UBS Investment Bank

UBS Limited
1 Finsbury Avenue
London, EC2M 2PP

www.ubs.com

UBS Limited
Pillar 3 Disclosures

June 2009

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1. Introduction

UBS Limited ("UBSL") is a credit institution incorporated in Great Britain and authorised and regulated by the Financial Services Authority ("FSA"). The requirements of the Basel II regulatory capital framework came into effect in 2008. These requirements apply across three "Pillars" and UBSL is required to comply with these requirements under the FSA's prudential rules. The three Pillars are:-

Pillar1: which articulates the methodologies mandated to determine minimum capital requirements

Pillar 2: which deals with a firm's internal assessment of risks and how it ensures sufficient capital is held to meet those risks

Pillar 3: which details the qualitative and quantitative disclosures which a firm must provide to the market to provide visibility on risks, capital and risk management practices

This document contains the Pillar 3 disclosures for UBSL.

UBSL's accounting year end is 31 December and UBSL's Pillar 3 disclosures have been aligned with its financial reporting. This document contains both qualitative and quantitative disclosures for the year ended December 2008.

UBSL is a wholly and directly owned subsidiary of UBS AG. UBSL has no subsidiary or associate undertakings. UBS AG is a credit institution incorporated in Switzerland which is principally regulated by the Swiss Financial Market Supervisory Authority ("FINMA") on both a parent bank and consolidated basis. In this document references to UBS Group refers to UBS AG and its subsidiaries, including UBSL. UBS AG is subject to the Basel II regulatory framework under the rules of the FINMA. Under this framework the UBS Group is required to make appropriate Pillar 3 disclosures.

Given the nature of the UBSL business model (described in section 4 below) and the applicability to UBSL of UBS Group Risk Management policies and process, UBSL management has determined that the Pillar 3 disclosure requirements for UBSL are in many cases best met by reference to UBS Group disclosures. However additional supplemental information is provided to describe certain key aspects of the UBSL business model.

Readers should refer to the UBS Group disclosures for the year ended 31 December 2008 which can be found on the UBS Group website in the UBS AG annual report at the following link – see Part 3 "Risk and treasury management":

http://www.ubs.com/1/e/investors/annualreporting/2008.html

FINMA rules require that UBS Group make quantitative Pillar 3 disclosures twice in each calendar year for the reporting periods ending in June and December. The June report will be available on the UBS group website and will be accessible from the Investor Relations webpage.

2. UBS Limited's Business

UBSL conducts business in a broad range of investment banking products and services including lending, securities trading, securities financing, executing and clearing exchange traded and OTC derivatives, money market and FX trading. UBSL also provides underwriting, advisory and other fee driven services. UBSL has branches in France, Germany, Sweden and Switzerland. UBSL operates under a business model which is designed to transfer all credit risk (other than that of its parent UBS AG) and substantially all market, funding and other risks to UBS AG. This is described further in section 4 below. Counterparties of UBSL benefit from a guarantee of UBS AG. UBSL maintains certain exchange memberships in the United Kingdom and elsewhere in order to facilitate or support its business activities.

3. Risk Governance and Policies

UBSL operates within an integrated risk management governance framework applying UBS Group wide policies for the measurement and management of risk.

Given the commonality of risk management practice and that counterparties effectively assume UBS AG credit risk as a consequence of the guarantee provided by UBS AG, the UBS Group Pillar 3 qualitative disclosures are the primary source of relevant Pillar 3 disclosures for UBSL.

4. Business Model and Risk Management Objectives and Policies

4.1 Sources, Strategies and Processes to Manage Risk

UBSL considers that the key material risks potentially faced as a consequence of its activities are:-

Market risk: the risk of loss due to changes in value of positions arising from market prices, actual or implied, such as security prices, interest rates, FX rates and similar.

Credit risk: the risk of loss from a counterparty's failure to meet the terms of their contract or otherwise perform as agreed.

Operational risk: the risk of loss resulting as a consequence of failed or inadequate internal processes. These processes include transaction processing, compliance and legal risks.

Liquidity and funding risk: the risk that the firm is unable to meet its obligations as they fall due.

UBSL operates under a business model which is designed to transfer the above risks to UBS AG. This is achieved through various hedging transactions, including back to back trades, fully sub participating loans and a broad indemnity that UBS AG provides to UBSL in respect of losses. Where necessary to maintain FSA prudential ratios or otherwise for the purpose of credit risk management, exposure to UBS Group is mitigated by receipts of collateral from UBS AG. A control framework exists in respect of this collateral The collateral meets the FSA eligible collateral criteria - gold, OECD government securities, cash, investment grade securities and major equity index constituents. Controls exist to ensure the collateral is liquid and that market values are visible. The framework also establishes "haircuts" which are applied to the collateral in determining the mitigating value attributed.

4.2 UBS Limited Governance

The board of directors of UBSL is responsible for the prudential management of the entity. The board utilises UBS AG staff, systems, policies and process in the execution of this duty. The terms of support provided to UBSL by the risk and control functions are documented in an outsourcing agreement between UBSL and UBS AG. UBSL business is risk managed in a manner consistent with the UBS Group approach.

In addition to policies and processes the board of UBSL has delegated certain oversight roles to committees including to the UBS – Investment Bank ("UBS-IB") Europe Middle East and Africa ("EMEA") Risk Committee ("EMEA RC") and the UBSL Capital and Collateral Committee.

4.2.1 The UBS-IB EMEA Risk Committee

The EMEA RC is a UBS-IB EMEA regional committee and additionally is a formally constituted committee of the UBSL Board.

The Committee's responsibilities include:

- monitoring of the risks in the region undertaken by UBS-IB in pursuit of its agreed business strategy; and
- exercising oversight of the risk control environment for UBS-IB within the region

Also, and specifically in relation to UBSL, it is required to:

- monitor the funding risks and review UBSL's large exposures, liquidity limits and general compliance with the FSA's, or other regulatory bodies, financial regulatory requirements as relevant to UBSL;
- review market developments and any major changes in UBSL's risk profile, including significant risk events and reputational and compliance issues;
- review or note proposals for new business activities pursuant to new business approval procedures; and
- consider any other matters which the EMEA RC considers necessary or desirable relating to UBSL's risk or internal control environment or prudent financial management

The Committee membership includes UBSL directors holding executive offices of UBSL:

- Chief Executive Officer
- Chief Risk Officer
- Finance Director
- General Counsel

as well as senior UBS-IB EMEA regional business and logistics and control function representatives.

The EMEA RC reports to the UBSL Board in respect of UBSL matters.

4.2.2 The UBS Limited Capital and Collateral Committee

This committee's principal responsibilities focus on overseeing the execution of UBSL's regulatory capital and collateral requirements, reporting and management processes.

The Committee membership includes UBSL directors holding executive office of UBSL:

- Chief Risk Officer
- Finance Director
- Group Treasury function

plus a representative from the UBS-IB EMEA General Counsel's office as appropriate.

5. Capital Resources

The table below summarises the composition of capital resources as at 31.12.2008. Comparatives have been provided for the position as at the previous Pillar 3 disclosures period end.

GBP thousand	**Notes**	**31.12.2008**	**30.09.2008**
Core tier one capital:			
Permanent share capital		63,310	63,310
Profit and loss account and other reserves		38,400	17,400
Share premium account		836,190	836,190
Total tier one capital before deductions		**937,900**	**916,900**
Deductions from tier one capital	3	(298)	
Total tier one capital after deductions		**937,602**	**916,900**
Upper tier two capital:			
Perpetual subordinated debt	1	280,000	280,000
Revaluation reserves	2	2,184	1,963
Lower tier two capital:			
Long term subordinated debt	1	70,000	70,000
Total tier two capital before and after deductions		**352,184**	**351,963**
Total tier one capital plus tier two capital after deductions		**1,289,786**	**1,268,863**
Total tier three capital		**0**	**0**
Total capital resources after deductions		**1,289,786**	**1,268,863**

Notes:

1. UBSL has issued subordinated debt as follows:-

Description	**Amount Issued**	**Coupon**	**Maturity**
Perpetual subordinated debt	GBP 280 million	1 month GBP Libor plus 1.5%	Undated
Dated subordinated debt	GBP 35 million	1 month GBP Libor plus 0.5%	February 2033
Dated subordinated debt	GBP 35 million	1 month GBP Libor plus 0.35%	December 2030

The Notes constitute unsecured and subordinated obligations of UBSL which at all times rank *pari passu* amongst themselves, and junior to all senior creditors. They can be redeemed (with the consent of the FSA) in whole at their principal amount at the option of UBSL subject to conditions.

2. Revaluation reserves comprise reserves arising on the revaluation of UBSL's holdings in the ordinary shares of an exchange.

3. The tier one deduction represents the balance sheet value of UBSL's holding in the ordinary shares of a clearing house for which there is no regular market and for which the shareholding is a condition of membership.

6. Capital Adequacy

6.1 Regulatory Measurement Methodologies

This section summarises the methodologies used by UBSL in measuring risk under the Basel II regulatory rules. It is UBSL's practice to determine its capital requirements after the application of eligible collateral but without recognising the parental indemnity described in section 4.

6.1.1 Credit Risk

UBSL applies the Standardised approach to measure credit risk. UBSL has approval from the FSA to utilise UBS Group's internal credit models to measure the exposure arising from OTC financial derivatives (under an effective expected positive exposure (EPE) model) and securities financing transactions (under a close out period (COP) model).

All other credit risk is quantified using non-modelled approaches.

6.1.2 Market Risk

UBSL calculates its market positions using non-modelled standard supervisory approaches. In light of the risk transfer mechanism provided by its business model little market risk remains in UBSL.

6.1.3 Operational Risk

UBSL has adopted the Basic Indicator Approach for determining its operational risk capital requirements.

6.2 Pillar 1 Capital Requirements

The following table sets out UBSL's Pillar 1 capital requirements as at 31 December 2008 in accordance with the FSA's rules.

Capital requirement at 31.12.2008	*GBP thousand*
Credit risk capital component under the Standardised Approach by exposure class	**19,263**
Central governments or central banks	0
Regional governments or local authoritites	0
Administrative bodies and non-commercial undertakings	0
Multilateral development banks	0
International organisations	0
Institutions	95
Corporates	18,918
Retail	0
Secured on real estate property	0
Past due items	0
Items belonging to regulatory high risk categories	0
Covered bonds	0
Securitisation positions	0
Short term claims on institutions and corporates	0
Collective investment undertakings	0
Other items	250
Operational risk capital component	**33,967**
Trading Book	
Market risk capital requirement	**228**
Interest rate	0
Equity	0
Option	0
Collective investment undertakings	0
Commodity	0
Foreign currency	228
Counterparty risk capital component	**98,884**
Concentration risk capital component	**0**
Total Pillar 1 capital requirement	**152,342**

In accordance with UBS Group policy, UBSL utilises external ratings from the following nominated External Credit Assessment Institutions (ECAI):

- Standard and Poors
- Moodys
- Fitch

These ECAIs are recognised by the FSA as eligible providers of credit ratings for the purposes of calculating credit risk requirements under the standardised approach.

UBSL undertakes profit & loss and capital forecasting in the context of the anticipated business environment and any intended changes to business activities. The capital forecast takes into account the expected changes in the risk profile of UBSL pre and post credit risk mitigation. This forecast is subject to stress and scenario testing and this is used to determine the appropriate potential capital needs and credit risk mitigation required.

7. Credit Risk Mitigation

Further to the comprehensive risk transfer and exposure collateralisation arrangements described in section 4 the following is relevant to the management of credit risk.

7.1 Netting

UBSL employs both on- and off-balance sheet netting as a credit risk mitigant in order to effectively manage the credit risk it faces on the business it transacts. Agreements are subject to appropriate legal review to ensure enforceability in insolvency in the relevant jurisdictions.

7.2 Collateral

In addition to the collateral arrangements with UBS AG, under which it may call collateral to manage the exposure to UBS AG, UBSL has also entered into two-way collateral agreements with market participants, under which either party can be required to provide collateral in the form of cash or marketable securities when exposure exceeds a pre-defined level. Generally, OTC derivatives business with lower rated counterparties and with hedge funds is conducted under one-way collateral agreements under which the counterparty provides collateral to UBSL.

Where financial collateral in the form of marketable securities is taken, UBSL will apply discounts ("haircuts") to the market value, reflecting the quality, liquidity, volatility – and in some cases complexity – of the individual instruments. Exposures and collateral positions are monitored in accordance with the governing documentation and margin calls are made (and, if necessary, subsequent close-out rights exercised) when the exposure and/or the market value of collateral changes to the extent that the contractual obligations are triggered.

Disclaimer

This document may contain statements that constitute "forward looking statements" including but not limited to statements relating to the anticipated effect of transactions described herein and other risks specific to UBS's business, strategic initiatives, future business development and economic performance. While these forward-looking statements represent UBS's judgements and expectations concerning the development of its business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS's expectations.

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The information contained within this document has not been audited by the Company's external auditors.

Contacts

Should you have any queries please contact:

UBS AG Investor Relations
Bahnhofstrasse 45
P.O. Box
CH-8098 Zurich
Switzerland

Tel: +41-44-234 4100
Fax: +41-44-234 3415
Email: via the link below

UBS - Contact Investor Relations