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Dear colleagues,

As you are aware, during the last quarter we focused on preserving UBS's strong capital position and risk managing our exposure to the US real estate market. We also refined our strategy for the Investment Bank, with the aim of creating a more client-centric business, better positioned to deliver sustainable and profitable growth. In addition, we introduced the first phase of a new funding model, established greater discipline in risk management, implemented the planned headcount reductions and exceeded our balance sheet reduction targets for 2007.

As we begin the new year, we are now looking to build on our strengths in Equities and IBD, while repositioning FICC around areas that are important for our core franchise. We are also aiming to break down silos by bringing together a number of product and coverage teams, in order to improve overall client service. In support of these goals, we have decided to make a number of organizational changes with immediate effect.

#### 1. Changes in FICC

Following the implementation of the new FICC governance model in November last year, we have decided to restructure our Real Estate and Securitization, Commodities and Credit businesses.

##### Real Estate and Securitization (RE&S)

We will be repositioning our newly created RE&S business under the leadership of Ramesh Singh, to reflect the current market environment and importance of managing our legacy US sub-prime risk positions.

\* MBS/ABS Sales and Trading: This business will include client coverage, market making and a small proprietary trading team, and will leverage our leading research capabilities in this important asset class. The aim is to reposition our platform as a broker-dealer, focusing on intermediating client flows, while seeking to benefit from the current market dislocation to maximize profitability. In support of this, we have already scaled back our origination activities, including the closure of UBS Home Finance, as we believe this market does not offer profitable new issue opportunities at this time.

\* Real Estate Finance: The objective is to better align this business with the needs of our IBD and Wealth Management clients. Accordingly, the REF group will focus on providing commercial real estate finance with the intention of distributing our risk via the securitization or loan syndication markets, in addition to trading CMBS securities. They will work closely with IBD, Wealth Management and Global Asset Management to provide a holistic real estate product for UBS clients globally.

\* Real Estate Workout Group: In order to ensure robust risk

management of our legacy positions, we will be segregating our existing illiquid MBS, ABS and CDO portfolios into a newly-created workout group. The Super Senior book, Negative Basis and RLN programs will be among the positions transferred to this group. This team will be primarily responsible for developing exit strategies for our existing portfolio through market alternatives and innovative structured solutions. Our aim is to reduce exposure to this asset class in an orderly manner while minimizing further downside risk.

We firmly believe that these changes will reposition RE&S to be more nimble, with a return to our core principles of client service and risk distribution. We have already improved efficiency and expect a total headcount reduction of close to 50% from the peak of last August. We will reduce balance sheet utilization by two-thirds, strengthen risk discipline by creating a dedicated risk management position, and enable our staff to focus on building a leading client-driven franchise for 2008.

#### Commodities

The Commodities business will continue to be co-headed by Todd Morakis and Hunter Shively. We have a strong position in the Metals and North American Power and Gas markets, and recently expanded into crude oil sales and trading, an area that delivered solid results in 2007.

We will continue building these product areas, with the primary mission of servicing our institutional, corporate and Wealth Management clients. However, in light of the need to prioritize our growth initiatives, we will look to capture greater efficiencies between the US and Canadian Power and Gas trading businesses. Accordingly, we will reduce our presence in Canada, and exit from certain European Power and Gas markets.

#### Credit

We will make the following changes to simplify our operating model and establish a platform for improved client service under the continued leadership of Chris Ryan.

\* Create a Flow Credit Sales and Trading team under unified leadership, bringing our investment grade, loans sales and trading, cross-over and high yield businesses closer together. This will result in improved idea generation, coordinated client connectivity, disciplined risk management and operational excellence. These businesses will continue to engage in secondary market making and act as the distribution arm for our primary investment grade, high yield and loan businesses. Brendon Dillon and Sean Dowd will head the US business, Henrik Raber and Michael Schmidt will be responsible for Europe, and Mike Halloran will continue to run APAC, in addition to his other responsibilities.

\* Exit US Principal Finance, following our recent closure of the Global Credit Strategies Group in Asia and Europe. This reshaping of our proprietary Credit operation is in line with the IB's strategy to reduce risk concentration and balance

sheet utilization, while allowing us to concentrate resources on the most profitable opportunities in this area.

\* Combine Global Syndicated Finance, Credit Exposure Management and Asset Based Lending under the leadership of David Juge, in order to simplify our overall Credit organization. This is consistent with our ongoing effort to more closely integrate GSF with IBD.

A well positioned FICC business is critically important to the firm and we will continue to examine and refine our strategy, with the objective of improving efficiency and returning the area to profitability. Our priorities in 2008 will be to risk manage our existing positions, while leveraging areas of excellence as we calibrate to the new balance sheet targets and revised funding model.

## 2. Prioritizing client service - breaking down the silos

We have been assessing a number of initiatives that will enable us to better service our clients by leveraging product strengths, gaining operational synergies and improving alignment across the firm.

Cross-business working groups have been established, headed by members of the IB Executive Committee, to drive the following key change programs:

**Combination of Primary Capital Markets:** Our goal is to create a fully integrated primary business to drive revenue growth and realise productivity gains. As a first step, we will focus on combining our global ECM and DCM groups. Over the course of 2008, we will focus on cross-product knowledge sharing, to enable our teams to provide holistic advice and innovative solutions across the entire capital structure.

This integrated team will report to the global heads of our securities businesses and IBD. Alex Wilmot-Sitwell and Rick Leaman will be responsible for implementing this plan.

**Creation of a dedicated Structured Products team for Wealth Management:**

We will establish an integrated Structured Products team in order to deepen connectivity with Wealth Management and other key intermediaries.

This team will cover all asset classes and report jointly to the heads of Equities and FICC. John Wall and Andre Esteves will be responsible for integrating these activities.

**Consolidation of Electronic Distribution:** Our strategy is to create an integrated execution platform across the securities businesses to improve client connectivity and broaden the product offering. Under the leadership of Daniel Coleman, we will rationalize our multiple execution platforms, while ensuring the adoption of best-in-class client delivery channels.

**Integration of Research:** We will combine our industry leading Equities, FICC and Economics research teams in order to better leverage our expertise and provide a

consistent product across the entire liability structure. Daniel Coleman and Andre Esteves will be responsible for driving this integration.

Global alignment of FIG teams: As we have already demonstrated in Europe, aligning FICC and IBD coverage for financial institutions is a highly successful model. We will replicate this globally, with the objective of creating a unified approach to servicing our FIG clients.

Alex Wilmot-Sitwell and Andre Esteves will lead the implementation of this plan.

These important initiatives will allow us to maximize synergies between all three of our businesses, creating joint marketing and product teams in areas where we can provide greater value for our clients. I am confident that the changes outlined above will also enable us to better leverage our core strengths within the Investment Bank:

- global presence with dominant market positions in Europe, Asia and the Emerging Markets
- leading Equities business and top ranked ECM house
- fastest growing IBD franchise and Global M&A Bank of the Year
- number two ranked FX platform with areas of excellence across FICC
- broad coverage of corporates, financial institutions, wealth and asset managers, and hedge funds

UBS continues to be one of the strongest financial institutions in the world, with a well recognized brand, the largest wealth management division, a highly successful global asset management platform and a powerful investment bank with market leading businesses. This is an exceptional foundation on which to grow.

I know that 2007 was a year that challenged and tested us all individually and collectively. My colleagues on the Group Executive Board, the Board of Directors and I highly value your commitment, professionalism and dedication during this difficult period. I have no doubt that our collective achievements in 2008 will redefine us for the better and that UBS will emerge a stronger institution. I am counting on your continued support and contribution.

Best regards,

Marcel Rohner  
Group Chief Executive Officer