

Making a Global Plan Work Locally

29th June 2007, 10.15 – 11.15

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The Role of Equity Plans



Why do we use Equity Plans?

UBS Total Compensation & Benefits Philosophy

UBS is committed to the principle of share ownership throughout the organization to encourage partnership, responsible and trusted relationships and to strengthen the link with all shareholders by fostering a culture that reinforces entrepreneurial behaviour to create sustainable value and growth.

The use of equity-based awards that vest and/or become unrestricted over time helps to ensure that there is strong accountability for the long-term implications of decisions and actions taken. In particular, it is critical to achieve this for positions with the greatest impact on UBS so that equity exposure increases with the scope of role or responsibility.

With a view to aligning the interests of its management with those of its shareholders UBS has established stringent share ownership guidelines for its senior executives.

- Annual incentive awards are primarily determined based upon short-term performance
- To ensure longer term commitment / focus on decisions and to encourage sustainable growth, equity awards provide a longer term line of sight and provide an opportunity for return commensurate with return on investment



Key Objectives of Equity Plans

Shareholder alignment as primary objective

Plan	Target Population	Shareholder Alignment	Retention	Wealth Creation	Attraction	Pay for Performance
Equity Plus Plan	All employees	Primary	Secondary	Primary	Secondary	N/A
Equity Ownership Plan (EOP)	Highly compensated	Primary	Primary	Secondary	Secondary	N/A
Key Employee Stock Option Plan (KESOP)	High performers, high potentials	Primary	Primary	Primary	Secondary	Primary



Employee Share Ownership & Shareholder Alignment

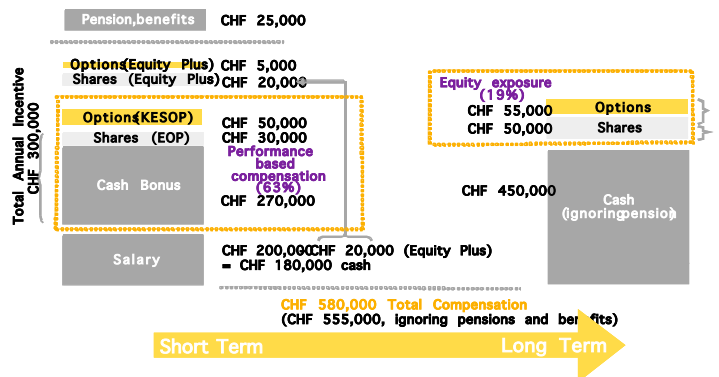
- As of 31 December 2006, an estimated 53% of all employees held UBS shares, while 38% held stock options
- Current employees held an estimated 6% of the UBS share capital based on all known shareholdings from employee compensation plans, personal holdings and individual retirement plans
 - 3% are unvested / blocked
 - 3% are vested / unblocked
 - In addition, current employees held stock options over an additional 2.5% - 3% of share capital (based on intrinsic value, rather than number of shares under option)

The extent to which this translates into shareholder alignment depends on a variety of factors, including the proportion of total compensation tied to the performance of the UBS share

Illustrative Example - highly compensated High Performer

Performance ('what goes in')
(in this example, 63% of total compensation, ignoring pension)

Share price ('what comes out')
(depending on share price development (base = 19% of total compensation p.a., ignoring pension))



Together, performance based compensation and equity exposure support shareholder alignment and sustainable growth

Can Plan Effectiveness be Measured?

- Review levels of 'value at risk' (i.e. unvested shares and options as a percentage of total compensation) delivered under the plans
- Review total equity exposure (i.e. unvested and vested shares and options as a percentage of total compensation)
- Are the plans well understood?
- Take-up rates (voluntary plans only)
- Impact on retention rates
- Monitor the quality and quantity of discretionary stock option allocation (pay for performance)



Factors Influencing Plan Design

Internal influences

- | | |
|--------------------------------|--|
| Group Strategy | <ul style="list-style-type: none"> • Integrated business model • Organic growth plus acquisitions • 'You & Us', UBS brand |
| Business Requirements | <ul style="list-style-type: none"> • Global WM&BB integration • Needs of BGs and Regions in their respective markets |
| Employees | <ul style="list-style-type: none"> • 'Line of sight • Incentivisation |
| Technical Constraints | <ul style="list-style-type: none"> • Accounting • 10% own share limit and CapAd • Tax efficiency and risk control |
| Operational Constraints | <ul style="list-style-type: none"> • Management of operational risks • Control of operational complexity and costs |

External influences

- | | |
|--|--|
| Market Practice | <ul style="list-style-type: none"> • UBS competitors and gener: trends • BG and regional competitors |
| Shareholders, Corp Gov & Regulatory | <ul style="list-style-type: none"> • Increased disclosure and transparency |
| Environmental Developments | <ul style="list-style-type: none"> • Tax changes (Jobs Act) • Regulatory changes |



Benefits of Stability and Consistency

- Stability (over time):
 - Improves participants' understanding and increases the effectiveness and acceptance of the plans among participants and other stakeholders
 - Improves external and internal governance
 - Minimizes technical and operational risks associated with frequent changes
- Consistency (across regions and businesses):
 - 'Fairness' across regions and businesses
 - Underpins the role of equity plans as a 'corporate glue' and does not hinder geographic and cross-business mobility
 - Minimizes the scope for participants, locations or businesses negotiating their own arrangements
 - Minimizes operational complexity and eases the ongoing management of the plans



What about Business-Specific / Local Needs?

- One-size does not fit all
- Factors that call for customizing plans to meet local- or business-specific needs:
 - Differences in market practice, pay levels and plan designs
 - Recruitment / retention in particularly competitive markets and competition for key talent
 - Specific business circumstances, e.g. a focus on growth in specific markets, captives, transactions or unusual compensation structures (e.g. bonus- versus commission 'culture')
 - Differences in tax or legal rules



Consistency versus Customization

Pros and cons of consistency versus customization – are there any trade-offs?



Who should be involved?

- Depends on technical, business and operational areas affected and nature of trade-offs (e.g. tax versus treasury, legal versus operations etc)
- Some of these trade-offs can only be 'seen' at group level (importance of internal governance), for example:
 - Changes to achieve local tax savings, which could result in a different accounting treatment (or other complex up- or downstream implications) at group level
 - Local hedging which would impact capital management and reporting
- Local business involvement to increase acceptance

Equity Plus Overview

- In 2002, UBS made the decision to introduce a global broad based plan, Equity Plus, in all major locations
- Equity Plus currently operates in 49 countries

Core Plan Design

- For each UBS share purchased at market value, the employee receives two stock options
- No minimum share purchase; however, there is a maximum share purchase limit of 1,000 shares per year
- Purchased shares are blocked for a two year period
- Options vest after two years and can generally be exercised up to ten years from grant
- Share price and option strike price are generally equal to the average high/low UBS share price on the purchase date (= grant date of options)

Contributions & Share Purchase

- Salary Contributions
 - Elections of up to 30% of gross monthly salary
 - Once enrolled, employees are perpetually enrolled in the plan unless they choose to opt out of the plan during one of the four quarterly windows
 - Employees can change their contribution elections four times a year
- Bonus Contributions
 - Maximum of 35% of gross cash portion of annual bonus
 - There is a minimum contribution of 200 CHF or 150 USD
 - Elections are made annually – no perpetual enrolment
- Share Purchase & Option Grant
 - Shares are purchased and options granted four times per year



Equity Plus – Life Cycle

Salary Contributions



Bonus Contributions



Payroll Funding

- Once a salary election has been made by a participant during one of the quarterly election windows, contributions immediately begin the following month
- Country payrolls send contributions on a monthly basis to a Zurich based account in local currency; except contributions from Brazil, India, South Korea and Taiwan (which are converted into Swiss Francs by the local entity before being transferred to the Equity Plus account in Zurich)
- On the date of share purchase, local currencies are converted into Swiss Francs; except contributions for employees on US payrolls (which remain in US Dollars)
- Group HR receives the share price and option strike price information from Group Treasury
- Employee share purchase and option grant is handled centrally; the system also captures all cash contributions, currency conversions and participant refunds

Share Purchase & Option Grants

- On the date of purchase, shares are purchased and options granted to all participants using the contributions received
- Purchased shares and options granted can be monitored via an online 'eStatement' on the Compensation Plans website

Your eStatement



Expand all one level | Collapse All One Level | Print Entire Statement | Print Current View | Excel Download

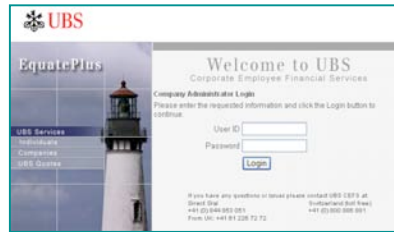
By Plan | By Vehicle | Allocations | By Vesting Date | Plan Activity

Show open plans only | Show current holdings only | Display Currency: USD

Plan	Year	Award Country	Plan Type	Status	Value USD
Equity Plus	2006	United States	A	open	629
Equity Plus	2006	United States	B	open	114
Equity Plus	2007	United States	A	open	378
<p>CFP's Investment</p> <p>Cash USD QPRD USD 1.00 189.71 190 1.00 190</p> <p>USRD Registered Shares (USD) CFP'S US USD 14 May 2007 62.75 3.00 188 1.00 188</p>					
Equity Plus	2007	United States	B	open	26
<p>CFP's US</p> <p>USRD Option, 2 Mar 2007 71.48 NO CFP'S US CHF 14 May 2007 5.30 6.00 32 0.62 36</p>					
Grand Total USD					1,166

Ongoing Administration

- An account is opened for each participant at Corporate Employee Financial Services (CEFS), shares and options are transferred to CEFS after each purchase



- Shares and options are held at CEFS until options expire or are forfeited, or until the participant decides to:
 - Transfer unblocked shares to a designated brokerage account
 - Instruct CEFS to sell unblocked shares
 - Exercise vested options

Termination Provisions

- Shares
 - All restrictions are lifted upon termination
 - Participants never lose the shares they have purchased
- Unvested Options
 - On death and disability the options vest immediately
 - On retirement and redundancy the options continue to vest
 - Options are forfeited for all other 'non-good leaver' termination reasons
- Vested Options
 - Option life for vested options is extremely generous
 - The option life for all vested options is six years from the termination date (or remaining option life, if shorter)
 - No shortening of the option life for joining a competitor after vesting

Financial Hardship

- Participants experiencing financial hardship can apply to opt out of the plan immediately and have all or some of the shares sold before the end of the two year holding period
- Any associated unvested options will be automatically forfeited
- Local Swiss employees are not able to choose financial hardship for tax reasons (tax discount on shares purchased in the year of the purchase)



Equity Plus – Recharge Approach

- The majority of options are granted by UBS AG to employees of the overseas subsidiaries or branches
- The accounting value of the option is calculated using a proprietary option valuation model, which takes into account a number of factors, including volatility, interest rates, dividends and forfeiture trend data
- The overseas subsidiary or branch agrees to pay UBS AG, in monthly instalments, the compensation expense and other costs such as stamp duty, brokerage fees or administration costs incurred
- Options may be equity- or cash-settled under IFRS2 (and FASB123), depending on the location; options which UBS AG intends to settle in cash are subject to an annual Mark-to-Market re-evaluation
 - The fair market value is re-assessed each year in accordance with IFRS2
 - UBS only cash settles in rare circumstances



Equity Plus – Country Variations

- While the plan design is straightforward, in order to ensure that Equity Plus works in all locations, design or operational changes to the plan are required in some locations for the following reasons
 - Compliance with specific regulatory obligations
 - Offer favourable tax treatment to increase plan attractiveness at a local level
 - Reaction to internal market pressure



Equity Plus - UK

United Kingdom

- Equity Plus is HMRC approved as a Company Share Option Plan (CSOP)
 - Two basic requirements: participants are limited to 30,000 GBP of approved options at any given time and (to achieve tax beneficial treatment) cannot generally exercise them before three years from grant
- 30,000 GBP Limit
 - HR systems have been developed to automatically calculate the number of UK approved options a participant can be granted during each purchase; limits can be monitored on a daily basis
 - Non-UK approved options are granted once the 30,000 GBP limit has been reached
 - If UK approved options are exercised, further UK approved options will be granted (up to the limit) during the next purchase
- 3 Year Period
 - If UK approved options are not exercised for at least three years after grant date then there is no charge to income tax and national insurance
 - UK approved options vest after two years but are blocked for an additional year; the additional blocking period has been imposed to prevent confusion amongst participants



Equity Plus – Switzerland

Switzerland

- A local discounted share plan was in place prior to the global launch of Equity Plus
- The discounted share plan was only available to junior level staff and shares were purchased on an annual basis
- The discounted share plan was run in parallel to Equity Plus for a number of years prior to phasing out the plan
- In order to address perceived benefit loss, the Equity Plus plan was modified in Switzerland for junior staff by way of an increased option match per the below schedule:

Purchasing 1- 50 shares = 4:1 option match
Purchasing 51 - 100 shares = 3:1 option match
Purchasing 101 - 1,000 shares = 2:1 option match



Equity Plus – France

France

- Plan rules have been modified in order to obtain a more favourable tax treatment
 - Qualified options vest after two years but are blocked for an additional two years
 - If qualified options are not exercised for at least four years after grant no social security contributions are due when the employee sells the shares
- Prior to EU prospectus directive, qualified option strike price must not be less than the higher of:
 - The market value at grant
 - 95% of the 20 day average market value prior to grant
 - 95% of the average purchase price of the shares acquired

(Since EU prospectus directive, the same market value as in other countries is being used)



Equity Plus – Other Country Variations

Australia

- The share price is equal to the weighted average of the prices at which UBS shares are traded on the Virt-x or the NYSE during one week up to and including the purchase date

Belgium

- Local legislation generally allows the participant to choose the tax point (at grant or exercise)
- To reduce operational complexity, the plan rules have been modified to tax all options at grant instead of at exercise

Brazil

- Perpetual enrolment is not offered, an election must be submitted each year

Egypt / South Africa

- Maximum contribution limit of 25% of bonus



Equity Plus – Other Country Variations

Hong Kong / Mexico / Singapore

- Local employment law provisions prevent contributions being deducted directly from participant's salary via payroll
- Local HR is provided election status reports on a monthly basis
- Based upon the election data, local HR provides participants with a 'direct debit' form authorizing the participant's bank to make a debit from their personal account and credit a central UBS account

Japan

- Ability to enrol at any time during the current plan year, not restricted to election windows

United States

- UBS shares are listed and traded on the NYSE
- US employee preference is to receive USD shares and options
- Local employees purchase USD shares
- In 2006, UBS began granting CHF Options in the USA



Equity Plus Documentation

- Plan documentation is available to all UBS employees
 - All documentation is online and customized, i.e. each individual sees only the documentation that is relevant to them
 - Almost all documents are translated from English into German, French, Italian, Portuguese and Spanish
- Documents available:
 - Plan Rules
 - Legal document outlining terms and conditions
 - Generic version
 - Japan and UK versions
 - Brochures
 - Provides employees with an overview of the plan, including all general provisions and mechanics
 - Generic version and country specific versions for France, Italy, Japan, Switzerland, USA and the UK



Equity Plus Documentation

- Information Sheets
 - Country specific treatment of the operational procedures
 - Versions for Australia, Austria, Bahamas, Belgium, Brazil, Chile, Colombia, Egypt, Hong Kong, Italy, Japan, Luxembourg, Mexico, Portugal, South Africa, South Korea, Spain and Singapore
- Tax Summaries
 - Country specific summary of tax treatment
 - Versions for all participating countries
- Miscellaneous
 - Fact Sheet: High level summary of the main characteristics (used for various purposes, including in new hire information packs)
 - Historical performance document
 - Stock option users guide (explains the general concept of how options work)



Online Plan Documentation

The screenshot shows the UBS online plan documentation interface. At the top, the UBS logo is on the left, and navigation links (enq, enq, fra, de, | Logout | Home | Personal Details | Contact | Feedback) are on the right. Below the logo is a "Group HR Operations" header. A left sidebar contains a navigation menu with categories: Group HR Operations, Home, My Total Comp, Personal Page, Your Plans, Equity Plus, To Do List, Pricing, Tax Information, Plan Documentation, FADS, Historical Elections, Election Windows, Financial Hardship, KESOP, EP, Statement, Prices, Distributions & Dividends, Historical Elections, Personal Details, Administration Panel, General Information, News & Announcements, Equity Plus, EOPRESOPCAP, CBP, Compensation Philosophy, Library, My Benefits Links, International Assignment Management. The main content area is titled "Your Plans Equity Plus" and includes a red warning: "Administrative override is in effect!". Below this, it shows "Name: Jack Kneal" and "OPN:80993783". There are several icons for "To Do List", "Pricing", "Tax Information", "Plan Documentation", "FADS", "Historical Elections", "Election Windows 07", and "Financial Hardship". On the right, there are links for "Compensation Plans Options Guide", "Stock Options User Guide", "EP Historical Performance", "Equity Plus Historical Performance", "EP Fact Sheet", and "Equity Plus Fact Sheet". At the bottom, a "Plan Documentation" section states "The following documents are available to you:" and lists a table of documents.

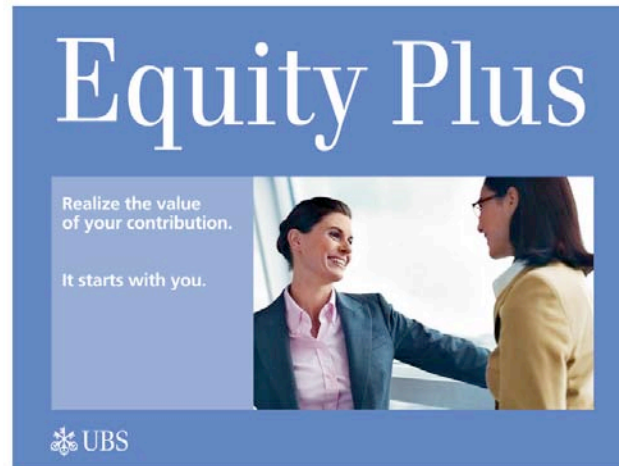
Document	Plan Year
2007 Equity Plus Brochure United States	2007
2007 Equity Plus Plan Rules General	2007
2007 Equity Plus Stock Options Plan Rules General	2007

Equity Plus - Communication

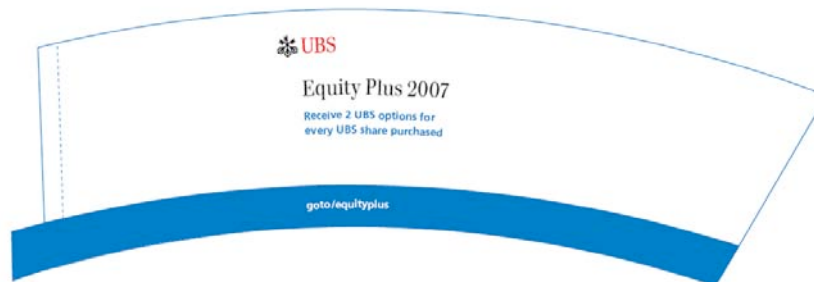
Globally Applied Media

- Online
 - Screensavers on all employees' computers
 - News article endorsed by the CEO published on the internal global UBS website
 - Animated banners on news pages
 - E-mail invitation sent to all eligible employees (approx. 80,000)
 - Video published on internal global UBS website
- Offline
 - Posters distributed to all eligible regional offices
 - Presentations produced for all regional compensation teams
 - Coffee sleeves

Online Screen Saver



Media Example – Coffee Sleeve



Equity Plus - Communication

Country Specific Applied Media

- Country specific flyers produced for the following countries:
 - Australia
 - Austria
 - France
 - Germany
 - Hong Kong
 - India
 - Monaco
 - Singapore
 - Switzerland
 - United Kingdom
 - United States
- Specific European locations were targeted to combat lower participation rates
- Participation rates increased 53% after communication completed



Questions?



Thank you for your participation

