

Annual Report 2007

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Introduction

This year we have changed the structure of our annual report. Based on feedback from users, our annual report now consists of four themed reports. These combine audited and non-audited information.

Together, the four reports make up UBS's full *Annual Report 2007* and replace the former Financial Report, the Handbook and the Compensation Report. They comply with the US disclosure requirements for foreign private issuers as defined by Form 20-F of the Securities and Exchange Commission (SEC).

The four reports are:

Strategy, Performance and Responsibility 2007

This provides a description of our firm, its strategy, organizational structure and financial performance for the last two years. It also discusses our standards for corporate behavior and responsibility, outlines demographic trends in our workforce and describes the way our people learn and are led.

Risk, Treasury and Capital Management 2007

In addition to outlining the principles by which we manage and control risk, this report provides an account of developments in credit risk, market risk, operational risk and treasury management during 2007. It also provides information on UBS shares.

Corporate Governance and Compensation Report 2007

Comprehensive information on our governance arrangements is included in this report, which also explains how we manage our relationships with regulators and shareholders. Compensation of senior management and the Board of Directors (executive and non-executive members) is discussed here.

Financial Statements 2007

This comprises the audited financial statements of UBS for 2007, 2006 and 2005, prepared according to the International Financial Reporting Standards (IFRS). It also includes the audited financial statements of UBS AG (the parent bank) for 2007 and 2006, prepared according to Swiss banking law. Additional disclosure required by Swiss and US regulations is included where appropriate.

In addition to the four reports, *Review 2007* is distributed broadly to UBS shareholders and contains key information on our strategy and financials. This booklet summarizes the information in the four-part annual report.

If you only ordered specific reports in prior years, please note that the former Compensation Report is now called *Corporate Governance and Compensation Report 2007*, and the former Annual Review is now called *Review 2007*. Our contact details are listed in the final pages of this report – please be in contact with us so that we can arrange delivery of the reports you require.

This report contains information that is current as of the date of this report. We undertake no obligation to update this information or notify you if it should change or if new information should become available.

Our aim is to provide publications that are useful and informative. In order to ensure that UBS remains among the leading providers of corporate disclosure, we would like to hear your opinions on how we can improve the content and presentation of our products (see contact details on the final pages of this report).

UBS

Accounting Standards and Policies

Accounting Principles

UBS Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Until 2006, UBS also reconciled its Financial Statements to US Generally Accepted Accounting Principles (US GAAP). It will now no longer do so after the SEC released a final rule on 21 December 2007 under which financial statements from foreign private issuers in the US will be accepted without reconciliation to GAAP if they are prepared in accordance with IFRS as issued by the International Accounting Standards Board. As a US listed company, we had provided in the Annual Financial Statements until and including 31 December 2006 a description of the significant differences which would have arisen if our accounts had been presented under US GAAP, a detailed reconciliation of equity and net profit attributable to UBS shareholders under IFRS to US GAAP, and additional disclosures required under 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 121 to 142 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 2007, 2006 and 2005 refer to the UBS Group and the Parent Bank's fiscal years ended 31 December 2007, 2006 and 2005. 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 in the next section. 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 predominantly 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 interest income 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"). 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.

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. The term personnel comprises all staff and trainees other than contractors.

Critical accounting policies

Basis of preparation and selection of policies

We prepare our Financial Statements in accordance with IFRS as issued by the International Accounting Standards Board. 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 Risk, Treasury and Capital Management report.

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 valuation techniques. In these cases, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of

expected future cash flows or other valuation techniques, using inputs existing at the balance sheet dates. If available, market observable inputs are applied to valuation models (level 2). In cases where market observable inputs are not available for all significant valuation parameters, they are estimated based on appropriate assumptions (level 3).

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 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 reflective of the underlying economics, based on our established fair value and model governance policies and the related controls and procedural safeguards we employ. For a description of the valuations of our positions related to the US residential mortgage market see Note 26a).

Uncertainties associated with the use of model-based valuations (both level 2 and level 3) are predominantly addressed through the use of model reserves. These reserves reflect the amounts that UBS estimates are appropriate to deduct from the valuations produced directly by the models

to reflect uncertainties in the relevant modeling assumptions and inputs used. In arriving at these estimates, UBS considers the range of market practice and how it believes other market participants would assess these uncertainties. Model reserves are periodically reassessed in light of information from market transactions, pricing utilities, and other relevant sources. The level of these model reserves is, nevertheless, to a large extent judgmental.

To estimate the potential effect on the Financial Statements from the use of alternative valuation techniques or assumptions, UBS makes use of the model reserve amounts described above, by scaling the level of the model reserves higher and lower, to assess the impact on valuation of increasing or decreasing the amount of model-related uncertainty considered.

The potential effect of using reasonably possible alternative valuation assumptions has been quantified as follows:

- Scaling the model reserve amounts upward in line with less favorable assumptions would reduce fair value by approximately CHF 2,710 million at 31 December 2007, by approximately CHF 1,038 million at 31 December 2006 and approximately CHF 1,094 million at 31 December 2005.
- Scaling the model reserve amounts downward in line with more favorable assumptions would increase fair value by approximately CHF 2,160 million at 31 December 2007, approximately CHF 955 million at 31 December 2006, and approximately CHF 1,176 million at 31 December 2005.

Recognition of deferred day 1 profit or loss

A closely related issue to determining fair value of financial instruments is the recognition of deferred day 1 profit or 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 material 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 or 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. See Note 26e) to the Financial Statements for quantitative information on deferred day 1 profit or loss.

Consolidation of Special Purpose Entities

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, we will receive service and commission fees for creation of the SPE, or because we act 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 is created for client investment purposes and is not consolidated. However, we consolidate investment funds in cases where we provide or have a moral obligation to provide financial support to a fund. In these instances we generally assume the majority or a significant portion of the risks of the fund, which, combined with our role as investment manager, makes us the party that can exercise control over the entity.

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, we are the investment manager and have sole discretion about investment and other administrative decisions, but have no or only a nominal amount of capital invested. We typically receive service and commission fees for our services as general partner but do 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 our legal and contractual rights and obligations indicate that we do not have the power to govern the financial and operating policies of these entities and concurrently do not have the objective of obtaining benefits from its activities through such power.

SPEs used for securitization. SPEs for securitization are created when we have assets (for example, a portfolio of loans) which we sell 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 we retain the majority of the benefits or risks of the assets in the SPE.

We do not consolidate SPEs for securitization if we have no control over the assets and no longer retain 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 us to sell the credit risk on portfolios, which may or may not be held by us, to investors. They exist primarily to allow us to have a single counterparty (the SPE), which sells credit protection to us. 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. We generally consolidate SPEs used for credit protection.

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 30 to the Financial Statements.

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.

Deferred taxes

Deferred tax assets arise from a variety of sources, the most significant being: a) tax losses that can be carried forward to be utilized against profits in future years; b) expenses recognized in the books but disallowed in the tax return until the associated cash flow occurs; and c) valuation changes of assets which need to be tax effected for book purposes but are taxable only when the valuation change is realized.

We record a valuation allowance to reduce our deferred tax assets to the amount which can be recognized in line with the relevant accounting standards. The level of deferred

tax asset recognition is influenced by management's assessment of UBS's historic and future profitability profile. At each balance sheet date, existing assessments are reviewed and, if necessary, revised to reflect changed circumstances. In a situation where recent losses have been incurred, the relevant accounting standards require convincing evidence that there will be sufficient future tax capacity. In 2007, we have

not recognized a significant amount of the potential deferred tax assets relating to the losses that we incurred and which are available to offset against future taxable income, due to the recognition criteria set by the accounting standards. See Note 22 to the Financial Statements for further details.

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) as issued by the International Accounting Standards Board.

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, 2007 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, 2007, UBS's internal control over financial reporting was effective.

The effectiveness of UBS's internal control over financial reporting as of December 31, 2007 has been audited by Ernst & Young Ltd, UBS's independent registered public accounting firm, as stated in their report appearing on page 14, which expressed an unqualified opinion on the effectiveness of UBS's internal control over financial reporting as of December 31, 2007.



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To the General Meeting of
UBS AG, Zurich and Basel

Basel, 6 March 2008

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

As auditors of the group we have audited UBS AG's internal control over financial reporting as of 31 December 2007, 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 included in the accompanying Management's Report on Internal Control Over Financial Reporting on page 13. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, 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.

In our opinion, UBS AG maintained, in all material respects, effective internal control over financial reporting as of 31 December 2007, 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), International Standards on Auditing as well as Swiss Auditing Standards, the 2007 consolidated balance sheets of UBS AG as of 31 December 2007 and 2006, 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 2007 and notes thereto, of UBS AG and our report dated 6 March 2008 expresses an unqualified opinion thereon.

Ernst & Young Ltd


Andrew McIntyre
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(in charge of the audit)


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To the General Meeting of
UBS AG, Zurich and Basel

Basel, 6 March 2008

**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 2007 and 2006, 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 2007, and notes thereto on pages 18 to 120. 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 audits. We confirm that we meet the legal requirements in Switzerland concerning professional qualification and independence.


We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), International Standards on Auditing 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UBS AG at 31 December 2007 and 2006, and the consolidated results of operations and cash flows for each of the three years in the period ended 31 December 2007 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), UBS AG's internal control over financial reporting as of 31 December 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated 6 March 2008 expresses 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			% change from
		31.12.07	31.12.06	31.12.05	31.12.06
Continuing operations					
Interest income	3	109,112	87,401	59,286	25
Interest expense	3	(103,775)	(80,880)	(49,758)	28
Net interest income	3	5,337	6,521	9,528	(18)
Credit loss (expense)/recovery		(238)	156	375	
Net interest income after credit loss expense		5,099	6,677	9,903	(24)
Net fee and commission income	4	30,634	25,456	21,184	20
Net trading income	3	(8,353)	13,743	8,248	
Other income	5	4,332	1,598	1,127	171
Revenues from industrial holdings		268	262	229	2
Total operating income		31,980	47,736	40,691	(33)
Personnel expenses	6	24,798	23,591	20,067	5
General and administrative expenses	7	8,465	7,980	6,504	6
Depreciation of property and equipment	15	1,251	1,252	1,247	0
Amortization of intangible assets	16	282	153	133	84
Goods and materials purchased		119	116	97	3
Total operating expenses		34,915	33,092	28,048	6
Operating profit from continuing operations before tax		(2,935)	14,644	12,643	
Tax expense	22	1,311	2,785	2,465	(53)
Net profit from continuing operations		(4,246)	11,859	10,178	
Discontinued operations					
Operating profit from discontinued operations before tax	36	135	879	5,094	(85)
Tax expense	22	(266)	(12)	582	
Net profit from discontinued operations		401	891	4,512	(55)
Net profit		(3,845)	12,750	14,690	
Net profit attributable to minority interests		539	493	661	9
from continuing operations		539	390	430	38
from discontinued operations		0	103	231	(100)
Net profit attributable to UBS shareholders		(4,384)	12,257	14,029	
from continuing operations		(4,785)	11,469	9,748	
from discontinued operations		401	788	4,281	(49)
Earnings per share					
Basic earnings per share (CHF)	8	(2.28)	6.20	6.97	
from continuing operations		(2.49)	5.80	4.84	
from discontinued operations		0.21	0.40	2.13	(48)
Diluted earnings per share (CHF)	8	(2.28)	5.95	6.68	
from continuing operations		(2.49)	5.57	4.65	
from discontinued operations		0.21	0.38	2.03	(45)

Balance Sheet

<i>CHF million</i>	Note	31.12.07	31.12.06	% change from 31.12.06
Assets				
Cash and balances with central banks		18,793	3,495	438
Due from banks	9	60,907	50,426	21
Cash collateral on securities borrowed	10	207,063	351,590	(41)
Reverse repurchase agreements	10	376,928	405,834	(7)
Trading portfolio assets	11	610,061	627,036	(3)
Trading portfolio assets pledged as collateral	11	164,311	251,478	(35)
Positive replacement values	23	428,217	292,975	46
Financial assets designated at fair value	12	11,765	5,930	98
Loans	9	335,864	297,842	13
Financial investments available-for-sale	13	4,966	8,937	(44)
Accrued income and prepaid expenses		11,953	10,361	15
Investments in associates	14	1,979	1,523	30
Property and equipment	15	7,234	6,913	5
Goodwill and intangible assets	16	14,538	14,773	(2)
Other assets	17, 22	18,000	17,249	4
Total assets		2,272,579	2,346,362	(3)
Liabilities				
Due to banks	18	145,762	203,689	(28)
Cash collateral on securities lent	10	31,621	63,088	(50)
Repurchase agreements	10	305,887	545,480	(44)
Trading portfolio liabilities	11	164,788	204,773	(20)
Negative replacement values	23	443,539	297,063	49
Financial liabilities designated at fair value	19	191,853	145,687	32
Due to customers	18	641,892	555,886	15
Accrued expenses and deferred income		21,848	21,527	1
Debt issued	19	222,077	190,143	17
Other liabilities	20, 21, 22	60,776	63,251	(4)
Total liabilities		2,230,043	2,290,587	(3)
Equity				
Share capital		207	211	(2)
Share premium		8,884	9,870	(10)
Net income recognized directly in equity, net of tax		(1,188)	815	
Revaluation reserve from step acquisitions, net of tax		38	38	0
Retained earnings		38,081	49,151	(23)
Equity classified as obligation to purchase own shares		(74)	(185)	60
Treasury shares		(10,363)	(10,214)	(1)
Equity attributable to UBS shareholders		35,585	49,686	(28)
Equity attributable to minority interests		6,951	6,089	14
Total equity		42,536	55,775	(24)
Total liabilities and equity		2,272,579	2,346,362	(3)

Statement of Changes in Equity

CHF million	For the year ended		
	31.12.07	31.12.06	31.12.05
Share capital			
Balance at the beginning of the year	211	871	901
Issue of share capital	0	1	2
Capital repayment by par value reduction	0	(631)	0
Cancellation of second trading line treasury shares	(4)	(30)	(32)
Balance at the end of the year attributable to UBS shareholders	207	211	871
Share premium			
Balance at the beginning of the year	9,870	9,992	9,231
Premium on shares issued and warrants exercised	12	46	36
Net premium / (discount) on treasury share and own equity derivative activity	(560)	(271)	(309)
Employee share and share option plans	139	(508)	768
Tax benefits from deferred compensation awards	(577)	611	266
Balance at the end of the year attributable to UBS shareholders	8,884	9,870	9,992
Balance at the end of the year attributable to minority interests	556	461	2,415
Balance at the end of the year	9,440	10,331	12,407
Net income recognized directly in equity, net of tax			
Foreign currency translation			
Balance at the beginning of the year	(1,618)	(432)	(2,520)
Movements during the year	(1,009)	(1,186)	2,088
Subtotal – balance at the end of the year attributable to UBS shareholders¹	(2,627)	(1,618)	(432)
Balance at the end of the year attributable to minority interests	(480)	(208)	(26)
Subtotal – balance at the end of the year	(3,107)	(1,826)	(458)
Net unrealized gains / (losses) on financial investments available-for-sale, net of tax			
Balance at the beginning of the year	2,876	931	761
Net unrealized gains / (losses) on financial investments available-for-sale	1,213	2,574	463
Impairment charges reclassified to the income statement	14	19	96
Realized gains reclassified to the income statement	(2,638)	(649)	(396)
Realized losses reclassified to the income statement	6	1	7
Subtotal – balance at the end of the year attributable to UBS shareholders	1,471	2,876	931
Balance at the end of the year attributable to minority interests	32	30	21
Subtotal – balance at the end of the year	1,503	2,906	952
Changes in fair value of derivative instruments designated as cash flow hedges, net of tax			
Balance at the beginning of the year	(443)	(681)	(322)
Net unrealized gains / (losses) on the revaluation of cash flow hedges	239	1	(474)
Net realized (gains) / losses reclassified to the income statement	172	237	115
Subtotal – balance at the end of the year attributable to UBS shareholders	(32)	(443)	(681)
Balance at the end of the year attributable to minority interests	0	0	0
Subtotal – balance at the end of the year	(32)	(443)	(681)
Net income recognized directly in equity, net of tax - attributable to UBS shareholders	(1,188)	815	(182)
Net income recognized directly in equity - attributable to minority interests	(448)	(178)	(5)
Balance at the end of the year	(1,636)	637	(187)
Revaluation reserve from step acquisitions, net of tax			
Balance at the beginning of the year	38	101	90
Movements during the year	0	(63)	11
Balance at the end of the year attributable to UBS shareholders	38	38	101
Retained earnings			
Balance at the beginning of the year	49,151	44,105	36,692
Net profit attributable to UBS shareholders for the year	(4,384)	12,257	14,029
Dividends paid ²	(4,275)	(3,214)	(3,105)
Cancellation of second trading line treasury shares	(2,411)	(3,997)	(3,511)
Balance at the end of the year attributable to UBS shareholders	38,081	49,151	44,105
Balance at the end of the year attributable to minority interests	16	(25)	170
Balance at the end of the year	38,097	49,126	44,275

Statement of Changes in Equity (continued)

CHF million	For the year ended		
	31.12.07	31.12.06	31.12.05
Equity classified as obligation to purchase own shares			
Balance at the beginning of the year	(185)	(133)	(96)
Movements during the year	111	(52)	(37)
Balance at the end of the year attributable to UBS shareholders	(74)	(185)	(133)
Treasury shares			
Balance at the beginning of the year	(10,214)	(10,739)	(11,105)
Acquisitions	(7,169)	(8,314)	(8,375)
Disposals	4,605	4,812	5,198
Cancellation of second trading line treasury shares	2,415	4,027	3,543
Balance at the end of the year attributable to UBS shareholders	(10,363)	(10,214)	(10,739)
Minority interests – preferred securities	6,827	5,831	5,039
Total equity attributable to UBS shareholders	35,585	49,686	44,015
Total equity attributable to minority interests	6,951	6,089	7,619
Total equity	42,536	55,775	51,634

1 Net of CHF (39) million, CHF 83 million and CHF (292) million of related taxes for the years ended 2007, 2006 and 2005 respectively. 2 Dividends of CHF 2.20 per share, CHF 1.60 per share and CHF 1.50 per share were paid on 23 April 2007, 24 April 2006 and 26 April 2005, respectively.

Additional information: Equity attributable to minority interests

CHF million	For the year ended		
	31.12.07	31.12.06	31.12.05
Balance at the beginning of the year	6,089	7,619	5,426
Issuance of preferred securities	996	1,219	1,539
Other increases	101	131	44
Decreases and dividend payments	(502)	(3,191)	(595)
Foreign currency translation	(272)	(182)	544
Minority interest in net profit	539	493	661
Balance at the end of the year	6,951	6,089	7,619

Shares issued

Number of shares	For the year ended			% change from
	31.12.07	31.12.06	31.12.05	
Balance at the beginning of the year	2,105,273,286	2,177,265,044	2,253,716,354	(3)
Issuance of share capital	1,294,058	2,208,242	3,418,878	(41)
Cancellation of second trading line treasury shares	(33,020,000)	(74,200,000)	(79,870,188)	55
Balance at the end of the year	2,073,547,344	2,105,273,286	2,177,265,044	(2)

Treasury shares

Number of shares	For the year ended			% change from
	31.12.07	31.12.06	31.12.05	
Balance at the beginning of the year	164,475,699	208,519,748	249,326,620	(21)
Acquisitions	102,074,942	117,160,339	156,436,070	(13)
Disposals	(75,425,117)	(87,004,388)	(117,372,754)	13
Cancellation of second trading line treasury shares	(33,020,000)	(74,200,000)	(79,870,188)	55
Balance at the end of the year	158,105,524	164,475,699	208,519,748	(4)

During the year a total of 33,020,000 shares acquired under the second trading line buyback program 2006 were cancelled. The 36,400,000 shares purchased under the buy back program 2007 (CHF 2,599 million) previously intended for cancellation have been rededicated for further use.

On 31 December 2007, a maximum of 144,338 shares could 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 2007 and 31 December 2006, 5,704 shares and zero shares, respectively, have been issued under this program.

All issued shares are fully paid.

Statement of Recognized Income and Expense

For the year ended	31.12.07			31.12.06			31.12.05		
	Attributable to			Attributable to			Attributable to		
	UBS share- holders	Minority interests	Total	UBS share- holders	Minority interests	Total	UBS share- holders	Minority interests	Total
<i>CHF million</i>									
Net unrealized gains/(losses) on financial investments available-for-sale, before tax	(1,825)	2	(1,823)	2,610	9	2,619	152	(58)	94
Change in fair value of derivative instruments designated as cash flow hedges, before tax	541	0	541	332	0	332	(479)	0	(479)
Foreign currency translation	(1,009)	(272)	(1,281)	(1,186)	(182)	(1,368)	2,088	544	2,632
Tax on items transferred to/(from) equity	290	0	290	(759)	0	(759)	138	0	138
Net income recognized directly in equity	(2,003)	(270)	(2,273)	997	(173)	824	1,899	486	2,385
Net income recognized in the income statement	(4,384)	539	(3,845)	12,257	493	12,750	14,029	661	14,690
Total recognized income and expense	(6,387)	269	(6,118)	13,254	320	13,574	15,928	1,147	17,075

Statement of Cash Flows

CHF million	For the year ended		
	31.12.07	31.12.06	31.12.05
Cash flow from / (used in) operating activities			
Net profit	(3,845)	12,750	14,690
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	1,253	1,325	1,556
Amortization of intangible assets	282	196	340
Credit loss expense / (recovery)	238	(156)	(374)
Equity in income of associates	(120)	(117)	(152)
Deferred tax expense / (benefit)	(437)	(517)	(382)
Net loss / (gain) from investing activities	(4,085)	(2,092)	(5,062)
Net loss / (gain) from financing activities	3,779	3,659	4,025
Net (increase) / decrease in operating assets:			
Net due from / to banks	(60,762)	80,269	(1,690)
Reverse repurchase agreements and cash collateral on securities borrowed	173,433	(61,382)	(125,097)
Trading portfolio, net replacement values and financial assets designated at fair value	60,729	(177,087)	(74,799)
Loans / due to customers	47,955	64,029	47,265
Accrued income, prepaid expenses and other assets	(2,467)	(4,536)	(1,227)
Net increase / (decrease) in operating liabilities:			
Repurchase agreements, cash collateral on securities lent	(271,060)	66,370	64,558
Accrued expenses and other liabilities	7,494	14,975	15,536
Income taxes paid	(3,663)	(2,607)	(2,394)
Net cash flow from / (used in) operating activities	(51,276)	(4,921)	(63,207)
Cash flow from / (used in) investing activities			
Investments in subsidiaries and associates	(2,337)	2,856	(1,540)
Disposal of subsidiaries and associates	885	1,154	3,240
Purchase of property and equipment	(1,910)	(1,793)	(1,892)
Disposal of property and equipment	134	499	270
Net (investment in) / divestment of financial investments available-for-sale	5,981	1,723	(2,487)
Net cash flow from / (used in) investing activities	2,753	4,439	(2,409)
Cash flow from / (used in) financing activities			
Net money market paper issued / (repaid)	32,672	16,921	23,221
Net movements in treasury shares and own equity derivative activity	(3,550)	(3,624)	(2,416)
Capital issuance	0	1	2
Capital repayment by par value reduction	0	(631)	0
Dividends paid	(4,275)	(3,214)	(3,105)
Issuance of long-term debt, including financial liabilities designated at fair value	110,874	97,675	76,307
Repayment of long-term debt, including financial liabilities designated at fair value	(62,407)	(59,740)	(30,457)
Increase in minority interests ¹	1,094	1,331	1,572
Dividend payments to / purchase from minority interests	(619)	(1,072)	(575)
Net cash flow from / (used in) financing activities	73,789	47,647	64,549
Effects of exchange rate differences	(12,251)	(2,117)	5,018
Net increase / (decrease) in cash and cash equivalents	13,015	45,048	3,951
Cash and cash equivalents, beginning of the year	136,090	91,042	87,091
Cash and cash equivalents, end of the year	149,105	136,090	91,042
Cash and cash equivalents comprise:			
Cash and balances with central banks	18,793	3,495	5,359
Money market paper ²	77,215	87,144	57,826
Due from banks with original maturity of less than three months	53,097	45,451	27,857
Total	149,105	136,090	91,042

¹ Includes issuance of preferred securities of CHF 996 million, CHF 1,219 million and CHF 1,539 million for the years ended 31 December 2007, 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 3,364 million, CHF 7,183 million and CHF 4,744 million were pledged at 31 December 2007, 31 December 2006 and 31 December 2005, respectively.

Statement of Cash Flows (continued)

CHF million	For the year ended		
	31.12.07	31.12.06	31.12.05
Additional information			
Cash received as interest	103,828	79,805	53,117
Cash paid as interest	97,358	76,109	44,392
Cash received as dividends on equities (including associates, see Note 14)	5,313	4,839	3,869
Significant non-cash investing and financing activities			
Private Banks and GAM, deconsolidation			
Financial investments available-for-sale			60
Property and equipment			180
Goodwill and intangible assets			362
Debt issued			5
Private equity investments, deconsolidation			
Property and equipment	24	264	248
Goodwill and intangible assets			3
Minority interests		62	27
Acquisitions of businesses			
Financial investments available-for-sale			35
Property and equipment			112
Goodwill and intangible assets			377
Minority interests			6
Motor-Columbus, deconsolidation			
Financial investments available-for-sale		178	
Property and equipment		2,229	
Goodwill and 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 intangible assets		428	
Acquisition of Banco Pactual			
Financial investments available-for-sale		36	
Property and equipment		9	
Goodwill and intangible assets		2,218	
Debt issued		1,496	
Acquisition of Piper Jaffray			
Goodwill and intangible assets		605	
Acquisition of McDonald Investments branch network			
Property and equipment	3		
Goodwill and intangible assets	262		
Acquisition of Daehan Investment Trust Management Company			
Property and equipment	2		
Goodwill and intangible assets	224		
Minority interests	60		

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), as issued by the International Accounting Standards Board (IASB), and stated in Swiss francs (CHF), the currency of Switzerland where UBS AG is incorporated. On 6 March 2008, the Board of Directors approved them for issue.

Disclosures under IFRS 7 *Financial Instruments: Disclosures* about the nature and extent of risks and Capital disclosures under IAS 1 *Presentation of Financial Statements* have been included in the audited sections of *Risk, Treasury and Capital Management 2007*.

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, associates and jointly controlled entities

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. UBS controls an entity if it has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. 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).

Equity attributable to minority interests is presented in the consolidated balance sheet within equity, separately from equity attributable to UBS shareholders. Net income attributable to minority interests is shown separately in the income statement.

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.

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.

Interests in jointly controlled entities, in which UBS and one or more third parties have joint control, are accounted for under the equity method. A jointly controlled entity is subject to a contractual agreement between UBS and one or more third parties, which establishes joint control over its economic activities. Interests in such entities are reflected under Investments in associates on the balance sheet and the related disclosures are included in the disclosures for associates. UBS holds certain interests in jointly controlled real estate entities.

Assets and liabilities of subsidiaries, investments in associates and interests in jointly controlled entities 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 profit from discontinued operations before tax, comprising the total of profit or loss before tax from operations and net gain or loss on sale before tax, as well as discontinued operations tax expense.

4) Recognition and derecognition of financial instruments

UBS recognizes financial instruments on its balance sheet 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 in this Note 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.

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 it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Assets held in an agency or fiduciary capacity are not assets of the Group and are not reported in the Financial Statements, provided the recognition criteria of IFRS are not satisfied.

5) Determination of fair value

For an overview of financial assets and financial liabilities accounted for at fair value, refer to the IAS 39 measurement categories presented in Note 28: financial assets and financial liabilities held for trading, financial assets and financial liabilities designated at fair value through profit or loss, and financial investments available-for-sale. For details on the determination of fair value, including those on fair value measurements for instruments linked to the US residential mortgage market, refer to Note 26.

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 non-standardized financial instruments of lower complexity 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. The impact on Net profit of financial instrument valuations reflecting non-market observable inputs is disclosed in Note 26d). When entering into a transaction where model inputs are not market observable, 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 ("Deferred day 1 profit or loss") depends on the individual facts and circumstances of each transaction but is never later than when the market data become observable. Refer to Note 26e) for details on deferred day 1 profit or loss.

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.

A breakdown of fair values of financial instruments measured on the basis of quoted market prices in active markets (level 1), valuation techniques reflecting market observable inputs (level 2), and valuation techniques reflecting significant non-market-observable inputs (level 3) is provided in Note 26b).

6) Trading portfolio assets and liabilities

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 obli-

gations 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")
A financial instrument may only be designated at fair value through profit or loss at inception and this designation cannot subsequently be changed. Financial assets and financial liabilities designated at fair value are presented in separate lines on the face of the balance sheet.

The conditions for applying the fair value option are met on the basis that

- a) they are hybrid instruments which consist of a debt host and an embedded derivative component, or
- b) they are items that are part of a portfolio which is risk managed on a fair value basis and reported to senior management on that basis, or
- c) the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise.

Hybrid instruments which fall under criterion a) above include i) bonds and compound debt liabilities issued, ii) compound debt liabilities – OTC, and iii) hybrid financial assets from reverse repurchase agreements. Bonds and compound debt liabilities issued and OTC generally include em-

bedded derivative components which refer to an underlying, e.g. equity price, interest rate, commodities price or index. UBS has designated almost all of its issued hybrid debt instruments as Financial liabilities designated at fair value through profit or loss.

Besides hybrid instruments, the fair value option is also applied to certain loans and loan commitments which are substantially hedged with credit derivatives. The application of the fair value option to these instruments reduces an accounting mismatch, as loans would have been otherwise accounted for at amortized cost or as financial investments available-for-sale (refer to part 8)), whereas the hedging credit protection is accounted for as a derivative instrument at fair value through profit or loss. Loan commitments other than onerous loan commitments are only recognized on balance sheet if the fair value option has been applied.

UBS has also applied the fair value option to a hedge fund investment which is part of a portfolio managed on a fair value basis. 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 include strategic equity investments as well as 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 and non-performing loans acquired in the secondary market are classified as financial investments available-for-sale.

Financial investments available-for-sale are carried at fair value. Lock-in periods for equity investments are considered when determining 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 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 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 and receivables

For an overview of financial assets and financial liabilities accounted for as loans and receivables, refer to the IAS 39 measurement categories presented in Note 28.

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. Certain purchased non-performing loans are recognized as financial investments available-for-sale.

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.

Commitments

Letters of credit, guarantees and similar instruments commit UBS to make payments on behalf of third parties under specific circumstances. These instruments, as well as undrawn irrevocable credit facilities, carry credit risk and are included in the exposure to credit risk table, in the audited "Credit risk" section of *Risk, Treasury and Capital Management 2007*, with their gross maximum exposure to credit risk.

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 or receivable 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 generally 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 financial assets, which generally results in the sale of these assets to special purpose entities, which in turn issue securities to investors. UBS applies the policies set out in part 4) in determining whether the respective special purpose entity must be consolidated and those set out in part 3) in determining whether derecognition of transferred financial assets is appropriate. The following statements mainly apply to financial asset transfers which are considered true sales to non-consolidated entities.

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 recognized in Net trading income, which is generally when the derecognition criteria are satisfied. Typically, the Group seeks to exit its risk in retained interests shortly after close of the securitization. The Group is also an active market maker in these securities and may therefore

subsequently reacquire interests in the assets it securitizes. Financial assets purchased with the intention of securitizing them in the future, often referred to as warehousing assets or loans, are generally reflected in Trading portfolio assets, with changes in fair value recognized in net trading income. Synthetic securitization structures typically involve derivative financial instruments for which the principles set out in part 14) apply. Purchased asset-backed securities (ABS), including mortgage-backed securities (MBS), originated by third parties are recognized as financial assets held for trading, or in a minority of cases, as Financial investments available-for-sale.

UBS securitizes residential and commercial mortgage and other assets, acting as lead or co-manager. In addition, UBS acts as warehouse agent, structurer and placement agent in various collateralized debt obligation (CDO) and collateralized loan obligation (CLO), MBS and other ABS securitizations. In such capacity, UBS may purchase collateral on its own behalf or on behalf of customers during the period prior to securitization. UBS typically sells the collateral into designated trusts at the close of the securitization and underwrites the offerings to investors. UBS earns fees for its placement and structuring services. For residential mortgage loan and other securitizations, the investors and the securitization vehicle generally have no recourse to UBS's other assets for failure of loan holders to pay when due.

Consistent with the valuation of similar inventory, fair value of retained tranches or warehousing assets is initially and subsequently determined using market price quotations where available or internal pricing models that utilize variables such as yield curves, prepayment speeds, default rates, loss severity, interest rate volatilities and spreads. The assumptions used for pricing are based on observable transactions in similar securities and are verified by external pricing sources, where available.

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 rec-

ognized 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 repledge 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 repledge 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 in financing transactions (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 in 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 repledge 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, maturity, currency and Central Securities Depository (CSD) 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.

Credit losses incurred on over-the-counter (OTC) derivatives are also reported in Net trading income.

Hedge accounting

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.

Fair value hedges

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.

Cash flow hedges

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.

Economic hedges which do not qualify for hedge accounting

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 reported in Net interest income. Additionally, 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)). Credit losses incurred on over-the-counter (OTC) derivatives are reported in Net trading income.

Embedded derivatives

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 stand-alone derivative instrument at fair value through profit or loss 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. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract, and are shown in Note 28 in the "Held for trading" category, reflecting the measurement and recognition principles applied.

Typically, UBS applies the fair value option to hybrid instruments (see part 7)), in which case 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.

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.

Classification for own-used property

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

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

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.

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 held for sale

Non-current property formerly own-used or leased to third parties under an operating lease and equipment the Group has decided to sell are classified as non-current 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 and other properties classified as current assets 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

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 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. Goodwill is not amortized; it is tested yearly for impairment, and, additionally, when a reasonable indication of impairment exists. 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. Refer to Note 16 for details.

Intangible assets comprise separately identifiable intangible items arising from acquisitions and certain purchased trademarks and similar items. 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. Almost all identified intangible assets of UBS have a definite useful life. At each balance sheet date, 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 current and deferred taxes recognized (i) upon the acquisition of a subsidiary, (ii) for unrealized gains or losses on financial investments available-for-sale, for changes in fair value of derivative instruments designated as cash flow hedges, for certain foreign currency translations of foreign operations, (iii) for certain tax benefits on deferred compensation awards, and (iv) for gains and losses on the sale of treasury shares. Deferred taxes recognized in a business combination (item (i)) are considered when determining goodwill. Items (ii), (iii) and (iv) 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. Refer to Note 28.

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 standalone 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 bifurcated 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 freestanding derivative, 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 (refer to 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), 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) for further discussion.

Bonds issued by UBS held as a result of market making activities or deliberate purchases in the market are treated as 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 29.

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 average UBS share price at the date of grant. For share option awards, 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 remeasured 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.

23) Amounts due under unit-linked investment contracts

UBS Global Asset Management's financial liabilities from unit-linked contracts are presented as Other Liabilities (refer to Note 20) on the balance sheet. These contracts allow investors to invest in a pool of assets through investment units issued by a UBS subsidiary. The unit holders receive all rewards and bear all risks associated with the reference asset pool. The financial liability represents the amount due to unit holders and is equal to the fair value of the reference asset pool.

24) Provisions

Provisions are recognized when UBS has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reflected under Other liabilities on the balance sheet. Refer to Note 21.

The majority of UBS's provisions relate to operational risks, including litigation. When a provision is recognized, its amount needs to be estimated as the exact amount of the obligation is generally unknown. The estimate is based on all available information and reflects the amount that has the highest probability of being paid. UBS revises existing provisions up or down as soon as it is able to quantify the amounts more accurately.

25) Equity, treasury shares and contracts on UBS shares

UBS AG shares held

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 with gross physical settlement

Contracts that require gross physical settlement in UBS AG shares are classified as Equity (provided a fixed amount of shares is exchanged against a fixed amount of cash) 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 with net cash settlement or settlement option for counterparty

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

Physically settled written put options and forward share purchase contracts

Exceptions to the accounting treatments described on this and previous page are 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.

Minority interests

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.

Trust preferred securities issued

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.

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

UBS classifies individual non-current non-financial assets and disposal groups as held for sale 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 (and liabilities in the case of disposal groups) are measured at the lower of their carrying

amount and fair value less costs to sell and presented in Other assets and Other liabilities (see Notes 17 and 20). Netting of assets and liabilities is not permitted.

UBS presents discontinued operations in 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). Net profit from discontinued operations includes the total of operating profit from discontinued operations and the gain or loss recognized on sale or measurement to fair value less costs to sell of the net assets constituting the discontinued operations. 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). Refer to Note 36 for details.

27) 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) transfer of ownership of the asset to the lessee at the end of the lease term; b) existence of a bargain purchase option held by the lessee; c) whether the lease term is for the major part of the economic life of the asset; d) Whether the present value of the minimum lease payments is substantially equal to the fair value of the leased asset at inception of the lease term. If one or more of the these conditions is met, the lease is generally classified as a finance lease, while the non-existence of such conditions normally leads to a classification as an operating lease.

Lease contracts classified as operating leases where UBS is the lessee are disclosed in Note 25 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. Contractual arrangements which are not considered leases in their entirety but which include lease elements are not material to UBS.

28) 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.

29) 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.

30) Earnings per share (EPS)

Basic earnings per share are calculated by dividing the net profit or 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.

31) 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 Industrial Holdings segment holds all industrial operations controlled by the Group. In total, UBS reports six business segments in 2007. Corporate Center includes all corporate functions and elimination items, and is not considered a business segment.

Segment income, segment expenses and segment performance include transfers between reportable segments. Such transfers are conducted either at internally agreed transfer prices or, where possible, at arm's length.

32) Revenues from Industrial Holdings and Goods and materials purchased

Revenues from Industrial Holdings include sales of goods and services from one consolidated entity. 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 2007

IFRS 7 Financial Instruments: Disclosures

On 1 January 2007, UBS adopted the disclosure requirements for financial instruments under IFRS 7. The new standard has no impact on recognition, measurement and presentation of financial instruments. Accordingly, the first-time adoption of IFRS 7 had no effect on Net profit and Equity. Rather, it requires UBS to provide disclosures in its financial statements that enable users to evaluate: a) the significance of financial instruments for the entity's financial position and performance (refer to the notes to the Financial Statements), and b) the nature and extent of credit, market and liquidity risks arising from financial instruments (including details about concentrations of such risks) during the period and at the reporting date, and how UBS manages those risks (refer to the audited sections in *Risk, Treasury and Capital Management 2007*). The disclosure 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.

Netting

In second quarter 2007, UBS concluded that it meets the criteria to offset Positive and Negative replacement values of OTC interest rate swaps transacted with London Clearing House (LCH). Under IFRS, positions are netted by currency and across maturities. The amount of replacement values netted was CHF 35,470 million at 31 December 2006. Furthermore, amounts included in Loans and Due to customers related to the Prime Brokerage business have been netted. At 31 December 2006, amounts netted were CHF 14,679 million. In both cases, the application of netting had no impact on UBS's income statement, Earnings per share, credit exposure and regulatory capital.

Syndicated finance revenues

In fourth quarter 2007, UBS revised the presentation of certain syndicated finance revenues in its income statement. Revenues which relate to syndicated loan commitments designated at fair value through profit or loss are now presented in Net trading income rather than as Debt underwriting fees in Net fee and commission income. Prior periods have been adjusted to conform to this presentation. The adjustments resulted in a reduction of Net fee and commission income of CHF 425 million and CHF 252 million for 2006 and 2005 respectively and a corresponding increase in Net trading income in these periods. The change in presentation had no impact on UBS's Net profit and Earnings per share for all periods presented.

The adoption of the following new interpretations on 1 January 2007 had no material impact on UBS's Financial Statements:

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

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. UBS has no subsidiaries operating in a hyperinflationary economy.

IFRIC 8 Scope of IFRS 2

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 remeasured at each reporting date until it is settled.

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.

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.

IFRIC 11 IFRS 2: Group and Treasury Share Transactions

IFRIC 11 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.

Effective in 2006 and earlier

IAS 39 Financial Instruments: Recognition and Measurement – Amendment 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 the 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 2006 and 2007. In addition, effective 1 January 2006, the disclosure requirements for financial instruments designated at fair value through profit or loss (refer to Notes 12 and 19) have been amended due to the revision of IAS 32 *Financial Instruments: Presentation*.

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. This 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 this policy, UBS applies a dual approach that considers both the carryover and reversing effects of prior year misstatements. As a result of this 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 the balance sheet. The adjustments relate to the under-accrual of unused vacation, sabbatical leave and service anniversary awards. The restatement impact of adopting this policy was immaterial to all quarterly and annual income statements, earnings per share amounts, and balance sheets since 1 January 2002.

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.

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.

IFRS 2 Share-based Payment

UBS adopted IFRS 2 *Share-based Payment* on 1 January 2005 and fully restated the two comparative prior years. IFRS 2 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 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.

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. Refer to a18) for details.

Non-current Assets Held for Sale and Discontinued Operations

UBS adopted IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* on 1 January 2005. Refer to a26) 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 were presented including minority interests. Refer to a3) and a25) for details.

c) International Financial Reporting Standards and Interpretations to be adopted in 2008 and later

IFRS 2 Share-based Payment

In January 2008, the International Accounting Standards Board (IASB) issued an amendment to IFRS 2 *Share-based Payment*. The amended standard, entitled IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations*, is effective 1 January 2009 (early adoption permitted). The new standard clarifies the definition of vesting conditions and the accounting treatment of cancellations. UBS has early adopted this amended standard as of 1 January 2008. Under the amended standard, UBS is required to distinguish between vesting conditions (such as service and performance conditions) and non-vesting conditions. The amended standard no longer considers vesting conditions to include certain non-compete provisions and transfer restrictions. Prior to adopting this amendment, UBS treated non-compete provisions as vesting conditions. The impact of this change will be that, from 1 January 2008, most of UBS's share and certain option awards will be expensed in the performance year rather than over the period through

which the non-compete conditions are applicable. Restrictions remaining effective after the employee becomes entitled to the share-based award will be considered when determining grant date fair value. Following adoption of this amendment, UBS will fully restate the two comparative prior years (2006 and 2007).

The effect of the restatement on the opening balance at 1 January 2006 will be as follows: reduction of retained earnings by approximately CHF 2.2 billion, increase of share premium by approximately CHF 2.3 billion, increase of liabilities (including deferred tax liabilities) by approximately CHF 0.3 billion, and increase of deferred tax assets by approximately CHF 0.4 billion. Additional compensation expense of approximately CHF 800 million and approximately CHF 500 million will be recognized in 2007 and 2006, respectively. The additional compensation expense is attributable to the acceleration of expense related to share-based awards which contain non-compete provisions and transfer restrictions that no longer qualify as vesting conditions under the Standard. The additional compensation expense of approximately CHF 800 million for 2007 includes awards granted in 2008 for the performance year 2007.

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 recon-

ciliations 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.

IAS 1 (revised) Presentation of Financial Statements and IAS 32 (revised) Financial Instruments: Presentation

IAS 1 (revised), *Presentation of Financial Statements*, was issued in September 2007 and is effective on 1 January 2009. The revised standard affects the presentation of owner changes in equity and of comprehensive income: UBS will continue presenting owner changes in equity in the statement of changes in equity, but the detailed information related to non-owner changes in equity will be removed from the statement of changes in equity and presented in the statement of comprehensive income. The revised standard does not change the recognition, measurement or disclosure of specific transactions addressed in other IFRSs. The amended requirements will have an impact on the presentation and disclosure of the items in UBS's Financial Statements.

In addition, the IASB issued a further amendment to IAS 1 and an amendment to IAS 32 regarding puttable financial instruments and obligations arising on liquidation in February 2008. The IAS 32 amendment clarifies under which circumstances puttable financial instruments and obligations arising on liquidations have to be treated as equity instruments. The amendment is limited in scope and is restricted to the accounting for such instruments under IAS 1, IAS 32, IAS 39 and IFRS 7. The amendment to IAS 1 requires additional information about puttable financial instruments and obligations arising on liquidations which have to be treated as equity instruments. UBS will adopt the two amendments on 1 January 2009. It is not expected that these amendments will have a significant impact on UBS's Financial Statements.

IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements

In January 2008, the IASB issued a revised Standard of IFRS 3 *Business Combinations* and amendments to IAS 27 *Consolidated and Separate Financial Statements*. The most significant changes under revised IFRS 3 are as follows:

- Contingent consideration will be recognized at fair value as part of the consideration transferred at the acquisition date. Currently contingent consideration is only recognized once it meets the probability and reliably measurable criteria.
- Non-controlling interests in an acquiree will either be measured at fair value or as the non-controlling interest's proportionate share of the fair value of net identifiable assets of the entity acquired. The option is available on a transaction-by-transaction basis.

- Transaction costs incurred by the acquirer will no longer be part of the acquisition cost but have to be expensed as incurred.

The revised IFRS 3 is effective for annual periods beginning on or after 1 July 2009 and has to be applied prospectively from the date of adoption to business combinations consummated after that date. Business combinations consummated prior to that date will not be impacted.

The amendments to IAS 27 reflect changes in the accounting for non-controlling interests and deal primarily with the accounting for changes in ownership interests in subsidiaries after control is obtained, the accounting for the loss of control over subsidiaries, and the allocation of profit or loss to controlling and non-controlling interests in a subsidiary. IAS 27 requires that certain amendments be applied retrospectively whereas others are applied prospectively. UBS is currently assessing the impact of restating certain amendments of the Standard.

The revised IFRS 3 and the amendments to IAS 27 are effective for annual periods beginning on or after 1 July 2009 and must be adopted together. UBS is currently assessing whether it will adopt IFRS 3 and the amendments to IAS 27 from 1 July 2009 or earlier as permitted by the Standards.

IFRIC 13 Customer Loyalty Programmes

IFRIC 13 was issued on 28 June 2007 and is effective for annual periods beginning on or after 1 July 2008. IFRIC 13 addresses how companies that grant their customers loyalty award credits when buying goods or services should account for their obligation to provide free or discounted goods and services, if and when the customers redeem the points. IFRIC 13 requires entities to allocate some of the proceeds of the initial sale to the award credits and recognize these proceeds as revenue only when they have fulfilled their obligations to provide goods or services. UBS is currently assessing the impact of this interpretation on its Financial Statements.

IFRIC 14 The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction – IAS 19

IFRIC 14 was issued on 5 July 2007 and is effective for annual periods beginning on or after 1 January 2008. IFRIC 14 provides guidance regarding the circumstances under which refunds and future reductions in contributions from a defined benefit plan can be regarded as available to an entity for the purpose recognizing a net defined benefit asset. Additionally, in jurisdictions where there is both a minimum funding requirement and restrictions over the amounts that companies can recover from the plan, either as refunds or reductions in contributions, additional liabilities may need to be recognized. UBS is currently assessing the impact of this interpretation on its 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. In addition, the Industrial Holdings segment holds all industrial operations controlled by the Group. In total, UBS now reports six business segments and Corporate Center. Corporate Center includes all corporate functions and elimination items and is not considered a business segment.

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. In addition, UBS is active in market-making and proprietary trading.

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 2007 and prior years are presented as discontinued operations.

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 prior to 2006, was sold on 2 December 2005 and is presented as discontinued operations.

DRCM closure

Global Asset Management performance from continuing operations before tax in 2007 includes costs of CHF 384 million for the DRCM closure. These costs are reflected in Personnel expenses (CHF 318 million), General and administrative expenses (CHF 38 million) and impairments reflected in Depreciation of property and equipment (CHF 28 million). More than 50% of the Personnel expenses recorded relate to accelerated recognition of deferred compensation of former DRCM employees leaving UBS.

Note 2a Reporting by Business Group (continued)

For the year ended 31 December 2007

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 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 information⁴
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 in which 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 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	UBS
Global Wealth Management & Business Banking			Global Asset Management	Investment Bank	Corporate Center		
Wealth Management International & Switzerland	Wealth Management US	Business Banking Switzerland					
12,893	6,662	5,286	4,094	(538)	2,873	948	32,218
(1)	(2)	31	0	(266)	0	0	(238)
12,892	6,660	5,317	4,094	(804)	2,873	948	31,980
3,851	4,506	2,535	1,995	10,417	1,383	111	24,798
1,064	976	1,101	559	3,423	1,298	44	8,465
1,531	314	(674)	153	746	(2,194)	124	0
95	79	67	53	210 ²	739	8	1,251
19	66	0	19	172	0	6	282
						119	119
6,560	5,941	3,029	2,779	14,968	1,226	412	34,915
6,332	719	2,288	1,315	(15,772)	1,647	536	(2,935)
					7	128	135
6,332	719	2,288	1,315	(15,772)	1,654	664	(2,800)
							1,311
							(266)
							(3,845)
349,731	71,560	295,657	51,471	1,984,045	(480,386)	501	2,272,579
344,661	66,334	290,999	49,049	1,965,465	(488,124)	1,659	2,230,043
106	254	26	319	88	1,326	19	2,138
12,893	6,662	5,286	4,094	(538)	2,873	948	32,218
(27)	(3)	203	0	(19)	(392)	0	(238)
12,866	6,659	5,489	4,094	(557)	2,481	948	31,980
3,851	4,506	2,535	1,995	10,417	1,383	111	24,798
1,064	976	1,101	559	3,423	1,298	44	8,465
1,531	314	(674)	153	746	(2,194)	124	0
95	79	67	53	210 ²	739	8	1,251
19	66	0	19	172	0	6	282
						119	119
6,560	5,941	3,029	2,779	14,968	1,226	412	34,915
6,306	718	2,460	1,315	(15,525)	1,255	536	(2,935)
					7	128	135
6,306	718	2,460	1,315	(15,525)	1,262	664	(2,800)
							1,311
							(266)
							(3,845)

1 Impairments of financial investments available-for-sale for the year ended 31 December 2007 were as follows: Global Wealth Management & Business Banking CHF 11 million; Global Asset Management CHF 39 million; Investment Bank CHF 22 million; Corporate Center CHF (1) million and Industrial Holdings CHF 3 million. 2 Includes CHF 34 million for impairments of leasehold improvements and other machines and equipment. 3 For further information regarding goodwill and intangible assets by Business Group, please see Note 16: Goodwill and Intangible Assets. 4 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 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 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 information⁴
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 in which 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 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	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	565	47,580
1	(1)	109	0	47	0	0	156
10,828	5,862	5,194	3,220	21,773	294	565	47,736
3,137	3,800	2,412	1,503	11,353	1,264	122	23,591
885	1,073	1,070	399	3,260	1,242	51	7,980
1,479	281	(642)	(105)	956	(1,978)	9	0
84	74	74	27	203 ²	783	7	1,252
10	53	0	4	72	9	5	153
						116	116
5,595	5,281	2,914	1,828	15,844	1,320	310	33,092
5,233	581	2,280	1,392	5,929	(1,026)	255	14,644
					4	875	879
5,233	581	2,280	1,392	5,929	(1,022)	1,130	15,523
							2,785
							(12)
							12,750
286,241	63,249	211,123	48,616	2,058,679	(323,434)	1,888	2,346,362
281,327	57,681	205,747	46,589	2,038,991	(343,152)	3,404	2,290,587
257	273	14	498	593	1,385	97	3,117
10,827	5,863	5,085	3,220	21,726	294	565	47,580
(29)	0	185	0	61	(61)	0	156
10,798	5,863	5,270	3,220	21,787	233	565	47,736
3,137	3,800	2,412	1,503	11,353	1,264	122	23,591
885	1,073	1,070	399	3,260	1,242	51	7,980
1,479	281	(642)	(105)	956	(1,978)	9	0
84	74	74	27	203 ²	783	7	1,252
10	53	0	4	72	9	5	153
						116	116
5,595	5,281	2,914	1,828	15,844	1,320	310	33,092
5,203	582	2,356	1,392	5,943	(1,087)	255	14,644
					4	875	879
5,203	582	2,356	1,392	5,943	(1,083)	1,130	15,523
							2,785
							(12)
							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 Includes a CHF 34 million software impairment. ³ For further information regarding goodwill and intangible assets by Business Group, please see Note 16: Goodwill and Intangible Assets. ⁴ 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 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 information³
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 in which 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	795	40,316
(8)	0	231	0	152		0	0	375
9,016	5,158	5,180	2,487	17,600		455	795	40,691
2,579	3,460	2,450	988	9,259		1,167	164	20,067
804	1,047	994	304	2,215		1,084	56	6,504
1,371	223	(634)	116	640		(1,730)	14	0
89	65	72	21	136		857	7	1,247
7	49	0	1	53		17	6	133
							97	97
4,850	4,844	2,882	1,430	12,303		1,395	344	28,048
4,166	314	2,298	1,057	5,297		(940)	451	12,643
					4,556	8	530	5,094
4,166	314	2,298	1,057	5,297	4,556	(932)	981	17,737
								2,465
								582
								14,690
223,790	64,896	176,837	40,782	1,706,670		(226,069)	11,549	1,998,455
219,140	59,567	170,668	39,191	1,689,041		(242,600)	11,814	1,946,821
81	84	58	16	138	25	1,264	299	1,965
9,024	5,158	4,949	2,487	17,448		455	795	40,316
(13)	(2)	122	0	36		232	0	375
9,011	5,156	5,071	2,487	17,484		687	795	40,691
2,579	3,460	2,450	988	9,259		1,167	164	20,067
804	1,047	994	304	2,215		1,084	56	6,504
1,371	223	(634)	116	640		(1,730)	14	0
89	65	72	21	136		857	7	1,247
7	49	0	1	53		17	6	133
							97	97
4,850	4,844	2,882	1,430	12,303		1,395	344	28,048
4,161	312	2,189	1,057	5,181		(708)	451	12,643
					4,508	56	530	5,094
4,161	312	2,189	1,057	5,181	4,508	(652)	981	17,737
								2,465
								582
								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 intangible assets by Business Group, please see Note 16: Goodwill and Intangible Assets. 3 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 2007

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	18,787	59	222,539	10	436	20
Rest of Europe / Middle East / Africa	1,042	3	776,882	34	380	18
Americas	5,758	18	1,015,167	45	1,004	47
Asia Pacific	6,393	20	257,991	11	318	15
Total	31,980	100	2,272,579	100	2,138	100

For the year ended 31 December 2006

	Total operating income		Total assets		Capital expenditure	
	CHF million	Share %	CHF million	Share %	CHF million	Share %
Switzerland	12,964	27	211,565	9	650	21
Rest of Europe / Middle East / Africa	12,512	26	699,516	30	385	12
Americas	17,272	36	1,229,254	52	1,754	56
Asia Pacific	4,988	11	206,027	9	328	11
Total	47,736	100	2,346,362	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	13,798	34	203,907	10	973	49
Rest of Europe / Middle East / Africa	8,976	22	628,070	32	467	24
Americas	14,284	35	1,004,230	50	386	20
Asia Pacific	3,633	9	162,248	8	139	7
Total	40,691	100	1,998,455	100	1,965	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 on this and 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 businesses. In many cases, a particular business 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 businesses that drive

it. The second table below (labeled Breakdown by businesses) provides information that corresponds to this management view. Net income from trading businesses includes both interest and trading income generated by the Group's trading businesses and the Investment Bank's lending activities. Net income from interest margin businesses comprises interest income from the Group's loan portfolio. Net income from treasury and other activities reflects all income from the Group's centralized treasury function.

Net interest and trading income

CHF million	For the year ended			% change from 31.12.06
	31.12.07	31.12.06	31.12.05	
Net interest income	5,337	6,521	9,528	(18)
Net trading income	(8,353)	13,743	8,248	
Total net interest and trading income	(3,016)	20,264	17,776	

Breakdown by businesses

CHF million	For the year ended			% change from 31.12.06
	31.12.07	31.12.06	31.12.05	
Net income from trading businesses¹	(10,658)	13,730	11,795	
Net income from interest margin businesses	6,230	5,718	5,292	9
Net income from treasury activities and other	1,412	816	689	73
Total net interest and trading income	(3,016)	20,264	17,776	

¹ Includes lending activities of the Investment Bank.

Net interest income¹

CHF million	For the year ended			% change from 31.12.06
	31.12.07	31.12.06	31.12.05	
Interest income				
Interest earned on loans and advances ²	21,263	15,266	11,678	39
Interest earned on securities borrowed and reverse repurchase agreements	48,274	39,771	23,362	21
Interest and dividend income from trading portfolio	39,101	32,211	24,134	21
Interest income on financial assets designated at fair value	298	25	26	
Interest and dividend income from financial investments available-for-sale	176	128	86	38
Total	109,112	87,401	59,286	25
Interest expense				
Interest on amounts due to banks and customers	29,318	20,024	11,226	46
Interest on securities lent and repurchase agreements	40,581	34,021	20,480	19
Interest and dividend expense from trading portfolio	15,812	14,533	10,736	9
Interest on financial liabilities designated at fair value	7,659	4,757	2,390	61
Interest on debt issued	10,405	7,545	4,926	38
Total	103,775	80,880	49,758	28
Net interest income	5,337	6,521	9,528	(18)

¹ Interest includes forward points on foreign exchange swaps used to manage short-term interest rate risk on foreign currency loans and deposits. ² Includes interest income on impaired loans and advances of CHF 110 million for 2007, CHF 158 million for 2006 and CHF 123 million for 2005.

Note 3 Net Interest and Trading Income (continued)

Net trading income¹

CHF million	For the year ended			% change from 31.12.06
	31.12.07	31.12.06	31.12.05	
Equities	9,048	7,064	3,900	28
Fixed income	(20,949)	2,755	1,240	
Foreign exchange and other ²	3,548	3,924	3,108	(10)
Net trading income	(8,353)	13,743	8,248	
<i>thereof net gains/(losses) from financial assets designated at fair value</i>	<i>(30)</i>	<i>(397)</i>	<i>70</i>	
<i>thereof net gains/(losses) from financial liabilities designated at fair value</i>	<i>(3,779)</i>	<i>(3,659)</i>	<i>(4,024)</i>	

¹ Please refer to the table "Net Interest and Trading Income" on the previous page for the Net income from trading businesses (for an explanation, read the corresponding introductory comment).

² Includes cash & collateral trading and commodities.

For the year ended 31 December 2007, the Group recorded a gain of CHF 659 million in Net trading income from changes in the fair value of financial liabilities designated at fair value attributable to changes in the Group's own credit risk. The change applies to those financial liabilities designated at fair value where the Group's own credit risk would be con-

sidered by market participants and excludes fully collateralized transactions and other instruments for which it is established market practice not to include an entity-specific adjustment for own credit. It was calculated based on a yield curve generated from observed external pricing for funding associated with new senior debt issued by the Group.

Positions with significant impact on net trading income^{1,2}

For the year ended 31 December 2007	USD billion	CHF billion ³
US Super Senior RMBS CDO	(9.2)	(10.5)
US Residential mortgage-backed securities (RMBS)	(2.6)	(2.9)
US Warehouse and retained RMBS CDO	(2.8)	(3.2)
US Reference linked notes (RLN) ⁴	(1.3)	(1.5)
US Alt-A, AAA – rated RMBS backed by first lien mortgages	(0.8)	(0.9)
US Alt-A residential mortgage instruments, other	(1.2)	(1.4)
Credit valuation adjustments for monoline credit protection on US RMBS CDO	(0.8)	(0.9)
Total	(18.7)	(21.3)

¹ Includes only the main positions reflected in the audited section "Risk concentrations" in *Risk, Treasury and Capital Management 2007*. ² The losses of CHF 21.3 billion disclosed in this table are reflected in Net trading income of CHF (8,353) million for the year ended 31 December 2007. ³ The exchange rate represents the average rate for fourth quarter 2007 (1 USD = 1.14 CHF). ⁴ Includes US residential sub-prime and Alt-A mortgage components of the RLN program.

Note 4 Net Fee and Commission Income

CHF million	For the year ended			% change from 31.12.06
	31.12.07	31.12.06	31.12.05	
Equity underwriting fees	2,564	1,834	1,341	40
Debt underwriting fees	1,178	1,279	1,264	(8)
Total underwriting fees	3,742	3,113	2,605	20
M&A and corporate finance fees	2,768	1,852	1,460	49
Brokerage fees	10,281	8,053	6,718	28
Investment fund fees	7,422	5,858	4,750	27
Fiduciary fees	297	252	212	18
Custodian fees	1,367	1,266	1,176	8
Portfolio and other management and advisory fees	7,790	6,622	5,310	18
Insurance-related and other fees	423	449	372	(6)
Total securities trading and investment activity fees	34,090	27,465	22,603	24
Credit-related fees and commissions	279	269	306	4
Commission income from other services	1,017	1,064	1,027	(4)
Total fee and commission income	35,386	28,798	23,936	23
Brokerage fees paid	2,610	1,904	1,631	37
Other	2,142	1,438	1,121	49
Total fee and commission expense	4,752	3,342	2,752	42
Net fee and commission income	30,634	25,456	21,184	20

Note 5 Other Income

CHF million	For the year ended			% change from 31.12.06
	31.12.07	31.12.06	31.12.05	
Associates and subsidiaries				
Net gains from disposals of consolidated subsidiaries	(70)	(11)	1	(536)
Net gains from disposals of investments in associates	28	21	26	33
Equity in income of associates	145	106	57	37
Total	103	116	84	(11)
Financial investments available-for-sale				
Net gains from disposals	3,338	921	231	262
Impairment charges	(71)	(12)	(26)	(492)
Total	3,267	909	205	259
Net income from investments in property ¹	108	61	42	77
Net gains from investment properties ²	31	5	12	520
Other	143	204	218	(30)
Total other income from Financial Businesses	3,652	1,295	561	182
Other income from industrial holdings	680	303	566	124
Total other income	4,332	1,598	1,127	171

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

Additional information about Net gains from disposals on Financial investments available-for-sale
In late June 2007, UBS disposed of its 20.7% stake in Julius Baer for a total consideration of CHF 3,951 million. UBS received the Julius Baer shares as part of the consideration in connection with the sale of Private Banks & GAM to Julius Baer in December 2005. UBS had agreed to certain lock-up obligations which expired on 25 May 2007. The

interest in Julius Baer was accounted for as a Financial investment available-for-sale, and the sale resulted in a realized gain, which was previously deferred in Equity, of CHF 1,950 million pre-tax in 2007. On a post-tax basis, the gain on sale was CHF 1,926 million.

In addition, UBS recorded a pre-tax gain of CHF 634 million from the demutualization of Bovespa (the Brazilian stock exchange) and the Brazilian Mercantile & Futures Exchange.

Note 6 Personnel Expenses

<i>CHF million</i>	For the year ended			% change from
	31.12.07	31.12.06	31.12.05	31.12.06
Salaries and bonuses	20,057	19,011	15,867	6
Contractors	630	822	823	(23)
Insurance and social security contributions	1,221	1,376	1,257	(11)
Contribution to retirement plans	922	802	712	15
Other personnel expenses	1,968	1,580	1,408	25
Total personnel expenses	24,798	23,591	20,067	5

Note 7 General and Administrative Expenses

<i>CHF million</i>	For the year ended			% change from
	31.12.07	31.12.06	31.12.05	31.12.06
Occupancy	1,583	1,429	1,271	11
Rent and maintenance of IT and other equipment	702	650	601	8
Telecommunications and postage	950	907	839	5
Administration	1,002	794	716	26
Marketing and public relations	587	603	517	(3)
Travel and entertainment	1,032	937	731	10
Professional fees	1,108	922	622	20
Outsourcing of IT and other services	1,234	1,090	869	13
Other	267	648	338	(59)
Total general and administrative expenses	8,465	7,980	6,504	6

Note 8 Earnings per Share (EPS) and Shares Outstanding

	For the year ended			% change from
	31.12.07	31.12.06	31.12.05	31.12.06
Basic earnings (CHF million)				
Net profit attributable to UBS shareholders	(4,384)	12,257	14,029	
from continuing operations	(4,785)	11,469	9,748	
from discontinued operations	401	788	4,281	(49)

Diluted earnings (CHF million)				
Net profit attributable to UBS shareholders	(4,384)	12,257	14,029	
Less: (Profit)/loss on equity derivative contracts	(16)	(8)	(22)	(100)
Net profit attributable to UBS shareholders for diluted EPS	(4,400)	12,249	14,007	
from continuing operations	(4,801)	11,461	9,749	
from discontinued operations	401	788	4,258	(49)

Weighted average shares outstanding				
Weighted average shares outstanding ¹	1,926,328,078	1,976,405,800	2,013,987,754	(3)
Potentially dilutive ordinary shares resulting from unvested exchangeable shares, options and warrants outstanding ²	1,370,654	82,429,012	83,203,786	(98)
Weighted average shares outstanding for diluted EPS	1,927,698,732	2,058,834,812	2,097,191,540	(6)

Earnings per share (CHF)				
Basic	(2.28)	6.20	6.97	
from continuing operations	(2.49)	5.80	4.84	
from discontinued operations	0.21	0.40	2.13	(48)
Diluted	(2.28)	5.95	6.68	
from continuing operations	(2.49)	5.57	4.65	
from discontinued operations	0.21	0.38	2.03	(45)

¹ Includes an average of 490,118 and 143,809 exchangeable shares for the years ended 31 December 2007 and 31 December 2006, respectively, that can be exchanged into the same number of UBS shares. ² Due to the net loss in 2007, 50,132,221 potential ordinary shares from unexercised employee shares and in-the-money options are not considered as they have an anti-dilutive effect for the year ended 31 December 2007. Total equivalent shares outstanding on out-of-the-money options that were not dilutive for the respective periods but could potentially dilute earnings per share in the future were 119,309,645; 37,229,136; and 29,117,750 for the years ended 31 December 2007, 31 December 2006 and 31 December 2005, respectively.

	As of			% change from
	31.12.07	31.12.06	31.12.05	31.12.06
Total ordinary shares issued	2,073,547,344	2,105,273,286	2,177,265,044	(2)
Second trading line treasury shares				
2005 program			67,770,000	
2006 program		22,600,000		
Other treasury shares	158,105,524	141,875,699	140,749,748	11
Total treasury shares	158,105,524	164,475,699	208,519,748	(4)
Shares outstanding	1,915,441,820	1,940,797,587	1,968,745,296	(1)

Balance Sheet: Assets

Note 9a Due from Banks and Loans (Held at Amortized Cost)

By type of exposure		
<i>CHF million</i>	31.12.07	31.12.06
Banks ¹	60,935	50,456
Allowance for credit losses	(28)	(30)
Net due from banks	60,907	50,426
Loans ¹		
Residential mortgages	122,435	124,548
Commercial mortgages	21,058	19,989
Other loans	193,374	154,531
Subtotal	336,867	299,068
Allowance for credit losses	(1,003)	(1,226)
Net loans	335,864	297,842
Net due from banks and loans (held at amortized cost)	396,771	348,268

¹ Includes Due from banks and loans from industrial holdings in the amount of CHF 27 million and CHF 93 million for 2007 and 2006, respectively.

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

<i>CHF million</i>	31.12.07	31.12.06
Net due from banks and loans (held at amortized cost)	396,771	348,268
Loans designated at fair value ²	4,116	2,252
Total	400,887	350,520

² Equals the sum of Loans and Structured loans in Note 12.

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

<i>CHF million</i>	31.12.07	31.12.06
Switzerland	166,435	163,090
Rest of Europe / Middle East / Africa	79,322	67,584
Americas	128,318	102,768
Asia Pacific	27,843	18,334
Subtotal	401,918	351,776
Allowance for credit losses	(1,031)	(1,256)
Net due from banks, loans (held at amortized cost) and loans designated at fair value	400,887	350,520

By type of collateral

<i>CHF million</i>	31.12.07	31.12.06
Secured by real estate	145,927	146,518
Collateralized by securities	133,912	85,200
Guarantees and other collateral	42,330	27,000
Unsecured	79,749	93,058
Subtotal	401,918	351,776
Allowance for credit losses	(1,031)	(1,256)
Net due from banks, loans (held at amortized cost) and loans designated at fair value	400,887	350,520

Note 9b Allowances and Provisions for Credit Losses

<i>CHF million</i>	Specific allowances and provisions	Collective loan loss allowances and provisions	Total 31.12.07	Total 31.12.06
Balance at the beginning of the year	1,294	38	1,332	1,776
Write-offs	(321)	0	(321)	(363)
Recoveries	55	0	55	62
Increase / (decrease) in credit loss allowances and provisions	242	(4)	238	(156)
Disposals	(131)	0	(131)	0
Foreign currency translation and other adjustments	(9)	0	(9)	13
Balance at the end of the year	1,130	34	1,164	1,332¹

¹ During 2006, all country provisions were released.

<i>CHF million</i>	Specific allowances and provisions	Collective loan loss allowances and provisions	Total 31.12.07	Total 31.12.06
As a reduction of Due from banks	28	0	28	30
As a reduction of Loans	969	34	1,003	1,226
As a reduction of other balance sheet positions	70	0	70	0
Subtotal	1,067	34	1,101	1,256
Included in Other liabilities related to provisions for contingent claims	63	0	63	76
Total allowances and provisions for credit losses	1,130	34	1,164	1,332

Note 9c Impaired Due from Banks and Loans

<i>CHF million</i>	31.12.07	31.12.06
Total gross impaired due from banks and loans ¹	2,392	2,628
Allowance for impaired due from banks	28	30
Allowance for impaired loans	969	1,188
Total allowances for credit losses related to impaired due from banks and loans	997	1,218
Average total gross impaired due from banks and loans ²	2,483	3,003

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

<i>CHF million</i>	31.12.07	31.12.06
Total gross impaired due from banks and loans	2,392	2,628
Estimated liquidation proceeds of collateral	(1,104)	(1,059)
Net impaired due from banks and loans	1,288	1,569
Total allowances for credit losses related to impaired due from banks and loans	997	1,218

Note 9d 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.

<i>CHF million</i>	31.12.07	31.12.06
Total gross non-performing due from banks and loans	1,481	1,918
Total allowances for credit losses related to non-performing due from banks and loans	873	1,112
Average total gross non-performing due from banks and loans ¹	1,820	2,135

¹ Average balances are calculated from quarterly data.

<i>CHF million</i>	31.12.07	31.12.06
Non-performing due from banks and loans at the beginning of the year	1,918	2,363
Net additions / (reductions)	(165)	(157)
Write-offs and disposals	(272)	(288)
Non-performing due from banks and loans at the end of the year	1,481	1,918

By type of exposure

<i>CHF million</i>	31.12.07	31.12.06
Banks	26	29
Loans		
Secured by real estate	428	561
Other	1,027	1,328
Total loans	1,455	1,889
Total non-performing due from banks and loans	1,481	1,918

By geographical region (based on the location of borrower)

<i>CHF million</i>	31.12.07	31.12.06
Switzerland	1,349	1,744
Rest of Europe / Middle East / Africa	78	106
Americas	51	62
Asia Pacific	3	6
Total non-performing due from banks and loans	1,481	1,918

Note 10 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

<i>CHF million</i>	Cash collateral on securities borrowed 31.12.07	Reverse repurchase agreements 31.12.07	Cash collateral on securities borrowed 31.12.06	Reverse repurchase agreements 31.12.06
By counterparty				
Banks	48,480	221,575	53,538	209,606
Customers	158,583	155,353	298,052	196,228
Total	207,063	376,928	351,590	405,834

Note 10 Securities Borrowing, Securities Lending, Repurchase and Reverse Repurchase Agreements (continued)

Balance sheet liabilities

<i>CHF million</i>	Cash collateral on securities lent 31.12.07	Repurchase agreements 31.12.07	Cash collateral on securities lent 31.12.06	Repurchase agreements 31.12.06
By counterparty				
Banks	29,512	139,156	44,118	274,910
Customers	2,109	166,731	18,970	270,570
Total	31,621	305,887	63,088	545,480

Note 11 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.

<i>CHF million</i>	31.12.07	31.12.06
Trading portfolio assets		
Money market paper	76,866	86,790
<i>thereof pledged as collateral with central banks</i>	<i>198</i>	<i>20,053</i>
<i>thereof pledged as collateral (excluding central banks)</i>	<i>35,604</i>	<i>45,356</i>
<i>thereof pledged as collateral and can be repledged or resold by counterparty</i>	<i>32,239</i>	<i>38,173</i>
Debt instruments		
Swiss government and government agencies	304	340
US Treasury and government agencies	75,137	114,714
Other government agencies	57,864	71,170
Corporate listed	127,990	214,129
Other – unlisted	152,669	111,001
Total	413,964	511,354
<i>thereof pledged as collateral</i>	<i>170,276</i>	<i>244,697</i>
<i>thereof can be repledged or resold by counterparty</i>	<i>106,747</i>	<i>158,549</i>
Equity instruments		
Listed	181,034	183,731
Unlisted	25,968	27,938
Total	207,002	211,669
<i>thereof pledged as collateral</i>	<i>26,870</i>	<i>56,760</i>
<i>thereof can be repledged or resold by counterparty</i>	<i>25,325</i>	<i>54,756</i>
Traded loans	47,122	47,630
Precious metals and other commodities¹	29,418	21,071
Total trading portfolio assets	774,372	878,514
Trading portfolio liabilities		
Debt instruments		
Swiss government and government agencies	85	129
US Treasury and government agencies	50,187	81,385
Other government agencies	40,610	58,538
Corporate listed	24,722	21,788
Other – unlisted	4,822	2,101
Total	120,426	163,941
Equity instruments	44,362	40,832
Total trading portfolio liabilities	164,788	204,773

¹ Other commodities predominantly consist of energy.

Note 12 Financial Assets Designated at Fair Value

<i>CHF million</i>	31.12.07	31.12.06
Loans	3,633	2,104
Structured loans	483	148
Reverse repurchase and securities borrowing agreements		
Banks	4,289	2,942
Customers	1,232	307
Other financial assets	2,128	429
Total financial assets designated at fair value	11,765	5,930

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 9,637 million at 31 December 2007 and 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 2007 and 31 December 2006 is mitigated by collateral of CHF 5,830 million and CHF 3,712 million, respectively.

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:

<i>CHF million</i>	31.12.07	31.12.06
Notional amount of loans and structured loans	4,166	2,348
Credit derivatives related to loans and structured loans – notional amounts ¹	3,351	663
Credit derivatives related to loans and structured loans – fair value ¹	59	2

Additional Information

<i>CHF million</i>	For the year ended		Cumulative from inception until the year ended
	31.12.07	31.12.06 ²	31.12.07
Change in fair value of loans and structured loans designated at fair value, attributable to changes in credit risk ³	(87)	(8)	(98)
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	58	2	59

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 outstanding at the 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 13 Financial Investments Available-for-Sale

<i>CHF million</i>	31.12.07	31.12.06
Money market paper	349	354
Other debt instruments		
Listed	317	260
Unlisted	717	261
Total	1,034	521
Equity instruments		
Listed	1,865	5,880
Unlisted	1,718	2,182
Total	3,583	8,062
Total financial investments available-for-sale	4,966	8,937
Net unrealized gains/(losses) – before tax	1,900	3,723
Net unrealized gains/(losses) – after tax	1,503	2,906

Note 14 Investments in Associates

CHF million	31.12.07	31.12.06
Carrying amount at the beginning of the year	1,523	2,956
Additions	1,656	542
Disposals	(846)	(2,043)
Transfers	(367)	13
Income ¹	137	156
Impairments ²	(17)	(27)
Dividends paid	(42)	(33)
Foreign currency translation	(65)	(41)
Carrying amount at the end of the year	1,979	1,523

¹ Income of CHF (8) million and CHF 50 million is related to industrial holdings for 2007 and 2006 respectively, of which CHF 11 million is related to discontinued operations for 2006. ² Impairments of CHF 17 million and CHF 27 million are related to industrial holdings for 2007 and 2006, respectively.

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. See Note 33 for a list of significant associates.

CHF million	31.12.07	31.12.06
Assets	9,189	27,299
Liabilities	2,524	22,831
Revenues	1,228	1,888
Net profit	321	318

Note 15 Property and Equipment

At historical cost less accumulated depreciation

CHF million	Own-used properties	Leasehold improvements	IT, software and communication	Other machines and equipment	Plant and manufacturing equipment	Projects in progress	31.12.07	31.12.06
Historical cost								
Balance at the beginning of the year	9,286	3,210	4,477	893	53	558	18,477	21,670
Additions	90	287	477	205	2	666	1,727	1,793
Additions from acquired companies	0	4	0	2	0	0	6	29
Disposals / write-offs ¹	(80)	(382)	(317)	(204)	(25)	0	(1,008)	(4,915)
Reclassifications	(28)	314	136	31	0	(529)	(76)	(26)
Foreign currency translation	(26)	(136)	(169)	(42)	(1)	(29)	(403)	(74)
Balance at the end of the year	9,242	3,297	4,604	885	29	666	18,723	18,477
Accumulated depreciation								
Balance at the beginning of the year	4,930	2,096	3,887	623	42	0	11,578	12,275
Depreciation ^{2,3}	231	299	608	110	5	0	1,253	1,325
Disposals / write-offs ¹	(28)	(342)	(310)	(174)	(19)	0	(873)	(1,942)
Reclassifications	(10)	0	(4)	0	0	0	(14)	(10)
Foreign currency translation	(2)	(85)	(159)	(19)	(1)	0	(266)	(70)
Balance at the end of the year	5,121	1,968	4,022	540	27	0	11,678	11,578
Net book value at the end of the year⁴	4,121	1,329	582	345	2	666	7,045	6,899

¹ Includes write-offs of fully depreciated assets. ² Depreciation expense of CHF 2 million and CHF 73 million is related to discontinued operations for 2007 and 2006, respectively. ³ In 2007, amounts include CHF 30 million in impairments of leasehold improvements and CHF 4 million in impairments of other machines and equipment. The 2006 amount includes a CHF 34 million software impairment. ⁴ Fire insurance value of property and equipment is CHF 14,689 million (2006: CHF 13,596 million).

Note 15 Property and Equipment (continued)

At fair value

<i>CHF million</i>	31.12.07	31.12.06
Balance at the beginning of the year	14	28
Additions	182	0
Sales	0	(14)
Revaluations	7	0
Foreign currency translation	(14)	0
Balance at the end of the year	189	14

Note 16 Goodwill and Intangible Assets

At year-end 2007, five out of six segments carry goodwill, of which Industrial Holdings has less than 1% of the total balance. Business Banking Switzerland carries 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. Valuation parameters used within the Group's impairment test model are linked to external market information, where applicable. Discount rates applied are 9% for Wealth Management International & Switzerland and for Business Banking Switzerland, 10.5% for Wealth Management US and Global Asset Management and 11.5% 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. Due to the significant losses incurred by the Investment Bank, the fair value obtained from the model calculation was subject to a stress test by decreasing forecast cash flows by one third and at the same time increasing the discount rate by 3.5% to 15%. The stress value obtained was still significantly above the book value of the Investment Bank which decreased substantially as a result of the losses incurred in 2007.

Note 16 Goodwill and Intangible Assets (continued)

CHF million	Goodwill		Intangible assets		31.12.07	31.12.06
	Total	Infrastructure	Customer relationships, contractual rights and other	Total		
Historical cost						
Balance at the beginning of the year	12,464	942	2,087	3,029	15,493	14,385
Additions and reallocations	940	0	(328)	(328)	612	3,336
Disposals	0	0	(3)	(3)	(3)	(1,373)
Write-offs ¹	0	0	(175)	(175)	(175)	(28)
Foreign currency translation	(575)	(66)	38	(28)	(603)	(827)
Balance at the end of the year	12,829	876	1,619	2,495	15,324	15,493
Accumulated amortization						
Balance at the beginning of the year		291	429	720	720	899
Amortization ²		46	236	282	282	196
Disposals		0	(3)	(3)	(3)	(301)
Write-offs ¹		0	(175)	(175)	(175)	(28)
Foreign currency translation		(22)	(16)	(38)	(38)	(46)
Balance at the end of the year		315	471	786	786	720
Net book value at the end of the year	12,829	561	1,148	1,709	14,538	14,773

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

The following table presents the disclosure of goodwill and intangible assets by Business unit for the year ended 31 December 2007.

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	1,645	125	0		(73)	1,697
Wealth Management US	4,006	193	0		(292)	3,907
Business Banking Switzerland	0	0	0		0	0
Global Asset Management	1,531	495	0		(26)	2,000
Investment Bank	5,262	127	0		(182)	5,207
Corporate Center	0	0	0		0	0
Industrial Holdings	20	0	0		(2)	18
UBS	12,464	940	0		(575)	12,829
Intangible assets						
Wealth Management International & Switzerland	325	(22)	0	(19)	4	288
Wealth Management US	793	58	0	(66)	(56)	729
Business Banking Switzerland	0	0	0	0	0	0
Global Asset Management	498	(262)	0	(19)	47	264
Investment Bank	688	(110)	0	(172)	16	422
Corporate Center	0	0	0	0	0	0
Industrial Holdings	5	8	0	(6)	(1)	6
UBS	2,309	(328)	0	(282)	10	1,709

Note 16 Goodwill and Intangible Assets (continued)

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

<i>CHF million</i>	Intangible assets
Estimated, aggregated amortization expenses for:	
2008	198
2009	195
2010	179
2011	166
2012	141
2013 and thereafter	830
Total	1,709

Note 17 Other Assets

<i>CHF million</i>	Note	31.12.07	31.12.06
Deferred tax assets	22	3,031	3,686
Settlement and clearing accounts		6,370	3,159
VAT and other tax receivables		454	318
Prepaid pension costs		886	814
Properties held for sale		1,145	1,254
Accounts receivable trade		28	114
Inventory – industrial holdings		44	68
Other receivables		6,042	7,836
Total other assets		18,000	17,249

Balance Sheet: Liabilities

Note 18 Due to Banks and Customers

<i>CHF million</i>	31.12.07	31.12.06
Due to banks	145,762	203,689
Due to customers in savings and investment accounts	109,128	114,264
Other amounts due to customers	532,764	441,622
Total due to customers	641,892	555,886
Total due to banks and customers	787,654	759,575

Note 19 Financial Liabilities Designated at Fair Value and Debt Issued

Financial liabilities designated at fair value

<i>CHF million</i>	31.12.07	31.12.06
Bonds and compound debt instruments issued	183,143	135,646
Compound debt instruments - OTC	8,251	9,967
Loan commitments ¹	459	74
Total	191,853	145,687

¹ Loan commitments recognized as Financial liabilities designated at fair value, until drawn down and recognized as loans.

The contractual redemption amount at maturity of Financial liabilities designated at fair value through profit or loss approximates the carrying value at 31 December 2007 and 31 December 2006. Refer to Note 1a7) for details.

Debt issued (held at amortized cost)

<i>CHF million</i>	31.12.07	31.12.06
Short-term debt: Money market paper issued	152,256	119,584
Long-term debt:		
Bonds		
Senior	52,265	53,509
Subordinated	14,129	14,774
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	199	38
Medium-term notes	3,228	2,238
Subtotal long-term debt	69,821	70,559
Total	222,077	190,143

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

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 2007 and 31 December 2006, the carrying value of debt issued was CHF 138 million higher and CHF 256 million higher, respectively, reflecting changes in fair value due to interest rate movements.

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 2007 and 31 December 2006, the Group had CHF 14,129 million and CHF

14,774 million, respectively, in subordinated debt. Subordinated debt usually pays fixed interest annually or floating-rate interest based on the three-month or six-month London Interbank Offered Rate (LIBOR) and provides for single principal payments upon maturity.

At 31 December 2007 and 31 December 2006, the Group had CHF 238,835 million and CHF 191,431 million, respectively, in unsubordinated debt (excluding money market paper, compound debt instruments – OTC and loan commitments designated at fair value).

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 repricing characteristics into those of floating-rate debt.

Contractual maturity dates

<i>CHF million, except where indicated</i>	2008	2009	2010	2011	2012	2013–2017	Thereafter	Total 31.12.07	Total 31.12.06
UBS AG (Parent Bank)									
Senior debt									
Fixed rate	94,098	12,357	14,030	8,136	10,835	11,969	4,007	155,432	109,987
Interest rates (range in %)	0–36.5	0–13.5	0–13.25	0–10.25	0–10	0–11.55	0–15		
Floating rate	64,189	15,526	13,456	2,276	7,205	8,217	20,845	131,714	93,904
Subordinated debt									
Fixed rate	0	515	0	0	0	6,109	3,165	9,789	9,414
Interest rates (range in %)		5.875				2.375–7.375	3.385–8.75		
Floating rate	0	0	0	0	0	4,340	0	4,340	5,360
Subtotal	158,287	28,398	27,486	10,412	18,040	30,635	28,017	301,275	218,665
Subsidiaries									
Senior debt									
Fixed rate	46,259	887	1,802	1,166	412	1,913	24,424	76,863	86,862
Interest rates (range in %)	0–12.25	0–10.5	0–12	0–20	0–11.885	0–35	0–35		
Floating rate	5,945	4,006	6,511	4,312	1,454	6,394	7,170	35,792	30,303
Subordinated debt									
Fixed rate	0	0	0	0	0	0	0	0	0
Interest rates (range in %)									
Floating rate	0	0	0	0	0	0	0	0	0
Subtotal	52,204	4,893	8,313	5,478	1,866	8,307	31,594	112,655	117,165
Total	210,491	33,291	35,799	15,890	19,906	38,942	59,611	413,930	335,830

The table above indicates fixed interest rate coupons ranging from 0 up to 36.5% 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	31.12.07	31.12.06
Provisions	21	1,673	1,672
Provisions for contingent claims	9b	63	76
Current tax liabilities		2,000	4,258
Deferred tax liabilities	22	2,069	2,674
VAT and other tax payables		1,079	931
Settlement and clearing accounts		7,476	3,715
Amounts due under unit-linked investment contracts		27,455	33,645
Accounts payable		15	91
Other payables		18,946	16,189
Total other liabilities		60,776	63,251

Note 21 Provisions

CHF million	Operational ¹	Litigation ²	Other ³	Total 31.12.07	Total 31.12.06 ³
Balance at the beginning of the year	185	699	788	1,672	2,072
Additions from acquired companies	0	0	0	0	26
Increase in provisions recognized in the income statement	302	318	110	730	630
Release of provisions recognized in the income statement	(41)	(117)	(58)	(216)	5
Provisions used in conformity with designated purpose	(123)	(386)	(61)	(570)	(466)
Capitalized reinstatement costs	0	0	6	6	22
Disposal of subsidiaries	0	0	(16)	(16)	(607)
Reclassifications	(6)	6	155	155	36
Foreign currency translation	(19)	(46)	(23)	(88)	(46)
Balance at the end of the year	298	474	901	1,673	1,672

¹ Includes provisions for litigation resulting from security risks and transaction processing risks. ² Includes litigation resulting from legal, liability and compliance risks. ³ Other amounts include: 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 105 million on 31 December 2007 and CHF 185 million on 31 December 2006.

Litigation

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 manage-

ment, 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.

Currently, UBS is responding to a number of regulatory inquiries and investigations, and is involved in a number of litigations and disputes, related to the sub-prime crisis, sub-prime securities, and structured transactions involving sub-prime securities. These matters concern, among other things, UBS's valuations, disclosures, write-downs, underwriting, and contractual obligations.

Note 21 Provisions (continued)

At 31 December 2007, UBS is involved in the following legal proceedings which could be material to the Group in a given reporting period:

- a) Tax Shelter: In connection with a criminal investigation of tax shelters, the United States Attorney's Office for the Southern District of New York ("US 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 the subject of the Deferred Prosecution Agreement which the accounting firm KPMG LLP entered into with the US Attorney's Office in August 2005, and are at issue in *United States v. Stein*, 51 05 Cr. 888 (LAK). UBS is cooperating in the government's investigation.
- b) Municipal Bonds: In November 2006, UBS and others received subpoenas from the US Department of Justice, Antitrust Division, and the SEC relating to derivative transactions entered into with municipal bond issuers and to the investment of proceeds of municipal bond issuances. Both investigations are ongoing, and UBS is cooperating. In the SEC investigation, on 4 February 2008, UBS received a "Wells notice" advising that the SEC staff is considering recommending that the SEC bring a civil action against UBS AG in connection with the bidding of various financial instruments associated with municipal securities. Under the SEC's Wells process, UBS will have the opportunity to set forth reasons of law, policy or fact why such an action should not be brought.
- c) HealthSouth: UBS is defending itself in two purported securities class actions brought in the US 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.
- d) 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, one of which 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 one current and one former UBS employee are the subject of criminal proceedings in Milan. UBS AG and UBS Limited are defendants in civil actions brought by Parmalat investors in parallel with the criminal proceedings in Milan. Furthermore, four current or former UBS employees are defendants in relation to criminal proceedings in Parma. Civil claims have also been recently filed in parallel with the criminal proceedings by Parmalat against the individuals and UBS Limited and also by Parmalat investors against the individuals, UBS AG and UBS Limited. UBS AG and UBS Limited deny the allegations made against them and against the individuals in these matters and are vigorously defending themselves in these proceedings.
- e) Insight One: In early July 2007, UBS agreed to a settlement of the InsightOne case after the New York State Attorney General filed a civil complaint regarding UBS's fee-based brokerage program for private clients in the United States in December 2006. UBS denied that the program was part of a scheme to disadvantage clients, but chose to settle to bring the proceedings to an end. Under the settlement, UBS paid a total of USD 23.3 million, of which USD 21.3 million was paid to certain current and former InsightOne customers pursuant to an agreed-upon remediation plan, and USD 2 million was paid in penalties. In 2006, UBS established provisions sufficient to cover the settlement, and therefore the settlement did not impact UBS's Net profit in 2007.
- f) Bankruptcy Estate of Enron: In June 2007, UBS and Enron settled adversarial proceedings in the US Bankruptcy Court for the Southern District of New York brought by Enron to avoid and recover payments made prior to filing for bankruptcy in connection with equity forward and swap transactions. UBS believed it had valid defences to all of Enron's claims, but chose to settle to eliminate the uncertainty created by the proceeding. Under the terms of the settlement, UBS paid Enron USD 115 million and waived a proof of claim for approximately USD 5.5 million that UBS filed in Enron's bankruptcy case. In 2006, UBS recognized a provision for more than half of the settlement amount, with the difference recognized in 2007. Therefore, the settlement did not materially impact UBS's Net profit in 2007.

Note 22 Income Taxes

CHF million	For the year ended		
	31.12.07	31.12.06	31.12.05
Tax expense from continuing operations			
Domestic			
Current	409	1,759	1,403
Deferred	2	(87)	86
Foreign			
Current	1,064	1,534	1,427
Deferred	(164)	(421)	(451)
Total income tax expense from continuing operations	1,311	2,785	2,465
Tax expense from discontinued operations			
Domestic	(258)	(12)	554
Foreign	(8)	0	28
Total income tax expense from discontinued operations	(266)	(12)	582
Total income tax expense	1,045	2,773	3,047

The Group made net tax payments, including domestic and foreign taxes, of CHF 3,663 million, CHF 2,607 million and CHF 2,394 million in 2007, 2006 and 2005 respectively.

The current tax expense for 2007 includes expenses related to prior years of CHF 493 million, of which CHF 517 million was offset by related deferred tax movements.

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:

CHF million	For the year ended		
	31.12.07	31.12.06	31.12.05
Operating profit from continuing operations before tax	(2,935)	14,644	12,643
Domestic	10,379	5,564	5,854
Foreign	(13,314)	9,080	6,789
Income taxes at Swiss statutory rate of 22% for 2007, 2006 and 2005	(646)	3,222	2,781
Increase / (decrease) resulting from:			
Applicable tax rates differing from Swiss statutory rate	(3,019)	829	388
Tax effects of losses not recognized	6,327	21	71
Previously unrecorded tax losses now recognized	(257)	(676)	(97)
Lower taxed income	(1,587)	(941)	(551)
Non-deductible intangible asset amortization	15	21	20
Other non-deductible expenses	227	183	212
Adjustments related to prior years	(72)	316	(283)
Change in deferred tax valuation allowance	5	(548)	(156)
Other items	318	358	80
Income tax expense from continuing operations	1,311	2,785	2,465

Note 22 Income Taxes (continued)

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

<i>CHF million</i>	31.12.07	31.12.06
Deferred tax assets		
Compensation and benefits	2,223	2,611
Net operating loss carry-forwards	10,385	1,508
Trading assets	163	768
Other	859	598
Total	13,630	5,485
Valuation allowance	(10,599)	(1,799)
Deferred tax assets recognized	3,031	3,686
Deferred tax liabilities		
Compensation and benefits	109	122
Property and equipment	175	201
Financial investments and associates	690	1,221
Trading assets	498	684
Goodwill and intangible assets	173	55
Other	424	391
Deferred tax liabilities	2,069	2,674

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 potential tax adjustments or due to insufficiency of future taxable income. The deferred tax assets recognized at 31 December 2007 were as follows: Compensation and benefits: CHF 385 million, Net operating loss carry-forwards: CHF 2,419 million, Trading assets: CHF 77 million and Other: CHF 150 million.

Certain foreign branches and subsidiaries of the Group have deferred tax assets related to net operating loss carry-for-

wards and other items. Because realization of these assets is uncertain, the Group has established valuation allowances of CHF 10,599 million (CHF 1,799 million at 31 December 2006). For companies that suffered tax losses in either the current or preceding year, an amount of CHF 2,363 million (CHF 212 million at 31 December 2006) has been recognized as deferred tax assets based on expectations from profit forecasts and historical performance 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 subsidiaries except to the extent that such earnings are indefinitely invested. At 31 December 2007, no such earnings were treated as indefinitely invested.

At 31 December 2007, net operating loss carry-forwards totalling CHF 19,283 million (not recognized as a deferred tax asset) are available to be offset against potential tax adjustments or future taxable income.

The carry-forwards expire as follows:	31.12.07
Within 1 year	1
From 2 to 4 years	38
After 4 years	19,244
Total	19,283

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), except for futures and exchange-traded options with daily margining, which are presented as receivables and payables. 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, are denominated in the same currency, 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 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).

Note 23 Derivative Instruments and Hedge Accounting (continued)

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 corre-

sponding 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 has also entered 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.

The Group has also entered into a limited volume of interest rate swaps and other interest rate derivatives (e.g. futures) 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.

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. The fair values of outstanding interest rate derivatives designated as fair value hedges were a CHF 125 million net positive replacement value at 31 December 2007 and a CHF 222 million net positive replacement value at 31 December 2006.

Fair value hedges of interest rate risk

CHF million	For the year ended	
	31.12.07	31.12.06
Gains / (losses) on hedging instruments	15	(28)
Gains / (losses) on hedged items attributable to the hedged risk	(11)	(11)
Net gains / (losses) representing ineffective portions of fair value hedges	4	(17)

In addition, the Group has entered into a fair value hedge accounting relationship using foreign exchange derivatives to protect a certain portion of equity investments available-for-sale from foreign currency exposure. The time value associated with the FX derivatives is excluded from the evalua-

tion of hedge ineffectiveness. The fair value of outstanding FX derivatives designated as fair value hedges was a CHF 0 million at 31 December 2007 and CHF 1 million net positive replacement value at 31 December 2006.

Fair value hedges of foreign exchange risk

CHF million	For the year ended	
	31.12.07	31.12.06
Gains / (losses) on hedging instruments	42	49
Gains / (losses) on hedged items attributable to the hedged risk	(44)	(44)
Net gains / (losses) representing ineffective portions of fair value hedges	(2)	5

Note 23 Derivative Instruments and Hedge Accounting (continued)

Fair value hedges of portfolio interest rate risk
The Group also applies fair value hedge accounting of portfolio interest rate risk. 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 2007 was a CHF 58 million net positive replacement value and at 31 December 2006 was a CHF 21 million net positive replacement value.

Fair value hedges of portfolio interest rate risk

CHF million	For the year ended	
	31.12.07	31.12.06
Gains/(losses) on hedging instruments	37	15
Gains/(losses) on hedged items attributable to the hedged risk	(30)	(23)
Net gains/(losses) representing ineffective portions of fair value hedges	7	(8)

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 esti-

mates 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 2007 is shown below.

Forecast cash flows

CHF billion	< 1 year	1–3 years	3–5 years	5–10 years	over 10 years
Cash inflows (assets)	218	395	285	273	15
Cash outflows (liabilities)	84	147	106	102	2
Net cash flows	134	248	179	171	13

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 443 million gain, a CHF 36 million loss and a CHF 35 million gain were recognized in 2007, 2006 and 2005, respectively, due to hedge ineffectiveness.

As of 31 December 2007 and 2006, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were a CHF 99 million net positive

replacement value and a CHF 462 million net negative replacement value, respectively. No Swiss franc hedging interest rate swaps were terminated during 2007 or 2006. At the end of 2007 and 2006, unrecognized income of CHF 135 million and CHF 214 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 79 million net gain in 2007, a CHF 132 million net gain in 2006 and a CHF 243 million net gain in 2005. These amounts were recorded in Net interest income.

Note 23 Derivative Instruments and Hedge Accounting (continued)

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 the audited "Market risk" section in *Risk, Treasury and Capital Management 2007*.

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 the audited "Credit risk" section in *Risk, Treasury and Capital Management 2007*. 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 a 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 addi-

tional capital requirements shown in the in the Risk-weighted assets (BIS) table in the "Capital management" section in *Risk, Treasury and Capital Management 2007* under Off-balance sheet exposures as Forward and swap contracts and Purchased options, which reflect the additional potential future exposure.

In the audited Exposure to credit risk table in the "Credit risk" section in *Risk, Treasury and Capital Management 2007*, and in the Risk-weighted assets (BIS) table in the "Capital management" section in *Risk, Treasury and Capital Management 2007*, the Positive replacement values 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 292,371 million and CHF 219,820 million at 31 December 2007 and 2006 respectively. As a result, positive replacement values after netting for UBS Group were CHF 135,846 million at 31 December 2007 and CHF 73,155 million at 31 December 2006. These figures differ from those shown in the sections mentioned above in *Risk, Treasury and Capital Management 2007* because they cover the whole UBS Group, whereas the relevant tables in *Risk, Treasury and Capital Management 2007* cover only those entities which are subject to consolidation for regulatory capital purposes.

Note 23 Derivative Instruments and Hedge Accounting ¹ (continued)

As of 31 December 2007	Term to maturity								Total PRV	Total NRV	Total notional CHF bn
	within 3 months		3–12 months		1–5 years		over 5 years				
CHF million	PRV ²	NRV ³	PRV	NRV	PRV	NRV	PRV	NRV			
Interest rate contracts											
Over-the-counter (OTC) contracts											
Forward contracts	686	760	129	131	31	48			846	939	1,534.8
Swaps	4,852	5,351	7,864	8,137	52,447	55,061	77,270	69,027	142,433	137,576	28,363.5
Options	410	289	204	622	3,416	4,753	15,770	17,280	19,800	22,944	1,405.0
Exchange-traded contracts ⁴											
Futures											2,072.7
Options	568	622	265	263	28	27			861	912	89.9
Total	6,516	7,022	8,462	9,153	55,922	59,889	93,040	86,307	163,940	162,371	33,465.9
Credit derivative contracts											
Over-the-counter (OTC) contracts											
Credit default swaps	207	248	6,471	5,951	60,864	62,495	26,822	30,905	94,364	99,599	5,172.3
Total rate of return swaps	412	313	143	243	2,457	2,814	7,922	3,235	10,934	6,605	188.3
Total	619	561	6,614	6,194	63,321	65,309	34,744	34,140	105,298	106,204	5,360.6
Foreign exchange contracts											
Over-the-counter (OTC) contracts											
Forward contracts	8,248	8,792	2,554	2,867	888	623	14	33	11,704	12,315	1,322.2
Interest and currency swaps	26,887	28,169	15,780	13,616	19,412	21,934	12,467	11,605	74,546	75,324	4,871.9
Options	4,807	4,396	5,887	5,519	1,316	1,313	52	76	12,062	11,304	1,506.9
Exchange-traded contracts ⁴											
Futures											12.0
Options	66	57	9	9					75	66	4.5
Total	40,008	41,414	24,230	22,011	21,616	23,870	12,533	11,714	98,387	99,009	7,717.5
Equity/index contracts											
Over-the-counter (OTC) contracts											
Forward contracts	2,384	2,006	1,736	1,047	550	738	87	63	4,757	3,854	175.8
Options	3,134	4,163	4,689	9,103	5,412	12,054	1,216	3,548	14,451	28,868	291.4
Exchange-traded contracts ⁴											
Futures											55.6
Options	6,114	6,193	7,909	8,727	6,520	7,173	221	315	20,764	22,408	325.5
Total	11,632	12,362	14,334	18,877	12,482	19,965	1,524	3,926	39,972	55,130	848.3
Precious metals contracts											
Over-the-counter (OTC) contracts											
Forward contracts	463	993	864	659	1,007	489	47	71	2,381	2,212	39.9
Options	488	1,020	1,107	1,116	1,842	1,691	170	130	3,607	3,957	79.1
Exchange-traded contracts ⁴											
Futures											0.2
Options	145	127	226	233	43	41			414	401	28.0
Total	1,096	2,140	2,197	2,008	2,892	2,221	217	201	6,402	6,570	147.2
Commodities contracts, excluding precious metals contracts											
Over-the-counter (OTC) contracts											
Forward contracts	2,421	2,425	1,580	1,567	1,886	1,751	1,065	1,157	6,952	6,900	111.5
Options	469	459	896	1,187	878	1,048	117	134	2,360	2,828	24.9
Exchange-traded contracts ⁴											
Futures											170.3
Options	1,606	1,453	2,284	2,342	1,016	732			4,906	4,527	181.3
Total	4,496	4,337	4,760	5,096	3,780	3,531	1,182	1,291	14,218	14,255	488.0
Total derivative instruments	64,367	67,836	60,597	63,339	160,013	174,785	143,240	137,579	428,217⁵	443,539⁶	

¹ Bifurcated embedded derivatives are presented in the same balance sheet line as the host contract and are excluded from the table. Payables and receivables resulting from the valuation of regular way purchases and sales of financial assets between trade and settlement date are recognized as replacement values and therefore included in the table. ² PRV: Positive replacement value. ³ NRV: Negative replacement value. ⁴ Exchange-traded products include own account trades only. ⁵ 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 135,846 million. ⁶ The impact of netting agreements accepted by the SFBC for capital adequacy calculations is to reduce negative replacement values to CHF 151,168 million.

Note 23 Derivative Instruments and Hedge Accounting¹ (continued)

As of 31 December 2006	Term to maturity								Total PRV	Total NRV	Total notional CHF bn
	within 3 months		3–12 months		1–5 years		over 5 years				
CHF million	PRV ²	NRV ³	PRV	NRV	PRV	NRV	PRV	NRV			
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	51,609	46,249	113,819	108,295	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 ⁴											
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	65,138	61,397	132,187	129,748	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 ⁴											
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
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 ⁴											
Futures											72.4
Options	4,277	4,602	8,238	8,396	9,978	10,458			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
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 ⁴											
Futures											1.0
Options	75	142	242	196	332	369			649	707	23.9
Total	716	1,061	1,491	1,335	2,643	2,021	155	116	5,005	4,533	121.1
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 ⁴											
Futures											236.7
Options	1,884	1,895	2,349	2,152	1,918	1,775			6,151	5,822	67.1
Total	5,359	5,354	5,690	5,675	4,237	4,008	767	867	16,053	15,904	403.1
Total derivative instruments	52,180	52,316	45,751	49,872	102,314	105,716	92,730	89,159	292,975⁵	297,063⁶	

¹ Bifurcated embedded derivatives are presented in the same balance sheet line as the host contract and are excluded from the table. Payables and receivables resulting from the valuation of regular way purchases and sales of financial assets between trade and settlement date are recognized as replacement values and therefore included in the table. ² PRV: Positive replacement value. ³ NRV: Negative replacement value. ⁴ Exchange-traded products include own account trades only. ⁵ 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 73,155 million. ⁶ The impact of netting agreements accepted by the SFBC for capital adequacy calculations is to reduce negative replacement values to CHF 77,243 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	31.12.07	31.12.06
Fair value of securities received which can be sold or repledged	1,491,567	1,436,827
as collateral under reverse repurchase, securities borrowing and lending arrangements, derivative transactions and other transactions	1,396,768	1,342,733
in unsecured borrowings	94,799	94,094
thereof sold or repledged	1,011,090	1,069,795
in connection with financing activities	924,329	969,608
to satisfy commitments under short sale transactions	58,039	87,288
in connection with derivative and other transactions	28,722	12,899

Note 25 Operating Lease Commitments

At 31 December 2007, 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	31.12.07
Operating leases due	
2008	1,085
2009	1,009
2010	920
2011	833
2012	762
2013 and thereafter	3,769
Subtotal commitments for minimum payments under operating leases	8,378
Less: Sublease rentals under non-cancellable leases	742
Net commitments for minimum payments under operating leases	7,636

CHF million	31.12.07	31.12.06	31.12.05
Gross operating lease expense	1,251	1,170	1,232
from continuing operations	1,248	1,150	1,084
from discontinued operations	3	20	148
Sublease rental income from continuing operations	54	56	51
Net operating lease expense	1,197	1,114	1,181
from continuing operations	1,194	1,094	1,033
from discontinued operations	3	20	148

Operating lease contracts include non-cancellable long-term leases of office buildings in most UBS locations. At 31 December 2007, the minimum lease commitments for 17 office lo-

cations each exceeded CHF 100 million. Non-cancellable minimum lease commitments for three office locations in New Jersey, London and Zurich each exceeded CHF 500 million.

Additional Information

Note 26 Fair Value of Financial Instruments

a) Fair Value of Financial Instruments

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 (level 1). Refer to Note 1a5) for an overview on the determination of fair value.

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 existing at the balance sheet dates. If available, market observable inputs are applied to valuation models. Fair value measurements are considered level 2 if all significant inputs are market observable. Where one or more significant input is not market observable, valuations are considered level 3, and the non-market observable valuation parameters are estimated based on appropriate assumptions.

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 and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility, and credit risk.

The fair values of Loans and Debt issued measured at amortized cost are CHF 332.9 billion and CHF 222.8 billion at 31 December 2007, and CHF 296.6 billion and CHF 191.1 billion at 31 December 2006. For all other balance sheet lines including financial instruments, the fair value represents the carrying amount, or the deviation between fair value and carrying amount is negligible.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

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,

credit commitments held for trading and designated at fair value, 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. Accrued interest is recognized as part of the fair value of such instruments.

The Group's own credit risk is included in the determination of fair value of financial liabilities accounted for at fair value, including derivative liabilities, in cases where market participants would consider it relevant to pricing. It was calculated based on a yield curve generated from observed external pricing for funding associated with new senior debt issued by the Group. For fully collateralized transactions and other instruments for which market participants do not include an entity-specific adjustment for own credit, no adjustment for own credit changes is made. For the deferral and recognition of day 1 profit or loss, refer to Note 26e.

Fair value is equal to the carrying amount for these items. For financial instruments linked to the US residential mortgage market, refer to the section on the next page.

- 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. Lock-in periods for equity investments are considered when determining fair value. 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 accounted for at amortized cost is assumed to be approximated by their carrying amounts and, in the case of loans, does not reflect changes in their credit quality, as the impact of impairment is recognized separately by deducting any allowances for credit losses from the carrying 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

Note 26 Fair Value of Financial Instruments (continued)

a) Fair Value of Financial Instruments (continued)

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 any allowances for credit losses from the carrying values.

These valuation techniques and assumptions provide a measurement of fair value for UBS's assets and liabilities. 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.

UBS's undrawn credit commitments are at variable rates, except certain commitments with fixed credit spreads which are classified as held for trading or accounted for under the fair value option. Accordingly, UBS has no significant exposure to fair value fluctuations resulting from interest rate movements related to commitments which are not recognized with their fair value on balance sheet.

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 may also be hedged with derivative instruments based on management's view of their average cash flow and repricing 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. 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 measured 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 1a14). 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.

Positions related to the US residential mortgage market

Where possible, holdings are marked at the quoted market price in an active market. In the current market environment, such price information is typically not available for instruments linked to the US sub-prime residential mortgage market, and UBS applies valuation techniques to measure such instruments. Valuation techniques use "market observable inputs", where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable

market data. For positions where observable reference data is not available, UBS uses valuation models with non-market observable inputs.

For the year ended 31 December 2007, UBS used valuation models primarily for super senior RMBS CDO tranches referenced to sub-prime RMBSs. The model used to value these positions projects losses on the underlying mortgage pools and applies the implications of these projected lifetime losses through to the RMBS securities and then to the CDO structure. The primary inputs to the model are monthly remittance data that describe the current performance of the underlying mortgage pools. These are received near the end of each month and relate to the preceding month's cash flows on the mortgages underlying the relevant mortgage-backed securities. Since this valuation model was adopted in third quarter 2007, UBS has sought to calibrate the model to market information and to review the assumptions of the model on a regular basis. In fourth quarter 2007, UBS calibrated its loss projection estimates to ensure the super senior RMBS CDO valuation model would value relevant market indices (for example, ABX indices) consistently with their observed levels in the market. Despite the various limitations in the comparability of these indices to UBS's own positions, it was felt that adopting this approach would be best in view of the further deterioration in liquidity and resultant lack of observed transactions to which the model could be calibrated. The valuation model also considers the impact of variability in projected lifetime loss levels and applies a discount rate for expected cash flows derived from relevant market index prices (for example, ABX indices). The external ratings of the RMBSs underlying the CDO tranches or the CDO tranches themselves are inputs to the valuation model only to the extent that they impact the timing of potential "events of default". The valuation model incorporates the potential timing and impact of such default events based on an analysis of the contractual rights of various parties to the transaction and the estimated performance of the underlying collateral. There is no single market standard for valuation models in this area and such models have inherent limitations, and different assumptions and inputs would generate different results. The super senior RMBS CDO valuation model is used to value transactions where UBS is net long the super senior RMBS CDO exposure and transactions where UBS holds a gross long position hedged one-to-one with an offsetting short position provided by a monoline insurer. The valuation model therefore provides an estimate of the current credit exposure to monoline insurers via such transactions. The fair value of these positions also takes the counterparty credit risk of the monoline insurers into account. Where valuation techniques based on observable inputs are used to value

Note 26 Fair Value of Financial Instruments (continued)

a) Fair Value of Financial Instruments (continued)

RMBS positions, a consistent approach is used to value related hedge positions with monoline insurers.

Adverse fair value changes of instruments related to the US residential mortgage market are reflected in Net trading income. The related trading positions are recognized on UBS's balance sheet as Trading portfolio instruments or Positive and Negative replacement values. Financial instruments related to the US sub-prime and Alt-A market include collateralized debt obligations (CDOs), mortgage-backed secu-

rities, mortgage loans and derivatives linked to the US mortgage market. Such instruments were either purchased in transactions with third parties or retained in structures such as securitizations originated by UBS. The parameters to measure such instruments generally include expected credit default rates, weighted average life, prepayment speed and discount rates. Information about the risks and exposures of such items is included in the "Risk concentrations" section in *Risk, Treasury and Capital Management 2007*.

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 (level 1).

For financial instruments which do not have quoted market prices directly available from an active market, 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 (level 2). 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 some types 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 (level 3). The illiquidity of a broad range of financial instruments linked to the US residential mortgage market required an extended use of valuations based on partially or fully non-market observable market inputs in the second half of 2007.

The following table presents the valuation methods used to determine fair values of financial instruments carried at fair value.

Determination of fair values from quoted market prices or valuation techniques

	31.12.07				31.12.06			
	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
<i>CHF billion</i>								
Trading portfolio assets	249.3	323.4	37.3	610.0	215.1	411.8	0.1	627.0
Trading portfolio assets pledged as collateral	85.3	55.8	23.2	164.3	243.5	8.0	0.0	251.5
Positive replacement values	6.8	407.4	14.0	428.2	31.3	250.2	11.5	293.0
Financial assets designated at fair value	1.8	10.0	0.0	11.8	0.0	5.1	0.8	5.9
Financial investments available-for-sale	1.2	2.4	1.4	5.0	2.5	4.6	1.8	8.9
Total assets	344.4	799.0	75.9	1,219.3	492.4	679.7	14.2	1,186.3
Trading portfolio liabilities	119.9	44.9	0.0	164.8	169.9	34.9	0.0	204.8
Negative replacement values	6.6	420.1	16.8	443.5	32.7	255.2	9.2	297.1
Financial liabilities designated at fair value	0.0	149.5	42.4	191.9	0.0	113.0	32.7	145.7
Total liabilities	126.5	614.5	59.2	800.2	202.6	403.1	41.9	647.6

Note 26 Fair Value of Financial Instruments (continued)

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 (level 3).

There may be uncertainty about a valuation, resulting from the choice of valuation technique or model used, the assumptions embedded in those models, the extent to which inputs are not market observable, or as a result of other elements affecting the valuation technique. Valuation adjustments, including model reserves, are applied to reflect such uncertainties and are deducted from the fair values produced by the models or other valuation techniques.

All models used for valuation undergo an internal validation process before they are approved for use.

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.

Uncertainties associated with the use of model-based valuations (both level 2 and level 3) are predominantly addressed through the use of model reserves. These reserves reflect the amounts that UBS estimates are appropriate to deduct from the valuations produced directly by the models to reflect uncertainties in the relevant modeling assumptions

and inputs used. In arriving at these estimates, UBS considers the range of market practice and how it believes other market participants would assess these uncertainties. Model reserves are periodically reassessed in light of information from market transactions, pricing utilities, and other relevant sources. The level of these model reserves is, nevertheless, to a large extent judgmental.

To estimate the potential effect on the Financial Statements from the use of alternative valuation techniques or assumptions, UBS makes use of the model reserve amounts described above, by scaling the level of the model reserves higher and lower, to assess the impact on valuation of increasing or decreasing the amount of model-related uncertainty considered.

The potential effect of using reasonably possible alternative valuation assumptions has been quantified as follows:

- Scaling the model reserve amounts upward in line with less favorable assumptions would reduce fair value by approximately CHF 2,710 million at 31 December 2007, by approximately CHF 1,038 million at 31 December 2006 and approximately CHF 1,094 million at 31 December 2005.
- Scaling the model reserve amounts downward in line with more favorable assumptions would increase fair value by approximately CHF 2,160 million at 31 December 2007, approximately CHF 955 million at 31 December 2006, and approximately CHF 1,176 million at 31 December 2005.

Note 26 Fair Value of Financial Instruments (continued)

d) Changes in Fair Value Recognized in Profit or Loss during the Period which were Estimated using Valuation Techniques with Non-market Observable Inputs

Total Net trading income/(loss) for the years ended 31 December 2007, 31 December 2006 and 31 December 2005 was CHF (8,353) million, CHF 13,743 million and CHF 8,248 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 with market observable and/or non-market observable inputs.

Net trading income includes net losses of CHF 11,580 million, net gains of CHF 354 million and net losses of CHF 468 million from unrealized fair value changes of financial instruments for which fair value is calculated on the basis of valuation techniques with significant non-market observable inputs (level 3) for the years ended 31 December 2007, 2006 and 2005.

Such valuation techniques reflecting significant non-market observable inputs (level 3) include mainly models for more complex financial instruments and for financial instruments for which markets were illiquid at the balance sheet date. They require the use of reasonable assumptions and estimates based on market conditions at balance sheet date.

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 with non-market observable inputs were offset or partially 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 with non-market observable inputs and have been recognized in profit or loss during the period represent only a portion of Net trading income.

e) Deferred Day 1 Profit or Loss

The table reflects financial instruments for which fair value is determined using valuation models where not all inputs are market observable. Such financial instruments are initially recognized at their transaction price although the values obtained from the relevant valuation model on day 1

may differ. The table shows 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 (movement of deferred day 1 profit or loss).

<i>CHF million</i>	For the year ended	
	31.12.07	31.12.06
Balance at the beginning of the year	951	1,343
Deferred profit/(loss) on new transactions	1,259	890
Recognized (profit)/loss in the income statement	(1,383)	(1,200)
Revision to fair value estimates	(224)	
Foreign currency translation	(53)	(82)
Balance at the end of the year	550	951

Note 27 Pledged Assets and Transferred Financial Assets which do not Qualify for Derecognition

Financial assets are mainly 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.

Pledged assets

	Carrying amount	
<i>CHF million</i>	31.12.07	31.12.06
Financial assets pledged:		
Financial assets pledged to third parties for liabilities with and without the right of rehypothecation	232,948	366,866
thereof: Financial assets pledged to third parties with right of rehypothecation	164,311	251,478
Mortgage loans	200	81
Total financial assets pledged	233,148	366,947
<i>Other assets pledged</i>		
Precious metals and other commodities	8,628	5,432

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 1a4).

Transfer of financial assets which do not qualify for derecognition

	Continued asset recognition in full – Total assets	
<i>CHF billion</i>	31.12.07	31.12.06
Nature of transaction		
Securities lending agreements	87.7	98.9
Repurchase agreements	73.5	146.5
Other financial asset transfers	75.9	69.8
Total	237.1	315.2

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 1a12) and 1a13). 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 2007 and 2006. The carrying amounts of the partially recognized transferred financial assets are included in the table.

Note 28 Measurement Categories of Financial Assets and Financial Liabilities

	31.12.07	31.12.06
Financial Assets		
Held for trading		
Trading portfolio assets	580,643	605,965
Trading portfolio assets pledged as collateral	164,311	251,478
Positive replacement values	428,217	292,975
Total	1,173,171	1,150,418
Fair value through profit or loss, other		
Financial assets designated at fair value	11,765	5,930
Cash, loans and receivables		
Cash and balances with central banks	18,793	3,495
Due from banks	60,907	50,426
Cash collateral on securities borrowed	207,063	351,590
Reverse repurchase agreements	376,928	405,834
Loans	334,367	296,592
Accrued income and prepaid expenses	9,200	8,685
Other assets	12,874	11,412
Total	1,020,132	1,128,034
Available-for-sale		
Financial investments available-for-sale	4,966	8,937
Total Financial Assets	2,210,034	2,293,319
Financial Liabilities		
Held for trading		
Trading portfolio liabilities	164,788	204,773
Debt issued ¹	74	463
Negative replacement values	443,539	297,063
Total	608,401	502,299
Fair value through profit or loss, other		
Financial liabilities designated at fair value	191,853	145,687
Amounts due under unit-linked contracts	27,455	33,645
Total	219,308	179,332
Financial liabilities at amortized cost		
Due to banks	145,762	203,689
Cash collateral on securities lent	31,621	63,088
Repurchase agreements	305,887	545,480
Due to customers	641,892	555,886
Accrued expenses and deferred income	21,665	21,353
Debt issued	222,003	189,680
Other liabilities	25,302	20,349
Total	1,394,132	1,599,525
Total Financial Liabilities	2,221,841	2,281,156

¹ Includes embedded derivatives presented on the balance sheet line Debt issued.

Note 29 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 2007 and 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 an-

nual 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 2008 to the Swiss pension plan are CHF 580 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 2008 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.

Note 29 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans

CHF million	Swiss			Foreign		
	31.12.07	31.12.06	31.12.05	31.12.07	31.12.06	31.12.05
For the year ended						
Defined benefit obligation at the beginning of the year	(21,506)	(20,972)	(20,225)	(5,207)	(5,020)	(4,142)
Service cost	(367)	(347)	(353)	(88)	(76)	(82)
Interest cost	(633)	(611)	(660)	(264)	(242)	(236)
Plan participant contributions	(236)	(221)	(219)			
Amendments	(414)	(125)	0			
Actuarial gain/(loss)	1,508	(265)	(713)	236	(120)	(416)
Foreign currency translation				298	(84)	(280)
Benefits paid	792	723	866	151	149	144
Special termination benefits	(21)	(17)	(37)	0	0	(2)
Acquisitions				(54)	0	(6)
Settlements	0	329	369	0	186	0
Defined benefit obligation at the end of the year	(20,877)	(21,506)	(20,972)	(4,928)	(5,207)	(5,020)
Fair value of plan assets at the beginning of the year	21,336	20,229	18,575	4,602	4,288	3,580
Expected return on plan assets	1,067	998	925	313	283	263
Actuarial gain/(loss)	(250)	447	1,284	(97)	40	247
Foreign currency translation				(288)	74	253
Employer contributions	584	492	468	200	66	89
Plan participant contributions	236	221	219			
Benefits paid	(792)	(723)	(866)	(151)	(149)	(144)
Settlements	0	(328)	(376)			
Fair value of plan assets at the end of the year	22,181	21,336	20,229	4,579	4,602	4,288
Funded status	1,304	(170)	(743)	(349)	(605)	(732)
Unrecognized net actuarial (gains)/losses	865	2,123	2,334	975	1,237	1,222
Unrecognized past service cost	414	0	0	0	1	1
Unrecognized asset	(2,583)	(1,953)	(1,591)			
(Accrued)/prepaid pension cost	0	0	0	626	633	491
Movement in the net (liability) or asset						
(Accrued)/prepaid pension cost at the beginning of the year				633	491	485
Net periodic pension cost	(584)	(492)	(468)	(97)	(103)	(125)
Employer contributions	584	492	468	200	66	89
Acquisitions				(54)	0	(6)
Settlement				0	170	0
Foreign currency translation				(56)	9	48
(Accrued)/prepaid pension cost	0	0	0	626	633	491
Amounts recognized in the balance sheet						
Prepaid pension cost				887	815	832
Accrued pension liability				(261)	(182)	(341)
(Accrued)/prepaid pension cost	0	0	0	626	633	491

Note 29 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans (continued)

CHF million	Swiss			Foreign		
	31.12.07	31.12.06	31.12.05	31.12.07	31.12.06	31.12.05
For the year ended						
Components of net periodic pension cost						
Service cost	367	347	353	88	76	82
Interest cost	633	611	660	264	242	236
Expected return on plan assets	(1,067)	(998)	(925)	(313)	(283)	(263)
Amortization of unrecognized past service cost	0	125	(3)			
Amortization of unrecognized net (gains)/losses	0	25	101	58	68	68
Special termination benefits	21	17	37	0	0	2
Settlements	0	0	10			
Increase/(decrease) of unrecognized asset	630	365	235			
Net periodic pension cost	584	492	468	97	103	125

Funded and unfunded plans

CHF million	Swiss				
	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Defined benefit obligation from funded plans	(20,877)	(21,506)	(20,972)	(20,225)	(18,216)
Plan assets	22,181	21,336	20,229	18,575	17,619
Surplus/(deficit)	1,304	(170)	(743)	(1,650)	(597)
Experience gains/(losses) on plan liabilities	0	(265)	(77)		
Experience gains/(losses) on plan assets	(250)	447	1,284		

CHF million	Foreign				
	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Defined benefit obligation from funded plans	(4,654)	(5,002)	(4,635)	(3,815)	(3,509)
Defined benefit obligation from unfunded plans	(274)	(205)	(385)	(327)	(154)
Plan assets	4,579	4,602	4,288	3,580	3,402
Surplus/(deficit)	(349)	(605)	(732)	(562)	(261)
Experience gains/(losses) on plan liabilities	(32)	(11)	7		
Experience gains/(losses) on plan assets	(97)	40	247		

	Swiss			Foreign		
	31.12.07	31.12.06	31.12.05	31.12.07	31.12.06	31.12.05
Principal weighted average actuarial assumptions used (%)						
Assumptions used to determine defined benefit obligations at the end of the year						
Discount rate	3.5	3.0	3.0	5.8	5.2	5.0
Expected rate of salary increase	2.5	2.5	2.5	4.8	4.6	4.4
Rate of pension increase	0.8	0.8	0.8	2.4	2.1	1.9
Assumptions used to determine net periodic pension cost for the year ended						
Discount rate	3.0	3.0	3.3	5.2	5.0	5.5
Expected rate of return on plan assets	5.0	5.0	5.0	7.0	6.7	7.0
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

Note 29 Pension and Other Post-Retirement Benefit Plans (continued)

a) Defined benefit plans (continued)

Mortality tables and life expectancies for major plans

Country	Mortality table (end of 2007)	Life expectancy at age 65 for a male member currently					
		aged 65			aged 45		
		31.12.07	31.12.06	31.12.05	31.12.07	31.12.06	31.12.05
Switzerland	BVG 2000	17.8	17.8	17.8	17.8	17.8	17.8
UK	PA 92 G, medium cohort	21.9	21.8	19.7	23.0	23.0	21.3
Germany	Dr.K. Heubeck 2005 G	18.9	18.7	18.5	21.6	21.5	21.3
US	RP 2000 projected to 2008	18.3	17.9	17.5	18.3	17.9	17.5

Country	Mortality table (end of 2007)	Life expectancy at age 65 for a female member currently					
		aged 65			aged 45		
		31.12.07	31.12.06	31.12.05	31.12.07	31.12.06	31.12.05
Switzerland	BVG 2000	21.1	21.1	21.1	21.1	21.1	21.1
UK	PA 92 G, medium cohort	24.8	24.7	22.6	25.8	25.8	24.1
Germany	Dr.K. Heubeck 2005 G	23.0	22.8	22.7	25.6	25.5	25.4
US	RP 2000 projected to 2008	20.5	20.3	20.7	20.5	20.3	20.7

For the year ended	Swiss			Foreign		
	31.12.07	31.12.06	31.12.05	31.12.07	31.12.06	31.12.05

Plan assets (weighted average)

Actual plan asset allocation (%)

Equity instruments	38	41	43	50	53	52
Debt instruments	47	45	43	38	38	39
Real estate	11	11	12	4	4	4
Other	4	3	2	8	5	5
Total	100	100	100	100	100	100

Long-term target plan asset allocation (%)

Equity instruments	33–51	33–51	34–46	49–52	49–53	52–55
Debt instruments	31–50	31–50	30–53	38–44	37–44	44–45
Real estate	10–19	10–19	11–19	4–6	4–6	0–3
Other	0	0	0	1–3	1–5	1–2
Actual return on plan assets (%)	3.9	7.2	12.0	4.8	7.8	13.6

Additional details to fair value of plan assets

CHF million

UBS financial instruments and UBS bank accounts	336	684	613
UBS AG shares ¹	128	193	225
Securities lent to UBS included in plan assets	9,379	7,169	2,222
Other assets used by UBS included in plan assets	111	69	69

¹ The number of UBS AG shares was 2,436,257, 2,600,417 and 3,589,152 as of 31 December 2007, 31 December 2006 and 31 December 2005, respectively.

Note 29 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 190 million as of 31 December 2007 (2006: CHF 219 million, 2005: CHF 216 mil-

lion) and the total accrued post-retirement cost amounts to CHF 181 million as of 31 December 2007 (2006: CHF 176 million, 2005: CHF 168 million). The net periodic post-retirement costs for the years ended 31 December 2007, 31 December 2006 and 31 December 2005 were CHF 26 million, CHF 24 million and CHF 21 million, respectively.

The employer contributions expected to be made in 2008 to the post-retirement medical and life plans are CHF 7 million.

b) Post-retirement medical and life plans

CHF million	31.12.07	31.12.06	31.12.05		
Post-retirement benefit obligation at the beginning of the year	(219)	(216)	(166)		
Service cost	(12)	(10)	(8)		
Interest cost	(11)	(11)	(11)		
Plan participant contributions	(1)	(1)	0		
Actuarial gain/(loss)	39	1	(17)		
Foreign currency translation	14	10	(22)		
Amendments	(8)	(1)	0		
Benefits paid	8	9	8		
Post-retirement benefit obligation at the end of the year	(190)	(219)	(216)		
Fair value of plan assets at the beginning of the year	0	0	0		
Employer contributions	7	8	8		
Plan participant contributions	1	1	0		
Benefits paid	(8)	(9)	(8)		
Fair value of plan assets at the end of the year	0	0	0		
	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Defined benefit obligation	(190)	(219)	(216)	(166)	(179)
Plan asset	0	0	0	0	0
Surplus/(deficit)	(190)	(219)	(216)	(166)	(179)
Experience gains/(losses) on plan liabilities	8	1	(3)	0	0

The assumed average health care cost trend rate used in determining post-retirement benefit expense is assumed to be 11% for 2007 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	25	(20)

Note 29 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 2007, 31 December 2006 and 31 December 2005 were CHF 285 million, CHF 229 million and CHF 184 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:

CHF million	For the year ended		
	31.12.07	31.12.06	31.12.05
Received by UBS			
Fees	58	53	48
Paid by UBS			
Interest	2	2	4
Dividends and capital repayments	38	33	7

The transaction volumes in UBS shares and other UBS securities are as follows:

	For the year ended		
	31.12.07	31.12.06	31.12.05
Financial instruments bought by pension funds			
UBS AG shares (in thousands of shares)	1,728	1,793	2,774
UBS financial instruments (nominal values in CHF million)	950	8	0
Financial instruments sold by pension funds or matured			
UBS AG shares (in thousands of shares)	1,930	2,752	4,526
UBS financial instruments (nominal values in CHF million)	976	14	45

UBS has also leased buildings from its pension funds. The rent paid by UBS under these leases amounted to CHF 6 million in 2007, CHF 4 million in 2006 and CHF 4 million in 2005.

There were no financial instruments due from UBS pension plans outstanding as of 31 December 2007 (2006: CHF 120 million, 2005: CHF 163 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 14,121,239 UBS shares with a market value of CHF 736 million as of 31 December 2007 (2006: 14,158,961 shares with a market value of CHF 1,043 million, 2005: 14,128,558 shares with a market value of CHF 885 million).

Note 30 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 and generally receive at no additional cost two UBS options for each share purchased, up to a maximum annual limit. 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. The options have a strike price equal to the fair market value of a UBS share on the date the option is granted, a two-year vesting period and generally expire ten years from the date of grant. The options are forfeitable in certain circumstances and are settled in equity, except in countries where this is not permitted for legal reasons.

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 annual performance-related compensation in UBS shares or notional UBS shares instead of cash, on a mandatory basis (on-cycle awards). 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 7% being made in AIVs to selected employee groups. The awards granted in UBS shares or notional shares are settled in equity, except in countries where this is not permitted for legal reasons. Awards granted in the form of AIVs are settled in cash. EOP awards generally vest in one-third increments over a three-year vesting period. In certain circumstances, these awards are forfeitable. EOP awards are also granted to selected employees when joining UBS or in other special circumstances (off-cycle awards). Off-cycle awards have the same terms and conditions as on-cycle awards, except that the forfeiture conditions are more stringent.

Senior Executive Equity Ownership Plan (SEEOP): Senior Executives receive between 25% and 50% of their performance-related compensation in UBS shares or notional UBS

shares instead of cash, on a mandatory basis. The awards granted in UBS shares or notional shares are settled in equity. SEEOP awards generally vest in one-fifth increments over a five-year vesting period. These awards are forfeitable if certain conditions are not met.

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 a UBS share on the date the option is granted. One option gives the right to acquire one registered UBS share at the option's strike price. The awards are settled in equity, except in countries where this is not permitted for legal reasons. Options generally vest in one-third increments over a three-year vesting period and generally expire ten years from the grant date. These awards are generally forfeitable upon termination of employment with UBS.

Senior Executive Stock Option Plan (SESOP): Senior Executives may be granted discretionary UBS options with a strike price set at 110% of the fair market value of a UBS share on the date the option is granted. One option gives the right to acquire one registered UBS share at the option's strike price. The awards are settled in equity. Options vest in full following a three-year vesting period and generally expire ten years from the grant date. These awards are forfeitable if certain conditions are not met.

Other plans: UBS sponsors a voluntary deferred compensation plan for selected eligible employees. Under this plan, participants are allowed to notionally invest a portion of their cash bonus in money market funds, UBS and non-UBS mutual funds and other UBS sponsored funds. No additional company match is granted. The awards are generally not forfeitable and are settled in cash. This plan does not result in compensation expense for UBS.

In addition, UBS also grants notional UBS shares to certain client advisors, which vest in one-fifth increments over a five-year vesting period starting six years after the date of grant. The awards are generally settled in equity, except in countries where this is not permitted for legal reasons, and are forfeitable in certain circumstances.

UBS satisfies share delivery obligations under its option-based participation plans either by purchasing UBS shares in the market 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 2007, UBS was holding approximately 141 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 30 Equity Participation and Other Compensation Plans (continued)

b) UBS Share Awards

Movements in shares granted under various equity participation plans described in Note 30a) are as follows:

	Number of shares 31.12.07	Weighted average grant date fair value CHF	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
Unvested, at the beginning of the year	56,141,102	58	53,725,186	46	49,273,638	40
Shares awarded during the year	30,271,820	70	26,652,070	69	27,252,100	51
Vested during the year	(25,031,819)	55	(22,712,566)	43	(21,991,760)	39
Forfeited during the year	(2,278,523)	66	(1,523,588)	56	(808,792)	45
Unvested, at the end of the year	59,102,580	66	56,141,102	58	53,725,186	46

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 1,737 million, CHF 1,587 million and CHF 1,083 million for the years ended 31 December 2007, 31 December 2006 and 31 December 2005, respectively.

c) UBS Option Awards

Movements in options granted under various equity participation plans described in Note 30a) are as follows:

	Number of options 31.12.07	Weighted average exercise price CHF ¹	Number of options 31.12.06	Weighted average exercise price CHF ¹	Number of options 31.12.05	Weighted average exercise price CHF ¹
Outstanding, at the beginning of the year	176,779,087	50	181,765,090	42	201,814,708	35
Granted during the year	45,129,476	71	45,517,013	71	45,202,854	55
Exercised during the year	(32,214,986)	38	(47,179,386)	36	(61,303,418)	34
Forfeited during the year	(3,425,863)	66	(3,303,002)	55	(3,810,106)	45
Expired unexercised	(274,384)	62	(20,628)	40	(138,948)	34
Outstanding, at the end of the year	185,993,330	55	176,779,087	50	181,765,090	42
Exercisable, at the end of the year	90,453,625	42	80,312,503	36	74,788,838	35

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 72, CHF 71 and CHF 53 for the years ended 31 December 2007, 31 De-

cember 2006 and 31 December 2005, respectively. The following table provides additional information about option awards:

	31.12.07	31.12.06	31.12.05
Intrinsic value of options exercised during the year (CHF million)	1,046	1,660	1,224
Weighted average grant date fair value of options granted (CHF)	11.11	12.39	8.01

Note 30 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 2007:

Range of exercise price per share	Options outstanding				Options exercisable			
	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	17,461,795	34.25	317	4.8	17,241,610	34.27	312	4.8
40.01–50.00	14,334,889	46.77	81	5.5	14,201,947	46.79	80	5.5
50.01–60.00	24,364,314	52.63	24	7.4	11,532,651	51.11	16	7.0
60.01–70.00	5,791,089	64.50	0	9.0	607,206	64.34	0	8.1
70.01–78.80	77,760,388	72.25	0	8.7	7,841,168	70.45	0	8.2
26.69–78.80	139,712,475	61.14	422	7.7	51,424,582	47.38	408	6.0
USD								
4.74–20.00	138,622	14.20	4	2.1	138,622	14.20	4	2.1
20.01–30.00	18,753,410	23.26	426	4.3	18,753,410	23.26	426	4.3
30.01–40.00	10,550,084	36.26	103	6.3	10,508,448	36.24	103	6.3
40.01–53.50	16,838,735	44.15	39	7.2	9,628,563	43.15	29	7.1
4.74–53.50	46,280,851	33.79	572	5.8	39,029,043	31.63	562	5.5

d) Valuation

The fair value of options is 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 calcu-

lated 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 fixed rate over the term of the option.

The fair value of options granted in 2007, 2006 and 2005 was determined using the following assumptions.

	31.12.07		
	CHF awards	range low	range high
Expected volatility (%)	23.86	22.51	29.23
Risk-free interest rate (%)	2.58	2.46	3.27
Expected dividend (CHF)	3.13	2.20	4.56
Strike price (CHF)	71.31	55.48	78.80
Share price (CHF)	70.25	55.48	78.80

Note 30 Equity Participation and Other Compensation Plans (continued)
d) Valuation (continued)

	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 Fewer than 1% of awards in 2006 were granted in USD. These have been combined with CHF awards for purposes of this disclosure.

	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

e) Effect on income statement and balance sheet

Generally, under IFRS, for all employee share and option awards as well as certain AIV awards, UBS recognizes compensation expense over the 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 2007, 31 December 2006 and 31 December 2005 was CHF 2,389 million, CHF 2,188 million and CHF 1,662 million, respectively. For the years ended 31 December 2007, 31 December 2006 and 31 December 2005, the compensation expense recognized for share-based payments was primarily related to equity settled plans. At 31 December 2007, total compensation expense related to non-vested awards not yet recognized in the in-

come statement is CHF 1,904 million, which is expected to be recognized in Personnel expenses over a weighted average period of 2.1 years.

During 2007, UBS increased the option life of certain options for certain employees, which resulted in a modification of the original terms of the option awards. This resulted in an incremental fair value granted of CHF 11 million, which was immediately recognized as compensation expense as future employee services are not required.

Payments to participants of cash-settled share-based and AIV plans for the years ended 31 December 2007, 31 December 2006 and 31 December 2005 were CHF 42 million, CHF 177 million and CHF 87 million, respectively. The total carrying amount of the liability related to these cash-settled plans amounted to CHF 134 million as of 31 December 2007.

Note 31 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*.

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 including those who stepped down during 2007 is as follows:

CHF million	For the year ended		
	31.12.07	31.12.06	31.12.05
Base salaries and other cash payments	14	16	15
Incentive awards – cash	38	107	90
Employer's contributions to retirement benefit plans	2	1	1
Benefits in kind, fringe benefits (at market value)	2	2	3
Equity compensation benefits ¹	22	113 ²	121 ²
Total	78	239	230

¹ Expense for shares and options granted is measured at grant date and allocated over the vesting period, generally 3 years for options and 5 years for shares. ² In line with the "accrual principle" outlined by the SWX in September 2007, UBS has this year amended its reporting of both basic and matching stock option grants to align them with the performance year for which they were earned, rather than the year in which they were granted. This has resulted in a restatement of the 2005 and 2006 stock option, and 2005 and 2006 total compensation figures for members of the GEB and executive members of the Board of Directors.

Peter Wuffli relinquished his position as Group CEO on 6 July 2007, Clive Standish retired on 30 September 2007 and Huw Jenkins stepped down from the GEB on 30 September 2007: all three executives are contractually entitled to receive base salary, pro rata incentive and certain employment-benefits until the expiry of their 12-month notice period. Huw Jenkins is retained in a consultancy position with UBS until 30 September 2008. The total amount due under all three contacts – CHF 15.3 million payable in 2008 and CHF

45.3 million payable in 2009 – has been fully accrued in 2007 and reflected in the 2007 income statement.

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 5.7 million in 2007, CHF 5.9 million in 2006 and CHF 6.1 million in 2005

b) Equity holdings

	31.12.07	31.12.06	31.12.05
Number of stock options from equity participation plans held by executive members of the BoD and the GEB ¹	6,828,152	10,886,798	10,862,250
Number of shares held by members of the BoD, GEB and parties closely linked to them	6,693,012	7,974,724	8,713,984

¹ Further information about UBS's equity participation plans can be found in Note 30.

Of the share totals above, at 31 December 2007, 31 December 2006 and 31 December 2005, 4,852 shares, 7,146 shares and 6,538 shares, respectively, were held by close family members of key management personnel and 2,200,000 shares, 2,200,000 shares and 2,486,060 shares, respectively, 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 30. No member of the BoD or GEB is the beneficial owner of more than 1% of the Group's shares at 31 December 2007.

Note 31 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, advance and mortgage balances are as follows:

<i>CHF million</i>	31.12.07	31.12.06
Balance at the beginning of the year	19	21
Additions	0	1
Reductions	(4)	(3)
Balance at the end of the year	15	19

No unsecured loans were granted to key management personnel as of 31 December 2007 and 31 December 2006.

d) Associated companies

Movements in loans to associated companies are as follows:

<i>CHF million</i>	31.12.07	31.12.06
Balance at the beginning of the year	375	321
Additions	60	116
Reductions	(215)	(48)
Credit loss (expense)/recovery	0	1
Foreign currency translation	0	(15)
Balance at the end of the year	220	375
<i>Thereof unsecured loans</i>	56	177
<i>Thereof allowances for credit losses</i>	4	5

All loans to associated companies are transacted at arm's length.

Other transactions with associated companies transacted at arm's length are as follows:

<i>CHF million</i>	For the year ended or as of		
	31.12.07	31.12.06	31.12.05
Payments to associates for goods and services received	87	58	397
Fees received for services provided to associates	20	79	258
Commitments and contingent liabilities to associates	33	32	

Note 33 provides a list of significant associates.

e) Other related party transactions

During 2007 and 2006, 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 2007 and 2006, these companies included Aebi + Co. AG (Switzerland), Bertarelli Family (Switzerland), BMW Group (Germany), DKSH Holding AG (Switzerland), Kedge Capital Funds Ltd. (Jersey), Kedge Capital Selected Funds Ltd. (Jersey), Lista AG (Switzerland), Löwenfeld AG (Switzerland), Martown Trading

Ltd. (Isle of Man), Royal Dutch Shell plc (UK), Seromer Biotech SA (Switzerland, previously Bertarelli Biotech SA), Serono Group (Switzerland), Stadler Rail Group (Switzerland), Team Alinghi (Switzerland), Team Alinghi (Spain), and Unisys Corporation (USA). Related parties in 2007 also included Bertarelli Investment Ltd (Jersey), Fiat Group (Italy), Lévy Kaufmann-Kohler (Switzerland), Limonares Ltd (Jersey), Omega Fund I Ltd (Jersey), Omega Fund II Ltd (Jersey), Omega Fund III Ltd (Jersey), Omega Fund IV Ltd (Jersey) SGS Société Générale de Surveillance SA (Switzerland) and Walo Group (Switzerland).

Note 31 Related Parties (continued)

e) Other related party transactions (continued)

Movements in loans to other related parties are as follows:

<i>CHF million</i>	31.12.07	31.12.06
Balance at the beginning of the year	872	919
Additions	301	34
Reductions	485	81
Balance at the end of the year ¹	688	872

¹ In 2007 includes loans, guarantees and contingent liabilities of CHF 270 million and unused committed facilities of CHF 418 million but excludes unused uncommitted working capital facilities and unused guarantees of CHF 205 million. 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.

Other transactions with these related parties include:

<i>CHF million</i>	For the year ended		
	31.12.07	31.12.06	31.12.05
Goods sold and services provided to UBS	8	8	15
Fees received for services provided by UBS	16	8	1

As part of its sponsorship of Team Alinghi, defender for the "America's Cup 2007", UBS paid CHF 8.9 million (EUR 5.4 million) in sponsoring fees for 2007. 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 32 Post-Balance Sheet Events

Mandatory Convertible Notes

At the Extraordinary General Meeting on 27 February 2008, the shareholders of UBS AG approved a conditional capital increase to issue up to 252,525,253 new shares to satisfy the conversion into UBS AG shares of CHF 13 billion mandatory convertible notes (MCN) issued on 5 March 2008. The MCN were purchased by the Government of Singapore Investment Corporation Pte Ltd (CHF 11 billion) and an investor from the Middle East (CHF 2 billion). The MCN have a coupon of 9% per annum and will be converted into UBS shares at the latest within two years. Conversion is linked to the share price at the date of conversion, but is not lower than CHF 51.48 per share and not higher than CHF 60.23 per share. Conversion at CHF 51.48 would result in issuing the maximum number of shares (252,525,253), while conversion at CHF 60.23 would result in issuing the minimum number of shares (215,839,283). If at the date of conversion, the share price is between the lower and upper boundary, the number of shares issued is determined by dividing CHF 13 billion by that price. The issue of MCN immediately strengthens UBS AG's capital base as the notes will count as tier 1 capital from the date of issue.

Under IFRS, the MCN is treated as a compound financial instrument that consists of a debt host and an embedded equity component. The debt host will initially be recognized as a liability measured at fair value and accounted for at amortized cost. The equity component, which reflects the value of the net premium paid to the investors for obtaining the right to convert the MCN into a variable number of shares if the share price at the date of conversion is between the lower and higher boundary prices, is immediately recognized as a reduction to share premium and subsequently not remeasured to fair value.

For the acquisition of Caisse Centrale de Réescmpte Group refer to Note 35.

There have been no further material post-balance sheet events which would require disclosure or adjustment to the 31 December 2007 Financial Statements.

On 6 March 2008, 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 23 April 2008 for approval.

Note 33 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 349.6	100.0
Crédit Industriel Société Anonyme in Liquidation	Zurich, Switzerland	Global WM&BB	CHF 0.1	100.0
Dillon Read U.S. Finance L.P.	Delaware, USA	IB	USD 548.0	100.0
Fondcenter AG	Zurich, Switzerland	Global AM	CHF 0.1	100.0
OOO UBS Bank	Moscow, Russia	IB	RUB 1 250.0	100.0
PT UBS Securities Indonesia	Jakarta, Indonesia	IB	IDR 118 000.0	98.4
Thesaurus Continentale Effekten-Gesellschaft in Zürich in Liquidation	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 Alternative and Quantitative Investments Limited	London, Great Britain	Global AM	GBP 0.3	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 Mexico, S.A. Institucion de Banca Multiple, UBS Grupo Financiero	Mexico City, Mexico	IB	MXN 409.4	100.0
UBS Bank USA	Utah, USA	Global WM&BB	USD 1 700.0	100.0
UBS Bank, S.A.	Madrid, Spain	Global WM&BB	EUR 72.2	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 130.0	100.0
UBS Capital B.V.	Amsterdam, the Netherlands	IB	EUR 29.8 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 Derivatives Hong Kong Limited	Hong Kong, China	IB	HKD 500.0	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 Factoring AG	Zurich, Switzerland	Global WM&BB	CHF 5.0	100.0
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

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 33 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business Group ¹		Share capital in millions	Equity interest accumulated in %
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) S.A.	Luxembourg, Luxembourg	Global AM	CHF	2.5	100.0
UBS Fund Services (Luxembourg) S.A. Poland Branch	Zabierzow, Poland	CC	PLN	0.1	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) SGR SpA	Milan, Italy	Global AM	EUR	3.1	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 (UK) Ltd.	London, Great Britain	Global AM	GBP	56.0	100.0
UBS Global Asset Management (US) Inc.	Delaware, USA	Global AM	USD	23.2 ²	100.0
UBS Global Asset Management Funds Ltd.	London, Great Britain	Global AM	GBP	11.0	100.0
UBS Global Asset Management Holding Ltd.	London, Great Britain	Global AM	GBP	78.0	100.0
UBS Global Asset Management Life Ltd.	London, Great Britain	Global AM	GBP	5.0	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 Grupo Financiero, S.A. de C.V.	Mexico City, Mexico	IB	MXN	548.8	100.0
UBS Hana Asset Management Company Ltd.	Seoul, South Korea	Global AM	KRW	45 000.0	51.0
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 Investments Philippines, Inc.	Makati City, Philippines	IB	PHP	360.0	99.4
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 New Zealand Limited	Auckland, New Zealand	IB	NZD	7.5	100.0
UBS O'Connor Limited	London, Great Britain	Global AM	GBP	8.8	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	73.2	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 33 Significant Subsidiaries and Associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business Group ¹		Share capital in millions	Equity interest accumulated in %
UBS Real Estate Investments Inc.	Delaware, USA	IB	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	300.4 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	430.0	100.0
UBS Securities India Private Limited	Mumbai, India	IB	INR	668.3	100.0
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 Service Centre (Poland) Sp. z o.o.	Krakow, Poland	CC	PLN	0.1	100.0
UBS Services USA LLC	Delaware, USA	Global WM&BB	USD	0.1	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	105.0 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 33 Significant Subsidiaries and Associates (continued)

Consolidated companies: changes in 2007

Significant new companies

Dillon Read U.S. Finance L.P. – Delaware, USA
Fondcenter AG – Zurich, Switzerland
UBS Alternative and Quantitative Investments Limited - London, Great Britain
UBS Bank Mexico, S.A. Institucion de Banca Multiple, UBS Grupo Financiero – Mexico City, Mexico
UBS Fund Services (Luxembourg) S.A. Poland Branch – Zabierzow, Poland
UBS Global Asset Management (Italia) SGR SpA – Milan, Italy
UBS Global Asset Management (UK) Ltd – London, Great Britain
UBS Global Asset Management Funds Ltd – London, Great Britain
UBS Global Asset Management Life Ltd – London, Great Britain
UBS Grupo Financiero, S.A. de C.V. – Mexico City, Mexico
UBS Hana Asset Management Company Ltd – Seoul, South Korea
UBS Investments Philippines, Inc. – Makati City, Philippines
UBS O'Connor Limited – London, Great Britain
UBS Service Centre (Poland) Sp. z o.o. – Krakow, Poland

Deconsolidated companies

Significant deconsolidated companies	Reason for deconsolidation
Banco UBS S.A. – Rio de Janeiro, Brazil	Merged
Noriba Bank BSC – Manama, Bahrain	Liquidated
UBS Capital AG – Zurich, Switzerland	Merged
UBS Corporate Finance Italia SpA – Milan, Italy	Merged
UBS Global Asset Management (Italia) SIM SpA – Milan, Italy	Merged

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 Securities Co. Limited, Beijing – China	Financial	20.0	CNY	1,490
UBS Alpha Select – George Town, Cayman Islands	Private Investment Company	20.7	USD	2,323 ¹
UBS Global Alpha Strategies XL (Multi Currency) Limited – George Town, Cayman Islands	Private Investment Company	23.2	USD	164 ¹
Williamsburg Edge LLC – Delaware, USA	Real Estate	50.0	USD	72
219 West 81st LLC – Wilmington – USA	Real Estate	50.0	USD	56
Greensands Holding Limited – St. Helier, Jersey	Water Supply	15.6 ²	GBP	1,282

¹ For hedge funds net asset value instead of share capital. ² In some entities UBS has significant influence even though it holds less than 20% of the voting power of the entity. In these cases, UBS exercises significant influence through other means than voting power, e.g. participation in policy-making processes or material transactions between the investor and the investee.

Note 34 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 inflows and outflows to/from invested assets are determined at the client level based on transactions. Interest payments 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.

<i>CHF billion</i>	As of or for the year ended	
	31.12.07	31.12.06
Fund assets managed by UBS	509	439
Discretionary assets	877	849
Other invested assets	1,803	1,701
Total invested assets (double counts included)	3,189	2,989
<i>thereof double count</i>	<i>392</i>	<i>371</i>
<i>thereof acquisitions (divestments)</i>	<i>50.5</i>	<i>81.1</i>
Net new money (double counts included)	140.6	151.7

Note 35 Business Combinations

Business combinations completed in 2007

During 2007, UBS completed two material acquisitions that were accounted for as business combinations.

McDonald Investments' branch network

In February 2007, UBS completed the acquisition of the branch network of McDonald Investments, a unit of Key-Corp. The cost of the business combination consisted of CHF 269 million (USD 220 million) for the business operations including directly attributable transaction costs, and of CHF 70 million (USD 58 million) for the net loans to customer

portfolios of McDonald Investments, resulting in a total cash consideration paid of CHF 339 million (USD 278 million). The cost of the business combination was allocated to an intangible asset reflecting customer relationships of CHF 57 million (USD 47 million), remaining net assets of CHF 77 million (USD 63 million) including the net loans to customer portfolios, and goodwill of CHF 205 million (USD 168 million). The unit provides comprehensive wealth management services to affluent and high net worth individuals, including estate planning, retirement planning and asset management, and has been integrated into Wealth Management US.

<i>CHF million</i>	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	57	57
Property and equipment	4	(1)	3
Deferred tax assets	0	10	10
Goodwill	0	205	205
All other assets	70	0	70
Total assets	74	271	345
Liabilities			
Total liabilities	6	0	6
Net assets	68	271	339
Total liabilities and equity	74	271	345

Note 35 Business Combinations (continued)

Daehan Investment Trust Management Company

In July 2007, UBS completed the acquisition of 51% of Daehan Investment Trust Management Company Ltd. (DIMCO) from Hana Daetoo Securities (formerly Daehan Investment & Securities Company Ltd.), a wholly owned subsidiary of Hana Financial Group. DIMCO was integrated into UBS's Global Asset Management business and renamed as UBS Hana Asset Management Company Ltd. internationally, and as Hana UBS Asset Management in Korea. The estimated cost of the business combination amounts to approximately CHF 238 million (KRW 180 bil-

lion) in total and was paid in cash. The purchase price is subject to an earn-out clawback of up to CHF 40 million (KRW 30 billion) over the next three to five years. The acquisition costs have been allocated to intangible assets reflecting customer relationships of CHF 54 million, net assets of CHF 74 million and goodwill of CHF 170 million. On acquisition date, equity attributable to minority interests was CHF 60 million. The allocation of the cost of the business combination to assets acquired and liabilities assumed is still being finalized. At closing, DIMCO managed around CHF 26.4 billion of assets (KRW 19.9 trillion).

<i>CHF million</i>	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	54	54
Goodwill	0	170	170
All other assets	87	0	87
Total assets	87	224	311
Liabilities			
Total liabilities	13	0	13
Net assets attributable to minority interests	36	24	60
Net assets attributable to UBS shareholders	38	200	238
Total liabilities and equity	87	224	311

Note 35 Business Combinations (continued)

Business combinations announced in 2007

Standard Chartered's mutual funds management business in India

Following the expiry of the Sale and Purchase Agreement between UBS and Standard Chartered Bank executed in January 2007, UBS announced in December 2007 that it will not proceed with its planned acquisition of Standard Chartered Bank's mutual funds management business in India.

Acquisition of significant associates in 2007

UBS Securities

In April 2007, UBS completed the acquisition of an equity stake of 20% in the newly established UBS Securities Co. Ltd. (UBSS) in China for a total consideration of approximately CHF 369 million (RMB 2.4 billion). The cost of the acquisition consisted of cash payments of approximately CHF 324 million (RMB 2.1 billion) including transaction costs and liabilities settled as well as the assumption of liabilities of approximately CHF 45 million (RMB 0.3 billion). On the basis of its current rights and obligations, UBS has significant influence and applies the equity method of accounting. Following approvals by Chinese regulators, UBSS commenced operations in December 2006 on the basis of a comprehensive set of securities licenses. UBSS is active in both primary and secondary domestic equities and fixed income businesses, in discretionary asset management, corporate advisory and mergers and acquisitions services, and in wealth management.

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.

The acquisition of Banco Pactual S.A. was completed on 1 December 2006. The purchase price allocation was finalized in 2007. The following information reflects the final purchase price accounting for this acquisition.

In 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 was CHF 2,827 million (USD 2,319 million) and includes acquisition costs for client assets transferred to UBS in 2007. Of the total consideration, CHF 1,184 million (USD 971 million) was paid on 1 December 2006 and CHF 70 million (USD 59 million) in 2007 in cash. These amounts include transaction costs. The residual payment of up to CHF 1.9 billion (USD 1.6 billion) is subject to certain performance conditions and is due on 30 June 2011. It was included in the acquisition cost at its net present value of CHF 1,573 million (USD 1,289 million). The acquisition cost was allocated to net assets of CHF 494 million (USD 405 million), intangible assets of CHF 610 million (USD 501 million) and goodwill of CHF 1,723 million (USD 1,413 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 Paulo, 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 amortized cost. It had no effect on the Statement of Cash Flows for the years ended 31 December 2007 and 2006.

<i>CHF million</i>	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	610	610
Property and equipment	9	0	9
Deferred tax assets	16	0	16
Goodwill	0	1,723	1,723
All other assets	11,877	0	11,877
Total assets	11,902	2,333	14,235
Liabilities			
Provisions	52	0	52
Deferred tax liabilities	28	0	28
All other liabilities	11,363	(35)	11,328
Total liabilities	11,443	(35)	11,408
Net assets	459	2,368	2,827
Total liabilities and equity	11,902	2,333	14,235

Note 35 Business Combinations (continued)

On the acquisition date, intangible assets and goodwill were allocated to the Business Groups as follows:

<i>CHF million</i>	Global Wealth Management & Business Banking	Investment Bank	Global Asset Management	Total
Assets				
Intangible assets	160	252	198	610
Goodwill	174	1,066	483	1,723

Investment Bank

ABN AMRO's Global Futures and Options Business

In September 2006, UBS acquired the global futures and options business of ABN AMRO and paid CHF 880 million (USD 704 million) in cash. In 2007, the purchase price was reduced by CHF 21 million (USD 17 million) to CHF 859 million (USD 687 million). 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 CHF 429 million (USD 344 million) and intangible assets of CHF 132 million (USD 106 million). The difference of CHF 298 million (USD 237 million) from the purchase price was recognized as goodwill.

<i>CHF million</i>	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	132	132
Property and equipment	13	0	13
Financial investments available-for-sale	26	54	80
Goodwill	0	298	298
All other assets	11,942	0	11,942
Total assets	11,981	484	12,465
Liabilities			
Provisions	0	9	9
Deferred tax liabilities	0	23	23
All other liabilities	11,574	0	11,574
Total liabilities	11,574	32	11,606
Net assets	407	452	859
Total liabilities and equity	11,981	484	12,465

Note 35 Business Combinations (continued)

Global Wealth Management & Business Banking Piper Jaffray Companies' Private Client Services Branch Network

In August 2006, UBS completed the acquisition of Piper Jaffray Companies' Private Client Services branch network. The cost of the business combination consisted of CHF 616 million (USD 500 million) for the business operations and of CHF 280 million (USD 227 million) for the net loans to customer portfolios, resulting in a total cash consideration paid of CHF 896 million (USD 727 million). The purchase price was allocated to net assets of CHF 291 million (USD 236 million) and intangible assets of CHF 148 million (USD

120 million) representing client relationships. The difference of CHF 457 million (USD 371 million) from the purchase price was recognized as goodwill. Approximately 90 Piper Jaffray wealth management offices, mainly located in the Midwest and Western United States, serving 190,000 households, have been renamed and integrated into Wealth Management US.

Dolfi

In March 2006, UBS acquired Dolfi Finance SAS, a small wealth management firm based in Strasbourg, France, as well as certain assets from Mr Dolfi.

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 35 Business Combinations (continued)

Acquisitions of minority interests of subsidiaries in 2006

UBS Bunting Limited

In 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 CHF 182 million (CAD 163 million). Approximately CHF 26 million (CAD 23 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 CHF 116 million (CAD 104 million) was reflected in Equity.

Acquisition completed after the balance sheet date

Caisse Centrale de Réescoppte Group

In February 2008, UBS completed the acquisition in France of Caisse Centrale de Réescoppte Group (CCR) from Commerzbank for a total consideration of approximately EUR 387 million, paid at the closing date. The purchase price includes EUR 247 million for a 100% interest in CCR, as

well as approximately EUR 140 million for the excess capital of CCR at closing, reflecting provisional adjustments made during the closing process. Under the terms of the transaction, the final price for the acquisition will be determined after the closing, following determination of the actual adjustments. The business of CCR, which includes EUR 13.3 billion of invested assets as of 31 December 2007 and approximately 190 employees, will be integrated into the asset management and wealth management businesses of UBS in France.

Pro-forma information (unaudited)

The following pro-forma information shows UBS's total operating income, net profit attributable to UBS shareholders and basic earnings per share as if all of the acquisitions completed in 2007 had been made as of 1 January 2006 and all acquisitions completed in 2006, had been made as of 1 January 2005. Adjustments have been made to reflect additional amortization and depreciation of assets and liabilities, which have been assigned fair values different from their carryover bases in purchase accounting.

<i>CHF million, except where indicated</i>	For the year ended		
	31.12.07	31.12.06	31.12.05
Total operating income	32,035	49,180	41,580
Net profit	(4,404)	12,617	14,070
Basic earnings per share (CHF)	(2.29)	6.38	6.99

Note 36 Discontinued Operations

2007

Industrial Holdings

In 2007, the sale of two private equity investments as well as subsequent gains on private equity investments sold in prior years contributed CHF 136 million to UBS's Net profit from discontinued operations, which includes after-tax gains on sale of CHF 102 million and an after-tax operating profit of CHF 34 million. The cash consideration received amounted to CHF 14 million. These private equity investments were all held within the Industrial Holdings segment and were divested in line with UBS's strategy to exit the private equity business. These investments are presented as discontinued operations in these Financial Statements.

Private Banks & GAM

The tax benefit on gain on sale of CHF 258 million includes the release of a deferred tax liability of approximately CHF 275 million to the profit and loss account, which was recognized upon the sale of UBS's 20.7% stake in Julius Baer in 2007. This deferred tax liability had been recognized in connection with the receipt of Julius Baer shares on the sale of Private Banks & GAM in December 2005, but was not ultimately incurred due to the manner of realization of the Julius Baer investment. The tax expense from the recognition of the deferred tax liability was booked in discontinued operations in 2005, and therefore the release has also been reflected in 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 year ended 31 December 2005, Motor-Columbus had a Net profit from operations of CHF 323 million.

Other Industrial Holdings

In 2006, private equity investments contributed CHF 429 million to UBS's Net profit from discontinued operations, which includes after-tax gains on sale of CHF 424 million and an after-tax operating profit of CHF 5 million.

In 2005, private equity investments contributed CHF 114 million to UBS's Net profit from discontinued operations, which includes after-tax gains on sale of CHF 113 million and an after-tax operating profit of CHF 1 million. The cash consideration received for the four investments sold in 2005 amounted to CHF 179 million.

Note 36 Discontinued Operations (continued)

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 amounted 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 classified the stake as a financial investment available-for-sale until its sale in 2007 (refer to Note 5 and to the year 2007 section of Private Banks & GAM in this Note). 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.

CHF million	For the year ended 31.12.07	
	Private Banks & GAM ¹	Industrial Holdings
Operating income	0	135
Operating expenses	0	109
Operating profit from discontinued operations before tax	0	26
Pre-tax gain on sale	7	102
Profit from discontinued operations before tax	7	128
Tax expense on operating profit from discontinued operations before tax	0	(8)
Tax expense on gain on sale	(258)	0
Tax expense from discontinued operations	(258)	(8)
Net profit from discontinued operations	265	136
Net cash flows from		
operating activities	0	28
investing activities	0	0
financing activities	0	(42)

¹ Included in Corporate Center in Note 2a.

Note 36 Discontinued Operations (continued)

CHF million	For the year ended 31.12.06	
	Motor-Columbus	Other Industrial Holdings ¹
Operating income	2,494	741
Operating expenses	2,412	736
Operating profit from discontinued operations before tax	82	5
Pre-tax gain on sale	364	428
Profit from discontinued operations before tax	446	433
Tax expense on operating profit from discontinued operations before tax	11	0
Tax expense on gain on sale	(23)	0
Tax expense from discontinued operations	(12)	0
Net profit from discontinued operations	458	433
Net cash flows from		
operating activities	1	14
investing activities	(52)	78
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.

CHF million	For the year ended 31.12.05		
	Private Banks & GAM	Motor-Columbus	Other Industrial Holdings
Operating income	1,102	8,711	2,551
Operating expenses	633	8,323	2,522
Operating profit from discontinued operations before tax	469	388	29
Pre-tax gain on sale	4,095	0	113
Profit from discontinued operations before tax	4,564	388	142
Tax expense on operating profit from discontinued operations before tax	99	65	28
Tax expense on gain on sale	390	0	0
Tax expense from discontinued operations	489	65	28
Net profit from discontinued operations	4,075	323	114
Net cash flows from			
operating activities	(143)	252	92
investing activities	(22)	(326)	(47)
financing activities	0	163	29

Note 37 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		
	31.12.07	31.12.06	31.12.07	31.12.06	31.12.05
1 USD	1.13	1.22	1.22	1.25	1.25
1 EUR	1.65	1.61	1.65	1.58	1.55
1 GBP	2.25	2.39	2.31	2.31	2.27
100 JPY	1.02	1.02	1.02	1.08	1.13

Note 38 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 assets designated at fair value through profit and loss.

Under Swiss accounting rules, 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 39 Additional Disclosures Required under SEC Rules

Note 39.1 Industrial Holdings' Income Statement

From 1 July 2004, UBS held a majority ownership interest in Motor-Columbus and consolidated it in its Financial Statements. Motor-Columbus was sold on 23 March 2006, and it is presented below as a discontinued operation in the income statements for the years ended 31 December 2006 and 31 December 2005. Refer to Note 36 Discontinued Operations for further information.

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.

CHF million	As of or for the year ended		
	31.12.07	31.12.06	31.12.05
Operating income			
Net Sales	268	262	229
Operating expenses			
Cost of products sold	229	220	196
Marketing expenses	2	2	2
General and administrative expenses	14	20	22
Amortization of intangible assets	6	5	6
Other operating expenses	161	63	118
Total operating expenses	412	310	344
Operating profit	(144)	(48)	(115)
Non-operating profit			
Interest income	6	0	6
Interest expense	(9)	(44)	(54)
Other non-operating income, net	708	336	589
Non-operating profit	705	292	541
Net profit from continuing operations before tax			
	561	244	426
Tax expense	36	34	169
Equity in income of associates, net of tax	(25)	11	25
Net profit from continuing operations	500	221	282
Net profit from discontinued operations	136	887	437
Net profit	636	1,108	719
Net profit attributable to minority interests	50	104	207
Net profit attributable to UBS shareholders	586	1,004	512
Accounts receivable trade, gross	27	103	
Allowance for doubtful receivables	(2)	(7)	
Accounts receivables trade, net	25	96	

Note 39 Additional Disclosures Required under SEC Rules (continued)

Note 39.2 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 pro-

ceeding 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 2007, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 2,215 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 part.

Supplemental Guarantor Consolidating Income Statement

<i>CHF million</i> For the year ended 31 December 2007	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	Consolidating Entries	UBS Group
Operating income					
Interest income	77,306	47,747	51,985	(67,926)	109,112
Interest expense	(74,689)	(46,420)	(50,592)	67,926	(103,775)
Net interest income	2,617	1,327	1,393	0	5,337
Credit loss (expense) / recovery	11	(234)	(15)	0	(238)
Net interest income after credit loss expense	2,628	1,093	1,378	0	5,099
Net fee and commission income	12,852	10,119	7,663	0	30,634
Net trading income	3,467	(9,932)	(1,888)	0	(8,353)
Income from subsidiaries	602	0	0	(602)	0
Other income	(4,273)	8,369	236	0	4,332
Revenues from industrial holdings	0	0	268	0	268
Total operating income	15,276	9,649	7,657	(602)	31,980
Operating expenses					
Personnel expenses	12,611	8,307	3,880	0	24,798
General and administrative expenses	5,684	3,446	(665)	0	8,465
Depreciation of property and equipment	930	138	183	0	1,251
Amortization of intangible assets	3	101	178	0	282
Goods and materials purchased	0	0	119	0	119
Total operating expenses	19,228	11,992	3,695	0	34,915
Operating profit from continuing operations before tax	(3,952)	(2,343)	3,962	(602)	(2,935)
Tax expense / (benefit)	697	(486)	1,100	0	1,311
Net profit / (loss) from continuing operations	(4,649)	(1,857)	2,862	(602)	(4,246)
Net profit / (loss) from discontinued operations	265	0	136	0	401
Net profit / (loss)	(4,384)	(1,857)	2,998	(602)	(3,845)
Net profit / (loss) attributable to minority interests	0	18	521	0	539
Net profit / (loss) attributable to UBS shareholders	(4,384)	(1,875)	2,477	(602)	(4,384)

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.

Note 39 Additional Disclosures Required under SEC Rules (continued)

Note 39.2 Supplemental Guarantor Consolidating Balance Sheet

CHF million As of 31 December 2007	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	Consolidating Entries	UBS Group
Assets					
Cash and balances with central banks	8,530	109	10,154	0	18,793
Due from banks	154,138	16,530	200,488	(310,249)	60,907
Cash collateral on securities borrowed	117,312	166,479	53,672	(130,400)	207,063
Reverse repurchase agreements	292,839	106,775	266,470	(289,156)	376,928
Trading portfolio assets	354,200	170,977	84,884	0	610,061
Trading portfolio assets pledged as collateral	103,971	55,842	4,498	0	164,311
Positive replacement values	436,271	16,770	192,144	(216,968)	428,217
Financial assets designated at fair value	5,510	7,149	8,421	(9,315)	11,765
Loans	370,274	41,398	43,584	(119,392)	335,864
Financial investments available-for-sale	2,611	980	1,375	0	4,966
Accrued income and prepaid expenses	7,379	4,369	4,883	(4,678)	11,953
Investments in associates	28,049	139	150	(26,359)	1,979
Property and equipment	5,352	959	923	0	7,234
Goodwill and intangible assets	276	10,516	3,746	0	14,538
Other assets	13,606	5,135	4,881	(5,622)	18,000
Total assets	1,900,318	604,127	880,273	(1,112,139)	2,272,579
Liabilities					
Due to banks	246,977	114,066	94,968	(310,249)	145,762
Cash collateral on securities lent	45,055	64,281	52,685	(130,400)	31,621
Repurchase agreements	105,750	238,880	250,413	(289,156)	305,887
Trading portfolio liabilities	111,955	51,904	929	0	164,788
Negative replacement values	456,631	16,333	187,543	(216,968)	443,539
Financial liabilities designated at fair value	146,701	14,947	39,520	(9,315)	191,853
Due to customers	555,694	87,534	118,056	(119,392)	641,892
Accrued expenses and deferred income	13,276	7,940	5,310	(4,678)	21,848
Debt issued	168,266	3,478	50,333	0	222,077
Other liabilities	19,011	5,356	42,031	(5,622)	60,776
Total liabilities	1,869,316	604,719	841,788	(1,085,780)	2,230,043
Equity attributable to UBS shareholders					
Minority interests	0	2,324	4,627	0	6,951
Total equity	31,002	(592)	38,485	(26,359)	42,536
Total liabilities and equity	1,900,318	604,127	880,273	(1,112,139)	2,272,579

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.

Note 39 Additional Disclosures Required under SEC Rules (continued)
Note 39.2 Supplemental Guarantor Consolidating Cash Flow Statement

<i>CHF million</i>	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	UBS Group
For the year ended 31 December 2007				
Net cash flow from/(used in) operating activities	(65,133)	19,722	(5,865)	(51,276)
Cash flow from/(used in) investing activities				
Investments in subsidiaries and associates	(2,337)	0	0	(2,337)
Disposal of subsidiaries and associates	885	0	0	885
Purchase of property and equipment	(1,022)	(581)	(307)	(1,910)
Disposal of property and equipment	40	28	66	134
Net (investment in)/divestment of financial investments available-for-sale	4,027	34	1,920	5,981
Net cash flow from/(used in) investing activities	1,593	(519)	1,679	2,753
Cash flow from/(used in) financing activities				
Net money market paper issued/(repaid)	35,017	(1,426)	(919)	32,672
Net movements in treasury shares and own equity derivative activity	(3,550)	0	0	(3,550)
Dividends paid	(4,275)	0	0	(4,275)
Issuance of long-term debt, including financial liabilities designated at fair value	105,197	1,022	4,655	110,874
Repayment of long-term debt, including financial liabilities designated at fair value	(54,251)	(7,022)	(1,134)	(62,407)
Increase in minority interests	0	32	1,062	1,094
Dividend payments to/purchase from minority interests	0	(665)	46	(619)
Net activity in investments in subsidiaries	1,057	(6,679)	5,622	0
Net cash flow from/(used in) financing activities	79,195	(14,738)	9,332	73,789
Effects of exchange rate differences	(9,093)	(3,062)	(96)	(12,251)
Net increase/(decrease) in cash equivalents	6,562	1,403	5,050	13,015
Cash and cash equivalents, beginning of the year	102,548	14,129	19,413	136,090
Cash and cash equivalents, end of the year	109,110	15,532	24,463	149,105
Cash and cash equivalents comprise:				
Cash and balances with central banks	8,530	109	10,154	18,793
Money market paper ²	60,266	13,202	3,747	77,215
Due from banks with original maturity of less than three months	40,314	2,221	10,562	53,097
Total	109,110	15,532	24,463	149,105

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 3,364 million was pledged at 31 December 2007.

Note 39 Additional Disclosures Required under SEC Rules (continued)

Note 39.2 Supplemental Guarantor Consolidating Income Statement

<i>CHF million</i> 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	5,220	0	25,456
Net trading income	10,306	1,634	1,803	0	13,743
Income from subsidiaries	3,760	0	0	(3,760)	0
Other income	(450)	1,637	411	0	1,598
Revenues from industrial holdings	0	0	262	0	262
Total operating income	29,466	13,473	8,557	(3,760)	47,736
Operating expenses					
Personnel expenses	12,208	8,040	3,343	0	23,591
General and administrative expenses	2,805	3,362	1,813	0	7,980
Depreciation of property and equipment	979	133	140	0	1,252
Amortization of intangible assets	14	83	56	0	153
Goods and materials purchased	0	0	116	0	116
Total operating expenses	16,006	11,618	5,468	0	33,092
Operating profit from continuing operations before tax	13,460	1,855	3,089	(3,760)	14,644
Tax expense / (benefit)	1,715	585	485	0	2,785
Net profit / (loss) from continuing operations	11,745	1,270	2,604	(3,760)	11,859
Net profit / (loss) from discontinued operations	512	0	379	0	891
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

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.

Note 39 Additional Disclosures Required under SEC Rules (continued)

Note 39.2 Supplemental Guarantor Consolidating Balance Sheet

<i>CHF million</i> 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	283,466	13,168	173,243	(176,902)	292,975
Financial assets designated at fair value	2,902	4,147	7,146	(8,265)	5,930
Loans	399,352	40,279	38,644	(180,433)	297,842
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 intangible assets	258	11,128	3,387	0	14,773
Other assets	10,709	5,524	5,587	(4,571)	17,249
Total assets	1,701,466	808,288	1,057,339	(1,220,731)	2,346,362
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	290,746	13,629	169,590	(176,902)	297,063
Financial liabilities designated at fair value	121,074	49	32,829	(8,265)	145,687
Due to customers	489,823	80,936	165,560	(180,433)	555,886
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	1,650,411	799,764	1,027,363	(1,186,951)	2,290,587
Equity attributable to UBS shareholders					
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	1,701,466	808,288	1,057,339	(1,220,731)	2,346,362

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.

Note 39 Additional Disclosures Required under SEC Rules (continued)
Note 39.2 Supplemental Guarantor Consolidating Cash Flow Statement

<i>CHF million</i>	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	UBS Group
For the year ended 31 December 2006				
Net cash flow from/(used in) operating activities	(1,916)	(14,810)	11,805	(4,921)
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	(48,748)	(447)	(10,545)	(59,740)
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	32,422	17,054	(1,829)	47,647
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 39 Additional Disclosures Required under SEC Rules (continued)
Note 39.2 Supplemental Guarantor Consolidating Income Statement

<i>CHF million</i> 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	4,094	0	21,184
Net trading income	7,453	(123)	918	0	8,248
Income from subsidiaries	(675)	0	0	675	0
Other income	2,635	476	(1,984)	0	1,127
Revenues from industrial holdings	0	0	229	0	229
Total operating income	25,340	10,749	3,927	675	40,691
Operating expenses					
Personnel expenses	9,962	6,587	3,518	0	20,067
General and administrative expenses	2,330	2,667	1,507	0	6,504
Depreciation of property and equipment	988	140	119	0	1,247
Amortization of intangible assets	24	70	39	0	133
Goods and materials purchased	0	0	97	0	97
Total operating expenses	13,304	9,464	5,280	0	28,048
Operating profit from continuing operations before tax	12,036	1,285	(1,353)	675	12,643
Tax expense/(benefit)	1,712	1,079	(326)	0	2,465
Net profit/(loss) from continuing operations	10,324	206	(1,027)	675	10,178
Net profit/(loss) from discontinued operations	3,705	0	807	0	4,512
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

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.

Note 39 Additional Disclosures Required under SEC Rules (continued)
Note 39.2 Supplemental Guarantor Consolidating Cash Flow Statement

<i>CHF million</i>	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	UBS Group
For the year ended 31 December 2005				
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.

Note 39 Additional Disclosures Required under SEC Rules (continued)
Note 39.2 Guarantee of other securities

Guarantee of other securities

UBS AG, acting through wholly-owned finance subsidiaries, issued the following trust preferred securities:

USD billion, unless otherwise indicated

Issuing Entity	Type of security	Outstanding as of 31.12.07		
		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 2007, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 2,215 billion.

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 10,809 million from a profit of CHF 6,558 million to a loss of CHF 4,251 million.

Income from investments in associated companies increased to CHF 2,592 million in 2007 from CHF 1,910 million in 2006 mainly due to higher dividend distributions received. Losses resulting from the US residential mortgage market had a significant impact on the income statement lines Depreciation, Provisions and Net trading income:

- The increase of Depreciation from CHF 1,352 million in 2006 to CHF 8,660 million in 2007 mainly reflects write-downs of investments in associated US companies.
- Provisions of CHF 2,688 million were recognized in 2007 for commitments to capitalize subsidiaries that have a capital deficit.
- Net trading income decreased from CHF 9,467 million in 2006 to CHF 2,767 million in 2007, which mainly reflects losses in the fixed income business.

The increase in Extraordinary income and decrease in Extraordinary expenses are explained on page 129.

Balance Sheet

UBS's Parent Bank total assets stood at CHF 1,598 billion on 31 December 2007, up slightly from CHF 1,586 billion on 31 December 2006. The total asset rise of CHF 12 billion was caused by higher inter-bank lending (which includes loans and collateral trading) of CHF 88 billion and Liquid Assets of

CHF 6 billion. These increases, however, were almost offset by decreases in customer and mortgage loans (down CHF 54 billion), in positive replacement values on derivative instruments (down CHF 14 billion), in money market paper (down CHF 13 billion) and a decline in investments in associated companies of CHF 6 billion due to write-downs of investments in US subsidiaries.

Interbank Lending

In due from banks, on demand volume rose by CHF 39 billion partially due to higher funding needs of our bank subsidiaries in the European Region, combined with an increase to non-UBS related banks in the same region and to a lesser extent in the Americas Region. During 2007, due from banks on time slightly declined by CHF 5 billion. In addition, Inter-bank collateral trading grew by CHF 54 billion due to trading with UBS subsidiaries, in particular in the two Regions Europe and Asia, and with third party clients.

Customer Lending

The customer loan drop of CHF 42 billion was due to lower funding needs of UBS subsidiaries, predominately related to the reintegration of positions held by Dillon Read Capital Management subsidiaries, which are no longer funded by the UBS Parent Bank. In addition, loans secured by mortgages declined (CHF 12 billion) driven by the downturn in the US mortgage market and the exit of certain US legacy positions which were built up by Dillon Read Capital Management.

Financial Statements

Income Statement

<i>CHF million</i>	For the year ended		% change from
	31.12.07	31.12.06	31.12.06
Interest and discount income	58,674	45,978	28
Interest and dividend income from trading portfolio	19,003	15,324	24
Interest and dividend income from financial investments	58	32	81
Interest expense	(75,179)	(57,507)	31
Net interest income	2,556	3,827	(33)
Credit-related fees and commissions	205	199	3
Fee and commission income from securities and investment business	15,468	12,288	26
Other fee and commission income	686	840	(18)
Fee and commission expense	(3,269)	(1,820)	80
Net fee and commission income	13,090	11,507	14
Net trading income	2,767	9,467	(71)
Net income from disposal of financial investments	178	333	(47)
Income from investments in associated companies	2,592	1,910	36
Income from real estate holdings	27	21	29
Sundry income from ordinary activities	3,352	2,982	12
Sundry ordinary expenses	(3,223)	(3,059)	5
Other income from ordinary activities	2,926	2,187	34
Operating income	21,339	26,988	(21)
Personnel expenses	13,505	12,886	5
General and administrative expenses	5,191	4,736	10
Operating expenses	18,696	17,622	6
Operating profit	2,643	9,366	(72)
Depreciation and write-offs on investments in associated companies and fixed assets	8,660	1,352	541
Allowances, provisions and losses	2,780	342	713
Profit before extraordinary items and taxes	(8,797)	7,672	
Extraordinary income	4,665	1,095	326
Extraordinary expenses	4	239	(98)
Tax expense	115	1,970	(94)
Profit for the period	(4,251)	6,558	

Balance Sheet

<i>CHF million</i>	31.12.07	31.12.06	% change from 31.12.06
Assets			
Liquid assets	8,530	2,660	221
Money market paper	60,266	73,430	(18)
Due from banks	527,081	439,098	20
Due from customers	274,510	316,241	(13)
Mortgage loans	141,381	153,114	(8)
Trading balances in securities and precious metals	412,977	411,981	0
Financial investments	1,685	2,844	(41)
Investments in associated companies	21,228	27,076	(22)
Fixed assets	5,273	4,527	16
Accrued income and prepaid expenses	7,221	6,573	10
Positive replacement values	124,244	138,222	(10)
Other assets	13,676	9,975	37
Total assets	1,598,072	1,585,741	1
<i>Total subordinated assets</i>	<i>6,293</i>	<i>5,852</i>	<i>8</i>
<i>Total amounts receivable from Group companies</i>	<i>602,667</i>	<i>657,919</i>	<i>(8)</i>
Liabilities			
Money market paper issued	104,878	69,861	50
Due to banks	491,102	556,136	(12)
Due to customers on savings and deposit accounts	72,303	80,883	(11)
Other amounts due to customers	521,189	508,609	2
Medium-term bonds	3,228	2,238	44
Bond issues and loans from central mortgage institutions	189,023	143,779	31
Accruals and deferred income	17,368	16,672	4
Negative replacement values	145,445	149,879	(3)
Other liabilities	15,576	10,471	49
Allowances and provisions	3,970	2,305	72
Share capital	207	211	(2)
General statutory reserve	8,775	8,295	6
Reserve for own shares	9,441	9,114	4
Other reserves	19,818	20,730	(4)
Profit for the period	(4,251)	6,558	
Total liabilities	1,598,072	1,585,741	1
<i>Total subordinated liabilities</i>	<i>21,114</i>	<i>21,907</i>	<i>(4)</i>
<i>Total amounts payable to Group companies</i>	<i>330,567</i>	<i>450,093</i>	<i>(27)</i>

Statement of Appropriation of Retained Earnings

CHF million

The Board of Directors proposes to the Annual General Meeting the following appropriation:

Profit/ (Loss) for the financial year 2007 as per the Parent Bank's Income Statement	(4,251)
Appropriation to other reserves	(4,251)

Stock Dividend, creation of Authorized Capital

The Board of Directors has proposed to the Extraordinary Meeting of Shareholders on 27 February 2008 to create authorized share capital up to a maximum of 5% of the current share capital (103.7 million new shares) to replace the cash dividend for the business year 2007 with a stock dividend. The issuance of shares and the final exchange ratio for the entitlement to the stock dividend (not less than 20:1) will be determined by the Board of Directors on 23 April 2008.

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 38 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 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 remeasurement 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. A reserve from own shares must be created in equity equal to the cost value of the treasury shares held. The reserve for own shares is not available for distribution to shareholders.

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 include all directly held subsidiaries and 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 Swiss law, employee stock awards are recognized as compensation expense and accrued over the performance period, while employee stock option awards are recognized as compensation expense in the year of grant. Equity- and cash-settled awards are classified as liabilities. Stock option awards are remeasured at their intrinsic value. However, for granted employee share options that UBS intends to settle in shares from conditional capital, there is no impact on the income statement and no liability is recognized. Upon exercise, cash received for the strike price payment will be credited against share capital and general statutory reserve.

Additional Income Statement Information

Net Trading Income

CHF million	For the year ended		% change from
	31.12.07	31.12.06	31.12.06
Equities	7,867	5,761	37
Fixed income	(7,679)	1,114	
Foreign exchange and other ¹	2,579	2,592	(1)
Total	2,767	9,467	(71)

¹ Includes commodities trading income. The prior year amount has been adjusted to conform to the current year's presentation.

Extraordinary Income and Expenses

Extraordinary income includes a CHF 3,180 million gain on the sale of UBS's 20.7% stake in Julius Baer in 2007 and a gain on the sale of Motor-Columbus of CHF 678 million in 2006. In addition, amounts in 2007 include a write-up of investments in associated companies of CHF 409 million (2006: CHF 223 million), releases of provisions for credit losses of CHF 11 million (2006: CHF 167 million). Amounts in 2007 further include a

release on reserves on own properties of CHF 824 million and for lapsed employee options of CHF 165 million.

Extraordinary expenses in 2007 were immaterial. In 2006, Extraordinary expenses included 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

<i>CHF million</i>	Balance at 31.12.06	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 31.12.07
Default risks (credit and country risk)	1,298	(299)	48	(279)	268	1,036
Trading portfolio risks	2,844	0	0	0	1,710	4,554
Litigation risks	293	(187)	(15)	(48)	115	158
Operational risks	131	(84)	3	(44)	158	164
Retirement benefit plans	106	(8)	(40)	0	49	107
Deferred taxes	34	0	(14)	0	11	31
Other ¹	1,664	(1,091)	(3)	(88)	2,964	3,446
Total allowances and provisions	6,370	(1,669)	(21)	(459)	5,275	9,496
Allowances deducted from assets	4,065					5,526
Total provisions as per balance sheet	2,305					3,970

¹ The 31 December 2007 balance mainly includes provisions for capitalization commitments of subsidiaries that have a capital deficit of approximately CHF 2,772 million. In addition, provisions for reinstatement costs for leasehold improvements, provisions for employee benefits (service anniversary awards and sabbatical leave) and other items are presented in this line.

Statement of Shareholders' Equity

<i>CHF million</i>	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 31.12.05 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)	0
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	0
As of 31.12.06 and 1.1.07	211	6,280	2,015	9,114	27,288	44,908
Cancellation of own shares	(4)				(2,411)	(2,415)
Capital increase		23				23
Increase in reserves			457		(457)	0
Prior year dividend					(4,275)	(4,275)
Profit for the period					(4,251)	(4,251)
Changes in reserves for own shares				327	(327)	0
As of 31.12.07	207	6,303	2,472	9,441	15,567	33,990

Share Capital

	Par value		Ranking for dividends	
	No. of shares	Capital in CHF	No. of shares	Capital in CHF
As of 31.12.07				
Issued and paid up	2,073,547,344	207,354,734	2,073,547,344	207,354,734
Conditional share capital	150,138,634	15,013,863		
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		

On 31 December 2007, a maximum of 144,338 shares could 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 2007 and 31 December 2006, 5,704 shares and zero shares, respectively, 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

CHF million	31.12.07		31.12.06		Change in %	
	Book value	Effective liability	Book value	Effective liability	Book value	Effective liability
Money market paper	12,792	2,372	37,471	9,035	(66)	(74)
Mortgage loans	200	199	81	38	147	424
Securities	99,821	49,397	89,869	41,306	11	20
Other	8,628	0	5,432	0	59	
Total	121,441	51,968	132,853	50,379	(9)	3

Financial assets are mainly 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	31.12.07	31.12.06	% change from 31.12.06
Contingent liabilities	223,105	189,627	18
Irrevocable commitments	104,784	115,364	(9)
Liabilities for calls on shares and other equities	145	125	16
Confirmed credits	2,630	2,133	23

Derivative Instruments

CHF million	31.12.07			31.12.06		
	PRV ¹	NRV ²	Notional amount CHF bn	PRV ¹	NRV ²	Notional amount CHF bn
Interest rate contracts	167,334	164,325	33,545	176,765	175,394	29,558
Credit derivative contracts	111,898	116,128	5,451	29,026	31,781	2,824
Foreign exchange contracts	99,494	99,613	7,725	76,459	70,899	6,134
Precious metal contracts	6,363	6,569	147	4,472	4,168	121
Equity / Index contracts	30,400	49,985	760	22,437	39,016	745
Commodities contracts, excluding precious metals contracts	21,181	21,251	484	11,459	11,017	359
Total derivative instruments	436,670	457,871	48,112	320,618	332,275	39,741
Replacement value netting	312,426	312,426		182,396	182,396	
Replacement values after netting	124,244	145,445		138,222	149,879	

¹ PRV: Positive replacement value. ² NRV: Negative replacement value.

Fiduciary Transactions

<i>CHF million</i>	31.12.07	31.12.06	% change from 31.12.06
Deposits:			
with other banks	46,074	41,075	12
with Group banks	2,186	1,650	32
Total	48,260	42,725	13

Due to UBS Pension Plans

<i>CHF million</i>	31.12.07	31.12.06	% change from 31.12.06
Due to UBS pension plans and UBS debt instruments held by pension plans	443	790	(51)
Securities borrowed from pension plans	9,379	7,169	31

Personnel

Parent Bank personnel was 45,102 on 31 December 2007 and 42,443 on 31 December 2006.

Corporate Governance and Compensation Report

Compensation details and additional information for executive members of the Board of Directors¹

CHF, except where indicated^a

Name, function ²	For the year	Base salary	Annual incentive award (cash)	Annual incentive award (shares; fair value) ^b	Discretionary award (options; fair value) ^c	Benefits in kind ^d	Contributions to retirement benefits plans ^e	Total
Marcel Ospel, Chairman	2007	2,000,000	0	0	0	307,310	261,069	2,568,379
Stephan Haeringer, Executive Vice Chairman	2007	1,500,000	0	0	0	111,808	261,069	1,872,877
Marco Suter, Executive Vice Chairman	2007	1,125,000	0	0	0	70,820	155,252	1,351,072

¹ Individual compensation figures of the previous year will be disclosed from 2008 onwards. ² 2007: Marcel Ospel and Stephan Haeringer are executive members in office as of 31 December 2007; Marco Suter stepped down during the year as a member of the Board of Directors. His 2007 payment is pro-rata for the nine months served as executive Vice Chairman.

Remuneration details and additional information for non-executive members of the Board of Directors¹

CHF, except where indicated^a

Name, function ²	Audit Committee	Compensation Committee	Nominating Committee	Corporate Responsibility Committee	For the period AGM 2007 / 2008	Base fee	Committee retainer	Benefits in kind	Additional payments	Total	Share percentage	Number of shares ³
Ernesto Bertarelli, member			M		2007/2008	325,000	150,000	0	0	475,000	100	14,677
Gabrielle Kaufmann-Kohler, member			M	M	2007/2008	325,000	250,000	0	0	575,000	50	9,349
Sergio Marchionne, member		M			2007/2008	325,000	200,000	0	0	525,000	100	16,226
Rolf A. Meyer, member	M	C			2007/2008	325,000	650,000	0	0	975,000	50	15,853
Helmut Panke, member			C		2007/2008	325,000	250,000	0	0	575,000	50	9,349
Peter Spuhler, member			M		2007/2008	325,000	200,000	0	0	525,000	100	16,226
Peter Voser, member	M				2007/2008	325,000	300,000	0	0	625,000	50	10,162
Lawrence A. Weinbach, member	C				2007/2008	325,000	600,000	0	0	925,000	50	15,040
Joerg Wolle, member			M		2007/2008	325,000	150,000	0	0	475,000	100	14,677

Legend: C = Chairman of the respective committee; M = Member of the respective committee

¹ Individual compensation figures for the previous period will be disclosed from 2008 onwards. ² There are nine non-executive members of the Board of Directors in office as of 31 December 2007. Sergio Marchionne was appointed to the Board of Directors at the 2007 annual general meeting. ³ Number of shares is reduced in case of the 100% election to deduct social security contribution. All remuneration payments are submitted to social security contribution / taxes at source.

Total payments to all members of the Board of Directors¹

CHF, except where indicated^a

	For the year ²	Total
Aggregate of all (executive and non-executive) members of the Board of Directors	2007	11,467,328

¹ The previous year will be disclosed from 2008 onwards. ² For non-executive members of the Board of Directors: period AGM 2007 / 2008.

Total compensation for all members of the Group Executive Board¹

CHF, except where indicated^a

Name, function	For the year	Base salary	Annual incentive award (cash)	Annual incentive award (shares; fair value) ^b	Discretionary award (options; fair value) ^c	Benefits in kind ^d	Contributions to retirement benefits plans ^e	Total
Rory Tapner, Chairman and Chief Executive Officer Asia Pacific (highest-paid)	2007	1,291,960	4,501,900	4,501,904	0	10,256	900	10,306,920
Aggregate of all members of the Group Executive Board (GEB) who were in office as of 31 December 2007 ²	2007	6,995,885	15,305,667	15,305,708	0	532,706	912,974	39,052,939
Aggregate of all members of the GEB who stepped down during 2007 ³	2007	2,511,947	23,042,376	6,750,036	0	406,567	275,635	32,986,561

¹ Compensation figures for the previous year will be disclosed from 2008 onwards. ² Number and distribution of senior executives: eight Group Executive Board members in office as of 31 December 2007, including three months for both Marco Suter and Joseph Scoby. ³ Takes into account the period executives were active members of the Group Executive Board: nine months in office for Huw Jenkins and Clive Standish and six months for Peter Wuffli.

Compensation paid to former members of the Board of Directors and Group Executive Board¹

CHF, except where indicated^a

Name, function	Compensation	Benefits in kind	Total
Alberto Togni, former member of the Board of Directors (BoD)	318,401	502,478	820,879
Phillippe de Weck, former member of the BoD (Union Bank of Switzerland)	0	129,701	129,701
Robert Studer, former member of the BoD (Union Bank of Switzerland)	0	260,162	260,162
Georges Blum, former member of the BoD (Swiss Bank Corporation)	0	90,803	90,803
Aggregate of all former members of the Group Executive Board (GEB) ²	0	257,791	257,791
Aggregate of all former members of the BoD and GEB	318,401	1,240,935	1,559,336

¹ Compensation or remuneration that is connected with the former members' activity on the Board of Directors or Group Executive Board, or that is not at market conditions. ² Includes four former Group Executive Board members.

Explanations of compensation details for executive members of the BoD and members of the GEB:

- Local currencies are converted into CHF using the exchange rates as detailed in Note 37 of *Financial Statements 2007*.
- Values per share at grant: CHF 36.15/USD 33.55 for shares granted in 2008 related to the performance year 2007. CHF prices are average price of UBS shares at virt-x over the last ten trading days of February, and USD prices are average price of UBS shares at the New York Stock Exchange (NYSE) over the last ten trading days of February in the year in which they are granted. Share awards in this report are disclosed at fair value for the performance year for which they were granted. This differs from the recognition of share-based compensation expense in UBS's financial statements, which is based on International Financial Reporting Standards (IFRS). Until 2007, IFRS required the recognition of the fair value of share-based payments to employees as a compensation expense over the service period (typically equivalent to the vesting period).
- For the performance year 2007, no options were granted in 2008. In line with the "accrual principle" outlined by the SWX Swiss Exchange (SWX) in September 2007, UBS has amended its reporting of basic stock option grants in this report to align them with the performance year for which they were awarded, rather than show them in the year in which they were actually granted. According to UBS's previous disclosure, total compensation of the executive members of the Board of Directors (BoD) and the Group Executive Board (GEB) would have been down by 60% compared to 2006, and the Chairman of the BoD's compensation would have decreased 81%. This presentation differs from previous years, where options were included in the grant year. It also differs from the recognition of share-based compensation expense in UBS's financial statements (see Note 30 in *Financial Statements 2007*).
- Benefits in kind: car leasing, company car allowance, staff discount on banking products and services, health and welfare benefits and general expense allowances all valued at market price.
- In 2007, the Swiss pension plan converted to a Swiss defined contribution model. Swiss senior executives participate in the same plan as all other employees. Under this plan, employees receive a company contribution to the plan which covers compensation up to CHF 795,600. The retirement benefits consist of a pension, a bridging pension and a one-off payout of accumulated capital from the bonus plan. Employees must also contribute to the plan. This figure excludes the mandatory employer's social security contributions (AHV, ALV) but includes the portion attributed to the employer's portion of the legal BVG requirement. The employee contribution is included in the base salary and annual incentive award components. In both the US and the UK, senior executives participate in the same plans as all other employees. In the US there are two different plans, one of which operates on a cash balance basis and entitles the participant to receive a company contribution based on compensation limited to USD 250,000. US senior executives may also participate in the UBS 401K defined contribution plan (open to all employees), which provides a company matching contribution for employee contributions. In the UK, senior executives participate in either the principal pension plan, which is limited to an earnings cap of GBP 100,000, or a grandfathered defined benefit plan which provides a pension on retirement based on career average base salary (uncapped).

Share and option ownership of members of the Board of Directors as of 31 December 2007

Name, function ¹	For the year	Number of shares held	Voting rights in %	Number of options held	Potentially conferred voting rights in % ²	Type and quantity of options ³
Marcel Ospel, Chairman	2007	769,483	0.068	940,000	0.083	xii: 390,000 xiv: 300,000 xv: 250,000 vii: 80,000 ix: 80,000 x: 80,000 xii: 120,000 xiv: 100,000 xv: 75,000
Stephan Haeringer, Executive Vice Chairman	2007	487,053	0.043	535,000	0.047	
Ernesto Bertarelli, member	2007	48,411	0.004	0		0
Gabrielle Kaufmann-Kohler, member	2007	3,303	0.000	0		0
Sergio Marchionne, member	2007	45,800	0.004	0		0
Rolf A. Meyer, member	2007	50,562	0.004	0		0
Helmut Panke, member	2007	13,206	0.001	0		0
Peter Spuhler, member	2007	67,092	0.006	0		0
Peter Voser, member	2007	11,580	0.001	0		0
Lawrence A. Weinbach, member	2007	45,520	0.004	0		0
Joerg Wolle, member	2007	7,709	0.001	0		0

¹ This table includes vested, unvested, blocked and unblocked shares and options held as of 31 December 2007. ² No conversion rights are outstanding. ³ For details of option plans and terms, see the table on page 138.

Share and option ownership of members of the Group Executive Board as of 31 December 2007

Name, function ¹	For the year	Number of shares held	Voting rights in %	Number of options held	Potentially conferred voting rights in % ²	Type and quantity of options ³
Marcel Rohner, Group Chief Executive Officer (CEO) and Chairman & CEO Investment Bank	2007	501,846	0.044	990,000	0.088	ix: 30,000
						x: 200,000
						xii: 260,000
						xiv: 300,000
						xv: 200,000
John A. Fraser, Chairman and CEO Global Asset Management	2007	461,764	0.041	1,074,232	0.095	i: 52,560
						iv: 71,672
						vi: 120,000
						viii: 120,000
						xi: 160,000
Peter Kurer, Group General Counsel	2007	292,762	0.026	350,000	0.031	xiii: 190,000
						xiv: 200,000
						xv: 160,000
						x: 80,000
						xii: 90,000
Joseph Scoby, Group Chief Risk Officer	2007	509,571	0.045	533,682	0.047	xiv: 90,000
						xv: 90,000
						ii: 4,000
						iv: 57,590
						v: 40,000
Walter Stuerzinger, Chief Operating Officer Corporate Center	2007	209,442	0.019	350,000	0.031	viii: 100,000
						xi: 133,092
						xiii: 52,000
						xiv: 66,000
						xv: 81,000
Marco Suter, Group Chief Financial Officer	2007	235,757	0.021	355,000	0.031	vii: 30,000
						x: 60,000
						xii: 80,000
						xiv: 90,000
						xv: 90,000
Rory Tapner, Chairman and CEO Asia Pacific	2007	514,365	0.046	1,294,486	0.115	x: 60,000
						xii: 120,000
						xiv: 100,000
						xv: 75,000
						iii: 264,486
Raoul Weil, Chairman and CEO Global Wealth Management & Business Banking	2007	212,934	0.019	405,752	0.036	vi: 200,000
						ix: 200,000
						x: 160,000
						xii: 150,000
						xiv: 160,000
Raoul Weil, Chairman and CEO Global Wealth Management & Business Banking	2007	212,934	0.019	405,752	0.036	xv: 160,000
						vi: 50,000
						xii: 95,976
Raoul Weil, Chairman and CEO Global Wealth Management & Business Banking	2007	212,934	0.019	405,752	0.036	xiv: 120,000
						xv: 139,776

¹ This table includes vested and unvested shares and options held as of 31 December 2007. ² No conversion rights are outstanding. ³ For details of option plans and terms, see the table on page 138.

**Vested and unvested options held by executive members of the Board of Directors
and by members of the Group Executive Board as of 31 December 2007**

Type	Number of options	Year of grant	Vesting date	Expiry date	Subscription ratio	Strike price
i	52,560	2001	20/02/2004	20/02/2009	1:1	CHF 50.00
ii	4,000	2002	28/02/2005	28/02/2012	1:1	USD 23.12
iii	264,486	2002	20/02/2005	31/01/2012	1:1	CHF 38.88
iv	129,262	2002	31/01/2005	31/01/2012	1:1	USD 22.63
v	40,000	2002	28/06/2005	28/06/2012	1:1	USD 24.85
vi	370,000	2002	28/06/2005	28/06/2012	1:1	CHF 40.38
vii	110,000	2002	28/06/2005	28/12/2012	1:1	CHF 40.38
viii	220,000	2003	31/01/2006	31/01/2013	1:1	USD 24.00
ix	310,000	2003	31/01/2006	31/07/2013	1:1	CHF 32.50
x	640,000	2004	28/02/2007	28/02/2014	1:1	CHF 51.88
xi	293,092	2004	28/02/2007	28/02/2014	1:1	USD 40.63
xii	1,305,976	2005	01/03/2008	28/02/2015	1:1	CHF 55.75
xiii	242,000	2005	01/03/2008	28/02/2015	1:1	USD 47.75
xiv	1,526,000	2006	01/03/2009	28/02/2016	1:1	CHF 77.33
xv	1,320,776	2007	01/03/2010	28/02/2017	1:1	CHF 78.50

Loans granted to members of the Board of Directors as of 31 December 2007

CHF, except where indicated^a

Name, function ¹	Mortgages	Other loans granted	Total
Marcel Ospel, Chairman	11,000,000	0	11,000,000
Stephan Haeringer, Executive Vice Chairman	0	0	0
Ernesto Bertarelli, member	0	0	0
Gabrielle Kaufmann-Kohler, member	0	0	0
Sergio Marchionne, member	0	0	0
Rolf A. Meyer, member	480,000	0	480,000
Helmut Panke, member	0	0	0
Peter Spuhler, member	0	0	0
Peter Voser, member	0	0	0
Lawrence A. Weinbach, member	0	0	0
Joerg Wolle, member	0	0	0
Aggregate of all members of the Board of Directors	11,480,000	0	11,480,000

¹ No loans have been granted to related parties of the Board of Directors members at conditions not customary in the market. For this purpose UBS considers loans granted on the terms available to UBS employees to be at arm's length.

Loans granted to members of the Group Executive Board

CHF, except where indicated^a

Name, function ¹	Mortgages	Other loans granted ²	Total
Joseph Scoby, Group Chief Risk Officer	0	3,145,796	3,145,796
Aggregate of all members of the Group Executive Board	3,487,000	3,145,796	6,632,796

¹ No loans have been granted to related parties of the members of the Group Executive Board at conditions not customary in the market. For this purpose UBS considers loans granted on the terms available to UBS employees to be at arm's length. ² Guarantees.



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To the General Meeting of
UBS AG, Zurich and Basel

Basel, 6 March 2008

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 124 to 139) of UBS AG for the year ended 31 December 2007.


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 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



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To the Board of Directors of
UBS AG, Zurich and Basel

Confirmation concerning conditional capital increase

As state-controlled auditors 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 2007 to 31 December 2007 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 1'288'354 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 4'718 registered shares of a nominal value of CHF 0.10 per share have expired;
- the issue of 5'704 new registered shares of a nominal value of CHF 0.10 per share relating to the employee stock option plans of UBS AG, according to article 4a paragraph 2 of the articles of association, was in accordance with the provisions of Swiss law and the company's articles of association.

Zurich, 22 January 2008

BDO Visura

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Additional Disclosure Required under SEC Regulations

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A – Introduction

The following pages contain additional disclosures about UBS Group which are required under SEC regulations.

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.

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 29 February 2008 the noon buying rate was 0.9583 USD per 1 CHF.

Year ended 31 December	High	Low	Average rate ¹ (USD per 1 CHF)	At period end
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
2007	0.9087	0.7978	0.8381	0.8827

Month	High	Low
September 2007	0.8568	0.8258
October 2007	0.8629	0.8437
November 2007	0.9087	0.8627
December 2007	0.8951	0.8645
January 2008	0.9221	0.8948
February 2008	0.9583	0.9030

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)

<i>CHF million, except where indicated</i>	For the year ended				
	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Income statement data					
Interest income	109,112	87,401	59,286	39,228	40,045
Interest expense	(103,775)	(80,880)	(49,758)	(27,484)	(27,784)
Net interest income	5,337	6,521	9,528	11,744	12,261
Credit loss (expense)/recovery	(238)	156	375	241	(102)
Net interest income after credit loss (expense)/recovery	5,099	6,677	9,903	11,985	12,159
Net fee and commission income	30,634	25,456	21,184	18,310	16,484
Net trading income	(8,353)	13,743	8,248	5,098	3,859
Other income	4,332	1,598	1,127	868	295
Income from industrial holdings	268	262	229	188	51
Total operating income	31,980	47,736	40,691	36,449	32,848
Total operating expenses	34,915	33,092	28,048	26,448	25,571
Operating profit from continuing operations before tax	(2,935)	14,644	12,643	10,001	7,277
Tax expense	1,311	2,785	2,465	2,150	1,402
Net profit from continuing operations	(4,246)	11,859	10,178	7,851	5,875
Net profit from discontinued operations	401	891	4,512	619	378
Net profit	(3,845)	12,750	14,690	8,470	6,253
Net profit attributable to minority interests	539	493	661	454	349
Net profit attributable to UBS shareholders	(4,384)	12,257	14,029	8,016	5,904
Cost/income ratio (%) ¹	110.3	69.7	70.1	73.2	76.8
Per share data (CHF)					
Basic earnings per share ²	(2.28)	6.20	6.97	3.89	2.72
Diluted earnings per share ²	(2.28)	5.95	6.68	3.70	2.59
Operating profit before tax per share	(1.52)	7.41	6.28	4.86	3.35
Cash dividends declared per share (CHF) ^{3,4}	N/A	2.20	1.60	1.50	1.30
Cash dividend declared per share (USD) ^{3,4}	N/A	1.83	1.26	1.27	1.00
Dividend payout ratio (%) ^{3,4}	N/A	35.5	23.0	38.6	47.8
Rates of return (%)					
Return on equity attributable to UBS shareholders ⁵	(9.4)	28.2	39.7	25.8	18.0
Return on average equity	(9.1)	26.3	37.2	23.8	16.9
Return on average assets	(0.16)	0.52	0.68	0.44	0.38

¹ Operating expenses/operating income before credit loss expense for Financial Businesses. ² For EPS calculation, see Note 8 to the Financial Statements. ³ Additionally, in July 2006, a par value reduction of CHF 0.30 (USD 0.24) per share was distributed. Dividends are normally declared and paid in the year subsequent to the reporting period. ⁴ The Board of Directors has proposed to the Extraordinary Meeting of Shareholders on 27 February 2008 to create authorized capital up to a maximum of 5% of the current share capital (103.7 million new shares) to replace the cash dividend for the business year 2007 with a stock dividend. The issuance of shares and the final exchange ratio for the entitlement to the stock dividend (at least 20:1) will be determined by the Board of Directors on 23 April 2008. ⁵ Net profit attributable to UBS shareholders / average equity attributable to UBS shareholders less distributions.

B – Selected Financial Data (continued)

<i>CHF million, except where indicated</i>	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Balance sheet data					
Total assets	2,272,579	2,346,362	1,998,455	1,701,258	1,539,841
Equity attributable to UBS shareholders	35,585	49,686	44,015	33,632	33,350
Average equity to average assets (%)	1.74	1.96	1.83	1.87	2.25
Market capitalization	108,654	154,222	131,949	103,638	95,401
Shares					
Registered ordinary shares	2,073,547,344	2,105,273,286	2,177,265,044	2,253,716,354	2,366,093,528
Treasury shares	158,105,524	164,475,699	208,519,748	249,326,620	273,482,454
BIS capital ratios					
Tier 1 (%)	8.8	11.9	12.8	11.8	11.8
Total BIS (%)	12.0	14.7	14.1	13.6	13.4
Risk-weighted assets	372,298	341,892	310,409	264,832	252,398
Invested assets (CHF billion)	3,189	2,989	2,652	2,217	2,098
Personnel Financial Businesses (full-time equivalents)					
Switzerland	27,884	27,018	26,028	25,987	26,660
Rest of Europe / Middle East / Africa	13,728	12,687	11,007	10,751	9,888
Americas	31,975	30,819	27,136	26,231	25,508
Asia Pacific	9,973	7,616	5,398	4,438	3,823
Total	83,560	78,140	69,569	67,407	65,879
Long-term ratings¹					
Fitch, London	AA	AA+	AA+	AA+	AA+
Moody's, New York	Aaa	Aa2	Aa2	Aa2	Aa2
Standard & Poor's, New York	AA	AA+	AA+	AA+	AA+

¹ See the "Capital management" section in *Risk, Treasury and Capital Management 2007* for information about the nature of these ratings.

Balance Sheet Data

<i>CHF million</i>	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Assets					
Total assets	2,272,579	2,346,362	1,998,455	1,701,258	1,539,841
Due from banks	60,907	50,426	33,644	35,419	31,959
Cash collateral on securities borrowed	207,063	351,590	288,435	210,606	206,519
Reverse repurchase agreements	376,928	405,834	404,432	357,164	320,499
Trading portfolio assets	610,061	627,036	499,297	389,487	354,558
Trading portfolio assets pledged as collateral	164,311	251,478	154,759	159,115	120,759
Positive replacement values	428,217	292,975	273,889	248,664	234,015
Loans	335,864	297,842	279,910	241,803	220,083
Liabilities					
Due to banks	145,762	203,689	124,328	120,026	129,084
Cash collateral on securities lent	31,621	63,088	59,938	51,301	48,272
Repurchase agreements	305,887	545,480	478,508	422,587	415,863
Trading portfolio liabilities	164,788	204,773	188,631	171,033	143,957
Negative replacement values	443,539	297,063	277,770	267,799	240,577
Financial liabilities designated at fair value	191,853	145,687	117,401	65,756	35,286
Due to customers	641,892	555,886	466,907	386,320	351,583
Debt issued	222,077	190,143	160,710	117,856	88,874
Equity attributable to UBS shareholders	35,585	49,686	44,015	33,632	33,350

B – Selected Financial Data (continued)**Ratio of Earnings to Fixed Charges**

The following table sets forth UBS's ratio of earnings to fixed charges on an 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.

	For the year ended				
	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
	0.97	1.17	1.24	1.34	1.24

C – Information on the Company**Property, Plant and Equipment**

At 31 December 2007, UBS Financial Businesses operated about 1,173 business and banking locations worldwide, of which about 37% were in Switzerland, 48% in the Americas, 11% in the rest of Europe, Middle East and Africa and 4% in Asia-Pacific. 16% 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 2007, the Industrial Holdings segment operated about 17 business locations worldwide, of which 94% were in the Americas and 6% in Asia-Pacific. 94% 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 2007, 31 Decem-

ber 2006 and 31 December 2005 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 2007, 2006 and 2005.

CHF million, except where indicated	31.12.07			31.12.06			31.12.05		
	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
Assets									
Due from banks									
Domestic	11,784	664	5.6	10,800	587	5.4	15,467	270	1.7
Foreign	46,049	2,344	5.1	29,814	1,490	5.0	25,497	1,334	5.2
Cash collateral on securities borrowed and reverse repurchase agreements									
Domestic	31,473	1,693	5.4	27,147	1,333	4.9	33,012	1,079	3.3
Foreign	977,302	46,581	4.8	926,575	38,393	4.1	776,972	22,283	2.9
Trading portfolio assets									
Domestic	11,866	696	5.9	17,976	651	3.6	15,545	457	2.9
Foreign taxable	861,923	38,206	4.4	707,432	31,433	4.4	580,763	23,619	4.1
Foreign non-taxable	5,754	199	3.5	4,438	127	2.9	3,390	58	1.7
Foreign total	867,677	38,405	4.4	711,870	31,560	4.4	584,153	23,677	4.1
Financial assets designated at fair value									
Domestic	588	0		42	0		616	0	
Foreign	9,114	298	3.3	2,325	70	3.0	691	26	3.8
Loans									
Domestic	187,073	6,565	3.5	181,186	5,784	3.2	174,299	5,424	3.1
Foreign	146,040	9,359	6.4	105,362	6,284	5.9	91,290	3,531	3.9
Financial investments available-for-sale									
Domestic	3,930	66	1.7	4,126	28	0.7	1,036	3	0.3
Foreign taxable	2,934	110	3.7	3,171	100	3.2	3,546	83	2.3
Foreign non-taxable	0			0	0		0	0	
Foreign total	2,934	110	3.7	3,171	100	3.2	3,546	83	2.3
Total interest-earning assets	2,295,830	106,781	4.7	2,020,394	86,280	4.3	1,722,124	58,167	3.4
Net interest on swaps		2,331			1,121			1,119	
Interest income and average interest-earning assets	2,295,830	109,112	4.8	2,020,394	87,401	4.3	1,722,124	59,286	3.4
Non-interest-earning assets									
Positive replacement values	373,229			278,733			271,795		
Fixed assets	7,090			7,445			9,308		
Other	80,336			66,362			55,178		
Total average assets	2,756,485			2,372,934			2,058,405		

D – Information Required by Industry Guide 3 (continued)

CHF million, except where indicated	31.12.07			31.12.06			31.12.05		
	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
Liabilities and Equity									
Due to banks									
Domestic	60,858	2,477	4.1	46,544	1,583	3.4	35,713	897	2.5
Foreign	146,286	8,008	5.5	108,885	5,261	4.8	92,431	3,321	3.6
Cash collateral on securities lent and repurchase agreements									
Domestic	47,041	1,902	4.0	46,224	1,589	3.4	40,772	881	2.2
Foreign	752,616	38,680	5.1	751,617	32,432	4.3	647,998	19,599	3.0
Trading portfolio liabilities									
Domestic	5,561	328	5.9	4,408	283	6.4	3,632	145	4.0
Foreign	214,326	15,484	7.2	202,263	14,250	7.0	173,394	10,591	6.1
Financial liabilities designated at fair value									
Domestic	1,503	79	5.3	1,864	58	3.1	638	5	0.8
Foreign	173,162	7,580	4.4	127,458	4,699	3.7	86,688	2,385	2.8
Due to customers									
Domestic demand deposits	64,568	736	1.1	70,981	534	0.8	67,987	292	0.4
Domestic savings deposits	78,775	502	0.6	86,631	392	0.5	86,373	404	0.5
Domestic time deposits	41,056	1,206	2.9	28,876	639	2.2	24,245	386	1.6
Domestic total	184,399	2,444	1.3	186,488	1,565	0.8	178,605	1,082	0.6
Foreign ¹	426,130	16,388	3.8	314,788	11,500	3.7	249,561	5,906	2.4
Short-term debt									
Domestic	2,228	98	4.4	1,973	115	5.8	1,584	20	1.3
Foreign	144,546	8,643	6.0	110,418	5,934	5.4	96,767	3,196	3.3
Long-term debt									
Domestic	4,235	115	2.7	3,957	82	2.1	4,250	117	2.8
Foreign	70,079	1,549	2.2	57,899	1,529	2.6	43,035	1,613	3.7
Total interest-bearing liabilities	2,232,970	103,775	4.6	1,964,786	80,880	4.1	1,655,068	49,758	3.0
Non-interest-bearing liabilities									
Negative replacement values	382,115			278,903			288,089		
Other	87,196			76,270			70,654		
Total liabilities	2,702,281			2,319,959			2,013,811		
Total equity	54,204			52,975			44,594		
Total average liabilities and equity	2,756,485			2,372,934			2,058,405		
Net interest income		5,337			6,521			9,528	
Net yield on interest-earning assets			0.2			0.3			0.6

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 89% for 2007 (88% for 2006 and 86% for 2005). The percentage of total average interest-bearing liabilities attributable to foreign activities was 86% for 2007 (85% for 2006 and 84% for 2005). 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 2007 compared with the year ended 31 December 2006, and for the year ended 31 December 2006 compared with the year end-

ed 31 December 2005. 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 the appropriate section of Industry Guide 3 for a discussion of the treatment of impaired and non-performing loans.

CHF million	2007 compared with 2006			2006 compared with 2005		
	Increase/(decrease) due to changes in		Net change	Increase/(decrease) due to changes in		Net change
	Average volume	Average rate		Average volume	Average rate	
Interest income from interest-earning assets						
Due from banks						
Domestic	53	24	77	(79)	396	317
Foreign	812	42	854	224	(68)	156
Cash collateral on securities borrowed and reverse repurchase agreements						
Domestic	212	148	360	(194)	448	254
Foreign	2,080	6,108	8,188	4,338	11,772	16,110
Trading portfolio assets						
Domestic	(220)	265	45	70	124	194
Foreign taxable	6,798	(25)	6,773	5,193	2,621	7,814
Foreign non-taxable	38	34	72	18	51	69
Foreign total	6,836	9	6,845	5,211	2,672	7,883
Financial assets designated at fair value						
Domestic	0	0	0	0	0	0
Foreign	204	24	228	62	(18)	44
Loans						
Domestic	188	593	781	213	147	360
Foreign	2,441	634	3,075	549	2,204	2,753
Financial investments						
Domestic	(1)	39	38	9	16	25
Foreign taxable	(8)	18	10	(9)	26	17
Foreign non-taxable	0	0	0	0	0	0
Foreign total	(8)	18	10	(9)	26	17
Interest income						
Domestic	232	1,069	1,301	19	1,131	1,150
Foreign	12,365	6,835	19,200	10,375	16,588	26,963
Total interest income from interest-earning assets			20,501	10,394	17,719	28,113
Net interest on swaps			1,210			2
Total interest income			21,711			28,115

D – Information Required by Industry Guide 3 (continued)**Analysis of Changes in Interest Income and Expense (continued)**

	2007 compared with 2006			2006 compared with 2005		
	Increase/(decrease) due to changes in		Net change	Increase/(decrease) due to changes in		Net change
<i>CHF million</i>	Average volume	Average rate		Average volume	Average rate	
Interest expense on interest-bearing liabilities						
Due to banks						
Domestic	487	407	894	271	415	686
Foreign	1,795	952	2,747	592	1,348	1,940
Cash collateral on securities lent and repurchase agreements						
Domestic	28	285	313	120	588	708
Foreign	43	6,205	6,248	3,109	9,724	12,833
Trading portfolio liabilities						
Domestic	74	(29)	45	31	107	138
Foreign	844	390	1,234	1,761	1,898	3,659
Financial liabilities designated at fair value						
Domestic	(11)	32	21	10	43	53
Foreign	1,691	1,190	2,881	1,142	1,172	2,314
Due to customers						
Domestic demand deposits	(51)	253	202	12	230	242
Domestic savings deposits	(39)	149	110	1	(13)	(12)
Domestic time deposits	268	299	567	74	179	253
Domestic total	178	701	879	87	396	483
Foreign	4,120	768	4,888	1,565	4,029	5,594
Short-term debt						
Domestic	15	(32)	(17)	5	90	95
Foreign	1,843	866	2,709	450	2,288	2,738
Long-term debt						
Domestic	6	27	33	(8)	(27)	(35)
Foreign	317	(297)	20	550	(634)	(84)
Interest expense						
Domestic	777	1,391	2,168	516	1,612	2,128
Foreign	10,653	10,074	20,727	9,169	19,825	28,994
Total interest expense	11,430	11,465	22,895	9,685	21,437	31,122

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 2007, 2006 and 2005. 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 81,243 million, CHF 78,234 million and CHF 54,968 million at 31 December 2007, 31 December 2006 and 31 December 2005, respectively.

CHF million, except where indicated	31.12.07		31.12.06		31.12.05	
	Average deposit	Average rate (%)	Average deposit	Average rate (%)	Average deposit	Average rate (%)
Banks						
Domestic offices						
Demand deposits	2,474	0.6	2,024	0.2	8,491	0.1
Time deposits	9,310	5.1	8,776	4.5	6,976	3.3
Total domestic offices	11,784	4.2	10,800	3.7	15,467	1.5
Foreign offices						
Interest-bearing deposits ¹	46,049	5.5	29,814	4.8	25,497	3.6
Total due to banks	57,833	5.2	40,614	4.5	40,964	2.8
Customer accounts						
Domestic offices						
Demand deposits	64,568	1.1	70,981	0.8	67,987	0.4
Savings deposits	78,775	0.6	86,631	0.5	86,373	0.5
Time deposits	41,056	2.9	28,876	2.2	24,245	1.6
Total domestic offices	184,399	1.3	186,488	0.8	178,605	0.6
Foreign offices						
Interest-bearing deposits ¹	426,130	3.8	314,788	3.7	249,561	2.4
Total due to customers	610,529	3.1	501,276	2.6	428,166	1.6

¹ Mainly time deposits.

At 31 December 2007, 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	39,427	276,913
3 to 6 months	3,448	37,109
6 to 12 months	1,082	7,215
1 to 5 years	448	1,679
Over 5 years	87	228
Total time deposits	44,492	323,144

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 2007, 2006 and 2005.

<i>CHF million, except where indicated</i>	Money market paper issued			Due to banks			Repurchase agreements ¹		
	31.12.07	31.12.06	31.12.05	31.12.07	31.12.06	31.12.05	31.12.07	31.12.06	31.12.05
Period-end balance	152,256	119,584	102,662	84,826	153,231	90,651	487,455	754,623	667,317
Average balance	146,774	112,391	98,351	149,311	114,815	114,701	739,138	717,542	628,362
Maximum month-end balance	167,637	123,108	112,217	175,233	153,231	101,178	848,401	777,010	719,208
Average interest rate during the period (%)	6.0	5.4	3.3	5.1	4.4	3.3	5.0	4.4	3.0
Average interest rate at period-end (%)	6.1	4.0	4.0	4.5	4.1	3.0	4.9	5.0	2.6

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 Available-for-Sale^{1,2}

CHF million, except percentages	Within 1 year		1–5 years		5–10 years		Over 10 years	
	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2007³								
Swiss national government and agencies	0	0.00	2	2.02	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	50	1.87	2	2.54	75	4.48	0	0.00
Corporate debt securities	50	5.66	44	4.11	0	0.00	0	0.00
Mortgage-backed securities	0	0.00	0	0.00	3	4.48	561	5.28
Other debt instruments	14	4.20	216	12.41	0	0.00	0	0.00
Total fair value	114		264		78		562	

CHF million, except percentages	Within 1 year		1–5 years		5–10 years		Over 10 years	
	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	

CHF million, except percentages	Within 1 year		1–5 years		5–10 years		Over 10 years	
	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	

¹ Money market paper has a contractual maturity of less than one year and is not included in the table. ² Average yields are calculated on an amortized cost basis. ³ Debt instruments available-for-sale recognized on UBS's balance sheet of CHF 1,034 million and disclosed in Note 13 include CHF 16 million of instruments without fixed maturity. Such instruments are not reflected in the table.

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 164.4 billion (41% 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 163 billion (41% 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 Banks and Financial institutions, the largest industry sector exposure is CHF 17 billion (4% of the total) to Real estate and rentals. For further discussion of the loan portfolio, see the "Credit risk" section in *Risk, Treasury and Capital Management 2007*.

The following table illustrates the diversification of the loan portfolio among industry sectors at 31 December 2007, 2006, 2005, 2004 and 2003. The industry categories presented are consistent with the classification of loans for reporting to the Swiss Federal Banking Commission and Swiss National Bank.

CHF million	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Domestic					
Banks ¹	1,237	561	1,407	1,406	619
Construction	1,393	1,535	1,816	1,943	2,175
Financial institutions	5,525	5,542	4,213	4,332	4,009
Hotels and restaurants	1,824	1,957	2,044	2,269	2,440
Manufacturing ²	3,887	3,643	4,134	5,485	6,478
Private households	121,536	117,852	111,549	105,160	102,180
Public authorities	4,734	4,972	5,494	5,460	5,251
Real estate and rentals	11,691	11,356	11,792	11,466	12,449
Retail and wholesale	5,138	4,569	4,808	4,908	6,062
Services ³	6,170	6,758	8,088	9,110	9,493
Other ⁴	3,300	4,345	3,119	591	1,014
Total domestic	166,435	163,090	158,464	152,130	152,170
Foreign					
Banks ¹	60,333	50,124	32,287	34,269	31,405
Chemicals	635	1,321	2,716	366	245
Construction	624	522	295	122	84
Electricity, gas and water supply	1,888	951	1,637	745	249
Financial institutions	96,370	67,676	62,344	45,095	30,906
Manufacturing ⁵	4,678	3,006	3,784	2,758	2,421
Mining	4,509	3,177	3,431	1,695	1,114
Private households	42,828	35,031	38,283	30,237	21,195
Public authorities	4,172	2,175	1,686	1,228	1,224
Real estate and rentals	5,056	4,360	2,707	940	473
Retail and wholesale	2,239	1,815	1,257	1,102	1,880
Services	9,294	16,436	5,593	8,002	7,983
Transport, storage and communication	1,752	1,528	1,419	762	3,658
Other ⁶	1,105	564	272	318	432
Total foreign	235,483	188,686	157,711	127,639	103,269
Total gross	401,918	351,776	316,175	279,769	255,439

¹ Includes Due from banks and Loans from Industrial Holdings of CHF 27 million at 31 December 2007, 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.

The table above also includes loans designated at fair value. Prior period amounts have been adjusted to reflect this change in presentation.

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 2007, 2006, 2005, 2004 and 2003. Mortgages are included in the industry categories mentioned on the previous page.

<i>CHF million</i>	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Mortgages					
Domestic	135,341	134,468	130,880	124,496	122,069
Foreign	8,152	10,069	15,619	12,185	7,073
Total gross mortgages	143,493	144,537	146,499	136,681	129,142
Mortgages					
Residential	122,435	124,548	127,990	117,731	109,980
Commercial	21,058	19,989	18,509	18,950	19,162
Total gross mortgages	143,493	144,537	146,499	136,681	129,142

Due from Banks and Loan Maturities (gross)

<i>CHF million</i>	Within 1 year	1 to 5 years	Over 5 years	Total
Domestic				
Banks	1,235	1	0	1,236
Mortgages	55,758	55,537	24,046	135,341
Other loans	23,051	5,293	1,515	29,859
Total domestic	80,044	60,831	25,561	166,436
Foreign				
Banks	58,053	1,448	198	59,699
Mortgages	4,243	3,432	477	8,152
Other loans	152,535	8,746	2,234	163,515
Total foreign	214,831	13,626	2,909	231,366
Total gross¹	294,875	74,457	28,470	397,802

¹ Includes Due from banks from Industrial Holdings of CHF 27 million at 31 December 2007.

At 31 December 2007, the total amount of due from banks and loans due after one year granted at fixed and floating rates were as follows:

<i>CHF million</i>	1 to 5 years	Over 5 years	Total
Fixed-rate loans	69,694	27,712	97,406
Adjustable or floating-rate loans	4,763	758	5,521
Total	74,457	28,470	102,927

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; 2) when insolvency proceedings have commenced; or 3) when obligations have been restructured on concessionary terms.

<i>CHF million</i>	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Gross interest income that would have been recorded on non-performing loans:					
Domestic	39	50	81	107	171
Foreign	4	10	8	17	23
Interest income included in Net profit for non-performing loans:					
Domestic	40	56	72	106	163
Foreign	2	8	9	8	8

The table below provides an analysis of the Group's non-performing loans. For further information see the "Credit risk" section in *Risk, Treasury and Capital Management 2007*.

<i>CHF million</i>	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Non-performing loans:					
Domestic	1,349	1,744	2,106	2,772	4,012
Foreign	132	174	257	783	746
Total non-performing loans	1,481	1,918	2,363	3,555	4,758

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 2007, 2006, 2005, 2004 or 2003.

In addition to the non-performing loans shown above, the Group has CHF 911 million, CHF 710 million, CHF 1,071 million, CHF 1,144 million and CHF 2,241 million in "other impaired loans" for the years ended 31 December 2007, 2006, 2005, 2004, and 2003, 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 2007, 2006, 2005 and 2004, they are loans not considered "non-performing" in accordance with Swiss regulatory guidelines, and for the year ended 31 December 2003, 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 2007, 31 December 2006, 31 December 2005 and 31 December 2004, specific allowances of CHF 124 million, 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 33 most developed economies, these exposures are rigorously limited. The following analysis excludes Due from banks and Loans from Industrial Holdings.

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 2007, 2006 and 2005. At 31 December 2007, 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 country exposure, see the "Credit risk" section in *Risk, Treasury and Capital Management 2007*.

31.12.07					
CHF million	Banks	Private Sector	Public Sector	Total	% of total assets
United States	13,110	192,049	16,545	221,704	9.8
Japan	1,761	12,883	36,717	51,361	2.3
Germany	21,384	12,354	2,249	35,988	1.6
United Kingdom	6,624	14,647	8,552	29,823	1.3
Cayman Islands	173	27,715	74	27,963	1.2
France	10,620	7,075	4,605	22,300	1.0

31.12.06					
CHF million	Banks	Private Sector	Public Sector	Total	% of total assets
United States	7,692	208,200	22,574	238,466	10.2
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	1.1

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

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.

UBS writes off loans against allowances only on final settlement of bankruptcy proceedings, the sale of the underlying

assets and/or in case 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.

<i>CHF million</i>	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Balance at beginning of year	1,332	1,776	2,802	3,775	5,015
Domestic					
Write-offs					
Banks	0	0	0	0	0
Construction	(9)	(14)	(16)	(49)	(73)
Financial institutions	(8)	(11)	(14)	(24)	(37)
Hotels and restaurants	(7)	(16)	(26)	(101)	(57)
Manufacturing ¹	(45)	(40)	(39)	(77)	(121)
Private households	(68)	(89)	(131)	(208)	(262)
Public authorities	(1)	0	0	0	(18)
Real estate and rentals	(27)	(44)	(56)	(109)	(206)
Retail and wholesale	(62)	(20)	(25)	(68)	(67)
Services ²	(20)	(47)	(35)	(83)	(111)
Other ³	(21)	(2)	(4)	(9)	(43)
Total domestic write-offs	(268)	(283)	(346)	(728)	(995)
Foreign					
Write-offs					
Banks	(1)	(3)	(164)	(21)	(17)
Chemicals	0	0	0	(1)	0
Construction	0	0	0	(3)	0
Electricity, gas and water supply	0	0	0	0	0
Financial institutions	(15)	0	(50)	(34)	(112)
Manufacturing ⁴	(21)	(11)	(8)	(23)	(77)
Mining	0	(1)	(23)	(8)	(15)
Private households	(14)	(7)	(21)	(8)	(11)
Public authorities	(2)	(58)	(22)	(2)	0
Real estate and rentals	0	0	(3)	0	(1)
Retail and wholesale	0	0	(9)	0	(76)
Services	0	0	0	(7)	(25)
Transport, storage and communication	0	0	0	0	(24)
Other ⁵	0	0	(5)	(21)	(83)
Total foreign write-offs	(53)	(80)	(305)	(128)	(441)
Total write-offs	(321)	(363)	(651)	(856)	(1,436)

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)

<i>CHF million</i>	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Recoveries					
Domestic	52	51	53	54	49
Foreign	3	11	10	5	38
Total recoveries	55	62	63	59	87
Net write-offs	(266)	(301)	(588)	(797)	(1,349)
Increase / (decrease) in credit loss allowance and provision	242	(108)	(298)	(216)	102
Collective loan loss provisions	(4)	(48)	(76)	(25)	
Other adjustments ¹	(140)	13	(64)	65	7
Balance at end of year	1,164	1,332	1,776	2,802	3,775

¹ See the table below for details.

<i>CHF million</i>	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Net foreign exchange	(9)	10	50	2	(57)
Other adjustments	(131) ²	3	(114)	63	64
Total adjustments	(140)	13	(64)	65	7

² Write-downs in 2007 relate to loans that were subsequently securitized.

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 2007, 2006, 2005, 2004 and 2003. For a description of procedures with respect to allowances and provisions for credit losses, see the "Credit risk" section in *Risk, Treasury and Capital Management 2007*. The following analysis includes Due from banks from Industrial Holdings.

CHF million	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Domestic					
Banks	10	10	10	10	10
Construction	43	72	91	112	158
Financial institutions	52	61	75	82	137
Hotels and restaurants	10	27	49	98	214
Manufacturing ¹	113	155	174	224	327
Private households	190	187	262	333	511
Public authorities	1	3	8	9	9
Real estate and rentals	57	99	168	250	383
Retail and wholesale	247	311	330	363	201
Services ²	112	113	196	222	549
Other ³	76	107	61	188	150
Total domestic	911	1,145	1,424	1,891	2,649
Foreign					
Banks ⁴	18	20	35	246	256
Chemicals	1	4	5	4	5
Construction	1	2	2	1	0
Electricity, gas and water supply	3	8	16	15	0
Financial institutions	112	9	8	140	168
Manufacturing ⁵	20	37	57	112	359
Mining	0	0	1	14	19
Private households	15	26	30	48	48
Public authorities	20	21	72	66	69
Real estate and rentals	8	4	3	5	7
Retail and wholesale	4	4	1	95	51
Services	4	7	27	32	32
Transport, storage and communication	1	1	0	1	195
Other ⁶	12	6	8	(75)	(345)
Total foreign	219	149	265	704	864
Collective loan loss provisions ^{7w}	34	38	86	207	262
Total allowances and provisions for credit losses⁸	1,164	1,332	1,775	2,802	3,775

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 0 million, CHF 37 million and CHF 17 million are disclosed under Collective loan loss provisions for 2007, 2006, 2005 and 2004, respectively. ⁵ Includes food and beverages. ⁶ Includes hotels and restaurants. ⁷ The 2007, 2006, 2005, 2004 and 2003 amounts include CHF 0 million, CHF 0 million, CHF 48 million, CHF 161 million and CHF 262 million, respectively, of country provisions. ⁸ The 2007, 2006, 2005, 2004 and 2003 amounts include CHF 63 million, CHF 76 million, CHF 109 million, CHF 214 million and CHF 290 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.

<i>in %</i>	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Domestic					
Banks ¹	0.3	0.2	0.4	0.5	0.2
Construction	0.3	0.4	0.6	0.7	0.8
Financial institutions	1.4	1.6	1.3	1.5	1.6
Hotels and restaurants	0.5	0.6	0.6	0.8	1.0
Manufacturing ²	1.0	1.0	1.3	2.0	2.5
Private households	30.2	33.5	35.3	37.6	40.0
Public authorities	1.2	1.4	1.7	2.0	2.1
Real estate and rentals	2.9	3.2	3.7	4.1	4.9
Retail and wholesale	1.3	1.3	1.5	1.7	2.4
Services ³	1.5	1.9	2.6	3.3	3.7
Other ⁴	0.8	1.3	1.1	0.2	0.4
Total domestic	41.4	46.4	50.1	54.4	59.6
Foreign					
Banks ¹	15.0	14.2	10.2	12.3	12.3
Chemicals	0.2	0.4	0.9	0.1	0.1
Construction	0.2	0.1	0.1	0.0	0.0
Electricity, gas and water supply	0.5	0.3	0.5	0.3	0.1
Financial institutions	24.0	19.2	19.7	16.1	12.1
Manufacturing ⁵	1.2	0.9	1.2	1.0	1.0
Mining	1.1	0.9	1.1	0.6	0.4
Private households	10.7	10.0	12.1	10.8	8.3
Public authorities	1.0	0.6	0.5	0.4	0.5
Real estate and rentals	1.3	1.2	0.9	0.3	0.2
Retail and wholesale	0.6	0.5	0.4	0.4	0.7
Services	2.3	4.7	1.8	2.9	3.1
Transport, storage and communication	0.4	0.4	0.4	0.3	1.4
Other ⁶	0.1	0.2	0.1	0.1	0.2
Total foreign	58.6	53.6	49.9	45.6	40.4
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 27 million for 2007, CHF 93 million 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.

<i>CHF million, except where indicated</i>	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Gross loans ¹	397,802	349,524	315,210	279,769	255,439
Impaired loans	2,392	2,628	3,434	4,699	6,999
Non-performing loans	1,481	1,918	2,363	3,555	4,758
Allowances and provisions for credit losses ²	1,164	1,332	1,776	2,802	3,775
Net write-offs	266	301	588	797	1,349
Credit loss (expense)/recovery	(238)	156	375	241	(102)
Ratios					
Impaired loans as a percentage of gross loans	0.6	0.8	1.1	1.7	2.7
Non-performing loans as a percentage of gross loans	0.4	0.5	0.7	1.3	1.9
Allowances and provisions for credit losses as a percentage of:					
Gross loans	0.3	0.4	0.6	1.0	1.5
Impaired loans	48.7	50.7	51.7	59.6	53.9
Non-performing loans	78.6	69.4	75.2	78.8	79.3
Allocated allowances as a percentage of impaired loans ³	41.7	46.3	46.4	51.6	46.8
Allocated allowances as a percentage of non-performing loans ⁴	58.9	58.0	59.0	61.4	55.1
Net write-offs as a percentage of:					
Gross loans	0.1	0.1	0.2	0.3	0.5
Average loans outstanding during the period	0.0	0.1	0.1	0.2	0.5
Allowances and provisions for credit losses	22.9	22.6	33.1	28.4	35.7
Allowance and provisions for credit losses as a multiple of net write-offs	4.38	4.43	3.02	3.52	2.80

¹ Includes Due from banks and Loans from Industrial Holdings in the amount of CHF 27 million for 2007, 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.

More about UBS

Sources of information

Annual report 2007

Four reports make up UBS's full *Annual Report 2007*. They comply with the US disclosure requirements for foreign private issuers as defined by Form 20-F of the Securities and Exchange Commission (SEC) and combine audited and non-audited information. All four reports are available in English and German (SAP no.80531). The four reports are:

Strategy, Performance and Responsibility 2007

This provides a description of our firm, its strategy, organizational structure and financial performance for the last two years. It also discusses our standards for corporate behavior and responsibility, outlines demographic trends in our workforce and describes the way our people learn and are led.

Risk, Treasury and Capital Management 2007

In addition to outlining the principles by which we manage and control risk, this report provides an account of developments in credit risk, market risk, operational risk and treasury management during 2007. It also provides information on UBS shares.

Corporate Governance and Compensation Report 2007

Comprehensive information on our governance arrangements is included in this report, which also explains how we manage our relationships with regulators and shareholders. Compensation of senior management and the Board of Directors (executive and non-executive members) is discussed here. This report can be ordered separately (SAP no. 82307).

Financial Statements 2007

This comprises the audited financial statements of UBS for 2007, 2006 and 2005, prepared according to the International Financial Reporting Standards (IFRS). It also includes the audited financial statements of UBS AG (the parent bank) for 2007 and 2006, prepared according to Swiss banking law. Additional disclosure required by Swiss and US regulations is included where appropriate.

In addition to the four reports, *Review 2007* is distributed broadly to UBS shareholders and contains key information on our strategy and financials. This booklet summarizes the information in the four-part annual report.

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.

How to order reports

These reports are available in PDF format on the internet at www.ubs.com/investors/topics 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 & 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 in French and Italian.

Messaging service

On the Analysts & 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 & 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 can be satisfied by referring to parts of the four reports (*Strategy, Performance and Responsibility 2007*, *Risk, Treasury and Capital Management 2007*, *Corporate Governance and Compensation Report 2007* and *Financial Statements 2007*). 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 dialing 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 next 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).

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For all general queries.

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Investor Relations

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

www.ubs.com/investors

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

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Shareholder Services

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US Transfer Agent

For all global registered share-related queries in the US.

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Cautionary statement regarding forward-looking statements | This report contains statements that constitute “forward-looking statements”, including but not limited to statements relating to the risks arising from the current market crisis, other risks specific to our business and the implementation of strategic initiatives, as well as other statements relating to our future business development and economic performance and our intentions with respect to future returns of capital. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to (1) the extent and nature of future developments in the US sub-prime market and in other market segments that have been affected by the current market crisis; (2) other market and macro-economic developments, including movements in local and international securities markets, credit spreads, currency exchange rates and interest rates, whether or not arising directly or indirectly from the current market crisis; (3) the impact of these developments on other markets and asset classes; (4) changes in internal risk control and in the regulatory capital treatment of UBS’s positions, in particular those affected by the current market crisis; (5) limitations in the effectiveness of our internal risk management processes, of our risk measurement, control and modeling systems, and of financial models generally; (6) developments relating to UBS’s access to capital and funding, including any changes in our credit ratings; (7) changes in the financial position or creditworthiness of our customers, obligors and counterparties, and developments in the markets in which they operate; (8) management changes and changes to the structure of our Business Groups; (9) the occurrence of operational failures, such as fraud, unauthorized trading, systems failures; (10) legislative, governmental and regulatory developments; (11) competitive pressures; (12) technological developments; and (13) the impact of all such future developments on positions held by UBS, on our short-term and longer-term earnings, on the cost and availability of funding and on our BIS capital ratios. In addition, these results could depend on other factors that we have previously indicated could adversely affect our business and financial performance which are contained in other parts of this document and in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth elsewhere in this document and in documents furnished by UBS and filings made by UBS with the SEC, including UBS’s Annual Report on Form 20-F for the year ended 31 December 2007. UBS is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

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