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Summary of the Remediation Plan in Response to Issues Outlined in the Shareholder Report

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1. Introduction

1.1 Background

On 21 April 2008 UBS AG (**UBS**) published the Shareholder Report on UBS's Write-Downs (**Shareholder Report**)[1]. The Shareholder Report describes how the losses were sustained by UBS in relation to structuring, trading, and investment activities in US mortgage and asset-backed securities, together with a retrospective assessment of the principal causes of the losses that followed the unprecedented market dislocation. UBS has subsequently provided to the EBK a remediation plan ("**Remediation Plan**"). This Report provides a summary of the Remediation Plan and should be read in conjunction with the Shareholder Report.

1.2 Process

The development of the Remediation Plan went through a number of steps. First, each of the causes or contributing factors identified in the Shareholder Report was allocated to one of six themes;

- Strategy
- Governance
- Risk Management
- Risk Control and Finance
- Funding and Balance Sheet Management
- Compensation

Each factor was then analysed to determine what (if any) remedial actions to take. The analysis was conducted by the team that conducted the internal review with support from Group Internal Audit. External advisers were retained to provide an independent view and to ensure that the analysis incorporated industry best practice. The Remediation Plan was then thoroughly vetted and tested by the Board of Directors ("**BoD**") and Group Executive Board ("**GEB**"), with the Group CEO taking a leading role in ensuring that the Remediation Plan delivered a comprehensive response to the issues identified in the Shareholder Report.

This Report outlines in Section 2 the actions in progress or proposed to remediate the issues identified during the course of the review. Each action item has been allocated to one or more individuals and a date set for expected completion. The vast majority of action "owners" are GEB members and principally the CEO of the Investment Bank, the Group Chief Financial Officer and the Group Chief Risk Officer. The expected completion date for all but a few items is the end of 2008. Those actions of highest importance are targeted for resolution before the end of 2008.

[1] This document can be located via the following link - http://www.ubs.com/1/e/investors/releases?newsId=140339

1.3 Governance and Project Management

A project-management framework has been established, to ensure a comprehensive and co-ordinated effort across the Bank, with a key priority being the assessment of the quality of remediation initiatives undertaken. The remediation actions required by this Plan will be combined with other outstanding actions arising from other reviews and assessments (where relevant). Some of the more significant remediation measures proposed in the Remediation Plan, to address perceived gaps, will require further specification and development. Such work, along with the monitoring and reporting of remediation efforts, will also be undertaken within a project-management framework.

The Group CEO oversees the remediation programme. He is supported in that regard by a Steering Committee, the members of which are: the Group CRO, Group CFO, IB CEO and COO of Risk. The Project Management will be undertaken under the leadership of the COO of Risk who will be responsible for managing the project, including monitoring, assessing and reporting the progress against plans and agreeing granular project plans / further specification where required. The COO of Risk will also be required to facilitate cross functional discussions and determine the appropriate allocation of responsibilities in relation to shared obligations.

A reporting structure has been developed to monitor progress of the project against agreed milestones. There will be monthly updates to the BoD and the GEB in relation to each stream. The Risk Committee of the BoD will evaluate the progress of the Remediation Plan at each of its meetings.

2. Remediation Actions

2.1 Strategy

The general strategic position of and aspirations for the Bank have been and are set by the BoD and Senior Management. In certain cases in the past the implementation plans were not thorough, specifically in the Investment Bank ("**IB**") with respect to the growth initiative pursued by the Fixed Income business.

In response, the following actions will be taken to ensure that there is effective implementation of significant strategic initiatives:

- The CEO of the IB is in the process of assessing the IB's business portfolio. The future resource requirements (capital, funding and risk) for each of its businesses will be assessed as part of this initiative.
- The Board of Directors will redefine the risk appetite in terms of earnings capacity and delegated authorities.
- The GEB and the CEO of the IB will ensure that periodic comprehensive risk reviews are undertaken, taking into account macro-environment screening, changing market conditions, portfolios and concentrations of exposures.
- Reviews as well as future business initiatives will include comprehensive descriptions of assumptions on competitive positioning, revenue expectations and resource requirements (including requirements for all relevant front-to-back processes and financial resources).
- The CEO of the IB will establish an effective project management and governance framework for strategic initiatives within the IB to ensure that the initiatives – whether they are accomplished by organic growth or through acquisitions - apply rigorous project management disciplines.
- The IB Executive Risk Committee is implementing a process to systematically review portfolios and concentrations.

2.2 Governance

Several key lessons have been identified in relation to governance. The following remediation actions will be undertaken in response:

- As outlined at the Annual General Meeting on 23 April 2008, the Chairman of UBS initiated a review of the composition of the BoD and the Board committee structure to ensure an appropriate set of skills, and clear lines of governance. On 1 July 2008, UBS announced the implementation of a new corporate governance framework which became effective immediately. The main elements of the Corporate Governance entail a clear separation of the roles and responsibilities between the Board of Directors and Executive Management and a strengthening of the oversight role of the

Board through the operation of its Committees. The new guidelines have been published on UBS's homepage at: http://www.ubs.com/1/e/about/cg/governance_guidelines.html.

- The Group CEO and the IB CEO are reviewing governance and operating standards of the GEB and IB risk and governance committees. This review will include the establishment of an effective risk monitoring and evaluation process to ensure that these committees continue to discharge their obligations to the appropriate standard. The GEB Risk Sub-committee ("**GRSC**") has been disbanded and in its place the GEB has established a Risk Council and a two level Commitment Committee structure to deal specifically with transactions.

- Succession planning is being revised and improved.

The internal review found that there was a need for improvement in the end-to-end risk management framework. While not all of the lessons learned and related remedial actions would necessarily be considered governance issues in their own right, they all play an important part in the integrity of the end-to-end risk management framework, which is in itself an important part of the governance of the Bank. The most significant remedial actions required in this area are:

- The IB CEO will oversee a process by which the front office risk management system requirements for each line of business will be explicitly specified. Where appropriate, these requirements will be established as conditions to engaging in particular lines of business. The aim is to ensure that the risk management systems deliver information that enables the front office, Risk, Finance and IB Senior Management to understand all of the performance dimensions of a given business. Aligning the needs of all interested functions in this way should lead to an improvement in the effectiveness and efficiency of the risk management processes by increasing the amount of *ex ante* compared with *ex post* risk assessment and reducing the resources dedicated to data collection and management.

- UBS will refocus talent development activities in the sense that recruiting and internal development will be an explicit responsibility for Managing Directors and be part of the total mix of information used to assess performance and compensation. This will ensure that the Bank has the talent to achieve the appropriate level of turnover at the key position holder level.

- The Group CEO in conjunction with the relevant functional heads will review, reinforce and adjust roles and responsibilities in relation to Risk Management, Risk Control and Finance. Particular emphasis will be given to shared responsibilities between Risk and Finance and ensuring that the Finance function in the IB performs an active role in objectively analysing the various dimensions of the IB's financial performance.

- The IB CEO will, in conjunction with the business review, undertake a comprehensive review of the IB's information technology and risk management systems to identify technological changes that will enhance monitoring and control activities.

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2.3 Risk Management

The Shareholder Report identifies a number of concerns in the front office risk management governance and processes. The most significant remedial actions are:

- The CEO and the CRO of the IB will establish a comprehensive set of risk management standards and requirements at desk level. Based on these standards desk heads will be expected to identify (1) tail, basis, and idiosyncratic risks (using fundamental analysis where appropriate), (2) set business limits, (3) establish realistic objectives aligned to risk / reward and (4) understand the balance sheet (assets, together with both secured and unsecured funding requirements) of their activities. Each desk needs to be able to show its balance sheet, off balance sheet positions, risk positions and be able to explain all of the attributes of its P&L.

- Each trading desk, to the extent that it is relevant, will be required to track and monitor the age of its inventory and manage inventory within agreed age limits.

- The CEO and the CRO of the IB will establish a process for business heads to conduct formal risk-based reviews at portfolio levels, to identify tail and other risks, set limits and objectives, identify and resolve conflicts, and test exit strategies. Conclusions from those reviews will be presented in concise form.

- The Group Chief Financial Officer will define the Group's book equity attribution principles to fully implement the capital allocation framework. This will be supplemented by the development of target return on equity guidelines to monitor business unit performance on a risk-adjusted basis.

- The Group CRO will establish the methodology for defining risk appetite at Business Group level in addition to the Group level analysis.

- The IB CEO will implement a process to translate risk appetite targets into relevant limits and metrics at business level and continuously adjust them as markets change.

- The IB CEO will ensure that relevant approval processes in particular Commitment Committee, new business initiatives and transactions requiring pre-approval ("**NBI / TRPA**") processes continue to be enhanced. A number of improvements to the NBI / TRPA processes and policy at the Group and IB level have already been proposed. These are aimed at ensuring that all new business and adaptations of existing business are captured, and that there is a tiered focus where higher risk and more complex initiatives receive greater attention. A process for post-implementation review of more complex products / transactions will be established. The IB CRO is assessing the NBI / TRPA process to confirm that:

    - It captures the appropriate treatment of models.
    - The processes across products and asset classes result in qualitatively equivalent treatment for equivalent exposures (e.g. lending and synthetic).
    - Proposals explain the appropriate mix of metrics required to risk manage the business and that relevant metrics can be adjusted dynamically to respond to changing markets.

- The Group CRO will establish the appropriate processes to identify concentration risk during the NBI / TRPA processes. The control framework will be enhanced with the introduction of maximum holding limits and asset class limits and the consideration of specific stress scenarios.

- The Group CRO has undertaken an initial review of the operational limits structure which has led to the introduction of new limits (i.e. notional and balance sheet limits), withdrawal of limits for non-core activities and update to existing sectors and single name limits. The IB CEO and the Group CRO will perform further reviews of the limit structure to align limits with the 2009 business plans and Risk Appetite objectives.

- The IB CEO and the Group CRO will establish processes to ensure that limit structures are dynamically managed. Following establishment of a comprehensive limit framework, a process for regular review of the limit structures by business units will be established to assess its effectiveness of limits in light of changes in risk factors, updated business plans, performance and market conditions.

2.4 Risk Control and Finance

Across Risk and Finance a number of lessons emerge from the information set out in the Shareholder Report. They range from issues relating to the organizational structure within the Risk function, analytics used to determine risk exposures, transaction approval processes, valuation and the quality of management information and reporting. There are a number of initiatives that have either been embarked on or will be undertaken within Risk and Finance as a result of the write-downs. Some of the key remedial actions that are being pursued are outlined below.

- The IB CEO and the Group CRO are reviewing the target risk control organizational structure. Market and Credit Risk functions have been combined. The activities within the combined team are now being aligned to ensure that the relationships between market and credit risk are managed and controlled more effectively.

- The IB will create portfolio risk teams to achieve the appropriate management of concentration and portfolio risks across all activities. Risk Methodology and Reporting teams will be combined so that risks are measured and reported along product lines taking into account the aggregate impact of market and credit risk.

- Improvements are targeted in relation to both VaR and Stress testing. Stress testing will be managed more dynamically and designed to deliver assessments of potential extreme losses at a granular level across portfolios.

- The Group CRO will institutionalise thematic or "deep dives" risk analysis in order to understand the attributes of individual portfolios at a more granular level and apply greater focus to idiosyncratic risk factors.

- The Group CRO together with the IB CRO will establish the structure and implement the process for the systematic and periodic review and testing of assumptions driving risk control and valuation models.

- A number of initiatives are underway to establish Commitment Committees at various levels of the institution to ensure that transactions and deals are objectively assessed by senior decision makers and to ensure that new transactions are consistent with the Bank's risk appetite at any given point in time.

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- The existing framework is being reviewed and enhanced where necessary to ensure Finance's roles and responsibilities in relation to all aspects of valuation matters are clearly stated. Particular emphasis is being given to establishing a "Valuation Risk Appetite", escalation requirements and uniform reporting (where appropriate).

- The IB CEO, the Group CFO and the Group CRO will develop an integrated suite of management information that presents key business performance, risk, and financial information at all levels, focused on information required for effective decision-making and providing risk adjusted financial performance across product groups. Finance will apply greater focus to analysing P&L across all relevant performance and risk dimensions to ensure that a sound explanation is provided in relation to quality of earnings. The Finance and Risk functions will work towards developing consistent data structures so that data from each can be readily combined.

- The IB CEO, the Group CFO and the Group CRO will implement formal processes to ensure that business and technical IT systems "owners" for all existing and new / planned systems are clearly identified and communicated. This change will promote greater alignment and co-operation between Finance and Risk to ensure that new systems and developments to existing systems can manage the needs of multiple users.

- The processes to ensure that trading portfolios are subject to independent, timely and appropriate levels of price testing will be reviewed and adjusted (where necessary) in order to provide better information (1) on financial risk stemming from use of models, including input verification, (2) confidence level on price testing, (3) clear aggregation on level of untested positions.

2.5 Funding and Balance Sheet

As indicated in the Shareholder Report, the historic approach to internal funding rates allowed businesses to fund themselves internally at prices better than those available in the market. The funding model did not differentiate between liquid and illiquid assets or the term of those assets. This combination of factors enabled traders to earn a positive carry by retaining longer dated illiquid positions financed with cheaper short-term funding.

A number of remedial actions are underway or proposed to address issues across funding and balance sheet management.

- UBS has introduced limits in relation to the Balance Sheet and Risk Weighted Assets ("**RWA**") at both Group and IB level. The reporting processes to monitor balance sheet usage are being refined.

- The IB CEO will ensure that balance sheet and funding limits are set and monitored at a sufficiently granular level within the IB, which may entail the establishment of a dedicated Treasury function in the IB. Processes will also be implemented to monitor performance against these limits on as a near "real time" and sufficiently granular basis as possible.

- Group Treasury has implemented and is refining an internal funding model in respect of all trading activities within the IB which takes into account the liquidity and maturity of the assets held.

- An Asset and Liability Committee has been established in the IB to ensure that the IB meets hard balance sheet and RWA targets.

- The role of the CCT department within the IB, in relation to the management of liquidity will be reviewed.

2.6 Compensation

The Shareholder Report discusses the features of the compensation structure that could have contributed to the circumstances under consideration. In determining the appropriate remedial actions consideration has to be given to the broader competitive landscape. Changes to the compensation model are constrained while the rest of the financial services industry (both regulated and unregulated financial institutions), continue to apply traditional models. Given these industry dynamics other factors need to be applied to supplement the competitive limitations in relation to compensation, namely:

- Access to financial resources
- Risk limits
- Product scrutiny and approval

However notwithstanding these constraints, there are a number of actions that are in progress or which will be taken to adjust the compensation model, including:

- The BoD (through the newly established Human Resources and Compensation Committee) in conjunction with Group HR is currently reviewing compensation models for the BoD and GEB to ensure that the compensation model is consistent with UBS's shareholders' objectives.
- The compensation model for risk taking staff within the IB is being reviewed with the aim of finding ways to strengthen alignment of risk taking behaviour to the long-term strategy of the Bank.
- All aspects of the employee objective-setting and performance review process within IB will be reinforced. This will ensure that managers look beyond short-term revenue performance when evaluating employees and determining their total compensation.