker, the Investment Bank holds positions in these instruments, which are included in VaR and are also subject to controls on concentrated exposure to individual names and groups.

Exposures arising from security underwriting commitments are, additionally, subject to targeted processes prior to commitment, generally including review by a commitment committee with representation from both business management and the control functions. All commitments are approved under specific delegated authorities.

(vi) Investment positions

UBS makes equity investments for a variety of purposes. Some are made for revenue generation or as part of strategic initiatives, while others, such as exchange and clearinghouse memberships, are held in support of other business activities. Private equity positions were, in the past, the major component of equity investments but the portfolio is being managed down. UBS made an investment in Bank of China as part of a major strategy initiative, and acquired a stake in Julius Baer when Private Banks & GAM was sold to them in December 2005. Most seed money and co-investments in UBS funds are considered investment positions.

Many equity investments are unlisted and therefore illiquid. Others are intended to be held medium- or long-term. The fair values are often driven more by factors specific to the individual companies than movements in general equity markets. For these reasons, equity investments are controlled outside the market risk measures and controls described in sections b)(iv) and b)(v). Instead they are subject to control and reporting processes, including pre-approval of new investments by business management and risk control. Where investments are made as part of an ongoing business they are also subject to portfolio and concentration limits.

Debt investments, including money market paper, are not significant in amount. They are included in the measures of interest rate risk described in section b)(ii).

Note 29 Financial Instruments Risk Position (continued)
c) 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 are carried at fair value if they have been originated by the Group for subsequent syndication or distribution through the cash markets or (with effect from June 2006) are to be substantially hedged. OTC derivatives are carried at fair value. Repos and securities borrowing and lending transactions are accounted for on an amortized cost basis. All banking and traded products are governed by the same credit risk management and control framework, regardless of accounting treatment.

The Group Chief Credit Officer (CCO), reporting to the Group CRO, has overall responsibility for formulating the Group's credit risk control framework. Global Wealth Management & Business Banking and the Investment Bank, which take material credit risk, have independent credit risk control units, headed by CCOs reporting functionally to the Group CCO. They are responsible for the rating of counterparties, for credit risk assessment and for 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 is further delegated to the GEB and *ad personam* to the Group CCO and to the Business Group CCOs and credit officers.

For credit risk control purposes, credit exposure is measured for banking products as the nominal amount. For traded products, credit exposure is based on the replacement value of contracts, taking account of master netting agreements with individual counterparties where they are considered enforceable in insolvency. The potential replacement value is projected over the life of the contracts (or over a shorter time frame where UBS has the ability to reduce exposure or close out, for example by calling or liquidating collateral) reflecting changes in credit exposure resulting from market movements and from maturing contracts. UBS actively uses credit risk mitigation techniques to manage credit exposure. These include risk transfers and participations, hedging with credit derivatives, taking of security in the form of financial collateral (cash or marketable securities) or other assets such as real estate, and guarantees and other third party support. For internal credit risk control, credit risk mitigation is reflected – depending on the product and type of mitigation – by recognizing its existence in determining the exposure UBS is prepared to carry or by reflecting its risk-reducing effect in the reported credit exposure.

In the table, the amounts shown as credit exposure for banking products are based on accounting classification and include some items which are not considered to be credit exposures for internal purposes, notably cash collateral posted by UBS with market counterparties against negative replacement values on derivatives. Credit risk mitigation is recognized only to the extent that assets are derecognized for accounting purposes, as explained in Note 1a4). The amounts shown in the table for traded products are based on regulatory capital treatment, as shown in the table in part e). It should be noted that, for regulatory capital purposes, netting of positive and negative replacement values on derivatives is permitted for counterparties with whom UBS has a master netting agreement that is enforceable in insolvency, but netting is not permitted for accounting purposes unless the cash flows will actually be settled net, which is not generally the case – for details see Note 23. The regulatory capital treatment of securities borrowing and lending transactions and repo and reverse repo transactions is based on the net positive value of cash or securities given by UBS to the counterparty. These values are included in the table in part e) in Due from banks and other collateralized lendings. They are only a small percentage of the balance sheet amounts which are based on the full value of transactions – for details see Note 11. The amounts shown in the table for traded products do not include any estimate of the potential future exposure which is included in the internal credit risk control view.

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.

UBS's credit portfolio is heterogeneous, varying significantly in terms of client type, sector, geographical diversity and the size of exposures. Limits take a variety of forms such as nominal values, statistical measures and scenario-based stress loss. They are applied to individual portfolios or sectors where appropriate, to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth. Stress loss limits are applied to exposures to all but the best-rated countries.

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

Aggregate risk across portfolios is measured using a proprietary statistical methodology which provides an indication of risk in the portfolio and the way it changes over time. Stress loss measures are applied to all significant portfolios to assess the impact of variations in default rates and asset values, taking into account risk concentrations in each portfolio. These measures include an analysis of contribution by industry and geography.

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

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 or off-balance sheet items, impairment is recognized through the creation of an allowance or a provision respectively 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.

For products carried at amortized cost, UBS also assesses portfolios of claims with similar credit risk characteristics for collective impairment in accordance with IAS 39. 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 1 a10). For the amounts of allowance and provision for credit losses and amounts of impaired and non-performing loans, see Note 10 b), c) and d). It should be noted that allowances and provisions for collective impairment are included in the total of allowances and provisions in the table below, and in

Breakdown of credit exposure[1]

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

CHF million	31.12.06	31.12.05
Banking products		
Due from banks and loans[2]	**364,110**	314,482
Contingent liabilities (gross – before participations)[3]	**17,908**	16,566
Undrawn irrevocable credit facilities (gross – before participations)[3]	**97,287**	72,905
Traded products[4]		
Derivatives positive replacement values (before collateral but after netting)[5]	**110,732**	86,950
Securities borrowing and lending, repos and reverse repos[6, 7]	**47,870**	40,765
Allowances and provisions[8]	**(1,332)**	(1,776)
Total credit exposure net of allowances and provisions	**636,575**	529,892

1 Positions in Industrial Holdings are excluded. 2 See Note 10a – Due from Banks and Loans for further information. 3 See Note 26 – 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 29e) – 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 securities borrowing / lending and repo / reverse repo transactions. 7 See Note 11 – Securities Borrowing, Securities Lending, Repurchase and Reverse Repurchase Agreements for further information about these types of transactions. 8 See Note 10b - Allowances and Provisions for Credit Losses for further information.

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

Notes 10a) and b), but that portfolios against which collective loan loss provisions have been established are not included in the totals of impaired loans in Note 10c).

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 statistically based concept which is used to estimate the annual costs that will arise, on average, 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.

d) 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. Treasury, which is part of Corporate Center, is responsible for the liquidity control framework while the Investment Bank Cash and Collateral Trading unit is responsible for day-to-day operations. The approach is based on a comprehensive assessment of all material known and expected cash flows of the Group 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 2006, which is the starting point for the liquidity analyses, is shown in the table on the next page.

Note 29 Financial Instruments Risk Position (continued)
d) 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	3.5	0.0	0.0	0.0	0.0	0.0	3.5
Due from banks	27.2	0.0	19.5	1.2	2.3	0.2	50.4
Cash collateral on securities borrowed	0.0	239.6	102.7	9.3	0.0	0.0	351.6
Reverse repurchase agreements	0.0	67.1	278.5	49.2	10.9	0.1	405.8
Trading portfolio assets[2]	627.0	0.0	0.0	0.0	0.0	0.0	627.0
Trading portfolio assets pledged as collateral[2]	251.5	0.0	0.0	0.0	0.0	0.0	251.5
Positive replacement values[2]	328.4	0.0	0.0	0.0	0.0	0.0	328.4
Financial assets designated at fair value	5.9	0.0	0.0	0.0	0.0	0.0	5.9
Loans	42.9	44.7	89.0	32.2	79.5	24.2	312.5
Financial investments available-for-sale	8.1	0.0	0.3	0.1	0.2	0.2	8.9
Accrued income and prepaid expenses	10.4	0.0	0.0	0.0	0.0	0.0	10.4
Investments in associates	0.0	0.0	0.0	0.0	0.0	1.5	1.5
Property and equipment	0.0	0.0	0.0	0.0	0.0	6.9	6.9
Goodwill and other intangible assets	0.0	0.0	0.0	0.0	0.0	14.8	14.8
Other assets	17.4	0.0	0.0	0.0	0.0	0.0	17.4
Total 31.12.06	**1,322.3**	**351.4**	**490.0**	**92.0**	**92.9**	**47.9**	**2,396.5**
Total 31.12.05	1084.2	289.8	452.6	98.2	87.9	45.6	2,058.3
Liabilities							
Due to banks	41.4	4.4	151.9	5.2	0.3	0.5	203.7
Cash collateral on securities lent	0.0	55.5	7.6	0.0	0.0	0.0	63.1
Repurchase agreements	0.0	30.9	425.1	81.8	7.7	0.0	545.5
Trading portfolio liabilities[2]	204.8	0.0	0.0	0.0	0.0	0.0	204.8
Negative replacement values[2]	332.5	0.0	0.0	0.0	0.0	0.0	332.5
Financial liabilities designated at fair value	0.0	0.0	7.8	28.0	79.2	30.7	145.7
Due to customers	157.0	130.2	268.5	13.7	1.0	0.2	570.6
Accrued expenses and deferred income	21.5	0.0	0.0	0.0	0.0	0.0	21.5
Debt issued	0.0	0.0	101.1	21.9	9.3	57.9	190.1
Other liabilities	29.6	33.6	0.0	0.0	0.0	0.0	63.2
Total 31.12.06	**786.8**	**254.6**	**962.0**	**150.6**	**97.5**	**89.3**	**2,340.7**
Total 31.12.05	732.7	244.7	791.5	90.1	74.8	72.9	2,006.7

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

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

The adequacy of UBS's capital is monitored using, among other measures, the framework 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 BIS capital ratios, 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. On balance, this results in higher RWAs than under the BIS rules and UBS's ratios are lower when calculated under the SFBC regulations than under the BIS framework.

UBS's capital requirements are based on its consolidated Financial Statements prepared under IFRS. Adjustments are made to exclude IFRS consolidated entities that are not active in the areas of banking, finance or real estate – mainly securitization and collective investment vehicles and industrial holdings (including Motor-Columbus in 2005). Adjustments are also made to IFRS-based profit and reserves, in line with BIS recommendations, as prescribed by the SFBC, primarily in relation to gains and losses recognized under the fair value option and unrealized gains on available-for-sale financial investments.

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 differences not recognized in the income statement and hybrid Tier 1 capital (part of Equity attributable to minority interests) less accrued expected dividend, net long positions in own shares, and goodwill. Tier 2 capital includes subordinated long-term debt. Additionally certain non-trading exposures to other financial institutions are required to be deducted from capital. 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, market risk, and other 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. The least risky claims, such as claims on OECD governments and claims collateralized by cash, are weighted at 0%, meaning that no regulatory 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 IFRS consolidated industrial holdings (which for 2005 includes Motor-Columbus) are treated for regulatory capital purposes as positions in securities 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 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 percentages of nominal value specified by the regulators.

Regulatory capital is required to support market risk arising on all foreign exchange, and energy, metals and commodity positions, and on all positions held for trading, and meeting the regulatory definition of trading book, in interest rate instruments and equities, including risks on individual equities and traded debt obligations such as bonds. For most market risk positions, UBS derives its regulatory capital requirement from its internal Value at Risk (VaR) model – see section b)(i) – which is approved by the SFBC. For some small positions market risk regulatory capital is computed using the standardized method defined by the regulators. Unlike the calculations for credit risk and other risks, this produces the capital requirement itself rather than the RWA amount. In order to compute a total capital ratio, the total 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 total market risk capital requirement is multiplied by 12.5.
Other risks consist of other types of asset, most notably property and equipment, and intangibles (included in the table on the next page within Other assets). These assets are not subject to credit or market risk, but they represent a risk to the Group in respect of their potential for write-down and impairment and therefore require capital underpinning in accordance with regulatory formulas.

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

Risk-weighted assets (BIS)

CHF million	Exposure 31.12.06	Risk-weighted amount 31.12.06	Exposure 31.12.05	Risk-weighted amount 31.12.05
Balance sheet exposures				
Due from banks and other collateralized lendings[1]	452,821	10,438	665,932	6,991
Net positions in securities[2]	10,262	8,447	8,079	6,849
Positive replacement values[3]	110,732	24,161	86,950	20,546
Loans, net of allowances for credit losses and other collateralized lendings[1]	887,694	206,359	540,051	196,091
Accrued income and prepaid expenses	9,302	4,920	9,081	4,815
Property and equipment	8,436	8,436	7,957	7,957
Other assets	15,976	10,827	13,292	9,115
Off-balance sheet exposures				
Contingent liabilities	17,908	7,842	16,595	7,474
Irrevocable commitments	98,439	23,592	73,220	18,487
Forward and swap contracts[4]	31,522,982	16,599	22,365,432	10,738
Purchased options[4]	1,913,971	411	1,629,260	311
Market risk positions[5]		19,860		21,035
Total risk-weighted assets		341,892		310,409

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 the Market risk positions. 2 Includes industrial holdings, which are not consolidated for capital adequacy. Excludes positions in the trading book, which are included in Market risk positions. 3 Represents the mark to market values of Forward and swap contracts and Purchased options, where positive but after netting, where applicable. 4 Represents the add-ons for these contracts. 5 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 31.12.06	Ratio % 31.12.06	Capital CHF million 31.12.05	Ratio % 31.12.05
Tier 1	40,528	11.9	39,834	12.8
of which hybrid Tier 1	5,633	1.6	4,975	1.6
Tier 2	9,836	2.9	3,974	1.3
Total BIS	50,364	14.7	43,808	14.1

The Tier 1 capital includes preferred securities of CHF 5,633 million (USD 3,300 million and EUR 1,000 million) at 31 December 2006 and CHF 4,975 million (USD 2,600 million and EUR 1,000 million) at 31 December 2005.

Note 30 Fair Value of Financial Instruments and Continued Recognition of Transferred Financial Assets
a) 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 31.12.06**	**Fair value 31.12.06**	**Unrealized gain/(loss) 31.12.06**	Carrying value 31.12.05	Fair value 31.12.05	Unrealized gain/(loss) 31.12.05
Assets						
Cash and balances with central banks	**3.5**	**3.5**	**0.0**	5.4	5.4	0.0
Due from banks	**50.4**	**50.4**	**0.0**	33.6	33.6	0.0
Cash collateral on securities borrowed	**351.6**	**351.6**	**0.0**	288.4	288.3	(0.1)
Reverse repurchase agreements	**405.8**	**405.7**	**(0.1)**	404.4	404.5	0.1
Trading portfolio assets	**627.0**	**627.0**	**0.0**	499.3	499.3	0.0
Trading portfolio assets pledged as collateral	**251.5**	**251.5**	**0.0**	154.8	154.8	0.0
Positive replacement values	**328.4**	**328.4**	**0.0**	333.8	333.8	0.0
Financial assets designated at fair value	**5.9**	**5.9**	**0.0**	1.2	1.2	0.0
Loans	**312.5**	**311.3**	**(1.2)**	279.9	280.5	0.6
Financial investments available-for-sale	**8.9**	**8.9**	**0.0**	6.6	6.6	0.0
Liabilities						
Due to banks	**203.7**	**203.7**	**0.0**	124.3	124.3	0.0
Cash collateral on securities lent	**63.1**	**63.1**	**0.0**	59.9	59.9	0.0
Repurchase agreements	**545.5**	**545.5**	**0.0**	478.5	478.5	0.0
Trading portfolio liabilities	**204.8**	**204.8**	**0.0**	188.6	188.6	0.0
Negative replacement values	**332.5**	**332.5**	**0.0**	337.7	337.7	0.0
Financial liabilities designated at fair value	**145.7**	**145.7**	**0.0**	117.4	117.4	0.0
Due to customers	**570.6**	**570.6**	**0.0**	466.9	466.9	0.0
Debt issued	**190.1**	**191.1**	**(1.0)**	160.7	162.0	(1.3)
Subtotal			**(2.3)**			(0.7)
Unrealized gains and losses recorded in equity before tax on:						
Financial investments available-for-sale			**3.7**			1.1
Derivative instruments designated as cash flow hedges			**(0.6)**			(0.9)
Net unrealized gains and losses recognized directly in equity			**0.8**			(0.5)

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 and financial assets and liabilities held for trading and designated at fair value. 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 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 through profit or loss, 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 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 write-downs, 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, the interest accrued to date on financial instruments is included in the carrying value of the financial instruments mentioned in the table.

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. Fair values of physical commodities are reflected in the table under trading portfolio assets.

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

The fair values of UBS's fixed-rate loans, long- and medium-term notes and bonds issued are predominantly hedged by derivative instruments, mainly interest rate swaps, as explained in Note 23. The interest rate risk inherent in balance sheet positions with no specific maturity is also hedged with derivative instruments based on management's view of 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 a14). 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 30 Fair Value of Financial Instruments and Continued Recognition of Transferred Financial Assets (cont.)
b) Determination of Fair Values from Quoted Market Prices or Valuation Techniques

For trading portfolio assets and liabilities, financial assets and liabilities designated at fair value and financial investments available-for-sale 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 quoted market prices directly available, fair values are estimated using valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing 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:

	31.12.06				31.12.05			
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	**215.1**	**411.8**	**0.1**	**627.0**	273.2	225.2	0.9	499.3
Trading portfolio assets pledged as collateral	**243.5**	**8.0**	**0.0**	**251.5**	147.6	7.2	0.0	154.8
Positive replacement values	**31.3**	**285.6**	**11.5**	**328.4**	13.6	313.4	6.8	333.8
Financial assets designated at fair value	**0.0**	**5.1**	**0.8**	**5.9**	0.2	1.0	0.0	1.2
Financial investments available-for-sale	**2.5**	**4.6**	**1.8**	**8.9**	3.0	1.1	2.5	6.6
Total assets	**492.4**	**715.1**	**14.2**	**1,221.7**	437.6	547.9	10.2	995.7
Trading portfolio liabilities	**169.9**	**34.9**	**0.0**	**204.8**	171.2	17.4	0.0	188.6
Negative replacement values	**32.7**	**290.6**	**9.2**	**332.5**	15.9	311.1	10.7	337.7
Financial liabilities designated at fair value	**0.0**	**80.0**	**65.7**	**145.7**	0.0	92.5	24.9	117.4
Total liabilities	**202.6**	**405.5**	**74.9**	**683.0**	187.1	421.0	35.6	643.7

Note 30 Fair Value of Financial Instruments and Continued Recognition of Transferred Financial Assets (cont.)

c) 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. All models used for valuation 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. Valuation adjustments are made to reflect such uncertainty and deducted from the fair values produced by the models or other valuation techniques.

Based on UBS's established fair value and model governance policies and the related 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 1,038 million using less favorable assumptions and an increase of approximately CHF 955 million using more favorable assumptions at 31 December 2006; and 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.

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 is assumed that the impact of correlation between different financial instruments and models is minimal. A similar approach is used for valuation techniques other than those based on models.

d) 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 2006 and 31 December 2005 was CHF 13,318 million and CHF 7,996 million, respectively, which represents the net result from a range of products traded across different business activities, including the effect of the foreign currency translation of monetary assets and liabilities 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 otherwise estimated using valuation techniques.

Included in the unrealized portion of Net trading income are net losses from changes in fair value of CHF 8,284 million and CHF 2,286 million for the years ended 31 December 2006 and 31 December 2005, respectively, on financial instruments for which fair values were estimated using valuation techniques. These valuation techniques include models such as those described in previous sections, which range from relatively simple models with market-observable inputs, to those which are more complex and require the use of assumptions or estimates based on market conditions.

Net trading income is often generated from transactions involving several financial instruments or subject to hedging or other risk management techniques. This may result in different portions of the transaction being priced using different methods. In many cases, the amounts estimated using valuation techniques were offset by changes in fair value of other financial instruments or transactions, for which quoted market prices or rates were available, or on which the gain or loss has been realized. Consequently, the changes in fair value which were estimated using valuation techniques and have been recognized in profit or loss during the period represent only a portion of Net trading income.

The amount of realized income and unrealized income from changes in fair values estimated using quoted market prices, including the effect of foreign currency translation on unrealized gains or losses, was a gain of CHF 21,602 million, CHF 10,282 million and CHF 12,025 million for the years ended 31 December 2006, 31 December 2005 and 31 December 2004, respectively.

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 10 million for the year ended 31 December 2006, CHF 3 million for the year ended 31 December 2005 and CHF 218 million for the year ended 31 December 2004.

Note 30 Fair Value of Financial Instruments and Continued Recognition of Transferred Financial Assets (cont.)
e) Transferred Financial Assets which do not Qualify for Derecognition

The following table presents details of financial assets which have been sold or otherwise transferred, but which do not qualify for derecognition. Criteria for derecognition are discussed in Note 1 a4).

	Continued asset recognition in full – Total assets	
CHF billion	**31.12.06**	31.12.05
Nature of transaction		
Securities lending agreements	**98.9**	50.5
Repurchase agreements	**146.5**	100.0
Other financial asset transfers	**69.8**	85.0
Total	**315.2**	235.5

The transactions are mostly 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 financial assets which continue to be recognized are typically transferred in exchange for cash or other financial assets. The associated liabilities can therefore be assumed to be approximately the carrying amount of the transferred financial assets.

UBS retains substantially all risks and rewards of the transferred assets in each situation of continued recognition in full. These include credit risk, settlement risk, country risk and market risk.

Repurchase agreements and securities lending agreements are discussed in Notes 1 a12) and 1 a13). Other financial asset transfers include sales of financial assets while concurrently entering into a total rate of return swap with the same counterparty and sales of financial assets involving guarantees.

Transferred financial assets which are subject to partial continued recognition were immaterial in 2006 and 2005. The carrying amounts of the partially recognized transferred financial assets are included in the table.

Note 31 Pension and Other Post-Retirement Benefit Plans

a) Defined benefit plans

The Group has established various pension plans inside and outside of Switzerland. The major plans are located in Switzerland, the UK, the US and Germany. 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 up to 31 December 2005 but are not included in the 31 December 2006 disclosure since these companies were sold on 23 March 2006.

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 plan of UBS covers practically all UBS employees in Switzerland and exceeds the minimum benefit requirements under Swiss law. The Swiss plan was amended on 1 January 2007 to change the definition of retirement benefits from a final covered salary to a retirement savings approach. The pension plan provides benefits which are based on annual contributions as a percentage of salary and accrue at an interest rate that is defined annually by the plan trustees.

Contributions to the pension plan of UBS are paid by employees and the employer. The employee contributions are calculated as a percentage of covered salary and are deducted monthly. The percentages deducted from salary for full benefit coverage (including risk benefits) depend on age and vary between 1% and 10% of covered base salary and 3% and 8% of covered bonus. The employer pays a contribution that ranges between 100% and 350%, or approximately 230%, on average, of the sum of employees' contributions. The benefits covered include retirement benefits, disability, death and survivor pensions, and employment termination benefits.

The employer contributions expected to be made in 2007 to the Swiss pension plan are CHF 520 million. The accumulated benefit obligation (which is the current value of accrued benefits without allowance for future salary increases) for the Swiss pension plan was CHF 19,094 million as of 31 December 2006 (2005: CHF 18,863 million, 2004: CHF 18,566 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 2007 to these pension plans are CHF 76 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 5,142 million as of 31 December 2006 (2005: CHF 4,992 million, 2004: CHF 4,118 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 4,710 million and CHF 4,683 million as of 31 December 2006 (2005: CHF 4,521 million and CHF 4,497 million, 2004: CHF 3,755 million and CHF 3,735 million). The fair value of plan assets for these plans was CHF 4,092 million as of 31 December 2006 (2005: CHF 3,789 million, 2004: CHF 3,166 million).

Note 31 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans

CHF million	Swiss			Foreign		
For the year ended	**31.12.06**	31.12.05	31.12.04	**31.12.06**	31.12.05	31.12.04
Defined benefit obligation at the beginning of the year	**(20,972)**	(20,225)	(18,216)	**(5,020)**	(4,142)	(3,663)
Service cost	**(347)**	(353)	(345)	**(76)**	(82)	(83)
Interest cost	**(611)**	(660)	(672)	**(242)**	(236)	(212)
Plan participant contributions	**(221)**	(219)	(203)			
Amendments	**(125)**					
Actuarial gain / (loss)	**(265)**	(713)	(1,392)	**(120)**	(416)	(296)
Foreign currency translation				**(84)**	(280)	146
Benefits paid	**723**	866	910	**149**	144	125
Special termination benefits	**(17)**	(37)	(35)		(2)	
Acquisitions			(272)		(6)	(159)
Settlements	**329**	369		**186**		
Defined benefit obligation at the end of the year	**(21,506)**	(20,972)	(20,225)	**(5,207)**	(5,020)	(4,142)
Fair value of plan assets at the beginning of the year	**20,229**	18,575	17,619	**4,288**	3,580	3,402
Expected return on plan assets	**998**	925	878	**283**	263	248
Actuarial gain / (loss)	**447**	1,284	102	**40**	247	122
Foreign currency translation				**74**	253	(132)
Employer contributions	**492**	468	411	**66**	89	65
Plan participant contributions	**221**	219	203			
Benefits paid	**(723)**	(866)	(910)	**(149)**	(144)	(125)
Acquisitions			272			
Settlements	**(328)**	(376)				
Fair value of plan assets at the end of the year	**21,336**	20,229	18,575	**4,602**	4,288	3,580
Funded status	**(170)**	(743)	(1,650)	**(605)**	(732)	(562)
Unrecognized net actuarial (gains) / losses	**2,123**	2,334	3,006	**1,237**	1,222	1,046
Unrecognized past service cost				**1**	1	1
Unrecognized asset	**(1,953)**	(1,591)	(1,356)			
(Accrued) / prepaid pension cost	**0**	0	0	**633**	491	485
Movement in the net (liability) or asset						
(Accrued) / prepaid pension cost at the beginning of the year				**491**	485	710
Net periodic pension cost	**(492)**	(468)	(411)	**(103)**	(125)	(105)
Employer contributions	**492**	468	411	**66**	89	65
Acquisitions					(6)	(159)
Settlement				**170**		
Foreign currency translation				**9**	48	(26)
(Accrued) / prepaid pension cost	**0**	0	0	**633**	491	485
Amounts recognized in the balance sheet						
Prepaid pension cost				**815**	832	805
Accrued pension liability				**(182)**	(341)	(320)
(Accrued) / prepaid pension cost	**0**	0	0	**633**	491	485

Note 31 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans (continued)

CHF million	Swiss			Foreign		
For the year ended	**31.12.06**	31.12.05	31.12.04	**31.12.06**	31.12.05	31.12.04
Components of net periodic pension cost						
Service cost	**347**	353	345	**76**	82	83
Interest cost	**611**	660	672	**242**	236	212
Expected return on plan assets	**(998)**	(925)	(878)	**(283)**	(263)	(248)
Amortization of unrecognized past service cost	**125**	(3)				
Amortization of unrecognized net (gains) / losses	**25**	101		**68**	68	58
Special termination benefits	**17**	37	35		2	
Settlements		10				
Increase / (decrease) of unrecognized asset	**365**	235	237			
Net periodic pension cost	**492**	468	411	**103**	125	105

Funded and unfunded plans	Swiss				
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.03	31.12.02
Defined benefit obligation from funded plans	**(21,506)**	(20,972)	(20,225)	(18,216)	(19,204)
Plan assets	**21,336**	20,229	18,575	17,619	16,566
Surplus / (deficit)	**(170)**	(743)	(1,650)	(597)	(2,638)
Experience gains / (losses) on plan liabilities	**(265)**	(77)			
Experience gains / (losses) on plan assets	**447**	1,284			

	Foreign				
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.03	31.12.02
Defined benefit obligation from funded plans	**(5,002)**	(4,635)	(3,815)	(3,509)	(3,295)
Defined benefit obligation from unfunded plans	**(205)**	(385)	(327)	(154)	(141)
Plan assets	**4,602**	4,288	3,580	3,402	2,382
Surplus / (deficit)	**(605)**	(732)	(562)	(261)	(1,054)
Experience gains / (losses) on plan liabilities	**(11)**	7			
Experience gains / (losses) on plan assets	**40**	247			

	Swiss			Foreign		
	31.12.06	31.12.05	31.12.04	**31.12.06**	31.12.05	31.12.04
Principal weighted average actuarial assumptions used (%)						
Assumptions used to determine defined benefit obligations at the end of the year						
Discount rate	**3.0**	3.0	3.3	**5.2**	5.0	5.5
Expected rate of salary increase	**2.5**	2.5	2.5	**4.6**	4.4	4.4
Rate of pension increase	**0.8**	0.8	1.0	**2.1**	1.9	1.9
Assumptions used to determine net periodic pension cost for the year ended						
Discount rate	**3.0**	3.3	3.8	**5.0**	5.5	5.7
Expected rate of return on plan assets	**5.0**	5.0	5.0	**6.7**	7.0	7.2
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

Note 31 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans (continued)

	Swiss			Foreign		
CHF million, exept where indicated	**31.12.06**	31.12.05	31.12.04	**31.12.06**	31.12.05	31.12.04
Expected future benefit payments						
2007	**976**			**157**		
2008	**992**			**150**		
2009	**1,013**			**160**		
2010	**1,008**			**171**		
2011	**1,022**			**183**		
2012–2016	**5,307**			**1197**		
Plan assets (weighted average)						
Actual plan asset allocation (%)						
Equity instruments	**41**	43	43	**53**	52	54
Debt instruments	**45**	43	41	**38**	39	41
Real estate	**11**	12	12	**4**	4	2
Other	**3**	2	4	**5**	5	3
Total	**100**	100	100	**100**	100	100
Long-term target plan asset allocation (%)						
Equity instruments	**33–51**	34–46	34–49	**49–53**	52–55	49–55
Debt instruments	**31–50**	30–53	30–53	**37–44**	44–45	44–47
Real estate	**10–19**	11–19	12–19	**4–6**	0–3	1–2
Other	**0**	0	0	**1–5**	1–2	0–6
Actual return on plan assets (%)	**7.2**	12.0	5.5	**7.8**	13.6	10.8
Additional details to fair value of plan assets						
UBS financial instruments and UBS bank accounts	**684**	613	1,239			
UBS AG shares[1]	**193**	225	238			
Securities lent to UBS included in plan assets	**7,169**	2,222	3,778			
Other assets used by UBS included in plan assets	**69**	69	73			

1 The number of UBS AG shares was 2,600,417; 3,589,152; and 4,986,346 as of 31 December 2006, 31 December 2005 and 31 December 2004, respectively.

Note 31 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 UK plan is closed to new entrants.

The benefit obligation in excess of fair value of plan assets for those plans amounts to CHF 219 million as of 31 December 2006 (2005: CHF 216 million, 2004: CHF 166 million) and the total accrued post-retirement cost amounts to CHF 176 million as of 31 December 2006 (2005: CHF 168 million, 2004: CHF 136 million). The net periodic post-retirement costs for the years ended 31 December 2006, 31 December 2005 and 31 December 2004 were CHF 24 million, CHF 21 million and CHF 16 million, respectively.

The employer contributions expected to be made in 2007 to the post-retirement medical and life plans are CHF 9 million. The expected future benefit payments are CHF 9 million for the years 2007 and 2008, CHF 10 million for the years 2009 and 2010, CHF 11 million for the year 2011, CHF 64 million in total for the years 2012 to 2016.

b) Post-retirement medical and life plans

CHF million	**31.12.06**	31.12.05	31.12.04
Post-retirement benefit obligation at the beginning of the year	**(216)**	(166)	(179)
Service cost	**(10)**	(8)	(6)
Interest cost	**(11)**	(11)	(9)
Plan participant contribution	**(1)**	0	0
Actuarial gain / (loss)	**1**	(17)	8
Foreign currency translation	**10**	(22)	12
Amendments	**(1)**	0	0
Benefits paid	**9**	8	8
Post-retirement benefit obligation at the end of the year	**(219)**	(216)	(166)
Fair value of plan assets at the beginning of the year	**0**	0	0
Employer contributions	**8**	8	8
Plan participant contribution	**1**	0	0
Benefits paid	**(9)**	(8)	(8)
Fair value of plan assets at the end of the year	**0**	0	0

	31.12.06	31.12.05	31.12.04	31.12.03	31.12.02
Defined benefit obligation	**(219)**	(216)	(166)	(179)	(166)
Plan asset	**0**	0	0	0	2
Surplus / (deficit)	**(219)**	(216)	(166)	(179)	(164)
Experience gains / (losses) on plan liabilities	**1**	(3)	0	0	0

The assumed average health care cost trend rate used in determining post-retirement benefit expense is assumed to be 11% for 2006 and to decrease to an ultimate trend rate of 5% in 2013. On a country-by-country basis, the same discount rate is used for the calculation of the post-retirement benefit obligation from medical and life plans as for the defined benefit obligations arising from pension plans. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. 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**	**(19)**

Note 31 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 2006, 31 December 2005 and 31 December 2004 were CHF 229 million, CHF 184 million and CHF 187 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 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 following fees and interest have been received or paid by UBS:

	For the year ended		
CHF million	**31.12.06**	31.12.05	31.12.04
Received by UBS			
Fees	**53**	48	42
Paid by UBS			
Interest	**2**	4	4
Dividends and capital repayments	**33**	7	7

The transaction volumes in UBS shares and other UBS securities are as follows:

	For the year ended		
	31.12.06	31.12.05	31.12.04
Financial instruments bought by pension funds			
UBS AG shares (in thousands of shares)	**1,793**	2,774	5,644
UBS financial instruments (nominal values in CHF million)	**8**	0	47
Financial instruments sold by pension funds or matured			
UBS AG shares (in thousands of shares)	**2,752**	4,526	7,426
UBS financial instruments (nominal values in CHF million)	**14**	45	18

UBS has also leased buildings from its pension funds. The rent paid by UBS under these leases amounted to CHF 4 million in 2006, CHF 4 million in 2005 and CHF 5 million in 2004.

There were financial instruments in the amount of CHF 120 million due from UBS pension plans outstanding as of 31 December 2006 (2005: CHF 163 million, 2004: 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 14,158,961 UBS shares with a market value of CHF 1,043 million as of 31 December 2006 (2005: 14,128,558 shares with a market value of CHF 885 million, 2004: 14,460,628 shares with a market value of CHF 691 million).

Note 32 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 and staff with the interests of 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 may vary by country.

Equity Plus Plan (Equity Plus): This voluntary plan gives eligible employees the opportunity to purchase UBS shares at fair market value on the purchase date and generally 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 shares on the date the option is granted and are forfeitable in certain circumstances. Share purchases can be made annually from bonus compensation and/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 period and generally expire ten years from the date of grant.

Discounted purchase plan: Up to and including 2005, selected employees in Switzerland were entitled to purchase a specified number of UBS shares, which must be held for a specified period of time, at a predetermined discounted price each year. No new awards are made under this plan.

Equity Ownership Plan (EOP): Selected employees 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, certain employees were eligible to receive a portion of their EOP award in Alternative Investment Vehicles (AIVs) or UBS options. Since 2005, options are not granted as part of EOP and awards are generally made in UBS shares, with less than 5% being made in AIVs to selected employee groups. EOP awards vest in one-third increments over a three-year vesting period. In certain circumstances, these awards are forfeitable.

Key Employee Stock Option Plan (KESOP): 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. One option gives the right to acquire one registered UBS share at the option's strike price. Options generally vest in one-third increments over a three-year vesting period and generally expire ten years from the grant date. In certain circumstances, these awards are forfeitable.

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 (generally money market funds, UBS and non-UBS mutual funds and other UBS sponsored funds). No additional company match is granted, and the awards are 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 or newly issued shares are delivered to the employee against receipt of the strike price. As of 31 December 2006, UBS was holding approximately 115 million shares in treasury and an additional 150 million unissued shares in conditional share capital which are available and can be used for future employee option exercises. The shares available cover all vested (i.e. exercisable) employee options.

Note 32 Equity Participation and Other Compensation Plans (Continued)
b) UBS share awards

Movements in shares granted under various equity participation plans described in Note 32a) are as follows:

	Number of shares 31.12.06	Weighted average grant date fair value (CHF)	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)
Unvested, at the beginning of the year	**53,725,186**	**46**	49,273,638	40	62,767,780	38
Shares awarded during the year	**26,652,070**	**69**	27,252,100	51	23,426,812	48
Vested during the year	**(22,712,566)**	**43**	(21,991,760)	39	(35,992,996)	40
Forfeited during the year	**(1,523,588)**	**56**	(808,792)	45	(927,958)	39
Unvested, at the end of the year	**56,141,102**	**58**	53,725,186	46	49,273,638	40

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 1,587 million, CHF 1,083 million and CHF 1,922 million for the years ended 31 December 2006, 31 December 2005 and 31 December 2004, respectively.

c) UBS option awards

Movements in options granted under various equity participation plans described in Note 32a) are as follows:

	Number of options 31.12.06	Weighted average exercise price (CHF)[1]	Number of options 31.12.05	Weighted average exercise price (CHF)[1]	Number of options 31.12.04	Weighted average exercise price (CHF)[1]
Outstanding, at the beginning of the year	**181,765,090**	**42**	201,814,708	35	218,080,052	32
Granted during the year	**45,517,013**	**71**	45,202,854	55	48,226,504	46
Exercised during the year	**(47,179,386)**	**36**	(61,303,418)	34	(58,793,918)	29
Forfeited during the year	**(3,303,002)**	**55**	(3,810,106)	45	(5,385,648)	33
Expired unexercised	**(20,628)**	**40**	(138,948)	34	(312,282)	38
Outstanding, at the end of the year	**176,779,087**	**50**	181,765,090	42	201,814,708	35
Exercisable, at the end of the year	**80,312,503**	**36**	74,788,838	35	75,882,560	33

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 rate for the purposes of this table.

The weighted average share price at the time when the options were exercised during the year was CHF 71, CHF 53 and CHF 46 for the years ended 31 December 2006, 31 December 2005 and 31 December 2004, respectively.
The following table provides additional information about option awards:

	31.12.06	31.12.05	31.12.04
Intrinsic value of options exercised during the year (CHF million)	**1,660**	1,224	960
Weighted average grant date fair value of options granted (CHF)	**12**	8	13

In addition, UBS received cash of CHF 1,698 million and CHF 2,018 million and an income tax benefit of CHF 153 million and CHF 217 million from the exercise of share options for the years ended 31 December 2006 and 31 December 2005, respectively.

The intrinsic value of share-based liabilities (shares and options) paid for the years ended 31 December 2006, 31 December 2005 and 31 December 2004 was CHF 177 million, CHF 87 million and CHF 669 million, respectively.

Note 32 Equity Participation and Other Compensation Plans (continued)
c) UBS option awards (continued)

The following table summarizes additional information about options outstanding and options exercisable at 31 December 2006:

	Options outstanding				Options exercisable			
Range of exercise price per share	Number of options outstanding	Weighted average exercise price (CHF / USD)	Aggregate intrinsic value (CHF / USD million)	Weighted average remaining contractual term (years)	Number of options exercisable	Weighted average exercise price (CHF / USD)	Aggregate intrinsic value (CHF / USD million)	Weighted average remaining contractual term (years)
CHF								
26.69–40.00	22,771,326	34.56	899	5.7	22,446,861	34.56	886	5.7
40.01–50.00	18,173,910	46.86	494	6.5	11,928,252	46.74	326	6.1
50.01–60.00	25,666,234	51.96	567	8.1	3,412,867	50.72	80	8.2
60.01–70.00	3,100,770	65.95	25	9.4	5,812	63.23	0	8.9
70.01–77.33	41,726,240	71.56	127	9.2	0			
26.69–77.33	**111,438,480**	**55.30**	**2,112**	**7.8**	**37,793,792**	**39.87**	**1,292**	**6.1**
USD								
2.25–20.00	1,196,068	13.75	56	0.6	1,196,068	13.75	56	0.6
20.01–30.00	28,759,581	23.32	1,064	4.6	28,759,581	23.32	1,064	4.6
30.01–40.00	14,070,241	36.38	337	7.3	9,199,687	35.89	225	7.2
40.01–53.50	21,314,717	43.76	353	8.1	3,363,375	42.72	59	8.1
2.25–53.50	**65,340,607**	**32.63**	**1,810**	**6.2**	**42,518,711**	**27.31**	**1,404**	**5.3**

d) Valuation

The fair value of options granted from 1 January 2005 has been determined by means of a Monte Carlo simulation. The simulation technique uses a mix of implied and historic volatility and specific employee exercise behavior patterns based on statistical data, taking into account the specific terms and conditions under which the 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 as the probability-weighted average period of the time between grant and 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 2006 and 2005 was determined using the following assumptions:

	31.12.06		
	CHF awards[1]	range low	range high
Expected volatility (%)	25.38	22.51	27.18
Risk-free interest rate (%)	2.15	1.96	2.68
Expected dividend (CHF)	2.26	1.76	2.83
Strike price (CHF)	71.19	65.13	77.33
Share price (CHF)	70.16	65.13	76.25

1 Less than 1% of awards in 2006 were granted in USD. These have been combined with CHF awards for purposes of this disclosure.

Note 32 Equity Participation and Other Compensation Plans (Continued)
d) Valuation (continued)

	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)	2.30	1.50	3.89	1.89	1.22	4.12
Strike price (CHF / USD)	52.08	48.23	63.23	44.11	39.25	48.26
Share price (CHF / USD)	51.33	48.23	63.23	43.40	39.25	48.26

The fair value of options granted during 2004 was determined using a proprietary option pricing model, similar to an American-style binomial model, using the following assumptions:

	31.12.04	
	CHF awards	USD awards
Expected volatility (%)	33.66	33.45
Risk-free interest rate (%)	2.03	3.70
Expected dividend rate (%)	3.86	3.88
Strike price (CHF/USD)	47.80	37.56
Share price (CHF/USD)	47.09	37.03
Expected life (years)	5.6	5.6

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 2006, 31 December 2005 and 31 December 2004 was CHF 2,188 million, CHF 1,662 million and CHF 1,406 million, respectively. The total income taxes recognized in the income statement in relation to these expenses were a benefit of CHF 491 million, CHF 431 million and CHF 64 million for the years ended 31 December 2006, 31 December 2005 and 31 December 2004, respectively. For the years ended 31 December 2006, 31 December 2005 and 31 December 2004, the compensation expense recognized for share-based payments was primarily related to equity settled plans.

At 31 December 2006, total compensation expense related to nonvested awards not yet recognized in the income statement is CHF 1,679 million, which is expected to be recognized in Personnel expenses over a weighted average period of 1.7 years.

Note 33 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 IAS 24 *Related Party Disclosures* and the "Directive on Information Relating to Corporate Governance" issued by the SWX Swiss Exchange.

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	**31.12.06**	31.12.05	31.12.04
Base salaries and other cash payments	**16**	15	15
Incentive awards – cash	**107**	90	70
Employer's contributions to retirement benefit plans	**1**	1	1
Benefits in kind, fringe benefits (at market value)	**2**	3	2

The non-executive 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 5.9 million in 2006, CHF 6.1 million in 2005 and CHF 5.7 million in 2004.

b) Equity holdings

	31.12.06	31.12.05	31.12.04
Number of stock options from equity participation plans held by executive members of the BoD and the GEB	**10,886,798**	10,862,250	12,009,994
Number of shares held by members of the BoD, GEB and parties closely linked to them	**7,974,724**	8,713,984	7,013,220

Of the share totals above, at 31 December 2006 and 31 December 2005, respectively, 7,146 shares and 6,538 shares were held by close family members of key management personnel and 2,200,000 shares and 2,486,060 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. Further information about UBS's equity participation plans can be found in Note 32. No member of the BoD or GEB is the beneficial owner of more than 1% of the Group's shares at 31 December 2006.

Note 33 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	**31.12.06**	31.12.06
Balance at the beginning of the year	**21**	16
Additions	**1**	7
Reductions	**(3)**	(2)
Balance at the end of the year	**19**	21

No unsecured loans were granted to key management personnel as of 31 December 2006 and 31 December 2005.

d) Associated companies

Movements in loans to associated companies are as follows:

CHF million	**31.12.06**	31.12.05
Balance at the beginning of the year	**321**	83
Additions	**116**	267
Reductions	**(48)**	(26)
Credit loss (expense) / recovery	**1**	(3)
Foreign currency translation	**(15)**	0
Balance at the end of the year	**375**	321

All loans to associated companies are transacted at arm's length. Of the balances above, the amount of unsecured loans amounted to CHF 177 million and CHF 82 million at 31 December 2006 and 31 December 2005, respectively.

Other transactions with associated companies transacted at arm's length are as follows:

	For the year ended or as of		
CHF million	**31.12.06**	31.12.05	31.12.04
Payments to associates for goods and services received	**58**	397	248
Fees received for services provided to associates	**79**	258	180
Commitments and contingent liabilities to associates	**32**	39	

Note 35 provides a list of significant associates.

Note 33 Related Parties (continued)

e) Other related party transactions

During 2006 and 2005, 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 2006 and 2005 these companies included BMW Group (Germany), Kedge Capital Funds Ltd. (Jersey), Löwenfeld AG (Switzerland), Royal Dutch Shell plc (UK), Seromer Biotech SA (Switzerland, previously Bertarelli Biotech SA), Serono Group (Switzerland), Stadler Rail Group (Switzerland), Team Alinghi (Switzerland), and Unisys Corporation (USA). Related parties in 2006 also included Aebi + Co. AG (Switzerland), Bertarelli Family (Switzerland), DKSH Holding AG (Switzerland), Kedge Capital Selected Funds Ltd. (Jersey), Lista AG (Switzerland), Martown Trading Ltd. (Isle of Man) and Team Alinghi (Spain).

Movements in loans to other related parties are as follows:

CHF million	**31.12.06**	31.12.05
Balance at the beginning of the year	**919**	294
Additions	**34**	628
Reductions	**81**	3
Loan at the end of the year[1]	**872**	919

1 In 2006 includes loans, guarantees and contingent liabilities of CHF 128 million and unused committed facilities of CHF 744 million but excludes unused uncommitted working capital facilities and unused guarantees of CHF 173 million. 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.

Other transactions with these related parties include:

	For the year ended		
CHF million	**31.12.06**	31.12.05	31.12.04
Goods sold and services provided to UBS	**8**	15	34
Fees received for services provided by UBS	**8**	1	10

As part of its sponsorship of Team Alinghi, defender for the "America's Cup 2007", UBS paid CHF 8.7 million (EUR 5.4 million) in sponsoring fees for 2006. 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 34 Post-Balance Sheet Events

There have been no material post-balance sheet events which would require disclosure or adjustment to the 31 December 2006 Financial Statements.

The closing of the acquisition of McDonald Investments' Branch Network and the announcement of the acquisition of Standard Chartered's mutual funds management business in 2007 are discussed in Note 37.

On 8 March 2007, 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 18 April 2007 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 Pactual S.A.	Rio de Janeiro, Brazil	IB	BRL	296.7	100.0
Banco UBS S.A.	Rio de Janeiro, Brazil	IB	BRL	52.9	100.0
Crédit Industriel Société Anonyme in Liquidation	Zurich, Switzerland	Global WM&BB	CHF	0.1	100.0
Dillon Read Capital Management (Singapore) Pte. Ltd.	Singapore, Singapore	Global AM	USD	8.6	100.0
Dillon Read Capital Management (UK) Ltd	London, Great Britain	Global AM	GBP	18.0	100.0
Dillon Read Capital Management LLC	Delaware, USA	Global AM	USD	12.5	100.0
Dillon Read Solutions Pte. Ltd.	Singapore, Singapore	Global AM	USD	1.1	100.0
Noriba Bank BSC	Manama, Bahrain	Global WM&BB	USD	10.0	100.0
OOO UBS Bank	Moscow, Russia	IB	RUB	1,250.0	100.0
PT UBS Securities Indonesia	Jakarta, Indonesia	IB	IDR	100,000.0	98.4
Thesaurus Continentale Effekten	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) S.A.	Paris, France	Global WM&BB	EUR	25.7	100.0
UBS (Grand Cayman) Limited	George Town, Cayman Islands	IB	USD	25.0	100.0
UBS (Italia) S.p.A.	Milan, Italy	Global WM&BB	EUR	60.0	100.0
UBS (Luxembourg) S.A.	Luxembourg, Luxembourg	Global WM&BB	CHF	150.0	100.0
UBS (Monaco) S.A.	Monte Carlo, Monaco	Global WM&BB	EUR	9.2	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	0.1	100.0
UBS Americas Inc	Delaware, USA	IB	USD	0.0	100.0
UBS Asesores SA	Panama, Panama	Global WM&BB	USD	0.0	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	23.0	100.0
UBS Capital (Jersey) Ltd	St. Helier, Jersey	IB	GBP	181.0	100.0
UBS Capital AG	Zurich, Switzerland	IB	CHF	5.0	100.0
UBS Capital B.V.	Amsterdam, the Netherlands	IB	EUR	78.8[2]	100.0
UBS Card Center AG	Glattbrugg, Switzerland	Global WM&BB	CHF	0.1	100.0
UBS Clearing and Execution Services Limited	London, Great Britain	IB	USD	50.0	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
UBS Employee Benefits Trust Limited	St. Helier, Jersey	CC	GBP	0.0	100.0
UBS Energy LLC	Delaware, USA	IB	USD	0.0	100.0
UBS España, S.A.	Madrid, Spain	Global WM&BB	EUR	72.2	100.0
UBS Factoring AG	Zurich, Switzerland	Global WM&BB	CHF	5.0	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 Fiduciaria S.p.A.	Milan, Italy	Global WM&BB	EUR	0.2	100.0
UBS Fiduciary Trust Company	New Jersey, USA	Global WM&BB	USD	4.4[2]	100.0
UBS Finance (Cayman Islands) Ltd.	George Town, Cayman Islands	CC	USD	0.5	100.0
UBS Finance (Curaçao) N.V.	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	2,005.8[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, L.L.C.	Delaware, USA	Global WM&BB	USD	0.0	100.0
UBS Fund Holding (Luxembourg) S.A.	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 Futures Singapore Ltd.	Singapore, Singapore	IB	USD	39.8[2]	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) S.A.	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	48.0	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 B.V.	Amsterdam, the Netherlands	CC	EUR	6.8	100.0
UBS International Inc.	New York, USA	Global WM&BB	USD	44.3[2]	100.0
UBS International Life Limited	Dublin, Ireland	Global WM&BB	EUR	1.0	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 Menkul Degerler AS	Istanbul, Turkey	IB	TRY	0.4	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 Pactual Asset Management S.A. DTVM	Rio de Janeiro, Brazil	Global AM	BRL	53.9	100.0
UBS Portfolio LLC	Delaware, USA	IB	USD	0.1	100.0
UBS Preferred Funding Company LLC I	Delaware, USA	CC	USD	0.0	100.0
UBS Preferred Funding Company LLC II	Delaware, USA	CC	USD	0.0	100.0
UBS Preferred Funding Company LLC IV	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 Principal Finance LLC	Delaware, USA	IB	USD	0.1	100.0
UBS Real Estate Investments Inc	Delaware, USA	Global AM	USD	0.0	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[2]	100.0
UBS Realty Investors LLC	Massachusetts, USA	Global AM	USD	9.3	100.0
UBS Sauerborn Private Equity Komplementär GmbH	Bad Homburg, Germany	Global WM&BB	EUR	0.0	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	100.0
UBS Securities España Sociedad de Valores SA	Madrid, Spain	IB	EUR	15.0	100.0
UBS Securities France S.A.	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 LLC	Delaware, USA	IB	USD	2,455.6[2]	100.0
UBS Securities Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	IB	MYR	75.0	100.0
UBS Securities Philippines Inc	Makati City, Philippines	IB	PHP	190.0	100.0
UBS Securities Pte. Ltd.	Singapore, Singapore	IB	SGD	311.5	100.0
UBS Securities Pte. Ltd. Seoul Branch	Seoul, South Korea	IB	KRW	150,000.0	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
UBS Wealth Management Australia Ltd	Melbourne, Australia	Global WM&BB	AUD	53.9	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)

Consolidated companies: changes in 2006

Significant new companies
Banco UBS Pactual S.A. – Rio de Janeiro, Brazil
Dillon Read Capital Management (Singapore) Pte. Ltd. – Singapore, Singapore
Dillon Read Capital Management (UK) Ltd – London, Great Britain
Dillon Read Capital Management LLC – Delaware, USA
Dillon Read Solutions Pte. Ltd. – Singapore, Singapore
OOO UBS Bank – Moscow, Russia
UBS Clearing and Execution Services Limited – London Great Britain
UBS Futures Singapore Ltd. – Singapore, Singapore
UBS Menkul Degerler AS – Instanbul, Turkey
UBS Pactual Asset Management S.A. DTVM – Rio de Janeiro, Brazil
UBS Sauerborn Private Equity Komplementär GmbH – Bad Homburg, Germany

Deconsolidated companies

Significant deconsolidated companies	Reason for deconsolidation
Aare-Tessin AG für Elektrizität – Olten, Switzerland	Sold
Atel Energia S.r.l. – Milan, Italy	Sold
Atel Installationstechnik AG – Olten, Switzerland	Sold
Entrade GmbH – Schaffhausen, Switzerland	Sold
Etra SIM SpA – Milan, Italy	Merged
GAH Beteiligungs AG – Heidelberg, Germany	Sold
Motor-Columbus AG – Baden, Switzerland	Sold
Società Elettrica Sopracenerina SA – Locarno, Switzerland	Sold
UBS (Trust and Banking) Limited – Tokyo, Japan	Liquidated
UBS Capital II LLC – Delaware, USA	Liquidated
UBS Preferred Funding Company LLC III – Delaware, USA	Liquidated

Significant associates

Company	Industry	Equity interest in %	Share capital in millions
SIS Swiss Financial Services Group AG – Zurich, Switzerland	Financial	32.9	CHF 26
Telekurs Holding AG – Zurich, Switzerland	Financial	33.3	CHF 45
UBS Alpha Select – George Town, Cayman Islands	Private Investment Company	37.4	USD 896[1]
UBS Alpha Hedge Fund – George Town, Cayman Islands	Private Investment Company	21.8	USD 427[1]
UBS Currency Portfolio Ltd – George Town, Cayman Islands	Private Investment Company	29.9	USD 517[1]
ATR Acquisition LLC – Texas, USA	Manufacturing	24.2	USD 314
Waterside Plaza Holdings LLC – Delaware, USA	Real Estate	50.0	USD 119
A&Q Select Funds – Euro Limited – George Town, Cayman Islands	Private Investment Company	22.0	USD 316[1]
Williamsburg Edge LLC – Delaware, USA	Real Estate	50.0	USD 78
Dillon Read Financial Products Trading Ltd – George Town, Cayman Islands	Private Investment Company	7.1[2]	USD 542

1 For hedge funds net asset value instead of share capital. 2 UBS has significant influence even though it holds less than 20% of the voting power of the entity.

Note 36 Invested Assets and Net New Money

Invested assets include all client assets managed by or deposited with UBS for investment purposes. Invested assets include, 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 assets, including corporate client assets held for cash management and transactional purposes, are excluded from invested assets as the Group 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 UBS decides how a client's assets are invested. Other invested assets are those where the client ultimately decides 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 manages the investment 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 in a period is the net amount of invested assets that are entrusted to UBS by new and existing clients less those withdrawn by existing clients and clients who terminate their relationship with UBS. Net new money is calculated using the direct method, by which in and outflows to/from invested assets are determined at the client level based on transactions. Interest expenses paid by clients on their loans are treated as net new money outflows. Interest and dividend income from invested assets is not counted as net new money inflow. Market and currency movements as well as fees and commissions are excluded from net new money, as are the effects resulting from any acquisition or divestment of a UBS subsidiary or business. Reclassifications between invested assets and client assets as a result of a change in the service level delivered are treated as net new money flows.

	As of or for the year ended	
CHF billion	**31.12.06**	31.12.05
Fund assets managed by UBS	**439**	390
Discretionary assets	**849**	716
Other invested assets	**1,701**	1,546
Total invested assets (double counts included)	**2,989**	2,652
thereof double count	***371***	*332*
thereof acquisitions (divestments)	***81.1***	*(93.9)*
Net new money (double counts included)	**151.7**	148.5

Note 37 Business Combinations

Business combinations completed in 2006

During 2006, UBS completed several acquisitions that were accounted for as business combinations. The acquisition of Banco Pactual S.A. was individually significant to the Financial Statements and is therefore presented separately in this note. The other acquisitions are presented in aggregate per business group.

Banco Pactual S.A.

On 1 December 2006, UBS completed the acquisition of Brazilian bank Banco Pactual S.A. The bank was merged with UBS's Brazilian business, and both are now operating under the name UBS Pactual. The cost of the business combination is estimated at USD 2,194 million (CHF 2,677 million) but is still subject to final determination. Of the total consideration, USD 971 million (CHF 1,164 million) was paid on 1 December 2006 in cash. The residual payment of up to USD 1.6 billion (CHF 1.9 billion) is subject to certain performance conditions and is due on 30 June 2011. The purchase price allocation is preliminary and will be finalized in 2007. The preliminary allocation shows the booking of net assets of USD 376 million (CHF 459 million), intangible assets of USD 830 million (CHF 1,013 million) and goodwill of USD 988 million (CHF 1,205 million). Identified intangible assets include client relationships, non-compete agreements, favorable contracts, investment banking pipeline, proprietary software, trademarks and trade names, with an economic useful life from 1 to 20 years. UBS Pactual offers a broad range of services in investment banking, asset management and wealth management. It has offices in São Paolo, Rio de Janeiro, Belo Horizonte and Recife.

The residual payment obligation is reflected on UBS's balance sheet in Other liabilities and is measured at its present value (USD 1,223 million on acquisition date). It had no effect on the Statement of Cash Flows for the year ended 31 December 2006.

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	1,013	1,013
Property and equipment	9	0	9
Deferred tax assets	16	0	16
Goodwill	0	1,205	1,205
All other assets	11,877	0	11,877
Total assets	**11,902**	**2,218**	**14,120**
Liabilities			
Provisions	52	0	52
Deferred tax liabilities	28	0	28
All other liabilities	11,363	0	11,363
Total liabilities	11,443	0	11,443
Net assets	459	2,218	2,677
Total liabilities and equity	**11,902**	**2,218**	**14,120**

On the acquisition date, intangible assets and goodwill were allocated to the Business Groups as follows:

CHF million	Global Wealth Management & Business Banking	Investment Bank	Global Asset Management	Total
Assets				
Intangible assets	176	349	488	1,013
Goodwill	50	962	193	1,205

Since the acquisition date, UBS Pactual contributed revenues of CHF 102 million to UBS's results, and an after-tax profit of CHF 28 million after acquisition costs (retention payments and amortization of intangible assets) but excluding finance costs.

Note 37 Business Combinations (continued)

Investment Bank

ABN AMRO's Global Futures and Options Business

On 30 September 2006, UBS acquired the global futures and options business of ABN AMRO for USD 704 million (CHF 880 million) in cash. The ABN AMRO futures and options business provides clearing and execution services on a global basis. The acquired business has been integrated into the Prime Services business within the Equities business of the Investment Bank. The purchase price was allocated to net assets of USD 362 million (CHF 452 million) and intangible assets of USD 108 million (CHF 134 million). The difference of USD 234 million (CHF 294 million) from the purchase price was recognized as goodwill. The acquired business contributed CHF 7 million to UBS's net profit since the date of acquisition.

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	134	134
Property and equipment	13	0	13
Financial investments available-for-sale	26	54	80
Goodwill	0	294	294
All other assets	11,942	0	11,942
Total assets	**11,981**	**482**	**12,463**
Liabilities			
Provisions	0	9	9
All other liabilities	11,574	0	11,574
Total liabilities	11,574	9	11,583
Net assets	407	473	880
Total liabilities and equity	**11,981**	**482**	**12,463**

Global Wealth Management & Business Banking

Piper Jaffray Companies' Private Client Services Branch Network

On 11 August 2006, UBS completed the acquisition of Piper Jaffray Companies' Private Client Services branch network. The cost of the business combination consisted of USD 500 million (CHF 616 million) for the business operations and of USD 227 million (CHF 280 million) for the loans to customers portfolio, resulting in a total cash consideration paid of USD 727 million (CHF 896 million). The purchase price was allocated to net assets of USD 236 million (CHF 291 million) and intangible assets of USD 120 million (CHF 148 million) representing client relationships. The difference of USD 371 million (CHF 457 million) from the purchase price was recognized as goodwill. The purchase price allocation and cost of the business combination is in the process of being finalized. Approximately 90 Piper Jaffray wealth management offices, mainly located in the Midwest and Western United States, serving 190,000 households, will be renamed and integrated into Wealth Management US. UBS has retained approximately 700 of Piper Jaffray's financial advisors, which corresponds to approximately 80% of the advisors before the acquisition. The acquisition is expected to benefit Wealth Management US's existing business by expanding the presence in the regions where the acquired branches are located.

Dolfi

On 2 March 2006, UBS acquired Dolfi Finance SAS, a small wealth management firm based in Strasbourg, France, as well as certain assets from Mr Dolfi. The company, established 18 years ago, serves clients in the North Eastern part of France and had more than EUR 600 million of invested assets on the acquisition date. The acquisition complements UBS's existing wealth management business in France.

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	158	158
Property and equipment	16	(4)	12
Financial investments available-for-sale	1	0	1
Goodwill	0	479	479
All other assets	291	0	291
Total assets	**308**	**633**	**941**
Liabilities			
Provisions	0	8	8
Deferred tax liabilities	0	3	3
All other liabilities	2	4	6
Total liabilities	2	15	17
Net assets	306	618	924
Total liabilities and equity	**308**	**633**	**941**

Note 37 Business Combinations (continued)

Acquisitions of minority interests of subsidiaries in 2006

UBS Bunting Limited
On 28 March 2006, UBS acquired the 50% minority interest in its Canadian institutional securities subsidiary, UBS Bunting Limited. The purchase price consists of a combination of cash and UBS shares and has been estimated at CAD 163 million (approximately CHF 182 million). Approximately CAD 23 million (CHF 26 million) of the consideration is linked to the performance of the acquired business in 2006 and 2007 and may be reduced if agreed revenue targets are not achieved. The difference between the purchase price and the carrying value of the acquired minority interest of CAD 116 million (CHF 129 million) was reflected in Equity. Through this transaction UBS now wholly owns the Investment Bank's operations in Canada, which continue to operate under the same leadership team as before this transaction.

Business combinations announced but not yet completed

Beijing Securities Ltd.
In April 2006 UBS entered into a commitment to acquire the restructured activities of Beijing Securities, a Chinese brokerage and securities firm. Under the terms of the transaction, a new company, UBS Securities Co. Limited emerges, in which UBS is expected to have a 20% capital stake and obtain management and operational control. The cost of the business combination including capital contributions and transaction costs is expected to be approximately CHF 278 million (RMB 1.8 billion).

UBS Securities Co. Limited will operate in China on the basis of a comprehensive set of domestic securities licences offering corporate finance, equities, fixed income, wealth management and asset management service.

On 11 December 2006, UBS Securities Co. Limited was officially established following the registration of the business. The closing of the transaction, which is subject to final regulatory approval, is expected during first half 2007.

Business combinations completed in 2005

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 by Business Group for 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 were subsequently 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. On 31 December 2005, the cost of the acquisition was approximately CHF 136 million, and resulted in the recognition of goodwill of approximately CHF 133 million. In 2006, additional goodwill of CHF 39 million resulted from an adjustment to the purchase price. 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 of 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.

Note 37 Business Combinations (continued)

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 made by the Financial Businesses in 2005 are as follows:

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.

On 20 December 2005, Motor-Columbus also acquired Moravske Teplarny a.s., a power generator in the Czech Republic, for 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. Motor-Columbus was sold on 23 March 2006. See Note 38 Discontinued Operations for details.

Details of assets and liabilities recognized from these two acquisitions in 2005 are as follows (on the next page):

Note 37 Business Combinations (continued)

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**

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 2006 had been made as of 1 January 2005 and all acquisitions completed in 2005, had been made as of 1 January 2004. 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	**31.12.06**	31.12.05	31.12.04
Total operating income	**49,408**	42,021	37,341
Net profit	**12,556**	14,070	8,006
Basic earnings per share (CHF)	**6.35**	6.99	7.77

Business combinations completed in 2007

McDonald Investments' Branch Network

On 9 February 2007, UBS announced the completion of the acquisition of the branch network of McDonald Investments, a unit of KeyCorp. The cost of the business combination consisted of USD 219 million (CHF 267 million) for the business operations and of USD 57 million (CHF 70 million) for certain assets of McDonald investments, resulting in a total cash consideration paid of USD 276 million (CHF 337 million). The total consideration paid remains subject to adjustment. Based in Cleveland, Ohio, US, McDonald Investments comprised 51 branch offices throughout the Northeast, Midwest, Rocky Mountain and Northwest states, including the offices of Gradison and Gradison Asset Management, which will be integrated into Wealth Management US. The unit provides comprehensive wealth management services to affluent and high net worth individuals, including estate planning, retirement planning and asset management.

Business combinations announced in 2007

Standard Chartered's mutual funds management business in India

On 26 January 2007, UBS announced the acquisition of Standard Chartered's mutual funds management business in India. The cost of the business combination is estimated to be USD 126 million, and the business will be integrated into Global Asset Management. The transaction is expected to close in third quarter 2007.

Note 38 Discontinued Operations

2006

Motor-Columbus

On 23 March 2006, UBS sold its 55.6% stake in Motor-Columbus to a consortium representing Atel's Swiss minority shareholders (EBM, EBL, the Canton of Solothurn, IB Aarau, AIL Lugano and WWZ Zug), EOS Holding and Atel, as well as to the French utility Electricité de France (EDF) following the receipt of relevant regulatory approvals by the Swiss and international authorities. Motor-Columbus is presented as a discontinued operation in these Financial Statements. The income statements for the comparative prior periods have been restated to reflect that presentation. In total, UBS sold 281,535 Motor-Columbus shares, at a price of CHF 4,600 per share, resulting in a sale price of approximately CHF 1,295 million, which was fully paid in cash. A pre-tax gain on sale of CHF 364 million is reported in the Industrial Holdings segment. From 1 January to 23 March 2006, Motor-Columbus had a Net profit from operations of CHF 71 million. Together with the after-tax gain on sale of CHF 387 million, the Net profit from discontinued operations is CHF 458 million in 2006. For the years ended 31 December 2005 and 31 December 2004, Motor-Columbus had a Net profit from operations of CHF 323 million and CHF 159 million, respectively.

Industrial Holdings

In 2006, private equity investments contributed CHF 407 million to UBS´s Net profit from discontinued operations, which includes after-tax gains on sale of CHF 425 million and an after-tax operating loss of CHF 18 million. In 2005, UBS sold four of its consolidated private equity investments for an aggregate cash consideration of CHF 179 million, and the sales of these investments had a positive impact on Net profit from discontinued operations of CHF 86 million. In 2004, five consolidated private equity investments were sold for an aggregate cash consideration of CHF 141 million, and the sales of these investments had a positive impact on Net profit from discontinued operations of CHF 125 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.

2005

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 on 31 December 2005. In 2006, UBS reported an additional after-tax gain on sale of CHF 4 million due to an adjustment to the purchase price.

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.

Note 38 Discontinued Operations (continued)

	For the year ended 31.12.06	
CHF million	Motor-Columbus	Other Industrial Holdings[1]
Operating income	2,494	312
Operating expenses	2,412	331
Operating profit / (loss) from discontinued operations before tax	82	(19)
Pre-tax gain / (loss) on sale	364	429
Profit from discontinued operations before tax	446	410
Tax expense / (benefit) on operating profit from discontinued operations before tax	11	(1)
Tax expense / (benefit) on gain on sale	(23)	0
Tax expense / (benefit) from discontinued operations	(12)	(1)
Net profit / (loss) from discontinued operations	458	411
Net cash flows from		
operating activities	1	(7)
investing activities	(52)	76
financing activities	(22)	(88)

1 Pre-tax gain on sale includes CHF 4 million related to Private Banks & GAM, which is included in Corporate Center in Note 2a.

	For the year ended 31.12.05		
CHF million	Private Banks & GAM	Motor-Columbus	Other Industrial Holdings
Operating income	1,102	8,711	2,111
Operating expenses	633	8,323	2,116
Operating profit / (loss) from discontinued operations before tax	469	388	(5)
Pre-tax gain / (loss) on sale	4,095	0	113
Profit from discontinued operations before tax	4,564	388	108
Tax expense on operating profit from discontinued operations before tax	99	65	22
Tax expense on gain on sale	390	0	0
Tax expense / (benefit) from discontinued operations	489	65	22
Net profit / (loss) from discontinued operations	4,075	323	86
Net cash flows from			
operating activities	(143)	252	68
investing activities	(22)	(326)	(43)
financing activities	0	163	28

	For the year ended 31.12.04		
CHF million	Private Banks & GAM	Motor-Columbus	Other Industrial Holdings
Operating income	1,086	3,668	3,748
Operating expenses	690	3,460	3,639
Operating profit / (loss) from discontinued operations before tax	396	208	109
Pre-tax gain / (loss) on sale	0	0	68
Profit from discontinued operations before tax	396	208	177
Tax expense on operating profit from discontinued operations before tax	97	49	52
Tax expense on gain on sale	0	0	0
Tax expense / (benefit) from discontinued operations	97	49	52
Net profit / (loss) from discontinued operations	299	159	125
Net cash flows from			
operating activities	(725)	75	(288)
investing activities	30	(71)	124
financing activities	3	112	34

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 of		Average rate Year ended		
	31.12.06	31.12.05	**31.12.06**	31.12.05	31.12.04
1 USD	**1.22**	1.31	**1.25**	1.25	1.24
1 EUR	**1.61**	1.56	**1.58**	1.55	1.54
1 GBP	**2.39**	2.26	**2.31**	2.27	2.27
100 JPY	**1.02**	1.11	**1.08**	1.13	1.15

Note 40 Swiss Banking Law Requirements

The consolidated Financial Statements of UBS are prepared in accordance with International Financial Reporting Standards. Included in this note are the significant differences in regard to 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 controlled by the Group are consolidated.

Under Swiss law, only entities that are active in the field of banking and finance and real estate entities are subject to consolidation. Entities which are held temporarily are generally recorded as Financial investments available-for-sale.

2. Financial investments available-for-sale

Under IFRS, Financial investments available-for-sale 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 available-for-sale, the cumulative gain or loss previously recognized in Equity is recognized in the income statement.

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 up to original cost as well as gains and losses on disposal are included in Other income.

3. Cash flow hedges

The Group uses derivative instruments to hedge the exposure from varying cash flows. Under IFRS, when hedge accounting is applied 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, with fair value changes reflected in profit or loss.

Under Swiss law, investment properties are carried at amortized cost less impairment unless the investment properties are held for sale. Investment properties held for sale are recorded at the lower of cost or market value.

5. Fair value option

Under IFRS, the Group applies the fair value option to certain financial assets and financial liabilities, mainly to hybrid debt instruments. As a result the entire hybrid instrument is accounted for at fair value with changes in fair value reflected in net trading income. Furthermore, UBS designated certain loans, loan commitments and fund investments as financial investments designated at fair value through profit and loss.

Under Swiss law, the fair value option is not available. Hybrid instruments are bifurcated: while the embedded derivative is marked to market through net trading income, the host contract is accounted for on an accrued cost basis. Generally, loans are accounted for at amortized cost less impairment, loan commitments stay off-balance sheet and fund investments are accounted for as financial investments.

6. Goodwill and intangible assets

Under IFRS, goodwill acquired in business combinations is not amortized, but tested annually for impairment. Intangible assets acquired in business combinations with an indefinite useful life are also 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.

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 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 2006 and 2005, goodwill recorded under US GAAP was reduced by CHF 18 million and CHF 67 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 31 December 2001 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*.

Under IFRS, the cost of the business combination of Banco Pactual is estimated at USD 2,194 million (CHF 2,677 million) on 31 December 2006 but is still subject to final determination. Of the total consideration, USD 971 million (CHF 1,164 million) was paid on 1 December 2006 in cash. The residual payment of up to USD 1.6 billion (CHF 1.9 billion) is subject to certain performance conditions and is due on 30 June 2011. 50% (USD 800 million) of the deferred residual payment is contingent upon achieving a specified cumulative net income before tax of the acquired business during the period from 1 December 2006 to 30 June 2011. Under US GAAP, contingent consideration which depends on the achievement of a specified earnings level in future periods is not recognized as a cost of the business combination at its present value until the contingency is resolved. For

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)

that reason, Goodwill and Other liabilities recognized under US GAAP are reduced by the present value of the contingent consideration of CHF 746 million to CHF 459 million. Accordingly, the addition of accrued interest on the present value of the contingent consideration recognized under IFRS is reversed under US GAAP, which resulted in a decrease of Interest expense and Other liabilities of CHF 3 million.

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 except for the differences described below.

Under IFRS, minority interests are recognized at the percentage of fair value of identifiable net assets acquired at the acquisition date whereas under US GAAP they are recognized at the percentage of book value of identifiable net assets acquired at the acquisition date. In most cases, minority interests would tend to have a higher measurement value under IFRS than under US GAAP.

The accounting treatment of purchased minority interests of a subsidiary differs between IFRS and US GAAP. Under IFRS, UBS records the difference between the purchase price and the carrying value of the acquired minority interest directly in Equity whereas the acquisition of the minority interests is treated as a business combination under US GAAP. In 2006, goodwill of CAD 35 million (CHF 40 million) and intangible assets of CAD 71 million (CHF 79 million) under US GAAP resulted from the purchase of the then outstanding 50% minority interest in a consolidated subsidiary, UBS Bunting. See Note 37 Business Combinations for the IFRS treatment of this acquisition.

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. Hedge accounting

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, a new hedging methodology, fair value hedge of portfolio interest rate risk, was implemented in 2005 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 recognized 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 available-for-sale

For UBS, the following differences exist between IFRS and US GAAP in accounting for financial investments available-for-sale: 1) Under US GAAP, instruments which are not securities or equity securities with no readily determinable fair value (excluding private equity investments discussed in the next part) are not classified as available-for-sale investments. They are classified as Other assets and measured at cost less impairment. Under IFRS, these instruments are measured at fair value with changes in fair value reflected directly in equity. 2) Under IFRS, restricted stock is classified as a financial investment available-for-sale. Under US GAAP, restricted stock (with a restriction period of more than one year) is classified as Other assets and measured at cost less impairment.

f. 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 accounted for at fair value with changes in fair value recorded in other income. The remaining private equity investments held by UBS are accounted for at cost less "other than temporary" impairment. All private equity investments are presented in the balance sheet line Private equity investments under US GAAP.

g. Pension and other post-retirement benefit plans

Under IFRS, UBS recognizes post-retirement benefit 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, post-retirement benefit 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 prepaid assets under IFRS, 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 (OCI). This amount was removed from OCI when SFAS 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* was first applied at 31 December 2006. See Note 41.2 for details.

In accordance with SFAS 158, the US GAAP balance sheet at 31 December 2006 shows the funded status of all post-retirement benefit plans under Other liabilities. All amounts not recognized in US GAAP Net profit are recognized in Other comprehensive income (OCI) as an adjustment to the ending balance as of 31 December 2006. The recorded amounts in OCI are subsequently reclassified from OCI on a straight-line basis as those amounts are recognized in the income statement.

Under IFRS, the amount recognized on the balance sheet as a net pension asset or liability is comprised of the funded status of the plans as adjusted for unrecognized actuarial gains and losses and prior service costs and the unrecognized prepaid pension asset. Unrecognized net actuarial gains and losses and prior service costs are subsequently recognized in the income statement on a straight line basis.

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 1b) 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

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)

the revenue produced. For disclosure purposes, UBS recognized the fair value of option awards on the date of grant. Thus, for recognition and disclosure purposes, expense for share and option awards issued prior to but outstanding at the date of adoption of SFAS 123-R has been fully attributed to prior periods.

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. Subsequent awards have been 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 42.7 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 123-R, awards with non-compete provisions generally do not impose a requisite service period, and therefore expense should not be recognized over a future period. 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 1b). 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.

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.

In addition, CHF 1,450 million has been reclassified from Other liabilities to Shareholders' equity in the 31 December 2005 US GAAP balance sheet. The reclassification relates to equity-settled awards which were recorded in Other liabilities.

i. Variable interest entities (VIEs), limited partnerships and 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.

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 variable interest entity (VIE) under FASB interpretation No. 46 (revised December 2003) *Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51* (FIN 46-R), and control is assessed based on its variable interests. A discussion of FIN 46-R requirements is set out in Note 42.1.

In most instances, limited partnerships are not consolidated under IFRS because UBS`s legal and contractual rights and obligations do not indicate that UBS has the power to govern the financial and operating policies of these entities and concurrently has the objective to obtain benefits form its activities through this power. Under US GAAP, UBS applies EITF 04-05, *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), provided an entity is not considered a VIE under FIN 46-R. As a result, UBS consolidates some limited partnerships which are not consolidated under IFRS. Under EITF 04-05, a general partner in a limited partnership is presumed to control that limited partnership regardless of the extent of the general partners' ownership interest in the limited partnership. The assessment of whether the rights of the limited partners should overcome the presumption of control by the general partner is a matter of judgment that depends on facts and circumstances. If the limited partners have either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partner without cause or (b) substantive participating rights, the general partner does not control the limited partnership and therefore does not consolidate the entity.

The entities consolidated for US GAAP purposes at 31 December 2006, 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 2006, which UBS consolidates under IFRS, are certain entities which have issued preferred securities. Under IFRS such securities 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 Group Financial Statements. Under US GAAP, these entities are not consolidated, and the UBS-issued debt is recognized as a liability in the 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 or loss

IFRS provides, under certain circumstances, the option to designate at initial recognition a financial asset or financial liability at fair value through profit or loss (see Notes 1, 9 and 19). This option is not available under US GAAP as UBS did not early adopt SFAS 155 *Accounting for Certain Hybrid Instruments, an amendment of FASB Statements No. 133 and 140* (see Note 41.2). SFAS 155 will allow a fair value designation for certain hybrid instruments from 1 January 2007 onwards. Additionally, beginning 1 January 2008, Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Liabilities* (Statement 159) will become effective. Statement 159 provides a fair value option that is broader than that provided in Statement 155 and is similar to the fair value option provided by IFRS. In 2006, as in prior periods, UBS reversed all IFRS fair value designations of financial assets and financial liabilities under US GAAP.

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)

UBS applies the fair value option to a significant portion of its issued debt under IFRS. Many debt issues are in the form of hybrid instruments, consisting of a debt host with an embedded derivative. These hybrid instruments are carried in their entirety at fair value with all changes in fair value recorded in Net trading income. Under US GAAP, the debt host contracts of these hybrid instruments are recognized at amortized cost while the embedded derivatives are recognized at fair value with changes in fair value recognized in Net profit. Although separately measured, the positive and negative replacement values of the embedded derivatives are classified with the debt host contract.

k. Physically settled written puts on UBS shares

Under IFRS, the accounting for physically settled written put options on UBS shares is as follows: the present value of the contractual amount is recorded as a financial 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 are 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

In the IFRS Financial Statements, investment properties are accounted for under the fair value method. Under this 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 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 stipulates 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, the guidance was effective as of 1 January 2006 for existing unmodified partnerships. Adoption of EITF 04-05 did not have a material impact on UBS's Financial Statements.

As part of its convergence efforts with the IASB, 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) in May 2005. Statement 154 changes the requirements for the accounting and reporting of a change in accounting principle and 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 was effective for accounting changes and corrections of errors made in fiscal years beginning after 15 December 2005. Adoption of Statement 154 did not have a material impact on UBS's Financial Statements.

In April 2006, the FASB issued FASB Staff Position FIN 46(R)-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)* (FSP FIN 46(R)-6). FSP FIN 46(R)-6 addresses the application of FIN 46(R), *Consolidation of Variable Interest Entities,* in determining whether certain contracts or arrangements with a variable interest entity (VIE) are variable interests by requiring companies to base its evaluation on an analysis of the VIE's purpose and design, rather than on its legal form or accounting classification. FSP FIN 46(R)-6 was effective for all newly created VIEs or for those that must be re-analyzed under FIN 46(R) as of 1 July 2006. Adoption of FSP FIN 46(R)-6 did not have a material impact on UBS's Financial Statements.

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (Statement 158). Statement 158 requires: (1) recognition of the over- or under-funded status of a defined benefit post-retirement plan as an asset or liability in the balance sheet; (2) recognition within shareholders equity (net of tax) of gains or losses and prior service costs or credits arising during the period that are not recognized as components of the period's net periodic benefit cost; and (3) measurement of the defined benefit plan assets and obligations as of the date of the employer's fiscal year-end balance sheet. The recognition requirements of Statement 158 (requirements (1) and (2), above) are effective as of the end of the fiscal year ending after 15 December 2006. See Note 42.5 for the incremental effect of the first time application of these requirements. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year end is effective for fiscal years ending after 15 December 2008. Adoption of this requirement will not have an impact on UBS's Financial Statements as plan assets and benefit obligations are currently measured as of the balance sheet date.

Recently issued US accounting standards not yet adopted

In February 2006, the FASB issued Statement of Financial Accounting Standard No. 155, *Accounting for Certain Hybrid Instruments, an amendment of FASB Statements No. 133 and 140* (Statement 155). 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, with early adoption permitted in certain circumstances. At adoption of Statement 155, any difference between the total carrying amount of the individual components of an existing hybrid instrument and the fair value of the combined hybrid financial instrument is recognized as a cumulative-effect adjustment to beginning retained earnings. UBS did not elect to early adopt Statement 155 and, therefore, will adopt the new standard as of 1 January 2007. On a US GAAP basis, it is anticipated that the cumulative-effect adjustment to beginning retained earnings resulting from the adoption of Statement 155 will be a decrease to retained earnings of approximately CHF 414 million (before tax). Financial assets designated at fair value and Financial liabilities designated at fair value are estimated to be approximately CHF 4,125 million and CHF 151,440 million on a US GAAP basis on 1 January 2007.

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 (continued)

In March 2006, the FASB issued Statement of Financial Accounting Standard No. 156, *Accounting for Servicing of Financial Assets*, (Statement 156). Statement 156 addresses the accounting for recognized servicing assets and servicing liabilities related to certain transfers of the servicer's financial assets and for acquisitions or assumptions of obligations to service financial assets that do not relate to the financial assets of the servicer and its related parties. Statement 156 requires that all recognized servicing assets and servicing liabilities are initially measured at fair value and subsequently measured at either fair value or by applying an amortization method for each class of recognized servicing assets and servicing liabilities. Statement 156 is effective in fiscal years beginning after 15 September 2006. The adoption of SFAS 156 is not expected to have a material impact on UBS's Financial Statements.

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes – an interpretation of SFAS 109*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position. FIN 48 is effective for years commencing after 15 December 2006. UBS is continuing to evaluate the impact of FIN 48 on its Financial Statements. However, UBS does not expect FIN 48 to have a material effect on its financial position or results of operations.

On 15 September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, establishes a framework for measuring fair value, and expands the required disclosures about an entity's fair value measurements. Additionally, Statement 157 eliminates the requirement to defer calculated profit or loss on transaction values that include unobservable inputs ("Day 1 profit and loss") and eliminates the use of block discounts for securities traded in an active market. Statement 157 is effective for financial statements issued for fiscal years beginning after 15 November 2007. The provisions of Statement 157 should be applied prospectively upon initial adoption, except for the provisions that eliminate prior measurement guidance regarding block discounts and Day 1 profit or loss. Those changes should be applied retrospectively as an adjustment to the opening balance of retained earnings in the period of adoption. UBS is still assessing the impact Statement 157 will have on its Financial Statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Liabilities* (Statement 159). This new standard permits entities to irrevocably choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are recognized in net profit at each subsequent reporting date. The election in Statement 159 is similar, but not identical, to the fair value option in IAS 39. The fair value option in IAS 39 is subject to certain qualifying criteria not included in this standard, and it applies to a slightly different set of instruments. Statement 159 is effective for fiscal years beginning after 15 November 2007. Early adoption is permitted only if the provisions of Statement 157 are also applied. UBS is currently assessing the impact Statement 159 will have on its Financial Statements.

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 of		Net profit attributable to UBS shareholders (IFRS) / Net profit (US GAAP) for the year ended		
CHF million	Reference	**31.12.06**	31.12.05	**31.12.06**	31.12.05	31.12.04
Amounts determined in accordance with IFRS		**49,686**	44,015	**12,257**	14,029	8,016
Adjustments in respect of:						
SBC purchase accounting goodwill and other purchase accounting adjustments	a	**15,091**	15,116	**(25)**	(36)	(44)
Goodwill	b	**2,366**	2,373	**3**	0	778
Purchase accounting under IFRS 3 and FAS 141	c	**85**	(86)	**(6)**	35	3
Hedge accounting	d	**(5)**	(40)	**372**	(455)	(217)
Financial investments available-for-sale	e	**(1,670)**	(384)	**171**	0	0
Private equity investments	f	**337**	709	**(278)**	(486)	217
Pension and other post-retirement benefit plans	g	**(1,452)**	229	**165**	(18)	(110)
Equity participation plans	h	**815**	658	**(475)**	358	62
Variable interest entities (VIEs), limited partnerships and entities issuing preferred securities	i	**(1)**	(98)	**(2)**	0	18
Financial assets and liabilities designated at fair value through profit or loss	j	**(994)**	(197)	**(682)**	(436)	100
Physically settled written puts on UBS shares	k	**184**	131	**6**	8	9
Investment properties	l	**(12)**	(8)	**(4)**	0	14
Other adjustments		**317**	74	**130**	(118)	(50)
Tax adjustments		**(224)**	(876)	**(146)**	(529)	22
Total adjustments		**14,837**	17,601	**(771)**	(1,677)	802
Amounts determined in accordance with US GAAP		**64,523**	61,616	**11,486**	12,352	8,818

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 2006, 31 December 2005 and 31 December 2004 are presented in the following table.

	31.12.06		31.12.05		31.12.04	
For the year ended	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)	11,486	12,257	12,352	14,029	8,818	8,016
from continuing operations	11,082	11,491	8,376	9,776	8,398	7,547
from discontinued operations	404	766	3,976	4,253	420	469
Net profit (US GAAP) / Net profit attributable to UBS shareholders – for diluted EPS (CHF million)	11,478	12,249	12,330	14,007	8,813	8,011
from continuing operations	11,074	11,483	8,377	9,777	8,401	7,550
from discontinued operations	404	766	3,953	4,230	412	461
Weighted average shares outstanding	1,975,933,228	1,976,405,800	2,013,859,982	2,013,987,754	2,059,791,220	2,059,836,926
Diluted weighted average shares outstanding	2,058,834,812	2,058,834,812	2,097,191,540	2,097,191,540	2,163,922,720	2,163,922,720
Basic earnings per share (CHF)	5.81	6.20	6.13	6.97	4.28	3.89
from continuing operations	5.61	5.81	4.16	4.85	4.08	3.66
from discontinued operations	0.20	0.39	1.97	2.12	0.20	0.23
Diluted earnings per share (CHF)	5.57	5.95	5.88	6.68	4.07	3.70
from continuing operations	5.38	5.58	3.99	4.66	3.88	3.49
from discontinued operations	0.19	0.37	1.89	2.02	0.19	0.21

Note 41.5 Presentation Differences between IFRS and US GAAP

In addition to the differences in valuation and income recognition, other differences exist between IFRS and US GAAP which generally have an impact solely on balance sheet and/or Income statement presentation, although in certain cases, these presentation differences may result in an immaterial impact on US GAAP Shareholders' equity and Net profit. In such cases, these differences are aggregated in the Other differences line in the table in Note 41.3. The following is a summary of these differences.

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, presented as replacement value on balance sheet and any unrealized profits and losses are recognized in Net profit.

Under US GAAP, trade date accounting is required for spot purchases and spot sales of securities. Therefore, all such transactions with a trade date on or before the balance sheet date and 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. 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 asset line Securities received as collateral. The offsetting liability is presented in the line Obligation to return securities received as collateral.

3. 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 requirements, including those related to collateral or margining 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 is 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.

Securities borrowing transactions with the clients' pool are generally done without providing collateral. UBS pays a fee to the client in such transactions. Under IFRS, the borrowed securities are not recognized on balance sheet but disclosed in a separate line in Note 24 Pledgeable Off-Balance Sheet Securities. Under US GAAP, the borrowed securities are recognized in Trading portfolio assets and Trading portfolio assets pledged as collateral, as applicable, and the obligation to return the securities, which represents a hybrid instrument, is included in Negative replacement values. Effects on net profit which arise from derecognition/ recognition of financial assets and related recognition of forward transactions are reflected in the Net trading income.

4. Recognition / derecognition of financial assets

The guidance governing recognition and derecognition of a financial asset requires a multi-step decision process to determine whether recognition or derecognition of transferred financial assets 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. As a result of these requirements, certain transactions are 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 typically continue to be shown as purchases and sales of trading portfolio assets and were reclassified accordingly. Effects on net profit which arise from derecognition / recognition of financial assets and related recognition of forward transactions are reflected in Net trading income.

Note 41.6 Consolidated Income Statement

The following is a Consolidated Income Statement of the Group, for the years ended 31 December 2006, 31 December 2005 and 31 December 2004, 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		31.12.06		31.12.05		31.12.04	
	Reference	US GAAP	IFRS	US GAAP	IFRS	US GAAP	IFRS
Operating income							
Interest income	a, d, e, f, i, j, 3, 4	87,380	87,401	58,791	59,286	38,991	39,228
Interest expense	a, b, d, f, i, j, k, 3, 4	(80,463)	(80,880)	(49,488)	(49,758)	(27,245)	(27,484)
Net interest income		6,917	6,521	9,303	9,528	11,746	11,744
Credit loss (expense) / recovery	f	156	156	375	375	334	241
Net interest income after credit loss (expense) / recovery		7,073	6,677	9,678	9,903	12,080	11,985
Net fee and commission income		25,881	25,881	21,436	21,436	18,435	18,506
Net trading income	d, e, f, h, i, j, k, 3, 4	12,548	13,318	7,012	7,996	4,795	4,902
Other income	c, e, f, i, j, l	1,742	1,596	747	1,122	1,158	853
Revenues from Industrial Holdings	f	0	693	0	675	0	640
Total operating income		47,244	48,165	38,873	41,132	36,468	36,886
Operating expenses							
Personnel expenses	f, g, h	23,771	23,671	19,542	20,148	17,970	17,891
General and administrative expenses	f, i	7,944	8,116	6,469	6,632	6,420	6,563
Depreciation of property and equipment	a, f, i	1,277	1,263	1,272	1,261	1,295	1,284
Amortization of goodwill	b	0	0	0	0	0	673
Amortization of other intangible assets	c, f	143	153	119	131	103	170
Goods and materials purchased	f	0	295	0	283	0	263
Total operating expenses		33,135	33,498	27,402	28,455	25,788	26,844
Operating profit from continuing operations before tax		14,109	14,667	11,471	12,677	10,680	10,042
Tax expense / (benefit)		2,932	2,786	2,995	2,471	1,966	2,155
Minority interests (US GAAP)	f, i	(95)		(138)		(322)	
Net profit/(loss) from continuing operations		11,082	11,881	8,338	10,206	8,392	7,887
Net profit / (loss) from discontinued operations		404	869	3,976	4,484	420	583
Net profit (IFRS)			12,750		14,690		8,470
Net profit attributable to minority interests (IFRS)	c, f, i		(493)		(661)		(454)
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)		11,486	12,257	12,352	14,029	8,818	8,016

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 of 31 December 2006 and 31 December 2005, restated to reflect the impact of valuation and income recognition principles and presentation differences between IFRS and US GAAP.

		31.12.06		31.12.05	
CHF million	Reference	**US GAAP**	**IFRS**	US GAAP	IFRS
Assets					
Cash and balances with central banks		**3,495**	**3,495**	5,359	5,359
Due from banks	f, i, j, 1, 3, 4	**51,416**	**50,426**	33,427	33,644
Cash collateral on securities borrowed	3	**351,461**	**351,590**	288,304	288,435
Reverse repurchase agreements	j, 3	**361,571**	**405,834**	359,883	404,432
Trading portfolio assets	f, h, i, j, 1, 4	**627,160**	**627,036**	505,717	499,297
Trading portfolio assets pledged as collateral	3, 4	**401,176**	**251,478**	272,494	154,759
Positive replacement values	i, j, 1, 3, 4	**332,128**	**328,445**	337,105	333,782
Financial assets designated at fair value	j		**5,930**		1,153
Loans	a, f, i, j, 1, 4	**316,141**	**312,521**	277,471	279,910
Financial investments available-for-sale	e, f, i, j, 1, 4	**4,535**	**8,937**	3,407	6,551
Securities received as collateral	2	**49,088**		67,430	
Accrued income and prepaid expenses	f, j	**10,335**	**10,361**	8,853	8,918
Investments in associates	c, e, f	**1,823**	**1,523**	2,554	2,956
Property and equipment	a, c, f, l	**7,207**	**6,913**	9,282	9,423
Goodwill	a, b, c, f	**28,530**	**12,464**	28,104	11,313
Other intangible assets	b, c, f	**2,340**	**2,309**	1,665	2,173
Private equity investments	f	**2,195**		2,210	
Other assets	c, d, e, f, g, h, i, j, k, l, 1	**84,027**	**17,249**	75,992	16,243
Total assets		**2,634,628**	**2,396,511**	2,279,257	2,058,348
Liabilities					
Due to banks	f, i, j, 1, 4	**206,985**	**203,689**	127,252	124,328
Cash collateral on securities lent	3	**60,878**	**63,088**	59,897	59,938
Repurchase agreements	i, j, 3	**520,351**	**545,480**	464,957	478,508
Trading portfolio liabilities	i, j, 1, 3, 4	**236,929**	**204,773**	201,212	188,631
Obligation to return securities received as collateral	2	**49,088**		67,430	
Negative replacement values	i, j, k, 1, 3, 4	**439,495**	**332,533**	432,290	337,663
Financial liabilities designated at fair value	i, j, 1		**145,687**		117,401
Due to customers	f, i, j, 1, 4	**597,139**	**570,565**	481,784	466,907
Accrued expenses and deferred income	f, i, j	**22,131**	**21,527**	19,106	18,791
Debt issued	a, c, f, i, j, 1	**306,994**	**190,143**	240,212	160,710
Other liabilities	b, c, d, f, g, h, i, j, k, l, 1	**129,239**	**63,251**	121,493	53,837
Total liabilities		**2,569,229**	**2,340,736**	2,215,633	2,006,714
Minority interests	c, f, i	**876**	**6,089**	2,008	7,619
Total shareholders' equity (US GAAP) / Equity attributable to UBS shareholders (IFRS)		**64,523**	**49,686**	61,616	44,015
Total equity (IFRS)			**55,775**		51,634
Total liabilities, minority interests and shareholders' equity		**2,634,628**	**2,396,511**	2,279,257	2,058,348

Note: References above coincide with the discussions in Note 41.1 and Note 41.5. These references indicate which IFRS to US GAAP differences affect an individual financial statement caption. Certain prior year US GAAP amounts have been reclassified to conform to the current year's presentation.

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 (OCI). OCI includes foreign currency translation adjustments and changes in unrealized gains / losses on available-for-sale securities. In addition, up to 31 December 2006, OCI included adjustments to the additional minimum pension liability, which as of 31 December 2006 has been eliminated to reflect that a minimum pension liability is no longer recognized under US GAAP. However, as a result of the adoption of SFAS 158 as discussed in Note 41.1.g, OCI now includes changes in gains or losses and prior service costs or credits relating to post-retirement benefit plans that have not been recognized as components of net periodic pension costs. The components and Accumulated other comprehensive income amounts on a US GAAP basis for the years ended 31 December 2006, 31 December 2005 and 31 December 2004 are as follows:

CHF million	Foreign currency translation	Unrealized gains / (losses) on available-for-sale investments	Pension and Other Post-Retirement Benefit Plans	Deferred income taxes	Accumulated other comprehensive income / (loss)	Comprehensive income / (loss)
Balance at 1 January 2004	**(1,815)**	**175**	**(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	(819)	241	(1,603)	(1,603)
Comprehensive income						7,215
Balance at 31 December 2004	**(2,877)**	**212**	**(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	(127)	(280)	2,103	2,103
Comprehensive income						14,455
Balance at 31 December 2005	**(497)**	**342**	**(1,252)**	**172**	**(1,235)**	
Net profit						11,486
Other comprehensive income:						
Foreign currency translation	(1,269)			83	(1,186)	(1,186)
Net unrealized gains / (losses) on available-for-sale investments		1,506		(323)	1,183	1,183
Impairment charges reclassified to the income statement		5		(1)	4	4
Reclassification of (gains) / losses on available-for-sale investments realized in net profit		(460)		97	(363)	(363)
Additional minimum pension liability			(38)	4	(34)	(34)
Other comprehensive income / (loss)	(1,269)	1,051	(38)	(140)	(396)	(396)
Comprehensive income						11,090
Pension and other post-retirement benefit plans – initial adoption of SFAS 158[1]			(1,815)	475	(1,340)	
Balance at 31 December 2006	**(1,766)**	**1,393**	**(3,105)**	**507**	**(2,971)**	

1 Represents the incremental effect of transferring amounts not recognized in the income statement to Accumulated other comprehensive income.

Note 42 Additional Disclosures Required under US GAAP and SEC Rules

In addition to the differences in valuation, income recognition and presentation, disclosure differences exist between IFRS and US GAAP. The following are additional disclosures that relate to the basic Financial Statements required under US GAAP. Unless otherwise indicated in the note, all amounts are shown on an IFRS basis.

Note 42.1 Variable Interest Entities

Introduction

Since 1 January 2004, UBS has applied 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 variable interest entities (VIEs) created after 31 January 2003. All amounts in Note 42.1 are reported on a US GAAP basis.

Identification of variable interest entities (VIEs) and measurement of variable interests

Qualifying special purpose entities (QSPEs) per FASB Statement 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 legal 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.

VIEs are evaluated for consolidation based on all contractual, ownership, or other interests that expose their holders to the risks and rewards of the entity. These interests are termed variable interests and include only investments or contractual interests whose value changes 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.

The holder of a variable interest that receives a majority of a VIE's expected losses, expected residual returns, or both, is the VIE's primary beneficiary and 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, based on variability in the fair value of the net assets in the VIE, exclusive of variable interests.

Under this approach, 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

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)

Note 42.1 Variable Interest Entities (continued)

basis as for non-VIE counterparties. See Note 29 for a further discussion of UBS's risk mitigation strategies.

VIEs in which UBS is the primary beneficiary

VIEs in which UBS is the primary beneficiary require consolidation, which may increase both total assets and liabilities of the US GAAP Financial Statements, or in other cases may result in a reclassification of existing assets or liabilities.

In certain cases, an entity not consolidated under IFRS is consolidated under FIN 46-R because UBS is the primary beneficiary. Significant groups of these include CHF 2.5 billion of investment fund products, and CHF 1.1 billion of securitization VIEs, which includes some third-party VIEs mentioned below.

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 3.4 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 7.5 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	1,085	Loan receivables, government debt securities, corporate debt securities	1,085
Investment fund products	3,898	Investment funds	3,898
Investment funds managed by UBS	1,027	Debt, Equity	984
Passive intermediary to a derivative transaction	1,260	Loan receivables, corporate debt securities	1,260
Trust vehicles for awards to UBS employees	1,829	UBS shares and derivatives thereon	1,829
Private equity investments	397	Private equity investments	272
Other miscellaneous structures	1,600	Equity, derivatives, investment funds	615
Total 31.12.06	**11,096**		**9,943**

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 4.5 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.

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)

Note 42.1 Variable Interest Entities (continued)

VIEs in which UBS holds a significant variable interest

VIEs in which UBS holds a significant variable interest but does not consolidate the VIE 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 4.6 billion, for which UBS has a maximum exposure to loss of approximately CHF 2.4 billion. Disclosures for these are included in the table below.

VIEs in which UBS holds a significant variable interest

CHF million Nature, purpose and activities of VIEs	Total assets	Nature of involvement	Maximum exposure to loss
Securitizations	61	UBS holds beneficial interests	0
Investment fund products	5,707	UBS holds notes or units	1,975
Investment funds managed by UBS	23,870	UBS acts as investment manager	17,772
Credit protection vehicles	1,200	SPE used for credit protection – UBS sells credit risk on portfolios to investors	894
Other miscellaneous structures	1,181	UBS acts as swap counterparty	301
Total 31.12.06	**32,019**		**20,942**

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 81 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
Investment fund products	5,204	UBS acts as swap counterparty	441	4,483
Total 31.12.06	**5,204**		**441**	**4,483**

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)

Note 42.2 Securitizations

UBS records a securitization of financial assets when the transfer of financial assets to the special purpose entity meets the accounting criteria to be accounted for as a sale. These criteria include: (1) the assets are legally isolated from UBS's creditors; (2) the entity can pledge or exchange the financial assets, or if the entity is a qualifying special purpose entity, its investors can pledge or exchange their beneficial interests; and (3) UBS does not maintain effective control over the transferred assets through an agreement to repurchase the assets before their maturity or have the ability to unilaterally cause the holder to return the assets.

During the years ended 31 December 2006, 2005 and 2004, UBS securitized 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. All amounts are shown on a US GAAP basis. Prior period amounts have been adjusted to conform to the current year's presentation.

Proceeds received at the time of securitization were as follows:

	Proceeds Received		
CHF billion	**31.12.06**	31.12.05	31.12.04
Residential mortgage securitizations	**38**	58	91
Commercial mortgage securitizations	**6**	5	3
Other financial asset securitizations	**18**	9	9

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	**31.12.06**	31.12.05	31.12.04
Residential mortgage securitizations	**128**	102	197
Commercial mortgage securitizations	**143**	125	141
Other financial asset securitizations	**(49)**	17	21

At 31 December 2006 and 2005, UBS retained CHF 3.5 billion and CHF 1.7 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 retained interests in investment-grade non-residential and other asset-backed securities amounted to CHF 1,618 million at 31 December 2006 and CHF 713 million at 31 December 2005. The fair value of investment-grade retained interests is generally determined using observable market prices. Retained interests in non-investment-grade securities were not material at 31 December 2006 and 2005.

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)

Note 42.3 Industrial Holdings' Income Statement

After 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 held a majority ownership interest in the company, and as a result, consolidated Motor-Columbus in its Financial Statements since 1 July 2004. The investment in Motor-Columbus is presented as a discontinued operation in the income statements for the years ended 31 December 2006, 31 December 2005 and 31 December 2004 due to its sale on 23 March 2006 (refer to Note 38 Discontinued Operations). In addition, due to the adoption of IAS 27 *Consolidated and Separate Financial Statements* which is further described in Note 1b), 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.

Industrial Holdings' Income Statement

	As of or for the year ended		
CHF million	**31.12.06**	31.12.05	31.12.04
Operating income			
Net sales	**693**	675	640
Operating expenses			
Cost of products sold	**469**	457	425
Marketing expenses	**52**	61	64
General and administrative expenses	**135**	124	111
Amortization of goodwill	**0**	0	27
Amortization of other intangible assets	**5**	4	2
Other operating expenses	**55**	105	66
Total operating expenses	**716**	751	695
Operating profit / (loss)	**(23)**	(76)	(55)
Non-operating profit			
Interest income	**0**	5	37
Interest expense	**(44)**	(54)	(101)
Other non-operating income, net	**334**	585	334
Non-operating profit / (loss)	**290**	536	270
Net profit / (loss) from continuing operations before tax	**267**	460	215
Tax expense	**35**	175	51
Equity in income of associates, net of tax	**11**	25	5
Net profit / (loss) from continuing operations	**243**	310	169
Net profit from discontinued operations	**865**	409	284
Net profit / (loss)	**1,108**	719	453
Net profit / (loss) attributable to minority interests	**104**	207	93
Net profit / (loss) attributable to UBS shareholders	**1,004**	512	360
Accounts receivable trade, gross	**103**	2,068	
Allowance for doubtful receivables	**(7)**	(62)	
Accounts receivables trade, net	**96**	2,006	

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)

Note 42.4 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 of 31 December 2006, 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 2006 and 2005.

Note 42.5 Pension and Other Post-Retirement Benefit Plans

All amounts in Note 42.5 are on a US GAAP basis. The additional minimum liability required amounts to CHF 1,290 million, CHF 1,252 million and CHF 1,125 million as of 31 December 2006, 2005 and 2004, respectively.

Incremental Effect of First Time Application of SFAS 158

The incremental effects on individual line items in the 31 December 2006 Financial Statements due to the adoption of SFAS 158 *Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans* (see Note 41.2 for details) are as follows:

	31.12.06		
CHF million	**Before application of SFAS 158**	**Adjustment**	**After application of SFAS 158**
Other assets	86,008	(1,981)	84,027
Total assets	**86,008**	**(1,981)**	**84,027**
Other liabilities	129,880	(641)	129,239
Total liabilities	**129,880**	**(641)**	**129,239**
Total shareholder' equity	**65,863**	**(1,340)**	**64,523**

Amounts Included in Accumulated Other Comprehensive Income (AOCI)

	31.12.06			
CHF million	**Swiss plans**	**Foreign plans**	**Post-retirement medical and life plans**	**Total**
Net gains or losses	(564)	(1,386)	(25)	(1,975)
Net prior service costs or credits	(1,153)	41	(15)	(1,127)
Transition assets	0	0	(3)	(3)
Ending balance in AOCI	**(1,717)**	**(1,345)**	**(43)**	**(3,105)**
Amounts in AOCI expected to be recognized as components of net periodic benefit cost in 2007				
Net gains or losses	0	73	0	73
Net prior service costs or credits	347	(7)	1	341
Transition assets	0	0	0	0
Total	**347**	**66**	**1**	**414**

No plan assets are expected to be returned to the Group during 2007.

For more details on the pension and other post-retirement benefit plans on an IFRS basis, see Note 31.

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)

Note 42.6 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 2006, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 2,324 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 have been reconciled to US GAAP. See Note 41 for a detailed reconciliation of the IFRS Financial Statements to US GAAP for UBS on a consolidated basis.

Supplemental Guarantor Consolidating Income Statement

CHF million For the year ended 31 December 2006	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	60,057	42,667	39,269	(54,592)	87,401
Interest expense	(56,020)	(41,049)	(38,403)	54,592	(80,880)
Net interest income	4,037	1,618	866	0	6,521
Credit loss (expense) / recovery	167	(6)	(5)	0	156
Net interest income after credit loss expense	4,204	1,612	861	0	6,677
Net fee and commission income	11,646	8,590	5,645	0	25,881
Net trading income	10,306	1,634	1,378	0	13,318
Income from subsidiaries	3,760	0	0	(3,760)	0
Other income	(450)	1,637	409	0	1,596
Revenues from industrial holdings	0	0	693	0	693
Total operating income	29,466	13,473	8,986	(3,760)	48,165
Operating expenses					
Personnel expenses	12,208	8,040	3,423	0	23,671
General and administrative expenses	2,805	3,362	1,949	0	8,116
Depreciation of property and equipment	979	133	151	0	1,263
Amortization of other intangible assets	14	83	56	0	153
Goods and materials purchased	0	0	295	0	295
Total operating expenses	16,006	11,618	5,874	0	33,498
Operating profit from continuing operations before tax	13,460	1,855	3,112	(3,760)	14,667
Tax expense / (benefit)	1,715	585	486	0	2,786
Net profit / (loss) from continuing operations	11,745	1,270	2,626	(3,760)	11,881
Net profit / (loss) from discontinued operations	512	0	357	0	869
Net profit / (loss)	12,257	1,270	2,983	(3,760)	12,750
Net profit / (loss) attributable to minority interests	0	527	(34)	0	493
Net profit / (loss) attributable to UBS shareholders	12,257	743	3,017	(3,760)	12,257
Net profit / (loss) US GAAP[2]	8,748	259	2,479	0	11,486

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 42.6 Supplemental Guarantor Information (continued)

Supplemental Guarantor Consolidating Balance Sheet

CHF million As of 31 December 2006	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	2,660	78	757	0	3,495
Due from banks	121,404	16,884	182,850	(270,712)	50,426
Cash collateral on securities borrowed	99,829	303,607	156,083	(207,929)	351,590
Reverse repurchase agreements	270,814	167,222	300,862	(333,064)	405,834
Trading portfolio assets	294,590	188,710	143,736	0	627,036
Trading portfolio assets pledged as collateral	162,722	51,834	36,922	0	251,478
Positive replacement values	318,936	13,168	173,243	(176,902)	328,445
Financial assets designated at fair value	2,902	4,147	7,146	(8,265)	5,930
Loans	414,031	40,279	38,644	(180,433)	312,521
Financial investments available-for-sale	5,843	862	2,232	0	8,937
Accrued income and prepaid expenses	6,598	4,029	4,809	(5,075)	10,361
Investments in associates	34,887	179	237	(33,780)	1,523
Property and equipment	5,432	637	844	0	6,913
Goodwill and other intangible assets	258	11,128	3,387	0	14,773
Other assets	10,709	5,524	5,587	(4,571)	17,249
Total assets	1,751,615	808,288	1,057,339	(1,220,731)	2,396,511
Liabilities					
Due to banks	228,992	114,782	130,627	(270,712)	203,689
Cash collateral on securities lent	106,019	57,937	107,061	(207,929)	63,088
Repurchase agreements	167,166	419,427	291,951	(333,064)	545,480
Trading portfolio liabilities	107,747	71,165	25,861	0	204,773
Negative replacement values	326,216	13,629	169,590	(176,902)	332,533
Financial liabilities designated at fair value	121,074	49	32,829	(8,265)	145,687
Due to customers	504,502	80,936	165,560	(180,433)	570,565
Accrued expenses and deferred income	12,336	8,406	5,860	(5,075)	21,527
Debt issued	110,020	29,149	50,974	0	190,143
Other liabilities	16,488	4,284	47,050	(4,571)	63,251
Total liabilities	1,700,560	799,764	1,027,363	(1,186,951)	2,340,736
Equity attributable to UBS shareholders	51,055	5,539	26,872	(33,780)	49,686
Minority interests	0	2,985	3,104	0	6,089
Total equity	51,055	8,524	29,976	(33,780)	55,775
Total liabilities and equity	1,751,615	808,288	1,057,339	(1,220,731)	2,396,511
Total shareholders' equity – US GAAP[2]	29,738	7,287	27,498	0	64,523

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 42.6 Supplemental Guarantor Information (continued)

Note 42.6 Supplemental Guarantor Consolidating Cash Flow Statement

CHF million For the year ended 31 December 2006	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	(1,705)	(14,810)	11,805	(4,710)
Cash flow from / (used in) investing activities				
Investments in subsidiaries and associates	2,856	0	0	2,856
Disposal of subsidiaries and associates	1,154	0	0	1,154
Purchase of property and equipment	(1,292)	(255)	(246)	(1,793)
Disposal of property and equipment	298	47	154	499
Net (investment in) / divestment of financial investments available-for-sale	90	433	1,200	1,723
Net cash flow from / (used in) investing activities	3,106	225	1,108	4,439
Cash flow from / (used in) financing activities				
Net money market paper issued / (repaid)	17,526	1,039	(1,644)	16,921
Net movements in treasury shares and own equity derivative activity	(3,624)	0	0	(3,624)
Capital issuance	1	0	0	1
Capital repayment by par value reduction	(631)	0	0	(631)
Dividends paid	(3,214)	0	0	(3,214)
Issuance of long-term debt, including financial liabilities designated at fair value	79,358	10,881	7,436	97,675
Repayment of long-term debt, including financial liabilities designated at fair value	(48,959)	(447)	(10,545)	(59,951)
Increase in minority interests	0	85	1,246	1,331
Dividend payments to / purchase from minority interests	0	2,441	(3,513)	(1,072)
Net activity in investments in subsidiaries	(8,246)	3,055	5,191	0
Net cash flow from / (used in) financing activities	32,211	17,054	(1,829)	47,436
Effects of exchange rate differences	388	(1,871)	(634)	(2,117)
Net increase / (decrease) in cash equivalents	34,000	598	10,450	45,048
Cash and cash equivalents, beginning of the year	68,548	13,531	8,963	91,042
Cash and cash equivalents, end of the year	102,548	14,129	19,413	136,090
Cash and cash equivalents comprise:				
Cash and balances with central banks	2,660	78	757	3,495
Money market paper[2]	73,431	11,488	2,225	87,144
Due from banks with original maturity of less than three months	26,457	2,563	16,431	45,451
Total	102,548	14,129	19,413	136,090

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 available-for-sale. CHF 7,183 million was pledged at 31 December 2006.

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)
Note 42.6 Supplemental Guarantor Information (continued)

42.6 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	(1,989)	0	1,122
Revenues from industrial holdings	0	0	675	0	675
Total operating income	25,340	10,749	4,368	675	41,132
Operating expenses					
Personnel expenses	9,962	6,587	3,599	0	20,148
General and administrative expenses	2,330	2,667	1,635	0	6,632
Depreciation of property and equipment	988	140	133	0	1,261
Amortization of other intangible assets	24	70	37	0	131
Goods and materials purchased	0	0	283	0	283
Total operating expenses	13,304	9,464	5,687	0	28,455
Operating profit from continuing operations before tax	12,036	1,285	(1,319)	675	12,677
Tax expense / (benefit)	1,712	1,079	(320)	0	2,471
Net profit / (loss) from continuing operations	10,324	206	(999)	675	10,206
Net profit / (loss) from discontinued operations	3,705	0	779	0	4,484
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 42.6 Supplemental Guarantor Information (continued)

Supplemental Guarantor Consolidating Balance Sheet

CHF million As of 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	98,105	257,943	118,415	(186,028)	288,435
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	299,518	41,901	33,987	(95,496)	279,910
Financial investments available-for-sale	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	7,509	3,758	7,468	(2,492)	16,243
Total assets	1,534,361	715,321	838,338	(1,029,672)	2,058,348
Liabilities					
Due to banks	181,592	126,834	81,262	(265,360)	124,328
Cash collateral on securities lent	85,369	50,395	110,202	(186,028)	59,938
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	434,675	63,243	64,485	(95,496)	466,907
Accrued expenses and deferred income	10,439	7,494	5,672	(4,814)	18,791
Debt issued	87,267	19,496	53,947	0	160,710
Other liabilities	10,409	3,594	42,326	(2,492)	53,837
Total liabilities	1,485,374	708,722	811,849	(999,231)	2,006,714
Equity attributable to UBS shareholders	48,987	6,485	18,984	(30,441)	44,015
Minority interests	0	114	7,505	0	7,619
Total equity	48,987	6,599	26,489	(30,441)	51,634
Total liabilities and equity	1,534,361	715,321	838,338	(1,029,672)	2,058,348
Total shareholders' equity – US GAAP[2]	33,028	8,415	20,173	0	61,616

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 42.6 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 available-for-sale	(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 available-for-sale. CHF 4,744 million was pledged at 31 December 2005.

Guarantee of other securities

UBS AG, acting through a wholly owned finance subsidiaries, issued the following trust preferred securities:

USD billion, unless otherwise indicated		**Outstanding as of 31.12.06**		
Issuing entity	**Type of security**	**Date issued**	**Interest (%)**	**Amount**
UBS Preferred Funding Trust I	Trust preferred securities	October 2000	8.622	1.5
UBS Preferred Funding Trust II	Trust preferred securities[1]	June 2001	7.247	0.5
UBS Preferred Funding Trust IV	Floating rate noncumulative trust preferred securities	May 2003	one-month LIBOR + 0.7%	0.3
UBS Preferred Funding Trust V	Trust preferred securities	May 2006	6.243	1.0

1 In June 2006, USD 300 million (at 7.25%) of Trust preferred securities also issued in June 2001 were redeemed.

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 2006, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 2,324 billion.

Note 42 Additional Disclosures Required under US GAAP and SEC Rules (continued)

Note 42.7 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 year ended 31 December 2004 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 41.1h) for details.

CHF million, except per share data	31.12.04
Net profit under US GAAP, as reported	8,818
Add: Equity-based employee compensation expense included in reported net income, net of tax	1,209
Deduct: Total equity-based employee compensation expense determined under the fair-value-based method for all awards, net of tax	(1,717)
Net profit, pro-forma	8,310
Earnings per share	
Basic, as reported	4.28
Basic, pro-forma	4.03
Diluted, as reported	4.07
Diluted, pro-forma	3.84

UBS AG (Parent Bank)

UBS AG (Parent Bank)
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Parent Bank Review

Income Statement

The Parent Bank UBS AG Net profit decreased by CHF 6,939 million from CHF 13,497 million to CHF 6,558 million. Income from investments in associated companies decreased to CHF 1,910 million from CHF 3,943 million in 2005 mainly due to lower dividend distributions received. The decrease in Extraordinary income and increase in Extraordinary expenses are explained on page 222.

Balance Sheet

Total assets increased by CHF 226 billion to CHF 1,586 billion at 31 December 2006. This movement is mainly caused by increased positions in Money market paper of CHF 26 billion, Due from banks of CHF 8 billion and Due from customers of CHF 131 billion (of which CHF 88 billion relates to Dillon Read Capital Management and the remaining amount mainly relates to current and margin accounts). A considerable increase resulted as well in Trading balances in securities and precious metals of CHF 53 billion (thereof debt instruments CHF 12 billion, equities CHF 33 billion and precious metals CHF 8 billion). The investments in associated companies expanded by CHF 5 billion which is mainly due to new investments or additional financing of subsidiaries abroad of Banco Pactual S.A., UBS VIII Wilmington (as "funding unit"), Dillon Read Capital Management and Global Futures and Options Business of ABN AMRO but also includes the reduction of investments in associated companies due to the sale of Motor-Columbus.

Financial Statements

Income Statement

	For the year ended		% change from
CHF million	**31.12.06**	31.12.05	31.12.05
Interest and discount income	**45,978**	27,320	68
Interest and dividend income from trading portfolio	**15,324**	12,482	23
Interest and dividend income from financial investments	**32**	36	(11)
Interest expense	**(57,507)**	(33,972)	69
Net interest income	**3,827**	5,866	(35)
Credit-related fees and commissions	**199**	244	(18)
Fee and commission income from securities and investment business	**12,288**	9,751	26
Other fee and commission income	**840**	773	9
Fee and commission expense	**(1,820)**	(1,349)	35
Net fee and commission income	**11,507**	9,419	22
Net trading income	**9,467**	7,289	30
Net income from disposal of financial investments	**333**	95	251
Income from investments in associated companies	**1,910**	3,943	(52)
Income from real estate holdings	**21**	38	(45)
Sundry income from ordinary activities	**2,982**	2,164	38
Sundry ordinary expenses	**(3,059)**	(2,352)	30
Other income from ordinary activities	**2,187**	3,888	(44)
Operating income	**26,988**	26,462	2
Personnel expenses	**12,886**	10,999	17
General and administrative expenses	**4,736**	4,113	15
Operating expenses	**17,622**	15,112	17
Operating profit	**9,366**	11,350	(17)
Depreciation and write-offs on investments in associated companies and fixed assets	**1,352**	1,265	7
Allowances, provisions and losses	**342**	27	
Profit before extraordinary items and taxes	**7,672**	10,058	(24)
Extraordinary income	**1,095**	5,274	(79)
Extraordinary expenses	**239**	0	
Tax expense / (benefit)	**1,970**	1,835	7
Profit for the period	**6,558**	13,497	(51)

Balance Sheet

CHF million	**31.12.06**	31.12.05	% change from 31.12.05
Assets			
Liquid assets	**2,660**	2,712	(2)
Money market paper	**73,430**	47,840	53
Due from banks	**439,098**	431,071	2
Due from customers	**316,241**	185,331	71
Mortgage loans	**153,114**	153,387	0
Trading balances in securities and precious metals	**411,981**	358,600	15
Financial investments	**2,844**	4,216	(33)
Investments in associated companies	**27,076**	22,016	23
Fixed assets	**4,527**	4,527	0
Accrued income and prepaid expenses	**6,573**	5,359	23
Positive replacement values	**138,222**	136,503	1
Other assets	**9,975**	7,980	25
Total assets	**1,585,741**	1,359,542	17
Total subordinated assets	***5,852***	*6,094*	*(4)*
Total amounts receivable from Group companies	***657,919***	*557,355*	*18*
Liabilities			
Money market paper issued	**69,861**	52,335	33
Due to banks	**556,136**	482,134	15
Due to customers on savings and deposit accounts	**80,883**	86,997	(7)
Other amounts due to customers	**508,609**	406,724	25
Medium-term bonds	**2,238**	1,464	53
Bond issues and loans from central mortgage institutions	**143,779**	102,386	40
Accruals and deferred income	**16,672**	13,543	23
Negative replacement values	**149,879**	160,002	(6)
Other liabilities	**10,471**	5,648	85
Allowances and provisions	**2,305**	2,157	7
Share capital	**211**	871	(76)
General statutory reserve	**8,295**	7,927	5
Reserve for own shares	**9,114**	10,562	(14)
Other reserves	**20,730**	13,295	56
Profit for the period	**6,558**	13,497	(51)
Total liabilities	**1,585,741**	1,359,542	17
Total subordinated liabilities	***21,907***	*16,022*	*37*
Total amounts payable to Group companies	***450,093***	*404,108*	*11*

Statement of Appropriation of Retained Earnings

CHF million	
The Board of Directors proposes to the Annual General Meeting the following appropriation:	
Profit for the financial year 2006 as per the Parent Bank's Income Statement	6,558
Appropriation to general statutory reserve	457
Appropriation to other reserves	1,519
Proposed dividends	4,582
Total appropriation	6,558

Dividend Distribution

The Board of Directors will recommend to the Annual General Meeting on 18 April 2007 that UBS should pay a dividend of CHF 2.20 per share of CHF 0.10 par value. If the dividend is approved, the payment of CHF 2.20 per share, after deduction of 35% Swiss withholding tax, would be made on 23 April 2007 for shareholders who hold UBS shares on 18 April 2007.

Notes to the Financial Statements

Accounting Principles

The Parent Bank's accounting policies are in compliance with Swiss banking law. The accounting policies are principally the same as for the Group Financial Statements outlined in Note 1, Summary of Significant Accounting Policies. Major differences between the Swiss banking law requirements and International Financial Reporting Standards are described in Note 40 to the Group Financial Statements. In addition, the following principles are applied for the Parent Bank:

Treasury shares

Treasury shares is the term used to describe when an enterprise holds its own equity instruments. Under IFRS, treasury shares are presented in the balance sheet as a deduction from equity. No gain or loss is recognized in the income statement on the sale, issuance, acquisition, or cancellation of those shares. Consideration received or paid is presented in the Financial Statement as a change in equity.

Under Swiss law, treasury shares are classified in the balance sheet as trading balances or as financial investments. Short positions are included in due to banks. Realized gains and losses on the sale, issuance or acquisition of treasury shares, and unrealized gains or losses from re-measurement of treasury shares in the trading portfolio to market value are included in the income statement. Treasury shares included in financial investments are carried at the lower of cost and market value.

Foreign currency translation

Assets and liabilities of foreign branches are translated into CHF at the exchange rates at the balance sheet date, while income and expense items are translated at weighted average rates for the period. Exchange differences arising on the translation of each of these foreign branches are credited to a provision account (other liabilities) in case of a gain, while any losses are debited first to that provision account until such provision is fully utilized, and secondly to profit and loss.

Investments in associated companies

Investments in associated companies are equity interests which are held for the purpose of the Parent Bank's business activities or for strategic reasons. They are carried at cost less impairment, if applicable.

Property and equipment

Bank buildings and other real estate are carried at cost less accumulated depreciation. Depreciation of computer and telecommunications equipment, other office equipment, fixtures and fittings is recognized on a straight-line basis over the estimated useful lives of the related assets. The useful lives of Property and equipment are summarized in Note 1, Summary of Significant Accounting Policies, of the Group Financial Statements.

Extraordinary income and expenses

Certain items of income and expense appear as extraordinary within the Parent Bank Financial Statements, whereas in the Group Financial Statements they are considered to be operating income or expenses and appear within the appropriate income or expense category, or they are included in net profit from discontinued operations, if required.

Equity participation plans

Under IFRS, UBS recognizes the fair value of stock and stock option awards determined at the grant date as compensation expense over the required service period. Equity-settled awards are classified as equity instruments and are generally not re-measured subsequently. Cash settled awards are classified as liabilities and re-measured to fair value at each balance sheet date.

Under Swiss law, employee stock awards are accrued over the performance period, while employee stock option awards are recognized in the year of grant. Equity- and cash-settled awards are classified as liabilities. Stock option awards are re-measured at their intrinsic value.

Comparability

For 2005, current income taxes of CHF 2,092 million have been reclassified from Allowances and provisions to Accruals and deferred income and CHF 2,118 million of intra-group revenue transfers has been reclassified from Sundry income from ordinary activities to Sundry ordinary expenses to concur with the current year's gross presentation of revenue transfers within subsidiaries.

UBS holds investments in financial assets in order to economically hedge fair value movements on certain liabilities. These financial assets are included in Trading balances in securities and precious metals. Where such investments were consolidated entities under IFRS, they were measured at the lower of cost or market until 2005. Net trading income includes gains of CHF 346 million related to prior years' fair value movements on those investments.

Additional Income Statement Information

Net Trading Income

	For the year ended		% change from
CHF million	**31.12.06**	31.12.05	31.12.05
Equities	**5,761**	3,068	88
Fixed income[1]	**1,629**	1,540	6
Foreign exchange and other	**2,077**	2,681	(23)
Total	**9,467**	7,289	30

1 Includes commodities trading income.

Extraordinary Income and Expenses

Extraordinary income includes a CHF 678 million gain on the sale of Motor-Columbus compared to a gain on the sale of Private Banks & GAM of CHF 3,183 million in 2005. In addition, amounts in 2006 include a write-up of investments in associated companies of CHF 223 million (2005: CHF 1,263 million), releases of provisions of CHF 167 million (2005: CHF 452 million). Amounts in 2005 include a gain of CHF 370 million resulting from a merger with a subsidiary.

Extraordinary expenses include CHF 202 million related to the under-accrual of unused vacation, sabbatical leave and service anniversary awards in prior years and a CHF 37 million loss related to the merger with a subsidiary.

Additional Balance Sheet Information

Allowances and Provisions

CHF million	Balance at 31.12.05	Provisions applied in accordance with their specified purpose	Recoveries, doubtful interest, currency translation differences	Provisions released to income	New provisions charged to income	**Balance at 31.12.06**
Default risks (credit and country risk)	1,836	(439)	67	(513)	347	**1,298**
Trading portfolio risks	3,880		(225)	(811)		**2,844**
Litigation risks	328	(135)	(124)	(32)	256	**293**
Operational risks	1,662	(47)	97	(348)	537	**1,901**
Deferred taxes	19		(17)		32	**34**
Total allowances and provisions	**7,725**	**(621)**	**(202)**	**(1,704)**	**1,172**	**6,370**
Allowances deducted from assets	5,568					**4,065**
Total provisions as per balance sheet	**2,157**					**2,305**

Statement of Shareholders' Equity

CHF million	Share capital	General statutory reserves: Share premium	General statutory reserves: Retained earnings	Reserves for own shares	Other reserves	**Total shareholders' equity (before distribution of profit)**
As of 31.12.04 and 1.1.05	**901**	**6,213**	**1,359**	**9,056**	**21,739**	**39,268**
Cancellation of own shares	(32)				(3,511)	**(3,543)**
Capital increase	2	33				**35**
Increase in reserves			322		(322)	
Prior year dividend					(3,105)	**(3,105)**
Profit for the period					13,497	**13,497**
Changes in reserves for own shares				1,506	(1,506)	
As of 31.12.05 and 1.1.06	**871**	**6,246**	**1,681**	**10,562**	**26,792**	**46,152**
Par value reduction	(631)				35	**(596)**
Cancellation of own shares	(30)				(3,997)	**(4,027)**
Capital increase	1	34				**35**
Increase in reserves			334		(334)	
Prior year dividend					(3,214)	**(3,214)**
Profit for the period					6,558	**6,558**
Changes in reserves for own shares				(1,448)	1,448	
As of 31.12.06	**211**	**6,280**	**2,015**	**9,114**	**27,288**	**44,908**

Share Capital

	Par value		Ranking for dividends	
	No. of shares	Capital in CHF	No. of shares	Capital in CHF
As of 31.12.06				
Issued and paid up	2,105,273,286	**210,527,329**	2,082,673,286	**208,267,329**
Conditional share capital	151,437,410	**15,143,741**		
As of 31.12.05				
Issued and paid up	2,177,265,044	**870,906,018**	2,109,495,044	**843,798,018**
Conditional share capital	3,647,002	**1,458,801**		

On 31 December 2006, a maximum of 1,437,410 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 table above. In addition, during 2006, shareholders approved the creation of conditional capital of up to a maximum of 150 million shares to fund UBS's employee share option programs. As of 31 December 2006, no shares have been issued under this program.

Off-Balance Sheet and Other Information

Assets Pledged or Assigned as Security for Own Obligations, Assets Subject to Reservation of Title

	31.12.06		31.12.05		Change in %	
CHF million	**Book value**	**Effective liability**	Book value	Effective liability	Book value	Effective liability
Money market paper	**37,471**	**9,035**	26,513	6,120	41	48
Mortgage loans	**81**	**38**	64	38	27	
Securities	**89,869**	**41,306**	102,330	48,580	(12)	(15)
Total	**127,421**	**50,379**	128,907	54,738	(1)	(8)

Financial assets are pledged in securities borrowing and lending transactions, in repurchase and reverse repurchase transactions, under collateralized credit lines with central banks, against loans from mortgage institutions and for security deposits relating to stock exchange and clearinghouse memberships.

Commitments and Contingent Liabilities

CHF million	**31.12.06**	31.12.05	% change from 31.12.05
Contingent liabilities	**189,627**	184,665	3
Irrevocable commitments	**115,364**	68,071	69
Liabilities for calls on shares and other equities	**125**	130	(4)
Confirmed credits	**2,133**	2,004	6

Derivative Instruments

	31.12.06			31.12.05		
CHF million	**PRV[1]**	**NRV[2]**	**Notional amount CHF bn**	PRV	NRV	Notional amount CHF bn
Interest rate contracts	**176,765**	**175,394**	**29,558**	222,508	221,437	20,656
Credit derivative contracts	**29,026**	**31,781**	**2,824**	15,811	16,427	1,557
Foreign exchange contracts	**76,459**	**70,899**	**6,134**	57,705	58,600	4,757
Precious metal contracts	**4,472**	**4,168**	**121**	3,616	3,444	82
Equity / Index contracts	**22,437**	**39,016**	**745**	25,663	49,924	706
Commodities contracts, excluding precious metals contracts	**11,459**	**11,017**	**359**	10,677	9,647	194
Total derivative instruments	**320,618**	**332,275**	**39,741**	335,980	359,479	27,952
Replacement value netting	**182,396**	**182,396**		199,477	199,477	
Replacement values after netting	**138,222**	**149,879**		136,503	160,002	

1 PRV: Positive replacement value. 2 NRV: Negative replacement value.

Fiduciary Transactions

CHF million	31.12.06	31.12.05	% change from 31.12.05
Deposits:			
with other banks	41,075	37,171	11
with Group banks	1,650	1,382	19
Total	42,725	38,553	11

Due to UBS Pension Plans, Loans to Corporate Bodies / Related Parties

CHF million	31.12.06	31.12.05	% change from 31.12.05
Due to UBS pension plans and UBS debt instruments held by pension plans	790	719	10
Securities borrowed from pension plans	7,169	2,222	223
Loans to directors, senior executives and auditors[1]	19	21	(10)

1 Loans to directors, senior executives and auditors are loans to members of the Board of Directors, the Group Executive Board and the Group's official auditors under Swiss company law. This also includes loans to companies which are controlled by these natural or legal persons. There are no loans to the auditors.

Personnel

Parent Bank personnel was 42,443 on 31 December 2006 and 38,189 on 31 December 2005.

ERNST & YOUNG

Ernst & Young Ltd
Aeschengraben 9
P.O. Box
CH-4002 Basel

Phone +41 58 286 86 86
Fax +41 58 286 86 00
www.ey.com/ch

To the General Meeting of

UBS AG, Zurich and Basel

Basel, 10 March 2007

Report of the statutory auditors

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes on pages 217 to 225) of UBS AG for the year ended 31 December 2006.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements referred to above and the proposed appropriation of available earnings comply with Swiss law and the company's articles of association.

We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

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

BDO Visura
Financial Services

8031 Zürich, Fabrikstrasse 50
Tel. 044 444 36 74, Fax 044 444 37 84
www.bdo.ch

To the Board of Directors of
UBS AG, Zurich und Basel

Confirmation concerning conditional capital increase

As auditors of the capital increase of UBS AG, we have audited the issue of new shares and the preconditions for the adjustment of the provisions regarding the conditional capital increase in the articles of association, both related to

- employee stock option plans of Paine Webber Group Inc., New York, according to article 4a paragraph 1 of the articles of association based on the resolution of the annual general meeting of 7 September 2000, and
- employee stock option plans of UBS AG, according to article 4a paragraph 2 of the articles of association based on the resolution of the annual general meeting of 19 April 2006;

in the period from 1 January 2006 to 31 December 2006 in accordance with the provisions of Swiss law.
In addition we have audited the expiration of options relating to the employee stock option plan of Paine Webber Group Inc., New York.

The issue of new shares in accordance with the provisions of the company's articles of association is the responsibility of the board of directors. Our responsibility is to express an opinion on whether the issue of new shares is in accordance with the provisions of Swiss law and the company's articles of association. In addition, the provision of evidence that the option rights have expired is also the responsibility of the board of directors. Our responsibility is to express an opinion on the accuracy of this statement, based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with the Swiss auditing standards, which require that an audit be planned and performed to obtain reasonable assurance as to whether the issue of new shares, and whether the conclusion as to the expired option rights, were both free of material error. We have performed the audit procedures appropriate in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

In our opinion

- the issue of 2'208'242 new registered shares of a nominal value of CHF 0.10 per share relating to the employee stock option plans of Paine Webber Group Inc., New York, according to article 4a paragraph 1 of the articles of association, was in accordance with the provisions of Swiss law and the company's articles of association. In addition, in the reporting period option rights relating to 1'350 registered shares of a nominal value of CHF 0.10 per share have expired;
- no new registered shares were issued in the reporting period relating to the employee stock option plans of UBS AG, according to article 4a paragraph 2 of the articles of association.

Zurich, 31 January 2007

BDO Visura

Werner Schiesser	Markus Eugster
dipl. Wirtschaftsprüfer	dipl. Wirtschaftsprüfer

Mitglied der Treuhand Kammer

Additional Disclosure Required under SEC Regulations

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A – Introduction

The following pages contain additional disclosure about UBS Group which is required under SEC regulations.

Unless otherwise stated, UBS's Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are denominated in Swiss francs, or CHF, the reporting currency of the Group. Certain financial information has also been presented in accordance with United States Generally Accepted Accounting Principles (US GAAP).

B – Selected Financial Data

The tables below set forth, for the periods and dates indicated, information concerning the noon buying rate for the Swiss franc, expressed in United States dollars, or USD, per one Swiss franc. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

On 28 February 2007 the noon buying rate was 0.8204 USD per 1 CHF.

Year ended 31 December	High	Low	Average rate[1] (USD per 1 CHF)	At period end
2002	0.7229	0.5817	0.6453	0.7229
2003	0.8189	0.7048	0.7493	0.8069
2004	0.8843	0.7601	0.8059	0.8712
2005	0.8721	0.7544	0.8039	0.7606
2006	0.8396	0.7575	0.8034	0.8200

Month	High	Low
September 2006	0.8125	0.7949
October 2006	0.8049	0.7842
November 2006	0.8357	0.7958
December 2006	0.8396	0.8161
January 2007	0.8247	0.7978
February 2007	0.8204	0.7980

1 The average of the noon buying rates on the last business day of each full month during the relevant period.

B – Selected Financial Data (continued)

	For the year ended				
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.03	31.12.02
Income statement data					
Interest income	**87,401**	59,286	39,228	40,045	39,896
Interest expense	**(80,880)**	(49,758)	(27,484)	(27,784)	(29,417)
Net interest income	**6,521**	9,528	11,744	12,261	10,479
Credit loss (expense) / recovery	**156**	375	241	(102)	(112)
Net interest income after credit loss (expense) / recovery	**6,677**	9,903	11,985	12,159	10,367
Net fee and commission income	**25,881**	21,436	18,506	16,673	17,481
Net trading income	**13,318**	7,996	4,902	3,670	5,381
Other income	**1,596**	1,122	853	280	13
Income from Industrial Holdings	**693**	675	640	535	335
Total operating income	**48,165**	41,132	36,886	33,317	33,577
Total operating expenses	**33,498**	28,455	26,844	26,000	30,135
Operating profit from continuing operations before tax	**14,667**	12,677	10,042	7,317	3,442
Tax expense	**2,786**	2,471	2,155	1,403	566
Net profit from continuing operations	**11,881**	10,206	7,887	5,914	2,876
Net profit from discontinued operations	**869**	4,484	583	339	489
Net profit	**12,750**	14,690	8,470	6,253	3,365
Net profit attributable to minority interests	**493**	661	454	349	348
Net profit attributable to UBS shareholders	**12,257**	14,029	8,016	5,904	3,017
Cost / income ratio (%)[1]	**69.7**	70.1	73.2	76.8	84.7
Per share data (CHF)					
Basic earnings per share[2]	**6.20**	6.97	3.89	2.72	1.30
Diluted earnings per share[2]	**5.95**	6.68	3.70	2.59	1.27
Operating profit before tax per share	**7.42**	6.29	4.88	3.37	1.48
Cash dividends declared per share (CHF)[3]	**2.20**	1.60	1.50	1.30	1.00
Cash dividend equivalent in USD[3]		1.26	1.27	1.00	0.73
Dividend payout ratio (%)[3]	**35.5**	23.0	38.6	47.8	76.9
Rates of return (%)					
Return on equity attributable to UBS shareholders[4]	**28.2**	39.7	25.8	18.0	8.3
Return on average equity	**26.3**	37.2	23.8	16.9	7.7
Return on average assets	**0.51**	0.67	0.44	0.38	0.20

1 Operating expenses / operating income before credit loss expense for Financial Businesses. 2 For EPS calculation, see Note 8 to the Financial Statements. 3 In July 2006, a par value reduction of CHF 0.60 per share was distributed, after which the UBS share was split 2-for-1. Dividends are normally declared and paid in the year subsequent to the reporting period. On a post-split basis, a dividend of CHF 1.60 per share was paid on 24 April 2006, CHF 1.50 on 26 April 2005, CHF 1.30 on 20 April 2004 and CHF 1.00 on 23 April 2003. A dividend of CHF 2.20 per share will be paid on 23 April 2007, subject to approval by shareholders at the Annual General Meeting. The USD amount per share will be determined on 19 April 2007. 4 Net profit attributable to UBS shareholders / average equity attributable to UBS shareholders less distributions.

B – Selected Financial Data (continued)

CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.03	31.12.02
Balance sheet data					
Total assets	**2,396,511**	2,058,348	1,737,171	1,554,032	1,350,905
Equity attributable to UBS shareholders	**49,686**	44,015	33,632	33,350	35,701
Average equity to average assets (%)	**1.93**	1.79	1.84	2.23	2.65
Market capitalization	**154,222**	131,949	103,638	95,401	79,448
Shares					
Registered ordinary shares	**2,105,273,286**	2,177,265,044	2,253,716,354	2,366,093,528	2,512,595,356
Treasury shares	**164,475,699**	208,519,748	249,326,620	273,482,454	282,461,382
BIS capital ratios					
Tier 1 (%)	**11.9**	12.8	11.8	11.8	11.2
Total BIS (%)	**14.7**	14.1	13.6	13.4	13.7
Risk-weighted assets	**341,892**	310,409	264,832	252,398	238,790
Invested assets (CHF billion)	**2,989**	2,652	2,217	2,098	1,959
Personnel Financial Businesses (full-time equivalents)					
Switzerland	**27,018**	26,028	25,990	26,662	27,972
Europe (excluding Switzerland)	**12,687**	11,007	10,764	9,906	10,009
Americas	**30,819**	27,136	26,232	25,511	27,350
Asia Pacific	**7,616**	5,398	4,438	3,850	3,730
Total	**78,140**	69,569	67,424	65,929	69,061
Long-term ratings[1]					
Fitch, London	AA+	AA+	AA+	AA+	AAA
Moody's, New York	Aa2	Aa2	Aa2	Aa2	Aa2
Standard & Poor's, New York	AA+	AA+	AA+	AA+	AA+

1 See the Handbook 2006/2007 for information about the nature of these ratings.

Balance Sheet Data

CHF million	**31.12.06**	31.12.05	31.12.04	31.12.03	31.12.02
Assets					
Total assets	**2,396,511**	2,058,348	1,737,171	1,554,032	1,350,905
Due from banks	**50,426**	33,644	35,419	31,959	32,777
Cash collateral on securities borrowed	**351,590**	288,435	210,606	206,519	139,049
Reverse repurchase agreements	**405,834**	404,432	357,164	320,499	294,067
Trading portfolio assets	**627,036**	499,297	389,487	354,558	261,080
Trading portfolio assets pledged as collateral	**251,478**	154,759	159,115	120,759	110,365
Positive replacement values	**328,445**	333,782	284,577	248,206	247,421
Loans	**312,521**	279,910	241,803	220,083	211,707
Liabilities					
Due to banks	**203,689**	124,328	120,026	129,084	83,561
Cash collateral on securities lent	**63,088**	59,938	51,301	48,272	36,870
Repurchase agreements	**545,480**	478,508	422,587	415,863	366,858
Trading portfolio liabilities	**204,773**	188,631	171,033	143,957	106,453
Negative replacement values	**332,533**	337,663	303,712	254,768	247,206
Financial liabilities designated at fair value	**145,687**	117,401	65,756	35,286	14,516
Due to customers	**570,565**	466,907	386,320	351,583	306,876
Debt issued	**190,143**	160,710	117,856	88,874	115,798
Equity attributable to UBS shareholders	**49,686**	44,015	33,632	33,350	35,701

B – Selected Financial Data (continued)

US GAAP Income Statement Data

	For the year ended				
CHF million	**31.12.06**	31.12.05	31.12.04	31.12.03	31.12.02
Operating income					
Interest income	**87,380**	58,791	38,991	39,802	39,612
Interest (expense)	**(80,463)**	(49,488)	(27,245)	(27,628)	(29,334)
Net interest income	**6,917**	9,303	11,746	12,174	10,278
Credit loss (expense) / recovery	**156**	375	334	(74)	(112)
Net interest income after credit loss (expense) / recovery	**7,073**	9,678	12,080	12,100	10,166
Net fee and commission income	**25,881**	21,436	18,435	16,606	17,481
Net trading income	**12,548**	7,012	4,795	3,944	5,870
Other income	**1,742**	747	1,158	382	(65)
Total operating income	**47,244**	38,873	36,468	33,032	33,452
Operating expenses					
Personnel expenses	**23,771**	19,542	17,970	17,234	18,224
General and administrative expenses	**7,944**	6,469	6,420	5,917	6,953
Depreciation of property and equipment	**1,277**	1,272	1,295	1,368	1,573
Amortization of other intangible assets	**143**	119	103	110	1,443
Total operating expenses	**33,135**	27,402	25,788	24,629	28,193
Operating profit from continuing operations before tax	**14,109**	11,471	10,680	8,403	5,259
Tax expense	**2,932**	2,995	1,966	1,790	456
Minority interests	**(95)**	(138)	(322)	(350)	(331)
Net profit from continuing operations	**11,082**	8,338	8,392	6,263	4,472
Net profit from discontinued operations	**404**	3,976	420	250	435
Change in accounting principle: cumulative effect of adoption of "AICPA Audit and Accounting Guide, Audits of Investment Companies" on certain financial investments, net of tax					639
Cumulative adjustment of accounting for certain equity-based compensation plans as cash settled, net of tax			6		
Cumulative adjustment due to the adoption of SFAS 123 (revised 2004), "Share-Based Payment" on 1 January 2005, net of tax		38			
Net profit / (loss)	**11,486**	12,352	8,818	6,513	5,546

B – Selected Financial Data (continued)

US GAAP Balance Sheet Data

CHF million	**31.12.06**	31.12.05	31.12.04	31.12.03	31.12.02
Assets					
Total assets	**2,634,628**	2,279,257	1,903,239	1,699,060	1,296,991
Due from banks	**51,416**	33,427	35,286	31,758	32,481
Cash collateral on securities borrowed	**351,461**	288,304	208,778	203,645	139,073
Reverse repurchase agreements	**361,571**	359,883	357,164	320,499	294,086
Trading portfolio assets	**627,160**	505,717	378,281	349,023	268,263
Trading portfolio assets pledged as collateral	**401,176**	272,494	230,223	195,469	173,582
Positive replacement values[1]	**332,128**	337,105	284,468	248,924	83,757
Loans	**316,141**	277,471	238,604	220,142	211,755
Goodwill	**28,530**	28,104	26,977	26,775	28,127
Other intangible assets	**2,340**	1,665	1,722	1,174	1,222
Other assets	**84,027**	75,992	101,121	64,434	21,367
Liabilities					
Due to banks	**206,985**	127,252	119,021	127,385	83,178
Cash collateral on securities lent	**60,878**	59,897	47,548	46,151	36,870
Repurchase agreements	**520,351**	464,957	423,513	415,863	366,858
Trading portfolio liabilities	**236,929**	201,212	190,907	149,380	117,721
Obligation to return securities received as collateral	**49,088**	67,430	12,950	13,071	16,308
Negative replacement values[1]	**439,495**	432,290	360,345	326,136	132,354
Due to customers	**597,139**	481,784	397,157	352,364	306,872
Accrued expenses and deferred income	**22,131**	19,106	15,229	14,072	15,729
Debt issued	**306,994**	240,212	164,744	123,259	129,527
Shareholders' equity	**64,523**	61,616	52,359	52,865	55,267

1 Positive and negative replacement values represent the fair values of derivative instruments. From 2003 onwards they are presented on a gross basis under US GAAP.

Certain prior year US GAAP amounts have been reclassified to conform to the current year's presentation.

Ratio of Earnings to Fixed Charges

The following table sets forth UBS's ratio of earnings to fixed charges on a IFRS basis for the periods indicated. The ratios are calculated based on earnings from continuing operations. Ratios of earnings to combined fixed charges and preferred stock dividend requirements are not presented as there were no preferred share dividends in any of the periods indicated. The ratios are calculated on a US GAAP basis and are not materially different from the IFRS ratios for the periods presented.

	For the year ended				
	31.12.06	31.12.05	31.12.04	31.12.03	31.12.02
IFRS	**1.17**	1.24	1.34	1.24	1.10

C – Information on the Company

Property, Plant and Equipment

At 31 December 2006, UBS Financial Businesses operated about 1,135 business and banking locations worldwide, of which about 37% were in Switzerland, 49% in the Americas, 10% in the rest of Europe, Middle East and Africa and 4% in Asia-Pacific. 15% of the business and banking locations in Switzerland were owned directly by UBS, with the remainder, along with most of UBS's offices outside Switzerland, being held under commercial leases.

At 31 December 2006, the Industrial Holdings segment operated about 42 business locations worldwide, of which 0% were in Switzerland, 55% in the rest of Europe, Middle East and Africa, 43% in the Americas and 2% in Asia-Pacific. 98% of the business locations worldwide were held under commercial leases.

These premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for current and anticipated operations.

D – Information Required by Industry Guide 3

Selected Statistical Information

The tables below set forth selected statistical information regarding the Group's banking operations extracted from the Financial Statements. Unless otherwise indicated, average balances for the years ended 31 December 2006, 31 December 2005 and 31 December 2004 are calculated from monthly data. The distinction between domestic and foreign is generally based on the booking location. For loans, this method is not significantly different from an analysis based on the domicile of the borrower.

Average Balances and Interest Rates

The following table sets forth average interest-earning assets and average interest-bearing liabilities, along with the average rates, for the years ended 31 December 2006, 2005 and 2004.

	31.12.06			31.12.05			31.12.04		
CHF million, except where indicated	**Average balance**	**Interest**	**Average rate (%)**	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
Assets									
Due from banks									
Domestic	**10,800**	**587**	**5.4**	15,467	270	1.7	12,463	154	1.2
Foreign	**29,814**	**1,490**	**5.0**	25,497	1,334	5.2	23,843	397	1.7
Cash collateral on securities borrowed and reverse repurchase agreements									
Domestic	**27,147**	**1,333**	**4.9**	33,012	1,079	3.3	17,969	457	2.5
Foreign	**926,575**	**38,393**	**4.1**	776,972	22,283	2.9	701,817	10,242	1.5
Trading portfolio assets									
Domestic	**17,976**	**651**	**3.6**	15,545	457	2.9	10,122	336	3.3
Foreign taxable	**707,432**	**31,433**	**4.4**	580,763	23,619	4.1	513,922	18,908	3.7
Foreign non-taxable	**4,438**	**127**	**2.9**	3,390	58	1.7	2,309	27	1.2
Foreign total	**711,870**	**31,560**	**4.4**	584,153	23,677	4.1	516,231	18,935	3.7
Financial assets designated at fair value									
Domestic	**42**	**0**		616	0		196	0	
Foreign	**2,325**	**70**	**3.0**	691	26	3.8	0	0	
Loans									
Domestic	**181,186**	**5,784**	**3.2**	174,299	5,424	3.1	168,456	5,308	3.2
Foreign	**106,491**	**6,284**	**5.9**	91,290	3,531	3.9	68,393	2,126	3.1
Financial investments available-for-sale									
Domestic	**4,126**	**28**	**0.7**	1,036	3	0.3	1,132	17	1.5
Foreign taxable	**3,171**	**100**	**3.2**	3,546	83	2.3	3,000	21	0.7
Foreign non-taxable	**0**	**0**		0	0		0	0	
Foreign total	**3,171**	**100**	**3.2**	3,546	83	2.3	3,000	21	0.7
Total interest-earning assets	**2,021,523**	**86,280**	**4.3**	1,722,124	58,167	3.4	1,523,622	37,993	2.5
Net interest on swaps		**1,121**			1,119			1,235	
Interest income and average interest-earning assets	**2,021,523**	**87,401**	**4.3**	1,722,124	59,286	3.4	1,523,622	39,228	2.6
Non-interest-earning assets									
Positive replacement values	**320,596**			319,698			246,952		
Fixed assets	**7,445**			9,308			8,808		
Other	**66,362**			55,178			53,140		
Total average assets	**2,415,926**			2,106,308			1,832,522		

D – Information Required by Industry Guide 3 (continued)

	31.12.06			31.12.05			31.12.04		
CHF million, except where indicated	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
Liabilities and Equity									
Due to banks									
Domestic	46,544	1,583	3.4	35,713	897	2.5	31,129	385	1.2
Foreign	108,885	5,261	4.8	92,431	3,321	3.6	96,335	1,582	1.6
Cash collateral on securities lent and repurchase agreements									
Domestic	46,224	1,589	3.4	40,772	881	2.2	33,846	489	1.4
Foreign	751,617	32,432	4.3	647,998	19,599	3.0	606,623	9,417	1.6
Trading portfolio liabilities									
Domestic	4,408	283	6.4	3,632	145	4.0	3,717	180	4.8
Foreign	202,263	14,250	7.0	173,394	10,591	6.1	161,286	7,813	4.8
Financial liabilities designated at fair value									
Domestic	1,864	58	3.1	638	5	0.8	85	1	1.2
Foreign	127,458	4,699	3.7	86,688	2,385	2.8	49,234	1,167	2.4
Due to customers									
Domestic demand deposits	70,981	534	0.8	67,987	292	0.4	67,005	167	0.2
Domestic savings deposits	86,631	392	0.5	86,373	404	0.5	84,112	414	0.5
Domestic time deposits	28,876	639	2.2	24,245	386	1.6	19,052	250	1.3
Domestic total	186,488	1,565	0.8	178,605	1,082	0.6	170,169	831	0.5
Foreign[1]	315,917	11,500	3.6	249,561	5,906	2.4	200,664	2,785	1.4
Short-term debt									
Domestic	1,973	115	5.8	1,584	20	1.3	246	0	
Foreign	110,418	4,939	4.4	96,767	2,905	3.0	79,902	1,338	1.7
Long-term debt									
Domestic	3,957	82	2.1	4,250	117	2.8	10,358	168	1.6
Foreign	57,899	2,524	4.4	43,035	1,904	4.4	28,259	1,328	4.7
Total interest-bearing liabilities	1,965,915	80,880	4.1	1,655,068	49,758	3.0	1,471,853	27,484	1.9
Non-interest-bearing liabilities									
Negative replacement values	320,766			335,992			260,629		
Other	76,270			70,654			60,844		
Total liabilities	2,362,951			2,061,714			1,793,326		
Total equity	52,975			44,594			39,196		
Total average liabilities and equity	2,415,926			2,106,308			1,832,522		
Net interest income		6,521			9,528			11,744	
Net yield on interest-earning assets			0.3			0.6			0.8

1 Due to customers in foreign offices consists mainly of time deposits.

The percentage of total average interest-earning assets attributable to foreign activities was 88% for 2006 (86% for 2005 and 86% for 2004). The percentage of total average interest-bearing liabilities attributable to foreign activities was 85% for 2006 (84% for 2005 and 83% for 2004). All assets and liabilities are translated into CHF at uniform month-end rates. Interest income and expense are translated at monthly average rates.

Average rates earned and paid on assets and liabilities can change from period to period based on the changes in interest rates in general, but are also affected by changes in the currency mix included in the assets and liabilities. This is especially true for foreign assets and liabilities. Tax-exempt income is not recorded on a tax-equivalent basis. For all three years presented, tax-exempt income is considered to be insignificant and the impact from such income is therefore negligible.

D – Information Required by Industry Guide 3 (continued)

Analysis of Changes in Interest Income and Expense

The following tables allocate, by categories of interest-earning assets and interest-bearing liabilities, the changes in interest income and expense due to changes in volume and interest rates for the year ended 31 December 2006 compared with the year ended 31 December 2005, and for the year ended 31 December 2005 compared with the year ended 31 December 2004. Volume and rate variances have been calculated on movements in average balances and changes in interest rates. Changes due to a combination of volume and rates have been allocated proportionally. Refer to page 245 of Industry Guide 3 for a discussion of the treatment of impaired, non-performing and restructured loans.

	2006 compared with 2005			2005 compared with 2004		
	Increase / (decrease) due to changes in			Increase / (decrease) due to changes in		
CHF million	Average volume	Average rate	Net change	Average volume	Average rate	Net change
Interest income from interest-earning assets						
Due from banks						
Domestic	(79)	396	317	36	80	116
Foreign	224	(68)	156	28	909	937
Cash collateral on securities borrowed and reverse repurchase agreements						
Domestic	(194)	448	254	376	246	622
Foreign	4,338	11,772	16,110	1,127	10,914	12,041
Trading portfolio assets						
Domestic	70	124	194	179	(58)	121
Foreign taxable	5,193	2,621	7,814	2,473	2,238	4,711
Foreign non-taxable	18	51	69	13	18	31
Foreign total	5,211	2,672	7,883	2,486	2,256	4,742
Financial assets designated at fair value						
Domestic	0	0	0	0	0	0
Foreign	62	(18)	44	26	0	26
Loans						
Domestic	213	147	360	187	(71)	116
Foreign	593	2,160	2,753	710	695	1,405
Financial investments						
Domestic	9	16	25	(1)	(13)	(14)
Foreign taxable	(9)	26	17	4	58	62
Foreign non-taxable	0	0	0	0	0	0
Foreign total	(9)	26	17	4	58	62
Interest income						
Domestic	19	1,131	1,150	777	184	961
Foreign	10,419	16,544	26,963	4,381	14,832	19,213
Total interest income from interest-earning assets	10,438	17,675	28,113	5,158	15,016	20,174
Net interest on swaps			2			(116)
Total interest income			28,115			20,058

D – Information Required by Industry Guide 3 (continued)

Analysis of Changes in Interest Income and Expense (continued)

	2006 compared with 2005			2005 compared with 2004		
	Increase / (decrease) due to changes in			Increase / (decrease) due to changes in		
CHF million	Average volume	Average rate	Net change	Average volume	Average rate	Net change
Interest expense on interest-bearing liabilities						
Due to banks						
Domestic	271	415	686	55	457	512
Foreign	592	1,348	1,940	(62)	1,801	1,739
Cash collateral on securities lent and repurchase agreements						
Domestic	120	588	708	97	295	392
Foreign	3,109	9,724	12,833	662	9,520	10,182
Trading portfolio liabilities						
Domestic	31	107	138	(4)	(31)	(35)
Foreign	1,761	1,898	3,659	581	2,197	2,778
Financial liabilities designated at fair value						
Domestic	10	43	53	7	(3)	4
Foreign	1,142	1,172	2,314	899	319	1,218
Due to customers						
Domestic demand deposits	12	230	242	2	123	125
Domestic savings deposits	1	(13)	(12)	11	(21)	(10)
Domestic time deposits	74	179	253	68	68	136
Domestic total	87	396	483	81	170	251
Foreign	1,593	4,001	5,594	685	2,436	3,121
Short-term debt						
Domestic	5	90	95	20	0	20
Foreign	410	1,624	2,034	287	1,280	1,567
Long-term debt						
Domestic	(8)	(27)	(35)	(98)	47	(51)
Foreign	654	(34)	620	694	(118)	576
Interest expense						
Domestic	516	1,612	2,128	158	935	1,093
Foreign	9,261	19,733	28,994	3,746	17,435	21,181
Total interest expense	9,777	21,345	31,122	3,904	18,370	22,274

D – Information Required by Industry Guide 3 (continued)

Deposits

The following table analyzes average deposits and the average rates on each deposit category listed below for the years ended 31 December 2006, 2005 and 2004. The geographic allocation is based on the location of the office or branch where the deposit is made. Deposits by foreign depositors in domestic offices were CHF 78,234 million, CHF 54,968 million and CHF 49,699 million at 31 December 2006, 31 December 2005 and 31 December 2004, respectively.

	31.12.06		31.12.05		31.12.04	
CHF million, except where indicated	**Average deposit**	**Average rate (%)**	Average deposit	Average rate (%)	Average deposit	Average rate (%)
Banks						
Domestic offices						
Demand deposits	**2,024**	**0.2**	8,491	0.1	7,770	0.1
Time deposits	**8,776**	**4.5**	6,976	3.3	4,693	1.7
Total domestic offices	**10,800**	**3.7**	15,467	1.5	12,463	0.7
Foreign offices						
Interest-bearing deposits[1]	**29,814**	**4.8**	25,497	3.6	23,843	1.6
Total due to banks	**40,614**	**4.5**	40,964	2.8	36,306	1.3
Customer accounts						
Domestic offices						
Demand deposits	**70,981**	**0.8**	67,987	0.4	67,005	0.2
Savings deposits	**86,631**	**0.5**	86,373	0.5	84,112	0.5
Time deposits	**28,876**	**2.2**	24,245	1.6	19,052	1.3
Total domestic offices	**186,488**	**0.8**	178,605	0.6	170,169	0.5
Foreign offices						
Interest-bearing deposits[1]	**315,917**	**3.6**	249,561	2.4	200,664	1.4
Total due to customers	**502,405**	**2.6**	428,166	1.6	370,833	1.0

1 Mainly time deposits.

At 31 December 2006, the maturity of time deposits exceeding CHF 150,000, or an equivalent amount in other currencies, was as follows:

CHF million	**Domestic**	**Foreign**
Within 3 months	**45,236**	**256,610**
3 to 6 months	**5,676**	**4,253**
6 to 12 months	**2,764**	**2,224**
1 to 5 years	**310**	**5,134**
Over 5 years	**254**	**90**
Total time deposits	**54,240**	**268,311**

D – Information Required by Industry Guide 3 (continued)

Short-term Borrowings

The following table presents the period-end, average and maximum month-end outstanding amounts for short-term borrowings, along with the average rates and period-end rates at and for the years ended 31 December 2006, 2005 and 2004.

	Money market paper issued			Due to banks			Repurchase agreements[1]		
CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	**31.12.06**	31.12.05	31.12.04	**31.12.06**	31.12.05	31.12.04
Period-end balance	**119,584**	102,662	79,442	**153,231**	90,651	84,351	**754,623**	667,317	557,892
Average balance	**112,391**	98,351	80,148	**114,815**	114,701	91,158	**717,542**	628,362	587,988
Maximum month-end balance	**123,108**	112,217	94,366	**153,231**	101,178	115,880	**777,010**	719,208	637,594
Average interest rate during the period (%)	**4.5**	3.0	1.7	**4.4**	3.3	1.6	**4.4**	3.0	1.5
Average interest rate at period-end (%)	**4.0**	4.0	2.1	**4.1**	3.0	2.0	**5.0**	2.6	2.0

1 For the purpose of this disclosure, balances are presented on a gross basis.

D – Information Required by Industry Guide 3 (continued)

Contractual Maturities of Investments in Debt Instruments[1,2]

	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 2006								
Swiss national government and agencies	2	2.22	0	0.00	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	0	0.00	0	0.00	0	0.00
Foreign governments and official institutions	38	1.48	2	1.89	57	4.47	0	0.00
Corporate debt securities	26	7.00	0	0.00	2	0.00	0	0.00
Mortgage-backed securities	0	0.00	0	0.00	10	4.48	150	5.10
Other debt instruments	0	0.00	233	9.28	0	0.00	0	0.00
Total fair value	**66**		**235**		**69**		**151**	

	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 instruments	0	0.00	0	0.00	0	0.00	0	0.00
Total fair value	**51**		**285**		**95**		**247**	

	Within 1 year		1–5 years		5–10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2004								
Swiss national government and agencies	1	5.50	2	4.29	6	3.80	1	4.00
Swiss local governments	10	3.97	10	4.14	0	0.00	0	0.00
Foreign governments and official institutions	36	2.13	4	1.25	0	0.00	0	0.00
Corporate debt securities	57	2.74	50	2.92	0	0.00	33	0.00
Mortgage-backed securities	3	2.50	0	0.00	5	3.21	64	4.36
Other debt instruments	0	0.00	0	0.00	0	0.00	0	0.00
Total fair value	**107**		**66**		**11**		**98**	

1 Money market paper has a contractual maturity of less than one year. 2 Average yields are calculated on an amortized cost basis.

D – Information Required by Industry Guide 3 (continued)

Due from Banks and Loans (gross)

The Group's lending portfolio is widely diversified across industry sectors with no significant concentrations of credit risk. CHF 152.9 billion (42% of the total) consists of loans to thousands of private households, predominantly in Switzerland, and mostly secured by mortgages, financial collateral or other assets. Exposure to Banks and Financial institutions amounted to CHF 138 billion (38% of the total). This includes cash posted as collateral by UBS against negative replacement values on derivatives or other positions, which, from a risk perspective, is not considered lending but is a key component of the measurement of counterparty risk taken in connection with the underlying products. Exposure to banks includes money market deposits with highly rated institutions. Excluding financial institutions, the largest industry sector exposure is CHF 25 billion (7% of the total) to the Services sector. For further discussion of the lending portfolio, see the Risk Management chapter of the Handbook 2006/2007. The following table illustrates diversification of the lending portfolio among industry sectors at 31 December 2006, 2005, 2004, 2003 and 2002. The industry categories presented are consistent with the classification of loans for reporting to the Swiss Federal Banking Commission and Swiss National Bank. The table below does not include loans designated at fair value.

CHF million	**31.12.06**	31.12.05	31.12.04	31.12.03	31.12.02
Domestic					
Banks[1]	**561**	1,407	1,406	619	1,029
Construction	**1,535**	1,816	1,943	2,175	2,838
Financial institutions	**5,542**	4,213	4,332	4,009	4,301
Hotels and restaurants	**1,957**	2,044	2,269	2,440	2,655
Manufacturing[2]	**4,439**	5,038	5,485	6,478	7,237
Private households	**117,852**	111,549	105,160	102,180	95,295
Public authorities	**4,972**	5,494	5,460	5,251	5,529
Real estate and rentals	**11,356**	11,792	11,466	12,449	13,573
Retail and wholesale	**4,569**	4,808	4,908	6,062	7,172
Services[3]	**9,159**	9,300	9,110	9,493	10,237
Other[4]	**1,127**	1,004	591	1,014	1,722
Total domestic	**163,069**	158,465	152,130	152,170	151,588
Foreign					
Banks[1]	**49,895**	32,282	34,269	31,405	31,882
Chemicals	**1,296**	2,716	366	245	519
Construction	**483**	295	122	84	153
Electricity, gas and water supply	**892**	1,637	745	249	1,105
Financial institutions	**82,064**	62,306	45,095	30,906	18,378
Manufacturing[5]	**2,964**	3,899	2,758	2,421	2,300
Mining	**2,756**	2,694	1,695	1,114	868
Private households	**35,029**	38,280	30,237	21,195	33,063
Public authorities	**2,038**	1,501	1,228	1,224	2,628
Real estate and rentals	**4,238**	2,707	940	473	616
Retail and wholesale	**1,750**	1,257	1,102	1,880	1,367
Services	**16,231**	5,596	8,002	7,983	1,654
Transport, storage and communication	**1,038**	1,419	762	3,658	676
Other[6]	**460**	156	318	432	2,314
Total foreign	**201,134**	156,745	127,639	103,269	97,523
Total gross	**364,203**	315,210	279,769	255,439	249,111

1 Includes Due from banks and Loans from Industrial Holdings of CHF 93 million at 31 December 2006, CHF 728 million at 31 December 2005, CHF 909 million at 31 December 2004 and CHF 220 million at 31 December 2003. 2 Includes chemicals, food and beverages. 3 Includes transportation, communication, health and social work, education and other social and personal service activities. 4 Includes mining and electricity, gas and water supply. 5 Includes food and beverages. 6 Includes hotels and restaurants.

D – Information Required by Industry Guide 3 (continued)

Due from Banks and Loans (gross) (continued)

The following table analyzes the Group's mortgage portfolio by geographic origin of the client and type of mortgage at 31 December 2006, 2005, 2004, 2003 and 2002. Mortgages are included in the industry categories mentioned on the previous page.

CHF million	31.12.06	31.12.05	31.12.04	31.12.03	31.12.02
Mortgages					
Domestic	134,468	130,880	124,496	122,069	116,359
Foreign	10,069	15,619	12,185	7,073	11,510
Total gross mortgages	144,537	146,499	136,681	129,142	127,869
Mortgages					
Residential	124,548	127,990	117,731	109,980	108,779
Commercial	19,989	18,509	18,950	19,162	19,090
Total gross mortgages	144,537	146,499	136,681	129,142	127,869

Due from Banks and Loan Maturities (gross)

CHF million	Within 1 year	1 to 5 years	Over 5 years	Total
Domestic				
Banks	558	3	0	561
Mortgages	54,752	60,051	19,665	134,468
Other loans	21,068	5,493	1,479	28,040
Total domestic	76,378	65,547	21,144	163,069
Foreign				
Banks	47,391	2,323	181	49,895
Mortgages	8,451	1,219	399	10,069
Other loans	125,334	13,150	2,686	141,170
Total foreign	181,176	16,692	3,266	201,134
Total gross[1]	257,554	82,239	24,410	364,203

1 Includes Due from banks from Industrial Holdings of CHF 93 million at 31 December 2006.

At 31 December 2006, the total amount of due from banks and loans due after one year granted at fixed and floating rates are as follows:

CHF million	1 to 5 years	Over 5 years	Total
Fixed-rate loans	75,549	22,918	98,467
Adjustable or floating-rate loans	6,690	1,492	8,182
Total	82,239	24,410	106,649

D – Information Required by Industry Guide 3 (continued)

Impaired and Non-performing 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; or 2) when insolvency proceedings have commenced; or 3) when obligations have been restructured on concessionary terms.

CHF million	**31.12.06**	31.12.05	31.12.04	31.12.03	31.12.02
Gross interest income that would have been recorded on non-performing loans:					
Domestic	**50**	81	107	171	148
Foreign	**10**	8	17	23	53
Interest income included in net profit for non-performing loans:					
Domestic	**56**	72	106	163	152
Foreign	**8**	9	8	8	22

The table below provides an analysis of the Group's non-performing loans. For further information, see the Risk Management chapter of the Handbook 2006/2007.

CHF million	**31.12.06**	31.12.05	31.12.04	31.12.03	31.12.02
Non-performing loans:					
Domestic	**1,744**	2,106	2,772	4,012	4,609
Foreign	**174**	257	783	746	1,170
Total non-performing loans	**1,918**	2,363	3,555	4,758	5,779

UBS does not, as a matter of policy, typically restructure loans to accrue interest at rates different from the original contractual terms or reduce the principal amount of loans. Instead, specific loan allowances are established as necessary. Unrecognized interest related to restructured loans was not material to the results of operations in 2006, 2005, 2004, 2003 or 2002.

In addition to the non-performing loans shown above, the Group had CHF 710 million, CHF 1,071 million, CHF 1,144 million, CHF 2,241 million and CHF 3,875 million in "other impaired loans" for the years ended 31 December 2006, 2005, 2004, 2003 and 2002, respectively.

Other impaired loans are loans where the Group's credit officers have expressed doubts as to the ability of the borrowers to repay the loans. For the years ended 31 December 2006, 2005 and 2004, they are loans not considered "non-performing" in accordance with Swiss regulatory guidelines, and for the years ended 31 December 2003 and 2002, they are loans that were current or less than 90 days in arrears with respect to payment of principal or interest. As of 31 December 2006, 31 December 2005 and 31 December 2004, specific allowances of CHF 106 million, CHF 200 million, CHF 241 million, respectively, had been established against these loans.

D – Information Required by Industry Guide 3 (continued)

Cross-border Outstandings

Cross-border outstandings consist of general banking products such as loans and deposits with third parties, credit equivalents of over-the-counter (OTC) derivatives and securities financing, and the market value of the inventory of debt securities. Outstandings are monitored and reported on an ongoing basis by the credit risk control organization with a dedicated country risk information system. With the exception of the 32 most developed economies, these exposures are rigorously limited. The following analysis excludes Due from banks and Loans from Industrial Holdings. Prior periods have been adjusted to conform to the current year's presentation.

Claims that are secured by third-party guarantees are recorded against the guarantor's country of domicile. Outstandings that are secured by collateral are recorded against the country where the asset could be liquidated. This follows the "Guidelines for the Management of Country Risk", which are applicable to all banks that are supervised by the Swiss Federal Banking Commission.

The following tables list those countries for which cross-border outstandings exceeded 0.75% of total assets at 31 December 2006, 2005 and 2004. At 31 December 2006, there were no outstandings that exceeded 0.75% of total assets in any country currently facing liquidity problems that the Group expects would materially affect the country's ability to service its obligations.

For more information on cross-border exposure, see the Handbook 2006/2007.

	31.12.06				
CHF million	**Banks**	**Private sector**	**Public sector**	**Total**	**% of total assets**
United States	**7,692**	**208,200**	**22,574**	**238,466**	**10.0**
Japan	**2,283**	**8,263**	**30,158**	**40,704**	**1.7**
United Kingdom	**11,149**	**16,098**	**559**	**27,806**	**1.2**
Germany	**15,240**	**8,080**	**1,574**	**24,894**	**1.0**

	31.12.05				
CHF million	Banks	Private sector	Public sector	Total	% of total assets
United States	6,700	133,561	23,297	163,558	7.9
Germany	16,985	4,525	1,265	22,775	1.1
Japan	2,044	7,582	10,824	20,450	1.0
United Kingdom	6,384	11,423	555	18,362	0.9
Italy	3,343	2,509	11,324	17,176	0.8

	31.12.04				
CHF million	Banks	Private sector	Public sector	Total	% of total assets
United States	8,550	109,131	8,859	126,540	7.3
Germany	18,478	2,882	7,348	28,708	1.7
Italy	4,362	2,207	16,803	23,372	1.3
United Kingdom	8,131	10,760	259	19,150	1.1

D – Information Required by Industry Guide 3 (continued)

Summary of Movements in Allowances and Provisions for Credit Losses

The following table provides an analysis of movements in allowances and provisions for credit losses. The following analysis includes Due from banks from Industrial Holdings.

UBS writes off loans against allowances only on final settlement of bankruptcy proceedings, the sale of the underlying assets and/or due to of debt forgiveness. Under Swiss law, a creditor can continue to collect from a debtor who has emerged from bankruptcy, unless the debt has been forgiven through a formal agreement.

CHF million	31.12.06	31.12.05	31.12.04	31.12.03	31.12.02
Balance at beginning of year	**1,776**	2,802	3,775	5,015	7,992
Domestic					
Write-offs					
Banks	**0**	0	0	0	0
Construction	**(14)**	(16)	(49)	(73)	(148)
Financial institutions	**(11)**	(14)	(24)	(37)	(103)
Hotels and restaurants	**(16)**	(26)	(101)	(57)	(48)
Manufacturing[1]	**(40)**	(39)	(77)	(121)	(275)
Private households	**(89)**	(131)	(208)	(262)	(536)
Public authorities	**0**	0	0	(18)	0
Real estate and rentals	**(44)**	(56)	(109)	(206)	(357)
Retail and wholesale	**(20)**	(25)	(68)	(67)	(101)
Services[2]	**(47)**	(35)	(83)	(111)	(155)
Other[3]	**(2)**	(4)	(9)	(43)	(49)
Total domestic write-offs	**(283)**	(346)	(728)	(995)	(1,772)
Foreign					
Write-offs					
Banks	**(3)**	(164)	(21)	(17)	(49)
Chemicals	**0**	0	(1)	0	0
Construction	**0**	0	(3)	0	0
Electricity, gas and water supply	**0**	0	0	0	(36)
Financial institutions	**0**	(50)	(34)	(112)	(228)
Manufacturing[4]	**(11)**	(8)	(23)	(77)	(70)
Mining	**(1)**	(23)	(8)	(15)	(1)
Private households	**(7)**	(21)	(8)	(11)	(65)
Public authorities	**(58)**	(22)	(2)	0	(1)
Real estate and rentals	**0**	(3)	0	(1)	(2)
Retail and wholesale	**0**	(9)	0	(76)	(10)
Services	**0**	0	(7)	(25)	(39)
Transport, storage and communication	**0**	0	0	(24)	(74)
Other[5]	**0**	(5)	(21)	(83)	(189)
Total foreign write-offs	**(80)**	(305)	(128)	(441)	(764)
Total write-offs	**(363)**	(651)	(856)	(1,436)	(2,536)

1 Includes chemicals, food and beverages. 2 Includes transportation, communication, health and social work, education and other social and personal service activities. 3 Includes mining and electricity, gas and water supply. 4 Includes food and beverages. 5 Includes hotels and restaurants.

D – Information Required by Industry Guide 3 (continued)

Summary of Movements in Allowances and Provisions for Credit Losses (continued)

CHF million	31.12.06	31.12.05	31.12.04	31.12.03	31.12.02
Recoveries					
Domestic	51	53	54	49	43
Foreign	11	10	5	38	27
Total recoveries	62	63	59	87	70
Net write-offs	(301)	(588)	(797)	(1,349)	(2,466)
Increase / (decrease) in credit loss allowance and provision	(108)	(298)	(216)	102	115
Collective loan loss provisions	(48)	(76)	(25)		
Other adjustments[1]	13	(64)	65	7	(626)
Balance at end of year	1,332	1,776	2,802	3,775	5,015

1 See the table below for details.

CHF million	31.12.06	31.12.05	31.12.04	31.12.03	31.12.02
Net foreign exchange	10	50	2	(57)	(269)
Subsidiaries sold and other adjustments	3	(114)	63	64	(357)
Total adjustments	13	(64)	65	7	(626)

D – Information Required by Industry Guide 3 (continued)

Allocation of the Allowances and Provisions for Credit Losses

The following table provides an analysis of the allocation of the allowances and provisions for credit loss by industry sector and geographic location at 31 December 2006, 2005, 2004, 2003 and 2002. For a description of procedures with respect to allowances and provisions for credit losses, see the Handbook 2006/2007. The following analysis includes Due from banks from Industrial Holdings.

CHF million	**31.12.06**	31.12.05	31.12.04	31.12.03	31.12.02
Domestic					
Banks	**10**	10	10	10	10
Construction	**72**	91	112	158	265
Financial institutions	**61**	75	82	137	89
Hotels and restaurants	**27**	49	98	214	286
Manufacturing[1]	**155**	174	224	327	458
Private households	**187**	262	333	511	750
Public authorities	**3**	8	9	9	39
Real estate and rentals	**99**	168	250	383	577
Retail and wholesale	**311**	330	363	201	315
Services[2]	**113**	196	222	549	470
Other[3]	**107**	61	188	150	225
Total domestic	**1,145**	1,425	1,891	2,649	3,484
Foreign					
Banks[4]	**20**	35	246	256	24
Chemicals	**4**	5	4	5	5
Construction	**2**	2	1	0	6
Electricity, gas and water supply	**8**	16	15	0	96
Financial institutions	**9**	8	140	168	153
Manufacturing[5]	**37**	57	112	359	314
Mining	**0**	1	14	19	148
Private households	**26**	30	48	48	58
Public authorities	**21**	72	66	69	0
Real estate and rentals	**4**	3	5	7	6
Retail and wholesale	**4**	1	95	51	13
Services	**7**	27	32	32	262
Transport, storage and communication	**1**	0	1	195	144
Other[6]	**6**	8	(75)	(345)	(394)
Total foreign	**149**	265	704	864	835
Collective loan loss provisions[7]	**38**	86	207	262	696
Total allowances and provisions for credit losses[8]	**1,332**	1,776	2,802	3,775	5,015

1 Includes chemicals, food and beverages. 2 Includes transportation, communication, health and social work, education and other social and personal service activities. 3 Includes mining, electricity, gas and water supply. 4 Counterparty allowances and provisions only. Country provisions with banking counterparties amounting to CHF 0 million, CHF 37 million and CHF 17 million are disclosed under Collective loan loss provisions for 2006, 2005 and 2004, respectively. 5 Includes food and beverages. 6 Includes hotels and restaurants. 7 The 2006, 2005, 2004, 2003 and 2002 amounts include CHF 0 miilion, CHF 48 million, CHF 161 million, CHF 262 million and CHF 696 million , respectively, of country provisions. 8 The 2006, 2005, 2004, 2003 and 2002 amounts include CHF 76 million, CHF 109 million, CHF 214 million, CHF 290 million and CHF 366 million , respectively, of provisions for unused commitments and contingent liabilities.

D – Information Required by Industry Guide 3 (continued)

Due from Banks and Loans by Industry Sector (gross)

The following table presents the percentage of loans in each industry sector and geographic location to total loans. This table can be read in conjunction with the preceding table showing the breakdown of the allowances and provisions for credit losses by industry sectors to evaluate the credit risks in each of the categories. The table below does not include loans designated at fair value.

in %	31.12.06	31.12.05	31.12.04	31.12.03	31.12.02
Domestic					
Banks[1]	0.2	0.5	0.5	0.2	0.4
Construction	0.4	0.6	0.7	0.8	1.1
Financial institutions	1.5	1.3	1.5	1.6	1.7
Hotels and restaurants	0.5	0.7	0.8	1.0	1.1
Manufacturing[2]	1.2	1.6	2.0	2.5	2.9
Private households	32.4	35.4	37.6	40.0	38.3
Public authorities	1.4	1.7	2.0	2.1	2.2
Real estate and rentals	3.1	3.7	4.1	4.9	5.4
Retail and wholesale	1.3	1.5	1.7	2.4	2.9
Services[3]	2.5	3.0	3.3	3.7	4.1
Other[4]	0.3	0.3	0.2	0.4	0.8
Total domestic	44.8	50.3	54.4	59.6	60.9
Foreign					
Banks[1]	13.7	10.2	12.3	12.3	12.8
Chemicals	0.4	0.9	0.1	0.1	0.2
Construction	0.1	0.1	0.0	0.0	0.1
Electricity, gas and water supply	0.2	0.5	0.3	0.1	0.4
Financial institutions	22.5	19.8	16.1	12.1	7.4
Manufacturing[5]	0.8	1.2	1.0	1.0	0.9
Mining	0.8	0.9	0.6	0.4	0.3
Private households	9.6	12.1	10.8	8.3	13.3
Public authorities	0.6	0.5	0.4	0.5	1.1
Real estate and rentals	1.2	0.9	0.3	0.2	0.2
Retail and wholesale	0.5	0.4	0.4	0.7	0.5
Services	4.4	1.8	2.9	3.1	0.7
Transport, storage and communication	0.3	0.4	0.3	1.4	0.3
Other[6]	0.1	0.0	0.1	0.2	0.9
Total foreign	55.2	49.7	45.6	40.4	39.1
Total gross	100.0	100.0	100.0	100.0	100.0

1 Includes Due from banks and Loans from Industrial Holdings in the amount of CHF 93 for 2006, CHF 728 million for 2005, CHF 909 million for 2004 and CHF 220 million for 2003. 2 Includes chemicals, food and beverages. 3 Includes transportation, communication, health and social work, education and other social and personal service activities. 4 Includes mining and electricity, gas and water supply. 5 Includes food and beverages. 6 Includes hotels and restaurants.

D – Information Required by Industry Guide 3 (continued)

Loss History Statistics

The following is a summary of the Group's loan loss history (relating to Due from banks and Loans). The table below does not include loans designated at fair value.

CHF million, except where indicated	**31.12.06**	31.12.05	31.12.04	31.12.03	31.12.02
Gross loans[1]	**364,203**	315,210	279,769	255,439	249,111
Impaired loans	**2,628**	3,434	4,699	6,999	9,654
Non-performing loans	**1,918**	2,363	3,555	4,758	5,779
Allowances and provisions for credit losses[2]	**1,332**	1,776	2,802	3,775	5,015
Net write-offs	**301**	588	797	1,349	2,466
Credit loss (expense) / recovery	**156**	375	241	(102)	(115)
Ratios					
Impaired loans as a percentage of gross loans	**0.7**	1.1	1.7	2.8	3.9
Non-performing loans as a percentage of gross loans	**0.5**	0.8	1.3	1.9	2.3
Allowances and provisions for credit losses as a percentage of:					
Gross loans	**0.4**	0.6	1.0	1.5	2.0
Impaired loans	**50.7**	51.7	59.6	53.9	52.7
Non-performing loans	**69.4**	75.2	78.8	79.3	86.8
Allocated allowances as a percentage of impaired loans[3]	**46.3**	46.4	51.6	46.8	44.8
Allocated allowances as a percentage of non-performing loans[4]	**58.0**	59.0	61.4	55.1	56.0
Net write-offs as a percentage of:					
Gross loans	**0.1**	0.2	0.3	0.5	1.0
Average loans outstanding during the period	**0.1**	0.2	0.3	0.5	1.0
Allowances and provisions for credit losses	**22.6**	33.1	28.5	35.7	49.2
Allowances and provisions for credit losses as a multiple of net write-offs	**4.43**	3.02	3.51	2.80	2.03

1 Includes Due from banks and Loans from Industrial Holdings in the amount of CHF 93 million 2006, CHF 728 million for 2005, CHF 909 million for 2004 and CHF 220 million for 2003. 2 Includes Collective loan loss provisions. 3 Allowances relating to impaired loans only. 4 Allowances relating to non-performing loans only.

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UBS AG
P.O. Box, CH-8098 Zurich
P.O. Box, CH-4002 Basel

www.ubs.com